

# Finnair Group half year financial report 1 January–30 June 2016

**Comparable operating result for Q2 showed a year-on-year improvement for the seventh consecutive quarter and was positive at 3.2 million euros**

## April–June 2016

- Revenue grew by 4.7% year-on-year to 569.6 million euros (543.9)\*.
- Comparable operating result was 3.2 million euros (-12.9).
- Operating result was 0.2 million euros (-5.7)
- Comparable EBITDAR was 56.3 million euros (37.4).
- Net cash flow from operating activities totalled 119.6 million euros (88.4), and net cash flow from investing activities amounted to -149.0 million euros (-53.7).
- Unit revenue (RASK) decreased by 3.8% year-on-year.
- Unit cost (CASK) decreased by 6.5% and unit cost at constant currency excluding fuel increased by 0.1% year-on-year.
- Ancillary and retail revenue per passenger grew by 17.3% year-on-year to 10.89 euros.
- Earnings per share were -0.04 euros (-0.06).

## January–June 2016

- Revenue grew by 3.8% year-on-year to 1,106.0 million euros (1,065.2).
- Comparable operating result was -12.2 million euros (-41.3).
- Operating result was -17.4 million euros (-13.9).
- Comparable EBITDAR was 92.7 million euros (56.5).
- Net cash flow from operating activities stood at 130.0 million euros (101.4), and net cash flow from investing activities totalled -396.3 million euros (89.2).
- Unit revenue (RASK) decreased by 3.0% year-on-year.
- Unit cost (CASK) decreased by 5.6% and unit cost excluding fuel at constant currency increased by 1.0% year-on-year.
- Ancillary and retail revenue per passenger grew by 17.3% year-on-year to 11.35 euros.
- Earnings per share were -0.19 euros (-0.16).

*\* Unless otherwise stated, figures in brackets refer to the comparison period, i.e. the same period last year.*

## Outlook

### Outlook published on 12 May 2016

The demand outlook for passenger and cargo traffic in Finnair's main markets involves renewed uncertainty. Finnair estimates that, in 2016, its capacity measured in available seat kilometres will grow by approximately 8 per cent and that its revenue will grow at a slightly slower rate. The lower price of jet fuel supports Finnair's financial performance in 2016. Finnair will issue a forecast for the development of its full-year comparable operating result in conjunction with its interim report for January–June.

### Outlook on 17 August 2016

Finnair's new estimate of capacity growth is approximately 7 per cent, while the previous estimate was a growth of 8 per cent compared to 2015. The revision is due to delays in the deliveries of A350 aircraft. The rate of revenue growth is estimated to be slower than the rate of capacity growth. Uncertainty regarding the demand

and yield prospects of the airline industry has increased during recent months. Finnair estimates that its comparable operating result for 2016 will increase from the previous year (2015: 23.7 million euros).

### **CEO Pekka Vauramo:**

Our comparable result for the second quarter was a good three million euros in the black, representing an improvement of some 16 million euros compared to the previous year, roughly equal to the year-on-year increase of our result in the first quarter. The past quarter was already the seventh consecutive quarter in which we achieved a year-on-year improvement.

Due to reasons such as lower fuel costs, higher capacity and growing ancillary and retail revenue, our updated outlook is that our full-year result for 2016 will show an improvement on the previous year. Nevertheless, it should be noted that last year's third quarter saw several factors contribute to a strong result that was an all-time record for Finnair, so the comparison period sets the bar high. With that in mind – and provided that the market situation remains unchanged – we expect that our performance developments will moderate somewhat in the second half of 2016.

In the second quarter, our organisation continued to prepare for accelerated growth in the longer term in accordance with our strategy. The training and supplementary recruitment of flight personnel progressed as planned. After taking delivery of two new A350 aircraft during the second quarter, we now have six of the new aircraft in our fleet. However, the deliveries of the new aircraft took place a little later than planned, which forced us to adjust our flight program. This meant that our capacity growth fell slightly short of our previous estimate.

Our capacity measured in Available Seat Kilometres grew during the quarter by approximately 9 per cent year-on-year, while traffic growth measured in Revenue Passenger Kilometres was slightly below 7 per cent. We achieved growth particularly in long-haul traffic, where we launched two new routes for the summer season, to Fukuoka and Guangzhou, and we also added more flights to Miami and Chicago. Filling aircraft on new routes and frequencies typically requires a breaking-in period, and the review period on these routes was largely in line with our expectations. In the second quarter of this year, long-haul traffic accounted for about 56 per cent of our capacity, while the corresponding figure for the comparison period was about 53 per cent. Since unit revenues are typically lower in long-haul traffic than in short haul, this change in our traffic structure was also reflected in our unit revenue.

Our unit costs excluding fuel increased slightly in the first half of the year, which is something we cannot be satisfied with. On the other hand, it is important to keep in mind that we are currently preparing for accelerated growth, which has a front-loaded impact on our cost structure. During the first half, we recruited over 500 employees. The training of our new crew, the roll-out of the new aircraft, launch of new routes and other preparations for growth burdened our results by some 6–8 million euros in each quarter. We must maintain tight control over costs even as we prepare for growth. We are also looking for new ways to improve efficiency; for example, through digitalisation.

### **Strategic objectives**

On 11 May 2016, as part of the company's annual strategy work, Finnair's Board of Directors confirmed the company's objectives, which were updated last year, and decided on four new strategic focus areas aimed at reaching these objectives: profitable growth, improved customer and people experience as well as digital transformation. In particular, the Board of Directors gave the authority to accelerate growth by retaining two A330 wide-body aircraft in operation beyond 2017, which were initially scheduled for decommissioning. As a result, Finnair expects its capacity to grow annually by 8–10 per cent on average as measured by ASK during the strategy period extending to 2018. Furthermore, it now expects to double its Asian traffic from the 2010 level already in 2018, while the original target was set at 2020.

## **Business environment**

Traffic continued to grow in Finnair's main markets in the second quarter of 2016. Measured in available seat kilometres, scheduled market capacity between Helsinki and Finnair's European destinations grew by approximately 1.3 per cent year-on-year, while direct market capacity between Finnair's Asian and European destinations grew by 1.8 per cent year-on-year. Finnair's market share in European traffic (between Helsinki and Finnair's European destinations) increased to 60.2 per cent (58.0) and remained unchanged in Asian traffic at 5.5 per cent.\*

The growth in market capacity weighed down on long-haul load factors and unit revenue to an extent. Business class demand continued to see lively growth, while leisure travel from Asia to certain European destinations would appear to suffer from safety concerns. At the beginning of August, the International Air Transport Association (IATA) published an assessment of developments in the sector. The seasonally-adjusted traffic was assessed to have moderated during 2016, and demand was still expected to grow, but at a slower pace, on account of geopolitical concerns.

Finnair made significant capacity increases in the Atlantic Joint Business covering flights between Europe and North America. At the same time, the joint business for traffic between Europe and Japan succeeded in increasing its market share despite a contraction of traffic volume between Europe and Japan. In the summer, Finnair became the only European airline to offer non-stop flights from Europe to four major cities in Japan.

The supply of packaged travel by tour operators active in Finland in early summer 2016 was mostly in balance with the demand. Unrest in Turkey weighed on the demand for Turkish package tours, but Turkey represents a relatively small proportion of Aurinkomatkat Suntours' offering. Cargo traffic as a whole continued to suffer from overcapacity, which reduced Finnair's cargo revenue.

The declining trend in the price of jet fuel that began in autumn 2014 ended in the first quarter and turned to an increase. Nevertheless, the dollar price of jet fuel in the second quarter was still 27.6 per cent lower than in the previous year. US Dollar, the most significant expense currency after the euro, depreciated by 2.2 per cent against the euro year-on-year. In regards to key income currencies, the yen appreciated against the euro by 10.0 per cent and the Chinese yuan depreciated by 7.1 per cent. Finnair hedges its fuel purchases and key foreign currency items; hence, market fluctuations are not reflected in its result directly as such.

*\* Finnair's estimate. The basis for calculation is destination cities, not airports.*

## **Significant events in April–June 2016**

### Finnair secured financing for two A350 aircraft

In the second quarter, Finnair secured financing totaling approximately 243 million euros for its fourth and fifth A350-900 XWB aircraft, delivered in March and April, respectively. The transactions were implemented using a Japanese Operating Lease with a Call Option (JOLCO) structure, where the transaction amount is treated in Finnair's IFRS accounting as a loan and the aircraft as owned.

## **Financial performance**

### Revenue in April–June 2016

Finnair's revenue in the second quarter of 2016 grew by 4.7 per cent year-on-year to 569.6 million euros (543.9). Passenger revenue, ancillary and retail revenue and travel services grew, but cargo revenue as well as travel agency revenue decreased. Unit revenue (RASK) decreased by 3.8 per cent year-on-year and amounted to 6.69 euro cents (6.95).

## Revenue by product

EUR million	4-6/2016	4-6/2015	Change %	2015
Passenger revenue	458.3	434.4	5.5	1,766.0
Ancillary and retail revenue	30.3	24.4	24.3	103.2
Cargo	42.6	45.1	-5.6	183.7
Travel services	34.1	33.5	1.9	177.8
Travel agencies	4.4	6.5	-32.9	23.8
<b>Total</b>	<b>569.6</b>	<b>543.9</b>	<b>4.7</b>	<b>2,254.5</b>

## Ticket revenue and traffic data by area, 4-6/2016

Traffic area	Ticket revenue			ASK			RPK			PLF	
	EUR mill.	Change %	Share %	Mill. km	Change %	Share %	Mill. km	Change %	Share %	%	Change %-point
Asia	173.9	-2.1	37.9	4,070.1	9.2	47.8	3,109.6	4.6	47.2	76.4	-3.4
North America	28.8	40.2	6.3	671.9	66.0	7.9	530.2	49.6	8.0	78.9	-8.6
Europe	204.2	2.6	44.5	3,413.6	1.6	40.1	2,713.7	2.8	41.2	79.5	0.9
Finland	39.7	7.6	8.7	356.9	7.5	4.2	237.9	7.1	3.6	66.7	-0.3
Unallocated	11.8	> 200	2.6								
<b>Total</b>	<b>458.3</b>	<b>5.5</b>	<b>100</b>	<b>8,512.5</b>	<b>8.8</b>	<b>100%</b>	<b>6,591.3</b>	<b>6.5%</b>	<b>100%</b>	<b>77.4</b>	<b>-1.7</b>

Passenger traffic capacity measured in Available Seat Kilometres (ASK) grew by 8.8 per cent overall, while traffic measured in revenue passenger kilometres grew by 6.5 per cent. Growth was mostly related to long-haul traffic.

In Asian traffic, capacity in the second quarter grew by 9.2 per cent year-on-year. The increase was attributable to factors including the growth of the fleet by one wide-body aircraft, the additional capacity introduced by the A350 aircraft being larger than their predecessors, the higher frequency of flights on the long Singapore and Shanghai routes, and the launch of the Fukuoka and Guangzhou routes in May. The passenger load factor in Asian traffic decreased by 3.4 percentage points to 76.4 per cent, mainly reflecting additional routes and capacity increases. The capacity in North American traffic increased by 66.0 per cent due to Finnair operating flights to Miami, in addition to New York, throughout the quarter in contrast to the previous year. The passenger load factor decreased by 8.6 percentage points to 78.9 per cent.

