# *Financial Report*

'08

Group Report 2008
www.finnair.com/group

# *Financial Report*

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# *Finnair Group Key figures*

| FINNAIR GROUP KEY FIGURES | | | | |
|---|---|---|---|---|
| | | 2008 | 2007 | 2006 |
| Turnover | EUR mill. | 2,263 | 2,181 | 1,990 |
| Operating profit (adjusted), EBIT [1)] | EUR mill. | 7 | 97 | 11 |
| Operating profit (adjusted), EBIT [1)] % of turnover | % | 0.3 | 4.4 | 0.6 |
| Operating profit, EBIT | EUR mill. | -52 | 142 | -11 |
| Result before taxes | EUR mill. | -56 | 139 | -15 |
| Unit revenues on flight operations | c/RTK | 70.1 | 72.6 | 74.0 |
| Unit costs on flight operations | c/ATK | 43.5 | 43.5 | 46.0 |
| Earning per share | EUR | -0.33 | 1.04 | -0.14 |
| Equity per share | EUR | 6.04 | 7.70 | 6.14 |
| Gross investment | EUR mill. | 233 | 326 | 252 |
| Interest-bearing net debt | EUR mill. | -90 | -222 | 43 |
| Equity ratio | % | 38.1 | 47.1 | 37.2 |
| Gearing | % | -11.6 | -22.5 | 7.1 |
| Adjusted gearing | % | 63.2 | 35.1 | 112.8 |
| Return on capital employed (ROCE) | % | -2.5 | 14.2 | -0.1 |
| Average number of employees | | 9,595 | 9,480 | 9,598 |

[1)] Excluding capital gains, non recurring items and change in fait value of derivatives.

| FINNAIR GROUP FLEET 31 DECEMBER 2008 | Seats | Number | Owned | Leased | Average age |
|---|---|---|---|---|---|
| Airbus A319 | 105–123 | 11 | 7 | 4 | 7.2 |
| Airbus A320 | 111–159 | 12 | 6 | 6 | 6.4 |
| Airbus A321 | 136–196 | 6 | 4 | 2 | 7.9 |
| Airbus A340 | 269 | 5 | 5 | 0 | 3.6 |
| Boeing MD-11 | 282 | 6 | 1 | 5 | 14.2 |
| Boeing B757 | 227 | 7 | 0 | 7 | 9.6 |
| Embraer 170 | 76 | 10 | 6 | 4 | 2.7 |
| Embraer 190 | 100 | 8 | 4 | 4 | 1.4 |
| **Total** | | **65** | **33** | **32** | **6.4** |

| FINNAIR TRAFFIC PERFORMANCE 2004–2008 | | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|
| Flight hours | | 232,389 | 228,487 | 211,813 | 202,070 | 196,795 |
| Flight kilometres | 1,000 | 155,300 | 147,094 | 133,890 | 125,410 | 121,027 |
| Available seat kilometres | mill. | 29,101 | 26,878 | 23,846 | 23,038 | 21,907 |
| Revenue passenger kilometres | mill. | 21,896 | 20,304 | 17,923 | 16,735 | 15,604 |
| Passenger load factor | % | 75.2 | 75.5 | 75.2 | 72.6 | 71.2 |
| Available tonne kilometres | mill. | 4,485 | 4,074 | 3,602 | 3,400 | 3,162 |
| Revenue tonne kilometres | mill. | 2,545 | 2,365 | 2,100 | 1,940 | 1,791 |
| Overall load factor | % | 56.7 | 58.0 | 58.3 | 57.0 | 56.6 |
| Passengers | 1,000 | 8,270 | 8,653 | 8,792 | 8,517 | 8,149 |
| Cargo and mail | 1,000 kg | 102,144 | 98,684 | 93,807 | 90,242 | 86,245 |

# Board of Directors' Report for the Financial year 1 January–31 December 2008

## *Market and General Review*

In 2008 Finnair's profitability clearly fell from the previous year, despite strong volume growth. The operational result remained weak. The key reasons were record prices for fuel during the year and a sharp decline in average yield per passenger kilometre at the end of the year.

Attempts to increase prices during the spring had a strongly adverse effect on the passenger load factors of Finnair's scheduled flights. A reduction of business travel and a shift to cheaper price classes rapidly undermined the average yield from flight tickets. It was not possible to adjust the cost structure to a corresponding degree. The generally strong second and third quarters suffered from these factors. Declining profitability development continued in the final quarter and sent the operational result clearly into the red.

In 2008 air transport followed the general economic trend, if in a slightly more pronounced way. The early part of the year was a time of strong growth, but development of demand weakened both quantitatively and structurally towards the end of the year.

A study for the full year revealed that revenue passenger kilometres of European airlines (AEA) grew by little more than one per cent from the previous year. Capacity growth was around three per cent. The change from early-year growth figures to late-year declines in traffic volume and capacity was very marked.

Last year Finnair traffic grew clearly more strongly than the European average due to the company's investment in Asia. Finnair's passenger load factor remained, at the previous year's level, however, despite capacity additions.

In 2008 Finnair carried more than 1.3 million passengers in Asian traffic. Asian traffic growth was more than 16 per cent from the previous year. Scheduled passenger traffic overall grew by more than six per cent, and leisure flights by more than 12 per cent. In terms of traffic volumes, Finnair remains a growth company.

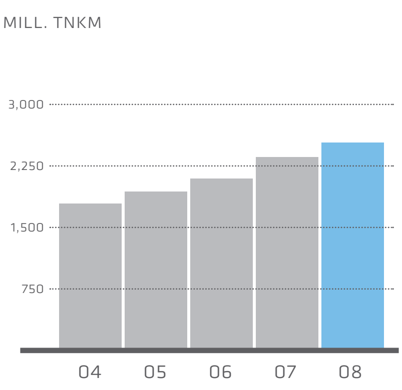
Scheduled passenger traffic capacity has already been cut from original plans by nearly ten per cent. The 2009 passenger kilometre capacity will be at least three per cent below the 2008 level. If the present trend in demand continues, capacity cuts will continue.

In leisure traffic, 2008 was a peak year in the business cycle. Due to good demand, Leisure Flights' capacity was increased by 10 per cent. For winter season 2008/09, a wide-bodied aircraft plus crew was leased from Spain for direct, non-stop flights to Phuket, Thailand. As Aurinkomatkat-Suntours managed to sell its own production almost completely at brochure prices without last-minute reductions, the business area's result rose to the best in its history, despite oil prices rising to record levels. Aurinkomatkat's own package tour production, sales and marketing began in Russia.

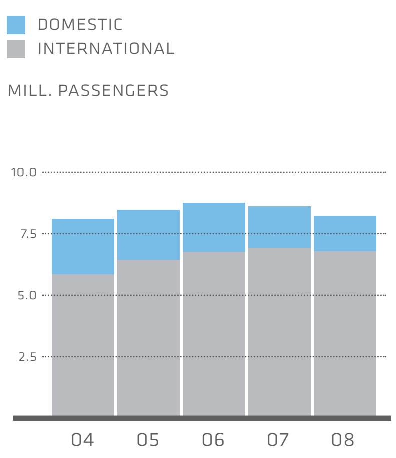
The price of fuel, which remained at a record high until the autumn, increased Finnair's fuel costs by nearly 26 per cent, despite an effective hedging policy. Lower jet fuel prices, which have fallen from their peak, will reduce fuel costs with delayed effect.

Air cargo traffic on Finnair's Asian flights grew along with increased capacity until September of last year, at which time the worldwide decline in cargo demand that had begun in the spring was also reflected in Finnair's cargo demand in the final quarter. The air cargo market fell by around 20 per cent in

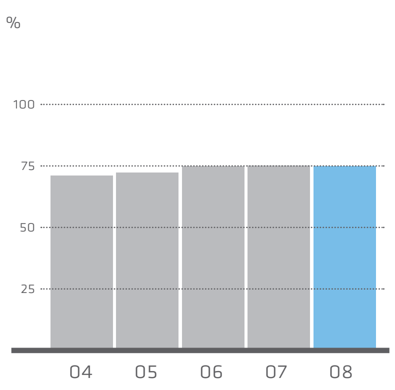
### *Revenue tonne kilometers*




### *Number of passengers*




### *Passenger load factor*



the latter part of the year.

The 50 million euro efficiency programme initiated in Finnair Group in May last year has proceeded according to plan. As part of the programme, statutory employer-employee negotiations under the Act on Co-Determination within Undertakings were completed during the second half of the year. The outcome of the negotiations was that around 120 people were made redundant from Finnair Group and more than 3,000 employees will be laid off during this year, mainly for 2–3 weeks. Weakening profitability and capacity cuts require the initiation of a new programme of corresponding magnitude as soon as possible.

Finnair's fleet modernisation is proceeding according to plan. Last year the company acquired two new long-haul traffic Airbus A340 aircraft. This year, the Finnair fleet will receive five new Airbus A330 wide-bodied aircraft, which will replace the Boeing MD-11 aircraft over the next year or so. At the beginning of next year, Finnair will have one of the most modern fleets in the world.

To finance the fleet investment programme, a 248 million euro share issue directed at existing shareholders was arranged in December 2007. In addition, Finnair has secured credit facilities totalling 300 million euros.

## *Financial Result, 1 January–31 December 2008*

The comparison figures for 2007 include the financial and performance figures of FlyNordic, sold in July 2007, in terms of the first six months of the year.

Turnover in 2008 rose 3.8 per cent to 2,262.6 million euros (2,180.5 million). Comparable turnover growth, excluding FlyNordic, was 5.7 per cent. The Group's operational result, i.e. EBIT excluding non-recurring items, capital gains and changes in the fair value of derivatives fell by around 90 million euros to 6.6 million euros (96.6 million). Adjusted operating profit margin was 0.3 per cent (4.4). The result before taxes was a loss of 56.4 million euros (138.9 million profit). Changes in the fair value of derivatives had a 57.4 million euro weakening effect on the result reported for financial year 2008. Net cash flow from operations fell last year from 301.8 million to 120.2 million euros. Earnings per share for the full year were –0.33 euros (1.04).

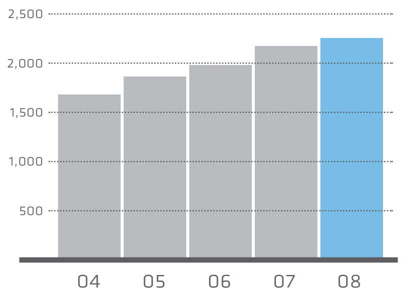
In 2008, Finnair carried a total of 8.3 million passengers in scheduled passenger and leisure traffic. Passenger traffic capacity grew 8.3 per cent and revenue passenger kilometres by 7.8 per cent; in Asian traffic alone demand grew by 16.5 per cent. The passenger load factor for traffic overall declined from the previous year by 0.3 percentage points to 75.2 per cent. The amount of cargo carried grew from the previous year by 3.5 per cent.

In Group passenger traffic, total unit revenues per passenger kilometre fell by 4.6 per cent. Yield per passenger rose by 7.7 per cent. Unit revenues per tonne kilometre for cargo traffic rose by 5.4 per cent. Weighted unit revenues per tonne kilometre for passenger and cargo traffic fell by 3.5 per cent.

Euro-denominated operating expenses, excluding non-recurring items, capital gains and changes in the fair value of derivatives rose last year by 9.3 per cent. Unit costs per available tonne kilometre for flight operations remained at last year's level. Fuel costs rose last year by 25.7 per cent. Unit costs, excluding fuel costs, fell by 4.8 per cent. In

### *Turnover*

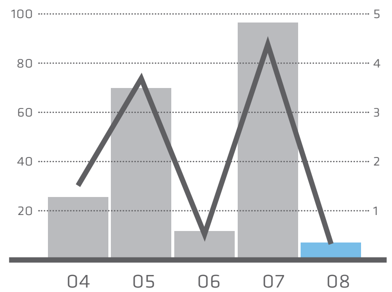
EUR MILL.




### *EBIT**

* EXCLUDING CAPITAL GAINS, CHANGES IN FAIR VALUE OF DERIVATIVES AND NON RECURRING ITEMS

EUR MILL. % OF TURNOVER

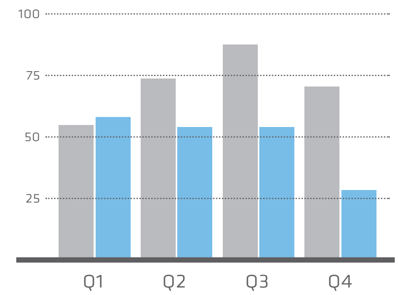



### *EBITDAR**

* EXCLUDING CAPITAL GAINS, CHANGES IN FAIR VALUE OF DERIVATES AND NON RECURRING ITEMS

2007
2008

EUR MILL.



the comparison, fuel costs also take into account realised hedging gains and losses outside the scope of hedge accounting, which have been recognised in the income statement item 'Other expenses'.

Fleet material and service expenses rose last year by 25.3 per cent. The main reasons for the growth in costs are increased material, tool, engine and component acquisitions resulting for the expansion of Finnair's fleet. Costs have also been increased by the ending of the guarantee periods of some aircraft and a general rise in material and subcontracting prices as well as by service provisions and write-downs of inventories.

A 15.2 per cent rise in package tour production expenses was mainly due to the integration into Aurinkomatkat-Suntours of the St. Petersburg Calypso travel agency and the Estonian Horizon tour operator, acquired in 2007. Volume growth has also increased costs.

Personnel expenses as a whole remained almost at the previous year's level. Salary costs have increased, however, by an average of around five per cent per employee. On the other hand, personnel expenses have not been increased this year to the same degree by profit and incentive bonuses, which in 2007 amounted to around 30 million euros, and last year by more than 11 million euros based mainly on quality and punctuality indicators.

## *Investment, Financing and Risk Management*

Investments in 2008 were 232.8 million euros (326.3 million). The investments included two Airbus A340 wide-bodied aircraft and two Embraer 190 aircraft. Including advance payments, the cash-flow impact of fleet and auxiliary investments was around 160 million euros last year. The cash-flow impact of the new aircraft acquisition programme and auxiliary investments in 2009 will be around 400 million euros and in 2010 more than 300 million euros. The final investment sum will depend on how many of the aircraft are acquired on operational leasing agreements.

Finnair is negotiating operational leasing agreements with various parties in respect of aircraft sale and leaseback arrangements for aircraft to be delivered during 2009.

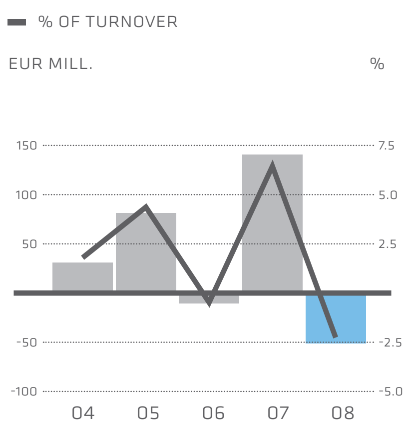
Balance sheet cash and cash equivalents totalled 392.1 million euros (540.1 million) at the end of the year. The company's cash position has been kept strong because of the investments that lie ahead. In addition to the share issue held at the end of 2007, the company's financial position has been reinforced through credit arrangements.

Agreed, but to date unused credit facilities, total around 300 million euros, including a 60 million dollar credit facility obtained in October from the Nordic Investment Bank (NIB). In addition to this, Finnair has a 250 million euros credit facility from the European Investment Bank and a more than 400 million euro option on the loan-back of employment pension fund reserves from llmarinen Mutual Pension Insurance Company, which both require bank guarantees. Flexibility in financing will also be achieved through a 100 million euro commercial paper programme.

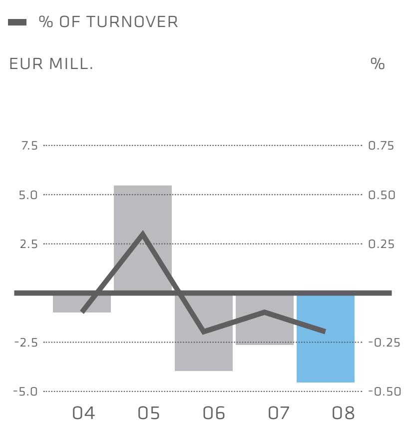
Gearing at year end was –11.6 per cent (–22.5), i.e. the company was debt-free. Gearing adjusted for leasing liabilities was 63.2 per cent (35.1). The equity ratio was 38.1% (47.1).

According to the financial risk management policy approved by Finnair's Board of Directors, the company has hedged 75 per cent of scheduled traffic's jet fuel purchases

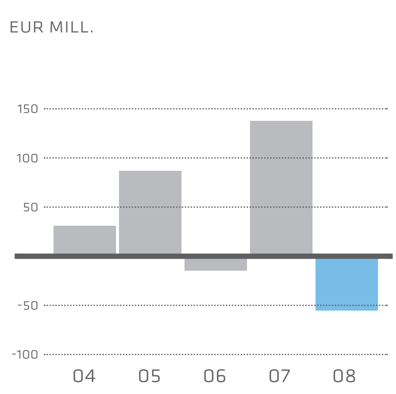
### *Operating profit, EBIT*




### *Financial income and expences*




### *Result before taxes*



during the next six months and thereafter for the following 24 months with a decreasing level of hedging. Finnair Leisure Flights price hedges fuel consumption according to its agreed traffic programme within the framework of the hedging policy. Derivatives linked to jet fuel and gasoil prices are mainly used as the fuel price hedging instruments.

Under IFRS rules, a change during a financial quarter in the fair value of derivatives that mature in future is recognised in the Finnair income statement item "Other expenses". The said change in the fair value of derivatives is not realised nor does it have an effect on cash flow; it is a valuation loss in accordance with IFRS reporting practice. In October-December, the change in the fair value of derivatives was -43.8 million euros, whereas in January-December it was -57.4 million euros.

The operational result for January-December includes realised gains on derivatives of 62.8 million euros, which appear mainly in the fuel item of the income statement and partly in the item "Other expenses". The figure includes both foreign exchange and fuel derivatives.

Shareholders' equity includes, as a variable item, the hedging reserve, whose value is directly affected by oil price and foreign exchange rate changes. The impact of the item on the closing date was -110.5 million euros, which includes foreign exchange and fuel derivatives as well as, to lesser degree, other financial items less deferred taxes. In June 2008 the corresponding impact was around 110 million euros, which indicates the strong impact of fuel price volatility on the valuation of hedging items in shareholders' equity.

A weakening of the US dollar against the euro had a positive impact on Finnair's operational result for the whole of 2008 compared to the previous year. Taking foreign exchange hedging into account, the impact is 37 million euros. At the end of December, the degree of hedging for a dollar basket over the following 12 months was 75 per cent.

## *Board of Directors and Senior Management*

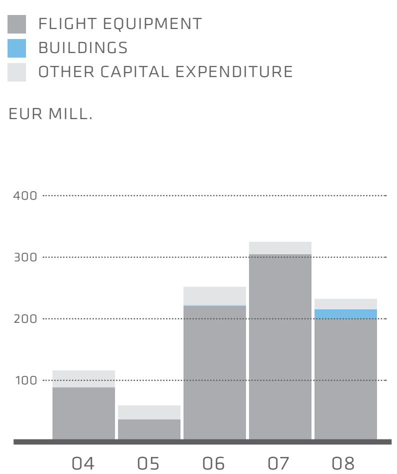
At the Annual General Meeting held on 27 March 2008, the following former members were elected as members of Finnair Plc's Board of Directors for a term lasting until the end of the next Annual General Meeting: Christoffer Taxell (Chairman), Sigurdur Helgason, Satu Huber, Markku Hyvärinen, Kari Jordan, Ursula Ranin and Veli Sundbäck. In addition, a new member, Pekka Timonen, was elected.

The Annual General Meeting elected as the company's regular auditors Jyri Heikkinen, Authorised Public Accountant, and PricewaterhouseCoopers Oy, Authorised Public Accountants, in which APA Eero Suomela will serve as the auditor with main responsibility. Tuomas Honkamäki APA and Timo Takalo APA were elected deputy auditors.

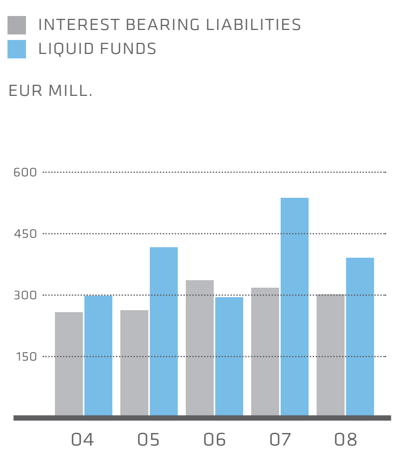
Henrik Arle, Finnair's EVP Scheduled Passenger Traffic and Deputy CEO, retired on 31 December 2008. In the same context, changes were made in the Finnair Group organisation and management responsibilities.

The Finnair Group's Chief Financial Officer Lasse Heinonen was appointed Executive Vice President and Finnair's Deputy CEO as of 13 January 2009. Heinonen continues as the Group's CFO. In addition to Economics and Finance units, in the new management structure, the business units of Aviation Services report to EVP Heinonen: Northport Oy (ground handling), Finnair Catering Oy, Finnair Technical Services and Finnair Fa-

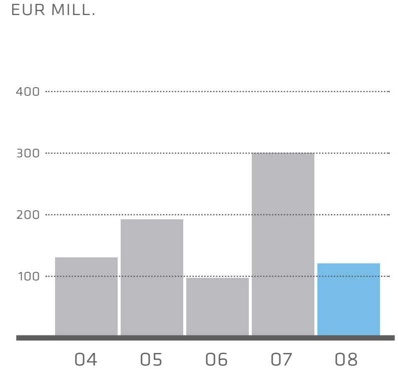
### *Capital expenditure (gross)*




### *Interest bearing liabilities and liquid funds*




### *Cash flow from operating activities*



cilities Management Oy (property management). Heinonen is also in charge of Finnair Cargo Oy and Finnair Cargo Terminal Operations Oy and Finnair Aircraft Finance Oy (fleet management).

As of 1 January 2009, Finnair's President & CEO Jukka Hienonen will lead the Scheduled Passenger Traffic organisation together with the business area's revised management group. SVP Flight Operations Division Veikko Sievänen will serve as the Accountable Manager referred to in the Airline Operator's Certificate (AOC). At the same time, Sievänen was also appointed member of the Group's executive board. SVP Technical Services Kimmo Soini will serve as Accountable Manager for technical areas of responsibility. Operational risk management, which was previously under the authority of Henrik Arle, will be now be under the President & CEO.

SVP Community Relations and Communications Christer Haglund was appointed to the executive board as of 1 March 2008.

Finnair's Corporate Governance is outlined in more detail in the Financial Report section of the annual report.

## *Personnel*

During 2008, the average number of staff employed by the Finnair Group totalled 9,595, which was 1.2 per cent more than a year before. Scheduled Passenger Traffic had 4,254 employees and Leisure Traffic 464 employees. The total number of personnel in technical, catering and ground handling services was 3,650 and in travel services 1,078. A total of 149 people were employed in other functions.

At the end of the year, Finnair Group had around 770 employees outside of Finland, of which 270 worked in sales and customer service duties for Finnair's passenger and cargo traffic. There are a total of 500 employees working for travel agencies and tour operators based in the Baltic states and Russia, and as guides at Aurinkomatkat-Suntours' holiday destinations. Foreign personnel are included in the total number of Group employees.

Full-time staff account for 94 per cent of employees. Around half of part-time staff are employees on partial child-care leave. Some 93 per cent of staff are employed on a permanent basis. Seasonal staff are included among those on fixed-term contracts. The average age of employees was 42 years, with most being between 30 and 50 years of age. More than 20 per cent were over 50 years old and one in ten under 30.

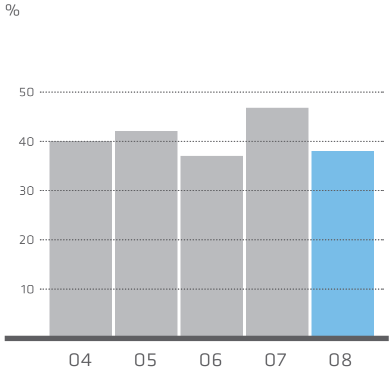
Employees' average number of years in service is 14. One third of Finnair's personnel have been in the service of the Group for more than 20 years. Nearly half of these have been employed for more than 30 years.

The Finnair Group's personnel consists equally of men and women. Of the twelve members of the Finnair Group's executive board, two are women. Two of the eight members of Finnair Plc's Board of Directors are women.

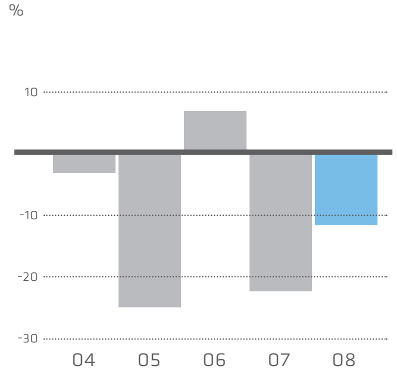
Finnair has collective employment agreements valid until spring 2010 with six labour unions. During spring 2009, negotiations will be held with the Finnish Aviation Union and Finnair's Technical Services personnel on a wage solution for the final year of the agreement.

The pilots' collective employment agreement expired at the end of November and

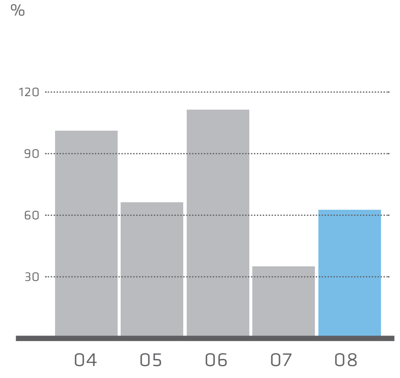
## *Equity ratio*




## *Gearing*




## *Adjusted gearing*



negotiations on a new agreement have been under way since the autumn. The Finnish Airline Pilots' Association (SLL) , which represents Finnair's pilots, initiated industrial action on 24 January 2009 by announcing an overtime ban. According to the announcement, industrial action will continue in the form of one-day strikes beginning 25 February. The most significant points of contention between the employer and employees relate to pension benefits, business management decision-making and working time arrangements.

In June 2008 statutory employer-employee negotiations were initiated under the act on Co-Determination within Undertakings (YT negotiations). The goal of the negotiations was to achieve 25 million euros of savings in personnel expenses, corresponding to around five per cent of total personnel costs. Finnair Cargo Oy and Finnair Cargo Terminal Operations Oy joined the process in November. The YT process was concluded in January this year, covering all personnel groups besides the pilots, in respect of whom YT negotiations are still incomplete.

When the YT negotiations began, the need for personnel reductions was estimated at 500 jobs. Around 120 of these will be implemented as redundancies. The other savings will mainly come from 2–3 week lay-offs affecting more than 3,000 people. In addition, the number of personnel will fall through the ending of around 400 fixed-term employment contracts at the turn of the year or during the spring.

Including social security expenses, around 11.2 million euros in incentive bonuses based on mainly quality indicators are expected to be paid to personnel for 2008. One factor influencing the incentive was a significant improvement in punctuality. The criteria based on the Group result for the personnel profit bonus and the share bonus scheme for key individuals were not fulfilled for 2008, and no incentive payments will be paid.

## *Fleet changes*

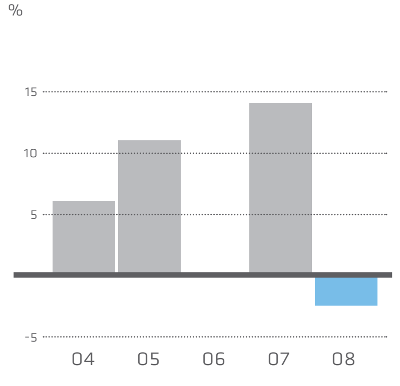
Finnair Group's fleet is managed by Finnair Aircraft Finance Oy, which belongs to the Scheduled Passenger Traffic business area. At the end of December, the Finnair Group had a total of 65 aircraft in flight operations. The average age of the Finnair's entire fleet is 6.4 years, and in European traffic around five years.

The European and domestic fleet grew last year by two 100-seat Embraer 190 aircraft. The fleet has a total of 18 Embraer aircraft and 29 Airbus A320 aircraft. Two Airbus A340 aircraft joined Finnair's wide-bodied fleet last year. One Boeing MD-11 aircraft was withdrawn from the fleet in October. Finnair has a total of 11 long-haul aircraft.

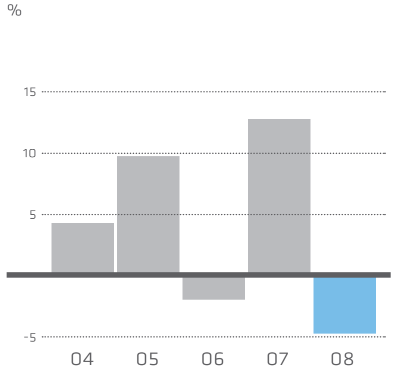
The renewal of the wide-bodied fleet will continue with the acquisition of five new Airbus A330-300 long-haul aircraft in 2009 and a further three as minimum in 2010. The Airbus aircraft will replace the six Boeing MD-11 aircraft to be withdrawn from Finnair's fleet by end of March 2010. The one remaining Finnair owned MD-11 will be sold through a purchase agreement with Aeroflot Cargo. The other five MD-11 aircraft are leased and their agreements expire within a year.

The fleet modernisation will harmonise Finnair's scheduled traffic fleet. A reduction of aircraft types will mean a more efficient

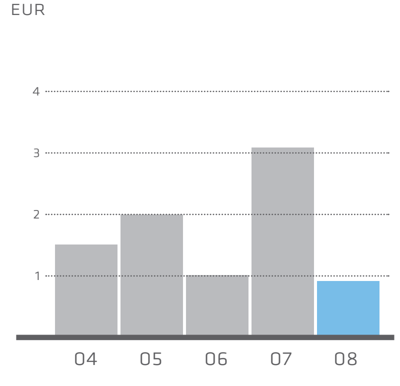
### *Return on capital employed*




### *Return on equity*




### *Cash flow/share*



cost structure due to more simplified crew utilisation and maintenance activities.

In the first quarter of 2009, two new 100-seat Embraer 190 aircraft will join Finnair's fleet. On the other hand, three smaller, Embraer 170, aircraft will be withdrawn from service in 2009 due to weakened demand, two in January and one towards the end of the first half of the year.

The lease agreements of the Boeing 757 aircraft used by Finnair Leisure Flights expire in 2010. The agreements can be continued two times with the current terms for two years at a time. Before the extension decision the company evaluates, what is the most efficient way to operate leisure traffic.

## *Environment*

Finnair takes the environment into consideration in all of its actions and decisions. Finnair's environmental and social responsibility issues are outlined in more detail in the annual report and on the Finnair website.

Last year the EU approved a model for the implementation of emissions trading in air transport starting in 2012. The emissions trading calculation principles take into account the performance undertaken for the fuel consumed. Finnair will strive as part of the community of European airlines to argue successfully that the system should be worldwide and not distort competition in the industry.

Finnair has been systematically modernising its fleet since 1999. The European and domestic traffic's Airbus A320 and Embraer aircraft represent the latest technology. The modern fleet is eco-efficient both in terms of carbon dioxide and noise emissions.

Kati Ihamäki M.Sc. (Econ.) was appointed as Finnair's VP Sustainable Development as of 1 February 2008. Ihamäki's task is to promote the realisation of Finnair's environmental goals in the Group's business operations, such that Finnair is among the leading airlines in environmental activities. The VP Sustainable Development's tasks also include coordinating sustainable development strategy and emissions trading projects as well as integrating environmental issues into Finnair's competitive strategy. Effective interest groups relations and communications are vital for the handling of social and environmental responsibility.

## *Performance of business areas*

The primary segment reporting of the Finnair Group's financial statements is based on business areas. The reporting business areas are Scheduled Passenger Traffic, Leisure Traffic, Aviation Services and Travel Services.

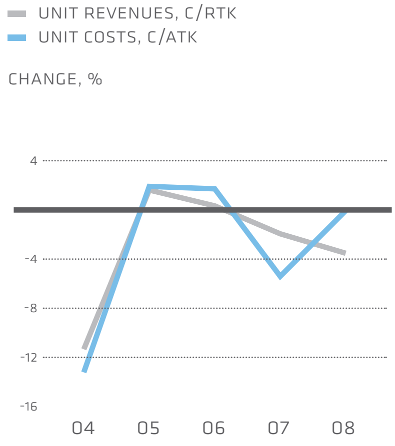
## *Scheduled Passenger Traffic*

This business area is responsible for scheduled passenger traffic and cargo sales, service concepts, flight operations and activity connected with the procurement and financing of aircraft. Scheduled Passenger Traffic leases to Leisure Traffic the crews and aircraft it requires. The business area consists of the following units and companies: Finnair Scheduled Passenger Traffic, Finnair Cargo Oy, Finnair Cargo Terminal Operations Oy and Finnair Aircraft Finance Oy.

