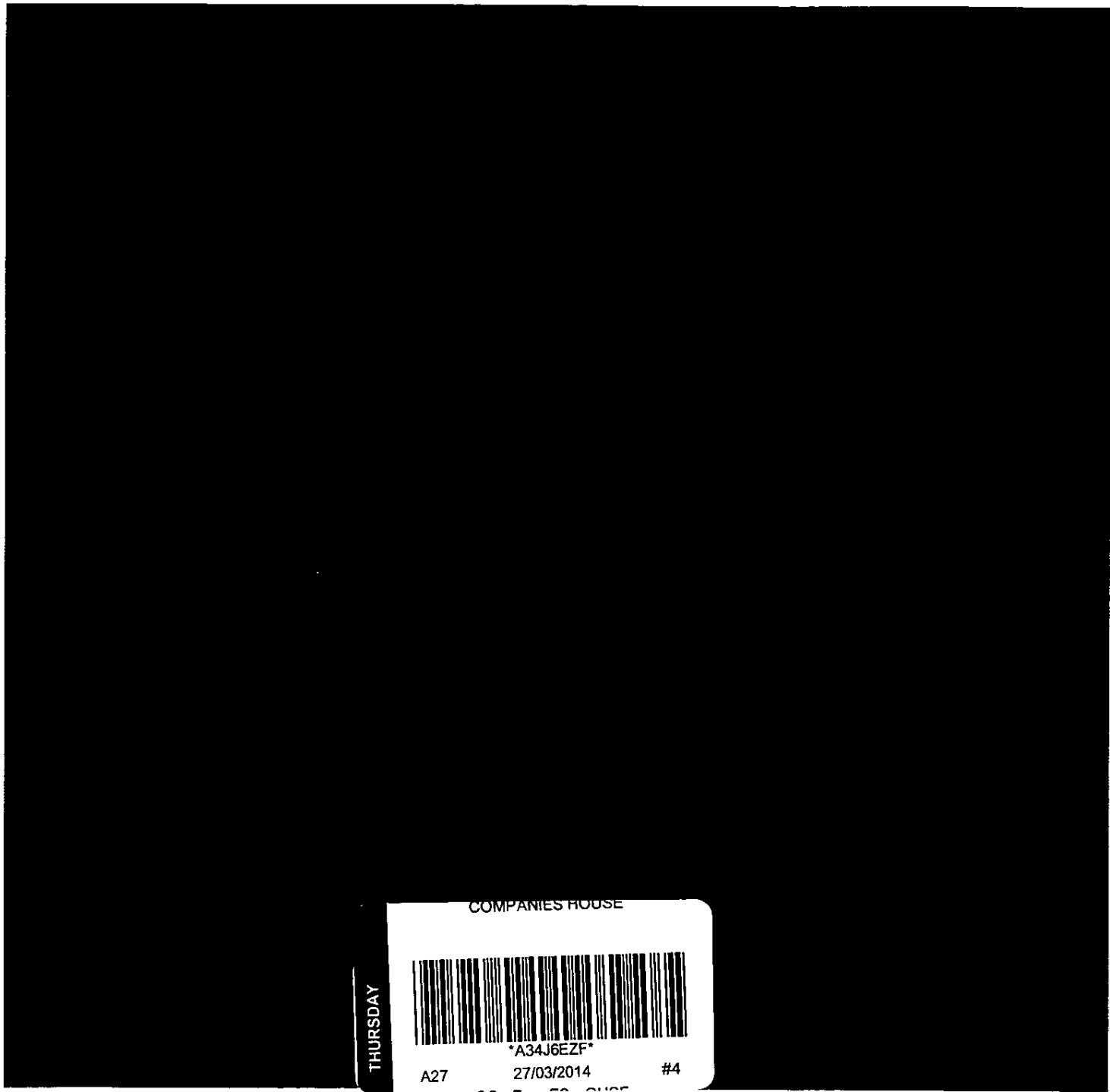



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COMPANIES HOUSE

THURSDAY



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## FINANCIAL REPORT

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# FINNAIR GROUP KEY FIGURES

FINNAIR GROUP KEY FIGURES		2007	2006	2005
Turnover	EUR mill	2,181	1,990	1,871
Operating profit (adjusted) EBIT <sup>1)</sup>	EUR mill	97	11	70
Operating profit (adjusted) <sup>1)</sup> % of turnover	%	4.4	0.6	3.7
Operating profit, EBIT	EUR mill	142	-11	82
Result before taxes	EUR mill	139	-15	88
Unit revenues on flight operations	c/RTK	72.6	74.0	73.7
Unit costs on flight operations	c/ATK	43.5	46.0	45.3
Earnings per share	EUR	1.04	-0.14	0.66
Equity per share	EUR	7.70	6.14	6.91
Gross investment	EUR mill	326	252	58
Interest-bearing net debt	EUR mill	-222	43	-155
Equity ratio	%	47.0	37.2	42.2
Gearing	%	-22.5	7.1	-25.1
Adjusted gearing	%	35.1	112.8	66.8
Return on capital employed (ROCE)	%	14.2	-0.1	11.1
Average number of employees		9,480	9,598	9,447

<sup>1)</sup> Excluding capital gains, non recurring items and changes in fair value of derivatives

**FINNAIR GROUP FLEET 7 January 2008**

	Seats	Number	Owned	Leased	Average age
Airbus A319	105-123	11	7	4	6.2
Airbus A320	111-159	12	6	6	5.4
Airbus A321	136-196	6	4	2	6.9
Airbus A340	269-295	3	3	0	4.8
Boeing MD-11	282	7	2	5	13.5
Boeing B757	227	7	0	7	8.6
Embraer 170	76	10	6	4	1.7
Embraer 190	100	6	4	2	0.6
<b>Total</b>		<b>62</b>	<b>32</b>	<b>30</b>	<b>5.9</b>

The ATR 72 aircraft were flown by Aero Airlines. Aero discontinued its operations on 6 January 2008, and the ATR 72 aircraft were sold at the same time.

The Group's six owned Boeing MD-80 aircraft were used by FlyNordic on 31 December 2007. Finnair sold FlyNordic in July 2007.

The average age of Finnair scheduled traffic European traffic fleet is 4.4 years.

**FINNAIR TRAFFIC PERFORMANCE 2003-2007**

		2007	2006	2005	2004	2003
Flight hours		228,487	211,813	202,070	196,795	172,884
Flight kilometres	1,000	147,094	133,890	125,410	121,027	113,892
Available seat kilometres	mill	26,878	23,846	23,038	21,907	18,644
Revenue passenger kilometres	mill	20,304	17,923	16,735	15,604	12,971
Passenger load factor	%	75.5	75.2	72.6	71.2	69.6
Available tonne kilometres	mill	4,074	3,602	3,400	3,162	2,636
Revenue tonne kilometres	mill	2,365	2,100	1,940	1,791	1,470
Overall load factor	%	58.0	58.3	57	56.6	55.8
Passengers	1,000	8,653	8,792	8,517	8,149	6,849
Cargo and mail	1,000 kg	98,684	93,807	90,242	86,245	73,416

# BOARD OF DIRECTORS' REPORT FOR THE FINANCIAL YEAR, 1 JAN - 31 DEC 2007

## MARKET AND GENERAL REVIEW

2007 was a year of profitable growth in the Finnair Group. Finnair traffic grew clearly more strongly than the European average and the company's profitability improved significantly.

Passenger kilometres of member airlines of the Association of European airlines AEA grew on average by five per cent in 2007. The biggest growth in passenger numbers occurred in European internal traffic as well as on medium-haul flights to destinations outside Europe.

The focus of growth in long-haul traffic was traffic between Europe and South America. In Asian traffic, European airlines' capacity was at the 2006 level. Passenger numbers rose by 0.5 million, of which around half was an increase brought by growth in Finnair's Asian traffic.

In Europe-Asia traffic Finnair is among the ten most significant operators. Finnair's market share is fourth biggest among European airlines in Europe-Asia

traffic. Finnair's objective is to continue growth to Asian destinations and its vision is to become the airline of choice for long-haul travel in the northern hemisphere.

Last year, Finnair carried more than 11 million passengers in Asian traffic. Asian traffic growth was more than 30 per cent from the previous year. Scheduled passenger traffic overall grew by nearly 20 per cent, and including leisure flights Finnair's traffic performance grew by 13 per cent.

Capacity was increased by acquiring two long-haul Airbus A340 aircraft in June. The long-haul traffic fleet modernisation is proceeding on schedule. This year, two new Airbus wide-bodied aircraft will join Finnair's fleet, marking the beginning of the Boeing MD-11 aircraft replacement investments. Five new 100-seat Embraer 190 jet aircraft were acquired for European traffic.

To finance the fleet investment programme, a 248 million euro share issue directed at existing shareholders was

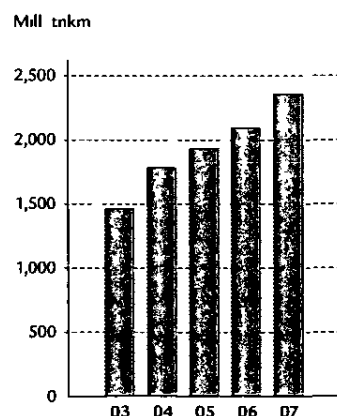
arranged in November-December.

Unit revenues for Finnair's air traffic fell due to a change of traffic structure. Unit revenues were also burdened by new route openings that took place in the summer and a capacity increase in Europe-Asia traffic, which led to flights being sold with more aggressive pricing. Towards the end of 2007, the fall in unit revenues levelled off as expected.

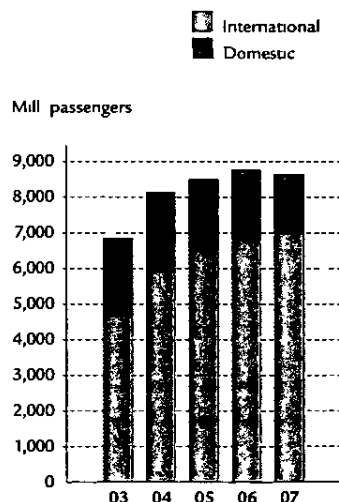
Despite record fuel prices, unit costs for air traffic have continued to fall in line with targets and more strongly than unit revenues, which has improved the profitability of air traffic. Key factors in the decline of unit costs were more efficient fleet utilisation and an improvement in staff productivity.

In terms of functions supporting air traffic, significant cost savings have been achieved, for example, in Finnair Technical Services, where operational productivity has been improved through a competitiveness project. Costs of ground handling activity rose from 2006, particularly due

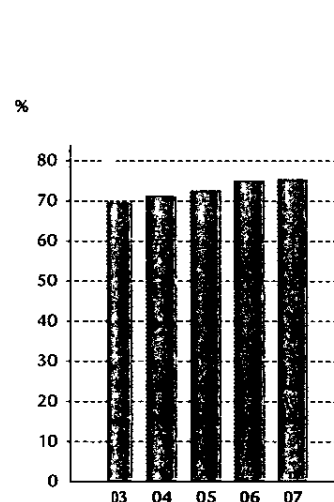
**Revenue**  
tonne kilometers



**Number of  
passengers**



**Passenger  
local factor**



to the start-up of operations in Norway. In the final quarter of last year, ground handling operations in Norway and Sweden were sold.

The efficiency programme initiated in May 2006, which aims to cut costs by 80 million euros per year, has proceeded according to plan. About 50 million euros of the programme's impact is evident in the 2007 result, weighted toward the second half of the year. The full impact on profit will be obtained in 2008.

Of seven collective employment agreements, six were renewed in October-November. Negotiations to renew the collective employment agreement of pilots, which ends in the spring, are under way.

The punctuality of European airlines fell last year. The punctuality of Finnair's flights last year was also lower than the previous year. Last summer, delays were caused by increased traffic in relation to the capacity of Helsinki-Vantaa Airport. The number of delayed flights in December was also exceptionally high. In terms

of baggage, problems were caused, among other things, by the perceived terrorist threat in the UK, which overextended baggage streams at European airports.

Air cargo traffic on Finnair's Asian flights grew due to an increase in capacity. Average prices fell, particularly on the Scandinavian market, due to overcapacity after Asian companies opened cargo routes from Sweden. In the latter half of the year, cargo demand increased and the fall in average prices levelled off.

The agreement made in July on the sale of Finnair's Swedish subsidiary FlyNordic to Norwegian Air Shuttle was finalised in the autumn. As a result of the deal, Finnair acquired five per cent of Norwegian's shares and an option to increase its ownership to ten per cent. In the third quarter, a non-recurring item improving the operating profit by around 14 million euros was recognised for the deal. In addition, deepening of cooperation between Finnair and Norwegian was agreed.

The operations of the Estonian sub-

sidary Aero were discontinued at the beginning of 2008 and all seven ATR 72 turbo-prop aircraft were sold. At the same time, this marked the end of Finnair's propeller traffic, which had continued uninterrupted since 1924.

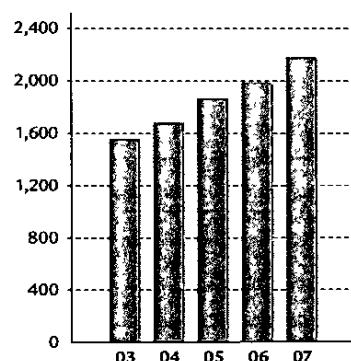
The Group's package tour operator, Aurinkomatkat-Suntours expanded last year with company acquisitions in the Baltic states and Russia.

#### FINANCIAL RESULT, 1 JANUARY-31 DECEMBER 2007

Turnover rose 9.6 per cent to 2,180.5 million euros (1,989.6). The Group's operational result, i.e. EBIT excluding capital gains, non-recurring items and changes in the fair value of derivatives, rose to 96.6 million euros (11.2). Adjusted operating margin was 4.4 per cent (0.6). The result before taxes was a profit of 138.9 million euros (14.7 million loss). Changes in the fair value of derivatives improved the result for the full year by 14.5 million euros, but this has no effect on cash flow.

#### Turnover

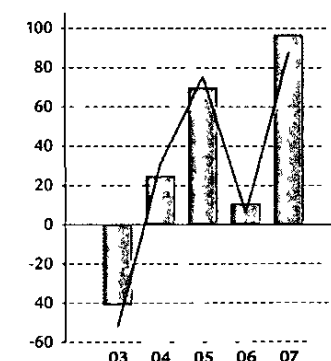
EUR mill



#### EBIT<sup>\*)</sup>

<sup>\*)</sup> Excluding capital gains, non-recurring items and changes in fair value of derivatives. — % of turnover

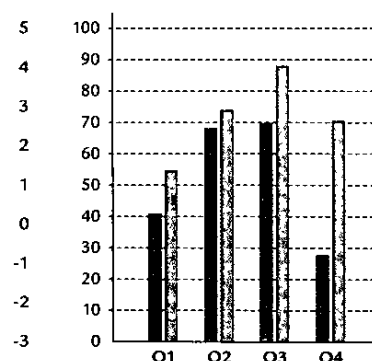
EUR mill



#### EBITDAR<sup>\*)</sup>

<sup>\*)</sup> Excluding capital gains, non-recurring items and changes in fair value of derivatives. ■ 2006 □ 2007

% EUR mill



In 2007, Finnair's passenger traffic capacity grew 12.7 per cent and revenue passenger kilometres by 13.3 per cent, Asian traffic grew 32.6 per cent. In European traffic, revenue passenger kilometres grew more modestly due to the sale of FlyNordic in July. In the second half of the year, FlyNordic was no longer included in the Finnair Group's traffic performance figure. Passenger load factor rose 0.4 percentage points from the previous year to 75.5 per cent. The amount of cargo carried grew by 5.2 per cent.

Due to growth in long-haul traffic, total unit revenues per passenger kilometre in scheduled passenger and leisure traffic fell by two per cent. FlyNordic eliminated unit revenues declined one per cent. Yield per passenger rose by 8.3 per cent. Unit revenues per tonne kilometre for cargo traffic declined by 3.1 per cent. Weighted unit revenues for passenger and cargo traffic fell by 1.9 per cent.

In 2007 euro-denominated operating costs were 3.6 per cent higher than the previous year. Relative to traffic perform-

ance, units costs for flight operations fell 5.4 per cent, and excluding fuel costs 7.4 per cent. Finnair's fuel costs in 2007 totalled 440 million euros, some 55 million euros, i.e. 14.3 per cent higher than in 2006. Fuel costs were equivalent to 20.2 per cent (19.4) of the Group's turnover.

Personnel expenses rose in 2007 by 6.6 per cent partly due to incentive bonus provisions made as a result of a significant improvement in profit as well as a higher pension insurance contribution class. The underlying total of salaries paid has grown by around 14 million euros, i.e. nearly four per cent.

Leasing payments fell by more than ten per cent, as leasing agreements of three Boeing 757 aircraft used by Leisure Flights were renegotiated on more favourable financial terms and also due to weakening of USD. The agreements of four other leisure flight aircraft were renewed in 2006. The fall in the item "Other rental payments" is due to a reduction in passenger seats and cargo space leased from other airlines as well as fewer equipment rentals.

The item "Fleet materials and overhauls" fell 23.8 per cent from 2006. One important factor was a fall in overhaul costs due to new aircraft. In addition, in the comparison year, particularly in the final quarter, there were excess depreciations of the spare part inventory as well as subcontracting costs, of which there were none in 2007.

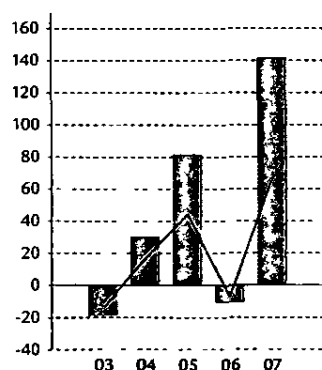
Depreciation have risen by around seven per cent and traffic charges have risen by around nine per cent as a consequence of new aircraft and increased traffic. In addition, in depreciation a non-recurring item of 3.0 million euros for excess depreciation for the Boeing MD-80 fleet, owned by Finnair Aircraft Finance and used by FlyNordic has been recognised. Year 2007 in context of selling FlyNordic, goodwill of 1.8 million euros was removed from the balance sheet. The change in the fair value of derivatives has been recognised in the item "Other expenses".

Ground handling and catering expenses rose by 10.7 per cent due to a growth in passenger numbers, particularly in long-

### Operating profit EBIT

— % of turnover

EUR mill

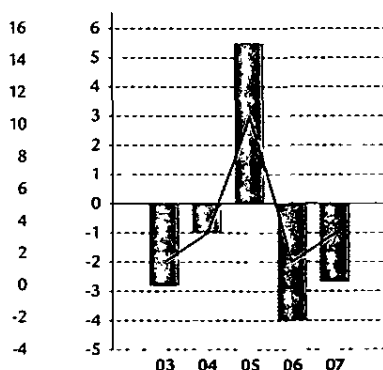


### Financial income and expenses

— % of turnover

%

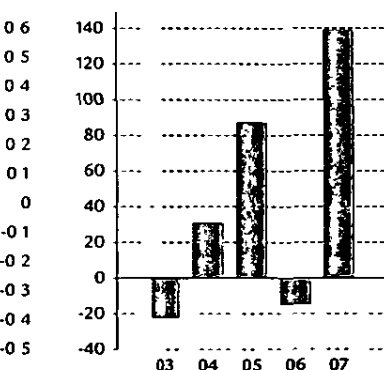
EUR mill



### Result before taxes

%

EUR mill



haul traffic business class, which has increased its catering expenses. Package tour production costs grew 8.9 per cent, because customers have moved to an increasing extent to more expensive categories of hotel.

Earnings per share for the full year amounted to 1.04 euros (-0.14). Equity per share at the end of the year was 7.70 euros (6.14).

Any comparison should also take into consideration the fact that more than 15 million euros of non-recurring expenses relating to the restructuring programme were recognised in the second quarter of 2006, which is evident in cumulative operating expenses. In the comparison of the operational result, restructuring expenses have been eliminated.

#### INVESTMENT, FINANCING AND RISK MANAGEMENT

Investments in 2007 rose to 326.3 million euros (252.2 million), as a substantial modernisation programme of the wide-bodied fleet was initiated. The investments include

two Airbus A340 wide-bodied aircraft and five Embraer 190 aircraft. Including advance payments, the cash flow impact of fleet and auxiliary investments was around 300 million euros in 2007. The cash flow impact of the new aircraft acquisition programme and auxiliary investments in 2008 will be around 250 million and in 2009 more than 400 million euros. The final investment sum will depend on how many of the aircraft are acquired on operational leasing agreements.

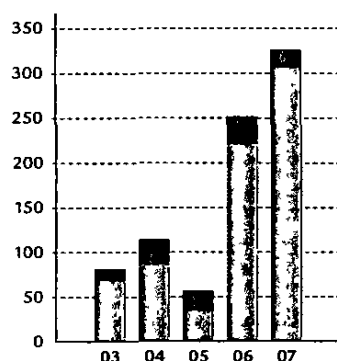
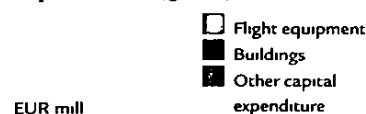
A share issue directed at existing shareholders was implemented in December and it strengthened the company's cash reserves by 243.8 million euros. The cash will be used mainly for future aircraft acquisitions. The funds have been invested temporarily in commercial paper and bank certificates of deposit whose maturity is less than 12 months. At the end of the year, the Group had balance sheet cash and cash equivalents amounting to 540.1 million euros, in addition to which there was a total of 250 million euros in unused committed credit facilities.

Operational net cash flow was 301.8 million euros, compared with 95.8 million euros a year earlier. Due to an improvement in cash flow from operations and the share issue, gearing fell from 71 per cent at the beginning of the year to a debt-free position, namely -22.5 per cent at the end of the year. Gearing adjusted for leasing liabilities was 35.1 per cent (112.8%). The equity ratio correspondingly rose from the previous year by 9.8 percentage points to stand at 47.0 per cent.

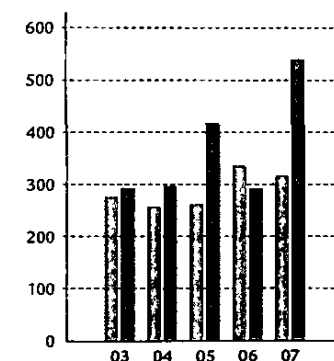
The income statement's financial items include an item that improves the result by around five million euros, which is the accounting valuation of the Norwegian Air Shuttle share options owned by Finnair. If Finnair exercise the options by the end of 2008, its holding in Norwegian will rise to more than ten per cent.

According to the financial risk management policy approved by Finnair's Board of Directors, the company has hedged 70 per cent of scheduled traffic's jet fuel purchases during the next six months and thereafter for the following 30 months.

#### Capital expenditure (gross)

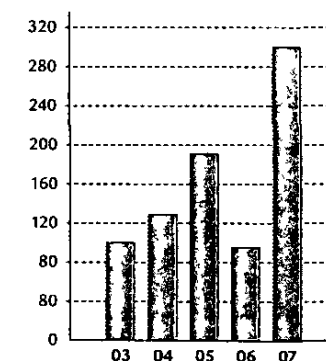


#### Interest bearing liabilities and liquid funds



#### Cash flow from operating activities

EUR mill





with a decreasing level of hedging. Finnair Leisure Flights price hedges fuel consumption according to its agreed traffic programme within the framework of the hedging policy. Derivatives linked to jet fuel and gasoil prices are mainly used as the fuel price hedging instrument.

Under IFRS rules, a change during the financial period in the fair value of fuel- and foreign currency-related derivatives that mature in future is recognised in the Finnair income statement item "Other expenses". The said change in the fair value of derivatives is not a realised hedging gain nor does it have an effect on cash flow, it is a valuation gain in accordance with IFRS reporting practice. In 2007 the change in the fair value of derivatives was +14.5 million euros.

When compared to previous year, a weakening of the US dollar against the euro had a positive impact on Finnair's operational result of around fifteen million euros, taking foreign currency hedging into account. At the end of December, the

degree of hedging for a dollar basket over the following 12 months was 57 per cent.

#### SHARES AND SHARE CAPITAL

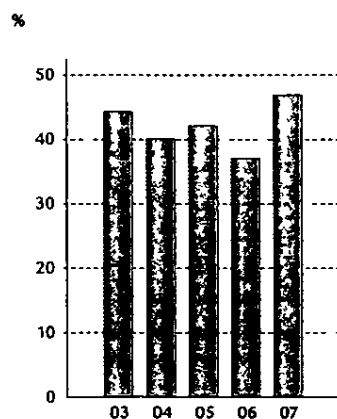
Finnair's market value at the end of the year was 1,036.6 million euros (1,101.5 million) and the closing share price was 8.09 euros. During 2007 the highest price for the Finnair share on the Helsinki Stock Exchange was 14.35 euros (15.00), while the lowest price was 7.51 euros (10.01) and the average price 10.01 euros (12.50). The fall in the price at the end of the year was also influenced by the separation of the subscription right from the share. Some 37.7 million (30.0 million) of the company's shares, with a value of Euros 377.2 million (374.6 million), were traded on the Helsinki Stock Exchange.