Ancillary and retail revenue increased by 24.3 per cent year-on-year and amounted to 30.3 million euros. Growth was particularly good in additional baggage fees and advance seat reservations. Cargo traffic volume grew considerably: revenue tonne kilometres increased by 20.3 per cent while available cargo tonne kilometres increased by 9.8 per cent. However, as a result of the weak market climate, average cargo yields declined, and cargo traffic revenue decreased by 5.6 per cent year-on-year, amounting to 42.6 million euros.

The revenue of Finnair's travel services (Aurinkomatkat Suntours) in April-June increased by 1.9 per cent from the previous year and amounted to 34.1 million euros (33.5). Aurinkomatkat Suntours achieved a good load factor (97%) for its package tours in spite of the unrest in Turkey. The year-on-year decrease in travel agencies' revenue is attributable to the divestment of SMT's Baltic subsidiary Estravel in December 2015. Finnair signed an agreement at the beginning of May to also sell SMT, and the transaction is expected to be completed in the third quarter.

## Cost development and result April-June 2016

Finnair's operating expenses increased by 1.0 per cent in the second quarter and amounted to 584.3 million euros (578.4). Unit cost (CASK) decreased by 6.5 per cent and totalled 6.65 euro cents (7.12).

Operating expenses excluding fuel increased by 8.4 per cent from the comparison period, slightly under capacity growth, and amounted to 458.0 million euros (422.7). Fuel costs, including hedging and emissions trading costs, decreased by 18.8 per cent to 126.4 million euros (155.7). Personnel costs increased by 6.4 per cent to 93.0 million euros (87.4) while the number of personnel grew by 4.5 per cent. The increase in the number of employees primarily consisted of flight crew.

In April, Finnair concluded a transaction with its joint venture Norra, to take over the maintenance of ATR aircraft operated by Norra. Previously, their maintenance cost was part of the purchase traffic charge paid by Finnair to Norra, included in other rents. As a result, the change reduced other rents and increased both overhaul and staff costs. Sales and marketing expenses increased due to factors including higher volume and new routes. At the same time, volume growth and increased business class travel led to higher lounge and catering costs.

Other expenses increased by 17.7 million euros to 72.8 million euros. The increase in other expenses was attributable not only to higher volume, but also particularly the fact that the currency hedging result included therein was more positive in the comparison period. The costs in the review period were still inflated by various growth measures relating for example to the launch of new routes, temporary wet lease arrangements and the roll-out of the A350 fleet and crew training, by approximately more than 5 million euros in total.

Finnair's comparable EBITDAR grew by 18.9 million euros and amounted to 56.3 million euros (37.4). The comparable operating result, which refers to the operating result excluding items affecting comparability, capital gains and changes in the fair value of derivatives and in the value of foreign currency-denominated fleet maintenance reserves, grew by 16.1 million euros and amounted to 3.2 million euros (-12.9).

The change in the fair value of derivatives and in the value of foreign currency denominated fleet maintenance reserves amounted to 0.0 million euros (20.9). The items affecting comparability amounted to -2.9 million euros (-13.6) and were primarily related to the phasing out of A340 aircraft. The operating result was 0.2 million euros (-5.7), the result before taxes was -1.3 million euros (-7.4) and the result after taxes was -1.1 million euros (-6.0).

#### Revenue in January–June 2016

Finnair's revenue in January–June 2016 grew by 3.8 per cent year-on-year to 1,106.0 million euros (1,065.2). Revenue was boosted by higher passenger revenue, ancillary and retail revenue and travel services revenue, and it was negatively affected by a decrease in cargo revenue as well as the elimination of revenue from businesses sold after the comparison period. Unit revenue (RASK) decreased by 3.0 per cent year-on-year and amounted to 6.65 euro cents (6.86).

#### Revenue by product

EUR million	1–6/2016	1–6/2015	Change %	2015
Passenger revenue	862.3	828.7	4.1	1,766.0
Ancillary and retail revenue	60.0	47.5	26.3	103.2
Cargo	82.2	89.9	-8.5	183.7
Travel services	93.2	86.8	7.3	177.8
Travel agencies	8.4	12.3	-32.1	23.8
<b>Total</b>	<b>1,106.0</b>	<b>1,065.2</b>	<b>3.8</b>	<b>2,254.5</b>

#### Ticket revenue and traffic data by area, 1–6/2016

Traffic area	Ticket revenue			ASK			RPK			PLF	
	EUR mill.	Change, %	Share %	Mill. km	Change, %	Share %	Mill. km	Change, %	Share %	%	Change % -point
Asia	338.8	0.1	39.3	8,091.6	6.3	48.6	6,438.0	5.3	49.6	79.6	-0.7
North America	54.5	15.8	6.3	1,304.4	31.7	7.8	1,038.9	27.4	8.0	79.6	-2.6
Europe	365.1	4.3	42.3	6,412.2	3.2	38.6	4,942.5	3.4	38.0	77.1	0.1
Finland	88.4	12.0	10.2	825.1	14.5	5.0	572.4	14.6	4.4	69.4	0.1
Unallocated	15.5	8.1	1.8								
<b>Total</b>	<b>862.3</b>	<b>4.1</b>	<b>100</b>	<b>16,633.2</b>	<b>7.1</b>	<b>100%</b>	<b>12,991.7</b>	<b>6.4</b>	<b>100%</b>	<b>78.1</b>	<b>-0.5</b>

Passenger traffic capacity measured in Available Seat Kilometres (ASK) grew by 7.1 per cent, while traffic measured in revenue passenger kilometres grew by 6.4 per cent. The growth in long-haul traffic was attributable to the additional capacity introduced by the A350 aircraft, the increased frequency of flights on long Asian routes, and year-round service to Miami. Capacity growth in European and domestic traffic was particularly due

to flights previously operated by Norra at its own risk being included in Finnair's traffic starting from the second quarter of 2015.

#### Cost development and result January–June 2016

Finnair's operating costs increased by 0.6 per cent in the first half of 2016 and amounted to 1,158.1 million euros (1,151.0). Unit cost (CASK) decreased by 5.6 per cent and totalled 6.72 euro cents (7.12). Fuel costs decreased by 19.2 per cent and amounted to 247.9 million euros, which meant that operating costs excluding fuel increased by 7.9 per cent and amounted to 910.2 million euros. The result for the review period was burdened exceptionally high cancellations of domestic flights during the early year, temporary wet lease arrangements, roll-out of the A350 fleet and related crew training.

Finnair's comparable EBITDAR grew by 36.1 million euros and amounted to 92.7 million euros (56.6). The comparable operating result, which refers to the operating result excluding items affecting comparability, capital gains and changes in the fair value of derivatives and in the value of foreign currency-denominated fleet maintenance reserves, increased by 29.1 million euros and amounted to -12.2 million euros (-41.3).

The change in the fair value of derivatives and in the value of foreign currency denominated fleet maintenance reserves amounted to 4.3 million euros (14.1). The items affecting comparability amounted to -9.6 million euros (13.3) and were primarily related to the phasing out of A340 aircraft. The operating result was -17.4 million euros (-13.9), the result before taxes was -20.0 million euros (-19.5) and the result after taxes was -16.1 million euros (-15.8).

#### **Balance sheet on 30 June 2016**

The Group's balance sheet totalled 2,517.6 million euros at the end of the period under review (31 Dec 2015: 2,050.3). The balance sheet grew in January–June mainly due to debt-financed aircraft purchases and positive operating cash flow. Shareholders' equity was 744.9 million euros (31 Dec 2015: 727.5), or 5.85 euros per share (31 Dec 2015: 5.69). Shareholders' equity increased primarily due to the company's profitable comprehensive income.

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 2016 was -29.0 million euros (31 Dec 2015: -67.9) after deferred taxes, and it was affected particularly by changes in the fair value of the aforementioned hedging instruments.

#### **Cash flow and financial position**

Finnair has a strong financial position, which supports business development and future investments. In January–June 2016, net cash flow from operating activities amounted to 130.0 million euros (101.4). The year-on-year increase in cash flow was primarily attributable to the improvement of comparable operating result. Net cash flow from investments amounted to -396.3 million euros (89.2) and was particularly attributable to the acquisition of three new A350 aircraft and an increase in money market investments with maturities exceeding three months and therefore classified as investments.

The equity ratio on 30 June 2016 stood at 29.6 per cent (31 Dec 2015: 35.5) and gearing was negative at -20.2 per cent (31 Dec 2015: -49.8). The adjusted gearing was 82.1 per cent (31 Dec 2015: 45.8). At the end of June, interest-bearing debt amounted to 731.4 million euros (31 Dec 2015: 346.3) and interest-bearing net debt was negative at -150.2 million euros (31 Dec 2015: -362.0). During the first half of the year, Finnair secured three JOLCO financing arrangements for its new A350 aircraft, with the total acquired financing amounting to approximately 378 million euros.

The company's liquidity was strong in the review period. The Group's cash funds amounted to 881.6 million euros (31 Dec 2015: 708.2) 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. Using these reserves requires a bank guarantee. Finnair has an entirely unused 175-million-euro syndicated credit facility, which is intended as reserve funding and was signed in June as the previous corresponding agreement matured. The new arrangement has a maturity of three years with two optional one-year extensions.

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 in January–June amounted to 341.8 million euros (-69.4). Financial expenses were -3.6 million euros (-6.4) and financial income stood at 1.0 million euros (0.9).

## **Capital expenditure**

In January–June, capital expenditure excluding advance payments totalled 319.1 million euros (19.8) and was primarily related to fleet investments. Net cash flow from investments (capital expenditure) totalled -316.3 million euros, including advance payments.

Cash flow from investments for the full year 2016, including advance payments and the currency hedging of advance payments, is estimated at approximately 630 million euros, mainly consisting of investments in the fleet. This figure includes, in addition to investment commitments, also an estimate of investments which have been decided on, but not yet concluded with a counterparty. Net investments will amount to approximately 440 million euros, provided that the sale and leaseback agreement signed for the A350 aircraft scheduled for delivery in the third quarter will be finalised as planned.

Cash flow from investments for 2017 is estimated at approximately 480 million euros, or 200 million net, if the sale and leaseback agreement signed for the A350 aircraft scheduled for delivery in 2017 will be finalised as planned. The investment financing need in 2016–2017 may potentially be reduced by sales of aircraft to be carried out at a later time.

Finnair will add seating capacity to its current Airbus narrow-body aircraft in 2017–2018 by modifying storage and technical space at the front and rear of the aircraft. The investment includes 23 narrow-body Airbus aircraft in Finnair's fleet.

In addition to fleet investments, Finnair is developing a modern cargo terminal to be commissioned in spring 2017. Finnair will also introduce wireless Internet connectivity to the majority of its current wide-body and narrow-body fleet in 2017–2018.

The current favourable state of the credit market and Finnair's good debt capacity enable the financing of future fixed-asset investments on competitive terms. The company has 28 unencumbered aircraft, the balance sheet value of which corresponds to approximately 50 per cent of the value of the entire fleet of 1.0 billion euros. The balance sheet value includes three finance lease aircraft.