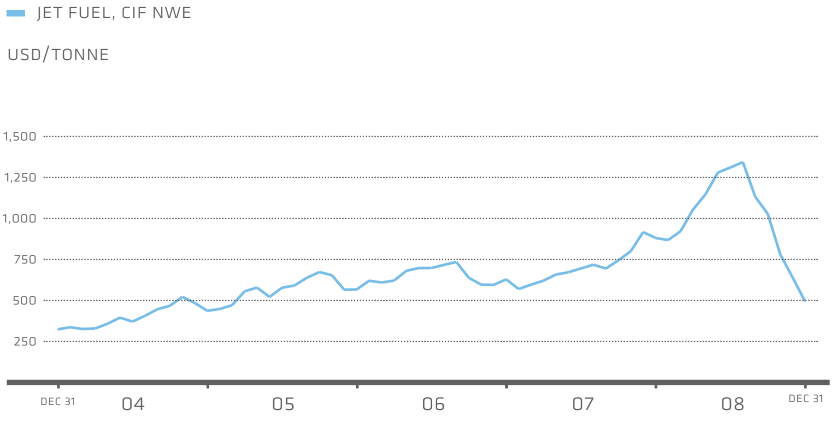
In 2008 the business area's turnover rose by 3.0 per cent to 1,735.7 million euros (1,685.3 million). The operating result was a loss of 30.1 million euros (76.2 million profit).

Scheduled traffic passenger volume in 2008 was around seven million. Scheduled traffic's revenue passenger kilometres grew by 6.5 per cent, while capacity grew by 7.9

### *Unit revenues and costs*




### *Jet Fuel market price (Jet Fuel NWE CIF Cargoes) 2004–2008*



per cent, leading to a weakening of passenger load factor by one percentage point to 72 per cent.

In 2008, unit revenues for scheduled passenger traffic fell by 5.1 per cent. In the final quarter, unit revenues fell by 11.7 per cent. A shifting of demand to cheaper price classes contributed to the decline in unit revenues.

Cargo revenues account for a good ten per cent of all Scheduled Passenger Traffic's revenues. Unit revenues for cargo in scheduled traffic rose by 2.4 per cent in 2008. The total amount of cargo carried in scheduled traffic grew by seven per cent. The amount of cargo carried in Asian traffic rose by 14 per cent from the previous year.

The profitability of Finnair's cargo operations was good in 2008. The key reason for the improved performance was the price level, which remained good, as well as an improvement in operational efficiency. In the final quarter, however, cargo demand weakened rapidly and the situation is also expected to continue in the current year due to the global economic situation.

In international scheduled passenger traffic, Finnair has increased its market share compared with its main competitors. In domestic traffic, Finnair's market share has fallen, mainly due to the discontinuation of short routes. This has, however, improved the passenger load factor and profitability.

During 2008, the arrival punctuality of scheduled passenger flights improved slightly the previous year to 80.8 per cent (80.4%). Finnair's flight punctuality was weak in a sector comparison at the beginning of last year. Through many measures, punctuality has again been raised to an excellent level to match the best European airlines.

The operations of the Estonian subsidiary Aero were discontinued at the beginning of 2008 and all seven ATR 72 turboprop aircraft were sold. At the same time, this marked the end of Finnair's propeller traffic, which had continued uninterrupted since 1924.

## *Leisure Traffic*

This business area consists of Finnair Leisure Flights plus the Aurinkomatkat-Suntours package tour company and its subsidiaries, the Estonian tour operator Horizon Travel and the St. Petersburg Calypso travel agency, as well as the Finnish takeOFF brand, which focuses on youth travel. Aurinkomatkat-Suntours is Finland's leading tour operator, with a market share of 37 per cent. Finnair Leisure Flights enjoys strong market leadership in leisure travel flights and all of Finland's largest tour operators are its customers. For their package tour production, tour operators buy the flight series they need to holiday destinations for the summer and winter seasons.

Leisure travel enjoyed a peak year in 2008. From Finland 989,000 package tours were made using flights abroad, which was 3.3 per cent more than the previous year. More than 23 per cent of these journeys were made to the Canary Islands. Thailand's share. moreover, has risen to ten  per cent. Due to the financial crisis, demand for package tours clearly weakened in the Estonian and Russian markets in the autumn.

Due to good demand, Leisure Traffic's turnover in 2008 rose by 11.0 per cent to 454.6 million euros. The operational result, i.e. adjusted EBIT, improved by 10.3 per cent to an all-time best of 26.7 million euros (24.2 million), which corresponds to 5.9 per cent of turnover. The result was burdened by the start-up costs of Aurinkomatkat's package tour production in Russia as well as the price of jet fuel, which rose to a record high.

In 2008 Finnair Leisure Flights carried over 1.3 million passengers, around ten per cent more than in the previous year. In addition to its own Boeing 757 fleet, Leisure Flights leased from Air Europe a 299-seat Airbus A330 wide-bodied aircraft with crew for flights to Phuket in Thailand for the winter season 2008/09. In the winter season, there were 14 return flights per week to Asia, of which six were with leased capacity. Available passenger kilometres grew by 9.7 per cent. As the proportion of winter season long-haul traffic grew, performance calculated in revenue passenger kilometres rose by 12.4 per cent from the previous year. Leisure Flights' passenger load factor therefore improved by 2.1 percentage points to 88.1 per cent.

Internet advance sales to consumers of additional services, seat place of a passenger's choice and meals, as well as in-flight sales grew according to set targets.

Finnair has agreed fixed prices with tour operators for charter flights and provided for the fuel risk with price hedging in accordance with the Group's financial policy.

Aurinkomatkat-Suntours has a record year in 2008. Good demand and poor summer weather in Finland was evident in turnover growth, as there was no need to resort to last-minute price reductions to maintain sales. Sales of winter 2008/09 holidays also went well. Aurinkomatkat's passenger number grew by 3.7 per cent from the previous year to 345,000. The utilisation rate and the result rose to record levels. Estonia-based Horizon increased its passenger numbers by over 17 per cent as other tour operators cut back their offerings, but its result was loss-making due to the bankruptcy of the airline Futura.

At the beginning of the year, Aurinkomatkat-Suntours purchased the St. Petersburg travel agency Calypso. The company has been used as a platform and distribution channel for the start-up of Aurinkomatkat's own package production in Russia. In the first summer-winter production season, Aurinkomatkat produced more than 10,000 package tours involving flights abroad, with the utilisation rate at the end of the year rising to 84 per cent. Aurinkomatkat's partner is Rossiya Airlines. Aurinkomatkat's customer satisfaction in Russia is on a good level.

## *Aviation Services*

This business area comprises aircraft maintenance services, ground handling and the Group's catering operations. In addition, the Group's property holdings, the procurement of office services, and the management and maintenance of properties related to the Group's operational activities also belong to the Aviation Services business area. Aviation Services' business consists mainly of intra-Group service provision. Of the business area's turnover 24 per cent consists of business outside of the Group.

In 2008 Aviation Services' turnover rose 2.7 per cent to 445.8 million euros. The operational result grew 34 per cent from the previous year's level and was a profit of 13.8 million euros (10.3 million).

The Catering business is the most profitable of the Aviation Services. Operations are divided into meal production and related logistics as well travel retail functions, which include inflight sales plus pre-order services and airport shops in Helsinki, Tampere and Turku. Both business areas increased their turnover and improved their result. In Catering operations, production efficiency was enhanced, while Finnair Catering received new premises at the beginning of last year.

Finnair Technical Services' operational result was a loss in 2008. A nearly three million euro item in credit losses resulting from the bankruptcy of the Gemini Air Cargo customer relationship as well as some inventory write-downs was recognised in the result.

It is important for Finnair Technical Services' long-term functional capacity and profitability that the unit also has customers from outside the Group. At the beginning of 2008, Finnair Technical Services signed a maintenance agreement with Aeroflot until 2016. The value of the agreement is estimated to be around 200 million euros.

The ground handling company Northport Oy is still loss-making. The quality of ground handling operations has significantly improved, however, from the previous year.

## *Travel Services*

The business area consists of the Group's travel agencies: Matkatoimisto Area, Finland Travel Bureau and its subsidiary Estravel, which operates in the Baltic states, as well as Amadeus Finland Oy, which integrates travel agency systems and sells travel reservation systems.

Finland Travel Bureau (FTB) and Area are Finland's leading travel agencies, and Estravel, which celebrated the 20th anniversary of its founding in August, is one of the leading travel agencies in the Baltic states. The companies were highly rated in a customer satisfaction survey of business travellers in the Nordic countries.

With FTB having discontinued its own Etumatkat city break production, which had come to the end of its life cycle, the business area's turnover declined in 2008 by 5.3 per cent to 77.9 million euros (82.3 million). In the autumn, the economic downturn was evident as a significant contraction of business travel, which was reflected in the travel agencies' sales and results. The operating result fell to 2.1 million euros (2.9 million).

The travel agencies' distribution is moving to the internet. Online travel agencies have won market share, but Area is Finland's biggest traditional travel agency on the internet. Nearly a quarter of the company's sales comes via the internet. Automation is being used to improve the efficiency of providing corporate travel services.

Estravel, which is part of the FTB Group, is still doing well in the Baltic states. For the first time in these markets, travel was at a lower level last year and margins narrowed. In Estonia the company's market share is 40 per cent.

Travel Services' Amadeus Finland, a provider of travel reservation and information systems to travel agencies, brought to the market many new services relating to companies' and travel agencies' travel management. A hotel booking service was added to the Amadeus reservation system. Growth in the volume of Finns' air travel increased the company's turnover.

## *Air Traffic Services and Products*

In recent years, the Finnair route network has been developed to serve traffic between Europe and Asia passing through Helsinki. At the same time, Finns have been offered efficient and diverse connections to destinations all over the world.

Finnair has a total of 60 direct flights per week to 10 Asian destinations. In June Finnair began direct flights to Seoul, the capital of South Korea. The Seoul route is flown four times per week during the winter. Finnair's other Asian destinations are Bangkok, Delhi, Mumbai, Hong Kong, Nagoya, Osaka, Beijing, Shanghai and Tokyo. The Guangzhou route was discontinued at the end of October. The Guangzhou area is now served by a daily connection with Hong Kong.

Flights covering 45 European and 13 domestic destinations connect into Finnair's Asia network. At the same time, a wide selection of direct connections is offered from Finland to the rest of Europe.

In the early autumn, Finnair began scheduled flights from Helsinki to Yekaterinburg, located in the Urals. The route is flown three times per week with Airbus A319 aircraft and represents Finnair's third scheduled destination in Russia after Moscow and St. Petersburg. Finnair flies the route in cooperation with Ural Airlines. The three-hour flight time and onward connections with short transit times at both ends of the route make the service very competitive in Russia, the Nordic countries and elsewhere in Europe.

Leisure Flights' fleet consists of seven Boeing 757 aircraft. Due to increased demand, Leisure Flights has leased for the current winter season one Airbus A330 wide-bodied aircraft, which flies non-stop to Phuket in Thailand. In the summer season, Leisure Flights flies, in addition to charter flight traffic, certain so-called holiday routes, including Boston and Toronto.

In October Finnair and **one**world alliance partner British Airways began code-sharing flights between Bangkok, Thailand and Sydney, Australia. In December, the frequency of flights to Brussels was increased. From January, Finnair flies 25 times per week to the Belgian capital. A new service that departs Helsinki in the evening and returns from Brussels in the morning is particularly convenient for business travellers between the cities.

Finnair will begin direct flights to Istanbul, Turkey in March 2009. Flights will start on a two flights per week schedule and the flight frequency will double at the end of March. The Istanbul route will provide good connections via Helsinki from Turkey to Scandinavia, the Baltic states and Finnair's Asian network – and back again.

Based on an audit carried out in December, Skytrax rated Finnair a four-star airline on a scale of one to five. Finnair had previously been rated a three-star airline. Skytrax is an international research company which evaluates the world's commercial airlines and their services in great detail.

At the beginning of June 2008, the electronic ticket (e-ticket) was adopted worldwide for all flights. Finnair has been among the leading companies in introducing the e-ticket. Using e-tickets is more economical than using paper tickets.

Finnair's growing international demand has created an increasing need to serve customers in local languages in different marketplaces. At the end of December, Finnair opened websites also in the Spanish, Italian, French, Russian and Chinese languages. Finnair range of languages covers around 3.3 billion people. Finnair now offers an internet booking service in a total of 11 languages. In addition to the new languages, websites are offered in Finnish, Swedish, English, Japanese, Korean and German. Around one fifth of Finnair tickets are currently sold via the internet and this proportion is expected to grow.

## Short-term risks and uncertainty factors

The tightening of the financial markets has raised the cost of planned financing higher than was anticipated. The availability of funding has deteriorated, but a lack of sufficient funding is not considered to be a risk during 2009.

The risk in the acquisition of new aircraft is that demand will fall more quickly than capacity can be meaningfully reduced. The lease agreements of Finnair Leisure Flights' seven Boeing 757 aircraft will expire in 2010, at which time the fleet can be optimised according to demand forecasts.

Fuel costs constitute approximately one fifth of the Group's total costs and, despite the recent fall in oil prices, are one of the most significant uncertainty factors where costs are concerned. Foreign exchange rate changes also represent a risk. Finnair provides against fuel price and foreign exchange rate volatility by entering into option and future contracts. The rising cost of hedging arrangements also poses a risk.

Finnair's more than 70 per cent hedging level over the next six months will slow the transfer of the benefit of the fall in oil prices in the company's fuel costs. Finnair's relative competitive position in terms of costs is also influenced by competitors' fuel price hedging policies. The company's main competitors adhere to the same principles as Finnair in their hedging policies.

A deepening of the worldwide recession might reduce demand sharply as well as average yields in passenger and cargo traffic. Due to the short booking horizon, it is difficult to predict demand far into the future. A change of one percentage point in the load factor of scheduled passenger traffic services affects the Group's operating profit by around 15 million euros. A change of one percentage point in the average yield of scheduled passenger traffic services also affects the Group's operating profit by around 15 million euros.

The development of gross domestic product will affect the development of air transport passenger and cargo demand. A weakening of domestic consumer confidence might also have an adverse impact on demand for non-business travel in both leisure and scheduled traffic services.

When examining quarterly earnings development, it is worth noting that Easter, when fewer higher-priced business trips are made, falls this year in the second quarter, when last year it was in the first quarter. The Chinese New Year, moreover, might have a weakening impact on Finnair's demand in the Chinese-language passenger market.

Negotiations on the pilots' collective employment agreement, which ended on 30 November 2008, are under way and present a risk of industrial action. The halting of Finnair's traffic would result in estimated losses of around three million euros per day. In addition, the uncertainty caused by traffic disruptions would also be reflected negatively in demand on the days surrounding the strike.

## Outlook

Year 2009 is expected to be a difficult one for financial development of the airline industry. Development will shape industry structures via bankruptcies and mergers. Finnair will closely follow the restructuring of the industry.

Finnair's holds on to its Asia strategy. The long-term goal of scheduled traffic is to grow in services between Europe and Asia, utilising Helsinki as a geographically and logistically ideal transit location. Route network expansion will take place through additions to Finnair's own capacity and through increased cooperation.

Finnair has secured credit facilities totalling around 300 million euros as well as a 250 million credit facility requiring a bank guarantee from the European Investment Bank, plus a more than 400 million euro option on the loan-back of employment pension fund reserves. The financial crisis will be reflected in the financing of Finnair's fleet modernisation primarily via the cost of borrowed capital and the price level of lease agreements.

Finnair's fuel costs are expected to be lower during the current year than last year. The hedging policy practised by Finnair dampens fuel price fluctuations. At the present price level, fuel costs are expected to be over 22 per cent of Finnair's turnover in 2009.

The world economy recession is expected to weaken Finnair's demand and average yields in passenger and cargo traffic in all marketplaces. Gross domestic product in Europe has begun to fall. In the Asian national economies, growth figures have fallen significantly short of earlier forecasts.

In Leisure Traffic, strong demand for winter long-haul trips will be evident in the first quarter. Due to decreasing consumer confidence, demand for leisure trips this coming summer is expected to be clearly weaker than the previous year. Over capacity in the market forces down price level.

Finnair is preparing for capacity cuts throughout its route network as well as for an adjustment of costs during the current year. In 2009 the capacity of Asian traffic and scheduled traffic as a whole will fall, on the basis of decisions made to date, by around three per cent.

In May last year was initiated a 50 million euro productivity improvement programme, in which the portion attributed to savings in personnel costs was around one half. This programme was implemented in full in 2009. The Group, however, is initiating a new programme of similar magnitude and areas of cost-cutting and efficiency improvement are being actively explored.

The first quarter is expected to remain clearly loss-making. The operational result for the full year will substantially depend on the demand situation and cost development. The outlook for the full year is extremely challenging.

## Shares and shareholders

### Shares and Share Capital

On 31 December 2008 the company's registered share capital was 75,442,904.30 euros and number of shares issued was 128,136,115. Each share has one vote at the Annual General Meeting.

### Share Quotations

Finnair Plc shares are quoted on the NASDAQ OMX Helsinki Stock Exchange.

## Dividend Policy and the Payment of Dividend

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, taking into account the company's earnings trend and outlook, financing position and capital needs for any given period.

## Incentive Schemes for Key Personnel

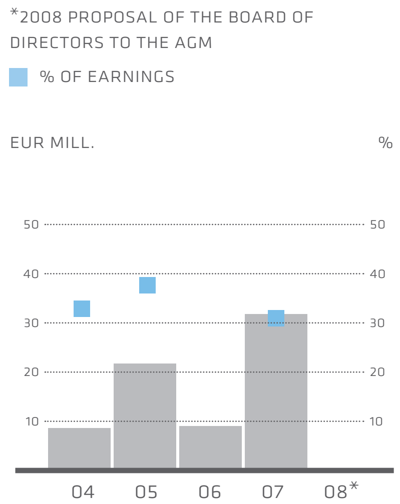
On 22 March 2007, Finnair Plc's Board of Directors approved a share bonus scheme 2007–2009 directed at key individuals of the Group. Details of the scheme are presented in Note 26 of this annual report. The scheme does not affect the total number of shares. The amount of share bonuses is determined on the basis of the Finnair Group's financial development.

## Board of Directors' Authorisations

At the beginning of the financial year, Finnair held 151,903 of its own shares, which it had purchased in previous years. Between 1 January and 17 March 2008, Finnair acquired 598,097 of its own shares, on the basis of an authorisation of the Annual General Meeting held on 22 March 2007.

On 27 March 2008 the Annual General Meeting granted the Board of Directors new authorisations for a period of up to one year to purchase the company's own shares up to a maximum of 5,000,000 shares and dispose of the company's own shares up to a maximum of 5,500,000 shares. The authorisation applies to shares amounting to less than five per cent of the company's share capital. Under the authorisation, in 2008 Finnair transferred a total of 364,912 of its own shares to

## *Dividend per year*




| **Share-Related Key Figures** | | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| Earnings/share | EUR | -0.33 | 1.04 | -0.14 |
| Equity/share | EUR | 6.04 | 7.70 | 6.14 |
| Dividend/share | EUR | 0.0 | 0.25 | 0.10 |
| Dividend-to-earnings ratio | % | 0.0 | 31.5 | -64.4 |
| P/E ratio | | -14.82 | 7.79 | -88.05 |
| P/CEPS | | 5.0 | 2.5 | 12.5 |
| Effective dividend yield | % | 0.0 | 3.1 | 0.8 |

| **Number of shares and share prices** | | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| Average number of shares adjusted for share issue | pcs | 127,969,796 | 98,032,358 | 96,690,131 |
| Average number of shares adjusted for share issue (with diluted effect) | pcs | 127,969,796 | 98,032,358 | 96,690,131 |
| The number of shares adjusted for share issue at the end of financial year | pcs | 127,969,796 | 98,032,358 | 97,782,880 |
| The number of shares adjusted for share issue at the end of financial year (with diluted effect) | pcs | 127,969,796 | 98,032,358 | 97,782,880 |
| Number of shares, end of the financial year | pcs | 128,136,115 | 128,136,115 | 88,756,358 |
| Trading price highest | EUR | 8.49 | 14.35 | 15.00 |
| Trading price lowest | EUR | 3.5 | 7.51 | 10.01 |
| Market value of share capital Dec 31 | EUR mill. | 627 | 1,037 | 1,102 |
| No. of shares traded | pcs | 64,783,468 | 37,672,530 | 29,965,410 |
| No. of shares traded as % of average no. of shares | % | 50.55 | 29.40 | 33.76 |

**Finnair Plc largest shareholders as at 31 December, 2008**

| | | Number of shares | % | Changes, pcs |
|---|---|---|---|---|
| 1 | State of Finland; Office of Counsil of State | 71,515,426 | 55.8 | 0 |
| 2 | Skagen Global Verdipapirfonds (I-II-III-Vekst) | 6,963,143 | 5.4 | 6,963,143 |
| 3 | Ilmarinen Mutual Pension Insurance Co | 3,725,564 | 2.9 | 824,000 |
| 4 | Suomi Mutual Life Insurance Company | 3,597,224 | 2.8 | 1,000,000 |
| 5 | Odin Förvaltning AS | 2,790,418 | 2.2 | 0 |
| 6 | Mandatum Life Insurance Company | 2,400,000 | 1.9 | 0 |
| 7 | Tapiola Insurance Company Group | 2,276,444 | 1.8 | 0 |
| 8 | State Pension Fund | 2,100,000 | 1.6 | 1,100,000 |
| 9 | Local Government Pensions Institution | 1,606,575 | 1.3 | 1,209,499 |
| 10 | OP Funds | 1,383,734 | 1.1 | -2,286,073 |
| 11 | Nordea Funds | 1,131,619 | 0.9 | -33,645 |
| 12 | Aktia Funds | 665,400 | 0.5 | 147,197 |
| 13 | Etera Mutual Pension Insurance Company | 601,747 | 0.5 | 89,628 |
| 14 | Varma Mutual Pension Insurance Company | 600,000 | 0.5 | 0 |
| 15 | Kaleva Mutual Insurance Company | 568,538 | 0.4 | 370,000 |
| 16 | City of Turku | 387,434 | 0.3 | 387,434 |
| 17 | Finnair Plc (own shares) | 387,429 | 0.3 | 235,526 |
| 18 | Gyllenberg Funds | 357,404 | 0.3 | 28,994 |
| 19 | City of Turku, Claim Fund | 295,907 | 0.2 | 13,326 |
| 20 | Finnair Plc Staff Fund | 230,982 | 0.2 | 151,344 |
| 21 | Norvestia Plc | 227,387 | 0.2 | 60,776 |
| 22 | Pohjola Insurance Company | 216,668 | 0.2 | 0 |
| 23 | Alandia Insurance Company | 189,299 | 0.1 | 66,799 |
| 24 | Finnair Pension Fund | 136,842 | 0.1 | 0 |
| 25 | Kotimaa Saving Bank Fund | 121,700 | 0.1 | 121,700 |
| 26 | Arvo Finland Value Fund | 120,000 | 0.1 | 120,000 |
| 27 | Ingman Finance Oy Ab | 120,000 | 0.1 | 120,000 |
| 28 | Aro Olavi Sakari | 110,000 | 0.1 | 110,000 |
| 29 | Neste Oil Pension Fund | 105,826 | 0.1 | 0 |
| 30 | Fennia Mutual Pension Insurance Company | 100,000 | 0.1 | -705,495 |
| 31 | Kamprad Ingvar | 100,000 | 0.1 | 100,000 |
| 32 | ESR EQ Fund | 100,000 | 0.1 | -25,000 |
| | | | | |
| | Nominee registered | 14,999,663 | 11.7 | -9,852,222 [1] |
| | Others | 7,903,742 | 6.2 | |
| | | | | |
| | Total number of shares | 128,136,115 | 100.0 | |

[1] On 31 March 2008 FL Group sold 16,252,921 shares of Finnair Plc and FL Group direct and indirect holding decreased to 0.

**Shareholders by type at 31 December 2008**

| | Number of shares | Shares, % | Number of shareholders | Shareholders, % |
|---|---|---|---|---|
| Public bodies | 83,870,525 | 66 | 25 | 0 |
| Registered in the name of nominee | 14,999,663 | 12 | 9 | 0 |
| Financial institutions | 10,467,526 | 8 | 39 | 0 |
| Outside Finland | 9,943,092 | 8 | 49 | 1 |
| Households | 6,422,209 | 5 | 9,236 | 94 |
| Private companies | 1,846,499 | 1 | 360 | 4 |
| Associations | 566,376 | 0 | 58 | 1 |
| Not converted into the book entry system | 20,225 | 0 | 0 | 0 |
| **Total** | **128,136,115** | **100** | **9,776** | **100** |

**Breakdown of shares at 31 December 2008**

| Number of shares | Number of shareholders | Shares, % | Number of shares | Shares, % |
|---|---|---|---|---|
| 1–200 | 5,230 | 53 | 461,067 | 0 |
| 201–1,000 | 3,068 | 31 | 1,517,391 | 1 |
| 1,001–10,000 | 1,312 | 13 | 3,495,696 | 3 |
| 10,001–100,000 | 125 | 1 | 2,709,363 | 2 |
| 100,001–1,000,000 | 21 | 0 | 5,442,563 | 4 |
| 1,000,001– | 11 | 0 | 99,490,147 | 78 |
| Registered in the name of nominee | 9 | 0 | 14,999,663 | 12 |
| Not converted into the book entry system | - | - | 20,225 | 0 |
| **Total** | **9,776** | **100** | **128,136,115** | **100** |

**Acquisition and delivery of own shares**

| Period | Number of shares | Acquisition value, EUR | Average price, EUR |
|---|---|---|---|
| 2004 | 422,800 | 2,275,666.49 | 5.38 |
| 2005 | -37,800 | -209,838.54 | 5.55 |
| 2005 | 150,000 | 1,516,680.00 | 10.11 |
| 2006 | -383,097 | -2,056,847.88 | 5.37 |
| 2007 | 0 | 0.00 | 0 |
| **1 Jan 2008** | **151,903** | **1,525,660.07** | **10.04** |
| 1 Jan–31 Mar 2008 | 598,097 | 4,735,765.56 | 7.92 |
| 9 May 2008 | -327,693 | -2,902,766.31 | 8.86 |
| 5 Nov 2008 | -37,219 | -294,042.90 | 7.90 |
| 4 Dec 2008 | 2,341 | 0.00 | 0.00 |
| **31 Dec 2008** | **387,429** | **3,064,616.42** | **7.91** |

individuals within the sphere of the 2007–2009 share bonus scheme as share bonuses payable on the basis of the 2007 result. In 2008, a total of 2,341 shares were returned to the company by those belonging to the share scheme. At the end of 2008, Finnair held 387,429 of its own shares, namely 0.30 per cent of the total number of shares outstanding on the last day of the year.

The Board of Directors has no other authorisations, such as authorisations for share issues or for the issuing of convertible bonds or share options.

### Government Ownership

At the end of the financial year, on 31 December 2008, the Finnish Government owned 55.8% of the company's shares and votes. On 20 June 1994, the Finnish Parliament, while giving its consent to reduce the Government's holding to less than two-thirds, decided that the Government must own more than half of Finnair Plc's shares.

### Share Ownership by Management

On 31 December 2008, members of the company's Board of Directors and the President & CEO owned 78,480 shares, representing 0.06 % of all shares and votes.

### Share Prices and Trading

On the last day of the financial year, the Finnair Plc share was quoted at 4.89 euros on the NASDAQ OMX Helsinki Stock Exchange. The market value of the company's shares was 626.6 million euros (1,036.6). The highest trading price during the financial year was 8.49 euros (14.35) and the lowest 3.50 euros (7.51) the average price 6.10 euros (10.01).

A total of 64.8 (37.7) million shares, with a total value of 395.2 (377.2) million euros were traded on the NASDAQ OMX Helsinki Stock Exchange during 2008.

## *Board of Directors Proposal on the Dividend*

The distributable equity of Finnair Plc amounts to 458.7 million euros. The Board of Directors proposes to the Annual General Meeting that no dividend be distributed for 2008.

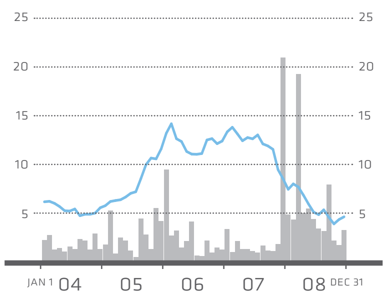
**Finnair PLC**
**Board of Directors**

### *Finnair share trade development and trade 2004–2008*

MONTHLY TRADE
MONTHLY AVERAGE PRICE

MONTHLY AVERAGE PRICE, EUR

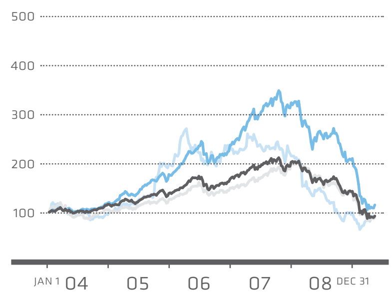
MONTHLY TRADE, MILL. PCS




### *Finnair Plc Share Index and NASDAQ OMX Helsinki indices*

FINNAIR PLC SHARE
INDUSTRIALS INDEX
HELSINKI BENCHMARK INDEX
ALL-SHARE INDEX

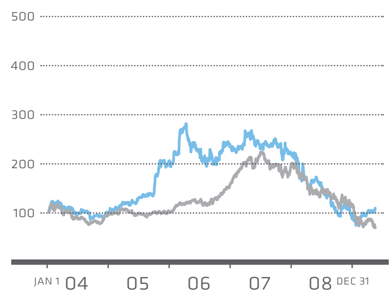
INDEX 31 DEC 2003 = 100




### *Share price development compared with other European airlines*

FINNAIR PLC
BLOOMBERG EUROPE AIRLINE INDEX

INDEX 31 DEC 2003 = 100



# *Financial Indicators 2006–2008*

| | | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| Turnover | EUR mill. | 2,263 | 2,181 | 1,990 |
| - change | % | 3.8 | 9.6 | 6.3 |
| | | | | |
| Operating profit from operations | EUR mill. | 7 | 97 | 11 |
| - in relation to turnover | % | 0.3 | 4.4 | 0.6 |
| | | | | |
| Operating profit/loss | EUR mill. | -52 | 142 | -11 |
| - in relation to turnover | % | -2.3 | 6.5 | -0.5 |
| | | | | |
| Profit before extraordinary items | EUR mill. | -56 | 139 | -15 |
| - in relation to turnover | % | -2.5 | 6.4 | -0.7 |
| | | | | |
| Profit before taxes | EUR mill. | -56 | 139 | -15 |
| - in relation to turnover | % | -2.5 | 6.4 | -0.7 |
| | | | | |
| Consolidated balance sheet | | | | |
| Non-current assets | EUR mill. | 1,398 | 1,245 | 1,108 |
| Short-term receivables | EUR mill. | 659 | 864 | 544 |
| Non-current assets held for sale | EUR mill. | 19 | 35 | 8 |
| Assets total | EUR mill. | 2,076 | 2,144 | 1,660 |
| | | | | |
| Shareholders equity and minority interests | EUR mill. | 773 | 987 | 601 |
| Liabilities, total | EUR mill. | 1,303 | 1,157 | 1,059 |
| Shareholders' equity and liabilities, total | EUR mill. | 2,076 | 2,144 | 1,660 |
| | | | | |
| Gross capital expenditure | EUR mill. | 233 | 326 | 252 |
| Gross capital expenditure in relation to turnover | % | 10.3 | 15.0 | 12.7 |
| Return on equity (ROE) | % | -4.8 | 12.9 | -2.0 |
| Return on capital employed (ROCE) | % | -2.5 | 14.2 | -0.1 |
| Average capital employed | EUR mill. | 1,190 | 1,122 | 938 |
| Increase in share capital | EUR mill. | 0 | 0 | 0 |
| Dividend for the financial year [1)] | EUR mill. | 0 | 32 | 9 |
| Earnings/share | EUR | -0.33 | 1.04 | -0.14 |
| Earnings/share adjusted for option rights (with diluted effect) | EUR | -0.33 | 1.04 | -0.14 |
| Result / share (number of shares at the end of financial year) | EUR | -0.33 | 0.79 | -0.15 |
| Equity/share | EUR | 6.04 | 7.70 | 6.14 |
| Dividend/share[1)] | EUR | 0.00 | 0.25 | 0.10 |
| Dividend/earnings | % | 0.0 | 31.5 | -64.4 |
| Effective dividend yield | % | 0.0 | 3.1 | 0.8 |
| P/CEPS | | 5.2 | 2.5 | 12.5 |
| Cash flow/share | EUR | 0.9 | 3.2 | 1.0 |
| P/E ratio | | -14.82 | 7.79 | -88.05 |
| Equity ratio | % | 38.1 | 47.1 | 37.2 |
| Net debt-to-equity (Gearing) | % | -11.6 | -22.5 | 7.1 |
| Adjusted Gearing | % | 63.2 | 35.1 | 112.8 |
| Interest bearing debt | EUR mill. | 302 | 318 | 337 |
| Liquid funds | EUR mill. | 392 | 540 | 294 |
| Net interest bearing debt | EUR mill. | -90 | -222 | 43 |
| - in relation to turnover | % | -4.0 | -10.2 | 2.2 |
| Net financing income (+) / expenses (-) | EUR mill. | -5 | -3 | -4 |
| in relation to turnover | % | -0.2 | -0.1 | -0.2 |
| Net interest expenses | EUR mill. | 2 | -5 | -3 |
| - in relation to turnover | % | 0.1 | -0.2 | -0.2 |
| Operational cash flow | EUR mill. | 120 | 302 | 96 |
| Operational cash flow in relation to turnover | % | 5.3 | 13.8 | 4.8 |
| Average number of shares adjusted for the share issue | number of | 127,969,796 | 98,032,358 | 96,690,131 |
| Average number of shares at the end of the financial year (with diluted effect) | number of | 127,969,796 | 98,032,358 | 96,690,131 |
| Number of shares adjusted for the share issue at the end of the financial year | number of | 127,969,796 | 98,032,358 | 97,782,880 |
| Number of shares at the end of the financial year (with diluted effect) | number of | 127,969,796 | 98,032,358 | 97,782,880 |
| Number of shares at the end of the financial year | number of | 128,136,115 | 128,136,115 | 88,756,358 |
| Personnel on average | | 9,595 | 9,480 | 9,598 |

The number of personnel are averages and adjusted for part-time employees.
[1)] The dividend is a proposal of the Board of Directors to the Annual General Meeting.

