

Finnair Group interim report 1 January - 30 September 2014

Third-quarter operational result declined to 26.7 million euros - product upgrades announced and savings agreements negotiated during the period will have an effect on the result from 2015 onwards

1 July - 30 September 2014

- Turnover declined by 2.2 per cent year-on-year to 622.7 million euros (636.9).
- The operational result was 26.7 million euros (43.0).
- Net cash flow from operating activities stood at -8.9 million euros (38.7), and cash flow from investments totalled -15.1 million euros (-85.3).
- Unit cost per available seat kilometre excluding fuel (CASK excl. fuel) decreased by 0.4 per cent from the previous year's level.
- Unit revenue per available seat kilometre (RASK) fell by 1.6 per cent.

1 January – 30 September 2014

- Turnover declined by 5.9 per cent year-on-year to 1,731.8 million euros (1,839.8).
- The operational result was -27.1 million euros (33.0).
- Net cash flow from operating activities stood at 39.8 million euros (128.4), and cash flow from investments totalled 126.3 million euros (-141.0).
- Unit cost per available seat kilometre excluding fuel (CASK excl. fuel) decreased by 1.0 per cent from the previous year's level.
- Unit revenue per available seat kilometre (RASK) fell by 3.7 per cent.

- Guidance remains unchanged: Finnair estimates its turnover in 2014 to be significantly lower than in 2013 and its 2014 operating result to show a significant loss.

CEO Pekka Vauramo:

“Finnair’s passenger and cargo revenue for July–September declined year-on-year, causing our turnover to decrease to 622.7 million euros. The decline in unit revenue, caused primarily by the strengthening of the euro against key Asian currencies, continued in the third quarter, although at a slower rate than earlier in the year. Growth in passenger volume and the progress of cost reduction measures were not sufficient to compensate for the weak revenue development, as our operational result fell to 26.7 million euros.

In order for Finnair’s profitability to improve, it is essential that we increase unit revenues and maintain tight control over costs. By the end of September, we had nearly achieved the overall target for our 200-million-euro cost reduction program. The program will be completed by the end of the year. The savings agreements we concluded with pilots and cabin crew in September and October will contribute to our cost competitiveness from 2015 onwards. I am very pleased with the outcome of the negotiations, as they not only produce cost savings, but also enable us to continue to develop our operations together with our personnel.

In August, we announced a number of product upgrades with which we pursue additional revenue. We expect our first A350 aircraft, which join our fleet in late 2015, to show an impact on our profitability from 2016 onwards. A significant improvement in revenue before that, however, would require a substantial recovery in domestic market demand and a substantial decrease in the world market price of fuel.”

Outlook unchanged

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 unfavourable market conditions driving the decline in unit revenue, Finnair estimates that its 2014 operational result will show a significant loss.

Business Environment

The strengthening of the euro against several revenue currencies continued to have a negative effect on the development of passenger traffic and cargo revenue in the third 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 one per cent year-on-year in the third quarter of 2014. Market capacity between Finnair's Asian and European destinations grew by 3.3 per cent year-on-year. Finnair increased its market share in European traffic to 52.2 per cent (47.8), while in Asian traffic its market share decreased to 5.9 per cent (6.3 per cent).*

Cargo traffic volumes grew in Finnair's main market areas, yet cargo unit revenues continued to decline. The weak economic situation in the eurozone is weakening cargo demand from Europe.

Jet fuel is one of the largest individual cost items for airlines. The price of jet fuel decreased in the third quarter, but remains high. The US dollar is a significant expense currency in Finnair's operations, while the Japanese yen is a significant income currency. The US dollar appreciated against the euro in the third quarter. The depreciation of the yen against the euro, which began in 2013, continued in the third quarter of 2014.

** 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 **oneworld** alliance partners Japan Airlines and British Airways started a joint business for traffic between Europe and Japan on 1 April 2014. In July 2013, Finnair joined the transatlantic joint business founded by fellow **oneworld** alliance members American Airlines, British Airways and Iberia. These joint businesses have started well and their performance so far has been 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 third quarter of 2014.

In August, Finnair Travel Retail, a subsidiary of Finnair, concluded an agreement on the sale of its shops at Helsinki Airport to World Duty Free Helsinki Oy, the Finnish subsidiary of World Duty Free Group. The transaction was completed on 1 October 2014, after the end of the review period, and it will have a positive impact of approximately 13 million euros on Finnair's fourth quarter 2014 result before taxes. With the

transaction, 58 employees were transferred to World Duty Free Group's Finnish subsidiary as existing employees. The transaction does not concern inflight sales.

In the third quarter, Finnair commenced employee consultations concerning Travel Retail's inflight operations, Finnair Cargo, some of its support functions, Aurinkomatkat Suntours and technical services. The preliminary reduction need for these employee consultations was at most 65 persons.

Finnair and the Finnish Air Line Pilots' Association (SLL) reached an agreement on savings related to Finnair's cost reduction program in early September. The agreement brings Finnair 17 million euros in permanent annual savings. Approximately 11 million euros will materialise gradually over the two-year CLA period. Approximately 3 million euros will materialise in the coming few years through growth and the remaining 3 million euros in the future through changes to pensions and the employment terms of new pilots. In return, Finnair gave pilots protection against redundancies for the next two years and a one-time compensation plan. The compensation plan was approved by Finnair's Board of Directors after the review period in October.

In September, Finnair and the Finnish Cabin Crew Union (SLSY) agreed to continue the savings negotiations that ended unresolved in the spring, and reached a savings agreement in October, after the end of the review period. The savings agreement brings Finnair 18 million euros in permanent annual savings. Approximately 75% of the savings will materialise during the current CLA period, which will end on 15 November 2016, and approximately 25% in the future through changes to the employment terms of new cabin attendants. In return, Finnair offered cabin personnel protection against redundancies for the next two years, protection from outsourcing, and a fixed-term pension incentive.

The savings agreement concluded with SLSY includes the savings impact of the outsourcing contracts already signed concerning the Hong Kong and Singapore routes. At the beginning of September, Finnair and the Norwegian crew management company OSM Aviation signed an agreement on the outsourcing of cabin services on these routes. The cabin crew for these routes will be recruited to OSM Aviation's bases in Asia.

