Finnair Group interim report 1 January – 30 June 2014

Improved passenger load factor and progress in cost savings were not enough to compensate for the weak unit revenue development - Q2 operational result showed a loss of 19.6 million euros

April–June 2014

- Turnover declined by 7.2% to 565.7 million euros (609.7).
- The operational result was -19.6 million euros (7.5).
- Net cash flow from operating activities stood at 69.2 million euros (101.2), and cash flow from investments totalled -92.2 million euros (-46.5). The cash flow from investments includes aircraft sale and leaseback arrangements implemented during the review period as well as advance payments for the first A350 aircraft.
- Unit cost per available seat kilometre excluding fuel, (CASK excl. fuel), decreased by 2.4 per cent from the previous year's level.
- Unit revenue per available seat kilometre (RASK) fell by 5.8%.
- Finnair updates its guidance and estimates its turnover in 2014 to be significantly lower than in 2013 and its 2014 operational result to show a significant loss.

CEO Pekka Vauramo:

The second quarter of 2014 was difficult. Finnair's turnover declined by 7.2 per cent year-on-year to 565.7 million euros. The factors affecting the decrease in turnover included a substantial decline in unit revenue, the loss of external turnover resulting from the restructuring of aviation services, and the weak development of tour operator Aurinkomatkat Suntours. The impact of the weak economic prospects in Finland on domestic demand and intensified international competition, particularly in long-haul traffic, had a negative effect on our unit revenue. The appreciation of the euro against our other primary revenue currencies continued to weaken our unit revenue from passenger traffic. The challenging operating environment has also been reflected in the revenue development of other airlines.

Our passenger load factors in April–June improved year-on-year, and at the same time we made progress with our cost reduction program. I am pleased that our cost reduction targets and market-based approach have been met with understanding also among our personnel, and that we were able to reach agreement on the necessary cost reductions with some of our personnel groups. However, these positive steps were not sufficient to compensate for the drop in revenue, and our operational result declined to a substantial loss at 19.6 million euros in a quarter traditionally strong for Finnair.

Achieving the cost reductions we are pursuing and reaching market level costs in all cost categories is absolutely essential in this financial situation. Finnair is very committed to achieving a competitive cost level and structure.

Outlook

Outlook on 15 August 2014:

The ongoing uncertain economic outlook in Europe and Asia is contributing to weak consumer demand in our main markets. Air traffic is expected to grow moderately in 2014. Finnair, however, will not be able to benefit from that growth without progress in its cost reduction program and its target cost structure in place.

Finnair estimates its turnover in 2014 to be significantly lower than in 2013. Fuel costs are expected to remain high. Due to delays in the personnel cost reduction negotiations and the unfavorable market conditions driving the decline in unit revenue, Finnair estimates that its 2014 operational result will show a significant loss.

Outlook issued on 2 June 2014:

The ongoing uncertain economic outlook in Europe and Asia is contributing to weak consumer demand in our main markets. Air traffic is expected to grow moderately in 2014. Finnair, however, will not be able to benefit from that growth without progress in its cost reduction program and its target cost structure in place.

Finnair estimates its turnover in 2014 to be substantially lower than in 2013. Fuel costs are expected to remain high. The outcome of Finnair's ongoing employee consultations and cost-saving negotiations will have a significant impact on financial performance in 2014, and therefore the company will reconsider giving guidance for its full-year 2014 financial performance after the savings negotiations have been concluded.

Business Environment

The strengthening of the euro against several revenue currencies had a negative effect on the development of passenger traffic and cargo revenue in the second quarter of 2014. The weakness of the Finnish economy was reflected in home market demand in both business travel and leisure traffic. Measured in available seat kilometres, market capacity between Helsinki and Finnair's European destinations grew by approximately 9.2 per cent year-on-year in the second quarter of 2014. Market capacity between Finnair's Asian and European destinations grew by some 2.8 per cent. Finnair increased its market share in European traffic, while in Asian traffic market share remained largely unchanged from the comparison period.*

Cargo traffic volumes developed positively in Finnair's main market areas, but there was continued pressure on cargo traffic unit revenue due to market overcapacity in traffic between Europe, the Nordic countries and Asia. High fuel prices and negative developments in exchange rates with respect to cargo operations also weakened the result for Finnair's cargo traffic. The prolonged weak economic situation in the eurozone affects the demand for air cargo.

The price of the largest individual cost factor of airlines, jet fuel, decreased slightly in the second quarter, but remains at a high level. The US dollar is a significant expense currency in Finnair's operations, while the Japanese yen is a significant income currency. The US dollar depreciated slightly against the euro in the second quarter. The substantial depreciation of the yen against the euro, which began in 2013, continued in the second quarter.

** Finnair's estimate. The estimate is based on MIDT data collected on the sales volumes of travel agencies and Finnair's estimates of airlines' sales through their own sales channels, such as websites.*

Strategy implementation and partnerships

In May, Finnair's Board of Directors approved the company's strategic targets as part of Finnair's annual strategy work. Finnair's strategic objectives are to double Asian revenues by 2020 from the 2010 level, grow traffic via Helsinki by utilising Finland's geographic location, and create shareholder value and be an attractive investment.

Finnair and fellow **one**world alliance partners Japan Airlines and British Airways started a joint business for traffic between Europe and Japan on 1 April 2014. Previously, in July 2013, Finnair joined the transatlantic joint business founded by fellow **one**world alliance members American Airlines, British Airways and Iberia. These joint businesses have started well and their first months were in line with expectations.

Progress of the structural change and cost reduction program

Finnair continued the implementation of its structural change and cost reduction program in the second quarter of 2014. The focus was on personnel costs, an area in which Finnair has not yet achieved the targeted cost reductions. Finnair continued negotiations with the trade unions representing personnel regarding the solutions and schedules for achieving these cost reduction targets. Finnair's objective in the negotiations was primarily to achieve market level wages and costs, primarily by implementing changes to wage structures and working hours.

Finnair's savings negotiations with the Finnish Flight Attendants' Association (SLSY), which were agreed upon as a part of the national Finnish Employment and Growth Pact in November 2013, were concluded on 28 April 2014 without reaching the desired result. Employee consultations pertaining to cabin crew and Finnair's plans to increase the use of outsourcing in cabin services in long-haul and short-haul traffic were concluded in May. As the employee consultations failed to lead to an agreement on alternative cost reduction measures, Finnair will proceed with cabin service outsourcing according to the plans discussed in the employee consultations in order to achieve its cabin crew cost reduction target of 18 million euros. The company is planning to outsource cabin services on a total of approximately 20 long-haul and short-haul routes in the next two years. The aim is to outsource 1–3 routes within this year.

The cost reductions achieved by outsourcing and their timetable will be clarified later in negotiations with potential partners. The need for reductions in Finnair's own personnel over the next two years in relation to the outsourcing plans is approximately 540 man-years, as discussed in the employee consultations. The personnel reduction options include redundancies, shifts to part-time work, temporary lay-offs, or combinations of these.

In May, Finnair signed a company-specific cost reduction agreement pertaining to Finnair Technical Services, which is within the scope of the Finnish Aviation Union IAU. The agreement achieves the cost reduction targets set for collective labour agreements in the area of technical services within the scope of the IAU well enough, and also brings other significant savings. In addition to direct cost reductions, the agreement includes commitments to future-oriented measures to improve productivity. As part of the agreement, Finnair committed to protection against unilateral termination until 31 December 2015 in technical services, which is within the scope of the IAU.

Finnair also signed a cost savings agreement with the Helsinki Airport employees within the scope of the IAU, but failed to reach an agreement with clerical employees within the scope of Trade Union PRO.

Finnair and its senior staff and engineers (FYT) reached an agreement in May on collective wage settlement. Finnair reaches approximately 6 per cent greater efficiency and related savings through this agreement within the scope of FYT.

Employee consultations concerning Finnair's administration and support personnel were largely concluded in June. The negotiations covered eight different personnel groups in total. Altogether over 100 jobs will be reduced in administration and support functions by the end of 2014. These measures will result in 5.3 million euros in annual cost savings for Finnair.

Negotiations concerning Finnair Flight Academy's simulator maintenance were concluded in June and they will lead to restructuring of operations but no staff reductions at this stage. Negotiations concerning Finnair's personnel services office are still ongoing.

In June, a partial solution was reached in the cost savings negotiations in line with the Finnish Employment and Growth Pact between Finnair and the Finnish Airline Pilots' Association (SLL) The negotiations reached a decision on transferring to a new wage model that lowers unit costs. In addition, the parties agreed on Collective Labour Agreement changes concerning new pilots. In order to finalise the new wage model, the negotiations will be continued until 7 September 2014.

Finnair is committed to reducing its annual costs permanently by 200 million euros by the end of 2014. The point of reference for the cost reduction target is the company's unit cost level in 2010. Achieving the targets specified for the cost-reduction program is essential for improving Finnair's competitiveness, and the company will continue to pursue savings in all cost categories. By the end of June 2014, Finnair had achieved a total cost reduction of 176 million euros compared to the unit cost level in 2010. At the same time, the company has been able to move a substantial share of fixed costs to volume-based variable costs.

The long-term return objective set for the company by Finnair's Board of Directors is an operating profit margin of six per cent, which would enable investments in growth and business development. High fuel prices, successful cost reduction measures taken by competitors, intensified competition and fleet investments in the coming years require a substantial improvement in profitability.

