FINANCIAL STATEMENTS

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How to read Finnair Financial Statements?
Finnair's financial statements are structured to facilitate reading and understanding of the financial statements and to clarify the overall picture derived from it. The notes to the financial statements have been combined to business related sections, separately listing the accounting principles, critical accounting estimates and sources of uncertainty in each section. In addition, comments on interesting figures and other highlights are provided in text areas marked with a star. The financial statements also include illustrative charts to support the understanding of the figures.

Finnair has adopted new accounting standards as well as made some structural changes to its financial statements as of 1 January 2019. All the periods presented in the consolidated financial statements, including the comparison periods, have been restated to account for the new reporting practices. These changes are described in more detail in Notes to the consolidated financial statements.

! Notes to the financial statement have been combined into sections based on their context. The aim is to give a more relevant picture of the Finnair Group and its business. The content of each section is described and explained in the beginning of that section and marked with ! .

A Specific accounting principles are attached to the relevant note. The accounting principles can be recognised from character A .

i Critical accounting estimates and sources of uncertainty have been presented together with the relevant note and specified with character i .

★ Highlights related to the section are explained in a separate text box to underline significant matters.

Consolidated income statement

EUR mill.	Note	2019	Restated 2018
Revenue	1.1, 1.2	**3,097.7**	**2,836.1**
Other operating income		56.4	73.7
Operating expenses			
Staff costs	1.3.8	-534.7	-499.6
Fuel costs		-687.3	-581.0
Capacity rents		-130.2	-122.4
Aircraft materials and overhaul		-201.2	-162.9
Traffic charges		-331.3	-300.8
Sales, marketing and distribution costs		-172.1	-159.0
Passenger and handling services	1.3.2	-476.7	-440.3
Property, IT and other expenses	1.3.3	-132.4	-131.3
Comparable EBITDA		**488.3**	**512.6**
Depreciation and impairment	2.1, 2.2	-325.4	-294.2
Comparable operating result		**162.8**	**218.4**
Unrealized changes in foreign currencies of fleet overhaul provisions	1.3.7	-1.4	-4.9
Fair value changes of derivatives where hedge accounting is not applied	1.3.7	1.3	0.2
Sales gains and losses on aircraft and other transactions	1.3.7	0.2	42.7
Restructuring costs	1.3.7	-3.0	-0.1
Operating result		**160.0**	**256.3**
Financial income	3.1	4.8	-2.2
Financial expenses	3.1	-83.6	-84.6
Exchange rate gains and losses	3.1	12.7	-42.3
Share of results in associates and joint ventures	4.4	-0.9	
Result before taxes		**93.0**	**127.2**
Income taxes	5.1	-18.4	-25.6
Result for the period		**74.5**	**101.6**
Attributable to			
Owners of the parent company		74.5	101.6
Earnings per share attributable to shareholders of the parent company, EUR			
Basic earnings per share		0.49	0.70
Diluted earnings per share		0.49	0.70

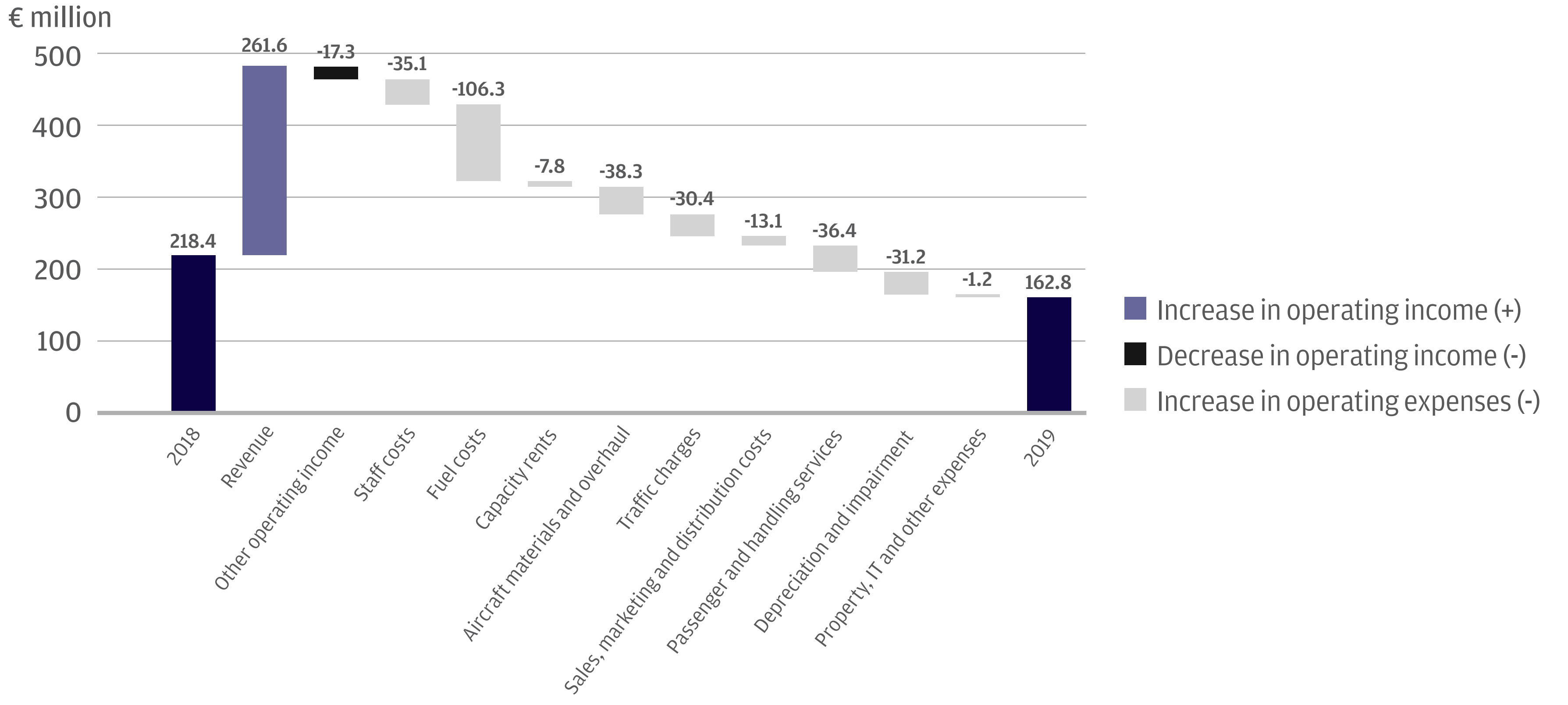
★ Revenue reached a record high in 2019 with increased operating expenses
2019 revenue reached a record high 3,097.7 million euros while the comparable operating result declined by 55.6 million euros to 162.8 million, driven by an increase in fuel costs, aircraft materials and overhaul expenses. The decrease in 2019 financial expenses relates to the unrealized foreign currency gains and losses in the 2018 profit and loss that relate to the USD denominated IFRS 16 liability. The IFRS 16 standard was implemented in the beginning of 2019 with full retrospective application to the prior periods presented. Finnair has been using hedges to mitigate the impact from year 2019 onward.

Consolidated statement of comprehensive income

EUR mill.	Note	2019	Restated 2018
Result for the period		**74.5**	**101.6**
Other comprehensive income items			
Items that may be reclassified to profit or loss in subsequent periods			
Change in fair value of hedging instruments		75.8	-113.5
Tax effect		-15.2	22.7
Items that will not be reclassified to profit or loss in subsequent periods			
Actuarial gains and losses from defined benefit plans	1.3.8.2	-50.2	0.7
Tax effect		10.0	-0.1
Other comprehensive income items total		**20.5**	**-90.2**
Comprehensive income for the period		**95.0**	**11.4**
Attributable to			
Owners of the parent company		95.0	11.4

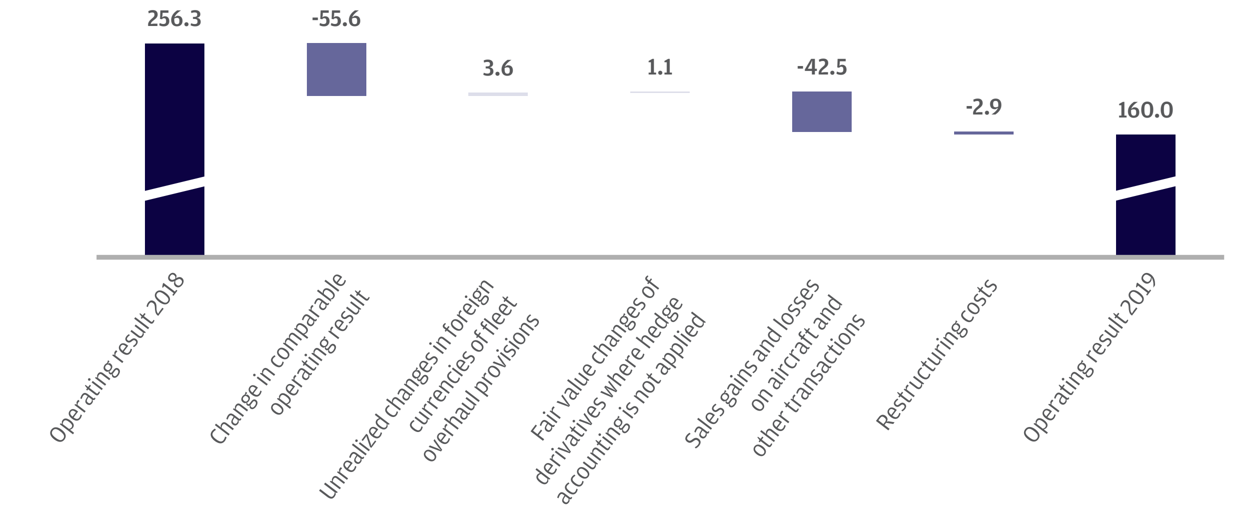
Change in comparable operating result 2019

€ million



Change in operating result 2019

€ million



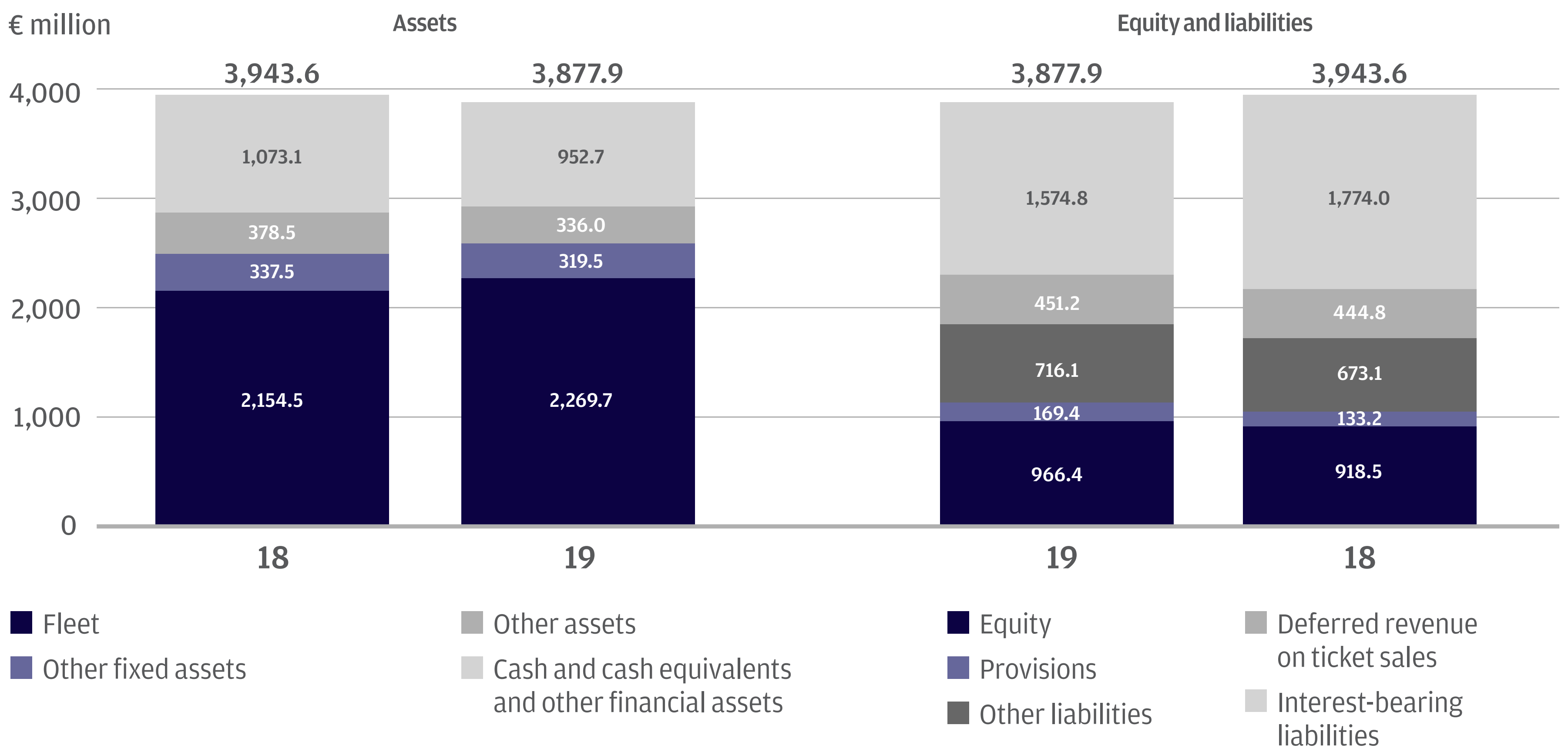
★ = Highlights

Consolidated balance sheet

EUR mill.		Note	31 Dec 2019	Restated 31 Dec 2018	Restated 1 Jan 2018
ASSETS					
Non-current assets					
Fleet	O	2.1	1,533.3	1,320.2	1,218.2
Right-of-use fleet	O	2.2	736.4	834.3	881.8
Fleet total	O		2,269.7	2,154.5	2,100.1
Other fixed assets	O	2.1	178.4	173.2	171.5
Right-of-use other fixed assets	O	2.2	141.1	164.3	186.4
Other fixed assets total	O		319.5	337.5	357.9
Other non-current assets	O		39.5	53.3	8.1
Non-current assets total			**2,628.7**	**2,545.3**	**2,466.0**
Current assets					
Receivables related to revenue	O	1.2.3	160.6	152.4	268.6
Inventories and prepaid expenses	O	1.3.4	80.2	120.7	61.9
Derivative financial instruments	O/I*	3.8	55.7	52.1	104.5
Other financial assets	I	3.2.1	800.8	892.2	833.0
Cash and cash equivalents	I	3.2.2	151.9	180.9	150.2
Current assets total			**1,249.2**	**1,398.3**	**1,418.2**
Assets held for sale	O	2.1		0.1	16.7
Assets total			**3,877.9**	**3,943.6**	**3,900.9**

★ **Fleet growth continued**
In 2019, the Finnair fleet continued to grow with two new A350 aircraft with an overall passenger capacity growth of 11.3%.

Balance sheet



EUR mill.		Note	31 Dec 2019	Restated 31 Dec 2018	Restated 1 Jan 2018
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	O		75.4	75.4	75.4
Other equity	O		890.9	843.0	884.5
Equity total			**966.4**	**918.5**	**960.0**
Non-current liabilities					
Lease liabilities	I	2.2, 3.3	913.6	1,034.3	1,048.5
Other interest-bearing liabilities	I	3.3	477.3	514.2	539.9
Pension obligations	O	1.3.8.2	77.1	17.0	6.4
Provisions and other liabilities	O	1.3.6	156.9	107.1	94.7
Deferred tax liabilities	O	5.1	64.3	47.6	60.1
Non-current liabilities total			**1,689.1**	**1,720.2**	**1,749.6**
Current liabilities					
Lease liabilities	I	2.2, 3.3	140.4	125.1	68.7
Other interest-bearing liabilities	I	3.3	43.5	100.5	125.6
Provisions	O	1.3.6	17.2	30.9	25.8
Trade payables	O		84.7	72.6	90.7
Derivative financial instruments	O/I*	3.8	38.9	107.1	81.3
Deferred income and advances received	O	1.2.4	552.7	548.9	475.3
Liabilities related to employee benefits	O	1.3.8.1	119.4	105.6	139.2
Other liabilities	O	1.3.5	225.7	214.2	173.4
Current liabilities total			**1,222.4**	**1,304.9**	**1,180.1**
Liabilities related to assets held for sale	O				11.2
Liabilities total			**2,911.5**	**3,025.1**	**2,940.9**
Equity and liabilities total			**3,877.9**	**3,943.6**	**3,900.9**

Finnair reports its interest-bearing debt, net debt and gearing to give an overview of the Group's financial position. Balance sheet items included in interest-bearing net debt are marked with an "I". Other items are marked with an "O".

Additional information to Balance Sheet: Interest-bearing net debt and gearing	31 Dec 2019	Restated 31 Dec 2018	Restated 1 Jan 2018
Lease liabilities	1,054.0	1,159.3	1,117.2
Other interest-bearing liabilities	520.8	614.7	665.5
Cross currency interest rate swaps*	-1.1	5.8	18.5
Adjusted interest-bearing liabilities	**1,573.7**	**1,779.8**	**1,801.2**
Other financial assets	-800.8	-892.2	-833.0
Cash and cash equivalents	-151.9	-180.9	-150.2
Interest-bearing net debt	**621.0**	**706.7**	**818.1**
Equity total	966.4	918.5	960.0
Gearing, %	**64.3%**	**76.9%**	**85.2%**

* Cross-currency interest rate swaps are used for hedging the currency and interest rate risk of interest-bearing loans, but hedge accounting is not applied. Changes in fair net value correlate with changes in the fair value of interest-bearing liabilities. Therefore, the fair net value of cross-currency interest rate swaps recognised in derivative assets/liabilities and reported in note 3.8, is considered an interest-bearing liability in the net debt calculation.

★ = Highlights

Consolidated cash flow statement

EUR mill.	2019	Restated 2018
Cash flow from operating activities		
Result before taxes	93.0	127.2
Depreciation and impairment	325.4	294.2
Items affecting comparability	2.8	-37.9
Financial income and expenses	66.1	129.0
Share of results in associates and joint ventures	0.9	
Comparable EBITDA	**488.3**	**512.6**
Change in provisions	29.5	20.6
Employee benefits	10.6	3.0
Other adjustments	1.5	-3.1
Non-cash transactions	**41.5**	**20.5**
Changes in trade and other receivables	33.4	-18.4
Changes in inventories	-2.2	-1.8
Changes in trade and other payables	46.9	70.6
Changes in working capital	**78.1**	**50.4**
Financial expenses paid, net	-31.5	-79.9
Income taxes paid	-11.9	
Net cash flow from operating activities	**564.5**	**503.6**
Cash flow from investing activities		
Investments in fleet	-453.1	-309.7
Investments in other fixed assets	-25.2	-26.0
Divestments of fixed assets	1.3	213.8
Lease and lease interest payments received	16.3	
Net change in financial assets maturing after more than three months	-53.4	-81.8
Change in other non-current assets	0.8	1.2
Net cash flow from investing activities	**-513.2**	**-202.6**
Cash flow from financing activities		
Loan repayments	-42.0	-112.5
Repayments of lease liabilities	-132.2	-118.9
Hybrid bond interests and expenses	-15.8	-15.8
Acquisitions of own shares	-0.5	-3.7
Dividends paid	-35.0	-38.4
Net cash flow from financing activities	**-225.4**	**-289.2**
Change in cash flows	**-174.1**	**11.8**
Liquid funds, at beginning	655.8	643.9
Change in cash flows	-174.1	11.8
Liquid funds, at end*	**481.7**	**655.8**

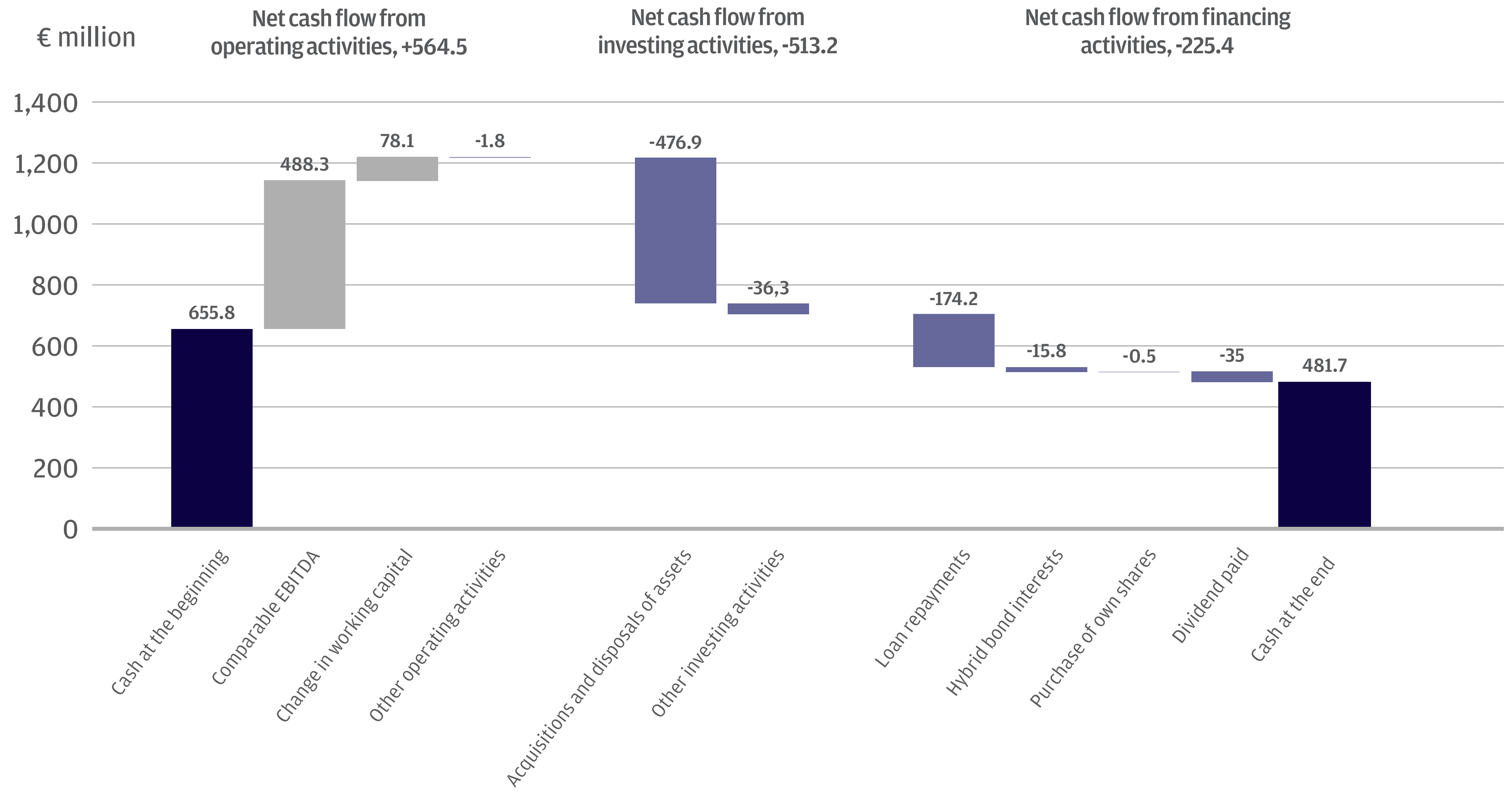
*** Liquid funds**

EUR mill.	2019	Restated 2018
Other financial assets	800.8	892.2
Cash and cash equivalents	151.9	180.9
Cash funds	**952.7**	**1,073.1**
Maturing after more than three months	-470.9	-417.3
Liquid funds	**481.7**	**655.8**

Changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes, are disclosed in the note 3.3 Financial liabilities.

★ Further fleet investments supported by strenghtened operating cash flow
Finnair's liquidity continued to remain strong despite investments into two new A350 aircraft shown under cash flow from financing activities. Operating cash flow increased by 60.9 million euros, driven by changes in working capital and lower financing costs.

Cash Flow change 2019, -174.1€ million



★ = Highlights

Consolidated statement of changes in equity

EUR mill.	Share capital	Other restricted funds	Hedging reserve and other OCI items	Unrestricted equity funds	Retained earnings	Hybrid bond	Equity total
Equity 1 Jan 2019	75.4	168.1	-27.2	255.2	248.7	198.2	918.5
Result for the period					74.5		74.5
Change in fair value of hedging instruments			60.7				60.7
Actuarial gains and losses from defined benefit plans			-40.2				-40.2
Comprehensive income for the period			**20.5**		**74.5**		**95.0**
Hybrid bond interests and expenses					-12.6		-12.6
Dividend					-35.0		-35.0
Acquisitions of own shares					-0.5		-0.5
Share-based payments				0.9			0.9
Equity 31 Dec 2019	**75.4**	**168.1**	**-6.7**	**256.1**	**275.2**	**198.2**	**966.4**

EUR mill.	Share capital	Other restricted funds	Hedging reserve and other OCI items	Unrestricted equity funds	Retained earnings	Hybrid bond	Equity total
Equity 31 Dec 2017	**75.4**	**168.1**	**63.0**	**250.3**	**205.0**	**198.2**	**960.0**
Change in accounting principles				3.8	-4.7		-1.0
Equity 1 Jan 2018	**75.4**	**168.1**	**63.0**	**254.0**	**200.2**	**198.2**	**959.0**
Result for the period					101.6		101.6
Change in fair value of hedging instruments			-90.8				-90.8
Actuarial gains and losses from defined benefit plans			0.6				0.6
Comprehensive income for the period			**-90.2**		**101.6**		**11.4**
Hybrid bond interests and expenses					-12.6		-12.6
Dividend					-38.4		-38.4
Acquisitions of own shares					-3.7		-3.7
Share-based payments				1.1			1.1
Adjustment of sublease contracts					1.6		1.6
Equity 31 Dec 2018	**75.4**	**168.1**	**-27.2**	**255.2**	**248.7**	**198.2**	**918.5**

Retained earnings was adjusted with -4.7 million euros due to implementation of IFRS 15 Revenue from Contracts with Customers. Unrestricted equity funds increased 3.8 million euros due to amendment to IFRS 2 Share-based Payment.

★ Equity ratio improved to 24.9% in 2019 (23.3%)
The Group's equity increased to 966.4 million euros from last year level (918.5), with main contributors being the net result of 74.5 million together with positive fair value changes of hedging instruments amounting to 60.7 million (-90.8). In 2019, Finnair paid dividends of 35.0 million euros relating to the year 2018 (38.4) in accordance with the decision made at the Annual General Meeting held in 2019. At the end of the year 2019, the jet fuel price remained relatively stable in comparison to year-end 2018, which contributed to the positive change of the fair value hedging reserve. Finnair hedges against jet fuel price fluctuations with forward contracts and options according to its risk management policy decscribed in note 3.5 Management of financial risk.

★ = Highlights

Notes to the consolidated financial statements

Accounting principles

How should Finnair's accounting principles be read?
Finnair describes the accounting principles in conjunction with each note with the aim of providing an enhanced understanding of each accounting area. The basis of preparation is described as part of this note (accounting principles), while the principles more directly related to a specific note are attached to the corresponding note. The Group focuses on describing the accounting choices made within the framework of the prevailing IFRS policy and avoids repeating the actual text of the standard, unless Finnair considers it particularly important to the understanding of the note's content. Refer to the table below to see which notes, accounting principles and IFRS standards are related.

Accounting principle	Note	Nr.	IFRS
Segment reporting	Segment information	1.1	IFRS 8
Revenue recognition, other income and trade receivables	Operating income	1.2	IFRS 15, IFRS 9, IFRS 7
Provisions and contingent liabilities	Provisions	1.3.6	IAS 37
Employee benefits and share-based payments	Employee benefits	1.3.8	IAS 19, IFRS 2
Pensions	Pensions	1.3.8.2	IAS 19
Tangible and intangible assets	Fleet and other fixed assets	2.1	IAS 16, IAS 36, IAS 38
Leases	Leasing arrangements	2.2	IFRS 16
Interest income and expenses	Financial income and expenses	3.1	IFRS 7, IAS 18, IAS 32
Financial assets	Financial assets	3.2	IFRS 9, IFRS 7
Cash and cash equivalents	Financial assets	3.2	IFRS 9, IFRS 7
Financial liabilities	Financial liabilities	3.3	IFRS 9, IFRS 7
Derivative contracts and hedge accounting	Derivatives	3.8	IFRS 9, IFRS 7
Equity, dividend and treasury shares	Equity-related information	3.9	IAS 32, IAS 33
Consolidation principles of subsidiaries	Subsidiaries	4.2	IFRS 10
Non-controlling interests and transactions with non-controlling interests	Subsidiaries	4.2	IFRS 10
Investments in associates and joint ventures	Investments in associates and joint ventures	4.4	IFRS 11
Related party disclosures	Related party transactions	4.5	IAS 24
Income and deferred taxes	Income taxes	5.1	IAS 12

Description of the company

The Finnair Group engages in worldwide air transport operations and supporting services. The Group's parent company is Finnair Plc, which is domiciled in Helsinki at the registered address Tietotie 9, Vantaa. The parent company is listed on the NASDAQ OMX Helsinki Stock Exchange.

The Board of Directors of Finnair Plc has approved these financial statements for publication at its meeting on 6 February 2020. Under Finland's Limited Liability Companies Act, shareholders have the option to accept, or reject the financial statements in the Annual General meeting of the shareholders, which will be held after the publication of the financial statements.

Basis of preparation

Finnair Plc's consolidated financial statements for 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, and they comply with the IAS and IFRS standards and respective SIC and IFRIC Interpretations effective on 31 December 2019. The notes to the consolidated financial statements also comply with Finnish accounting and corporate law.

As of 1 January 2019, Finnair has adopted the new IFRS 16 Leases standard using full retrospective method. Finnair has also changed its accounting principle relating to aircraft frame components and made changes to its presentation of income statement, balance sheet and cash flow line items. The new standards and accounting principles applied in 2019 are described in more detail in the below section 'Changes in accounting principles and restated financials 2018'.

The 2019 consolidated financial statements have been prepared based on original acquisition costs, except for financial assets recognised through profit and loss at fair value, financial assets available-for-sale, and derivative contracts, which have been measured at fair value. Financial statement data is presented in millions of euros, rounded to the nearest hundred thousand euro. This means that the sum of the individual figures may differ from the total shown.

Presentation of consolidated income statement and balance sheet

IAS 1 Presentation of Financial Statements standard does not define 'operating result'. The Group has defined it as the net amount of operating income and expenses, including revenue and other operating income, less operating expenses, such as employee benefits, fuel costs, maintenance expenses, lease payments for aircraft and depreciations. Exchange rate differences and realised changes in fair values of derivatives are included in the operating result if they arise from items related to business operations; otherwise, they are recognised in financial items. The operating result excludes financial items, share of results from associates and joint ventures and income taxes.

The consolidated income statement includes, in addition to the operating result, comparable operating result and EBITDA which are presented to better reflect the Group's business performance when comparing results to previous periods (see also below, presentation on alternative performance measures). The comparable operating result does not include capital gains and losses, changes in the value of foreign currency denominated fleet maintenance reserves, changes in the unrealised fair value of derivatives or restructuring costs. The basis for this is explained in more detail in note 1.3.7 Items excluded from comparable operating result. Comparable EBITDA is a common measure in the airline business which aims to reflect comparable operating result excluding capital cost. Therefore, comparable EBITDA is calculated by excluding depreciations from the comparable operating result.