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 September 2014, Finnair had achieved a total cost reduction of 189 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 July–September 2014

Finnair's turnover in the third quarter of 2014 fell by 2.2 per cent year-on-year to 622.7 million euros (636.9). Capacity decreased by 0.7 per cent. The decline in turnover was primarily attributable to a decrease in unit revenue resulting from the strengthening of the euro against key Asian currencies, and the weak development of cargo and Aurinkomatkat Suntours. Operational costs excluding fuel increased by 2.5 per cent from the comparison period, amounting to 422.9 million euros (412.5). Fuel costs, including hedging and costs incurred from emissions trading, decreased by 4.3 per cent year-on-year to 177.2 million euros (185.1) due to a decrease in the market price of fuel. Personnel costs increased by one per cent to 85.7 million euros (84.9). Euro-denominated operational costs were 600.0 million euros (597.6). 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 26.7 million euros (43.0).

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 -0.2 million euros (-0.7). The non-recurring items for July–September included items related to the company's restructuring, amounting in total to -2.9 million euros (-2.5). The operating result was 23.6 million euros (39.8). The result before taxes for July–September was 21.2 million euros (35.9) and the result after taxes was 16.6 million euros (27.0).

Unit revenue per available seat kilometre (RASK) declined by 1.6 per cent year-on-year to 6.33 euro cents (6.44). Excluding the effect of exchange rate fluctuations, passenger unit revenue declined by 0.4 per cent from the comparison period. Unit cost per available seat kilometre (CASK) decreased by 1.3 per cent to 6.12 euro cents (6.20). Unit cost excluding fuel (CASK excl. fuel) decreased by 0.4 per cent due to the cost reduction program and totalled 4.05 euro cents (4.06).

Financial performance in January–September 2014

Finnair's turnover in the first three quarters of the year fell by 5.9 per cent year-on-year to 1,731.8 million euros (1,839.8). Capacity decreased by one 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, 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 2.0 per cent from the comparison period, amounting to 1,267.5 million euros (1,293.1). Fuel costs, including hedging and costs incurred from emissions trading, decreased by 4.1 per cent year-on-year to 504.3 million euros (526.1) due to a decline in capacity and a decrease in the market price of fuel. Personnel costs declined by 8.7 per cent to 262.0 million euros (287.0) due to the personnel reductions implemented after the comparison period. Euro-denominated operational costs declined to 1,771.8 million euros (1,819.1). 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 -27.1 million euros (33.0).

The change in the fair value of derivatives and in the value of foreign currency denominated fleet maintenance reserves amounted to -11.6 million euros (6.0). The non-recurring items for January–September included items related to the sale of Finn catering, fleet sale and leaseback agreements and the company's restructuring, amounting in total to 7.6 million euros (-23.2). The operating result was -31.1 million euros (15.8). The result before taxes for January–September was -43.7 million euros (40.0) and the result after taxes was -35.4 million euros (29.4).

Unit revenue per available seat kilometre (RASK) declined by 3.7 per cent year-on-year and amounted to 6.06 euro cents (6.30). Excluding the effect of exchange rate fluctuations, passenger unit revenue declined by 2.4 per cent from the comparison period. Unit cost per available seat kilometre (CASK) decreased by 1.6 per cent and amounted to 6.31 euro cents (6.41). Unit cost excluding fuel (CASK excl. fuel) decreased by one per cent due to the cost reduction program and totalled 4.25 euro cents (4.30).

Balance sheet on 30 September 2014

The Group's balance sheet totalled 1,915.4 million euros at the end of the period under review (2,234.9 million euros on 30 September 2013). Shareholders' equity totalled 649.7 million euros (737.3), which is 5.08 euros per share (5.76). Shareholders' equity declined year-on-year due to the period's result 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 September 2014 was -3.2 million euros (-24.2) after deferred taxes.

Cash flow and financial position

Finnair has a strong financial position, which supports business development and future investments. In January–September 2014, net cash flow from operating activities amounted to 39.8 million euros (128.4) and net cash flow from investments totalled 126.3 million euros (-141.0).

The equity ratio was 34.4 per cent (33.6) and gearing was -4.0 per cent (10.1). The adjusted gearing was 74.0 per cent (64.8). At the end of the period under review, interest-bearing debt amounted to 409.7 million euros (631.6) and interest-bearing net debt stood at -25.8 million euros (74.3). 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 review period. The Group's cash funds amounted to 435.4 million euros (557.4) at the end of September. 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. Using 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 54.8 million euros (66.3).

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 -191.5 million euros (53.3). Financial expenses totalled -12.9 million euros (-13.8) and financial income 3.5 million euros (39.8). The financial income for the comparison period includes profit from the sale of shares in Norwegian Air Shuttle.

Capital expenditure

In January–September 2014, capital expenditure excluding advance payments totalled 68.4 million euros (50.7) 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 162 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 September 2014, Finnair itself operated 45 aircraft, of which 15 are wide-body and 30 narrow-body aircraft. There were no changes to the fleet in the third quarter. 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. Also 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 final quarter of 2014.

The average age of the fleet operated by Finnair was 9.9 years at the end of September 2014, and that of the Finnair fleet operated by other airlines was 6.0 years. Finnair also has eight leased aircraft that it has subleased to be operated by other airlines.

A350 aircraft

Finnair ordered 11 A350 XWB aircraft from Airbus in 2005. Some of these aircraft will replace aircraft currently in use in long-haul traffic. Finnair estimates that its first four A350 XWB wide-body aircraft will be delivered in the second half of 2015. The remaining seven aircraft will be delivered to Finnair by the end of 2017 according to the current estimate. In December 2013 Finnair signed memoranda of understanding on the sale and leaseback of the first two A350 XWBs to be delivered to it.

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. Airbus received type approval from the European Aviation Safety Agency (EASA) for the A350 aircraft at the end of September 2014.