# Calculation of Key Indicators

| | | |
|---|---|---|
| EBITDAR | = | Operating profit + depreciation + aircraft lease rentals |
| Operating profit from operations | = | Operating profit excluding capital gains, fair value changes of derivatives and non recurring items |
| Return on equity in per cent (ROE) | = | $\frac{\text{Result}}{\text{Equity + minority interests (average of beginning and end of financial year)}} \times 100$ |
| Capital employed | = | Balance sheet total – non interest bearing liabilities |
| Return on capital employed in per cent (ROCE) | = | $\frac{\text{Result before taxes + interest and other financial expenses}}{\text{Capital employed (average of beginning and end of financial year)}} \times 100$ |
| Earnings per share, (euro) | = | $\frac{\text{Result for financial year}}{\text{Adjusted average number of shares during the financial year}}$ |
| Equity per share, (euro) | = | $\frac{\text{Equity}}{\text{Number of shares at the end of the financial year, adjusted for the share issue}}$ |
| Dividend per earnings in per cent | = | $\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$ |
| Effective dividend yield in per cent | = | $\frac{\text{Dividend per share}}{\text{Adjusted share price at the end of the financial year}} \times 100$ |
| P/CEPS | = | $\frac{\text{Share price at the end of the financial year}}{\text{Cash flow from operations per share}}$ |
| Cash flow per share, (euro) | = | $\frac{\text{Cash flow from operations}}{\text{Adjusted average number of shares during the financial year}}$ |
| Price per earnings | = | $\frac{\text{Share price at the end of the financial year}}{\text{Earnings per share}}$ |
| Equity ratio, % | = | $\frac{\text{Equity + minority interests}}{\text{Balance sheet total – advances received}} \times 100$ |
| Gearing, % | = | $\frac{\text{Interest bearing liabilities – liquid funds}}{\text{Equity + minority interests}} \times 100$ |
| Adjusted gearing, % | = | $\frac{\text{Interest bearing debt +7 x annual aircraft leasing payments-liquid funds}}{\text{Equity + minority interests}} \times 100$ |

# *IFRS Financial Statements 1 Jan–31 Dec 2008*

CONTENTS

# *Consolidated Income Statement*

| EUR mill. | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 | Note |
|---|---|---|---|
| **Turnover** | **2,262.6** | **2,180.5** | 3 |
| Work used for own purposes and capitalized | 1.6 | 3.0 | 6 |
| Other operating income | 27.1 | 52.8 | 7 |
| Materials and services | -1,054.8 | -896.9 | 8 |
| Employee benefit expense | -541.0 | -541.5 | 9 |
| Depreciation and imparment | -110.2 | -112.6 | 10 |
| Other operating expenses | -637.4 | -543.8 | 11 |
| **Operating profit/loss** | **-52.1** | **141.5** | |
| Financial income | 22.1 | 17.2 | 12 |
| Financial expenses | -26.7 | -19.9 | 13 |
| Share of result in associates | 0.3 | 0.1 | 18 |
| **Profit/loss before taxes** | **-56.4** | **138.9** | |
| Income taxes | 14.6 | -36.8 | 14 |
| **Profit/loss for financial year** | **-41.8** | **102.1** | |
| | | | |
| Earnings per share to shareholders of the parent company | -42.0 | 101.6 | |
| Minority interest | 0.2 | 0.5 | |
| | | | |
| **Earnings per share calculated from profit attributable to shareholders of the parent company** | | | |
| Earnings per share (diluted and undiluted) | -0.33 | 1.04 | 15 |

The Notes to the Financial Statements on pages 27–78 are an essential part of the financial statements.

# Consolidated Balance Sheet

| EUR mill. | 31 Dec 2008 | 31 Dec 2007 | Note |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | 48.1 | 46.6 | 16 |
| Tangible assets | 1,272.1 | 1,168.9 | 17 |
| Investments in associates | 6.1 | 5.7 | 18 |
| Receivables | 21.5 | 13.8 | 19 |
| Deferred tax receivables | 49.8 | 10.4 | 20 |
| | **1,397.6** | **1,245.4** | |
| **Short-term receivables** | | | |
| Inventories | 35.1 | 36.1 | 21 |
| Trade receivables and other receivables | 231.8 | 287.3 | 22 |
| Other financial assets | 373.8 | 518.6 | 23 |
| Cash and cash equivalents | 18.3 | 21.5 | 24 |
| | **659.0** | **863.5** | |
| Non-current assets held for sale | 19.4 | 34.7 | 5 |
| | | | |
| **Assets, total** | **2,076.0** | **2,143.6** | |
| | | | |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **Equity attributable to shareholders of parent company** | | | |
| Shareholders' equity | 75.4 | 75.4 | |
| Other equity | 696.3 | 909.9 | |
| | **771.7** | **985.3** | |
| **Minority interest** | **1.1** | **1.7** | |
| **Equity, total** | **772.8** | **987.0** | 25 |
| | | | |
| **Long-term liabilities** | | | |
| Deferred tax liability | 120.6 | 144.5 | 20 |
| Interest bearing liabilities | 261.1 | 269.6 | 29 |
| Pension obligations | 6.1 | 15.8 | 27 |
| | **387.8** | **429.9** | |
| **Short-term liabilities** | | | |
| Current income tax liabilities | 1.5 | 8.2 | 14 |
| Provisions | 61.5 | 53.6 | 28 |
| Interest bearing liabilities | 48.5 | 54.5 | 29 |
| Trade payables and other liabilities | 803.9 | 610.4 | 30 |
| | 915.4 | 726.7 | |
| | | | |
| **Liabilities, total** | **1,303.2** | **1,156.6** | |
| | | | |
| **Shareholders' equity and liabilities, total** | **2,076.0** | **2,143.6** | |

The Notes to the Financial Statements on pages 27–78 are an essential part of the financial statements.

# Consolidated Cash Flow Statement

| EUR mill. | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| **Cash flow from operating activity** | | |
| Profit/-loss for the financial year | -41.8 | 102.1 |
| Operations for which a payment is not included [1)] | 117.2 | 100.0 |
| Interest and other financial expenses | 26.7 | 19.9 |
| Interest income | -18.9 | -11.9 |
| Other financial income [2)] | -3.2 | -5.1 |
| Dividend income | 0.0 | -0.2 |
| Taxes | -14.6 | 36.8 |
| Changes in working capital: | | |
| Change in trade and other receivables | -2.7 | 2.4 |
| Change in inventories | 1.0 | 2.4 |
| Change in accounts payables and other liabilities | 39.8 | 86.4 |
| Interest paid | -13.1 | -14.6 |
| Other financial expenses paid | -1.3 | -2.3 |
| Received interest income | 15.4 | 9.6 |
| Received financial income | 3.2 | 0.5 |
| Taxes paid | 12.5 | -24.2 |
| **Net cash flow from operating activities** | **120.2** | **301.8** |
| | | |
| **Cash flow from investing activity** | | |
| Sell of subsidiaries, net of cash sold [3)] | 0.0 | 0.6 |
| Acquisitions of subsidiaries | -2.6 | -0.6 |
| Investments in intangible assets | -12.7 | -15.4 |
| Investments in tangible assets | -215.9 | -346.2 |
| Net change of financial interest bearing assets at fair value through profit or loss [4)] | 183.1 | -205.6 |
| Sales of tangible fixed assets | 69.0 | 65.2 |
| Received dividends | 0.0 | 0.2 |
| Change in non-current receivables | -7.8 | 1.7 |
| **Net cash flow from investing activities** | **13.1** | **-500.1** |
| | | |
| **Cash flow from financing activities** | | |
| Loan withdrawals | 4.9 | 95.6 |
| Loan repayments | -50.0 | -115.0 |
| Share issue | 0.0 | 244.9 |
| Purchase of own shares | -4.7 | 0.0 |
| Dividends paid | -31.9 | -8.9 |
| **Net cash flow from financing activity** | **-81.7** | **216.6** |
| | | |
| **Change in cash flows** | **51.6** | **18.3** |
| | | |
| **Change in liquid funds** | | |
| Liquid funds, at the beginning | 291.8 | 273.5 |
| Change in cash flows | 51.6 | 18.3 |
| **Liquid funds, in the end** [5)] | **343.4** | **291.8** |

The cash flow statement analyses changes in the Group's cash and cash equivalents during the financial year. The cash flow statement has been divided according into the IAS 7 standard in operating, investing and financing cash flows.

| Notes to consolidated cash flow statement | | |
|---|---|---|
| 1) Operations for which a payment is not included | | |
| EUR mill. | 2008 | 2007 |
| Depreciation | 110.2 | 112.6 |
| Employee benefits | -10.3 | 6.8 |
| Other adjustments | 17.3 | -19.4 |
| **Total** | **117.2** | **100.0** |

2) Fair value changes of shares reconised at Financial assets at fair value through profit or loss are eliminated from cash flow from operating activities. Shares reconised at Financial assets at fair value through profit or loss are itemised in Notes 23 and 32.

3) The Group has sold shares of FlyNordic and ground handling operations in Norway and Sweden year 2007. Information about the assets, liabilities, and cash and cash equivalents of the companies are presented in the Notes to the income statement in item 5.

4) Net change in of financial interest bearing assets at fair value through at fait valueprofit or loss maturing after more than 3 months including changes in fair value.

5) Financial assets include cash and bank equivalents and investments, which have been told in the separate accounts of the balance sheet. The balancing of the cash flow final assets below:

| EUR mill. | 2008 | 2007 |
|---|---|---|
| Balance sheet item (short-term) | | |
| Investments | 373.8 | 518.6 |
| Cash and bank equivalents | 18.3 | 21.5 |
| Short-term cash and cash equivalents in balance sheet | 392.1 | 540.1 |
| Maturing after more than 3 months | -39.6 | -222.7 |
| Shares available for sale | -9.1 | -25.6 |
| **Total** | **343.4** | **291.8** |

Cash and cash equivalents encompass cash and bank deposits as well as other highly liquid financial assets whose term to maturity is a maximum of three months. Such items are e.g. certificate of deposits and commercial papers. Balance sheet items are itemised in Notes 21 and 22.

The Notes to the Financial Statements on pages 27-78 are an essential part of the financial statements.

# Shareholders' Equity

| Equity attributable to shareholders of parent company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| EUR mill. | Share capital | New issue | Share premium account | Bonus issue | Fair value reserve | Unrestricted equity | Etained earnings | Total | Minority interests | Total |
| **Shareholders' equity 1 Jan 2007** | **75.4** | **0.0** | **20.4** | **147.7** | **-21.1** | **0.0** | **377.5** | **599.9** | **1.6** | **601.5** |
| Translation difference | | | | | | | -0.1 | -0.1 | | -0.1 |
| Dividend payment | | | | | | | -8.9 | -8.9 | -0.4 | -9.3 |
| New issue | | | | | | 244.9 | 0.0 | 244.9 | | 244.9 |
| Cash flow hedges | | | | | | | | | | |
| Fair value change of hedging instruments | | | | | 33.2 | | | 33.2 | | 33.2 |
| Fair value change of hedging instruments. net of tax (Note 20) | | | | | -8.6 | | | -8.6 | | -8.6 |
| Recognised in income statement (Note 25) | | | | | 11.5 | | | 11.5 | | 11.5 |
| Net of tax from Recognised in income statement (Note 20) | | | | | -3.0 | | | -3.0 | | -3.0 |
| Recognised in balance sheet | | | | | 13.3 | | | 13.3 | | 13.3 |
| Net of tax from Recognised in balance sheet (Note 20) | | | | | -3.5 | | | -3.5 | | -3.5 |
| Option right to shares | | | | | 6.7 | | | 6.7 | | 6.7 |
| Share premium account changes | | | | | -1.7 | | | -1.7 | | -1.7 |
| Profit for the period | | | | | | | 101.6 | 101.6 | 0.5 | 102.1 |
| **Shareholders equity 31 Dec 2007** | **75.4** | **0.0** | **20.4** | **147.7** | **26.8** | **244.9** | **470.1** | **985.3** | **1.7** | **987.0** |

| Equity attributable to shareholders of parent company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| EUR mill. | Share capital | New issue | Share premium account | Bonus issue | Fair value reserve | Unrestricted equity | Etained earnings | Total | Minority interests | Total |
| **Shareholders' equity 1 Jan 2008** | **75.4** | **0.0** | **20.4** | **147.7** | **26.8** | **244.9** | **470.1** | **985.3** | **1.7** | **987.0** |
| Translation difference | | | | | | | 0.0 | 0.0 | | 0.0 |
| Dividend payment | | | | | | | -31.9 | -31.9 | -0.5 | -32.4 |
| Share issue | | | | | | 0.0 | 0.0 | 0.0 | | 0.0 |
| Change of minority | | | | | | | | 0.0 | -0.3 | -0.3 |
| Purchase of own shares | | | | | | | -4.7 | -4.7 | | -4.7 |
| Cash flow hedges | | | | | | | | | | |
| Fair value change of hedging instruments | | | | | -215.4 | | | -215.4 | | -215.4 |
| Fair value change of hedging instruments, net of tax (Note 20) | | | | | 56.1 | | | 56.1 | | 56.1 |
| Recognised in income statement (Note 25) | | | | | 51.7 | | | 51.7 | | 51.7 |
| Net of tax from Recognised in income statement (Note 20) | | | | | -13.4 | | | -13.4 | | -13.4 |
| Recognised in balance sheet | | | | | -3.4 | | | -3.4 | | -3.4 |
| Net of tax from Recognised in balance sheet (Note 20) | | | | | 0.9 | | | 0.9 | | 0.9 |
| Change of fair value in available-for-sale financial assets | | | | | -18.5 | | | -18.5 | | -18.5 |
| Net of tax of Change of fair value in available-for-sale financial assets | | | | | 4.8 | | | 4.8 | | 4.8 |
| Disposal own shares / Share-based payment expense | | | | | | 2.3 | | 2.3 | | 2.3 |
| Profit for the period | | | | | | | -42.0 | -42.0 | 0.2 | -41.8 |
| **Shareholders equity 31 Dec 2008** | **75.4** | **0.0** | **20.4** | **147.7** | **-110.5** | **247.2** | **391.5** | **771.7** | **1.1** | **772.8** |

The Notes to the Financial Statements on pages 27–78 are an essential part of the financial statements.

# Notes to the Financial Statements

## 1. BASIC INFORMATION ABOUT THE COMPANY

The Finnair Group engages in worldwide air transport operations and supporting services. The Group's operations are divided into the Scheduled Passenger Traffic, Leisure Traffic, Aviation Services and Travel Services business areas. The Group's parent company is Finnair Plc, which is domiciled in Helsinki at the registered address Tietotie 11 A, Vantaa, Finland. The parent company is listed on the Helsinki Stock Exchanges. The Board of Directors of Finnair Plc has approved these financial statements for publication at its meeting on 4 February 2009. Under Finland's Companies Act, shareholders have the option to accept or reject the financial statements in a meeting of shareholders, which will be held after the publication of the financial statements. The AGM can also change the financial statements.

## 2. ACCOUNTING PRINCIPLES

The accounting principles of the consolidated financial statements are presented below. The accounting principles have been followed in the periods presented in the consolidated financial statements unless otherwise stated.

### *Basis of preparation*

Finnair Plc's consolidated financial statements for 2008 have been prepared according to the International Financial Reporting Standards (IFRS) and in their preparation the IAS and IFRS standards as well as the SIC and IFRIC interpretations in effect on 31 December 2008 have been followed. By International Financial Reporting Standards is meant the standards accepted for application in the EU and interpretations issued about them in accordance with the procedure laid down in Finnish law and provisions issued by virtue thereof in the EU Regulation (EC) No.1606/2002. The notes to the consolidated financial statements also comply with Finnish accounting and corporate laws.

The 2008 consolidated financial statements have been prepared based on original acquisition costs, except for financial assets recognisable through profit and loss at fair value, financial assets which are available-for-sale, and derivative contracts, which have been valued at fair value. Financial statement data is presented in millions of euros, rounded to the nearest one hundred thousand euros.

The preparation of financial statements in accordance with IFRS standards requires Group management to make certain estimates and to exercise discretion in applying the accounting principles. Information about the discretion exercised by management in applying the accounting principles followed by the Group and that which has most impact on the figures presented in the financial statements has been presented in the item "ACCOUNTING PRINCIPLES THAT REQUIRE MANAGEMENT DISCRETION AND MAIN UNCERTAINTY FACTORS RELATING TO ESTIMATES".

### *Principles of consolidation*

#### SUBSIDIARIES

Finnair Plc's consolidated financial statements include the parent company Finnair Plc and all its subsidiaries. As subsidiaries are deemed to be those companies in which the parent company directly or indirectly owns more than 50% of the votes or in which it otherwise exercises the right to determine the company's financial and business policies in order to benefit from its activities.

The book value of shares in undertakings included in consolidation has been eliminated using the acquisition cost method. Subsidiaries that have been acquired are consolidated from the date on which the Group has acquired control, and subsidiaries that have been disposed of are no longer consolidated from the date that control ceases. All of the Group's internal transactions, receivables, liabilities and unrealised gains as well as internal distribution of profit are eliminated in the consolidated financial statements. Unrealised losses are not eliminated in the event that a loss results from impairment. The financial statements of subsidiaries have been amended to correspond with the accounting principles in use within the Group.

#### ASSOCIATED UNDERTAKINGS

Associated undertakings are undertakings in which the Group generally has 20–50% of the votes or in which the Group has significant influence but in which it does not exercise control.

Holdings in associated undertakings have been included in the consolidated financial statements by the equity method. The Group's share of earnings after the time of acquisition is recognised in the income statement. If the Group's share of the loss of an associated undertaking exceeds the book value of the investment, the investment is entered in the balance sheet at zero value unless the Group has incurred obligations on behalf of the associated undertaking. Unrealised gains between the Group and associated undertakings have been eliminated to the extent of the Group's holding. The Group's share of an associated undertaking includes goodwill arising from its acquisition. Associated undertakings' financial statements have been converted to correspond with the accounting principles in use in the Group.

#### MINORITY INTEREST AND TRANSACTIONS WITH MINORITY

Minority interest is presented in the balance sheet separately from liabilities and the parent company's shareholders' equity as its own item as part of shareholders' equity. In the income statement is presented the distribution of profit for the financial year to the parent company's shareholders and minority interest. Minority interest of accrued losses are recognised in the consolidated financial statements up to a maximum of the amount of the investment.

The Group applies the same accounting principles to transactions made with minorities as with shareholders. In acquisitions of minority interests, the difference between acquisition cost and the acquired equity is recognised directly in shareholders' equity.

### *Translations of foreign currency items*

Items included in each subsidiary's financial statements are valued in the foreign currency that is the main currency of operating environment of each subsidiary ("operational currency"). The consolidated financial statements have been presented in euros, which is the parent company's operational and presentation currency.

Monetary items denominated in foreign currency have been translated into the operating currency using the mid-market exchange rates on the closing date. Advance payments made and received are entered at the exchange rate of the operating currency on the date of payment. Non-monetary items have been translated into the operating currency using the exchange rate on the date of the transaction. Translation differences on operations are included in the income statement's operating profit, and translation differences on foreign currency loans are included in financial items.

The income statements of foreign subsidiaries have been translated into euros using the exchange rates on date of occasion. Balance sheets of foreign subsidiaries have been translated into euros using the exchange rates on the closing date. Translation differences of shareholders' equity items arising from eliminations of the acquisition cost of foreign subsidiaries are recognised in shareholders' equity. When a foreign subsidiary is sold, these translation differences are recognised in the income statement as part of the overall profit or loss arising from the sale. Translation differences that have arisen since the IFRS transition date are presented as a separate item in shareholder's equipment when preparing the consolidated financial statements.

Goodwill arising from foreign acquisitions is treated as a foreign exchange asset of the foreign unit and is translated into euros using the exchange rate on the closing date.

### *Derivate contracts and hedge accounting*

According to its financial policy, the Finnair Group uses foreign exchange, interest rate and commodity derivatives to reduce the exchange rate, interest rate and commodity risks which arise from its balance sheet items, foreign exchange purchase contracts, anticipated purchases and sales as well as future jet fuel purchases.

The derivatives are recognised at the time they are made in the balance sheet at original acquisition cost and are subsequently valued at fair value in each financial statement and interim report. 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 underlying asset being hedged. Derivative contracts are designated at inception as hedges for future cash flows 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 the net investment of foreign units or embedded derivatives have not been used.

At the inception of hedge accounting, the Finnair Group documents the relationship 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. The Group documents and assesses, at the inception of hedging and at least in connection with each financial statements, the effectiveness of hedge relationships by examining the 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.

The Finnair Group implements in accordance with IAS 39 hedge accounting principles the hedging of future cash flows (cash flow hedging) in terms of the price and foreign currency risk of jet fuels as well as foreign currency hedging of lease payments and aircraft purchases.

Fair value hedging is implemented in Finnair in respect of firm orders for new Airbus aircrafts. These binding purchase agreements are treated under IAS 39 as firm commitments whose fair value changes of hedged part arising from foreign currency movements is recognised in the balance sheet as an asset item and any corresponding gains or losses recognised through profit and loss. Similarly the fair value of instruments hedging these purchases are presented in the balance sheet as a liability or receivable and the change in fair value is recognised through profit and loss.

The change in the fair value of effective portion of derivative instruments that fulfil the terms of cash flow hedging are entered directly in a fair value reserve in equity to the extent that the requirements for the application of hedge accounting have been fulfilled. The gains and losses recognised in equity are transferred to the income statement in the period in which the hedged item is entered 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 remain in equity until the forecast transaction takes place. However, if the forecast hedged transaction is not longer expected to occur, the gain or loss accrued in equity is released immediately to the income statement.

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

To hedge the interest rate and foreign exchange risks of foreign currency loans the Finnair Group uses foreign exchange and interest-rate swap contracts. The translation difference arising from foreign exchange and interest–rate swap contracts that fulfil the conditions of hedge accounting is recognised concurrently against the translation difference arising from the loan, while other changes in fair value are recognised in terms of the effective portion in the fair value reserve of shareholders' equity. Interest income and expenses are recognised in financial income and expenses.

The Finnair Group concludes jet fuel swaps (forward contracts) and options in order to even out future price fluctuations in jet fuel purchases. Changes in the fair value of jet fuel hedging derivatives are recognised directly in the fair value reserve in respect of derivatives defined as cash-flow hedges that fulfil the requirements of IAS 39 hedge accounting. Accrued gains and losses on derivatives recognised in shareholders' equity are recognised in the income statement as income or expenses for the financial period in which the hedged item is recognised in the income statement. If a forecasted cash flow is no longer expected to occur, the accrued gains and losses reported in the shareholder's equity are presented directly as other income and expenses for the financial period. Changes in the fair value of derivative contracts, in so far as the IAS 39 hedge accounting criteria are not fulfilled, are presented in other operating income and expenses during their term to maturity.

The change in the fair value of derivatives not qualifying for hedge accounting and which are arranged to hedge operational cash flow are recognised in the income statement item other operating expenses. Changes in the fair value of interest rate derivatives not qualifying for hedge accounting are recognised in the income statement's financial income and expenses.

### *Principle of revenue recognition*

Revenue from services is recognised as revenue in the financial period in which the services are provided for the customer. Revenue from the sale of goods is recognised when significant risks and rewards of owning the goods are transferred to the buyer. In such cases the Group has no longer any supervision of control over the products.

Scheduled Passenger Traffic and Leisure Traffic sales are recognised as revenue when the flight is flown in accordance with the flight traffic programme. Aviation Services' sales are recognised as revenue when the service is completely performed. Travel Services' sales are recognised as revenue when the service has been conveyed. Discounts granted and indirect taxes, among other things, are deducted from sales as adjustment items.

The recognition as revenue of unused flight tickets is based on the expiry dates of the tickets.

### *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

### *Dividend income*

Dividend income is recognised when the company has acquired a legal right to receive the dividends.

### *Operating profit*

The IAS 1 Presentation of Financial Statements standard does not define the concept 'operating profit'. The Group has defined it as follows: operating profit is the net sum that is formed from turnover plus other operating income, less purchase costs adjusted by change in inventories of work in progress as well as costs arising from production for own use, less costs, depreciation and possible impairment losses arising from employee benefits as well as other operating expenses. All income statement items other than those mentioned above are presented below the operating profit. Translation differences and changes in fair values of derivatives are included in operating profit if they arise from items related to business operations; otherwise they are recognised in financial items.

### *Income taxes*

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

A deferred tax liability or asset is calculated for all temporary differences between accounting and taxation using the tax rates prescribed at the closing date.

The largest temporary differences arise from sales of tangible assets, depreciation, revaluations of derivative contracts, defined-benefit pension schemes, unused tax losses, and valuations at fair value made in connection with acquisitions. Deferred tax is not recognised for subsidiaries' undistributed earnings where it is probable that the difference will not reverse in the foreseeable future.

A deferred tax asset is recognised to the extent that it will probably be available to taxable profit of future financial years, against which the deductible temporary difference can be utilised.

The Group's main business takes place in Finland. Taxes based on taxable income for the financial year have been calculated with a tax rate of 26 per cent. Taxes based on the taxable income of foreign subsidiaries for the financial year have been calculated at tax rates of 0–26 per cent.

### *Public grants*

Public grants, for example government aid for simulator training, has been recognised in other operating income. Public grants that the Group may receive, for example, for fixed asset acquisitions are recognised as a reduction in original acquisition cost. Grants are recognised in the form of smaller depreciations over the useful life of the asset.

### *Tangible fixed assets*

Tangible fixed assets are recognised in the balance sheet when the financial benefit is longer than one year, in acquisition cost, including the direct costs arising from the acquisition. Tangible fixed assets are valued at original acquisition cost less accumulated depreciation and write-downs.

Aircraft and their engines as well as flight simulators are depreciated on a straight-line basis over their expected useful lives. The acquisition cost of aircraft is allocated to the aircraft fuselage, engines and heavy maintenance and these are depreciated as separate assets. Residual value depreciations or straight-line basis over their expected useful lives are made for buildings and residual value depreciations for other fixed assets. Land areas are not depreciated.

Other equipment includes office equipment, furnishings, cars and transportation vehicles used at airports.

Depreciation is calculated using the following principles, depending on the type of asset:

- Buildings, 50 years from time of acquisition to a residual value of 10% or 3–7% of expenditure residue
- Aircraft and their engines: on a straight-line basis as follows:
  - Airbus A320 family aircraft, over 20 years to a residual value of 10%
  - Embraer fleet aircraft, over 20 years to a residual value of 10%
  - New A340 family aircraft, over 15 years to a residual value of 10%
  - New A330 family aircraft, over 18 years to a residual value 10 %
  - Used jet aircraft more than six years old, over 10 years to a residual value of 10%
  - New turboprop aircraft, over 12 years to a residual value of 10%
  - Turboprop aircraft acquired as used, over 10 years to a residual value of 10%
  - Aircraft to be withdrawn from use, fully on a straight-line basis according to their useful life outlined in the fleet modernisation plan
- Heavy maintenance of aircraft, on a straight-line basis during the maintenance period
- Embraer components, over 15 years to a residual value of 10%
- Airbus components, over 15 years to a residual value of 10%
- Flight simulators are depreciated as per the corresponding type of aircraft
- Depreciation of other tangible fixed assets, 23% of the undepreciated residual value

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

Ordinary repair and maintenance expenditure is recognised as an expense in the financial period in which it arises. Expenditure of modernisation and improvement projects that are significant in size (mainly aircraft modifications) are capitalised in the balance sheet if it is probable that an additional financial reward will arise to the Group in future. Modernisation and improvement projects are depreciated on a straight-line basis over their expected useful lives. The carrying amount of the replaced part is derecognised.

Depreciation of a tangible fixed asset is discontinued when the tangible fixed asset is classified as being held for sale in accordance with IFRS 5 standard Non–Current Assets Held for Sale and Discontinued Operations.

Gains arising from the disposal and withdrawal from use of tangible fixed assets are included in the income statement in the item other operating income, and losses in the item other operating expenses.

## *Intangible assets*

Intangible fixed assets are recognised in the balance sheet, when the financial benefit is longer than one year, at acquisition cost, including the direct costs arising from the acquisition. Depreciation and impairment of intangible assets are based on the following expected economic lifetimes:

| | |
|---|---|
| Goodwill | impairment testing |
| Computer programs | 3–8 years |
| Other intangible assets, depending on their nature | 3–10 years |

### GOODWILL

Goodwill corresponds to the portion of acquisition costs that exceeds the Group's share of the fair value of the net assets at the time of acquisition of the subsidiary, associated undertaking or joint venture.

Goodwill is tested annually for possible impairment. For this purpose goodwill has been allocated to cash generating units. Annual impairment testing is performed on the basis of discounted cash flows. This method is based on expected cash flows that have been updated by revenue growth rate and the cost of capital. If the present value of the expected future operational cash flow of some business operation is lower than the corresponding balance sheet value that includes goodwill, the impairment is recognised as an expense in the income statement.

### RESEARCH AND DEVELOPMENT EXPENDITURE

Research and development on aircraft, systems and operations is conducted primarily by the manufacturers. Research and product development expenditure relating to marketing and customer service is recognised as an expense at the time at which it is incurred because the capitalization criterion will not fill. Expenses are included in the consolidated income statement in a cost item according to the nature of the expense.

Development expenditure is recognised in the balance sheet as an intangible asset when it is probable that the development project will succeed both commercially and technically and the project expenses can be reliably assessed. The Group has no capitalisable development expenditure.

### COMPUTER SOFTWARE

Computer software maintenance costs and expenditure on the research stage of software projects are recognised as expenses at the time they are incurred. Software projects' minor development costs, moreover, are not capitalised; they are recognised as an expense.

User rights and licences acquired for IT software are presented in the category intangible rights and in other respects in other intangible assets. Acquired user rights and licences are entered in the balance sheet at acquisition cost, plus the costs of making the licence and software ready for use. Capitalised expenses are depreciated over a useful life of 3–8 years.

### OTHER INTANGIBLE ASSETS

Other intangible assets, such as e.g. patents, trademarks and licences, are valued at acquisition cost less recognised depreciation and impairment. Intangible assets are depreciated on a straight-line basis over 3–10 years.

### NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

Non-current assets or asset groups and their related liabilities (disposal groups) that have a high probability of being sold within a year of classification are classified as assets held for sale.

Immediately before classification, assets held for sale or assets and liabilities of disposal groups are valued according to the IFRS standards applicable to them. From the moment of classification, assets held for sale (or disposal groups) are valued at the lower of the carrying amount or their fair value less cost of sale. Depreciation of these assets is discontinued at the moment of classification.

