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Annual Report 1999/2000

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Information to shareholders

Annual General Meeting

The Annual General Meeting of Finnair Oyj will convene on August 24 2000 at 3 00 p m in the Scandic Hotel Continental Helsinki Mannerheimintie 46-48, Helsinki

Shareholders desiring to attend must be registered with the Finnish Central Securities Depository Ltd (APK) by August 18 2000 Shareholders whose shares have not been transferred to the book-entry securities system may also attend the AGM on condition that such shareholders were registered in the Company s shareholder register before 11 June 1993 In such a case shareholders must at the AGM present their share certificates or other evidence that their shareholding rights have not been transferred to the book-entry system

Shareholders wishing to attend the AGM must notify the Company by 21 August 2000 either by mail to Finnair Oyj ACA/14 01053 FINNAIR or by telephone + 358 9 818 4945 or -4946 or by email elina haapamaki@finnair fi

Dividend proposal

The Board of Directors of Finnair Oyj will propose to the Annual General Meeting that a dividend of FIM 1 50 (EUR 0 25) be paid for the 1999/2000 financial year The record date for dividend payment is August 29 2000 and the suggested dividend payment date is September 5 1999

Interim reports

Finnair Board of Directors has made a proposal to change the financial year to calendar year accounting if the AGM approves the proposal, Finnair will release two interim reports during the financial year April 1 – December 31 2000 The first quarter on August 24 2000 and the second quarter on November 23 2000

If the proposal is not approved by the AGM, Finnair will release three interim reports The first quarter on 24 August 2000 the second quarter on November 23, 2000 and the third quarter during week 8, 2001

Financial information

The Annual report and the Interim reports are available in Finnish and English and can be ordered from Finnair s head office tel + 358 9 818 4951 fax + 358 9 818 4092 or from our Internet home page at www finnair com where also Finnair's Stock Exchange / Press Releases are available

Changes in address

Shareholders are kindly requested to report changes of address to the bank or to Finnish Central Securities Depository Ltd where the shareholder s book-entry account is kept

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Most Experienced
in Northern Skies

Finnair in brief

Finnair is the market leader in air traffic going out of and coming into Finland as well as in the gateway traffic through Finland

Independent - The "Nordic Dimension" of a powerful alliance
It is Finnair s desire to be a capable and active partner that provides added value for the cooperation Finnair's international reputation is further highlighted by our membership of the **one**world alliance, in which we are experts in both the Nordic dimension and modern information technology Finnair s goal is to reinforce its already strong position in Stockholm and to benefit from the synergies of the alliance

Growing profitably
In keeping with its business strategy Finnair is consolidating its position in the expanding northern European travel market We are aiming for profitable growth which will secure our position as one of the leading companies in our field and ensure that we remain an attractive investment opportunity We are rationalizing our route network by pruning out the unprofitable ones and bringing conformity to our fleet structure The aim is to see that all Group resources and activities support our core business, air transport

Technology
Finnair is investing in the development and adoption of new technologies which will enable us to improve our customer service whilst keeping costs under control The aim is to develop new services for the market based on new technological solutions which will improve earnings and speed up services In our own field Finnair is in the front rank as an exploiter of electronic commerce, having developed a number of Internet and mobile telephone-based services in collaboration with our cooperation partners

Expert staff
Finnair's primary resource is our highly qualified and well motivated workforce The aim of our personnel strategy is to actively promote job satisfaction whilst improving operational productivity and flexibility Our efforts to improve job satisfaction and enhance our corporate culture are carefully planned, and it is our goal in the future to continue to be the most desired employer in the travel sector in Finland

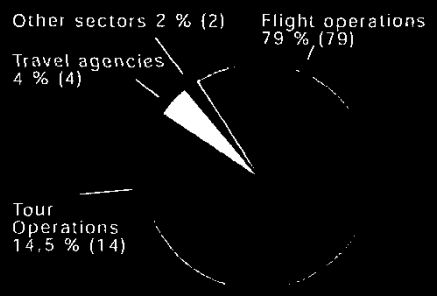
Development projects
The Finnair Group is undergoing an extensive programme of development which is designed to achieve structural changes in our operations These changes will raise profitability to a level that will allow us to continue to invest in improving our entire service chain and products in the future

Customer services
Finnair s aim is to be the best choice for our customers and the most desirable alternative because Finnair provides the best and most reliable service " We are putting great effort into systematically improving our service concept and quality We are enhancing customer satisfaction by improving our service concepts on the basis of feedback received from our customers Customer surveys show that we are regarded as a safe, reliable, easy to approach airline which is prepared to take the extra step to please our account clients

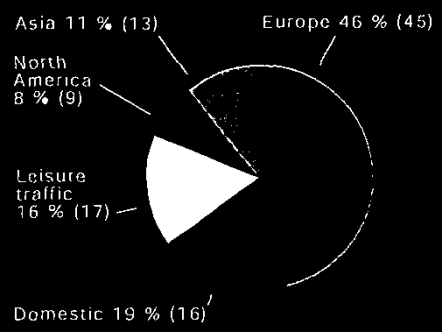
Music in the air

Music is something that effortlessly transcends language and cultural barriers High in the sky out of the reach of worldly cares and jangling telephones, you ll sometimes find the peace and space to let your thoughts fly I remember writing a major portion of the final section of my Nonetto on a flight from Montreal to Helsinki via New York " pianist - composer Olli Mustonen relates "I always fly Finnair whenever I possibly can I particularly appreciate their service mentality steeped as it is in traditional Finnish values It makes me feel so very much at home I also greatly cherish the fact that Finnair is the official airline of Helsinki, City of Culture "

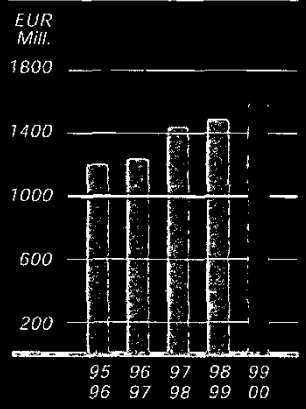
Turnover by sector



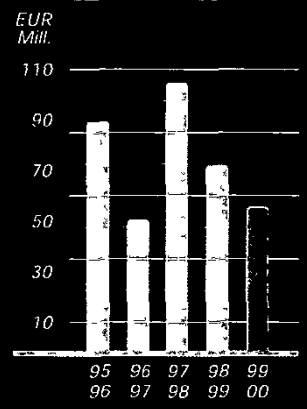
Distribution of traffic revenues



Turnover



Profit before extraordinary items and taxes



Finnair Group, key figures

		1999/2000	1998/99	1997/98	1996/97	1995/96
Turnover	EUR Mill.	**1 593**	1 494	1 445	1 245	1 209
Operating profit	EUR Mill.	**50**	72	102	55	105
Operating profit to turnover	%	**3 1**	4.8	7.1	4.4	8.7
Profit before extraordinary items and taxes	EUR Mill.	**57**	73	105	52	90
Earnings/share	Euro	**0 37**	0.65	1.03	0.42	0.77
Equity/share	Euro	**6 81**	6.36	6.61	5.79	5.34
Gross capital expenditure	EUR Mill.	**252**	220	148	177	95
Interest-bearing net debt	EUR Mill.	**112**	23	-29	47	110
Equity ratio	%	**42 1**	44.4	46.5	42.9	37.9
Net debt-to-equity (Gearing)	%	**19 4**	4.3	-5.4	9.9	25.3
Return on investment	%	**9 1**	11.7	15.9	9.4	15.7
Average number of staff		**11 462**	11 264	10 706	10 533	10 105

Key events during the financial year

12 5 2000
Finnair is involved with ten other European airlines in developing Internet based electronic travel agency The new Internet portal will offer the travelling public competitive fares from the leading airlines involved

27 3 2000
Finland Travel Bureau Ltd, which belongs to the Finnair Group, agreed to buy the 72 % majority of Estonia s leading travel agency, Estravel, from Finnair As a result of the deal Estravel will become a subsidiary of Finland Travel Bureau

28 1 2000
The new generation Wireless Application Protocol or WAP based services expand as it becomes possible to book cancel or alter flight reservations over a WAP-capable mobile phone At this stage the service covered the Internet based multiFLYe electronic multiple ticket aimed at companies

1 1 2000
Helsinki starts its term as one of nine European Cities of Culture for 2000 Finnair is the Official Airline

9 12 1999
Finnair sells 60 % of Finnair Gateway Ravintolat Oy to the Gourmet Nova company Finnair Gateway Ravintolat manages 20 restaurants at Helsinki-Vantaa Airport

25 11 1999
Finnair Oyj and Fritidsresor Holding Ab which belongs to the Thomson Travel Group agree on a share trade concerning Oy Finnmatkat - Finntours Ab by which ownership of the company is transferred to the Fritidsresor Group The fair trading authority approves the transaction in April 2000

1 11 1999
Flight information is made available via WAP-capable mobile phone to customers

27 9 1999
The A319 the smallest aircraft of the Airbus family begins service in European traffic

1 9 1999
Finnair becomes a full member of the worldwide **one**world alliance

5 8 1999
Finnair and Golden Air expand cooperation by agreeing on flight arrangements covering six local districts

1 7 1999
A new Airbus A320 simulator is purchased for the training center Pilot training begins in August

1 7 1999
Duty-Free sales are abolished within the European Union

1 7 1999
Finnair is the official airline during Finland s term of chairmanship of the EU from July 1st to December 31st 1999

15 5 1999
May is the 30th anniversary of the inauguration of Finnair s transatlantic traffic A major reform process is also initiated in May covering the service on long haul routes

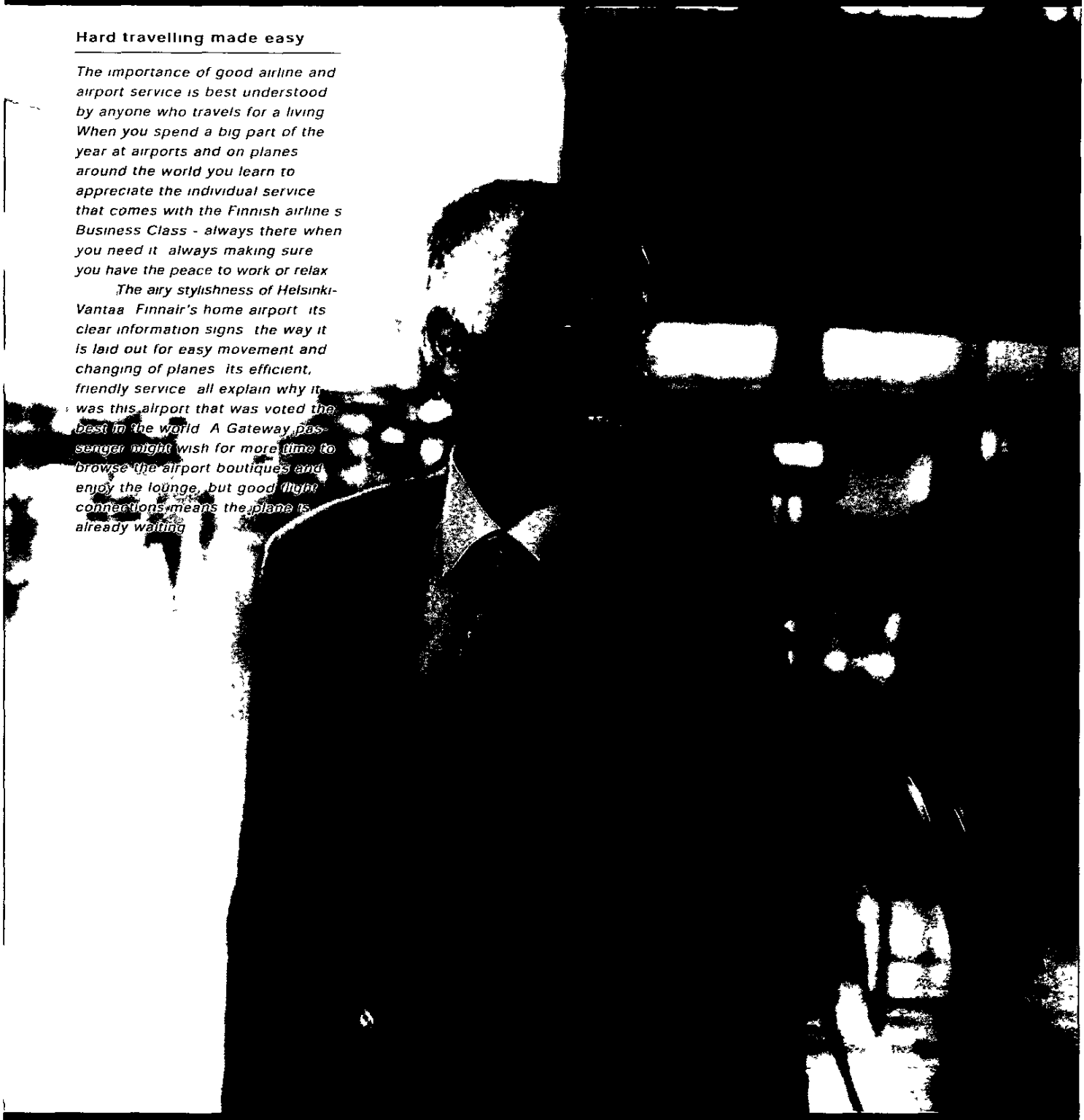
15 4 1999
Finnair sells its remaining 40 % share holding in the hotel and restaurant operator Nordic-Hotel Oy to Scandic Hotels Scandinavia s biggest hotel chain

1 4 1999
A marketing cooperation agreement is signed between Finnair and American Airlines North American flights become code-share flights, with cooperation covering also frequent flyer programmes

Hard travelling made easy

The importance of good airline and airport service is best understood by anyone who travels for a living When you spend a big part of the year at airports and on planes around the world you learn to appreciate the individual service that comes with the Finnish airline s Business Class - always there when you need it always making sure you have the peace to work or relax

The airy stylishness of Helsinki-Vantaa Finnair's home airport its clear information signs the way it is laid out for easy movement and changing of planes its efficient, friendly service all explain why it was this airport that was voted the best in the world A Gateway passenger might wish for more time to browse the airport boutiques and enjoy the lounge, but good flight connections means the plane is already waiting



Most experienced in Northern Skies, front rank European

Finnair has set itself the goal of being the best airline in the Nordic countries and among the front rank in Europe, providing special Nordic expertise within the ***one****world alliance These key attributes are summed up by the international slogan Most Experienced in Northern Skies*

Recognition adds value

Finnair is one of Finland s best known companies Its renown stems from its high operational standards and its concerted efforts to maintain its brand identity This corporate image plays a central role in reinforcing the airline s international recognition

The Finnair brand is an all embracing entity made up of its services and products as well as images relating to the company itself Virtually one hundred per cent of Finns recognise the Finnair logo and the visual identity of the brand The Finnair logo and entire appearance are gradually being overhauled whilst maintaining a respect for its history The corporate image is being updated and made more uniform The results will be visible in all of Finnair's activities

Developing the Finnair brand is part of the company s broader strategy of renewal and enhancement of its international competitive edge, in which the key features are punctuality, standard of service and the superiority of its business class over its competitors

During the renewal process we have looked into Finnair s strengths and character Core values of the Finnair brand have been defined as safety reliability Finnishness and freshness

Safety is the key issue in the airline s operations and the prerequisite for reliability Our ability to handle difficult situations and our established service record, especially concerning punctuality, for which we are well known also contribute to our reliability

Finnishness comes naturally to Finnair Concepts of the Finnish national character, the country s natural landscape and appreciation of the individual make Finnair an attractive choice A pioneering attitude towards technology is also a feature of Finnishness today Freshness fits in well with the way Finnair does things, the way it communicates and its visual appearance

Finnair s home at the top of the world

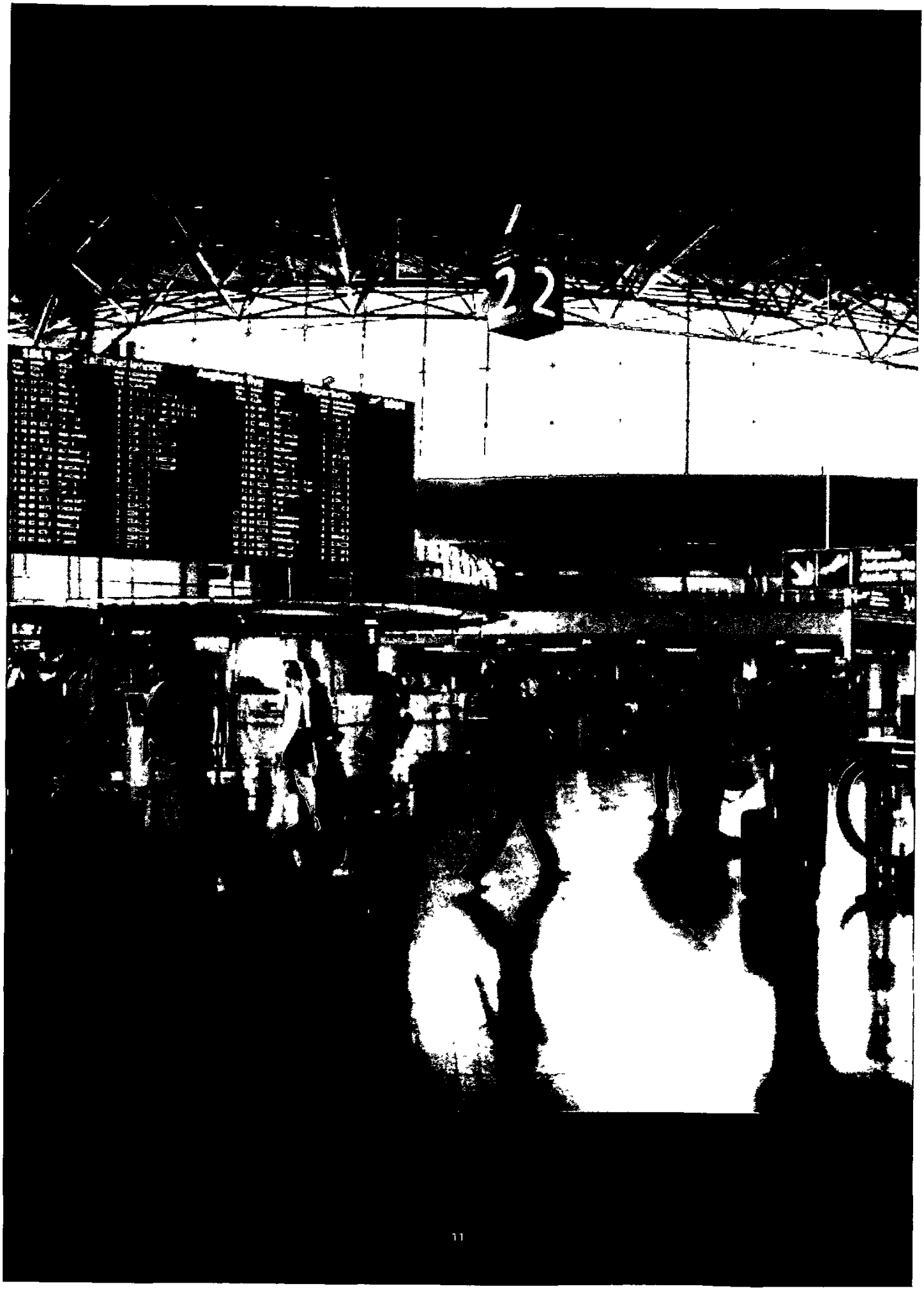
According to a passenger satisfaction survey carried out by the International Air Transport Association IATA Helsinki-Vantaa is the third best airport in the world and the best in its class

Helsinki-Vantaa came first among airports catering for up to 15 million passengers a year According to IATA the standard of service at the airport is high However passengers rated as extremely high the politeness and friendliness of Helsinki-Vantaa s staff its restaurants and eating possibilities its shopping facilities and the general atmosphere of the airport Flight connections to other countries were also rated best for this size of airport, and on a world-wide scale too the connections were clearly the most comprehensive

New runway almost doubles capacity

Air traffic in Europe is again forecast to grow at twice the pace of the economy As the major European airports become more congested, Helsinki-Vantaa will play an increasingly important role as gateway to the regions near Finland and to Asia The capacity of the airport is being expanded with the third runway which will be completed in 2002

Under present arrangements the capacity of the current runway system is 43 operations an hour, or 160,000 operations a year The existing main runway will be in use simultaneously with the new one, which will almost double traffic capacity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A reasonable result - a change for the better

We began the past financial year with some worrying developments in sight, but it ended amid an atmosphere of increasing optimism.

The overriding priority for the financial year was to turn the trend of declining profitability around, and in this we succeeded. Profitability for the years 1998-1999 was clearly falling, yet we faced new factors to undermine it even further, such as the abolition of duty free sales to travellers within the EU, and the burden entailed by our new investment programme. In fact profitability throughout the entire European industry shared Finnair's worsening fortunes. Operating results for European airlines on the whole fell below half of those for the previous year.

A year ago we made it our main priority to halt the declining trend during the financial year and at the same time create the conditions for improving our profits to a level of EUR 100 million for financial year 2002. Our progress has kept pace with intentions. We have managed to stop the decline in profit and a change for the better has taken place. Our operating profit fell during the first half of the year by about 60 % and turned upward during the second half. This second-half upswing can be regarded as significant because we were burdened with dramatically rising fuel costs just when we had lost our earnings from duty free sales. The turnaround came about because we achieved improvements in both revenues and costs. The average yield per passenger kilometre rose by 9.3 %, reflecting price rises as well as changes in the sales structure. Growth was exceptionally strong in business class travel. We invested in our business class competitiveness, and the improvements in aircraft and service have been received extremely positively.

The growth in operating costs was our main concern even during the previous financial year, and this growth continued apace at the beginning of the year. The rise was halted during the second half but the strong increase in fuel costs and the expensive US dollar spoiled our chances of achieving a zero increase. It should be noted, however, that unit costs excluding fuel costs grew during the final quarter by only a further 0.4 % whereas growth in the first half of the year had been 7.4 %.

The number of staff also went down and the interim target of the FinSmart programme was achieved.

An operationally important and significant improvement was achieved in flight punctuality. Our aim of being Europe's most punctual airline was achieved when the number of delayed minutes fell by 30 %. However, the industry's problems in this area have still not been resolved. In 1999, 30 % of flights by members of the AEA, the Association of European Airlines, were delayed by more than 15 minutes.

Given the circumstances, the result for the year can be regarded as reasonable, although it did not match our target level. The result was encumbered by extra costs of about EUR 12 million, which appear in the figures for the last quarter. At EUR 146 million, Group cash flow on operations without extraordinary items was quite satisfactory and matched the level for the previous year. A strong balance sheet and healthy cash flow are indeed important now that we are in the process of making heavy capital investments.

Last year's activities were characterized by short term measures to achieve a turnaround. Now it is time to concentrate on deeper structural and functional reforms. Our aim is to make a visible improvement in our operating profit and move towards 2002 and a target profit of EUR 100 million.