In the Consolidated balance sheet, assets and liabilities are classified as current when they are expected to realise within 12 months or when they are classified as liquid funds or as financial assets or liabilities classified at fair value through profit or loss. Other assets and liabilities are classified as non-current assets or liabilities. Interest-bearing liabilities include bonds, loans taken for aircraft financing (JOLCO-loans), bank loans, lease liabilities, commercial papers and the loans from internal bank ("huoltokonttori"). Interest-bearing net debt is the net amount of interest-bearing assets and liabilities and cross-currency interest rate swaps that are used for hedging the currency and interest rate risk arising from interest-bearing loans.

Presentation of alternative performance measures

Finnair uses alternative performance measures referred to in the European Securities Markets Authority (ESMA) Guidelines on Alternative Performance Measures to describe its operational and financial performance, to provide a comparable view of its business and to enable better comparability relative to its industry peers. The alternative performance measures do not replace IFRS indicators. Finnair's alternative performance measures reported in the financial statements are comparable operating result and EBITDA (defined above). Comparable operating result is reconciled in the note 1.3.7 Items excluded from comparable operating result. Finnair applies consistent principles when excluding items from comparable operating result. The main principles are described in the above section 'Presentation of consolidated income statement and balance sheet' and in more detail in the note 1.3.7 Items excluded from comparable operating result.

! = Critical accounting estimates

The calculation principles of key ratios are also defined in The report of the Board of Directors, in the section Calculation of key ratios. Changes in accounting principles did not have an effect on calculating alternative performance measures. However, due to IFRS 16 implementation, the key ratios called adjusted net debt and adjusted gearing are no longer presented.

Use of estimates

The preparation of IFRS financial statements requires Group management to make certain estimates and judgements in applying the accounting principles. Information about the judgement exercised by management in applying the Group's accounting principles and the areas where estimates and judgements have biggest impact on the financial statements are presented in the following paragraph Critical accounting estimates and sources of uncertainty.

Critical accounting estimates and sources of uncertainty

The preparation of financial statements requires the use of estimates and assumptions relating to the future, and the actual outcome may differ from the estimates and assumptions made. In addition, discretion has to be exercised in applying the accounting principles of the financial statements. Estimates are based on management's best estimate at the balance sheet date. Changes in estimates and assumptions affect the financial statements in the period the changes occur, and in all the subsequent financial periods.

! The identified main critical estimates and sources of uncertainty are presented in connection to the items considered to be affected, attached to the corresponding note. The table below shows where to find more information about those estimates and uncertainties. !

Critical accounting estimates and sources of uncertainty	Note number	Note
Finnair Plus Customer Loyalty Program	1.2	Operating income
Maintenance reserves of the fleet	1.3.6	Provisions
Pension obligations	1.3.8.2	Pensions
Impairment testing	2.1	Fleet and other fixed assets
Leasing arrangements	2.2	Leasing arrangements

Changes in accounting principles and restated financials 2018

As of 1 January 2019, Finnair has adopted the new IFRS 16 Leases standard using the full retrospective method. Finnair has also changed its accounting principle relating to aircraft frame components, including cabin components and frame overhauls, and made structural changes in its financial reporting chart of accounts, including income statement, balance sheet and cash flow reporting changes. The comparable financial reporting periods presented in the consolidated financial statements have been restated to account for the new reporting practices.

Finnair has published a separate Stock Exchange Release on 21 March 2019 related to the changes, which encloses the restated financials, including tables for each quarter of 2018 with the combined effect of all three restatements. Tables are also available in excel-format on Finnair´s investor relations website at https://investors.finnair.com/en

Below is presented the summary of changes to figures and accounting principles as well as the restatement effects tables, where the different restatement effects to 2018 financials are specified separately for each restatement.

Impact of the IFRS 16 implementation on the prior period 2018 financials

The new leasing standard IFRS 16 is effective from 1 January 2019 onwards. It replaces the previous standard IAS 17 Leases. Finnair has adopted the new standard from 2019 onwards and has applied the full retrospective method to each prior reporting period presented.

The new standard has a significant impact on the Finnair Group financial statements and key ratios. The present value of the future operating lease payments for aircraft, real estate and other qualifying operating lease arrangements are recognized as right-of-use assets (named as 'right-of-use fleet' and 'right-of-use other fixed assets' on Finnair's balance sheet) with corresponding interest-bearing lease liabilities. Previously, future operating lease payments were presented in the notes as off-balance sheet commitments.

Assets at 31.12.2018 increased by 992.3 million euros due to the recognition of right-of-use assets, of which approximately 80 % are aircraft. Liabilities increased by 1,091.6 million euros due to the recognition of the present value of qualifying operating lease liabilities. The comparative information was restated, and the cumulative effect of applying IFRS 16 was recognized as an adjustment to the opening equity of 2018. The change decreased Finnair's equity at 31.12.2018 by 99.3 million euros.

The change had a significant impact on Finnair's 2018 reported key ratios. The increase of interest-bearing net debt was also reflected in the gearing ratio, which increased by 115.6 p.p. due to the implementation of IFRS 16. The equity ratio decreased by 11.3 p.p. Due to the implementation of IFRS 16, Finnair also ceased reporting two alternative key performance indicators from 1st January 2019 onwards. Adjusted net debt and adjusted gearing, which previously included adjustments for operating lease payments on aircraft, are no longer presented. Interest-bearing lease liability is now recognized on the balance sheet and therefore already included in the calculation of interest-bearing net debt and gearing, without the need for separate adjustment.

The leasing standard is also impacting Finnair's income statement. Based on the IFRS 16, operating lease expenses are divided into a depreciation of the right-of-use asset and interest costs on the lease liability. The interest costs for the liability are at their highest in the beginning of the lease term, decreasing towards the end of the term as the lease liability is amortized. Previously, operating lease expenses were accrued over the lease term on a straight-line basis and recognized in the operating result as lease payments for aircraft and other rents.

Finnair's 2018 comparable operating result improved by 54.7 million euros and operating result improved by 54.8 million euros due to the implementation of the new standard. Finnair's net result in 2018 however decreased by 44.3 million euros due to interest expenses and foreign exchange losses associated with USD denominated aircraft lease payments and liability. The majority of the decrease in Finnair's net result is derived from unrealized foreign exchange losses caused by the translation of the USD denominated liability.

The majority of Finnair's existing lease agreements and lease payments for aircraft are denominated in USD. In the future, the effect and amount of foreign currency exchange rate changes on the value of the right-of-use asset and lease liability recognized in the balance sheet may either be positive or negative, depending on the USD-rate at the balance sheet date. The annual effect in net result going forward is dependent on the size of the qualifying operating lease portfolio and the duration of the leases. Finnair aims to mitigate the foreign exchange volatility by using hedges.

In the cash flow statement, repayments of lease liabilities are moved from operating cash flow to financing cash flow in accordance with IFRS 16. Operating cash flow increased by 111.9 million euros in the comparison period 2018, with a corresponding reduction in financing cash flow.

IFRS 16 impacts in Finnair accounting policies

The leases recognized as right-of-use assets under IFRS 16 at Finnair are comprise of leased aircraft and spare engines, real estate, cars and ground equipment. Aircraft account for the majority (~80%) of the balance sheet value of the right-of-use asset and lease liability. The majority of the remaining right-of-use assets (~20%) comprise of real estate contracts.

Finnair uses the exemption provided by the standard not to account for lease liability for operating leases which have a term of 12 months or less, and which do not include an option to purchase the underlying asset. In addition, Finnair does not account for IFRS 16 lease liability for leases for which the underlying asset is not material to Finnair. The assessment of whether the underlying asset is material and is within the scope or excluded from the recognition requirements of IFRS 16 is based on the concept of materiality in the Conceptual Framework and IAS 1. Finnair recognizes the lease payments associated with such short-term and immaterial leases as an expense on a straight-line basis.

Aircraft

Lease term: For the aircraft operating lease contracts, the lease term corresponds to the non-cancellable duration of the contracts signed except in cases where the Group is reasonably certain of exercising either an extension option or an early termination option that is included in the contract. At the initial measurement of the lease, Finnair does not normally include any option period in the lease term as there is significant uncertainty whether Finnair will continue the lease term, even if the lease allows for extensions. The negotiation of possible extension typically begins 12–18 months prior to the initial operating lease term expiry. Finnair remeasures the lease liability when it decides to use the extension option or when there is some other significant indication that the lease period will be extended. For example, major modifications to leased aircraft may be considered as indications of extending the lease, especially if done close to the end of the leasing period.

Discount rate: Aircraft lease agreements do not clearly define the interest rate implicit in a lease. Since the fair values of the aircraft are provided publicly by third parties, Finnair is able to calculate the implicit interest rate for each qualifying aircraft operating lease. The rate implicit in the lease is defined as the rate that causes the sum of the present value of the lease payments and the present value of the residual value of the underlying asset at the end of the lease to equal the fair value of the underlying asset.

Maintenance costs: Finnair recognizes provisions for leased aircraft to maintain the aircraft during the period of the lease. For owned aircraft, provisions are not recognized because the cost is avoidable, by for instance selling the asset. IFRS 16 requires including restoration costs in the right-of-use asset. Finnair uses the criteria of whether the maintenance cost is avoidable or unavoidable in determining whether the maintenance cost is capitalised to the right-of-use asset or not.

Finnair is obliged to return leased aircraft and their engines according to redelivery conditions set in the lease agreements. If at the time of redelivery, the condition of the aircraft and its engines differs from the agreed redelivery condition, Finnair needs to either maintain the aircraft so that it meets the agreed redelivery condition or settle the difference in cash to the lessor. The maintenance costs can be divided into two main groups:

1) costs that are incurred independent of the usage of the aircraft / leasing period and
2) costs that are incurred dependent on the usage of the aircraft / leasing period

The final check and painting required at redelivery are considered unavoidable maintenance costs that realize when the aircraft is redelivered to the lessor, irrespective of the time or flight hours. The counterpart of the provision is recorded in the book value of the right-of-use asset at the commencement of the lease in accordance with IFRS 16 (IFRS 16:25). Respectively, costs depending on the usage of the aircraft are not considered as part of the right-of-use asset cost.

Excluded contracts: Excluded, non-qualifying, aircraft lease contracts include wet leases and spare engines that have been mainly excluded based on short-term exemption. Finnair analyses the lease term separately for each lease contract based on the contract term and possible extension or early termination options. When the lease term is 12 months or less and Finnair does not intend to continue the lease period after that, the lease agreement is excluded from lease liabilities.

Wet lease agreements are made to lease airline capacity typically on a short-term basis, for example when there are shortages in resourcing. The lease term of a typical wet lease agreement can vary from one day to one year.

Spare engines that have been leased on a short-term basis in exceptional cases (e.g., when the owned engine is unusable), are excluded from the lease liability. The lease term is usually only few days up to few months and Finnair does not intend to lease the spare engines for a longer period of time than they are needed.

Real estate

Lease term: The lease term corresponds to the non-cancellable duration of the contracts signed, except in cases where Finnair is reasonably certain of exercising either an extension option or an early termination option included in the contract.

Discount rate: Since facility agreements do not clearly specify the implicit interest rate in the lease contracts, Finnair uses an estimate of the incremental borrowing cost for a portfolio of facilities, meaning that all of the facilities' (land and real estate) lease contracts are discounted using the same discount rate. A management estimate of the incremental borrowing cost is used in determining the interest rate.

Excluded contracts: Based on Finnair's evaluation, service contracts that relate to the usage of airports and terminals (HEL hub) do not qualify as lease arrangements for IFRS 16 purposes. In the contracts, the lessor has a substitution right to substitute the leased area with another area, which leads to classifying the contracts as non-leases. As an exception from this principle, there are specific lounge areas at Helsinki-Vantaa airport that are dedicated for Finnair's use, and these are therefore included in lease contracts.

Finnair has analyzed lease contracts where the lease term is not fixed but both the lessor and lessee have an option to terminate the lease within 1–12 months' notice and has concluded that these contracts are not material and termination of these contracts is practically realistic within the time of the notice (e.g. small storage space). Therefore, these contracts have been mainly excluded from the lease liability.

Other leases (cars and ground equipment)

Other leases are comprised mainly of company cars and ground equipment, where the lease is considered long term and therefore are qualified as IFRS 16 leases.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. Finnair has used this practical expedient for those company car and ground equipment leases that include service components.

The lease term corresponds to the non-cancellable duration of the contracts signed except in cases where Finnair is reasonably certain of exercising either an extension option or an early termination option included in the contract. Current lease contracts do not include such options that would be reasonably certain to be exercised, so the lease term of the current contracts corresponds to the lease duration of the signed contract.

Finnair uses an estimate of incremental borrowing cost for each portfolio of cars and ground equipment, meaning that all of the lease contracts are discounted using the same discount factor. A management estimate is used to determine the incremental interest rate. Lease contracts that individually (or by asset class) are not material to Finnair have been excluded from the lease liability. These contracts include small IT-equipment and office equipment.

Subleases

IFRS 16 did not change substantially how a lessor accounts for leases. Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. Under IFRS 16, an intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17). Because of this change, Finnair has reclassified certain of its sublease agreements as finance leases as at 1st January 2019.

Finnair subleases 9 (nine) aircraft and a small amount of ground equipment, whereby reference to the head lease, the lease term is for the majority of the remaining economic life arising from the right-of-use asset and therefore these are classified as finance leases in accordance with IFRS 16. The right-of-use asset arising from the head lease is derecognized and a net investment corresponding to the discounted lease payments is recognized on the Finnair balance sheet.

In accordance with IFRS 16, for subleases where Finnair is the lessor and are reclassified from operating subleases to finance leases due to IFRS 16, contracts ongoing at 1.1.2019 (date of initial application) are accounted for as new finance leases and the gain arising on the subleases is included in the cumulative catch-up adjustment in retained earnings.

Change in accounting principles of aircraft frame components and overhauls

Finnair has revised the accounting principles of its aircraft frame components and overhauls. Finnair's financial reporting has been restated to each prior reporting period presented. Previously, only the heavy maintenance of airframes had been separated out into maintenance components. From 1 January 2019 onwards, other material maintenance and cabin components, such as landing gear and business class seats, are accounted for as separate components. The different components are depreciated based on their economic useful lives or during their maintenance period. Previously, overhauls have been booked as expenses when incurred.

Finnair also changed its accounting principle for leased aircraft, so that a provision is recognized following the renewed component approach.

As a result of the change, the assets as at 31.12.2018 increased by 4.0 million euros. The acquisition cost of the capitalised overhauls increased the assets, and the shorter depreciation period of the cabin components compared to the old policy decreased the asset value. Liabilities increased by 7.9 million euros due to the recognition of provisions for maintenance events. The comparative information was restated, and the cumulative effect of initially applying the accounting principle was made as an adjustment to opening equity of 2018. The change decreased Finnair's equity at 31.12.2018 by 3.9 million euros.

The change had also some impact to the income statement and key ratios reported. 2018 comparable operating result decreased due to the change by 5.7 million euros, operating result decreased by 6.0 million euros and the net result decreased by 4.7 million euros. The equity ratio decreased by 0.2 p.p. and gearing decreased by 0.1 p.p. In cash flow, the investments to owned aircraft maintenance events are now presented in investing cash flow instead of operating cash flow.

Changes in presentation of Consolidated income statement, balance sheet and cash flow statement

Finnair has renewed the presentation of its consolidated income statement, balance sheet and cash flow statement by grouping costs in the consolidated income statement to better reflect business development and operations and to include the new line items required by the IFRS 16 standard. In all statements, the lines are named to be clearer. Structural changes did not have an effect on figures, but rather the line items in income statement, balance sheet and cash flow.

In the new income statement structure, customer compensations have been transferred from revenue to passenger and handling expenses. The volume-driven operating expenses have been transferred from other expenses to relevant line items:

- Personnel related expenses and hired and outsourced crew have been transferred to staff costs.
- Booking fees and credit card commissions have been transferred to sales, marketing and distribution costs.
- Lounge costs, cancellations costs, rerouting compensations, wifi-costs and IT fees based on passengers' amount have been transferred to passenger and handling services.

Groupings and naming have been changed to be more relevant:

- Other rents account name has been changed to capacity rents. Property related costs have been transferred to account property, IT and other expenses.
- Ground handling, catering and tour operation expenses have been combined to account passenger and handling services.

Due to implementing IFRS 16, operational lease payments are no longer presented under lease expenses in the profit and loss so the lease payments for aircraft account has been removed.

In non-current assets the fixed assets have been split to fleet and to other fixed assets, which include other than fleet related tangible and intangible assets. Due to the IFRS 16 implementation, additional accounts for the right-of-use assets of fleet and other fixed assets have been added. Respectively, additional accounts have been added for the non-current and current lease liabilities.

In non-current assets the investments in associates and joint ventures have been combined to other non-current assets. In current assets the inventories have been combined with prepaid expenses. The new account receivables related to revenue include trade receivables and accrued income. In non-current liabilities the other non-current liabilities have been combined to the new account provisions and other non-current liabilities.

Cash flow structure has been changed to begin from result before taxes and line item income taxes has been removed from the structure. Comparable EBITDA, which is presented in the Finnair's income statement, has been added to the structure and EBITDA, that is not presented in the income statement, is removed. Items affecting comparability, which are specified in a separate note of interim and financial statements, have been added as a new line item to cash flow and the gains and losses on aircraft and other transactions, that belong to the items affecting comparability account group, have been moved there. In net cash flow from investing activities, the structure has been changed to correspond to the balance sheet presentation of fleet and other fixed assets. Divestments of fixed assets are now presented separately from divestments of group shares. Investments and divestments of group shares have been moved to line item change in other non-current assets.

Due to implementing IFRS 16, a new line item for repayments of lease liabilities has been added to the net cash flow from financing activities.

Compensations for Delays or Cancellations

IFRS interpretation committee (IFRIC) made an agenda decision in September 2019 of Compensations for Delays or Cancellations (IFRS 15 Revenue from Contracts with Customers). IFRIC concluded in its decision, that customer compensations for delays or cancellations is a variable consideration in the contract. Therefore, it should be recognized as an adjustment to revenue.

Finnair has previously considered the customer compensations as penalties and consequently accounted for those in passenger and handling expenses. Following the IFRIC decision, Finnair has decided to revise its accounting policy for the year 2019 and will reclass customer compensations for delays and cancellations as to its revenue. The amount is not material for Finnair's financial statements. However, as the reclassification from operating expenses to revenue will have a small effect on some of the key operating ratios reported by Finnair, Finnair has decided to also restate the 2018 figures to ensure comparability between the reported years. The impact of the accounting change on Finnair's financial statement is shown in separate tables provided at the end of this section.

New and amended IFRS standards and IFRIC interpretations after the ended period

The currently known future changes in the IFRS standards that are effective from periods on or after 1st of January 2020, mainly include amendments and improvements to current standards that are not expected to have a material impact on the Group's consolidated financial statements.

○ = Line item or account that is removed because of chart of accounts restructuring or IFRS 16 standard.

■ = Line item or account that is added because of chart of accounts restructuring or IFRS 16 standard.

Consolidated income statement, restatement effects in 2018

EUR mill.	Reported 1 Jan–31 Dec 2018	Chart of Accounts restructuring effect	IFRS 16 restatement effect	Aircraft component restatement effect	Restated 1 Jan–31 Dec 2018
Revenue	**2,834.6**	**15.1**			**2,849.7**
Other operating income	73.7				73.7
Operating expenses					
Staff costs	-433.4	-72.4	6.3		-499.6
Fuel costs	-581.0				-581.0
○ Other rents	-154.9	154.9			
■ Capacity rents		-277.8	155.4		-122.4
Aircraft materials and overhaul	-169.1	-2.0	0.5	7.8	-162.9
Traffic charges	-300.8				-300.8
○ Sales and marketing expenses	-92.4	92.4			
■ Sales, marketing and distribution costs		-159.0			-159.0
○ Ground handling and catering expenses	-256.9	256.9			
○ Expenses for tour operations	-113.4	113.4			
■ Passenger and handling services		-455.7	1.7		-453.9
○ Other expenses	-330.9	330.9			
■ Property, IT and other expenses		-151.7	20.4		-131.3
○ **Comparable EBITDAR**	**475.4**	**-155.0**	**184.4**	**7.8**	**512.6**
■ **Comparable EBITDA**		**320.5**	**184.4**	**7.8**	**512.6**
○ Lease payments for aircraft	-155.0	155.0			
Depreciation and impairment	-151.1		-129.6	-13.5	-294.2
Comparable operating result	**169.4**	**0.0**	**54.7**	**-5.7**	**218.4**
Unrealized changes in foreign currencies of fleet overhaul provisions	-4.7			-0.3	-4.9
Fair value changes of derivatives where hedge accounting is not applied	0.2				0.2
Sales gains and losses on aircraft and other transactions	42.7		0.0		42.7
Restructuring costs	-0.1				-0.1
Operating result	**207.5**	**0.0**	**54.8**	**-6.0**	**256.3**
Financial income	-2.9		0.7		-2.2
Financial expenses	-16.0		-110.8		-126.8
Result before taxes	**188.6**	**0.0**	**-55.4**	**-6.0**	**127.2**
Income taxes	-37.9		11.1	1.3	-25.6
Result for the period	**150.7**	**0.0**	**-44.3**	**-4.7**	**101.6**
Attributable to					
Owners of the parent company	150.7		-44.3	-4.7	101.6
Earnings per share attributable to shareholders of the parent company, EUR (basic and diluted)	1.08		-0.35	-0.04	0.70

Consolidated balance sheet, restatement effects on the 2018 opening balance

EUR mill.	Reported 31 Dec 2017	Chart of Accounts restructuring effect	IFRS 16 restatement effect	Aircraft component restatement effect	Restated 1 Jan 2018
ASSETS					
Non-current assets					
○ Intangible assets	15.5	-15.5			
○ Tangible assets	1,422.1	-1,422.1			
■ Fleet		1,251.4	-42.2	9.0	1,218.2
■ Right-of-use fleet			881.8		881.8
Fleet total		1,251.4	839.7	9.0	2,100.1
■ Other fixed assets		186.2	-14.7		171.5
■ Right-of-use other fixed assets			186.4		186.4
Other fixed assets total		186.2	171.7		357.9
○ Investments in associates and joint ventures	2.5	-2.5			
○ Loan and other receivables	5.6	-5.6			
■ Other non-current assets		8.1			8.1
Non-current assets total	**1,445.7**	**0.0**	**1,011.4**	**9.0**	**2,466.0**
Current assets					
○ Inventories	17.2	-17.2			
○ Trade and other receivables	319.8	-319.8			
■ Receivables related to revenue		268.6			268.6
■ Inventories and prepaid expenses		68.4	-6.5		61.9
Derivative financial instruments	104.5				104.5
Other financial assets	833.0				833.0
Cash and cash equivalents	150.2				150.2
Current assets total	**1,424.6**	**0.0**	**-6.5**		**1,418.2**
Assets held for sale	16.7				16.7
Assets total	**2,887.1**	**0.0**	**1,004.9**	**9.0**	**3,900.9**

EUR mill.	Reported 31 Dec 2017	Chart of Accounts restructuring effect	IFRS 16 restatement effect	Aircraft component restatement effect	Restated 1 Jan 2018
EQUITY AND LIABILITIES					
Equity attributable to owners of the parent					
Share capital	75.4				75.4
Other equity	940.3		-56.5	0.8	884.5
Equity total	**1,015.7**	**0.0**	**-56.5**	**0.8**	**960.0**
Non-current liabilities					
■ Lease liabilities		103.3	945.2		1,048.5
Other interest-bearing liabilities	586.2	-103.3	57.0		539.9
Pension obligations	6.4				6.4
○ Provisions	79.0	-79.0			
○ Other liabilities	1.1	-1.1			
■ Provisions and other liabilities		80.1	11.4	3.2	94.7
Deferred tax liabilities	73.9		-14.1	0.3	60.1
Non-current liabilities total	**746.7**	**0.0**	**999.5**	**3.4**	**1,749.6**
Current liabilities					
■ Lease liabilities		22.4	46.4		68.7
Other interest-bearing liabilities	132.4	-22.4	15.5		125.6
Provisions	21.1			4.7	25.8
Trade payables	90.7				90.7
Derivative financial instruments	81.3				81.3
Deferred income and advances received	475.3				475.3
Liabilities related to employee benefits	139.2				139.2
Other liabilities	173.4				173.4
Current liabilities total	**1,113.4**	**0.0**	**61.9**	**4.7**	**1,180.1**
Liabilities related to assets held for sale	11.2				11.2
Liabilities total	**1,871.4**	**0.0**	**1,061.4**	**8.1**	**2,940.9**
Equity and liabilities total	**2,887.1**	**0.0**	**1,004.9**	**9.0**	**3,900.9**

Additional information to Balance Sheet: Interest-bearing net-debt and gearing	Reported 31 Dec 2017	Chart of Accounts restructuring effect	IFRS 16 restatement effect	Aircraft component restatement effect	Restated 1 Jan 2018
■ Lease liabilities		125.6	991.6		1,117.2
Other interest-bearing liabilities	718.6	-125.6	72.6		665.5
Cross currency Interest rate swaps	18.5				18.5
Adjusted interest-bearing liabilities	**737.1**	**0.0**	**1,064.1**		**1,801.2**
Other financial assets	-833.0				-833.0
Cash and cash equivalents	-150.2				-150.2
Interest-bearing net debt	**-246.0**		**1,064.1**		**818.1**
○ 7 x Lease payments for aircraft for the last twelve months	956.4		-956.4		
○ **Adjusted interest-bearing net debt**	**710.3**		**107.8**		**818.1**
Equity total	1,015.7		-56.5	0.8	960.0
○ **Adjusted gearing, %**	**69.9%**		**-69.9%-p**		
■ **Gearing, %**	**-24.2%**		**109.5%-p**	**0.0%-p**	**85.2%**

Consolidated balance sheet, restatement effects on the ending 2018 balance sheet

EUR mill.	Reported 31 Dec 2018	Chart of Accounts restructuring effect	IFRS 16 restatement effect	Aircraft component restatement effect	Restated 31 Dec 2018
ASSETS					
Non-current assets					
○ Intangible assets	20.4	-20.4			
○ Tangible assets	1,526.6	-1,526.6			
■ Fleet		1,361.1	-44.8	4.0	1,320.2
■ Right-of-use fleet			834.3		834.3
Fleet total		1,361.1	789.5	4.0	2,154.5
■ Other fixed assets		186.0	-12.7		173.2
■ Right-of-use other fixed assets			164.3		164.3
Other fixed assets total		186.0	151.5		337.5
○ Investments in associates and joint ventures	3.3	-3.3			
○ Loan and other receivables	4.3	-4.3			
■ Other non-current assets		7.7	45.6		53.3
Non-current assets total	**1,554.7**	**0.0**	**986.6**	**4.0**	**2,545.3**
Current assets					
○ Inventories	25.1	-25.1			
○ Trade and other receivables	242.2	-242.2			
■ Receivables related to revenue		152.4			152.4
■ Inventories and prepaid expenses		114.9	5.8		120.7
Derivative financial instruments	52.1				52.1
Other financial assets	892.2				892.2
Cash and cash equivalents	180.9				180.9
Current assets total	**1,392.5**	**0.0**	**5.8**		**1,398.3**
Assets held for sale	0.1				0.1
Assets total	**2,947.3**	**0.0**	**992.3**	**4.0**	**3,943.6**

○ = Line item or account that is removed because of chart of accounts restructuring or IFRS 16 standard.
■ = Line item or account that is added because of chart of accounts restructuring or IFRS 16 standard.

	EUR mill.	Reported 31 Dec 2018	Chart of Accounts restructuring effect	IFRS 16 restatement effect	Aircraft component restatement effect	Restated 31 Dec 2018
	EQUITY AND LIABILITIES					
	Equity attributable to owners of the parent					
	Share capital	75.4				75.4
	Other equity	946.2		-99.3	-3.9	843.0
	Equity total	**1,021.7**	**0.0**	**-99.3**	**-3.9**	**918.5**
	Non-current liabilities					
■	Lease liabilities		87.5	946.8		1,034.3
	Other interest-bearing liabilities	561.0	-87.5	40.7		514.2
	Pension obligations	17.0				17.0
○	Provisions	91.3	-91.3			
○	Other liabilities	4.8	-4.8			
■	Provisions and other liabilities		96.1	11.8	-0.7	107.1
	Deferred tax liabilities	73.5		-24.8	-1.0	47.6
	Non-current liabilities total	**747.6**	**0.0**	**974.4**	**-1.8**	**1,720.2**
	Current liabilities					
■	Lease liabilities		24.1	101.0		125.1
	Other interest-bearing liabilities	108.4	-24.1	16.2		100.5
	Provisions	21.2			9.7	30.9
	Trade payables	72.6				72.6
	Derivative financial instruments	107.1				107.1
	Deferred income and advances received	548.9				548.9
	Liabilities related to employee benefits	105.6				105.6
	Other liabilities	214.2				214.2
	Current liabilities total	**1,178.0**	**0.0**	**117.2**	**9.7**	**1,304.9**
	Liabilities total	**1,925.6**	**0.0**	**1,091.6**	**7.9**	**3,025.1**
	Equity and liabilities total	**2,947.3**	**0.0**	**992.3**	**4.0**	**3,943.6**

	Additional information to Balance Sheet: Interest-bearing net-debt and gearing	Reported 31 Dec 2018	Chart of Accounts restructuring effect	IFRS 16 restatement effect	Aircraft component restatement effect	Restated 31 Dec 2018
■	Lease liabilities		111.6	1,047.8		1,159.3
	Other interest-bearing liabilities	669.4	-111.6	56.9		614.7
	Cross currency Interest rate swaps	5.8				5.8
	Adjusted interest-bearing liabilities	**675.2**	**0.0**	**1,104.7**		**1,779.8**
	Other financial assets	-892.2				-892.2
	Cash and cash equivalents	-180.9				-180.9
	Interest-bearing net debt	**-397.9**		**1,104.7**		**706.7**
○	7 x Lease payments for aircraft for the last twelve months	1,084.7		-1,084.7		
○	**Adjusted interest-bearing net debt**	**686.8**		**19.9**		**706.7**
	Equity total	1,021.7		-99.3	-3.9	918.5
○	**Adjusted gearing, %**	**67.2%**		**-67.2%-p**		
■	**Gearing, %**	**-38.9%**		**115.6%-p**	**-0.1%-p**	**76.9%**

○ = Line item or account that is removed because of chart of accounts restructuring or IFRS 16 standard.
■ = Line item or account that is added because of chart of accounts restructuring or IFRS 16 standard.