Finnair arranged a share issue November 29–December 17, 2007. In the share issue, 39,379,757 new shares were offered to the company's shareholders for subscription in proportion to their existing shareholdings. In the share issue, for every

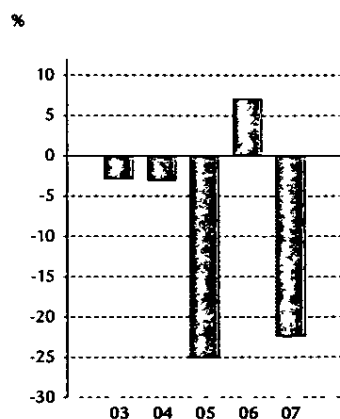
nine subscription rights, shareholders were entitled to subscribe for four new shares at a price of 6.30 euros per share. All of the shares offered in the issue were subscribed and paid for. The new shares were entered in the Trade Register in December 2007, after which the number of shares recorded in Finnair's trade register entry was 128,136,115 at the end of the year. The registered share capital was 75,442,904.30 euros. The Finnish State owned 55.8 per cent (55.8%) of Finnair's shares, while 21.7 per cent (34.5%) were held by foreign investors or in the name of a nominee.

At the beginning of the financial year, Finnair held 151,903 of its own shares, which it had purchased in previous years. The Annual General Meeting held on 22 March 2007 authorised the Board of Directors for a period of one year to purchase the company's own shares up to a maximum of 3,500,000 shares and dispose of the company's own shares up to a maximum of 3,651,000 shares. The authorisation applies to shares amount-

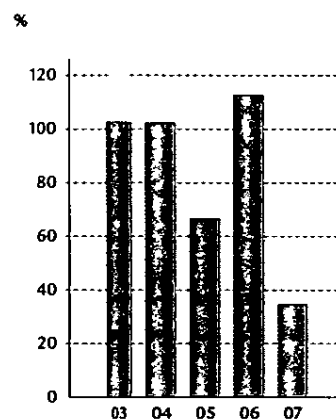
#### Equity ratio



#### Gearing



#### Adjusted gearing



ing to less than five per cent of the company's share capital. In 2007 Finnair did not acquire nor dispose of its own shares. At the end of the year, Finnair held 151,903 of its own shares, namely 0.12 per cent of the total number of shares outstanding on the last day of the year.

#### BOARD OF DIRECTORS AND SENIOR MANAGEMENT

At the Annual General Meeting held on 22 March 2007, the following former members were elected as members of Finnair Plc's Board of Directors for a term lasting until the end of the next Annual General Meeting: Christoffer Taxell (Chairman), Kalevi Alestalo, Satu Huber, Markku Hyvarinen, Kari Jordan, Ursula Ranin and Veli Sundback. In addition, a new member, Sigurdur Helgason, was elected.

PricewaterhouseCoopers Ltd, Authorised Public Accountants, were elected as the company's regular auditors. Eero Suomela, Authorised Public Accountant, as auditor with main responsibility, and

Jyri Heikkinen APA, Tuomas Honkamäki APA and Timo Takalo APA as deputy auditors.

Anssi Komulainen, began as SVP Human Resources on 1 February 2007. He moved to the post from his duties as Managing Director of Finnair Catering Oy. In his place, Kristina Inkilainen was appointed Managing Director of Finnair Catering Oy and SVP Catering as of 30 April 2007.

Finnair's Legal Counsel Sami Sarelius was appointed Vice President and General Counsel of the company as of 1 February 2007. He also acts as secretary to the company's Board of Directors and Board of Management.

Tero Vauraste, Managing Director of the Group's ground handling company Northport Oy, resigned from his post on 31 May 2007. He was succeeded as Managing Director of the company by Jukka Hamalainen as of 13 August 2007.

SVP Flight Operations Hannes Bjurström resigned from the company on 1 November 2007. He was succeeded by

Veikko Sievanen, who previously served as Finnair's Chief Pilot.

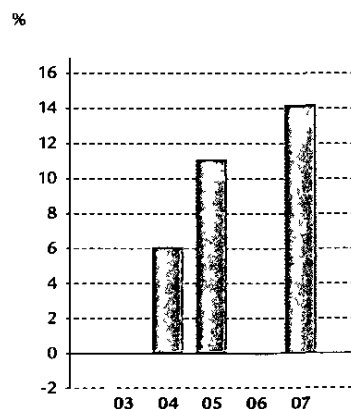
Finnair's Corporate Governance is outlined in more detail in the Financial Report section of the annual report.

#### PERSONNEL

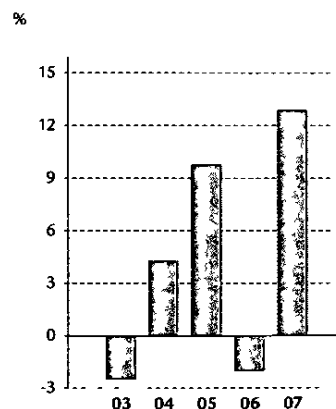
During 2007, the Finnair Group had an average number of 9,480 (9,598) employees, which was 1.2 per cent fewer than a year earlier. Scheduled Passenger Traffic had 4,151 employees and Leisure Traffic 372 employees. The total number of personnel in technical, catering and ground handling services was 3,674 and in travel services 1,129. A total of 154 people were employed in other functions.

As part of an 80 million euro efficiency programme, Finnair announced in May 2006 a target of cutting 670 jobs, mainly in Finnair Technical Services and in administrative support functions by the end of 2007. The reductions according to the programme have been for the most part implemented. The number of personnel in group

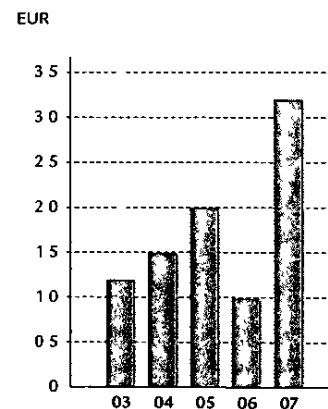
*Return on  
capital employed*



*Return on equity*



*Cash flow/share*



administration and support functions was cut by a third. The number of personnel in other business areas has declined or remained as before. The number of personnel in Leisure Traffic rose by 8.5 per cent due to company acquisitions abroad. Because of traffic growth, an additional 210 flight personnel were employed.

At the end of the year, Finnair Group had around 750 employees outside of Finland, of which 250 worked in sales and customer service duties for Finnair's passenger and cargo traffic. There are a total of 500 employees working for travel agencies and tour operators based in the Baltic states and Russia, and as guides at Aurinkomatkat-Suntours' holiday destinations. Foreign personnel are included in the total number of Group employees.

Full-time staff account for 92 per cent of employees. Around half of part-time

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

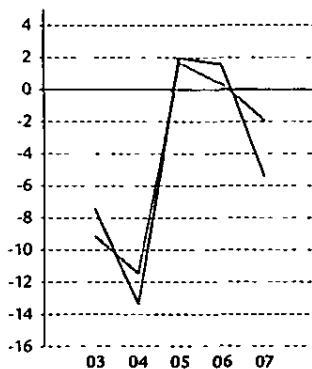
Employees' average length of service is 13 years. One third of Finnair's personnel have been in the service of the Group for more than 20 years. Nearly half of these have been employed for more than 30 years.

Of Finnair Group personnel, half are women and half are men. Of the twelve members of the Finnair Group's Board of Management, two are women. Two of the eight members of Finnair Plc's Board of Directors are women.

#### Unit revenues and costs

— Unit revenues, c/RTK  
— Unit costs, c/ATK

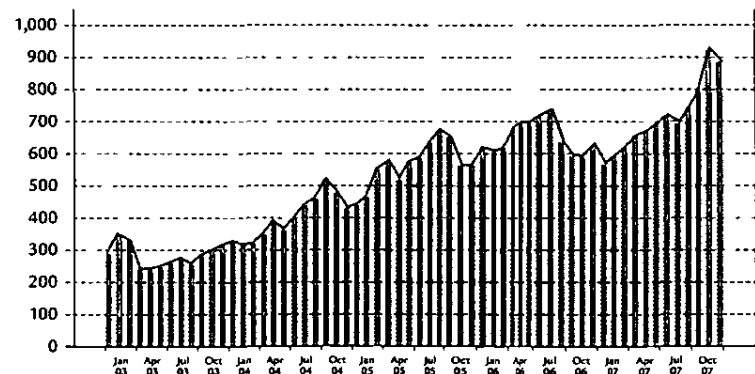
Change %



#### Jet Fuel market price (CIF NWE) 2003–2007, USD/tonne

— Jet Fuel CIF NWE

Index



During October-November, Finnair agreed with six labour unions new collective employment agreements, which will run until spring 2010. The salary increases agreed in the collective employment agreements impose pressures to continue improving productivity, especially in labour-intensive business units.

According to the agreement, salaries will rise in the first year by 4–5 per cent and in the second year by 3–4 per cent. Improvements were also agreed in flexibility of labour as well as the introduction of performance-related remuneration models. The pilots' current collective employment agreement will expire at the end of April 2008. Negotiations on a new collective employment agreement have already begun.

Incentive bonuses, including social expenses, amounting to about 13 million euros are expected to be paid to personnel for 2007, and about 9.5 million euros in profit bonus into the Personnel Fund Reserves for incentives under the share bonus scheme for key individuals, totalling about 9 million euros, have also been made. The total sum of all incentives is about 32 million euros.

#### FLEET CHANGES

Finnair Group's fleet is managed by Finnair Aircraft Finance Oy, which belongs to the Scheduled Passenger Traffic business area. At the end of the year the Finnair Group had a total of 62 aircraft in flight operations. The average age of the Finnair Scheduled Passenger Traffic's entire fleet was 5.9 years. In European traffic, the average age of the fleet is 4.4 years. Finnair has at its disposal the most modern fleet in European air traffic, which brings both cost savings and eco-efficiency.

Finnair's long-haul fleet consists of three Airbus A340 aircraft and seven Boeing MD-11 aircraft. The MD-11 aircraft will be replaced with twin-engine Airbus A330 wide-bodied aircraft by spring 2010. Five Boeing MD-11 aircraft will be

withdrawn from Finnair's ranks in 2008–2010 as their leasing agreements expire. Agreements to sell the two aircraft in Finnair's ownership to Aeroflot Cargo have been made and they will transfer to their new owner in autumn 2008 and in summer 2009.

Because the selling price of the MD-11 aircraft exceeds their book value, depreciation for their remaining time of use has been reduced so that no significant capital gains on the sales arise at the end of the period. Due to the change, monthly depreciation up to the time of the withdrawal of the MD-11 aircraft will be around 0.7 million euros lower compared with the previous depreciation programme.

The long-haul fleet modernisation programme includes an order for two Airbus A340 aircraft for 2008 and an order for eight Airbus A330 aircraft for 2009–2010, as well as options for two more. Through the programme, the Finnair long-haul fleet can be increased from the present ten aircraft to 15 aircraft by the end of the decade.

In 2014–2016, Finnair will acquire new technology A350XWB aircraft. Finnair has placed firm orders for 11 of this type of aircraft and has options for four more.

The Embraer aircraft acquisition programme, which began in autumn 2005, continues. The number of Embraer aircraft ordered is 20, of which ten are the 76-seat 170 model and ten the 100-seat 190 model. All ten Embraer 170 aircraft as well as six Embraer 190s have already been delivered to Finnair. In 2008 will come two more Embraer 190s and in 2009 a further two. Finnair also has options for six additional Embraer aircraft.

After the withdrawal of the MD 11 aircraft, the company's scheduled passenger traffic fleet will consist solely of modern Airbus A320, A330 and A340 aircraft as well as Embraer 170 and 190 aircraft.

The total value of the planned aircraft acquisitions is around two billion euros,

which also includes supporting investments, such as maintenance hangars as well as spare engines and parts.

The fleet renewal will create a good framework for lowering operating costs and improving profitability. The commonality of the fleet will boost the efficiency of crew utilisation and maintenance work. The lower fuel consumption of the new aircraft will bring savings and cut emissions.

Winglets have been fitted to the seven Boeing 757 aircraft used by Finnair Leisure Flights. The modification has improved the aircraft's aerodynamics and consequently reduced fuel consumption and emissions by five per cent.

Four of the ATR 2007 turboprop aircraft used by the Estonian subsidiary Aero Airlines AS were sold in summer 2007, for which a capital gain was recognised in the second and third quarters. Aero's traffic was discontinued on 6 January 2008. The remaining ATR aircraft have been sold and a capital gain will be recognised in the first half of the current year.

#### ENVIRONMENT

In 2007 the EU prepared two different models for the implementation of emissions trading in air traffic starting in 2012. The emissions trading calculation principles take into account the performance undertaken for the fuel consumed. Finnair will respond positively to the emissions trading principles and will strive as part of the community of European airlines to argue successfully that the system should be worldwide and not distort competition in the industry.

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

Finnair takes the environment into consideration in all of its actions and deci-

sions. Finnair's environmental issues are outlined in more detail in the annual report and on the Finnair website.

Kati Ihamäki MSc(Econ) has been appointed as Finnair's VP, Sustainable Development as of 1 February 2008. Her task will be to promote the realisation of Finnair's environmental goals in the Group's business operations, such that Finnair can be among the leading airlines in environmental activities. She will also be responsible for coordinating environmental strategy and emissions trading projects as well as for integrating environmental issues into Finnair's competitive strategy.

#### PERFORMANCE OF BUSINESS AREAS

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

#### SCHEDULED PASSENGER TRAFFIC

This business area is responsible for sales of scheduled passenger traffic and cargo, service concepts, flight operations and activity connected with the procurement and financing of aircraft. Scheduled Passenger Traffic leases to Leisure Traffic the crews and aircraft it requires. The business area consists of the following units and companies: Finnair Scheduled Passenger Traffic, Finnair Cargo Oy and Finnair Aircraft Finance Oy. The Swedish subsidiary FlyNordic, sold in July 2007, is included for a six-month period, and the Estonian subsidiary Aero Airlines, whose operations were discontinued on 6 January 2008, is included in the 2007 figures for the whole of the year.

In 2007 the business area's turnover grew by 10.7 per cent to 1,685.3 million euros (1,522.1 million). The operational result, i.e. adjusted EBIT, was 76.2 million euros (28.6 million).

Scheduled Passenger Traffic carried nearly 7.5 million passengers in 2007. Scheduled Passenger Traffic's revenue passenger kilometres grew by 18.5 per cent, while capacity grew by 16.3 per cent, leading to an improvement in passenger load factor by 1.3 percentage points to 72.9 per cent.

Unit revenues for scheduled passenger traffic fell 4.6 per cent in 2007. FlyNordic eliminated unit revenues declined 3.8 per cent. Growth of the relative share of long-haul traffic in scheduled traffic as a whole contributed to the decline in unit revenues. In long-haul traffic, passenger kilometre-based unit revenue is lower than in European and domestic traffic. In long-haul traffic, however, average prices rose from the previous year. In domestic traffic, on the other hand, the decline in price levels continued.

Cargo revenues account for a good ten per cent of all Scheduled Passenger Traffic's revenues. Unit revenues for cargo declined by 3.1 per cent in 2007. The total amount of cargo carried in scheduled passenger traffic grew by 5.2 per cent. The amount of cargo carried in Asian traffic rose by 24.5 per cent from the previous year.

Finnair Cargo Oy's profitability improved significantly in 2007. One key reason for the profit improvement was the significant cut in July 2007 of cargo capacity leased externally.

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

During 2007, the arrival punctuality of scheduled passenger flights fell by four percentage points to 80.4 per cent (84.4%). The weakening of punctuality has resulted particularly from the increasing complexity of the company's network structure.

Finnair is still among the ten most punctual European airlines and one of the best network companies. Special attention will be directed at production planning and supervision by improving processes and cooperation between units.

At the end of July 2007, Finnair sold its Swedish subsidiary FlyNordic to Norwegian Air Shuttle AS. Finnair and Norwegian Air Shuttle have also agreed to deepen cooperation between the companies. The goal is that Norwegian Air Shuttle's Scandinavian route network will be linked to Finnair's increasing Asian connections, whereby growing demand in Asia for tours of the Nordic countries and Central Europe can be satisfied better.

#### LEISURE TRAFFIC

This business area consists of Finnair Leisure Flights and the Aurinkomatkat-Suntours package tour company as well as its Estonian subsidiary Horizon Travel and the TakeOFF brand, which focuses on youth travel. Aurinkomatkat-Suntours is Finland's leading tour operator, with a market share of 37 per cent. Finnair Leisure Flights has a strong market leadership in leisure travel flights. The company has ten tour operators as customers. The tour operators buy for their use and at their own risk the flight series they wish to holiday destinations either for the summer or winter season.

In 2007 Finnair Leisure Flights carried nearly 1.2 million passengers. Tour operators cut their capacity due to overcapacity the previous year, which meant that performance calculated in passenger kilometres was 1.4 per cent less than a year earlier. Growth of long-haul destinations increased revenue passenger kilometres by 0.3 per cent, so the passenger load factor for leisure flights fell 1.4 percentage points to 86.0 per cent.

Internet sales to consumers of mere aircraft seats to holiday destinations grew strongly. In the winter season, there were 12 return flights a week to Asia. Winglets

were fitted to the Boeing 757 fleet used by Leisure Flights. These reduced fuel consumption by five per cent and compensated to some degree the effect on profitability of rising fuel prices. Due to efficiency measures and sales of additional services, Leisure Flights' result was very good.

Aurinkomatkat-Suntours' passenger numbers declined by three per cent in 2007 to around 335,000 passengers. Price levels remained good, however, particularly in the case of winter long-haul trips. The result improved significantly from the previous year and was clearly in profit. In 2007 Aurinkomatkat-Suntours purchased Estonia's second biggest, and strongly growing tour operator Ou Horizon Travel. The company exceeded the profit targets set for it. At the turn of the year, Aurinkomatkat-Suntours bought the St. Petersburg travel agency and tour operator Calypso AS. The company is known for its quality tours and tailored VIP trips.

In 2007, turnover rose by 5.9 per cent to 409.6 million euros. The operational result, i.e. adjusted EBIT, improved by 30.1 per cent to 24.2 million euros (18.6 million).

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

#### AVIATION SERVICES

This business area comprises aircraft maintenance services, ground handling and the Group's catering operations. In addition, the Group's property holdings, the procurement of office services, and the management and maintenance of properties related to the Group's operational activities also belong to the Aviation Services business area.

In 2007 Aviation Services' turnover rose 6.5 per cent to 433.9 million euros. The operational result, i.e. adjusted EBIT, improved by 34.8 million euros and was a profit of 10.3 million euros (24.5 million loss). The business area's units have man-

aged to improve their profitability significantly.

The Catering business is the most profitable of the Aviation Services. Finnair Technical Services' profitability improved significantly from the previous year, and the unit broke even. In 2006 Finnair Technical Services was heavily loss-making.

In the years 2006–2007, Finnair Technical Services implemented a competition project that examined the whole organisation's business models as well as its revenue and cost structure. Business profitability has improved by developing work processes and operating models and by specialising only in maintenance services for certain aircraft types in which Finnair Technical Services has special expertise. At the same time, operations for which there is no commercial justification have been discontinued. Maintenance preparedness for types of aircraft that Finnair no longer flies has been mostly discontinued.

It is important for Finnair Technical Services' long-term functional capacity and profitability that the unit also has customers from outside the Group. At the end of 2007 it was agreed, among other things, that Technical Services would handle overhauls of the Russian airline Aeroflot Cargo's Boeing MD-11 fleet. The value of the eight-year contract is more than EUR 200 million euros.

Around 300 jobs were cut from Technical Services in the period 2006–2007. The reduction was implemented through various pension solutions, outsourcing of functions and redundancies. Only a small proportion of the reductions were in the line maintenance important for daily maintenance of aircraft.

The ground handling services company Northport Oy is still loss-making, but the sale of loss-making subsidiaries in Sweden and Norway alleviated Northport's losses. These foreign operations were sold to the international ground handling group Menzies Aviation.

#### TRAVEL SERVICES

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

The business area's net sales in 2007 fell by 5.8 per cent to 82.3 million euros (87.4 million), but the operational result, i.e. adjusted EBIT, rose to 2.9 million euros (2.3 million).

The Finnair Group's travel agencies, Finland Travel Bureau (FTB) and Area, are among the leading travel agencies in Finland. With the product's life cycle waning, FTB has discontinued the guided city breaks to European destinations produced under the name Etumatkat. The reduction in sales is evident as a fall in turnover.

Travel agencies' distribution is moving rapidly to the internet. Electronic sales doubled in 2007. Automation is being used to improve the efficiency of providing corporate travel services. Area is a pioneer among the traditional travel agencies in electronic services. FTB has implemented a structural change programme to adapt the office network and to improve functions and profitability.

Estravel again met with success in the Baltic states. In Estonia the company's market share is 37 per cent. Amadeus Finland, a provider of travel reservation and information systems to travel agencies, brought to the market many new services relating to companies' and travel agencies' travel management. Increased travel by Finns is boosting the company's turnover.

#### AIR TRAFFIC SERVICES AND PRODUCTS

Finnair has focused on traffic between Europe and Asia, offering Finns efficient and diverse connections to the world. More than half of scheduled traffic revenue is linked to Asian traffic. Finnair has a total

of 61 direct flights per week to ten Asian destinations

A new Asian destination, Mumbai in India, was opened in June 2007 with five flights per week. In June 2008 the flight frequency to Mumbai will rise to six, and at the same time Finnair will begin direct flights to the South Korean capital Seoul. The route will be flown five times per week. Other Asian destinations are Bangkok, Beijing, Delhi, Guangzhou, Hong Kong, Nagoya, Osaka, Shanghai and Tokyo.

Finnair's long-haul strategy exploits Helsinki's ideal location on flight routes between Asia and Europe. This competitive advantage also gives rise to the Via Helsinki concept, a collaborative effort of Finnair and Finavia, which means the shortest possible route, efficient and un congested transit connections, new kinds of airport services, and making travelling a pleasant experience.

A terminal extension at Helsinki-Vantaa Airport intended to service Asian traffic in particular will open in 2009. Flights covering 45 European and 13 domestic destinations connect into Finnair's Asia network. At the same time, a wide selection of direct connections are offered from Finland to the rest of Europe. In spring 2007, Finnair opened new, all-year-round destinations, namely Bucharest, Lisbon and Ljubljana.

In July American Airlines, Finnair and three other European oneworld airlines - Iberia, Malév and Royal Jordanian - applied for antitrust immunity (ATI) from the United States' Department of Transport (DOT). The oneworld partners wish to expand their cooperation in, among other things, traffic and route planning, marketing, pricing, frequent-flyer schemes, cargo transportation, and information and distribution systems.

In their bilateral cooperation, Finnair and American Airlines have had a valid antitrust immunity agreement since 2002. This is reflected, for example, in common pricing, increased onward connections

between Finland and the USA, and improved airport services.

Finnair Leisure Flights carries the customers of ten tour operators to 66 holiday destinations in 33 countries. In addition, flights alone can be purchased on the internet to dozens of Leisure Flights' destinations. Growth in Asian travel is also reflected in Leisure Flights. In the winter season, Leisure Flights will operate 12 weekly flights to Asia, including daily flights to Thailand. A new winter destination was Krabi in Thailand.

The Leisure Flights' fleet consists of seven Boeing 757 aircraft and Airbus capacity leased from Scheduled Passenger Traffic. At the beginning of 2007, Finnair Leisure Flights launched additional services that customers can pay for via the internet before their trip. Customers can, for example, order various meal options, choose a certain seat, or make arrangements for special baggage.

New seats with a slimmer structure have been fitted in the Airbus A320 and A321 aircraft mainly used in European traffic. The new seats have been designed so that leg room is not reduced, even though the seat spacing has been shortened. The seat renewal increased by 15 the number of seats in each of the 18 aircraft, while the weight of the aircraft was reduced by 1,200 kilos, thus enhancing fuel efficiency.

From December 2007 Finnair has, in cooperation with the insurance company AIG, offered passengers the opportunity to buy travel cancellation and interruption insurance from the website when booking flight tickets. Initially the service is being offered to customers who buy their trips in Finland, Germany and the UK. The goal is to offer the service in future in all of those markets where a Finnair ticket can be bought on the internet.

#### FINNAIR'S VISION 2017

In October 2007, Finnair published its long-term vision, which outlined the company's

future for ten years ahead. The company's objective is to offer customers the fastest flight connections in intercontinental traffic in the northern hemisphere. At the same time, Finnair aims to provide Finns with diverse connections to destinations all over the world. Finnair wishes to be the airline of choice for quality and environmentally conscious air travellers. Finnair also aims to be an attractive investment for shareholders.

The vision specifies scheduled traffic between Europe and Asia, and between North American and Asia, as the key growth areas, because the shortest routes between these continents pass over Scandinavia. Finnair expects traffic on these axes to grow strongly in the coming years. The opening of Russian air traffic in future will present opportunities to supplement the network.

In the vision, Helsinki-Vantaa Airport will play a natural role as a transit location. The intention of Finnair and Finavia is to develop Helsinki-Vantaa so that, in addition to basic services, changing aircraft at the airport becomes a travel experience in itself. The reliable image of Finnair and Finland in the world is a strength in a changing environment.

With its present fleet programme, Finnair's long-haul fleet can be increased to over 20 wide-bodied aircraft by 2017. Finnair's total passenger numbers can rise from the present nine million to over 20 million, and to clearly over three million passengers in long-haul traffic. The aim of the fleet modernisation is to create a fleet that is as modern, economic and environmentally positive as possible.

Finnair wants to be a responsible world citizen that takes the environment into consideration in everything it does. Finnair supports the International Air Transport Association IATA's target towards zero-emissions air transport. Decreasing the environmental load of air transport will facilitate growth in air travel also in the future.

Finnair considers that the significance of Asian airlines in intercontinental traffic will grow and that consolidation among airlines will continue. For Finnair, the most interesting future cooperation candidates are to be found among the quality Asian oneworld airline partners. The main goal for Finnair is to improve connections and services offered to customers while increasing value for shareholders.