Financial performance in April–June 2014

Finnair's turnover in the second quarter of 2014 fell by 7.2 per cent year-on-year to 565.7 million euros (609.7). Capacity grew by 0.5 per cent. The factors contributing to the decrease in turnover included a substantial decline in unit revenue, the loss of external turnover resulting from the restructuring of aviation services, and the weak development of Aurinkomatkat Suntours. Operational costs excluding fuel decreased by 2.6 per cent from the comparison period, amounting to 423.6 million euros (435.0). Fuel costs, including hedging and costs incurred from emissions trading, decreased by 3.2 per cent year-on-year to 166.1 million euros (171.5) due to exchange rate fluctuations. Personnel costs declined by 14.2 per cent to 86.3 million euros (100.5) due to the personnel reductions implemented after the comparison period. Euro-denominated operational costs decreased to 589.7 million euros (606.5). The company's operational result, which refers to the operating result excluding non-recurring items, capital gains and changes in the fair value of derivatives and in the value of foreign currency-denominated fleet maintenance reserves, was -19.6 million euros (7.5).

Finnair's income statement includes the change in the fair value of derivatives and in the value of foreign currency denominated fleet maintenance reserves that took place during the period under review but will fall due later. This is an unrealised valuation result based on IFRS, where the result has no cash flow effect and which is not included in the operational result. The change in the fair value of derivatives and in the value of foreign currency denominated fleet maintenance reserves amounted to -4.5 million euros (1.4). The non-recurring items for April–June included items related to fleet sale and leaseback agreements and the company's restructuring, amounting in total to -2.2 million euros (-19.3). The operating result was -26.3 million euros (-10.4). The result before taxes for April–June was -31.0 million euros (22.6) and the result after taxes was -23.9 million euros (18.1).

Unit revenue per available seat kilometre (RASK) declined by 5.8 per cent year-on-year to 6.02 euro cents (6.39). Excluding the effect of exchange rate fluctuations, passenger unit revenue declined by 3.8 per cent from the comparison period. Unit cost per available seat kilometre (CASK) decreased by 2.4 per cent amounted to 6.39 euro cents (6.55). Unit cost excluding fuel (CASK excl. fuel) decreased by 2.4 per cent due to the implementation of the cost reduction program and totalled 4.35 euro cents (4.46).

Financial performance in January–June 2014

Finnair's turnover in the first half of the year fell by 7.8 per cent year-on-year to 1,109.0 million euros (1,202.9). Capacity decreased by 1.2 per cent. The factors contributing to the decrease in turnover included a substantial decline in unit revenue, the loss of external turnover resulting from the restructuring of aviation services, and the weak development of Aurinkomatkat Suntours, the declining purchases by tour operators outside the Group, and the weak development of cargo. Operational costs excluding fuel decreased by 4.1 per cent from the comparison period, amounting to 844.6 million euros (880.6). Fuel costs, including hedging and costs incurred from emissions trading, decreased by 4.0 per cent year-on-year to 327.1 million euros (341.0) due to exchange rate fluctuations, a decline in capacity and the decrease in the market price of fuel. Personnel costs declined by 12.8 per cent to 176.3 million euros (202.1) due to the personnel reductions implemented after the comparison period. Euro-denominated operational costs declined to 1,171.8 million euros (1,221.6). The company's operational result, which refers to the operating result excluding non-recurring items, capital gains and changes in the fair value of derivatives and in the value of foreign currency-denominated fleet maintenance reserves, was -53.9 million euros (-10.0).

The change in the fair value of derivatives and in the value of foreign currency denominated fleet maintenance reserves amounted to -11.4 million euros (6.7). The non-recurring items for January–June included items related to the sale of Finncatering, fleet sale and leaseback agreements and the company's restructuring, amounting in total to 10.6 million euros (-20.7). The operating result was -54.7 million euros (-24.0). The result before taxes for January–June was -64.9 million euros (4.1) and the result after taxes was -52.0 million euros (2.4).

Unit revenue per available seat kilometre (RASK) declined by 4.9 per cent year-on-year and amounted to 5.92 euro cents (6.23). Excluding the effect of exchange rate fluctuations, passenger unit revenue declined by 3.5 per cent from the comparison period. Unit cost per available seat kilometre (CASK) decreased by 1.7 per cent and amounted to 6.41 euro cents (6.53). Unit cost excluding fuel (CASK excl. fuel) decreased by just 1.3 per cent due to a contraction of production volume and totalled 4.36 euro cents (4.42).

Balance sheet on 30 June 2014

The Group's balance sheet totalled 1,944.5 million euros at the end of the period under review (2,162.7 million euros on 30 June 2013). Shareholders' equity totalled 608.4 million euros (709.9), which is 4.75 euros per share (5.55). Shareholders' equity declined in the first half of 2014 due to the period's result and comprehensive income showing a loss.

Shareholders' equity includes a fair value reserve that is affected by changes in the fair values of oil and currency derivatives used for hedging as well as actuarial gains and losses related to pilots' defined benefit plans according to IAS 19. The value of the item at the end of June 2014 was -28.0 million euros (-24.9) after deferred taxes.

Cash flow and financial position

Finnair continues to have a strong financial position, which supports business development and future investments. In January–June 2014, net cash flow from operating activities amounted to 48.7 million euros (89.7) and net cash flow from investments totalled 141.4 million euros (-55.7).

The equity ratio was 31.8 per cent (33.3) and gearing was -11.4 per cent (13.8). The adjusted gearing was 63.5 per cent (72.8). At the end of the period under review, interest-bearing debt amounted to 416.6 million euros (522.1) and interest-bearing net debt stood at -69.5 million euros (97.1). In the first quarter, the company repaid an aircraft financing loan of 107 million euros, which was used to finance four A330 aircraft. Sale and leaseback agreements for these aircraft were implemented during the first half of the year.

The company's liquidity remained strong in the first half of 2014. The Group's cash funds amounted to 486.1 million euros (425.0) at the end of June. In addition to the cash funds on the balance sheet, the Group has the option of re-borrowing employment pension fund reserves worth approximately 430 million euros from its employment pension insurance company. Drawing these reserves requires a bank guarantee. Finnair has an entirely unused 180 million euro syndicated credit agreement, which was intended as reserve funding and matures at the end of July 2016.

Advance payments related to fixed asset investments were 74.7 million euros (52.5).

Finnair has a 200-million-euro short-term commercial paper program, which was unused at the end of the review period. Net cash flow from financing amounted to -183.4 million euros (-63.5). Financial expenses totalled -11.2 million euros (-8.9) and financial income 3.2 million euros (38.7).

Capital expenditure

In January–June 2014, capital expenditure excluding advance payments totalled 53.0 million euros (38.1) and was related to the Business Class seat renewal of the long-haul fleet and other improvements to the fleet and engines. Capital expenditure for the full year 2014, including advance payments, is estimated at approximately 155 million euros, with investments in the fleet representing a majority of this total.

The current state of the credit market and Finnair's good debt capacity enables the financing of future fixed-asset investments on competitive terms. The company has 38 unencumbered aircraft, the balance sheet value of which corresponds to approximately 64 per cent of the value of the entire fleet of 0.9 billion euros. The balance sheet value includes three finance lease aircraft.

Fleet

Finnair's fleet is managed by Finnair Aircraft Finance Oy, a wholly-owned subsidiary of Finnair Plc. At the end of June 2014, Finnair itself operated 45 aircraft, of which 15 are wide-body and 30 narrow-body aircraft. In the first half of the year, two B757 aircraft were removed from Finnair's fleet according to plan as their leases expired, and two new A321 Sharklet aircraft were added to the fleet.

During the first half of the year, the company concluded sale and leaseback agreements for four A330 aircraft as per memoranda of understanding signed in December 2013. As of the end of March 2014, the company operates an all-Airbus fleet.

In addition to the aircraft operated by Finnair, its balance sheet includes 25 other aircraft owned by the company. These aircraft are operated by other airlines, mainly by Flybe Finland. In May, Finnair signed a Memorandum of Understanding with Infinity Aviation Capital LLC, a US-based aircraft leasing company, on the sale of three Embraer 170 aircraft. The transaction is expected to close in the second half of 2014.

The average age of the fleet operated by Finnair was 9.7 years at the end of the first half of 2014, and that of the Finnair fleet operated by other airlines was 5.7 years. Finnair also has eight leased aircraft that it has subleased to be operated by other airlines.

<u>A350 aircraft</u>

Finnair estimates that its first A350 XWB wide-body aircraft will be delivered and added to the fleet in the second half of 2015. Finnair ordered 11 A350 XWB aircraft from Airbus in 2005. Some of these aircraft will replace aircraft currently in use in long-haul traffic. In addition to the 11 firm orders, Finnair has options for eight more aircraft. Finnair is evaluating alternatives to minimise the effects that any possible delays in deliveries may have.

Finnair has the possibility to adjust the size of its fleet flexibly according to demand and outlook due to its lease agreements with different durations.