## **Fleet**

### Fleet operated by Finnair

Finnair's fleet is managed by Finnair Aircraft Finance Oy, a wholly-owned subsidiary of Finnair Plc. At the end of June 2016, Finnair itself operated 48 aircraft, of which 18 are wide-body and 30 narrow-body aircraft. Of the aircraft, 26 were owned by Finnair, 19 were leased and 3 on finance lease.

Finnair took delivery of two new A350-900 XWB wide-body aircraft in the second quarter. The aircraft were financed using cash funds, until JOLCO (Japanese Operating Lease with Call Option) financing was secured for the first of the two aircraft. The financing arrangement is treated in Finnair's IFRS accounting as a loan and the aircraft as owned. In addition, Finnair sold one used A340 aircraft for part-out after it reached the end of its lifecycle, and purchased one A320 aircraft that it had previously leased.

The average age of the fleet operated by Finnair was 9.8 years at the end of the second quarter of 2016.

Fleet operated by	Seats	#	Change	Own**	Leased		Average	Ordered
Finnair on 30 June 2016*			from		(Operating	(Finance	age	
			31.12.2015		lease)	lease)	30.6.2016	
<b>Narrow-body fleet</b>								
Airbus A319	138	9		7	2		14.9	
Airbus A320	165	10		7	3		13.9	
Airbus A321	209/196	11		4	7		9.6	
<b>Wide-body fleet</b>								
Airbus A330	289/263	8		0	5	3	6.7	
Airbus A340	263/257	4	-1	4			8.5	
Airbus A350	297	6	3	4	2		0.4	13
<b>Total</b>		<b>48</b>	<b>2</b>	<b>26</b>	<b>19</b>	<b>3</b>	<b>9.8</b>	<b>13</b>

\* Finnair's Air Operator Certificate (AOC).

\*\* Includes JOLCO-financed A350 aircraft.

#### Renewal of the long-haul fleet

Finnair has ordered a total of 19 Airbus A350 XWB aircraft from Airbus, three of which were delivered in 2015 and three in the first half of 2016. As the entry into service of new aircraft involves airline-specific preparations and comprehensive inspections, there may be slight changes to the announced tentative delivery dates. Finnair had a total of six A350 aircraft at the end of the first half of 2016 and, according to the current delivery schedule, Finnair will have seven A350 aircraft by the end of 2016, 11 by the end of 2017, and 19 by the end of 2023. Finnair's investment commitments for property, plant and equipment, totalling 1,631 million euros, include the upcoming investments in the long-haul fleet.

Finnair plans to phase out its A340 aircraft by the end of 2017, following the successful delivery and entry into service of the A350 XWB aircraft. Finnair has agreed to sell its remaining four Airbus A340-300 aircraft back to Airbus in 2016 and 2017. The agreement between Finnair and Airbus ensures a smooth transition from A340s to A350s, mitigating potential operational risks related to fleet renewal and the depreciation risk associated with the A340 aircraft. Finnair has the possibility to adjust the size of its fleet flexibly according to demand and outlook due to its lease agreements of different durations.

#### Fleet operated by Norra (purchased traffic)

Nordic Regional Airlines (Norra) operates a fleet of 24 aircraft for Finnair on a contract flying basis. Of the aircraft operated by Norra, 11 are owned by Finnair and 13 are leased. In addition to the aircraft shown in the table, all of the E170 aircraft previously subleased to AS Estonian Air were returned to their owners as of the end of the second quarter. On 29 June 2016, Finnair signed an agreement on the sale of one ATR 72 aircraft. The aircraft will be removed from the fleet according to plan during the third quarter.

Fleet operated by Norra on 30 June 2016*	Seats	#	Change from 31.12.2015	Aircraft owned by Finnair	Leased** (Operating lease)	Average age 30.6.2016	Ordered
ATR 72	68–72	12		6	6	6.9	
Embraer 170	76	0	-2	0			
Embraer 190	100	12		5	7	8.0	
<b>Total</b>		<b>24</b>	<b>0</b>	<b>11</b>	<b>13</b>	<b>7.5</b>	<b>0</b>

\* Nordic Regional Airlines Oy's Air Operator Certificate (AOC).

\*\* Finnair's subsidiary Finnair Aircraft Finance has leased these aircraft and subleased them to Nordic Regional Airlines.

## 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. The number of flights to Asia per week was at most 78 in the winter season 2015/2016. In the summer season 2016, this number increased to 80.

Finnair is part of the **oneworld** alliance and it also engages in closer cooperation with certain **oneworld** partners through participation in joint businesses, namely the Siberian Joint Business and Atlantic Joint Business. The joint businesses are agreements on revenue sharing and price coordination for flights to the route areas in question.

Finnair's new scheduled flight destinations for the summer season 2016 from Helsinki are Edinburgh, Billund, Pula, Zakynthos, Skiathos, Santorini, Preveza, Rimini, Verona and Varna, as well as weekly flights from Oulu to Hania and Alanya. In long-haul traffic, Finnair launched Miami as a year-round destination and increased connections to Chicago during the summer. Finnair also introduced new Asian destinations for the summer season, with three weekly flights to Fukuoka and four to Guangzhou.

### Other renewals and services

In April, Finnair began to offer stopovers in Finland for its passengers travelling between Asia and Europe. The stopover flights can be booked on the new [stopover.finnair.com](http://stopover.finnair.com) website, which also includes information on various stopover activities and destination information on Finland. StopOver Finland is a project led by Visit Finland, and the travel packages are implemented by an external travel agency partner. The duration of the stopover travel packages ranges from five hours to five days.

In July, Finnair and Alitrip, a Chinese travel agency, signed a long-term strategic partnership aiming to bring approximately 3,000 Chinese tourists to the Finnish Lapland during the winter months. Finnair is the first strategic European airline partner for Alitrip with a project of this magnitude. Alitrip is a fast-growing travel platform in China owned by the Alibaba Group, listed on the New York Stock Exchange.

### Awards

In July, the Skytrax World Airline Awards chose Finnair as the best airline in Northern Europe for the seventh consecutive time. The award is based on an independent Skytrax survey of some 19 million travellers from more than 160 countries. The survey covers more than 40 criteria including check-in, seat comfort, cabin cleanliness and service.

In April, Finnair was named the best European airline operating in China at the TTG China Travel Awards. The award was based on votes cast by the readers of TTG's publications.

Finnair was awarded a Gold Medal in the ICARUS sustainability competition organised by the Global Business Travel Association (GBTA) in recognition of its position as a leader in sustainability in the travel industry, whose commitment and actions have proved it is capable of providing its customer companies and passengers with travel services that are first-class from the perspective of sustainable development

The German ESG rating company oekom research AG updated its analysis of Finnair's responsibility in February. Finnair's current ESG rating is B-, which is the highest rating in its category comprising 77 companies in the transport and logistics sector. Finnair was also awarded *Prime* status indicating the suitability of Finnair's securities for responsible investors.

The OAG Punctuality League publication released in January ranked Finnair's arrival punctuality in 2015 (89.5%) as the sixth-highest in the world. In January, FlightStats recognised the **oneworld** alliance as the most punctual airline alliance in 2015.

### **Changes in senior management**

In a stock exchange release published on 16 February 2016, Finnair announced the acceleration its growth and renewal of its organisation as of 1 March 2016 in line with its growth strategy. Piiia Karhu, who was appointed Senior Vice President in charge of Customer Experience, and Katri Harra-Salonen, appointed SVP, Digitalisation, were introduced as new Executive Board members. Jaakko Schildt, who was appointed SVP, Operations, took office on 1 August 2016. Until then, the unit was led by Ville Iho, appointed SVP, Strategy and Resource Management, together with Mikko Tainio, VP, Ground Services.

### **Personnel**

Finnair employed an average of 5,002 (4,885) people in January–June 2016, which is 2.4 per cent higher than in the comparison period. The number of employees in an employment relationship was 5,165 (30 Jun 2015: 4,903; 31 Dec 2015: 4,817) on 30 June 2016. During the review period, the number of personnel increased by 348. The change is primarily due to an increase in the number of cabin crew and pilots. In addition, 50 maintenance employees were transferred from Norra to Finnair in conjunction with a transaction in May.

Representing Finnair, Service Sector Employers PALTA reached an agreement with office personnel, customer service personnel and technical personnel, represented by FINTO, PRO and IAU, on terms of employment in accordance with the framework of the national competitiveness agreement, within the timeframe set by the central labour market organisations. Negotiations on collective labour agreements will be held with the flight crew during the second half of the year.

### **Own shares**

Finnair acquired a total of 800,000 of its own shares on the Helsinki Stock Exchange in the first quarter of 2016 and transferred 277,596 of its own shares as incentive bonuses to members of the Fly Share employee share savings plan. In June, Finnair transferred a total of 28,464 of its own shares to the 31 participants of Finnair's share-based incentive scheme 2013–2015 as a reward payment.

On 30 June 2016, Finnair held a total of 819,145 of its own shares (326,985), representing 0.64 per cent of the total share capital.

## **Share price development and trading**

At the end of June 2016, Finnair's market value stood at 535.6 million euros (353.7), and the closing price of the share was 4.18 euros (2.76). During the January–June period, the highest price for the Finnair Plc share on the NASDAQ Helsinki Stock Exchange was 5.92 euros (3.30), the lowest price 4.11 euros (2.49) and the average price 5.08 euros (3.04). Some 14.0 million (10.7) of the company's shares, with a total value of 71.0 million euros (32.6), were traded.

The number of Finnair shares recorded in the Trade Register 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 9.7 per cent (7.8) were held by foreign investors or in the name of a nominee.

## **Corporate responsibility**

Economic, social and environmental sustainability is integral to Finnair's overall business strategy and operations. Finnair wants to be a responsible global citizen and respond to its stakeholders' needs, also from the perspective of responsibility.

Finnair is cooperating with industry operators and the authorities in areas such as reducing the climate impacts of aviation and promoting the use of biofuels. Finnair's corporate responsibility is reflected in its strategy and vision as well as its values of commitment to care, simplicity and courage. Responsibility is integral to all Finnair operations. The purpose of the responsibility strategy is to reduce environmental impacts and generate financial and social utility for society.

In June 2016, Finnair signed a cooperation agreement with UNWomen to support women's rights. Finnair also signed the United for Wildlife Transport Taskforce Buckingham Palace Declaration, which denounces the illegal transportation and trade of wildlife and wildlife products. The pledge also aims to increase partnerships with government authorities and conservation organisations in the fight against traffickers and smugglers of endangered animals. For several years, Finnair has refused to carry any animals or wildlife products that are contrary to the Convention on International Trade in Endangered Species of Wildlife Fauna and Flora (CITES). In 2015, Finnair took the extra step of prohibiting the transport of hunting trophies or memorabilia originating from endangered species in its cargo network.

The key performance indicators for corporate responsibility are presented under "Key Figures", the first table in the tables section below

## **Significant near-term risks and uncertainties**

Aviation is an industry that is globally sensitive to economic cycles and reacts quickly to external disruptions, seasonal variation and economic trends. In the implementation of strategy, Finnair and its operations involve various risks and opportunities. 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. To exploit value creation opportunities, Finnair is also prepared to take and manage risks within the limits of its risk-bearing capacity.

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.