Finnair has long enjoyed high esteem as an airline. Our operational reliability and high standard of service have created a strong corporate image, which we

intend to nurture carefully in the future too The visual facelift which began in the summer of 2000 pays homage to our historic traditions whilst ushering in a breath of fresh air for a new era

As a listed company however Finnair has not enjoyed a corresponding level of regard Our market value at current stock market prices falls far below the company's asset value Our task now therefore is to bolster investor confidence in the company, not only as a high quality airline but also as a high quality listed company and attractive investment opportunity

Many of the reforms scheduled for 2000 are designed to achieve this

The wide ranging reforms to the bonus system serve as an instrument for management and motivation for the organization Improvements in profit and productivity are to be rewarded A proposal will be put to the Annual General Meeting in August 2000 for a stock option scheme within the Group

The FiRa" project is designed to promote transparency in order to create accountable business units within the Group Thus profit responsibility and flexibility will become much more deeply rooted within the organization than at present We shall have tangible solutions by the second half of 2000 By changing current operating methods we can open up new growth opportunities for many of the new independent units

The "FiTa" project was devised to foster more effective internal operations It has studied the internal working processes and levels of organization The aim is to lower the organizational hierarchy and streamline processes Its conclusions will be ready by summer 2000 and plans will be carried out by 2002 The results of the FiTa project are included in the overall goals of FinSmart

During 2000 we have been investing a record amount of money in renewing the fleet The new Airbus A320 family of planes has been exceptionally well received The improvements in business class and standard of service are evident in both passenger numbers and comparisons with competitors We are therefore confidently going ahead with the fleet overhaul in order to ensure our future competitiveness

New technology is also ushering in changes to Finnair operating environment The company has always been in the forefront in developing new electronic services for our customers A period of rapid change lies ahead which Finnair is facing by offering customers e-commerce possibilities via our own as well as neutral distribution channels We estimate that the volume of this will rise in a few years to account for 30 % of our sales

Cooperation with other airlines strengthens Finnair's resources and competitiveness Extra sales generated by the **one**world alliance in the financial year amounted to EUR 24 million As cooperation goes deeper the benefits of synergy will accrue to an increasing extent in the form of cost savings too

We can look forward to significant structural changes as the industry develops A climate of global competition prevails at the moment but structures are highly fragmented Many airlines have a history of state ownership but extensive privatization is now underway, and all companies are now required to be able to make a profit Inefficient resources and overcapacity are still the hallmark of the industry s structure The pressure for structural changes is increasing

Finnair does not have a dominant role in the restructuring of the industry Our position as a northern European airline networking with strong partners allows us to steer our own future We can only retain this ability if we can produce a healthy profit keep our production costs competitive with those of our main rivals and if we have a top notch highly skilled and motivated staff

Finally I should like to express our warmest gratitude to our customers for the confidence they have shown in us A satisfied and faithful customer base is extremely important to us

Our staff deserves heartfelt thanks for their year s work It is a huge challenge to push through many reforms at the same time Our staff have demonstrated both responsibility and a desire for renewal I am confident that Finnair will be able to renew itself through its own efforts to the benefit of its customers its staff and its owners

Keijo Suila

Changes in operating environment support Finnair's Nordic role

Forecasts of market growth, the deregulation of European air traffic and the signing of cooperation agreements with airlines outside the EU/EEA area are positive changes in the operating environment for Finnair Limited airport capacity and air space management are causing problems for Europe s major airports The rise in the price of aviation fuel, the abolition of duty-free sales and the tightening of noise and emissions norms mean financial challenges for all airlines

Market growth outlook

The global average annual growth estimate for all scheduled traffic between 1999-2003 is 3 8 % (IATA) For the period 2004-2013 IATA predicts that international scheduled traffic will increase by an average of 5 7 % a year

Estimates by the aircraft manufacturers are in line with those of IATA and growth forecasts for the world economy

- The average annual growth in air travel will exceed average GDP growth
- Cheaper air fares stimulate travel
- Service will gain in significance - at least as important as low fares
- Globalization and the Internet will promote air traffic growth
- Revenue passenger kilometres will grow by about 5 % a year on average
- Cargo will increase by an average of more than 6 % a year

Aircraft manufacturers predict that civil aviation will be among the world s biggest growth areas over the next 20 years

Deregulation of European air traffic

The air traffic deregulation process which began in 1987 in the EU/EEA area was brought to its end when also air transport within the member states was liberalized on April 1 1997 This had a positive effect on the development of the industry in Europe

Negotiations for the inclusion of 10 Central and Eastern European countries in the third EU air transport package' have already gone a long way and when completed will mean an expansion of deregulated European air traffic The aim of the entire process is to achieve a European Common Aviation Area (ECAA) within 2-4 years depending on transitional periods

Intercontinental air traffic deregulation

Traffic flows between Europe and the United States are of world-wide importance, and both sides are discussing the creation of a Transatlantic Common Aviation Area (TCAA) However it is considerably more difficult to agree on common rules between the continents than on those within Europe For this reason these intercontinental discussions are expected to continue for several years yet An agreement between the EU and the USA would hopefully also promote air traffic deregulation between other corresponding areas

World-wide air traffic deregulation is also being dealt with in World Trade Organisation (WTO) discussions concerning the liberalization of services (GATS 2000) Air traffic was already partially deregulated following the previous GATS (1995) round

Deregulation benefits Finnair

As far as Finnair is concerned the gradual worldwide deregulation of air traffic is a positive matter Because of it Finnair has been able to reinforce its position as a northern European airline The company has benefited from deregulation in planning its own route network and by setting up its Stockholm hub through which it flies to a number of destinations in Europe

However, existing air traffic agreements between countries still restrict and hamper the expansion opportunities for airlines beyond the EU/EEA area

The benefits of alliances

The purpose of alliances is to create a comprehensive travel network for the passenger Travellers can choose from the broadest possible range of flights and destinations and are able to make seamless flight changes within the common network of airlines belonging to the alliance Common sales check-in and lounge services make for better passenger comfort and improve the cost effectiveness of the airlines

There are five major airline alliances around the world and since September 1st 1999 Finnair has belonged to **one**world Not all airlines belong to an alliance and there is movement from one alliance to another Although EU and USA authorities have differing views on competition regulations concerning alliances, the alliances are here to stay

Code share cooperation is like an alliance

Finnair is involved in code share cooperation with 11 other airlines outside the **one**world alliance The most significant of these are Swissair and Sabena The purpose and benefits of code share cooperation which is limited to certain routes for both passengers and airlines, are in principle the same as for alliances

The challenge of airport capacity and airspace management

Airline operating opportunities have improved as a result of European air traffic deregulation Operations are, however hampered by the low capacity of several European airports and by problems regarding airspace management Many new airlines have switched their traffic to more remote airports in order to take advantage of cheaper aviation tariffs and better departure and arrival times

The EU Commission has long considered altering the departure and arrival time (slot) directive to allow airlines to trade slots among themselves The most desirable departure and arrival slots would then become marketable commodities to the highest bidders Despite a reserved slot quota for the small and medium sized airlines the solution would penalize them the most

Furthermore air traffic deregulation has not yet reached everywhere on earth and many airports in practice still enjoy a monopoly position over ground services and pricing among other things

Airspace management is not a problem in Finland

The fragmentary nature of European air traffic control systems hampers the activities of passengers and airlines alike and is to an increasing extent causing delays According to AEA the Association of European Airlines more than 30 % of all short and medium range flights were delayed by more than 15 minutes during 1999

AEA has long campaigned for Europe s dispersed national air traffic management systems to be combined into a large cross-border entity The EU s traffic council has also set up a committee to study the issue

In Finland however there are no significant problems concerning airspace management Central European congestion does however, affect Finnair s flights beyond Finnish airspace

Aviation fuel and taxation

During 1999 the price of oil and aviation fuel rose sharply, affecting airline profitability world-wide During the year the price of fuel has almost doubled but it has not been possible fully to transfer the increases to ticket prices

At the moment there is no taxation on aviation fuel but the EU Commission has proposed that individual member countries could tax it when it is used for domestic flights or flights within the EU area Since this is a question that concerns the rest of the world, the matter will be put to the International Civil Aviation Organization (ICAO) for consideration The effect in Europe would be to immediately raise the price of air travel, which would significantly reduce the competitive ability of the European airlines

Abolition of duty free sales

The various airport taxes and tariffs are forming an increasing proportion of airlines' operational costs The abolition of duty free sales within the EU area on July 1 1999, increased the pressure on airports to raise sundry charges The end of tax free sales also reduced sales by the airlines themselves

Aviation industry cuts noise and emissions

In collaboration with the airlines, the aircraft manufacturers have over the years been able to significantly reduce noise and emission levels Further tightening of noise and emission norms means that aviation costs will rise Officials are requiring aviation operators to introduce powerful measures to reduce environmental harm even though air transport plays a small part in the distribution of harmful emissions

Our partners

Aer Lingus	Austrian Airlines	Golden Air	LOT
Air China	British Airways	Iberia	Qantas
Air Liberté	Cathay Pacific	Israel Airlines	Sabena
Alitalia	Crossair	Lithuanian Airlines	Swissair
American Airlines	Deutsche BA	LanChile	

Coping with winter

"Flying in wintry conditions demands the hard-won skills and experience that Finnair has built up on its home turf Because we ourselves have to battle against freezing weather for half the year we have much to tell others about operating in these conditions And we can also explain why it is wise to work in a certain way Many are unfamiliar with snow and ice conditions so the training we provide has to be exhaustive in this respect" says Finnair captain and MD-80 fleet chief Heikki Saloheimo He was one of the team of four Finnair pilots who developed a computer based training program for winter operations This Finnish expertise in northern flying conditions and related safety information is also available for use by other airlines Twenty carriers already use the six hour interactive package The better an airline is able to deal with exceptional conditions the safer and more punctually it can fly - and these are the very qualities where Finnair scores in international comparisons

Cooperation around the world

*Membership of the **one**world alliance increases Finnair's international recognition Finnair plays an independent and important role as **one**world's Nordic member Within the alliance, Finnair is an expert in the Nordic dimension and in modern information technology*

The world s air transport is developing as a result of the alliance agreements, which enable individual airlines to offer their customers an extensive range of routes and services

On September 1st 1999 Finnair joined the **one**world™ alliance Besides Finnair this grouping of world leading airlines includes Aer Lingus American Airlines British Airways, Cathay Pacific Iberia, LanChile and Qantas Finnair s own route network brings to the other customers of the alliance the important Nordic dimension to complement the world-wide network

A strong global alliance brings competitive benefits to Finnair in its main markets Membership of the **one**world alliance allows Finnair customers to benefit from a global network consisting of close to 600 destinations offering 350 common lounges areas All **one**world members are committed to common quality standards as regards technology, products, service concepts and frequent flyer loyalty schemes With **one**world, Finnair is able to enhance the quality of its business activities as well as its services The alliance also increases Finnair s international visibility and recognition

Important events

Membership of **one**world and other cooperative projects are having a positive effect on Finnair s results The increase in sales obtained as a result of the **one**world alliance amounted to about 24 million euros The alliance brought savings also on ground service costs joint operational facilities common purchasing and joint marketing campaigns All commercial partnerships taken together including the **one**world alliance, added about 69 million euros to Finnair's sales

Finnair has developed its Stockholm hub routes and services to take into account the needs of the whole alliance Since April 2000 **one**world alliance customers have been able to obtain all our Stockholm services at the same terminal

As a result of **one**world the three tier Finnair Plus loyalty system has been converted to four levels Finnair Plus, Silver, Gold and Platinum Bonus points in **one**world accrue from all **one**world airline flights and correspondingly, these points can be used on any **one**world airline flight

During the financial year Finnair was chosen to be responsible for the joint **one**world alliance wireless net commerce project

oneworld in brief, June 2000

	oneworld	Finnair
Destinations	550	70
Countries	133	30
Passengers, mill.	209	6
Staff	260 000	9 000
Aircraft	1 852	57

During oneworld's first operational period its members

- carried 200 million passengers - one in thirty of the inhabitants of the earth
- flew 3.5 billion kilometres - 12 return trips from the earth to the sun
- made about two million flights - a oneworld airline takes off somewhere in the world about every 14 seconds

Shared values for a shared goal

"Continual dialogue is essential if we are to embrace new values in our daily working lives And the entire process must start with the individual When each of us reflects our own activities and our own values onto what has been commonly agreed we find reason and motivation to work towards a common goal In working practice these values show as so called internal dealings in the way we relate to our own work and that of others openly assessing and respecting it" says Matti Sironen foreman of Finnair s structural repairs unit whose job is also to train staff for change and help them adopt the new values

Shared values help the flow of information between the various job crews and make for smoother working Because the work of the work teams and the departments are interlinked an understanding of the whole is essential A sense of responsibility for one's own input respect for the work of others and successful performance build self confidence and job satisfaction Out of this comes the mental synergy that we need, both to manage our internal dealings and above all the services for our passengers "

Development projects underpin our operations

The purpose of the development projects currently underway within the Finnair Group is to make structural changes to operations These changes will raise profitability to a level which enable Finnair to continue to invest in improvements to its entire range of services and products

These development projects can be broken down as follows

- development of corporate identity customer strategies, services and distribution channels
- development of operational activities and improvement of productivity
- management of capacity and network structure
- development of Group structure and organization
- development of corporate culture and the incentive and bonus schemes

Better competitiveness with FinSmart - programme

An essential element in Finnair s development is the FinSmart programme, which is designed to improve the company s competitiveness and profitability The programme covers all areas of the company and its activities and includes projects for increasing earnings as well as cutting costs some of which will be mentioned later These development schemes will enable the company to achieve its goals Our aim is to achieve a profit of 100 million euros after financial items for the financial year beginning in 2002 The company s alliance strategy will also contribute towards achieving these goals

Finnair's new corporate identity

Finnair is overhauling its corporate identity which is based on Finnishness, freshness reliability and safety Our aim is to manage this identity on a world-wide scale and to consolidate our position as the most experienced airline in Northern skies

We are working to promote more corporate contracts and customer information management both in Finland and abroad Our starting point is understanding our customers' own processes and bringing added value to our customers business activities

Finnair Plus for personal service

The Finnair Plus frequent flyer programme helps us to develop long term customer relationships and services The new arrangements allow for more advanced analysis of customer information and customer profitability, whilst at the same time helping us offer tailored services to both airline passengers and cargo clients

Pricing based on market analysis

Finnair is developing pricing management and price structure planning on the basis of analyses of specific markets It is Finnair s view that competitiveness in future will not derive from operational efficiency alone but also from the brand and management of the customer base

Creating new services through e-commerce

Electronic trading is rapidly changing the aviation industry s distribution channels Finnair is creating several new services primarily for business customers but eventually for other user groups too

Several development schemes underway in operational activities

Development of operations and improved profitability are being highlighted particularly in the areas of flight operations and ground services Finnair is considering overhauling its basic flight training to allow resources to be concentrated on type training for specific aircraft

On the aviation side we have introduced a new crew utilization system and a new flight planning system The investment in these new systems will make more efficient use of aircrew and improve the operational cost-effectiveness of aircraft

Finnair's on-going purchase of Airbus A320 type aircraft will lead to significant savings in training, maintenance, flight operations and crew resources

The main focus of ground service improvement projects are

- rationalization of operations within the company,
- out-sourcing of services at certain Finnish and overseas airports and
- increased profitability at Helsinki-Vantaa Airport by overhauling the ground services management system and processes

Aircraft maintenance and catering processes and systems are being updated Renewal measures will particularly focus on creating efficient material purchasing chains, in collaboration with our suppliers and partners The company's aim is to reduce the number of goods suppliers and at the same time make purchasing more efficient through the use of electronic commerce, for example

Route network to be made more profitable

It is Finnair s aim to improve profitability of the route network by directing resources more precisely at those areas which offer good earnings prospects The new route network profitability programme is in the pilot stage The aim of the programme is to

- identify new opportunities for profitable growth,
- predict changes in the competitive climate at the strategic level and
- draw up traffic plans and route profitability forecasts for the medium term

One of the elements of capacity management is the company s agreement to purchase aircraft of the Airbus A320 family The agreement allows for prior flexible planning of aircraft capacity and delivery date

FiRa sets up independent units

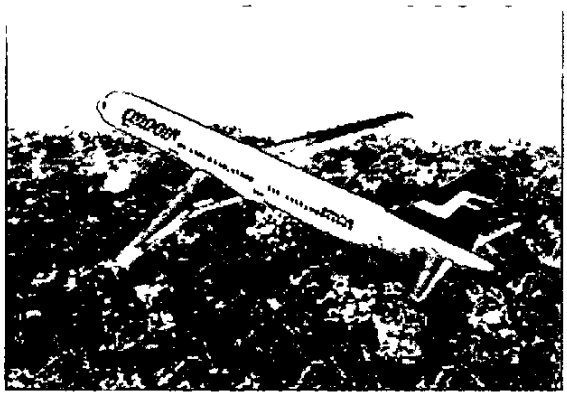
A project for improving the organizational structure was begun during the winter of 2000 called FiRa consisting of about ten sub-projects in different sectors The aim of the project is to make various activities into clear profit centred business units which will develop and manage their own affairs independently

The purpose is to improve productivity of human and material capital The project will create entities in which results and return on capital can be measured and which are among the best in Europe in terms of efficiency profitability and expertise

The outline timetable for the FiRa project has been set as calendar year 2000 during which time the projects must complete their recommendations

The review of organizational levels and models is going ahead in conjunction with the FiRa project The aim is to expand and clarify areas of responsibility and improve the flow of information

Organizational hierarchies will be pruned and organizations developed so that each activity is in the best possible place in relation to the service chain

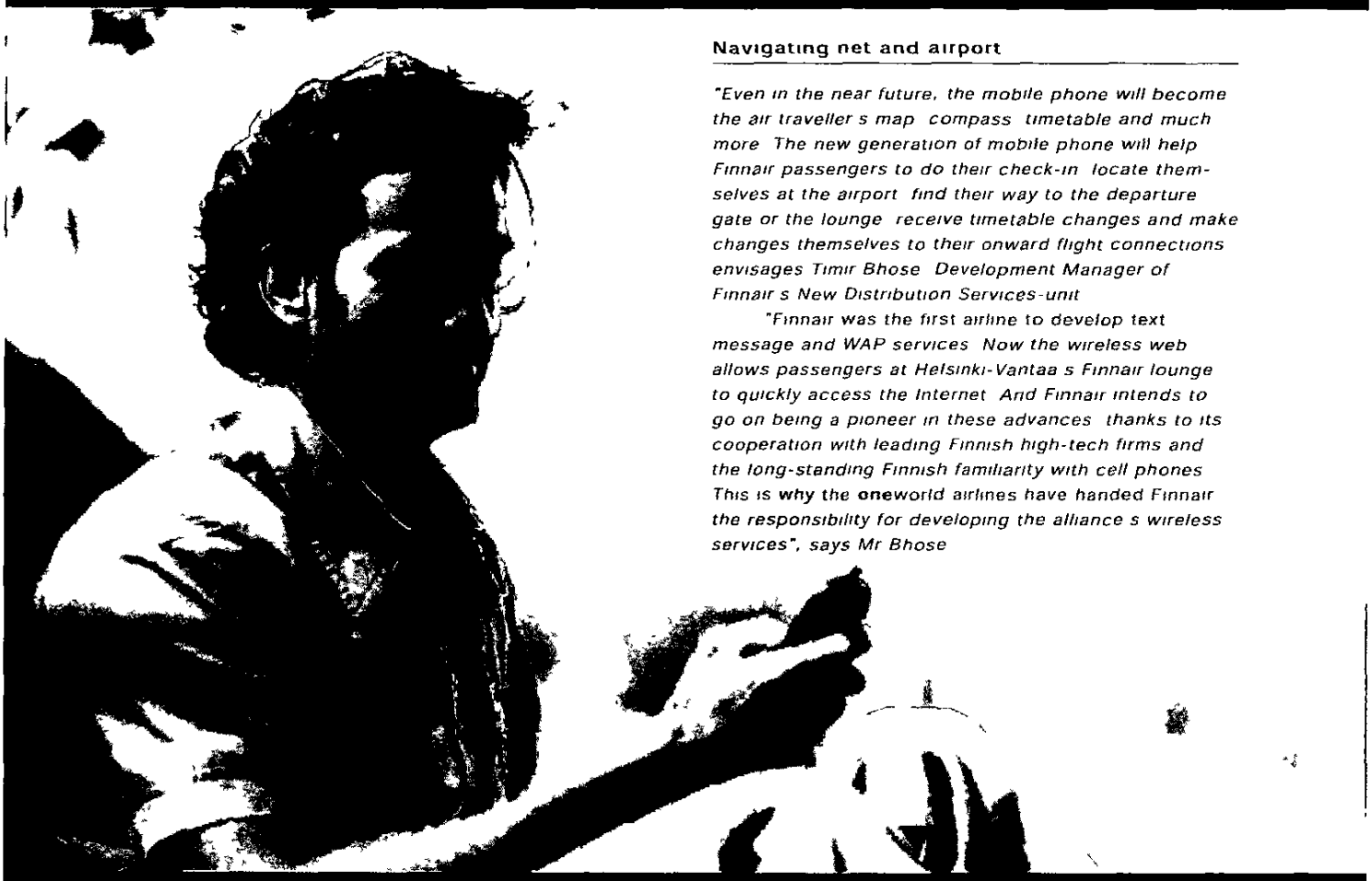


Bonus systems bolster Finnair culture and values

Finnair is endeavouring to bolster its corporate culture and values The company also has an updated profit bonus scheme through which the staff have the opportunity to earn a bonus tied to the company s results, its return on invested capital and to staff costs The profit bonus is paid in to the staff fund which is committed to investing some of this money in Finnair Oyj shares

The financial year beginning April 1st 2000 has for the first time introduced an incentive bonus scheme aimed at specific operational divisions Incentive bonuses are based on

- staying within budget,
- punctuality,
- capacity utilization and yields
- carrying out the development dialogue



Navigating net and airport

"Even in the near future, the mobile phone will become the air traveller s map compass timetable and much more The new generation of mobile phone will help Finnair passengers to do their check-in locate themselves at the airport find their way to the departure gate or the lounge receive timetable changes and make changes themselves to their onward flight connections envisages Timir Bhose Development Manager of Finnair s New Distribution Services-unit

"Finnair was the first airline to develop text message and WAP services Now the wireless web allows passengers at Helsinki-Vantaa s Finnair lounge to quickly access the Internet And Finnair intends to go on being a pioneer in these advances thanks to its cooperation with leading Finnish high-tech firms and the long-standing Finnish familiarity with cell phones This is why the **one**world *airlines have handed Finnair the responsibility for developing the alliance s wireless services", says Mr Bhose*

Major new services during the financial year

MultiFLYe

Finnair has developed an electronic multiple ticket called MultiFLYe. It simplifies the travel process for companies and allows passengers to make and change their reservations 24 hours a day.

WAP service

Finnair became the first airline in the world (Nov. 1. 1999) to offer users of the electronic multiple ticket the opportunity to book their flights by mobile phone, as a WAP service. WAP also lets users check timetables, flight departure and arrival times and can provide personalized information for Finnair Plus clients.

Äkkilähtö

Quick departure "Äkkilähtö" flights aimed at consumers and bookable via the Internet were launched in January 2000. Since its inception the www.akkilahdot.fi site has been Finland's most popular net commerce travel service.

Liputon lento

Finnair's "Liputon Lento" (ticket less flight) was launched for domestic flights in March 2000. Based on the electronic air ticket concept, the service allows passengers to travel using their Finnair Plus cards, credit card or some other photo-bearing identity card.