Fleet operated by Finnair on 30.6.2014	Seats	#	Own	Leased (operational leasing)	(finance leasing)	Average age	Change from 31.12.2013	Ordered	Add. options
Narrow-body fleet									
Airbus A319	138	9	7	2		12.9			
Airbus A320	165	10	6	4		11.9			
Airbus A321	209/196	11	4	7		7.6	+2		
Boeing B757	227	0	0	0			-2		
Wide-body fleet									
Airbus A330	297/271/263	8	0	5	3	4.7			
Airbus A340	270/269	7	5	2		11.5			
Airbus A350	297							11	8
Total		**45**	**22**	**20**	**3**	**9.7**	**0**	**11**	**8**

Fleet owned by Finnair and operated by other airlines on 30.6.2014*	Seats	#	Own	Average age	Change from 31.12.2013	Ordered	Add. options
ATR 72	68–72	12	12	4.9			
Embraer 170	76	5	5	8.0			
Embraer 190	100	8	8	5.5			
Total		**25**	**25**	**5.7**		**0**	**0**

* All ATR aircraft, all E190 aircraft and two E170 aircraft have been leased to Flybe Finland and three E170 aircraft to other parties outside the Group.

Business area development in April–June 2014

The segment reporting of Finnair Group's financial statements is based on business areas. The reporting business areas are Airline Business and Travel Services. From the first quarter of 2014 onward, the Aviation Services segment is not reported separately. Instead, the operations it included (aircraft maintenance, Finnair Travel Retail Oy as well as Finnair's property holdings, office services and the management and maintenance of properties related to the company's operational activities) are reported as part of the Airline Business segment. The segment information for the 2013 financial year has been restated accordingly.

Airline Business

This business area is responsible for scheduled passenger and charter traffic as well as cargo sales, customer service and service concepts, flight operations and activity connected with the procurement and financing of aircraft. The Airline Business segment comprises the Sales & Marketing, Operations and Resources Management functions as well as the subsidiaries Finnair Cargo Oy, Finnair Cargo Terminal Operations Oy, Finnair Flight Academy Oy and Finnair Aircraft Finance Oy. From the first quarter of 2014 onward, the Aviation Services segment also includes aircraft maintenance, Finnair Travel Retail Oy and Finnair's property holdings, office services and the management and maintenance of properties related to the company's operational activities.

Key figures	4-6 2014	4-6 2013	Change %	1-6 2014	1-6 2013	Change %	2013
Turnover and result							
Turnover, EUR million	541.3	583.3	-7.2	1,049.4	1,135.5	-7.6	2,271.9
Operational result, EUR million	-20.8	8.1	>-200%	-55.3	-12.4	>-200%	8.8
Operating result, EBIT, EUR million	-27.0	-9.4	-187.5	-55.2	-25.6	-115.8	6.3
Operating result, % of turnover	-5.0	-1.6	-3.4%-p	-5.3	-2.3	-3.0%-p	0.3
Personnel							
Average number of employees				4,450	4,942	-10.0	4,834

The turnover of Airline Business in April–June fell by 7.2 per cent to 541.3 million euros (583.3), and the profitability of operations declined substantially. Ticket revenue from scheduled traffic constitutes approximately 72 per cent of the segment’s turnover, leisure traffic accounts for approximately 4 per cent and cargo for approximately 11 per cent of total revenue.

In April–June, Finnair traffic measured in revenue passenger kilometres rose by 2.2 per cent and overall capacity by 0.5 per cent year-on-year. The passenger load factor increased by 1.3 percentage points to 79.5 per cent. Measured in revenue passenger kilometres, Asian traffic grew by 1.4 per cent year-on-year, while capacity decreased by 0.4 per cent. The load factor in Asian traffic rose by 1.4 percentage points to 78.7 per cent. European traffic measured in revenue passenger kilometres grew by 14.3 per cent and capacity by 11.6 per cent. The load factor in European traffic rose by 1.9 percentage points to 79.7 per cent. North Atlantic traffic measured in revenue passenger kilometres decreased by 4.8 per cent and capacity by 11.3 per cent. The load factor in North Atlantic traffic rose by 6.2 percentage points to 91.5 per cent. Domestic traffic measured in revenue passenger kilometres grew by 4.9 per cent year-on-year, while capacity increased by 3.0 per cent. The load factor in domestic traffic rose by 1.2 percentage points to 65.6 per cent.

Unit revenue per available seat kilometre (RASK) fell by 5.8 per cent in April–June year-on-year.

The strengthening of the euro against several revenue currencies had a negative effect on the development of passenger traffic and cargo revenue in the second quarter of 2014. The Japanese yen continued to represent a significant share. The weakness of the Finnish economy was reflected in home market demand, both in business travel and leisure traffic. Measured in available seat kilometres, market capacity between Helsinki and Finnair’s European destinations grew by approximately 9.2 per cent year-on-year in the second quarter of 2014. Market capacity between Finnair’s Asian and European destinations grew by some 2.8 per cent. Finnair increased its market share in European traffic, while in Asian traffic market share remained largely unchanged from the comparison period.*

North American traffic developed positively in the second quarter. Thanks to the transatlantic joint business, sales improved in this traffic area for both passenger traffic and cargo.

The demand for leisure traffic weakened in the second quarter year-on-year, and consumers’ uncertainty regarding their own economic situation slowed down sales and decreased market prices. Purchases by tour operators outside the Group declined substantially year-on-year. At the same time, Finnair has an ongoing structural change underway in leisure traffic, with the most popular charter destinations being changed to scheduled flight destinations. This change offers passengers better chances to tailor their travel and opens more sales channels for popular leisure destinations. This change was already reflected in the second quarter as a decline in leisure traffic capacity and an increase in capacity in European traffic in particular. The capacity of leisure traffic declined by 31.0 per cent year-on-year, with the number of passengers in charter traffic decreasing by 29.2 per cent in April–June compared to the corresponding period last year. The passenger load factor of leisure traffic decreased by 1.8 percentage points year-on-year, to 84.7 per cent.

Cargo transported on scheduled flights (belly cargo) constitutes a significant proportion of the revenue from long-haul traffic. In the second quarter, belly cargo accounted for approximately 17 per cent of total long-haul revenue. The amount of cargo and mail carried by Finnair in scheduled traffic grew by 3.9 per cent year-on-year. Finnair's overall load factor increased slightly year-on-year, to 67.0 per cent. The available tonne kilometres rose by 1.1 per cent and the revenue tonne kilometres by 3.0 per cent. Finnair Cargo also operated separate wet-leased cargo flights in the first quarter to Hanoi, Hong Kong and Brussels, as well as to Tokyo as part of capacity cooperation with JAL Cargo. Separate cargo capacity flights accounted for approximately 22.8 per cent of total cargo traffic in the second quarter. High fuel prices and negative developments in exchange rates with respect to cargo operations weakened the result for cargo traffic.

The arrival punctuality of Finnair's flights was good in April–June, with 90.0 per cent (92.2) of scheduled flights, and 89.8 per cent (92.1) of all flights arriving on schedule.

** Finnair's estimate. The estimate is based on MIDT data collected on the sales volumes of travel agencies and Finnair's estimates of airlines' sales through their own sales channels, such as websites.*

Air traffic services and products

Route network and alliances

Finnair offers connections between Asia and Europe with over 200 route pairs and also operates more than 800 flights weekly from Helsinki to other Finnish and European destinations. In the summer season, Finnair operates at most 78 flights to Asia per week. During the period under review, Finnair announced it will open new routes to Nizhny Novgorod, Samara and Kazan in Russia in July and August, as well as scheduled services to Phuket and Krabi in Thailand in the winter season 2014–2015.

Japan Airlines and fellow **one**world alliance partners British Airways and Finnair started a joint business for traffic between Europe and Japan on 1 April 2014.

Through its merger partner American Airlines, US Airways also joined the transatlantic joint business with Finnair, Iberia and British Airways in April 2014. For Finnair's customers, new airlines joining **one**world and the joint businesses between its members enables better connections to destinations outside the Finnair network.

SriLankan Airlines joined the **one**world alliance in April and began codesharing with Finnair.

Other renewals and services

In May, Finnair and Finavia introduced self-service bag drop units at Helsinki Airport, giving Finnair customers the option of dropping their checked baggage at a self-service bag drop unit immediately after check-in. Self-service bag drop units will also be introduced at Oulu and Turku airports later this year.

Finnair will install new full-flat seats in most of its long-haul fleet in 2014. The new Business Class seats have been used on flights to Tokyo and New York from the beginning of April, on flights to Beijing and Seoul from the beginning of May, and from the beginning of June, they have also been used on flights to Hanoi, Hong Kong, Nagoya, Osaka and Shanghai.

After the review period, in August, Finnair will open a new Premium Lounge at Helsinki Airport. The facilities will be available to Platinum and Gold Finnair Plus members and other **one**world top-tier customers. The customers of both the Premium Lounge and the Finnair Lounge will also enjoy access to a Finnish sauna.

Awards

In May, Finnair was the only Nordic airline to receive a four-star Skytrax rating. The World Airline Star Rating program is the most extensive and respected commercial airline rating in the industry, and it is based on impartial assessments of all of the services offered by the airline.

After the review period, in July, Finnair was named Northern Europe's Best Airline at the World Airline Awards, repeating the honour for the fifth straight time. The award is based on an independent Skytrax survey of some 18 million travellers from more than 160 countries. Also at the World Airline Awards, the **one**world alliance was named the World's Best Airline Alliance for the second year running.