Consolidated cash flow statement, restatement effects in 2018

	EUR mill.	Reported 1 Jan–31 Dec 2018	Chart of Accounts restructuring effect	IFRS 16 restatement effect	Aicraft component restatement effect	Restated 1 Jan–31 Dec 2018
	Cash flow from operating activities					
○	Result for the period	150.7	-150.7			
■	Result before taxes		188.6	-55.4	-6.0	127.2
	Depreciation and impairment	151.1		129.6	13.5	294.2
○	Other adjustments to result for the period					
■	Items affecting comparability		-38.1		0.3	-37.9
	Financial income and expenses	18.9		110.2		129.0
○	Income taxes	37.9	-37.9			
○	**EBITDA**	**358.6**	**-358.6**			
■	**Comparable EBITDA**		**320.5**	**184.4**	**7.8**	**512.6**
○	Gains and losses on aircraft and other transactions	-42.7	42.7			
	Non-cash transactions*	25.7	-4.6	-1.4	0.8	20.5
	Changes in working capital	50.0		0.4		50.4
	Financial expenses paid, net	-8.4		-71.5		-79.9
	Net cash flow from operating activities	**383.1**	**0.0**	**111.9**	**8.6**	**503.6**
	Cash flow from investing activities					
○	Investments in intangible assets	-9.8	9.8			
○	Investments in tangible assets	-317.3	317.3			
■	Investments in fleet		-301.1		-8.6	-309.7
■	Investments in other fixed assets		-26.0			-26.0
○	Investments in group shares	0.1	-0.1			
○	Divestments of fixed assets and group shares	214.1	-214.1			
■	Divestments of fixed assets		213.8			213.8
	Net change in financial assets maturing after more than three months	-81.8				-81.8
○	Change in non-current receivables	0.8	-0.8			
■	Change in other non-current assets		1.2			1.2
	Net cash flow from investing activities	**-194.0**	**0.0**	**0.0**	**-8.6**	**-202.6**
	Cash flow from financing activities					
	Loan repayments and changes	-119.4		7.0		-112.5
■	Repayments of lease liabilities			-118.9		-118.9
	Hybrid bond interests and expenses	-15.8				-15.8
	Purchase of own shares	-3.7				-3.7
	Dividends paid	-38.4				-38.4
	Net cash flow from financing activities	**-177.3**		**-111.9**		**-289.2**

i = Content of the section
A = Accounting principles

EUR mill.	Reported 1 Jan-31 Dec 2018	Chart of Accounts restructuring effect	IFRS 16 restatement effect	Aicraft component restatement effect	Restated 1 Jan-31 Dec 2018
Change in cash flows	**11.8**	**0.0**	**0.0**	**0.0**	**11.8**
Liquid funds, at beginning	643.9				643.9
Change in cash flows	11.8				11.8
Liquid funds, at end**	**655.8**				**655.8**
Notes to consolidated cash flow statement					
*** Non-cash transactions**					
Employee benefits	3.0				3.0
Change in provisions	24.9	-4.8	-0.2	0.8	20.6
Other adjustments	-2.1	0.2	-1.2		-3.1
Total	**25.7**	**-4.6**	**-1.4**	**0.8**	**20.5**
**** Liquid funds**					
Other financial assets	892.2				892.2
Cash and cash equivalents	180.9				180.9
Cash funds	**1,073.1**				**1,073.1**
Maturing after more than three months	-417.3				-417.3
Liquid funds	**655.8**				**655.8**

Consolidated income statement, restatement of customer compensations 31 Dec 2019

EUR mill.	Restated 1 Jan – 31 Dec 2018 (21 Mar 2019)	Restatement effect	Restated 1 Jan – 31 Dec 2018 (31 Dec 2019)
Revenue	2,849.7	-13.6	2,836.1
Passenger and handling services	-453.9	13.6	-440.3

Restatement did not have effect on operating result.

1 Operating result

i Operating result includes notes related to revenue and operating result from the point of view of income statement and balance sheet. i

1.1 Segment information

A Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's Executive Board. Segments are defined based on Group's business areas. Group has one business and reporting segment: Airline business. A

The Finnair Executive Board, defined as the chief operative decision maker according to IFRS 8 Segment reporting, considers the business as one operating segment. Therefore, segment information is not reported.

The revenue by product and geographical area is presented in the note 1.2.1 Revenue by product and traffic area. The division is based on the destination of Finnair flights. Finnair operates international and domestic routes, but the assets are almost solely owned in Finland. The fleet composes the major part of the non-current assets (see note 2.1 Fleet and other fixed assets). The fleet is owned or leased by Finnair's Finnish subsidiary and the aircraft are operated flexibly across different traffic (geographical) areas. More details about fleet management and ownership can be found in the management report in the section "Fleet".

Finnair transported 14.7 million passengers in 2019. Due to the large number of customers and nature of business, sales to any individual customer is not material compared to Finnair's total revenue.

1.2 Operating income

i The operating income section includes both income statement and balance sheet notes that relate to revenue. The aim is to provide a more coherent picture of income related items affecting Finnair's result and financial position. Trade receivables and deferred income containing mainly prepaid flight tickets and travel tour services are presented in connection with this section, because those are an essential part in revenue recognition. i

A Revenue recognition
Revenue is recognised when goods or services are delivered. Revenue is measured at fair value of the consideration received or receivable, net of discounts and indirect taxes.

Passenger revenue includes sale of flight tickets, and is recognised as revenue when the flight is flown in accordance with the flight traffic program. Recognition of unused tickets as revenue is based on the expected breakage amount of tickets remaining unused in proportion to the pattern of rights exercised by the passenger.

Sales price is allocated to a flight ticket and points in Finnair Plus' Customer Loyalty Program. Finnair loyalty customers can earn Finnair Plus Points from tickets or services purchased, and use the earned points to buy services and products offered by Finnair or its cooperation partners. The points earned are measured at fair value and recognised as a decrease of revenue and debt at the time when the points-earning event (for example, flight is flown) is recognised as revenue. Fair value is measured by taking into account the fair value of those awards that can be purchased with the points and the customer selection between different awards based on historical customer behaviour. In addition, the fair valuation takes into account the expiry of the points. The debt is derecognised when the points are used or expire.

Customer compensations for delays or cancellations is a variable consideration in the contract and it is recognised as an adjustment to revenue.

Ancillary revenue includes sale of ticket related services, like advance seat reservations, additional baggage fees as well as different service fees, and sale of goods in the aircraft. The service revenue is recognized when the flight is flown in accordance with the flight traffic program, since it is considered as a contract modification instead of separate revenue transaction. The sale of goods is recognized when the goods are delivered to the customer.

Cargo revenue is recognized when the cargo has been delivered to the customer.

Tour operations revenue includes sale of flight and hotel considered as separate performance obligations, which are recognized as the service is delivered. A

A = Accounting principles
! = Critical accounting estimates

A Trade receivables

Finnair Group recognises impairment provisions based on lifetime expected credit losses from trade receivables in accordance with IFRS 9. Finnair has chosen to apply a simplified credit loss matrix for trade receivables as trade receivables do not have a significant financing component. Accordingly, the credit loss allowance is measured at an amount equal to the lifetime expected credit losses. The expected credit loss model is forward-looking, and expected default rates are based on historical realised credit losses. The lifetime expected credit loss allowance is calculated using the gross carrying amount of outstanding trade receivables in each aging bucket and an expected default rate. The changes in expected credit losses are recognised in other operating expenses. A

! Finnair Plus Customer Loyalty Program

Valuation and revenue recognition related to Finnair Plus debt requires management judgment especially related to fair valuation of points and timing of revenue recognition related to points expected to expire. The fair value of the point is defined by allocating the point to award selection based on historical behaviour of customers, after which the fair value of each award is defined. The liability is calculated by taking the total amount of points earned by customers, decreased by the expected expiry of the points. These points are then fair valued as described above, and the result is recognised as liability on the balance sheet. !

1.2.1 Revenue by product and traffic area

2019

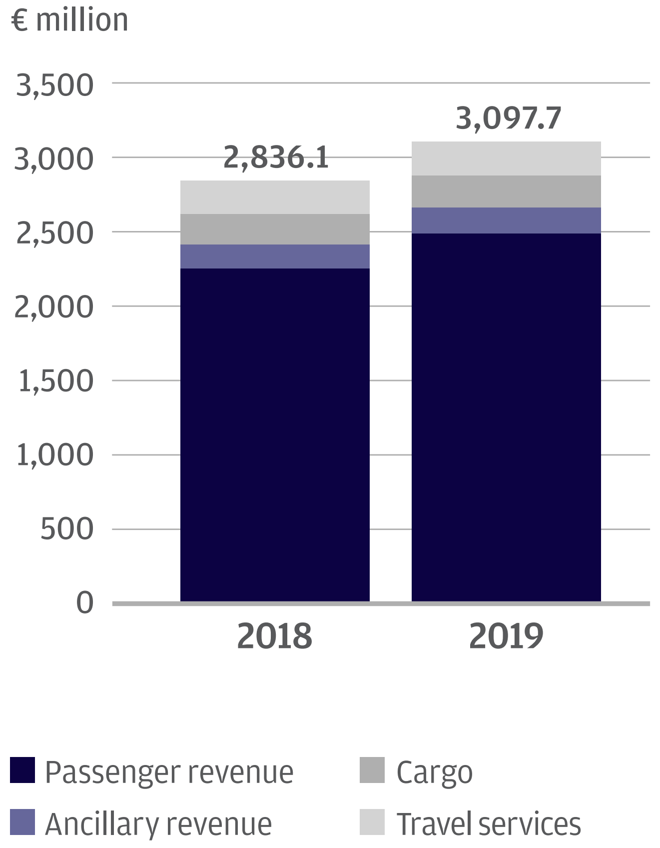
EUR mill.	Asia	North Atlantic	Europe	Domestic	Unallocated	Total	Share, % of revenue by product
Passenger revenue	1,083.6	179.1	997.9	181.4	37.8	**2,479.8**	80.1
Ancillary and retail revenue	54.8	11.1	45.1	5.2	60.0	**176.2**	5.7
Cargo	156.8	13.8	32.9	1.3	7.3	**212.1**	6.8
Travel services	32.9	13.0	183.6		-0.1	**229.5**	7.4
Total	**1,328.2**	**217.1**	**1,259.5**	**187.9**	**105.0**	**3,097.7**	
Share, % of revenue by traffic area	42.9	7.0	40.7	6.1	3.4		

The division of revenue by traffic area is based on the destination of the Finnair flight.

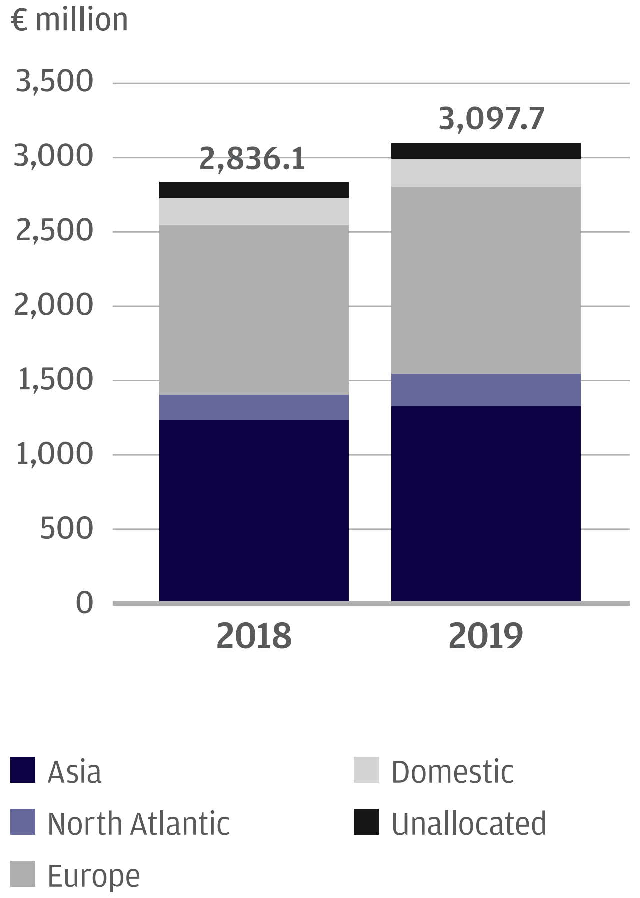
2018

EUR mill.	Asia	North Atlantic	Europe	Domestic	Unallocated	Total	Share, % of revenue by product
Passenger revenue	999.3	137.5	898.1	178.0	32.4	**2,245.4**	79.2
Ancillary and retail revenue	45.3	7.5	40.7	4.4	62.9	**160.8**	5.7
Cargo	155.7	12.0	32.4	0.6	6.5	**207.2**	7.3
Travel services	35.9	13.3	165.2	1.3	7.0	**222.6**	7.8
Total	**1,236.2**	**170.3**	**1,136.4**	**184.4**	**108.8**	**2,836.1**	
Share, % of revenue by traffic area	43.6	6.0	40.1	6.5	3.8		

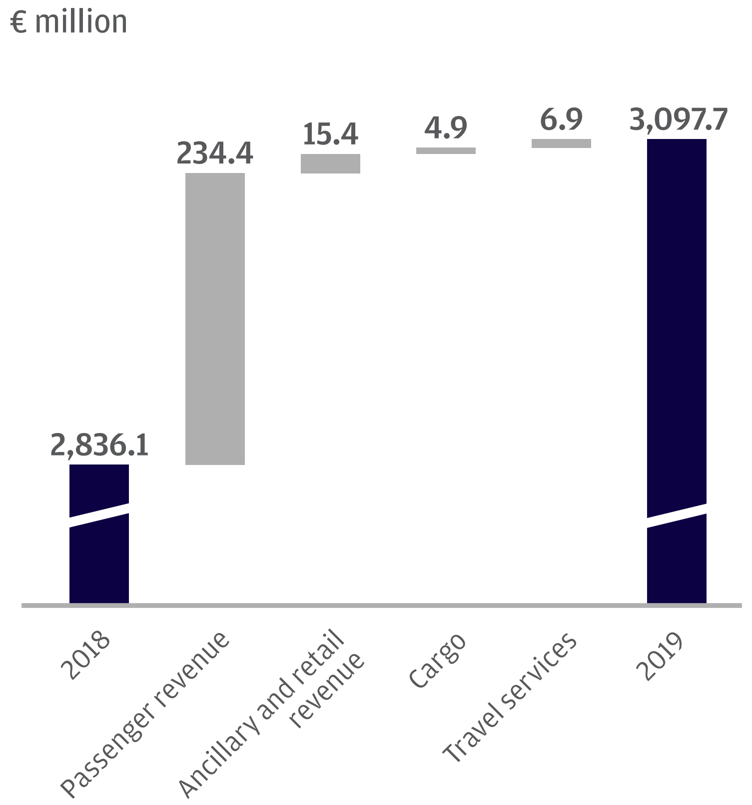
Revenue by product



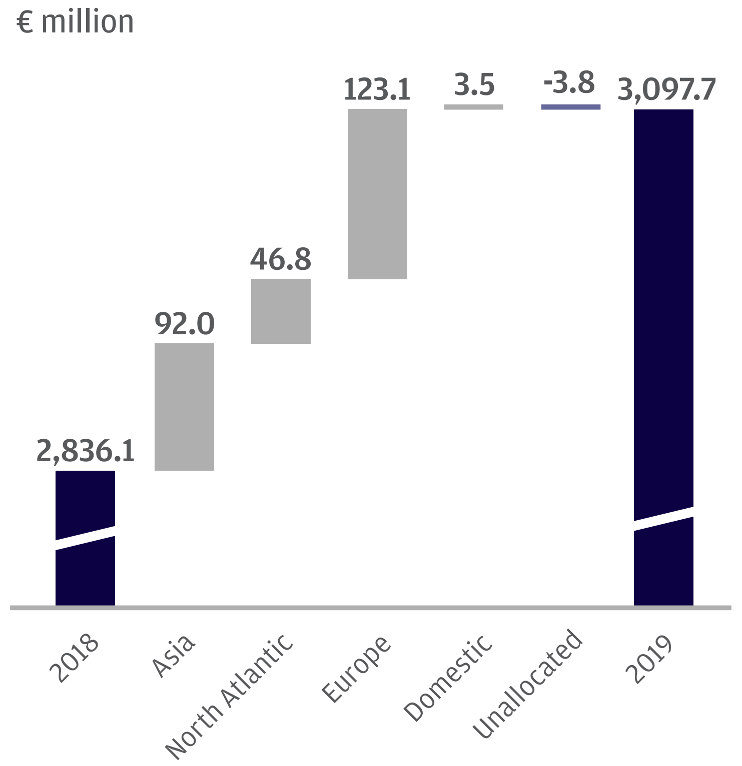
Revenue by traffic area



Revenue bridge by product



Revenue bridge by traffic area



i = Content of the section

1.2.2 Revenue by currency

EUR mill.	2019	2018
EUR	1,626.5	1,552.6
JPY	351.4	296.8
CNY	211.4	199.3
USD	147.4	113.9
SEK	101.5	98.7
KRW	80.3	84.1
Other currencies	579.1	490.7
Total	**3,097.7**	**2,836.1**

The hedging policies against foreign exhange rate fluctuations are described in note 3.5 Management of financial risks.

1.2.3 Receivables related to revenue

EUR mill.	2019	2018
Trade receivables	108.9	116.8
Accrued income	51.8	35.6
Total	**160.6**	**152.4**

The fair value of trade receivables do not materially differ from balance sheet value.

	2019			2018		
Aging analysis of trade receivables	**Trade receivables, EUR mill.**	**Probability of not collecting, %**	**Expected uncollectible, EUR mill.**	**Trade receivables, EUR mill.**	**Probability of not collecting, %**	**Expected uncollectible, EUR mill.**
Not overdue	108.5	0.3%	0.4	107.9	0.7%	0.8
Overdue less than 60 days	-1.4	1.3%		5.0	0.5%	
Overdue more than 60 days	1.8	1.4%		4.0	1.1%	
Total	**108.9**	**0.4%**	**0.4**	**116.8**	**0.7%**	**0.8**

The Group has recognised total 0.3 million euros (0.5) of credit losses from trade receivables during the financial year. Trade receivables do not contain significant credit risk because of diversity in the customer basis. The maximum exposure to credit risk at the reporting date is the carrying amount of trade receivables. The Group does not hold any collateral as security related to trade receivables.

Trade receivables by currency

EUR mill.	2019	2018
EUR	48.6	55.1
USD	11.3	11.5
JPY	9.9	10.7
CNY	5.6	5.8
GBP	5.2	5.1
HKD	4.9	5.1
SEK	3.7	5.2
NOK	3.7	3.3
KRW	3.6	3.3
Other currencies	12.3	11.8
Total	**108.9**	**116.8**

1.2.4 Deferred income and advances received

EUR mill.	2019	2018
Deferred revenue on ticket sales	451.2	444.8
Loyalty program Finnair Plus	43.3	45.4
Advances received for tour operations	45.4	44.9
Other items	12.7	13.8
Total	**552.7**	**548.9**

Deferred income and advances received includes prepaid, yet unflown flight tickets and package tours, which departure date is in the future. The Finnair Plus liability is related to Finnair's customer loyalty program, and equals the fair value of the accumulated, unused Finnair Plus points.

1.3 Operating expenses

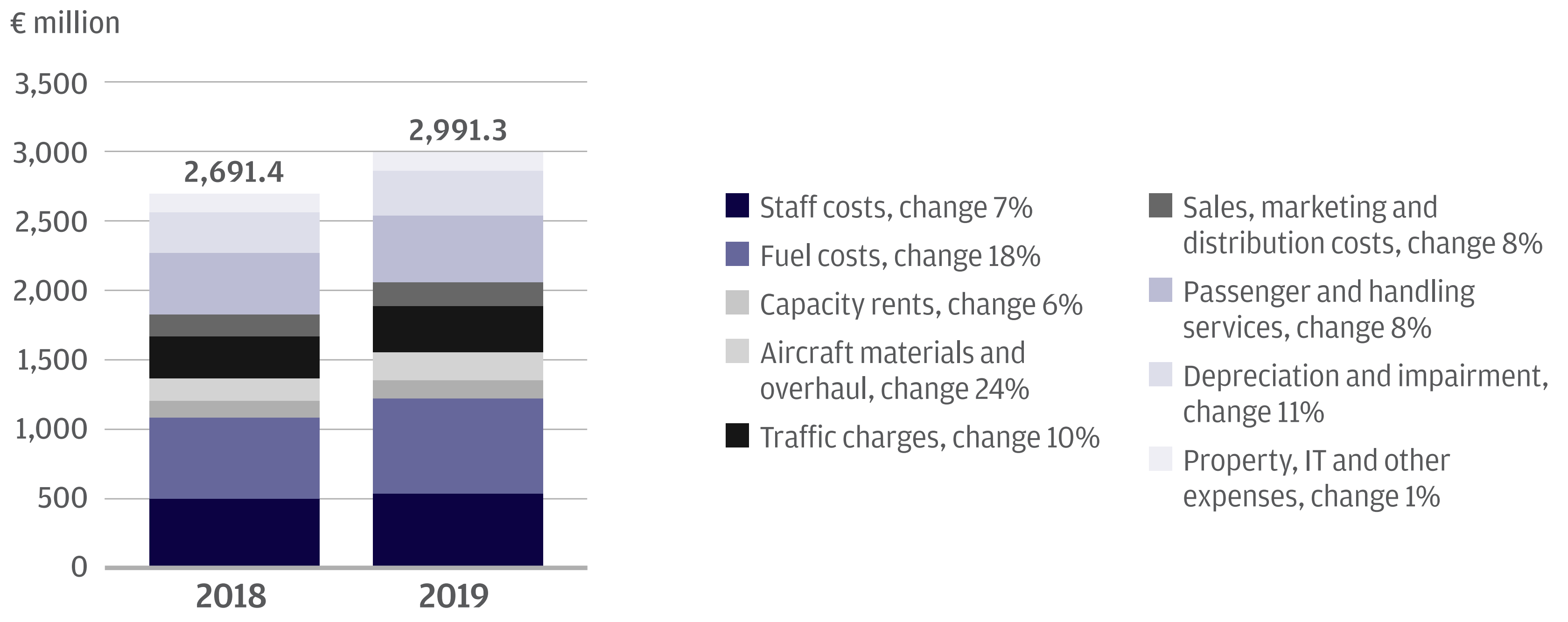
i The operating expenses section includes the income statement and balance sheet notes related to operating expenses, aiming to provide a better overview of business operations and related expenses. Maintenance provisions of leased aircraft that inherently relate to aircraft overhaul costs are included in this operating expenses section. Also accrued expenses, such as liabilities related to jet fuel and traffic charges, are presented in this section. In addition, items related to employee benefits are presented at the end of this section in a separate note 1.3.8. Employee benefits. It includes the different forms of benefits received by Finnair employees, including share-based payments and pensions, their effect on staff costs and balance sheet as well as information on management remuneration. i

1.3.1 Operational expenses by currency

EUR mill.	2019	2018
EUR	1,694.6	1,625.4
USD	1,073.3	867.6
Other currencies	223.4	198.4
Total	**2,991.3**	**2,691.4**

The hedging policies against foreign exchange rate fluctuations are described in note 3.5 Management of financial risks.

Operational expenses



A = Accounting principles

1.3.2 Passenger and handling services

EUR mill.	2019	2018
Ground and cargo handling expenses	206.2	188.7
Expenses for tour operations	120.3	113.4
Catering expenses	74.0	71.0
Other passenger services	76.3	67.1
Total	**476.7**	**440.3**

1.3.3 Property, IT and other expenses

EUR mill.	2019	2018
IT expenses	75.4	68.5
Property expenses	22.0	21.0
Other expenses	35.0	41.8
Total	**132.4**	**131.3**

Audit fees in other expenses

EUR mill.	2019	2018
PricewaterhouseCoopers		
Auditor's fees	0.3	0.3
Tax advising		0.1
Other fees	0.2	0.2
Total	**0.5**	**0.5**

PricewaterhouseCoopers Oy has provided non-audit services to entities of Finnair Group totaling 128,000 euros (194,000) during the financial year 2019. These services included auditors statements 58,000 euros (85,000) and other services 70,000 euros (109,000).

1.3.4 Inventories and prepaid expenses

EUR mill.	2019	2018
Inventories	27.4	25.1
Prepaid expenses	20.6	60.5
Receivables from sublease contracts	13.2	12.7
VAT receivables	5.0	7.6
Other items	13.9	14.7
Total	**80.2**	**120.7**

The change in prepaid expenses is mainly related to the decrease in aircraft overhaul prepayments.

1.3.5 Other liabilities

EUR mill.	2019	2018
Jet fuel and traffic charges	96.9	89.5
Liabilities for tour operations	13.7	11.7
Interest and other financial items	10.6	8.0
Aircraft materials and overhaul	6.9	11.8
Income tax liabilities	3.0	11.1
Other items	94.5	82.2
Total	**225.7**	**214.2**

Other items consists of several items, none of which are individually significant.

1.3.6 Provisions

A Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as the result of a past event, the fulfilment of the payment obligation is probable, and a reliable estimate of the amount of the obligation can be made. The amount to be recognised as provision corresponds to the management's best estimate of the expenses that will be necessary to meet the obligation at the end of the reporting period.

The Group is obliged to return leased aircraft and their engines according to the redelivery condition set in the lease agreement. If at the time of redelivery, the condition of the aircraft and its engines differs from the agreed redelivery condition, Finnair needs to either maintain the aircraft so that it meets the agreed redelivery condition or settle the difference in cash to the lessor. To fulfil these maintenance obligations, the Group has recognised airframe heavy maintenance, engine performance maintenance, engine life limited part, landing gear, auxiliary power unit and other material maintenance provisions. The provision is defined as the difference between the current condition and redelivery condition of these maintenance components. The provision is accrued based on flight hours flown until the next maintenance event or the redelivery and recognised in the aircraft overhaul costs in the income statement. The provision is reversed at the maintenance event or redelivery. The price for the flight hour depends on the market price development of the maintenance costs. Estimated future cash flows are discounted to the present value. The maintenance market prices are mainly denominated in US dollars, which is why the amount of maintenance provision changes due to currency fluctuation of the dollar. The unrealised changes in currencies are recognised in changes in exchange rates of fleet overhauls.

Restructuring provisions are recognised when the Group has prepared a detailed restructuring plan and has begun to implement the plan or has announced it. A

! Aircraft maintenance provision
The measurement of aircraft maintenance provisions requires management judgement especially related to timing of maintenance events and valuation of maintenance costs occurring in the future. The future maintenance costs and their timing are dependent on, for example, how future traffic plans actually realise, the market price development of maintenance costs and the actual condition of the aircraft at the time of the maintenance event. !

EUR mill.	Aircraft maintenance provision	Other provisions	2019	Aircraft maintenance provision	Other provisions	2018
Provision at the beginning of period	132.2	1.0	133.2	116.7	2.7	119.4
Provision for the period	61.6	6.6	68.2	49.5	0.5	50.0
Provision used	-31.7	-5.7	-37.3	-41.9	-2.2	-44.1
Provision for right-of-use assets redelivery	0.1		0.1	0.3		0.3
Reclassifications		1.1	1.1			
Unwinding of discount	2.7		2.7	2.7		2.7
Exchange rate differences	1.4		1.4	4.9		4.9
Total	**166.3**	**3.1**	**169.4**	**132.2**	**1.0**	**133.2**
Of which non-current	151.8	0.4	152.2	102.1	0.3	102.3
Of which current	14.5	2.7	17.2	30.1	0.8	30.9
Total	**166.3**	**3.1**	**169.4**	**132.2**	**1.0**	**133.2**

Non-current aircraft maintenance provisions are expected to be used by 2031. Other provisions include mainly items related to restructuring actions.

In addition, non-current provisions and other liabilities includes received lease deposits of 4.7 (4.8) million euros.

1.3.7 Items excluded from comparable operating result

The comparable operating result aims to provide a comparable view on business development between periods. Therefore, items affecting comparability are excluded from the comparable operating result. The principles related to income statement presentation and principles related to usage of alternative performance measures are described under the section Notes to the consolidated financial statements. Calculation principles of alternative performance measures are also defined in The report of the Board of Directors, in the section Calculation of key ratios. The detailed content of items affecting comparability and the reasoning behind excluding those from comparable operating results is described below.

Unrealised exchange rate differences of US dollar denominated aircraft maintenance provisions are excluded from comparable operating result. These exchange rate effects are included in the comparable operating result only when the maintenance event or redelivery occurs and the exchange rate differences realise over a long period of time. Finnair provides for the redelivery condition related to leased aircraft according to the principles described in the note 1.3.6. Provisions.

Further, unrealised fair value changes of derivatives where hedge accounting is not applied, are not included in the comparable operating result, as the business transactions which they are hedging are recognised to the comparable operating result only when they occur. The treatment of realised gains and losses on these derivatives is described in the note 3.8 Derivatives.

In addition to above, gains and losses on aircraft and other transactions and restructuring costs are not included in the comparable operating result, as those events are considered exceptional transactions that happen within unexpected intervals and may vary significantly between periods, and are not related to normal course of business operations. Gains and losses on transactions include sales gains and losses as well as other items that can be considered to be directly related to the sale of the asset. For example, a write-down that might occur when an asset is classified as "Assets held for sale" in accordance with IFRS 5, is included in gains and losses on the transactions. Restructuring costs include termination and other costs that are directly related to the restructuring of operations.

Below table demonstrates, which income statement items included in operating result the items affecting comparability have affected.

	2019			2018		
EUR mill.	Operating result	Items affecting comparability	Comparable operating result	Operating result	Items affecting comparability	Comparable operating result
Revenue	**3,097.7**		**3,097.7**	**2,836.1**		**2,836.1**
Sales gains on aircraft and other transactions	0.2	-0.2		44.1	-44.1	
Other operating income	56.4		56.4	73.7		73.7
Operating expenses						
Staff costs	-536.6	1.9	-534.7	-499.7	0.1	-499.6
Fuel costs	-686.0	-1,3	-687.3	-581.0		-581.0
Capacity rents	-130.2		-130.2	-122.4		-122.4
Aircraft materials and overhaul	-202.5	1.4	-201.2	-167.8	4.9	-162.9
Traffic charges	-331.3		-331.3	-300.8		-300.8
Sales, marketing and distribution costs	-172.1		-172.1	-159.0		-159.0
Passenger and handling services	-476.7		-476.7	-440.3		-440.3
Sales losses on aircraft and other transactions				-1.3	1.3	
Property, IT and other expenses	-133.5	1.0	-132.4	-131.1	-0.1	-131.3
EBITDA	**485.4**	**2,8**	**488.3**	**550.4**	**-37.9**	**512.6**
Depreciation and impairment	-325.4		-325.4	-294.2		-294.2
Operating result	**160.0**	**2,8**	**162.8**	**256.3**	**-37.9**	**218.4**

! = Critical accounting estimates

A = Accounting principles

1.3.8 Employee benefits

1.3.8.1 Employee benefit expenses and share-based payments

A Share-based payments
Finnair provides a number of share-based compensation plans for its employees, under which the Group receives services from employees as consideration for share-based payments. Regarding share-based incentive plans for key personnel, the awards are paid only if performance criteria set by the Board of Directors is met. Share-based savings plan for employees (FlyShare) requires the employees to remain in Finnair's service for the defined period, but payment does not depend on any performance criteria.

The total expense for share-based payments is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. Share-based payments that are settled net of taxes are considered in their entirety as equity-settled share-based payment transactions. The reward is valued based on the market price of the Finnair share as of the grant date, and recognised as an employee benefit expense over the vesting period with corresponding entry in the equity. Income tax paid to tax authorities on behalf of employee is measured based on the market price of the Finnair share at the delivery date and recognised as a decrease in equity.

Termination benefits
Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination. Group is demonstrably committed when it has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

Accounting principles related to pension benefits are described in the note 1.3.8.2 Pensions. A

Staff costs

EUR mill.	2019	2018
Wages and salaries	371.4	339.2
Defined contribution schemes	63.4	63.2
Defined benefit schemes	11.2	13.2
Pension expenses total	74.6	76.4
Other social expenses	16.7	17.8
Salaries, pension and social costs	**462.7**	**433.4**
Operative staff related costs	42.8	34.6
Leased and outsourced crew	16.2	17.3
Other personnel related costs	13.0	14.3
Total	**534.7**	**499.6**
Staff costs included in items affecting comparability	1.9	0.1
Total staff costs in income statement	**536.6**	**499.7**

At Finnair, the total salary of personnel consists of fixed pay, allowances, short- and long-term incentives, fringe benefits and other personnel benefits. The total amount of short-term incentives excluding social security costs recognised for 2019 were 8.9 million euros (6.8).

Items affecting comparability include personnel related restructuring costs of 1.9 million euros (0.1). Total staff costs including items affecting comparability amounted to 536.6 million euros (499.7).