Exceptional variation in fuel price and the potential of the recent decrease in fuel price to be passed on to flight ticket prices or lead to an increase in capacity in Finnair's main markets as well as sudden, adverse changes in currency exchange rates constitute a risk for Finnair's revenue development. The reduction in the demand for passenger or cargo flights due to slowing or non-existent economic growth in Finnair's main markets also constitutes a risk for Finnair's revenue development.

Potential capacity increases and product improvements among Finnair's existing or new competitors may have an impact on the demand for Finnair's services. In addition, joint operations involving closer cooperation than airline alliances, and joint businesses, are expected to develop further.

The achievement of the strategic advantages and cost reductions sought through Finnair's partnership and outsourcing projects involves 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.

The use of the next-generation Airbus A350 XWB aircraft involves risks associated with new technology and roll-out processes. In addition, the implementation of Finnair's strategy includes significant operating and internal changes, which involve risks.

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.

Geopolitical uncertainty, elevated threat of terrorism and other potential external disruptions may, if materialised, significantly affect the demand for air travel and Finnair's operations.

The upcoming exit of the United Kingdom from the European Union involves general economic uncertainty that may also be reflected in the demand for air travel.

The construction work associated with the extension of Helsinki Airport, which will continue until 2020, may cause traffic disruptions. Finnair is engaged in close cooperation with Finavia to minimise the negative impacts of the expansion project. The expansion will facilitate the increase of the airport's annual passenger volume to 20 million and the implementation of Finnair's growth strategy.

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](http://www.finnairgroup.com).

### **Seasonal variation and sensitivities in business operations**

Due to the seasonal variation of the airline business, the Group's revenue 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.

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. Finnair's foreign exchange risk arises primarily from fuel and aircraft purchases, aircraft leasing payments and sales revenue denominated in foreign currencies. 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 also mainly denominated in US dollars. The most significant income currencies after the euro are the Japanese yen, the Chinese yuan and the Swedish crown.

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.

<b>Sensitivities in business operations</b>		<b>1 percentage point change</b>
(rolling 12 months from date of financial statements)		
Passenger load factor (PLF)		EUR 21 million
Average yield of passenger traffic		EUR 18 million
Unit cost (CASK ex. fuel)		EUR 17 million

<b>Fuel sensitivities</b>	<b>10% change without hedging</b>	<b>10% change, taking hedging into account</b>	<b>Hedging ratio</b>	
(rolling 12 months from date of financial statements)			H2/2016	H1/2017
Fuel	EUR 32 million	EUR 15 million	72%	59%

<b>Currency distribution %</b>	4–6 2016	4–6 2015	1–6 2016	1–6 2015	2015	<b>Currency sensitivities USD and JPY</b>		<b>Hedging ratio</b> (rolling 12 months from date of financial statements)
						(rolling 12 months from date of financial statements)	(rolling 12 months from date of financial statements)	
						10% change without hedging	10% change, taking hedging into account	
<b>Sales currencies</b>					59			
EUR	63	54	63	59	59	-	-	
USD*	4	2	4	2	3	see below	see below	see below
JPY	8	9	8	8	8	EUR 12 million	EUR 8 million	70%
CNY	6	8	6	6	7	-	-	
KRW	3	4	3	3	3	-	-	
SEK	5	5	5	5	5	-	-	
Other	11	18	11	17	15	-	-	
<b>Purchase currencies</b>								
EUR	53	50	53	52	53	-	-	
USD*	40	40	40	41	41	EUR 55 million	EUR 20 million	68%
Other	7	10	7	7	7			

\* The sensitivity analysis assumes that the Chinese yuan and the Hong Kong dollar continue to correlate strongly with the US dollar.

## Financial reporting

The publication dates for Finnair's interim reports in 2016 are as follows:

Interim Report 1 January – 30 September 2016:	26 October 2016
Financial Statements Bulletin 1 January – 31 December 2016:	15 February 2017

FINNAIR PLC  
Board of Directors

## **Briefings**

Finnair will hold a press conference related to the announcement of its result on 17 August 2016 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 and webcast will begin at 2:30 p.m. Finnish time. The conference may be attended by dialling your local access number +358 9 2310 1618 and using the PIN code 4146988. To join the live webcast, please register at: <https://finnairgroup.videosync.fi/2016-08-17-q2>

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Key figures	Q2 2016	Q2 2015	Change %	Q1-Q2 2016	Q1-Q2 2015	Change %	2015
<b>Revenue and result</b>							
Revenue, EUR million *	569.6	543.9	4.7	1,106.0	1,065.2	3.8	2,254.5
Comparable operating result, EUR million	3.2	-12.9	> 200 %	-12.2	-41.3	70.5	23.7
Comparable operating result, % of revenue *	0.6	-2.4	2.9 %-p	-1.1	-3.9	2.8 %-p	1.1
Operating result, EUR million	0.2	-5.7	> 200 %	-17.4	-13.9	-25.1	121.7
Comparable EBITDAR, EUR million	56.3	37.4	50.6	92.7	56.6	63.8	231.2
Result before taxes, EUR million	-1.3	-7.4	82.9	-20.0	-19.5	-2.5	113.3
Net result, EUR million	-1.1	-6.0	82.3	-16.1	-15.8	-1.9	89.7
<b>Balance sheet and cash flow</b>							
Equity ratio, %				29.6	28.2	1.4 %-p	35.5
Gearing, %				-20.2	-30.1	10.0 %-p	-49.8
Adjusted gearing, %				82.1	81.4	0.7 %-p	45.8
Gross capital expenditure, EUR million	208.0	7.3	> 200 %	319.1	19.8	> 200 %	329.7
Return on capital employed (ROCE), LTM, %				10.0	-3.2	13.2 %-p	12.2
Return on equity (ROE), LTM, %				13.8	-8.0	21.7 %-p	14.4
Net cash flow from operating activities, EUR million	119.6	88.4	35.3	130.0	101.4	28.2	171.0
<b>Share</b>							
Share price at the end of quarter, EUR				4.18	2.76	51.4	5.42
Earnings per share (EPS), EUR	-0.04	-0.06	40.3	-0.19	-0.16	-18.2	0.57
<b>Traffic data and responsibility indicators</b>							
Passengers, 1,000	2,779	2,622	6.0	5,280	4,905	7.6	10,294
Available seat kilometres (ASK), million	8,513	7,822	8.8	16,633	15,537	7.1	31,836
Revenue passenger kilometres (RPK), million	6,591	6,188	6.5	12,992	12,211	6.4	25,592
Passenger load factor, %	77.4	79.1	-1.7 %-p	78.1	78.6	-0.5 %-p	80.4
Unit revenue per available seat kilometre, (RASK), cents/ASK *	6.69	6.95	-3.8	6.65	6.86	-3.0	7.08
RASK at constant currency, cents/ASK	6.77	6.95	-2.7	6.70	6.86	-2.2	7.08
Unit revenue per revenue passenger kilometre (yield), cents/RPK *	6.95	7.02	-1.0	6.64	6.79	-2.2	6.90
Unit cost per available seat kilometre (CASK), cents/ASK *	6.65	7.12	-6.5	6.72	7.12	-5.6	7.01
CASK excluding fuel, cents/ASK *	5.17	5.13	0.8	5.23	5.15	1.7	5.14
CASK excluding fuel at constant currency, cents/ASK	5.13	5.13	0.1	5.20	5.15	1.0	5.14
Ancillary and retail revenue per passenger (PAX)	10.89	9.29	17.3	11.35	9.68	17.3	10.02
Available tonne kilometres (ATK), million	371	338	9.8	725	676	7.3	1,380
Revenue tonne kilometres (RTK), million	228	190	20.3	427	370	15.4	787
Cargo and mail, tonnes	38,047	31,475	20.9	70,977	61,904	14.7	130,697
Cargo traffic unit revenue per revenue tonne kilometre, cents/RTK *	18.65	23.77	-21.6	19.25	24.28	-20.7	21.64
Overall load factor, %	64.8	65.4	-0.7 %-p	64.8	64.4	0.4 %-p	66.4
Flights, number	28,251	27,691	2.0	55,172	51,960	6.2	108,471
Arrival punctuality, %	91.1	89.4	1.6 %-p	86.5	88.0	-1.5 %-p	89.5
Fuel consumption, tonnes/ASK	0.0257	0.0268	-4.31	0.0260	0.0255	1.96	0.0262
CO <sup>2</sup> emissions, tonnes/ASK	0.0809	0.0845	-4.31	0.0820	0.0804	1.96	0.0826
Customer satisfaction on a scale of 1 (very poor) - 10 (very good)	8.2	8.1	1.2	8.1	8.1	0.0	8.1
<b>Personnel</b>							
Average number of employees	5,091	4,872	4.5	5,002	4,885	2.4	4,906

\* Revenue, unit revenue per available seat kilometre (RASK), unit cost per available seat kilometre (CASK), unit revenue per revenue passenger kilometre (yield) and Cargo traffic unit revenue per revenue tonne kilometre have been restated for the comparison year 2015. The changes are described in more detail in note 16. Restatement of operating income and key ratios. The adjusted formulas for RASK and CASK are described in note 18. Calculation of key ratios.

## CONSOLIDATED INCOME STATEMENT

in mill. EUR	Q2 2016	Q2 2015	Change %	Q1-Q2 2016	Q1-Q2 2015	Change %	2015	LTM
<b>Revenue</b>	<b>569.6</b>	<b>543.9</b>	<b>4.7</b>	<b>1,106.0</b>	<b>1,065.2</b>	<b>3.8</b>	<b>2,254.5</b>	<b>2,295.4</b>
Other operating income	17.9	21.5	-16.9	40.0	44.5	-10.2	85.2	80.7
<b>Operating expenses</b>								
Staff costs	-93.0	-87.4	6.4	-184.8	-177.4	4.2	-353.2	-360.6
Fuel costs	-126.4	-155.7	-18.8	-247.9	-307.0	-19.2	-595.5	-536.4
Other rents	-37.2	-41.0	-9.4	-79.2	-78.7	0.7	-159.4	-159.9
Aircraft materials and overhaul	-37.6	-30.9	21.5	-74.2	-62.6	18.6	-118.9	-130.5
Traffic charges	-66.4	-65.8	0.9	-127.4	-128.3	-0.7	-258.5	-257.6
Ground handling and catering expenses	-62.3	-58.9	5.8	-127.4	-119.3	6.8	-250.3	-258.3
Expenses for tour operations	-15.6	-15.4	1.3	-42.4	-39.1	8.5	-79.6	-83.0
Sales and marketing expenses	-20.1	-17.9	11.9	-38.2	-35.6	7.3	-74.0	-76.6
Other expenses	-72.8	-55.1	32.1	-131.6	-105.1	25.3	-219.3	-245.9
<b>Comparable EBITDAR</b>	<b>56.3</b>	<b>37.4</b>	<b>50.6</b>	<b>92.7</b>	<b>56.6</b>	<b>63.8</b>	<b>231.2</b>	<b>267.3</b>
Lease payments for aircraft	-26.9	-25.3	6.6	-55.7	-46.2	20.6	-99.3	-108.8
Depreciation and impairment	-26.2	-25.1	4.7	-49.1	-51.7	-4.9	-108.1	-105.6
<b>Comparable operating result</b>	<b>3.2</b>	<b>-12.9</b>	<b>&gt; 200 %</b>	<b>-12.2</b>	<b>-41.3</b>	<b>70.5</b>	<b>23.7</b>	<b>52.9</b>
Fair value changes in derivatives and changes in exchange rates of fleet overhauls	0.0	20.9	<-200 %	4.3	14.1	-69.1	-12.3	-22.0
Items affecting comparability	-2.9	-13.6	78.6	-9.6	13.3	<-200 %	110.2	87.3
<b>Operating result</b>	<b>0.2</b>	<b>-5.7</b>	<b>&gt; 200 %</b>	<b>-17.4</b>	<b>-13.9</b>	<b>-25.1</b>	<b>121.7</b>	<b>118.2</b>
Financial income	0.4	0.4	22.5	1.0	0.9	19.2	1.3	1.4
Financial expenses	-1.9	-2.1	9.5	-3.6	-6.4	43.7	-9.7	-6.9
Share of results in associates and joint ventures	0.0	0.0	-	0.0	0.0	100.0	0.1	0.1
<b>Result before taxes</b>	<b>-1.3</b>	<b>-7.4</b>	<b>82.9</b>	<b>-20.0</b>	<b>-19.5</b>	<b>-2.5</b>	<b>113.3</b>	<b>112.8</b>
Income taxes	0.2	1.5	-85.3	3.9	3.7	5.0	-23.6	-23.4
<b>Result for the period</b>	<b>-1.1</b>	<b>-6.0</b>	<b>82.3</b>	<b>-16.1</b>	<b>-15.8</b>	<b>-1.9</b>	<b>89.7</b>	<b>89.4</b>
<b>Attributable to</b>								
Owners of the parent company	-1.1	-6.1	82.6	-16.1	-15.9	-1.1	89.4	89.2
Non-controlling interests	0.0	0.1	-100.0	0.0	0.1	-100.0	0.3	0.2
Earnings per share attributable to shareholders of the parent company, EUR (basic and diluted)	-0.04	-0.06	40.3	-0.19	-0.16	-18.2	0.57	0.54