Travel Services (Tour Operators and Travel Agencies)

This business area consists of the tour operator Aurinkomatkat (Suntours), its subsidiary operating in Estonia, and the business travel agencies that were merged in December, namely Area, Finland Travel Bureau (FTB) and FTB's subsidiary Estravel, which operates in the Baltic countries, as well as Amadeus Finland, which produces travel sector information systems and solutions. Aurinkomatkat Suntours serves leisure travellers, offering its customers package tours, tailored itineraries, flight and hotel packages, flights and cruises, as well as golf, sailing and skiing holidays.

Key figures	4-6 2014	4-6 2013	Change %	1-6 2014	1-6 2013	Change %	2013
Turnover and result							
Turnover, EUR million	42.6	51.3	-17.0	116.8	133.1	-12.3	251.7
Operational result, EUR million	1.1	-0.6	> 200%	1.4	2.4	-41.1	3.1
Operating result, EBIT, EUR million	0.8	-1.0	175.8	0.5	1.5	-67.2	1.6
Operating result, % of turnover	1.9	-1.9	3.8%-p	0.4	1.1	-0.7%-p	0.6
Personnel							
Average number of employees				690	778	-11.3	751

The turnover of Travel Services in April–June decreased by 17.0 per cent year-on-year, primarily due to a contraction in Aurinkomatkat Suntours' turnover, and amounted to 42.6 million euros (51.3). Consumers' uncertainty regarding their own economic situation was reflected in the demand for leisure travel. The operational result of Travel Services turned around to show a profit of 0.8 million euros (-1.0) due to the improved profitability of business travel agencies.

Changes in senior management

In June, Finnair announced that Senior Vice President, Human Resources, Manne Tiensuu, a member of Finnair's Executive Board, will leave the company. At the beginning of July, Eija Hakakari, M. Sc. (Education), 53, was appointed Finnair's new Senior Vice President, Human Resources, and a member of Finnair's Executive Board. She is currently SVP Human Resources at Stora Enso's Printing and Living division, and she will join Finnair by the end of 2014. Tiensuu will leave Finnair on 31 August 2014.

Tuomo Meretniemi stepped down from his position as Managing Director of Aurinkomatkat Suntours on 24 April 2014. Aurinkomatkat Suntours is a tour operator that is a subsidiary of Finnair Group. Timo Kousa, Managing Director of Finnair Travel Retail, was appointed the Managing Director of Aurinkomatkat Suntours on 14 August 2014. Kousa served as the acting Managing Director of Suntours since the end of April 2014, in addition to his role as the Managing Director of Finnair Travel Retail Ltd.

Riku Aho was appointed Managing Director of Finnair Aircraft Finance Ltd and its subsidiary Finnair ATR Finance Ltd from 1 July 2014. Aho previously served as Assistant Vice President at Finnair Aircraft Finance Ltd. Finnair Aircraft Finance Ltd is a wholly-owned subsidiary of Finnair Plc. It is responsible for aircraft procurement and fleet asset management.

Personnel

The number of Finnair employees in the first half of 2014 was significantly lower than in the comparison period due to the structural changes in the company. The Group employed an average of 5,425 (5,981) people, which is 9.3 per cent fewer than in the previous year. The Airline Business segment employed an average of 4,450 (4,942) people during the first half of the year. Travel Services employed an average of 690 (778) people and other functions 285 (261) people. The number of employees stood at 5,209 (5,999) on 30 June.

Share price development and trading

At the end of June 2014, Finnair's market value stood at 363.9 million euros (346.0), and the closing price of the share was 2.84 euros (2.70). During the January–June period, the highest price for a Finnair share on the NASDAQ OMX Helsinki Stock Exchange was 3.01 euros (3.24), the lowest price 2.39 euros (2.40) and the average price 2.79 euros (2.80). Some 8.9 million (16.7) of the company's shares, with a total value of 24.6 million euros (46.8), were traded.

The number of shares recorded in Finnair's Trade Register entry was 128,136,115 at the end of the period. The Finnish state owned 55.8 per cent (55.8) of Finnair's shares, while 13.4 per cent (12.6) were held by foreign investors or in the name of a nominee.

There were no changes in the number of own shares held by Finnair during the second quarter. In the first quarter, the number of shares held by Finnair increased by 27,092 shares that were returned to Finnair pursuant to the rules of the company's performance share plan for 2010–2012. On 30 June 2014, Finnair held a total of 306,260 of its own shares, representing 0.2 per cent of the total share capital.

One flagging notification was made in January–June, as the combined holdings of funds managed by Skagen AS increased to 7,419,573 shares as a result of purchase of shares completed on 5 May 2013. This is equivalent to 5.79 per cent of all shares and votes (more than 5 per cent).

Corporate responsibility

Finnair published its Annual Report for 2013 in March 2014. Encompassing objectives of what were previously published as separate Financial and Sustainability Reports, the 2013 Annual Report measures and accounts for the financial, economic, social and environmental performance of the Finnair Group, and identifies and explains the strategic business ramifications of this performance.

Finnair has reported on environmental sustainability since 1997, and in 2008 became one of the first airlines to report according to GRI guidelines. The GRI, formed with the support of the United Nations Environment Program, is the most widely recognised international authority on sustainability reporting.

In the second quarter of 2014,

- Finnair's overall customer satisfaction was close to the level seen in recent years, achieving the set target. The weighted overall score given by customers for the flight experience was 8.1/10.
- Finnair's fuel consumption and CO_2 emissions increased by 0.7 per cent year-on-year, and consumption and emissions per available seat kilometre increased by 0.2 per cent year-on-year.
- The wellbeing-at-work index (4.0/5.0), which reflects the general wellbeing at work of the company's personnel, was at the same level as in the previous year. (Scale: 1=very poor – 5=excellent). The areas covered by the survey are My Immediate Supervisor, My Work Community, My Perspective, and My Health and Safety.

Other events during the review period

In April, the European Council confirmed the amendment of the Directive on emissions trading in aviation. The stop-the-clock model will remain in effect until the end of 2016, which means that only flights inside the EEA will be covered by emissions trading. The decision supports the ICAO aim to move toward a global emissions trading system.

Significant near term risks and uncertainties

Aviation is an industry that is globally sensitive to economic cycles and also reacts quickly to external disruptions, seasonal variation and changes in economic trends. Finnair has implemented a comprehensive risk management process to ensure that risks are identified and mitigated as much as possible, although many risks are not within the company's full control.

The risks and uncertainties described below are considered to potentially have a significant impact on Finnair's business, financial result and future outlook within the next 12 months. This list is not intended to be exhaustive.

The achievement of the strategic advantages and cost reductions pursued through Finnair's partnership projects involve risks. For example, quality or availability issues and/or unexpected additional costs of partnerships and suppliers can have a negative effect on Finnair's product and profitability, or suppliers may obtain bargaining power in relation to Finnair.

Negotiations on cost reductions between Finnair and the trade unions representing its employees and cost reduction plans to reduce personnel costs, such as outsourcing, involve risks that, if realised, could have an effect on the achievement of the company's cost reduction targets, the uninterrupted continuity of its operations and the company's reputation.

The aviation industry is affected by a number of regulatory projects at the EU and international levels. Estimating the impacts of the regulatory changes on airlines' operational activities and/or costs in advance is difficult. Examples of such regulatory projects include international regulation related to emission trading, noise regulation and other environmental regulation, EU regulations on privacy protection and the decision made by the Court of Justice of the European Union in October 2012 regarding flight passengers' rights. In addition, regulations on the reporting of non-financial information (responsibility) and other stakeholder requirements have increased substantially.

In recent weeks, Finnair has carried out more detailed assessments of the use of airspace in conflict areas and clarified its contingency plans for disruptions affecting flight operations and airspace restrictions. Finnair's risk management and risks related to the company's operations are described in more detail on the company's website at www.finnairgroup.com.

Seasonal variation and sensitivities in business operations

Due to the seasonal variation of the airline business, the Group's turnover and profit are generally very much at their lowest in the first quarter and at their highest in the third quarter of the year. The growing proportional share of Asian traffic increases seasonal fluctuation due to destination-specific seasons in Asian leisure and business travel.

A one-percentage-point change in the passenger load factor or the average yield in passenger traffic has an effect of approximately 15 million euros on the Group's operating result. A one-percentage-point change in the unit cost of scheduled passenger traffic has an effect of approximately 17 million euros on the operating result.

In addition to operational activities, fuel price development has a key impact on Finnair's result, as fuel costs are the company's most significant expense item. A 10-per-cent change in the world market price of fuel has an effect of approximately 28 million euros on Finnair's operating result at an annual level (for the following 12 months on a rolling basis), taking hedging into account. Without hedging, a 10-per-cent change would have an effect of approximately 65 million euros on Finnair's operating result at an annual level.

Finnair's foreign exchange risk arises primarily from fuel and aircraft purchases, aircraft leasing payments and sales revenue denominated in foreign currencies. Approximately 55 per cent of the Group's turnover is denominated in euros. In the second quarter of 2014, the most important other foreign sales currencies were the Japanese yen (approximately 10% of turnover), the Chinese yuan (approximately 7%), the Swedish crown (approximately 5%) and the South Korean won (3%). Approximately half of the Group's operating costs are denominated in foreign currencies. The most important purchasing currency is the US dollar, which accounts for approximately 40 per cent of all operating costs. Significant dollar-denominated expense items are aircraft leasing payments and fuel costs as well as traffic charges. The largest investments, namely the acquisition of aircraft and their spare parts, are mainly denominated in US dollars.