Transfer to Personnel Fund
Finnair has a Personnel Fund that is owned and controlled by the personnel. A share of Finnair's profits is allocated to the fund. The share of profit allocated to the fund is determined based on the targets set by the Board of Directors. The participants of the performance share plan (LTI) are not members of the Personnel Fund. Personnel Fund is obliged to invest part of the bonus in Finnair Plc's shares. In 2019, the comparable operating result exceeded the limit set by the board of directors. Therefore Finnair has recognised 1.5 million euros to the staff costs and liability, to be transferred to the personnel fund. In 2018, 6.8 million euros were allocated to the fund.

Liabilities related to employee benefits

EUR mill.	2019	2018
Holiday payments	78.9	75.8
Other employee related accrued expenses	40.5	29.9
Liabilities related to employee benefits	**119.4**	**105.6**

Other employee related accrued expenses mainly include witholding tax and accrued expenses related to social security costs and remunerations. In addition, restructuring provisions related to termination benefits (see note 1.3.6 Provisions) amounted to 1.7 million euros (0.9).

Management remuneration

The President and CEO and Executive Board remuneration

Thousand euros	President and CEO Topi Manner	Executive Board	Total 2019	Interim President and CEO Pekka Vähähyyppä, from 4.9.2018 onwards*	President and CEO Pekka Vauramo, until 31.10.2018**	Executive Board*	Total 2018
Fixed pay	752	2,078	2,830	119	682	1,743	2,544
Short-term incentives*	217	385	602	23	77	261	361
Fringe benefits	17	58	75	5	2	73	80
Termination benefits		832	832				
Share-based payments	263	390	653	35	-89	508	455
Pensions (statutory)**	138	439	576	23	154	410	586
Pensions (voluntary, defined contribution)		50	50		104	51	155
Total	**1,386**	**4,231**	**5,618**	**204**	**931**	**3,047**	**4,182**

* Pekka Vähähyyppä's compensation is included in Executive Board until 3 September 2018.
** Pekka Vauramo was Finnair's CEO until 4 September 2018, but service term ended 31 October 2018. He was no longer eligible for share-based payments for 2016–2018, 2017–2019 and 2018–2020 plans and the related costs were reversed in 2018.
*** Short-term incentives for the financial year 2019 are estimates as at the balance sheet date the final review of targes has not been done. Short-term incentives for 2018 realised seven thousand euros smaller than expected in 2018 financial statements. The difference has been reported, according to accrual basis, in 2019.
**** Statutory pensions include Finnair's share of the payment to Finnish statutory "Tyel" pension plan.

Management remuneration is presented on an accrual basis. Share-based payments include LTI plans and employee share savings plans and are recognised over the vesting period until the end of lock-up period, according to IFRS 2. Therefore the costs accrued and recognised for the financial year include effects from several share-based payment plans independent of when the shares are delivered. Management has not been provided any other long-term incentives in addition to share-based payments.

The voluntary pension plans of two members of the Executive Board have been arranged through a Finnish pension insurance company. The retirement age for the two members of the Executive Board is 63. The plans are defined contribution plans.

More information on share-based payment schemes can be found later in this note and in a separate Remuneration statement and on company website.

Remuneration paid to Board of Directors

Compensation paid for board service, EUR	Total 2019	Fixed remuneration	Meeting compensation	Fringe benefits	Total 2018
Board of Directors	**422,356**	**278,400**	**128,400**	**15,556**	**443,177***
Alahuhta-Kasko Tiina, from 20 March 2019 onwards	29,100	22,500	6,600		
Barrington Colm	60,784	32,400	24,000	4,384	
Brewer Montie	52,200	30,000	22,200		
Du Mengmeng	48,376	30,000	16,800	1,576	
Erlund Jukka, from 20 March 2019 onwards	30,900	24,300	6,600		
Friman Maija-Liisa, until 20 March 2019	11,488	8,100	1,200	2,188	
Karvinen Jouko	80,307	61,200	15,600	3,507	
Kjellberg Henrik	52,200	30,000	22,200		
Mårtensson Jonas, until 20 March 2019	14,304	7,500	5,400	1,404	
Tuominen Jaana	42,697	32,400	7,800	2,497	

* 2018 Board of Directors remuneration presented on an accrual basis. In the 2018 financial statement, the remuneration was presented on a cash basis.

The compensation paid to the members of the Board of Directors include annual remuneration and meeting compensation. The members of the Board of Directors are entitled to a compensation for travel expenses in accordance with Finnair's general travel rules. In addition, the members of the Board of Directors and their spouses have a limited right to use staff tickets in accordance with Finnair's staff ticket rules. Under the rules, the Directors and their spouses are entitled to four return or eight one-way tickets on Finnair flights per calendar year in Economy or Business Class. The fare of these tickets is zero, exclusive of any airport taxes, fees and charges, which are payable by the Directors and their spouses. These tickets constitute taxable income in Finland and are reported as fringe benefits in the table above.

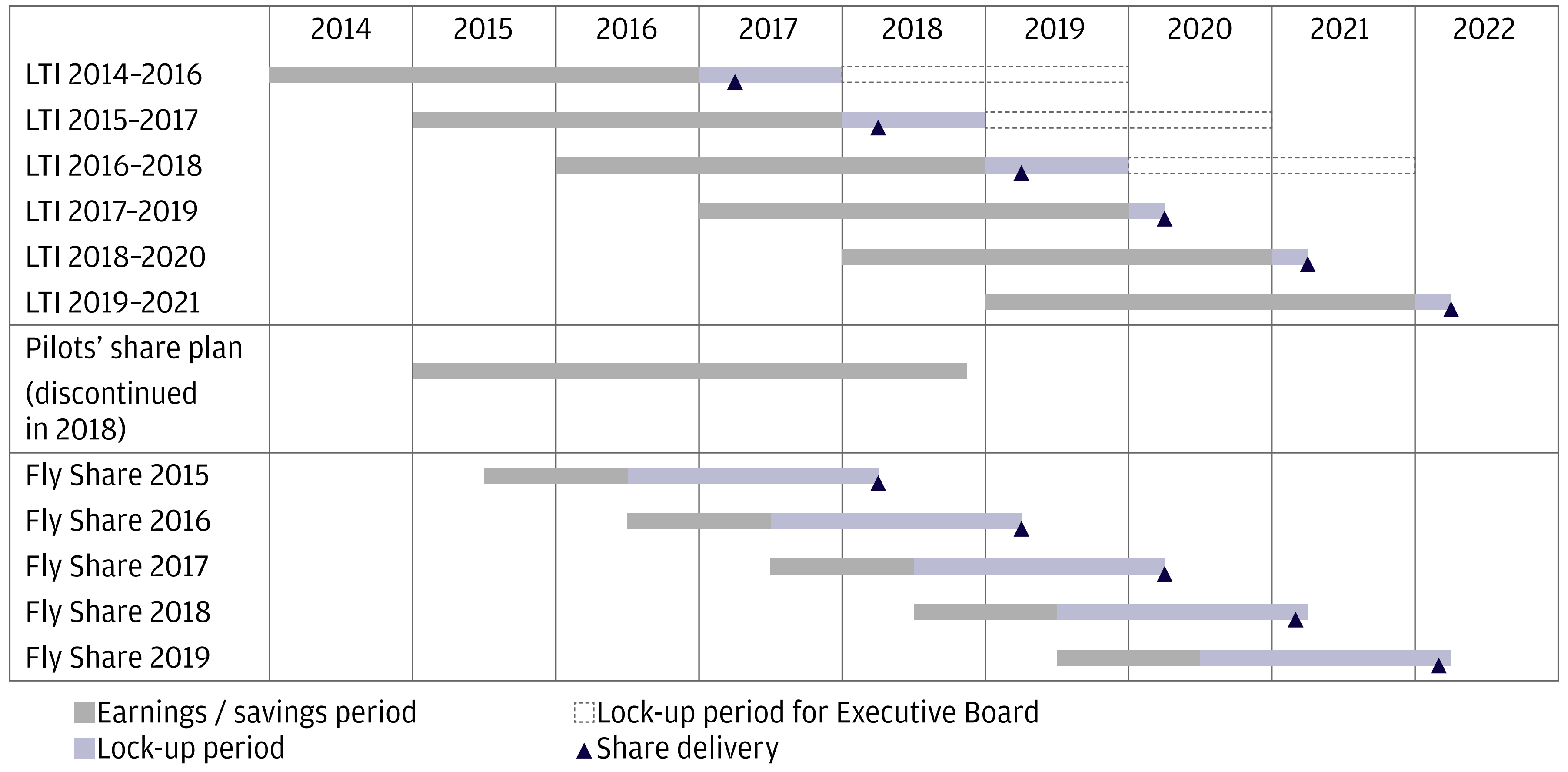
Share-based payments

The note below provides description and information on effects of the Group's share-based incentive schemes. More information on share-based personnel bonus schemes can be found in Remuneration statement.

Performance share plan for key personnel (LTI) from 2013 onwards

Finnair's share based incentive plan is a performance-based, annually commencing long-term incentive (LTI) arrangement, and the commencement of each new plan is subject to a separate decision made by Finnair's Board of Directors. The purpose of these plans is to encourage the management to work to increase long-term shareholder

FINNAIR SHARE-BASED PAYMENT PLANS



value. The Finnish Government's guidance regarding the remuneration of executive management and key individuals have been taken into consideration when designing the plans.

Plans launched during 2013–2016 are four-six-year share plans and there are three plans ongoing (2014–2016, 2015–2017 and 2016–2018). Each LTI plan contains a three-year performance period which is followed by a restriction period, during which the participant may not sell or transfer the shares received as a reward. The restriction period is three years for the members of Finnair's Executive Board and one year for other participants. In addition, the President and CEO, and members of Finnair's Executive Board are required to accumulate and, once achieved, to maintain, a share ownership in Finnair corresponding to his or her annual base salary as long as he or she holds a position as a member of Finnair's Executive Board.

In 2017, a new LTI arrangement was launched and there are three plans ongoing (2017–2019, 2018–2020 and 2019–2021). In the revised structure the annually commencing performance share plans retain the three-year performance period. The potential share rewards will be delivered to the participants in one tranche after the performance period and they are at the participants' free disposal after delivery. The members of Finnair's Executive Board are expected to accumulate their share ownership in Finnair until it corresponds to their annual gross base salary and thereafter retain it for as long as they are members of the Executive Board.

The potential reward will be delivered in Finnair shares. The shares are delivered to the participants during the year following the performance period. The payout opportunity is defined in the beginning of each plan in relation to the participants annual base salary. For the plans commencing during 2013–2016, the payout opportunity is defined in a fixed euro amount. In the plans commencing in 2017–2019, the payout opportunity is defined as a fixed share amount and therefore changes in the share price during the performance period impacts the value of the payout opportunity. If the performance criteria set for the plan are met at the target level, the incentive paid in Finnair shares to the President and CEO or other member of the Executive Board participating in the plans will be 30% of his or her annual base salary in the plans commencing 2013–2016 and 20% in the plans commencing in 2017–2019. If the performance criteria set for the plan are met at the maximum level, the incentive paid in Finnair shares will be 60% of the participant's annual base salary. The maximum level for incentives for other key personnel is 25–50% of the person's annual base salary.

A = Accounting principles
! = Critical accounting estimates

According to the rules of the 2017-2019, 2018-2020 and 2019–2021 share plans, the maximum combined value of all variable compensation paid to an individual participant in any given calendar year may not exceed 120 per cent of the participant's annual gross base salary. The amounts of shares paid are stated before tax. The number of shares delivered will be deducted by an amount corresponding to the income tax and transfer tax payable for the incentive at the time of payment.

The performance criteria applied to the plans 2014–2016, 2015–2017 and 2016–2018 are Return on Capital Employed (ROCE, 50% weight) and Total Shareholder Return (TSR, 50% weight). The performance criteria applied to the plans 2017–2019 and 2018–2020 are earnings per share (EPS, 50% weight) and revenue growth (50% weight). The performance criteria applied to the plan 2019–2021 are earnings per share (EPS, 50% weight), revenue growth (16.7% weight) and unit cost with constant currencies and fuel price (CASK, 33.3% weight). The target levels and maximum levels set for the criteria are based on the long-term strategic objectives set by the company's Board of Directors. Criteria are monitored against the performance on a quarterly basis. The performance criteria of the plan for 2016–2018 were met at 187% level while the target was at 100% and the maximum earning level at 200%. In the comparison period, the performance criteria applied to the 2015–2017 plan was met at 192% level.

The total expense for the share-based payments is recognised over the vesting period, which is 4–6 years in the plans commencing 2013–2016 and 3 years in the plans commencing 2017–2019. For the plans commencing 2013–2016, the compensation is measured during performance period in cash, and only after performance period at grant date translated into shares. In the plans commencing 2017–2019 the grant date is at the beginning of performance period and the compensation is measured in shares. The expense recognised for 2019 amounted to 1.2 million euros (1.1). The amount expected to be transferred to the tax authority to settle the employee's tax obligation is 2.1 million euros (3.7). The cost related to share-based payments is recognised in staff costs and unrestricted equity funds.

	2014–2016	2015–2017	2016–2018	2017–2019	2018–2020	2019–2021	Total
Maximum earning, million euros	2.5	2.8	2.3	2.8*	1.3*	2.5*	14.2*
Maximum earning, million shares	0.4	0.5	0.4	0.5*	0.2*	0.4*	2.4*
Target earning, million euros	1.2	1.4	1.2	0.9	0.4	0.8	6.0
Target earning, million shares	0.2	0.2	0.2	0.2	0.1	0.1	1.0
Expenses recognised for the financial year, LTI's total (million euros)	-0.1	0.2	0.7	-0.1	0.2	0.2	1.2
Shares granted, million shares**			0.3	0.5	0.2	0.4	1.4

* Maximum total earnings (including both short- and long-term incentives) for 2017-2019, 2018-2020 and 2019-2021 plans are capped at 120% of participants' annual base salary.
** At the end of the performance period of 2016-2018 plan, the vested euros were translated into shares, and granted and delivered. In 2017-2019, 2018-2020 and 2019-2021 programs shares are earned during vesting period, from the beginning of the program.

FlyShare employee share savings plan 2013 onwards

Finnair offers an annually commencing share savings plan for its employees. Commencing of each plan is subject to the decision of Finnair's Board of Directors. The first plan commenced in 2013, and currently there are three plans ongoing. The objective of the plan is to encourage employees to become shareholders in the company, and to thereby strengthen the employees' interest in the development of Finnair's shareholder value and reward them in the long-term.

Each plan consists of one year savings period followed by two year lock-up period. Through the plan, each eligible Finnair employee is offered the opportunity to save part of his or her salary to be invested in Finnair shares. The maximum monthly savings are 8 per cent and the minimum 2 per cent of each participant's gross base salary per month. Shares are purchased with the accumulated savings at the market price quarterly, after the release of Finnair's interim reports.

Finnair awards 20 bonus shares to each employee that participates in the plan for the first time, and continues savings at least the first three months of the plan. The bonus shares are delivered in October each year, and the effect is recognised as expense for the period. The plan lasts for three years, and Finnair awards each participating employee with one share for each two shares purchased and held at the end of three-year period. The awarded bonus and additional shares are taxable income for the recipient. The number of shares delivered will be deducted by an amount corresponding to the income tax and transfer tax payable for the shares at the time of payment. The cost related to additional shares delivered is recognised as expense during vesting period.

The expense recognised for FlyShare employee share saving plans in 2019 amounted to 1.1 million euros (0.8). The amount expected to be transferred to the tax authority to settle the employee's tax obligation is 1.1 million euros (1.1). The cost related to employee share saving plans is recognised in staff costs and unrestricted equity funds.

1.3.8.2 Pensions

A Defined benefit and defined contribution plans

Pension plans are classified as defined benefit and defined contribution plans. Payments made into defined contribution pension plans are recognised in the income statement in the period to which the payment applies. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. Current service cost is the present value of the post employment benefit, which is earned by the employees during the year and it is recognised as staff cost. The liability recognised in the balance sheet in respect of defined pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. A

! Critical accounting estimates and sources of uncertainty

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. The note below includes a description of exposure to most significant risks and a sensitivity analysis on impacts of changes in actuarial assumptions. !

Description of pension plans at Finnair

The statutory pension cover of the employees of the Group's Finnish companies has been arranged in a Finnish pension insurance company. The statutory pension cover is a defined contribution plan. The Group's foreign sales offices and subsidiaries have various defined contribution plans that comply with local rules and practices. CEO has no voluntary pension plan. The voluntary pension plans of two members of the Executive Board are arranged in a pension insurance company. The retirement age for the two members is 63 years. These pension schemes are defined contribution schemes. Other (voluntary) pension cover of the Group's domestic companies has been arranged mainly through Finnair Plc's Pension Fund, in which the pension schemes are defined benefit plans. These pension plans cover old age pensions, occupational disability and survivors' pensions. The pension fund is fully funded in accordance with the provisions of Finnish law. 700 Finnair pilots have, in addition to the voluntary pension arranged in Finnair Pension Fund, special defined benefit pension scheme. This scheme applies only to pilots who work past 58 years of age. Voluntary pensions of pilots recruited in 2015 or later are defined contribution schemes arranged through Finnish insurance company, except for the occupational disability benefit, which is a defined benefit plan arranged through the Finnair Pension Fund.

Exposure to most significant risks

Volatility of plan assets: Some of the plan assets are invested in equities which causes volatility but one in the long run expected to provide higher returns than corporate bonds. The discount rate of plan obligations is defined based on the interest rates of corporate bonds.

Changes in bond yield: A decrease in corporate bond yields increases plan obligations due to the fact that the pension obligation is discounted to net present value with a rate that is based on corporate bond rates. This increase in plan obligations is partially mitigated by a corresponding increase in the value of corporate bonds in plan assets.

Life expectancy: The most significant part of the provided pension benefits relate to old age pensions. Therefore, an increase in the life expectancy rate results in an increase of plan obligations.

Inflation risk: Pension obligations are linked to inflation which is why higher inflation leads to increased obligations. As only some of the plan assets increase with inflation, an increase in inflation will likely decrease the solvency of the pension plan.

Defined benefit pension plans

EUR mill.	2019	2018
Items recognised in the income statement		
Current service costs	10.4	10.8
Past service cost	0.9	2.4
Service cost total, recognised in staff costs	**11.2**	**13.2**
Net interest expenses	0.2	0.1
Total included in the income statement	**11.5**	**13.2**
Amounts recognised through other comprehensive income		
Experience adjustment on plan obligation	-3.2	4.0
Changes in financial actuarial assumptions	93.1	-12.1
Net return on plan assets	-39.7	7.2
Amounts recognised through other comprehensive income total	**50.2**	**-0.8**
Number of persons involved, pension fund	4,865	4,894
Number of persons involved, other defined benefit plans	168	175

Items recognised in the balance sheet

EUR mill.	2019	2018
Present value of funded obligations	523.2	435.1
Fair value of plan assets	-446.1	-418.1
Net defined benefit liability	**77.0**	**17.0**

The net defined benefit liability in 2019 includes 77.0 million euros (16.5) related to defined benefit plans insured through the pension fund and 0.1 million euros (0.5) related to other defined benefit plans. In 2019, the pension obligation increased mainly due to lower discount rate and changes in demographic assumptions caused by the change in disability rates and provision for future professional disability pensions.

Changes in pension obligations

EUR mill.	2019	2018
Fair value of pension obligations at 1 January	435.1	442.0
Current service costs	9.1	10.8
Past service cost	0.9	2.4
Interest expense	7.4	6.8
Expense recognised in income statement	**17.4**	**20.0**
Changes in actuarial assumptions	93.1	-12.1
Experience adjustment on plan obligation	-3.2	4.0
Remeasurements recognised through OCI	**89.9**	**-8.0**
Benefits paid	-19.3	-18.9
Net present value of pension obligations	**523.2**	**435.1**

Changes in plan assests

EUR mill.	2019	2018
Fair value of plan assets at 1 January	418.1	435.6
Interest income	7.2	6.7
Items recognised through profit and loss	**7.2**	**6.7**
Acturial gain (loss) on plan assets	39.7	-7.2
Items recognised through OCI	**39.7**	**-7.2**
Contributions paid	1.6	1.9
Benefits paid	-19.3	-18.9
Administration expenses	-1.2	
Fair value of plan assets at 31 December	**446.1**	**418.1**

Plan assets are comprised as follows

%	2019	2018
Listed shares	22.8	22.0
Debt instruments	52.2	52.7
Property	19.2	19.0
Other	5.8	6.3
Total	**100.0**	**100.0**

Plan assets of the pension fund include Finnair Plc shares with a fair value of 0.8 million euros (1.0) and buildings used by the Group with a fair value of 19.7 million euros (19.7).

i = Content of the section

Defined benefit plans: principal actuarial assumptions

	2019	2018
Discount rate %	0.87%	1.66%
Inflation %	1.10%	1.08%
Annual rate of future salary increases %	1.60%	1.56%
Future pension increases %	1.40%	1.38%
Estimated remaining years of service	9	10

Sensitivity analysis
The sensitivity analysis describes the effect of a change in actuarial assumptions on the net defined benefit obligation. The analyses are based on the change in the assumption while holding all other assumptions constant. The method used is the same as that which has been applied when measuring the defined benefit obligation recognised in the balance sheet.

Sensitivity analysis on principal actuarial assumptions

Actuarial assumption	Change in assumption	Impact when increase in assumption, EUR mill.	%	Impact when decrease in assumption, EUR mill.	%
Discount rate %	0.25%	-19.0	-3.7%	20.2	4.0%
Annual rate of future salary increases %	0.25%	5.7	1.1%	-5.6	-1.1%
Future pension increases %	0.25%	13.1	2.6%	-12.5	-2.5%
Life expectancy at birth	1 year	15.6	3.1%	-15.4	-3.0%

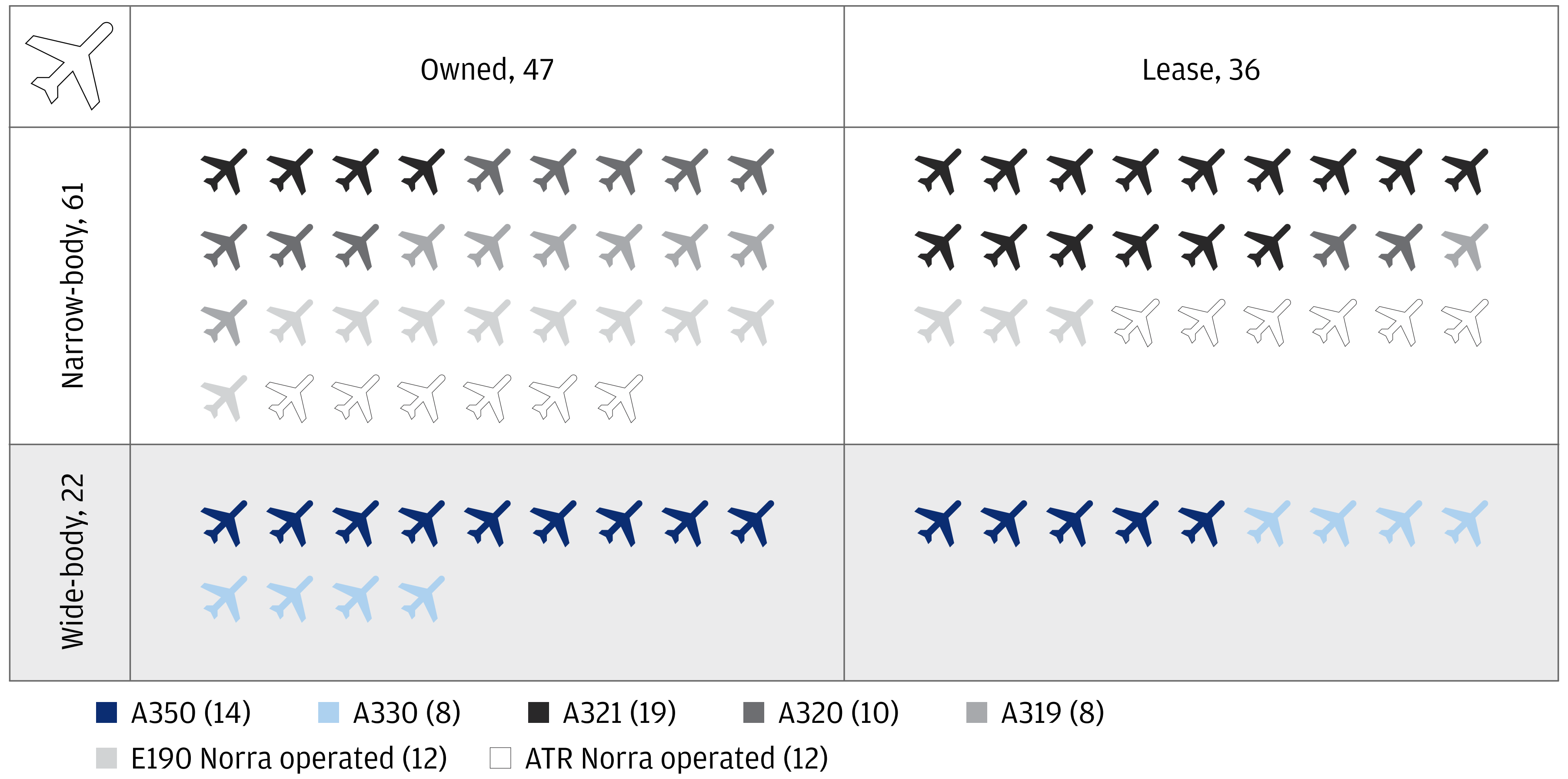
According to Finnish legislation, the pension fund needs to be fully funded. Finnair does not expect to pay contributions to the pension fund in 2020. The duration of defined benefit obligation is 15 years. The duration is calculated by using discount rate of 0.87%.

2 Fleet and other fixed assets and leasing arrangements

i Fleet and other fixed assets and leasing arrangements includes notes particularly related to the aircraft fleet. Notes related to the aircraft operated by the Group are combined in this section so that the general view of the fleet is easier to understand. In addition to owned aircraft, the notes cover leased aircraft under different kind of aircraft lease arrangements. i

The assets owned and leased by Finnair consist mostly of aircraft operated by Finnair and Norra. In 2019, the owned aircraft is 47 (42) and leased 36 (39). More detailed information regarding the owned aircraft is found in note 2.1 and regarding the leased aircraft in note 2.2.

FLEET



Fleet in Finnair balance sheet

EUR mill.	2019	2018	Change
Advances paid for aircraft	117.8	120.4	-2.7
Owned aircraft in use	1,415.6	1,199.8	215.8
Right-of-use fleet	736.4	834.3	-97.9
Fleet total	**2,269.7**	**2,154.5**	**115.2**
Fleet sublease receivables	**47.0**	**58.3**	**-11.3**
Fleet lease liabilities	**948.7**	**984.3**	**-35.6**
Depreciation for the period of owned aircraft	171.2	136.5	34.7
Depreciation for the period of right-of-use fleet	106.1	112.9	-6.8

A = Accounting principles
! = Critical accounting estimates

2.1 Fleet and other fixed asset

A Fleet and other fixed assets are stated at historical cost less accumulated depreciation and impairment loss if applicable. Fleet includes aircraft and aircraft prepayments. The acquisition cost of aircraft is allocated to the aircraft frame, cabin components, engines and maintenace components as separate assets. Maintenance components include heavy maintenance, C-checks, APU (auxiliary power unit) restorations, landing gear overhauls and thrust reversers of aircraft frames, as well as performance restoration and maintenance of life-limited parts of engines. The maintenance components are depreciated during the maintenance cycle. Aircraft frames and engines are depreciated over the useful life of the aircraft. Cabin components are depreciated over their expected useful life. Significant modifications of own or leased aircraft are capitalised as separate items and depreciated over their expected useful life, which in the case of leased aircraft cannot exceed the lease period. Replaced components are derecognised from the balance sheet.

Advance payments for aircraft are recorded as fleet fixed assets. Interest costs related to advance payments are capitalised as acquisition cost for the period at which Finnair is financing the manufacturing of the aircraft. Hedging gains or losses related to the fair value changes of firm, USD nominated purchase commitments for aircraft are recognised in advance payments. Advance payments, realised foreign exchange hedges and capitalised interests are recognised as part of the aircraft acquisition cost once the aircraft is delivered and taken to commercial use.

Other fixed assets include rotable aircraft spare parts, other fixed assets and their prepayments. Other fixed assets are depreciated during their expected useful life.

Intangible assets mainly include computer software, connection fees and goodwill. Connection fees and goodwill are not depreciated.

Depreciations of fleet and other fixed assets is based on the following expected economic lifetimes:

- New aircraft and engines as well as flight simulators (other equipment) on a straight-line basis as follows:
  - Airbus A350 fleet, over 20 years to a residual value of 10 %
  - Airbus A320 and Embraer fleet, over 20 years to a residual value of 10 %
  - Airbus A330 fleet, over 18 years to a residual value of 10 %
  - Turboprop aircraft (ATR fleet), over 20 years to a residual value of 10 %
- Heavy maintenance, C-checks, APU and Landing gear restorations and thrust reversers of aircraft frame, as well as performance maintenance and life limited parts of the engines, on a straight-line basis during the maintenance period
- Cabin components, over 7–20 years
- Rotable spare parts and components, over 15–20 years to a residual value of 10 %
- Buildings, over 10–50 years from the time of acquisition to a residual value of 10 %
- Other tangible assets, over 3–15 years
- Computer software, over 3–8 years

The residual values and estimated useful lives of the assets are assessed at each closing date and if they differ significantly from previous estimates, the depreciation periods and residual values are changed accordingly.

Gains and losses on disposal of tangible and intangible assets are included in the items affecting comparability.

Finnair changed its accounting principles of aircraft frame components and overhauls at the beginning of 2019. Cabin components (for example business seats) and significant frame overhauls (for example landing gear) are accounted for as separate components. Previously, only heavy maintenance of airframes had been separated into its own frame component. Impacts of the change are described in more detail in section 'Changes in accounting principles and restated financials 2018' provided under the notes to the consolidated financial statements.

Assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction, a sale is considered highly probable and expected to take place within the next twelve months. Assets classified as held for sale are stated at the lower of the carrying amount or fair value less cost to sell. Depreciation of the assets is no longer continued.

Impairment

The Group reviews its fixed assets for indication of impairment on each balance sheet date. Impairment loss is recognized if an asset's recoverable amount is below its carrying amount. Recoverable amount is determined as the higher of the asset's fair value less costs to sell or its value in use. The recoverable amount is defined for a cash generating unit, and the need for impairment is evaluated at the cash generating unit level. The value in use is based on the present value of the expected net future cash flows obtainable from the asset or cash-generating unit. A

! Impairment testing

The recoverable amounts of cash generating units have been determined based either on the value in use or on the sale price less sale related expenses. The preparation of these calculations requires the use of estimates. Estimates are based on budgets and forecasts, which inherently contain some degree of uncertainty. The main uncertainty factors in calculations are the USD/EUR and JPY/EUR exchange rates, unit revenue, estimated sales volumes and jet fuel price. !