Full focus on new technology

*In its own field Finnair is in the forefront as an e-commerce company which has developed several Internet and mobile phone based services Within the **one**world alliance, Finnair is responsible for the wireless Internet services project It is estimated that by 2006 the majority of the company's sales will be generated through the Internet and that more than half of our passengers will be using Internet services*

Air transport, indeed transport and the entire travel industry, will become even more acutely dependent on information technology and real time information in the next few years The globalization of the industry is taking place as airlines join forces and the competition created through the resulting alliances will become more intense There will be a new division of labour between the airlines own distribution arrangements and the retail sales sector Technological developments are shortening the distribution channels while making Internet sales ever more important And in the contest for market share the importance of the number and availability of direct services to the public independent of time and place, will increase

Finnair's Information Management unit is responsible for the company s information technology working in cooperation with various partners to develop solutions that take advantage of the latest equipment and information technologies for the benefit of the company's business operations Among Finnair s network of partners are such leading technology development companies as Nokia and Sonera as well as universities Because of this network and its many years of experience in this field, Finnair is responsible for managing the joint wireless Internet services project for the **one**world alliance

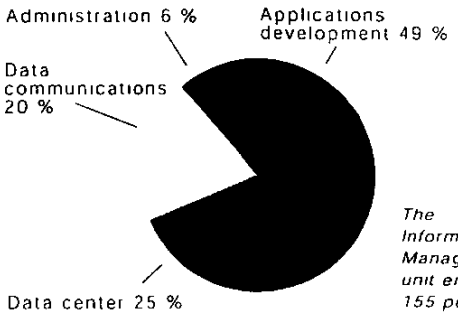
The cornerstone of Finnair s IT-strategy rests on technically advanced solutions which bring significant added value either to Finnair or its customers In accordance with this strategy the company has become a leading e-commerce company in the transport and travel industry where most of the sales will be through the Internet by 2006 and more than half of our passengers will be using Internet services from ticket reservations to check-in

Ever since 1996, Finnair has been working hard to develop the infrastructure necessary for its web sales Underpinning this strategy are functional and efficient basic systems which are compatible with new business applications Among the new applications, the company is currently putting particular effort into developing personalized wireless services

The change of the millennium and the preparations for it were among the most important IT-projects during the last financial year The Year 2000 project was the unit s biggest-ever undertaking, as a result of which the actual change of year took place without any computer problems worth mentioning The project required 20 man years of effort and cost 3 4 million euros

The other major venture during the financial year was to make the company s IT-systems compatible with those of the **one**world alliance to an exceptionally short timetable The project was completed to schedule and involved about 7 man years of work and a cost of 1 2 million euros

Breakdown of Information Management unit personnel



The Information Management unit employs 155 people

Scheduled Flight Operations

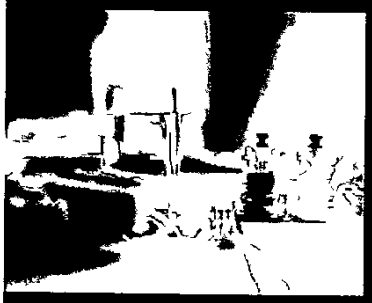
Finnair Cargo

Leisure Flights and Tour Operations

The travel agency sector and distribution channels

Aircraft and maintenance

Ground Services



Catering and retail business

Business areas 1999-2000

The divisions of the Finnair Group are engaged in operations that support or are closely related to aviation These divisions serve other sectors of the Group and the Group's external customers The parent company, Finnair Oyj is responsible for the Group's primary business operation, flight operations

Scheduled Flight Operations
It is the strategy of the Scheduled Flight Operations to produce high quality services profitably Finnair is market leader in air traffic out of and into Finland as well as in gateway traffic passing through Finland

Finnair Cargo
Finnair Cargo makes use of Finnair s route network to offer and develop cost-effective air freight services The Cargo division exploits the potential of the Helsinki gateway and Baltic rim traffic as well as the opportunities posed by the **one**world alliance

Leisure Flights and Tour Operations
The strategy of the Leisure Flights division is to secure growth through more effective operations and by promoting customer friendliness The Tour Operations division is working to improve the activities and products of the Suntours tour operator

The travel agency sector and distribution channels
The Group s travel agencies are working to develop their business operations, overhaul their earnings structure and benefit from new technological solutions Included in this sector are the travel agencies Area Finland Travel Bureau and a few smaller Finnish travel agencies the international Norvista chain and Amadeus Finland the global reservation systems agency in Finland

Aircraft and maintenance
Finnair s technical services division is responsible for servicing and maintenance of the company s aircraft Finnair is upgrading its European scheduled traffic fleet by acquiring new Airbus aircraft The new fleet will make it possible to respond more flexibly to fluctuations in demand

Ground Services
Finnair s Ground Services unit takes care of the company s customers and their luggage the loading of cargo and post and various other ground services The unit is being upgraded in order to be able to offer a punctual high standard of service in all situations The division plays an important role in reinforcing the company s customer service image

Catering and retail business
The Catering division is responsible for planning supplying and constantly improving in-flight meals Finnair sells merchandise during flights as well as through its own outlets at a number of Finnish airports The unit is well known as a supplier of high quality services which have gained recognition world wide

Scheduled flight operations

One of Finnair s primary aims is to maintain its competitiveness in terms of quality and price for its scheduled flight operations The strategy is to produce high quality services profitably, which is and will continue to be, our competitive advantage While Finnish customers form the backbone of our operations, our international clientele is growing all the time

Finnair dominates the market in international traffic into and out of Finland, as well as gateway traffic through Finland Changes in the air transport environment have also expedited the development of Finnair s scheduled flight operations With foreign airlines increasing their capacity on routes into Finland Finnair has taken pains to develop its international route network and its Stockholm traffic whilst exploiting the opportunities of the **one**world alliance

The strong economy has caused air transport to expand around the world Passenger numbers also increased on Finnair's international scheduled routes by 5 6 % on the previous year The growth in passenger kilometres was 4 7 % During the financial year, Finnair flew to 50 international scheduled destinations Domestic traffic accounts for about 22 % of passenger earnings, whilst international routes account for about 78 %

Finnair operated 21 destinations in Finland, and passenger numbers increased by 9 5 % during the financial year The company maintained its strong 98 % market share of domestic air traffic

Finnair operates an air traffic hub in Stockholm from which it flew to 12 European and four domestic destinations during the financial year In total, Finnair s and its partners' aircraft operated more than 240 flights a week from Stockholm, thereby providing a competitive service concept on the Swedish market

Service concept adds a competitive edge

Our route network strategy is based on a strong service concept, the cornerstone of which is the highly appreciated 'morning-evening concept especially developed for Finnish passengers This means that Finnair can offer its passengers a full range of morning flights to central European destinations from which they are able to return home the same evening

Finnair is operating in a service industry Our aim is to provide safety punctuality and good service for customers It is possible for a small company to develop its expertise and operating methods so as to be able to take care of its clientele more closely and flexibly than a large firm can

The fleet renewal will allow us to make our flight operations more efficient and improve our customer service and passenger comfort The Airbus aircraft represent the latest innovations in both aircraft technology and travel comfort By 2003 half of Finnair's European traffic will be operated with Airbus fleet

Our activities will place special emphasis on punctuality by focusing on information flow and honing service processes The punctuality of Finnair s scheduled traffic during 1999 was the highest in Europe

Finnair is studying the internal processes affecting service quality as well as operating methods The service chain comprises essential travel support such as booking-related services, airport services in-flight and after flight service During the financial year Finnair launched a number of new services including ticket-less travel and an Internet service enabling last-minute flight purchase

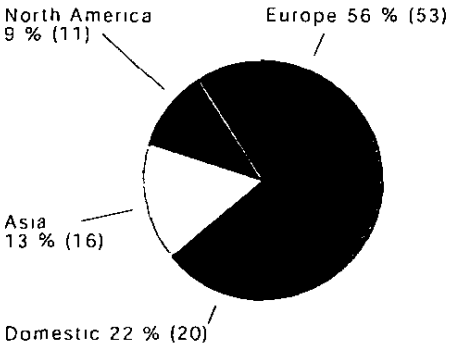
Added benefits of the Finnair Plus frequent flyer programme

The Finnair Plus programme has 290 000 active members and the number of members grew by 19 % during the financial year Some 70 % of the membership lives in Finland This represents our core clientele, whose loyalty is enhanced by offering them Finnair frequent flyer benefits and the membership benefits offered by other service providers

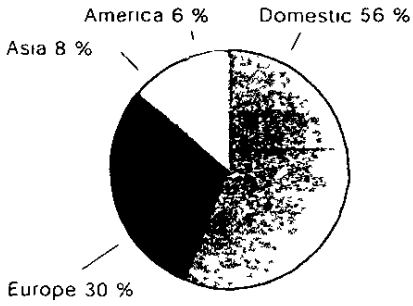
During the financial year the Finnair Plus programme was developed to become a more international scheme offering bigger benefits It was altered to cater for four tiers with the addition of the Platinum level which offers even more advantages and services to those who travel the most

The **one**world alliance also brought changes to the Finnair Plus programme The customer segments of the alliance airlines frequent flyers programmes were standardized to ensure that all members of any particular **one**world customer level receive the same standard of service Bonus points can be earned from all **one**world companies

Distribution of scheduled traffic revenues



Distribution of passenger sales in scheduled traffic



Development of Finnair's scheduled flight operations

The aim of the scheduled flight operations is primarily to preserve our strong position in the market for flights into and out of Finland and the gateway traffic passing through Finland In addition Finnair is endeavouring to reinforce the strong position it has gained in Stockholm Finnair s scheduled operations strategies are divided into the following sub-strategies designed to achieve more effective management of the route network and aircraft capacity

Domestic traffic

- Strengthening of the northern and central Finnish route network
- outsourcing of turboprop aircraft when possible
- automation of the service process through development of electronic business

European traffic

- deepening of the oneworld alliance
- opening of new destinations
- increased flights particularly to business destinations

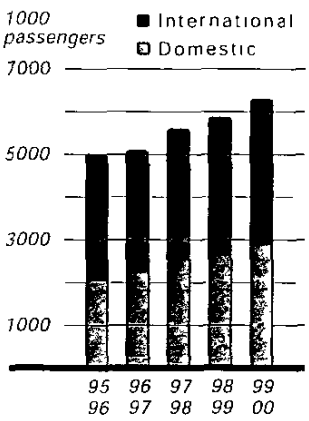
Long haul traffic

- concentration on fewer long haul destinations
- increased weekly flights to certain destinations
- strengthening of position in northern European gateway traffic

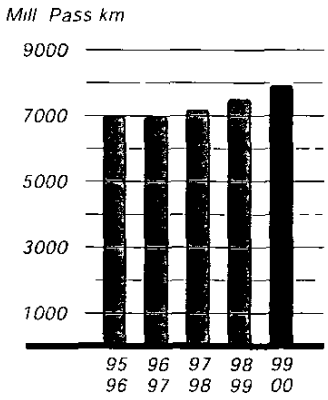
Business class traffic

- provision of more business class seats
- reinforcement of "home by night" concept

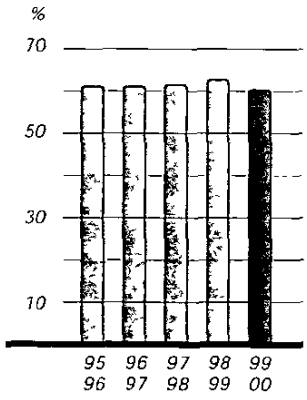
Number of passengers in scheduled traffic



Scheduled traffic, revenue passenger kilometres



Cabin factor in scheduled traffic



Domestic route destinations

Enontekiö
Helsinki
Ivalo
Joensuu
Jyväskylä
Kajaani
Kemi/Tornio
Kittilä
Kokkola/Jakobstad
Kuopio
Kuusamo
Lappeenranta
Mariehamn
Oulu
Rovaniemi
Savonlinna
Tampere
Turku
Vaasa
Varkaus

International route destinations

Amsterdam
Bangkok
Barcelona
Beijing
Bergen
Berlin
Brussels
Budapest
Copenhagen
Dublin
Dusseldorf
Frankfurt
Gothenburg
Hamburg
London
Manchester
Milan
Moscow
Munich
Murmansk
New York
Osaka
Oslo
Paris
Prague
Riga
Rome
Singapore
Stockholm
St.Petersburg
Tallin
Tokyo
Warsaw
Vienna
Vilnius
Zurich

In addition 64 leisure and charter flight destinations

Finnair Cargo

Finnair Cargo s operations are based on making use of the Finnair route network Where necessary, capacity is hired also from outside sources Finnair Cargo exploits Helsinki gateway's Baltic rim potential and the opportunities provided by the ***one****world alliance in offering costeffective air freight services*

It is estimated that the world s air freight market will increase in volume by about 6 % a year on average However the available capacity of the air freight companies has not kept pace with cargo growth In Asia air freight operations are hampered by the difficulty of getting flying permits The growth in demand for Finnair Cargo s operations is particularly visible in the sharp increase in the volume of North American freight On certain routes, Finnair has striven to satisfy demand by leasing aircraft The number of kilos carried by Finnair Cargo in the last financial year grew by 6 2 %

The deregulation of aviation in Europe has opened up new opportunities in route planning and possibilities for expanding freight operations to cover the entire EU area In addition, the effort to expand the EU into the Baltic area is expected to increase the air cargo market because of the poor road links in the region

The increase in freight volumes has continued to be greater in the Nordic countries than the rest of Europe European price levels have traditionally been stable, but increasing competition brings the threat of a price war closer

Finnair Cargo's operations

Finnair Cargo's share of Finland s international air freight is 53 % amounting to about 6 8 % of Finnair s air transport earnings Finnair Cargo s competitors are airlines, cargo companies and courier services

Finnair Cargo takes advantage of the transport capacity of Finnair s existing passenger route network Where necessary, additional capacity is leased to meet the special needs of clients In addition to the above, Finnair Cargo develops air freight related logistical services in accordance with the company's operating strategy Finnair Cargo benefits from Helsinki's gateway position and Finland's northerly location when selling feeder traffic capacity destinated for other parts of Europe and when it serves the markets of the Baltic rim

Helsinki-Vantaa Airport is a busy gateway for goods traffic Finnair Cargo s freight terminal is the biggest in the Nordic countries which allows for efficient, flexible service

Prospects for the future

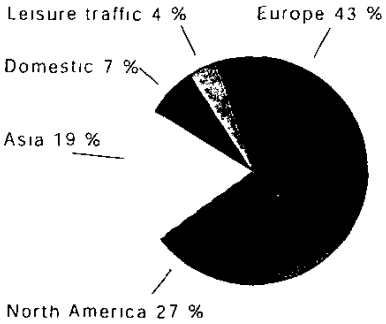
One of the future strategies for Finnair Cargo involves exploitation of the opportunities provided by the **one**world alliance The division will work towards greater integration of services, efficiency and making use of the partner network It is also Finnair Cargo s strategy to benefit from the growing need for transport services in the Baltic countries by offering freight services there In order to ensure future profitability, Finnair is investing in freight traffic from the Nordic countries to the United States We shall also strive to benefit from the opportunities of the Chinese economic area

Amid tightening competition Finnair Cargo will boost its service products and pay special attention to improving profitability by cutting out unprofitable activities In order to achieve its goals Finnair Cargo is developing computer aided solutions and its range of services

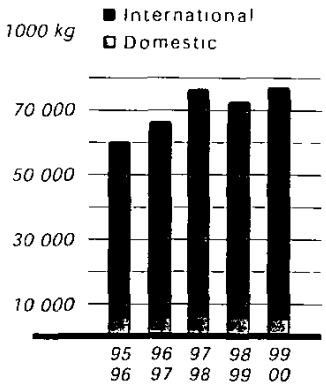
Key figures

	1999/00	1998/99
Sales, EUR Mill	84 7	80 6
Staff	405	405

Distribution of cargo kilos



Cargo



Toddlers make seasoned holiday fliers

Right from childhood Finns learn to take to Finnish wings Their first journeys are holiday trips with the family but as they grow up their work will take them by plane to various parts of the world Finnair s leisure and charter flights have won a cherished place in Finnish hearts as holidays reach further and further away so the importance of a reliable airline increases

Finnair has designed its leisure and charter flights in cooperation with the tour organizers and knows well the needs and wishes of the Finnish traveller For most the holiday already begins in the plane which makes them feel at home as they fly out And when it is time to return, the sight of the familiar Finnair aircraft heralds a comfortable journey home as they step on board

Leisure flights and tour operations

The Leisure Flights division's strategy is two-pronged its operations must be effective and customer-oriented in order to safeguard profitable growth Our tour operation activities are focused on developing the services and operations of the Suntours tour operator

Leisure and charter traffic

During the financial year Finnair s market share fell to 78 % from its previous year s level of roughly 90 % This was because Fritidsresor and Hassen Matkat went over to using aircraft supplied by the Britannia Airways airline, which belongs to the same Thomson consortium from the beginning of April Similarly, Tjareborg and Spies used their own airline to fly some of their Canary Islands winter schedule Yet despite the stiff competition, Finnair was able to maintain the previous year s high level of aircraft utilization for its leisure traffic

Passenger numbers for leisure and charter traffic fell by 9 % There was a 7 % fall in passenger kilometres Revenue amounted to EUR 198 8 million, representing a fall from the year before of only 0 2 % Air transport revenue per revenue tonne kilometre rose by 7 3 % In view of the stringent competition the result can be regarded as satisfactory

Sales of individual seat places to scheduled holiday destinations developed favourably during the last financial year with an increase of 44 % Individual charter flights increased by 42 % whilst cargo sales to charter and leisure flight destinations rose by 46 % Combined sales of these services during the past financial year amounted to EUR 18 5 million Improved revenue in these sectors as well as favourable price trends compensated for the losses caused by the decrease in market share

Despite the high price of fuel and the exchange rate for the dollar leisure traffic profitability remained at the previous year s level There have been problems with aircraft and crew shortages, and Finnair s high level of costs At the end of the financial year there were 36 people employed by Finnair s Leisure Flights division

During the financial year the Leisure Flights division flew to 64 destinations A significant individual change occurred when demand and supply for Turkish travel fell dramatically as a result of political uncertainty in the country and the powerful earthquake which occurred there in the autumn Demand will not return to the previous year s level even during the current financial year

Effective and customer friendly

The aim of Finnair s Leisure Flights division strategy is to keep utilization levels for those aircraft for which it is responsible as high as possible In addition the division uses occasionally aircraft which are operated in scheduled traffic The financial goal is to improve Finnair's efficiency and overall earnings

Finnair s clientele consists of tour organizers associations companies and private passengers The most important and largest customers are Suntours belonging to the Finnair Group and Finntours whose sale to the Thomson group was negotiated during the financial year Competition authorities approved this takeover in April 2000 Other important customers are Fritidsresor and Hassen Matkat, belonging to the Thomson group and Tjareborg and Spies which belong to the Airtours consortium

Finnair leisure and charter flights strengths are its high degree of reliability and safety

Outlook for the future

Finnair develops its leisure and charter activities in conjunction with the travel organizers in an effort to ensure that the flight matches the customer s requirements One example of this close relationship with the customer is Finnair s inauguration of holiday traffic from Stockholm to Malaga and Dublin The last time such flights were made was in 1979

The summer season of the current financial year has begun favourably and Finnair s market share is expected to rise Market share for Leisure and Charter Flights is likely to remain at the previous year's level during the winter Profitability for the entire financial year is likely to stay at the present level

Tour Operations

Combined turnover for the Group s subsidiaries specializing in tour operations increased by 8 3 % and amounted to EUR 262 8 million Amid market competition these companies managed to increase their passenger volumes by 2 5 % The subsidiaries specializing in tour services operate under the umbrella of Finnair Travel Services Oy After the end of the financial year Finnair sold Finntours to the Fritidsresor group At the same time the parties agreed on a long term leisure flight contract

During calendar year 1999 about 987 000 package tours were made from Finland In the same year the market share for the FTS group was 47 % The overall market increased by about 3 %

Finnair Travel Services group (FTS)

Finnair Group s package tour operations are concentrated in the main within the Finnair Travel Services group Finnair Travel Services Oy provides its services to Suntours and Finntours until April 18 2000 FTS services include subcontract agreements abroad as well as financial data and personnel management activities The trader Top Club and its trade mark also belong to Finnair Travel Services Oy Turnover for Finnair Travel Services Oy for the last financial year amounted EUR 18 million which also includes turnover for Top Club

The FTS group has initiated a sustainable tourism programme aimed at underpinning the opportunities for leisure travel in the future too Sustainable tourism means respecting the environment and culture of holiday destinations as well as respecting the environment in operations in Finland also During the current financial year the intention is to analyse Suntours and Top Club holiday destinations according to an environmental inspection list In April, Finnair Travel Services joined the world wide Tour Operators Initiative for Sustainable Tourism

Suntours

Market share during calendar 1999 for Suntours, Finland s biggest tour organizer, was 29 % During the financial year turnover increased by 6 5 % to EUR 165 million The company arranged package tours from Finland to a total of about 120 destinations in the Mediterranean, the Canary Islands to central European cities far off destinations and to Sunski downhill ski resorts The number of passengers using Aurinkomatkat rose by 4 2 % compared with the previous year to 286,000 The far off destinations saw the biggest relative growth

Suntours competitive strategy is based on maintaining a wide and varied range of travel opportunities reliably and offering a good price-quality ratio All the tours abroad are guided Our emphasis on service and an efficient sales network give Suntours its competitive edge Suntours will strive in future too to improve its operations by tailoring its tours upgrading its booking system and making more effective use of the Internet for distribution

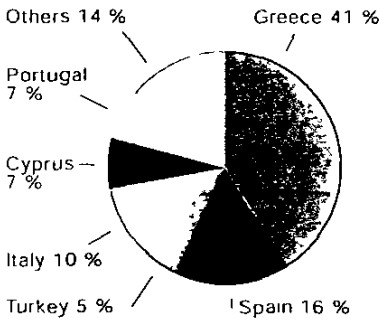
Finntours

During calendar 1999 Finntours' market share was 15 % and its turnover for financial year 1999/2000 amounted to EUR 78 million In April 2000 Finntours was sold to the Scandinavian Fritidsresor group owned by the British travel group Thomson As a result of the transaction, Finnair will concentrate on developing Suntours Finland s biggest package tour operator in the travel agency sector whilst at the same time safeguarding its own leisure traffic operations Finnair s share of the tour operator market will fall to about 32 %

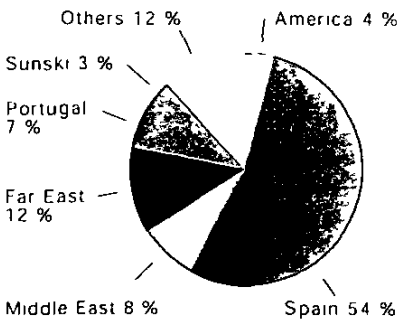
Top Club

Top Club s market share during the calendar year was about 2 % and its turnover for financial year 1999/2000 was EUR 13 million The company concentrates on arranging high quality private leisure services from Finland using Finnair scheduled flights Top Club s strength lies in its ability to react rapidly to changes in the market

Tour production by country
Summer 1999
(Suntours and Finntours)



Tour production by country
Winter 1999/2000
(Suntours and Finntours)



Travel agencies and distribution channels

Combined sales for the travel agencies amounted to EUR 657 million (598) Emphasis was placed on developing the companies' business operations overhauling their earnings structure and taking advantage of new technological solutions

Passenger numbers around the world are increasing, which is also manifested in the Finnish travel agency market This growth has been fostered by the favourable growth in the Finnish economy as well as the internationalization of companies which have stimulated demand for business travel as well as private leisure travel During the financial year combined overall sales of Finnair s domestic travel agencies increased by 10 2 % to amount to EUR 590 million (536)

Accompanying the increase in passenger numbers has also been a rise in the number of travel organizers During the financial year the airlines decided to reduce the commissions paid to travel agencies by 2 %-points which means that the travel agencies will have to develop and manage their operations distribution channels and clientele more efficiently

The most important travel agencies belonging to Finnair Group are Finland Travel Bureau and Area Travel Agency Also belonging to Finnair are three domestic travel agencies the Norvista chain of travel agencies and tour operators which operate abroad and the reservation system operator Amadeus Finland

As a result of the change in commission criteria paid by the airlines, the companies have altered their earnings structures so that they are increasingly based on service charges agreed with the customer The purpose of more effective cost monitoring and the development and operational management projects which have been carried out has been to improve travel agency profitability

Tickets from web shop

Travelling is one of the most popular pastimes. Both physically and financially well-off seniors make up a large and fastidious tourist sector whose desires are being satisfied with the new services that Finnair Group travel agencies are developing. Planning and buying a trip from the web shop comes naturally to those familiar with using the Internet. Finnair Group travel agencies are pioneers in the electronic sales of business trips, too, as users of Internet based applications for travel planning, booking and monitoring.

Finland Travel Bureau

Sales by Finland Travel Bureau Ltd (FTB) Finland s biggest travel agency, increased by 12 7 % to EUR 333 million This growth resulted from an increase in market share for business travel The company s share of business travel sales in Finland was 31 % In accordance with its strategy FTB has concentrated on selling business travel and special trips which it devises itself, as well as distribution and Internet sales of leisure trips

During the financial year FTB worked to develop e-business solutions based on Internet technology The company was the first European travel agency to adopt the TraWell Management system an Internet based travel management system for planning, booking and monitoring business travel, which it developed itself

The company continued to work for more efficient operations and lighter administration by adopting the ACE operational management system

Area

The sales by Area Travel Agency Ltd rose by 7 5 % to EUR 233 million Area s market share of business travel was 23 %

The company s strong position and its extensive clientele had a positive effect on sales trends The aim of Area s overhauled business strategy is to preserve the company s strong position among corporate customers It is also the company s aim to reinforce its position on the consumer market by bringing customers exciting new technology based ways to purchase their trips

During the financial year Area continued to develop Business Net, launched at the beginning 1999, as well as a service especially designed for young people Development also continued on a new kind of wireless Internet solution The company s operations were made more effective and administration lightened with the aid of the ACE operational management system Particular attention was also paid to overhauling the company s earnings structure During 2000 the new business strategy and values will be adopted by the entire staff

Norvista

Sales by the Norvista chain amounted to EUR 67 million (62) Norvista is Finnair s chain of travel agencies and travel arrangers operating abroad An extensive process of business strategy honing has been taking place within the chain this year After the end of the financial year Finnair s 72 % share of the Estonian travel agency Estravel was sold to Finnair s subsidiary Finland Travel Bureau

Amadeus Finland

Finnair owns 95 % of Amadeus Finland which is the agent in Finland for Amadeus Global Travel Distribution services the world s largest travel booking systems supplier Amadeus Finland offers travel agencies comprehensive booking and data management systems and related training and support services The company has a market share of over 95 %

Development work focuses on exploiting Internet technology We are developing programs for virtual travel agencies as well as browser based links for traditional travel agency systems Also important is the ongoing development of extranet services for travel agencies

Amadeus Finland's most important source of income is the reservation fees paid by suppliers Other revenues come from system user rights and rental fees for data networks A small proportion comes from equipment sales Turnover was EUR 11 8 million and the result was positive

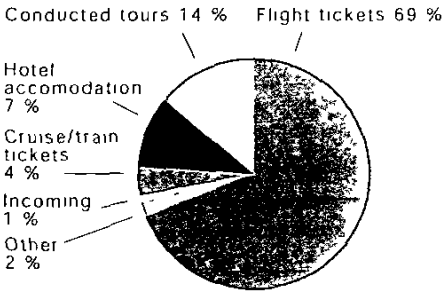
Future prospects

In the new financial year, the travel agencies are working for profitable growth and development of operations. Increased demand in conjunction with the operational reforms which have been introduced are expected to raise combined sales by the travel agencies as well as profitability. Internet business is also expected to grow.