## *Lease agreements*

### THE GROUP IS THE LESSEE

Tangible fixed asset lease agreements where a substantial part of the risks and rewards of ownership are transferred to the Group are classified as finance leases. The asset item acquired with a finance lease is entered at the start of the agreement as an asset in the balance sheet at the lower of the fair value of the leased property and the present value of the minimum lease payments. A corresponding sum is recognised as a financial asset. The lease payments payable are allocated between finance expenses and debt reduction. The corresponding rental obligations, net of finance charges, are included in other long-term interest-bearing liabilities. Financing interest is recognised in the income statement during the lease so as to achieve a constant interest rate on the finance balance outstanding in each financial period. Asset items leased under a finance lease are depreciated over the shorter of the asset's useful life and the term of the lease.

Tangible fixed asset-related lease agreements where a substantial part of the risks and rewards of ownership are retained by the lessor are classified as other leases. Payments made under other leases are charged to the income statement over the term of the lease.

The operating lease liabilities under other leases of Finnair Group aircraft have been treated as rental expenses in the income statement. Lease payments due in future years under agreements are presented in the notes to the financial statements.

## *Impairment*

On every closing date the Group reviews asset items for any indication of impairment losses. If there are such indications, the amount recoverable from the said asset item is assessed. The recoverable amount is also assessed for the following asset items irrespective of whether there are indications of impairment: goodwill and intangible assets which have an indefinite useful life. The need for impairment is examined on the cash generating unit level.

The recoverable amount is the higher of the asset item's fair value, less the cost arising from disposal, and its value in use. By value in use is meant the expected future net cash flows obtainable from the said asset item or cash generating unit, discounted to their present value. The value of the recoverable amount of financial assets is either the fair value or the present value of expected future cash flows discounted at the original effective interest rate. An impairment loss is recognised when the carrying amount of an asset item is greater than the recoverable amount. The impairment loss is recognised in the income statement. The impairment loss is reversed if a change in conditions has occurred and the recoverable amount of the asset has changed since the date when the impairment loss was recognised. The impairment loss is not reversed, however, by more than that which the carrying amount of the asset would be without the recognition of the impairment loss. Impairment losses recognised for goodwill are not cancelled under any circumstances, neither are impairment losses on equity investments classified as available for sale financial assets cancelled through profit and loss. From receivables included according to IAS 39 in the allocated acquisition price, interest income is recovered after impairment using the interest rate that has been used as the discount rate when calculating the impairment.

## *Inventories*

Inventories are asset items that are intended for sale in the normal course of business, are handled in the production process for sale or are raw materials or supplies intended for consumption in the production process.

Inventories are valued at the lower of their acquisition cost and probable net realisable value. Acquisition cost is determined using the average cost method. The acquisition cost of inventories includes all acquisition-related costs, production costs and other costs that have arisen from the transfer of the inventory item to the location and space where the item is situated at the time of inspection. The production costs of inventories also include a systematically allocated proportion of variable and fixed production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the costs required to complete the product and selling expenses.

## *Trade receivables*

In trade receivables are recognised assets received on an accrual basis for the products and services of the company's operations. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

When the Group has objective evidence that uncertainty is attached to the collection of trade receivables, then they are valued at their lower probable fair value. Public financial problems that indicate that a customer is going into bankruptcy, significant financial restructuring or substantial delays in payments are examples of objective evidence that might cause trade receivables to be valued at probable fair value. Impairment of trade receivables is recognised in other operating expenses.

Trade receivables denominated in foreign currency are valued at the exchange rate on the closing date.

## *Expences of liabilities*

Expences of liabilities are recognised in income statement at the period when they are occurred.

### LOANS

Initially loans are valued at their fair value. Loans that are due for payment within 12 months are presented in short-term liabilities. Foreign currency loans are valued at the mid-market exchange rate on the closing date and translation differences are recognised in financial items.

The Group's fixed-interest USD-denominated aircraft financing loans have been hedged with long-term cross currency interest rate swaps. Fixed-interest derivative contracts and their corresponding loans form a hedging relationship. The derivative contracts in question are valued at fair value. Change of fair value is recognised in the shareholder's equity fair value reserve. Correspondingly, loans in the hedging relationship are valued at the allocated acquisition cost.

Other USD-denominated loans and their corresponding variable interest derivative contracts are valued at fair value, and the change in fair value is recognised in the income statement's financial items. Euro-denominated loans and bonds are valued at allocated acquisition cost.

## *Financial assets and financial liabilities*

In the Group, financial assets have been classified according to the IAS 39 standard "Financial Instruments: Recognition and Valuation" into the following categories: financial assets at fair value through profit or loss (assets held for trading), held-to-maturity investments, loans and other receivables, as well as available-for-sale financial assets. The classification is made on the basis of the purpose of the acquisition of the financial assets in connection with the original acquisition. All purchases and sales of financial assets are recognised on the trade date.

The financial asset category recognised at fair value through profit or loss includes assets held for trading purposes and assets measured at fair value through profit or loss on initial recognition. 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 in each financial statement at fair value. Realised and unrealised gains and losses arising from changes in fair value are recognised in the income statement (either in other operating income and expenses or in financial items) in the period in which they arise. Financial assets at fair value through profit and loss as well as those maturing within 12 months are included in current assets.

Held-to-maturity investments are financial assets not belonging to derivative contracts which mature on a specified date and which a company has the firm intent and ability to hold to maturity. They are valued at allocated acquisition cost and they are included in long-term assets. On the closing date the Group had no assets belonging to the said group.

Investments which do not have a maturity date and whose date of sales has not been decided are classified as available-for-sale financial assets. Available-for-sale financial assets are presented in the balance sheet in non-current financial assets. A change in the fair value of available-for-sale financial assets is recognised in the shareholders' equity fair value reserve, from which it is transferred to the income statement in connection with a sale.

Finnair Group assesses on each closing date whether there is any objective evidence that the value of a financial asset item or group of items has been impaired. If there is objective evidence that an impairment loss has arisen for loans and other receivables entered at allocated acquisition cost in the balance sheet or for held-to-maturity investments, the size of the loss is determined as the difference the book value of the asset item and the present value of expected future cash flows of the said financial asset item discounted at the original effective interest rate. The loss is recognised through profit and loss.

Financial liabilities are recognised at fair value on the basis of the original consideration received. Transactions costs have been included in the original carrying amount of the financial liabilities. Later, all financial liabilities are valued at allocated acquisition cost using the effective yield method or at fair value through profit or loss. Financial liabilities are included in long- and short-term liabilities and they can be interest-bearing or non-interest-bearing.

Unquoted shares are valued in the Finnair Group at their acquisition price in the absence of a reliable fair value.

Loan receivables and other receivables are recognised at amortised cost using the effective interest method. Loans and other receivables include trade receivables, deferred charges, other long term receivables and security deposits for aircraft operational lease agreements.

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

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

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

Fair values of financial liabilities are based to discounted cash flows. Interest rate arises from risk free portion and company risk premium. Fair value of Finance lease contracts is evaluated by discounting cash flows with interest, which complies with interest from other similar lease contracts. Other than derivative receivables are in balance sheet at their original value, because discounting them is irrelevant considering short maturity. Accounts payable and other loans are recognised at their original value, because discounting them is irrelevant considering short maturity.

## *Cash and cash equivalents*

Cash and cash equivalents consist of cash reserves and short-term bank deposits whose term to maturity is a maximum of three months. Foreign exchange-denominated items have been converted into euros using the mid-market exchange rates on the closing date.

## *Derivate instruments*

Derivative instruments are valued in the balance sheet at fair value, which is determined as the value at which the instrument could be exchanged between knowledgeable, willing and independent parties, with no compulsion in the sales situation to sell or buy. 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 at the present value of future cash flows. The fair values of currency options are calculated using generally accepted option valuation models. The fair values of interest rate swap contracts are calculated at the present value of future cash flows. The fair values of interest rate and currency swap contracts are calculated at 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 contracts are calculated at the present value of future cash flows. The fair values of options are calculated using generally accepted option valuation models.

## *Shareholders' equity*

The nominal value of shares has been recognised in the share capital before an amendment to the Articles of Association registered on 22 March 2007.

At the end of the financial year, the nominal value of paid but as yet unregistered shares is recognised in the share issue account. Share issue gains that arose in 1997–2006 have been recognised in the share premium account, less transaction expenses, reduced by tax effect, relating to increases in share capital. Additionally, costs of the company's share-based payments are recognised in the share premium account as per the IFRS 2 standard. Possible gains from the sale of treasury shares, reduced by tax effect, have been recognised in the share premium account before the new Companies Act came into effect on 1 September 2006 Gains from the sale of treasury shares that take place after the change in legislation are recognised, reduced by tax effect, in the invested unrestricted equity fund.

The share issue gain from the 2007 share issue, less transaction expenses, has been recognised in the invested unrestricted equity fund.

Gains from share issues arising before 1997 have been recognised in the general reserve.

The fair value reserve includes changes in the fair value of derivative instruments used in cash-flow hedging, less deferred taxes.

Retained earnings include profit from previous financial years, less dividends distributed and acquisitions of own shares. In connection with the sale of own shares (treasury stock) the original acquisition cost is returned to retained earnings. Under the IAS 8 standard, changes in accounting principles and errors are also recognised in the results of previous financial years.

## *Dividend*

The dividend liability to the company's shareholders is recognised as a liability in the consolidated financial statements when a meeting of shareholders has decided on the dividend distribution.

## *Treasury stock (own shares)*

When the company or its subsidiaries have acquired their own shares, the company's shareholders' equity is deducted by an amount consisting of the consideration paid less transaction costs after taxes unless the own shares are cancelled. No gain or loss is entered in the income statement for the sale, issue or cancellation of own shares; the consideration received is presented as a change of shareholders' equity.

## *Employee benefits*

### PENSION LIABILITIES

Pension schemes are classified as defined-benefit and defined-contribution schemes. Payments made into defined-contribution pension schemes are recognised in the income statement in the period to which the payment applies. In defined-benefit pension schemes, obligations are calculated using the projected unit credit method. Pension expenses are recognised as an expense over the employees' period of service based on calculations made by authorised actuaries. Actuarial gains and losses are recognised in the income statement over the employees' average remaining term of service to the extent that they exceed the greater of the following: 10% of pension obligations or 10% of the fair value of assets. When calculating the present value of pension obligations the interest rate on government securities is used as the discount rate. The terms to maturity of government securities approximate to the terms to maturity of the related pension liabilities.

The Group's foreign sales offices and subsidiaries have various pension schemes that comply with the local rules and practices of the countries in question. All of the most significant pension schemes are defined-contribution schemes. The statutory pension cover of the employees of the Group's Finnish companies has been handled by a Finnish pension insurance company. The pension cover is a defined-contribution scheme. The pension schemes of the parent company's President & CEO and members of the Board of Management as well as those of the managing directors of subsidiaries are individual schemes, and the retirement ages under these schemes vary from 60 to 65 years. All of these pension schemes are also defined-contribution schemes.

Other (voluntary) pension cover has been arranged in Finnair Plc's Pension Fund, in which the pension schemes are entirely defined-benefit schemes. These schemes specify pension benefits, disability compensation, post-retirement health-care and life insurance benefits as well as benefits paid in connection with the termination of employment.

#### OTHER POST-EMPLOYMENT BENEFITS

All of the Group's post-employment benefits are defined-contribution benefits.

#### SHARE-BASED PAYMENTS

During the financial year the Group has had a share bonus scheme to which the IFRS 2 standard applies.

In the share bonus scheme 2007–2009, key individuals are allocated shares and those who belong to the scheme have the possibility to receive as the bonus both company shares and cash amounting to 1.5 times the share bonus. The bonus is awarded for a three-year performance period and according to how targets set for the performance period have been achieved. The Board of Directors decides annually the targets to be set. The targets are determined on the basis of the Group's financial and/or operational development. Achieving the targets set for the performance period determines how large a proportion of the maximum bonus will be paid. The fair value of the granted shares on the date they are granted is recognised in personnel expenses and as an increase in shareholders' equity during the financial period according to how the degree of fulfilment of the targets is assessed. The cash bonus is recognised on the basis of the fair value of the shares at each point in time in personnel expenses and as a liability. The expense impact on the period in question is allocated in the interim reports. Own shares for the share bonus scheme have been acquired in the market, so the granting of these shares does not dilute share ownership.

### *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. If it is possible to receive compensation for part of the obligation from a third party, the compensation is recognised as an asset item when it is in practice certain that the compensation will be received. Provisions are valued at the net present value of the expenses required to cover the obligation. The discount factor used when calculating present value is selected so that it describes the market view at the time of examination of the time value of the money and the risk relating to the obligation.

Restructuring provisions are recognised when the Group has prepared a detailed restructuring plan and has begun to implement the plan or has announced it will do so. A restructuring plan must include at least the following information: the operations affected, the main operating points affected, the workplace locations, working tasks and estimated number of the people who will be paid compensation for the ending of their employment, the likely costs and the date of implementation of the plan.

The Group is obliged to surrender leased aircraft at a certain maintenance standard. To fulfil these maintenance obligations the Group recognises heavy maintenance provisions. The basis for the provision is flight hours flown during the maintenance period.

### *Segment reporting*

Segment information is presented according to the Group's business and geographical segment division. The Group's primary form of segment reporting is according to business segments. Business segments are based on the Group's internal organisational structure and financial reporting of management. The business segments are Scheduled Passenger Traffic, Leisure Traffic, Aviation Services and Travel Services.

The Scheduled Passenger Traffic segment is responsible for sales, service concepts, flight operations and functions related to the procurement and financing of aircraft. Scheduled Passenger Traffic leases to the Leisure Traffic division the flight crews it requires. In 2008 the units belonging the Scheduled Passenger Traffic segment were Finnair Scheduled Passenger Traffic, the feeder airline Aero As, Finnair Cargo Oy and Finnair Cargo Terminal Operations Oy as well as Finnair Aircraft Finance Oy, which manages the Group's fleet.

The Leisure Traffic segment consists of Finnair Leisure Flights and the package tour companies Oy Aurinkomatkat-Suntours Ltd Ab, Matkayhtymä Oy, Calypso and Ou Horizon Travel.

The Aviation Services segment comprises aircraft maintenance services, ground handling and the Group's catering operations as well as real-estate management and facility services for Finnair's operational premises. In 2008 the following companies belonged to the Aviation Services business segment: Finnair Catering Oy, Finncatering Oy, Finnair Facilities Management Oy and Northport Oy.

The Travel Services segment consists of the Group's domestic and foreign travel agency operations as well as the operations of the reservations systems supplier Amadeus Finland Oy. The most significant companies in 2008 are Finland Travel Bureau Ltd, A/S Estravel and Matkatoimisto Oy Area.

Pricing between segments takes place at the going market price.

The assets and liabilities of segments are business items which the segment uses in its business operations or which on sensible grounds are attributable to the segments. Unattributable items include tax and financial items as well as items common to the whole company. Investments consist of increases in tangible fixed assets and intangible assets which are used in more than one financial year.

Although the Group's four business segments are managed from Finland, they operate in five geographical areas: Finland, Europe, Asia, North America and Others.

The turnover of the geographical segments is presented according to sales destination, and assets according to the location of the asset.

## *Accounting principles requiring management discretion and the main uncertainity factors relating to estimates*

The preparation of financial statements requires the use of estimates and assumptions relating to the future, and the actual outcomes 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 view on the closing date. Possible changes in estimates and assumptions are entered into the accounts in the financial period during which the estimates and assumptions are adjusted and in all subsequent financial periods. The main items requiring management discretion are as follows: impairment testing and deferred taxes.

## *Impairment testing*

The recoverable amounts of cash generating units have been determined in calculations based on value in use. 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 exchange rate, unit revenue and estimated sales volumes. Further information on impairment testing is presented in Note 16.

## *Deferred taxes*

Utilising deferred taxes, arising particularly from losses, requires a management assessment of the future trend of business operations. Further information on deferred taxes is presented in Note 20.

## *Application of new and amended IFRS standards and IFRIC interpretations*

The IASB has published the following standards and interpretations whose application will be mandatory in 2009 or later. The group has not early adopted these standards, but will adopt them in later periods.

THE FOLLOWING STANDARDS AND INTERPRETATIONS WILL BE ADOPTED BY THE GROUP IN 2009:

- IFRIC 13, 'Customer Loyalty Programmes'. The interpretation clarifies that where goods or services are sold together with a customer loyalty incentive, the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The group operates loyalty programmes as defined by the interpretation in the scheduled traffic segment. The adoption of the interpretation will result in reclassification of about 30 million euros to deferred credits on 1 January 2009 when it will change the turnover, deferred taxes and retained earnings of the previous year.

- IAS 1 (Revised), 'Presentation of Financial Statements'. The revised standard is aimed at improving users' ability to analyse and compare the information given in financial statements by separating changes in equity of an entity arising from transactions with owners from other changes in equity. Non-owner changed in equity will be presented in the statement of comprehensive income. It is likely that the group will in the future present both the income statement and statement of comprehensive income.

- Amendment to IAS 23, 'Borrowing Costs'. The amended standard requires an entity to capitalise borrowing costs directly attributable to a qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The group will commence capitalisation of borrowing cost related to such undertakings as well as projects to be accounted for under the stage of completion method embarked in 2009. Such Borrowing Costs are expected to be most in the Scheduled Traffic segment.

- Amendments to IAS 32, 'Financial Instruments: Presentation' and IAS 1, 'Presentation of Financial Statements' – Puttable Financial Instruments and Obligations Arising on Liquidation. The amendments require some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The amendment is not expected to have an impact on the group's financial statements.

- Amendment to IFRS 2, 'Share-based payment', clarifies that only service conditions and performance conditions are vesting conditions. All other features need to be included in the grant date fair value and do not impact the number of awards expected to vest or the valuation subsequent to grant date. The amendment also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The amendment is not expected to have an impact on the group's financial statements.

- IFRS 8, 'Operating Segments'. The new standard replaces IAS 14. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The segments reported by the group will also in the future be the same as the business segments under IAS 14, but the manner in which the segments are reported, will change slightly to be consistent with the internal reporting.

- IFRIC 11, 'IFRS 2 – Group and treasury share transactions'. The interpretation provides guidance on whether share-based transactions involving treasury shares or involving group entities should be accounted for as equity settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. The interpretation will not have a material impact on the group's financial statements.

- IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'. The interpretation is applied to post-employment defined benefit plans and other long-term defined benefit plans under IAS 19, if the plan includes minimum funding requirements. The interpretation also clarifies the criteria for recognition of an asset on future refunds or reductions in future contributions. The management assesses that the interpretation will have an effect on the accounting for some of the defined benefit plans of the group, but the impact on the on the group's financial statements will most likely not be material.

- IFRIC 15, 'Agreements for the Construction of Real Estate'. The interpretation clarifies whether an agreement for the construction of real estate is within the scope of IAS 11, 'Construction Contracts', or IAS 18, 'Revenue', and when revenue from such construction projects can be recognised on a percentage of completion basis. This interpretation does not have an impact on the group's financial statements.*

- IFRIC 16, 'Hedges of a Net Investment in a Foreign Operation'. IFRIC 16 clarifies the accounting treatment in respect of a hedge of a net investment in a foreign operation. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency. In addition hedging instruments may be held anywhere in the group. The requirements of IAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. Management assesses that the interpretation will increase the group's possibilities to apply hedge accounting, but the impact on the on the group's financial statements will most likely not be material.*

IASB PUBLISHED CHANGES TO 34 STANDARDS IN MAY 2008 AS PART OF THE ANNUAL IMPROVEMENTS TO IFRSS PROJECT. THE FOLLOWING PRESENTATION INCLUDES THOSE CHANGES, THAT THE GROUP WILL ADOPT IN 2009 AND WHERE THE MANAGEMENT ASSESSES THAT THE CHANGE MAY HAVE AN IMPACT ON THE GROUP'S FINANCIAL STATEMENTS:

- IAS 1 (Amendment), 'Presentation of financial statements'. The amendment clarifies that some rather than all financial assets classified as held for trading in accordance with IAS 39 are current assets. Management assesses that the amendment will not have a material impact on the financial statements of the group.

- IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows'). Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. Management is assessing the impact of this amendment on the financial statements of the group.

- IAS 19 (Amendment), 'Employee benefits'. The amendment clarifies among others things that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation. Management assesses that the amendment will not have a material impact on the financial statements of the group.

- IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance'. The benefit of a below market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39 and the proceeds received with the benefit accounted for in accordance with IAS 20. Management assesses that the amendment will not have a material impact on the financial statements of the group.

- IAS 23 (Amendment), 'Borrowing costs'. The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39. Management assesses that the amendment will not have a material impact on the financial statements of the group.

- IAS 27 (Amendment), 'Consolidated and separate financial statements'. Where an investment in a subsidiary that is accounted for under IAS 39, 'Financial instruments: recognition and measurement', is classified as held for sale under IFRS 5, 'Non-current assets held-for-sale and discontinued operations', IAS 39 would continue to be applied. Management assesses that the amendment will not have a material impact on the financial statements of the group.

- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures'). Where an investment in associate is accounted for in accordance with IAS 39, only certain rather than all disclosure requirements in IAS 28 need to be made in addition to disclosures required by IAS 32 and IFRS 7. The group will not reduce the amount of information presented in the notes to the financial statements of the group in the way allowed by the amendment, but will continue the current presentation.

- IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation', and IFRS 7, 'Financial instruments: Disclosures'). An investment in an associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. Management assesses that the amendment will not have a material impact on the financial statements of the group.

- IAS 31 (Amendment), 'Interests in joint ventures' (and consequential amendments to IAS 32 and IFRS 7). Where an investment in joint venture is accounted for in accordance with IAS 39, only certain rather than all disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32 and IFRS 7. The group will not reduce the amount of information presented in the notes to the financial statements of the group in the way allowed by the amendment, but will continue the current presentation.

- IAS 36 (Amendment), 'Impairment of assets'. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The change to the standard will increase the amount of information presented on impairment testing in the notes to the financial statements of the group.

- IAS 38 (Amendment), 'Intangible assets'. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. This means that an expense will be recognised for mail order catalogues when the group has access to the catalogues and not when the catalogues are distributed to customers. Management assesses that the amendment will not have a material impact on the financial statements of the group.

- IAS 38 (Amendment), 'Intangible assets'. The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight-line method. Management assesses that the amendment will not have a material impact on the financial statements of the group.

- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement'. The amendment clarifies among other things the classification of derivative instruments where there is a change in the hedge accounting, the definition of financial asset or financial liability at fair value through profit or loss and requires use of a revised effective interest rate to remeasure the carrying amount of a debt instrument on cessation of fair value hedge accounting. Management assesses that the amendment will not have a material impact on the financial statements of the group.

- IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16). Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. The amendment will increase the number properties classified as investment properties in the group financial statements.

#### THE FOLLOWING NEW STANDARDS AND INTERPRETATIONS EFFECTIVE IN 2009 ARE NOT RELEVANT TO THE FINANCIAL STATEMENTS OF THE GROUP:

- IFRS 1 (Amendment) 'First time adoption of IFRS', and IAS 27 'Consolidated and separate financial statements'). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amendment does not have an impact on the group's financial statements, and the group companies are not applying IFRS in their stand alone financial statements.

#### THE FOLLOWING STANDARDS AND INTERPRETATIONS PUBLISHED BY THE IASB WILL BE ADOPTED BY THE GROUP IN 2010:

- IFRS 3 (Revised), 'Business combinations'. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through income. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed. Management is assessing the impact of this revision on the financial statements of the group.*

- IAS 27 (Revised), 'Consolidated and separate financial statements'. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is recognised in profit or loss. Management is assessing the impact of this revision on the financial statements of the group.

- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement – Eligible Hedged Items'. The amendment prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. This amendment does not have an impact on the group's financial statements. *

- IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption'). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. Management is assessing the impact of this revision on the financial statements of the group. *

- IFRIC 17, 'Distributions of non-cash assets to owners'. The interpretation clarifies how an entity should measure distributions of assets other than cash made as a dividend to its owners. Management is assessing the impact of this interpretation on the financial statements of the group. *

- IFRIC 18, Transfers of Assets from Customers. The interpretation clarifies the requirements of IFRS standards for agreements in which an entity receives from a customer an item of property, plant and equipment or cash to be invested in such an item that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services. Management is assessing the impact of this interpretation on the financial statements of the group. *

THE FOLLOWING NEW STANDARDS AND INTERPRETATIONS EFFECTIVE IN 2010 ARE NOT RELEVANT TO THE FINANCIAL STATEMENTS OF THE GROUP:

- IFRIC 12, 'Service Concession Arrangements'. The interpretation applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services.*

THE FOLLOWING NEW STANDARDS, CHANGES TO STANDARDS AND THE APPLICATION OF INTERPRETATIONS WHICH ARE PERCEIVED TO BE ESSENTIAL FOR THE GROUP HAVE BEEN INTRODUCED FROM THE BEGINNING OF 2008:

- IFRIC 11. IFRS 2 – Group and Treasury Share Transactions. The interpretation clarifies the treatment of transactions relating to an entity's own equity instruments or to Group companies in the parent company and in Group companies' financial statements by providing guidance on their classification into share-based transactions payable as shareholders' equity or payable as cash. The interpretation has no impact on the consolidated financial statements.

- IAS 39 (Amendment) and IFRS 7 (Amendment). Reclassification of Financial Assets *. The amendment facilitates the reclassification of financial assets from financial assets held for trading purposes or financial assets available-for-sale under certain conditions and only in special situations. In such cases additional disclosures are required in the financial statements. The amendment has been effective as of 1 July 2008. The interpretation has no impact on the consolidated financial statements.

* The standard/interpretation is still subject to endorsement by the European Union.

A copy of the consolidated financial statements can be obtained at the internet address www.finnair.com/group or from the head office of the Group's parent company at the address Tietotie 11 A, Vantaa, Finland. The full financial statements containing the financial statements of both the Group and the parent company can be obtained from the head office of the Group's parent company at the address Tietotie 11 A, Vantaa, Finland.

These financial statements do not contain all of the parent company's financial statement information under the Finnish Accounting Act.

## 3. SEGMENT INFORMATION

**Annual information**

Segment information is presented according to the Group's business and geographical segment division. The Group's primary form of segment reporting is according to business segments. Business segments are based on the Group's internal organisational structure and financial reporting of management. The business segments are Scheduled Passenger Traffic, Leisure Traffic, Aviation Services and Travel Services. Pricing between segments takes place at fair value. The assets and liabilities of segments are such business items which the segment uses in its business operations or which on sensible grounds are attributable to the segments. Unattributable items include tax and financial items as well as items common to the whole company. Investments consist of increases in tangible and intangible assets which are used in more than one financial year. Groups geographical areas are Finland, Europe, Asia, North America and Others. The turnover of the geographical segments is presented according to sales destination, and assets, liabilities, depreciation and investments according to their location.

**Primary reporting format – business segment data 1 Jan–31 Dec 2008**

| EUR mill. | Scheduled Passenger Traffic | Leisure Traffic | Aviation Services | Travel Services | Group eliminations | Unallocated items | Group |
|---|---|---|---|---|---|---|---|
| External turnover | 1,634.9 | 447.1 | 106.8 | 73.8 | | | 2,262.6 |
| Internal turnover | 100.8 | 7.5 | 339.0 | 4.1 | -451.4 | | 0.0 |
| Turnover | 1,735.7 | 454.6 | 445.8 | 77.9 | -451.4 | 0.0 | 2,262.6 |
| Operating profit | -27.6 | 26.7 | 10.9 | 1.8 | | -63.9 | -52.1 |
| Share of results of associated undertakings | | | | | | 0.3 | 0.3 |
| Financial income | | | | | | 22.1 | 22.1 |
| Financial expenses | | | | | | -26.7 | -26.7 |
| Income tax | | | | | | 14.6 | 14.6 |
| Minority interest | | | | | | -0.2 | -0.2 |
| Profit for the financial year | | | | | | | -42.0 |
| | | | | | | | |
| Segment assets | 1,302.0 | 191.9 | 328.2 | 88.0 | -353.7 | 513.5 | 2,069.9 |
| Holdings in associated undertakings | | | | | | 6.1 | 6.1 |
| Assets, total | 1,302.0 | 191.9 | 328.2 | 88.0 | -353.7 | 519.6 | 2,076.0 |
| | | | | | | | |
| Segment liabilities | 860.2 | 122.8 | 113.4 | 34.1 | -261.5 | 434.2 | 1,303.2 |
| | | | | | | | |
| Other items | | | | | | | |
| Investments | 196.1 | 0.5 | 34.2 | 0.7 | 0.0 | 1.3 | 232.8 |
| Depreciation | 77.4 | 0.4 | 30.5 | 1.5 | 0.0 | 0.4 | 110.2 |

**Primary reporting format – business segment data 1 Jan–31 Dec 2007**

| EUR mill. | Scheduled Passenger Traffic | Leisure Traffic | Aviation Services | Travel Services | Group eliminations | Unallocated items | Group |
|---|---|---|---|---|---|---|---|
| External turnover | 1,578.3 | 403.6 | 121.0 | 77.6 | | | 2,180.5 |
| Internal turnover | 107.0 | 6.0 | 312.9 | 4.7 | -430.6 | | 0.0 |
| Turnover | 1,685.3 | 409.6 | 433.9 | 82.3 | -430.6 | 0.0 | 2,180.5 |
| Operating profit | 79.2 | 24.2 | 16.9 | 2.9 | | 18.3 | 141.5 |
| Share of results of associated undertakings | | | | | | 0.1 | 0.1 |
| Financial income | | | | | | 17.2 | 17.2 |
| Financial expenses | | | | | | -19.9 | -19.9 |
| Income tax | | | | | | -36.8 | -36.8 |
| Minority interest | | | | | | -0.5 | -0.5 |
| Profit for the financial year | | | | | | | 101.6 |

| EUR mill. | Scheduled Passenger Traffic | Leisure Traffic | Aviation Services | Travel Services | Group eliminations | Unallocated items | Group |
|---|---|---|---|---|---|---|---|
| Segment assets | 1,314.9 | 148.8 | 283.7 | 83.2 | -244.8 | 552.1 | 2,137.9 |
| Holdings in associated undertakings | | | | | | 5.7 | 5.7 |
| Assets, total | 1,314.9 | 148.8 | 283.7 | 83.2 | -244.8 | 557.8 | 2,143.6 |
| | | | | | | | |
| Segment liabilities | 652.4 | 70.7 | 82.8 | 37.3 | -151.3 | 464.7 | 1,156.6 |
| | | | | | | | |
| Other items | | | | | | | |
| Investments | 284.6 | 0.2 | 37.5 | 1.5 | 0.0 | 2.5 | 326.3 |
| Depreciation | 81.7 | 0.4 | 26.0 | 1.6 | 0.0 | 2.9 | 112.6 |

| **Employees (average) by segment** | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| Scheduled Passenger Traffic | 4,254 | 4,151 |
| Leisure Traffic | 464 | 372 |
| Aviation Services | 3,650 | 3,674 |
| Travel Services | 1,078 | 1,129 |
| Other operations | 149 | 154 |
| **Total** | **9,595** | **9,480** |
| | | |
| Employees at end of year | 9,617 | 9,657 |

**Secondary reporting format – geographical segments**

**Turnover outside the Group by sales segment**

| EUR mill. | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| Finland | 434.3 | 419.7 |
| Europe | 965.8 | 992.8 |
| Asia | 710.8 | 626.3 |
| North America | 67.6 | 63.2 |
| Others | 84.1 | 78.5 |
| **Total** | **2,262.6** | **2,180.5** |

**Segment assets according to country of location**

| EUR mill. | 31 Dec 2008 | 31 Dec 2007 |
|---|---|---|
| Finland | 1,783.0 | 1,701.8 |
| Europe | 77.7 | 83.5 |
| Asia | 40.8 | 40.8 |
| North America | 1.5 | 1.5 |
| Others | 7.1 | 3.0 |
| Group eliminations | -353.7 | -244.8 |
| Unallocated items | 519.6 | 557.8 |
| **Total** | **2,076.0** | **2,143.6** |

| Segment liabilities according to country of location | | |
|---|---|---|
| EUR mill. | 31 Dec 2008 | 31 Dec 2007 |
| Finland | 1,063.8 | 779.9 |
| Europe | 32.5 | 32.9 |
| Asia | 26.7 | 24.7 |
| North America | 1.7 | 1.9 |
| Others | 5.8 | 3.8 |
| Group eliminations | -261.5 | -151.3 |
| Unallocated items | 434.2 | 464.7 |
| **Total** | **1,303.2** | **1,156.6** |

| Capital expenditure by country of location | | |
|---|---|---|
| EUR mill. | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
| Finland | 232.5 | 326.2 |
| Europe | 0.3 | 0.1 |
| Asia | 0.0 | 0.0 |
| North America | 0.0 | 0.0 |
| Others | 0.0 | 0.0 |
| Unallocated items | 0.0 | 0.0 |
| **Total** | **232.8** | **326.3** |

## QUARTAL INFORMATION

### Consolidated income statement

| EUR mill. | Q1 2008 | Q2 2008 | Q3 2008 | Q4 2008 | Q1 2007 | Q2 2007 | Q3 2007 | Q4 2007 |
|---|---|---|---|---|---|---|---|---|
| **Turnover** | **576.5** | **546.1** | **559.7** | **580.3** | **528.5** | **538.1** | **545.2** | **568.7** |
| Production for own use | 0.1 | 0.5 | 0.5 | 0.5 | 0.8 | 0.5 | 1.1 | 0.6 |
| Other operating income | 5.9 | 8.3 | 4.3 | 8.6 | 5.9 | 10.7 | 24.6 | 11.6 |
| **Operating income** | **582.5** | **554.9** | **564.5** | **589.4** | **535.2** | **549.3** | **570.9** | **580.9** |
| **Operating expenses** | | | | | | | | |
| Employee benefit expense | 140.5 | 128.2 | 129.3 | 143.0 | 135.1 | 127.2 | 129.1 | 150.1 |
| Fuel | 134.9 | 143.5 | 158.2 | 131.3 | 103.2 | 104.3 | 116.5 | 115.9 |
| Lease payments for aircraft | 20.4 | 20.7 | 20.7 | 20.8 | 21.7 | 19.1 | 19.8 | 20.6 |
| Other rental payments | 18.0 | 17.2 | 13.3 | 20.8 | 17.2 | 15.3 | 16.0 | 15.3 |
| Fleet materials and overhauls | 19.7 | 19.2 | 19.5 | 37.7 | 22.2 | 19.2 | 17.0 | 18.3 |
| Traffic charges | 43.6 | 47.1 | 48.6 | 49.2 | 43.7 | 44.4 | 46.0 | 42.9 |
| Ground handling and catering expenses | 35.2 | 36.5 | 38.1 | 36.8 | 36.5 | 42.7 | 39.1 | 36.0 |
| Expenses for tour operations | 44.6 | 25.5 | 27.4 | 41.4 | 35.8 | 23.0 | 25.0 | 36.8 |
| Sales and marketing expenses | 27.1 | 24.9 | 24.0 | 27.9 | 19.4 | 27.1 | 19.1 | 26.4 |
| Depreciation and impairment | 27.7 | 28.1 | 32.0 | 22.4 | 27.3 | 27.7 | 32.0 | 25.6 |
| Other expenses | 58.7 | 43.3 | 78.2 | 118.2 | 59.4 | 62.2 | 51.4 | 62.2 |
| **Total** | **570.4** | **534.2** | **589.3** | **649.5** | **521.5** | **512.2** | **511.0** | **550.1** |

| EUR mill. | Q1 2008 | Q2 2008 | Q3 2008 | Q4 2008 | Q1 2007 | Q2 2007 | Q3 2007 | Q4 2007 |
|---|---|---|---|---|---|---|---|---|
| **Operating profit** | **12.1** | **20.7** | **-24.8** | **-60.1** | **13.7** | **37.1** | **59.9** | **30.8** |
| Financial income | 5.4 | 7.2 | 5.4 | 4.1 | 3.6 | 2.6 | 2.0 | 9.0 |
| Financial expenses | -9.9 | -8.8 | -2.9 | -5.1 | -3.9 | -5.4 | -6.0 | -4.6 |
| Share of result of associated companies | 0.0 | 0.0 | 0.0 | 0.3 | 0.0 | 0.1 | 0.0 | 0.0 |
| **Profit before taxes** | **7.6** | **19.1** | **-22.3** | **-60.8** | **13.4** | **34.4** | **55.9** | **35.2** |
| Income taxes | -2.1 | -5.2 | 5.0 | 16.9 | -4.1 | -8.4 | -16.1 | -8.2 |
| **Profit for the financial year** | **5.5** | **13.9** | **-17.3** | **-43.9** | **9.3** | **26.0** | **39.8** | **27.0** |
| | | | | | | | | |
| Share attributable to parent company's shareholders | 5.5 | 13.9 | -17.3 | -44.1 | 9.3 | 25.8 | 39.6 | 26.9 |
| Minority interests | 0.0 | 0.0 | 0.0 | 0.2 | 0.0 | 0.2 | 0.2 | 0.1 |
| | | | | | | | | |
| **Earnings per share calculated from profit attributable to shareholders of the parent company** | | | | | | | | |
| Basic earnings per share, EUR/share | 0.05 | 0.12 | -0.15 | -0.35 | 0.11 | 0.29 | 0.44 | 0.20 |
| Diluted earnings per share, EUR/share | 0.05 | 0.12 | -0.15 | -0.35 | 0.11 | 0.29 | 0.44 | 0.20 |

Comparison year figures have been converted to correspond with the presentation practice of the year ended.