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 30.9.2014	Seats	#	Own	Leased (operational leasing)	Average age (finance leasing)	Average age	Change from 31.12.2013	Ordered	Add. options
Narrow-body fleet									
Airbus A319	138	9	7	2		13.2			
Airbus A320	165	10	6	4		12.1			
Airbus A321	209/196	11	4	7		7.8	+2		
Boeing B757	227	0	0	0			-2		
Wide-body fleet									
Airbus A330	297/271/263	8	0	5	3	4.9			
Airbus A340	270/269	7	5	2		11.7			
Airbus A350	297							11	8
Total		45	22	20	3	9.9	0	11	8

Fleet owned by Finnair and operated by other airlines on 30.9.2014*	Seats	#	Own	Average age	Change from 31.12.2013	Ordered	Add. options
ATR 72	68-72	12	12	5.2			
Embraer 170	76	5	5	8.3			
Embraer 190	100	8	8	5.8			
Total		25	25	6.0		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 July–September 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	7-9 2014	7-9 2013	Change %	1-9 2014	1-9 2013	Change %	2013
Turnover and result							
Turnover, EUR million	596.2	609.5	-2.2	1,645.7	1,745.0	-5.7	2,271.9
Operational result, EUR million	25.9	43.1	-39.9	-29.3	30.7	-195.5	8.8
Operating result, EBIT, EUR million	22.9	39.9	-42.8	-32.3	14.4	<-200	6.3
Operating result, % of turnover	3.8	6.6	-2.8%-p	-2.0	0.8	-2.8%-p	0.3
Personnel							
Average number of employees				4,400	4,883	-9.9	4,834

The turnover of Airline Business in July–September fell by 2.2 per cent to 596.2 million euros (609.5). Ticket revenue from scheduled traffic constitutes approximately 73 per cent of the segment's turnover, leisure traffic accounts for approximately 3 per cent and cargo for approximately 10 per cent. The segment's operational result was 25.9 million euros (43.1).

In July–September, Finnair traffic measured in revenue passenger kilometres decreased by 0.5 per cent and overall capacity by 0.7 per cent year-on-year. The passenger load factor increased by 0.1 percentage points to 84.5 per cent. In Asian traffic, capacity declined by 3.7 per cent and traffic measured in revenue passenger kilometres decreased by 1.2 per cent year-on-year. The load factor in Asian traffic rose by 2.3 percentage points to 88.2 per cent. In European traffic, capacity increased by 12.1 per cent and traffic measured in revenue passenger kilometres grew by 10.8 per cent. The load factor in European traffic decreased by 0.9 percentage points to 79.4 per cent. In North Atlantic traffic, capacity declined by 6.0 per cent and traffic measured in revenue passenger kilometres fell by 8.6 per cent year-on-year. The load factor in North Atlantic traffic decreased by 2.5 percentage points to 88.4 per cent. In domestic traffic, capacity declined by 0.1 per cent and traffic measured in revenue passenger kilometres increased by 0.3 per cent year-on-year. The load factor in domestic traffic rose by 0.3 percentage points to 66.2 per cent.

In July–September, unit revenue per available seat kilometre (RASK) fell by 1.6 per cent 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 third 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 one per cent year-on-year in the third quarter of 2014. Market capacity between Finnair's Asian and European destinations grew by 3.3 per cent year-on-year. Finnair increased its market share in European traffic to 52.2 per cent (47.8), while in Asian traffic its market share decreased to 5.9 per cent (6.3 per cent).*

The demand for leisure traffic weakened in the third quarter year-on-year, because 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. 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 reflected in the third quarter as a decline in leisure traffic capacity and an increase in capacity in European traffic. The capacity of leisure traffic declined by 29.9 per cent year-on-year, with the number of passengers in charter traffic decreasing by 30.7 per cent in July–September compared to the corresponding period last year. The passenger load factor of leisure traffic decreased by 2.5 percentage points year-on-year, to 90.9 per cent.

Cargo transported on scheduled flights (belly cargo) constitutes a significant proportion of the revenue from long-haul traffic. In the third quarter, belly cargo accounted for approximately 14 per cent of total long-haul revenue. The amount of cargo and mail carried by Finnair in scheduled traffic declined by 2.2 per cent year-on-year. Finnair's overall load factor increased by 1.7 percentage points year-on-year, to 70.1 per cent. The available tonne kilometres declined by 3.1 per cent and the revenue tonne kilometres by 0.7 per cent. Finnair Cargo also operated separate wet-leased cargo flights in the third 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 21 per cent of total cargo traffic in the third 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 July–September, with 89.1 per cent (91.8) of scheduled flights and 88.6 per cent (91.3) 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 operated at most 78 flights to Asia per week.

In July, Finnair started codeshare flights with US Airways. The cooperation is part of the transatlantic joint business and provides Finnair passengers with increased access to cities in North America. In addition, Finnair started codeshare cooperation with Flybe in September, which enables smooth connections to 10 new destinations in the United Kingdom for Finnair's customers.

Other renewals and services

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.

In August, Finnair opened a new Premium Lounge at Helsinki Airport. The facilities are available to Platinum and Gold Finnair Plus members and other **oneworld** top-tier customers.

In August, Finnair revealed the cabin design for its new A350 aircraft and announced a number of product upgrades for long-haul flights and European routes. The product upgrades, which will be rolled out during the autumn, include a new Economy Comfort package on long-haul flights, a redesign of the inflight entertainment

system on all long-haul aircraft, a mobile application to make the various stages of the travel experience smoother, and the replacement of the complimentary cold snack service on European flights with a paid, diverse Sky Bistro service. The product upgrades are based on feedback collected from Finnair's customers.

Awards

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 **oneworld** alliance, to which Finnair belongs, was named the World's Best Airline Alliance for the second year running. Finnair is the only airline in the Nordic countries with a four-star Skytrax rating.

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	7-9 2014	7-9 2013	Change %	1-9 2014	1-9 2013	Change %	2013
Turnover and result							
Turnover, EUR million	44.4	50.1	-11.3	161.2	183.2	-12.0	251.7
Operational result, EUR million	0.8	-0.1	>200	2.2	2.3	-2.9	3.1
Operating result, EBIT, EUR million	0.7	-0.1	>200	1.2	1.4	-12.4	1.6
Operating result, % of turnover	1.7	-0.2	1.9%-p	0.8	0.8	0.0%-p	0.6
Personnel							
Average number of employees				669	761	-12.1	751

The turnover of Travel Services in July–September decreased by 11.3 per cent year-on-year, primarily due to a contraction in Aurinkomatkat Suntours' turnover, and amounted to 44.4 million euros (50.1). Consumers' uncertainty regarding their own economic situation was reflected in the demand for leisure travel. The operating result of Travel Services was 0.7 million euros (-0.1).