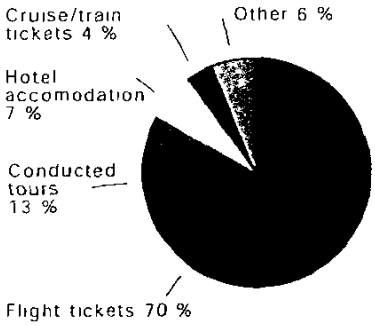
Key figures

	1999/00	1998/99
Finland Travel Bureau		
Sales, EUR Mill	333	296
Personnel	695	650
Area		
Sales, EUR Mill	233	217
Personnel	470	450

Distribution of sales
Finland Travel Bureau



Distribution of sales
Area



A new look takes to the air

The first of Finnair's new-look Airbus A320 family of aircraft will come into service in autumn 2000.

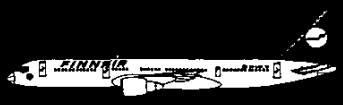
Fleet

A319
120 seats

A320
153 seats

A321
178 seats

MD-11
312-407 seats



B757-200
219 seats

DC-9-51
122 seats

MD-82, MD-83
140-156 seats

MD-87
112 seats

ATR 72
66 seats

Aircraft and maintenance

The task of Finnair's technical maintenance services unit is to keep Finnair s aircraft in good condition and maintain their high value The unit also sells its services to several international clients Finnair is overhauling its European scheduled fleet by purchasing new Airbus aircraft The new fleet will make it easier to respond to fluctuations in demand

Severe competition has prevailed in the technical maintenance market throughout the entire decade In recent years aircraft and particularly engine manufacturers have entered the business, the latter already holding more than half of the market The competitive advantage of Finnair s maintenance services lies in supplying tailored services for clients needs

Finnair offers technical services to other airlines as well as to the parent company These range from individual inspections and equipment repair to full services which go as far as training technical staff for client airlines Exceptional expertise in Finnair s existing and previous aircraft is one of the strengths of its highly qualified staff

About 60 % of the earnings from outside clients (EUR 52 million) during the financial year derives from contracts lasting many years The biggest growth was in maintenance of MD-11 aircraft, whereas servicing of customers MD-80 aircraft has declined

Material purchases for fleet maintenance and subcontractor costs fell by 4 3 % Thanks to the rise in external earnings (3 %) net costs went down The productivity of Finnair s maintenance services i e net costs to flying hours, declined by 1 2 %

Fleet renewal

Finnair has continued with its fleet renewal programme for its European scheduled traffic The upgrade improves passenger comfort and environmental friendliness and also allows for more efficient route planning Finnair has signed an agreement to purchase 12 Airbus planes with options on 24 During 2000 four A321s and four A319s will be in service The fleet will later be complemented with A320 aircraft which are mid-way in size of previous planes The programme can be expedited in the next few years by obtaining aircraft on the lease market

The Airbuses are to replace the MD-80 planes in European scheduled traffic The three sizes of Airbus allow us to respond more flexibly to fluctuations in demand Flight crews have been trained to fly all types of this family of aircraft

The A320 aircraft family significantly improve passenger comfort and environmental friendliness The fuel consumption of Airbus planes per passenger is 20-30 % lower than the previous generation of aircraft

Domestic traffic

Finnair s core European fleet, which is made up of A320 type aircraft is also used on the most congested domestic routes Jet aircraft are also increasingly being used on routes where demand is less frequent By May 2000, Finnair had added noise suppression equipment (hush kits) to all ten of its DC-9s so that they now conform to tighter noise regulations which come into force in 2002 The total cost of the "hush kits and other modifications was about EUR 14 6 million On shorter routes and where demand is least Finnair uses fuel efficient and environmentally friendly ATR 72 aircraft, of which it has nine in operation

Outlook for the future

As far as Finnair s own fleet is concerned, the financial year was the third in succession involving major overhauls Modifications to existing fleet necessary for commercial operational and environmental reasons have now been largely completed In future the most important projects for improving standards will focus on upgrading Business Class conditions in the MD-11 aircraft used for long distance flights

The necessary training for the new A320 type aircraft will continue, tying up about 3 % of capacity

Regarding aircraft the goal of the Technical division is to achieve the current level of technical reliability punctuality and aircraft utilization at lower unit costs Development projects involving the entire company support the achievement of these goals

We shall endeavour to speed up the development of our preparedness for repairing new aircraft (A320s) and offering new services

Key figures

	1999/00	1998/99
Sales of technical services to outside clients, EUR Mill	52 1	50 1
Personnel average	2 342	2 307

Aircraft in service with Finnair's own traffic, June 30, 2000

Aircraft type	Total	Owned	Finance leases	Operating leases	Average age
A319-112	2	2			0 7
A321-211	4	4			0 8
B757-2Q8	5			5	2 2
MD-11	4	4			7 9
MD-82/83	21	10	2	9	11 4
MD-87	2	2			12 1
DC-9-51	10	10			21 9
ATR 72	9	9			9 5
Total	57	41	2	14	10 8

In addition to the aircraft mentioned in the table, Finnair owns two Airbus A300s and two Saab 340s These planes have been leased out and are not expected to return to Finnair s service The balance sheet value of aircraft owned by Finnair at the end of the financial year on March 31 2000 was EUR 646 million The company s estimate of the fleet s market value on March 31 2000 was EUR 875 million

By June 2000, six of the ordered twelve Airbus A320 aircraft family intended for the core European fleet had been delivered The final six will be delivered by October 2001 In addition the company has options to order 24 additional Airbus aircraft Deliveries of these optional planes would begin in February 2002

Ground services

Finnair s Ground Services unit has the important role of strengthening the company's customer service image We are developing our activities so as to be able to offer punctual and high quality customer service in all situations The passenger loading and other services offered by the unit are being developed from the point of view of the customer, processes finances and know-how

With the ground service we provide for air passengers we can influence the overall quality of service as well as the cost effectiveness of operations This is also evident in the new division of labour among the alliance and cooperating partners

The Ground Services unit in cooperation with subcontractors, takes care of Finnair passengers and their luggage as well as the loading of freight and mail Finnair now buys in loading services at 13 domestic airports Finnair buys ground services from local operators at foreign airports

The aim of Finnair s Ground Services unit is to provide a high standard of service for the passengers of both Finnair and its partners, cost-effectively and with a low margin of error The unit is made up of the Helsinki-Vantaa airport services division domestic and foreign route airports and Ground Services' support activities The unit employs a permanent staff of 1,200 and there are an average of 250 people employed on contract or part-time

Although the majority of the Ground Services unit's activities at Helsinki airport are related to serving Finnair s own customers and flights, it also sells ground services to about twenty foreign scheduled and charter airlines Foreign clients accounted for about 5 % of the 8 million passengers and roughly 144 million kilos of goods which the unit handled We are also prepared and capable of selling ground services to customers at all the other domestic airports, and in fact the airports have served numerous foreign charter companies during the past year

Strategic goals

It is the strategic aim of Finnair Ground Services to offer individual customer service in order to strengthen Finnair s key customer base In addition we are endeavouring in our services to exploit the synergy benefits of the alliance as effectively as possible Ground Services began cooperating with the **one**world alliance during the last financial year Finnair is participating in developing both joint services and synergy benefits with members of the alliance

Financially, the unit s strategy is to optimize the cost of ground services and ensure the efficient management of the subcontractor network whilst improving productivity Efficient customer service requires a well trained and motivated staff as well as punctual and functional processes The unit is developing its working methods to take advantage of prior planning and automation Processes are being improved through the company s reliable quality system and by making areas of responsibility clearer This is part of the company s overall development of its organization and culture

Improvements successful

A new central terminal was opened in November 1999 at Finnair s home terminal in Helsinki which provided us with the superb space and facilities to improve passenger check-in services These have been made more efficient and at the same time we have been able to offer special services for key customers

In addition, Finnair s service and product development efforts in exploiting new automation show in the improvement in customer service and as a revitalization of staff jobs Among other things ticket less travel is ushering in new ways of working at the airports

Outlook for the financial year

During the financial year we began the STORM project to improve the unit s efficiency and which is also intended to significantly improve the unit s productivity The project will help us to optimize resources so that Ground Services are able to respond to fluctuating demand as efficiently as possible and in a way that best suits the customer It will also help us ensure the most balanced work-load possible whilst improving staff working conditions with the planning and task management systems that have been introduced

During the past financial year Finnair staff have still been responsible for the loading operations of six airports outside Helsinki Outsourcing is an option for these airports when seeking cost savings on domestic operations Utilization of staff at overseas destinations will also have to be reviewed in accordance with the opportunities entailed by the alliance

Catering and retail

Sales by the Finnair Catering division amounted to EUR 129 5 million of which Finnair s internal billing was EUR 65 1 million Finnair Catering s task is to support and carry out the company s service strategy especially the high standards of in-flight passenger service

Following the abolition of duty free sales on aircraft flying within the European Union from July 1, 1999 we have been able to continue in-flight sales of taxed goods Sales of taxed alcohol and tobacco products have continued at airport duty free shops to those travelling from one EU country to another The dip in both taxed and duty free sales which occurred in summer 1999 has recovered better than expected following an increase in customers awareness of their shopping possibilities

Sales by Finnair Catering during the financial year reached EUR 129 5 million, of which Finnair s internal billing amounted to EUR 65 1 million Total sales declined by 5 % from the previous year External sales amounted to EUR 64 4 million, of which catering activities accounted for 11 8 % The fall in sales resulting from duty free abolition has settled at a level of 40 % despite the fact that only about a third of customers are eligible for duty free any more Investments amounted to EUR 7 8 million

In Helsinki, 5 1 million meals were supplied for international flights, of which 26 % were for foreign clients For domestic flights we supplied 2 2 million sandwich meals

Operations

Finnair Catering has acted as a profit centre since 1992 The unit's business involves retail trading at airports and on Finnair flights alcohol wholesaling planning and delivery of meals beverages and other supplies for the entire Finnair route network as well as to other, client airlines It also includes airport activities at the Helsinki-Vantaa airport site The profit centre also comprises the Finnair subsidiary Finncatering Oy which supplies meals for leisure flights

There were Finnair shops at eight Finnish airports whilst competitors had shops at five airports At the end of the financial year we had 18 regular customer airlines

The Catering Division works to ensure the safety of products and the production process, which is also a means of competition on the international market Environmental concerns are also intimately related to overall quality The Catering Division has its own environmental programme and an extensive recycling scheme

The average number of staff during the financial year was 799 (+6 3 %) The workforce fell in the trading section but increased in catering

Salient events

Finnair closed four shops at provincial airports as a result of the abolition of tax free sales

Judging from customer research the Catering Division is known as a high quality service provider which has received worldwide recognition as a high class flying wine cellar In the summer of 1999 the international Business Traveller magazine once again awarded Finnair Business Class wines with the Best Cellar in the Sky" prize

Finnair participates in the Helsinki City of Culture 2000 programme by offering throughout the year a cultural menu for Business Class flights from Helsinki based on Finnish cultural figures

High flying cuisine

"An air trip is always a culinary journey for me. Even though plenty of gourmet delights usually await when we land, I am always interested in the flight meal," says food journalist Anna-Maija Tanttu, one of the writers of Finnair's cookery book, Taivaallista tarjottavaa ("Heavenly Fare"). "It is fun to watch and study how the flight kitchen chefs and cold buffet managers conjure up their picnics in the sky. I know Finnair's kitchen philosophy, which is to serve carefully prepared delicacies of typically Finnish cuisine, made from seasonal national ingredients. I think the Cultural Menu 2000 idea is brilliant, and it makes a great conversation piece with your fellow traveller," she says. "But a meal without good wine wouldn't be perfect! Finnair is well known for having the best flying wine cellar and has often won the "Best Cellar in the Sky" award for its Business Class wines and champagnes - the last time was in 1999. In my experience the wines they serve in tourist class also reflect Finnair's carefully selected quality. I appreciate the challenge for a kitchen of preparing on the ground a meal for a restaurant that is flying thousands of metres above the earth."

Future prospects

During the next years of operations the emphasis will be on improving the structure and efficiency of catering business the procurement of sufficient flight kitchen capacity to ensure high standards and developing the operating environment in accordance with the company s value programme for reforming the company s corporate culture Business developments will focus on strengthening support for the company s core activities and improving the profitability of current business

The effects of duty free abolition on internal European traffic will stabilize by summer 2000 Reduced sales will be compensated for by developing sales and product range concepts We shall look into enlarging and combining Finnair s shops at Helsinki-Vantaa Airport

Taxed sales of pre-ordered alcoholic beverages for leisure flights within Europe will be inaugurated Customer friendly prices can be achieved by charging the tax at destination Only outward bound European leisure flights are eligible for pre-ordering, because the Ministry of Social Affairs and Health s product control centre has prohibited companies from distributing illustrated brochures to home addresses for taxed sales

Certification of Finnair Catering s environmental programme will take place in autumn 2000

Key figures

	1999/00	1998/99
Sales, EUR Mill	**129 5**	137 2
Catering section	81 5	75 8
Trading section	48 0	61 4
Personnel	**799**	752
Catering section	569	514
Trading section	230	238

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April 1, 1999 - March 31, 2000

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Financial statements April 1, 1999 - March 31, 2000

Report by the Board of Directors

Finnair was able to turn the trend in profitability to the better during the second half of the financial year However, profitability for the industry has continued to weaken Airlines have on average greatly increased their transport capacity while at the same time costs have continued to rise The trend towards alliances continued amid competition In September 1999, Finnair joined the **one**world alliance founded by five major international airlines The tie-up strengthened Finnair s position in Northern Europe and enables us to benefit from the synergies in order to cut costs

Despite the tightening competition, Finnair managed to preserve its 57 % market share of international scheduled traffic The passenger load factor fell by 3 4 percentage points during the financial year, which combined with the rise in fuel costs reduced profitability However, yield improved with the 12 9 % growth in the number of business flights sold, among other things

The weakening of the operational result was caused partly by factors outside the Group, such as the rise in fuel costs of 41 4 % and the abolition of duty-free sales within the European Union countries However, the profit for the Finnair Group was greater than the year before, in the main because of profit from the sale of fixed assets and extraordinary income

In the current financial year, Finnair is further pushing for cost efficiency and improvements in operations The company is adapting capacity to match demand Uniformity within the fleet is being pursued, which will also enable us to reorganize the routes we can offer The improvements in the Group structure, organization and operational procedures, which have already begun, will be intensified during the current financial year

Air traffic trends and market situation

Air traffic expanded around the world in 1999 In international scheduled traffic the number of passenger kilometres flown by the member airlines of the Association of European Airlines (AEA) rose on average by 7 4 % over the previous year The number of freight tonne kilometres rose by 4 2 % The average cabin factor for passenger traffic fell by 0 5 percentage points to 71 4 %

Demand for Finnair air traffic increased, but the rise was slower than during the previous year The number of revenue passenger kilometres during the financial year rose by 0 2 % and the number of tonne kilometres rose by 0 6 % The number of passengers for all traffic rose by 4 0 percent (4 5 %) The combined volume of cargo and mail carried increased by 6 2 % over the previous year (-5 0 %) The passenger cabin factor weakened significantly from the year before, to 68 8 % (-3 4 %-points) The overall load factor fell to 58 1 % (-1 6 %-points)

During the financial year to the end of March 2000, passenger kilometre demand for Finnair's scheduled traffic rose 5 6 % The effect of stiff competition for leisure traffic was to reduce demand by 7 2 %

The powerful upturn in the Finnish economy had a positive effect on demand for Finnair s business class travel The growth in business travel was extremely strong throughout the financial year Earnings improvements in business class had a positive effect on European, North Atlantic and Far Eastern traffic Demand for international business class travel surged by an annual rate of 12 9 %, well exceeding the growth in demand for tourist class, which was 3 5 %

Passenger kilometre demand for Finnair's European scheduled traffic grew by 10 0 %, and capacity by 15 4 % The Finnish Civil Aviation Administration air traffic controllers' strike of the previous year had some effect on these percentage changes The introduction of Finnair's new Airbus A320 family of aircraft increased supply on core European routes The new Airbus fleet, which forms the backbone of fleet overhaul, makes joint use of aircraft more effective and improves competitiveness on European routes

Demand for Finnair's transatlantic scheduled traffic as measured by passenger kilometres fell by 2 1 % The decline in travel between the USA and Russia had a negative effect on passenger numbers Demand for Far Eastern scheduled traffic rose by 0 7 % Some of the scheduled traffic capacity was transferred from the north Atlantic to Far Eastern routes, since demand had increased more there During the current financial year, supply will be concentrated even more by increasing the number of flights to the primary destinations on long haul routes and terminating certain poorly performing routes, in order to raise profitability and improve competitiveness

Demand for domestic scheduled traffic rose by 10 %, whereas capacity increased by 16 8 % The effects of the previous year's strike can be seen in the change of percentages In domestic traffic, Finnair

stopped using Saab 340 aircraft for its own transport services and at the same time expanded cooperation with the Swedish airline Golden Air, which operates certain Finnish domestic routes on its own financial responsibility Overall supply was increased because some Saab routes were flown by larger ATR 72 aircraft

During the entire financial year, Finnair's market share of Finnish international scheduled passenger traffic remained unchanged at about 57 % Finnair's market share for corresponding European traffic is about 54 % and for long haul traffic it is about 97 % Finnair's market position for Finnish domestic traffic remains strong, with a share of about 98 % In leisure traffic which includes both charter flights and the so-called scheduled holiday routes market share fell to 84 % (about 3 %-points)

Finnair s position in northern Europe strengthened with its becoming a full member of the **one**world alliance on 1 September 1999, when the company introduced to its own customers all the services and benefits the alliance has to offer Membership of the **one**world alliance and cooperation with the other airlines can be seen in increased revenues shown in the financial result, cost savings optimized capacity and timetables, as well as greater market coverage and customer loyalty The estimated increase in sales generated by the **one**world alliance was 24 million euros during the financial year

Various changes in international airline alliances have also taken place in the past year Aer Lingus and LanChile will join **one**world in the summer of 2000 whilst Canadian Airlines will leave it, having been bought by Air Canada

The Finnair Plus frequence flyer programme continued to grow Growth during the financial year was 19 2 %, with the number of members as of March 31, 2000 at roughly 290,000

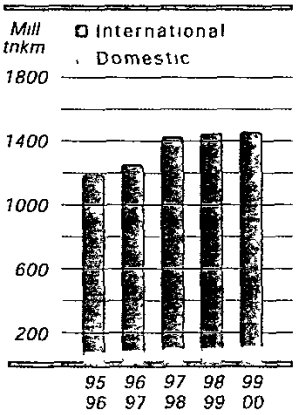
The trend to greater punctuality for scheduled traffic proved positive rising to 86 % during the financial year just ended (81 6 %) During calendar year 1999, Finnair was the best in Europe for the punctuality of its scheduled traffic However, the general situation in the industry is that punctuality has weakened yet further, which has led to significant extra costs and a lowering of service standards for all airlines

Changes in Group structure

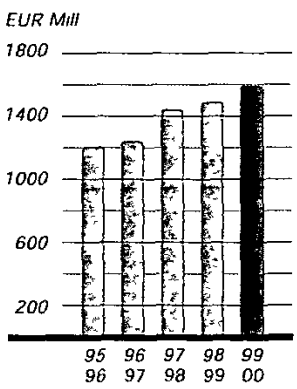
Finnair has initiated a process of development for the Group structure, organization and operational procedures The goal of the first phase is to create business units that operate more independently of one another, which will also enable the development of incentive schemes The aim of the process is to improve the productivity of mental and material capital and to create entities for which results can be measured

In accordance with its strategy, Finnair is concentrating on developing its core business Finnair concentrates its efforts in tour operations on strongly developing its subsidiary, Suntours, and improving the competitiveness of its holiday flights Oy Finnmatkat-Finntours Ab was sold to the Swedish firm Fritidsresor Holding Ab, which belongs to the Thomson Travel

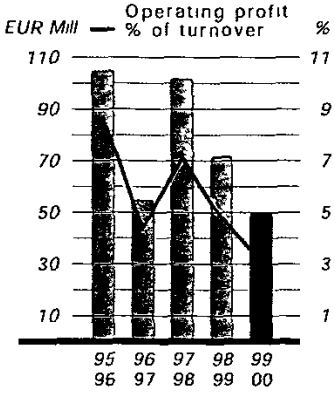
Revenue tonne kilometres



Turnover



Operating profit



group The letter of intent was signed in November 1999 and the sale price of EUR 17 million was paid on the approval of the fair trading authorities in April 2000 The profit from the sale amounted to over EUR 16 million Finntours' turnover for the financial year 1999/2000 was EUR 78 4 million and its average personnel numbered 128 Fritidsresor group and Finnair have a several years contract covering the use of Finnair leisure flights

In keeping with Finnair's strategy of developing its core activities Finnair sold a 60 % majority stake in Finnair Gateway Ravintolat Oy, which operates restaurant services at Helsinki-Vantaa airport The buyer was the Gourmet Nova company, which belongs to the Swiss SAirGroup's SAirRelations division SAirRelations is the world's second biggest catering service company for airlines, and through its Gourmet Nova company it is also investing heavily in airport and railway station restaurant services For its part Finnair is able as a minority shareholder to ensure a high quality of domestic airport catering services

Financial result

Turnover for the period under review was EUR 1,592 9 million (EUR 1,494 1 mill) Turnover increased by 6 6 % (3 4 %) Operating expenses rose by 9 6 % (5 5 %) The increase in operating costs excluding fuel costs was 7 4 % Operating profit was EUR 49 8 million (EUR 71 7 mill) Profit for the financial year was EUR 59 7 million (EUR 57 7 mill)

Despite the difficult external circumstances it was possible to halt the decline in profitability during the second half of the financial year, which was the aim of the first phase of the FinSmart programme that was begun during the financial year The aim of the FinSmart programme is to achieve a result after financial items of EUR 100 million for the financial year beginning in 2002 FinSmart is an extension of the Programme 2 project which was initiated in 1997 The purpose of this was to carry out the kinds of operational and structural measures over a three year period which will improve earnings, reduce costs and make more efficient use of capacity

Other operating income contained in the operating profit amounted to EUR 42 3 million These included profit from the sale of fixed assets such as EUR 2 1 million for aircraft, as well as profits from the sale of shares in hotel and restaurant operator Nordic-Hotel Oy and Finnair Gateway Ravintolat Oy the restaurant operator at Helsinki-Vantaa Airport, which amounted to EUR 16,9 million altogether Other operating income during the financial year included also profit from the sale of one third of Finnair owned shares in the data communications company Equant Other operating income for the previous year amounted to EUR 24 5 million and included EUR 11 8 million profit from the sale of aircraft

Extraordinary items includes net profit of EUR 28 5 million resulting from the renewal of accounting principle of unused flight documents Finnair has renewed its accounting method of unused flight documents in order to correspond better to customer behaviour