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in mill. EUR	Q2 2016	Q2 2015	Change %	Q1-Q2 2016	Q1-Q2 2015	Change %	2015	LTM
<b>Result for the period</b>	<b>-1.1</b>	<b>-6.0</b>	<b>82.3</b>	<b>-16.1</b>	<b>-15.8</b>	<b>-1.9</b>	<b>89.7</b>	<b>89.4</b>
<b>Other comprehensive income items</b>								
<b>Items that may be reclassified to profit or loss in subsequent periods</b>								
Change in fair value of hedging instruments	64.5	13.7	> 200 %	71.7	60.4	18.8	-14.1	-2.7
Translation differences	0.0	0.0	-	0.0	0.3	-99.0	0.6	0.2
Tax effect	-12.9	-2.7	<-200 %	-14.3	-12.1	-18.8	2.8	0.5
<b>Items that will not be reclassified to profit or loss in subsequent periods</b>								
Actuarial gains and losses from defined benefit plans	-16.8	18.1	<-200 %	-23.1	15.3	<-200 %	37.7	-0.7
Tax effect	3.4	-3.6	> 200 %	4.6	-3.1	> 200 %	-7.5	0.1
<b>Other comprehensive income items total</b>	<b>38.2</b>	<b>25.5</b>	<b>49.7</b>	<b>38.9</b>	<b>60.8</b>	<b>-36.1</b>	<b>19.5</b>	<b>-2.5</b>
<b>Comprehensive income for the period</b>	<b>37.1</b>	<b>19.5</b>	<b>90.3</b>	<b>22.7</b>	<b>45.0</b>	<b>-49.5</b>	<b>109.2</b>	<b>86.9</b>
<b>Attributable to</b>								
Owners of the parent company	37.1	19.4	91.4	22.7	44.9	-49.4	108.9	86.8
Non-controlling interests	0.0	0.1	-100.0	0.0	0.1	-100.0	0.3	0.2

## CONSOLIDATED BALANCE SHEET

in mill. EUR		30 Jun 2016	30 Jun 2015	2015
<b>ASSETS</b>				
<b>Non-current assets</b>				
Intangible assets	O	9.2	18.9	9.5
Tangible assets	O	1,139.0	806.8	811.6
Investments in associates and joint ventures	O	2.5	4.9	2.6
Loan and other receivables	O	8.5	9.2	8.7
Deferred tax assets	O	3.9	21.4	9.1
<b>Non-current assets total</b>		<b>1,163.1</b>	<b>861.2</b>	<b>841.5</b>
<b>Current assets</b>				
Inventories	O	13.4	13.1	11.8
Trade and other receivables	O	249.9	245.7	208.5
Derivative financial instruments	O/IA*	100.3	219.3	155.8
Other financial assets	IA	574.6	398.5	427.7
Cash and cash equivalents	IA	307.0	133.6	280.5
<b>Current assets total</b>		<b>1,245.3</b>	<b>1,010.2</b>	<b>1,084.3</b>
Assets held for sale	O	109.2	95.8	124.5
<b>Assets total</b>		<b>2,517.6</b>	<b>1,967.2</b>	<b>2,050.3</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to owners of the parent</b>				
Share capital	E	75.4	75.4	75.4
Other equity	E	669.5	479.1	652.0
<b>Total</b>		<b>744.9</b>	<b>554.5</b>	<b>727.5</b>
Non-controlling interests	E	0.0	0.5	0.0
<b>Equity total</b>		<b>744.9</b>	<b>555.1</b>	<b>727.5</b>
<b>Non-current liabilities</b>				
Interest-bearing liabilities	IL	597.6	320.0	271.0
Pension obligations	O	34.5	16.2	4.4
Provisions	O	57.4	52.8	55.7
Other liabilities	O	4.8	17.7	15.8
<b>Non-current liabilities total</b>		<b>694.3</b>	<b>406.7</b>	<b>346.9</b>
<b>Current liabilities</b>				
Provisions	O	25.9	41.8	38.3
Interest-bearing liabilities	IL	135.0	44.9	75.2
Trade payables	O	103.4	81.9	67.5
Derivative financial instruments	O/IL*	80.7	127.8	180.5
Deferred income and advances received	O	514.2	460.9	374.8
Liabilities related to employee benefits	O	88.6	77.0	91.0
Other liabilities	O	123.6	146.5	148.7
<b>Current liabilities total</b>		<b>1,071.4</b>	<b>980.7</b>	<b>976.0</b>
Liabilities related to assets held for sale	O	7.0	24.8	0.0
<b>Liabilities total</b>		<b>1,772.7</b>	<b>1,412.1</b>	<b>1,322.9</b>
<b>Equity and liabilities total</b>		<b>2,517.6</b>	<b>1,967.2</b>	<b>2,050.3</b>

Finnair reports its interest-bearing debt, net debt and adjusted gearing to give an overview of Finnair's financial position. Balance sheet items included in interest-bearing net debt are marked with an "IA" or "IL". The calculation of capital employed includes items marked with an "E" or "IL". Other items are marked with an "O".

Additional information to Balance Sheet: Interest-bearing net-debt and adjusted gearing		30 Jun 2016	30 Jun 2015	2015
Other financial assets		-574.6	-398.5	-427.7
Cash and cash equivalents		-307.0	-133.6	-280.5
Interest-bearing liabilities		732.6	364.5	346.5
Cross currency Interest rate swaps *		-1.1	0.3	-0.2
<b>Interest-bearing net debt</b>		<b>-150.2</b>	<b>-167.3</b>	<b>-362.0</b>
Lease payments for aircraft for the last twelve months (LTM) * 7		761.9	619.3	695.2
<b>Interest-bearing net debt used for calculating adjusted gearing</b>		<b>611.7</b>	<b>452.0</b>	<b>333.2</b>
Equity total		744.9	555.1	727.5
<b>Adjusted gearing, %</b>		<b>82.1 %</b>	<b>81.4 %</b>	<b>45.8 %</b>

\* Cross-currency interest rate swaps are used for hedging the currency and interest rate risk of interest-bearing loans, but hedge accounting is not applied. Changes in fair net value correlate with changes in the fair value of interest-bearing liabilities. Therefore, the fair net value of cross-currency interest rate swaps recognised in derivative assets/liabilities and reported in Note 5, is considered an interest-bearing liability in the net debt calculation.

**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 owners of the parent	Non-controlling interests	Equity total
<b>Equity 1 Jan 2016</b>	<b>75.4</b>	<b>168.1</b>	<b>-67.9</b>	<b>248.1</b>	<b>67.6</b>	<b>236.2</b>	<b>727.5</b>	<b>0.0</b>	<b>727.5</b>
Result for the period					-16.1		-16.1	0.0	-16.1
Change in fair value of hedging instruments from defined benefit plans			57.4				57.4		57.4
			-18.5				-18.5		-18.5
<b>Comprehensive income for the period</b>	<b>0.0</b>	<b>0.0</b>	<b>38.9</b>	<b>0.0</b>	<b>-16.1</b>	<b>0.0</b>	<b>22.7</b>	<b>0.0</b>	<b>22.7</b>
Hybrid bond interests and expenses					-1.4		-1.4		-1.4
Purchase of own shares					-4.3		-4.3		-4.3
Share-based payments				0.4			0.4		0.4
<b>Equity 30 Jun 2016</b>	<b>75.4</b>	<b>168.1</b>	<b>-29.0</b>	<b>248.4</b>	<b>45.8</b>	<b>236.2</b>	<b>744.9</b>	<b>0.0</b>	<b>744.9</b>

in mill. EUR	Share capital	Other restricted funds	Hedging reserve and other OCI items	Unrestricted equity funds	Retained earnings	Hybrid bond	Equity attributable to owners of the parent	Non-controlling interests	Equity total
<b>Equity 1 Jan 2015</b>	<b>75.4</b>	<b>168.1</b>	<b>-87.4</b>	<b>247.4</b>	<b>-8.8</b>	<b>118.9</b>	<b>513.7</b>	<b>0.6</b>	<b>514.3</b>
Result for the period					-15.9		-15.9	0.1	-15.8
Change in fair value of hedging instruments from defined benefit plans			48.3				48.3		48.3
			12.2				12.2		12.2
Translation differences			0.3				0.3		0.3
<b>Comprehensive income for the period</b>	<b>0.0</b>	<b>0.0</b>	<b>60.8</b>	<b>0.0</b>	<b>-15.9</b>	<b>0.0</b>	<b>44.9</b>	<b>0.1</b>	<b>45.0</b>
Dividend							0.0	-0.2	-0.2
Share-based payments				0.1			0.1		0.1
Hybrid bond interests and expenses					-4.3		-4.3		-4.3
<b>Equity 30 Jun 2015</b>	<b>75.4</b>	<b>168.1</b>	<b>-26.6</b>	<b>247.6</b>	<b>-29.0</b>	<b>118.9</b>	<b>554.5</b>	<b>0.6</b>	<b>555.1</b>