Leisure Traffic is also part of Finnair's core business. The aim is to expand package tour and charter operations from the Finnish market into the Baltic Sea area, particularly the Baltic states and Russian market.

The Finnair brand's success factors will continue to be based in future on strong expertise and good networking. The value generated for a Finnish airline's customers will be based on safety, freshness, creativity and Finnishness, which are positive, differentiating qualities.

#### SHORT-TERM RISKS AND UNCERTAINTY FACTORS

Fuel costs constitute approximately one fifth of the Group's total costs and are one of the most significant uncertainty factors where costs are concerned. The price of oil has been at a record high during recent months. A degree of hedging in excess of 70 per cent and US dollar's relationship to the euro will dampen the influence of the oil price, but if the present trend continues, fuel costs will increase faster than operational performance.

A weakening in general economic conditions may slow growth of air travel.

Negotiations to renew the collective employment agreement of pilots, which ends on 30 April 2008, are under way.

#### OUTLOOK

The success of Finnair's scheduled passenger traffic is based on the fastest connection between Europe and Asia. For this reason, the company's investments are focused on ensuring the growth of Asian traffic.

Fleet acquisitions in the coming years will be aimed at improving competitiveness in long-haul traffic directed to Asia and in European feeder traffic.

In 2008 Asian traffic capacity will grow by more than 20 per cent when two new Airbus A340 aircraft join Finnair's long-haul fleet in the second and third quarters. A harmonised fleet will mean a more efficient cost structure due to more simplified crew utilisation and maintenance activities.

The majority of passengers on Finnair's Asian flights connect to the company's European network. Growth in Asian traffic will therefore be reflected also in demand for European traffic.

The price of fuel is expected to remain high and to exert pressure for ticket price increases whenever the market situation permits. Based on current fuel prices, fuel costs are expected to be over 22 per cent of the turnover in 2008.

Demand is expected to be good in the early part of the year, but a change in passenger preference from group travel to individual travel will also bring the making of reservations closer to the travel date. In terms of the timing of profit development, it is worth noting that Easter, when fewer higher-priced business trips are made, falls this year in the first quarter, when last year it was in the second quarter. In Leisure Traffic, strong demand for winter long-haul trips will be evident.

It is expected that the predicted slower growth in the global economy will have less impact on air traffic between Europe and Asia than on the development in certain other traffic areas.

Personnel will be increased to meet the needs of growing traffic. The salary increases agreed in the collective employment agreements will exert pressure to continue improving productivity. The profit impact of the 80 million restructuring programme implemented in 2006–2007 will be evident in full this year.



**SHARES AND SHAREHOLDERS****Shares and Share Capital**

On 31 December 2007 the company's registered share capital was 75,442,904 30 euros and number of shares issued was 128,136,115. Each share has one vote at the Annual General Meeting.

Finnair arranged a share issue November 29–December 17, 2007. In the share issue, 39,379,757 new shares were offered to the company's shareholders for subscription in proportion to their existing shareholdings. In the share issue, for every nine subscription rights, shareholders were entitled to subscribe for four new shares at a price of 6.30 euros per share. All of the shares offered in the issue were subscribed and paid for. The new shares were

entered in the Trade Register on 28 December 2007, after which the number of shares recorded in Finnair's trade register entry was 128,136,115.

**Share Quotations**

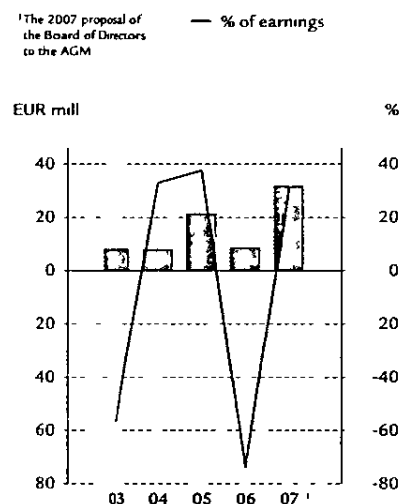
Finnair Plc shares are quoted on the Helsinki Stock Exchange.

**Dividend Policy**

The aim of Finnair's dividend policy is to pay on average at least one-third of the earnings per share as dividend during an economic cycle, taking into account the company's earnings trend and outlook, financing position and capital needs for any given period.

**Dividend per year**

<sup>1</sup>The 2007 proposal of the Board of Directors to the AGM

**Share-Related Key Figures**

		2007	2006	2005
Earnings/share	EUR	1.04	-0.14	0.66
Equity/share	EUR	7.70	6.14	6.91
Dividend/share	EUR	0.25	0.10	0.25
Dividend-to-earnings ratio	%	31.5	-64.4	34.3
P/E ratio		7.79	-88.05	18.12
P/CEPS		2.5	12.5	5.9
Effective dividend yield	%	3.1	0.8	2.1

**Number of shares and share prices**

		2007	2006	2005
Average number of shares adjusted for share issue	pcs	98,032,358	96,690,131	94,030,008
Average number of shares adjusted for share issue (with diluted effect)	pcs	98,032,358	96,690,131	97,115,341
The number of shares adjusted for share issue at the end of financial year	pcs	98,032,358	97,782,880	96,447,411
The number of shares adjusted for share issue at the end of financial year (with diluted effect)	pcs	98,032,358	97,782,880	97,783,271
Number of shares, end of the financial year	pcs	128,136,115	88,756,358	86,804,113
Trading price highest	EUR	14.35	15.00	12.15
Trading price lowest	EUR	7.51	10.01	5.56
Market value of share capital 31 Dec	EUR mill	1,037	1,102	1,040
No. of shares traded	pcs	37,672,530	29,965,410	32,242,125
No. of shares traded as % of average no. of shares	%	29.40	33.76	37.14

**Finnair Plc's largest shareholders at 31 Dec 2007**

	Number of shares	% of total shares
1 State of Finland, Office of Council of State	71,515,426	55.8
2 OP Funds	3,669,807	2.9
3 Ilmarinen Mutual Pension Insurance Co	2,901,564	2.3
4 Odin Forvaltning AS	2,790,418	2.2
5 Suomi Mutual Life Insurance Company	2,597,224	2.0
6 Tapiola Insurance Company Group	2,276,444	1.8
7 Nordea Nordic Small Cap Fund	1,165,264	0.9
8 State Pension Fund	1,000,000	0.8
9 FIM Funds	953,863	0.7
10 Fennia Mutual Pension Insurance Company	805,495	0.6
11 ABN Amro Funds	695,000	0.5
12 Varma Mutual Pension Insurance Company	600,000	0.5
13 Aktia Capital Fund	518,203	0.4
14 Etera Mutual Pension Insurance Company	512,119	0.4
15 Local Government Pensions Institution	397,076	0.3
16 Gyllenberg Funds	328,410	0.3
17 City of Turku, Claim Fund	282,581	0.2
18 Evli Funds	261,769	0.2
19 Danske Bank A/S, Helsinki Branch	235,344	0.2
20 Pohjola Insurance Company	216,668	0.2
21 Carnegie Fund	200,000	0.2
22 Kaleva Mutual Insurance Company	198,538	0.2
23 SITRA	195,000	0.2
24 Norvestia Oyj	166,611	0.1
25 Finnair Plc (own shares)	151,903	0.1
26 Avenir Fund	150,307	0.1
27 Finnair Pension Fund	136,842	0.1
28 ESR EQ Fund	125,000	0.1
29 Ålandia Insurance Company	122,500	0.1
30 Ingman Finance Oy Ab	115,556	0.1
31 Neliapila Pension Fund	113,821	0.1
32 Neste Oil Pension Fund	105,826	0.1
Nominee registered <sup>1)</sup>	24,851,885	19.4
Others	7,779,651	6.1
<b>Total number of shares</b>	<b>128,136,115</b>	<b>100.0</b>

<sup>1)</sup> 19 Dec 2007 FL Group's announcement of holding less than 15% 16,266,324 shares i.e. 12.69%

### Incentive Schemes for Key Personnel

On 18 June 2004, Finnair Plc's Board of Directors approved a share bonus scheme 2004-2006 directed at key individuals of the Group. Details of the scheme are presented in Note 26 of this annual report. The scheme does not affect the total number of shares. As part of the share bonus scheme, the

company transferred 37,800 shares to key individuals under an authorisation granted by the 2005 Annual General Meeting on 23 March 2005, and 383,097 shares under an authorisation granted by the 2006 Annual General Meeting on 23 March 2006. In 2007 no shares were transferred to key personnel as the targets for share bonus scheme were not achieved in 2006.

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

### Shareholders by type at 31 Dec 2007

	Number of shares	Shares %	Number of shareholders	Shareholders %
Public bodies	81,210,349	63	26	0
Registered in the name of nominee	24,851,885	19	13	0
Financial Institutions	10,810,793	8	37	0
Households	4,965,646	4	7,625	94
Outside Finland	2,989,184	2	49	1
Private companies	2,118,764	2	301	4
Associations	1,168,929	1	65	1
Not converted into the book entry system	20,565	0	-	-
<b>Total</b>	<b>128,136,115</b>	<b>100</b>	<b>8,116</b>	<b>100</b>

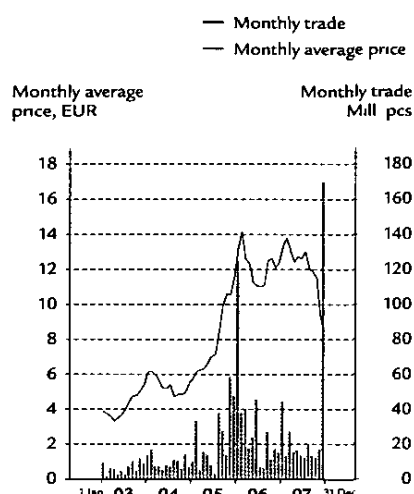
### Breakdown of shares at 31 Dec 2007

Number of shares	Number of shareholders	%	Number of shares	%
1-200	4,341	53	362,156	0
201-1,000	2,445	30	1,167,185	1
1,001-10,000	1,177	15	3,137,213	2
10,001-100,000	98	1	3,363,087	3
100,001-1,000,000	34	0	9,323,662	7
1,000,001 -	8	0	85,910,362	67
Registered in the name of nominee	13	0	24,851,885	19
Not converted into the book entry system	-	-	20,565	0
<b>Total</b>	<b>8,116</b>	<b>100</b>	<b>128,136,115</b>	<b>100</b>

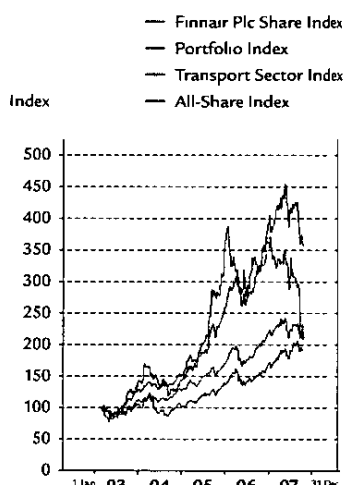
### Acquisition and delivery of own shares

Period	Number of shares	Nominal value, EUR	Acquisition value, EUR	Average price, EUR
1 Jul-18 Aug 2004	422,800	359,380	2,275,666.49	5.38
12 Apr 2005	-37,800	32,130	-209,838.54	5.55
1 Sep-30 Dec 2005	150,000	127,500	1,516,680.00	10.11
19 Apr 2006	-383,097	325,632	-2,056,847.88	5.37
1 Jan-31 Dec 2007	0	0	0	-
<b>Total</b>	<b>151,903</b>		<b>1,525,660.07</b>	<b>10.04</b>

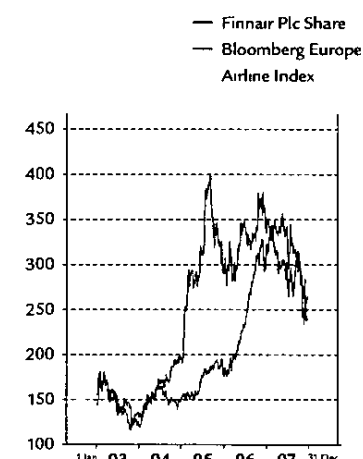
### *Finnair share trade development and trade 2003–2007*



### *Finnair Plc Share Index and Helsinki Stock Exchange indices*



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



#### **Board of Directors' Authorisations**

The Board of Directors of Finnair Plc has the authority, granted by the Annual General Meeting on 22 March 2007 to acquire 3,500,000 of its own shares, which is less than 5% of the company's share capital, and to transfer a maximum of 3,650,000 of its own shares. The authorisation is valid until 1 April 2008.

In 2007 Finnair did not acquire nor dispose of its own shares. At the end of the year, Finnair held 151,903 of its own shares, namely 0.12 per cent of the total number of shares outstanding on the last day of the year.

On 4 January 2008 company announced to have decided to buy back the company's own shares through trading on the Helsinki Stock Exchange. The company intends to buy back maximum of 600,000 shares. The buy-back will commence at the earliest 5 February and will end 1 April 2008 at the latest.

The Board of Directors has no other authorisations, such as authorisations for

share issues or for the issuing of convertible bonds or share options.

#### **Government Ownership**

At the end of the financial year, on 31 December 2007, the Finnish Government owned 55.8% of the company's shares and votes. On 20 June 1994, the Finnish Parliament, while giving its consent to reduce the Government's holding to less than two-thirds, decided that the Government must own more than half of Finnair Plc's shares.

#### **Share Ownership by Management**

On 31 December 2007, members of the company's Board of Directors and the President & CEO owned 58,846 shares, representing 0.04% of all shares and votes.

#### **Share Prices and Trading**

On the last day of the financial year, the Finnair Plc share was quoted at 8.09 euros on the Helsinki Stock Exchange. The market value of the company's shares was 1,036.6

million euros (1,101.5 million). The highest trading price during the financial year was 14.35 euros (15.00) and the lowest 7.51 euros (10.01).

A total of 37.7 (30.0) million shares, with a total value of 377.2 (374.6) million euros were traded on the Helsinki Stock Exchange during 2007.

#### **BOARD OF DIRECTORS PROPOSAL ON THE DIVIDEND**

The distributable equity of Finnair Plc amounts to 511.0 million euros. The Board of Directors proposes to the Annual General Meeting that a dividend of 0.25 euros (0.10) per share be distributed, and that the remainder of the distributable equity be carried over as retained earnings. No dividend will be paid for own shares held by Finnair.

#### **FINNAIR PLC Board of Directors**

## FINANCIAL INDICATORS 2005-2007

		2007	2006	2005
Turnover	EUR mill	2,181	1,990	1,871
change	%	9.6	6.3	11.2
EBITDA	EUR mill	256	96	173
- in relation to turnover	%	11.7	4.8	9.2
Operating profit from operations	EUR mill	97	11	70
- in relation to turnover	%	4.4	0.6	3.7
Operating profit	EUR mill	142	-11	82
- in relation to turnover	%	6.5	-0.5	4.4
Profit before extraordinary items	EUR mill	139	15	88
- in relation to turnover	%	6.4	0.7	4.7
Profit before taxes	EUR mill	139	-15	88
- in relation to turnover	%	6.4	0.7	4.7
<b>Consolidated balance sheet</b>				
Non current assets	EUR mill	1,248	1,108	927
Short-term receivables	EUR mill	863	544	711
Non-current assets held for sale	EUR mill	35	8	0
Assets total	EUR mill	2,146	1,660	1,638
Shareholders equity and minority interests	EUR mill	987	601	674
Liabilities, total	EUR mill	1,159	1,059	964
Shareholders' equity and liabilities, total	EUR mill	2,146	1,660	1,638
Gross capital expenditure	EUR mill	326	252	58
Gross capital expenditure in relation to turnover	%	15.0	12.7	3.1
Return on equity (ROE)	%	12.9	-2.0	9.8
Return on capital employed (ROCE)	%	14.2	0.1	11.1
Average capital employed	EUR mill	1,122	938	901
Dividend for the financial year <sup>1)</sup>	EUR mill	32	9	22
Earnings/share	EUR	1.04	-0.14	0.66
Earnings/share adjusted for option rights (with diluted effect)	EUR	1.04	-0.14	0.64
Result/share (number of shares at the end of financial year)	EUR	0.79	-0.15	0.71
Equity/share	EUR	7.70	6.14	6.91
Dividend/share <sup>1)</sup>	EUR	0.25	0.10	0.25
Dividend/earnings	%	31.5	-64.4	34.3
Effective dividend yield	%	3.1	0.8	2.1
P/CEPS		2.5	12.5	5.9
Cash flow/share	EUR	3.2	1.0	2.0
P/E ratio		7.79	-88.05	18.12
Equity ratio	%	47.0	37.2	42.2
Net debt-to-equity (Gearing)	%	-22.5	7.1	25.1
Adjusted Gearing	%	35.1	112.8	66.8
Interest bearing debt	EUR mill	318	337	263
Liquid funds	EUR mill	540	294	418
Net interest bearing debt	EUR mill	-222	43	-155
- in relation to turnover	%	-10.2	2.2	-8.3
Net financing income (+)/expenses (-)	EUR mill	-3	-4	6
- in relation to turnover	%	-0.1	-0.2	0.3
Net interest expenses	EUR mill	-5	-3	-3
- in relation to turnover	%	-0.2	-0.2	-0.2
Operational cash flow	EUR mill	302	96	192
Operational cash flow in relation to turnover	%	13.8	4.8	10.3
Average number of shares adjusted for the share issue	number of	98,032,358	96,690,131	94,030,008
Average number of shares at the end of the financial year (with diluted effect)	number of	98,032,358	96,690,131	97,115,341
Number of shares adjusted for the share issue at the end of the financial year	number of	98,032,358	97,782,880	96,447,411
Number of shares at the end of the financial year (with diluted effect)	number of	98,032,358	97,782,880	97,783,271
Number of shares at the end of the financial year	number of	128,136,115	88,756,358	86,804,113
Personnel on average		9,480	9,598	9,447

The number of personnel are averages and adjusted for part time employees

<sup>1)</sup> The dividend is a proposal of the Board of Directors to the Annual General Meeting

# CALCULATION OF KEY INDICATORS

EBITDAR	- Operating profit + depreciation + aircraft lease rentals	
EBITDA	- Operating profit + depreciation	
Operating profit from operations	- Operating profit excluding capital gains, fair value changes of derivatives and non recurring items	
Return on equity in per cent (ROE)	- $\frac{\text{Profit for financial year} - \text{taxes}}{\text{Equity} + \text{minority interests (average of beginning and end of financial year)}}$	x100
Capital employed	- Balance sheet total - non interest bearing liabilities	
Return on capital employed in per cent (ROCE)	- $\frac{\text{Profit for financial year} + \text{interest and other financial expenses}}{\text{Capital employed (average of beginning and end of financial year)}}$	x100
Earnings per share (EUR)	- $\frac{\text{Profit for financial year}}{\text{Adjusted average number of shares during the financial year}}$	
Equity per share (EUR)	- $\frac{\text{Equity}}{\text{Number of shares at the end of the financial year, adjusted for the share issue}}$	
Dividend per earnings in per cent	- $\frac{\text{Dividend per share}}{\text{Earnings per share}}$	x100
Effective dividend yield in per cent	- $\frac{\text{Dividend per share}}{\text{Adjusted share price at the end of the financial year}}$	x100
P/CEPS	- $\frac{\text{Share price at the end of the financial year}}{\text{Cash flow from operations per share}}$	
Cash flow per share (EUR)	- $\frac{\text{Cash flow from operations}}{\text{Adjusted average number of shares during the financial year}}$	
Price per earnings	- $\frac{\text{Share price at the end of the financial year}}{\text{Earnings per share}}$	
Equity ratio, %	- $\frac{\text{Equity} + \text{minority interests}}{\text{Balance sheet total} - \text{advances received}}$	x100
Gearing, %	- $\frac{\text{Interest bearing debt} - \text{liquid funds}}{\text{Equity} + \text{minority interests}}$	x100
Adjusted gearing, %	- $\frac{\text{Interest bearing debt} + 7 \times \text{annual aircraft leasing payments} - \text{liquid funds}}{\text{Equity} + \text{minority interests}}$	x100

## IFRS FINANCIAL STATEMENTS 1 JAN-31 DEC 2007

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# CONSOLIDATED INCOME STATEMENT

EUR mill	1 Jan-31 Dec 2007	1 Jan-31 Dec 2006	Note
<b>Turnover</b>	<b>2,180.5</b>	<b>1,989.6</b>	3
Work used for own purposes and capitalized	3.0	3.7	6
Other operating income	52.8	17.9	7
Materials and services	-896.9	-838.7	8
Employee benefit expense	-541.5	-508.2	9
Depreciation and impairment	-112.6	-104.8	10
Other operating expenses	-543.8	-570.3	11
<b>Operating profit</b>	<b>141.5</b>	<b>-10.8</b>	
Financial income	17.2	11.0	12
Financial expenses	-19.9	15.0	13
Share of result in associates	0.1	0.1	18
<b>Profit before taxes</b>	<b>138.9</b>	<b>-14.7</b>	
Income taxes	-36.8	1.7	14
<b>Profit for financial year</b>	<b>102.1</b>	<b>-13.0</b>	
Earnings per share to shareholders of the parent company	101.6	13.6	
Minority interest	0.5	0.6	
<b>Earnings per share calculated from profit attributable to shareholders of the parent company</b>			
Earnings per share (diluted and undiluted)	1.04	-0.14	15

The Notes to the Financial Statements on pages 29-75 are an essential part of these consolidated financial statements



# CONSOLIDATED BALANCE SHEET

EUR mill	31 Dec 2007	31 Dec 2006	Note
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	46 6	47 5	16
Tangible assets	1,168 9	1,012 3	17
Investments in associates	5 7	5 6	18
Receivables	13 8	15 4	19
Deferred tax receivables	13 2	27 1	20
	<b>1,248 2</b>	<b>1,107 9</b>	
<b>Short-term receivables</b>			
Inventories	36 1	38 5	21
Trade receivables and other receivables	287 3	211 8	22
Other financial assets	518 6	268 6	23
Cash and cash equivalents	21 5	25 7	24
	<b>863 5</b>	<b>544 6</b>	
Non-current Assets Held for Sale	34 7	7 6	5
<b>Assets total</b>	<b>2,146 4</b>	<b>1,660 1</b>	
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Equity attributable to shareholders of parent company</b>			
Shareholders' equity	75 4	75 4	
Other equity	909 9	524 5	
	<b>985 3</b>	<b>599 9</b>	
<b>Minority interest</b>	<b>1 7</b>	<b>1 6</b>	
<b>Equity, total</b>	<b>987 0</b>	<b>601 5</b>	25
<b>Long-term liabilities</b>			
Deferred tax liability	143 4	115 7	20
Interest bearing liabilities	269 6	286 9	29
Pension obligations	15 8	7 0	27
	<b>428 8</b>	<b>409 6</b>	
<b>Short-term liabilities</b>			
Current income tax liabilities	12 1	3 0	14
Reserves	53 6	55 7	28
Interest bearing liabilities	54 5	56 6	29
Trade payables and other liabilities	610 4	533 7	30
	<b>730 6</b>	<b>649 0</b>	
<b>Liabilities, total</b>	<b>1,159 4</b>	<b>1,058 6</b>	
<b>Shareholders' equity and liabilities, total</b>	<b>2,146 4</b>	<b>1,660 1</b>	

The Notes to the Financial Statements on pages 29-75 are an essential part of these consolidated financial statements

# CONSOLIDATED CASH FLOW STATEMENT

EUR mill	1 Jan-31 Dec 2007	1 Jan-31 Dec 2006
<b>Cash flow from operating activities</b>		
Profit/loss for the financial year	102.1	-13.0
Operations for which a payment is not included <sup>1)</sup>	100.0	105.2
Interest and other financial expenses	19.9	15.0
Interest income	-11.9	-9.1
Other financial income <sup>2)</sup>	5.1	-1.8
Dividend income	0.2	-0.1
Taxes	36.8	-1.7
Changes in working capital		
Change in trade and other receivables	2.4	10.2
Change in inventories	2.4	6.7
Change in accounts payables and other liabilities	86.4	8.4
Interest paid	14.6	-11.0
Other financial expenses paid	2.3	-3.4
Received interest income	9.6	9.9
Received financial income	0.5	1.6
Taxes paid	-24.2	-21.1
<b>Net cash flow from operating activities</b>	<b>301.8</b>	<b>95.8</b>
<b>Cash flow from investing activities</b>		
Sell of subsidiaries, net of cash sold <sup>3)</sup>	0.6	0.0
Acquisitions of subsidiaries	0.6	0.0
Investments in intangible assets	15.4	-12.6
Investments in tangible assets	-346.2	-273.0
Net change of financial interest bearing assets at fair value through profit or loss <sup>4)</sup>	-205.6	53.2
Sales of tangible fixed assets	65.2	2.3
Received dividends	0.2	0.1
Change in non-current receivables	1.7	2.3
<b>Net cash flow from investing activities</b>	<b>-500.1</b>	<b>-227.7</b>
<b>Cash flow from financing activities</b>		
Loan withdrawals	95.6	108.3
Loan repayments	-115.0	-25.9
Share issue	244.9	0.0
Option right to own shares	0.0	5.4
Dividends paid	8.9	-21.8
<b>Net cash flow from financing activities</b>	<b>216.6</b>	<b>66.0</b>
<b>Change in cash flows</b>	<b>18.3</b>	<b>-65.9</b>
<b>Change in liquid funds</b>		
Liquid funds, at the beginning	273.5	339.4
Change in cash flows	18.3	-65.9
<b>Liquid funds, in the end <sup>5)</sup></b>	<b>291.8</b>	<b>273.5</b>

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

# CONSOLIDATED CASH FLOW STATEMENT

## Notes to consolidated cash flow statement

<sup>1)</sup> Operations for which a payment is not included		
EUR mill	2007	2006
Depreciation	112 6	104 8
Employee benefits	6 8	-2 8
Other adjustments	-19 4	3 2
<b>Total</b>	<b>100 0</b>	<b>105 2</b>

<sup>2)</sup> Fair value changes of shares classified as available for sale financial assets are eliminated from cash flow from operating activities  
Shares classified as available for sale financial assets are itemised in Notes 23 and 32

<sup>3)</sup> The Group has sold shares of FlyNordic and ground handling operations in Norway and Sweden. Information about the assets, liabilities, and cash and cash equivalents of the companies are presented in the notes to the income statement, in Note 5

<sup>4)</sup> Net change of financial assets held for trading maturing after more than 3 months including changes in fair value

<sup>5)</sup> Cash and cash equivalents include cash and other liquid assets which are presented in the balance sheet in separate accounts  
A reconciliation of the cash flow statement's cash and cash equivalent with the balance sheet figures is presented below

EUR mill	2007	2006
Balance sheet item		
Investments	518 6	268 6
Cash and bank equivalents	21 5	25 7
Short-term cash and cash equivalents in balance sheet	540 1	294 3
Maturing after more than 3 months	-222 7	-17 9
Shares classified as available for sale	-25 6	-2 9
<b>Total</b>	<b>291 8</b>	<b>273 5</b>

Cash and cash equivalents encompass cash and bank deposits as well as other highly liquid financial assets whose term to maturity is a maximum of three months. Such items are e.g. certificate of deposits and commercial papers. Balance sheet items are itemised in Notes 23 and 24.