Air transport revenue per revenue tonne kilometre rose by 8 9 % The good trend in yield can partly be explained by the fact that volume growth was weighted towards scheduled traffic at the same time as the strong growth in business class travel The most important sales currencies outside the euro were the US dollar, the Swedish krona, the pound sterling and the Japanese Yen all of which strengthened significantly during the financial year A series of price increases combined with the special efforts to increase the number of major client agreements for example, influenced the exceptionally strong trend in yield Yield development was especially positive for domestic and Far Eastern traffic

Operating costs of flight operations per available tonne kilometre, i e unit costs, rose by 6 8 % from the year before The most significant increase was in fuel costs, which rose by 41 4 %, or EUR 39 5 million The rise in unit costs excluding fuel was 4 3 % The proportion of fuel costs in flight operational expenses rose to 9 6 %, having been 7 5 % the year before The price of fuel is tied to the US dollar which in relation to the Finnish markka was 14 % higher on average during the financial year than the previous year Finnair has hedged 33 % of its estimated fuel purchases at an average price of USD 237 per tonne until the end of 2000

Personnel costs amounted to EUR 453 6 million, having risen by 3 9 % over the year before Wages rose by 5 4 % and ancillary personnel costs fell by 1 1 % The proportion of staff costs to all operating costs fell to 28 6 %, whereas in the previous financial year they had been 30 1 %

Staff costs include EUR 4 5 million in connection with the reorganization of the international sales organization

Capital expenditure on the Airbus A320 family of aircraft influenced the growth in depreciation of 25 % compared with the previous year Depreciation included EUR 7 3 million in extra depreciation on aircraft Despite the increase in net interest costs, net financial items were positive by EUR 6 7 million, thanks to the exchange rate profit from currency hedging Net financial items include EUR 8 1 million foreign exchange gains from hedge contracts covering operational cash flow Net financial items were positive during the previous financial year by EUR 1 2 million

Earnings per share amounted to EUR 0 37 (EUR 0 65) Equity per share was EUR 6 81 (EUR 6 36) Return on investment was 9 1 %, which is 0 3 % -points below the estimated weighted average cost of equity and debt (WACC 9 4%)

Development of Group sectors

Turnover for flight operations grew by 7 2 % but operating profit fell by 25 % from the year before Earnings on flight operations were particularly influenced by the significant reduction in load factor levels as well as the enormous rise in fuel costs The abolition of duty-free sales within the European Union has reduced earnings by about EUR 12 8 million since July 1999 The financial figures for flight operations also include aircraft maintenance, ground handling services and the catering activities of the Finnair Oyj parent company, including taxed and tax-free sales

Turnover for the travel agency sector rose by 3 3 % and operating profit fell by 10 5 % Since the airlines reduced the commissions paid to travel agencies the latters' earnings have increasingly come from the service charges levied on customers and the Management Fee contracts and service packages agreed with business clients

The reduction in sales commissions means that travel agencies must continue their efforts to become more efficient Developments in information technology are creating new competing distribution channels, and travel agencies are adapting to the changing circumstances Finnair Group travel agencies have expanded their services by providing travel management arrangements and systems for their corporate clients

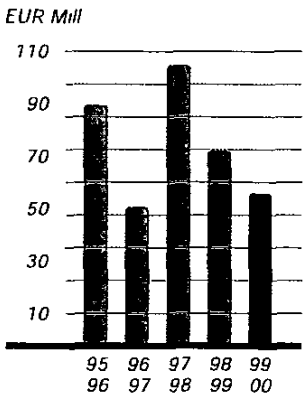
Turnover in the tour operations sector rose by 8 3 %, while operating profit fell by 97 6 % The figure does not include earnings for leisure flight operations, which are included under flight operations The tour sector continues to concentrate into larger globally active companies which also have their own air transport capacity

Significant companies included under other sectors are Amadeus Finland Oy, Finncatering Oy and Finnair Gateway Ravintolat Oy, which belonged to the Group until December 1999 Turnover for other sectors fell by 5 9 % and operating profit by 0 8 %

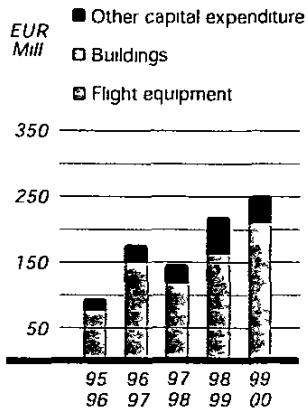
Personnel

During the financial year the total number of staff for the whole Group was 11,462, on average, which was 198 more than during the previous year The average number of personnel was 1 8 % higher than during the

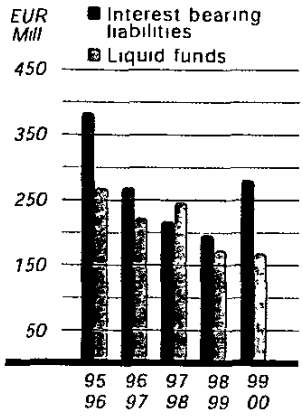
Profit before extraordinary items and taxes



Capital expenditure (gross)



Interest bearing liabilities and liquid funds



previous year The average number of staff at the parent company was 9,214, representing an increase of 176 people At the end of the financial year the number of staff in the Group was 11,095 The primary reason for the reduction in personnel by March 31, 2000 was the sale of the majority holding in Finnair Gateway Ravintolat Oy, whose workforce at the end of 1999 amounted to about 170 The number of staff at the Finnair Oyj parent company on March 31, 2000 was 8,985, which was 115 fewer than a year before

Staff productivity per available tonne kilometre for the flight operating parent company Finnair Oyj rose by 2 % This increase can partially be explained by the strike by Civil Aviation Administration air traffic controllers in February and March 1999, during which time, Finnair cut back considerably on its capacity of domestic and European traffic

Collective bargaining contracts were signed with the trade unions during the first quarter of 2000, some to run for a year and some for three years The effects of these contracts on costs during the first year varies between 2 0 and 3 1 %

For the first time, an incentive bonus scheme designed to promote profitability and cost effectiveness as well as better customer service through greater traffic punctuality, was set up for the financial year beginning on 1st April, 2000 covering part of the company

The company has also overhauled its profit bonus system for the financial year beginning on 1 April, 2000, enabling the entire staff to share in the company's profit, return on invested capital and a portion of the profit bonus which is paid according to staff costs The profit bonus is paid into the personnel fund, which is committed to investing a portion of this money in Finnair Oyj shares The requirements of previous criteria for paying the profit bonus to the staff for the financial year 1999/2000 were not met

Capital expenditure

The measures towards creating a more modern and uniform fleet were continued during the financial year Because of this capital investment programme, the number of aircraft types in service is decreasing, more effective use is being made of the fleet, savings are being made in operating costs and Finnair's competitive edge, especially in business class, is gaining ground

Total capital expenditure for the Group excluding advance payments amounted to EUR 251 8 million (EUR 220 1 mill) Aircraft purchases, including spare parts, equipment and modification work amounted to EUR 176 4 million (EUR 162 6 mill) Purchases included one Airbus A321 and two Airbus A319 aircraft, plus the fitting of noise hush-kits to eight DC-9-50 aircraft Capital expenditure on building projects amounted to EUR 33 4 million (EUR 16 0 mill) and EUR 42 0 million (EUR 41 5 mill) went on other fixed assets

Financing

Despite lower profitability, cash flow from operations remained almost at previous year's level Income financing without extraordinary items amounted to EUR 146 million (EUR 148 mill) Net cash flow from business operations per share was EUR 1 99 (EUR 2 00)

The equity ratio at the end of the financial year was 42 1 % (44 4 %) Interest bearing net debt for the Group amounted to EUR 112 million (EUR 23 mill) The increase in long term debt stemmed largely from the purchase of the Airbus A320 aircraft family, which was financed through a previously agreed 250 million USD-denominated credit facility for aircraft financing This was combined with loans supported by the French, German and British export credit institutions The gearing ratio was 19 4 % (4 3 %) The average interest rate on interest bearing debt at the end of the financial year was 4 3 % (4 0%)

Group liquidity remained strong Finnair Oyj still has at its disposal the 250 million US dollar denominated general unsecured credit facility until the end of 2004, which has not been used by the end of the financial year

Shares and share capital

During the financial year the highest price of the Finnair Oyj share on the Helsinki Exchanges was EUR 5 49 and the lowest price was EUR 3 95 The market value of total shares on March 31 2000 amounted to EUR 334 7 million At the beginning of the financial year the market value had been EUR 411 0 million The number of shares traded on the Helsinki Exchanges was 17 4 million (20 1), amounting to a value of EUR 81 million (EUR 129 8 mill) At the end of the period under review the Government of Finland owned 58 4 % of the company's shares, while 19 % were held by foreign investors or were registered in the name of a nominee The total number of shareholders amounted to 8 272 (8 478)

The registered share capital of Finnair Oyj at the beginning and end of the financial year was FIM 423,695,490 equal in value to EUR 71 3 million while the number of shares was 84,739 098 By converting

the convertible subordinated bonds which are in circulation, the number of shares can still rise to a maximum of 924,381, and the share capital by EUR 0 8 million The Board of Directors has no authority to increase the share capital any further

The members of the company's Supervisory Board and Board of Directors, as well as the President and CEO on March 31, 2000 owned a total of 33, 228 shares, which amounted to 0 04 % (0 016) of the total shares and voting rights

The Annual General Meeting of Finnair Oyj held on August 25, 1999, decided to distribute a dividend of FIM 1 50 (EUR 0 25) per share for the financial year 1998/1999

It is Finnair's dividend policy to pay out at least a third of the earnings per share as dividend during an economic cycle We try to take into account the company's earnings trends and outlook, financial situation and capital needs for any given period For the 1999/2000 financial year, the Board proposes that a dividend of FIM 1 50 (EUR 0 25) be paid per share, which amounts to 68 % of earnings per share In making the proposal, the Board has taken into account the exceptional revenues of the financial year as well as the improvement in profitability

Changes to the administration

The Board has proposed to the Annual General Meeting that the company's articles of association be changed so that in future the financial year should correspond to the calendar year If this is approved, it will mean that the financial year which began on April 1, 2000 will be only nine months long

The Annual General meeting of Finnair Oyj, on August 25,1999 elected Mr Matti Kankare as a new member of the Supervisory Board, to replace Mr Pekka Kivelä, whose term had expired, and for the term ending in 2001, Juha Korkeaoja, MP, on the resignation from the Board of Mikko Pesälä, MEP Other members of the Board whose term had expired were re-elected, as were the previous auditors

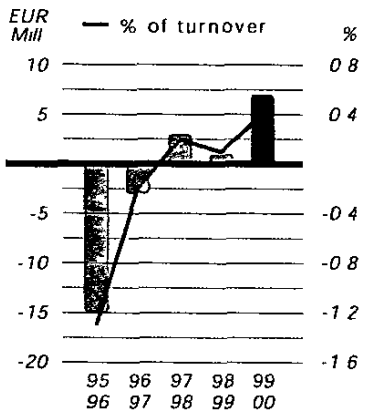
For the three year term beginning on April 1, 2000, Finnair Oyj's Supervisory Board re-elected to the Board of Directors its former members Mr Harri Holkeri, Mr Jaakko Ihamuotila Mr Robert G Ehrnrooth Mr Samuli Haapasalo, Mr Ari Heiniö, Mr Raimo Hertto, Mr Seppo Härkönen and Ms Helena Terho Ambassador Eva-Christina Mäkeläinen announced that she was no longer available but no new member of the Board of Directors was elected to replace her

During the latter half of 1999, the management structure of Finnair was reorganized in order to clarify duties and areas of responsibility, which in turn should make for better measurability, efficiency and productivity

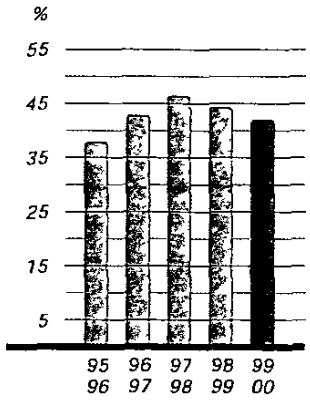
Environmental issues

As far as environmental protection measures were concerned, Finnair's 1999/2000 financial year was highly eventful It included ecology-friendly alterations to the fleet, the environmental permit project and obligatory soil studies Finnair follows the environmental rules laid down by the International Civil Aviation Organization, ICAO and local

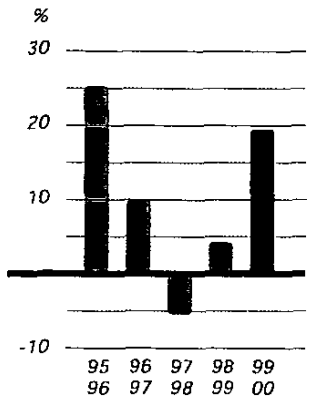
Financial income and expenses



Equity ratio



Net debt-to-equity (Gearing)



environmental regulations The company actively participates in the environmental committee work of the International Air Transport Association, IATA, and the Association of European Airlines AEA In addition, Finnair has taken part in the work of the committee set up by the Nordic ministerial committee to look into environmental questions concerning aviation

During the financial year, Finnair purchased three A320 -type aircraft for its fleet, the engines being selected on the basis of the most suitable environmentally friendly technology The noise hush-kits fitted to the DC-9-50 aircraft reduce their noise emissions by about 7 decibels, which significantly reduces the level of noise in the vicinity of Helsinki – Vantaa Airport The renewal of the aircraft repair shop's waste water treatment plant also represented a major environmental investment

Finnair and the Year 2000

The entire aviation industry took the possibility of Year 2000-induced computer problems extremely seriously The aim of Finnair s Year 2000 project was to ensure that computer systems, services and the entire spectrum of operations would continue to function flawlessly throughout the change of the millennium The endeavour was highly successful both for Finnair and the entire aviation industry

The short-term outlook

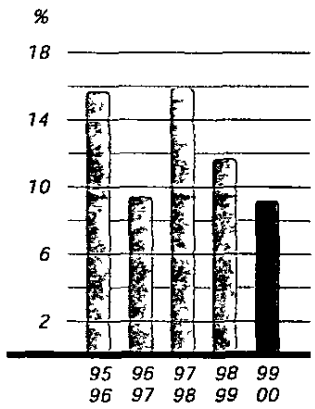
The operative result for the Group is expected to improve for the financial year 2000/2001 even if the price of fuel remains at its current level, which is much higher than last year As far as earnings trends are concerned, the essential factors are more efficient use of aircraft capacity the changes already made to route networks and timetables, and the retention of average yield level The significant reduction in capacity in the financial year just begun means that unit costs will rise yet again, but the cabin factor is expected in any case to rise by about 3 percentage points

Finnair is adjusting its air transport supply to correspond better to demand The overall air transport capacity as measured by available passenger kilometres will be reduced by about 2 % during the period from April 2000 to March 2001 The demand for scheduled traffic, especially in Europe and within Finland, is expected to continue growing Demand for cargo capacity is also expected to develop positively as the powerful upswing in key markets continues Market share in leisure traffic is forecasted to rise because foreign package tour companies have reduced their aircraft capacity in the Finnish market

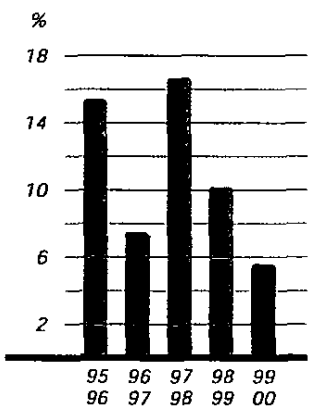
Finnair is carrying out a complete overhaul of its corporate identity The company's visual image is being refined globally to conform with the fundamentals of the Finnair brand, namely safety reliability, Finnishness and freshness The work is being carried out in stages and will be evident everywhere, including the company logo, in communications, in the aircraft, the lounges, the uniforms and the cutlery

The new distribution systems designed for electronic commerce are constantly being improved, to take advantage of both Internet and WAP technology

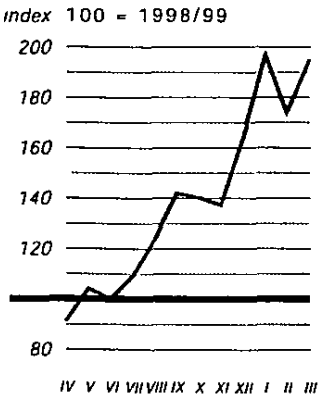
Return on investment



Return on equity



Development index of fuel price 1999/00

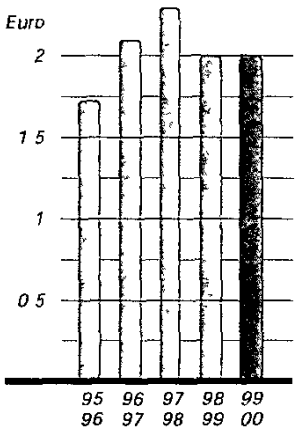


The "MultiFlye" service based on the ticket less flight concept, which is expected to make its breakthrough in the current year is designed for business travellers, while the "Äkkilähdöt" flights, which enable last minute ticket sales, are intended for the Finnish leisure travel market Because of its experience in the field and its contacts with leading technology development companies and university circles, Finnair has been given responsibility for managing the joint development project of the **one**world alliance concerning wireless Internet commerce In the spring of 2000 Finnair joined the project by the leading European airlines for setting up a joint travel portal

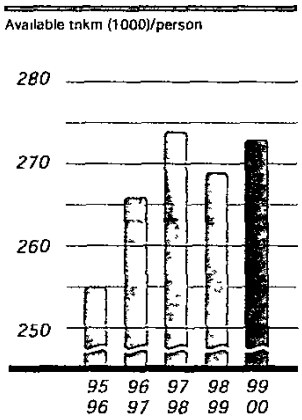
Finnair plays an active role in **one**world The company is participating in several **one**world alliance development projects, including drawing up common handling agreements and is benefiting from joint purchasing arrangements Finnair will continue to be able to expand the number of services available to its customers when new airlines join the alliance in summer 2000 For its part Finnair consolidates the **one**world alliance network in Northern Europe

The volume of capital investment remains high By March 2001, total capital expenditure will amount to about EUR 335 million The process of integrating the fleet with Airbus aircraft for European traffic will continue during the 2000/2001 financial year Four Airbus A320-type aircraft will be delivered At the same time, the MD-80 fleet will be gradually disposed of The timetable for getting rid of the MD-80 fleet is five years One MD-82 was already taken out of service at the beginning of the year Three MD-87 aircraft have been sold and will be handed over to their new owners during 2000 Finnair will continue to operate DC-9s on domestic flights and to some extent in Scandinavian and Baltic traffic

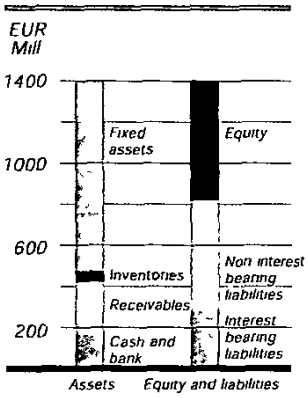
Cash flow/share



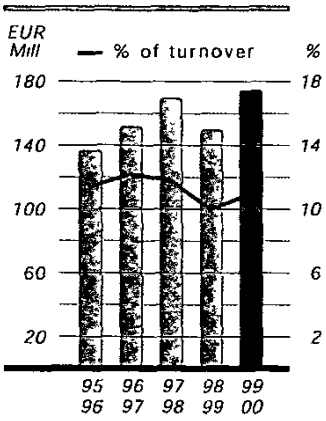
Productivity of personnel in flight operations



Balance sheet structure



Operational cash flow



Financial statement principles

The financial statements of Finnair Oyj and Finnair Group have been prepaired in accordance with the new Finnish Accounting regulations which came into force on December 31, 1997 In all essential respects these enable the use of International Accounting Standard (IAS) principles The official financial statements, which have been delivered to the Trade Register, have been prepaired in Finnish markka amounts

Apart from the Parent Company Finnair Oyj, the consolidated financial statements include all those companies in which the Parent Company holds more than 50% of the votes either directly or indirectly Subsidiaries acquired during the financial period have been consolidated from the date of their acquisition Companies in which controlling interest has been given up during the financial year are included in the concolidated financial statements up to the time of relinquishing control

Inter-company transactions, receivables and debts and the internal distribution of profit were eliminated Mutual share ownership was eliminated with the acquisition cost method The elimination difference between the acquisition price of affiliate shares and the equity of the affiliate at acquisition arising in conjunction with elimination was allocated primarily to those asset items which caused the elimination difference and was removed in accordance with the depreciation plan for fixed assets The unallocated elimination difference, i e the consolidated goodwill, was eliminated at the moment of acquisition To the extent possible, the financial statements of the foreign subsidiaries were harmonized with the principles used by the Group before consolidation Translation to markkas took place at the official rate of exchange and euros at a fixed conversion rate on the day the books were closed The translation differences caused by elimination of equity were treated as adjustment items for consolidated unrestricted equity Portions of the earnings of companies in which the Group owns from 20-50 % of the shares and votes were combined in the consolidated financial statements using the equity method The portion of the profit for the financial year corresponding to the Group's holding is presented in the operating income The participating goodwill for the participating interest was entered as a non-recurring expense

Items denominated in foreign exchange

Receivables debts and liabilities were translated into markkas at the official middle rate and euros at a fixed conversion rate on the day the books were closed Parent company s advance payments made and received were entered in the balance sheet at the rate on the date of payment Exchange rate differences on trade receivables and payables were treated as adjustments of sales and purchases Other exchange rate differences on other receivables and payables were entered as exchange rate differences under financial income and expenses Accumulated exchange rate differences were entered in their entirety in the profit and loss statement

Derivative agreements

Interest related to derivative agreements made to hedge against foreign exchange and interest rate risks was entered on an accrual basis as either interest income or expense Exchange rate differences were entered as exchange rate differences under financial income and expenses However, exchange rate differences on separate derivative financial instruments that provided hedging for specific off-balance sheet items and operational business operations were deferred until recognition of the underlying item The exchange rate differences related to hedging of operational business operations were entered under financial income and expenses because it is a policy of the group to hedge the net open foreign exchange position

Fixed assets and depreciation

The balance sheet values for fixed assets are based on original acquisition costs less planned depreciation

Planned depreciation is based on the economic service life of the asset and on the book acquisition cost The depreciation principle for turboprop aircraft aquired as used has been changed during the financial period This caused EUR 0 4 million increase of planned depreciation

Depreciation is calculated with the following principles depending on the type of asset

- Buildings in accordance with the maximum percentages under the Business Taxation Act 4-7% of the undepreciated residual value
- Aircraft and aircraft engines on a straight-line bases as follows
  - New Airbus A320 family aircraft in 20 years to a residual value of 10 %

- other jet aircraft acquired before as new in 15 years to a residual value of 10%
- used jet aircraft more than six years old in 10 years to a residual value of 10%
- turboprop aircraft in 12 years to a residual value of 10%
- turboprop aircraft acquired as used in 10 years to a residual value of 10 %

• Straight-line depreciation is 10 years for aircraft simulators and five years for computers worth more than EUR 170 000
• Depreciation of other tangible fixed assets is 23 % of the undepreciated residual value
• Capitalized long-term expenditures are depreciated in 5-10 years, depending on their nature

Inventories

Inventories comprise the spare parts and materials needed for aircraft repair and maintenance and stocks for customer services Inventories were evaluated at the average acquisition cost The value of work in progress includes average salary costs, excluding salary-related costs, used stocks of materials and supplies and subcontracting work

Current assets

Securities entered under current assets are evaluated at the lower of original acquisition cost or market value

Leasing

Lease payments for Group aircraft are significant Annual lease payments are treated as rent expenses Lease payments due in future years under aircraft lease contracts are presented as off-balance sheet items

Extraordinary items

Items included in extraordinary items are typically substantial and one-off by nature They also deviate from the ordinary course of business operations Changes in accounting principles and procedures are implemented by using extraordinary items to show the impact on earnings

Expenditure on research and development

Research and development on aircraft, systems and operations is conducted primarily by manufacturers Company development ventures related to aircraft and other fixed assets are capitalized at acquisition cost and depreciated over the period for which they are current Research and product development expenditure for marketing and customer service is entered as an annual expense for the year in which it is incurred