A 10-per-cent change in the euro-dollar exchange rate has an effect of approximately 19 million euros on Finnair's operating result at an annual level (for the following 12 months on a rolling basis), taking hedging into account. Without hedging, a 10-per-cent change would have an effect of approximately 70 million euros on Finnair's operating result at an annual level. The sensitivity analysis assumes that the Chinese yuan and the Hong Kong dollar continue to correlate strongly with the US dollar. A 10-per-cent change in the euro-yen exchange rate has an effect of approximately 7 million euros on Finnair's operating result at an annual level (for the following 12 months), taking hedging into account. Without hedging, a 10-per-cent change would have an effect of approximately 19 million euros on Finnair's operating result at an annual level.

The company protects itself against the risks of currency, interest rate and jet fuel positions by using different derivative instruments, such as forward contracts, swaps and options, according to the risk management policy verified by the Board of Directors. Fuel purchases are hedged for 24 months forward on a rolling basis, and the degree of hedging decreases towards the end of the hedging period. The higher and lower limits of the degree of hedging are 90 and 60 per cent for the following six months. At the end of June, the hedging ratio for fuel purchases over the second half of 2014 was 75 per cent and 55 per cent for the first half of 2015. The hedging ratio for a dollar basket over the following 12 months was 72 per cent, and the hedging ratio for a yen basket was 69 per cent.

Events after the review period

Finnair subsidiary Finnair Travel Retail signed in August an agreement on the sale of its shops at Helsinki Airport to World Duty Free Group. The transaction is expected to close in the fourth quarter of 2014.
The transaction will have a positive impact of approximately 13 million euros on Finnair's 2014 result before taxes. With the transaction, approximately 60 of Finnair Travel Retail's employees will transfer to World Duty Free Helsinki Ltd. as existing employees. The transaction between Finnair Travel Retail and World Duty Free Group covers only the airport retail function.

Finnair announced the cabin design of its new A350 aircraft due to enter service in the second half of 2015 and launched several product upgrades in its long-hauls flights and European flights. On long-haul flights, product upgrades coming in the fall include the Economy Comfort package Finnair and redesigned inflight entertainment system. Finnair is also developing a mobile application to comprehensively renew the customer experience both on the ground and in the air and introduces Sky Bistro, which will be available on nearly all European flights and replace the complimentary cold snack service that had been offered on some European flights. All product upgrades are based on feedback collected from Finnair customers.

Financial reporting 2014

Finnair's interim report for 1 January – 30 September 2014 will be published on Friday 31 October 2014.

FINNAIR PLC
Board of Directors

Briefings

Finnair will hold a press conference on 15 August 2014 at 11:00 a.m. and an analyst briefing at 12:30 p.m. at its office at Tietotie 9. An English-language telephone conference for analysts will begin at 3:00 p.m. Finnish time. The conference may be attended by dialling your local access number +358 800 770 306 and using the PIN code 255856#

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Key figures	Q2 2014	Q2 2013	Change %	Q1-Q2 2014	Q1-Q2 2013	Change %	2013
Turnover and result							
Turnover, EUR million	565.7	609.7	-7.2	1 109.0	1 202.9	-7.8	2 400.3
Operational result, EBIT, EUR million *	-19.6	7.5	<-200 %	-53.9	-10.0	<-200 %	11.9
Operational result, % of turnover	-3.5	1.2	-4.7 %-p	-4.9	-0.8	-4.0 %-p	0.5
Operating result, EBIT, EUR million	-26.3	-10.4	-152.6	-54.7	-24.0	-127.6	7.9
Operational EBITDAR, EUR million	35.5	57.4	-38.1	53.0	90.7	-41.6	210.1
Result before taxes, EUR million	-31.0	22.6	<-200 %	-64.9	4.1	<-200 %	26.8
Net result, EUR million	-23.9	18.1	<-200 %	-52.0	2.4	<-200 %	22.9
Balance sheet and cash flow							
Equity ratio, %				31.8	33.3	-4.5	32.6
Gearing, %				-11.4	13.8	-183.1	19.9
Adjusted gearing, %				63.5	72.8	-12.8	79.2
Gross investment, EUR million	19.9	14.0	42.5	53.0	38.1	39.1	77.3
Return on capital employed, ROCE, 12 months rolling, %				-1.8	7.0	-125.5	3.6
Return on equity, ROE, 12 months rolling, %				-4.8	7.3	-165.8	3.2
Net cash flow from operating activities, EUR million	69.2	101.2	-31.6	48.7	89.7	-45.7	142.4
Share							
Share price at the end of quarter, EUR				2.84	2.70		2.77
Earnings per share from the result of the period, EUR **	-0.19	0.14	<-200 %	-0.41	0.02	<-200 %	0.18
Earnings per share, EUR	-0.20	0.12	<-200 %	-0.44	-0.03	<-200 %	0.11
Traffic data, unit costs and revenue							
Passengers, 1,000	2 516	2 397	4.9	4 730	4 557	3.8	9 269
Available seat kilometres (ASK), million	7 792	7 754	0.5	15 273	15 457	-1.2	31 162
Revenue passenger kilometres (RPK), million	6 197	6 062	2.2	12 082	12 192	-0.9	24 776
Passenger load factor (PLF), %	79.5	78.2	1.3 %-p	79.1	78.9	0.2 %-p	79.5
Unit revenue per available seat kilometre, (RASK), cents/ASK	6.02	6.39	-5.8	5.92	6.23	-4.9	6.24
Unit revenue per revenue passenger kilometre, yield, cents/RPK	6.60	7.18	-8.1	6.51	6.93	-6.0	6.86
Unit cost per available seat kilometre, (CASK), cents/ASK	6.39	6.55	-2.4	6.41	6.53	-1.7	6.47
CASK excluding fuel, cents/ASK	4.35	4.46	-2.4	4.36	4.42	-1.3	4.35
Available tonne kilometres (ATK), million	1 179	1 166	1.1	2 313	2 314	-0.1	4 709
Revenue tonne kilometres (RTK), million	789	767	3.0	1 527	1 513	0.9	3 107
Cargo and mail, tonnes	38 469	37 010	3.9	73 689	69 059	6.7	146 654
Cargo traffic unit revenue per revenue tonne kilometre, cents/RTK	23.22	24.00	-3.2	23.35	24.66	-5.3	25.14
Overall load factor, %	67.0	65.8	1.2 %-p	66.0	65.4	0.7 %-p	66.0
Flights, number	25 419	25 239	0.7	49 401	48 757	1.3	97 360
Personnel							
Average number of employees				5 425	5 981	-9.3	5 859

* Operational result: Operating result excluding changes in the fair value of derivatives and in the value of foreign currency denominated fleet maintenance reserves and non-recurring items, that includes capital gains and losses.

** Before hybrid bond interest.

Comparative figures for 2013 have been restated due to change in accounting principles related to treatment of overhauls. In addition, comparative figures in balance sheet have been effected by the netting of deferred taxes. See note 2 for more information.

Consolidated income statement

in mill. EUR	Q2 2014	Q2 2013	Change %	Q1-Q2 2014	Q1-Q2 2013	Change %	2013
Turnover	**565.7**	**609.7**	**-7.2**	**1 109.0**	**1 202.9**	**-7.8**	**2 400.3**
Other operating income	4.4	4.3	1.0	8.9	8.7	2.5	18.8
Operating expenses							
Staff costs	-86.3	-100.5	-14.2	-176.3	-202.1	-12.8	-381.3
Fuel	-166.1	-171.5	-3.2	-327.1	-341.0	-4.0	-689.9
Lease payment for aircraft	-20.3	-14.2	42.9	-36.5	-28.9	26.3	-57.5
Other rental payments	-39.4	-36.8	7.1	-78.8	-72.4	8.9	-152.0
Fleet materials and overhaul	-30.0	-33.2	-9.7	-60.3	-68.8	-12.3	-125.8
Traffic charges	-58.4	-59.0	-1.0	-110.0	-109.0	0.9	-222.3
Ground handling and catering expenses	-61.1	-65.2	-6.4	-124.3	-128.7	-3.5	-257.3
Expenses for tour operations	-14.6	-17.8	-17.9	-39.8	-45.9	-13.4	-89.4
Sales and marketing expenses	-19.6	-19.8	-1.1	-33.9	-37.8	-10.2	-72.9
Depreciation	-34.9	-35.7	-2.3	-70.4	-71.9	-2.2	-140.7
Other expenses	-59.1	-52.7	12.1	-114.5	-115.2	-0.6	-218.1
Operational result, EBIT	**-19.6**	**7.5**	**<-200 %**	**-53.9**	**-10.0**	**<-200 %**	**11.9**
Fair value changes of derivatives and foreign currency denominated fleet maintenance reserves	-4.5	1.4	<-200 %	-11.4	6.7	<-200 %	21.7
Non-recurring items	-2.2	-19.3	88.8	10.6	-20.7	151.1	-25.7
Operating result, EBIT	**-26.3**	**-10.4**	**-152.6**	**-54.7**	**-24.0**	**-127.6**	**7.9**
Financial income	2.4	37.4	-93.6	3.2	38.7	-91.8	42.6
Financial expenses	-5.6	-4.7	-18.6	-11.2	-8.9	-25.1	-19.7
Share of result in associates and joint ventures	-1.6	0.4	<-200 %	-2.2	-1.6	-39.5	-4.0
Result before taxes	**-31.0**	**22.6**	**<-200 %**	**-64.9**	**4.1**	**<-200 %**	**26.8**
Direct taxes	7.1	-4.6	> 200 %	12.9	-1.7	> 200 %	-3.9
Result for the period	**-23.9**	**18.1**	**<-200 %**	**-52.0**	**2.4**	**<-200 %**	**22.9**
Result for the period attributable to shareholders of the parent company	-24.0	17.9		-52.2	2.2		22.6
Result for the period to non-controlling interest	0.1	0.1		0.2	0.2		0.3
Earnings per share attributable to shareholders of the parent company (euro)							
Earnings per share (basic, diluted)	-0.20	0.12		-0.44	-0.03		0.11
Earnings per share from the result of the period	-0.19	0.14		-0.41	0.02		0.18

Comparative figures for 2013 have been restated due to change in accounting principles related to treatment of overhauls. See note 2 for more information.