Changes in senior management

In September, Finnair appointed Juha Järvinen, 38, Chief Commercial Officer and a member of Finnair's Executive Board as of 1 November 2014. Järvinen will transfer to the new position from his current post of Managing Director of Finnair Cargo, succeeding Allister Paterson. Paterson will leave Finnair on 31 December 2014.

Gregory Kaldahl, currently SVP Resource Management and a member of Finnair's Executive Board, will leave Finnair at the end of 2014 at the end of his four-year contract. The succession plans for the Resource Management function will be announced later.

At the beginning of July, Eija Hakakari, 53, was appointed Finnair's new Senior Vice President, Human Resources, and a member of Finnair's Executive Board. Hakakari moved to Finnair from her previous position of SVP Human Resources at Stora Enso's Printing and Living division, taking her new post at Finnair on 1 October 2014. Her predecessor, Manne Tiensuu, left 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. He had previously served as the Managing Director of Aurinkomatkat Suntours since the end of April 2014 on an interim basis while also continuing in his role for Finnair Travel Retail.

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 review period was significantly lower than in the comparison period due to the structural changes in the company. The Group employed an average of 5,361 (5,913) people, which is 9.3 per cent fewer than in the previous year. The Airline Business segment employed an average of 4,400 (4,883) people during the first half of the year. Travel Services employed an average of 669 (761) people and other functions 292 (269) people. The number of employees stood at 5,354 (5,908) on 30 September 2014.

Share price development and trading

At the end of September 2014, Finnair's market value stood at 320.3 million euros (399.8), and the closing price of the share was 2.50 euros (3.12). During the January–September period, the highest price for a Finnair share on the NASDAQ OMX Helsinki Stock Exchange was 3.01 euros (3.25), the lowest price 2.38 euros (2.40) and the average price 2.76 euros (2.85). Some 10.7 million (21.7) of the company's shares, with a total value of 29.1 million euros (61.7), 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 13.3 per cent (12.7) were held by foreign investors or in the name of a nominee.

In the first quarter, the number of shares held by Finnair increased by 27,092 shares, and in the third quarter, by 6,772 shares, that in both instances were returned to Finnair pursuant to the rules of the company's performance share plan for 2010–2012. On 30 September 2014, Finnair held a total of 313,032 of its own shares, representing 0.24 per cent of the total share capital.

One flagging notification was made in January–September, 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 March 2014. 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 third 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 8.2/10.
- Finnair's fuel consumption and CO2 emissions decreased by -0.73 per cent year-on-year. Consumption and emissions per available seat kilometre also decreased slightly, -0.07 per cent year-on-year.

The general wellbeing at work of Finnair's personnel is measured twice per year. In the second quarter, the wellbeing-at-work index was at the same level as in the previous year (4.0/5.0). (Scale: 1=very poor – 5=excellent). The areas covered by the wellbeing-at-work survey are My Immediate Supervisor, My Work Community, My Perspective, and My Health and Safety.

Finnair is cooperating with industry operators and the authorities to reduce the climate impacts of aviation and to achieve goals such as developing biofuel supply chains and reducing costs to allow for the broader use of biofuels in the industry. Finnair's target is to reduce its CO2 emissions by 24 per cent per seat from the 2009 level by 2017. As part of this effort, Finnair operated a flight from Helsinki to New York on 23 September 2014 using biofuel mixture that was partly manufactured from cooking oil. At present, the price of biofuel being more than double that of conventional fuel, and its poor availability, stand as obstacles in the way of its more extensive commercial use.

Other events during the review period

In September, the International Air Transport Association (IATA) announced that Finnair Cargo will be among the first airlines to receive a PHARMA certificate in early 2015. Pharmaceuticals, such as vaccines and biotech medicines, are among the most delicate products transported as air cargo, and Finnair Cargo is one of the first two airlines in the world to participate in IATA's PHARMA certification programme.

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.

Unexpected capacity additions in Finnair's main markets or a decline in air traffic demand, caused for example by slowing or non-existent economic growth in Finnair's main markets, pose a risk to Finnair's revenue development.

The achievement of the strategic advantages and cost reductions sought through Finnair's partnership projects and outsourcing 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, reputation and profitability, or suppliers may obtain bargaining power in relation to Finnair.

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.

Over the past year, 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 30 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 62 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 49 per cent of the Group's turnover was denominated in euros in the third quarter of 2014. The most important other foreign sales currencies were the Japanese yen (approximately 12 per cent of turnover), the Chinese yuan (approximately 10 per cent), the US dollar (4 per cent) and the Swedish crown (4 per cent). Approximately half of the Group's operating costs are denominated in foreign currencies. The most important purchasing currency is the US dollar, which accounts for approximately 36 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 18 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 73 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 8 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 September, the hedging ratio for fuel purchases in the final quarter of 2014 was 75 per cent and 72 per cent for the first half of 2015. The hedging ratio for a dollar basket over the following 12 months was 76 per cent, and the hedging ratio for a yen basket was 69 per cent.

Events after the review period

The sale of Finnair Travel Retail's shops at Helsinki Airport to World Duty Free Helsinki Oy was completed on 1 October 2014. It will have a positive impact of approximately 13 million euros on Finnair's fourth quarter 2014 result before taxes.

In early October, Finnair was named Best European Airline for the second year running at the annual Asia-Pacific TTG Travel Awards.

In October, Finnair became the only airline awarded a position on the A List of the Carbon Disclosure Project's Climate Performance Leadership Index (CPLI) for actions to reduce carbon dioxide emissions and mitigate the business risks of climate change. The index presents 187 listed companies identified as demonstrating a superior approach to climate change mitigation.

Financial reporting

Finnair's financial statements bulletin for 2014 will be published on Wednesday 11 February 2015.