Taxes and the change in deferred tax liability

Estimated taxes on profits for the financial year, adjustments in taxes for previous financial years and the change in deferred taxes were entered in the profit and loss statement as taxes The deferred tax liability is computed according to the tax rate in effect during the financial year In the consolidated balance sheet the depreciation difference is divided into unrestricted equity and deferred tax liability The balance sheet includes a deferred tax liability due to book gains in connection with sale of flight equipment This is based on new accounting regulations on deferred tax liabilities caused by timing differences

Pension schemes

In the Group's domestic companies mandatory and other pension coverage for personnel has primarily been arranged through the Finnair pension fund and other mandatory pension coverage has been arranged through domestic insurance companies

The Finnair pension fund is a joint fund including the Parent Company and six affiliates Both mandatory employment pension coverage and additional pension security are arranged by the fund for the Parent Company and two affiliates Since 1992, the pension fund has no longer accepted employees other than pilots for additional pension coverage

The Finnair pension fund's pension liability is fully paid up with respect to basic and additional coverage except for the compulsory liability deficit required by the Ministry of Social Affairs and Health

Pension fund liabilities are presented in the Notes to the Financial Statements

The foreign affiliates pension coverage has been arranged according to local legislation and practise

The retirement age of the CEO and managing directors of the affiliates vary between 60-65, based on agreements

Comparability of the financial results

The renewal of revenue accounting policy for unused flight documents had a one-off effect of EUR 40 1 million which is entered as extraordinary income

Consolidated income statement

	EUR Mill **April 1, 1999- March 31, 2000**	EUR Mill April 1, 1998– March 31, 1999	Notes
Turnover	**1 592 9**	1 494 1	1
Work used for own purposes and capitalized	**3 0**	2 0	
Other operating income	**42 3**	24 5	2
Share of profits less losses of participating interests	**0 2**	0 0	
OPERATING INCOME	**1 638 4**	1 520 6	
OPERATING EXPENSES			
Materials and services	**497 3**	446 6	3
Staff costs	**453 6**	436 5	4
Depreciation	**114 9**	91 9	5
Other operating expenses	**522 8**	473 8	6
	-1 588 6	-1 448 9	
OPERATING PROFIT	**49 8**	71 7	
FINANCIAL INCOME AND EXPENSES	**6 7**	1 2	7
PROFIT BEFORE EXTRAORDINARY ITEMS	**56 5**	72 9	
Extraordinary items	**40 1**	3 4	
Income taxes from extraordinary items	**-11 6**	-0 9	
	28 5	2 4	8
PROFIT BEFORE TAXES	**85 0**	75 4	
DIRECT TAXES			10
Income taxes from operations	**-20 7**	-17 1	
Change in deferred tax liability	**-4 3**	-0 3	
	-25 0	-17 4	
MINORITY SHARE	**-0 2**	-0 2	
PROFIT FOR THE FINANCIAL YEAR	**59 7**	57 7	

Consolidated balance sheet

	EUR Mill March 31, 2000		EUR Mill March 31, 1999		Notes
ASSETS					
FIXED ASSETS					11
Intangible assets	23 3		20 9		
Tangible assets	891 6		767 5		
Financial assets					
Shares in participating interests	1 4		0 8		
Other investments	6 1	922 4	6 4	795 6	
CURRENT ASSETS					
Inventories	52 8		45 9		12
Long-term receivables	3 0		4 4		13
Short-term receivables	249 5		224 5		14
Investments	153 1		159 4		15
Cash and bank equivalents	15 4	473 8	14 1	448 3	16
		1 396 2		1 244 0	
SHAREHOLDERS' EQUITY AND LIABILITIES					
SHAREHOLDERS EQUITY					17
Share capital	71 3		71 3		
Share premium account	5 6		5 6		
General reserve	148 5		148 5		
Retained earnings	286 2		249 9		
Profit for the financial year	59 7	571 3	57 7	533 0	
Capital loan		5 7		5 7	21
Total equity		577 0		538 7	
MINORITY INTERESTS		0 6		0 4	
LIABILITIES					
Deferred tax liability	102 0		97 7		19
Long-term liabilities	156 0		138 4		20,23
Short-term liabilities	560 7	818 7	468 8	704 8	22
		1 396 2		1 244 0	

Consolidated cash flow statement

	EUR Mill **April 1,1999-** **March 31, 2000**	EUR Mill April 1, 1998– March 31, 1999
Business operations		
Operating profit	**50**	72
Depreciation	**115**	92
Change in working capital (net)		
Inventories, increase (-), decrease (+)	**-7**	-6
Short-term receivables, increase (-), decrease (+)	**-25**	-9
Non interest bearing short-term liabilities, increase (+), decrease (-)	**26**	35
Financial income and expenses (net)	**7**	1
Extraordinary items	**28**	2
Taxes	**-25**	-17
Cash flow from operations (net)	**169**	169
Investments		
Investments in flight equipment	**-176**	-163
Investments in buildings	**-33**	-16
Other investments	**-42**	-42
Change in advance payments	**-13**	-14
Capital expenditure, total	**-264**	-234
Sales of fixed assets	**23**	39
Cash flow of investments	**-242**	-195
Cash flow before financing	**-73**	-26
Financing		
Long-term debts, increase (+) / decrease (-)	**23**	-49
Long-term receivables, increase (-), decrease (+)	**0**	0
Short-term debts, increase (+), decrease (-)	**66**	27
Dividends	**-21**	-31
Decrease of capital loan	**0**	-2
Restricted equity increase (+) decrease (-)	**0**	7
Cash flow of financing	**68**	-48
Change in liquid funds, increase (+), decrease (-) in statement	**-5**	-74
Liquid funds April 1	**174**	247
Liquid funds, decrease (-), increase (+) in balance sheet	**-5**	-74
Liquid funds, March 31	**169**	174

Finnair Oyj
Income statement

	EUR Mill **April 1, 1999- March 31, 2000**	EUR Mill April 1, 1998– March 31, 1999	Notes
Turnover	**1 408 3**	1 313 9	1
Work used for own purposes and capitalized	**3 0**	2 0	
Other operating income	**46 2**	24 6	2
OPERATING INCOME	**1 457 6**	1 340 5	
OPERATING EXPENSES			
Materials and services	**390 3**	348 5	3
Staff costs	**395 9**	382 0	4
Depreciation	**110 8**	87 9	5
Other operating expenses	**513 9**	459 6	6
	-1 410 9	-1 278 1	
OPERATING PROFIT	**46 7**	62 4	
FINANCIAL INCOME AND EXPENSES	**11 8**	3 8	7
PROFIT BEFORE EXTRAORDINARY ITEMS	**58 5**	66 1	
Extraordinary items	**40 1**	3 4	
Income taxes from extraordinary items	**-11 6**	-0 9	
	28 5	2 4	8
PROFIT BEFORE APPROPRIATIONS AND TAXES	**86 9**	68 6	
Appropriations	**6 9**	-1 1	9
Direct taxes	**-24 1**	-15 0	10
PROFIT FOR THE FINANCIAL YEAR	**69 7**	52 5	

Finnair Oyj
Balance sheet

	EUR Mill March 31, 2000		EUR Mill March 31, 1999		Notes
ASSETS					
FIXED ASSETS					11
Intangible assets	18 1		16 0		
Tangible assets	877 9		757 3		
Financial assets					
Share in group undertakings	7 1		8 5		
Other investments	6 3	909 5	6 3	788 1	
CURRENT ASSETS					
Inventories	52 6		45 5		12
Long-term receivables	2 7		4 0		13
Short-term receivables	201 4		181 6		14
Investments	153 1		159 4		15
Cash and bank equivalents	11 7	421 4	11 1	401 7	16
		1 330 9		1 189 9	
SHAREHOLDERS' EQUITY AND LIABILITIES					
SHAREHOLDERS EQUITY					17
Share capital	71 3		71 3		
Share premium account	5 6		5 6		
General reserve	148 5		148 5		
Retained earnings	128 3		97 2		
Profit for the financial year	69 7	423 4	52 5	375 0	
Capital loan		5 7		5 7	21
Total equity		429 1		380 8	
ACCUMULATED APPROPRIATIONS		199 7		206 5	18
LIABILITIES					
Deferred tax liability	44 1		39 8		19
Long-term liabilities	154 8		135 7		20 23
Short-term liabilities	503 2	702 1	427 0	602 6	22
		1 330 9		1 189 9	

Finnair Oyj
Cash flow statement

	EUR Mill **April 1, 1999- March 31, 2000**	EUR Mill April 1, 1998- March 31, 1999
Business operations		
Operating profit	**47**	62
Depreciation	**111**	88
Change in working capital (net)		
Inventories, increase (-), decrease (+)	**-7**	-6
Short-term receivables, increase (-) decrease (+)	**-20**	-10
Non interest bearing short-term liabilities increase (+), decrease (-)	**16**	38
Financial income and expenses (net)	**12**	4
Extraordinary items	**28**	2
Taxes	**-20**	-15
Cash flow from operations (net)	**167**	163
Investments		
Investments in flight equipment	**-173**	-163
Investments in buildings	**-33**	-16
Other investments	**-35**	-35
Change in advance payments	**-13**	-14
Capital expenditure, total	**-255**	-228
Sales of fixed assets	**22**	39
Cash flow of investments	**-232**	-189
Cash flow before financing	**-65**	-25
Financing		
Long-term debts, increase (+), decrease (-)	**20**	-49
Long-term receivables, increase (-), decrease (+)	**0**	0
Short-term debts, increase (+), decrease (-)	**60**	28
Dividends	**-21**	-31
Decrease of capital loan	**0**	-2
Other equity, increase (+), decrease (-)	**0**	7
Cash flow of financing	**59**	-47
Change in liquid funds,		
increase (+), decrease (-) in statement	**-6**	-73
Liquid funds April 1	**171**	243
Liquid funds, decrease (-), increase (+) in balance sheet	**-6**	-73
Liquid funds, March 31	**165**	171

Notes to the financial statements

	Group EUR Mill 1999/2000	Group EUR Mill 1998/99	Parent Company EUR Mill 1999/2000	Parent Company EUR Mill 1998/99
1 Turnover and operating profit by division				
Turnover by division				
Flight operations	1 409 0	1 314 6	1 408 3	1 313 9
Travel agencies	81 9	79 3	-	-
Tour operations	262 8	242 6	-	-
Other operations	33 9	36 1	-	-
- Less internal adjustments	-194 7	-178 4	-	-
Total	1 592 9	1 494 1	1 408 3	1 313 9
Distribution of turnover by market areas as % of turnover				
Finland	52 %	45 %	47 %	38 %
Europe	36 %	41 %	40 %	46 %
Other countries	12 %	14 %	13 %	16 %
Total	100 %	100 %	100 %	100 %
Operating profit by division				
Flight operations	46 8	62 4	46 7	62 4
Travel agencies	3 0	3 3	-	-
Tour operations	0 1	2 0	-	-
Other operations	4 2	4 3	-	-
- Less internal adjustments	-4 6	-0 3	-	-
Participating interests	0 2	0 0	-	-
Total	49 8	71 7	46 7	62 4
2 Other revenue from business operations				
Capital gain on flight equipment	2 1	11 8	6 1	11 8
Capital gain on shares	28 9	5 6	28 9	5 6
Other items	11 3	7 2	11 3	7 2
Total	42 3	24 5	46 2	24 6
3 Materials and services				
Materials and consumables				
Materials and supplies for aircraft maintenance and overhaul	39 9	41 8	39 9	41 8
Purchases of materials and supplies for passenger services	68 7	75 6	78 5	84 8
Fuel purchases for flight operations	134 8	95 3	134 8	95 3
Other items	6 8	7 5	-	-
Change in inventories	-6 8	-6 2	-7 0	-6 1
Total	243 3	214 1	246 1	215 7
Outside services				
Ground handling charges	51 1	47 9	51 1	47 9
Expenses for tour operations	103 9	93 8	-	-
Aircraft maintenance and overhaul	29 9	31 0	29 9	31 0
Expenses for data administration	30 5	27 6	28 6	26 5
Other items	38 6	32 4	34 6	27 5
Total	254 0	232 6	144 2	132 8
Materials and services total	497 3	446 6	390 3	348 5
4 Staff costs				
Wages and salaries	355 6	337 4	309 0	293 8
Pension costs	53 7	53 6	47 8	48 1
Other indirect employee costs	44 3	45 5	39 1	40 1
Total	453 6	436 5	395 9	382 0
Salaries of Board of Directors and Managing Directors				
Administration and managing directors	1 4	1 2	0 5	0 6
Personnel on average				
Flight operations	9 214	9 038	9 214	9 038
Travel agencies	1 412	1 351		-
Tour operations	509	518	-	-
Other operations	327	357	-	-
Total	11 462	11 264	9 214	9 038
5 Depreciation				
Planned depreciation in the profit and loss statement				
On other long-term expenditure	5 8	4 2	4 8	3 1
On buildings	5 9	5 2	5 8	5 1
On flight equipment	81 8	63 4	81 8	63 4
On other equipment	21 4	19 1	18 3	16 2
Total	114 9	91 9	110 8	87 9

	Group EUR Mill 1999/2000	Group EUR Mill 1998/99	Parent Company EUR Mill 1999/2000	Parent Company EUR Mill 1998/99
6 Other operating expenses				
Lease payments for aircraft	56 8	51 8	56 8	51 8
Short-term leases for aircraft	56 7	41 8	56 7	41 8
Rents	44 5	45 0	37 4	37 6
Traffic charges	119 2	109 1	119 2	109 1
Sales and marketing expenses	122 6	107 5	143 9	122 6
Other items	123 0	118 6	99 9	96 8
Total	522 8	473 8	513 9	459 6
7 Financial income and expenses				
Dividends				
Dividends from group undertakings			6 7	4 3
Dividends from participating interests	0 1	0 0	-	-
From others	0 1	0 1	0 0	0 1
Dividends total	0 1	0 1	6 7	4 3
Interest income from long-term investments				
From group undertakings			0 0	0 0
From others	2 3	1 3	2 3	1 3
Total	2 3	1 3	2 3	1 4
Income from long-term investments total	2 5	1 4	9 0	5 7
Other interest and financial income				
Interest income from group undertakings			0 2	0 2
Interest income from others	7 0	13 2	6 0	12 4
Financial income from others	14 4	1 7	14 4	1 6
Total	21 4	14 9	20 7	14 1
Interest income from long-term investments and other interest and financial income,total	23 8	16 3	29 7	19 8
Value adjustments of investments				
Value adjustments of marketable securities	-1 1	0 1	-1 1	0 1
Total	-1 1	0 1	-1 1	0 1
Interest and other financial expenses				
Interest expense to group undertakings			-1 1	-1 2
Interest expense to others	-10 3	-8 8	-10 2	-8 7
Other financial expenses to others	-5 8	-6 4	-5 6	-6 3
Total	-16 0	-15 2	-16 9	-16 1
Financial income and expense total	6 7	1 2	11 8	3 8
Exchange rate gains are included in the item interest	14 4	1 7	14 4	1 6
and financial income, relating to business operations	8 1	-	8 1	-
Exchange rate losses are included in the item interest and financial expenses	-4 5	-4 8	-4 4	-4 8
8 Extraordinary items				
Extraordinary income received compensation	-	3 4	-	3 4
Extraordinary income unused flight tickets	40 1	-	40,1	-
Income taxes on extraordinary items	-11 6	-0 9	-11 6	-0 9
Total	28 5	2 4	28 5	2 4
9 Appropriations				
Difference between planned depreciation and depreciation in taxation				
Buildings			0 4	0 5
Equipment	-	-	6 4	-1 6
Increase (-)/decrease (+) in untaxed reserves	-	-	-	-
Total	-	-	6,9	-1 1
10 Direct taxes				
Income taxes on regular business operations	20 7	17 1	19 8	15 0
Change in deferred tax liabilities	4 3	0 3	25 3	-
Total	25 0	17 4	24 1	15 0

	Group EUR Mill 1999/2000	Group EUR Mill 1998/99	Parent Company EUR Mill 1999/2000	Parent Company EUR Mill 1998/99
11 Fixed assets				
Intangible rights				
Acquisition cost April 1	1 5	1 4	1 5	1 4
Increases April 1 - March 31	0 1	0 1	0 1	0 1
Book value March 31	1 7	1 5	1 6	1 5
Other long-term expenditure				
Acquisition cost April 1	39 5	30 9	29 1	23 9
Increases April 1 - March 31	8 8	10 7	6 8	7 3
Decreases April 1 - March 31	-1 2	-1 6	0 0	-1 4
Accumulated planned depreciation April 1 - March 31 from decreases	0 0	-0 6	0 0	-0 6
Acquisition cost March 31	47 2	39 5	35 9	29 1
Accumulated planned depreciation March 31	-25 6	-20 2	-19 4	-14 6
Book value March 31	21 6	19 3	16 5	14 5
Land				
Acquisition cost April 1	0 8	0 8	0 7	0 7
Increases April 1 - March 31	0 0	0 0	-	-
Decreases April 1 - March 31			-	
Book value March 31	0 8	0 8	0 7	0 7
Buildings				
Acquisition cost April 1	156 0	140 6	154 6	139 2
Increases April 1 - March 31	33 4	16 0	33 4	16 0
Decreases April 1 - March 31	-12 3	-0 5	-12 3	-0 5
Acumulated planned depreciation April 1 - March 31 from decreases	0 0	0 0	0 0	0 0
Acquisition cost March 31	177 1	156 0	175 7	154 6
Accumulated planned depreciation March 31	-76 9	-71 0	-76 4	-70 5
Book value March 31	100 2	85 0	99 3	84 1
Accumulated difference between total and planned depreciation April 1	-	-	11 0	11 5
Increase in the depreciation difference April 1- March 31	-	-	-0 4	0 5
Accumulated difference between total and planned depreciation March 31	-	-	10 6	11 0
Flight equipment				
Acquisition cost April 1	1 047 4	932 0	1 047 4	932 0
Increases April 1 - March 31	176 4	162 6	173 4	162 6
Decreases April 1 - March 31	-6 5	-36 7	-6 5	-36 7
Accumulated planned depreciation April 1 - March 31 from decreases	-12 1	10 5	-12 1	-10 5
Acquisition cost March 31	1 205 2	1 047 4	1 202 3	1 047 4
Accumulated planned depreciation March 31	-558 9	-489 1	-558 9	-489 1
Book value March 31	646 3	558 3	643 4	558 3
Difference between total and planned depreciation April 1			195 2	192 9
Increase in the depreciation difference April 1 - March 31			-6 3	2 3
Difference between total and planned depreciation March 31	-	-	188 9	195 2
Other equipment				
Acquisition cost April 1	232 9	205 0	204 1	179 6
Increases April 1 - March 31	31 3	30 9	26 3	27 4
Decreases April 1 - March 31	-3 3	-0 4	-0 4	-0 2
Accumulated planned depreciation April 1 - March 31 from decreases	0 0	-2 7	0 0	-2 7
Acquisition cost March 31	260 9	232 9	230 1	204 1
Accumulated planned depreciation March 31	-181 4	-161 5	-160 3	-142 0
Book value March 31	79 5	71 4	69 8	62 1
Accumulated difference between total and planned depreciation April 1	-	-	0 3	1 0
Decrease in the depreciation difference April 1 - March 31	-	-	-0 1	-0 7
Accumulated difference between total and planned depreciation March 31	-	-	0 2	0 3
Share of machines and equipment in book value March 31	718 2	621 9	710 0	615 1
Advance payments				
Acquisition cost April 1	52 1	38 1	52 1	38 1
Increases April 1 - March 31	12 6	13 9	12 6	13 9
Book value March 31	64 7	52 1	64 7	52 1
Financial assets				
Participating interests				
Acquisition cost April 1	0 8	0 8	0 4	0 4
Increases April 1 - March 31	0 2	0 0	0 0	0 0
Transfers between items April 1 - March 31	0 7	0 0	0 7	0 0

	Group EUR Mill 1999/2000	Group EUR Mill 1998/99	Parent Company EUR Mill 1999/2000	Parent Company EUR Mill 1998/99
Decreases April 1 - March 31	-0 3	0 0	-0 4	0 0
Book value March 31	1 4	0 8	0 7	0 4
Group companies				
Acquisition cost April 1	-	-	8 5	8 3
Increases April 1 - March 31	-	-	0 3	0 3
Transfers between items April 1 - March 31	-	-	-0 7	0 0
Decreases April 1 - March 31	-	-	-1 0	0 0
Book value March 31	-		7 1	8 5
Other interests and shares				
Acquisition cost April 1	5 7	5 7	4 6	4 6
Increases April 1 - March 31	1 0	0 0	1 0	0 0
Decreases April 1 - March 31	-1 3	-0 1	-1 3	0 0
Book value March 31	5 4	5 7	4 3	4 6
Loan receivables				
Acquisition cost April 1	0 7	0 9	1 4	1 5
Increases April 1- March 31	0 0	0 0	0 0	0 0
Decreases April 1 - March 31	0 0	-0 1	-0 1	-0 1
Book value March 31	0 7	0 7	1 4	1 4
Insurance values of fixed assets				
Balance sheet values of aircraft and spare engines	646 3	558 3		
Insurance value EUR	1 498 3	1 158 5		
Insurance value USD	1 431 3	1 244 4		

Insurance values of Group assets are based on repurchase values Insurance values for flight equipment are USD-based
Repurchase values for other fixed assets are not specified in detail

Financial assets	Group ownership %	Parent Company ownership %
Participating interests		
Gourmet Nova Finland Oy, Helsinki	40 00	40 00
Suomen Jakelutiet Oy Helsinki	47 50	-
Amadeus Estonia	33 25	-
Toivelomat Oy, Helsinki	48 53	-
Affiliates		
Kiinteistö Oy Aerolan A-talot Vantaa	100 00	100 00
Kiinteistö Oy Aerolan B-talot Vantaa	100 00	100 00
Malmilento Oy Helsinki	100 00	100 00
Amadeus Finland Oy Helsinki	95 00	95 00
Area Travel Agency Ltd Helsinki	100 00	100 00
Area Baltica Reisibüroo AS Estonia	100 00	100 00
ZAO Norvista Russia	100 00	-
A/S Estravel Ltd Estonia	72 02	72 02
Eastern Holding Estonia	72 02	
Oy Aurinkomatkat - Suntours Ltd Ab, Helsinki	97 07	79 27
Finlandia Travel Agency Ltd UK	100 00	96 68
Finlandia Agence de Voyages S A R L France	99 80	99 80
Finnair Travel Services Oy, Helsinki	100 00	100 00
Finncatering Oy Vantaa	100 00	100 00
Norvista Travel Canada	100 00	100 00
Oy Finnmatkat - Finntours Ab Helsinki	100 00	100 00
Norvista Ltd, USA	100 00	100 00
Karair Ab Sweden	100 00	100 00
Business Flight Center Oy, Vantaa	100 00	100 00
Oscar Aircraft Leasing Corporation, Inc	100 00	100 00
November Aircraft Leasing Corporation Inc *	100 00	100 00
Mikkelin Matkatoimisto Oy, Mikkeli	51 00	-
Norvista Travel AB, Sweden	100 00	100 00
Norvista S R L Italy	100 00	100 00
Norvista GmbH Germany	100 00	100 00
Norvista B V Netherlands	100 00	100 00
Kuopion Matkatoimisto Oy, Kuopio	99 80	-
Varkauden Matkatoimisto Oy Varkaus	79 62	-
Finland Travel Bureau Ltd Helsinki	99 99	99 99

* Special purpose vehicles (for securing receivables)

	Group EUR Mill 1999/2000	Group EUR Mill 1998/99	Parent Company EUR Mill 1999/2000	Parent Company EUR Mill 1998/99
Other shares				
Market value of publicly quoted shares	31 9		31 8	
Book value	0 5		0 5	
Difference	31 3		31 3	
Other financial assets loan receivables				
From Group companies			0 7	0 8
From participating interest	0 1	0 1	-	
From other companies	0 7	0 6	0 7	0 6
Total	0 7	0 7	1 4	1 4
12 Inventories				
Materials and supplies	50 5	44 3	50 3	43 9
Work in progress	2 3	1 6	2 3	1 6
Total	52 8	45 9	52 6	45 5
13 Long term receivables				
Long term receivables from others				
Trade receivables	0 1	0 1	-	-
Prepaid expenses	0 2	0 0	-	
Other receivables	2 8	4 2	2 7	4 0
Total	3 0	4 4	2 7	4 0
14 Short-term receivables				
Short-term receivables from group undertakings				
Trade receivables	-	-	20 5	20 8
Prepaid expenses	-	-	0 9	0 3
Other receivables	-	-	-	-
Total	-	-	21 4	21 0
Short-term receivables from participating interests				
Trade receivables	0 0	0 0	0 0	0 0
Prepaid expenses	0 1	0 0	-	-
Total	0 1	0 0	0 0	0 0
Short-term receivables from others				
Trade receivables	141 9	111 0	81 8	63 8
Prepaid expenses	52 0	54 6	48 3	47 0
Other receivables	55 5	58 9	49 9	49 7
Total	249 4	224 5	180 0	160 6
Short-term receivables total	249 5	224 5	201 4	181 6
15 Investments				
Marketable securities	153 1	159 4	153 1	159 4