**CONSOLIDATED CASH FLOW STATEMENT**

in mill. EUR	Q2 2016	Q2 2015	Q1-Q2 2016	Q1-Q2 2015	2015	LTM
<b>Cash flow from operating activities</b>						
Result for the period	-1.1	-6.0	-16.1	-15.8	89.7	89.4
Depreciation and impairment	24.7	32.1	52.7	66.2	148.5	135.0
Other adjustments to result for the period						
Financial income	-0.4	-0.4	-1.0	-0.9	-1.3	-1.4
Financial expenses	1.9	2.1	3.6	6.4	9.7	6.9
Share of results in associates and joint ventures	0.0	0.0	0.0	0.0	-0.1	-0.1
Income taxes	-0.2	-1.5	-3.9	-3.7	23.6	23.4
<b>EBITDA</b>	<b>24.9</b>	<b>26.4</b>	<b>35.2</b>	<b>52.3</b>	<b>270.2</b>	<b>253.2</b>
Non-cash transactions *	4.7	-17.1	4.6	-48.1	-137.5	-84.7
Changes in working capital	89.0	80.7	90.6	100.1	43.1	33.6
Financial expenses paid	-1.2	-2.3	-3.4	-4.3	-7.6	-6.8
Financial income received	2.0	0.7	3.0	1.5	3.0	4.5
Income taxes paid	0.2	0.1	0.0	-0.2	-0.2	0.0
<b>Net cash flow from operating activities</b>	<b>119.6</b>	<b>88.4</b>	<b>130.0</b>	<b>101.4</b>	<b>171.0</b>	<b>199.7</b>
<b>Cash flow from investing activities</b>						
Investments in intangible assets	-2.0	-0.6	-4.6	-2.2	-4.3	-6.7
Investments in tangible assets	-194.8	-44.6	-311.7	-76.2	-352.5	-588.0
Divestments of fixed assets and group shares	2.1	5.1	17.1	152.5	448.1	312.7
Net change in financial interest-bearing assets at fair value through profit or loss, maturing after more than three months	45.3	-13.9	-97.8	15.1	-14.4	-127.4
Change in non-current receivables	0.4	0.3	0.7	-0.1	1.7	2.5
<b>Net cash flow from investing activities</b>	<b>-149.0</b>	<b>-53.7</b>	<b>-396.3</b>	<b>89.2</b>	<b>78.6</b>	<b>-406.9</b>
<b>Cash flow from financing activities</b>						
Proceeds from loans	241.7	0.0	377.4	0.0	0.0	377.4
Loan repayments and changes	-16.6	-27.5	-29.6	-63.9	-82.5	-48.2
Hybrid bond repayments	0.0	0.0	0.0	0.0	-81.7	-81.7
Proceeds from hybrid bond	0.0	0.0	0.0	0.0	200.0	200.0
Hybrid bond interests and expenses	-1.7	-5.3	-1.7	-5.3	-17.6	-13.9
Purchase of own shares	0.0	0.0	-4.3	0.0	0.0	-4.3
Dividends paid	0.0	0.0	0.0	-0.2	-0.2	0.0
<b>Net cash flow from financing activities</b>	<b>223.4</b>	<b>-32.9</b>	<b>341.8</b>	<b>-69.4</b>	<b>18.1</b>	<b>429.3</b>
<b>Change in cash flows</b>	<b>194.0</b>	<b>1.9</b>	<b>75.6</b>	<b>121.1</b>	<b>267.7</b>	<b>222.1</b>
Liquid funds, at beginning	339.3	309.3	457.7	190.1	190.1	311.2
Change in cash flows	194.0	1.9	75.6	121.1	267.7	222.1
<b>Liquid funds, at end **</b>	<b>533.3</b>	<b>311.2</b>	<b>533.3</b>	<b>311.2</b>	<b>457.7</b>	<b>533.3</b>
<b>Notes to consolidated cash flow statement</b>						
<b>* Non-cash transactions</b>						
Employee benefits	3.8	3.2	7.3	6.3	15.6	16.6
Fair value changes in derivatives	-1.8	-17.3	-3.1	-20.7	2.1	19.7
Other adjustments	2.7	-3.0	0.5	-33.7	-155.2	-121.0
<b>Total</b>	<b>4.7</b>	<b>-17.1</b>	<b>4.6</b>	<b>-48.1</b>	<b>-137.5</b>	<b>-84.7</b>
<b>** Liquid funds</b>						
Other financial assets	574.6	398.5	574.6	398.5	427.7	574.6
Cash and cash equivalents	307.0	133.6	307.0	133.6	280.5	307.0
<b>Liquid funds in balance sheet</b>	<b>881.6</b>	<b>532.1</b>	<b>881.6</b>	<b>532.1</b>	<b>708.2</b>	<b>881.6</b>
Maturing after more than three months	-348.3	-220.9	-348.3	-220.9	-250.5	-348.3
<b>Total</b>	<b>533.3</b>	<b>311.2</b>	<b>533.3</b>	<b>311.2</b>	<b>457.7</b>	<b>533.3</b>

## NOTES TO THE CONSOLIDATED HALF YEAR FINANCIAL REPORT

### 1. BASICS OF PREPARATION

This Consolidated Half Year Financial Report has been prepared according to the International (IAS) Standard 34: Interim Financial Reporting.

### 2. ACCOUNTING PRINCIPLES

The accounting principles applied are disclosed in the 2015 Consolidated Financial Statements. The figures presented in this statement are not rounded; therefore, the total sum of individual figures does not necessarily match the corresponding sum stated herein. The key figures stated here are calculated using the exact figures.

Finnair has revised the calculation of revenue. From the beginning of 2016 onwards, revenue from non-core businesses, mainly including aircraft leasing income, is reclassified from revenue to other operating income. Comparative periods have been restated accordingly. The changes are described in more detail in Note 16. Restatement of operating income and key ratios.

Finnair has adopted the Guidelines on Alternative Performance Measures published by the European Securities Markets Authority (ESMA), effective from 3rd of July 2016 onwards. Finnair uses alternative performance measures referred to in the Guidelines to describe its operational and financial performance, to provide a comparable view of its business and to enable better comparability relative to its industry peers. The alternative performance measures do not replace IFRS indicators. With a view to the Guidelines, in the interim report for the first quarter, Finnair renamed its non-recurring items as "Items affecting comparability" and from there on, it reconciles them in Note 4, "Segment information, revenue and items affecting comparability". In the same context, Finnair also clarified the calculation of interest-bearing debt, net debt and adjusted gearing by inserting additional information to the balance sheet. Furthermore, Finnair no longer presents "Result for the period per share, EUR" as a supplementary indicator to the EPS (Earnings per Share).

### 3. CRITICAL ACCOUNTING ESTIMATES AND SOURCES OF UNCERTAINTY

The preparation of the half year financial 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 critical accounting estimates and sources of uncertainty are disclosed in the financial statements 2015.

### 4. SEGMENT INFORMATION, REVENUE AND ITEMS AFFECTING COMPARABILITY

Due to Finnair's recent business developments and restructuring of organisation, Finnair Executive Board, defined as the chief operative decision maker according to IFRS 8 Segment reporting, considers the business as one operating segment. Therefore, segment information is no longer reported. The previous operational segment Travel Services is combined with the Airline Business segment.

#### Revenue by product

in mill. EUR	Q2 2016	Q2 2015	Change %	1-Q2 2016	1-Q2 2015	Change %	2015
Passenger revenue	458.3	434.4	5.5	862.3	828.7	4.1	1,766.0
Ancillary and retail revenue	30.3	24.4	24.3	60.0	47.5	26.3	103.2
Cargo	42.6	45.1	-5.6	82.2	89.9	-8.5	183.7
Travel services	34.1	33.5	1.9	93.2	86.8	7.3	177.8
Travel agencies	4.4	6.5	-32.9	8.4	12.3	-32.1	23.8
<b>Total</b>	<b>569.6</b>	<b>543.9</b>	<b>4.7</b>	<b>1,106.0</b>	<b>1,065.2</b>	<b>3.8</b>	<b>2,254.5</b>

### Passenger revenue by traffic area

Passenger revenue, mill. EUR	Q2 2016	Q2 2015	Change %	1-Q2 2016	1-Q2 2015	Change %	2015
Asia	173.9	177.5	-2.1	338.8	338.4	0.1	729.7
North Atlantic	28.8	20.5	40.2	54.5	47.1	15.8	105.6
Europe	204.2	199.0	2.6	365.1	349.9	4.3	738.0
Domestic	39.7	36.9	7.6	88.4	78.9	12.0	155.9
Unallocated revenue	11.8	0.5	> 200 %	15.5	14.3	8.1	36.9
<b>Total</b>	<b>458.3</b>	<b>434.4</b>	<b>5.5</b>	<b>862.3</b>	<b>828.7</b>	<b>4.1</b>	<b>1,766.0</b>

PLF, %	Q2 2016	Q2 2015	Change %	1-Q2 2016	1-Q2 2015	Change %	2015
Asia	76.4	79.8	-3.4 %-p	79.6	80.3	-0.7 %-p	82.8
North Atlantic	78.9	87.5	-8.6 %-p	79.6	82.3	-2.6 %-p	83.1
Europe	79.5	78.6	0.9 %-p	77.1	77.0	0.1 %-p	78.5
Domestic	66.7	66.9	-0.3 %-p	69.4	69.3	0.1 %-p	68.0
<b>Total</b>	<b>77.4</b>	<b>79.1</b>	<b>-1.7 %-p</b>	<b>78.1</b>	<b>78.6</b>	<b>-0.5 %-p</b>	<b>80.4</b>

ASK, mill. km	Q2 2016	Q2 2015	Change %	1-Q2 2016	1-Q2 2015	Change %	2015
Asia	4,070.1	3,726.4	9.2	8,091.6	7,613.6	6.3	15,256.5
North Atlantic	671.9	404.8	66.0	1,304.4	990.6	31.7	2,242.5
Europe	3,413.6	3,359.3	1.6	6,412.2	6,212.3	3.2	12,890.3
Domestic	356.9	331.9	7.5	825.1	720.4	14.5	1,446.5
<b>Total</b>	<b>8,512.5</b>	<b>7,822.4</b>	<b>8.8</b>	<b>16,633.2</b>	<b>15,536.9</b>	<b>7.1</b>	<b>31,835.7</b>

RPK, mill. km	Q2 2016	Q2 2015	Change %	1-Q2 2016	1-Q2 2015	Change %	2015
Asia	3,109.6	2,972.1	4.6	6,438.0	6,114.0	5.3	12,629.3
North Atlantic	530.2	354.4	49.6	1,038.9	815.1	27.4	1,863.0
Europe	2,713.7	2,639.7	2.8	4,942.5	4,782.1	3.4	10,115.9
Domestic	237.9	222.1	7.1	572.4	499.4	14.6	983.4
<b>Total</b>	<b>6,591.3</b>	<b>6,188.3</b>	<b>6.5</b>	<b>12,991.7</b>	<b>12,210.6</b>	<b>6.4</b>	<b>25,591.6</b>

### Items affecting comparability

Finnair renamed in Q1 2016 items previously called "Non-recurring" to "Items affecting comparability" and provides reconciliation of the item in the notes. Items affecting comparability are classified into three categories: Gains and losses on aircraft transactions, Gains and losses on other transactions and Restructuring costs. Gains and losses on transactions include sales gains and losses and other items that can be considered to be directly related to the sale of the asset. As an example, write-down that might occur when item is classified as assets held for sale according IFRS 5, is reported as gains and losses on transactions. Restructuring costs include termination benefits and other costs that are directly linked to restructurings of operations.