FINNAIR PLC
Board of Directors

Briefings

Finnair will hold a press conference on 31 October 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 3:30 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#

For further information, please contact:

Chief Financial Officer **Erno Hilden**, tel. +358 9 818 8550, erno.hilden@finnair.com
Financial Communications and Investor Relations Director **Mari Reponen**, tel. +358 9 818 4054, mari.reponen@finnair.com
IRO **Kati Kaksonen**, tel. +358 9 818 2780, kati.kaksonen@finnair.com,

Key figures	Q3 2014	Q3 2013	Change %	Q1-Q3 2014	Q1-Q3 2013	Change %	2013
Turnover and result							
Turnover, EUR million	622.7	636.9	-2.2	1,731.8	1,839.8	-5.9	2,400.3
Operational result, EBIT, EUR million *	26.7	43.0	-37.8	-27.1	33.0	-182.2	11.9
Operational result, % of turnover	4.3	6.8	-2.5 %-p	-1.6	1.8	-3.4 %-p	0.5
Operating result, EBIT, EUR million	23.6	39.8	-40.7	-31.1	15.8	<-200 %	7.9
Operational EBITDAR, EUR million	80.1	91.4	-12.3	133.1	182.1	-26.9	210.1
Result before taxes, EUR million	21.2	35.9	-40.9	-43.7	40.0	<-200 %	26.8
Net result, EUR million	16.6	27.0	-38.3	-35.4	29.4	<-200 %	22.9
Balance sheet and cash flow							
Equity ratio, %				34.4	33.6	0.9 %-p	32.6
Gearing, %				-4.0	10.1	-14.1 %-p	19.9
Adjusted gearing, %				74.0	64.8	9.2 %-p	79.2
Gross investment, EUR million	15.3	12.6	21.6	68.4	50.7	34.8	77.3
Return on capital employed, ROCE, 12 months rolling, %				-3.1	4.4	-7.5 %-p	3.6
Return on equity, ROE, 12 months rolling, %				-6.0	3.5	<-200 %	3.2
Net cash flow from operating activities, EUR million	-8.9	38.7	-122.9	39.8	128.4	-69.0	142.4
Share							
Share price at the end of quarter, EUR				2.50	3.12		2.77
Earnings per share from the result of the period, EUR **	0.13	0.21	-38.4	-0.28	0.23	<-200 %	0.18
Earnings per share, EUR	0.11	0.19	-39.8	-0.33	0.16	<-200 %	0.11
Traffic data, unit costs and revenue							
Passengers, 1,000	2,627	2,565	2.4	7,357	7,121	3.3	9,269
Available seat kilometres (ASK), million	8,221	8,275	-0.7	23,494	23,732	-1.0	31,162
Revenue passenger kilometres (RPK), million	6,946	6,982	-0.5	19,028	19,174	-0.8	24,776
Passenger load factor (PLF), %	84.5	84.4	0.1 %-p	81.0	80.8	0.2 %-p	79.5
Unit revenue per available seat kilometre, (RASK), cents/ASK	6.33	6.44	-1.6	6.06	6.30	-3.7	6.24
Unit revenue per revenue passenger kilometre, yield, cents/RPK	6.58	6.74	-2.3	6.54	6.86	-4.7	6.86
Unit cost per available seat kilometre, (CASK), cents/ASK	6.12	6.20	-1.3	6.31	6.41	-1.6	6.47
CASK excluding fuel, cents/ASK	4.05	4.06	-0.4	4.25	4.30	-1.0	4.35
Available tonne kilometres (ATK), million	1,225	1,264	-3.1	3,537	3,578	-1.1	4,709
Revenue tonne kilometres (RTK), million	858	864	-0.7	2,385	2,378	0.3	3,107
Cargo and mail, tonnes	38,721	39,611	-2.2	112,410	108,670	3.4	146,654
Cargo traffic unit revenue per revenue tonne kilometre, cents/RTK	23.58	23.99	-1.7	23.43	24.42	-4.0	25.14
Overall load factor, %	70.1	68.4	1.7 %-p	67.4	66.5	1.0 %-p	66.0
Flights, number	25,345	24,955	1.6	74,746	73,712	1.4	97,360
Personnel							
Average number of employees				5,361	5,913	-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	Q3 2014	Q3 2013	Change %	Q1-Q3 2014	Q1-Q3 2013	Change %	2013
Turnover	622.7	636.9	-2.2	1,731.8	1,839.8	-5.9	2,400.3
Other operating income	4.0	3.7	9.2	12.9	12.4	4.5	18.8
Operating expenses							
Staff costs	-85.7	-84.9	1.0	-262.0	-287.0	-8.7	-381.3
Fuel	-177.2	-185.1	-4.3	-504.3	-526.1	-4.1	-689.9
Lease payment for aircraft	-21.1	-13.9	52.4	-57.6	-42.7	34.8	-57.5
Other rental payments	-42.2	-39.7	6.4	-121.0	-112.0	8.0	-152.0
Fleet materials and overhaul	-28.1	-28.4	-1.1	-88.4	-97.2	-9.0	-125.8
Traffic charges	-62.0	-60.9	1.8	-172.0	-170.0	1.2	-222.3
Ground handling and catering expenses	-65.3	-65.9	-0.9	-189.5	-194.6	-2.6	-257.3
Expenses for tour operations	-18.8	-19.7	-4.6	-58.5	-65.6	-10.8	-89.4
Sales and marketing expenses	-15.2	-17.0	-10.9	-49.1	-54.8	-10.4	-72.9
Depreciation	-32.2	-34.5	-6.5	-102.6	-106.4	-3.6	-140.7
Other expenses	-52.3	-47.6	9.8	-166.8	-162.8	2.4	-218.1
Operational result, EBIT	26.7	43.0	-37.8	-27.1	33.0	-182.2	11.9
Fair value changes of derivatives and foreign currency denominated fleet maintenance reserves	-0.2	-0.7	72.6	-11.6	6.0	<-200 %	21.7
Non-recurring items	-2.9	-2.5	-18.5	7.6	-23.2	132.9	-25.7
Operating result, EBIT	23.6	39.8	-40.7	-31.1	15.8	<-200 %	7.9
Financial income	0.3	1.2	-72.8	3.5	39.8	-91.2	42.6
Financial expenses	-1.7	-4.9	65.9	-12.9	-13.8	7.1	-19.7
Share of result in associates and joint ventures	-1.0	-0.2	<-200 %	-3.3	-1.8	-82.1	-4.0
Result before taxes	21.2	35.9	-40.9	-43.7	40.0	<-200 %	26.8
Direct taxes	-4.6	-9.0	48.7	8.3	-10.6	178.0	-3.9
Result for the period	16.6	27.0	-38.3	-35.4	29.4	<-200 %	22.9
Result for the period attributable to shareholders of the parent company	16.6	26.8		-35.7	29.0		22.6
Result for the period to non-controlling interest	0.1	0.2		0.3	0.4		0.3
Earnings per share attributable to shareholders of the parent company (euro)							
Earnings per share (basic, diluted)	0.11	0.19		-0.33	0.16		0.11
Earnings per share from the result of the period	0.13	0.21		-0.28	0.23		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 Sep 2014	30 Sep 2013	2013
ASSETS			
Non-current assets			
Intangible assets	18.4	19.6	19.3
Tangible assets	1,051.1	1,297.6	1,292.6
Investments in associates and joint ventures	4.9	10.5	8.2
Financial assets	18.8	21.5	20.5
Deferred tax asset	3.4	0.0	0.0
Non-current assets total	1,096.6	1,349.2	1,340.6
Short-term receivables			
Inventories	12.8	18.5	19.9
Derivatives	117.7	23.0	43.6
Trade and other receivables	244.0	263.4	237.1
Money market investments	263.3	425.1	335.9
Cash and cash equivalents	172.2	132.3	122.9
Current assets total	810.0	862.3	759.4
Non-current assets held for sale	8.8	23.5	17.7
Assets total	1,915.4	2,234.9	2,117.6
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	75.4	75.4	75.4
Other equity	573.6	661.1	601.9
Total	649.0	736.6	677.3
Non-controlling interest	0.7	0.8	0.7
Equity total	649.7	737.3	678.0
Long-term liabilities			
Deferred tax liability	0.0	6.1	3.4
Long-term interest-bearing liabilities	320.1	456.9	385.5
Pension obligations	24.5	10.2	10.6
Provisions	62.7	78.2	69.3
Other long-term liabilities	29.7	23.7	25.4
Long-term liabilities total	437.1	575.1	494.1
Short-term liabilities			
Provisions	46.6	42.1	40.5
Short-term interest-bearing liabilities	89.5	174.7	207.5
Derivatives	34.6	30.8	29.1
Trade payables and other liabilities	657.5	672.6	666.1
Liabilities of non-current assets held for sale	0.3	2.3	2.3
Short-term liabilities total	828.5	922.5	945.5
Liabilities total	1,265.7	1,497.6	1,439.6
Shareholders' equity and liabilities total	1,915.4	2,234.9	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