The difference between market value and activated acquisition cost is not essential

16 Cash and bank equivalents

Cash and bank equivalents comprise funds in Group bank accounts

	Group EUR Mill 1999/2000	Group EUR Mill 1998/99	Parent Company EUR Mill 1999/2000	Parent Company EUR Mill 1998/99
17 Equity				
Share capital, April 1	71 3	69 6	71 3	69 6
Conversion of convertible subordinated bond	0 0	0 3	0 0	0 3
Conversion of convertible bonds	0 0	1 3	0 0	1 3
Share capital March 31	71 3	71 3	71 3	71 3
Capital paid in excess of par value, April 1	5 6	0 0	5 6	0 0
Share premium	0 0	5 6	0 0	5 6
Capital paid in excess of par value March 31	5 6	5 6	5 6	5 6
General receive March 31	148 5	148 5	148 5	148 5
Retained earnings April 1	307 6	321 0	149 7	168 3
Deferred tax liability caused by timing differences	-	-39 8	-	-39 8
Dividend payment	-21 4	-31 3	-21 4	-31 3
Translation difference	-0 1	0 0	-	-
Retained earnings, March 31	286 2	249 9	128 3	97 2
Profit for the financial year	59 7	57 7	69 7	52 5
Capital loan, March 31 and April 1	5 7	5 7	5 7	5 7
Total equity	577 0	538 7	429 1	380 8
Distributable equity				
Retained earnings, April 1	307 6	281 2	149 7	128 5
Dividend payment	-21 4	-31 3	-21 4	-31 3
Translation difference	-0 1	0 0	-	-
Profit for the financial year	59 7	57 7	69 7	52 5
	345 9	307 6	198 0	149 7
Voluntary reserves in equity	-141 9	-148 8	-	-
	204 0	158 8	198 0	149 7
Voluntary reserves				
Accumulated depreciation difference	199 7	206 5		
Recidental block reserve	0 8	0 7		
Deferred tax liability of voluntary reserves	-57 9	-57 9		
Total	141 9	148 8		
18 Accumulated appropriations				
Accumulated depreciation difference	-	-	199 7	206 5
19 Deferred tax liability				
From appropriations	57 9	57 9	-	-
Deferred tax liability caused by timing differences	44 1	39 8	44 1	39 8
Total	102 0	97 7	44 1	39 8
20 Long-term liabilities				
Subordinated loan	-	41 2	-	41 2
Loans from financial institutions	83 7	11 2	83 6	11 0
Pension loans	69 4	81 7	68 5	79 4
Other long-term liabilities	2 9	4 3	2 7	4 0
Total	156 0	138 4	154 8	135 7
Repayment of loans				
Financial year 2000/2001	68 1		68 1	
Financial year 2001/2002	14 9		14 9	
Financial year 2002/2003	9 4		9 4	
Financial year 2003/2004	9 4		9 4	
Financial year 2004/2005	15 2		15 2	
Financial year 2005 -	107 1		105 9	
Total	224 1		222 9	

21 Convertible subordinated bonds (Capital loan)

Convertible subordinated bonds of FIM 230 000 000 were issued on February 28 1994 with an annual interest rate of 7 per cent until the year 2004 Thereafter the interest rate will be five percentage points above the 12-month Helibor The bonds are undated The bond issue in question is by nature a capital loan and has the following features in common with this type of credit

1 Receivables based on the loan are in a less preferential position than other Company commitments
2 The loan can be repaid only in the event that the Company s restricted equity computed in accordance with the Parent Company balance sheet and consolidated balance sheet approved for the previous financial year is fully covered
3 Annual interest cannot be paid in excess of non-restricted equity on an interest payment date as reported in the accounts of the Company confirmed by the previous Annual General Meeting of Shareholders or distributable non-restricted equity as reported in consolidated Group accounts for the same period the payment of interest is in preference to the payment of dividends
4 The loan is unsecured
5 The holder of the bond is not entitled to give notice or demand early repayment unless the Company is in liquidation

According to the terms of the bonds Finnair Oyj is entitled provided that the repayment terms are met to pay back the principal in part or in full as of September 2 2004 and also from the beginning of the loan period whenever the price of a Finnair Oyj share on the Helsinki Stock Exchange exceeds the computed conversion price by 40 per cent for the period specified in the terms

One debenture with a nominal value of FIM 10 000 can be converted to 271 Finnair Oyj shares at a nominal price of FIM 5 each The computed conversion price of a share is therefore FIM 36 90 (EUR 6 21) The annual conversion period is January 1 to January 31 and April 1 to December 31 By March 31 2000 bonds worth FIM 195 890 000 had been converted to 5 308 619 shares after which the amount of the convertible bond is FIM 34 110 000 Should all the unconverted bonds on March 31, 2000 be exchanged for shares the Company s share capital would increase by FIM 4 621 905 which is the equivalent of 924 381 shares

	Group EUR Mill 1999/2000	Group EUR Mill 1998/99	Parent Company EUR Mill 1999/2000	Parent Company EUR Mill 1998/99
22 Short-term liabilities				
Liabilities to group undertakings				
Trade payables	-	-	1 6	4 0
Accruals and deferred income	-	-	1 5	1 1
Other liabilites	-	-	35 2	40 9
Total	-		38 4	45 9
Liabilities to participating interests				
Trade payables	0 5	0 2	0 5	0 2
Other liabilities	0 0	0 2	0 0	0 2
Total	0 5	0 4	0 5	0 4
Liabilities to others				
Loans from financial institutions	68 1	39 2	68 1	39 2
Pension loans	-	-	-	
Advances received	24 2	28 4	-	-
Trade payables	106 5	87 0	59 4	49 9
Accruals and deferred income	264 8	264 2	242 6	245 6
Other liabilities	96 6	49 5	94 2	46 1
Total	560 2	468 3	464 3	380 7
Short-term liabilities total	560 7	468 8	503 2	427 0

The subordinated loan previously booked in long-term liabilities has been moved to short-term liabilites as the loan will be repayed during the next financial year

Accruals and deferred income				
Unearned air transport revenues and liability for frequent flyer bonus system*	120 1	124 7	120 1	124 7
Holiday pay reserve	64 3	62 2	57 9	55 6
Other items	80 4	77 3	66 2	66 3
Total	264 8	264 2	244 2	246 7

*) EUR 23 5 million in unused airline tickets from at least two years ago was entered as turnover The item includes a liability of EUR 18 8 million for the Finnair Plus Frequent Flyer Bonus System Other items include undue interest and other deferred income for the financial year

23 Pension liabilities				
Total liability of pension fund	575 7	530 1	540 1	497 0
- mandatory portion covered	-304 0	-273 1	-274 4	-246 5
Non-mandatory benefit covered	-271 2	-255 5	-265 2	-249 2
Uncovered liability of pension fund	0 5	1 5	0 5	1 4
Liability for pensions paid directly by the companies	2 3	2 7	2 2	2 7
Liability included in other long-term liabilities	2 8	4 2	2 7	4 0
24 Guarantees and contingent liabilities				
Pledges on own behalf	156 3	39 3	156 1	39 1
Gurarantees on group undertakings	40 5	39 1	40 5	39 1
Total	196 8	78 4	196 6	78 2

25 Aircraft lease obligations	
Amounts due to be paid	
Financial year 2000/2001	57 3
Financial year 2001/2002	62 8
Financial year 2002/2003	44 5
Financial year 2003/2004	38 2
Financial year 2004/2005	31 0
Financial year 2005 -	29 1
Total	262 9

Aircraft lease payments
The above lease payments comprise unpaid rentals under outstanding finance leases (EUR 22 9 million) and operating leases (EUR 240 million) With respect to certain of the finance leases Finnair Oyj has made a deposit corresponding to the agreed purchase option payment As at March 31 2000, the present value of the maximum remaining finance lease payments, including the agreed purchase option payments, was EUR 21 8 million

Under operating leases, unlike finance leases Finnair Oyj is only obliged to pay rent for the relevant lease term with no liability on termination the economic risk of ownership remaining with the lessor Under finance leases Finnair Oyj pays rentals to cover the finance costs, has an option to purchase the relevant aircraft at an agreed price, and bears the residual value risk Therefore Finnair Oyj may be subject to certain additional payments arising on the termination of the relevant finance leases depending on the future resale value of the aircraft No provisions have been made by Finnair Oyj for any such payments as these risks cannot in Finnair s opinion, be

quantified Should the future market value of an aircraft held on a finance lease be higher than its agreed purchase option value, Finnair Oyj would realize a profit on its resale after the end of the relevant lease period

26 Disputes and litigation

Finnair Oyj has been granted the permit for an appeal to the Supreme Court in the dispute concerning the ownerhip of Karair oy shares Finnair Oyj has applied for the permit for an appeal to the Supreame Administrative Court in the excise tax matter referred to in the previous annual report

27 Principles of financial risk management

The operations of the Finnair Group are by nature very international and require significant amounts of capital This means exposure to risks related to exchange rates interest rates, credit liquidity and raw material prices It is the policy of the Group to minimize the negative effect of such risks on cash positions financial performance and equity

Financial risk management is concentrated in the Treasury Department of the Parent Company, which co-ordinates operations in the Group and provides various internal banking services such as group accounts and netting services Financial risk management is based on risk management policy approved by the Finnair Board of Directors which beside hedging activities enables the keeping of open foreign exchange and interest positions within the framework of set risk limits In its financial risk management the Company uses a wide range of hedging instruments and methods such as foreign currency loans, forward contracts, currency and interest swaps foreign exchange and interest options and futures

Foreign exchange risk

Some 75 % of Group turnover is denominated in euros The key foreign currencies are the US dollar the Swedish krona the British pound and the Japanese yen Approximately 25 % of the Group s operating costs are denominated in currencies outside EMU area The main purchasing currency is the US dollar which accounts for almost half of all operating expenses denominated in foreign exchange Acquisition of aircraft and the spare parts for them also takes place mainly in US dollars

The Group s policy is to eliminate the identified foreign exchange risk caused by a foreign currency surplus or deficit Apart from receivables and payables and other commercial commitments, the estimated 6-12-month cash flows denominated in foreign exchange are as a rule included in exposed foreign exchange positions At the end of the 1999/00 financial year the majority of the Group s interest-bearing liabilities were denominated in markkas

The fuel price risk in flight operations

Various hedging instruments such as forward contracts and swaps are used to manage the price risks involved in acquiring fuel for flight operations Time-wise hedging is limited in general to less than 12 months In the 1999/00 financial year fuel used in flight operations accounted for 8 5 % of the Group's operating costs Fuel costs are dependent on fluctuations in oil markets and the US dollar

Interest risk

In order to manage interest risks, the Group s loans and investments are dispersed into fixed and variable interest-rate instruments so that most of the Group s interest-bearing loans have variable interest rates Finnair hedges against interest rate changes by investing most of its cash reserves on the money markets for less than 12 months At the end of the 1999/00 financial year the average interest on the Group s interest-bearing loans was 4 3 %

Credit risk

The Group is exposed to credit risks in investing its cash reserves and in using derivative instruments Credit risks are managed by making contracts within the framework of credit risk limits only with leading domestic and foreign banks financial institutions and brokers Cash is also invested in interest bearing securities issued by selected companies

Liquidity risk

The goal of the Finnair Group is to maintain good liquidity Liquidity is ensured through cash reserves, account limits, liquid money market investments and credit limits With respect to aircraft acquisitions the Company s policy is to ensure financing at least 6 months before delivery, for example with promises of loans The Group s liquid funds were EUR169 million at the end of the 1999/00 financial year Moreover the Parent company has following unutilized standby credit facilities

USD 250 mill for general financing needs, USD 250 mill still unused

USD 250 mill for financing the acquisition of Airbus A320 family, approx USD 210 mill is still unused

In addition the company has a domestic commercial paper programme of EUR 100 mill

Derivative contracts March 31, 2000 EUR Mill		Nominal value	Fair value
Currency derivatives			
Forward contracts		203 0	4 1
Currency options			
Bought		58 6	3 3
Sold		64 9	-0 4
Currency swaps		140 0	13 8
Interest rate derivatives			
Interest rate options			
Bought		51 1	0 7
Derivative contracts total		517 7	21 9
Other derivative contracts			
Fuel price agreements	(tonnes)	95 000	0 8

28 Personnel fund

The criteria for payment of profit bonus to the personnel fund were not met

Information on Finnair Oyj shares and shareholders

Shares and share capital

On March 31, 2000, the Company's paid up share capital, entered in the trade register, was EUR 71 3 million and comprised 84 739 098 shares Each share has one vote at the Annual General Meeting and its nominal value is FIM 5

The minimum and maximum values of Finnair Oyj's share capital are EUR 50 4 million and EUR 201 million within the limits of which the share capital can be raised or lowered without amending the Articles of Association The Company's shares were converted to the book entry securities system in June 1993

The Board of Directors proposes to the Annual General Meeting convening on August 24 2000 that the share capital be redenominated in euros, that the share capital be increased from EUR 71 260 465 91 to EUR 72 028,233 30 through an EUR 767 767 39 bonus issue and that the par value of the share be set at 0 85 euros

Share quotations

Finnair Oyj's shares are quoted on the Helsinki Exchanges Since January 1995 they have also been traded in the SEAQ (Stock Exchange Automatic Quotation) system on the London Stock Exchange

Dividend policy and payment of dividend

It is Finnair's dividend policy to pay out at least a third of the earnings per share as dividend during an economic cycle Finnair aims to take into account the company's earnings trend and outlook financial situation and capital needs for any given period The Board of Directors of Finnair Oyj proposes to the Annual General Meeting that a dividend of FIM 1 50 per share (EUR 0 25) or 68 % of the earnings per share will be paid for the 1999/2000 financial year Exceptional revenues of the financial year as well as the improvement in profitability has been taken into account in making the proposal

Government ownership

At the end of the financial year on March 31, 2000, the Finnish Government owned 58 4 % of the Company's shares and votes On June 20 1994 Parliament decided to maintain the Government's majority holding and gave its consent to reduce that holding to less than two-thirds Should all the convertible bonds in circulation be exchanged for Finnair Oyj shares, the Government s holding would be 57 5 %

Convertible bonds

In February 1994 the Company's Board of Directors issued a perpetual convertible subordinated bond for FIM 230 million on the basis of authorization received from the Annual General Meeting of Shareholders in August 1993 and from an extraordinary meeting of shareholders in November 1993 The bond in question is by nature a capital loan and has features comparable to equity items Bonds can be converted to Company shares as follows a bond with a nominal value of FIM 10,000 entitles the holder to 271 shares in Finnair Oyj

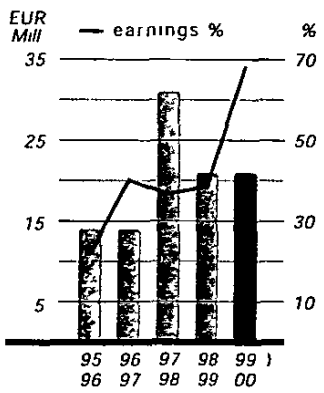
Largest shareholders as at March 31, 2000

	Shareholder	Number of shares	% of shares
1	Government of Finland	49 510 682	58 43
	Odin Norden	7 755 566	
	Odin Finland	620 000	
2	Odin Forvaltning AS	8 375 566	9 88
	Industrial Insurance Company Ltd	1 100 000	
	Varma Sampo Mutual Pension Insurance Company	223 342	
	Sampo Life Insurance Company	353 807	
	Sampo Enterprise Insurance Company	250 345	
	Sampo Insurance Company Ltd	1 087 352	
	Kaleva Mutual Insurance Company	48 000	
3	Varma-Sampo Group total	3 062 846	3 61
4	Pension Insurance Company Ilmarinen	2 687 200	3 17
5	The Local Government Pensions Institution	2 206 900	2 60
6	Pohjola Life Assurance Company	900 000	1 06
7	Suomi Mutual Life Assurance Company	880 000	1 04
	Tapiola General Mutual Insurance Company	256 300	
	Tapiola Mutual Pension Insurance Company	221 500	
	Tapiola Mutual Life Assurance Company	171 200	
	Tapiola Corporate Life Insurance Company	110 000	
8	Tapiola Group total	759 000	0 90
9	Neste Pension Foundation	679 420	0 80
10	Rausanne Oy	411 300	0 49
11	Dreadnought Finance Oy	410 000	0 48
12	Palcmills Oy	272 200	0 32
	Placeringsfonden Aktia Capital	145 600	
	Placeringsfonden Aktia Folkhalsan	5 000	
	Placeringsfonden Aktia Secura	40 000	
13	Aktia total	190 600	0 22
14	LEL Employment Pension Fund	141 800	0 17
15	Mutual Insurance Company Pension-Fennia	116 058	0 14
16	Sanoma-WSOY Oyj	112 099	0 13
17	Merita Life Assurance Ltd	91 800	0 11
	Registered in the name of a nominee	7 712 432	9 10
	Others	6 219 195	7 34
	Total	**84 739 098**	**100 00**

The following banks and brokerage firms are known to have prepared an investment analysis on Finnair

Alfred Berg Abn Amro Bank London BT Alex Brown International London Carnegie Finland Helsinki Conventum Helsinki, Danske Securities Copenhagen Impivaara Securities London, Merita Securities, Helsinki Morgan Stanley Dean Witter London SG Securities London

Dividend



) The proposal of the Board of Directors to the AGM

with a nominal value of FIM 5 each The bonds can be converted annually between January 1 and 31 and between April 1 and December 31 By March 31, 2000, a total of FIM 195,890,000 in bonds had been converted to 5,308 619 shares Should all the bonds still unexchanged on March 31, 2000 be converted to shares the Company's share capital would rise by FIM 4,621,905, which corresponds to 924 381 shares

Share ownership by management

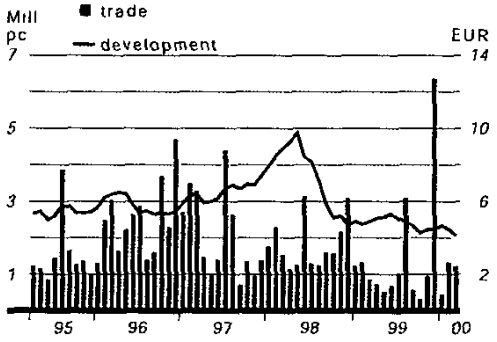
On March 31, 2000 members of the Company's Supervisory Board and Board of Directors and the Chief Executive Officer owned 33,228 shares, which represented 0 04 % of all the shares and votes

Share prices and trading

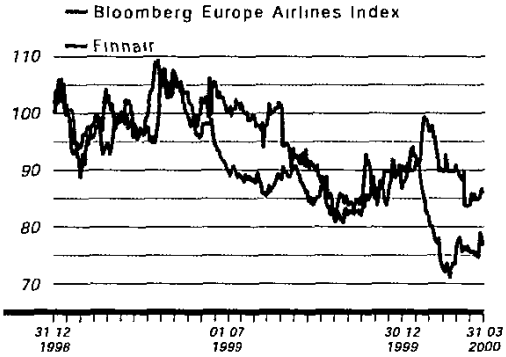
Finnair Oyj s share was quoted at EUR 3 95 on the Helsinki Exchanges on the last day of the financial year The market value of the Company's shares was EUR 334 7 million (411) The highest trading price during the financial year was EUR 5 49 (10 00) and the lowest EUR 3 95 (4 44)

A total of 17 4 million shares (20 1) were traded on the Helsinki Exchanges for a value of EUR 81 million (129) during the financial year

Share price development and trade 1995-2000



Share price development compared with other European airlines (31 12 1998=100)



Shareholders by type as at March 31, 2000

	Number of shares	%	Number of shareholders	%
Public bodies	56 153 647	66	23	
Outside Finland	8 393 015	10	33	
Registered in the name of a nominee	7 712 432	9	7	
Financial institutions and insurance companies	5 657 962	7	38	
Households	4 165 908	5	7 772	94
Companies	2 213 324	3	345	4
Associations	407 645		54	1
Not converted to the book entry securities system	35 165			
Total	**84 739 098**	**100**	**8 272**	**100**

Breakdown of shareholdings as at March 31, 2000

Shares held	Shareholders	Number of shares
1- 100	3 520	170 442
101 1 000	3 734	1 550 150
1 001- 10 000	911	2 537 178
10 001- 100 000	76	2 111 060
100 001 1 000 000	18	6 274 971
1 000 001-	6	64 347 700
Registered in the name of a nominee	7	7 712 432
Not converted to the book entry securities system		35 165
Total	**8 272**	**84 739 098**

Key figures and share prices

		1999/00	1998/99	1997/98	1996/97	1995/96
Earnings/share	euro	0 37	0 65	1 03	0 42	0 77
Equity/share	euro	6 81	6 36	6 61	5 79	5 34
Dividend/share	euro	0 25	0 25	0 38	0 17	0 17
Dividend/earnings	%	68 4	38 5	36 8	40 3	21 9
P/E ratio		10 71	7 43	8 83	14 86	8 26
P/CEPS		2 0	2 4	4 0	2 9	3 8
Effective dividend yield	%	6 4	5 2	4 2	2 7	2 7
Number of shares and share prices						
Number of shares adjusted for issue average	pc	84 739 098	84 739 098	82 796 483	82 053 018	81 584 480
Number of shares adjusted for issue end of financial year	pc	84 739 098	84 739 098	82 796 483	82 053 018	81 584 480
Number of shares end of financial year	pc	84 739 098	84 739 098	82 796 483	82 053 018	81 584 480
Prices adjusted for share issue highest	euro	5 49	10 00	9 41	6 73	6 64
lowest	euro	3 95	4 44	5 72	5 10	4 76
Market value of share capital March 31	EUR mill	335	411	752	509	517
Trading of shares	pc	17 449 998	20 073 817	21 061 343	32 667 714	20 849 877
Trading as % of average number of shares	%	20 59	23 68	25 43	39 81	25 56

Proposal by the Board of Directors concerning disposal of the profit

The Group s distributable equity according to the financial statements on March 31, 2000 was FIM 1,213,041 516 25 and the Parent Company Finnair Oyj's distributable equity was FIM 1 177 397 830 89

The Board of Directors proposes to the Annual General Meeting that a dividend of FIM 1 50 per share totalling FIM 127,108 647, be paid The rest of the distributable equity will be carried over to retained earnings

Helsinki, 8 June 2000

The board of directors of Finnair Oyj

Harri Holkeri
Robert G Ehrnrooth
Ari Heinilö
Seppo Härkönen
Jaakko Ihamuotila
Samuli Haapasalo
Raimo Hertto
Helena Terho

Statement of the Supervisory Board

At its meeting held today, the Supervisory Board of Finnair Oyj has examined the financial statements of the Parent Company and of the Group and the Auditors' Report for the financial year April 1 1999 - March 31 2000 The Supervisory Board has decided to recommend that the Annual General Meeting approve the financial statements of the Parent Company and the Group and that the profit shown in the Balance Sheet be disposed of in the manner proposed by the Board of Directors

The Supervisory Board states that its decisions and instructions have been followed and that it has received the information it deems necessary from the Company Board of Directors and the Chief Executive Officer

The terms of service on the Supervisory Board of Ms Riitta Backas, Mr Markku Koskenniemi, Mr Jouko K Leskinen, Mr Jussi Ranta Ms Aino Suhola and Mr Ralf Sund are due to expire at the Annual General Meeting

Helsinki, 16 June 2000

Markku Hyvärinen
Riitta Backas
Matti Kankare
Juha Korkeaoja
Jouko K Leskinen
Sirpa Pietikäinen
Jussi Ranta
Aino Suhola
Iiro Viinanen
Felix Björklund
Peter Heinström
Tarja Kautto
Markku Koskenniemi
Pekka Perttula
Virpa Puisto
Pertti Salolainen
Ralf Sund