in mill. EUR	Q2 2016	Q2 2015	Change %	1-Q2 2016	1-Q2 2015	Change %	2015
<b>Fair value changes in derivatives and changes in exchange rates of fleet overhauls</b>	<b>0.0</b>	<b>20.9</b>	<b>&lt;-200 %</b>	<b>4.3</b>	<b>14.1</b>	<b>-69.1</b>	<b>-12.3</b>
Unrealized changes in foreign currencies of fleet overhaul provisions	-1.8	3.6	<-200 %	1.2	-6.6	> 200 %	-10.1
Fair value changes of derivatives where hedge accounting is not applied	1.8	17.3	-89.7	3.1	20.7	-84.9	-2.1
<b>Items affecting comparability</b>	<b>-2.9</b>	<b>-13.6</b>	<b>78.6</b>	<b>-9.6</b>	<b>13.3</b>	<b>&lt;-200 %</b>	<b>110.2</b>
Gains and losses on aircraft transactions	-2.3	-11.2	79.1	-8.2	20.3	<-200 %	101.7
Gains and losses on other transactions	-0.3	0.0	-	-0.6	0.0	-	19.8
Restructuring costs	-0.3	-2.5	86.6	-0.8	-7.0	88.1	-11.3

## 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 the information presented in the Group's 2015 financial statements. 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 2016		30 Jun 2015		2015	
	Nominal value	Fair net value	Nominal value	Fair net value	Nominal value	Fair net value
<b>Currency derivatives</b>						
Hedge accounting items (forward contracts):						
Jet fuel currency hedging	300.1	4.5	363.2	40.5	331.6	23.1
Fair value hedging of aircraft acquisitions	351.3	54.5	718.7	112.8	782.4	81.0
Currency hedging of lease payments	164.4	7.9	162.6	20.8	171.2	18.1
<b>Hedge accounting items total</b>	<b>815.7</b>	<b>66.9</b>	<b>1,244.5</b>	<b>174.2</b>	<b>1,285.3</b>	<b>122.2</b>
Items outside hedge accounting:						
Operational cash flow hedging (forward contracts)	230.5	-2.7	270.1	22.0	307.5	14.8
Operational cash flow hedging (options)						
Bought options	179.8	1.2	101.3	7.7	180.4	3.7
Sold options	291.5	-12.2	356.3	-6.3	318.5	-4.1
Balance sheet hedging (forward contracts)	223.9	-1.7	12.6	0.0	11.5	0.4
<b>Items outside hedge accounting total</b>	<b>925.6</b>	<b>-15.3</b>	<b>740.2</b>	<b>23.4</b>	<b>817.8</b>	<b>14.7</b>
<b>Currency derivatives total</b>	<b>1,741.3</b>	<b>51.6</b>	<b>1,984.8</b>	<b>197.5</b>	<b>2,103.1</b>	<b>136.9</b>
<b>Commodity derivatives</b>						
Hedge accounting items:						
Jet fuel forward contracts, tonnes	622,000	-40.6	523,500	-92.7	559,000	-140.7
Electricity derivatives, MWh	13,141	-0.1	37,176	-0.1	13,140	0.0
<b>Hedge accounting items total</b>		<b>-40.6</b>		<b>-92.8</b>		<b>-140.8</b>
Items outside hedge accounting:						
Jet fuel forward contracts, tonnes	12,000	-0.6	25,500	-2.6	26,000	-4.2
Options						
Bought options, jet fuel, tonnes	213,000	6.1	168,500	2.6	178,000	0.6
Sold options, jet fuel, tonnes	426,000	-5.7	-267,500	-16.9	329,000	-26.2
Electricity derivatives, MWh	13,252	-0.1	23,962	-0.3	26,352	-0.3
<b>Items outside hedge accounting total</b>		<b>-0.3</b>		<b>-17.2</b>		<b>-30.2</b>
<b>Commodity derivatives total</b>		<b>-41.0</b>		<b>-110.0</b>		<b>-170.9</b>
<b>Currency and interest rate swaps and options</b>						
Hedge accounting items:						
Interest rate swaps	150.0	5.0	150.0	5.2	150.0	5.2
Interest rate options						
Bought options	0.0	0.0	134.1	1.9	0.0	0.0
Sold options	0.0	0.0	134.1	-4.0	0.0	0.0
<b>Hedge accounting items total</b>	<b>150.0</b>	<b>5.0</b>	<b>418.1</b>	<b>3.1</b>	<b>150.0</b>	<b>5.2</b>
Items outside hedge accounting:						
Cross currency Interest rate swaps	289.5	1.1	9.5	-0.3	7.1	-0.2
<b>Items outside hedge accounting total</b>	<b>289.5</b>	<b>1.1</b>	<b>9.5</b>	<b>-0.3</b>	<b>7.1</b>	<b>-0.2</b>
<b>Interest rate derivatives total</b>	<b>439.5</b>	<b>6.1</b>	<b>427.6</b>	<b>2.8</b>	<b>157.1</b>	<b>5.0</b>
<b>Equity derivatives</b>						
Hedge accounting items:						
Stock options						
Bought options	3.0	2.6	3.0	1.0	3.0	5.6
Sold options	3.0	-0.4	3.0	-0.1	3.0	-1.4
<b>Hedge accounting items total</b>	<b>6.0</b>	<b>2.2</b>	<b>6.0</b>	<b>0.8</b>	<b>6.0</b>	<b>4.1</b>
<b>Equity derivatives total</b>	<b>6.0</b>	<b>2.2</b>	<b>6.0</b>	<b>0.8</b>	<b>6.0</b>	<b>4.1</b>
<b>Derivatives total</b>		<b>19.1</b>		<b>91.2</b>		<b>-24.9</b>

## 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 2016	Level 1	Level 2
<b>Financial assets at fair value through profit and loss</b>			
Securities held for trading	565.2	35.9	529.4
Derivatives held for trading			
Currency and interest rate swaps and options	8.1		8.1
- of which in fair value hedge accounting	5.1		5.1
Currency derivatives	75.0		75.0
- of which in fair value hedge accounting	54.5		54.5
- of which in cash flow hedge accounting	14.2		14.2
Commodity derivatives	14.1		14.1
- of which in cash flow hedge accounting	8.0		8.0
Equity derivatives	2.6		2.6
- of which in fair value hedge accounting	2.6		2.6
<b>Total</b>	<b>665.1</b>	<b>35.9</b>	<b>629.2</b>

### Financial liabilities recognised at fair value through profit and loss

Derivatives held for trading			
Currency and interest rate swaps and options	2.0		2.0
Currency derivatives	23.4		23.4
- of which in fair value hedge accounting	0.1		0.1
- of which in cash flow hedge accounting	1.7		1.7
Commodity derivatives	55.0		55.0
- of which in cash flow hedge accounting	48.6		48.6
Equity derivatives	0.4		0.4
- of which in fair value hedge accounting	0.4		0.4
<b>Total</b>	<b>80.8</b>	<b>0.0</b>	<b>80.8</b>

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 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.

## 7. COMPANY ACQUISITIONS AND SALES

The Group acquired ATR maintenance business from Nordic Regional Airlines Oy and divested its ownership in associated company Amadeus Eesti AS during first half of 2016. The transactions did not have material effect to Finnair's results.

At the end of the first quarter of 2015, Flybe Nordic group, the joint venture of Finnair and Flybe Group plc was transferred temporarily to Finnair's ownership as Finnair acquired Flybe Group plc's 60% share of Flybe Nordic with one euro on an interim basis. Later on Flybe Nordic was renamed as Nordic Regional Airlines (Norra). Norra was classified as assets held for sale until Finnair further sold the 60% share to Staffpoint Holding Oy and Kilco Oy in Q4 2015. Due to the sale Norra became a joint venture of Finnair and the new owners.

At the end of 2015, Finnair sold its ownership in the Estonian subsidiary Estravel AS, including Estravel's Lithuanian subsidiary Estravel Vilnius UAB. The transaction did not have material effect to Finnair's results.

## 8. INCOME TAXES

The tax rate for Q1-Q2 2016 was -19.5% (-19.0%).

## 9. DIVIDEND PER SHARE

The Annual General Meeting on 17 March 2016 decided that no dividend was paid for 2015. The Annual General Meeting on 25 March 2015 decided that no dividend was paid for 2014.

## 10. CHANGE IN INTANGIBLE AND TANGIBLE ASSETS

in mill. EUR	30 Jun 2016	30 Jun 2015	2015
Carrying amount at the beginning of period	821.0	916.2	916.2
Additions	319.1	19.8	329.7
Change in advances	40.6	59.7	28.9
Currency hedging of aircraft acquisitions	26.5	-46.5	-14.7
Disposals and reclassifications	-8.1	-57.2	-290.6
Depreciation	-49.1	-51.7	-108.1
Depreciation included in items affecting comparability	-1.7	-14.5	-40.4
<b>Carrying amount at the end of period</b>	<b>1,148.3</b>	<b>825.7</b>	<b>821.0</b>
Proportion of assets held for sale at the beginning of period	123.0	119.8	119.8
Proportion of assets held for sale at the end of period	102.7	63.4	123.0

## 11. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale include mainly aircraft that have been classified as held for sale during 2015. Aircraft classified as held for sale include three A340 aircraft that are expected to be sold to Airbus during 2016. These wide-body aircraft are going to be replaced by new A350 aircraft. In addition, assets held for sale include one ATR 72 aircraft and a subsidiary SMT Oy that both are expected to be sold during Q3 2016. At the end of 2015, assets held for sale also included two Embraer E170, which were sold at the first quarter of 2016.

At the end of the first quarter of 2015 Flybe Nordic Group, the joint venture of Finnair and Flybe Group plc, was transferred temporarily to Finnair's ownership as Finnair acquired Flybe Group plc's 60% share of Flybe Nordic with one euro on an interim basis. The ownership interest acquired was classified as assets held for sale. Later on Flybe Nordic was renamed as Nordic Regional Airlines (Norra). The 60% share of Norra was further sold to Staffpoint Holding Oy and Kilco Oy in Q4 2015.

Non-current assets held for sale	30 Jun 2016	30 Jun 2015	2015
Intangible and tangible assets	102.7	63.4	123.0
Inventories	1.4	0.2	1.6
Trade receivables and other receivables	5.1	0.0	0.0
Assets from subsidiary held for sale	0.0	32.2	0.0
<b>Total</b>	<b>109.2</b>	<b>95.8</b>	<b>124.5</b>

Liabilities of non-current assets held for sale	30 Jun 2016	30 Jun 2015	2015
Trade payables and other liabilities	7.0	0.0	0.0
Liabilities from subsidiary held for sale	0.0	24.8	0.0
<b>Total</b>	<b>7.0</b>	<b>24.8</b>	<b>0.0</b>

## 12. INTEREST-BEARING LIABILITIES

During the first quarter of 2016, Finnair secured financing for its third Airbus A350 aircraft using a Japanese Operating Lease with Call Option (JOLCO) structure. The transaction is treated as a loan and the owned aircraft in Finnair's accounting.