	Share capital	Other restricted funds	Hedging reserve and other OCI items	Unrestricted equity funds	Retained earnings	Hybrid bond	Equity attributable to shareholders of the parent	Non-controlling interests	Own equity total
in mill. EUR									
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					-35.7		-35.7	0.3	-35.4
Items of comprehensive income			11.7				11.7		11.7
Translation difference			0.1				0.1		0.1
Comprehensive income for the financial period	0.0	0.0	11.7	0.0	-35.7	0.0	-23.9	0.3	-23.7
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 Sep 2014	75.4	168.1	-3.2	247.2	42.5	118.9	649.0	0.7	649.7

	Share capital	Other restricted funds	Hedging reserve and other OCI items	Unrestricted equity funds	Retained earnings	Hybrid bond	Equity attributable to shareholders of the parent	Non-controlling interests	Own equity total
in mill. EUR									
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					29.0		29.0	0.4	29.4
Items of comprehensive income			-24.2				-24.2		-24.2
Comprehensive income for the financial period	0.0	0.0	-24.2	0.0	29.0	0.0	4.8	0.4	5.2
Dividends paid					-12.7		-12.7	-0.5	-13.2
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 Sep 2013	75.4	168.1	-24.2	247.3	98.9	171.1	736.6	0.8	737.3

Consolidated cash flow statement

in mill. EUR	Q1-Q3 2014	Q1-Q3 2013	2013
Cash flows from operating activities			
Profit for the financial year	-35.4	29.4	22.9
Operations for which a payment is not included *	89.9	117.0	115.9
Other adjustments to profit for the period			
Interest and other financial expenses	12.9	13.8	19.7
Interest income and other financial income	-0.2	-38.0	-38.6
Income taxes	-8.3	10.6	3.9
Changes in working capital	-8.3	5.3	35.8
Interest paid	-12.2	-7.4	-12.1
Paid financial expenses	-4.6	-1.6	-3.8
Received interests	6.1	1.3	1.4
Taxes paid	0.0	-2.0	-2.7
Net cash flow from operating activities	39.8	128.4	142.4
Cash flows from investing activities			
Investments in intangible assets	-5.1	-0.8	-2.3
Investments in tangible assets	-100.6	-76.6	-96.4
Net change of financial interest bearing assets at fair value through profit and loss	-2.5	-119.0	14.6
Net change of shares classified as available for sale	0.0	54.3	53.7
Divestment of fixed assets and group shares	231.8	0.0	8.9
Dividends received	0.0	1.1	1.2
Change in non-current receivables	2.7	0.0	1.0
Net cash flow from investing activities	126.3	-141.0	-19.3
Cash flows from financing activities			
Proceeds and changes from borrowings	0.0	150.0	150.0
Loan repayments and changes	-185.9	-76.7	-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	-5.3	-15.4
Purchase of own shares	0.0	-1.7	-1.7
Dividends paid	-0.2	-13.0	-13.0
Net cash flow from financing activities	-191.5	53.3	-47.4
Change in cash flows	-25.4	40.7	75.7
Liquid funds, at beginning	331.8	256.1	256.1
Change in cash flows	-25.4	40.7	75.7
Liquid funds, at end	306.4	296.8	331.8
Notes to consolidated cash flow statement			
* Operations for which a payment is not included			
Depreciation	102.8	107.6	140.7
Employee benefits	8.7	5.9	7.3
Fair value changes in derivatives and changes in exchange rates of fleet overhauls	5.4	-6.0	-21.7
Other adjustments	-27.1	9.6	-10.5
Total	89.9	117.0	115.9
Financial asset at fair value	263.3	425.1	335.9
Liquid funds	172.2	132.3	122.9
Short-term cash and cash equivalents in balance sheet	435.4	557.4	458.8
Maturing after more than 3 months	-129.0	-260.1	-126.5
Shares held to trading purposes	0.0	-0.4	-0.4
Total in cash flow statement	306.4	296.8	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 occurred.