The Notes to the Financial Statements on pages 29–75 are an essential part of these consolidated financial statements.

# SHAREHOLDERS' EQUITY

Equity attributable to shareholders of parent company										
EUR mill	Share capital	New issue	Share premium account	Bonus issue	Fair value reserve	Unrestricted equity	Retained earnings	Total	Minority interests	Equity total
<b>Shareholders' equity 1 Jan 2006</b>	<b>73.8</b>	<b>0.6</b>	<b>18.3</b>	<b>147.7</b>	<b>20.9</b>	<b>0.0</b>	<b>411.1</b>	<b>672.4</b>	<b>1.6</b>	<b>674.0</b>
Translation difference							0.3	0.3		0.3
Purchase of minority interest							-0.6	-0.6	-0.2	-0.8
Dividend payment							-21.8	-21.8	-0.4	-22.2
Cash flow hedges								0.0		0.0
Fair value change of hedging instruments					-39.1			-39.1		-39.1
Fair value change of hedging instruments, net of tax <sup>(Note 20)</sup>					10.2			10.2		10.2
Recognised in income statement <sup>(Note 25)</sup>					-17.2			-17.2		-17.2
Net of tax from Recognised in income statement <sup>(Note 20)</sup>					4.5			4.5		4.5
Recognised in balance sheet					-0.5			-0.5		-0.5
Net of tax from Recognised in balance sheet <sup>(Note 20)</sup>					0.1			0.1		0.1
Option right to shares	1.6	-0.6	4.4					5.4		5.4
Share premium account changes			-2.3				2.1	-0.2		-0.2
Profit for the period							-13.6	-13.6	0.6	-13.0
<b>Shareholders' equity 31 Dec 2006</b>	<b>75.4</b>	<b>0.0</b>	<b>20.4</b>	<b>147.7</b>	<b>-21.1</b>	<b>0.0</b>	<b>377.5</b>	<b>599.9</b>	<b>1.6</b>	<b>601.5</b>
Equity attributable to shareholders of parent company										
EUR mill	Share capital	New issue	Share premium account	Bonus issue	Fair value reserve	Unrestricted equity	Retained earnings	Total	Minority interests	Equity total
<b>Shareholders' equity 1 Jan 2007</b>	<b>75.4</b>	<b>0.0</b>	<b>20.4</b>	<b>147.7</b>	<b>-21.1</b>	<b>0.0</b>	<b>377.5</b>	<b>599.9</b>	<b>1.6</b>	<b>601.5</b>
Translation difference							-0.1	-0.1		-0.1
Dividend payment							-8.9	-8.9	-0.4	-9.3
Share issue						244.9	0.0	244.9		244.9
Cash flow hedges								0.0		0.0
Fair value change of hedging instruments					33.2			33.2		33.2
Fair value change of hedging instruments, net of tax <sup>(Note 20)</sup>					-8.6			-8.6		-8.6
Recognised in income statement <sup>(Note 25)</sup>					11.5			11.5		11.5
Net of tax from Recognised in income statement <sup>(Note 20)</sup>					-3.0			-3.0		-3.0
Recognised in balance sheet					13.3			13.3		13.3
Net of tax from Recognised in balance sheet <sup>(Note 20)</sup>					-3.5			-3.5		-3.5
Change of fair value in available-for-sale financial assets					6.7			6.7		6.7
Net of tax of Change of fair value in available-for-sale financial assets					-1.7			-1.7		-1.7
Profit for the period							101.6	101.6	0.5	102.1
<b>Shareholders' equity 31 Dec 2007</b>	<b>75.4</b>	<b>0.0</b>	<b>20.4</b>	<b>147.7</b>	<b>26.8</b>	<b>244.9</b>	<b>470.1</b>	<b>985.3</b>	<b>1.7</b>	<b>987.0</b>

The Notes to the Financial Statements on pages 29–75 are an essential part of these consolidated financial statements

# NOTES TO THE FINANCIAL STATEMENTS

## 1 BASIC INFORMATION ABOUT THE COMPANY

The Finnair Group engages in worldwide air transport operations and supporting services. The Group's operations are divided into the Scheduled Passenger Traffic, Leisure Traffic, Aviation Services and Travel Services business areas. The Group's parent company is Finnair Plc, which is domiciled in Helsinki at the registered address Tietotie 11 A, Vantaa. The parent company is listed on the Helsinki Stock Exchange. The Board of Directors of Finnair Plc has approved these financial statements for publication at its meeting on 4 February 2008. Under Finland's Companies Act, shareholders have the option to accept, reject or change the financial statements in a meeting of shareholders, which will be held after the publication of the financial statements.

## 2 ACCOUNTING PRINCIPLES

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

### BASIS OF PREPARATION

Finnair Plc's consolidated financial statements for 2007 have been prepared according to the International Financial Reporting Standards (IFRS) and in their preparation the IAS and IFRS standards as well as the SIC and IFRIC interpretations in effect on 31 December 2007 have been followed. By International Financial Reporting Standards is meant the standards accepted for application in the EU and interpretations issued about them in accordance with the procedure laid down in Finnish law and provisions issued by virtue thereof in the EU Regulation (EC) No 1606/2002. The notes to the consolidated financial statements also comply with Finnish accounting and corporate law.

The 2007 consolidated financial statements have been prepared based on original acquisition costs, except for financial assets recognisable through profit and loss at fair value, financial assets which are available-for-sale, and derivative contracts, which have been valued at fair value. Financial statement data is presented in millions of euros, rounded to the nearest one hundred thousand euros.

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

## PRINCIPLES OF CONSOLIDATION

### Subsidiaries

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

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

### Associated undertakings

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

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

### Minority interest and transactions with minority

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

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

## TRANSLATION OF FOREIGN CURRENCY ITEMS

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

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

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

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

## DERIVATIVE CONTRACTS AND HEDGE ACCOUNTING

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

The derivatives are recognised at the time they are made in the balance sheet at original acquisition cost and are subsequently valued at fair value in each financial statement and interim report. Gains and losses arising from changes in the fair value are presented in the financial statements according to the original classification of the derivative. Gains and losses on derivatives qualifying for hedge accounting are recognised in accordance with the underlying asset being hedged. Derivative contracts are designated at inception as hedges for future cash flows and binding purchase contracts (cash flow hedges or fair value hedges) or as derivatives not meeting the hedge accounting criteria or to which hedge accounting is not applied (economic hedges). Hedging of the fair value of the net investment of foreign units or embedded derivatives have not been used.

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

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

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

The change in the fair value of effective portion of derivative instruments that fulfil the terms of cash flow hedging are entered directly in a fair value reserve in equity to the extent that the requirements for the application of hedge accounting have been fulfilled. The gains and losses recognised in equity are transferred to the income statement in the period in which the hedged item is entered in the income statement. When an instrument acquired for the hedging of cash flow matures or is sold or when the criteria for hedge accounting are no longer fulfilled, the gain or loss accrued from hedging instruments remain in equity until the forecast transaction takes place. However, if the forecast hedged transaction is not longer expected to occur, the gain or loss accrued in equity is released immediately to the income statement.

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

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

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

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

#### PRINCIPLE OF REVENUE RECOGNITION

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

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

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

#### Interest income

Interest income is recognised by the effective yield method.

#### Dividend income

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

#### OPERATING PROFIT

The IAS 1 Presentation of Financial Statements standard does not define the concept 'operating profit'. The Group has defined it as follows: operating profit is the net sum that is formed from turnover plus other operating income, less purchase costs adjusted by change in inventories of work in progress as well as costs arising from production for own use, less costs, depreciation and possible impairment losses arising from employee bene-

fits as well as other operating expenses. All income statement items other than those mentioned above are presented below the operating profit. Translation differences and changes in fair values of derivatives are included in operating profit if they arise from items related to business operations, otherwise they are recognised in financial items.

#### INCOME TAXES

The tax item in the consolidated income statement comprises tax based on taxable income for the financial year, adjustments to taxes of previous financial years and the change in deferred taxes.

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

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

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

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

#### PUBLIC GRANTS

Public grants, for example government aid for simulator training, has been recognised in other operating income. Public grants that the Group may receive, for example, for fixed asset acquisitions are recognised as a reduction in original acquisition cost. Grants are recognised in the form of smaller depreciations over the useful life of the asset. The Group has not received during the financial year or the comparison period any public grants for fixed asset acquisitions. During the financial year, grants amounting to 1.7 million euros (previous financial year 1.6 million euros) have been recognised in other operating income.

#### TANGIBLE FIXED ASSETS

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

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

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

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

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

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

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

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

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

## INTANGIBLE ASSETS

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

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

### Goodwill

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

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

### Research and development expenditure

Research and development on aircraft, systems and operations is conducted primarily by the manufacturers. Research and product development expenditure relating to marketing and customer service is recognised as an expense at the time at which it is incurred. Expenses are included in the consolidated income statement in a cost item according to the nature of the expense

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

### Computer software

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

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



#### Other intangible assets

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

#### Non-current assets held for sale and disposal groups

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

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

#### LEASE AGREEMENTS

##### The Group is the lessee

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

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

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

#### IMPAIRMENT

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

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

#### INVENTORIES

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

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

#### TRADE RECEIVABLES

In trade receivables are recognised assets received on an accrual basis for the products and services of the company's operations. Trade receivables are valued at their original carrying amounts on the closing date, provided that they are not considered receivables held for trading purposes.

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

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

#### EXPENCES OF LIABILITIES

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

#### Loans

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

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

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

#### FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

The financial asset category recognised at fair value through profit or loss includes assets held for trading purposes and assets measured at fair value through profit or loss on initial recognition. Financial assets at fair value through profit and loss have mainly been acquired to obtain a gain from short-term changes in market prices. All those derivatives that do not fulfill the conditions for the application of hedge accounting are classified as financial assets at fair value through profit and loss and are valued in each financial statement at fair value. Realised and unrealised gains and losses arising from changes in fair value are recognised in the income statement (either in other operating income and expenses or in financial items) in the period in which they arise. Financial assets at fair value through profit and loss as well as those maturing within 12 months are included in current assets.

Held-to-maturity investments are financial assets not belonging to derivative contracts which mature on a specified date and which a company has the firm intent and ability to hold

to maturity. They are valued at allocated acquisition cost and they are included in long-term assets. On the closing date the Group had no assets belonging to the said group.

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

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

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

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

Other financial assets and liabilities are valued at fair value. Other financial assets include trade receivables, prepaid expenses and accrued income and other long-term receivables such as loan receivables, other shares and holdings and aircraft lease guarantee deposits. Other financial liabilities include trade payables as well as accrued liabilities and deferred income.

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

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

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash reserves and short-term bank deposits whose term to maturity is a maximum of three months. Foreign exchange-denominated items have been

converted into euros using the mid-market exchange rates on the closing date

#### DERIVATIVE INSTRUMENTS

Derivative instruments are valued in the balance sheet at fair value, which is determined as the value at which the instrument could be exchanged between knowledgeable, willing and independent parties, with no compulsion in the sales situation to sell or buy. The fair values of derivatives are determined as follows:

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

#### SHAREHOLDERS' EQUITY

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

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

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

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

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

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

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

#### DIVIDEND

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

#### TREASURY STOCK (OWN SHARES)

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

#### EMPLOYEE BENEFITS

##### Pension liabilities

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

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

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

##### Other post-employment benefits

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

### Share-based payments

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

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

### PROVISIONS

Provisions are recognised when the Group has a present legal or constructive obligation as the result of a past event, the fulfillment of the payment obligation is probable, and a reliable estimate of the amount of the obligation can be made. If it is possible to receive compensation for part of the obligation from a third party, the compensation is recognised as an asset item when it is in practice certain that the compensation will be received. Provisions are valued at the net present value of the expenses required to cover the obligation. The discount factor used when calculating present value is selected so that it describes the market view at the time of examination of the time value of the money and the risk relating to the obligation.

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

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

### SEGMENT REPORTING

Segment information is presented according to the Group's business and geographical segment division. The Group's primary form of segment reporting is according to business segments. Business segments are based on the Group's internal orga-

nisation structure and financial reporting of management. The business segments are Scheduled Passenger Traffic, Leisure Traffic, Aviation Services and Travel Services.

The Scheduled Passenger Traffic segment is responsible for sales, service concepts, flight operations and functions related to the procurement and financing of aircraft. Scheduled Passenger Traffic leases to the Leisure Traffic division the flight crews it requires. In 2007 the units belonging to the Scheduled Passenger Traffic segment were Finnair Scheduled Passenger Traffic, the feeder airline Aero As, Finnair Cargo Oy and Finnair Cargo Terminal Operations as well as Finnair Aircraft Finance Oy, which manages the Group's fleet.

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

The Aviation Services segment comprises aircraft maintenance services, ground handling and the Group's catering operations as well as real-estate management and facility services for Finnair's operational premises. In 2007 the following companies belonged to the Aviation Services business segment: Finnair Catering Oy, Finncatering Oy, Finnair Facilities Management Oy and Northport Oy.

The Travel Services segment consists of the Group's domestic and foreign travel agency operations as well as the operations of the reservations systems supplier Amadeus Finland Oy. In 2007 the most significant companies were Finland Travel Bureau Ltd, Matkatoimisto Oy Area and Estravel.

Pricing between segments takes place at the going market price.

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

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

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

#### ACCOUNTING PRINCIPLES REQUIRING MANAGEMENT DISCRETION AND THE MAIN UNCERTAINTY FACTORS RELATING TO ESTIMATES

The preparation of financial statements requires the use of estimates and assumptions relating to the future, and the actual outcomes may differ from the estimates and assumptions made. In addition, discretion has to be exercised in applying the accounting principles of the financial statements. Estimates are based on management's best view on the closing date. Possible changes in estimates and assumptions are entered into the accounts in the financial period during which the estimates and assumptions are adjusted and in all subsequent financial periods. The main items requiring management discretion are as follows: impairment testing and deferred taxes.

##### Impairment testing

The recoverable amounts of cash generating units have been determined in calculations based on value in use. The preparation of these calculations requires the use of estimates. Estimates

are based on budgets and forecasts, which inherently contain some degree of uncertainty. The main uncertainty factors in calculations are the USD/EUR exchange rate, unit revenue and estimated sales volumes. Further information on impairment testing is presented in Note 16.

##### Deferred taxes

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

#### APPLICATION OF NEW AND AMENDED IFRS STANDARDS AND IFRIC INTERPRETATIONS

The IASB has published the following standards and interpretations whose application will be mandatory in 2008 or later. The group has not early adopted these standards, but will adopt them in later periods.

##### The following standards and interpretations will be adopted by the group in 2008

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

##### The following new standards and interpretations effective in 2008 are not relevant to the group's operations

- IFRIC 12, 'Service Concession Arrangements' applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services.
- IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' is applied to post-employment defined benefit plans and other long-term defined benefit plans under IAS 19, if the plan includes minimum funding requirements. The interpretation also clarifies the criteria for recognition of an asset on future refunds or reductions in future contributions.<sup>1)</sup>

##### The group will adopt in 2009 the following standards published by IASB

- IAS 1 (Revised) 'Presentation of Financial Statements' is aimed at improving users' ability to analyse and compare the information given in financial statements by separating changes in equity of an entity arising from transactions with owners from other changes in equity. Management is assessing the impact of this revision on the financial statements of the group.<sup>1)</sup>
- Amendment to IAS 23 'Borrowing Costs' requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of qualifying asset as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. Management is assessing the impact of this amendment on the financial statements of the group.<sup>1)</sup>
- IFRS 8, 'Operating Segments' replaces IAS 14. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail by the management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting.<sup>1)</sup>
- IFRIC 13, 'Customer Loyalty Programmes'. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive, the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. Management is assessing the impact of this interpretation on the group's operations.

The group will adopt in 2010 the following standards published by IASB

- IFRS 3 (Revised), 'Business combinations' The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently remeasured at fair value through income. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed. Management is assessing the impact of this revision on the financial statements of the group.<sup>1)</sup>
- IAS 27 (Revised), 'Consolidated and separate financial statements' The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value and a gain or loss is recognised in profit or loss. Management is assessing the impact of this revision on the financial statements of the group.<sup>1)</sup>

<sup>1)</sup> The revision, amendment or interpretation to published standards is still subject to endorsement by the European Union

#### STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE IN 2007

The following standards, amendments and interpretations to published standards are mandatory in 2007

- IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital.
- IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This interpretation does not have any impact on the group's financial statements.
- IFRIC 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation does not have any impact on the group's financial statements.

#### STANDARDS, AMENDMENT AND INTERPRETATIONS EFFECTIVE IN 2007 BUT NOT RELEVANT

The following standards, amendments and interpretations to published standards are mandatory in 2007 but they are not relevant to the group's operations

- IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies',
- IFRIC 9, 'Re-assessment of embedded derivatives'

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

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

### 3 SEGMENT INFORMATION

#### ANNUAL INFORMATION

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

are such business items which the segment uses in its business operations or which on sensible grounds are attributable to the segments. Unattributable items include tax and financial items as well as items common to the whole company. Investments consist of increases in tangible and intangible assets which are used in more than one financial year. Although the Group's four business segments are managed from Finland, they operate in five geographical areas: Finland, Europe, Asia, North America and Others. The turnover of the geographical segments is presented according to sales destination, and assets, liabilities, depreciation and investments according to their location.

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

EUR mill	Scheduled Passenger Traffic	Leisure Traffic	Aviation Services	Travel Services	Group elim- inations	Unal- located items	Group
External turnover	1,578.3	403.6	121.0	77.6			2,180.5
Internal turnover	107.0	6.0	312.9	4.7	-430.6		0.0
Turnover	1,685.3	409.6	433.9	82.3	-430.6	0.0	2,180.5
Operating profit	79.2	24.2	16.9	2.9		18.3	141.5
Share of results of associated undertakings						0.1	0.1
Financial income						17.2	17.2
Financial expenses						-19.9	-19.9
Income tax						-36.8	-36.8
Minority interest						-0.5	-0.5
Profit for the financial year							101.6
Segment assets	1,317.4	81.8	274.9	58.6	-145.3	553.3	2,140.7
Holdings in associated undertakings						5.7	5.7
Assets, total	1,317.4	81.8	274.9	58.6	-145.3	559.0	2,146.4
Segment liabilities	652.4	70.7	82.8	37.3	-151.3	467.5	1,159.4
Other items							
Investments	284.6	0.2	37.5	1.5	0.0	2.5	326.3
Depreciation	81.7	0.4	26.0	1.6	0.0	2.9	112.6

#### Primary reporting format – business segment data 1 Jan–31 Dec 2006

EUR mill	Scheduled Passenger Traffic	Leisure Traffic	Aviation Services	Travel Services	Group elim- inations	Unal- located items	Group
External turnover	1,415.0	382.9	108.8	82.9		0.0	1,989.6
Internal turnover	107.1	3.9	298.7	4.5	-414.2		0.0
Turnover	1,522.1	386.8	407.5	87.4	-414.2	0.0	1,989.6
Operating profit	28.6	18.4	-34.9	2.3		-25.2	-10.8
Share of results of associated undertakings						0.1	0.1
Financial income						11.0	11.0
Financial expenses						-15.0	-15.0
Income tax						1.7	1.7
Minority interest						-0.6	-0.6
Profit for the financial year							-13.6

EUR mill	Scheduled Passenger Traffic	Leisure Traffic	Aviation Services	Travel Services	Group eliminations	Unal- located items	Group
Segment assets	1,085 9	72 1	301 7	63 5	189 6	320 9	1,654 5
Holdings in associated undertakings						5 6	5 6
Assets, total	1,085 9	72 1	301 7	63 5	-189 6	326 5	1,660 1
Segment liabilities	556 2	71 2	103 2	48 4	-163 7	443 3	1,058 6
Other items							
Investments	216 3	0 7	32 3	1 4	0 0	1 5	252 2
Depreciation	71 8	0 2	28 3	1 6	0 0	2 9	104 8

**Employees (average) by segment**

	1 Jan-31 Dec 2007	1 Jan-31 Dec 2006
Scheduled Passenger Traffic	4,151	4,114
Leisure Traffic	372	343
Aviation Services	3,674	3,771
Travel Services	1,129	1,145
Other operations	154	225
<b>Total</b>	<b>9,480</b>	<b>9,598</b>
Employees at end of year	9,657	9,703

**Secondary reporting format - geographical segments****Turnover outside the Group by sales segment**

EUR mill	1 Jan-31 Dec 2007	1 Jan-31 Dec 2006
Finland	419 7	436 7
Europe	992 8	936 5
Asia	626 3	482 0
North America	63 2	66 4
Others	78 5	68 0
<b>Total</b>	<b>2,180 5</b>	<b>1,989 6</b>

**Segment assets according to country of location**

EUR mill	31 Dec 2007	31 Dec 2006
Finland	1,603 9	1,418 7
Europe	83 5	69 2
Asia	40 8	30 8
North America	1 5	2 0
Others	3 0	2 5
Group eliminations	-145 3	-189 6
Unallocated items	559 0	326 5
<b>Total</b>	<b>2,146 4</b>	<b>1,660 1</b>



**Segment liabilities according to country of location**

	31 Dec 2007	31 Dec 2006
EUR mill		
Finland	779.9	698.3
Europe	32.9	54.1
Asia	24.7	22.4
North America	1.9	1.9
Others	3.8	2.3
Group eliminations	-151.3	-163.7
Unallocated items	467.5	443.3
<b>Total</b>	<b>1,159.4</b>	<b>1,058.6</b>

**Capital expenditure by country of location**

	1 Jan-31 Dec 2007	1 Jan-31 Dec 2006
EUR mill		
Finland	326.2	249.4
Europe	0.1	2.8
Asia	0.0	0.0
North America	0.0	0.0
Others	0.0	0.0
Unallocated items	0.0	0.0
<b>Total</b>	<b>326.3</b>	<b>252.2</b>

**QUARTAL INFORMATION****Consolidated income statement**

	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2006	Q2 2006	Q3 2006	Q4 2006
EUR mill								
<b>Turnover</b>	<b>528.5</b>	<b>538.1</b>	<b>545.2</b>	<b>568.7</b>	<b>480.3</b>	<b>494.6</b>	<b>515.4</b>	<b>499.3</b>
Production for own use	0.8	0.5	1.1	0.6	0.1	0.3	1.6	1.7
Other operating income	5.9	10.7	24.6	11.6	5.7	7.3	4.1	0.8
<b>Operating income</b>	<b>535.2</b>	<b>549.3</b>	<b>570.9</b>	<b>580.9</b>	<b>486.1</b>	<b>502.2</b>	<b>521.1</b>	<b>501.8</b>
<b>Operating expenses</b>								
Employee benefit expense	135.1	127.2	129.1	150.1	123.6	130.8	122.2	131.6
Fuel	103.2	104.3	116.5	115.9	89.3	90.8	105.1	99.8
Lease payments for aircraft	21.7	19.1	19.8	20.6	22.6	23.2	22.2	22.8
Other rental payments	17.2	15.3	16.0	15.3	20.8	19.2	18.3	22.4
Fleet materials and overhauls	22.2	19.2	17.0	18.3	25.8	23.1	26.4	25.3
Traffic charges	43.7	44.4	46.0	42.9	38.7	40.4	43.9	38.9
Ground handling and catering expenses	36.5	42.7	39.1	36.0	33.2	35.0	34.5	36.7
Expenses for tour operations	35.8	23.0	25.0	36.8	34.2	22.9	23.9	30.5
Sales and marketing expenses	19.4	27.1	19.1	26.4	16.9	24.8	23.2	26.4
Depreciation and impairment	27.3	27.7	32.0	25.6	23.4	26.8	25.1	29.5
Other expenses	59.4	62.2	51.4	62.2	62.8	59.7	61.6	63.7
<b>Total</b>	<b>521.5</b>	<b>512.2</b>	<b>511.0</b>	<b>550.1</b>	<b>491.3</b>	<b>496.7</b>	<b>506.4</b>	<b>527.6</b>