**Consolited balance sheet**

| EUR mill. | 31 Mar 2008 | 30 Jun 2008 | 30 Sep 2008 | 31 Dec 2008 | 31 Mar 2007 | 30 Jun 2007 | 30 Sep 2007 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | | | |
| **Non-current assets** | | | | | | | | | |
| Intangible assets | 49.0 | 48.9 | 47.7 | 48.1 | 48.9 | 48.5 | 47.0 | 46.6 | 47.5 |
| Tangible assets | 1,234.7 | 1,232.0 | 1,242.7 | 1,272.1 | 1,051.1 | 1,165.6 | 1,163.2 | 1,168.9 | 1,012.3 |
| Holdings in associated companies | 5.8 | 5.8 | 5.8 | 6.1 | 5.6 | 5.6 | 5.7 | 5.7 | 5.6 |
| Receivables | 12.9 | 19.9 | 21.5 | 21.5 | 15.3 | 15.0 | 14.3 | 13.8 | 15.4 |
| Deferred tax assets | 21.0 | 23.5 | 12.3 | 49.8 | 23.3 | 17.7 | 18.1 | 10.4 | 27.1 |
| | 1,323.4 | 1,330.1 | 1,330.0 | 1,397.6 | 1,144.2 | 1,252.4 | 1,248.3 | 1,245.4 | 1,107.9 |
| **Current assets** | | | | | | | | | |
| Inventories | 40.1 | 38.3 | 37.6 | 35.1 | 40.3 | 40.4 | 39.8 | 36.1 | 38.5 |
| Trade receivables and other receivables | 367.6 | 477.8 | 358.5 | 231.8 | 286.3 | 264.0 | 307.6 | 287.3 | 211.8 |
| Other financial assets | 443.6 | 418.5 | 357.7 | 373.8 | 192.6 | 225.7 | 231.8 | 518.6 | 268.6 |
| Cash and cash equivalents | 17.5 | 18.6 | 16.3 | 18.3 | 28.9 | 21.2 | 26.6 | 21.5 | 25.7 |
| | 868.8 | 953.2 | 770.1 | 659.0 | 548.1 | 551.3 | 605.8 | 863.5 | 544.6 |
| Non-current assets held for sale | 32.8 | 16.2 | 35.3 | 19.4 | 7.6 | 26.2 | 11.2 | 34.7 | 7.6 |
| | | | | | | | | | |
| **Assets, total** | **2,225.0** | **2,299.5** | **2,135.4** | **2,076.0** | **1,699.9** | **1,829.9** | **1,865.3** | **2,143.6** | **1,660.1** |

**Consolited balance sheet**

| EUR mill. | 31 Mar 2008 | 30 Jun 2008 | 30 Sep 2008 | 31 Dec 2008 | 31 Mar 2007 | 30 Jun 2007 | 30 Sep 2007 | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|---|---|---|---|---|---|---|
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | | | | | | | |
| Equity attributable to shareholders of parent company | | | | | | | | | |
| Share capital | 75.4 | 75.4 | 75.4 | 75.4 | 75.4 | 75.4 | 75.4 | 75.4 | 75.4 |
| Other equity | 890.3 | 978.0 | 887.6 | 696.3 | 538.4 | 569.0 | 605.1 | 909.9 | 524.5 |
| | 965.7 | 1,053.4 | 963.0 | 771.7 | 613.8 | 644.4 | 680.5 | 985.3 | 599.9 |
| Minority interest | 1.1 | 0.8 | 0.8 | 1.1 | 1.2 | 1.4 | 1.6 | 1.7 | 1.6 |
| **Shareholders' equity, total** | **966.8** | **1,054.2** | **963.8** | **772.8** | **615.0** | **645.8** | **682.1** | **987.0** | **601.5** |
| | | | | | | | | | |
| **Non-current liabilities** | | | | | | | | | |
| Deferred tax liabilities | 150.1 | 176.3 | 149.1 | 120.6 | 116.2 | 117.5 | 118.7 | 144.5 | 115.7 |
| Financial liabilities | 258.9 | 226.9 | 242.8 | 261.1 | 280.0 | 317.7 | 313.6 | 269.6 | 286.9 |
| Pension obligations | 14.0 | 12.2 | 2.2 | 6.1 | 8.4 | 6.8 | 11.8 | 15.8 | 7.0 |
| | 423.0 | 415.4 | 394.1 | 387.8 | 404.6 | 442.0 | 444.1 | 429.9 | 409.6 |
| **Current liabilities** | | | | | | | | | |
| | | | | | | | | | |
| Current income tax liability | 7.5 | 13.3 | 0.0 | 1.5 | 4.6 | 12.0 | 23.1 | 8.2 | 3.0 |
| Provisions | 53.8 | 54.3 | 53.3 | 61.5 | 57.1 | 59.1 | 56.5 | 53.6 | 55.7 |
| Financial liabilities | 55.2 | 53.2 | 51.9 | 48.5 | 50.0 | 78.3 | 70.3 | 54.5 | 56.6 |
| Trade payables and other liabilities | 718.7 | 709.1 | 672.3 | 803.9 | 568.6 | 566.0 | 579.2 | 610.4 | 533.7 |
| Liabilities related to long-term asset items held for sale | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 26.7 | 10.0 | 0.0 | 0.0 |
| | 835.2 | 829.9 | 777.5 | 915.4 | 680.3 | 742.1 | 739.1 | 726.7 | 649.0 |
| **Liabilities, total** | **1,258.2** | **1,245.3** | **1,171.6** | **1,303.2** | **1,084.9** | **1,184.1** | **1,183.2** | **1,156.6** | **1,058.6** |
| | | | | | | | | | |
| **Shareholders' equity and liabilities, total** | **2,225.0** | **2,299.5** | **2,135.4** | **2,076.0** | **1,699.9** | **1,829.9** | **1,865.3** | **2,143.6** | **1,660.1** |

**Segment information**

**Turnover by quarter**

| EUR mill. | Q1 2008 | Q2 2008 | Q3 2008 | Q4 2008 | Q1 2007 | Q2 2007 | Q3 2007 | Q4 2007 |
|---|---|---|---|---|---|---|---|---|
| Scheduled Passenger Traffic | 423.2 | 438.9 | 447.4 | 426.2 | 391.2 | 434.0 | 432.6 | 427.5 |
| Leisure Traffic | 139.3 | 84.8 | 93.7 | 136.8 | 116.6 | 83.1 | 90.1 | 119.8 |
| Aviation Services | 109.9 | 111.5 | 108.6 | 115.8 | 110.8 | 99.8 | 109.9 | 113.4 |
| Travel Services | 21.1 | 20.6 | 18.3 | 17.9 | 20.7 | 22.4 | 19.0 | 20.2 |
| Group eliminations | -117.0 | -109.7 | -108.3 | -116.4 | -110.8 | -101.2 | -106.4 | -112.2 |
| **Total** | **576.5** | **546.1** | **559.7** | **580.3** | **528.5** | **538.1** | **545.2** | **568.7** |

**Operating profit excluding the disposal of the capital assets fair value changes of derivatives and arragement expenses by quater**

| EUR mill. | Q1 2008 | Q2 2008 | Q3 2008 | Q4 2008 | Q1 2007 | Q2 2007 | Q3 2007 | Q4 2007 |
|---|---|---|---|---|---|---|---|---|
| Scheduled Passenger Traffic | -0.4 | 1.9 | -4.0 | -27.6 | -0.3 | 27.7 | 28.8 | 20.0 |
| Leisure Traffic | 11.1 | -2.5 | 6.0 | 12.1 | 5.6 | 1.1 | 7.8 | 9.7 |
| Aviation Services | 2.5 | 4.4 | 1.9 | 5.0 | 3.3 | 1.3 | 2.7 | 3.0 |
| Travel Services | 0.4 | 1.4 | 1.3 | -1.0 | 1.3 | 1.2 | 1.3 | -0.9 |
| Unallocated items | -2.5 | 0.0 | -2.4 | -1.0 | -4.1 | -4.1 | -1.4 | -7.4 |
| **Total** | **11.1** | **5.2** | **2.8** | **-12.5** | **5.8** | **27.2** | **39.2** | **24.4** |

## 4. ACQUIRED BUSINESSES

The Finnair Group's Oy Aurinkomatkat - Suntours Ltd Ab signed an agreement on 23 October 2007 to acquire 80% of the share stock of Russian Calypso company. The acquisition price was 2.5 million euros and it was paid in cash. The goodwill of 2.5 million euros that arose is based on the management's view that through the acquisition Aurinkomatkat will obtain a solid foothold in the growing package tour market in Russia. The transaction is also strengthened by synergy benefits on both sides of the Gulf of Finland. The company's year 2008 loss, 2.0 million euros, is included in the consolidated income statement for 2008. The company's turnover 2008, 5.3 million euros, is included in full in the Group's turnover. During the fiscal year 2008 the additional purchase price of 0.4 million euroa has been paid as agreed for A/S Horizon Travel, which was acquired in the previous financial period.
The purchase price of 0.4 million euros has been entered as a goodwill.

**Values of liabilities and acquired assets at the acquisition date:**

| EUR mill. | Recognised fair values | Book values before consolidation |
|---|---|---|
| Trade and other receivables | 0.1 | 0.1 |
| Cash and cash equivalents | 0.3 | 0.3 |
| **Total** | **0.4** | **0.4** |
| | | |
| Other financial liabilities | -0.3 | -0.3 |
| Net assets | 0.1 | 0.1 |
| Minority interest (20%) | 0.0 | |
| Bought net assets | 0.1 | |
| | | |
| Acquisition cost | 2.9 | |
| Goodwill (Note 16) | 2.9 | |
| | | |
| Acquisition price paid in cash | 2.9 | |
| Cash and cash equivalents of acquired subsidiary | -0.3 | |
| Cash flow effect | 2.6 | |

## 5. ASSET ITEMS SOLD AND NON-CURRENT ASSETS HELD FOR SALE

The Group had in the beginning of fiscal year options to acquire additional Norwegian Air Shuttle ASA' s shares and increase its holding in Norwegian Air Shuttle ASA to around 10 per cent. The options have not been used up to the end of fiscal year 2008, when the use right has ended. In addition Norwegian Air Shuttle ASA will pay the Group a sum corresponding to 50 per cent of the profit from FlyNordic's charter flight business in the period beginning on 30 June 2007 and ending on 31 October 2008. Under the agreement this sum is payable on 31 December 2008. Anything for entering for this agreement is not recognised in the financial statements of 31 December 2008 because the calculations of Norwegian Air Shuttle ASA are unfinished.

| **Net assets and liabilities of sold operations** | | |
|---|---|---|
| EUR mill. | 2008 | 2007 |
| Cash and cash equivalents | 0.0 | 1.7 |
| Intangible assets | 0.0 | 1.9 |
| Tangible fixed assets | 0.0 | 2.7 |
| Trade receivables and other receivables | 0.0 | 31.4 |
| Loans | 0.0 | -38.7 |
| **Total** | **0.0** | **-1.0** |
| Capital gain | 0.0 | 19.7 |
| **Consideration, total** | **0.0** | **18.7** |
| | | |
| Paid cash and cash equivalents | 0.0 | 2.3 |
| Cash and cash equivalents of disposed subsidiary | 0.0 | -1.7 |
| **Net cash flow of disposal** | **0.0** | **0.6** |

**Non-current assets held for sale**

In the Scheduled Passenger Traffic segment the following have been classified as available for sale: one MD-11 aircraft, because the sum corresponding to their carrying amount will accrue from the sale of the asset item instead of operational use. The company management has decided on their sale, with the intention of implementing it during 2009. The aircraft to be sold is for sale in their present condition on the industry's general and customary terms and conditions. Depreciation of the aircraft and engines in question was discontinued at the time of classification. Company has agreed to sell both of its MD-11 aircraft.

In the Scheduled Passenger Traffic segment the following were classified as available for sale in 2007: one MD-11 aircraft, six MD-80 aircraft and three ATR-72 aircraft, because the sum corresponding to their carrying amount accrued from the sale of the asset item instead of operational use, and depreciation of the aircraft and engines in question was discontinued at the time of classification. The company management decided on their sale, which was implemented in spring 2008 according to plan.

Impairments totaling 0.0 million euros have been recognised for the fleet in 2008 (previous year 3.0 million euros), as the asset was valued at selling prices less costs of sale. Impairments are presented in the income statement group 'Depreciation'.

| **The book value of the non-current assets held for sale** | | |
|---|---|---|
| EUR mill. | 31 Dec 2008 | 31 Dec 2007 |
| Aircraft | 19.4 | 34.7 |
| Total | 19.4 | 34.7 |

## 6. PRODUCTION FOR OWN USE

| EUR mill. | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| Component production | 0.9 | 1.2 |
| Heavy maintenance | 0.7 | 1.8 |
| **Total** | **1.6** | **3.0** |

## 7. OTHER OPERATING INCOME

| EUR mill. | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| Capital gains on sales of tangible fixed assets | 6.1 | 10.7 |
| Capital gain from shares | 0.1 | 0.0 |
| Sell of subsidiaries | 0.0 | 22.7 |
| Rental income | 4.0 | 4.4 |
| Others | 16.9 | 15.0 |
| **Total** | **27.1** | **52.8** |

Other operating income includes frequent-flyer income of 7,0 million euros (6.0) and during the financial year, grants amounting to 1.7 million euros (1.6). The rest consists of several items, none of which are individually significant.

## 8. MATERIAL AND SERVICES

| EUR mill. | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| **Materials and services** | | |
| Materials and supplies for aircraft maintenance | 39.7 | 32.5 |
| Ground handling and catering charges | 146.6 | 154.3 |
| Fuels for flight operations | 567.9 | 439.9 |
| Expenses for tour operations | 138.9 | 120.6 |
| Aircraft maintenance and servicing | 56.4 | 44.2 |
| Data administration services | 49.5 | 52.3 |
| Other items [1)] | 55.8 | 53.1 |
| **Total** | **1,054.8** | **896.9** |

Other operating expenses do not include research and development expenses.

[1)] Consists of several items, none of which are individually significant.

## 9. EMPLOYEE BENEFIT EXPENSE

| EUR mill. | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| **Employee benefit expense** | | |
| Wages and salaries | 427.7 | 417.8 |
| Pension expenses | 80.5 | 80.0 |
| Other social expenses | 32.8 | 43.7 |
| **Total** | **541.0** | **541.5** |

Personnel expenses includ recognition a non-recurring personnel restructurig provision of 2.4 million euros as agreed in the Group's statutory employer-employee negotiations during 2008.

| **Salaries and bonuses of Chief Executive Officer and Members of the Board of Directors** | | |
|---|---|---|
| EUR | Salary and bonuses | |
| **Chief Executive Officer** | | |
| Jukka Hienonen | 1,061 534 | |
| **Deputy Chief Executive Officer** | | |
| Henrik Arle | 636 020 | |
| **Members of the Board of Directors** | | |
| Christoffer Taxell | 67,187 | |
| Kari Jordan | 41,344 | |
| Satu Huber | 33,634 | |
| Markku Hyvärinen | 37,608 | |
| Veli Sundbäck | 36,600 | |
| Pekka Timonen | 26,127 | |
| Sigurdur Helgason | 40,542 | |
| Kalevi Alestalo | 10,400 | |
| Ursula Ranin | 39,011 | |

Further information on the share-based bonuses of the President and CEO and Members of the Board of Directors can be found in Note 26.

**Personnel incentive scheme**
The Group operates an incentive scheme based on a balanced scorecard, defined separately for each business unit, which covers most of the Finnair Group's employees. The total amount of bonuses in 2008 was 11.2 million euros (12.9).

**Transfer to Personnel Fund**
The Finnair Group has a profit bonus scheme, which allows employees to participate in a profit bonus payable on the basis of the Group's result and return on capital employed. A profit bonus is paid into a Personnel Fund, which is obliged to invest part of the bonus in Finnair Plc's shares. Other staff costs include 0.0 million euros of profit bonus (9.5).

| EUR mill. | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| **Social expenses** | | |
| Pension expenses – defined contribution schemes | 74.7 | 73.8 |
| Pension expenses – defined-benefit schemes, voluntary | 5.3 | 5.7 |
| Other defined-benefit expenses | 0.5 | 0.5 |
| Other social expenses | 32.8 | 43.7 |
| **Total** | **113.3** | **123.7** |

**Management pension benefits**
The pension schemes of the parent company's President & CEO and members of the Board of Management as well as those of the managing directors of subsidiaries are individual schemes, and the retirement age under these agreements varies from 60 to 65 years. All of the management pension schemes are defined-contribution schemes.

## 10. DEPRECIATION AND IMPAIRMENT

| EUR mill. | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| **Depreciation of tangible fixed assets** | | |
| Buildings | 5.3 | 4.9 |
| Aircraft | 84.1 | 89.9 |
| Other equipment | 10.5 | 8.9 |
| | 99.9 | 103.7 |
| **Depreciation of intangible assets** | | |
| Other intangible assets | 10.3 | 8.9 |
| | 10.3 | 8.9 |
| **Total** | **110.2** | **112.6** |

## 11. OTHER OPERATING EXPENSES

| EUR mill. | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| **Other operating expenses** | | |
| Lease payments for aircraft | 82.6 | 81.2 |
| Rental of cargo capacity | 8.4 | 13.1 |
| Other rental of flight capacity | 29.5 | 14.3 |
| Office and other rents | 31.4 | 36.4 |
| Traffic charges | 188.5 | 154.3 |
| Sales and marketing expenses | 103.9 | 92.0 |
| IT expenses and booking fees | 33.0 | 35.7 |
| Other items[1)] | 160.1 | 116.8 |
| **Total** | **637.4** | **543.8** |

[1)] Consists of several items, none of which are individually significant.

| The auditor's fees are included in the other items as follows: | | |
|---|---|---|
| EUR mill. | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
| Auditor's fees | | |
| | | |
| PricewaterhouseCoopers Ltd | | |
| Auditor's fees | 0.2 | 0.2 |
| Tax advising | 0.1 | 0.0 |
| Other fees | 0.0 | 0.0 |
| Total | 0.3 | 0.2 |
| | | |
| Other | 0.0 | 0.0 |

## 12. FINANCIAL INCOME

| EUR mill. | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| Interest income | | |
| Interest income from financial assets classified as held for trading | 18.9 | 10.4 |
| Other interest income | 0.0 | 0.5 |
| | **18.9** | **10.9** |
| Dividend income | 0.0 | 0.2 |
| Other financial income | 0.3 | 0.0 |
| Exchange gains | 2.9 | 6.1 |
| **Total** | **22.1** | **17.2** |

## 13. FINANCIAL EXPENSES

| EUR mill. | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| Interest expenses | | |
| Interest expenses on financial liabilities recognised at fair value through profit and loss | 1.4 | 1.9 |
| Interest expenses for financial liabilities valued at amortised acquisition cost | 12.4 | 14.2 |
| Interest on finance leases | 2.9 | 1.2 |
| | **16.7** | **17.3** |
| Exchange losses | 0.0 | 1.8 |
| Other financial expenses | 10.0 | 0.8 |
| **Total** | **26.7** | **19.9** |

Effectiveness testing of the Group's hedge accounting found that both cash flow and fair value hedging are effective. Thus, as in the comparison year 2007, no ineffektiveness is included in financial items for 2008. Financial income includes an identical amount of profits and losses for fair value hedging instruments and for hedging items resulting from the hedged risk.

## 14. INCOME TAXES

| Taxes for financial year | | |
|---|---|---|
| EUR mill. | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
| Tax based on taxable income of financial year | 1.5 | 8.2 |
| Tax based on taxable income of previous year | -1.1 | 0.0 |
| Deferred taxes | -15.0 | 28.6 |
| **Total** | **-14.6** | **36.8** |

| The tax expense included in the consolidated income statement differs in the following way from the theoretical sum obtained by using the tax rate (26%) of the Group's home country, Finland: | | |
|---|---|---|
| EUR mill. | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
| Profit before taxes | -56.4 | 138.9 |
| Taxes calculated using the Finnish tax rate | 14.7 | -36.1 |
| Different tax rates of foreign subsidiaries | 0.0 | 0.0 |
| Share of result in associates | 0.1 | 0.0 |
| Tax-free income | -0.1 | -0.8 |
| Nondeductible expenses | -0.4 | -0.3 |
| Deferred taxes from loss | 0.3 | 0.4 |
| **Income taxes, total** | **14.6** | **-36.8** |
| | | |
| Effective tax rate | 25.8 % | 26.5 % |

## 15. EARNINGS PER SHARE

The undiluted earnings per share figure is calculated by dividing the profit for the financial year attributable to the parent company's shareholders by the weighted average number of shares outstanding during the financial year. 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. The fair value of the share is based on the weighted average price of the shares in trading.

| | | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|---|
| Result for the financial year | EUR mill. | -42.0 | 101.6 |
| Weighted average number of shares | 1,000s | 127,970 | 98,032 |
| Undiluted and diluted earnings per share | EUR | -0.33 | 1.04 |
| Result for the financial year | EUR mill. | -42.0 | 101.6 |
| Weighted average number of shares | 1,000s | 127,970 | 98,032 |

**Dividend**

The dividend paid in 2008 was 31.9 million euros (0.25 euros per share)and in 2007 8.9 million euros (0.10 euros per share). The Board of Directors proposes to the Annual General Meeting that no dividend shall be paid from fiscal year 2008.

## 16. INTANGIBLE ASSETS

| Financial statement 31 Dec 2007 | | | | |
|---|---|---|---|---|
| EUR mill. | Connections fees | Systems | Goodwill | Total |
| **Acquisition cost** | | | | |
| Acquisition cost 1 Jan 2007 | 1.7 | 98.2 | 2.3 | 102.2 |
| Additions | 0.4 | 15.7 | | 16.1 |
| Subsidiary acquisions | | | 0.3 | 0.3 |
| Disposals | | -12.2 | -1.8 | -14.0 |
| Transfers between items | | 3.8 | 0.0 | 3.8 |
| Acquisition cost 31 Dec 2007 | 2.1 | 105.5 | 0.8 | 108.4 |
| | | | | |
| **Accumulated depreciation and impairment** | | | | |
| Accumulated depreciation and impairment 1 Jan 2007 | 0.0 | -54.7 | | -54.7 |
| Depreciation | | -9.1 | 0.0 | -9.1 |
| Accumulated planned depreciation of disposals | | 2.0 | | 2.0 |
| Accumulated depreciation and impairment 31 Dec 2007 | 0.0 | -61.8 | 0.0 | -61.8 |
| | | | | |
| **Book value 31 Dec 2007** | **2.1** | **43.7** | **0.8** | **46.6** |
| | | | | |
| Book value 1 Jan 2007 | 1.7 | 43.5 | 2.3 | 47.5 |

| Financial statement 31 Dec 2008 | | | | |
|---|---|---|---|---|
| EUR mill. | Connections fees | Systems | Goodwill | Total |
| Acquisition cost | | | | |
| Acquisition cost 1 Jan 2008 | 2.1 | 105.5 | 0.8 | 108.4 |
| Additions | 0.1 | 12.6 | | 12.7 |
| Subsidiary acquisions | | | 2.9 | 2.9 |
| Disposals | -0.2 | -4.1 | 0.0 | -4.3 |
| Transfers between items | | 0.0 | 0.0 | 0.0 |
| Acquisition cost 31 Dec 2008 | 2.0 | 114.0 | 3.7 | 119.7 |
| | | | | |
| Accumulated depreciation and impairment | | | | |
| Accumulated depreciation and impairment 1 Jan 2008 | 0.0 | -61.8 | 0.0 | -61.8 |
| Depreciation | | -10.3 | 0.0 | -10.3 |
| Accumulated planned depreciation of disposals | | 0.5 | | 0.5 |
| Accumulated depreciation and impairment 31 Dec 2008 | 0.0 | -71.6 | 0.0 | -71.6 |
| | | | | |
| **Book value 31 Dec 2008** | **2.0** | **42.4** | **3.7** | **48.1** |
| | | | | |
| Book value 1 Jan 2008 | 2.1 | 43.7 | 0.8 | 46.6 |

To FlyNordic, which was an independent cash flow creating unit, was allocated goodwill of 1,8 million euros and to other Scheduled Passenger Traffic 0,5 million euros. Year 2007 in context of selling FlyNordic, goodwill of 1,8 million euros was removed from the balance sheet. When the Group acquired more of the company Ou Horizon Travel, goodwill amounting to 0.4 million euros was recognised for the acquisition. The total goodwill of Ou Horizon Travel is 0.7 million euros. After impairment testing it was found that no impairment losses need to be recognised. In impairment testing, the recoverable amount has been determined based on value in use. Cash flow forecasts are based on management-approved budgets and forecasts, which cover a five-year period. The discount rate used is 20.0% (Group WACC 9.5%). The main assumption in budgets and forecasts is 2% growth in revenue and expenses.

In the view of management a growth forecast percentage should be used as the most sensitive variable in value determination. The growth forecast used is 2% and is below the industry average for the operations in question. On the basis of a sensitivity analysis based on the growth forecast, if the growth rate were to be 0% below the management forecast, even so no requirement for an impairment recognition would arise in the Group.

If the discount rate used were to grow by 10%, the requirement for an impairment recognition would arise by 0.2 million euros.

Based on sensitivity analyses made by the company's management, management considers that no grounds are perceptible that would require an impairment of goodwill.

## 17. TANGIBLE FIXED ASSETS

**Financial statement 31 Dec 2007**

| EUR mill. | Land | Buildings | Aircraft | Other equipment | Advances | Total |
|---|---|---|---|---|---|---|
| **Acquisition cost** | | | | | | |
| Acquisition cost 1 Jan 2007 | 1.7 | 187.7 | 1,629.7 | 241.8 | 72.9 | 2,133.8 |
| Additions | 0.0 | 0.0 | 305.8 | 4.6 | 36.0 | 346.4 |
| Disposals | 0.0 | -3.6 | -86.6 | -4.5 | -0.2 | -94.9 |
| Transfers between items | | | 0.0 | 0.0 | | 0.0 |
| Transfer to a held-for-sale asset item | | | -353.3 | | | -353.3 |
| Acquisition cost 31 Dec 2007 | 1.7 | 184.1 | 1,495.6 | 241.9 | 108.7 | 2,032.0 |
| | | | | | | |
| **Accumulated depreciation and impairment** | **0.0** | **-107.3** | **-812.6** | **-201.6** | **0.0** | **-1,121.5** |
| Accumulated depreciation and impairment 1 Jan 2007 | | -4.9 | -89.9 | -8.9 | | -103.7 |
| Depreciation | | | 318.6 | | | 318.6 |
| Accumulated planned depreciation of disposals | | 1.0 | 39.1 | 3.4 | | 43.5 |
| Accumulated depreciation and impairment 31 Dec 2007 | 0.0 | -111.2 | -544.8 | -207.1 | 0.0 | -863.1 |
| | | | | | | |
| **Book value 31 Dec 2007** | **1.7** | **72.9** | **950.8** | **34.8** | **108.7** | **1,168.9** |
| | | | | | | |
| Book value 1 Jan 2007 | 1.7 | 80.4 | 817.1 | 40.2 | 72.9 | 1,012.3 |

| Financial statement 31 Dec 2008 | | | | | | |
|---|---|---|---|---|---|---|
| EUR mill. | Land | Buildings | Aircraft | Other equipment | Advances | Total |
| **Acquisition cost** | | | | | | |
| Acquisition cost 1 Jan 2008 | 1.7 | 184.1 | 1,495.6 | 241.9 | 108.7 | 2,032.0 |
| Additions | 0.0 | 31.6 | 199.1 | 26.6 | 2.9 | 260.2 |
| Disposals | 0.0 | -6.8 | -156.5 | -0.9 | -7.5 | -171.7 |
| Transfers between items | | | 0.0 | 0.0 | | 0.0 |
| Transfer to a held-for-sale asset item | | | -93.4 | | | -93.4 |
| Acquisition cost 31 Dec 2008 | 1.7 | 208.9 | 1,444.8 | 267.6 | 104.1 | 2,027.1 |
| | | | | | | |
| **Accumulated depreciation and impairment** | | | | | | |
| Accumulated depreciation and impairment 1 Jan 2008 | 0.0 | -111.2 | -544.8 | -207.1 | 0.0 | -863.1 |
| Depreciation | | -5.3 | -84.1 | -10.5 | | -99.9 |
| Accumulated depreciation for a held-for-sale asset item | | | 74.0 | | | 74.0 |
| Accumulated planned depreciation of disposals | | 6.8 | 126.8 | 0.4 | | 134.0 |
| Accumulated depreciation and impairment 31 Dec 2008 | 0.0 | -109.7 | -428.1 | -217.2 | 0.0 | -755.0 |
| | | | | | | |
| **Book value 31 Dec 2008** | **1.7** | **99.2** | **1,016.7** | **50.4** | **104.1** | **1,272.1** |
| | | | | | | |
| Book value 1 Jan 2008 | 1.7 | 72.9 | 950.8 | 34.8 | 108.7 | 1,168.9 |

As surety for liabilities in 2008 is the carrying amount of aircraft pledged, namely 243.8 million euros (324.4).