Consolidated balance sheet

in mill. EUR	30 Jun 2014	30 Jun 2013	2013
ASSETS			
Non-current assets			
Intangible assets	17.5	21.4	19.3
Tangible assets	1 090.1	1 310.2	1 292.6
Investments in associates and joint ventures	6.0	10.7	8.2
Financial assets	18.5	21.8	20.5
Deferred tax asset	14.1	3.4	0.0
Non-current assets total	**1 146.1**	**1 367.5**	**1 340.6**
Short-term receivables			
Inventories	15.6	18.2	19.9
Derivatives	39.3	39.1	43.6
Trade and other receivables	248.0	285.9	237.1
Money market investments	248.8	330.0	335.9
Cash and cash equivalents	237.3	94.9	122.9
Current assets total	**789.0**	**768.2**	**759.4**
Non-current assets held for sale	9.5	27.1	17.7
Assets total	**1 944.5**	**2 162.7**	**2 117.6**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	75.4	75.4	75.4
Other equity	532.3	633.7	601.9
Total	**607.7**	**709.1**	**677.3**
Non-controlling interest	0.6	0.8	0.7
Equity total	**608.4**	**709.9**	**678.0**
Long-term liabilities			
Deferred tax liability	0.0	0.0	3.4
Long-term interest-bearing liabilities	326.3	327.3	385.5
Pension obligations	44.6	5.0	10.6
Provisions	60.5	83.5	69.3
Other long-term liabilities	27.6	22.3	25.4
Long-term liabilities total	**459.0**	**438.1**	**494.1**
Short-term liabilities			
Provisions	44.4	45.3	40.5
Short-term interest-bearing liabilities	90.3	194.8	207.5
Derivatives	13.3	37.3	29.1
Trade payables and other liabilities	729.1	734.7	666.1
Liabilities of non-current assets held for sale	0.0	2.5	2.3
Short-term liabilities total	**877.2**	**1 014.6**	**945.5**
Liabilities total	**1 336.2**	**1 452.7**	**1 439.6**
Shareholders' equity and liabilities total	**1 944.5**	**2 162.7**	**2 117.6**

Comparative figures for 2013 have been restated due to change in accounting principles related to treatment of overhauls. In addition, comparative figures in balance sheet have been effected by the netting of deferred taxes. See note 2 for more information.

Consolidated statement of changes in equity

in mill. EUR	Share capital	Other restricted funds	Hedging reserve and other OCI items	Unrestricted equity funds	Retained earnings	Hybrid bond	**Equity attributable to share-holders of the parent**	Non-controlling interests	**Own equity total**
Shareholders' equity, 1 Jan 2014	75.4	168.1	-15.0	247.3	82.5	118.9	**677.3**	0.7	**678.0**
Result for the period					-52.2		-52.2	0.2	**-52.0**
Items of comprehensive income			-13.0				-13.0		-13.0
Translation difference			0.0				0.0		0.0
Comprehensive income for the financial period	**0.0**	**0.0**	**-13.0**	**0.0**	**-52.2**	**0.0**	**-65.2**	**0.2**	**-65.0**
Dividends paid							0.0	-0.2	-0.2
Share-based payments				-0.1			-0.1		-0.1
Hybrid bond repayments, interest and expenses					-4.3		-4.3		-4.3
Shareholders' equity, 30 Jun 2014	**75.4**	**168.1**	**-28.0**	**247.3**	**25.9**	**118.9**	**607.7**	**0.6**	**608.4**

in mill. EUR	Share capital	Other restricted funds	Hedging reserve and other OCI items	Unrestricted equity funds	Retained earnings	Hybrid bond	**Equity attributable to share-holders of the parent**	Non-controlling interests	**Own equity total**
Shareholders' equity, 1 Jan 2013	**75.4**	**168.1**	**0.0**	**247.1**	**112.6**	**171.1**	**774.3**	**0.9**	**775.2**
Change in accounting principles (restatement)					-25.6		-25.6		**-25.6**
Shareholders' equity, restated, 1 Jan 2013	**75.4**	**168.1**	**0.0**	**247.1**	**87.0**	**171.1**	**748.7**	**0.9**	**749.6**
Result for the period					2.2		2.2	0.2	2.4
Items of comprehensive income			-24.9				-24.9		-24.9
Comprehensive income for the financial period	**0.0**	**0.0**	**-24.9**	**0.0**	**2.2**	**0.0**	**-22.7**	**0.2**	**-22.5**
Dividends paid					-12.7		-12.7	-0.3	-13.0
Purchase of own shares				-1.7			-1.7		-1.7
Share-based payments				1.8	-0.3		1.5		1.5
Hybrid bond repayments, interest and expenses					-4.0		-4.0		-4.0
Shareholders' equity, 30 Jun 2013	**75.4**	**168.1**	**-24.9**	**247.3**	**72.1**	**171.1**	**709.1**	**0.8**	**709.9**

Consolidated cash flow statement

in mill. EUR	Q1-Q2 2014	Q1-Q2 2013	2013
Cash flows from operating activities			
Profit for the financial year	-52.0	2.4	22.9
Operations for which a payment is not included *	57.4	89.6	115.9
Other adjustments to profit for the period			
Interest and other financial expenses	11.2	8.9	19.7
Interest income and other financial income	-0.9	-37.1	-38.6
Income taxes	-12.9	1.7	3.9
Changes in working capital	47.7	32.1	35.8
Interest paid	-4.7	-5.8	-12.1
Paid financial expenses	-2.0	-1.6	-3.8
Received interests	4.9	1.4	1.4
Taxes paid	0.0	-2.0	-2.7
Net cash flow from operating activities	**48.7**	**89.7**	**142.4**
Cash flows from investing activities			
Investments in intangible assets	-0.4	-0.8	-2.3
Investments in tangible assets	-66.7	-54.4	-96.4
Net change of financial interest bearing assets at fair value through profit and loss	-21.1	-56.7	14.6
Net change of shares classified as available for sale	0.0	54.1	53.7
Divestment of fixed assets and group shares	227.2	0.0	8.9
Dividends received	0.0	1.1	1.2
Change in non-current receivables	2.4	0.9	1.0
Net cash flow from investing activities	**141.4**	**-55.7**	**-19.3**
Cash flows from financing activities			
Proceeds and changes from borrowings	0.0	0.0	150.0
Loan repayments and changes	-178.0	-44.8	-115.0
Hybrid bond repayments	0.0	0.0	-52.4
Proceeds from hybrid bond	0.0	0.0	0.0
Hybrid bond interest and expenses	-5.3	-4.0	-15.4
Purchase of own shares	0.0	-1.7	-1.7
Dividends paid	0.0	-13.0	-13.0
Net cash flow from financing activities	**-183.4**	**-63.5**	**-47.4**
Change in cash flows	**6.7**	**-29.5**	**75.7**
Liquid funds, at beginning	331.8	256.1	256.1
Change in cash flows	6.7	-29.5	75.7
Liquid funds, at end	**338.6**	**226.6**	**331.8**
Notes to consolidated cash flow statement			
* Operations for which a payment is not included			
Depreciation	70.4	73.1	140.7
Employee benefits	5.8	8.4	7.3
Fair value changes in derivatives and changes in exchange rates of fleet overhauls	11.0	-6.7	-21.7
Other adjustments	-29.7	14.9	-10.5
Total	57.4	89.6	115.9
Financial asset at fair value	248.8	330.0	335.9
Liquid funds	237.3	94.9	122.9
Short-term cash and cash equivalents in balance sheet	486.1	425.0	458.8
Maturing after more than 3 months	-147.6	-197.8	-126.5
Shares held to trading purposes	0.0	-0.6	-0.4
Total in cash flow statement	338.6	226.6	331.8

Comparative figures for 2013 have been restated due to change in accounting principles related to treatment of overhauls. In addition, comparative figures in balance sheet have been effected by the netting of deferred taxes. See note 2 for more information.

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASICS OF PREPARATION
This consolidated interim report has been prepared according to the International (IAS) Standard 34: Interim Financial Reporting.

2. ACCOUNTING PRINCIPLES
The accounting principles applied in the interim report are consistent with the principles published in the 2013 consolidated financial statements, except for the changes mentioned below. The figures presented in this statement are not rounded, and therefore total sum calculated from these individual figures does not necessarily match the corresponding sum stated here. Key figures stated here are calculated using the exact figures.