	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EUR mill	2007	2007	2007	2007	2006	2006	2006	2006
<b>Operating profit</b>	<b>13.7</b>	<b>37.1</b>	<b>59.9</b>	<b>30.8</b>	<b>-5.2</b>	<b>5.5</b>	<b>14.7</b>	<b>-25.8</b>
Financial income	3.6	2.6	2.0	9.0	2.7	2.0	2.9	3.4
Financial expenses	-3.9	-5.4	-6.0	-4.6	-2.7	-4.3	-4.1	-3.9
Share of result of associated companies	0.0	0.1	0.0	0.0	0.0	0.1	0.0	0.0
<b>Profit before taxes</b>	<b>13.4</b>	<b>34.4</b>	<b>55.9</b>	<b>35.2</b>	<b>-5.2</b>	<b>3.3</b>	<b>13.5</b>	<b>-26.3</b>
Income taxes	-4.1	-8.4	-16.1	-8.2	1.4	-2.4	-3.3	6.0
<b>Profit for the financial year</b>	<b>9.3</b>	<b>26.0</b>	<b>39.8</b>	<b>27.0</b>	<b>-3.8</b>	<b>0.9</b>	<b>10.2</b>	<b>-20.3</b>
Share attributable to parent company's shareholders	9.3	25.8	39.6	26.9	-4.0	0.4	10.3	-20.3
Minority interests	0.0	0.2	0.2	0.1	0.2	0.5	-0.1	0.0
<b>Earnings per share calculated from profit attributable to shareholders of the parent company</b>								
Basic earnings per share, EUR/share	0.10	0.26	0.41	0.27	-0.04	0.00	0.11	-0.21
Diluted earnings per share, EUR/share	0.10	0.26	0.41	0.27	-0.04	0.00	0.11	-0.21

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

<b>Consolidated balance sheet</b>									
	31 Mar	30 Jun	30 Sep	31 Dec	31 Mar	30 Jun	30 Sep	31 Dec	31 Dec
EUR mill	2007	2007	2007	2007	2006	2006	2006	2006	2005
<b>ASSETS</b>									
<b>Non-current assets</b>									
Intangible assets	48.9	48.5	47.0	46.6	47.6	50.5	46.2	47.5	44.6
Tangible assets	1,051.1	1,165.6	1,163.2	1,168.9	887.2	933.9	984.1	1,012.3	844.4
Holdings in associated companies	5.6	5.6	5.7	5.7	3.2	2.9	3.0	5.6	3.1
Receivables	15.3	15.0	14.3	13.8	17.1	16.2	16.1	15.4	17.7
Deferred tax assets	23.3	17.7	18.1	13.2	22.5	26.5	28.2	27.1	17.5
	1,144.2	1,252.4	1,248.3	1,248.2	977.6	1,030.0	1,077.6	1,107.9	927.3
<b>Current assets</b>									
Inventories	40.3	40.4	39.8	36.1	47.0	40.3	41.4	38.5	45.1
Trade receivables and other receivables	286.3	264.0	307.6	287.3	286.9	274.9	269.5	211.8	247.6
Other financial assets	192.6	225.7	231.8	518.6	278.8	324.4	258.4	268.6	391.7
Cash and cash equivalents	28.9	21.2	26.6	21.5	27.9	41.7	37.2	25.7	26.7
	548.1	551.3	605.8	863.5	640.6	681.3	606.5	544.6	711.1
Non-current assets held for sale	7.6	26.2	11.2	34.7	0.0	0.0	0.0	7.6	0.0
<b>Assets, total</b>	<b>1,699.9</b>	<b>1,829.9</b>	<b>1,865.3</b>	<b>2,146.4</b>	<b>1,618.2</b>	<b>1,711.3</b>	<b>1,684.1</b>	<b>1,660.1</b>	<b>1,638.4</b>

<b>Consolidated Balance Sheet</b>									
	31 Mar	30 Jun	30 Sep	31 Dec	31 Mar	30 Jun	30 Sep	31 Dec	31 Dec
EUR mill	2007	2007	2007	2007	2006	2006	2006	2006	2005
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>									
Equity attributable to shareholders of parent company									
Share capital	75 4	75 4	75 4	75 4	74 4	75 0	75 4	75 4	73 8
Other equity	538 4	569 0	605 1	909 9	568 9	565 6	560 5	524 5	598 6
	613 8	644 4	680 5	985 3	643 3	640 6	635 9	599 9	672 4
Minority interest	1 2	1 4	1 6	1 7	1 5	1 9	1 6	1 6	1 6
<b>Shareholders' equity, total</b>	<b>615 0</b>	<b>645 8</b>	<b>682 1</b>	<b>987 0</b>	<b>644 8</b>	<b>642 5</b>	<b>637 5</b>	<b>601 5</b>	<b>674 0</b>
<b>Non-current liabilities</b>									
Deferred tax liabilities	116 2	117 5	118 7	143 4	123 6	124 1	118 9	115 7	125 8
Financial liabilities	280 0	317 7	313 6	269 6	207 6	299 7	293 4	286 9	214 9
Pension obligations	8 4	6 8	11 8	15 8	9 8	7 6	7 5	7 0	12 7
	404 6	442 0	444 1	428 8	341 0	431 4	419 8	409 6	353 4
<b>Current liabilities</b>									
Trade payables and other liabilities	4 6	12 0	23 1	12 1	0 0	8 3	12 5	3 0	20 1
Provisions	57 1	59 1	56 5	53 6	38 2	40 7	43 2	55 7	36 1
Financial liabilities	50 0	78 3	70 3	54 5	53 3	58 1	63 4	56 6	52 7
Trade payables and other liabilities	568 6	566 0	579 2	610 4	540 9	530 3	507 7	533 7	502 1
Liabilities related to long-term asset items held for sale	0 0	26 7	10 0	0 0	0 0	0 0	0 0	0 0	0 0
	680 3	742 1	739 1	730 6	632 4	637 4	626 8	649 0	611 0
<b>Liabilities, total</b>	<b>1,084 9</b>	<b>1,184 1</b>	<b>1,183 2</b>	<b>1,159 4</b>	<b>973 4</b>	<b>1,068 8</b>	<b>1,046 6</b>	<b>1,058 6</b>	<b>964 4</b>
<b>Shareholders' equity and liabilities, total</b>	<b>1,699 9</b>	<b>1,829 9</b>	<b>1,865 3</b>	<b>2,146 4</b>	<b>1,618 2</b>	<b>1,711 3</b>	<b>1,684 1</b>	<b>1,660 1</b>	<b>1,638 4</b>
<b>Segment information</b>									
<b>Turnover by quarter</b>									
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
EUR mill	2007	2007	2007	2007	2006	2006	2006	2006	
Scheduled Passenger Traffic	391 2	434 0	432 6	427 5	352 8	392 3	401 9	375 1	
Leisure Traffic	116 6	83 1	90 1	119 8	109 4	82 4	90 7	104 3	
Aviation Services	110 8	99 8	109 9	113 4	102 2	97 5	101 6	106 2	
Travel Services	20 7	22 4	19 0	20 2	22 6	23 1	20 4	21 3	
Group eliminations	-110 8	-101 2	-106 4	-112 2	-106 7	-100 7	-99 2	-107 6	
<b>Total</b>	<b>528 5</b>	<b>538 1</b>	<b>545 2</b>	<b>568 7</b>	<b>480 3</b>	<b>494 6</b>	<b>515 4</b>	<b>499 3</b>	

Operating profit excluding capital gains, fair value changes of derivatives and non recurring items								
EUR mill	Q1 2007	Q2 2007	Q3 2007	Q4 2007	Q1 2006	Q2 2006	Q3 2006	Q4 2006
Scheduled Passenger Traffic	-0.3	27.7	28.8	20.0	-4.4	21.7	20.3	-9.0
Leisure Traffic	5.6	1.1	7.8	9.7	6.2	1.1	8.2	3.1
Aviation Services	3.3	1.3	2.7	3.0	-3.6	-1.3	-4.6	-15.0
Travel Services	1.3	1.2	1.3	-0.9	0.3	0.9	0.9	0.2
Unallocated items	-4.1	-4.1	-1.4	-7.4	-3.6	4.2	-2.3	-3.7
<b>Total</b>	<b>5.8</b>	<b>27.2</b>	<b>39.2</b>	<b>24.4</b>	<b>-5.1</b>	<b>18.2</b>	<b>22.5</b>	<b>-24.4</b>

#### 4 ACQUIRED BUSINESSES

The Finnair Group's Oy Aurinkomatkat-Suntours Ltd Ab signed an agreement on 22 December 2006 to acquire 95% of the share stock of Ou Horizon Travel, the second biggest tour operator in Estonia. Control was transferred in April 2007, at which time Aurinkomatkat also took over the operational side of the business. The acquisition price was 0.6 million euros and it was paid in cash. The goodwill of 0.3 million euros that arose is based on the management's view that through the acquisition Aurinkomatkat will obtain a solid foothold in the growing package tour market in the Baltic states. The transaction is also strengthened by synergy benefits on both sides of the Gulf of Finland. The company's nine-month profit, 0.3 million euros, is included in the consolidated income statement for 2007. The company's turnover from April, 8.7 million euros, is included in full in the Group's turnover. If the company had been in the Group during the whole financial year, its impact on the turnover for the financial year would have been 11.2 million euros and the impact on profit 0.4 million euros.

##### Values of liabilities and acquired assets at the acquisition date

EUR mill	Recognised fair value	Book values before consolidation
Trade and other receivables	0.4	0.4
Cash and cash equivalents	0.8	0.8
<b>Total</b>	<b>1.2</b>	<b>1.2</b>
Other financial liabilities	0.9	-0.9
Net assets	0.3	0.3
Minority interest (5%)	0.0	
Bought net assets	0.3	
Acquisition cost	0.6	
Goodwill (Note 16)	0.3	
Acquisition price paid in cash	0.6	
Cash and cash equivalents of acquired subsidiary	-0.8	
Cash flow effect	-0.2	

Acquisitions after the financial period are reported in Note 38.

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

In July 2007 the Group sold its FlyNordic shares. The selling price was paid in Norwegian Air Shuttle ASA new shares and options, which can be used to redeem additional shares. Options have been valued at fair value. Through the transaction, the Group acquired a holding of around 5 per cent of Norwegian Air Shuttle ASA's shares. By exercising the options included in the agreement, the Group can acquire additional shares and increase its holding in Norwegian Air Shuttle ASA to around 10 per cent. The options can be exercised up to the end of 2008. In addition Norwegian Air Shuttle ASA will pay the Group a sum corresponding to 50 per cent of the profit from FlyNordic's charter flight business in the period beginning on 30 June 2007 and ending on 31 October 2008. Under the agreement this sum is payable on 31 December 2008. An estimate for this agreement is not recognised in the financial statements of 31 December 2007. The shares and options have been recognised at fair value at the moment of sale and after that.

In November 2007 Northport Oy sold its shares of Finnhandling AB and Northport Norway AS, subsidiaries practising ground handling operations in Sweden and Norway. The selling price was paid in cash. In 2006 the Group did not sell asset items. Asset items sold in 2006 and 2007 did not fulfill the characteristics of discontinued operations nor the criteria of assets classified as available for sale.

<b>Net assets and liabilities of sold operations</b>		
EUR mill	2007	2006
Cash and cash equivalents	1.7	0.0
Intangible assets	1.9	0.0
Tangible fixed assets	2.7	0.0
Trade receivables and other receivables	31.4	
Loans	-38.7	0.0
<b>Total</b>	<b>-1.0</b>	<b>0.0</b>
Capital gain	19.7	0.0
<b>Consideration, total</b>	<b>18.7</b>	<b>0.0</b>
<hr/>		
Paid cash and cash equivalents	2.3	0.0
Cash and cash equivalents of disposed subsidiary	-1.7	0.0
<b>Net cash flow of disposal</b>	<b>0.6</b>	<b>0.0</b>

### Non-current assets held for sale

In the Scheduled Passenger Traffic segment the following have been classified as available for sale: one MD-11 aircraft, six MD-80 aircraft and three ATR 72 aircraft, because the sum corresponding to their carrying amount will accrue from the sale of the asset item instead of operational use. The company management has decided on their sale, with the intention of implementing it during 2008. The aircraft to be sold are for sale in their present condition on the industry's general and customary terms and conditions. Depreciation of the aircraft and engines in question was discontinued at the time of classification. Company has agreed to sell both of its MD 11 aircraft, but since other doesn't leave fleet until 2009, it doesn't fulfil IFRS available for sale criteria.

In the Scheduled Passenger Traffic segment the following were classified as available for sale in 2006: four ATR 72 aircraft, because the sum corresponding to their carrying amount accrued from the sale of the asset item instead of operational use, and depreciation of the aircraft and engines in question was discontinued at the time of classification. The company management decided on their sale, which was implemented in spring 2007 according to plan.

Impairments totalling 3.0 million euros have been recognised for the fleet in 2007, as the asset was valued at selling prices less costs of sale. Impairments are presented in the income statement group 'Depreciation'.

<b>The book value of the non-current assets held for sale</b>		
EUR mill	31 Dec 2007	31 Dec 2006
Aircraft	34.7	7.6
<b>Total</b>	<b>34.7</b>	<b>7.6</b>

## 6 PRODUCTION FOR OWN USE

EUR mill	1 Jan-31 Dec 2007	1 Jan-31 Dec 2006
Component production	1 2	0 6
Heavy maintenance	1 8	3 1
<b>Total</b>	<b>3 0</b>	<b>3 7</b>

## 7 OTHER OPERATING INCOME

EUR mill	1 Jan-31 Dec 2007	1 Jan-31 Dec 2006
Capital gains on sales of tangible fixed assets	10 7	2 3
Capital gain from shares	0 0	0 0
Sell of subsidiaries	22 7	0 0
Rental income	4 4	3 6
Others	15 0	12 0
<b>Total</b>	<b>52 8</b>	<b>17 9</b>

Other operating income includes frequent-flyer income of 6 0 million euros (6 0 million euros in 2006). The rest consists of several items, none of which are individually significant.

## 8 MATERIAL AND SERVICES

EUR mill	1 Jan-31 Dec 2007	1 Jan-31 Dec 2006
<b>Materials and services</b>		
Materials and supplies for aircraft maintenance	32 5	46 2
Ground handling and catering charges	154 3	139 4
Fuels for flight operations	439 9	385 0
Expenses for tour operations	120 6	111 5
Aircraft maintenance and servicing	44 2	54 4
Data administration services	52 3	55 5
Other items <sup>1)</sup>	53 1	46 7
<b>Total</b>	<b>896 9</b>	<b>838 7</b>

Owing to the ending of maintenance preparedness for certain types of aircraft, the Group recognised an impairment of 5 2 million euros in the inventories of Finnair Technical Services 2006. This non-recurring item has been recognised in materials and supplies for aircraft maintenance expenses.

Other operating expenses do not include research and development expenses.

<sup>1)</sup> Consists of several items, none of which are individually significant.

## 9 EMPLOYEE BENEFIT EXPENSE

EUR mill	1 Jan-31 Dec 2007	1 Jan-31 Dec 2006
<b>Employee benefit expense</b>		
Wages and salaries	417 8	397 7
Pension expenses	80 0	73 4
Other social expenses	43 7	37 1
<b>Total</b>	<b>541 5</b>	<b>508 2</b>

Personnel expenses included recognition a non-recurring arrangement expense of 10 0 million euros for the implementation of retirement and other solutions agreed in the Group's statutory employer-employee negotiations during 2006. The item is divided into salaries and pension expenses.

**Salaries and bonuses of Chief Executive Officer  
and Members of the Board of Directors**

EUR	Salary and bonuses
<b>Chief Executive Officer</b>	
Jukka Hienonen	486,428
<b>Deputy Chief Executive Officer</b>	
Henrik Arle	249,977
<b>Members of the Board of Directors</b>	
Christoffer Taxell	56,700
Kari Jordan	36,000
Satu Huber	33,165
Markku Hyvarinen	31,803
Veli Sundback	32,600
Sigurdur Helgason	24,942
Kalevi Alestalo	33,600
Ursula Ranin	36,566

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

**Personnel incentive scheme**

The Group operates an incentive scheme based on a balanced scorecard, defined separately for each business unit, which covers most of the Finnair Group's employees. The total amount of bonuses in 2007 was 12 9 million euros (2 8 million euros in year 2006).

**Transfer to Personnel Fund**

The Finnair Group has a profit bonus scheme, which allows employees to participate in a profit bonus payable on the basis of the Group's result and return on capital employed. A profit bonus is paid into a Personnel Fund, which is obliged to invest part of the bonus in Finnair Plc's shares. Other staff costs include 9 5 million euros of profit bonus (0 0 million euros in year 2006).

EUR mill	1 Jan-31 Dec 2007	1 Jan-31 Dec 2006
<b>Social expenses</b>		
Pension expenses – defined contribution schemes	73.8	63.3
Pension expenses – defined-benefit schemes, statutory	0.0	0.0
Pension expenses – defined benefit schemes, voluntary <sup>1)</sup>	5.7	9.6
Other defined-benefit expenses	0.5	0.5
Other social expenses	43.7	37.1
<b>Total</b>	<b>123.7</b>	<b>110.5</b>

<sup>1)</sup> In 2006 pension expenses were increased by a recognition of non-recurring arrangement expenses amounting to 2.9 million euros

#### Management pension benefits

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

## 10 DEPRECIATION AND IMPAIRMENT

EUR mill	1 Jan-31 Dec 2007	1 Jan-31 Dec 2006
<b>Depreciation of tangible fixed assets</b>		
Buildings	4.9	5.6
Aircraft	89.9	81.3
Other equipment	8.9	8.5
	103.7	95.4
<b>Depreciation of intangible assets</b>		
Other intangible assets	8.9	9.4
	8.9	9.4
<b>Total</b>	<b>112.6</b>	<b>104.8</b>

## 11 OTHER OPERATING EXPENSES

EUR mill	1 Jan-31 Dec 2007	1 Jan-31 Dec 2006
<b>Other operating expenses</b>		
Lease payments for aircraft	81.2	90.8
Rental of cargo capacity	13.1	18.0
Other rental of flight capacity	14.3	20.3
Office and other rents	36.4	42.4
Traffic charges	154.3	161.9
Sales and marketing expenses	92.0	91.3
IT expenses and booking fees	35.7	32.3
Other items <sup>1)</sup>	116.8	113.3
<b>Total</b>	<b>543.8</b>	<b>570.3</b>

<sup>1)</sup> Consists of several items, none of which are individually significant



## 12 FINANCIAL INCOME

EUR mill	1 Jan-31 Dec 2007	1 Jan-31 Dec 2006
Interest income		
Interest income from financial assets classified as held for trading	10.4	8.5
Other interest income	0.5	0.9
	<b>10.9</b>	<b>9.4</b>
Dividend income	0.2	0.0
Exchange gains	6.1	1.6
<b>Total</b>	<b>17.2</b>	<b>11.0</b>

## 13 FINANCIAL EXPENSES

EUR mill	1 Jan-31 Dec 2007	1 Jan-31 Dec 2006
Interest expenses		
Interest expenses on financial liabilities recognised at fair value through profit and loss	1.9	1.3
Interest expenses for financial liabilities valued at amortised acquisition cost	14.2	9.9
Interest on finance leases	1.2	1.0
	<b>17.3</b>	<b>12.2</b>
Exchange losses	1.8	1.8
Other financial expenses	0.8	1.0
<b>Total</b>	<b>19.9</b>	<b>15.0</b>

Efficiency testing of the Group's hedge accounting found that both cash flow and fair value hedging are efficient. Thus, as in the comparison year 2006, no inefficiency is included in financial items for 2007. Financial income includes an identical amount of profits and losses for fair value hedging instruments and for hedging items resulting from the hedged risk.

## 14 INCOME TAXES

Taxes for financial year		
	1 Jan-31 Dec 2007	1 Jan-31 Dec 2006
EUR mill		
Tax based on taxable income of financial year	12.1	3.0
Deferred taxes	24.7	-4.7
<b>Total</b>	<b>36.8</b>	<b>-1.7</b>
The tax expense included in the consolidated income statement differs in the following way from the theoretical sum obtained by using the tax rate (26%) of the Group's home country, Finland		
	1 Jan-31 Dec 2007	1 Jan-31 Dec 2006
EUR mill		
Profit before taxes	138.9	-14.7
Taxes calculated using the Finnish tax rate	-36.1	3.8
Different tax rates of foreign subsidiaries	0.0	0.3
Share of result in associates	0.0	0.0
Tax-free income	0.8	0.0
Nondeductible expenses	0.3	-0.6
Deferred taxes from loss	0.4	-1.8
<b>Income taxes, total</b>	<b>-36.8</b>	<b>1.7</b>
Effective tax rate	26.5%	11.7%

## 15 EARNINGS PER SHARE

The undiluted earnings per share figure is calculated by dividing the profit for the financial year attributable to the parent company's shareholders by the weighted average number of shares outstanding during the financial year. When calculating the earnings per share adjusted by dilution, the weighted average of the number of shares takes into account the diluting effect resulting from changing into shares all potentially diluting shares. The Group has had share options which have a diluting effect when the subscription price of the options is lower than the fair value of the share because with the funds obtained from the exercising of the options the Group could not issue the same number of shares at fair value. The fair value of the share is based on the weighted average price of the shares in trading.

		1 Jan-31 Dec 2007	1 Jan-31 Dec 2006
Profit for the financial year	EUR mill	101.6	-13.6
Weighted average number of shares	1,000s	98,032	96,690
Undiluted and diluted earnings per share	EUR	1.04	-0.14
Profit for the financial year	EUR mill	101.6	-13.6
Weighted average number of shares	1,000s	98,032	96,690

**Dividend**

The dividend paid in 2007 was 8.9 million euros (0.10 euros per share) and in 2006 21.8 million euros (0.25 euros per share). The Board of Directors proposes to the Annual General Meeting that a dividend of 0.25 euros per share be paid, i.e. a total of 32.0 million euros. These financial statements do not include this dividend distribution liability.

## 16 INTANGIBLE ASSETS

Financial statement 31 Dec 2006				
EUR mill	Connections fees	Systems	Goodwill	Total
<b>Acquisition cost</b>				
Acquisition cost 1 Jan 2006	1 7	86 1	2 3	90 1
Additions		12 6		12 6
Disposals		-0 8		-0 8
Transfers between items		0 3	0 0	0 3
Acquisition cost 31 Dec 2006	1 7	98 2	2 3	102 2
<b>Accumulated depreciation and impairment</b>				
Accumulated depreciation and impairment 1 Jan 2006	0 0	-45 5		-45 5
Depreciation		-9 4		-9 4
Accumulated planned depreciation of disposals		0 2		0 2
Accumulated depreciation and impairment 31 Dec 2006	0 0	-54 7	0 0	-54 7
<b>Book value 31 Dec 2006</b>	<b>1 7</b>	<b>43 5</b>	<b>2 3</b>	<b>47 5</b>
Book value 1 Jan 2006	1 7	40 6	2 3	44 6
Financial statement 31 Dec 2007				
EUR mill	Connections fees	Systems	Goodwill	Total
<b>Acquisition cost</b>				
Acquisition cost 1 Jan 2007	1 7	98 2	2 3	102 2
Additions	0 4	15 7		16 1
Subsidiary acquisitions			0 3	0 3
Disposals		-12 2	-1 8	-14 0
Transfers between items		3 8	0 0	3 8
Acquisition cost 31 Dec 2007	2 1	105 5	0 8	108 4
<b>Accumulated depreciation and impairment</b>				
Accumulated depreciation and impairment 1 Jan 2007	0 0	-54 7		-54 7
Depreciation		-9 1	0 0	-9 1
Accumulated planned depreciation of disposals		2 0		2 0
Accumulated depreciation and impairment 31 Dec 2007	0 0	-61 8	0 0	-61 8
<b>Book value 31 Dec 2007</b>	<b>2 1</b>	<b>43 7</b>	<b>0 8</b>	<b>46 6</b>
Book value 1 Jan 2007	1 7	43 5	2 3	47 5

Goodwill attributed to the Scheduled Passenger Traffic segment was 2.3 million euros on 31 December 2006. To FlyNordic, which was an independent cash flow creating unit, was allocated goodwill of 1.8 million euros and to other scheduled passenger traffic 0.5 million euros. Year 2007 in context of selling FlyNordic, goodwill of 1.8 million euros was removed from the balance sheet. When the Group acquired the company Ou Horizon Travel, goodwill amounting to 0.3 million euros was recognised for the acquisition. After impairment testing it was found that no impairment losses need to be recognised. In impairment testing, the recoverable amount has been determined based on value in use. Cash flow forecasts are based on management-approved budgets and forecasts, which cover a five-year period. The discount rate used is 9.5%. The main assumption in budgets and forecasts is 2% growth in revenue.

In the view of management a growth forecast percentage should be used as the most sensitive variable in value determination. The growth forecast used is 2% and is below the industry average for the operations in question. On the basis of a sensitivity analysis based on the growth forecast, if the growth rate were to be 10% below the management forecast, even so no requirement for an impairment recognition would arise in the Group.

Even if both sensitivity analysis factors were realised, no requirement for an impairment recognition would arise in the Group.