Other equipment includes office equipment, furnishings, cars and transportation vehicles used at airports.

Changing the depreciation period and residual value in depreciation of buildings in fiscal year 2007 has a positive impact of 0.8 million euros on the result before taxes. The impact on the result is expected to be of similar magnitude in 2009.

**Finance lease arrangements**
Tangible fixed assets include assets acquired under finance leases:

| Financial statement 31 Dec 2007 | | | |
|---|---|---|---|
| EUR mill. | Buildings | Machinery and vehicles | Total |
| Acquisition cost 31 Dec 2007 | 8.2 | 8.7 | 16.9 |
| Accumulated depreciation | -4.2 | -7.0 | -11.2 |
| **Book value** | **4.0** | **1.7** | **5.7** |

| EUR mill. | 2008 | 2009–2012 | 2013– |
|---|---|---|---|
| Lease payments | 4.9 | 6.7 | 0.5 |
| Discounting | 0.7 | 1.2 | 0.2 |
| Net present value | 4.2 | 5.5 | 0.3 |

| Financial statement 31 Dec 2008 | | | |
|---|---|---|---|
| EUR mill. | Buildings | Machinery and vehicles | Total |
| Acquisition cost 1 Jan 2008 | 8.2 | 8.7 | 16.9 |
| Additions | 15.8 | 21.5 | 37.3 |
| Acquisition cost 31 Dec 2008 | 24.0 | 30.2 | 54.2 |
| Accumulated depreciation and impairment 1 Jan 2008 | -4.2 | -7.0 | -11.2 |
| Depreciation | -1.5 | -4.4 | -5.9 |
| Accumulated depreciation and impairment 31 Dec 2008 | -5.7 | -11.4 | -17.1 |
| **Book value** | **18.3** | **18.8** | **37.1** |

| EUR mill. | 2009 | 2010–2013 | 2014– |
|---|---|---|---|
| Lease payments | 7.4 | 25.4 | 31.2 |
| Discounting | 2.7 | 9.9 | 10.4 |
| Net present value | 4.7 | 15.5 | 20.8 |

Buildings in finance leasing arrangements are depreciated to plan 6–21 years and other equipment is depreciated according to plan over 5 years. In the financial year and in the comparison period no variable rents from finance leases have been recognised.

## 18. HOLDINGS IN ASSOCIATED UNDERTAKINGS

The Group's share of the result, asset items and liabilities of associated companies, none of which are publicly listed, is presented below:

| EUR mill. | 31 Dec 2008 | 31 Dec 2007 |
|---|---|---|
| At beginning of the financial year | 5.7 | 5.6 |
| Shares of results | 0.3 | 0.1 |
| Additions | 0.1 | 0.0 |
| Disposals | 0.0 | 0.0 |
| **At end of the financial year** | **6.1** | **5.7** |

**Information on the Group's associated undertakings**

| Financial statement 31 Dec 2007 | | | | | | |
|---|---|---|---|---|---|---|
| | Domicile | Assets | Liabilities | Turnover | Profit/Loss | Holding (%) |
| Suomen Jakelutiet Oy | Finland | 0.8 | 0.1 | 0.3 | 0.1 | 47.50 |
| Toivelomat Oy | Finland | 0.3 | 0.1 | 0.2 | 0.0 | 48.30 |
| Amadeus Estonia | Estonia | 0.7 | 0.1 | 0.8 | 0.2 | 33.25 |
| Kiinteistö Oy Lentäjäntie 1 | Finland | 35.5 | 27.4 | 1.3 | 0.0 | 28.33 |
| Kiinteistö Oy Lentäjäntie 3 | Finland | 11.3 | 9.4 | 0.6 | 0.0 | 39.12 |
| **Total** | | **48.6** | **37.1** | **3.2** | **0.3** | |

| Financial statement 31 Dec 2008 | | | | | | |
|---|---|---|---|---|---|---|
| | Domicile | Assets | Liabilities | Turnover | Profit/Loss | Holding (%) |
| Suomen Jakelutiet Oy | Finland | 0.8 | 0.1 | 0.3 | 0.1 | 47.50 |
| Toivelomat Oy | Finland | 0.3 | 0.1 | 0.3 | 0.0 | 48.30 |
| Amadeus Estonia | Estonia | 0.7 | 0.1 | 0.8 | 0.1 | 33.25 |
| Finnish Aircraft Maintenance Oy | Finland | 6.2 | 2.6 | 3.6 | 0.4 | 50.00 |
| Kiinteistö Oy Lentäjäntie 1 | Finland | 32.2 | 24.3 | 1.4 | 0.0 | 28.33 |
| Kiinteistö Oy Lentäjäntie 3 | Finland | 10.9 | 9.0 | 0.6 | 0.0 | 39.12 |
| **Total** | | **51.1** | **36.2** | **7.0** | **0.6** | |

The carrying amount of associated companies on 31 December 2008 and 31 December 2007 does not include goodwill.

Aurinkomatkat-Suntours' associated company Toivelomat Oy operates in Finnair Group as a provider of support services in two sectors: in transporting forwarding services of certain Group companies and as a field representative at airports. Amadeus Finland's holding in Amadeus Estonia ensures the provision of consistent products and services to Finnish companies operating in Estonia as well as in Finland and helps increase cooperation between Estonia travel agencies and Finnish travel service providers. Amadeus Finland's associated company Suomen Jakelutiet Oy produces the Finnish Hotel Reservations system as well as travel agency network services for hotel sales. Finnair Plc and Finncomm Airlines have established a company, Finnish Aircraft Maintenance Oy, which will specialize to regional class aircraft maintenance services.

## 19. RECEIVABLES, LONG-TERM

| EUR mill. | 31 Dec 2008 | 31 Dec 2007 |
|---|---|---|
| Loan receivables | 0.2 | 0.2 |
| Other receivables | 21.3 | 13.6 |
| **Total** | **21.5** | **13.8** |

| Financial statement 31 Dec 2007 | | | |
|---|---|---|---|
| EUR mill. | Loan receivables | Other receivables | Total |
| At beginning of financial year | 0.3 | 15.1 | 15.4 |
| Additions | 0.0 | 0.0 | 0.0 |
| Disposals | -0.1 | -1.5 | -1.6 |
| **At end of financial year** | **0.2** | **13.6** | **13.8** |

| Financial statement 31 Dec 2008 | | | |
|---|---|---|---|
| EUR mill. | Loan receivables | Other receivables | Total |
| At beginning of financial year | 0.2 | 13.6 | 13.8 |
| Additions | 0.0 | 7.7 | 7.7 |
| Disposals | 0.0 | 0.0 | 0.0 |
| **At end of financial year** | **0.2** | **21.3** | **21.5** |

Balance sheet values correspond best to the sum which is the maximum amount of credit risk, excluding the fair value of guarantees, in the event that other contractual parties are not able to fulfil their obligations relating to financial instruments.

There are no significant concentrations of credit risk relating to receivables.

The fair values of receivables are presented in Note 32.

## 20. DEFERRED TAX ASSETS AND LIABILITIES

**Changes in deferred taxes during 2007:**

| EUR mill. | 1 Jan 2007 | Recognised in the income statement | Recognised in shareholders' equity | 31 Dec 2007 |
|---|---|---|---|---|
| **Deferred tax assets** | | | | |
| Employee benefits | 5.5 | -1.4 | 0.0 | 4.1 |
| Confirmed losses | 4.5 | -4.5 | 0.0 | 0.0 |
| Depreciation of tangible fixed assets | 1.9 | -1.4 | 0.0 | 0.5 |
| Finance leasing | 1.5 | -0.4 | 0.0 | 1.1 |
| Revenue recognition | 0.2 | 0.1 | 0.0 | 0.3 |
| Capitalisation of overhead expenses | 0.4 | 0.0 | 0.0 | 0.4 |
| Heavy maintenance allocations | 5.4 | -2.8 | 0.0 | 2.6 |
| Share issue | 0.0 | 1.1 | 0.0 | 1.1 |
| Other temporary differences | 7.7 | 0.0 | -7.4 | 0.3 |
| **Total** | **27.1** | **-9.3** | **-7.4** | **10.4** |
| | | | | |
| Deferred tax assets that can be used after more than 12 months | 18.2 | | | 8.3 |
| | | | | |
| **Deferred tax liabilities** | | | | |
| Accumulated depreciation difference | 24.9 | 16.4 | 0.0 | 41.3 |
| Gains from sale of tangible fixed assets | 89.0 | 3.5 | 0.0 | 92.5 |
| Capitalisation of overhead expenses | 0.1 | 0.0 | 0.0 | 0.1 |
| Recognition at fair value | 0.0 | 0.0 | 0.0 | 0.0 |
| Other temporary differences | 1.7 | -0.6 | 0.0 | 1.1 |
| Valuation of derivates at fair value | 0.0 | 0.0 | 9.5 | 9.5 |
| **Total** | **115.7** | **19.3** | **9.5** | **144.5** |
| | | | | |
| Deferred tax liabilities payable after more than 12 months | 8.3 | | | 133.8 |

No deferred tax liability is recognised for undistributed profits of Finnish subsidiaries and associated companies, because in most cases these profits will be transferred to the company without tax consequences.

| Changes in deferred taxes during 2008: | | | | |
|---|---|---|---|---|
| EUR mill. | 1 Jan 2008 | Recognised in the income statement | Recognised in shareholders' equity | 31 Dec 2008 |
| **Deferred tax assets** | | | | |
| Employee benefits | 4.1 | -2.5 | 0.0 | 1.6 |
| Confirmed losses | 0.0 | 3.7 | 0.0 | 3.7 |
| Depreciation of tangible fixed assets | 0.5 | -0.5 | 0.0 | 0.0 |
| Finance leasing | 1.1 | 1.0 | 0.0 | 2.1 |
| Revenue recognition | 0.3 | -0.1 | 0.0 | 0.2 |
| Capitalisation of overhead expenses | 0.4 | -0.3 | 0.0 | 0.1 |
| Heavy maintenance allocations | 2.6 | 0.0 | 0.0 | 2.6 |
| Share issue | 1.1 | -1.1 | 0.0 | 0.0 |
| Other temporary differences | 0.3 | 0.4 | 0.0 | 0.7 |
| Valuation of derivates at fair value | 0.0 | 0.0 | 38.8 | 38.8 |
| **Total** | **10.4** | **0.6** | **38.8** | **49.8** |
| | | | | |
| Deferred tax assets that can be used after more than 12 months | 8.3 | | | 7.3 |
| | | | | |
| **Deferred tax liabilities** | | | | |
| Accumulated depreciation difference | 41.3 | -18.1 | 0.0 | 23.2 |
| Gains from sale of tangible fixed assets | 92.5 | 3.8 | 0.0 | 96.3 |
| Capitalisation of overhead expenses | 0.1 | -0.1 | 0.0 | 0.0 |
| Recognition at fair value | 0.0 | 0.0 | 0.0 | 0.0 |
| Other temporary differences | 1.1 | 0.0 | 0.0 | 1.1 |
| Valuation of derivates at fair value | 9.5 | 0.0 | -9.5 | 0.0 |
| **Total** | **144.5** | **-14.4** | **-9.5** | **120.6** |
| | | | | |
| Deferred tax liabilities payable after more than 12 months | 133.8 | | | 119.5 |

No deferred tax liability is recognised for undistributed profits of Finnish subsidiaries and associated companies, because in most cases these profits will be transferred to the company without tax consequences.

If the foreign subsidiaries would pay out all retaining earnings as dividend to the parent company it will cause 0.7 million euros tax effect (0.3).

The utilization of the deferred tax asset is based on the budgeted future taxable profits during the next three years.

## 21. INVENTORIES

| EUR mill. | 31 Dec 2008 | 31 Dec 2007 |
|---|---|---|
| Materials and supplies | 33.6 | 33.8 |
| Work in progress | 1.5 | 2.3 |
| **Total** | **35.1** | **36.1** |

In the financial period 0.2 million euros have been recognized based on the difference between a carrying value and net realisable value. This has been booked in materials and supplies for aircraft maintenance, Note 8.

The carrying amount of inventories recognised at fair value is 5.6 million euros (6.3). Inventories have not been pledged for Group liabilities.

## 22. TRADE RECEIVABLES AND OTHER RECEIVABLES

| EUR mill. | 31 Dec 2008 | 31 Dec 2007 |
|---|---|---|
| Trade receivables | 89.6 | 126.6 |
| Receivables from associated undertakings | 1.7 | 0.2 |
| Prepaid expenses and accrued income | 42.7 | 41.4 |
| Receivables based on derivative contracts | 57.9 | 75.6 |
| Other receivables | 39.9 | 43.5 |
| **Total** | **231.8** | **287.3** |

| **Age distribution of trade receivables** | 31 Dec 2008 | 31 Dec 2007 |
|---|---|---|
| Not overdue | 83.9 | 110.7 |
| Overdue less than 60 days | 5.5 | 10.5 |
| Overdue more than 60 days | 0.2 | 5.4 |
| **Total** | **89.6** | **126.6** |

**Debt losses from trade receivables**
The Group has recognised during the financial year credit losses from trade receivables of 1.9 million euros (0.9).

The receivables not overdue and overdue do not consist any big credit risk, because of good distribution of customer basis.

## 23. OTHER FINANCIAL ASSETS, SHORT-TERM

| EUR mill. | 31 Dec 2008 | 31 Dec 2007 |
|---|---|---|
| Deposits, commercial papers and certificates of deposit, and government bonds | 364.7 | 493.0 |
| Listed shares | 6.2 | 22.6 |
| Unlisted shares | 2.9 | 3.0 |
| **Total** | **373.8** | **518.6** |

**Ratings of counterparties**

| EUR mill. | 31 Dec 2008 | 31 Dec 2007 |
|---|---|---|
| Better than A | 219.4 | 410.4 |
| A | 4.9 | 0.0 |
| BBB | 4.9 | 6.0 |
| Unrated | 144.6 | 102.2 |
| **Total** | **373.8** | **518.6** |

Listed foreign shares are valued to closing quotation and mid-market exchange rates on the closing date.

In Note 31 is information about investing of groups' short term asset and about group risk management policy.

IFRS classification and fair values of financial assets are presented in Note 32.

## 24. CASH AND CASH EQUIVALENTS

| EUR mill. | 31 Dec 2008 | 31 Dec 2007 |
|---|---|---|
| **Cash and bank deposits** | **18.3** | **21.5** |

Items included in cash and bank deposits are available on demand. Foreign currency cash and bank deposits have been valued at mid-market exchange rates on the closing date.

## 25. EQUITY-RELATED INFORMATION

| | Number of registered shares | Share capital, EUR | Share premium account, EUR | Unrestricted equity, EUR |
|---|---|---|---|---|
| 1 Jan 2007 | **88,756,358** | **75,442,904.30** | **20,407,351.01** | |
| Share issue | 39,379,757 | | | 244,880,581.34 |
| 31 Dec 2007 | 128,136,115 | 75,442,904.30 | 20,407,351.01 | 244,880,581.34 |
| | | | | |
| Share-based bonus schemes expenses | | | | 2,267,230.49 |
| **31 Dec 2008** | **128,136,115** | **75,442,904.30** | **20,407,351.01** | **247,147,811.83** |

| | Number of own shares | Price, EUR | Average price, EUR |
|---|---|---|---|
| 1 Jan 2008 | 151,903 | 1,525,660.07 | 10.04 |
| Acquisition of own shares | 598,097 | 4,735,765.56 | 7.92 |
| Disposal of own shares | -364,912 | -3,196,809.21 | 8.76 |
| Shares returned to company | 2,341 | 0.00 | 0.00 |
| **31 Dec 2008** | **387,429** | **3,064,616.42** | **7.91** |

All issued shares are fully paid.

**Obligation to redeem clause**
The Articles of Association have no obligation to redeem clause.

### RESERVES INCLUDED IN SHAREHOLDERS' EQUITY

**Share issue**
At the end of the financial year, the nominal value of paid but as yet unregistered shares is recognised in the share issue account.

**Share premium account**
Share issue gains arising during 1997–2006 have been recognised in the share premium account, less transaction expenses.

**General reserve**
Gains from share issues arising before Companies Act of 1997 have been recognised in the general reserve.

**Translation difference**
The translation differences include translation differences arising from the translation of foreign units' financial statements.

**Unrestricted equity**
Share issue November 29–December 17, 2007 gains less transaction expenses have been recognised in the unrestricted equity and expenses of share bonus scheme.

**Fair value reserve**
Fair value reserve includes the fair value of derivative instruments used in cash flow hedging and changes in fair values of available for sale financial assets, less deferred tax.

| Fair value reserve | | |
|---|---|---|
| EUR mill. | 31 Dec 2008 | 31 Dec 2007 |
| Jet fuel price hedging | -153.1 | 55.3 |
| Jet fuel currency hedging | 14.0 | -20.0 |
| Hedging of lease payments | 2.2 | -3.9 |
| Hedging of firm aircraft purchase orders | -0.9 | -2.6 |
| Loans hedging | 0.3 | 0.8 |
| Available for sale financial assets | -11.8 | 6.7 |
| Deferred tax asset (liability) | 38.8 | -9.4 |
| **Total** | **-110.5** | **26.8** |

| Maturity dates of fair values recognised in the hedging reserve | | | | | | | |
|---|---|---|---|---|---|---|---|
| EUR mill. | 2009 | 2010 | 2011 | 2012 | 2013 | Later | Total |
| Jet fuel price hedging | -87.0 | -57.2 | -8.9 | | | | -153.1 |
| Jet fuel currency hedging | 7.0 | 6.3 | 0.7 | | | | 14.0 |
| Hedging of lease payments | 2.5 | -0.3 | | | | | 2.2 |
| Hedging of firm aircraft purchase orders | -0.9 | | | | | | -0.9 |
| Loans hedging | 0.2 | 0.1 | | | | | 0.3 |
| Available for sale financial assets | 0.4 | | | | | -12.2 | -11.8 |
| Deferred tax asset (liability) | 20.2 | 13.3 | 2.2 | 0.0 | 0.0 | 3.2 | 38.8 |
| **Total** | **-57.5** | **-37.8** | **-6.1** | **0.0** | **0.0** | **-9.0** | **-110.5** |

**Derivatives in income statement**

During 2008, -51.7 million euros (11.5) has been recognised from the fair value reserve as a decrease in expenses in the income statement. Of this, -55.4 (8.1) million euros is an adjustment of fuel expenses and 3.7 (3.4) million euros an adjustment of aircraft lease expenses. In addition, 3.4 (13.3) million euros has been recognised from the hedging reserve as an increase in fleet acquisition expenditure in the balance sheet for financial year 2008.

In accordance with its financial policy, Finnair hedges its fuel purchases more than it can recognise in the fair value reserve according to the interpretation of the IAS 39 standard. For this hedging outside IAS 39 hedge accounting, -11.0 (1.3) million euros was realised and recognised in other operating expenses in the income statement during 2008. Fuel hedging accounted for -10.3 (-0.8) million euros and foreign exchange hedging for -0.7 (2.1) million euros.

**Sensitivity analysis of 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 24 million euros higher. Correspondingly, a 10 per cent weaker Jet Fuel CIF NWE price would have reduced the reserve by 24 million euros. In terms of the US dollar, a 10 per cent weaker level would have lowered the balance of the fair value reserve by 43.1 million euros and a 10 per cent stronger dollar would have had a positive impact of 43.1 million euros. The effect of change in interests to 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).

**Own shares**

The acquisition cost of own shares held by the Group is included in own shares. For further information on the share bonus scheme see Note 26. The total acquisition cost of own shares held by the Group is 3.1 million euros (1.5).

| Finnair Plc's distributable equity | |
|---|---|
| EUR mill. | 31 Dec 2008 |
| Retain earnings at the end of financial year | 218.7 |
| Unrestricted equity | 250.4 |
| Result for the financial year | -10.4 |
| **Distributable equity total** | **458.7** |

Concerning the dividend decision also the fair value reserve of -111.7 million euros has to be taken into account.

## 26. SHARE-BASED PAYMENTS

The Group has share-based incentive scheme for personnel.

### FINNAIR PLC'S SHARE-BASED INCENTIVE SCHEME 2007–2009

The Board of Directors of Finnair Plc approved a new share bonus scheme 2007–2009 on 22 March, 2007. In the share bonus scheme, key individuals have the possibility of receiving shares as bonus for a three-year performance period according to how targets set for the performance period have been achieved. In addition, the proportion payable as cash is 1.5 times the value of the shares.

The Board of Directors decides annually the targets to be set for each performance period. The targets are determined on the basis of the Finnair Group's financial development. Achieving the targets set for the performance period determines how large a proportion of the maximum bonus will be paid. In a three-year period, the total of the three years' share bonuses, however, can be at most a sum corresponding to three years' gross earnings.

For the 2007 performance period, share bonus criterias were: Finnair Group earnings per share (EPS) 0,70 euros - 1.20 euros and the return on capital employed (ROCE) 8–14%. Between these valus the bonus was determined linearily. The actual outcome of the share-based incentive scheme was 94,4% in 2007 and total of 364 912 shares were allocated and 9,0 million euros of share based payable liabilities are booked in the financial statement 31 December 2007. For the 2008 performance period, share bonuses will be paid if Finnair Group earnings per share (EPS) exceeds 0,50 euros and the return on capital employed (ROCE) is more than 8%. The bonuses is payable in full if EPS is at least 1,10 euros and ROCE at least 14%. Between these values the bonus is determined linearily. The Board of Directors allocated 395 977 shares to key individuals in 2008. While the criteria were not fulfilled no sharebased payments were booked for 2008.

| Share-based bonuses paid for 2007 | |
|---|---|
| | Number of shares |
| Chief Executive Officer | 27,308 |
| Deputy Chief Executive Officer | 15,604 |
| Other members of Group Management team (9) | 86,472 |
| Members of the Board of Directors | 0 |
| **Paid in total** | **364,912** |

| Share-based allocations for 2008 | |
|---|---|
| | Number of shares |
| Chief Executive Officer | 29,085 |
| Deputy Chief Executive Officer | 16,620 |
| Other members of Group Management team (9) | 99,720 |
| Members of the Board of Directors | 0 |
| **Total shares allocated** | **395,977** |

For 2008 no share bonuses will be paid, as the criterias were not fulfilled.

## 27. PENSION LIABILITIES

Pension schemes are classified as defined-benefit and defined-contribution schemes. Payments made into defined-contribution pension schemes are recognised in the income statement in the period to which the payment applies. In defined-benefit pension schemes, obligations are calculated using the projected unit credit method. Pension expenses are recognised as an expense over the employees' period of service based on calculations made by authorised actuaries. Actuarial gains and losses, in terms of the portion exceeding a certain limit, are recognised over the employees' average term of service. When calculating the present value of pension obligations the interest rate on government securities is used as the discount rate. The terms to maturity of government securities approximate substantially to the terms to maturity of the related pension liabilities

The Group's foreign sales offices and subsidiaries have various pension schemes that comply with the local rules and practices of the countries in question. All of the most significant pension schemes are defined-contribution schemes. The statutory pension cover of the employees of the Group's Finnish companies has been arranged in a Finnish pension insurance company. The pension cover is a defined-contribution scheme. The pension schemes of the parent company's President & CEO and members of the Board of Management as well as those of the managing directors of subsidiaries are individual schemes, and the retirement age under these agreements varies from 60 to 65 years. These pension schemes are also defined-contribution schemes. Other (voluntary) pension cover of the Group's domestic companies has been arranged as a rule in Finnair Plc's Pension Fund, in which the pension schemes are defined-benefit schemes. These schemes determine pension cover benefits, disability compensation, post-employment health-care and life insurance benefits as well as employment severance benefits. All of the Group's post-retirement benefits are defined-contribution benefits.

**Defined-benefit pension schemes**

| **Items recognised in the income statement** | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| Current service costs for financial year | 9.2 | 10.5 |
| Interest costs | 18.3 | 16.8 |
| Expected return on plan assets gain | -21.3 | -21.4 |
| Past service cost-vested benefits | -0.9 | -0.2 |
| **Total, included in personnel expenses** | **5.3** | **5.7** |

The actual return of plan assets was -44.7 million euros in year 2008 (15.8).

| **Items recognised in the balance sheet** | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
|---|---|---|
| Present value of funded obligations | 324.2 | 352.9 |
| Fair value of scheme assets | -339.7 | -389.5 |
| | -15.5 | -36.6 |
| Present value of unfunded obligations | 0.0 | 0.0 |
| Unrecognised net actuarial gains / losses (-) | 21.6 | 52.4 |
| Unrecognised costs based on past service | 0.0 | 0.0 |
| **Net liability** | **6.1** | **15.8** |
| Presented provisions | 0.0 | 0.0 |
| **Net liability presented in balance sheet** | **6.1** | **15.8** |

The balance sheet pension liability for 2008 of 6.1 million euros (15.8) does not includ any liabilities outside the Pension Fund.

Pension scheme assets include Finnair Plc shares with a fair value of 0.7 million euros (1.1) and a buildings used by the Group with a fair value of 36.9 million euros (34.8).

| Changes in plan assests | | |
|---|---|---|
| EUR mill. | 31 Dec 2008 | 31 Dec 2007 |
| Fair value of plan assets at 1 January | 389.5 | 392.6 |
| Expected return on plan assets | 21.3 | 21.4 |
| Acturial gain (loss) on plan assets | -66.0 | -5.5 |
| Contributions | 15.0 | -0.2 |
| Benefits paid | -20.1 | -18.8 |
| **Fair value of plan assets at 31 December** | **339.7** | **389.5** |

| Plan assets are comprised as follows | | |
|---|---|---|
| | 31 Dec 2008 | 31 Dec 2007 |
| Listed shares, % | 15.0 | 25.0 |
| Debt instruments, % | 53.0 | 49.0 |
| Property, % | 20.0 | 14.0 |
| Other, % | 12.0 | 12.0 |
| | **100.0** | **100.0** |

| Net liability reconciliation statement | | |
|---|---|---|
| EUR mill. | 31 Dec 2008 | 31 Dec 2007 |
| At beginning of financial year | 15.8 | 10.0 |
| Total expenses, presented above | 5.3 | 5.7 |
| Paid contributions | -15.0 | 0.1 |
| **At end of financial year** | **6.1** | **15.8** |

| Defined-benefit schemes: principal actuarial assumptions | | |
|---|---|---|
| | 31 Dec 2008 | 31 Dec 2007 |
| Discount rate, % | 5.25 | 5.20 |
| Expected rate of return on assets, % | 6.0 | 5.6 |
| Annual rate of future salary increases, % | 3.5 | 4.5 |
| Future pension increases, % | 2.1 | 2.1 |
| Estimated remaining years of service | 14 | 14 |

| | 31 Dec 2008 | 31 Dec 2007 |
|---|---|---|
| Present value of defined benefit obligation | 324.2 | 352.9 |
| Fair value of plan assets | -339.7 | -389.5 |
| Surplus (-) / Deficit (+) | -15.5 | -36.6 |
| Experience adjustments on plan assets | -66.0 | -5.5 |
| **Experience adjustments on plan liabilities** | **-16.4** | **12.7** |

## 28. PROVISIONS

| EUR mill. | Restructuring provision | Maintenance provisions | Total |
|---|---|---|---|
| Provisions at 1 January 2007 | 0.0 | 45.7 | 45.7 |
| Increase | 0.0 | 10.6 | 10.6 |
| Decrease | 0.0 | -2.7 | -2.7 |
| **Provisions at 31 Dec 2007** | **0.0** | **53.6** | **53.6** |

| EUR mill. | Restructuring provision | Maintenance provisions | Total |
|---|---|---|---|
| Provisions at 1 January 2008 | 0.0 | 53.6 | 53.6 |
| Increase | 2.4 | 5.5 | 7.9 |
| Decrease | 0.0 | 0.0 | 0.0 |
| **Provisions at 31 Dec 2008** | **2.4** | **59.1** | **61.5** |

In financial year 2008, the Group has recognised personnel restructuring provision 2.4 million euros (0.0).

The Group is obliged to surrender leased aircraft at a certain maintenance standard. To fulfil these maintenance obligations the Group has recognised heavy maintenance provisions. The basis for a provision is flight hours flown during the maintenance period.

## 29. INTEREST-BEARING LIABILITIES

| EUR mill. | 31 Dec 2008 | 31 Dec 2007 |
|---|---|---|
| Interest-bearing liabilities | | |
| **Long-term** | | |
| Bank loans | -140.6 | -158.2 |
| Bonds | -77.0 | -100.0 |
| Pension loans | 0.0 | 0.0 |
| Finance lease liabilities | -36.3 | -5.8 |
| **Total** | **-253.9** | **-264.0** |
| | | |
| Non-interest-bearing liabilities | | |
| **Long-term** | | |
| Pension liabilities | -7.2 | -5.6 |
| **Total** | **-261.1** | **-269.6** |
| | | |
| Interest-bearing liabilities | | |
| **Current** | | |
| Cheque account facilities | -0.6 | -0.1 |
| Bank loans | -26.2 | -31.1 |
| Finance lease liabilities | -4.7 | -4.2 |
| Other loans | -17.0 | -19.1 |
| **Total** | **-48.5** | **-54.5** |

**Maturity dates of interest-bearing financial liabilities 31 Dec 2007**

| EUR mill. | 2008 | 2009 | 2010 | 2011 | 2012 | Later | Total |
|---|---|---|---|---|---|---|---|
| Bank loans, fixed interest | -16.6 | -16.5 | -7.4 | -14.6 | -30.6 | -6.8 | -92.6 |
| Bank loans, variable interest | -14.5 | -14.1 | -14.5 | -11.2 | -6.2 | -36.3 | -96.7 |
| Bonds, variable interest | | | | | -100.0 | | -100.0 |
| Finance lease liabilities | -4.2 | -2.0 | -1.6 | -1.1 | -0.8 | -0.3 | -10.0 |
| Other loans | -19.2 | | | | | | -19.2 |
| **Interest-bearing liabilities total** | **-54.5** | **-32.6** | **-23.5** | **-26.9** | **-137.6** | **-43.4** | **-318.5** |
| Payments from currency derivatives | -438.3 | -225.1 | -22.5 | -4.5 | -24.7 | -168.7 | -883.7 |
| Income from currency derivatives | 407.1 | 216.1 | 21.9 | 4.4 | 23.9 | 162.8 | 836.1 |
| Commodity derivatives | 44.7 | 17.0 | 1.8 | | | | 63.5 |
| Trade payables and orher liabilities | -619.2 | | | | | | -619.2 |
| Interest payments | -15.8 | -14.3 | -12.7 | -11.7 | -7.0 | -4.4 | -65.9 |
| **Total** | **-676.1** | **-38.8** | **-35.0** | **-38.7** | **-145.3** | **-53.7** | **-987.7** |

| Maturity dates of interest-bearing financial liabilities 31 Dec 2008 | | | | | | | |
|---|---|---|---|---|---|---|---|
| EUR mill. | 2009 | 2010 | 2011 | 2012 | 2013 | Later | Total |
| Bank loans, fixed interest | -21.4 | -12.0 | -2.5 | 0.0 | 0.0 | 0.0 | -35.9 |
| Bank loans, variable interest | -9.8 | -11.1 | -26.2 | -39.7 | -27.0 | -17.3 | -130.9 |
| Bonds, variable interest | 0.0 | 0.0 | 0.0 | -77.0 | 0.0 | 0.0 | -77.0 |
| Finance lease liabilities | -4.7 | -3.6 | -3.8 | -4.0 | -4.1 | -20.8 | -41.0 |
| Other loans | -17.6 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -17.6 |
| **Interest-bearing liabilities total** | **-53.4** | **-26.8** | **-32.5** | **-120.7** | **-31.1** | **-38.1** | **-302.4** |
| Payments from currency derivatives | -530.2 | -282.7 | -20.5 | -24.7 | -13.6 | -155.1 | -1,026.8 |
| Income from currency derivatives | 537.3 | 294.3 | 20.9 | 25.3 | 14.1 | 158.1 | 1,050.0 |
| Commodity derivatives | -142.4 | -54.9 | -8.5 | 0.0 | 0.0 | 0.0 | -205.8 |
| Trade payables and orher liabilities | -1,014.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | -1,014.7 |
| Interest payments | -10.6 | -8.5 | -7.5 | -4.4 | -1.7 | -1.5 | -34.2 |
| **Total** | **-1,213.9** | **-78.6** | **-48.0** | **-124.5** | **-32.3** | **-36.6** | **-1,533.9** |

Bank loans include long-term currency and interest rate swaps that hedge USD-denominated aircraft financing loans. Interest rate re-fixing period in variable interest loans is 3 or 6 months.

| The currency mix of interest-bearing long-term liabilities (including cross currency interest rate swaps) is as follows: | | |
|---|---|---|
| EUR mill. | 31 Dec 2008 | 31 Dec 2007 |
| EUR | 242.2 | 266.4 |
| USD | 60.2 | 52.1 |
| | **302.4** | **318.5** |

| Weighted average effective interest rates on interest-bearing long-term liabilities | | |
|---|---|---|
| | 2008 | 2007 |
| | 4.7% | 5.4% |

| **Finance lease liabilities** | | |
|---|---|---|
| EUR mill. | 31 Dec 2008 | 31 Dec 2007 |
| **Minimum lease payments** | | |
| Up to 1 year | 7.4 | 4.9 |
| 1–5 years | 25.4 | 6.7 |
| More than 5 years | 31.2 | 0.5 |
| **Total** | **64.0** | **12.1** |
| | | |
| Future financial expenses | 2.9 | 1.6 |
| | | |
| **Finance lease liabilities - Present value of minimum lease payment** | | |
| Up to 1 year | 4.7 | 4.2 |
| 1–5 years | 15.5 | 5.5 |
| More than 5 years | 20.8 | 0.3 |
| **Total** | **41.0** | **10.0** |
| | | |
| **Total of financial lease liabilities** | **41.0** | **10.0** |

## 30. TRADE PAYABLES AND OTHERS LIABILITIES

| EUR mill. | 31 Dec 2008 | 31 Dec 2007 |
|---|---|---|
| Advances received | 48.9 | 46.0 |
| Trade payables | 82.1 | 91.8 |
| Other accrued liabilities | 426.2 | 380.1 |
| Liabilities based on derivative contracts | 226.7 | 44.8 |
| Other accrued liabilities | 20.0 | 47.7 |
| **Total** | **803.9** | **610.4** |

| **Significant items in other accrued liabilities:** | | |
|---|---|---|
| EUR mill. | 31 Dec 2008 | 31 Dec 2007 |
| Unflown air transport revenues | 172.5 | 155.0 |
| Holiday pay reserve | 89.9 | 85.6 |
| Other | 163.8 | 139.5 |
| **Total** | **426.2** | **380.1** |

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

## 31. MANAGEMENT OF FINANCIAL RISKS

### *Risk management in Finnair*

#### PRINCIPLES OF FINANCIAL RISK MANAGEMENT

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

The management of financial risks is based on the risk management policy, which specifies the minimum and maximum levels permitted for each type of risk. Financial risk management is directed and supervised by the Financial Risk Steering Group. Practical implementation of financial policy and risk management have been centralised in the parent company's finance department.