Fleet 2019

EUR mill.	Aircraft	Advances	Total
Acquisition cost 1 Jan 2019	2,082.2	120.4	2,202.7
Additions	310.7	76.0	386.7
Disposals	-9.7		-9.7
Currency hedging of aircraft acquisitions		-1.1	-1.1
Reclassifications	77.6	-77.6	0,0
Transfer to assets held for sale			
Acquisition cost 31 Dec 2019	**2,460.7**	**117.8**	**2,578.5**
Accumulated depreciation and impairment 1 Jan 2019	-882.4		-882.4
Disposals	8.5		8.5
Depreciation for the financial year	-171.2		-171.2
Accumulated depreciation and impairment 31 Dec 2019	**-1,045.2**		**-1,045.2**
Book value 31 Dec 2019	**1,415.6**	**117.8**	**1,533.3**

The carrying value of the owned aircraft at the end of year 2019 includes the acquisition of two new A350 aircraft. The reclassifications relate to the capitalization of the aircraft prepayments at the time of the recognition of the aircraft on Finnair's balance sheet. The currency hedging of aircraft acquisitions is described in notes 3.5 Management of financial risks and 3.8 Derivatives.

Fleet 2018

EUR mill.	Aircraft	Advances	Total
Acquisition cost 1 Jan 2018	1,882.8	96.0	1,978.8
Additions	243.3	100.0	343.3
Disposals	-84.7		-84.7
Currency hedging of aircraft acquisitions		-34.9	-34.9
Reclassifications	40.9	-40.7	0.1
Transfer from assets held for sale			
Acquisition cost 31 Dec 2018	**2,082.2**	**120.4**	**2,202.7**
Accumulated depreciation and impairment 1 Jan 2018	-760.6		-760.6
Disposals	14.7		14.7
Depreciation for the financial year	-136.5		-136.5
Accumulated depreciation and impairment 31 Dec 2018	**-882.4**		**-882.4**
Book value 31 Dec 2018	**1,199.8**	**120.4**	**1,320.2**

Other fixed assets 2019

EUR mill.	Aircraft rotable parts	Buildings and land	Other equipment	Intangible assets	Advances	Total
Acquisition cost 1 Jan 2019	45.0	76.0	90.0	51.8	9.5	272.3
Additions	6.4	0.1	13.8	6.3	6.9	33.4
Disposals	-1.5	-0.4	-8.9	-10.6		-21.4
Currency hedging of aircraft acquisitions						
Reclassifications	0.2	-0.1	1.9	4.2	-6.2	0.0
Transfer to assets held for sale	0.1					0.1
Acquisition cost 31 Dec 2019	**50.1**	**75.6**	**96.8**	**51.6**	**10.2**	**284.3**
Accumulated depreciation and impairment 1 Jan 2019	-30.7	-6.8	-27.1	-31.4	-3.1	-99.1
Disposals	0.6	0.4	6.9	10.6		18.6
Depreciation for the financial year	-3.3	-1.8	-8.3	-12.0		-25.5
Accumulated depreciation and impairment 31 Dec 2019	**-33.4**	**-8.2**	**-28.5**	**-32.8**	**-3.1**	**-105.9**
Book value 31 Dec 2019	**16.8**	**67.4**	**68.3**	**18.8**	**7.1**	**178.4**

In addition to the aircraft rotable parts included in the other fixed assets, Finnair's inventories include non-rotable aircraft parts amounting to 23.1 million euros (20.4). Intangible assets mainly include computer software, connection fees and goodwill. The goodwill included in intangible assets amounted to 0.5 million euros (1.3).

Other fixed assets 2018

EUR mill.	Aircraft rotable parts	Buildings and land	Other equipment	Intangible assets	Advances	Total
Acquisition cost 1 Jan 2018	47.4	75.7	63.5	44.8	28.1	259.5
Additions	4.5	0.3	10.9	6.4	5.4	27.5
Disposals	-1.1		-2.0	-5.5		-8.6
Reclassifications	-5.9		17.6	6.0	-24.0	-6.3
Transfer from assets held for sale	0.1					0.1
Acquisition cost 31 Dec 2018	**45.0**	**76.0**	**90.0**	**51.8**	**9.5**	**272.3**
Accumulated depreciation and impairment 1 Jan 2018	-28.5	-5.2	-22.1	-29.3	-3.1	-88.1
Disposals	0.8		2.0	5.5		8.3
Depreciation for the financial year	-3.0	-1.7	-7.0	-7.6		-19.3
Accumulated depreciation and impairment 31 Dec 2018	**-30.7**	**-6.8**	**-27.1**	**-31.4**	**-3.1**	**-99.1**
Book value 31 Dec 2018	**14.4**	**69.2**	**62.8**	**20.4**	**6.4**	**173.2**

Capitalised borrowing costs

	Aircraft		Advances		Total	
EUR mill.	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Book value 1 Jan	15.3	14.6	3.6	4.0	18.8	18.7
Additions			3.9	2.2	3.9	2.2
Disposals		-1,3				-1.3
Reclassifications	3.2	2.6	-3.2	-2.6		0,0
Depreciation	-0.9	-0.7			-0.9	-0.7
Book value 31 Dec	**17.6**	**15.3**	**4.3**	**3.6**	**21.9**	**18.8**

In 2019, borrowing costs of 3.9 million euros (2.2) were capitalised in tangible assets related to the Airbus A350 investment program. Finnair uses a quarterly effective interest rate to calculate the capitalised borrowing costs, that represents the costs of the loans used to finance the investment. The average yearly interest rate in 2019 was 5.24% (2.64%). Finnair applies the amendment of IAS 23 standard effective from 1 Jan 2019 and allows general borrowings used to fund the acquision of capital assets to be included in the calculation of the capitalisation rate. Previously only the bond rate was included in the calculation.

Assets and liabilities held for sale

At the end of 2019, Finnair did not hold any assets or liabilities for sale. At the end of 2018, the balance sheet value of assets held for sale was 0.1 million euro. Finnair did not hold any liabilities for sale at end of 2018.

Pledged assets and other restrictions on fixed assets

Finnair does not have fixed assets pledged as a security for bank loans. Fleet assets include three A350 aircraft financed with JOLCO-loans (see 3.3 Financial liabilities) and three owned A330 aircraft where the legal title is transferred to Finnair after loans are repaid.

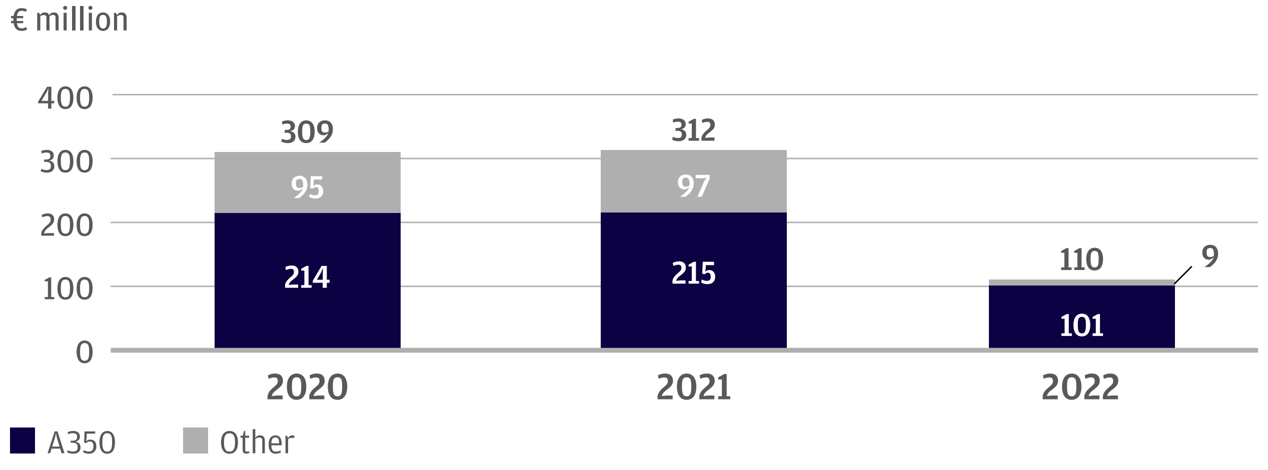
Impairment test

The aircraft has been tested for impairment based on fair value less cost to sell on the balance sheet date with no indication for impairment. The test is sensitive to the exchange rate EUR/USD. The weakening of USD decreases the fair value of the aircraft. The fair value of the aircraft would still be higher than the carrying value, if USD would weaken by 10 per cent. Finnair has recognized a goodwill impairment of 0.9M€ related to discontinuation of travel services in Estonia. There was no indication of any further impairment of goodwill on the closing date.

Investment commitments

At the end of financial year investment commitments totalled 730 million euros (975) and it includes firm aircraft orders. The total commitment fluctuates between the order and the delivery of the aircraft mainly due to exchange rate EUR/USD and the escalation clauses included in airline purchase agreements. The final amount of the commitment in relation to each aircraft is only known at the time of the delivery.

Investment commitments



A = Accounting principles
! = Critical accounting estimates

2.2 Leasing arrangements

A The Group as lessee

Finnair assesses whether a contract that relates to tangible assets is, or contains, a lease in accordance with the IFRS 16. Lease agreements for tangible assets, where the contract conveys the right to use of an identified asset for a period of time in exchange for consideration, are classified as leases.

The lease term is the non-cancellable period for which a lessee has the right to use an underlying asset, together with both periods covered by an option to extend the lease if Finnair is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if Finnair is reasonably certain not to exercise the option.

The lease recognition requirements are not applied to short-term leases, where at the commencement date, the lease term is 12 months or less and does not contain a purchase option. Finnair considers the lease period to be the period that is enforceable. Hence, for contracts where the contract term is non-fixed and Finnair has the right to terminate the contract without the permission from the other party with no more than an insignificant penalty and there are no other indications that the contract is enforceable, Finnair classifies these contracts as short-term. The lease recognition requirements are also not applied to leases that are not material to Finnair.

For short-term leases and to immaterial leases to which these exemptions are applied, the lease payments are recognised as an expense on either a straight-line basis over the lease term, or on another systematic basis if that basis is more representative of the pattern of Finnair's benefit.

At the commencement date of a lease, Finnair recognises both a right-of-use asset, and a lease liability.

The lease liability is the present value of future lease payments. At Finnair, lease payments for aircraft leases contain typically payments that depend on interest rates and indices, that are included in the measurement of the lease payments included in the measurement of the lease liability, using the interest or index rate at the commencement date of the lease.

The right-of-use asset is measured at cost, comprising

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any incentives received;
- any initial direct costs incurred by Finnair; and
- an estimate of costs to be incurred by Finnair in restoring the assets to the condition required by the terms and conditions of the lease.

Finnair is obliged to return leased aircraft and their engines according to the redelivery condition set in the lease agreement. If at the time of redelivery, the condition of the aircraft and its engines differs from the agreed redelivery condition, Finnair needs to either maintain the aircraft so that it meets the agreed redelivery condition or settle the difference in cash to the lessor.

The maintenance costs can be divided into two main groups:
1) costs that are incurred independent of the usage of the aircraft / leasing period and
2) costs that are incurred dependent on the usage of the aircraft / leasing period

The final check and painting required at redelivery are considered unavoidable maintenance costs that realise when the aircraft is redelivered to the lessor, irrespective of the time or flight hours. The counterpart of the provision is recorded in the book value of the right-of-use asset at the commencement of the lease.

Respectively, costs depending on the usage of the aircraft are not considered as part of the right-of-use asset cost.

Finnair remeasures the lease liability when there is a lease modification that changes the scope of a lease or the consideration for the lease, that was not part of the original terms and conditions of the lease, including changes in lease payments resulting from a change in indices and rates used in variable aircraft lease payments. The amount of the remeasurement of the lease liability is generally recognised as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the remaining measurement is recognised in profit or loss.

After initial recognition, right-of-use assets are measured at cost less any accumulated depreciations and impairment losses. The assets are depreciated with a straight-line method from the commencement date to the shorter of end of useful life of the right-of-use asset and the end of lease term. However, if the lease transfers ownership of the asset to Finnair by the end of lease term or if the cost of the right-of-use asset reflects that Finnair will exercise a purchase option, the right-of-use asset is depreciated from the commencement date to the end of useful life of the asset.

At Finnair aircraft lease contracts contain the interest rate implicit in the lease, even if the aircraft lease agreements do not clearly define the interest rate implicit in the lease. Since the fair values of the aircraft are provided publicly by third parties, Finnair is able to calculate the implicit interest rate for each qualifying aircraft operating lease. The rate implicit in the lease is defined as the rate that causes the sum of the present value of the lease payments and the present value of the residual value of the underlying asset at the end of the lease to equal the fair value of the underlying asset. The implicit interest rate is determined by each aircraft lease contract separately.

For other lease contracts at Finnair, implicit interest rate cannot be usually determined. The incremental borrowing rate is therefore used and it is determined by each class of assets separately, based on management estimate.

Aircraft lease contracts are usually denominated in foreign currency (US dollars) and the foreign currency lease liabilities are revalued at each balance sheet date to the spot rate. The lease payments (lease payments made) are accounted for as repayments of the lease liability and as interest expense.

The Group as lessor

Agreements, where the Group is the lessor, are accounted for as operating leases, when a substantial part of the risks and rewards of ownership are not transferred to the lessee. The assets leased under operating lease are included in the tangible assets and they are depreciated during their useful life. Depreciation is calculated using the same principles as the tangible assets for own use. Under the provisions of certain aircraft lease agreements, the lessee is required to pay periodic maintenance reserves which accumulate funds for aircraft maintenance. Advances received for maintenance are recognised as liability, which is charged, when maintenance is done. The rents for premises and aircraft are recognised in the income statement as other operating income over the lease term.

Agreements, where the Group is the lessor, are accounted for as finance leases, when a substantial part of the risks and rewards of ownership are transferred to the lessee. Finnair recognises assets held under a finance lease in its statement of financial position and presents them as a receivable at an amount equal to the net investment of the lease.

Finnair subleases aircraft and a small amount of ground equipment, where by reference to the head lease, the lease term is for the majority of the remaining economic life arising from the right-of-use asset (i.e. the lease term of the sublease corresponds closely to the lease term of the head lease) and therefore these are classified as finance leases. At the commencement date, for the subleases, a net investment (lease receivable), equaling to the present value of lease payments and the present value of the unguaranteed residual value, is recognised. The proportion of the right-of-use asset subleased is derecognised from the balance sheet and the difference between the right-of-use asset and the net investment is recognised in the profit or loss, in sales gains and losses. Subsequently, the lease payments (lease payments received) are accounted for as repayments of the lease receivable and as interest income.

Sale and leaseback

In sale and leaseback transactions, where Finnair sells and then leases back aircraft, Finnair measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained by the Group. Accordingly, Finnair recognises only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor. A

! Critical accounting estimates and sources of uncertainty

The classification of all leasing arrangements in the Group, determining the interest rate and lease term used in discounting the lease payments and estimating the redelivery obligations of aircraft leases require management discretion in interpretation and application of accounting standards. !

Right-of-use assets 2019

EUR mill.	Aircraft	Buildings and land	Other equipment	Total
Book value 1 Jan 2019	834,3	153.6	10.7	998.6
Additions	10,0	5.3	13.9	29.2
Changes in contracts	-1.8	-3.4	-0.5	-5.6
Disposals		-15.1		-15.1
Depreciation for the financial year	-106.1	-16.4	-6.9	-129.5
Book value 31 Dec 2019	**736.4**	**124.0**	**17.1**	**877.5**

Additions to right-of-use aircraft in 2019 are related to two new lease agreements for spare engines and the increase in other equipment relates to renewal of company car agreements. The changes in contracts relate to changes either in the scope, or consideration, of leases. Disposals of buildings and land comprise of sublease agreement of land which was recognised at the beginning of the year 2019.

Right-of-use assets 2018

EUR mill.	Aircraft	Buildings and land	Other equipment	Total
Book value 1 Jan 2018	881.8	170.9	15.5	1,068.3
Additions	109.3	0.5	3.3	113.1
Changes in contracts	12.4	-0.6		11.8
Disposals	-56.3			-56.3
Depreciation for the financial year	-112.9	-17.2	-8.2	-138.4
Book value 31 Dec 2018	**834.3**	**153.6**	**10.7**	**998.6**

Lease liabilities

	Aircraft		Buildings and land		Other equipment	
EUR mill.	2019	2018	2019	2018	2019	2018
less than one year	118.9	102.3	15.8	16.2	5,7	6.6
1-5 years	507.0	584.3	58.9	61.1	11,6	4.1
more than 5 years	275.7	297.8	60.3	87.0		
Total	**901.7**	**984.4**	**135.0**	**164.2**	**17.3**	**10.7**

The Group leases aircraft, premises and other fixed assets, for which the lease liability is recorded on the balance sheet. The lease agreements have different terms of renewal and include index-linked terms and conditions. The Group was operating 27 leased aircraft at the end of the year with lease agreements of different tenors. The leased aircraft, that Finnair is subleasing to other operators is shown in note Finance lease receivables, Group as a lessor.

Finance lease receivables, Group as lessor

	Aircraft		Other equipment	
EUR mill.	2019	2018	2019	2018
less than one year	13.2	11.0		0.3
1-5 years	33.7	47.0		
more than 5 years				
Total	**47.0**	**58.0**		**0.3**

Subleases include sublease arrangements of 9 aircraft, as well as subleased ground equipment, that have been reclassified as finance leases at the time of IFRS 16 implementation.

Leasing arrangements in profit and loss

EUR mill.	2019	2018
Depreciation expense of right-of-use assets	-129.5	-138.4
Interest expense on lease liabilities	-68.5	-69.3
Interest income on sublease receivables	3.7	
Exchange rate differences	-18.7	-40.1
Hedging result of lease liabilities	31.1	
Short-term wet leases	-26.6	-15.8
Short-term office rents	-3.7	-5.1
Variable purchase traffic and cargo capacity rents	-103.2	-107.0
Total	**-315.4**	**-375.7**

Operating expenses include costs related to short-term and capacity based rental agreements, for which a lease liability and right-of-use asset is not recognised. In the income statement, the short-term wet leases and variable purchase traffic and cargo capacity rents are included in capacity rents and the short-term office rents are included in property, IT and other expenses. Total cash outflow relating to leases was -317.5 million euros (-315.7).

Off-balance sheet lease commitments, Group as lessee, Group as lessee

	Premises rents		Other rents	
EUR mill.	2019	2018	2019	2018
less than one year	3.0	2.9	2.3	3.6
1-5 years	6.5	6.6	0.8	2.2
more than 5 years	7.8	11.7		0.1
Total	**17.2**	**21.1**	**3.1**	**5.8**

The irrevocable lease agreements include short-term and other lease contracts that are not included in lease liabilities. The most significant item in the premises rents is the right-to use a test cell, which is excluded from the lease liabilty on the basis that it is not for the exclusive use of Finnair. Other rents include IT equipment leases, that are not material.

Off-balance sheet lease assets, Group as lessor

	Aircraft		Buildings and land	
EUR mill.	2019	2018	2019	2018
less than one year	27.0	27.1	2.1	2.1
1-5 years	36.8	63.8	8.4	8.3
more than 5 years			11.9	14.0
Total	**63.8**	**90.9**	**22.4**	**24.4**

The Group has leased 15 owned aircraft as well as premises with irrevocable lease agreements. These agreements have different terms of renewal and other index-linked terms and conditions.

i = Content of the section
A = Accounting principles

3 Capital structure and financing costs

3.1 Financial income and expenses

i The notes related to financial assets, liabilities and equity have been gathered into the capital structure and financing costs-section in order to give a better overview of the Group's financial position. The note ´Earnings per share´ has been added to the equity section. i

A Interest income and expenses
Interest income and expenses are recognised on a time-proportion basis using the effective interest method. Interest expenses related to the financing of significant investments are capitalised as part of the asset acquisition cost and depreciated over the useful life of the asset.
More detailed information about financial assets can be found in note 3.2 and about interest bearing liabilities in note 3.3. A

EUR mill.	2019	2018
Gains on investment instruments held at FVPL	0.4	-3.6
Interest from assets held at amortised cost	0.1	0.1
Other interest income	0.4	0.5
Interest income on leases	3.7	
Other financial income	0.2	0.9
Financial income total	**4.8**	**-2.2**
Interest expenses for liabilities measured at amortised cost	-9.6	-9.8
Interest on leases	-68.5	-70.1
Other financial expenses	-5.5	-4.7
Interest rate swaps, fair value hedges		-0.7
Fair value adjustment to bond book value attributable to interest rate risk		0.7
Financial expenses total	**-83.6**	**-84.6**
Foreign exchange gains and losses	**12.7**	**-42.3**
Financial expenses, net	**-66.1**	**-129.0**

In the effectiveness testing of the Group's hedge accounting, both cash flow and fair value hedging were found to be effective. Thus, as in the comparison year 2018, no inefficiency is included in the financial items for 2019. Financial income and expenses includes an identical amount of profit and loss for fair value hedging instruments and for hedged items resulting from the hedged risk. In 2019, other financial expenses include the recovered interest on a loan to Nordic Regional Airlines in the amount of 1.8 million euros that was written down in 2014.

In 2019, foreign exchange gains and losses recognised in financial expenses consist of net realised exchange gains of 39.3 million euros and net unrealised exchange loss of 26.6 million euros. During the year 2019, 3.9 million euros of interest expense was capitalised in connection with the A350 investment program (2.2). More information about the capitalised interest can be found in note 2.1 Fleet and other fixed assets.

Other financial expenses include revolving credit facility and guarantee fees as well as interest and penalties related to taxes.

3.2 Financial assets

A Financial assets
In the Group, financial assets have been classified into the following categories according to the IFRS 9 Financial Instruments standard: amortised cost and fair value through profit and loss. The classification is made at the time of the original acquisition based on the objective of the business model and the characteristics of contractual cash flows of the investment, or by applying a fair value option. All purchases and sales of financial assets are recognised on the trade date.

Financial assets at fair value through profit and loss include such assets as investments in bonds and money market funds. Financial assets at fair value through profit and loss have mainly been acquired to obtain a gain from short-term changes in market prices. All those derivatives that do not fulfil the conditions for the application of hedge accounting are classified as financial assets at fair value through profit and loss and are valued at fair value in each financial statement. Realised and unrealised gains and losses arising from changes in fair value are recognised in the income statement in the period in which they arise. Financial assets recognised at fair value through profit and loss, as well as those maturing within 12 months, are included in current assets.

Investments in debt securities are measured at amortised cost, but only when the objective of the business model is to hold the asset to collect the contractual cash flows and the asset's contractual cash flows represent only payments of principal and interest. Financial assets recognised at amortised cost are valued using the effective interest method. Financial assets valued at amortised cost include trade receivables, deferred charges and security deposits for aircraft operating lease agreements. Due to the nature of short-term receivables and other receivables, their book value is expected to be equal to the fair value.

Derecognition of financial assets takes place when the Group has lost its contractual right to receive cash flows or when it has substantially transferred the risks and rewards outside the Group.

Impairment of financial assets
Finnair Group recognises impairment provisions based on lifetime expected credit losses from trade receivables in accordance with IFRS 9. Finnair has chosen to apply a simplified credit loss matrix for trade receivables as trade receivables do not have a significant financing component. Accordingly, the credit loss allowance is measured at an amount equal to the lifetime expected credit losses. The expected credit loss model is forward-looking, and expected default rates are based on historical realised credit losses. The lifetime expected credit loss allowance is calculated using the gross carrying amount of outstanding trade receivables in each aging bucket and an expected default rate. The changes in expected credit losses are recognised in other expenses in the consolidated income statement. More information on the credit loss provision on trade receivables can be found in the note 1.2.3. Receivables related to revenue.

The impairment model does not apply to financial investments, such as bonds and money market funds, included in other financial assets as those are measured at fair value through profit and loss under IFRS 9, which already takes into account expected credit losses. With respect to the assets measured at amortised cost, Finnair is actively following such instruments and will recognise impairment through profit and loss if there is evidence of deterioration in credit quality.

Cash and cash equivalents
Cash and cash equivalents consist of cash reserves and short-term bank deposits with maturity of less than three months. Foreign exchange-denominated items have been converted to euro using the mid-market exchange rates on the closing date. A

A = Accounting principles

3.2.1 Other current financial assets

EUR mill.	2019	2018
Commercial paper, certificates and bonds	38.5	55.5
Money market funds	762.3	836.6
Total	**800.8**	**892.2**
Ratings of counterparties		
BBB	14.0	23.0
BB	5.0	
B		2.0
Unrated	781.8	867.1
Total	**800.8**	**892.2**

As of 31 December 2019, investments in instruments issued by unrated counterparties mostly include investments in money market funds (EUR 762 mill).

The Group's financial asset investments and risk management policy are described in more detail in note 3.5 Management of financial risks. The IFRS classifications and fair values of the financial assets are presented in note 3.6 Classification of financial assets and liabilities.

3.2.2 Cash and cash equivalents

EUR mill.	2019	2018
Cash and bank deposits	151.9	180.9
Total	**151.9**	**180.9**

The items include cash and bank deposits realised on demand. Foreign currency cash and bank deposits have been valued using the period end exchange rates. The reconciliation of cash and cash equivalents is illustrated in the notes of the consolidated cash flow statement.

3.3 Financial liabilities

A Financial liabilities
Finnair Group's financial liabilities are classified into two different classes: amortised cost and fair value through profit and loss. Financial liabilities are initially recognised at fair value on the basis of the original consideration received. Transaction costs have been included in the original book value of financial liabilities. Thereafter, all non-derivative financial liabilities are valued at amortised cost using the effective interest method. Financial liabilities are included in long- and short-term liabilities, and they can be interest-bearing or non-interest-bearing. Loans that are due for payment within 12 months are presented in the short-term liabilities. Foreign currency loans are valued at the mid-market exchange rate on the closing date, and translation differences are recognised in the financial items.

Accounts payable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities takes place when the Group has fulfilled the contractual obligations. A

Non-current liabilities

EUR mill.	2019	2018
JOLCO loans and other	277.6	314.7
Bonds	199.6	199.5
Lease liabilities	913.6	1,034.3
Interest-bearing liabilities total	**1,390.8**	**1,548.4**
Non-interest-bearing liabilities	**4.7**	**4.8**
Total	**1,395.5**	**1,553.2**

Non-interest-bearing liabilities mainly include leases and maintenance reserves related to the aircraft leased to other airlines.

Current interest-bearing liabilities

EUR mill.	2019	2018
JOLCO loans	43.6	100.8
Lease liabilities	140.4	125.1
Other loans	-0.1	-0.3
Total	**183.9**	**225.6**

JOLCO loans include the JOLCO loans (Japanese Operating Lease with Call Option) for three A350 aircraft. The transactions are treated as loans and owned aircraft in Finnair's accounting.

	Short-term borrowings	Long-term borrowings	Short-term lease liabilities	Long-term lease liabilities	Total
Total liabilities from financing activities, 1 Jan 2019	**100.5**	**514.2**	**125.1**	**1,034.3**	**1,774.0**
Cash flows	-61.0	-42,2		-132.2	-235.3
Additions				8.3	8.3
Foreign exchange adjustments	1.9	6.8	5.7	13.0	27.4
Reclassification between short-term and long-term liabilities	2.1	-2.1	9.7	-9.7	0.0
Other non-cash movements		0.4			0.4
Total liabilities from financing activities, 31 Dec 2019	**43.5**	**477.1**	**140.4**	**913.7**	**1,574.8**

	Short-term borrowings	Long-term borrowings	Short-term lease liabilities	Long-term lease liabilities	Total
Total liabilities from financing activities, 1 Jan 2018	**125.6**	**539.9**	**68.7**	**1,048.5**	**1,782.7**
Cash flows	-9.3	-103.5		-118.9	-231.7
Additions	-55.4			120.9	65.5
Decreases	45.9				45.9
Foreign exchange adjustments	1.2	15.0		40.1	56.4
Reclassification between short-term and long-term liabilities	-62.2	62.2	56.3	-56.3	0.0
Other non-cash movements	54.7	0.6			55.3
Total liabilities from financing activities, 31 Dec 2018	**100.5**	**514.2**	**125.1**	**1,034.3**	**1,774.0**

Maturity dates of interest-bearing financial liabilities 31 Dec 2019 EUR mill.	2020	2021	2022	2023	2024	Later	Total
JOLCO loans and other, fixed interest						45.0	45.0
JOLCO loans and other, variable interest	43.6	45.3	34.6	29.2	30.3	96.6	279.7
Bonds, fixed interest			200.0				200.0
Lease liabilities, fixed interest	94.6	95.7	99.4	91.2	88.7	182.9	652.5
Lease liabilities, variable interest	45.9	51.9	50.4	53.2	47.0	153.2	401.5
Other loans	-0.1						-0.1
Interest-bearing financial liabilities total	**183.9**	**192.9**	**384.5**	**173.6**	**166.0**	**477.7**	**1,578.6**
Payments from currency derivatives	1,759.5	254.5					2,014.0
Income from currency derivatives	-1,787.0	-257.9					-2,044.9
Commodity derivatives	16.9	-1.7					15.3
Trade payables and other liabilities	989.9						989.9
Interest payments	82.5	73.2	64.0	54.4	44.2	141.2	459.5
Total	**1,245.8**	**261.0**	**448.5**	**228.0**	**210.2**	**618.9**	**3,012.3**

Maturity dates of interest-bearing financial liabilities 31 Dec 2018 EUR mill.	2019	2020	2021	2022	2023	Later	Total
JOLCO loans and other, fixed interest	55.7					43.6	99.4
JOLCO loans and other, variable interest	45.1	43.0	44.7	34.0	28.7	124.5	320.0
Bonds, fixed interest				200.0			200.0
Lease liabilities, fixed interest	86.0	169.8	90.4	95.0	87.4	168.0	696.6
Lease liabilities, variable interest	44.8	48.2	48.3	50.8	53.7	216.7	462.6
Other loans	-0.3						-0.3
Interest-bearing financial liabilities total	**231.3**	**261.1**	**183.4**	**379.9**	**169.8**	**552.9**	**1,778.3**
Payments from currency derivatives	954.3	375.2					1,329.5
Income from currency derivatives	-981.4	-385.3					-1,366.7
Commodity derivatives	38.6	35.9	0.3				74.8
Trade payables and other liabilities	938.2						938.2
Interest payments	90.6	98.4	87.6	76.9	61.4	203.3	618.3
Total	**1,271.6**	**385.3**	**271.4**	**456.8**	**231.1**	**756.2**	**3,372.4**

The interest rate re-fixing period is three months for variable interest loans and six months for variable interest lease liability. The bonds maturing do not include the amortised cost of 0.4 million euros paid in 2017 and due on 2022. Respectively, JOLCO loans do not include the amortised cost of 3.5 million euros paid on 2016 and due on 2025. Therefore, the total amount of interest-bearing financial liabilities differs from the book value by the amount equal to the amortised costs.

The minimum lease payments, discount values and present values of lease liabilities are presented in note 2.2 Leasing arrangements.