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

## 17 TANGIBLE FIXED ASSETS

Financial statement 31 Dec 2006						
EUR mill	Land	Buildings	Aircraft	Other equipment	Advances	Total
<b>Acquisition cost</b>						
Acquisition cost 1 Jan 2006	1.7	185.8	1,455.1	227.2	39.5	1,909.3
Additions	0.0	1.9	221.1	16.6	34.7	274.3
Disposals	0.0	0.0	-9.1	-1.7	-1.3	-12.1
Transfers between items			0.0	-0.3		-0.3
Transfer to a held-for-sale asset item			-37.4			-37.4
Acquisition cost 31 Dec 2006	1.7	187.7	1,629.7	241.8	72.9	2,133.8
<b>Accumulated depreciation and impairment</b>						
Accumulated depreciation and impairment 1 Jan 2006	0.0	-101.7	-768.7	-194.5	0.0	-1,064.9
Depreciation		-5.6	-81.3	-8.5		-95.4
Accumulated planned depreciation of disposals	0.0	0.0	37.4	1.4	0.0	38.8
Accumulated depreciation and impairment 31 Dec 2006	0.0	-107.3	-812.6	-201.6	0.0	-1,121.5
<b>Book value 31 Dec 2006</b>	<b>1.7</b>	<b>80.4</b>	<b>817.1</b>	<b>40.2</b>	<b>72.9</b>	<b>1,012.3</b>
Book value 1 Jan 2006	1.7	84.1	686.4	32.7	39.5	844.4

**Financial statement 31 Dec 2007**

EUR mill	Land	Buildings	Aircraft	Other equipment	Advances	Total
<b>Acquisition cost</b>						
Acquisition cost 1 Jan 2007	1 7	187 7	1,629 7	241 8	72 9	2,133 8
Additions	0 0	0 0	305 8	4 6	36 0	346 4
Disposals	0 0	-3 6	-86 6	-4 5	-0 2	-94 9
Transfers between items			0 0	0 0		0 0
Transfer to a held-for-sale asset item			-353 3			-353 3
Acquisition cost 31 Dec 2007	1 7	184 1	1,495 6	241 9	108 7	2,032 0
<b>Accumulated depreciation and impairment</b>						
Accumulated depreciation and impairment 1 Jan 2007	0 0	-107 3	-812 6	-201 6	0 0	-1,121 5
Depreciation		-4 9	-89 9	-8 9		-103 7
Accumulated depreciation and impairment			318 6			318 6
Accumulated planned depreciation of disposals		1 0	39 1	3 4		43 5
Accumulated depreciation and impairment 31 Dec 2007	0 0	-111 2	-544 8	-207 1	0 0	-863 1
<b>Book value 31 Dec 2007</b>	<b>1.7</b>	<b>72 9</b>	<b>950 8</b>	<b>34 8</b>	<b>108 7</b>	<b>1,168 9</b>
Book value 1 Jan 2007	1 7	80 4	817 1	40 2	72 9	1,012 3

In 2007 the carrying amount of pledged aircraft as security for loans is 324 4 million euros (219 0 million euros)

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

**Finance lease arrangements**

Tangible fixed assets include assets acquired under finance leases

**Financial statement 31 Dec 2006**

EUR mill	Buildings	Machinery and vehicles	Total
Acquisition cost 31 Dec 2006	8 2	8 7	16 9
Accumulated depreciation	-3 0	-5 2	-8 2
<b>Book value</b>	<b>5 2</b>	<b>3 5</b>	<b>8 7</b>
EUR mill	2007	2008-2011	2012-
Lease payments	4 9	9 6	3 0
Discounting	1 8	2 3	0 4
Net present value	4 1	7 3	2 6

**Financial statement 31 Dec 2007**

EUR mill	Buildings	Machinery and vehicles	Total
Acquisition cost 31 Dec 2007	8.2	8.7	16.9
Accumulated depreciation	-4.2	-7.0	-11.2
<b>Book value</b>	<b>4.0</b>	<b>1.7</b>	<b>5.7</b>

EUR mill	2008	2009-2012	2013-
Lease payments	4.9	6.7	0.5
Discounting	0.7	1.2	0.2
<b>Net present value</b>	<b>4.2</b>	<b>5.5</b>	<b>0.3</b>

Buildings in finance leasing arrangements are depreciated to plan 6-11 years and other equipment is depreciated according to plan over 5 years. In the financial year and in the comparison period no variable rents from finance leases have been recognised.

**18 HOLDINGS IN ASSOCIATED UNDERTAKINGS**

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

EUR mill	31 Dec 2007	31 Dec 2006
At beginning of the financial year	5.6	3.1
Shares of results	0.1	0.1
Additions	0.0	2.7
Disposals	0.0	-0.3
<b>At end of the financial year</b>	<b>5.7</b>	<b>5.6</b>

**Information on the Group's associated undertakings****Financial statement 31 Dec 2006**

	Domicile	Assets	Liabilities	Turnover	Profit/Loss	Holding-%
Suomen Jakelutiet Oy	Finland	0.8	0.1	0.3	0.1	47.50
Toivelomat Oy	Finland	0.4	0.1	0.3	0.1	48.30
Amadeus Estonia	Estonia	0.6	0.1	0.8	0.2	33.25
Kiinteistö Oy Lentajantie 1	Finland	36.2	28.1	0.1	0.0	28.33
Kiinteistö Oy Lentajantie 3	Finland	11.7	9.8	0.1	0.0	39.12
<b>Total</b>		<b>49.7</b>	<b>38.2</b>	<b>1.6</b>	<b>0.4</b>	

**Financial statement 31 Dec 2007**

	Domicile	Assets	Liabilities	Turnover	Profit/Loss	Holding-%
Suomen Jakelutiet Oy	Finland	0.8	0.1	0.3	0.1	47.50
Toivelomat Oy	Finland	0.3	0.1	0.2	0.0	48.30
Amadeus Estonia	Estonia	0.7	0.1	0.8	0.2	33.25
Kiinteistö Oy Lentajantie 1	Finland	37.3	29.2	0.1	0.0	28.33
Kiinteistö Oy Lentajantie 3	Finland	12.5	10.6	0.1	0.0	39.12
<b>Total</b>		<b>51.6</b>	<b>40.1</b>	<b>1.5</b>	<b>0.3</b>	

The carrying amount of associated companies on 31 December 2007 and 31 December 2006 does not include goodwill

Aurinkomatkat-Suntours' associated company Toivelomat Oy operates in Finnair Group as a provider of support services in two sectors in transporting forwarding services of certain Group companies and as a field representative at airports. Amadeus Finland's holding in Amadeus Estonia ensures the provision of consistent products and services to Finnish companies operating in Estonia as well as in Finland and helps to increase cooperation between Estonia travel agencies and Finnish travel service providers. Amadeus Finland's associated company Suomen Jakelutiet Oy produces the Finnish Hotel Reservations system as well as travel agency network services for hotel sales.

## 19 RECEIVABLES, LONG TERM

EUR mill	31 Dec 2007	31 Dec 2006
Loan receivables	0.2	0.3
Other receivables	13.6	15.1
<b>Total</b>	<b>13.8</b>	<b>15.4</b>

### Financial year 31 Dec 2006

EUR mill	Loan receivables	Other receivables	Total
At beginning of financial year	0.3	17.4	17.7
Additions	0.0	0.0	0.0
Disposals	0.0	-2.3	-2.3
<b>At end of financial year</b>	<b>0.3</b>	<b>15.1</b>	<b>15.4</b>

### Financial year 31 Dec 2007

EUR mill	Loan receivables	Other receivables	Total
At beginning of financial year	0.3	15.1	15.4
Additions	0.0	0.0	0.0
Disposals	-0.1	-1.5	-1.6
<b>At end of financial year</b>	<b>0.2</b>	<b>13.6</b>	<b>13.8</b>

Other receivables are security deposits for aircraft operational lease agreements.

Balance sheet values correspond best to the sum which is the maximum amount of credit risk, excluding the fair value of guarantees, in the event that other contractual parties are not able to fulfill their obligations relating to financial instruments. There are no significant concentrations of credit risk relating to receivables.

The fair values of receivables are presented in Note 32.

## 20 DEFERRED TAX ASSETS AND LIABILITIES

<b>Changes in deferred taxes during 2006</b>				
EUR mill	1 Jan 2006	Recognised in the income statement	Recognised in shareholders' equity	31 Dec 2006
<b>Deferred tax assets</b>				
Employee benefits	4.4	1.1	0.0	5.5
Confirmed losses	2.6	1.9	0.0	4.5
Depreciation of tangible fixed assets	2.3	-0.4	0.0	1.9
Finance leasing	1.9	-0.4	0.0	1.5
Revenue recognition	0.3	-0.1	0.0	0.2
Capitalisation of overhead expenses	0.0	0.4	0.0	0.4
Heavy maintenance allocations	5.7	-0.3	0.0	5.4
Other temporary differences	0.3	0.0	7.4	7.7
<b>Total</b>	<b>17.5</b>	<b>2.2</b>	<b>7.4</b>	<b>27.1</b>
Deferred tax assets that can be used after more than 12 months	15.0			18.2
<b>Deferred tax liabilities</b>				
Accumulated depreciation difference	27.9	-3.0	0.0	24.9
Gains from sale of tangible fixed assets	88.5	0.5	0.0	89.0
Capitalisation of overhead expenses	0.2	-0.1	0.0	0.1
Recognition at fair value	0.9	-0.9	0.0	0.0
Other temporary differences	1.8	1.0	-1.1	1.7
Valuation of derivatives at fair value	6.5	0.0	-6.5	0.0
<b>Total</b>	<b>125.8</b>	<b>-2.5</b>	<b>-7.6</b>	<b>115.7</b>
Deferred tax liabilities payable after more than 12 months	118.2			114.2

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



**Changes in deferred taxes during 2007**

EUR mill	1 Jan 2007	Recognised in the income statement	Recognised in shareholders' equity	31 Dec 2007
<b>Deferred tax assets</b>				
Employee benefits	5.5	-1.4	0.0	4.1
Confirmed losses	4.5	-4.5	0.0	0.0
Depreciation of tangible fixed assets	1.9	-1.4	0.0	0.5
Finance leasing	1.5	-0.4	0.0	1.1
Revenue recognition	0.2	0.1	0.0	0.3
Capitalisation of overhead expenses	0.4	0.0	0.0	0.4
Heavy maintenance allocations	5.4	0.0	0.0	5.4
Share issue	0.0	1.1	0.0	1.1
Other temporary differences	7.7	0.0	-7.4	0.3
<b>Total</b>	<b>27.1</b>	<b>-6.5</b>	<b>-7.4</b>	<b>13.2</b>
Deferred tax assets that can be used after more than 12 months	18.2			11.1
<b>Deferred tax liabilities</b>				
Accumulated depreciation difference	24.9	16.4	0.0	41.3
Gains from sale of tangible fixed assets	89.0	2.4	0.0	91.4
Capitalisation of overhead expenses	0.1	0.0	0.0	0.1
Recognition at fair value	0.0	0.0	0.0	0.0
Other temporary differences	1.7	-0.6	0.0	1.1
Valuation of derivatives at fair value	0.0	0.0	9.5	9.5
<b>Total</b>	<b>115.7</b>	<b>18.2</b>	<b>9.5</b>	<b>143.4</b>
Deferred tax liabilities payable after more than 12 months	114.2			132.7

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

If the foreign subsidiaries would pay out all retaining earnings as dividend to the parent company it will cause 0.3 million euros tax effect (0.2).

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

## 21 INVENTORIES

	31 Dec 2007	31 Dec 2006
EUR mill		
Materials and supplies	33.8	36.3
Work in progress	2.3	2.2
<b>Total</b>	<b>36.1</b>	<b>38.5</b>

In the financial period an expense of 0.2 million euros was recognised, equivalent to the sum by which the carrying amount of inventories was reduced to correspond with their net realisable value (7.2 million euros in 2006). The portion recognised as an expense in 2007 has been presented in materials and supplies for aircraft maintenance in Note 8.

The carrying amount of inventories recognised at fair value is 6.3 million euros (5.5 million euros in 2006). Inventories have not been pledged for Group liabilities.

## 22 TRADE RECEIVABLES AND OTHER RECEIVABLES

	31 Dec 2007	31 Dec 2006
EUR mill		
Trade receivables	126.6	141.6
Receivables from associated undertakings	0.2	0.3
Prepaid expenses and accrued income	41.4	31.7
Receivables based on derivative contracts	75.6	2.9
Other receivables	43.5	35.3
<b>Total</b>	<b>287.3</b>	<b>211.8</b>

**Age distribution of trade receivables**

	31 Dec 2007	31 Dec 2006
Not overdue	110.7	136.4
Overdue less than 60 days	10.5	2.2
Overdue more than 60 days	5.4	3.0
<b>Total</b>	<b>126.6</b>	<b>141.6</b>

**Debt losses from trade receivables**

The Group has recognised during the financial year credit losses from trade receivables of 0.9 million euros (0.5 million euros in 2006).

There are no significant concentrations of credit risk relating to overdue or not overdue receivables.

## 23 OTHER FINANCIAL ASSETS, SHORT-TERM

	31 Dec 2007	31 Dec 2006
EUR mill		
Deposits, commercial papers, certificates of deposit and government bonds	493 0	265 7
Listed shares	22 6	0 0
Unlisted shares	3 0	2 9
<b>Total</b>	<b>518 6</b>	<b>268 6</b>
<b>Ratings of counterparties</b>		
	31 Dec 2007	31 Dec 2006
EUR mill		
Better than A	410 4	136 8
A	0 0	49 7
BBB	6 0	10 0
Unrated	102 2	72 1
<b>Total</b>	<b>518 6</b>	<b>268 6</b>

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

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

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

## 24 CASH AND CASH EQUIVALENTS

	31 Dec 2007	31 Dec 2006
EUR mill		
<b>Cash and bank deposits</b>	<b>21 5</b>	<b>25 7</b>

Items included in cash and cash equivalents mature in maximum of 3 months. Foreign currency cash and bank deposits have been valued at mid-market exchange rates on the closing date

## 25 EQUITY-RELATED INFORMATION

	Number of registered shares	Share capital EUR	Share premium account EUR	Unrestricted equity EUR
1 Jan 2006	86,804,113	73,783,496 05	15,978,731 43	
Share-based payment expense			2,333,760 00	
Share subscriptions	-	-	4,428,619 58	
Share registrations	1,952,245	1,659,408 25	-	
Share-based payment expense			-2,333,760 00	
31 Dec 2006	88,756,358	75,442,904 30	20,407,351 01	
Share issue	39,379,757	-	-	244,880,581 34
<b>31 Dec 2007</b>	<b>128,136,115</b>	<b>75,442,904 30</b>	<b>20,407,351 01</b>	<b>244,880,581 34</b>

	Number of shares	Price EUR	Average price EUR
1 Jan 2006	535,000	3,582,507 95	6 70
Disposal of own shares	-383,097	-2,056,847 88	5 37
Acquisition of own shares	0	0 00	0 00
31 Dec 2006	151,903	1,525,660 07	10 04
<b>31 Dec 2007</b>	<b>151,903</b>	<b>1,525,660 07</b>	<b>10 04</b>

All issued shares are fully paid

#### Obligation to redeem clause

The Articles of Association have no obligation to redeem clause

#### RESERVES INCLUDED IN SHAREHOLDERS' EQUITY

##### Share issue

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

##### Share premium account

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

##### General reserve

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

##### Translation difference

The translation differences reserve includes translation differences arising from the translation of foreign units' financial statements

##### Unrestricted equity

Share issue 2007 gains less transaction expenses have been recognised in the unrestricted equity

##### Fair value reserve

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

<b>Fair value reserve</b>		
EUR mill	31 Dec 2007	31 Dec 2006
Jet fuel price hedging	55.3	-12.8
Jet fuel currency hedging	-20.0	-8.2
Hedging of lease payments	-3.9	-1.9
Hedging of firm aircraft purchase orders	-2.6	-6.9
Loans hedging	0.8	0.2
Available for sale financial assets	6.7	0.0
Deferred tax asset (liability)	-9.4	8.5
<b>Total</b>	<b>26.8</b>	<b>-21.1</b>

<b>Maturity dates of fair values recognised in the fair value reserve</b>							
EUR mill	2008	2009	2010	2011	2012	Later	Total
Jet fuel price hedging	36.9	16.7	1.7				55.3
Jet fuel currency hedging	-15.1	-4.7	-0.2				-20.0
Hedging of lease payments	-3.6	-0.3					-3.9
Hedging of firm aircraft purchase orders	-1.3	-1.3					-2.6
Loans hedging	0.3	0.3	0.2				0.8
Available for sale financial assets						6.7	6.7
Deferred tax asset (liability)	-4.5	-2.8	-0.4			-1.7	-9.5
<b>Total</b>	<b>12.7</b>	<b>7.9</b>	<b>1.3</b>	<b>0.0</b>	<b>0.0</b>	<b>5.0</b>	<b>26.8</b>

#### Derivatives in income statement

During 2007, 11.5 million euros (-17.2) has been recognised from the fair value reserve as an increase in expenses in the income statement. Of this, 8.1 million euros (-16.9) is an adjustment of fuel expenses and 3.4 million euros (-0.3) an adjustment of aircraft lease expenses. In addition, 13.3 million euros (-0.5) has been recognised for the hedging reserve as an increase in fleet acquisition expenditure in the balance sheet for financial year 2007.

In accordance with its financial policy, Finnair hedges its fuel purchases more than it can recognise in the fair value reserve according to the interpretation of the IAS 39 standard. For this hedging outside IAS 39 hedge accounting, 1.3 million euros (-1.1) was realised and recognised in other operating expenses in the income statement during 2007. Fuel hedging accounted for -0.8 million euros (-1.4) and foreign exchange hedging for 2.1 million euros (2.5).

#### Sensitivity analysis of fair value reserve

If the price of Jet Fuel CIF NWE had been 10% higher, the balance of the reserve would have been 32.3 million euros higher. Correspondingly, a 10% weaker Jet Fuel CIF NWE price would have reduced the reserve by 32.3 million euros. In terms of the US dollar, a 10% weaker level would have lowered the balance of the fair value reserve by 33.4 million euros and a 10% stronger dollar would have had a positive impact of 33.4 million euros. The enclosed sensitivity figures do not take into account any change in deferred tax liability (tax assets). The effect of change in interest rates to equity is under 1 million euros.

#### Own shares

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

<b>Finnair Plc's distributable equity</b>	
EUR mill	31 Dec 2007
Retain earnings at beginning of financial year	270.8
Dividend distribution	-8.9
Unrestricted equity	248.1
Result for the financial year	1.0
<b>Distributable equity total</b>	<b>511.0</b>

## 26 SHARE-BASED PAYMENTS

The Group has share-based incentive scheme for personnel

### Finnair Plc's share-based incentive scheme 2004–2006

The Board of Directors of Finnair Plc approved a share bonus scheme 2004–2006 on 18 June 2004. In the share bonus scheme, key individuals have the possibility of receiving shares as bonus for a three-year performance period according to how targets set for the performance period have been achieved. In addition, the proportion payable as cash is 1.5 times the value of the shares.

The Board of Directors decided annually the targets to be set for each performance period. The targets were determined on the basis of the Finnair Group's financial development. Achieving the targets set for the performance period determined how large a proportion of the maximum bonus was paid.

For the 2004 performance period, share bonuses amounting to 9% of the maximum bonuses were paid, i.e. the share-based portion totalled 37,800 shares (6.30 euros/share). For the 2005 performance period, share bonuses amounting to 86% of the maximum bonuses were paid, i.e. the share-based portion totalled 383,097 shares (12.20 euros/share). For the 2006 performance period share bonuses were not paid as the targets were not achieved.

### Finnair Plc's share-based incentive scheme 2007–2009

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

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

For the 2007 performance period, share bonuses will be paid if Finnair Group earnings per share (EPS) exceeds 0.70 euros and the return on capital employed (ROCE) is more than 8%. The bonuses is payable in full if EPS is at least 1.20 euros and ROCE at least 14%. Between these values the bonus is determined linearly. The Board of Directors allocated 398,787 shares to key individuals in 2007. The actual outcome of the share-based incentive scheme in 2007 was about 94% of the maximum. Total of 9.0 mill. euros of share-based payable liabilities are booked in the financial statement 31 December 2007.

#### Share-based allocations (maximum) granted to management 2007

	Number of shares
Chief Executive Officer	28,928
Deputy Chief Executive Officer	16,530
Other members (6) of Group Management team	74,385
Members of the Board of Directors	0

## 27 PENSION LIABILITIES

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

The Group's foreign sales offices and subsidiaries have various pension schemes that comply with the local rules and practices

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

### Defined-benefit pension schemes

Items recognised in the income statement		
EUR mill	31 Dec 2007	31 Dec 2006
Current service costs for financial year	10.5	8.8
Interest costs	16.8	15.6
Expected return on plan assets gain	-21.4	-18.4
Past service cost-vested benefits	-0.2	3.6
<b>Total, included in personnel expenses</b>	<b>5.7</b>	<b>9.6</b>

The actual return of plan assets was 15.5 million euros in year 2007 (27.6 million euros)

Items recognised in the balance sheet		
EUR mill	31 Dec 2007	31 Dec 2006
Present value of funded obligations	352.9	374.5
Fair value of scheme assets	-389.5	-392.6
	-36.6	-18.1
Present value of unfunded obligations	0.0	0.0
Unrecognised net actuarial gains (+)/losses (-)	52.4	28.1
Unrecognised costs based on past service	0.0	0.0
<b>Net liability</b>	<b>15.8</b>	<b>10.0</b>
Presented provisions	0.0	-3.0
<b>Net liability presented in balance sheet</b>	<b>15.8</b>	<b>7.0</b>

The balance sheet pension liability for 2007 of 15.8 million euros (10.0) does not include within it any items outside the Pension Fund. Of the balance sheet pension liability on 31 December 2006, 3.0 million euros has been presented in connection with the provision (Note 28).

Pension scheme assets include Finnair Plc shares with a fair value of 1.0 million euros (1.2 million euros in 2006) and a building used by the Group with a fair value of 34.8 million euros (16.3 million euros in 2006).

<b>Changes in plan assets</b>		
EUR mill	2007	2006
Fair value of plan assets at 1 Jan	392 6	369 9
Expected return on plan assets	21 4	18 4
Actuarial gain (loss) on plan assets	5 5	9 2
Contributions	0 2	12 4
Benefits paid	-18 8	-17 3
<b>Fair value of plan assets at 31 Dec</b>	<b>389 5</b>	<b>392 6</b>

**Plan assets are comprised as follows:**

	31 Dec 2007	31 Dec 2006
Listed shares	25 0%	25 0%
Debt instruments	49 0%	55 0%
Property	14 0%	9 0%
Other	12 0%	11 0%
	<b>100 0%</b>	<b>100 0%</b>

**Net liability reconciliation statement**

EUR mill	31 Dec 2007	31 Dec 2006
At beginning of financial year	10 0	12 7
Total expenses, presented above	5 7	9 6
Paid contributions	0 1	-12 3
<b>At end of financial year</b>	<b>15 8</b>	<b>10 0</b>

**Defined-benefit schemes principal actuarial assumptions**

	31 Dec 2007	31 Dec 2006
Discount rate	5 2%	4 5%
Expected rate of return on assets	5 6%	5 6%
Annual rate of future salary increases	4 5%	4 0%
Future pension increases	2 1%	2 1%
Estimated remaining years of service	14	15

EUR mill	2007	2006	2005
Present value of defined benefit obligation	352 9	374 5	346 5
Fair value of plan assets	-389 5	-392 6	-370 0
Surplus (-)/Deficit (+)	-36 6	-18 1	-23 5
Experience adjustments on plan assets	-5 5	9 2	18 9
Experience adjustments on plan liabilities	12 7	-17 3	30 1



## 28 PROVISIONS

In financial year 2007, the Group has not recognised a non-recurring personnel restructuring provision (previous year 10.0 million euros)

Provisions EUR mill	Restructuring provision	Maintenance provisions	Total
Provisions at 1 Jan 2006	0.0	36.1	36.1
Increase	10.0	13.6	23.6
Decrease	0.0	-4.0	-4.0
<b>Provisions at 31 Dec 2006</b>	<b>10.0</b>	<b>45.7</b>	<b>55.7</b>
Provisions at 1 Jan 2007	10.0	45.7	55.7
Increase	0.0	10.6	10.6
Decrease	-10.0	-2.7	-12.7
<b>Provisions at 31 Dec 2007</b>	<b>0.0</b>	<b>53.6</b>	<b>53.6</b>

The result impact of the provision has been recognised in personnel expenses, with 3.0 million euros being recognised in pension expenses for retirement packages and 7.0 million euros in salary expenses for redundancy compensation.

The result impact of the provision in 2006 has mainly been attributed to the Aviation Services segment.

The provision has been realised in its entirety during 2007.

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

In the previous year, the Group had provisions according to the IAS 37 standard, total 55.7 million euros.