In its management of foreign exchange, interest rate and jet fuel positions the company uses different derivative instruments, such as forward contracts, swaps and options. Derivatives are designated at inception as hedges for future cash flows (cash flow hedges), hedges for firm orders (hedges of the fair value of firm commitments) or as financial derivatives not qualifying for hedge accounting (economic hedges). In terms of the hedging of future cash flows (cash flow hedging), the Finnair Group implements, in accordance with IAS 39 hedge accounting principles, hedging of fixed rate foreign exchange loans, foreign exchange hedging of lease payments and aircraft purchases, and hedging of jet fuel price and foreign exchange risks. In addition, hedging of firm commitment is used for aircraft investments.

#### 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 gasoil and jet fuel forward contracts and options. As the underlying asset of jet fuel derivatives, the Jet Fuel CIF Cargoes NWE index is used, because around 65% of Finnair's fuel purchase contracts are based on the benchmark price index for North and West Europe jet fuel deliveries.

Finnair applies the principle of time-diversification in its fuel hedging. The hedging horizon according to the financial policy is three years. Under the financial policy, hedging must be increased in each quarter of the year so that the hedge ratio for Finnair's Scheduled Passenger Traffic for the first six months is more than 60% and so that thereafter a lower hedge ratio applies for each period. By allocating the 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.

In accounting fuel hedges are recognised in Finnair in two different ways. In terms of the fuel consumption of Finnair, the first approximately 40 percentage points per perioid are treated in accounting as cash flow hedging in accordance with IAS 39 hedge accounting principles. Changes in the fair value of derivatives defined as cash-flow hedging in accordance with IAS 39 are posted directly to the fair value reserve included in equity. The change in fair value recognised in the equity hedging reserve is posted to income statement at the perioid time as the hedged transaction. Changes in the fair value of hedges outside hedge accounting – which do not fulfil IAS 39 hedge accounting criteria – are recognised in other operating expenses over the time of the derivative.

At the end of financial year, Scheduled Passenger Traffic had hedged 75% of its fuel purchases for the first six months of 2009 and 54% for the second half of the year. Leisure Traffic has hedged 60% of its fuel purchases for the remaining winter season and 40% of its purchases for the coming summer season. At the end of the financial year Leisure Traffic has no price clauses with tour operators similar to those agreed in previous years.

In the financial year 2008, fuel used in flight operations accounted for 24,6% compared to the Group's turnover. At the end of the financial year, the forecast for 2009 is over 22%. On the closing date, a ten per cent rise in the market price of jet fuel – excluding hedging activity calculated using Scheduled Passenger Traffic's forecasted flights for 2009 – increases annual fuel costs by an estimated 33 million euros. On the closing date – taking hedging into account – a ten per cent rise in fuel lowers operating profit by around 14 million euros. Situation as at 31 December represents well mean of calendar year.

#### FOREIGN EXCHANGE RISK

Foreign exchange risk means the cash flow and financial performance uncertainty arising from exchange rate fluctuations. The Finnair Group's foreign exchange risk arises mainly from fuel and aircraft purchases, aircraft leasing payments and foreign currency incomes.

The financial policy divides the foreign exchange position into two parts, a profit and loss position and an investment position. The profit and loss position consists of dollar-denominated fuel purchases and leasing payments, sales revenue in a number of different currencies, and also foreign exchange-denominated money market investments and loans. The investment position includes dollar-denominated aircraft investments.

Finnair applies the principle of time-diversification in its foreign exchange hedging. The hedging horizon according to the financial policy is two years. The hedge ratio of the foreign exchange position is determined as the reduction of the overall risk of the position using the value-at-risk method. Under the financial policy, hedges must be added to the profit and loss position in each half of the year so that the hedge ratio for the first six months is more than 60% and so that thereafter the hedge ratio declines for each period. In addition, Finnair hedges foreign exhange risk exceeding two years as far as hedging the currency risk of fuel is concerned (IAS 39 cash flow hedging).

The investment position includes all foreign exchange-denominated aircraft investments for which a binding procurement contract has been signed. According to the financial policy, at least half of the investments recognised in the balance sheet must be hedged after the signing of a firm order. New hedges in investment position will be made as IAS 39 fair value hedge of a firm commitment.

Around 68% of Group turnover is denominated in euros. The most important other foreign sales currencies are the Swedish crown, the Japanese yen, the Chinese yuan, the US dollar and the British pound.

Approximately one third of the Group's operating costs are denominated in foreign currencies. The most important purchasing currency is the US dollar, which accounts for approximately 27% of all operating costs. Significant dollar-denominated expense items are aircraft leasing payments and fuel costs. The largest investments, the acquisition of aircraft and their spare parts, also take place mainly in US dollars.

At the end of financial year, Scheduled Passenger Traffic had hedged 80% of its profit and loss items for the first six months of 2009 and 62% for the second half of the year. On the closing date a 10% strengthening of the dollar against the euro – without hedging – has a negative impact on the annual result of around 47 million euros. On the closing date – taking hedging into account – a 10% strengthening of the dollar weakens the result by around 12 million euros. In the above sensitivity estimates, the dollar risk includes also the Chinese yuan and the Hong Kong dollar, whose historical correlation with the dollar is high. Situation as at 31 December represents well mean of calendar year.

### INTEREST RATE RISK

Interest rate risk means the cash flow and financial performance 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 financial policy, the mandate for the investment portfolio's interest rate re-fixing period is 0–12 months and for interest-bearing liabilities 0–24 months. On the closing date the investment portfolio's interest rate re-fixing period was 2 months and for interest-bearing liabilities 5 months. On the closing date a one percentage point rise in interest rates increases the annual interest income of the investment portfolio about 3 million euros and the interest expenses of the loan portfolio by less than 2 million euros. Situation as at 31 December represents well mean of calendar year.

### CREDIT RISK

The Group is exposed to counterparty risk when investing its cash reserves and in using derivative instruments. The credit risk is managed by making contracts, within the framework of risk management policy of counterparty risk limits, only with financially sound domestic and foreign banks, financial institutions and brokers. Liquid assets are also invested in bonds and commercial paper issued by conservatively selected company-specific within limits. This way risk towards single counterparties are not significant. Change in fair value of groups loans rise from changes in FX and interest, not from credit risk. Groups' maximum exposure to credit risk is other financial assets presented at Note 23, cash and cash equivalent presented in Note 24, and trade receivables presented in Note 22.

### LIQUIDITY RISK

The goal of the Finnair Group is to maintain good liquidity. Liquidity is ensured by cash reserves, bank account limits, liquid money market investments and committed credit facilities. With respect to aircraft acquisitions, the company's policy is to secure financing, for example through committed loans, at a minimum of 6 months before delivery. Counterparties of groups' long term loans are solid financial institutions with good reputation.

The Group's liquid assets were 392 million euros at the end of financial year 2008. Finnair Plc has a domestic commercial paper programme of 100 million euros, which wasn't used on the closing date. In addition, Finnair has a 200 million euro committed credit facility, committed unused 50 million euros aircraft financing limit and a 60 million dollar credit facility. The 200 million euros credit facility includes a finance covenant based on adjusted gearing. The covenant level of adjusted gearing is 175%, while at the closing date the figure was 63.2%. The maximum level set by the Board of Directors is 140%.

### CAPITAL MANAGEMENT

The aim of the Group's capital management is, with the aid of an optimum capital structure, to support business operations by ensuring normal operating conditions and to increase shareholder value with the best possible return being the goal. An optimum capital structure also ensures lower capital costs. The capital structure is influenced e.g. via dividend distribution and share issues. The Group can vary and adjust the level of dividends paid to shareholders or the amount of capital returned to them or the number of new shares issued, or can decide on sales of asset items in order to reduce debt. It is the aim the Finnair's dividend policy 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 monitored continuously using adjusted gearing. When calculating adjusted gearing, interest-bearing net debt is divided by the amount of shareholders' equity. Net debt includes interest-bearing debt less interest-bearing receivables and cash and cash equivalents.The Group's adjusted gearing at the end of 2008 was 63.2% (35.1).

## 32. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

| EUR mill. | Hedge accounting items | Financial assets held for trading | Financial assets at fair value through profit or loss | Available for sale financial assets | Loans and receivables | Valued at allocated acquisition cost | Fair value |
|---|---|---|---|---|---|---|---|
| **31 Dec 2007** | | | | | | | |
| **Financial assets** | | | | | | | |
| Receivables | | | | | 13.8 | | 13.8 |
| Other financial assets | | 493.0 | | | | | 493.0 |
| Trade receivables and other receivables | | | | | 211.7 | | 211.7 |
| Listed shares | | | | 22.6 | | | 22.6 |
| Unlisted shares | | | | 3.0 | | | 3.0 |
| Derivatives | 57.9 | | 17.7 | | | | 75.6 |
| Cash and cash equivalents | | | 21.5 | | | | 21.5 |
| **Total** | | | | | | | **841.2** |
| | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Interest bearing liabilities | | | 15.9 | | | 268.9 | 285.6 |
| Finance lease liabilities | | | | | | 10.0 | 10.0 |
| Derivatives | 57.0 | | 11.5 | | | | 68.5 |
| Trade payables and other liabilities | | | | | | 640.6 | 640.6 |
| **Fair value total** | | | | | | | **1,004.7** |
| **Book value total** | | | | | | | **1,003.9** |
| | | | | | | | |
| **31 Dec 2008** | | | | | | | |
| **Financial assets** | | | | | | | |
| Receivables | | | | | 21.5 | | 21.5 |
| Other financial assets | | 370.9 | | | | | 370.9 |
| Trade receivables and other receivables | | | | | 173.9 | | 173.9 |
| Derivatives | 21.3 | | 36.6 | | | | 57.9 |
| Unlisted shares | | | | 2.9 | | | 2.9 |
| Cash and cash equivalents | | | 18.3 | | | | 18.3 |
| **Yhteensä** | | | | | | | **645.4** |
| | | | | | | | |
| **Financial liabilities** | | | | | | | |
| Interest bearing liabilities | | | 12.3 | | | 235.5 | 247.2 |
| Finance lease liabilities | | | | | | 41.0 | 41.0 |
| Derivatives | 165.0 | | 75.3 | | | | 240.3 |
| Trade payables and other liabilities | | | | | | 652.0 | 652.0 |
| **Fair value total** | | | | | | | **1,180.5** |
| **Book value total** | | | | | | | **1,181.1** |

Calculated tax liabilities are not presented in this note. Group has 120.6 million euros (144.5) of calculated tax liabilities in its balance sheet. Interest rate derivatives (currency and interest-rate swaps) are included in derivatives. In other notes they are included in bank loans. The item other financial assets 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.

The valuation principles of financial assets and liabilities are outlined in the accounting principles.

## 33. SUBSIDIARIES

| EUR mill. | Group ownership % |
|---|---|
| Finnair Cargo Oy, Helsinki | 100.00 |
| Finnair Cargo Terminal Operations Oy, Helsinki | 100.00 |
| Amadeus Finland Oy, Helsinki | 95.00 |
| Matkatoimisto Oy Area, Helsinki | 100.00 |
| A/S Estravel Ltd, Estonia | 72.02 |
| Oy Aurinkomatkat - Suntours Ltd Ab, Helsinki | 100.00 |
| OOO Aurinkomatkat, Russia | 100.00 |
| Calypso, Russia | 80.00 |
| Matkayhtymä Oy, Helsinki | 100.00 |
| Horizon Travel, Estonia | 95.00 |
| FTS Financial Services Oy, Helsinki | 100.00 |
| Finnair Catering Oy, Helsinki | 100.00 |
| Finnair Facilities Management Oy, Helsinki | 100.00 |
| Finnair Aircraft Finance Oy, Helsinki | 100.00 |
| Finncatering Oy, Vantaa | 100.00 |
| Northport Oy, Helsinki | 100.00 |
| Finland Travel Bureau Ltd., Helsinki | 100.00 |

## 34. OTHER LEASE AGREEMENTS

**The Group is the lessee**

**Minimum rental payments for irrevocable lease agreements are as follows:**

| | Aircrafts | | Buildings | | Machinery and vehicles | |
|---|---|---|---|---|---|---|
| EUR mill. | 31 Dec 2008 | 31 Dec 2007 | 31 Dec 2008 | 31 Dec 2007 | 31 Dec 2008 | 31 Dec 2007 |
| less than a year | 76.1 | 75.3 | 11.7 | 12.9 | 7.5 | 6.5 |
| 1–2 years | 54.8 | 68.5 | 10.8 | 11.1 | 5.9 | 5.5 |
| 2–3 years | 49.0 | 49.9 | 10.4 | 10.9 | 19.9 | 22.6 |
| 3–4 years | 40.5 | 45.2 | 9.4 | 9.5 | 0.1 | 0.1 |
| 4–5 years | 24.4 | 37.0 | 8.7 | 8.7 | 0.0 | 0.0 |
| more than 5 years | 41.1 | 48.9 | 82.8 | 89.9 | 0.0 | 0.0 |
| **Total** | **285.9** | **324.8** | **133.8** | **143.0** | **33.4** | **34.7** |

The Group has leased premises as well as aircraft and other fixed assets with irrevocable lease agreements. These agreements have different levels of renewal and other index-linked terms and conditions. The Group has leased 32 aircraft on leases of different lengths.

## 35. GUARANTEES, CONTINGENT LIABILITIES AND DERIVATIVES

| EUR mill. | 31 Dec 2008 | 31 Dec 2007 |
|---|---|---|
| Other pledges given on own behalf | 273.4 | 263.1 |
| Guarantees on behalf Group undertakings | 63.7 | 64.0 |
| Guarantees on behalf of others | 4.3 | 3.5 |
| **Total** | **341.3** | **330.6** |

| EUR mill. | Total |
|---|---|
| **Investment commitments** | **1,508.9** |

Above mentioned investment commitments includes firm aircraft orders and is based on prices and exhange rates as at 31 December 2008. The total amount committed to firm orders fluctuates between the placing of an order and the delivery of the aircraft mainly due to changes in exhange rates, as all of the company's aircraft orders are denominated in US dollars, as well as due to the escalation clauses included in airline purhase agreements. Therefore, the total amount presented herein should not be relied as being a maximum or minimum commitment by the company. The final amount of the commitment in relation to each aircraft is only known at the time of the delivery of each aircraft.

**Derivatives**

| EUR mill. | Nominal amount 31 Dec 2008 | Fair value 31 Dec 2008 | Nominal amount 31 Dec 2007 | Fair value 31 Dec 2007 |
|---|---|---|---|---|
| **Currency derivatives** | | | | |
| Hedge accounting items (forward contracts): | | | | |
| Jet fuel currency hedging | 382.7 | 14.0 | 267.0 | -20.0 |
| Hedging of aircraft acquisitions | | | | |
| Fair value hedging | 425.8 | 26.4 | 373.5 | -14.3 |
| Cash flow hedging | 58.9 | 0.4 | 89.5 | -2.6 |
| Hedging of lease payments | 48.4 | 2.2 | 56.3 | -3.9 |
| **Total** | **915.8** | **43.0** | **786.3** | **-40.8** |
| | | | | |
| Items outside hedge accounting: | | | | |
| Operational cash flow hedging forward contracts) | 74.4 | 3.2 | 2.7 | 0.0 |
| Operational cash flow hedging (options) | | | | |
| Call options | 12.8 | 0.2 | 54.3 | 0.1 |
| Put options | 18.8 | -0.1 | 64.5 | -0.6 |
| Balance sheet hedging (forward contracts) | 46.9 | -2.3 | 47.2 | -0.6 |
| **Total** | **152.9** | **1.0** | **168.7** | **-1.1** |
| | | | | |
| **Total** | **1,068.8** | **44.0** | **955.0** | **-41.9** |

In accordance with IAS 39, a change in the fair value of currency derivatives in hedge accounting is recognised in the hedging reserve of shareholders' equity, from where it is offset in the result against the hedged item. Exceptions to this are firm commitment hedges of aircraft purchases qualifying for hedge accounting, whose recognition practice is outlined in the accounting principles. A change in the fair value of operational cash-flow hedging is recognised in the income statement's other operating expenses, and a change in fair value of balance sheet hedges is recognised in financial items.

| | Nominal amount, tonnes 31 Dec 2008 | Fair value, EUR mill. 31 Dec 2008 | Nominal amount, tonnes 31 Dec 2007 | Fair value, EUR mill. 31 Dec 2007 |
|---|---|---|---|---|
| **Commodity derivatives** | | | | |
| Hedge accounting items | | | | |
| Jet fuel forward contracts | 591,300 | -153.1 | 562,750 | 55.3 |
| | | | | |
| Commodity derivatives at fair value through profit and loss | | | | |
| Jet fuel forward contracts | 71,700 | -27.6 | 11,100 | 0.6 |
| Gasoil forward contracts | 17,000 | -5.5 | 21,900 | 2.7 |
| Jet differential forward contracts | 340,500 | 6.9 | 395,000 | 1.1 |
| Options | | | | |
| Call options, jet fuel | 28,000 | 0.1 | 64,500 | 2.0 |
| Put options, jet fuel | 28,000 | -8.9 | 76,000 | -0.7 |
| Call options, gasoil | 47,000 | 0.0 | 48,500 | 3.1 |
| Put options, gasoil | 63,500 | -17.6 | 86,500 | -0.5 |
| **Total** | | **-205.6** | | **63.6** |

The effective portion of a change in the fair value of commodity derivatives in hedge accounting is recognised in the hedging reserve of shareholders' equity, from where it is offset against the hedged item when expired. A change in the fair value and gains and losses of commodity derivatives outside hedge accounting is recognised in the income statement item other operating expenses. The jet differential is the price difference between jet fuel and gasoil.

| **Derivatives** | | | | |
|---|---|---|---|---|
| EUR mill. | Nominal amount 31 Dec 2008 | Fair value 31 Dec 2008 | Nominal amount 31 Dec 2007 | Fair value 31 Dec 2007 |
| **Interest rate derivatives** | | | | |
| **Cross currency interest rate swaps** | | | | |
| Hedge accounting items | 16.7 | -7.3 | 26.9 | -13.6 |
| Cross currency interest rate swaps at fair value through profit and loss | 11.7 | -6.3 | 15.4 | -10.1 |
| **Total** | **28.4** | **-13.6** | **42.3** | **-23.7** |
| | | | | |
| **Interest rate swaps** | | | | |
| Hedge accounting items | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest rate swaps at fair value through profit and loss | 20.0 | 0.1 | 20.0 | 1.0 |
| **Total** | **20.0** | **0.1** | **20.0** | **1.0** |

The Group's fixed-interest USD-denominated aircraft financing loans have been hedged with long-term cross currency interest rate swaps. The recognition practice of these items is outlined in the accounting principles.

| **Derivatives** | | | | |
|---|---|---|---|---|
| EUR mill. | Nominal amount 31 Dec 2008 | Fair value 31 Dec 2008 | Nominal amount 31 Dec 2007 | Fair value 31 Dec 2007 |
| **Share derivatives** | | | | |
| Options | | | | |
| Call options, shares | 0.0 | 0.0 | 16.1 | 8.4 |

## 36. RELATED PARTY TRANSACTIONS

| The following transactions have taken place with related parties: | | |
|---|---|---|
| EUR mill. | 2008 | 2007 |
| **Sales of goods and services** | | |
| Associated undertakings | 0.0 | 0.0 |
| Management | - | - |
| | | |
| **Purchases of goods and services** | | |
| Associated undertakings | 2.2 | 0.6 |
| Management | - | - |
| **Receivables and liabilities** | | |
| Receivables from associated undertakings | 1.5 | 0.0 |
| Liabilities to associated undertakings | 0.0 | 0.0 |

Sales of goods and services executed with related parties correspond in nature to transactions carried out with independent parties.

The consolidated financial statements do not contain any open receivable or liability balances with management.

No credit losses from related party transactions have been recognised in the final year or the comparison year.

Guarantees and other commitments made on behalf of related parties are presented in Note 35.

The employee benefits of management are presented in Note 9. No loans have been granted to management personnel.

## 37. DISPUTES AND LITIGATION

Only cases of which the interest is 500,000 euros or more and that are not insured, are reported. Accordingly, the previously reported claim of approximately 1 million euros against Finnair Plc and Finnair Cargo Oy for lost cargo will not be reported in the future as the potential liability is insured.

On 31 December 2008 the following disputes were pending:

Transpert Oy has presented to Finnair approximately 600,000 euros damage compensation claim following the termination of a subcontracting agreement. Finnair has disputed the claim. The case is pending in the Helsinki District Court.

North Ground Handling Oy has presented to Northport Oy appr. 940,000 euros damage compensation claim for a dispute regarding a groundhandling agreement. Northport has disputed the claim. The case is pending in an arbitartion court.

No provisions have been made for disputes or litigation.

## 38. EVENTS AFTER THE CLOSING DATE

Group has concluded the statutory employer-employee negotiations under the act on Co-Determination within Undertakings (YT negotiations), that began in June 2008. The goal of the negotitations was to achieve 25 million euros of savings in personnel expenses, corresponding to around five per cent of total personnel costs.

The collective agreement for pilots ended at the end of November 2008 and the negotiations are ongoing. The Finnish Airline Pilots' Association (SLL) representing Finnair's pilots has decided to initiate a labour dispute to attain its collective agreement on terms of employment negotiation aims. The action of the dispute started 24th of January in form of overtime ban. In addition, the pilots have given notification of their intention ro carry out strikes that will halt Finnair flights a daily basis starting from 25th of February.

## 39. PARENT COMPANY'S FINANCIAL FIGURES

The figures presented below are not IFRS figures.

| FINNAIR PLC INCOME STATEMENT | | |
|---|---|---|
| EUR million | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
| Turnover | 1,869.0 | 1,788.8 |
| Production for own use | 1.6 | 1.2 |
| Other operating income | 17.1 | 13.8 |
| OPERATING INCOME | 1,887.7 | 1,803.7 |
| | | |
| OPERATING EXPENSES | | |
| Materials and services | 954.5 | 785.8 |
| Personnel expenses | 393.3 | 379.3 |
| Depreciation | 25.8 | 24.3 |
| Other operating expenses | 710.2 | 592.0 |
| | -2,083.8 | -1,781.3 |
| | | |
| OPERATING PROFIT /- LOSS | -196.1 | 22.4 |
| | | |
| FINANCIAL INCOME AND EXPENSES | 30.5 | -4.9 |
| | | |
| PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS | -165.6 | 17.5 |
| | | |
| Extraordinary items | 151.6 | -10.0 |
| | | |
| PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES | -14.0 | 7.5 |
| | | |
| Direct taxes | 3.7 | -6.5 |
| PROFIT/LOSS FOR THE FINANCIAL YEAR | -10.3 | 1.0 |

| FINNAIR PLC BALANCE SHEET | | | | |
|---|---|---|---|---|
| EUR million | 31 Dec 2008 | | 31 Dec 2007 | |
| **ASSETS** | | | | |
| | | | | |
| NON-CURRENT ASSETS | | | | |
| Intangible assets | 35.2 | | 34.9 | |
| Tangible assets | 96.5 | | 99.4 | |
| Investments | | | | |
| Holdings in Group undertakings | 406.3 | | 406.2 | |
| Holdings in associated companies | 2.8 | | 2.5 | |
| Other investments | 0.9 | 541.8 | 0.9 | 543.9 |
| | | | | |
| CURRENT ASSETS | | | | |
| Inventories | 30.0 | | 31.7 | |
| Long-term receivables | 115.2 | | 130.3 | |
| Short-term receivables | 741.4 | | 613.8 | |
| Marketable securities | 370.9 | | 514.4 | |
| Cash and bank equivalents | 9.0 | 1,266.5 | 10.8 | 1,300.9 |
| | | **1,808.3** | | **1,844.8** |
| **LIABILITIES** | | | | |
| | | | | |
| SHAREHOLDERS' EQUITY | | | | |
| Share capital | 75.4 | | 75.4 | |
| Share premium account | 24.7 | | 24.7 | |
| General reserve | 147.7 | | 147.7 | |
| Fair value reserve | -111.7 | | 31.6 | |
| Unrestricted equity | 250.4 | | 248.1 | |
| Retained earnings | 218.7 | | 261.9 | |
| Profit/loss for the financial year | -10.3 | 594.9 | 1.0 | 790.4 |
| | | | | |
| ACCUMULATED APPROPRIATIONS | | - | | - |
| | | | | |
| LIABILITIES | | | | |
| Deferred tax liability | 8.1 | | 19.0 | |
| Long-term liabilities | 181.6 | | 220.2 | |
| Short-term liabilities | 1,023.7 | 1,213.4 | 815.2 | 1,054.4 |
| | | **1,808.3** | | **1,844.8** |

| FINNAIR PLC CASH FLOW STATEMENT | | |
|---|---|---|
| EUR million | 1 Jan–31 Dec 2008 | 1 Jan–31 Dec 2007 |
| **Business operations** | | |
| Operating profit/-loss | -196.1 | 22.4 |
| Opetarions for which a payment is not included (depreciations) | 25.8 | 24.3 |
| Changes in working capital (net) | | |
| Inventories, increase (-), decrease (+) | 1.6 | 2.9 |
| Short-term receivables, increase (-), decrease (+) | 20.4 | -165.0 |
| Non interest bearing short-term liabilities, increase (+), decrease (-) | -134.2 | 96.3 |
| Financial income and expenses (net) | 30.5 | -4.9 |
| Taxes | 3.7 | -6.6 |
| **Cash flow from operations** | **-248.3** | **-30.6** |
| | | |
| **Investments** | | |
| Investments in flight equipment | -13.8 | -27.8 |
| Other investments | -14.7 | -16.2 |
| Change in advance payments | 0.0 | 0.0 |
| Capital expenditure, total | -28.5 | -44.0 |
| Capital expenditure | 4.8 | 45.3 |
| **Cash flow from investments** | **-23.7** | **1.3** |
| | | |
| **Cash flow before financing** | **-272.0** | **-29.3** |
| | | |
| **Financing** | | |
| Long-term debts, increase (+), decrease (-) | -38.4 | -43.2 |
| Long-term receivables, increase (-), decrease (+) | 15.2 | 30.8 |
| Short-term debts, increase (+), decrease (-) | 201.9 | 48.2 |
| Group contribution | -10.0 | - |
| Shareholders' equity, increase (+), decrease (-) | -10.1 | 248.1 |
| Divident payment | -31.8 | -8.8 |
| **Cash flow from financing** | **126.8** | **275.1** |
| | | |
| **Change in liquid funds increase (+), decrease (-) in statement** | **-145.2** | **245.8** |
| | | |
| **Liquid funds in the beginning** | **525.2** | **279.4** |
| **Liquid funds, decrease (-), increase (+) in balance sheet** | **-145.2** | **245.8** |
| **Liquid funds in the end** | **379.9** | **525.2** |

# *Board of Directors' Proposal on the Dividend*

Finnair Plc's distributable equity according to the financial statements on 31 December 2008 amounts to 458,707,539.14 euros.

The Board of Directors proposes to the Annual General Meeting that no dividend shall be paid and the loss for the fiscal year to be transfer against retained earnings.

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

Helsinki, 4 February 2009

The Board of Directors of Finnair Plc

Christoffer Taxell
Kari Jordan
Sigurdur Helgason

Satu Huber
Markku Hyvärinen
Ursula Ranin

Veli Sundbäck
Pekka Timonen

Jukka Hienonen
President & CEO of Finnair Plc

# *Auditor's Report*

## *To the Annual General Meeting of Finnair Oyj*

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Finnair Oyj for the year ended on 31 December, 2008. The financial statements comprise the consolidated balance sheet, income statement, cash flow statement, statement of changes in equity and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

### *Responsibility of the Board of Directors and the Managing Director*

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements and the report of the Board of Directors and for the fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the fair presentation of the parent company's financial statements and the report of the Board of Directors in accordance with laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

### *Auditor's Responsibility*

Our responsibility is to perform an audit in accordance with good auditing practice in Finland, and to express an opinion on the parent company's financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. Good auditing practice requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements and the report of the Board of Directors are free from material misstatement and whether the members of the Board of Directors of the parent company and the Managing Director have complied with the Limited Liability Companies Act.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presen-tation of the financial statements and the report of the Board of Directors.

The audit was performed in accordance with good auditing practice in Finland. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion on the Consolidated Financial Statements*

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

### *Opinion on the Company's Financial Statements and the Report of the Board of Directors*

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

The Members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us.

Helsinki, 13 February 2009

PricewaterhouseCoopers Oy
Authorised Public Accountants

Eero Suomela
Authotised Public Accountant

Jyri Heikkinen
Authorised Public Accountant

# Corporate Governance

Finnair follows Finnish Corporate Governance Code issued in 2008 by the Finnish Securities Market Association with the exception that Finnair's Board of Directors does not have a nomination committee as Finnair's Annual General Meeting has appointed a shareholders' nomination committee. In addition, the duties of the Board Audit Committee do not include preparing the draft resolution concerning the election of the company's auditors.

## *Current Group Structure*

The Finnair Group consists of the parent company Finnair Plc and 17 subsidiaries. The most significant subgroups are Finland Travel Bureau Ltd and Finnair Catering Oy. Other notable subsidiaries are Matkatoimisto Oy Area, Oy Aurinkomatkat-Suntours Ltd Ab, Finnair Aircraft Finance Oy, Finnair Cargo Oy and Northport Ltd. The Finnair Group's business units and subsidiaries are organised into four business areas: Scheduled Traffic, Leisure Traffic, Aviation Services and Travel Services.