During the second quarter of 2016, Finnair financed the acquisitions of the fourth and fifth A350 aircraft using a similar type of Japanese Operating Lease with Call Option (JOLCO) structure.

During both quarters, loans were amortized according to the loan instalment program.

## 13. CONTINGENT LIABILITIES

in mill. EUR	30 Jun 2016	30 Jun 2015	2015
Pledges on own behalf	159.0	158.6	160.1
Guarantees on behalf of group undertakings	71.1	65.4	67.0
Guarantees on behalf of others	0.1	0.1	0.1
<b>Total</b>	<b>230.3</b>	<b>224.2</b>	<b>227.2</b>

Investment commitments for property, plant and equipment as at 30 June 2016 totalled 1,631 million euros (2015: 1,818).

## 14. OPERATING LEASE COMMITMENTS

in mill. EUR	30 Jun 2016	30 Jun 2015	2015
Lease commitments for fleet payments	941.4	775.0	1,040.3
Other lease commitments	297.8	312.5	305.2
<b>Total</b>	<b>1,239.2</b>	<b>1,087.5</b>	<b>1,345.5</b>

## 15. RELATED PARTY TRANSACTIONS

in mill. EUR	Q1-Q2 2016	Q1-Q2 2015	2015
<b>Sales of goods and services</b>			
Associates	0.0	0.2	0.2
Joint ventures	21.6	13.7	49.3
<b>Purchases of goods and services</b>			
Associates	0.0	2.1	2.5
Joint ventures	57.4	44.9	126.7
Pension fund	0.8	2.3	4.5
<b>Receivables</b>			
Current receivables from associates	0.0	0.3	0.5
Current receivables from joint ventures	9.1	0.0	12.1
<b>Liabilities</b>			
Non-current liabilities to pension fund	32.2	16.2	2.6
Current liabilities to associates	0.0	1.7	0.9
Current liabilities to joint ventures	0.1	0.0	0.1

## 16. RESTATEMENT OF OPERATING INCOME AND KEY RATIOS

Finnair has revised the calculation of revenue. From the beginning of 2016 onwards revenue from non-core businesses, mainly including aircraft leasing income, are reclassified from revenue to other operating income.

As of 2016, Finnair has adjusted calculation methods of unit revenue (RASK, unit revenue per available seat kilometre), unit cost (CASK, unit cost per available seat kilometre), unit revenue per revenue passenger kilometre (yield) and cargo unit revenue (Cargo traffic unit revenue per revenue tonne kilometre). The previous calculation formulas included internal items which could not be derived straight from the Group's income statement. The purpose of this change is to improve transparency and the usability of these key figures for investors.

Revenue, other operating income, RASK and CASK of comparative periods have been restated to correspond to the changed calculation methods, the restated quarterly 2015 key ratios are presented in the tables below. The adjusted formulas for RASK and CASK are described in note 18. Calculation of key ratios.

Consolidated Income Statement Periodic in mill. EUR	Restated				Reported			
	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2015	Q3 2015	Q2 2015	Q1 2015
<b>Revenue</b>	<b>567.7</b>	<b>621.7</b>	<b>543.9</b>	<b>521.3</b>	<b>585.5</b>	<b>637.1</b>	<b>561.0</b>	<b>540.4</b>
Other operating income	21.9	18.8	21.5	23.0	4.1	3.4	4.4	3.8

Consolidated Income Statement Cumulative in mill. EUR	Restated				Reported			
	2015	Q1-Q3 2015	Q1-Q2 2015	Q1 2015	2015	Q1-Q3 2015	Q1-Q2 2015	Q1 2015
<b>Revenue</b>	<b>2,254.5</b>	<b>1,686.8</b>	<b>1,065.2</b>	<b>521.3</b>	<b>2,324.0</b>	<b>1,738.5</b>	<b>1,101.4</b>	<b>540.4</b>
Other operating income	85.2	63.3	44.5	23.0	15.7	11.6	8.2	3.8

Periodic key figures	Restated				Reported			
	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2015	Q3 2015	Q2 2015	Q1 2015
<b>Revenue and result</b>								
Comparable operating result, % of revenue	0.1	10.3	-2.4	-5.4	0.1	10.1	-2.3	-5.2
<b>Traffic data</b>								
Unit revenue per available seat kilometre, (RASK), cents/ASK	7.17	7.42	6.95	6.76	6.30	6.73	6.29	6.05
Unit cost per available seat kilometre (CASK), cents/ASK	7.16	6.65	7.12	7.12	6.50	6.12	6.74	6.75
CASK excluding fuel, cents/ASK	5.46	4.82	5.13	5.16	4.81	4.31	4.74	4.82
Cargo traffic unit revenue per revenue tonne kilometre, cents/RTK	22.89	22.13	23.77	24.82	21.22	20.39	21.95	23.28
Unit revenue per revenue passenger kilometre (yield), cents/RPK	6.99	7.02	7.02	6.55	6.88	6.92	6.97	6.59

Cumulative key figures	Restated				Reported			
	2015	Q1-Q3 2015	Q1-Q2 2015	Q1 2015	2015	Q1-Q3 2015	Q1-Q2 2015	Q1 2015
<b>Revenue and result</b>								
Comparable operating result, % of revenue	1.1	1.4	-3.9	-5.4	1.0	1.3	-3.7	-5.2
<b>Traffic data</b>								
Unit revenue per available seat kilometre, (RASK), cents/ASK	7.08	7.05	6.86	6.76	6.35	6.39	6.17	6.05
Unit cost per available seat kilometre (CASK), cents/ASK	7.01	6.96	7.12	7.12	6.52	6.55	6.75	6.75
CASK excluding fuel, cents/ASK	5.14	5.03	5.15	5.16	4.67	4.63	4.78	4.82
Cargo traffic unit revenue per revenue tonne kilometre, cents/RTK	23.34	23.51	24.28	24.82	21.64	21.80	22.60	23.28
Unit revenue per revenue passenger kilometre (yield), cents/RPK	6.90	6.87	6.79	6.55	6.85	6.84	6.78	6.59

Revenue by product	Restated				Reported			
Periodic in mill. EUR	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Passenger revenue	433.0	504.4	434.4	394.3	430.4	503.5	433.6	382.1
Ancillary and retail revenue	28.0	27.7	24.4	23.1	28.4	28.0	24.7	23.4
Cargo	48.0	45.9	45.1	44.8	48.0	45.9	45.1	44.8
Other revenue					18.5	14.9	16.3	29.3
Travel Services segment					60.1	44.8	41.2	60.8
Travel services	52.7	38.3	33.5	53.3				
Travel agencies	6.0	5.5	6.5	5.8				
<b>Total</b>	<b>567.7</b>	<b>621.7</b>	<b>543.9</b>	<b>521.3</b>	<b>585.5</b>	<b>637.1</b>	<b>561.0</b>	<b>540.4</b>

Revenue by product	Restated				Reported			
Cumulative in mill. EUR	2015	Q1-Q3 2015	Q1-Q2 2015	Q1 2015	2015	Q1-Q3 2015	Q1-Q2 2015	Q1 2015
Passenger revenue	1,766.0	1,333.1	828.7	394.3	1,749.7	1,319.3	815.7	382.1
Ancillary and retail revenue	103.2	75.1	47.5	23.1	104.6	76.2	48.2	23.4
Cargo	183.7	135.7	89.9	44.8	183.7	135.7	89.9	44.8
Other revenue					79.1	60.5	45.7	29.3
Travel Services segment					206.9	146.8	102.0	60.8
Travel services	177.8	125.1	86.8	53.3				
Travel agencies	23.8	17.8	12.3	5.8				
<b>Total</b>	<b>2,254.5</b>	<b>1,686.8</b>	<b>1,065.2</b>	<b>521.3</b>	<b>2,324.0</b>	<b>1,738.5</b>	<b>1,101.4</b>	<b>540.4</b>

#### 17. EVENTS AFTER THE CLOSING DATE

There has not been any material events after the closing date.

## 18. CALCULATION OF KEY RATIOS

### Comparable operating result:

Operating result excluding fair value changes in derivatives, changes in the exchange rates of fleet overhauls and items affecting comparability

### Items affecting comparability:

Gains and losses on aircraft and other transactions and restructuring costs

### Comparable EBITDAR:

Comparable operating result + depreciation and impairment + lease payments for aircraft

### EBITDA:

Operating result + depreciation and impairment

### Shareholders' equity:

Equity attributable to owners of the parent

### Gross capital expenditure:

Investments in intangible and tangible assets excluding advance payments

### Liquid funds:

Cash and cash equivalents + other financial assets

### Interest-bearing liabilities:

Interest-bearing liabilities + cross currency interest rate swaps in derivative financial instruments

### Interest-bearing net debt:

Interest-bearing liabilities - liquid funds

### Average capital employed:

Equity + interest-bearing liabilities (average of reporting period and comparison period)

### Earnings per share:

$$\frac{\text{Result for the period} - \text{hybrid bond expenses net of tax}}{\text{Average number of shares during the period, adjusted for share issues}}$$

### Equity/share:

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

### Last twelve months (LTM):

Twelve months preceding the reporting date

### Equity ratio, %:

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

### Gearing, %:

$$\frac{\text{Interest-bearing net debt}}{\text{Shareholders' equity} + \text{non-controlling interest}} \times 100$$

### Adjusted gearing, %:

$$\frac{\text{Interest-bearing net debt} + \text{lease payments for aircraft, LTM} \times 7}{\text{Shareholders' equity} + \text{non-controlling interest}} \times 100$$

### Return on equity (ROE), %:

$$\frac{\text{Result for the period, LTM}}{\text{Shareholders' equity} + \text{non-controlling interest (average)}} \times 100$$

### Return on capital employed (ROCE), %:

$$\frac{\text{Result before taxes, LTM} + \text{financial expenses, LTM}}{\text{Average capital employed}} \times 100$$

### Available seat kilometres (ASK):

Total number of seats available × kilometres flown

### Revenue passenger kilometres (RPK):

Number of revenue passengers × kilometres flown

### Passenger load factor, %:

Share of revenue passenger kilometres of available seat kilometres

### Available tonne kilometres (ATK):

Number of tonnes of capacity for carriage of cargo and mail × kilometres flown

### Revenue tonne kilometres (RTK):

Total revenue load consisting of cargo and mail × kilometres flown

### Overall load factor, %:

Share of revenue tonne kilometres of available tonne kilometres

### Revenue per available seat kilometre (RASK):

Unit revenue (RASK) represents the Group's revenue divided by available seat kilometres (ASK).

Unit revenue (RASK) with constant currency aims to provide a comparative, currency neutral measurement for unit revenues. All the currency changes and currency hedging results are excluded from the measurement.

### Cost per available seat kilometre (CASK):

Unit cost (CASK) represents the Group's operational costs divided by available seat kilometres. Other operating income is deducted from operational costs.

Unit cost (CASK) with constant currency aims to provide a comparative, currency neutral measurement for unit costs. All the currency changes and currency hedging results are excluded from the measurement.

### Unit revenue per revenue passenger kilometre (yield):

Passenger Revenue by product divided by Revenue passenger kilometres (RPK).

### Cargo traffic unit revenue per revenue tonne kilometre:

Cargo Revenue by product divided by Revenue tonne kilometres (RTK).

The figures of the half year financial report are unaudited.