The currency mix of interest-bearing liabilities is as follows:

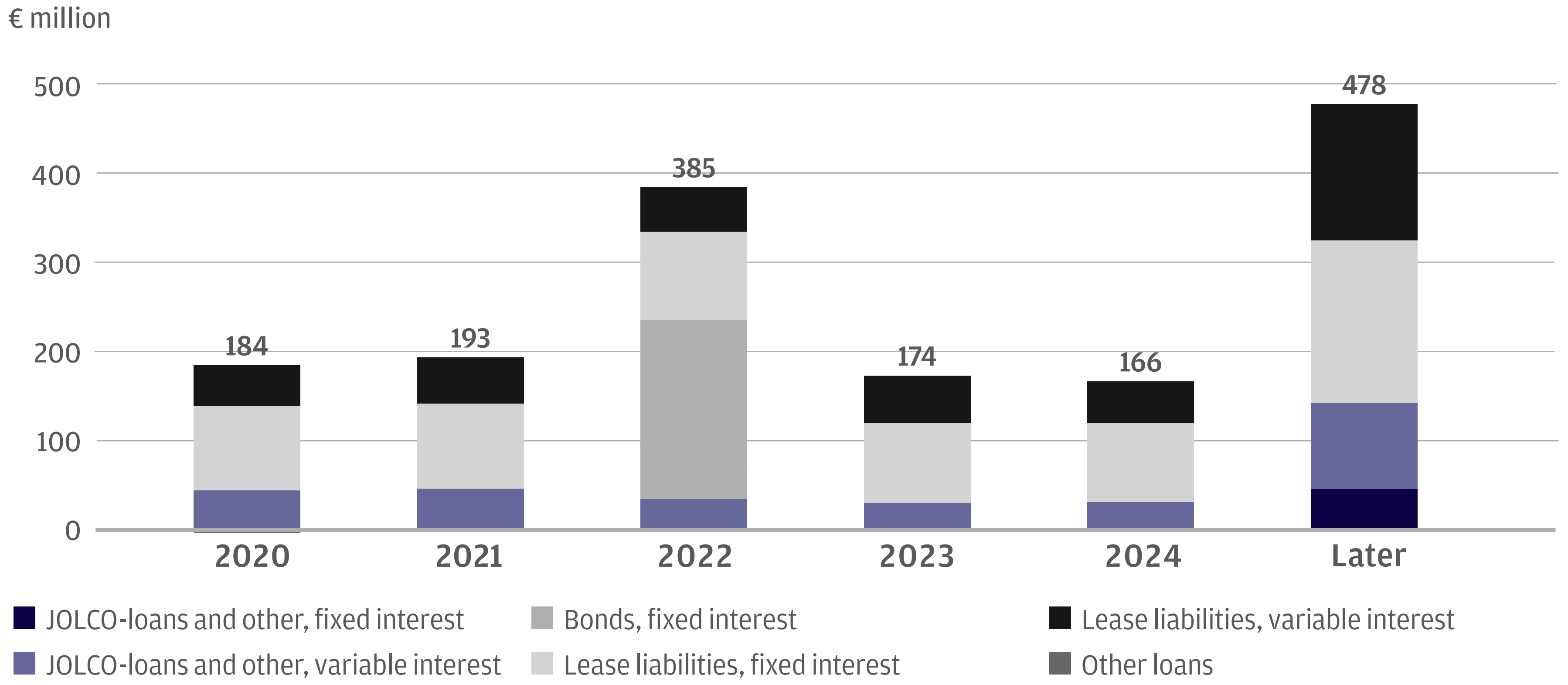
EUR mill.	2019	2018
EUR	412.8	456.9
USD	1,096.3	1,247.5
JPY	65.3	69.5
HKD	0.4	0.1
SGD	0.1	
Total	**1,574.8**	**1,774.0**

The weighted average effective interest rate on interest-bearing long-term liabilities was 4.5% (4.6%).

Interest rate re-fixing period of interest-bearing liabilities

	2019	2018
Up to 6 months	40.5%	40.9%
6–12 months	3.1%	6.4%
1–5 years	18.0%	15.3%
More than 5 years	38.4%	37.4%
Total	**100.0%**	**100.0%**

Maturity dates of interest-bearing financial liabilities



3.4 Contingent liabilities

EUR mill.	2019	2018
Guarantees on behalf of group companies	79.6	82.6
Total	**79.6**	**82.6**

3.5 Management of financial risks

Principles of financial risk management

The nature of Finnair Group's business operations exposes the company to a variety of financial risks: foreign exchange, interest rate, credit, liquidity and commodity price risks. The Group's policy is to limit the uncertainty caused by such risks on cash flow, financial performance, balance sheet items and equity.

The management of financial risks is based on the risk management policy prepared by the Financial Risk Steering Committee and approved by the Board of Directors. The policy specifies the minimum and maximum levels permitted for each type of risk. Financial risk management is directed and supervised by the Financial Risk Steering Committee. Practical implementation of risk management policy and risk management have been centralised to the parent company's treasury department.

In the management of foreign exchange, interest rate and jet fuel the company uses different derivative instruments, such as forward contracts, swaps and options. At inception, derivatives are designated as hedges of highly probable cash flows (cash flow hedges), hedges of firm orders (hedges of the fair value of firm commitments) or as financial derivatives not qualifying for hedge accounting (economic hedges). Finnair Group implements cash flow hedging through foreign exchange hedging of highly probable forecasted sales and costs denominated in foreign currencies, foreign exchange hedging of lease payments and jet fuel price risk, in accordance with the hedge accounting principles of IFRS 9. Hedge accounting compliant fair value hedges of Finnair Group consist of interest rate hedges of the issued bond and fair value hedges of firm aircraft purchase commitments.

Fuel price risk in flight operations

Fuel price risk means the cash flow and financial performance uncertainty arising from fuel price fluctuations.

Finnair hedges against jet fuel price fluctuations using jet fuel forward contracts and options. The Jet Fuel CIF Cargoes NWE index is used as the underlying asset of jet fuel derivatives, since over 60 per cent of Finnair's fuel purchase contracts are based on the benchmark price index for Northwest Europe jet fuel deliveries.

Finnair applies the principle of time-diversification in its fuel hedging. According to the risk management policy, the hedging horizon is two years. The risk management policy states that hedging must be increased during each quarter of the year, so that the hedge ratio is more than 60 per cent for the first six months, and thereafter a lower hedge ratio applies for each period. Due to hedging, the fuel cost per period is not as low as the spot-based price when prices fall, but when spot prices rise, the fuel cost rises more slowly.

The hedges of jet fuel consumption are treated as cash flow hedges in accounting, in accordance with the hedge accounting principles of IFRS 9. During 2019, Finnair has hedged the jet fuel price risk in its entirety, without separating it into underlying risk components, such as crude oil price risk. However, Finnair has used proxy hedging for certain layer components of its jet fuel consumption, as described below.

In the hedging of jet fuel price risk, Finnair Group designates layer components of its jet fuel consumption as hedged items. The layer components are defined as jet fuel consumption linked to different jet fuel price benchmarks. The first layer is defined as jet fuel purchases based on the Jet Fuel CIF Cargoes NWE index, with consumption linked to other price benchmarks, notably Cargoes FOB Singapore, representing other layers. Since the Jet Fuel CIF Cargoes NWE index is used as the underlying of all jet fuel derivatives, they are designated as proxy hedges for consumption based on other price benchmarks. Therefore, ineffectiveness may arise if the correlation between the NWE index and the price benchmark for the underlying consumption is not high enough for the fair value changes in the hedged item and the hedging instrument to be exactly offsetting. Any ineffectiveness resulting from overhedging or insufficient correlation is recognised in fair value changes in derivatives and changes in exchange rates of fleet overhauls.

Timing of the notional and hedged price	Hedged price $/ tonne	Notional amount (tonnes)	Maturity Under 1 year	Maturity 1 to 2 years
Tuesday, 31 December 2019				
Jet fuel consumption priced with NWE index	655.2	992,382	761,382	231,000
Jet fuel consumption priced with SING index	682.6	61,618	61,618	
Monday, 31 December 2018				
Jet fuel consumption priced with NWE index	667.6	1,275,246	948,246	327,000
Jet fuel consumption priced with SING index	636.8	134,754	134,754	

The average hedged price of the instruments hedging highly probable jet fuel purchases is calculated by taking into account only the hedging (bought) leg of collar option structures, and therefore represents the least favorable hedged rate. The most favorable rate, calculated by including only the sold leg of collar option structures, is 650.2 US dollars per tonne for NWE consumption, and 675.7 US dollars for SING consumption. Options excluded from hedge accounting are excluded in both cases.

At the end of the financial year, Finnair had hedged 68 per cent of its fuel purchases for the first six months of 2020 and 52 per cent of the purchases for the second half of the year. In the financial year 2019, fuel used in flight operations accounted for approximately one fifth of Group's turnover. At the end of the financial year, the forecast for 2020 is approximately one fifth of the Group's turnover. On the closing date, a 10 per cent rise in the market price of jet fuel – excluding hedging activity – increases annual fuel costs by an estimated 65 million euros. On the closing date – taking hedging into account – a 10 per cent rise in fuel lowers operating profit by around 32 million euros. The situation as of 31 December 2019 is a reasonable representation of conditions throughout the year given the current market environment.

Foreign exchange risk

Foreign exchange risk means the uncertainty in cash flows and financial performance arising from exchange rate fluctuations.

Finnair Group's foreign exchange risk mainly arises from fuel and aircraft purchases, divestments of aircraft, aircraft lease payments, aircraft maintenance, overflight royalties and foreign currency revenue. About 55 per cent of the Group's revenue is denominated in euros. The most important foreign revenue currencies are Japanese yen (10 per cent, percentage of revenue), Chinese yuan (7 per cent), US dollar (4 per cent) and Swedish krona (3 per cent). Approximately half of the Group's operating costs are denominated in foreign currencies. The most important purchasing currency is the US dollar, which accounts for almost 40 per cent of all operating costs. Significant dollar-denominated expenses are fuel costs and aircraft lease payments. The largest investments – aircraft and their spare parts – are also mainly made in US dollars.

The risk management policy divides the foreign exchange position into three parts, namely exposure to forecasted cash flows, balance sheet position and investment position.

The cash flow exposure mainly consists of sales denominated in a number of different currencies and dollar-denominated expenses. Forecasted jet fuel purchases, aircraft materials and overhaul expenses and traffic charges form a group of similar items that are hedged with the same hedging instrument. The purpose of currency risk hedging – for cash flow exposure – is to reduce the volatility of cash flows and comparable operating result due to fluctuating currency prices. This is done using a layered hedging strategy for the two biggest sources of currency risk and utilising diversification benefits of the portfolio of various currencies. The contracts are timed to mature when the cash flows from operating expenses are expected to be settled. The hedging limits are set only for the main contributors to currency risk: the Japanese yen and the US dollar basket consisting of the US dollar and the Hong Kong dollar. For both of these, the hedging horizon is two years, which is divided into four six-month periods. In order to achieve time diversification, the minimum hedge ratio for the closest six-month period is 60 per cent with a decreasing slope ending at zero per cent for the fourth six-month period. Even though the policy does not require hedging of smaller currency flows, it is allowed, in which case the layered hedging strategy is partially applied, although no minimum hedging ratio is specified.

The investment position includes all foreign currency denominated aircraft investments for which a binding purchase agreement has been signed as well as commitments for sale and leaseback transactions in the next four years. According to its risk management policy, Finnair Group hedges 50–100% of its aircraft investment exposure. New hedges of investments in aircraft are made as an IFRS 9 fair value hedge of a firm commitment.

Balance sheet exposure consists of foreign currency denominated financial assets and liabilities, as well as other foreign currency denominated balance sheet items, such as provisions, trade receivables, trade payables and assets held for sale. Finnair Group hedges 75–100% of net positions in foreign currency denominated financial assets and financial liabilities exceeding 10 MEUR.

At the end of the financial year, Finnair had a hedge level for net operating cash flows of 67 per cent in the USD-basket and 65 per cent in JPY for the coming 12 months, and hedge levels of 23 per cent and 24 per cent for 2021, respectively. On the closing date – excluding hedges – a 10 per cent strengthening of the US dollar against the euro has a negative impact on the 12-month result of around 94 million euros and a 10 per cent weakening of the Japanese yen against the euro has a negative impact on 12-month of around 36 million euros. On the closing date – taking hedging into account – a 10 per cent strengthening of the US dollar weakens the result by around 32 million euros and a 10 per cent weakening of the Japanese yen weakens the result by around 17 million euros. In the above numbers, the USD-basket risk also the Hong Kong dollar, which historical correlation with the US dollar is high. The situation as of 31 December 2019 is a reasonable representation of conditions throughout the year given the current market environment.

Timing of the notional EUR mill. 31 December 2019	Notional amount (gross)	Maturity Less than 1 year	1 to 2 years	2 to 4 years
USD	2,169.7	1,786.3	383.4	
JPY	444.9	338.1	106.8	

Cross-currency interest rate swaps are included in the nominal amount calculation.

Foreign exchange P&L exposure EUR mill. 31 December 2019	JPY	USD-basket
Net forecasted operating cash flows, next 24m	722.9	-1,852.1
Net operating cash flow hedges, next 24m	-319.8	836.7
Weighted average exchange rate of hedging instruments against the euro	125.2	1.17
Foreign exchange exposure from operating cash flows after hedging, next 24m	**403.1**	**-1,015.4**

The average exchange rate of the instruments hedging highly probable forecasted sales and purchases denominated in foreign currencies is calculated by taking into account only the hedging (bought) leg of collar option structures, and therefore represents the least favorable hedged rate. The most favorable rate, calculated by including only the sold leg of collar option structures, is 1.18 for USD contracts and 121.1 for JPY instruments.

Foreign exchange balance sheet exposure EUR mill. 31 December 2019	JPY	USD
Net balance sheet items	-69.3	-1,092.6
Net hedges of balance sheet items	66.4	907.7
Weighted average exchange rate of hedging instruments against the euro	121.3	1.12
Foreign exchange exposure from balance sheet items after hedging	**-2.9**	**-184.9**

Foreign exchange investment exposure EUR mill. 31 December 2019	USD
Net investment position	-668.0
Net hedges of investment position	336.5
Weighted average exchange rate of hedging instruments against the euro	1.20
Foreign exchange exposure from investment position after hedging	**-331.5**

Foreign exchange P&L exposure EUR mill. 31 December 2018	JPY	USD-basket
Net forecasted operating cash flows, next 24m	662.9	-1,801.5
Net operating cash flow hedges, next 24m	-284.9	781.7
Weighted average exchange rate of hedging instruments against the euro	132.4	1.20
Foreign exchange exposure from operating cash flows after hedging, next 24m	**378.0**	**-1,019.8**

Foreign exchange balance sheet exposure EUR mill. 31 December 2018	JPY	USD
Net balance sheet items	-70.6	-326.5
Net hedges of balance sheet items	70.7	280.7
Weighted average exchange rate of hedging instruments against the euro	128.2	1.12
Foreign exchange exposure from balance sheet items after hedging	**0.1**	**-45.8**

Foreign exchange investment exposure EUR mill. 31 December 2018	USD
Net investment position	-1,015.9
Net hedges of investment position	510.0
Weighted average exchange rate of hedging instruments against the euro	1.22
Foreign exchange exposure from investment position after hedging	**-505.9**

Interest rate risk

Interest rate risk means the cash flow, financial performance and balance sheet uncertainty arising from interest rate fluctuations.

In Finnair Group, the interest rate risk is measured using the interest rate re-fixing period. If necessary, interest rate derivatives are used to adjust the interest rate re-fixing period. According to the risk management policy, the mandate for the investment portfolio's interest rate re-fixing period is 0–12 months and for interest-bearing liabilities 36–72 months. On the closing date, the investment portfolio's interest rate re-fixing period was approximately 4 months and approximately 41 months for interest-bearing liabilities. On the closing date, a one percentage point rise in interest rates increases the annual interest income of the investment portfolio by approximately 6.4 million euros and the interest expenses of the loan portfolio by approximately 4.2 million euros. The situation as of December 31 2019 is a reasonable representation of conditions throughout the year given the current market environment.

Future lease agreements expose the group to interest rate risk, as the interest rate is one component of the lease price. The interest rate is fixed when the lease payments start. If necessary, the group can hedge this exposure with cash flow hedges.

Timing of the notional and hedged price range EUR mill. 31 December 2019	Notional amount (gross)	Maturity Less than 1 year	1 to 2 years	2 to 4 years
Interest rate derivatives	244.7	97.9	146.9	

Cross-currency interest rate swaps are included in the nominal amount calculation. Finnair has not entered into any interest rate derivatives on which it is paying a fixed rate.

Credit risk

The Group is exposed to counterparty risk when investing its cash reserves and when using derivative instruments. The credit risk is managed by only making contracts with financially sound domestic and foreign banks, financial institutions and brokers, within the framework of risk management policy for counterparty risk limits. Liquid assets are also invested in money market funds, bonds and commercial papers issued by conservatively selected companies, according to company-specific limits. This way, risk exposure to any single counterparty is not significant. Change in the fair value of Group loans arises from changes in FX and interest rates, not from credit risk. The Group's credit risk exposure arises from other current financial assets presented in note 3.2.1, cash and cash equivalents presented in note 3.2.2, trade receivables presented in note 1.2.3 and derivatives presented in note 3.8.

Liquidity risk

The goal of Finnair Group is to maintain good liquidity. Liquidity is ensured by cash reserves, bank account limits, liquid money market investments and committed credit facilities. Counterparties of groups' long term loans are solid financial institutions with good reputations.

The Group's liquid assets were 953 million euros at the end of financial year 2019. Finnair Plc has a domestic commercial paper program of 200 million euros, which was not in use as of the closing date. In addition, Finnair has an unused 175 million euros committed revolving credit facility. The credit facility includes a financial covenant based on adjusted gearing. The covenant level of adjusted gearing is 175 per cent, while at the closing date the figure was 64.3 per cent. The maximum level set by the Board of Directors is 175 per cent.

Capital management

The aim of Finnair's capital management is to secure access to capital markets at all times despite volatile business environment, as well as to support future business development. Through maintaining an optimal capital structure Group also aims to minimize the cost of capital and maximize the return on capital employed. The capital structure is influenced via, for example, dividend distribution and share issues. The Group can vary and adjust the level of dividends paid to shareholders, the amount of capital returned to them or the number of new shares issued. The Group can also decide on sales of asset items in order to reduce debt. The aim of Finnair´s dividend policy is to pay on average at least one third of the earnings per share as dividend during an economic cycle.

The development of the Group's capital structure is continuously monitored using the adjusted gearing. When calculating adjusted gearing, adjusted interest-bearing net debt is divided by the amount of shareholders' equity. The Group's adjusted gearing at the end of 2019 was 64.3 per cent (67.2).

Sensitivity analysis of the fair value reserve

If the price of Jet fuel CIF NWE had been 10 per cent higher, the balance of the reserve would have been 50.7 million euros (48.5) higher. Correspondingly, a 10 per cent weaker Jet fuel CIF NWE price would have reduced the reserve by 52.0 million euros (48.5). In terms of the US dollar, a 10 per cent weaker level would have lowered the balance of the fair value reserve by 58.4 million euros (49.7) and a 10 per cent stronger dollar would have had a positive impact of 61.7 million euros (54.2). In terms of Janapese yen, a 10 per cent stronger yen would have had a negative impact of 20.7 million euros (19.0), and a 10 per cent weaker level would have increased the balance of the fair value reserve by 19.0 million euros (15.6). The effect of a change in interests to the fair value reserve in own equity is not essential. The enclosed sensitivity figures do not take into account any change in deferred tax liability (tax assets).

3.6 Classification of financial assets and liabilities

EUR mill.	Hedge accounting items	Fair value through profit and loss	Amortised cost	Book value
31 Dec 2019				
Financial assets				
Receivables			3.3	3.3
Other financial assets		800.8		800.8
Trade receivables and other receivables			240.9	240.9
Derivatives	54.4	1.2		55.7
Cash and cash equivalents			151.9	151.9
Book value total	**54.4**	**802.0**	**396.0**	**1,252.5**
Fair value total	**54.4**	**802.0**	**396.0**	**1,252.5**
Financial liabilities				
Interest-bearing liabilities			520.8	520.8
Lease liabilities			1,054.0	1,054.0
Derivatives	29.4	9.5		38.9
Trade payables and other liabilities			999.6	999.6
Book value total	**29.4**	**9.5**	**2,574.4**	**2,613.3**
Fair value total	**29.4**	**9.5**	**2,580.2**	**2,619.1**

EUR mill.	Hedge accounting items	Fair value through profit and loss	Amortised cost	Book value
31 Dec 2018				
Financial assets				
Receivables			4.3	4.3
Other financial assets		892.2		892.2
Trade receivables and other receivables			242.2	242.2
Derivatives	50.3	1.8		52.1
Cash and cash equivalents			180.9	180.9
Book value total	**50.3**	**893.9**	**427.4**	**1,371.7**
Fair value total	**50.3**	**893.9**	**427.4**	**1,371.7**
Financial liabilities				
Interest-bearing liabilities			614.7	614.7
Lease liabilities			1,159.3	1,159.3
Derivatives	100.1	7.0		107.1
Trade payables and other liabilities			943.0	943.0
Book value total	**100.1**	**7.0**	**2,717.1**	**2,824.1**
Fair value total	**100.1**	**7.0**	**2,724.7**	**2,831.8**

In this note interest rate derivatives (currency and interest-rate swaps) are included in derivatives. Item Receivables mainly includes USD-denominated security deposits for leased aircraft. Trade payables and other liabilities include: trade payables, deferred expenses, pension obligations as well as other interest-bearing and non-interest-bearing liabilities.

Derivatives are valued at fair value, with further details in the fair value hierarchy. Financial assets valued at fair value are money market funds (fair value hierarchy level 1) and bonds, or commercial papers (fair value hierarchy level 2). Loans and receivables are mainly current and the book value is equivalent to the fair value, because the discount effect is not significant. The current portion of loans valued at amortised cost, excluding bonds, is 107 million euros, and the book value is equivalent to the fair value, because the discount effect is not significant. The issued bond makes the most significant part of the loans valued at amortised cost. The senior bond maturing in 2022 was quoted at 102.5, which explains the difference between book value and fair value. The valuation principles of financial assets and liabilities are outlined in the accounting principles. The valuation principles of financial assets and liabilities are outlined in the accounting principles.

Fair value hierarchy of financial assets and liabilities valued at fair value

Fair values at the end of the reporting period

EUR mill.	31 Dec 2019	Level 1	Level 2
Assets			
Financial assets at fair value through profit and loss			
Securities held for trading	800.8	762.3	38.5
Derivatives held for trading			
Currency and interest rate swaps and options	1.1		1.1
Currency derivatives	47.7		47.7
- of which in fair value hedge accounting	19.0		19.0
- of which in cash flow hedge accounting	28.6		28.6
Commodity derivatives	6.9		6.9
- of which in cash flow hedge accounting	6.9		6.9
Total	**856.4**	**762.3**	**94.2**
Liabilities			
Financial liabilities recognised at fair value through profit and loss			
Derivatives held for trading			
Currency derivatives	16.8		16.8
- of which in fair value hedge accounting	0.4		0.4
- of which in cash flow hedge accounting	6.9		6.9
Commodity derivatives	22.1		22.1
- of which in cash flow hedge accounting	22.0		22.0
Total	**38.9**		**38.9**

During the financial year, no significant transfers took place between fair value hierarchy Levels 1 and 2.

The fair values of hierarchy Level 1 are fully based on quoted (unadjusted) prices in active markets of the same assets and liabilities.

The fair values of Level 2 instruments are, to a significant extent, based on input data other than the quoted prices included in Level 1, but still mainly based on directly observable data (price) or indirectly observable data (derived from price) for the particular asset or liability.

On the other hand, the fair values of Level 3 instruments are based on asset or liability input data that is not based on observable market information (unobservable inputs). The fair values are based on confirmations supplied by counterparties, based on generally accepted valuation models.

A = Accounting principles

3.7 Offsetting financial assets and liabilities

EUR mill.	2019	2018
Derivative assets gross amounts	55.7	51.7
Net amounts of financial assets presented in the balance sheet	**55.7**	**51.7**
Enforceable master netting agreement	-22.3	-123.3
Derivative assets net amount	**33.4**	**-71.6**

EUR mill.	2019	2018
Derivative liabilities gross amounts	-38.9	-107.1
Net amounts of financial liabilities presented in the balance sheet	**-38.9**	**-107.1**
Enforceable master netting agreement	22.3	123.3
Derivative liabilites net amount	**-16.6**	**16.2**

For the above financial assets and liabilities, subject to enforceable master netting arrangements or similar arrangements, each agreement between the Group and the counterparty allows net settlement of the relevant financial assets and liabilities when both parties choose to settle on a net basis. In the absence of such mutual decision, financial assets and liabilities will be settled on a gross basis. However, each party of the master netting agreement, or similar agreement, will have the option to settle on a net basis in the event of default of the other party. Depending on the terms of each agreement, an event of default includes failure by a party to make a payment when due, failure by a party to perform any obligation required by the agreement (other than payment), if such failure is not remedied within periods of 30 to 60 days after notice of such failure is given to the party, or bankruptcy.

3.8 Derivatives

A Derivative contracts and hedge accounting

According to its risk management policy, Finnair Group uses foreign exchange, interest rate and commodity derivatives to reduce the exchange rate, interest rate and commodity risks which arise from the Group's balance sheet items, currency denominated purchase agreements, anticipated currency denominated purchases and sales as well as future jet fuel purchases. It is the Group's policy not to enter into derivative financial contracts for speculative purposes.

The derivatives are initially recognised as well as subsequently valued at fair value in each financial statement and interim report. The fair values of the derivatives are based on the value at which the instrument could be exchanged between knowledgeable, willing and independent parties, with no compulsion to sell or buy in the sales situation. The fair values of derivatives are determined as follows:

The fair values of all derivatives are calculated using the exchange rates, interest rates, volatilities and commodity price quotations on the closing date. The fair values of currency forward contracts are calculated as the present value of future cash flows. The fair values of currency options are calculated using the Black-Scholes option pricing model. The fair values of interest rate swap contracts are calculated as the present value of future cash flows. The fair values of cross-currency interest rate swap contracts are calculated as the present value of future cash flows. The fair values of interest rate options are calculated using generally accepted option valuation models. The fair values of commodity forward contracts are calculated as the present value of future cash flows. The fair values of commodity options are calculated using generally accepted option valuation models.

The Group uses credit valuation adjustment for cross-currency interest rate swaps as the maturities of these derivatives are long. The credit valuation adjustment is not done for the rest of the derivatives as the maturities for these are short and the impact would not be material. Credit risk management is described in more detail in note 3.5.

Gains and losses arising from changes in the fair value are presented in the financial statements according to the original classification of the derivative. Gains and losses on derivatives qualifying for hedge accounting are recognised in accordance with the nature of the risk being hedged. At inception, derivative contracts are designated as hedges of future cash flows, hedges of the fair value of recognised assets or liabilities and binding purchase contracts (cash flow hedges or fair value hedges) or as derivatives not meeting the hedge accounting criteria or to which hedge accounting is not applied (economic hedges). Hedging of the fair value of net investments of foreign units or embedded derivatives have not been used.

At the inception of hedge accounting, Finnair Group documents the economic relationship and the hedge ratio between the hedged item and the hedging instrument, as well as the Group's risk management objectives and the strategy for the inception of hedging. At the inception of hedging, and at least at the time of each financial statement, the Group documents and assesses the effectiveness of hedge relationships by examining the past and prospective capacity of the hedging instrument to offset changes in the fair value of the hedged item or changes in cash flows. The values of derivatives in a hedging relationship are presented in the balance sheet item Short-term financial asset and liabilities.

Finnair Group implements the IFRS hedge accounting principles in the hedging of future cash flows (cash flow hedging). The principles are applied to the price and foreign currency risk of jet fuel, the price risk of electricity, the foreign currency risk of lease payments and the foreign currency risk of highly probable future sales and costs denominated in foreign currencies. The IFRS fair value hedge accounting principles are applied to the hedging of foreign exchange and interest rate risk of aircraft purchases and the hedges of the pilot incentive plan.

The change in the fair value of the effective portion of derivative instruments that have been designated and qualify as cash flow hedges are recognised in comprehensive income and presented within equity in the fair value reserve, to the extent that the requirements for the application of hedge accounting have been fulfilled and the hedge is effective. The gains and losses, recognised in the fair value reserve, are transferred to the income statement in the period in which the hedged item is recognised in the income statement. When a hedging instrument expires or is sold, terminated or exercised, or the criteria for cash flow hedge accounting are no longer fulfilled, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in the hedge reserve and is recognised in accordance with the above policy when the transaction occurs. If the underlying hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in the hedge reserve with respect to the hedging instrument is recognised immediately in the consolidated income statement.

The effectiveness of hedging is tested on a quarterly basis. The effective portion of hedges is recognised in the fair value reserve of other comprehensive income, from which it is transferred to the income statement when the hedged item is realised or, in terms of investments, as an acquisition cost adjustment.

Fair value hedging is implemented on firm orders of new aircraft, in order to hedge the fixed interest rate bond, and to hedge the incentive plan negotiated with pilots. The binding purchase agreements for new aircraft are treated as firm commitments under IFRS, and therefore, the fair value changes of the hedged part arising from foreign currency movements are recognised in the balance sheet as an asset item, and corresponding gains or losses recognised through profit and loss. Similarly, the fair value of instruments hedging these purchases is presented in the balance sheet as a liability or receivable, and the change in fair value is recognised in profit and loss.

The gain or loss related to the effective portion of the interest rate swap, which hedges the fixed interest rate bond, is recognised as financial income or expenses in the income statement. The gain or loss related to the ineffective portion is recognised within other operating income and expenses in the income statement. The change in the fair value attributable to the interest rate risk of the hedged fixed interest rate loans is recognised in the financial expenses in the income statement.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item, for which the effective interest method is used, is amortized to profit or loss over the period to maturity.

Finnair Group uses cross-currency interest rate swaps in the hedging of the interest rate and foreign exchange risks of foreign currency denominated loans. Cross-currency interest rate swaps are excluded from hedge accounting, and therefore the fair value changes are recognised in derivative assets and liabilities in the balance sheet, as well as in the financial income and expenses in the income statement. The fair value changes of the loans are simultaneously recognised in the financial income and expenses. Realised foreign exchange rate differences, as well as interest income and expenses, are recognised in the financial income and expenses against the exchange rate differences and interest income and expenses of the loan.

Finnair Group uses jet fuel swaps (forward contracts) and options in the hedging of the jet fuel price risk. Unrealised gains and losses on derivatives hedging jet fuel, which are designated as cash flow hedges and fulfil the requirements of IFRS hedge accounting, are recognised in the hedging reserve within other comprehensive income. Accrued derivative gains and losses, recognised in shareholders' equity, are recognised as income or expense in the income statement in the same financial period as the hedged item is recognised in the income statement. If a forecasted cash flow is no longer expected to occur, and as a result the IFRS hedge accounting criteria are not fulfilled, the fair value changes and the accrued gains and losses reported in shareholders' equity are transferred to the items affecting comparability in the income statement. Changes in the fair value of jet fuel swaps and options excluded from hedge accounting are recognised in fair value changes in derivatives in the income statement, while realised result is presented in fuel costs.

For forward and option contracts an economic relationship exists between the hedged item and the hedging instrument as hedging instrument and the hedged item are expected to move in opposite directions because of the same underlying. This is true for all hedge relationships except for the SING consumption hedged with NWE hedges (as described in section

A = Accounting principles

3.5). In that case, the underlying is different, but the underlying hedged item (SING) and the hedge (NWE) have a historical correlation of 0.99. Therefore, it can be classified as a relationship where the underlying and the hedge are economically closely related. Ineffectiveness on fuel derivatives can also arise from timing differences on the notional amount between the hedged instrument and hedged item, significant changes in credit risk of parties to the hedging relationship and changes in the total amount of the hedged item, for instance if the underlying fuel consumption forecast is not accurate enough, that can result in overhedging. However, as Finnair usually hedges less than 100%, the risk of overhedging is insignificant. Finnair has established a hedge ratio of 1:1 for hedging relationships.