## *Annual General Meeting and exercising of voting rights*

Ultimate authority in Finnair Plc is exercised by the company's shareholders at the Annual General Meeting. The Annual General Meeting is convened by the company's Board of Directors. In accordance with the Companies Act, the Annual General Meeting decides on, among other things, the following matters:

- the number, election and remuneration of the Board of Directors
- the number, election and remuneration of the auditors
- the approval of the financial statements
- the distribution of dividends
- the amendment of the Articles of Association.

The Articles of Association of Finnair Plc do not contain any redemption clauses nor any restrictions on voting rights. The company has one series of shares.

## *Board of Directors*

### Composition and term of office

The Board of Directors of Finnair Plc consists of a chairman and at least four and at most seven members. The Annual General Meeting elects the Chairman and the Members of the Board of Directors for one year at a time. The Board of Directors elects a Deputy Chairman from among its members.

On 27 March 2008 the Annual General Meeting of Finnair Plc elected Christoffer Taxell as Chairman of the Board of Directors, and as Members of the Board Sigurdur Helgason, Markku Hyvärinen, Satu Huber, Kari Jordan (Deputy Chairman),Ursula Ranin and Veli Sundbäck. Pekka Timonen was elected as new member. All Members of the Board are from outside the company and independent of the company. Pekka Timonen is in the service of the Finnish Government, Finnair Plc's largest shareholder. The Board of Directors' term of office expires at the end of the Annual General Meeting to be held on 26 March 2009.

### Duties and meetings

The Board of Directors is responsible for the company's operations and finances, it convenes the Annual General Meeting and it prepares the matters to be dealt with at the Annual General Meeting. The Board of Directors is also responsible for implementing the decisions of the Annual General Meeting.

The Board of Directors appoints and dismisses the President & CEO and decides on his/her salary. The Board of Directors also appoints and dismisses the deputy to the President & CEO. The Board of Directors selects the members of the Group's senior management and decides on their terms of employment, taking into account the personnel strategy guidelines and remuneration system in accordance with the company's corporate governance. The Board of Directors is responsible for ensuring that the company's accounts, budget monitoring system, internal auditing and risk management are arranged in accordance with the company's corporate governance.

The Board of Directors is also responsible for ensuring that the openness and fairness referred to in the company's corporate governance are implemented in the information given in the company's financial statements.

The company is represented by the Chairman of the Board and the company's President & CEO as well as the deputy CEO each separately, by two Members of the Board of Directors together, and by those individuals to whom the Board of Directors has conferred the right to represent the company, together with a Member of the Board or another individual entitled to represent the company. The company's powers of procuration are decided by the Board of Directors.

The Board of Directors meets on average 8–10 times per year. In 2008 Board of Directors had ten meetings. The average attendance of the Members of the Board of Directors at the meetings of the Board was 96.25 per cent.

The President & CEO of Finnair Plc Jukka Hienonen, or a senior member of Finnair Group management nominated by him acts as the presiding officer at meetings of the Board of Directors. The Finnair Group's Vice President and General Counsel Sami Sarelius acts as secretary to the Board of Directors. The Board of Directors evaluates its working practices regularly.

The charter of the Board of Directors can be viewed on the Finnair Group's website www.finnair.com/group.

### Committees

The Board of Directors has established a Compensation and Nomination Committee and an Audit Committee. The Compensation and Nomination Committee consists of Chairman of the Board Christoffer Taxell as well as Members of the Board Kari Jordan, Ursula Ranin and Pekka Timonen. President & CEO Jukka Hienonen acts as the presiding officer. The committee met three times in 2008.

Audit Committee consists of Markku Hyvärinen (Chairman) and members Sigurdur Helgason, Satu Huber and Veli Sundbäck. President & CEO Jukka Hienonen acts as the presiding officer. The committee met twice in 2008.

The Finnair Group's Vice President and General Counsel Sami Sarelius acts as secretary to the Board's committees.

The charters of the committees can be viewed on the Finnair Group's website www.finnair.com/group.

### Remuneration and other benefits

The monthly remuneration and attendance allowances decided by the Annual General Meeting for Members of the Board of Directors in 2008 were:

- Chairman's annual remuneration 61,200 euros
- Deputy Chairman's annual remuneration 32,400 euros
- Member of the Board's annual remuneration 30,000 euros
- Meeting compensation to a member residing in Finland 600 euros and to a member residing abroad 1200 euros per meeting of the Board of Directors or its committee.

The Members of the Board of Directors are entitled to a daily allowance and compensation for travel expenses in accordance with Finnair Plc's general travel rules. In addition, Members of the Board of Directors have a limited right to use ID tickets in accordance with Finnair Plc's ID ticket rules.

In 2008, the members of Finnair Plc's Board of Directors were paid monthly remuneration and attendance allowances totalling 335,452,79 euros in 2008.

## *President & CEO and Deputy CEO*

Finnair Plc has a President & CEO, whose task is to manage the company's operations according to guidelines and instructions issued by the Board of Directors. In 2008 Finnair Plc's President & CEO was Jukka Hienonen and the Deputy CEO was Henrik Arle.

Henrik Arle retired 31 December 2008. Lasse Heinonen, the CFO of Finnair Group, was appointed Deputy CEO as of 13 January 2009.

In 2008, President & CEO Jukka Hienonen was paid a salary of 581,843.04 euros and fringe benefits of 38,598.51 euros as well as shares and a payment of 441,092.47 euros based on the share-based incentive scheme in 2007. Deputy CEO Henrik Arle was paid a salary of 373,101.68 euros and fringe benefits of 10,875.00 euros as well as shares and a payment of 252,043.61 euros based on the share-based incentive scheme in 2007.

The President & CEO and the Deputy CEO have the right to retire at the 60 years of age on a full pension of 60 per cent of pensionable salary. The President & CEO's and the Deputy CEO's service contracts may be terminated with a period of notice of six months. In addition to salary for the period of notice, they are entitled to severance compensation equivalent to 12 months' salary if their employment is terminated for reasons independent of them.

## *Changes in the company's management in 2008*

Deputy CEO and EVP Scheduled Traffic Henrik Arle retired 31 December 2008. In conjunction with the retirement some revisions were made in management responsibilities and the organisation of Finnair Group.

Lasse Heinonen, the CFO of Finnair Group, was appointed Deputy CEO as of 13 January 2009. Heinonen continues as the CFO of the Group. In addition to economics and finance, the ground handling company Northport Ltd, Finnair Catering Oy and Finnair Technical Services, which all belong to Aviation Services business area, report to Lasse Heinonen. Also Finnair Aircraft Finance Ltd and Finnair Facilities Management Oy report to Heinonen.

As of 1 January 2009 Finnair's President & CEO Jukka Hienonen leads the Scheduled Passenger Traffic organisation together with the business unit's management group. SVP Flight Operations Veikko Sievänen serves as the Accountable Manager referred to in the Airline Operators Certificate (AOC). Sievänen will also be a member of the Group's Executive Board. Operational risk management, which was previously under the authority of Henrik Arle, will now be under the President & CEO.

SVP for Public Affairs and Corporate Communications Christer Haglund was appointed member of Finnair Plc's Executive Board as of 1 March 2008.

## *Finnair Plc's Executive Board*

Finnair Plc's Executive Board meets approximately 20 times a year and its tasks include the handling of Group-wide development projects as well as Group-level principles and procedures. In addition, the Executive Board is informed about, among other things, the business plans of the Group and sector companies, financial performance, and matters to be dealt with by Finnair Plc's Board of Directors, in the preparation of which it participates. Finnair Plc's Executive Board acts as a risk management steering group.

The Executive Board comprises President & CEO Jukka Hienonen (Chairman) and members SVP for Public Affairs and Corporate Communications Christer Haglund, Chief Financial Officer and Deputy CEO Lasse Heinonen, SVP Human Resources Anssi Komulainen, SVP Commercial Division Mika Perho, SVP Flight Operations Veikko Sievänen, SVP Finnair Technical Services Kimmo Soini, and SVP Leisure Traffic and Travel Services Kaisa Vikkula.

## *Finnair Group's Board of Management*

The Finnair Group's Board of Management comprises, in addition to members of the Executive Board, Northport Ltd's Managing Director Jukka Hämäläinen, Finnair Catering Oy's Managing Director Kristina Inkiläinen and Managing Director of Finnair cargo companies Antero Lahtinen as well as personnel representatives, namely Purser Mauri Koskenniemi, Chairman of the Finnish Flight Attendants' Association SLSY, Purser Tiina Sillankorva, Chairman of the Finnair Senior White Collar Workers Association, Systems Analyst Timo Kettunen, Chairman of the Finnish Flight Workers Association, and Juhani Sinisalo, Representative of Finnair Personnel Fund.

The Board of Management is informed about, among other things, the business plans and financial performance of the Group and sector companies. The Board of Management prepares, among other things, matters to be decided by the Board of Directors affecting personnel as well as fleet and other fix asset related investments and projects. The Board of Management decides within the limits set out by the Board of Directors also on investments and projects. The Board of Management meets approximately ten times per year.

## *Corporate Governance of Subsidiaries*

The Members of the Boards of Directors of the significant subsidiaries are selected from individuals belonging to Finnair Group management and from representatives proposed by personnel groups. The key tasks of the Boards of Directors of subsidiaries are strategy preparation, approving the operational plan and budget, and deciding on investments and commitments within the limits of instructions issued by the Board of Directors of Finnair Plc.

## *Share-Based Incentive for Key Individuals*

Matters relating to the remuneration scheme of key individuals are prepared in the Board of Directors' Compensation and Nomination Committee. Decisions are made by the company's Board of Directors. Management incentive bonuses are determined annually based on the company's earnings per share, return on capital employed, business-unit quality and process indicators as well as personal performance appraisals. The maximum bonus can be equivalent to four months' basic salary.

Around 70 key individuals of the Group belonged to the 2007–2009 share-based insentive scheme. The rewards of the scheme are based on return on capital employed and earnings per share, whose target levels are decided annually by the Board of Directors. The shares are subject to sale restrictions.

## *Auditors and Monitoring*

### Auditors

The company has two auditors elected by the Annual General Meeting. The auditors' term of office ends at the conclusion of the Annual General Meeting following the meeting of their election. At least one of the auditors must be an authorised public accountant or an authorised public accounting firm approved by the Central Chamber of Commerce.

Finnair Plc's Annual General Meeting in 2008 elected two auditors for the company: Authorised Public Accountants PricewaterhouseCoopers Oy, Principal Auditor APA Eero Suomela and APA Jyri Heikkinen. APA Tuomas Honkamäki and APA Timo Takalo of PricewaterhouseCoopers Oy were elected deputy auditors. The auditors of Finnair Group subsidiaries are mainly PricewaterhouseCoopers auditing firms or auditors employed by them.

Auditing fees paid to auditors in Finland and abroad totalled 188,000 euros in 2008. Finnair Plc also paid auditors 120,000 euros for services (e.g. tax advice) unrelated to the statutory audit of the accounts.

### Monitoring and reporting system

The principal task of the statutory audit is to verify that the financial statements give accurate and sufficient information about the Group's result and financial position for the financial year. The auditors report their findings to the Board of Directors at least once per year and submit an auditors' report to company's shareholders in connection with the annual financial statements.

Finnair Plc's Executive Board, which acts as a risk management steering group, assesses and safeguards the sufficiency, appropriateness and effectiveness of the Group's risk management, monitoring and management processes. Financial Risk Steering Group assesses and anticipates financial risks and steers implementation of financing policy of the Group.

The Board of Directors of Finnair Plc has approved principles of internal monitoring, which are applied within the Group. Internal Auditing is responsible for fulfilling the monitoring and auditing obligation laid down in the Companies Act.

Internal auditing work is employed to verify the integrity of transactions and the accuracy of information in internal and external accounting, and to confirm that controls are exercised effectively, property is maintained, and operations are conducted appropriately in accordance with the Group's objectives. Internal Auditing also participates in the auditing of Finnair Plc subsidiaries' accounts in collaboration with External Auditing. The Internal Auditing priorities are determined in accordance with the Group's risk management strategy.

The fulfilment of financial targets is monitored by a system of Group-wide reporting. The reporting encompasses realised data and up-to-date forecasts for a rolling 12-month period. The accumulation of financial added value is monitored monthly in an internal reporting process. The Group's traffic performance is published in a monthly Stock Exchange Bulletin.

Risks arising from operations in relation to property, interruption, accident and liability have been covered by appropriate insurances.

## *Governing provisions*

Finnair Plc adheres to applicable legislation, to the regulations, issued under such legislation and to the company's Articles of Association. Furthermore, in its activities Finnair Plc complies with Corporate Governance Code of listed companies, issued in 2008, as well as insider rules.

## *Company insiders*

The Finnair Group's insiders are divided into permanent insiders and temporary insiders in accordance with the Securities Market Act.

Permanent insiders are further divided into those entered in a public insider register and those entered in a non-public company-specific insider register.

Temporary insiders are individuals who receive insider information during the performance of some assignment (project). These individuals are entered into a non-public company-specific insider register, namely a project-specific register.

Finnair Plc's permanent insiders include members of the Finnair Plc's Board of Directors, the President & CEO and his Deputy, the direct subordinates of the President & CEO, as well as the auditors, including the auditing firm's auditor with chief responsibility for the company.

Permanent company-specific insiders include the personnel representatives participating in the work of Finnair's Executive Board; the managing directors of Amadeus Finland Oy, Matkatoimisto Oy Area, Finland Travel Bureau Ltd, Oy Aurinkomatkat - Suntours Ltd Ab, FTS Financial Services Oy, Finnair Facilities Management Oy and Finnair Aircraft Finance Ltd; the secretaries of Finnair's CEO and CFO; Finnair's lawyers and internal auditors; Finnair's financial communications staff as well as the Economics and Finance Department's vice presidents, assistant vice presidents, finance managers, economics managers, and the financial management and supervision planning manager; the vice presidents of Finnair's Commercial Division and the Vice President Leisure Flights; the department managers dealing with employment affairs and HR services; and other individuals separately designated by Finnair's CEO for entry in the register.

The Board of Directors of Finnair Plc has approved Finnair Plc's insider guidelines, which contain guidelines for permanent and project-work insiders and specify the organisation and procedures of the company's insider controls. The company's insider guidelines have been distributed to all insiders.

The Legal Affairs Department is responsible for the content of the insider guidelines. Compliance with the insider guidelines is monitored by the Economics and Finance Department. The company operates a restriction on trading, which applies to insiders' trading in the company shares or in securities granting entitlement to shares for 30 days before the declaration of financial results.

Finnair Plc's insider register is maintained by Euroclear Finland Ltd. The up-to-date details of public insiders' share and option holdings can be viewed at Euroclear Finland premises in Helsinki, Finland at the address Urho Kekkosen katu 5C and on Finnair's website at the address www.finnair.com/group.

## *Corporate Governance update*

The Finnair Corporate Governance section is updated regularly and can be viewed on the company's website at the address www.finnair.com/group. Finnair Plc's website is published in Finnish and English, and partly in Swedish. The printed and electronic Annual Review 2008 are published in Finnish, Swedish and English, and the Financial Report in Finnish and English. Interim reports are published in Finnish, Swedish and English.

# Risk Management in Finnair

Risk management in Finnair is part of the Group's management activity and is directed primarily at risks that threaten the fulfilment of the Group's short- and long-term business objectives. To exploit business opportunities, Finnair is prepared to assume managed and considered risks, taking the company's risk-bearing capacity into account. In flight safety matters, Finnair's objective is to minimise risks.

In Finnair, risk management means a systematic and predictive way of recognising, analysing and managing the opportunities and threats associated with operations. Continuity plans have been prepared in case of the realisation of risks, particularly as far as strategic and significant financial risks are concerned.

The Board of Directors and the President & CEO are responsible for the Group's risk management strategy and principles as well as for the management of risks that threaten the fulfilment of strategic objectives. The President & CEO is responsible for ensuring that risk management is in other respects appropriately organised. The Senior Vice Presidents of the business units and the Managing Directors of subsidiaries are responsible for risk management in their own areas of responsibility.

## Organisation of risk management

Finnair Plc's Executive Board, which acts as a risk management steering group, assesses and directs risk management in Finnair Group. The company's internal auditing coordinates the reporting of risk management as well as adherence to a specified operating model.

The Operational Risk Management Department, which operates under Finnair Plc's Quality Manager, as specified in the Airline Operator's Licence, regularly audits and assesses the company's own and subcontractors' actions that impact on flight safety.

Finnair's quality system is IOSA certified*. The IOSA programme is an evaluation method, required by IATA, for airlines' operational management and monitoring systems. Auditing based on IOSA certification assesses whether the airline's quality control systems fulfil both IOSA and international avation regulation standards.

Management of risks relating to loss or damage is divided into two main areas: flight safety and corporate security. Development work in these areas is coordinated by the flight safety department and the corporate security unit.

## Operating environment risks

Demand and the price level of passenger and cargo traffic have been influenced most by market-area economic development, economic cycles, competition in the industry as well as various unexpected events, such as terrorism, environmental accidents and epidemics. The company has plans of action to minimise the operational impacts arising to air transport from various external disruptive factors.

The current trend clearly indicates that competitiveness in the air transport sector depends on how flexibly the company can react and adapt to surprising events, changes in demand and a constantly changing competitive environment.

A critical factor for operational flexibility is the adjustment of fixed costs to fluctuations in demand. The company's ability to react quickly in adjusting capacity, routes and costs to correspond to changing demand and economic and security conditions is also an essential factor in maintaining the company's profitability. In recent years Finnair has implemented, and has under way, a number of projects that have increased structural flexibility.

Finnair manages the residual value risk related to aircraft capacity and ownership by acquiring nearly half of the aircraft belonging to its fleet through operating lease agreements of different durations. The leasing of aircraft provides an opportunity for the flexible dimensioning of capacity in the short and long term.

## Market risk

The air transport business is sensitive to both cyclical and seasonal changes. Competition in the sector is intense and the market situation is continually changing, which has reduced average ticket prices over an extended period. Airlines are cutting their prices in order to increase volumes, achieve sufficient cash flow and maintain market share.

Finnair constantly makes market situation analyses and actively monitors its own reservation intake as well as competitors' changes in pricing and capacity. Finnair is able to react quickly to pricing changes that take place in the market by utilising its advanced optimisation systems.

Finnair is growing in markets where it is not as well-known a brand as in its traditional domestic market. This presents challenges for marketing communications in highlighting Finnair's competitive assets.

A change of one percentage point in the average price level of scheduled passenger traffic services affects the Group's operating profit by more than 15 million euros. Correspondingly a change of one percentage point in the load factor of scheduled passenger traffic services also affects the Group's operating profit by more than 15 million euros.

## Operational risk

Finnair's operations are based on a rigorous flight safety culture, which is maintained through continuous and long-term flight safety work. The company has prepared an operational safety policy, for which the company's Vice President, Flight Permits and Operating Licences is responsible for implementing. Every subcontractor working directly or indirectly with the Group's employees or flight operations must undertake to comply with the policy.

When operational decisions are made, flight safety always has the highest priority in relation to other factors that influence decision-making. Flight safety is an integral mechanism of all activities as well as a required way of operating not only for the company's own personnel, but also for subcontractors.

The main principle of flight safety work is non-punitive reporting of deviations in the way intended by the Aviation Act and the company's guidelines. The purpose of reporting is to find reasons, not to assign blame, as well as to identify predictively the risks of the future. The company, however, does not tolerate wilful acts contrary to guidelines, methods or prescribed working practices. Decision-making not directly related to operations must also support the company's objective of achieving and maintaining a high level of flight safety.

## Reliability of flight operations

Reliability is an essential prerequisite for operating successfully in the airline industry. The air transport business, however, is exposed to various disruptive factors, such as delays, exceptional weather conditions and strikes. As well as their impact on operational and service quality, air traffic delays also increase costs.

Finnair invests continually in the overall quality and punctuality of its operational activities. The Network Control Centre (NCC) brings together all the critical parties for flight operations, thus enabling the most effective overall solutions to be implemented. Finnair Technical's service punctuality and diverse expertise as well as its detailed specification of technical functions ensure the reliability of flight operations.

Furthermore, in operational activities the contribution of partners and interest groups is essential. Finnair monitors the quality of external suppliers within the framework of standards specified in advance and through regulations prescribed for flight operations.

Finnair is one of the most punctual airline in Europe.

In relation to Asian traffic, the transfer of passengers and goods from one flight to another at Helsinki-Vantaa Airport is increasing, in the short term, the risk of delays, owing to the airport's space restrictions. The completion of a new terminal extension in autumn 2009 will help the situation considerably.

## Authorities and the environment

An airline registered in the European Union can operate freely within the entire area of the Union. To date Finland, like other European countries, has been accustomed to negotiating bilateral operating agreements with countries outside the European Union.

In future, regulation at the European Union level will bring the negotiation of aviation agreements between countries inside and outside the European Union under the European Commission. Existing bilateral operating agreements will remain in force in the new situation.

As a negotiating party the Union is stronger than an individual country and thus can strengthen the position of European airlines when negotiating operating rights. In some cases this may have an adverse impact on Finnair and may weaken the company's competitive position in relation to other European airlines. Finnair will actively strive to influence the parties who negotiate operating rights in order to safeguard its interests.

European Union has decided to include air transport within carbon dioxide emissions trading from 2012. Aircraft transport within the EU will be subject to emissions trading as will flights departing from and arriving in the EU. This will have a particular impact on the intercontinental competitive situation. If other non-EU countries do not become part of the emissions trading scheme, this will give a competitive advantage to airlines whose hubs are outside the EU. Companies will be able to offer market routing changes such that emissions trading will burden them less than the EU airlines or not at all. A trade war may also be possible if non-EU countries do not accept the EU emissions trading rules.

Finnair has been investing in environmental matters for a long time. Finnair actively monitors the effects of the company's operations on energy consumption, emissions, amounts of waste and noise values. Finnair publishes annually a separate Environmental Report, which includes measures and key figures for the assessment of environmental efficiency.

The company has a VP, Sustainable Development whose task is to promote the realisation of Finnair's environmental goals in the Group's business operations, such that Finnair can be among the leading airlines in environmental activities.Official and interest group cooperation is important in order to be fully aware of future legislation and interest group requirements.

## Risk of loss or damage

Risk management in this area includes, for example, risks to flights, people, information, property and the environment as well as liability and loss-of-business risks, and insurance cover. The priority in the management of risks relating to loss or damage is on risk prevention, but the company prepares for any possible emergence of risks with plans, effective situation-management preparedness and insurance. Aircraft and other significant fixed assets are comprehensively insured at fair value. The amount of insurance cover for aviation liability risks exceeds the minimum levels required by law.

## *Accident risk*

The management of occupational health and safety is diverse and challenging, because the Finnair Group's operations are spread across many fields of business. Occupational safety risks are known to be high in precisely those areas – services, food industry, heavy aircraft maintenance, warehousing and transport – of which Finnair's operations principally consist.

The development of occupational safety is long-term work, and Finnair's goal is to minimise the number of accidents. Developing occupational safety is part of the everyday activity of line organisation and the responsibility of every employee.

Means of improving occupational safety include identifying and evaluating occupational health and safety hazards in the workplace and preventing accidents and hazardous situations. All reported risk situations and accidents are investigated and lessons learned in order to develop safer working methods.

## *Telecommunications and information technology risk*

The diverse use of information technology in support of operations has increased and there is greater emphasis on importance the availability of information. Systems vulnerability and the development of new global threats represent a risk factor in a networked operating environment. Finnair is continually developing its information security and situation-management preparedness for serious disruptions to information systems and telecommunications. Such preparations have a direct impact on information technology and data security costs.

Developing information system solutions and the IT environment requires continuous investment. Careful selection of external partners in IT solutions also reduces the technology risk.

The coordination of the Group's information system architecture as well as its IT purchases and strategies has been centralised in the Group's information management department. This brings synergy benefits and improves cost-efficiency.

## *Principles of financial risk management*

The nature of the Finnair Group's business operations exposes the company to foreign exchange, interest rate, credit and liquidity, and fuel price risks. The policy of the Group is to minimise the negative effect of such risks on cash flow, financial performance and equity.

The management of financial risks is based on the risk management policy approved by the Board of Directors, which specifies the minimum and maximum levels permitted for each type of risk. Financial risk management is directed and supervised by the Financial Risk Steering Group. The implementation of financial risk management practice has been centralised in the Finnair Group's Finance Department.

In its management of foreign exchange, interest rate and jet fuel positions the company uses different derivative instruments, such as forward contracts, swaps and options.

Financial risks have been described in more detail in Note 31 of the Notes to the Financial Statements.

*IOSA = IATA Operational Safety Audit
IATA = The International Air Transport Association

# Stock Exchange Releases in 2008

| | |
|---|---|
| 2 JAN 2008 | A significant maintenance contract for Finnair Technical Services from Aeroflot Cargo |
| 4 JAN 2008 | Finnair Group's last ATR turboprop aircraft sold |
| 4 JAN 2008 | Finnair Plc decides share buy-back |
| 8 JAN 2008 | Finnair traffic grew 16.2 percent last year |
| 4 FEB 2008 | Finnair's long-haul fleet continues to grow |
| 5 FEB 2008 | Finnair Group Financial Statement 1 January–31 December 2007, Strong cash flow and solid balance sheet facilitate future investments |
| 7 FEB 2008 | The year is off with growth in Asian traffic |
| 21 FEB 2008 | Finnair plans flights to Yekaterinburg – more flights to Moscow and St. Petersburg |
| 22 FEB 2008 | Finnair Leisure Flights leases an Airbus A330-200 aircraft for Thailand Leisure Flights in winter season 2008/2009 |
| 25 FEB 2008 | Notice of the Annual Shareholders' Meeting 2008 |
| 28 FEB 2008 | Jaana Tammisto appointed Managing Director of Finland Travel Bureau |
| 29 FEB 2008 | Finnair to acquire three additional Embraer aircraft |
| 7 MAR 2008 | Appointments in Finnair Corporate Communications |
| 10 MAR 2008 | Finnair's Annual Report 2007 has been published |
| 10 MAR 2008 | India engine for Finnair growth |
| 27 MAR 2008 | Guidance at Finnair Annual General Meeting: Operational result for first half of year expected to remain at last year's level |
| 27 MAR 2008 | Decisions of Finnair Plc's Annual General Meeting 2008 |
| 31 MAR 2008 | Announcement pursuant to securities markets act chapter 2, section 10 |
| 9 APR 2008 | Mexicana to join **one**world alliance |
| 10 APR 2008 | India drives Finnair traffic growth |
| 11 APR 2008 | Finnair sells six Boeing MD-80 aircraft |
| 25 APR 2008 | Finnair does not accept Alitalia subsidies |
| 29 APR 2008 | Finnair group interim report 1 January–31 March 2008, Financial condition strong, challenging terrain ahead |
| 30 APR 2008 | Finnair sold and leased back two Embraer jet aircraft |
| 8 MAY 2008 | Finnair's load factors decreased, average prices improved |
| 9 MAY 2008 | Disposal of own shares |
| 26 MAY 2008 | Expensive oil and slower growth in demand will weaken Finnair's result |
| 27 MAY 2008 | Announcement pursuant to securities act chapter 2, section 9 |
| 3 JUNE 2008 | Finnair pilots' collective labour agreement negotiations end without results |
| 10 JUNE 2008 | Finnair's Scheduled Traffic grows, but at clearly lower load factors |

| | |
|---|---|
| 12 JUNE 2008 | Finnair to begin negotiations with personnel brought on by fuel crisis and drop in demand |
| 19 JUNE 2008 | Temporary agreement for Finnair Pilots |
| 1 JULY 2008 | Finnair Increases long-haul connections for winter |
| 8 JULY 2008 | Finnair's load factors down |
| 7 AUG 2008 | Finnair traffic grew 6.5 per cent |
| 8 AUG 2008 | Finnair Group Interim Report 1 January–30 June 2008,<br>Operational result weakened, second-half may be loss-making |
| 9 SEPT 2008 | Finnair's passenger load factors up |
| 12 SEPT 2008 | Finnair to open route to Istanbul |
| 16 SEPT 2008 | Finnair's statutory employer-employee negotiations did not reach an agreement on savings |
| 26 SEPT 2008 | Finnair daily to Tokyo in 2010 |
| 6 OCT 2008 | Finnish Competition Authority approved Aircraft Maintenance joint venture |
| 9 OCT 2008 | Finnair's load factors were up, average ticket prices down |
| 9 OCT 2008 | Finnair Leisure Flights directly to Thailand ensured |
| 31 OCT 2008 | Finnair Group Interim Report 1 January–30 September 2008, Weak third-quarter result |
| 10 NOV 2008 | Finnair's Asian traffic continues to grow |
| 20 NOV 2008 | Finnair Plc shareholders' nomination committee |
| 25 NOV 2008 | Finnair updates cost-cutting programme in Cargo Operations |
| 3 DEC 2008 | Finnair assumes special responsibility for its Thailand passengers |
| 9 DEC 2008 | Finnair's traffic statistics will be released today at 2 p.m. |
| 9 DEC 2008 | Finnair's Scheduled Traffic load factors rose, price levels continued to fall |
| 9 DEC 2008 | Finnair's financial reporting schedule for 2009 |
| 17 DEC 2008 | Finnair renews Scheduled Traffic organization |

All Stock Exchange Releases can be found on the Finnair Group website www.finnair.com/group.
Stock Exchange Releases relating to the purchase of own shares can be found at the same address.

# The brokerage firms analysing Finnair equity

ABN Amro, London
Andrew Lobbenberg

Carnegie Investment Bank AB, Stockholm
Erik Gustafsson

Danske Markets/Danske Bank, Helsinki
Panu Laitinmäki

eQ Bank Ltd., Helsinki
Bengt Dahlström

Evli Bank, Helsinki
Tuomo Kangasaho

Exane/BNP Paribas, London
Geoff van Klaveren

FIM, Helsinki
Jaakko Tyrväinen

Goldman Sachs, London
Julia Winarso

Handelsbanken, Helsinki
Pekka Mikkonen

Pohjola Bank, Helsinki
Jari Räisänen

SEB Enskilda, Helsinki
Jutta Rahikainen

Standard & Poor's, London
Virginie Vacca

UBS, London
Tim Marshall

# Information for shareholders

## Annual general meeting

The Annual General Meeting of Finnair Plc will be held on 26 March 2009 at 3 pm at the Helsinki Fair Centre, Messuaukio 1, Congress Wing Entrance, Hall C1. Notice of attendance at the Annual General Meeting (AGM) must be given at the latest by 4pm on 24 March 2009. Notice of attendance can be given through Finnair's website at www.finnair.com/agm, by post to the address Finnair Plc, Registry of Shareholders, HEL-AAC/5, FI-01053 Finnair, by fax to +358 9 818 1662, by telephone from Monday to Friday between 9am-4pm GMT to +358 9 818 7637 or by e-mail to agm@finnair.com. Letters, faxes or e-mails regarding notice of attendance must have arrived before the period of notice of attendance ends.

Each shareholder who is registered on 16 March 2009 in the Company's register of shareholders maintained by the Euroclear Finland Ltd or who on 16 March 2009 is temporarily entered in the register of shareholders has the right to participate in the AGM. Shareholders whose shares have not been transferred to the book-entry system are not entitled to attend the AGM.

## AGM 2009 – Important dates

| | |
|---|---|
| 16 March 2009 | Record date |
| 24 March 2009 | Last day to give notice of attendance |
| 26 March 2009 | AGM date |

## Board of directors' proposal on the dividend

According to the financial statements on 31 December 2008, the distributable equity of Finnair Plc amounts to 458.7 million euros. The Board of Directors proposes to the Annual General Meeting that no dividend shall be distributed for 2008.

## Financial information

In 2009, interim reports will be published in Finnish, Swedish and English:
28 April 2009 at 9 am Q1-2009, 1 Jan–31 March 2009
7 August 2009 at 9 am Q2-2009, 1 Jan–30 June 2009
29 October 2009 at 9 am Q3-2009, 1 Jan–30 Sept 2009

## Ordering the annual report

The Annual Review 2009 will be published in print in Finnish, Swedish and English and the Financial Report 2009 in Finnish and in English.

To order:
tel: +358 9 818 4904,
fax: +358 9 818 4401,
e-mail: post@finnair.com

## Electronic Annual Report and Electronic Financial Report

The Electronic Annual Report will be published on the internet in Finnish, Swedish and English and Electronic Financial Report will be published in Finnish and English at the address www.finnair.com/group.

## Change of address

Shareholders are kindly requested to report changes of address to the custodian of their book-entry account.

# *Contact Information*

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