Finnair has changed the accounting principle for its aircraft engine overhauls. From the beginning of 2014, Finnair capitalizes engine overhauls to its balance sheet and depreciates related costs during the engines' maintenance periods. Previously overhauls were expensed when they occured.

The change reduces the volatility of engine overhaul costs, which improves the accuracy of forecasting future profitability and improves comparability over of periods. It also improves comparability with other airlines, because, based on the study conducted by International Air Traffic Association IATA, the amended practice corresponds to the current industry practice. The change decreased Finnair equity at 31 December 2013 by 13.8 million euros and improved 2013 EBIT by 16.7 million euros. In addition, the change increased 2013 gross investments, improved 2013 cash flow from operating activities and reduced cash flow from investing activities respectively. It also affected Finnair's 2013 key figures.

The change in the accounting principle affects the Airline Business segment. Comparative periods have been restated accordingly, and comparison between restated and previously reported figures have been published at 27 of March 2014 in a separate stock exchange release.

In addition, the group has made an evaluation on the nature and classification of its deferred tax assets and liabilities, and concluded that they meet the criteria for netting according to IAS 12, up to the amount that they relate to income taxes levied by the same taxation authority. The deferred tax assets and liabilities have been netted and comparative periods have been adjusted accordingly.

The IFRS-standards and interpretations applied by the Group in 2014 are introduced in the accounting principles of 2013 financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND SOURCES OF UNCERTAINTY
The preparation of the interim report requires the company's management to make estimates and assumptions that influence the levels of reported assets and liabilities as well as of revenue and expenses. The actual outcome may differ from the estimates made. The main estimates used are the same as used while preparing the financial statements 2013.

4. SEGMENT INFORMATION
Segment information is presented in line with business segments, which are based on the Group's internal organisation structure and management reporting. From the first quarter of 2014 onward, Aviation Services segment is not reported separately, but its operations are reported as a part of the Airline Business segment. After the structural changes in technical services and catering implemented in 2012, the Aviation Services segment has consisted of aircraft maintenance and the operations of Finncatering Oy and Finnair Travel Retail Oy, as well as Finnair's property holdings, office services and the management and maintenance of properties related to the company's operational activities. Finncatering Oy was sold to LSG Lufthansa Service Europa/Afrika GmbH on 28 February 2014.

The business segments are Airline Business and Travel Services. Comparative periods have been restated according to new segment division.

Business segment data

in mill. EUR	Q1-Q2 2014				
	Airline Business	Travel Services	Group eliminations	Unallocated items	Group
External turnover	994.3	114.7			1 109.0
Internal turnover	55.1	2.1	-57.2		0.0
Turnover	**1 049.4**	**116.8**	**-57.2**	**0.0**	**1 109.0**
Operational result, EBIT	**-55.3**	**1.4**			**-53.9**
Operating result	**-55.2**	**0.5**			**-54.7**
Share of result in associates and joint ventures				-2.2	-2.2
Financial income				3.2	3.2
Financial expenses				-11.2	-11.2
Income tax				12.9	12.9
Non-controlling interest				-0.2	-0.2
Result for the period attributable to shareholders of the parent company					-52.2
Depreciation	69.7	0.7			70.4

Business segment data

in mill. EUR	Q1-Q2 2013				
	Airline Business	Travel Services	Group eliminations	Unallocated items	Group
External turnover	1 070.4	132.4			1 202.9
Internal turnover	65.0	0.7	-65.7		0.0
Turnover	**1 135.5**	**133.1**	**-65.7**		**1 202.9**
Operational result, EBIT	**-12.4**	**2.4**			**-10.0**
Operating result	**-25.6**	**1.5**			**-24.0**
Share of result in associates and joint ventures				-1.6	-1.6
Financial income				38.7	38.7
Financial expenses				-8.9	-8.9
Income tax				-1.7	-1.7
Non-controlling interest				-0.2	-0.2
Result for the period attributable to shareholders of the parent company					2.2
Depreciation	71.2	0.7			71.9

Turnover

in mill. EUR	Q2 2014	Q2 2013	Change %	Q1-Q2 2014	Q1-Q2 2013	Change %	2013
Airline Business	541.3	583.3	-7.2	1 049.4	1 135.5	-7.6	2 271.9
Travel Services	42.6	51.3	-17.0	116.8	133.1	-12.3	251.7
Group eliminations	-18.2	-24.8	26.7	-57.2	-65.7	13.0	-123.2
Total	**565.7**	**609.7**	**-7.2**	**1 109.0**	**1 202.9**	**-7.8**	**2 400.3**

Operating result

in mill. EUR	Q2 2014	Q2 2013	Change %	Q1-Q2 2014	Q1-Q2 2013	Change %	2013
Airline Business	-27.0	-9.4	-187.5	-55.2	-25.6	-115.8	6.3
Travel Services	0.8	-1.0	175.8	0.5	1.5	-67.2	1.6
Total	**-26.3**	**-10.4**	**-152.6**	**-54.7**	**-24.0**	**-127.6**	**7.9**

Employees average by segment

	Q1-Q2 2014	Q1-Q2 2013	Change %	2013
Airline Business	4 450	4 942	-10.0	4 834
Travel Services	690	778	-11.3	751
Other functions	285	261	9.2	274
Total	**5 425**	**5 981**	**-9.3**	**5 859**

5. MANAGEMENT OF FINANCIAL RISKS

No significant changes have been made to the Group's risk management principles in the reporting period. The objectives and principles of risk management are consistent with information presented in the Group's 2013 Financial Report. The tables below present the nominal value or the amount and net fair value of derivative contracts used in Group's hedge accounting.

Derivatives, in mill. EUR	30 Jun 2014		30 Jun 2013		2013	
	Nominal value	Fair net value	Nominal value	Fair net value	Nominal value	Fair net value
Currency derivatives						
Hedge accounting items (forward contracts):						
Jet fuel currency hedging	439.9	-6.0	426.9	-0.3	370.5	-17.0
Fair value hedging of aircraft acquisitions	575.5	6.5	273.2	14.8	244.1	2.2
Currency hedging of lease payments	134.6	0.4	37.4	-0.1	58.3	-1.6
Hedge accounting items total	1 150.0	0.8	737.6	14.4	672.9	-16.4
Items outside hedge accounting:						
Jet fuel currency hedging	4.9	-0.3	0.0	0.0	0.0	0.0
Operational cash flow hedging (forward contracts)	429.2	3.9	186.4	0.6	407.9	2.4
Operational cash flow hedging (options)						
Call options	123.5	5.8	217.3	17.5	149.8	16.1
Put options	156.2	-1.1	283.9	-2.6	169.5	-0.8
Balance sheet hedging (forward contracts)	12.0	0.3	32.2	0.2	20.4	-1.2
Items outside hedge accounting total	725.7	8.5	719.9	15.7	747.5	16.5
Currency derivatives total	**1 875.7**	**9.3**	**1 457.5**	**30.1**	**1 420.4**	**0.1**
Commodity derivatives						
Hedge accounting items:						
Jet fuel forward contracts, tonnes	546 750	10.7	602 120	-23.3	563 550	11.8
Electricity derivatives, MWh	20 362	0.0	0	0.0	17 568	0.0
Hedge accounting items total		10.7		-23.3		11.8
Items outside hedge accounting:						
Jet fuel forward contracts, tonnes	13 500	0.1	12 000	0.0	18 000	0.8
Options						
Call options, jet fuel, tonnes	221 000	2.5	204 000	1.5	201 000	3.4
Put options, jet fuel, tonnes	-221 000	-1.0	230 000	-5.9	201 000	-1.1
Electricity derivatives, MWh	69 127	-0.4	86 005	-0.6	71 100	-0.5
Items outside hedge accounting total		1.2		-5.0		2.6
Commodity derivatives total		**11.9**		**-28.3**		**14.4**
Interest rate derivatives						
Hedge accounting items:						
Interest rate swaps	150.0	5.0	0.0	0.0	150.0	1.2
Hedge accounting items total	150.0	5.0	0.0	0.0	150.0	1.2
Items outside hedge accounting:						
Cross currency Interest rate swaps	14.3	-0.4	19.9	0.4	17.3	0.2
Interest rate swaps	25.0	-0.3	25.0	-0.8	25.0	-0.5
Items outside hedge accounting total	39.3	-0.7	44.9	-0.4	42.3	-0.3
Interest rate derivatives total	**189.3**	**4.3**	**44.9**	**-0.4**	**192.3**	**0.9**
Derivatives total		**25.6**		**1.4**		**15.4**

6. FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

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

Fair values at the end of the reporting period, in mill. EUR	30 Jun 2014	Level 1	Level 2	Level 3
Financial assets at fair value through profit and loss				
Securities held for trading	209.3	35.3	174.0	
Derivatives held for trading				
Currency and interest rate swaps	5.0		5.0	
- of which in fair value hedge accounting	5.0		5.0	
Currency derivatives	20.6		20.6	
- of which in fair value hedge accounting	7.3		7.3	
- of which in cash flow hedge accounting	2.2		2.2	
Commodity derivatives	12.6		11.2	1.4
- of which in cash flow hedge accounting	11.0		11.0	
Total	**247.5**	**35.3**	**210.7**	**1.4**

Financial liabilities recognised at fair value through profit and loss				
Derivatives held for trading				
Interest rate swaps	0.7		0.7	
- of which in fair value hedge accounting	0.0		0.0	
Currency derivatives	11.2		11.2	
- of which in fair value hedge accounting	0.8		0.8	
- of which in cash flow hedge accounting	7.9		7.9	
Commodity derivatives	0.7		0.7	
- of which in cash flow hedge accounting	0.3		0.3	
Total	**12.6**	**0.0**	**12.6**	**0.0**

During the reporting period no significant transfers took place between fair value hierarchy Levels 1 and 2.