## 29 INTEREST-BEARING LIABILITIES

EUR mill	31 Dec 2007	31 Dec 2006					
Interest-bearing liabilities							
Long-term							
Bank loans	-158.2	-142.8					
Bonds	-100.0	-100.0					
Pension loans	0.0	-28.0					
Finance lease liabilities	5.8	-9.9					
Total	-264.0	-280.7					
Non-interest-bearing liabilities							
Long-term							
Pension liabilities	-5.6	-6.2					
Total	-269.6	-286.9					
Interest-bearing liabilities							
Current							
Cheque account facilities	0.1	-0.2					
Bank loans	31.1	-26.0					
Finance lease liabilities	4.2	-4.1					
Other loans	-19.1	-26.3					
Total	-54.5	-56.6					
Maturity dates of interest-bearing financial liabilities 31 Dec 2006							
	2007	2008	2009	2010	2011	Later	Total
Bank loans, fixed interest	-21.7	-21.7	-21.7	-12.2	16.5	-38.2	-132.0
Bank loans, variable interest	-4.3	-4.5	-4.5	-4.6	-3.6	-15.3	-36.8
Bonds, variable interest						-100.0	-100.0
Pension loans						-28.0	-28.0
Finance lease liabilities	-4.1	-4.2	-1.3	-0.9	-0.9	-2.6	-14.0
Other loans	-26.5						-26.5
Interest-bearing liabilities total	-56.6	-30.4	-27.5	-17.7	-21.0	-184.1	-337.3
Payments from currency derivatives	-520.0	-221.3	-42.3				-783.6
Income from currency derivatives	504.3	222.2	43.0				769.5
Minimum lease payments	-13.7	-4.4	-0.1				-18.2
Trade payables and other liabilities	-540.2						-540.2
Interest payments	-16.9	-17.2	-15.7	-14.2	-13.2	-13.8	-90.9
Total	-643.1	-51.1	-42.6	-31.9	34.2	-197.9	-1,000.7

<b>Maturity dates of interest-bearing financial liabilities 31 Dec 2007</b>							
	2008	2009	2010	2011	2012	Later	Total
Bank loans, fixed interest	-16 6	-16 5	7 4	-14 6	-30 6	-6 8	-92 6
Bank loans, variable interest	-14 5	-14 1	-14 5	-11 2	-6 2	-36 3	-96 7
Bonds, variable interest					-100 0		-100 0
Finance lease liabilities	-4 2	-2 0	1 6	-1 1	-0 8	-0 3	-10 0
Other loans	-19 2						-19 2
<b>Interest-bearing liabilities total</b>	<b>-54 5</b>	<b>-32 6</b>	<b>-23 5</b>	<b>-26 9</b>	<b>-137 6</b>	<b>-43 4</b>	<b>-318 5</b>
Payments from currency derivatives	-438 3	-225 1	-22 5	-4 5	-24 7	-168 7	-883 7
Income from currency derivatives	407 1	216 1	21 9	4 4	23 9	162 8	836 1
Commodity derivatives	44 7	17 0	1 8				63 5
Trade payables and other liabilities	-619 2						-619 2
Interest payments	-15 8	-14 3	-12 7	-11 7	-7 0	-4 4	-65 9
<b>Total</b>	<b>-676 1</b>	<b>-38 8</b>	<b>-35 0</b>	<b>-38 7</b>	<b>-145 3</b>	<b>-53 7</b>	<b>-987 7</b>

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

<b>The currency mix of interest-bearing long-term liabilities (including cross currency interest rate swaps) is as follows</b>		
	31 Dec 2007	31 Dec 2006
EUR	266 4	285 2
USD	52 1	52 1
<b>Total</b>	<b>318 5</b>	<b>337 3</b>

<b>Weighted average effective interest rates on interest-bearing long-term liabilities</b>		
	2007	2006
	5 4%	4 7%

<b>Finance lease liabilities</b>		
	31 Dec	31 Dec
EUR mill	2007	2006
<b>Minimum lease payments</b>		
Up to 1 year	4 9	4 9
1-5 years	6 7	9 6
More than 5 years	0 5	3 0
<b>Total</b>	<b>12 1</b>	<b>17 5</b>
Future financial expences	1 6	3 5
<b>Finance lease liabilities – Present value of minimum lease payment</b>		
Up to 1 year	4 2	4 1
1-5 years	5 5	7 3
More than 5 years	0 3	2 6
<b>Total</b>	<b>10 0</b>	<b>14 0</b>
<b>Total of financial lease liabilities</b>	<b>10 0</b>	<b>14 0</b>

### 30 TRADE PAYABLES AND OTHER LIABILITIES

	31 Dec	31 Dec
EUR mill	2007	2006
Advances received	46 0	41 3
Trade payables	91 8	106 4
Accrued liabilities	380 1	293 4
Liabilities based on derivative contracts	44 8	39 2
Other liabilities	47 7	53 4
<b>Total</b>	<b>610 4</b>	<b>533 7</b>
<b>Significant items in accrued liabilities</b>		
	31 Dec	31 Dec
EUR mill	2007	2006
Unearned air transport revenues	155 0	130 4
Holiday pay reserve	78 1	76 8
Other <sup>1)</sup>	147 0	86 2
<b>Total</b>	<b>380 1</b>	<b>293 4</b>

<sup>1)</sup> Other liabilities consists of several items, none of which are individually significant

## 31 MANAGEMENT OF FINANCIAL RISKS

### RISK MANAGEMENT IN FINNAIR

#### Principles of financial risk management

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

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

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

#### Fuel price risk in flight operations

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

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

Finnair applies the principle of time-diversification in its fuel hedging. The hedging horizon according to the financial policy is three years. Under the financial policy, hedging must be increased in each quarter of the year so that the hedge ratio for Finnair's Scheduled Passenger Traffic for the first six months is more than 60% and so that thereafter a lower hedge ratio applies for each period. By allocating the hedging, the fuel cost per period is not as low as the spot-based price when prices fall, but when spot prices rise the fuel cost rises more slowly.

In accounting fuel hedges are recognised in Finnair in two different ways. In terms of the fuel consumption of Finnair, the first approximately 40 percentage points per period are treated in accounting as cash-flow hedging in accordance with IAS 39 hedge accounting principles. Changes in the fair value of derivatives defined as cash-flow hedging in accordance with IAS 39 are posted directly to the hedging reserve included in equity.

The change in fair value reserve recognised in the fair value reserve is posted to income statement at the period time as the hedged transaction. Changes in the fair value of hedges outside hedge accounting – which do not fulfil IAS 39 hedge accounting criteria – are recognised in other operating expenses over the time of the derivative.

At the end of financial year, Scheduled Passenger Traffic had hedged 70% of its fuel purchases for the first six months of 2007 and 43% for the second half of the year. Leisure Traffic has hedged 60% of its fuel purchases for the remaining winter season and 40% of its purchases for the coming summer season. In 2007 Leisure Traffic has no price clauses with tour operators similar to those agreed in previous years.

In the financial year 2007, fuel used in flight operations accounted for 20.2% compared to the Group's turnover. At the end of the financial year, the forecast for 2008 is over 22%. On the closing date, a ten per cent rise in the market price of jet fuel – excluding hedging activity calculated using Scheduled Passenger Traffic's forecasted flights – increases annual fuel costs by an estimated 47 million euros. On the closing date – taking hedging into account – a ten per cent rise in fuel lowers operating profit by around 26 million euros. Situation as at 31 December represents well mean of calendar year.

#### Foreign exchange risk

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

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

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

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

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

Approximately 40% of the Group's operating costs are denominated in foreign currencies. The most important purchasing currency is the US dollar, which accounts for approximately 25% of all operating costs. Significant dollar denominated expense items are aircraft leasing payments and fuel costs. The largest investments, the acquisition of aircraft and their spare parts, also take place mainly in US dollars.

At the end of financial year Finnair had hedged 67% of its profit and loss items for the first six months of 2007 and 47% for the second half of the year. On the closing date a 10% strengthening of the dollar against the euro – without hedging – has a negative impact on the annual result of around 47.5 million euros. On the closing date – taking hedging into account – a 10% strengthening of the dollar weakens the result by around 20 million euros. In the above sensitivity estimates, the dollar risk includes also the Chinese yuan and the Hong Kong dollar, whose historical correlation with the dollar is over 90%. Situation as at 31 December represents well mean of calendar year.

#### Interest rate risk

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

In Finnair Group the interest rate risk is measured using the interest rate re-fixing period. If necessary, interest rate derivatives are used to adjust the interest rate re-fixing period. According to the financial policy, the mandate for the investment portfolio's interest rate re-fixing period is 0–12 months and for interest-bearing liabilities 0–24 months. On the closing date the investment portfolio's interest rate re-fixing period was 4 months and for interest-bearing liabilities 7 months. On the closing date a one percentage point rise in interest rates increases the annual interest income of the investment portfolio about 3.5 million euros and the interest expenses of the loan portfolio by less than 2 million euros. Situation as at 31 December represents well mean of calendar year.

#### Credit risk

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

#### Liquidity risk

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

The Group's liquid assets were 540.1 million euros at the end of financial year 2007. Finnair Plc has a domestic commercial paper programme of 100 million euros, which wasn't used on the closing date. In addition, Finnair has a 200 million euro committed credit facility and committed unused 50 million euros aircraft financing limit. The 200 million euros credit facility includes a finance covenant based on adjusted gearing. The covenant level of adjusted gearing is 175%, while at the closing date the figure was 35.1%. The maximum level set by the Board of Directors is 140%.

#### Capital management

The aim of the Group's capital management is, with the aid of an optimum capital structure, to support business operations by ensuring normal operating conditions and to increase shareholder value with the best possible return being the goal. An optimum capital structure also ensures lower capital costs. The capital structure is influenced e.g. via dividend distribution and share issues. The Group can vary and adjust the level of dividends paid to shareholders or the amount of capital returned to them or the number of new shares issued, or can decide on sales of asset items in order to reduce debt. It is the aim the Finnair's dividend policy to pay on average at least one third of the earnings per share as dividend during an economic cycle.

The development of the Group's capital structure is monitored continuously using adjusted gearing. The Group's adjusted interest-bearing net debt at the end of 2007 was EUR 346.4 million (678.6 million) and gearing was 35.1% (112.8%). When calculating adjusted gearing, adjusted interest-bearing net debt is divided by the amount of shareholders' equity. Adjusted net debt includes interest-bearing debt and leasing liabilities (7 x annual leasing payments) less interest-bearing receivables and cash and cash equivalents.

## 32 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

EUR mill	Hedge accounting items	Financial assets held for trading	Financial assets at fair value through profit or loss	Available for sale financial assets	Loans and receivables	Valued at allocated acquisition cost	Fair value
<b>31 Dec 2006</b>							
<b>Financial assets</b>							
Receivables					15 4		15 4
Other financial assets		265 7					265 7
Trade receivables and other receivables					211 8		211 8
Derivatives							0 0
Unlisted shares				2 9			2 9
Cash and cash equivalents			25 7				25 7
<b>Total</b>							<b>521 5</b>
<b>Financial liabilities</b>							
Interest bearing liabilities			22 4			248 5	272 2
Finance lease liabilities						14 0	14 0
Derivatives	47 2		171				64 3
Trade payables and other liabilities						590 7	590 7
<b>Fair value total</b>							<b>941 2</b>
<b>Book value total</b>							<b>939 9</b>
<b>31 Dec 2007</b>							
<b>Financial assets</b>							
Receivables					13 8		13 8
Other financial assets		493 0					493 0
Trade receivables and other receivables					211 7		211 7
Listed shares				22 6			22 6
Unlisted shares				3 0			3 0
Derivatives	57 9		17 7				75 6
Cash and cash equivalents			21 5				21 5
<b>Total</b>							<b>841 2</b>
<b>Financial liabilities</b>							
Interest bearing liabilities			15 9			268 9	285 6
Finance lease liabilities						10 0	10 0
Derivatives	57 0		11 5				68 5
Trade payables and other liabilities						640 6	640 6
<b>Fair value total</b>							<b>1 004 7</b>
<b>Book value total</b>							<b>1 003 9</b>

Tax liabilities are not presented in this note. Group has 155.5 million euros (118.7) of tax liabilities in its balance sheet. Interest rate derivatives (currency and interest-rate swaps) are included in derivatives. In other notes they are included in bank loans. The item other financial assets mainly includes USD-denominated security deposits for leased aircraft. Trade payables and other liabilities include trade payables, deferred expenses, pension obligations, tax liabilities based on taxable income for the period as well as other interest-bearing and non-interest-bearing liabilities.

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

## 33 SUBSIDIARIES

Group companies	Group ownership %
Finnair Cargo Oy, Helsinki	100 00
Finnair Cargo Terminal Operations Oy, Helsinki	100 00
Amadeus Finland Oy, Helsinki	95 00
Matkatoimisto Oy Area, Helsinki	100 00
A/S Estravel Ltd, Estonia	72 02
Oy Aurinkomatkat-Suntours Ltd Ab, Helsinki	100 00
OOO Aurinkomatkat, Russia	100 00
Matkayhtymä Oy, Helsinki	100 00
Horizon Travel, Estonia	95 00
FTS Financial Services Oy, Helsinki	100 00
Finnair Catering Oy, Helsinki	100 00
Finnair Facilities Management Oy, Helsinki	100 00
Finnair Aircraft Finance Oy, Helsinki	100 00
A/S Aero Airlines, Estonia <sup>1)</sup>	49 00
Finncatering Oy, Vantaa	100 00
Northport Oy, Helsinki	100 00
Finland Travel Bureau Ltd, Helsinki	100 00

<sup>1)</sup> A/S Aero Airlines has been combined as a Group company because the Finnair Group exercises control in the Board of Directors

## 34 OTHER LEASE AGREEMENTS

The Group is the lessee						
Minimum rental payments for irrevocable lease agreements are as follows						
	Aircrafts		Buildings and land		Machinery and vehicles	
	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006	31 Dec 2007	31 Dec 2006
EUR mill						
Less than a year	75.3	79.3	12.9	13.2	6.5	14.1
1-2 years	68.5	78.2	11.1	12.1	5.5	12.0
2-3 years	49.9	68.2	10.9	10.1	22.6	8.2
3-4 years	45.2	51.4	9.5	7.6	0.1	7.4
4-5 years	37.0	43.8	8.7	6.8	0.0	6.9
More than 5 years	48.9	68.9	89.9	82.2	0.0	0.1
<b>Total</b>	<b>324.8</b>	<b>389.8</b>	<b>143.0</b>	<b>132.0</b>	<b>34.7</b>	<b>48.8</b>

The Group has leased premises as well as aircraft and other fixed assets with irrevocable lease agreements. These agreements have different levels of renewal and other index-linked terms and conditions. The Group has leased 36 aircrafts on leases of different lengths.



## 35 GUARANTEES, CONTINGENT LIABILITIES AND DERIVATIVES

	31 Dec 2007	31 Dec 2006
EUR mill		
Other pledges given on own behalf	263.1	236.9
Guarantees on behalf Group undertakings	64.0	53.7
Guarantees on behalf of others	3.5	0.0
<b>Total</b>	<b>330.6</b>	<b>290.6</b>

Previous year guarantees on behalf of group undertaking included 482.6 million euros of derivatives guarantees on behalf of Group company. This was included in Derivatives table below.

EUR mill	Total
Investment commitments	1,311.1

Above mentioned investment commitments includes firm aircraft orders and is based on prices and exchange rates as at 31 December 2007. The total amount committed to firm orders fluctuates between the placing of an order and the delivery of the aircraft mainly due to changes in exchange rates, as all of the company's aircraft orders are denominated in U.S. dollars, as well as due to the escalation clauses included in airline purchase agreements. Therefore, the total amount presented herein should not be relied as being a maximum or minimum commitment by the company. The final amount of the commitment in relation to each aircraft is only known at the time of the delivery of each aircraft.

<b>Derivatives</b>				
	Nominal amount 31 Dec 2007	Fair value 31 Dec 2007	Nominal amount 31 Dec 2006	Fair value 31 Dec 2006
EUR mill				
<b>Currency derivatives</b>				
Hedge accounting items (forward contracts)				
Jet fuel currency hedging	267.0	-20.0	260.2	-8.2
Hedging of aircraft acquisitions				
Fair value hedging	373.5	-14.3	186.2	-2.9
Cash flow hedging	89.5	-2.6	138.5	-6.2
Hedging of lease payments	56.3	-3.9	63.8	-1.9
<b>Total</b>	<b>786.3</b>	<b>-40.8</b>	<b>648.7</b>	<b>-19.2</b>
<b>Items outside hedge accounting</b>				
Operational cash-flow hedging (forward contracts)	2.7	0.0	26.7	-1.3
Operational cash-flow hedging (options)				
Call options	54.3	0.1	0.0	0.0
Put options	64.5	-0.6	0.0	0.0
Balance sheet hedging (forward contracts)	47.2	-0.6	94.1	-0.6
<b>Total</b>	<b>168.7</b>	<b>-1.1</b>	<b>120.9</b>	<b>-2.0</b>
<b>Total</b>	<b>955.0</b>	<b>-41.9</b>	<b>769.5</b>	<b>-21.2</b>

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

	Nominal amount tonnes 31 Dec 2007	Fair value EUR mill	Nominal amount tonnes 31 Dec 2006	Fair value EUR mill
<b>Commodity derivatives</b>				
Hedge accounting items				
Jet fuel forward contracts	562,750	55.3	510,400	-12.8
Commodity derivatives at fair value through profit and loss				
Jet fuel forward contracts	11,100	0.6	79,300	-5.1
Gasoil forward contracts	21,900	2.7	0	0.0
Jet differential forward contracts	395,000	1.1	112,500	0
Options				
Call options, jet fuel	64,500	2.0	35,000	0.3
Put options, jet fuel	76,000	-0.7	70,000	-0.5
Call options, gasoil	48,500	3.1	9,000	0.0
Put options, gasoil	86,500	-0.5	18,000	0.0
<b>Total</b>		<b>63.6</b>		<b>-18.2</b>

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

	Nominal amount 31 Dec 2007	Fair value 31 Dec 2007	Nominal amount 31 Dec 2006	Fair value 31 Dec 2006
EUR mill				
<b>Interest rate derivatives</b>				
<b>Cross currency interest rate swaps</b>				
Hedge accounting items	26.9	-13.6	42.5	-15.2
Cross currency interest rate swaps at fair value through profit and loss	15.4	-10.1	22.1	-10.7
<b>Total</b>	<b>42.3</b>	<b>-23.7</b>	<b>64.7</b>	<b>-25.9</b>
<b>Interest rate swaps</b>				
Hedge accounting items	0.0	0.0	0.0	0.0
Interest rate swaps at fair value through profit and loss	20.0	1.0	20.0	1.0
<b>Total</b>	<b>20.0</b>	<b>1.0</b>	<b>20.0</b>	<b>1.0</b>

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

	Nominal amount 31 Dec 2007	Fair value 31 Dec 2007	Nominal amount 31 Dec 2006	Fair value 31 Dec 2006
EUR mill				
<b>Share derivatives</b>				
Options				
Call options, shares	16.1	8.4	0	0.0

### 36 RELATED PARTY TRANSACTIONS

The following transactions have taken place with related parties.		
EUR mill	2007	2006
<b>Sales of goods and services</b>		
Associated undertakings	0 0	0 0
Management	-	-
<b>Purchases of goods and services</b>		
Associated undertakings	0 6	0 2
Management	-	-

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

The consolidated financial statements do not contain any open receivable or liability balances with related parties

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

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

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

### 37 DISPUTES AND LITIGATION

After the closing date, the previously reported claim of approximately 1 million euros against Finnair Plc and Finnair Cargo Oy for lost cargo has been settled by agreement. The settlement sum is covered by insurance.

Cases of which the interest is less than 500,000 euros or which are insured will not be reported in the future.

On 31 December 2007 the following disputes were pending:

Transpert Oy has presented Finnair with appr. 600,000 euro damage compensation claim following the termination of a subcontracting agreement. Finnair has disputed the claim. The case is pending in the Helsinki District Court and Helsinki Appellate Court.

No provisions have been made for disputes or litigation.

### 38 EVENTS AFTER THE CLOSING DATE

The following have taken place at Finnair Plc after the closing date:

On 23 October 2007, Oy Aurinkomatkat-Suntours Ltd Ab signed an agreement by which it purchased a majority shareholding of all three Russian companies belonging to the Calypso Group. The deal was finalised in January 2008. The final purchasing price will be recognised during 2008.

The opening of a new catering building, owned by the Finnair Pension Fund, will take place in February 2008. As the agreement in question is of a long-term nature, it will be recognised as a finance leasing agreement in accordance with IFRS and will be entered in the balance sheet as assets and liabilities.

The Group's Boeing MD-80 aircraft were being used by FlyNordic on 31 December 2007. Finnair sold FlyNordic in July 2007.

Aero has finished operations on January 2008 and at the same time the ATR 72 aircrafts have been sold.

### 39 PARENT COMPANY'S FINANCIAL FIGURES

Finnair Plc complete Financial Statement can be viewed in Finnish at the company's headquarters, Tietotie 11 A, Vantaa

The figures presented below are not IFRS figures

<b>FINNAIR PLC INCOME STATEMENT</b>		
	1 Jan–31 Dec 2007	1 Jan–31 Dec 2006
EUR mill		
Turnover	1,788.8	1,587.9
Production for own use	1.2	0.6
Other operating income	13.8	11.5
<b>OPERATING INCOME</b>	<b>1,803.7</b>	<b>1,600.0</b>
<b>OPERATING EXPENSES</b>		
Materials and services	785.8	708.5
Personnel expenses	379.3	356.8
Depreciation	24.3	27.7
Other operating expenses	592.0	587.4
	-1,781.3	-1,680.4
<b>OPERATING PROFIT/-LOSS</b>	<b>22.4</b>	<b>-80.4</b>
<b>FINANCIAL INCOME AND EXPENSES</b>	<b>-4.9</b>	<b>5.0</b>
<b>PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS</b>	<b>17.5</b>	<b>-75.4</b>
<b>EXTRAORDINARY ITEMS</b>	<b>-10.0</b>	<b>74.8</b>
<b>PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES</b>	<b>7.5</b>	<b>-0.6</b>
Direct taxes	-6.5	-0.4
<b>PROFIT/LOSS FOR THE FINANCIAL YEAR</b>	<b>1.0</b>	<b>-1.0</b>

FINNAIR PLC BALANCE SHEET				
EUR mill	31 Dec 2007		31 Dec 2006	
ASSETS				
NON-CURRENT ASSETS				
Intangible assets	34 9		36 0	
Tangible assets	99 4		87 9	
Investments				
Holdings in Group undertakings	406 2		442 2	
Holdings in associated companies	2 5		2 4	
Other investments	0 9	543 9	1 0	569 5
CURRENT ASSETS				
Inventories	31 7		34 6	
Long-term receivables	130 3		161 1	
Short-term receivables	613 8		402 5	
Marketable securities	514 4		262 6	
Cash and bank equivalents	10 8	1,300 9	16 8	877 6
		1,844 8		1,447 1
LIABILITIES				
SHAREHOLDERS' EQUITY				
Share capital	75 4		75 4	
Share premium account	24 7		24 7	
General reserve	147 7		147 7	
Fair value reserve	31 6		-14 6	
Unrestricted equity	248 1		-	
Retained earnings	261 9		271 8	
Profit/loss for the financial year	1 0	790 4	-1 0	504 0
ACCUMULATED APPROPRIATIONS				
		-		-
LIABILITIES				
Deferred tax liability	19 0		7 6	
Long-term liabilities	220 2		274 8	
Short-term liabilities	815 2	1,054 4	660 7	943 1
		1,844 8		1,447 1

## FINNAIR PLC CASH FLOW STATEMENT

EUR mill	1 Jan–31 Dec 2007	1 Jan–31 Dec 2006
<b>Business operations</b>		
Operating profit/-loss	22 4	-80 4
Operations for which a payment is not included (depreciations)	24 3	27 7
Changes in working capital (net)		
Inventories, increase (-), decrease (+)	2 9	7 1
Short-term receivables, increase (-), decrease (+)	-165 0	-136 6
Non interest bearing short-term liabilities, increase (+), decrease (-)	106 3	-2 3
Financial income and expenses (net)	4 9	5 0
Extraordinary items	-10 0	74 8
Taxes	6 6	-0 4
<b>Cash flow from operations</b>	<b>-30 6</b>	<b>-105 1</b>
<b>Investments</b>		
Investments in flight equipment	-27 8	-20 9
Other investments	-16 2	-31 1
Change in advance payments	0 0	0 0
Capital expenditure, total	-44 0	-52 0
Capital expenditure	45 3	0 4
<b>Cash flow from investments</b>	<b>1 3</b>	<b>-51 6</b>
<b>Cash flow before financing</b>	<b>-29 3</b>	<b>-156 7</b>
<b>Financing</b>		
Long-term debts, increase (+), decrease (-)	-43 2	70 6
Long-term receivables, increase (+), decrease (-)	30 8	30 6
Short-term debts, increase (+), decrease (-)	48 2	-26 6
Shareholders' equity, increase (+), decrease (-)	248 1	-28 1
Option rights to shares	0 0	5 5
Dividend payment	8 8	-21 8
<b>Cash flow from financing</b>	<b>275 1</b>	<b>30 2</b>
<b>Change in liquid funds increase (+), decrease (-) in statement</b>	<b>245 8</b>	<b>-126 5</b>
<b>Liquid funds in the beginning</b>	<b>279 4</b>	<b>405.9</b>
<b>Liquid funds, decrease (-), increase (+) in balance sheet</b>	<b>245 8</b>	<b>-126.5</b>
<b>Liquid funds in the end</b>	<b>525 2</b>	<b>279.4</b>

# BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

Finnair Plc's distributable equity according to the financial statements on 31 December 2007 amounts to 510,961,649 02 euros

The Board of Directors proposes to the Annual General Meeting that a dividend of 0 25 euros per outstanding share be distributed and that the remainder of the distributable equity be carried over as retained earnings

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

Helsinki, 4 February 2008  
The Board of Directors of Finnair Plc

Christoffer Taxell	Kari Jordan	Kalevi Alestalo
Sigurdur Helgason	Satu Huber	Markku Hyvarinen
Ursula Ranin	Veli Sundback	
	Jukka Hienonen	
	President & CEO of Finnair Plc	

# AUDITORS' REPORT

## To the shareholders of Finnair Plc

We have audited the accounting records, the report of the Board of Directors, the financial statements and the administration of Finnair Plc for the period 1 Jan–31 Dec 2007. The Board of Directors and the Managing Director have prepared the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, as well as the report of the Board of Directors and the parent company's financial statements, prepared in accordance with prevailing regulations in Finland, containing the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, as well as on the report of the Board of Directors, the parent company's financial statements and the administration.