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 Finnccatering 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. Finnccatering 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-Q3 2014				
	Airline Business	Travel Services	Group eliminations	Unallocated items	Group	
External turnover	1,573.1	158.7				1,731.8
Internal turnover	72.6	2.5	-75.1			0.0
Turnover	1,645.7	161.2	-75.1	0.0		1,731.8
Operational result, EBIT	-29.3	2.2				-27.1
Operating result, EBIT	-32.3	1.2				-31.1
Share of result in associates and joint ventures					-3.3	-3.3
Financial income					3.5	3.5
Financial expenses					-12.9	-12.9
Income tax					8.3	8.3
Non-controlling interest					-0.3	-0.3
Result for the period attributable to shareholders of the parent company						-35.7
Depreciation	101.6	1.0				102.6

Business segment data

in mill. EUR		Q1-Q3 2013				
	Airline Business	Travel Services	Group eliminations	Unallocated items	Group	
External turnover	1,657.4	182.4				1,839.8
Internal turnover	87.6	0.8	-88.4			0.0
Turnover	1,745.0	183.2	-88.4			1,839.8
Operational result, EBIT	30.7	2.3				33.0
Operating result, EBIT	14.4	1.4				15.8
Share of result in associates and joint ventures					-1.8	-1.8
Financial income					39.8	39.8
Financial expenses					-13.8	-13.8
Income tax					-10.6	-10.6
Non-controlling interest					-0.4	-0.4
Result for the period attributable to shareholders of the parent company						29.0
Depreciation	105.4	1.0				106.4

Turnover

in mill. EUR	Q3 2014	Q3 2013	Change %	Q1-Q3 2014	Q1-Q3 2013	Change %	2013
Airline Business	596.2	609.5	-2.2	1,645.7	1,745.0	-5.7	2,271.9
Travel Services	44.4	50.1	-11.3	161.2	183.2	-12.0	251.7
Group eliminations	-17.9	-22.7	21.2	-75.1	-88.4	15.1	-123.2
Total	622.7	636.9	-2.2	1,731.8	1,839.8	-5.9	2,400.3

Operational result, EBIT

in mill. EUR	Q3 2014	Q3 2013	Change %	Q1-Q3 2014	Q1-Q3 2013	Change %	2013
Airline Business	25.9	43.1	-39.9	-29.3	30.7	-195.5	8.8
Travel Services	0.8	-0.1	> 200 %	2.2	2.3	-2.9	3.1
Total	26.7	43.0	-37.8	-27.1	33.0	-182.2	11.9

Operating result, EBIT

in mill. EUR	Q3 2014	Q3 2013	Change %	Q1-Q3 2014	Q1-Q3 2013	Change %	2013
Airline Business	22.9	39.9	-42.8	-32.3	14.4	<-200 %	6.3
Travel Services	0.7	-0.1	> 200 %	1.2	1.4	-12.4	1.6
Total	23.6	39.8	-40.7	-31.1	15.8	<-200 %	7.9

Employees average by segment

	Q1-Q3 2014	Q1-Q3 2013	Change %	2013
Airline Business	4,400	4,883	-9.9	4,834
Travel Services	669	761	-12.1	751
Other functions	292	269	8.6	274
Total	5,361	5,913	-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 Sep 2014		30 Sep 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	436.4	25.8	369.6	-12.3	370.5	-17.0
Fair value hedging of aircraft acquisitions	611.8	49.3	279.7	5.3	244.1	2.2
Currency hedging of lease payments	143.7	11.2	40.8	-1.1	58.3	-1.6
Hedge accounting items total	1,191.9	86.3	690.1	-8.1	672.9	-16.4
Items outside hedge accounting:						
Jet fuel currency hedging	0.0	0.0	0.0	0.0	0.0	0.0
Operational cash flow hedging (forward contracts)	393.4	20.5	268.8	-2.1	407.9	2.4
Operational cash flow hedging (options)						
Call options	91.4	3.6	156.6	10.7	149.8	16.1
Put options	127.6	-1.8	186.3	-0.8	169.5	-0.8
Balance sheet hedging (forward contracts)	13.2	0.4	20.6	-0.8	20.4	-1.2
Items outside hedge accounting total	625.6	22.7	632.3	7.0	747.5	16.5
Currency derivatives total	1,817.4	109.1	1,322.3	-1.1	1,420.4	0.1
Commodity derivatives						
Hedge accounting items:						
Jet fuel forward contracts, tonnes	615,750	-24.2	546,680	-6.0	563,550	11.8
Electricity derivatives, MWh	22,596	0.0	8,784	0.0	17,568	0.0
Hedge accounting items total		-24.2		-6.0		11.8
Items outside hedge accounting:						
Jet fuel forward contracts, tonnes	31,000	-1.0	12,000	0.2	18,000	0.8
Options						
Call options, jet fuel, tonnes	214,500	0.7	175,000	2.1	201,000	3.4
Put options, jet fuel, tonnes	-214,500	-6.9	179,000	-2.7	201,000	-1.1
Electricity derivatives, MWh	55,662	-0.2	79,637	-0.3	71,100	-0.5
Items outside hedge accounting total		-7.4		-0.6		2.6
Commodity derivatives total		-31.6		-6.6		14.4
Interest rate derivatives						
Hedge accounting items:						
Interest rate swaps	150.0	5.8	150.0	1.0	150.0	1.2
Hedge accounting items total	150.0	5.8	150.0	1.0	150.0	1.2
Items outside hedge accounting:						
Cross currency Interest rate swaps	14.4	-0.3	20.2	0.7	17.3	0.2
Interest rate swaps	25.0	-0.2	25.0	-0.6	25.0	-0.5
Items outside hedge accounting total	39.4	-0.6	45.2	0.0	42.3	-0.3
Interest rate derivatives total	189.4	5.3	195.2	1.0	192.3	0.9
Derivatives total		82.8		-6.7		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 Sep 2014	Level 1	Level 2	Level 3
Financial assets at fair value through profit and loss				
Securities held for trading	233.0	35.4	197.6	
Derivatives held for trading				
Currency and interest rate swaps	5.8		5.8	
- of which in fair value hedge accounting	5.8		5.8	
Currency derivatives	111.0		111.0	
- of which in fair value hedge accounting	49.3		49.3	
- of which in cash flow hedge accounting	37.1		37.1	
Commodity derivatives	0.1		0.1	
- of which in cash flow hedge accounting	0.0		0.0	
Total	350.0	35.4	314.5	0.0