The fair values of hierarchy Level 1 are based fully on quoted (unadjusted) prices in active markets of the same assets and liabilities. The fair values of Level 2 instruments are based to a significant extent on input data other than the quoted prices included in Level 1, but however on data that are observable either directly (price) or indirectly (derived from price) for the said asset or liability. The fair values of Level 3 instruments, on the other hand, are based on asset or liability input data that are not based on observable market information (unobservable inputs), but rather to a significant extent on confirmations supplied by counterparties based on generally accepted valuation models.

The fair value hierarchy level, to which a certain item valued at fair value is classified in its entirety, is determined in accordance with the requirements of IFRS 7 based on the lowest level of input significant to the overall fair value of the said item. The significance of the input data has been assessed in its entirety in relation to said item valued at fair value.

Reconciliation of financial assets and liabilities valued at fair value according to Level 3

Fair values at the end of the reporting period, in mill. EUR	Securities held for trading	Derivatives held for trading	Available-for-sale share investments	Total
Opening balance		0.4		0.4
Profits and losses in income statement total		-0.1		-0.1
In comprehensive income				
Purchases (and sales)				
Settlements (and issues)		1.1		1.1
Transfers to and from Level 3				
Closing balance	**0.0**	**1.4**	**0.0**	**1.4**
Total profits and losses recognised for the period for assets held at the end of the reporting period				
In other operating expenses		-0.1		-0.1

During the reporting period, no transfers took place to or from fair value hierarchy Level 3 in the fair value levels of financial assets and liabilities. According to management estimates, the changing of input data used in determining the fair value of financial instruments valued at Level 3 to some other possible alternative assumption would not significantly change the fair value of items valued at fair value in Level 3, given the relatively small amount of the said assets and liabilities.

7. COMPANY ACQUISITIONS AND SALES

During the second quarter the Group did not acquire nor sell any businesses. During Q1 2014 Finnair sold its subsidiary Finncatering Oy, which was previously classified as assets held for sale.

8. INCOME TAXES

The tax rate for the second quarter was -19.8 % (-22.9 %).

9. DIVIDEND PER SHARE

The Annual General Meeting on 27 March 2014 decided that no dividend is paid for 2013.
The Annual General Meeting on 27 March 2013 decided to distribute a dividend of 0.10 euros per share. The total dividend was 12.7 million euros, based on the number of shares registered on 3 April 2013. The dividend was paid on 10 April 2013.

10. CHANGE IN INTANGIBLE AND TANGIBLE ASSETS

in mill. EUR	30 Jun 2014	30 Jun 2013	2013
Carrying amount at the beginning of period	1 311.9	1 354.2	1 354.2
Fixed asset investments	53.0	38.1	77.3
Change in advances	8.7	21.9	33.3
Disposals	-195.4	-9.4	-11.0
Depreciation	-70.4	-71.9	-140.7
Depreciation included in non-recurring items	-0.3	-1.2	-1.2
Carrying amount at the end of period	**1 107.5**	**1 331.6**	**1 311.9**
Proportion of assets held for sale at the beginning of period	9.8	16.7	16.7
Proportion of assets held for sale at the end of period	4.9	14.7	9.8

11. NON-CURRENT ASSETS HELD FOR SALE

Mainly inventories and tangible asset related to Finnair Technics. Comparative period includes also non-current assets and liabilities of Finncatering Oy, which was sold during Q1 2014.

Non current assets held for sale	30 Jun 2014	30 Jun 2013	2013
Tangible assets	4.9	14.7	9.8
Inventories	4.5	9.3	5.4
Trade receivables and other receivables	0.0	3.1	2.5
Total	**9.5**	**27.1**	**17.7**

Liabilities of non-current assets held for sale	30 Jun 2014	30 Jun 2013	2013
Trade payables and other liabilities	0.0	2.5	2.3
Total	**0.0**	**2.5**	**2.3**

12. INTEREST-BEARING LIABILITIES

During the second quarter of 2014 Finnair amortized its loans according to the loan instalment program. In the first quarter of 2014, Finnair repaid the loans related to the sold A330 aircraft.

13. CONTINGENT LIABILITIES

in mill. EUR	30 Jun 2014	30 Jun 2013	2013
Pledges on own behalf	208.9	575.2	503.7
Guarantees on behalf of group undertakings	70.0	66.0	67.6
Guarantees on behalf of others	2.2	2.4	2.3
Total	**281.1**	**643.6**	**573.5**

Investment commitments for property, plant and equipment at 30 June 2014 totalled 897 million euros (1,000).

14. OPERATING LEASE COMMITMENTS

in mill. EUR	30 Jun 2014	30 Jun 2013	2013
Lease commitments from fleet payments	599.0	148.0	259.2
Other lease commitments	234.2	253.0	244.8
Total	**833.2**	**401.0**	**504.0**

15. RELATED PARTY TRANSACTIONS

in mill. EUR	30 Jun 2014	30 Jun 2013	2013
Transactions with associates and joint ventures			
Sales	36.0	34.3	65.5
Purchases	39.1	71.7	105.8
Non-current financial assets	9.9	9.9	9.9
Trade and other receivables	0.7	27.7	36.1
Other long-term liabilities	10.3	8.8	9.7
Pension obligations	44.4	4.5	10.5
Trade payables and other liabilities	3.7	5.0	3.5
Guarantees on behalf of associates and joint ventures	2.0	2.0	2.0

16. ITEMS OF STATEMENT OF COMPREHENSIVE INCOME

Other comprehensive income include the unrealisable change in the fair value of the hedging instruments of the hedge accounting items, which has earlier been recognised straight in the hedging reserve of the shareholders' equity, and the translation difference.

in mill. EUR	Q2 2014	Q2 2013	Change %	Q1-Q2 2014	Q1-Q2 2013	Change %	2013
Profit for the period	**-23.9**	**18.1**	**<-200 %**	**-52.0**	**2.4**	**<-200 %**	**22.9**
Other comprehensive income items							
Items that may be classified reclassified to profit or loss in subsequent periods							
Translation differences	0.0	0.1	-111.4	0.0	0.0	-	0.0
Change in fair value of available-for-sale financial assets after taxes	0.0	-21.1	100.0	0.0	-10.4	100.0	-10.4
Change in fair value of hedging instruments after taxes	24.1	-27.3	188.3	9.6	-16.7	157.3	-4.2
Items that will not be reclassified to profit or loss in subsequent periods							
Actuarial gains and losses from defined benefit plans	-13.4	4.5	<-200 %	-22.5	2.1	<-200 %	-0.2
Other comprehensive income items total	**10.7**	**-43.8**	**124.5**	**-13.0**	**-25.0**	**48.0**	**-15.0**
Comprehensive income for the financial period	**-13.2**	**-25.7**	**48.6**	**-65.0**	**-22.6**	**-188.0**	**7.9**
Earnings attributable to shareholders of the parent company of the comprehensive income statement	-13.3	-25.8	48.4	-65.2	-22.8	-186.3	7.7
Earnings attributable to non-controlling interest of the comprehensive income statement	0.1	0.1	-10.6	0.2	0.2	-1.7	0.3

17. EVENTS AFTER THE REVIEW PERIOD

There have not been other remarkable events after the closing date as told in the interim report.

18. CALCULATION OF KEY RATIOS

Earnings / share:

$$\frac{\text{Result for the period - hybrid bond interest}}{\text{Average number of shares at the end of the financial year, adjusted for share issues}}$$

Earnings per share from the result of the period:

$$\frac{\text{Result for the period}}{\text{Average number of shares at the end of the financial year, adjusted for share issues}}$$

Equity / share:

$$\frac{\text{Shareholders' equity}}{\text{Number of shares at the end of the financial year, adjusted for share issues}}$$

Gearing, %:

$$\frac{\text{Net interest-bearing liabilities * 100}}{\text{Shareholders' equity + non-controlling interest}}$$

Return on capital employed, % (ROCE):

$$\frac{\text{Profit before taxes + interest and other financial expenses * 100}}{\text{Balance sheet total - non-interest-bearing liabilities (average)}}$$

Net interest-bearing liabilities:

Interest-bearing liabilities - interest-bearing assets - listed shares

Equity ratio, %:

$$\frac{\text{Shareholders' equity + non-controlling interest * 100}}{\text{Balance sheet total - advances received}}$$

Return on equity, % (ROE):

$$\frac{\text{Result * 100}}{\text{Equity + non-controlling interest (average)}}$$

Operating profit, EBIT:
Operating profit excluding capital gains, non-recurring items and fair value changes in derivatives and changes in the exchange rates of fleet overhauls

Shareholders' equity:
To equity holders of the parent

The figures of interim report have not been audited.