Finnair uses forward contracts and options to hedge its exposure to foreign currency denominated cash flows. The hedges of cash flows denominated in foreign currencies are treated as cash flow hedges in accounting, in accordance with the hedge accounting principles of IFRS 9. Unrealised gains and losses on hedges of forecasted cash flows qualifying for hedge accounting are recognised in the hedging reserve in OCI, while the change in the fair value of such hedges not qualifying for hedge accounting is recognised in Fair value changes in derivatives and changes in exchange rates of fleet overhauls in the income statement. The change in fair value recognised in the hedging reserve in equity is transferred to the income statement when the hedged transaction is realised. Forward points are included in the hedging instrument and in the hedge relationship. Potential sources of ineffectiveness include changes in the timing of the hedged item, significant changes in the credit risk of parties to the hedging relationship and changes in the total amount of the hedged item, for instance if the underlying cash flow forecast is not accurate enough, that can result in overhedging. However, as Finnair usually hedges less than 100%, the risk of overhedging is insignificant. Realised profit or loss on derivatives hedging JPY-denominated operating cash flows is presented in revenue, realised profit or loss on derivatives hedging a group of similar USD costs is proportionally recognised in corresponding expense lines, while profit or loss on derivatives hedging cash flows denominated in other currencies is presented in Other expenses.

The hedge ratio is defined as the relationship between the quantity of the hedging instrument and the quantity of the hedged item in terms of their relative weighting. With currency hedging, hedge ratio is typically 1:1. For forward and option contracts, an economic relationship exists between the hedged item and the hedging instrument as there is an expectation that the value of the hedging instrument and the value of the hedged item would move in the opposite direction because of the common underlying.

Changes in the fair value of interest rate derivatives not qualifying for hedge accounting are recognised in financial income and expenses in the income statement. Changes in the fair value as well as realised gain or loss on forward contracts used to hedge foreign currency denominated balance sheet items of Finnair Group are recognised in financial expenses. Changes in the fair value and realised result of hedges of assets held for sale are recognised in Items affecting comparability.

Cost of hedging

At Finnair, the time value of an option is excluded from the designation of a financial instrument and accounted for as a cost of hedging. Upon initial recognition, Finnair defers any paid premium in the cost of hedging reserve within other comprehensive income. The fair value changes of the time value are recognised in the cost of hedging reserve within other comprehensive income. The premium will be transferred to the consolidated income statement in the same period that the underlying transaction affects the consolidated income statement for transaction-related hedges. As of 31 December 2019, Finnair has deferred premiums only on transaction-related hedges. A

	2019				2018			
EUR mill.	**Nominal value**	**Positive fair values**	**Negative fair values**	**Fair net value**	**Nominal value**	**Positive fair values**	**Negative fair values**	**Fair net value**
Currency derivatives								
Operational cash flow hedging (forward contracts)	924.4	23.6	-5.9	17.6	700.1	17.0	-6.9	10.1
Operational cash flow hedging, bought options	201.5	3.3		3.3	242.6	5.6		5.6
Operational cash flow hedging, sold options	201.8		-1.0	-1.0	242.0		-2.8	-2.8
Fair value hedging of aircraft acquisitions	336.5	19.0	-0.4	18.6	445.4	18.1	-0.6	17.5
Hedging of lease payments	22.3	1.7		1.7	107.4	5.2		5.2
Hedge accounting items total	**1,686.5**	**47.5**	**-7.3**	**40.2**	**1,737.6**	**45.9**	**-10.3**	**35.5**
Balance sheet hedging (forward contracts)	775.1	0.1	-9.4	-9.3	131.8	1.8	-0.1	1.7
Items outside hedge accounting total	**775.1**	**0.1**	**-9.4**	**-9.3**	**131.8**	**1.8**	**-0.1**	**1.7**
Currency derivatives total	**2,461.6**	**47.7**	**-16.8**	**30.9**	**1,869.4**	**47.7**	**-10.5**	**37.2**
Commodity derivatives								
Jet fuel forward contracts, tonnes	898,000	6.2	-21.5	-15.3	924,500	3.8	-78.1	-74.3
Bought options, jet fuel, tonnes	57,000	0.7		0.7	169,500	0.7		0.7
Sold options, jet fuel, tonnes	57,000		-0.5	-0.5	169,500		-11.6	-11.6
Hedge accounting items total		**6.9**	**-22.0**	**-15.1**		**4.5**	**-89.7**	**-85.2**
Sold options, jet fuel, tonnes	42,000		-0.1	-0.1	146,500		-1.1	-1.1
Items outside hedge accounting total			**-0.1**	**-0.1**			**-1.1**	**-1.1**
Commodity derivatives total		**6.9**	**-22.1**	**-15.2**		**4.5**	**-90.8**	**-86.4**
Interest rate derivatives								
Cross currency interest rate swaps	217.9	1.1		1.1	232.7		-5.8	-5.8
Items outside hedge accounting total	**217.9**	**1.1**		**1.1**	**232.7**		**-5.8**	**-5.8**
Interest rate derivatives total	**217.9**	**1.1**		**1.1**	**232.7**		**-5.8**	**-5.8**
Derivatives total*		**55.7**	**-38.9**	**16.8**		**52.1**	**-107.1**	**-54.9**

* Positive (negative) fair value of hedging instruments as of 31 December 2019 is presented in the statement of financial position in the item derivative financial instruments within current assets (derivative financial instruments within current liabilities).

A = Accounting principles

Hedged items in hedge relationships

31 December 2019	Carrying amount of the hedged item: Assets	Liabilities	Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item: Assets	Liabilities	Line item in the statement of financial position in which the hedged item is included	Changes in fair value of the hedged item used for calculating hedge ineffectiveness, previous 12 months	Changes in fair value of the hedging instrument used for calculating hedge ineffectiveness, previous 12 months
Cash flow hedges							
Jet fuel price risk							
- Forecasted jet fuel purchases						-123.6	60.5
Foreign exchange risk							
- Forecasted sales and purchases						17.8	7.1
- Lease payments						49.6	-3.5
Fair value hedges							
Foreign exchange risk							
- Aircraft acquisitions	-18.6		-18.6		Non-current assets	-1.1	1.1

Ratings of derivative counterparties

EUR mill.	2019	2018
Better than A		-16.5
A	23.2	-13.1
BBB	-6.5	-25.4
Total	**16.8**	**-54.9**

Derivatives realised through profit and loss

EUR mill.		2019	2018
Jet fuel hedging	Fuel costs	-5.5	89.9
Hedging of lease payments	Financial expenses	8.1	-5.3
Operational cash flow hedging	Fuel costs	25.0	-5.7
Operational cash flow hedging	Aircraft materials and overhaul	3.4	-0.2
Operational cash flow hedging	Traffic charges	3.9	-1.7
Operational cash flow hedging	Revenue	-10.8	3.7
Expenses of hedge accounting items total		**24.1**	**80.7**
Jet fuel hedging	Fuel costs	1.0	2.0
Hedging of aircraft sales transactions	Items affecting comparability		0.6
Balance sheet hedging	Financial expenses	37.2	5.2
Cross-currency interest rate swaps	Financial expenses	5.1	5.8
Expenses of items outside hedge accounting total		**43.2**	**13.6**

3.9 Equity-related information

A Shareholders' equity

The nominal value of shares had been recognised in the share capital before an amendment to the Articles of Association registered on 22 March 2007. Share issue profit and gains on sale of own shares had been recognised in other restricted funds before the change in the Limited Liability Company Act in 2006.

The subscription proceeds from the 2007 share issue less transaction costs after taxes as well as share-based payments according to IFRS 2 have been recognised in the unrestricted equity funds.

Hedging reserve and other OCI items include changes in the fair value of derivative instruments used in cash-flow hedging, in addition to actuarial gains and losses related to defined benefit pension plans, fair value gains and losses of available for sale financial assets and translation differences.

The acquisition cost of repurchased owned shares less transaction costs after taxes is charged to retained earnings. The consideration received for sale or issue of own shares is included in unrestricted equity funds.

The dividend proposed by the Board of Directors is not deducted from distributable equity until decided at the Annual General Meeting.

The hybrid bond is recognised in equity. It is unsecured and subordinated to all senior debt. The hybrid bond does not confer shareholders' rights, nor does it dilute the holdings of shareholders. Interest expenses are debited from retained earnings on cash basis net of tax. In the calculation of earnings per share, interest expenses of the hybrid bond are included in the earnings for the financial year. A

Number of shares	2019	2018
Number of outstanding shares in the beginning of the financial year	127,487,107	127,702,748
Purchase of own shares	-148,000	-452,000
Shares granted from the share-bonus scheme 2016–2018	149,894	
Shares granted from the share-bonus scheme 2015–2017		123,430
Shares granted from FlyShare employee share savings plans	111,452	112,929
Paper shares forfeited from the joint account to Finnair's book-entry account	-16,651	
Number of outstanding shares at the end of the financial year	**127,583,802**	**127,487,107**
Own shares held by the parent company	552,313	649,008
Total number of shares at the end of the financial year	**128,136,115**	**128,136,115**

Finnair Plc's share capital, paid in its entirety and registered in the trade register, was at 75,442,904.30 euros at the end of 2018 and 2019. The shares have no nominal value. During the year 2019, Finnair transferred a total of 111,452 shares to FlyShare participants and a total of 149,894 shares to participants in Finnair's share-based incentive scheme 2016–2018.

Group's hedging reserve and other OCI items

EUR mill.	2019	Amounts reclassified to profit or loss	Unrealised gains and losses recognised in OCI	2018	Line item affected in profit or loss because of the reclassification
Jet fuel price hedging	-15.1	-5.5	79.6	-89.2	Fuel costs
Hedging of lease payments	1.7	8.1	-11.6	5.2	Lease payments for aircraft
Operating cash flow hedging	19.6	21.6	-14.5	12.5	Revenue and cost lines*
Hedging of interest related to future lease payments	-5.7	0.7		-6.4	Lease payments for aircraft
The actuarial gains and losses of defined benefit plan	-9.4		-50.2	40.8	
Translation differences	0.7			0.7	
Cost of hedging reserve	-0.4		-2.5	2.1	
Tax effect	1.9		-5.1	7.0	
Total	**-6.7**	**24.8**	**-4.3**	**-27.2**	

* Forward and option contracts hedging forecasted sales and purchases denominated in foreign currencies are hedges of a group of similar hedged items, and the amounts reclassified from OCI to P&L are proportionally allocated to different cost lines based on the realised cost amounts. Amounts reclassified to revenue and different cost lines are specified in the table "Derivatives realised through profit or loss" in section 3.8.

Maturity dates of fair values recognised in the hedging reserve

EUR mill.	2020	2021	2022	2023	2024	Later	Total
Jet fuel price hedging	-16.8	1.7					-15.1
Hedging of lease payments	1.7						1.7
Operating cash flow hedging	16.8	2.8					19.6
Hedging of interest related to future lease payments	-0.7	-0.7	-0.7	-0.7	-0.7	-2.3	-5.7
The actuarial gains and losses of defined benefit plan	-9.4						-9.4
Translation differences						0.7	0.7
Cost of hedging reserve	-0.4						-0.4
Tax effect	1.8	-0.8	0.1	0.1	0.1	0.5	1.9
Total	**-7.0**	**3.0**	**-0.5**	**-0.5**	**-0.5**	**-1.1**	**-6.7**

Hybrid bond

Shareholders' equity (after equity belonging to the owners) includes a 200 million euro hybrid bond issued in 2015. The hybrid bond coupon is fixed at 7.875 per cent per year for the first five years, and thereafter floating, at least 12.875 per cent per year. Finnair can postpone interest payment if it does not distribute dividends or any other equity to its shareholders. The bond has no maturity date, but the company has the right to redeem it in five years and on every interest payment date thereafter. The overall hybrid bond net position recognised in equity is 198.2 million euros, due to issuing expenses. The hybrid bonds are unsecured and in a weaker preference position than promissory notes. A holder of hybrid bond notes has no shareholder rights.

Earnings per share

The basic earnings per share figure is calculated by dividing the result for the financial year attributable to the parent company's shareholders by the weighted average number of shares outstanding during the financial year. The result for the financial year is adjusted for the after-tax amounts of hybrid bond interests regardless of payment date, transaction costs of the new hybrid bond issued and premium paid, when a hybrid bond is redeemed. When calculating the earnings per share adjusted by dilution, the weighted average of the number of shares takes into account the diluting effect resulting from changing into shares all potentially diluting shares. Finnair has not granted any options.

EUR mill.	2019	2018
Result for the financial year, EUR mill.	74.5	101.6
Hybrid bond interest, EUR mill.	-15.8	-15.8
Tax effect	3.2	3.2
Adjusted result for the financial year	**61.9**	**89.0**
Weighted average number of outstanding shares, mill. pcs	127.5	127.9
Basic earnings per share, EUR	0.49	0.70
Diluted earnings per share, EUR	0.49	0.70
Effect of own shares, EUR	0.00	0.00

Dividend

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.20 per share be paid for 2019. A dividend for 2018 of 0.274 euro per share, amounting to a total of EUR 35.0 million, was decided in the Annual General Meeting on 20 March 2019. The dividend was paid on 1 April 2019.

Finnair Plc's distributable equity

EUR mill.	31 Dec 2019
Retained earnings at the end of financial year	153.4
Unrestricted equity	258.7
Result for the financial year	22.1
Distributable equity total	**434.2**

i = Content of the section
A = Accounting principles

4 Consolidation

i Notes under the Consolidation section include a description of the general consolidation principles and methods of consolidation. The aim of the section is to provide an overall picture of the group's structure and principles applied in preparing consolidated financial statements and classifying ownership interests. In addition, notes include information about subsidiaries, associated companies and joint ventures held, acquired or sold by the group as well as information about assets held for sale. i

4.1 General consolidation principles

Consolidation

Consolidation, the consolidation method and classification of ownership interests depends on whether Group has power to control or jointly control the entity or have significant influence or other interests in the entity. When Group has the power to control the entity, it is consolidated as a subsidiary in the group according to principles described in the note 4.2 Subsidiaries. When Group has joint control or significant influence over an entity but does not have power to control, entity is accounted for by using equity method according to principles set in note 4.4 Investments in associates and such joint ventures. If Group does not have power to control nor significant influence in the entity, its ownership interests are classified as financial assets available for sale and accounted for according to principles described in the note 3.2 Financial assets.

Translation of foreign currency items

Items included in each subsidiary's financial statements are measured in the currency that is the main currency of the operating environment of each subsidiary ("functional currency"). The consolidated financial statements have been presented in euro, which is the parent company's functional and presentation currency. Transactions denominated in foreign currencies in group companies are translated into functional currency by using the exchange rate at the date of the transaction. Receivables and liabilities that are denominated in foreign currencies and are outstanding on the closing date are translated using the exchange rate of the closing date. Exchange rate differences are recognised in the income statement.

Foreign subsidiaries whose functional currency is not euro are translated into euro by using average rate for the financial year. Balance sheets are translated by using the closing rate for the financial period. Translation differences arising from the elimination of acquisition costs of foreign subsidiaries are recognised in other comprehensive income. When foreign subsidiary is sold, the differences are recognised as part of the sales gain or loss.

4.2 Subsidiaries

A Consolidation principles of subsidiaries

Finnair Plc's consolidated financial statements include the parent company Finnair Plc and all its subsidiaries. Subsidiaries are defined as companies in which Finnair has control. Control exists when Finnair has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Usually Finnair has power over the entity when it owns more than 50% of the votes or where Finnair otherwise has the power to govern the financial and operating policies. The acquired subsidiaries are included in the consolidated financial statements from the day the Group has control, and disposed subsidiaries until the control ceases.

Acquired and established companies are accounted for using the acquisition method of accounting. Accordingly, the acquired company's identifiable assets, liabilities and contingent liabilities are measured at fair value on the date of acquisition. The excess between purchase price and fair value of the Group's share of the identifiable net assets is recognised as goodwill.

All inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless there is evidence of impairment related to the transferred asset. The accounting principles of subsidiaries have been changed to correspond Group's accounting policies.

Non-controlling interest and transactions with non-controlling interest

Non-controlling interests are presented within the equity in the Consolidated Balance Sheet, separated from equity attributable to owners of the parent. For each acquisition the non-controlling interest can be recognised either at fair value or at the non-controlling interest's proportionate share of the acquirer's net assets. The carrying amount of non-controlling interests is the amount of the interests at initial recognition added with the non-controlling interests' share of subsequent changes in equity. A

Subsidiaries

Name of the company	Group ownership %	Name of the company	Group ownership %
Finnair Cargo Oy, Finland	100.0	Finnair Kitchen Oy, Finland	100.0
Finnair Aircraft Finance Oy, Finland	100.0	Amadeus Finland Oy, Finland	95.0
Finnair Technical Services Oy, Finland	100.0	Oy Aurinkomatkat - Suntours Ltd Ab, Suomi	100.0
Finnair Engine Services Oy, Finland	100.0	Aurinko Oü, Estonia	100.0
Finnair Travel Retail Oy, Finland	100.0	Matkayhtymä Oy, Finland	100.0
Kiinteistö Oy Lentokonehuolto, Finland	100.0	OOO Aurinko, Russia	100.0
Northport Oy, Finland	100.0	FTS Financial Services Oy, Finland	100.0
Balticport Oü, Estonia	100.0	Finnair Business Services Oü, Estonia	100.0

Finnair Flight Academy Oy was merged to its parent company Finnair Oyj on 31 December 2019.

4.3 Acquisitions and disposals

There were no business acquisitions or disposals during 2019.

Finnair sold 60% of Nordic Regional Airlines AB (Norra) to Danish Air Transport in 2018. After the transaction, Finnair owns 40% of the company. Norra transferred to the full ownership of Finnair on an interim basis in 2017.

4.4 Investments in associates and joint ventures

A Associates are companies in which the Group generally holds 20–50 per cent of the voting right or in which the Group has significant influence but in which it does not exercise control. Companies where the Group has joint control with another entity are considered as joint ventures. The Group's interests in associated companies and jointly controlled entities are accounted for using the equity method. The investment in associates and joint ventures include goodwill recognized at the time of acquisition. The Group recognises its share of the post-acquisition results in associates and joint ventures in the income statement. When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognise further losses, unless it has incurred obligations on behalf of the associate or joint venture.

Results from the transactions between the Group and its associates are recognised only to the extent of unrelated investor's interests in the associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associates is impaired. In case of such indications, Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value. The impairment is recognised in share of results in associates and joint ventures.

Accounting policies of associates or joint ventures have been changed where necessary to correspond with the accounting policies adopted by the Group. If financial statements for the period are not available, the share of the profit of certain associated or joint venture companies is included in the consolidated accounts based on the preliminary financial statements or latest available information. A

The Group's share of the result, asset items and liabilities of associates and joint ventures is presented below.

EUR mill.	2019	2018
At the beginning of the financial year	3.3	2.5
Additions		0.9
Disposals	0.9	
At the end of the financial year	**2.5**	**3.3**

During 2019, the balance sheet value of Nordic Regional Airlines was revalued, resulting in a decrease in the share of assets and liabilities of joint operations. More information on transactions with associated companies and joint ventures can be found in the note 4.5 Related party transactions.

Information on the Group's associates and joint ventures 31 Dec 2019

EUR mill.	Domicile	Assets	Liabilities	Revenue	Profit/ Loss	Holding %
Nordic Regional Airlines AB	Sweden	169.5	169.0	106.8	-3.4	40.00
Suomen Ilmailuopisto Oy*	Finland	19.5	1.6	10.5	0.2	49.50

*The presented figures for 2019 are preliminary and unaudited.

Information on the Group's associates and joint ventures 31 Dec 2018

EUR mill.	Domicile	Assets	Liabilities	Revenue	Profit/ Loss	Holding %
Nordic Regional Airlines AB	Sweden	35.8	31.9	105.0	1.3	40.00
Suomen Ilmailuopisto Oy	Finland	19.3	1.1	10.2	0.1	49.50

The associated company owned by Finnair, Suomen Ilmailuopisto Oy, is an unlisted company and is not considered material compared to Finnair's operations. The result of associated companies and joint ventures for 2019 was -3.2 (1.4) million euros, of which Finnair's share was -0.9 (0.0) million euros. Changes in assets and liabilities of Nordic Regional Airlines AB (Norra) in 2019 are mainly due to adopting IFRS 16 standard. Norra did not restate comparison year 2018 according to the modified retrospective approach.

Suomen Ilmailuopisto Oy

Suomen Ilmailuopisto Oy (the Finnish Aviation Academy) is a vocational special purpose aviation school owned by Finnair Oyj (49.5%), Finnish Government (49.5%) and the City of Pori (1%). Finnair is not entitled to company's results nor net assets, but possible results need to be used for developing school's activities.

Nordic Regional Airlines AB

Nordic Regional Airlines AB (Norra) operates mainly purchase traffic for Finnair. The owners (Finnair 40% and Danish Air Transport 60%) have joint control over the entity. In the balance sheet of Finnair, Norra has been classified as a joint venture.

A = Accounting principles

4.5 Related party transactions

Related parties of the Finnair group includes its subsidiaries, management, associated companies and joint ventures and Finnair pension fund. Subsidiaries are listed in the note 4.2 and associates and joint ventures in note 4.4. Related party transactions include such operations that are not eliminated in the group's consolidated financial statement.

Finnish government owns 55.8% (55.8%) of Finnair's shares. All the transactions with other government owned companies are with arms length basis.

The following transactions have taken place with associated companies, joint ventures and Finnair pension fund:

EUR mill.	2019	2018
Sales of goods and services		
Associates and joint ventures	27.0	44.1
Pension fund	0.7	0.2
Purchases of goods and services		
Associates and joint ventures	107.8	105.4
Pension fund	12.8	15.1
Financial income and expenses		
Associates and joint ventures	5.7	2.0
Pension fund	-0.3	-0.1
Receivables		
Non-current receivables from associates and joint ventures	33.7	
Current receivables from associates and joint ventures	23.4	9.2
Liabilities		
Non-current liabilities to associates and joint ventures	3.6	3.6
Non-current liabilities to pension fund	77.0	16.5
Current liabilities to associates and joint ventures	1.0	2.1

Transactions with related parties are arm length, and are with similar terms than transactions carried out with independent parties. Management remuneration is presented in note 1.3.8. Management has not been granted any loans and there have not been any other transactions with management.

More information on associated companies and joint ventures can be found in the note 4.4.

Finnair pension fund

The Finnair pension fund in Finland is a stand-alone legal entity which mainly provides additional pension coverage to Finnair's personnel in the form of defined benefit plan, and manages related pension assets. The assets include Finnair's shares representing 0.1% (0.1%) of the company's outstanding shares. Real estate and premises owned by the pension fund have been mainly leased to Finnair. In 2019 and 2018 Finnair did not pay any contributions to the fund. Pension obligation was 77.0 million euros (16.5) at the end of the financial year.

5 Other notes

i Other notes include all such notes that do not specifically relate to any previous subject matters. i

5.1 Income taxes

A The tax expense for the period includes current and deferred tax and adjustments to previous years' taxation. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or other equity items. Deferred taxes are calculated for temporary differences between accounting and taxation using the valid tax rates for future years at the closing date. Finnair has no uncertain tax positions.

Deferred tax asset is recognised to the extent that realisation of the related tax benefit through future profits is probable. Temporary differences arise mainly from sales of tangible assets and depreciation, right-of-use assets, lease liabilities and tax losses. Deferred tax is recognised for foreign subsidiaries' undistributed earnings only when related tax effects are probable.

Deferred tax assets and liabilities are set off when they are levied by same taxing authority and Finnair has a legally enforceable right to set off the balances. A

Income taxes

EUR mill.	2019	2018
Taxes for the financial year		
Current tax	-4.8	-11.1
Adjustments recognised for current tax of prior periods	0.1	
Deferred taxes	-13.8	-14.4
Total	**-18.4**	**-25.6**

The table below explains the difference between theoretical tax cost calculated with Finnish nominal tax rate 20.0% (20.0%) and tax expense in the consolidated income statement:

EUR mill.	2019	2018
Result before taxes	93.0	127.2
Taxes calculated using the Finnish tax rate	-18.6	-25.4
Different tax rates of foreign subsidiaries	-0.1	-0.1
Tax-exempt income	0.6	0.6
Non-deductible expenses	-0.4	-0.5
Adjustments recognised for taxes of prior periods	0.1	
Income taxes, total	**-18.4**	**-25.6**
Effective tax rate	19.8%	20.1%

The effective tax rate was 19.8% (20.1%). The current tax relates to tax cost accrued in Finnair Oyj.

i = Content of the section
A = Accounting principles

Deferred tax assets and liabilities

The Group has evaluated the nature and classification of deferred tax assets. Based on the evaluation, deferred tax assets and liabilities levied by the same taxing authority met the requirements for offset eligibility in accordance with IAS 12 standard. The deferred tax assets and liabilities are shown net on the balance sheet.

Changes in deferred taxes during 2019:

EUR mill.	2018	Recognised in the income statement	Recognised in shareholders' equity	2019
Deferred tax assets and liabilitities				
Confirmed losses	0.1	-3.2	3.2	0.0
Employee benefits	3.3	2.0	10.0	15.3
Property, plant and equipment	-100.1	-16.3		-116.4
Right-of-use assets	-176.1	13.5		-162.6
Lease liabilities	209.5	-6.9		202.7
Subleases	-11.7	2.3		-9.4
Other temporary differences	12.1	-5.0	-0.9	6.1
Valuation of derivatives at fair value	15.1		-15.2	0.0
Total	**-47.6**	**-13.8**	**-2.9**	**-64.3**

After the 2019 taxable result, there are no confirmed tax losses available.

Distributing retained earnings of foreign subsidiaries as dividends would cause a tax effect of 0.2 million euros (0.3).

Changes in deferred taxes during 2018:

EUR mill.	2017	Change in accounting principles (IFRS 15, Revenue from Contracts with Customers)	Recognised in the income statement	Recognised in shareholders' equity	2018
Deferred tax assets and liabilities					
Confirmed losses	13.7	1.2	-17.9	3.2	0.1
Employee benefits	0.9		2.6	-0.1	3.3
Property, plant and equipment	-93.6		-6.4		-100.1
Right-of-use assets	-180.1		4.1		-176.1
Lease liabilities	191.2		18.4		209.5
Subleases			-11.7		-11.7
Other temporary differences	15.5		-3.5	0.4	12.1
Valuation of derivatives at fair value	-7.6			22.7	15.1
Total	**-60.1**	**1.2**	**-14.4**	**26.1**	**-47.6**

5.2 Disputes and litigation

Finnair reports only cases of which the interest is material and that are not insured. On 31 December 2019 there were no such disputes pending.

5.3 Events after the closing date

In early 2020, Finnair has decided to cancel all its flights to mainland China due to coronavirus-related effects between 6 February and 29 February 2020 as well as some of its flights to Guangzhou, Beijing Daxing airport and Nanjing.

As the first quarter and especially the weeks following the Chinese New Year are typically seasonally weak for Finnair's mainland China routes in terms of profitability, Finnair estimates in its stock exchange release dated 31.1.2020 that the direct financial impact of group cancellations, ticket refunds and flight cancellations during the first quarter in 2020 will remain relatively limited.

6 Parent company financial statements

Finnair Plc income statement

EUR mill.	Note	2019	2018
Revenue	6.2	**2,935.8**	**2,677.8**
Other operating income	6.3	84.5	84.3
Operating income		**3,020.4**	**2,762.1**
Materials and services	6.4	1,431.9	1,264.8
Staff expenses	6.5	350.7	320.6
Depreciation and reduction in value	6.6	15.1	11.4
Other operating expenses	6.7	1,217.7	1,107.5
Operating expenses		**3,015.4**	**2,704.3**
Operating profit/loss		**4.9**	**57.8**
Financial income and expenses	6.8	-11.1	-18.4
Profit/loss before appropriations and taxes		**-6.1**	**39.4**
Appropriations	6.9	33.1	46.4
Income taxes	6.10	-4.8	-16.9
Profit/loss for the financial year		**22.1**	**68.9**

Finnair Plc balance sheet

EUR mill.	Note	2019	2018
ASSETS			
Non-current assets			
Intangible assets	6.11	40.9	32.3
Tangible assets	6.12	82.5	61.7
Investments			
Holdings in group undertakings		440.6	447.3
Participating interests		2.5	2.5
Other shares and similar rights of ownership		0.4	0.4
Loan and other receivables	6.14	1.5	18.2
Total investments	6.13	444.9	468.4
Total non-current assets		**568.3**	**562.3**
Current assets			
Deferred tax assets	6.15		17.3
Current receivables	6.16	887.6	664.6
Marketable securities	6.17	800.8	892.2
Cash and bank equivalents	6.18	149.7	178.5
Total current assets		**1,838.1**	**1,752.6**
TOTAL ASSETS		**2,406.3**	**2,314.9**
EQUITY AND LIABILITIES			
Equity			
Share capital		75.4	75.4
Share premium account		24.7	24.7
Other reserves			
Unrestricted equity funds		258.7	256.5
Legal reserve		147.7	147.7
Hedging reserve		3.3	-59.6
Retained earnings		153.4	119.9
Profit/loss for the financial year		22.1	68.9
Total equity	6.19	**685.3**	**633.6**
Accumulated appropriations	6.20	26.0	22.4
Provisions	6.21	157.0	121.0
Liabilities			
Non-current liabilities	6.22	401.8	400.9
Current liabilities	6.23	1,136.2	1,137.1
Total liabilities		**1,538.0**	**1,538.0**
EQUITY AND LIABILITIES TOTAL		**2,406.3**	**2,314.9**

Finnair Plc cash flow statement

EUR mill.	2019	2018
Cash flow from operating activities		
Result before appropriations	-6.1	39.4
Depreciation	15.1	11.4
Other non-cash transactions	35.4	5.1
Financial income and expenses	12.2	18.6
Changes in working capital	62.9	67.0
Interest and other financial expenses paid	-20.9	-22.3
Received interest and other financial income	11.2	7.3
Income taxes paid	-10.6	
Cash flow from operating activities	**99.1**	**126.4**
Cash flow from investing activities		
Investments in intangible and tangible assets	-22.1	-16.8
Change in long-term receivables	-249.5	74.3
Investments in subsidiaries		0.1
Proceeds from sales of subsidiaries		0.4
Cash flow from investing activities	**-271.7**	**58.0**
Cash flow from financing activities		
Purchase of own shares	-0.5	-3.7
Loan repayments and changes	39.5	-81.1
Dividends paid	-35.0	-38.4
Received and given group contributions	48.3	30.0
Cash flow from financing activities	**52.4**	**-93.2**
Change in cash flows	**-120.2**	**91.3**
Change in liquid funds		
Liquid funds, at beginning	1,070.6	979.4
Change in cash flows	-120.2	91.3
Liquid funds, at end	**950.4**	**1,070.6**

Notes to Finnair Plc financial statements

6.1 Accounting principles

General

Finnair Plc is the parent company of Finnair Group, domiciled in Helsinki, Finland. Financial statements are prepared in accordance with accounting principles required by Finnish law. 2018 comparative figures have been restated due to changes in accounting principles. More detailed information of the restatement is available in the note to the Consolidated Financial statements Changes in accounting principles and restated financials 2018.

Foreign currency items

Business transactions in foreign currencies have been valued using the exchange rate at the date of transaction. Receivables and liabilities on the balance sheet date are valued using the exchange rate on the balance sheet date. Advances paid and received are valued in the balance sheet using the exchange rate at the date of payment. Exchange rate differences on trade receivables and payables are treated as the adjustments to turnover and other operating expenses. Exchange rate differences on other receivables and liabilities are entered under financial income and expenses.

Derivative contracts

According to its risk management policy, Finnair uses foreign exchange, interest rate and commodity derivatives to reduce the exchange rate, interest rate and commodity risks which arise from the Finnair's balance sheet items, currency denominated purchase agreements, anticipated currency denominated purchases and sales as well as future jet fuel purchases. The balance sheet exposure is hedged only at the Group level. The combined entity-level exposure for all Group companies differs from the Group-level exposure by the amount of intercompany items. Therefore, the balance sheet position and contracts hedging it are presented only in note 3.5. of the Group financial statements. Similarly, the foreign currency cash flow exposure is only hedged at the Group level to take advantage of the netting effect, and is presented in note 3.5 of the Group financial statements. Derivative contracts are valued using the rates on the balance sheet date according to Accounting Act 5:2 a §.