We conducted our audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the report of the Board of Directors and the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the report of the Board of Directors and in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration is to examine whether the members of the Board of Directors and the Managing Director of the parent company have complied with the rules of the Companies' Act.

## Consolidated financial statements

In our opinion the consolidated financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view, as defined in those standards and in the Finnish Accounting Act, of the consolidated results of operations as well as of the financial position.

## Parent company's financial statements, report of the Board of Directors and administration

In our opinion the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The parent company's financial statements give a true and fair view of the parent company's result of operations and of the financial position.

In our opinion the report of the Board of Directors has been prepared in accordance with the Finnish Accounting Act and other applicable Finnish rules and regulations. The report of the Board of Directors is consistent with the consolidated financial statements and the parent company's financial statements and gives a true and fair view, as defined in the Finnish Accounting Act, of the result of operations and of the financial position.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the Managing Director of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of distributable funds is in compliance with the Companies' Act.

Vantaa, 13 February 2008

PricewaterhouseCoopers Ltd  
Authorised Public Accountants

Eero Suomela  
Authorised Public Accountant

Jyri Heikkinen  
Authorised Public Accountant

We have submitted our auditing report on the company's official financial statements. The summary published in this annual report does not include all of the data of the official financial statements.



# CORPORATE GOVERNANCE

## CURRENT GROUP STRUCTURE

The parent company of the Finnair Group is Finnair Plc, which has 17 subsidiaries, the most significant of which are Finland Travel Bureau Ltd and Finnair Catering Oy. Other notable subsidiaries are Matkatoimisto Oy Area, Oy Aurinkomatkat-Suntours Ltd Ab, Finnair Aircraft Finance Oy, Finnair Cargo Oy, Finnair Cargo Terminal Operations Oy and Northport Oy. Of the airlines belonging to the Finnair Group in addition to the parent company, Aero Airlines AS discontinued its operations at the beginning of 2008 and the entire share stock of the Swedish company Nordic Airlink Holding AB was sold to Norwegian Air Shuttle in July 2007. The Finnair Group's 20 business units and subsidiaries are organised into four business areas: Scheduled Passenger Traffic, Leisure Traffic, Aviation Services and Travel Services.

## ANNUAL GENERAL MEETING AND EXERCISING OF VOTING RIGHTS AT THE ANNUAL GENERAL MEETING

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

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

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

## BOARD OF DIRECTORS

### Composition and term of office

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

On 22 March 2007 the Annual General Meeting of Finnair Plc elected Christoffer Taxell as Chairman of the Board of Directors, and as Members of the Board Kalevi Alestalo, Sigurdur Helgason, Markku Hyvärinen, Satu Huber, Kari Jordan (as Vice Chairman), Ursula Ranin and Veli Sundback. All members of the Board are independent and from outside the company. Kalevi Alestalo is in the service of the Finnish Government, Finnair Plc's largest shareholder. The Board of Directors' term of office expires at the end of the Annual General Meeting to be held on 27 March 2008.

### Duties and meetings

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

The Board of Directors appoints and dismisses the President and CEO and decides on his salary. The Board of Directors also appoints and dismisses the Deputy to the President and CEO. The Board

of Directors selects the members of the Group's senior management and decides on their terms of employment, taking into account the guidelines of the personnel strategy and remuneration system in accordance with the company's principles of corporate governance. The Board of Directors is responsible for ensuring that the company's accounts, budget monitoring systems and risk management are arranged in accordance with the company's principles of corporate governance.

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

The company's business name is signed by the Chairman of the Board of Directors, the President and CEO and the deputy CEO each separately or two members of the Board of Directors together. The Board of Directors grants and revokes rights to sign the business name as well as powers of procuration. The holders of powers of procuration sign the business name two together or each separately with one member of the Board of Directors.

The Board of Directors meets on average 8–10 times per year. In 2007, the Board of Directors held 13 meetings, of which four were conducted as conference calls. The average attendance percentage of the members of the Board of Directors at the meetings of the Board was 96.

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

The Charter of the Board of Directors can be viewed at Finnair Group's Internet site [www.finnair.com/investor](http://www.finnair.com/investor)

#### COMMITTEES

The Board of Directors has established a Salary and Appointments Committee as well as an Audit Committee. The Salary and Appointments Committee consisted of Chairman of the Board Christoffer Taxell as well as Members of the Board Kalevi Alestalo, Kari Jordan and Ursula Ranin. President and CEO Jukka Hienonen acts as the presiding officer. The committee met three times in 2007.

The Audit Committee consists of Markku Hyvarinen as chairman as well as Sigurdur Helgason, Satu Huber and Veli Sundback as members. President and CEO Jukka Hienonen acts as the presiding officer. The committee met two times in 2007.

The Finnair Group's SVP Human Resources Anssi Komulainen acts as secretary to the Salary and Appointments Committee and the Finnair Group's Vice President and General Counsel Sami Sarelius acts as secretary to the Audit Committee. The Committee Charters can be viewed at Finnair Group's Internet site [www.finnair.com/investor](http://www.finnair.com/investor)

#### Remuneration and other benefits

The monthly remuneration and attendance allowances decided by the Annual General Meeting for Members of the Board of Directors in 2005 were

- Chairman's monthly remuneration 4,300 euros/month
- Vice Chairman's monthly remuneration 2,500 euros/month
- Member of the Board's monthly remuneration 2,300 euros/month
- Attendance allowance 500 euros meeting/person

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

The members of Finnair Plc's Board of Directors were paid monthly remuneration and attendance allowances totalling 289,800 euros in 2007.

#### CHIEF EXECUTIVE OFFICER AND DEPUTY CHIEF EXECUTIVE OFFICER

Finnair Plc has a Chief Executive Officer, whose task is to manage the company's operations according to guidelines and instructions issued by the Board of Directors. The Board of Directors appoints and dismisses the Chief Executive Officer and decides on his terms of employment. The Board of Directors also appoints and dismisses the Deputy Chief Executive Officer. In 2007, Finnair Plc's Chief Executive Officer was President and CEO Jukka Hienonen and the Deputy Chief Executive Officer was Henrik Arle, EVP Scheduled Passenger Traffic.

President & CEO Jukka Hienonen was paid a salary of 456,999 euros and fringe benefits of 29,429 euros in 2007. Deputy CEO Henrik Arle was paid a salary of 238,337 euros and fringe benefits of 11,670 euros in 2007. Under a share bonus scheme, no shares were transferred in 2007 at all.

The Chief Executive Officer and the Deputy Chief Executive Officer have the right to retire at the 60 years of age on a full pension of 60 per cent of pensionable salary. The Chief Executive Officer's and the Deputy Chief Executive Officer's contracts may be terminated with a period of notice of six months. In addition to salary for the period of notice, they are entitled

to severance compensation equivalent to 12 months' salary, if the contract is terminated for reasons independent of them.

#### CHANGES IN COMPANY ADMINISTRATION IN 2007

Anssi Komulainen, began as SVP Human Resources on 1 February 2007. He moved to the post from his duties as Managing Director of Finnair Catering Oy. In his place, Kristina Inkilainen was appointed Managing Director of Finnair Catering Oy and SVP Catering as of 30 April 2007.

Finnair's Legal Counsel Sami Sarelius was appointed Vice President and General Counsel of the company as of 1 February 2007. He also acts as secretary to the company's Board of Directors and Board of Management.

Tero Vauraste, Managing Director of the Group's ground handling company Northport Oy, resigned from his post on 31 May 2007. He was succeeded as Managing Director of the company by Jukka Hamalainen as of 13 August 2007.

SVP Flight Operations Hannes Bjurström resigned from the company on 1 November 2007. He was succeeded by Veikko Sievanen, who previously served as Finnair's Chief Pilot.

#### FINNAIR PLC'S EXECUTIVE BOARD

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

The Executive Board includes President & CEO Jukka Hienonen (Chairman) and members Deputy CEO Henrik Arle, SVP Communications Christer Haglund, Chief Financial Officer Lasse Heinonen, SVP Commercial Division Mika Perho, SVP Human Resources Anssi Komulainen, SVP Technical Operations Kimmo Soini and SVP Leisure Traffic and Travel Services Kaisa Vikkula

#### **FINNAIR GROUP BOARD OF MANAGEMENT**

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

The Board of Management is informed about, among other things the business plans and financial performance of the Group and sector companies. Also, investment within the authority limits of CEO are decided in The Board of Management. The Board of Management meets approximately ten times per year

#### **CORPORATE GOVERNANCE OF SUBSIDIARIES**

The members of the boards of directors of the most significant subsidiaries are selected from individuals belonging to

Finnair Group management as well as from representatives proposed by the personnel groups. The key tasks of the boards of directors of subsidiaries are strategy preparation, approving the operational plan and budget, and deciding on investments and commitments within the limits of instructions issued by the Board of Directors of Finnair Plc

#### **REMUNERATION SCHEME FOR KEY INDIVIDUALS**

Matters relating to the remuneration scheme of key individuals are prepared in the Board of Directors' Remuneration and Appointments Committee. Decisions are made by the company's Board of Directors. Management incentive bonuses are determined annually based on the company's adjusted EBIT (i.e. excluding capital gains, non-recurring arrangement expenses and changes in fair value of derivatives), return on capital employed, business-unit quality and process indicators as well as personal performance appraisals. The bonus can be equivalent at most to 40% of the early basic salary.

The 2007-2009 share bonus scheme included around 70 key individuals of the Group. The number of granted shares in the share bonus scheme is based on return on capital employed and earnings per share, whose target levels are decided annually by the Board of Directors. The shares bonuses are covered by restrictions on sales.

#### **AUDITORS AND MONITORING Auditors**

The company has at least two and at most four auditors elected by the Annual General Meeting. The auditors' term of office is the company's financial year and the auditors' duties end at the conclusion of the Annual General Meeting following the

meeting of their election. At least one of the auditors must be an authorised public accountant or an authorised accounting firm approved by the Central Chamber of Commerce.

Finnair Plc's Annual General Meeting in 2007 elected two regular auditors for the company: PricewaterhouseCoopers Oy, Authorised Public Accountants, principal auditor Eero Suomela APA, and Jyrri Heikkinen APA, Tuomas Honkamäki APA and Timo Takalo APA were elected deputy auditors. The auditors of Finnair Group subsidiaries are mainly PricewaterhouseCoopers auditing firms or auditors employed by them.

Auditing fees paid to auditors in Finland and abroad totaled 160,000 euros in 2007. Finnair Plc also paid auditors 85,000 euros for services (e.g. tax advice) unrelated to the statutory audit of the accounts.

#### **Monitoring and reporting system**

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

Finnair Plc's Management Group acts as a Risk Management Steering Group, chaired by the President and CEO, whose task is to assess and ensure that the Group's risk management, monitoring and management processes are sufficient, appropriate and effective.

The Board of Directors of Finnair Plc has approved principles of internal monitoring, which are applied within the Group. Internal auditing is responsible for fulfill-

ing the monitoring and auditing obligation laid down in the Companies Act

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

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

Risks arising from operations in relation to property, disruption, damage and liability risks have been covered by appropriate insurances.

#### GOVERNING PROVISIONS

Finnair Plc adheres to valid legislation, provisions issued under such legislation and the company's Articles of Association. Furthermore, in its activities Finnair Plc complies with the recommendations of the Helsinki Stock Exchange, the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers on the administration and management of listed companies as well as insider rules.

#### COMPANY INSIDERS

According to the Securities Markets Act, the Finnair Group's insiders are divided into permanent and temporary insiders.

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

Temporary insiders are individuals who receive insider information during the implementation of some specific task (project). They are entered into the non-public company-specific register, namely a project-specific subregister.

Finnair Plc's permanent, public insiders include members of the Finnair Plc's Board of Directors, the Chief Executive Officer and his deputy, those who report directly to the Chief Executive Officer, and auditors, including the auditor of carrying chief responsibility for the firm of auditors.

The permanent company-specific insiders include staff representatives participating in the work of Finnair Plc's Management Board, the managing directors of Amadeus Finland Oy, Matkatoimisto Oy Area, Finland Travel Bureau Ltd, Oy Aurinkomatkat-Suntours Ltd Ab, FTS Financial Services Oy, Finnair Facilities Management Oy and Finnair Aircraft Finance Oy, the secretaries to the CEO and CFO, company lawyers and internal auditors, those responsible for financial communications, the Finance and Economics Department's vice presidents, assistant vice presidents, finance managers, economics managers, and the financial management and supervision planning manager, the vice presidents of Finnair's Commercial Division and the Vice President Leisure Flights, the department managers dealing with employment

affairs and HR services, and other individuals separately decreed by Finnair's Chief Executive Officer.

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

The legal affairs department is responsible for the content of the insider guidelines. Compliance with the insider guidelines is monitored by the economics and finance department. The company operates a restriction on trading, which applies to insiders' trading in the company shares or in securities granting entitlement to shares for 30 days before the declaration of financial results.

Finnair Plc's insider register is maintained by Finnish Central Securities Depository Ltd. Up-to-date details of insiders' shareholdings can be viewed at Finnish Central Securities Depository Ltd's premises in Helsinki at the address Urho Kekkosen katu 5 C and on the company's website at the address [www.finnair.com/investor](http://www.finnair.com/investor).

#### CORPORATE GOVERNANCE UPDATE

The Finnair Corporate Governance section is updated regularly and can be viewed on the company's website at the address [www.finnair.com/investor](http://www.finnair.com/investor). Finnair Plc's website is published in Finnish, partly Swedish and English. The printed and electronic business review and interim reports are published in English, Finnish and Swedish. The printed and electronic financial review is published in English and Finnish.

## RISK MANAGEMENT IN FINNAIR

Risk management in Finnair is part of the Group's management activity and is directed primarily at risks that threaten the fulfilment of the Group's short- and long-term business objectives. To exploit business opportunities, Finnair is prepared to assume managed and considered risks, taking the company's risk-bearing capacity into account. In flight safety matters, Finnair does not take risks.

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

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

### ORGANISATION OF RISK MANAGEMENT

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

The Operational Risk Management Department, which operates under Finnair Plc's Accountable Manager, as specified in the Airline Operator's Licence,

regularly audits the company's own and subcontractors' actions that impact on flight safety.

Finnair's quality system is IOSA certified.<sup>1)</sup> The IOSA programme is an evaluation method for airlines' operational management and monitoring systems. Auditing based on IOSA certification confirms that the airline's quality control systems fulfill the sector's international standards.

### OPERATING ENVIRONMENT RISKS

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

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

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

Finnair manages the residual value risk related to aircraft capacity and ownership by acquiring nearly half of the aircraft belonging to its fleet through operating lease agreements of different dura-

tions. The leasing of aircraft provides an opportunity for the flexible dimensioning of capacity in the short and long term.

### MARKET RISK

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

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

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

### OPERATIONAL RISK

Finnair's operations are based on a rigorous flight safety culture, which is maintained through continuous and long-term flight safety work. The company has prepared an operational safety policy, for which the company's Vice President, Flight Permits and Operating Licences is responsible for

<sup>1)</sup>IOSA = IATA Operational Safety Audit  
IATA = The International Air Transport Association

implementing. Every subcontractor working directly or indirectly with the Group's employees or flight operations must undertake to comply with the policy.

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

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

#### RELIABILITY OF FLIGHT OPERATIONS

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

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

as its detailed specification of technical functions ensure the reliability of flight operations.

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

According to statistics compiled on European network airlines, the arrival punctuality of Finnair's flights declined in 2007 compared with previous years, approaching the average for the sector.

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

#### AUTHORITIES AND THE ENVIRONMENT

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

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

As a negotiating party the Union is stronger than an individual country and thus can strengthen the position of European

airlines when negotiating operating rights. In some cases this may have an adverse impact on Finnair and may weaken the company's competitive position in relation to other European airlines. Finnair will actively strive to influence the parties who negotiate operating rights in order to safeguard its interests.

European Union has decided to include air transport within carbon dioxide emissions trading. In the early part of next decade aircraft transport within the EU will be subject to emissions trading as will flights departing from and arriving in the EU. This will have a particular impact on the intercontinental competitive situation. If other continents do not become part of the emissions trading scheme, this will give a competitive advantage to airlines whose domestic airports are outside the EU yet offer a realistic alternative routing to the market.

Finnair has been investing in environmental matters for a long time. Finnair actively monitors the effects of the company's operations on energy consumption, emissions and noise values. Finnair publishes annually a separate Environmental Report, which includes measures and key figures for the assessment of environmental efficiency. The company has appointed a VP, Sustainable Development whose task is to promote the realisation of Finnair's environmental goals in the Group's business operations, such that Finnair can be among the leading airlines in environmental activities.

#### RISK OF LOSS OR DAMAGE

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

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

#### ACCIDENT RISK

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

The development of occupational safety is long-term work, and Finnair's goal is zero accidents. The company has invested in occupational safety encouraged by the good results of previous years, and this has led to a positive trend in terms of accident frequency in nearly all of the Finnair Group's business units.

Means of improving occupational safety include identifying and evaluating safety hazards in the workplace and preventing accidents and hazardous situations. All reported risk situations and accident are investigated.

#### TELECOMMUNICATIONS AND TECHNICAL RISK

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

Developing information system solutions and the IT environment requires continuous investment. Careful selection of external partners in IT solutions also reduces the technology risk. The Group has gained access to technological expertise through, for example, cooperation with IBM.

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

#### PRINCIPLES OF FINANCIAL RISK MANAGEMENT

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

The management of financial risks is based on the risk management policy

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

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

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

## STOCK EXCHANGE RELEASES IN 2007

9 Jan 2007	Finnair Scheduled Traffic grew 13.3 per cent in last year
18 Jan 2007	Finnair considers air transport project a business venture
19 Jan 2007	New technology adds seats to Finnair Airbus aircraft
22 Jan 2007	Finnair flights to India to be quadrupled flights to Mumbai all set for June launch
23 Jan 2007	CEO Jukka Hienonen shed light on Finnair's result background and outlook
29 Jan 2007	Appointments in Finnair Group Management
6 Feb 2007	Finnair Group Financial Statement for January 1–December 31 2006 – Operational result slightly in profit
7 Feb 2007	Finnair Asian traffic grew by a third
23 Feb 2007	Notice of the Annual Shareholders' Meeting 2007
23 Feb 2007	Notice of proposal to the Annual Shareholders' Meeting
7 March 2007	Strong growth continues for Finnair Asian traffic
8 March 2007	Finnair to speed up its fleet renewal
20 March 2007	Northport sells domestic airport operations to RTG group
21 March 2007	Islandic Sigurdur Helgason nominee for Finnair board
22 March 2007	Decisions of Finnair Plc's Annual General Meeting 2007
29 March 2007	Finnair continues assessing restructuring options for ground handling
3 Apr 2007	Finnair determines schedule for the investment programme
11 Apr 2007	Finnair Asian traffic up 40 per cent
24 Apr 2007	Norwegian Air Shuttle to acquire 100 per cent of FlyNordic
4 May 2007	Finnair Group Interim Report 1 January–31 March 2007 – An encouraging start to the year
8 May 2007	Finnair's European traffic grew by 20 per cent
11 May 2007	New Managing Director for Northport
15 May 2007	Finnair sells two Boeing MD-11 aircraft
7 June 2007	Over 20 per cent growth rate continues in Finnair's Europe-Asia traffic
7 June 2007	Finnair Cargo prepares for strong Asian traffic growth
18 June 2007	Keronen new Managing Director for Area Travel Agency
18 June 2007	Code-share routes for Finnair and Finncomm
26 June 2007	Finnair launches flights to Seoul
2 July 2007	Finnair Plc sells 100 per cent of FlyNordic
10 July 2007	Strong growth in Finnair's Europe-Asia traffic
24 July 2007	Finnair sold four ATR turboprop aircraft
25 July 2007	Oneworld airlines seek to expand cooperation in the US
7 Aug 2007	Increased traffic with new aircraft
9 Aug 2007	Finnair Group interim report 1 January–30 June 2007 – Result improved as expected
7 Sept 2007	Strong growth for Finnair's Asian traffic and load factor on the rise
12 Sept 2007	Finnair Group subsidiary Northport Oy to sell Swedish and Norwegian functions to Menzies Aviation
17 Sept 2007	Twin-engine Airbus aircraft to replace Finnair's current MD-11 fleet
18 Sept 2007	ATR aircraft maintenance company established in Finland
9 Oct 2007	Finnair Scheduled Traffic grew by 22.1 per cent
15 Oct 2007	Finnair's vision 2017 most desirable intercontinental airline in the Northern Hemisphere
16 Oct 2007	Finnair considers a share offering to finance its investment programme
19 Oct 2007	Change in management for Finnair flight operations division
23 Oct 2007	Eur 14 million capital gain to Finnair from FlyNordic sale
24 Oct 2007	Aurinkomatkat-Suntours expands into Russia



1 Nov 2007	Extraordinary Shareholders' Meeting to convene 21 November 2007
1 Nov 2007	Finnair Group interim report for January 1–September 30 2007 – Efficiency measures improved profitability
5 Nov 2007	Ground handling operator Northport sells Swedish and Norwegian subsidiaries
7 Nov 2007	Finnair Asian traffic grew by over 40 percent, load factors on high
20 Nov 2007	Finnair Group's results estimate updated
21 Nov 2007	Decisions of the extraordinary Shareholders' Meeting of Finnair Plc
21 Nov 2007	Finnair to undertake a share offering of EUR 248.5 Million
26 Nov 2007	Publishing of the offering circular related to Finnair's share offering
5 Dec 2007	Finnair's Financial Reporting Schedule for 2008
11 Dec 2007	Over one million passengers on Finnair's Asian flights this year
18 Dec 2007	Preliminary result of the Finnair's share offering
19 Dec 2007	Announcement pursuant to securities markets act chapter 2, section 10 FL Group Holding in Finnair decreased below 15 per cent
20 Dec 2007	Finnair's share offering fully subscribed

All Stock Exchange Releases can be found on the Finnair Group website [www.finnair.com](http://www.finnair.com)

Stock Exchange Releases relating to the purchase of own shares can be found at the same address

# THE BROKERAGE FIRMS ANALYSING FINNAIR EQUITY

**ABN Amro, London**  
Andrew Lobbenberg

**Carnegie Investment Bank AB,  
Finland Branch**  
Jussi Karhunen

**eQ Bank Ltd**  
Bengt Dahlstrom

**E Ohman J or Fondkommission AB**  
Lauri Pietanen

**Glitnir Bank**  
Jaakko Tyrvaenen

**Handelsbanken**  
Maria Wikstrom

**Kaupthing Bank**  
Mika Mikkola

**Landsbanki**  
Olli Kahkonen

**Mandatum Securities Ltd.**  
Robin Johansson

**Opstock Securities Ltd**  
Pekka Spolander

**SEB Enskilda**  
Jutta Rahikainen

# INFORMATION FOR SHAREHOLDERS

## ANNUAL GENERAL MEETING

The Annual General Meeting of Finnair Plc will be held on 27 March 2008 at 3 pm at the Helsinki Fair Centre, Messuaukio 1, Congress Wing Entrance, Hall C1

Notice of attendance at the Annual General Meeting (AGM) must be given at the latest by 4pm on 25 March 2008. Notice of attendance can be given by post to the address

Finnair Plc  
Share Register HEL-AAC/5, FI-01053 FINNAIR  
by fax to +358 9 818 1662  
by telephone from Monday to Friday  
between 9am–4pm to +358 9 818 7637 or  
by e-mail to [agm@finnair.com](mailto:agm@finnair.com)

Letters, faxes or e-mails regarding notice of attendance must have arrived before the period of notice of attendance ends

Shareholders who are entered at the latest by 17 March 2008 in the Company's register of shareholders maintained by the Finnish Central Securities Depository Ltd or who on 17 March 2008 are temporarily entered in the register of shareholders in the manner specified in Chapter 4 Article 2 of the Companies Act, are entitled to attend the AGM. Shareholders whose shares have not been transferred to the book-entry system are not entitled to attend the AGM.

## AGM 2008 – important dates

17 March 2008 Record date  
25 March 2008 Last day to give notice of attendance  
27 March 2008 Annual General Meeting  
1 April 2008 Dividend record date  
8 April 2008 Dividend payment date

## BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

According to the financial statements on 31 December 2007, the distributable equity of Finnair Plc amounts to 511.0 million euros. The Board of Directors proposes to the AGM that a dividend of 0.25 euros per share be distributed, and that the remainder of the distributable equity be carried over as retained earnings.

## FINANCIAL INFORMATION

In 2008, interim reports will be published in Finnish, Swedish and English

29 April 2008 at 9 am Q1-2008, 1 Jan–31 Mar 2008  
8 August 2008 at 9 am Q2-2008, 1 Jan–30 Jun 2008  
31 October 2008 at 9 am Q3-2008, 1 Jan–30 Sep 2008

## ORDERING THE ANNUAL REPORT

The Annual Report 2008 will be published in print in Finnish, Swedish and English in week 11 and the Financial Report 2008 in Finnish and in English

To order  
tel +358 9 818 4904  
fax +358 9 818 4401  
e-mail [post@finnair.com](mailto:post@finnair.com)

## CHANGE OF ADDRESS

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

# CONTACT INFORMATION

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