Financial liabilities recognised at fair value through profit and loss

Derivatives held for trading				
Interest rate swaps	0.6		0.6	
- of which in fair value hedge accounting	0.0		0.0	
Currency derivatives	2.0		2.0	
- of which in fair value hedge accounting	0.0		0.0	
- of which in cash flow hedge accounting	0.0		0.0	
Commodity derivatives	31.6		25.5	6.1
- of which in cash flow hedge accounting	24.2		24.2	
Total	34.1	0.0	28.0	6.1

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		1.4		1.4
Profits and losses in income statement total		-0.1		-0.1
In comprehensive income				
Purchases (and sales)				
Settlements (and issues)		-7.4		-7.4
Transfers to and from Level 3				
Closing balance	0.0	-6.1	0.0	-6.1

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

8. INCOME TAXES

The tax rate for Q1-Q3/2014 was -19.0 % (26,6 %).

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 Sep 2014	30 Sep 2013	2013
Carrying amount at the beginning of period	1,311.9	1,354.2	1,354.2
Fixed asset investments	68.4	50.7	77.3
Change in advances	-11.2	33.6	33.3
Disposals and reclassifications	-196.7	-13.7	-11.0
Depreciation	-102.6	-106.4	-140.7
Depreciation included in non-recurring items	-0.3	-1.2	-1.2
Carrying amount at the end of period	1,069.5	1,317.2	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	4.3	15.0	9.8

11. NON-CURRENT ASSETS HELD FOR SALE

Assets held for sale mainly include inventories and tangible asset related to Finnair Technics and inventories related to operations of Travel Retail Oy, that were sold at 1 of Oct 2014. Comparative period includes also non-current assets and liabilities of Finn catering Oy, which was sold during Q1 2014.

Non current assets held for sale	30 Sep 2014	30 Sep 2013	2013
Tangible assets	4.3	15.0	9.8
Inventories	4.4	5.9	5.4
Trade receivables and other receivables	0.0	2.6	2.5
Total	8.8	23.5	17.7

Liabilities of non-current assets held for sale	30 Sep 2014	30 Sep 2013	2013
Trade payables and other liabilities	0.3	2.3	2.3
Total	0.3	2.3	2.3

12. INTEREST-BEARING LIABILITIES

During the third 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 Sep 2014	30 Sep 2013	2013
Pledges on own behalf	212.7	572.4	503.7
Guarantees on behalf of group undertakings	72.6	66.6	67.6
Guarantees on behalf of others	2.2	2.4	2.3
Total	287.5	641.4	573.5

Investment commitments for property, plant and equipment at 30 September 2014 totalled 946 million euros (1,070).

14. OPERATING LEASE COMMITMENTS

in mill. EUR	30 Sep 2014	30 Sep 2013	2013
Lease commitments from fleet payments	624.7	185.5	259.2
Other lease commitments	241.7	247.2	244.8
Total	866.4	432.7	504.0

Lease commitments from fleet payments have increased mainly because of the new Airbus A321 Sharklet aircraft and the sales and leaseback of A330 aircraft.

15. RELATED PARTY TRANSACTIONS

in mill. EUR	30 Sep 2014	30 Sep 2013	2013
Transactions with associates and joint ventures			
Sales	53.9	49.6	65.5
Purchases	184.9	87.4	105.8
Non-current financial assets	9.9	9.9	9.9
Trade and other receivables	19.8	41.6	36.1
Other long-term liabilities	10.8	8.8	9.7
Pension obligations	24.3	9.7	10.5
Trade payables and other liabilities	2.6	2.7	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	Q3 2014	Q3 2013	Change %	Q1-Q3 2014	Q1-Q3 2013	Change %	2013
Profit for the period	16.6	27.0	-38.3	-35.4	29.4	<-200 %	22.9
Other comprehensive income items							
Items that may be classified reclassified to profit or loss in subsequent periods							
Translation differences	0.1	0.0	> 200 %	0.1	0.0	> 200 %	0.0
Change in fair value of available-for-sale financial assets after taxes	0.0	0.0	100.0	0.0	-10.4	100.0	-10.4
Change in fair value of hedging instruments after taxes	6.2	3.2	92.7	15.8	-13.4	> 200 %	-4.2
Items that will not be reclassified to profit or loss in subsequent periods							
Actuarial gains and losses from defined benefit plans	18.4	-2.4	> 200 %	-4.1	-0.3	<-200 %	-0.2
Other comprehensive income items total	24.7	0.8	> 200 %	11.7	-24.2	148.5	-15.0
Comprehensive income for the financial period	41.4	27.7	49.1	-23.7	5.2	<-200 %	7.9
Earnings attributable to shareholders of the parent company of the comprehensive income statement	41.3	27.6	49.6	-23.9	4.8	<-200 %	7.7
Earnings attributable to non-controlling interest of the comprehensive income statement	0.1	0.2	-45.2	0.3	0.4	-20.2	0.3

17. EVENTS AFTER THE REVIEW PERIOD

There have not been other significant 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, %:

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

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.

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, %:

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

Return on equity, % (ROE):

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