The derivatives are initially recognized at original acquisition cost (fair value) in the balance sheet and subsequently valued at fair value in each financial statement and interim report. The fair values of the derivatives are based on the value at which the instrument could be exchanged between knowledgeable, willing and independent parties, with no compulsion to sell or buy in the sales situation. The fair values of derivatives are determined as follows:

The fair values of all derivatives are calculated using the exchange rates, interest rates, volatilities and commodity price quotations on the closing date. The fair values of currency forward contracts are calculated as the present value of future cash flows. The fair values of currency options are calculated using the Black-Scholes option pricing model. The fair values of interest rate and currency swap contracts are calculated as the present value of future cash flows. The fair values of interest rate options are calculated using generally accepted option valuation models. The fair values of commodity forward contracts are calculated as the present value of future cash flows. The fair values of commodity options are calculated using generally accepted option valuation models.

Gains and losses arising from changes in the fair value are presented in the financial statements according to the original classification of the derivative. Gains and losses on derivatives qualifying for hedge accounting are recognized in accordance with the underlying asset being hedged. At inception, derivative contracts are designated as future cash flows hedges, hedges of binding purchase contracts (cash flow hedges or fair value hedges) or as derivatives not meeting the hedge accounting criteria or to which hedge accounting is not applied (economic hedges). Hedging of the fair value of net investments of foreign units or embedded derivatives have not been used.

At the inception of hedge accounting, Finnair documents the economic relationship and the hedge ratio between the hedged item and the hedging instrument, as well as the company's risk management objectives and the strategy for the inception of hedging. At the inception of hedging, and at least at the time of each financial statement, Finnair documents and assesses the effectiveness of hedge relationships by examining the past and prospective capacity of the hedging instrument to offset changes in the fair value of the hedged item or changes in cash flows. The values of derivatives in a hedging relationship are presented in the balance sheet items current assets and current liabilities.

Finnair implements the IFRS hedge accounting principles in the hedging of future cash flows (cash flow hedging). The principles are applied to the foreign currency risk of foreign currency denominated purchases and sales, the price risk of jet fuel purchases and the price risk of electricity.

The change in the fair value of the effective portion of derivative instruments that fulfil the terms of cash flow hedging are directly recognised in the fair value reserve of other comprehensive income, to the extent that the requirements for the application of hedge accounting have been fulfilled. The gains and losses, recognised in fair value reserve, are transferred to the income statement in the period in which the hedged item is recognised in the income statement. When an instrument acquired for the hedging of cash flow matures or is sold, or when the criteria for hedge accounting are no longer fulfilled, the gain or loss accrued from hedging instruments remains in equity until the forecast transaction takes place. However, if the forecasted hedged transaction is no longer expected to occur, the gain or loss accrued in equity is immediately recognised in the income statement.

Financial assets and liabilities

Financial assets have been classified into the following categories: amortised cost and fair value through profit and loss. The classification is made at the time of the original acquisition based on the objective of the business model and the contractual cash flows of the investment. All purchases and sales of financial assets are recognised on the trade date. Liabilities are recognised at acquisition cost. Financial assets at fair value through profit and loss as well as assets and liabilities maturing within 12 months are included in current assets and liabilities. Investments in debt securities are measured at amortised cost, but only when the objective of the business model is to hold the asset to collect the contractual cash flows and the asset's contractual cash flows represent only payments of principal and interest. Financial assets recognised at amortised cost are valued using the effective interest method. Financial assets valued at amortised cost include trade receivables, deferred charges and security deposits for aircraft operating lease agreements. Due to the nature of short-term receivables and other receivables, their book value is expected to be equal to the fair value. Derecognition of financial assets takes place when Finnair has lost its contractual right to receive cash flows or when it has substantially transferred the risks and rewards outside the company.

Finnair recognises impairment provisions based on lifetime expected credit losses from trade receivables in accordance with IFRS 9. Finnair has chosen to apply a simplified credit loss matrix for trade receivables as trade receivables do not have a significant financing component. The expected credit loss model is forward-looking, and expected default rates are based on historical realised credit losses. The lifetime expected credit loss allowance is calculated using the gross carrying amount of outstanding trade receivables in each aging bucket and an expected default rate. The changes in expected credit losses are recognised in other expenses in the consolidated income statement. The impairment model does not apply to financial investments, such as bonds and money market funds, included in other financial assets as those are measured at fair value through profit and loss under IFRS 9, which already takes into account expected credit losses. With respect to the assets measured at amortised cost, Finnair is actively following such instruments and will recognise impairment through profit and loss if there is evidence of deterioration in credit quality.

Fixed assets and depreciation

Tangible and intangible assets are stated at historical cost less accumulated depreciation and impairment loss if applicable. Depreciations of buildings and other fixed assets is based on the following expected economic lifetimes:

- Computer software, over 3–8 years
- Office repairs, over 10 years
- Buildings, 10–50 years from the time of acquisition to a residual value of 10%
- Flight simulators, over 10–20 years
- Other tangible assets, over 3–15 years

Research and development costs

Except for major software development costs, research and development costs are expensed as they occur. Research and development of aircraft, systems and operations is conducted primarily by the manufacturers.

Leasing

Lease payments for aircraft are significant. Annual lease payments are treated as rental expenses. Lease payments due in future years under aircraft lease contracts are presented as off-balance sheet items.

Appropriations

The difference between total and planned depreciation is shown as accumulated appropriations in the balance sheet and the change during the financial year in the income statement. Appropriations contain also given and received group contributions.

Income taxes

Income taxes in the income statement include taxes calculated for the financial year based on Finnish tax provisions, adjustments to taxes in previous financial years and the change in deferred taxes.

Pension schemes

The mandatory pension cover of the company's domestic employees has primarily been arranged through a Finnish pension insurance company and other additional pension cover through the Finnair pension fund or a Finnish pension insurance company. Since 1992, the pension fund has no longer accepted employees other than pilots for additional pension coverage. The Finnair pension fund's pension obligation is fully covered with respect to additional coverage. Pension fund liabilities are presented in the notes to the financial statements.

Provisions

Provisions in the balance sheet and entered as expenses in the income statement comprise those items which the company is committed to covering through agreements or otherwise in the foreseeable future and which have no corresponding revenue and whose monetary value can be reasonably assessed.

The company is obliged to return leased aircraft at the required redelivery condition. To fulfil these maintenance obligations the company has recognised provisions based on flight hours flown during the maintenance period.

6.2 Revenue by business area

EUR mill.	2019	2018
Revenue by division		
	2,935.8	**2,677.8**
Passenger revenue	2,587.8	2,344.8
Ancillary services	131.0	121.1
Other	217.0	212.0
Distribution of turnover by market areas based on flight routes, % of turnover		
Finland	6%	7%
Europe	38%	38%
Other countries	55%	55%
Total	**100%**	**100%**

6.3 Other operating income

EUR mill.	2019	2018
Aircraft lease income	28.1	28.0
Other rental income	26.1	26.5
Other income	30.4	29.8
Total	**84.5**	**84.3**

6.4 Materials and services

EUR mill.	2019	2018
Materials and supplies		
Ground handling and catering expenses	323.6	308.3
Fuel costs	687.3	581.0
Aircraft materials and overhaul	288.3	254.7
IT expenses	19.7	16.5
Other items	113.1	104.3
Total	**1,431.9**	**1,264.8**

6.5 Staff costs

EUR mill.	2019	2018
Wages and salaries	286.6	253.5
Pension expenses	49.5	48.6
Other social expenses	14.7	18.5
Total	**350.7**	**320.6**
Salary and bonus expenses of Chief Executive Officer and Members of the Board of Directors		
Chief Executive Officer and his deputy	1.4	1.1
Board of Directors	0.4	0.5
Personnel on average	4,592	4,291

6.6 Planned depreciation and amortisation

EUR mill.	2019	2018
On other long-term expenditure	13.1	9.8
On buildings	1.2	1.0
On other equipment	0.7	0.7
Total	**15.1**	**11.4**

6.7 Other operating expenses

EUR mill.	2019	2018
Lease payments for aircraft	419.3	366.0
Other rents for aircraft capacity	129.6	117.5
Office and other rents	31.3	32.9
Traffic charges	331.3	300.8
Sales and marketing expenses	161.8	148.0
Other expenses	144.4	142.2
Total	**1,217.7**	**1,107.5**

6.8 Financial income and expenses

EUR mill.	2019	2018
Interest income		
From group companies	10.6	6.6
From other companies		
Net gains on debt instruments held mandatorily at FVPL	0.4	-3.6
Other interest income	0.5	0.5
Total	**11.5**	**3.5**
Gains on disposal of shares	1.1	0.2
Interest expenses		
To other companies	-23.7	-25.2
Total	**-23.7**	**-25.2**
Other financial expenses		
To other companies	0.9	
Total	**0.9**	
Other financial expenses		
To other companies	-0.7	-0.5
Total	**-0.7**	**-0.5**
Exchange gains and losses	-0.2	3.6
Financial income and expenses total	**-11.1**	**-18.4**

6.9 Appropriations

EUR mill.	2019	2018
Change in depreciation difference	-1.0	-1.9
Received group contribution	34.1	48.3
Total	**33.1**	**46.4**

6.10 Income taxes

EUR mill.	2019	2018
Income tax for the financial year	-4.9	-10.6
Change in deferred taxes		-6.3
Total	**-4.8**	**-16.9**

6.11 Intangible assets

EUR mill.	2019	2018
Other long-term expenditure		
Acquisition cost 1 January	66.2	52.9
Additions	21.6	18.0
Additions from merger	0,1	
Disposals	-10.2	-4.7
Acquisition cost 31 December	**77.8**	**66.2**
Accumulated depreciation 1 January	-34.0	-28.9
Disposals	8.8	4.7
Depreciation and reduction in value	-11.7	-9.8
Accumulated depreciation 31 December	**-37.0**	**-34.0**
Book value 31 December	**40.9**	**32.3**
Intangible assets Total 31 December	**40.9**	**32.3**

6.12 Tangible assets

Tangible assets 2019

EUR mill.	Land	Buildings	Other equipment	Advances paid	Total
Acquisition cost 1 January	0.7	54.7	9.1	6.0	70.6
Additions			3.2	3.0	6.2
Additions from merger			31.7	1.9	33.6
Disposals		-0.4	-0.3	-5.8	-6.5
Acquisition cost 31 December	**0.7**	**54.3**	**43.6**	**5.1**	**103.8**
Accumulated depreciation 1 January		-4.4	-4.4		-8.8
Disposals		0.2	0.3		0.6
Depreciation and reduction in value		-1.0	-0.7		-1.7
Depreciations from merger			-11.3		-11,3
Accumulated depreciation 31 December		**-5.2**	**-16.0**		**-21.3**
Book value 31 December	**0.7**	**49.1**	**27.6**	**5.1**	**82.5**
The share of machines and equipment in the book value of tangible assets 31 December			31.0%		

Tangible assets 2018

EUR mill.	Land	Buildings	Other equipment	Advances paid	Total
Acquisition cost 1 January	0.7	54.4	7.9	7.7	70.8
Additions		0.3	1.4	5.0	6.6
Disposals			-0.2	-6.7	-6.9
Acquisition cost 31 December	**0.7**	**54.7**	**9.1**	**6.0**	**70.6**
Accumulated depreciation 1 January		-3.4	-3.9		-7.4
Disposals			0.2		0.2
Depreciation and reduction in value		-1.0	-0.6		-1.6
Accumulated depreciation 31 December		**-4.4**	**-4.4**		**-8.8**
Book value 31 December	**0.7**	**50.3**	**4.7**	**6.0**	**61.7**
The share of machines and equipment in the book value of tangible assets 31 December			1.1%		

6.13 Investments

EUR mill.	2019	2018
Group companies		
Acquisition cost 1 January	447.3	447.6
Disposals from merger	-6.7	-0.3
Book value 31 December	**440.6**	**447.3**
Associates and joint ventures		
Acquisition cost 1 January	2.5	2.5
Book value 31 December	**2.5**	**2.5**
Shares in other companies		
Acquisition cost 1 January	0.4	0.4
Book value 31 December	**0.4**	**0.4**

Associates and joint ventures	Share of parent company %
Suomen Ilmailuopisto Oy, Finland	49.50
Nordic Regional Airlines AB, Sweden	40.00

Group companies	Share of parent company %		Share of parent company %
Finnair Cargo Oy, Finland	100.00	Finnair Kitchen Oy, Finland	100.00
Finnair Aircraft Finance Oy, Finland	100.00	Kiinteistö Oy Lentokonehuolto, Finland	100.00
Northport Oy, Finland	100.00	Amadeus Finland Oy, Finland	95.00
Finnair Technical Services Oy, Finland	100.00	Oy Aurinkomatkat - Suntours Ltd Ab, Finland	100.00
Finnair Engine Services Oy, Finland	100.00	FTS Financial Services Oy, Finland	100.00
Finnair Travel Retail Oy, Finland	100.00	Finnair Business Services OÜ, Estonia	100.00

Finnair Flight Academy Oy, Finland was merged to Finnair Plc on 31 December 2019.

6.14 Non-current loan and other receivables

EUR mill.	2019	2018
From group companies		16.7
From other companies	1.5	1.5
Total	**1.5**	**18.2**

6.15 Deferred tax assets

EUR mill.	2019	2018
Change in accounting principles		2.3
Deferred tax assets 1 January	17.3	
From result for the financial year	-1.9	-6.2
From temporary differences	0.2	-0.4
From valuation of derivates at fair value	-15.7	25.6
Offset against deferred tax liabilities	0.1	-4.0
Deferred tax assets 31 December	**0.0**	**17.3**

6.16 Current receivables

EUR mill.	2019	2018
Short-term receivables from group companies		
Trade receivables	21.6	19.1
Received Group contribution	34.1	48.3
Accrued income and prepaid expenses	5.3	0.7
Other receivables	605.4	351.1
Total	**666.4**	**419.3**
Short-term receivables from associates and joint ventures		
Trade receivables		0.1
Prepaid expenses	9.9	9.1
Total	**10.0**	**9.2**
Short-term receivables from others		
Trade receivables	102.5	109.5
Prepaid expenses	58.3	84.4
Derivative financial instruments	33.9	27.0
Other receivables	16.6	15.2
Total	**211.3**	**236.1**
Short-term receivables total	**887.6**	**664.6**

6.17 Investments

EUR mill.	2019	2018
Short-term investments at fair value	800.8	892.2

6.18 Cash and bank equivalents

EUR mill.	2019	2018
Funds in group bank accounts and deposits maturing in three months	149.7	178.5

6.19 Equity

EUR mill.	Share capital	Share premium account	Legal reserve	Hedging reserve	Un-restricted equity funds	Retained earnings	Equity total
Equity 1 Jan 2019	75.4	24.7	147.7	-59.6	256.5	188.8	633.6
Change in fair value of equity instruments				62.9			62.9
Share-based payments					2.2		2.2
Purchase of own shares						-0.5	-0.5
Dividend						-34.9	-34.9
Result for the financial year						22.1	22.1
Equity 31 Dec 2019	75.4	24.7	147.7	3.3	258.7	175.5	685.3

EUR mill.	Share capital	Share premium account	Legal reserve	Hedging reserve	Un-restricted equity funds	Retained earnings	Equity total
Equity 31 Dec 2017	75.4	24.7	147.7	42.8	253.7	170.3	714.7
Change in accounting principles						-8.3	-8,3
Equity 1 Jan 2018	75.4	24.7	147.7	42.8	253.7	162.0	706.4
Change in fair value of equity instruments				-102.4			-102.4
Share-based payments					2.8		2.8
Purchase of own shares						-3.7	-3.7
Dividend						-38.4	-38.4
Result for the financial year						69.7	69.7
Change in accounting principles						-0.8	-0.8
Equity 31 Dec 2018	75.4	24.7	147.7	-59.6	256.5	188.8	633.6

Distributable equity

EUR mill.	2019	2018
Hedging reserve		-59.6
Unrestricted equity funds	258.7	256.5
Retained earnings	153.4	119.9
Profit/loss for the financial year	22.1	68.9
Total	**434.2**	**385.7**

6.20 Accumulated appropriations

EUR mill.	2019	2018
Accumulated depreciation difference 1 January	22.4	20.5
Change in depreciation difference	3.6	1.9
Accumulated depreciation difference 31 December	**26.0**	**22.4**
Accumulated appropriations total	**26.0**	**22.4**

6.21 Provisions

EUR mill.	2019	2018
Provisions 1 January	121.0	106.3
Provision for the period	78.1	52.7
Provision used	-43.5	-42.9
Exhange rate differences	1.4	4.9
Provisions 31 December	**157.0**	**121.0**
Of which long-term	140.1	90.3
Of which short-term	16.9	30.7
Total	**157.0**	**121.0**

Long-term aircraft maintenance provisions are expected to be used by 2031.

6.22 Non-current liabilities

EUR mill.	2019	2018
Bonds	200.0	200.0
Hybrid loan	200.0	200.0
Deferred tax liability total	0.1	
Other liabilities	1.7	0.9
Total	**401.8**	**400.9**
Maturity of interest-bearing liabilies		
1–5 years	200.0	200.0
after 5 years	200.0	200.0
Total	**400.0**	**400.0**

6.23 Current liabilities

EUR mill.	2019	2018
Current liabilities to group companies		
Trade payables	46.3	47.5
Accruals and deferred income	17.5	23.7
Group bank account liabilities	162.1	122.7
Total	**225.9**	**194.0**
Current liabilities to associates and joint ventures		
Trade payables	0.1	
Advance payments received		2.1
Total	**0.1**	**2.1**
Current liabilities to others		
Advance payments received		0.1
Trade payables	74.5	60.7
Accruals and deferred income	824.2	861.6
Other liabilities	11.5	18.7
Total	**910.2**	**941.0**
Current liabilities total	**1,136.2**	**1,137.1**

Accruals and deferred income	2019	2018
Unflown air transport revenues	450.7	444.4
Jet fuels and traffic charges	96.9	89.5
Holiday payment liability	64.1	61.0
Loyalty program Finnair Plus	43.9	45.8
Derivative financial instruments	29.1	100.5
Other items	157.1	146.3
Total	**841.7**	**887.4**

6.24 Collateral, contingent liabilities and other commitments

EUR mill.	2019	2018
Guarantees and contingent liabilities		
On behalf of group companies	79.6	82.0
On others companies		0.6
Total	**79.6**	**82.6**
Aircraft lease payments		
Within one year	377.0	338.8
After one year and not later than 5 years	1,285.7	1,207.6
Later than 5 years	543.9	657.7
Total	**2,206.5**	**2,204.1**

Parent company has leased the aircraft fleet from the fully owned subsidiary.

EUR mill.	2019	2018
Other lease payments		
Within one year	30.2	29.3
After one year and not later than 5 years	91.5	91.4
Later than 5 years	130.9	140.6
Total	**252.6**	**261.3**
Pension obligations		
Total obligation of pension fund	350.0	339.8
Non-mandatory benefit covered	-350.0	-339.8
Total	**0.0**	**0.0**

6.25 Derivates

	2019				2018			
EUR mill.	Nominal value	Positive fair values	Negative fair values	Fair net value	Nominal value	Positive fair values	Negative fair values	Fair net value
Currency derivatives								
Operational cash flow hedging (forward contracts)	924.4	23.6	-5.9	17.6	700.1	17.0	-6.9	10.1
Operational cash flow hedging, bought options		3.3		3.3		5.6		5.6
Operational cash flow hedging, sold options			-1.0	-1.0			-2.8	-2.8
Hedge accounting items total		**26.8**	**-6.9**	**19.9**	**700.1**	**22.6**	**-9.7**	**12.8**
Currency derivatives total	**924.4**	**26.8**	**-6.9**	**19.9**	**700.1**	**22.6**	**-9.7**	**12.8**
Commodity derivatives								
Jet fuel forward contracts, tonnes	898,000	6.2	-21.5	-15.3	924,500	3.8	-78.1	-74.3
Bought options, jet fuel, tonnes	57,000	0.7		0.7	169,500	0.7		0.7
Sold options, jet fuel, tonnes	57,000		-0.5	-0.5	169,500		-11.6	-11.6
Hedge accounting items total		**6.9**	**-22.0**	**-15.1**		**4.5**	**-89.7**	**-85.2**
Sold options, jet fuel, tonnes			-0.1	-0.1	146,500		-1.1	-1.1
Items outside hedge accounting total							**-1.1**	**-1.1**
Commodity derivatives total		**6.9**	**-22.1**	**-15.2**		**4.5**	**-90.8**	**-86.4**
Derivatives total*		**33.9**	**-29.1**	**4.8**		**27.0**	**-100.5**	**-73.5**

* Positive (negative) fair value of hedging instruments on 31 Dec 2019 is presented in the statement of financial position in the item derivative assets within current assets (derivative liabilities within current liabilities).

6.26 Financial assets and liabilities measured at fair value

Fair value hierarchy of financial assets and liabilities valued at fair value
Fair values at the end of the reporting period

EUR mill.	31 Dec 2019	Level 1	Level 2
Financial assets at fair value through profit and loss			
Securities held for trading	800.8	762.3	38.5
Derivatives held for trading			
Currency derivatives	27.0		27.0
- of which in cash flow hedge accounting	26.8		26.8
Commodity derivatives	6.9		6.9
- of which in cash flow hedge accounting	6.9		6.9
Total	**834.6**	**762.3**	**72.4**
Financial liabilities recognised at fair value through profit and loss			
Derivatives held for trading			
Currency derivatives	7.0		
- of which in cash flow hedge accounting	6.9		
Commodity derivatives	22.1		
- of which in cash flow hedge accounting	22.0		
Total	**29.1**		

6.27 Fuel price risk in flight operations

Timing of the notional and hedged price

			Maturity	
31 Dec 2019	Hedged price $/tonne	Notional amount (tonnes)	Under 1 year	1 to 2 years
Jet fuel consumption priced with NWE index	655.2	992,382	761,382	231,000
Jet fuel consumption priced with SING index	682.6	61,618	61,618	

Foreign exchange risk

			Maturity	
Timing of the notional EUR mill. 31 Dec 2019	Average exchange rate of hedging instruments against the euro	Notional amount (gross)	Less than 1 year	1 to 2 years
USD	1.17	921.3	685.4	235.9
JPY	125.2	378.1	271.3	106.8

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

Finnair Plc's distributable equity on 31 December 2019 amounts to 434,179,503.56 euros, of which the net result for the financial year 2019 is 22,141,346.13 euros. There have been no material changes in the company's financial position since the end of the financial year.

The Board of Directors proposes to the Annual General Meeting that a dividend of 0.20 euros per share be paid based on the balance sheet to be adopted for the financial year, which ended on 31 December 2019, and the remaining portion of the result be retained in the equity. Based on the number of outstanding shares as of 6 February 2020, the total amount of dividend proposed to be paid is 25,516,760.40 euros.

Signing of the Report of the Board of Directors and the Financial Statements

Helsinki, 6 February 2020
The Board of Directors of Finnair Plc

Jouko Karvinen

Tiina Alahuhta-Kasko

Colm Barrington

Montie Brewer

Mengmeng Du

Jukka Erlund

Henrik Kjellberg

Jaana Tuominen

Topi Manner
President and CEO of Finnair Plc

AUDITOR'S REPORT

(Translation of the Finnish Original)

To the Annual General Meeting of Finnair Oyj

Report on the Audit of the Financial Statements

Opinion

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report to the Audit Committee.

What we have audited

We have audited the financial statements of Finnair Oyj (business identity code 0108023-3) for the year ended 31 December 2019. The financial statements comprise:

- the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and notes to the consolidated financial statements, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

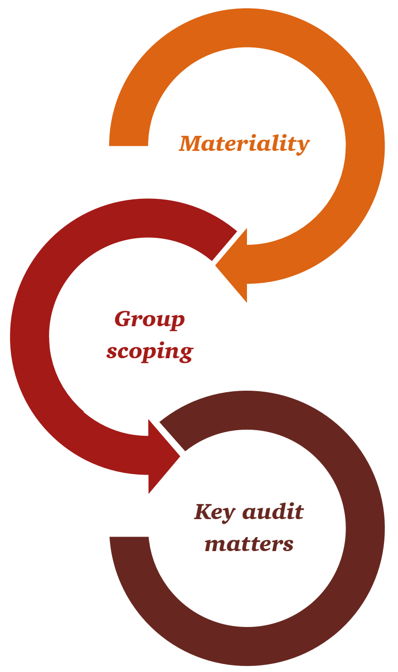
Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 1.3.3 to the Financial Statements.

Our Audit Approach

Overview



- Overall group materiality: € 15 million (€ 14 million) which represents approximately 0.5% of Group's revenues

- Audit scope: We have audited parent company and three the most significant subsidiaries. In addition, we have performed group level procedures over specific consolidated accounts and analytical procedures to assess unusual movements across all entities.

- First-time implementation of IFRS 16
- Deferred revenue on ticket sales
- Aircraft maintenance provision
- Defined employee benefit plans

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	€ 15 million (previous year € 14 million)
How we determined it	0.5 % of revenues
Rationale for the materiality benchmark applied	The group's profitability has been volatile over the last few years and has been significantly impacted by items affecting comparability. Therefore, we chose revenues as the benchmark as we considered that this provides us with a consistent year-on-year basis for determining materiality, reflecting the group's growth and investment plans, and which we believe is also the benchmark against which the performance of the Group is commonly measured by users, and is a generally accepted benchmark. We chose 0.5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Group operates domestically through several legal entities. In addition, Group has few small legal entities outside Finland. Group's sales is mainly generated by parent company and we have audited the parent company as part of our audit of consolidated financial statements. In addition, we have audited three the most significant subsidiaries. We have considered that the remaining subsidiaries don't present a reasonable risk of material misstatement for consolidated financial statements and thus our procedures have been limited to analytical procedures performed at Group level.

By performing the procedures above at legal entities, combined with additional procedures at the Group level, we have obtained sufficient and appropriate evidence regarding the financial information of the Group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
First-time implementation of IFRS 16	
Refer to note 2.2 to the consolidated financial statements for the related disclosures. The company implemented IFRS 16 Leases in 2019 by applying the full retrospective approach. The implementation had significant impacts on the group's financial statements and comparison periods. In accordance with IFRS 16 the present values of the future lease payments for aircraft, real estate and other qualifying lease arrangements are recognized as right-of-use assets with corresponding lease liabilities on the balance sheet. Rent expenses in consolidated income statement were replaced by depreciations from right-of-use assets and financial expenses from lease liabilities. Previously the operating lease payments due in future were presented in the notes of the financial statements as lease commitments at their nominal value. The right-of-use assets amounted € 877,5 million and the corresponding lease liabilities totalled € 1.054,0 million as of 31 December 2019. The standard requires management discretion and estimates in e.g. determining the interest rate and lease term used in discounting the lease payments. Due to magnitude of the balance and related estimates we consider this as a key audit matter in the audit of the Group.	We have evaluated the design and tested the operating effectiveness of certain controls over lease accounting. We have tested a sample of lease contracts recognized as right-of-use assets and liabilities in the comparison period and balance sheet date. We have performed substantive testing to ensure the completeness of lease arrangements included in the lease accounting We have tested the mathematical accuracy of lease calculations. We have assessed the appropriateness of the assumptions used, such as discount rate and extension options, in lease accounting. We also assessed the appropriateness of the disclosures in note 2.2 to the consolidated financial statements.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Deferred revenue on ticket sales	
Refer to note 1.2.4 to the consolidated financial statements for the related disclosures. Airline tickets are typically sold in advance when payments received are recognized as deferred revenue. The deferred revenue related to unflown tickets amounted € 451,2 million as of 31 December 2019. Airline ticket sales are recognised as revenue when the flight is flown. Part of the tickets expire without usage. For these tickets revenue is recognized based on the expected breakage amount as revenue in proportion to the pattern of rights exercised by the passenger, using historical trend information. Due to magnitude of the balance and related manual adjustment we consider this as a key audit matter in the audit of the Group.	We evaluated the design and tested the operating effectiveness of certain controls over revenue recognition. We have tested a sample of tickets recognized as revenues. We have tested a sample of unused tickets in the deferred revenue. We have tested the mathematical accuracy and input data of the calculation used to recognize revenues from the breakage model. We have performed computer assisted audit procedures to deferred revenue related to unflown tickets.
Aircraft maintenance provision	
Refer to note 1.3.6 to the consolidated financial statements for the related disclosures. The Group operates aircrafts which are owned or held under lease arrangements. The Group is obligated to return leased aircraft at the required redelivery condition agreed with the lessor. To fulfil these maintenance obligations the Group has recognized e.g. airframe heavy maintenance, engine performance maintenance and engine life limited part provisions which amounted € 166,3 million as of 31 December 2019. Liabilities for maintenance costs are incurred during the term of the lease in respect of leased aircrafts. These arise from legal and contractual obligations relating to the condition of the aircraft when it is returned to the lessor. At each balance sheet date, the maintenance provision is calculated using a model that incorporates a number of variable factors and assumptions including: likely utilisation of the aircraft; the expected cost of the heavy maintenance check at the time it is expected to occur; and the expected occurrence of the heavy maintenance check. We focused on this area because of an inherent level of management judgement required in calculating the amount of provision needed as a result of the complex and subjective elements around these variable factors and assumptions.	We evaluated the maintenance provision model and tested the calculations therein. This included assessing the process by which the variable factors within the provision were estimated, evaluating the reasonableness of the assumptions, testing the input data and testing mathematical accuracy of the calculations. In particular, we challenged the key assumptions that were based on the Group's internal data, such as expected timing and cost of maintenance checks and maintenance contract terms. We also evaluated the provision and the key assumptions in the light of actual utilisation in the year.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Defined employee benefit plans	
Refer to note 1.3.8.2 to the consolidated financial statements for the related disclosures. The group has defined employee benefit plans where amount of pension benefit that an employee will receive on retirement is defined and that is usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of defined pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The net defined benefit liability amounted to € 77,1 million as of 31 December 2019. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Calculation of the defined benefit obligation requires use of actuarial assumptions such as life expectancy, inflation and future salary increases. The present value of the defined benefit obligations is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. The plan assets are valued at fair value as of 31 December 2019 and valuation involve use of judgment in particular relating to unlisted investments. We considered valuation of the defined benefit obligation and plan assets as a key audit matter in the audit of the Group due to materiality of the related balances and judgments involved in these estimates.	We have used auditors expert to review the actuarial statement prepared by independent actuaries. This has included assessment of the appropriateness of the actuarial assumptions used in calculating the defined benefit obligation. We have tested valuation of the plan assets related to defined employee benefit plans by testing a sample of listed equity holdings against prevailing market prices at the year end. Related to unlisted investments we have created independent expectation based on the nature of the investment, historical purchase price or prior year audited valuation and publicly available information on similar investments and compared that to the management valuation.
We have no key audit matters to report with respect to our audit of the parent company financial statements.	
There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the consolidated financial statements or the parent company financial statements.	

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Appointment

PricewaterhouseCoopers Oy was first appointed as auditor of Finnair Oyj by the annual general meeting on 14 August 1964 and our appointment represents a total period of uninterrupted engagement of 55 years. Back then Authorised Public Accountant, employed by PricewaterhouseCoopers Oy, was appointed.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Statements

We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director of the parent company should be discharged from liability for the financial period audited by us.

Helsinki 6 February 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Markku Katajisto
Authorised Public Accountant (KHT)