Auditors' report

To the shareholders of Finnair Oyj

We have examined the accounts the financial statements and the administration of Finnair Oyj for the financial year April 1, 1999 to March 31, 2000 The financial statements prepared by the Board of Directors and the President and CEO include the review of operations and the statements of profit and loss, the balance sheets and the notes to the financial statements for the Group and the Parent Company On the basis of our audit, we issue the statement below on the financial statements and the administration

We have conducted the audit in accordance with Finnish Standards on Auditing Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement An audit includes examining on a test basis evidence supporting the amounts and disclosures 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 Supervisory Board the Board of Directors and the President and CEO have legally complied with the rules of the Companies Act

In our opinion the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements The financial statements give a true and fair view, as defined in the Accounting Act, of both the Group and the Parent company's results of operations and the financial position The financial statements, including those of the Group, can be adopted and the members of the Supervisory Board and the Board of Directors and the President and CEO can be discharged from liability for the period audited by us

The proposal by the Board of Directors concerning disposal of the profit for the financial year complies with the Companies Act

Helsinki, 14 June 2000

Pekka Nikula
APA

Erkki Mäki-Ranta
AA

Key figures 1995/96 - 1999/2000

		1999/2000	1998/99	1997/98	1996/97	1995/96
Consolidated income statement						
Turnover	EUR Mill	1 593	1 494	1 445	1 245	1 209
change	%	6 6	3 4	16 1	3 0	8 0
Operating profit	EUR Mill	50	72	102	55	105
- in relation to turnover	%	3 1	4 8	7 1	4 4	8 7
Profit before extraordinary items	EUR Mill	57	73	105	52	90
- in relation to turnover	%	3 5	4 9	7 3	4 2	7 4
Profit before taxes	EUR Mill	85	75	106	72	90
- in relation to turnover	%	5 3	5 0	7 3	5 8	7 4
Consolidated balance sheet						
Fixed assets and other long-term investments	EUR Mill	922	796	693	680	680
Long-term receivables	EUR Mill	3	4	6	7	10
Inventories	EUR Mill	53	46	40	34	32
Current assets	EUR Mill	418	398	463	405	444
Total assets	EUR Mill	1 396	1 244	1 201	1 127	1 166
Share capital	EUR Mill	71	71	70	69	69
Other equity and minority interest 1)	EUR Mill	506	468	478	406	367
Liabilities 1)	EUR Mill	819	705	653	651	730
Total liabilities	EUR Mill	1 396	1 244	1 201	1 127	1 166
Gross investment less advance payments	EUR Mill	252	220	148	177	95
Gross investment in relation to turnover	%	15 8	14 7	10 2	14 3	7 9
Return on equity (ROE)	%	5 6	10 2	16 7	7 5	15 4
Return on investment (ROI)	%	9 1	11 7	15 9	9 4	15 7
Increase in share capital	EUR Mill	0	2	1	0	-
Dividend for the financial year 2)	EUR Mill	21	21	31	14	14
Earnings/share	EUR	0 37	0 65	1 03	0 42	0 77
Earnings/share (with diluted effect)	EUR	0 36	0 65	0 99	0 40	0 73
Equity/share	EUR	6 81	6 36	6 61	5 79	5 34
Dividend/share	EUR	0 25	0 25	0 38	0 17	0 17
Dividend/earnings	%	68 4	38 6	36 8	40 3	21 9
Effective dividend yield	%	6 4	5 2	4 2	2 7	2 7
P/CEPS		2 0	2 4	4 0	2 9	3 8
Cash flow/share	EUR	2 0	2 0	2 3	2 1	1 7
P/E ratio		10 71	7 43	8 83	14 86	8 26
Equity ratio	%	42 1	44 4	46 5	42 9	37 9
Net debt-to-equity (Gearing)	%	19 4	4 3	-5 4	9 9	25 3
Interest bearing debt	EUR Mill	281	197	218	270	379
Liquid funds	EUR Mill	169	174	247	223	269
Net interest bearing debt	EUR Mill	112	23	-29	47	110
- in relation to turnover	%	7 1	1 6	-2 0	3 8	9 1
Net financing income (+) / expenses (-)	EUR Mill	7	1	3	-3	-15
- in relation to turnover	%	0 4	0 1	0 2	-0 2	-1 3
Net interest expenses	EUR Mill	-1	6	1	-3	-17
- in relation to turnover	%	-0 1	0 4	0 1	-0 2	-1 4
Operational cash flow	EUR Mill	175	150	170	152	137
Operational cash flow in relation to turnover	%	11 0	10 0	11 8	12 2	11 4
Average number of shares adjusted for the share issue	pc	84 739 098	84 739 098	82 796 483	82 053 018	81 584 480
Average number of shares adjusted for the share (with diluted effect)	pc	85 663 479	85 663 479	86 034 161	86 034 172	86 034 181
Number of shares adjusted for the share issue at end of the financial year	pc	84 739 098	84 739 098	82 796 483	82 053 018	81 584 480
Number of shares corresponding to share capital at end of the financial year	pc	84 739 098	84 739 098	82 796 483	82 053 018	81 584 480
Personnel on average		11 462	11 264	10 706	10 533	10 105

The numbers of personnel are averages and adjusted for part-time employees

1) Due to the change in the Companies Act the convertible subordinated bonds have been entered as a post in equity when calculating the key figures for 1999/00 1998/99 1997/98 and 1996/97 In 1995/96 financial statements the convertible subordinated bonds were included in liabilities Figures for 1995/96 has not been changed
2) The dividend for 1999/00 is a proposal of the Board of Directors to the Annual General Meeting
3) The deferred tax liability caused by timing differences has been taken into account when calculating the key figures for financial years 1999/2000 and 1998/99 It has not been taken into account in previous year s key figures

FORMULAS FOR RATIOS

Return on equity % = $\frac{\text{Result before extraordinary items – taxes}}{\text{Equity + minority holding (average at the beginning and end of the financial year)}}$ x 100

Return on investment % = $\frac{\text{Result before extraordinary items + interest and other financial expenses}}{\text{Balance sheet total – non-interest bearing liabilities (average at the beginning and end of the financial year)}}$ x 100

Earnings/share (Euro) = $\frac{\text{Result before extraordinary items +/– minority holding – taxes}}{\text{Adjusted average number of shares during the financial year}}$

Equity/share (Euro) = $\frac{\text{Equity}}{\text{Number of shares at the end of the financial year adjusted for the share issue}}$

Dividend/earnings % = $\frac{\text{Dividends per share}}{\text{Earnings per share}}$ x 100

Effective dividend yield % = $\frac{\text{Dividend per share}}{\text{Adjusted share price at the end of the financial year}}$ x 100

P/CEPS = $\frac{\text{Share price at the end of the financial year}}{\text{Net cash flow of business operations per share}}$

Cash flow/share (Euro) = $\frac{\text{Net cash flow of operating activities}}{\text{Adjusted average number of shares during the financial year}}$

P/E ratio = $\frac{\text{Share price at the end of the financial year}}{\text{Earnings per share}}$

Equity ratio % = $\frac{\text{Equity + minority holding}}{\text{Balance sheet total – advances received}}$ x 100

Net debt-to-equity % (Gearing) = $\frac{\text{Interest bearing debt – liquid funds}}{\text{Equity + minority holdings}}$ x 100

Operational cash flow = Operating profit + depreciations + financial items + extraordinary items – taxes

Turnover by quarter 1999/2000 (EUR Mill.)

	Q1	Q2	Q3	Q4	Total
Flight operations	358 3	347 6	354 6	348 5	1 409 0
Travel agencies	23 2	18 1	20 4	20 2	81 9
Tour operations	53 7	54 2	73 7	81 2	262 8
Other sectors	9 4	9 1	9 5	6 0	33 9
Total	**444 5**	**429 0**	**458 2**	**455 9**	**1 787 6**
less internal adjustments	-42 0	43 3	-52 4	-57 0	-194 7
Group turnover	**402 6**	**385 6**	**405 8**	**398 8**	**1 592 9**

Turnover by quarter 1998/1999 (EUR Mill)

	Q1	Q2	Q3	Q4	Total
Flight operations	355 0	338 1	331 2	290 3	1 314 6
Travel agencies	21 3	16 0	19 2	22 7	79 3
Tour operations	51 3	50 7	69 3	71 4	242 6
Other sectors	9 0	8 9	9 5	8 7	36 1
Total	**436 6**	**413 7**	**429 2**	**393 1**	**1 672 5**
less internal adjustments	-41 7	38 1	45 2	-53 6	-178 4
Group turnover	**394 9**	**375 6**	**384 0**	**339 5**	**1 494 1**

Operating profit by quarter 1999/2000 (EUR Mill)

	Q1	Q2	Q3	Q4	Total
Flight operations	25 4	4 9	29 2	12 6	46 8
Travel agencies	1 4	0 4	0 9	0 3	3 0
Tour operations	0 4	0 3	0 1	-0 1	0 1
Other sectors	0 9	1 1	1 3	0 9	4 2
Total	**28 1**	**6 2**	**31 5**	**-11 6**	**54 1**
less internal adjustments	2 6	2 2	0 0	0 2	-4 6
Participating interests	0 1	0 0	0 0	0 1	0 2
Group operating profit	**25 5**	**4 0**	**31 5**	**-11 3**	**49 8**

Operating profit by quarter 1998/1999 (EUR Mill)

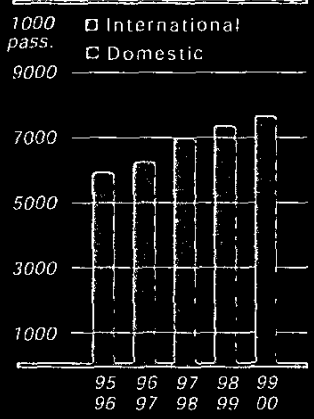
	Q1	Q2	Q3	Q4	Total
Flight operations	36 9	30 6	2 0	-7 1	62 4
Travel agencies	2 1	0 0	1 2	0 0	3 3
Tour operations	0 1	0 2	1 2	0 5	2 0
Other sectors	1 0	1 2	1 3	0 8	4 3
Total	**40 1**	**32 0**	**5 7**	**-5 8**	**72 0**
less internal adjustments	0 1	0 1	0 1	0 6	0 3
Participating interests	-0 2	0 0	-0 1	0 2	0 0
Group operating profit	**40 2**	**32 5**	**5 9**	**6 6**	**71 7**

Finnair air transport

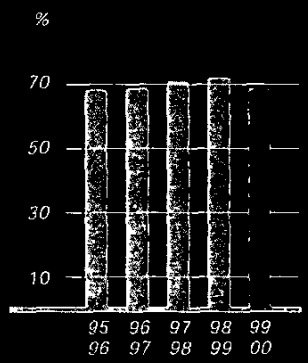
	1997/98	1998/99	1999/00	change %
North Atlantic				
Flight hours	7 710	7 759	7 185	-7 4
Flight kilometres (1000)	6 242	6 324	5 823	7 9
Available seat kilometres, mill	1 874	1 915	1 911	-0 2
Revenue passenger kilometres, mill	1 412	1 452	1 422	-2 1
Cabin factor %	75 3	75 8	74 4	1 4 p
Available tonne kilometres mill	386	421	411	-2 4
Revenue tonne kilometres mill	244	257	259	0 9
Overall load factor %	63 2	60 8	63 0	2 2 p
Passengers (1000)	208	218	208	-4 6
Cargo (1000 kg)	17 390	18 569	20 768	11 8
Far East				
Flight hours	9 445	9 327	9 252	-0 8
Flight kilometres (1000)	7 311	7 275	7 235	-0 5
Available seat kilometres, mill	2 323	2 324	2 298	-1 1
Revenue passenger kilometres, mill	1 683	1 721	1 734	0 8
Cabin factor %	72 4	74 1	75 5	1 4 p
Available tonne kilometres, mill	430	413	404	-2 2
Revenue tonne kilometres, mill	292	263	264	0 4
Overall load factor %	67 9	63 8	65 3	1 5 p
Passengers (1000)	240	248	255	2 8
Cargo (1000 kg)	18 190	14 577	14 930	2 4
Europe				
Flight hours	78 538	79 042	86 857	9 9
Flight kilometres (1000)	44 858	44 928	49 552	10 3
Available seat kilometres, mill	5 480	5 621	6 484	15 4
Revenue passenger kilometres mill	2 968	3 169	3 486	10 0
Cabin factor %	54 2	56 4	53 8	-2 6 p
Available tonne kilometres mill	687	712	796	11 8
Revenue tonne kilometres, mill	305	322	354	9 9
Overall load factor %	44 5	45 3	44 4	-0 9 p
Passengers (1000)	2 644	2 786	2 972	6 7
Cargo (1000 kg)	30 571	30 488	33 380	9 5
Domestic				
Flight hours	49 157	51 980	54 921	5 7
Flight kilometres (1000)	19 955	20 866	22 408	7 4
Available seat kilometres mill	1 957	2 068	2 415	16 8
Revenue passenger kilometres mill	1 138	1 189	1 308	10 0
Cabin factor %	58 1	57 5	54 2	-3 3 p
Available tonne kilometres, mill	220	235	275	17 0
Revenue tonne kilometres mill	100	105	115	9 5
Overall load factor %	45 3	44 5	41 8	-2 7 p
Passengers (1000)	2 527	2 631	2 882	9 5
Cargo (1000 kg)	6 040	5 639	5 160	-8 5
Scheduled total				
Flight hours	144 850	148 108	158 215	6 8
Flight kilometres (1000)	78 366	79 393	85 018	7 1
Available seat kilometres, mill	11 635	11 928	13 108	9 9
Revenue passenger kilometres, mill	7 202	7 532	7 950	5 5
Cabin factor %	61 9	63 1	60 6	-2 5 p
Available tonne kilometres mill	1 724	1 782	1 886	5 8
Revenue tonne kilometres mill	941	947	992	4 8
Overall load factor %	54 6	53 1	52 6	-0 5 p
Passengers (1000)	5 619	5 883	6 317	7 4
Cargo (1000 kg)	72 191	69 273	74 238	7 2
Leisure traffic				
Flight hours	34 116	39 233	35 368	-9 9
Flight kilometres (1000)	24 574	28 125	25 707	-8 6
Available seat kilometres mill	5 806	6 056	5 813	-4 0
Revenue passenger kilometres mill	5 218	5 466	5 072	-7 2
Cabin factor %	89 9	90 3	87 3	3 0 p
Available tonne kilometres, mill	626	646	625	-3 3
Revenue tonne kilometres, mill	486	502	468	-6 8
Overall load factor %	77 7	77 8	74 9	2 9 p
Passengers (1000)	1 447	1 501	1 366	-9 0
Cargo (1000 kg)	4 537	3 596	3 181	-11 5
Total traffic				
Flight hours	178 966	187 341	193 583	3 3
Flight kilometres (1000)	102 940	107 518	110 725	3 0
Available seat kilometres, mill	17 442	17 985	18 921	5 2
Revenue passenger kilometres, mill	12 420	12 998	13 022	0 2
Cabin factor %	71 2	72 3	68 8	-3 5 p
Available tonne kilometres mill	2 351	2 429	2 511	3 4
Revenue tonne kilometres mill	1 428	1 450	1 460	0 7
Overall load factor %	60 7	59 7	58 1	-1 6 p
Passengers (1000)	7 067	7 385	7 683	4 0
Cargo (1000 kg)	76 728	72 869	77 419	6 2

p = percentage points

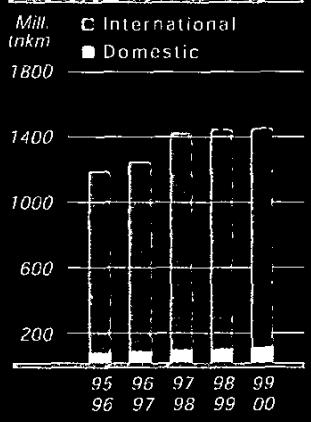
Number of passengers



Cabin factor



Revenue tonne kilometres



Corporate governance

Finnair's administrative bodies are the Supervisory Board the Board of Directors and the Chief Executive Officer (CEO) Finnair is managed in conformity with the Finnish Companies Act and the Articles of Association of the Company According to the Articles of Association the Annual General Meeting holds ultimate authority The Board of Directors and the CEO are responsible for the management of the company The Supervisory Board s duty is to supervise the correctness of decisions taken

Finnair is managed in conformity with the Finnish Companies Act and the Articles of Association of the Company The administrative bodies of the Company are the Supervisory Board the Board of Directors and the CEO The Annual General Meeting (AGM) holds ultimate authority within the Company It is the primary duty of the AGM to pass resolutions on the profit and loss account and the distribution of the dividend to elect members to the Supervisory Board of the Company and the auditors and their deputies and to resolve on any increase or decrease in share capital and on any changes to the Articles of Association

The Supervisory Board

The Supervisory Board shall consist of at least 12 and not less than 18 members Members of the Supervisory Board shall be elected by the Annual General Meeting of the Company for periods of three years at a time Election must take into account the distribution of the Company s share holdings One third of the members of the Supervisory Board shall resign every year The Supervisory Board shall elect one of its members as its Chairman and one as Deputy Chairman

It is the duty of the Supervisory Board to see that the affairs of the Company are managed in accordance with sound business principles and with due attention to profitability, and in conformity with the provisions of the Articles of Association and the resolutions of the AGM The Supervisory Board shall determine within the limits specified in the articles of Association the number of members of the Board of Directors and shall elect the Chairman and members of that Board and determine their remuneration The Supervisory Board shall appoint and dismiss the CEO and determine his or her salary

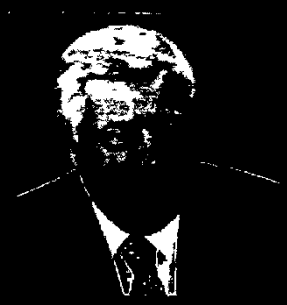
The Supervisory Board shall submit a statement to the Annual General Meeting concerning the final profit and loss account and auditors' report for the parent company and the Group, and shall convene the AGM The AGM shall determine the remuneration for the members of the Supervisory Board The Supervisory Board convened five times during the last financial year

The Board of Directors

The Board of Directors consists of a Chairman and at least four but not more than eight members The Supervisory Board shall elect the chairman and members of the Board of Directors before the end of March for a term of three years at a time The Board of Directors shall elect one of its members as vice-chairman

The Board of Directors shall carry responsibility as defined in the Companies Act for managing the operations and finances of the Company It is the duty of the Board of Directors to prepare those matters to be dealt with at the AGM and the Supervisory Board, and to ensure that the resolutions of the stockholders meetings and the Supervisory Board are carried out It is also the duty of the Board of Directors to appoint and dismiss those

Board of Management



Keijo Suila, b. 1945, BSc (Econ), President and CEO, empl. since 1998

Eero Ahola, b. 1943, MSc (Econ), SVP, Commercial Division, empl. since 1970.

Mauri Annala, b. 1945 MSc (Econ), EVP, Subsidiaries, Leisure Flights and Finnair Catering, empl since 1976

Henrik Arle, b. 1948, LL.M, Deputy of the CEO, EVP Corporate Administration, empl. since 1979.

Jorma Eloranta, b.1947, captain, EVP, Operations Division, empl. since 1972.

Jouko Malén, b. 1940, MSc (Aeronautical Eng), EVP, Technical Division, empl. since 1971

Tero Palatsi, b. 1947, Licentiate in Laws, SVP, Personnel, empl.since 1999.

Mika Perho, b. 1959, SVP, Marketing Division, empl. since 1985.

Petri Pentti, b. 1962, MSc (Econ), SVP, Economics and Finance, empl since 1989.

executive officers of the Company whose appointment and dismissal has not been assigned to the Supervisory Board and shall also determine their remuneration

The Board of Directors shall be responsible for ensuring the appropriate supervision of the accounts and management of the financial resources of the Company The Board of Directors is also responsible for ensuring that the final accounts for the Company contain sufficient and accurate information The Board of Directors shall confer and rescind rights to sign on behalf of the Company

The Board of Directors convenes once a month, on average, during the year The total sum of salaries bonuses and fringe benefits paid to the Board of Directors and the CEO during the 1999/2000 financial year amounted to EUR 0 5 million

CEO and the Board of Management

Under the Articles of Association it is the duty of the CEO to manage the Company and attend to its day-to-day administration The CEO shall make sure that the resolutions of the AGM the Supervisory Board and Board of Directors are carried out The CEO is the chairman of the Board of Management Members of the Board of Management are selected from among the senior management of the Company Representatives of the staff are also invited to meetings of the Board of Management It is the duty of the members of the Board of Management to promote the interests of their own areas of responsibility and to report to the CEO

Mr Keijo Suila has been the President and CEO of Finnair Oyj since the beginning of 1999

Auditors

Auditors proper

SVH PricewaterhouseCoopers Oy
APA Pekka Nikula

AA Erkki Maki-Ranta

Deputy auditors

SVH PricewaterhouseCoopers Oy
APA Tauno Haataja

APA Jorma Heikkinen

Supervisory Board

Markku Hyvärinen *Chairman*
Deputy Managing Director Varma-Sampo
Felix Björklund, *Deputy Chairman, MSc(Econ)*
Riitta Backas, *MSc(Econ) Laaketeollisuus ry,*
(Pharmaceutical Industry)
Peter Heinstrom *Party Secretary*
Matti Kankare *Party Secretary (as of August 25 1999)*
Tarja Kautto *Member of Parliament*
Pekka Kivelä, *MSc(Econ) (until August 25 1999)*
Juha Korkeaoja *Member of Parliament*
(as of August 25 1999)
Markku Koskenniemi, *Managing Director Tammerneon Oy*
Jouko K Leskinen *President and CEO Sampo-Group*
Pekka Perttula *Secretary General*
Mikko Pesalä, *Member of European Parliament*
(until August 25 1999)
Sirpa Pietikainen *Member of Parliament*
Virpa Puisto *Member of Parliament*
Jussi Ranta, *Member of Parliament*
Pertti Salolainen, *Ambassador*
Embassy of Finland in London
Aino Suhola *journalist*
Ralf Sund *Secretary General*
Iiro Viinanen *MSc(Eng)*

Personnel representatives

Leena Valkama Arto Yli-Pentti Juhani Sinisalo,
Marja Vaitti

Board of Directors

Harri Holkeri, b. 1937, MSc (Pol), Counsellor of state, Chairman of the Board of Directors, Member of the Board of the Bank of Finland 1978-1997, Member of the Board of Directors of Finnair since 1997.

Jaakko Ihamuotila, b. 1939, MSc (Eng), Mining Counsellor, Deputy Chairman of the Board of Directors, Executive Director and Member of the Board of Fortum Corporation, Member of the Board of Raisio Yhtyma Oyj and Pohjola Group Insurance Corporation, Member of the Supervisory Board of Merita Bank Ltd, Member of the Board of Directors of Finnair since 1997.

Robert G. Ehrnrooth, b. 1939, LisSc (Econ), Chairman of the Board of Metra Corporation, Member of the Board of Fiskars Oyj Abp, Member of the Board of Directors of Finnair since 1992

Samuli Haapasalo, b. 1952, LL.M., counsellor at the Ministry of Transport and Communications, head of steering committee on business ownership, Member of the Board of Directors of Finnair since 1999.

Ari Heiniö, b. 1945, LL.M., Managing Director and Member of the Board of Directors of Stockmann plc, Member of the Supervisory Board of Alma Media Oyj and Varma-Sampo, Member of the Board of Metsä Tissue Corporation, Leonia Oyj and Sampo Insurance Company, Member of the Board of Directors of Finnair since 1994

Raimo Hertto, b. 1938, MSc (Econ), Commercial Counsellor, Managing Director of Rautakirja Oy 1987-1998, Member of the Board of Onninen Oy, Viherjuuri Oyj, Conventum and Tiimari Oyj, Member of the Board of Directors of Finnair since 1994

Seppo Härkönen, b. 1948, MSc (Pol), President of Finpro Oy, Chairman of the Board of Talentum Oyj, Member of the Board of Directors of Finnair since 1994.

Helena Terho, b. 1948, MSc (Eng), eMBA, Senior Vice President, Quality, Kone Corporation, Member of the Board of National Emergency Supply Agency, Member of the Board of Directors of Finnair since 1997

Skilled staff are Finnair's prime force for change

Finnair s strength lies in its highly motivated and committed personnel The changes now being introduced to our corporate culture and the operational efficiencies are designed both to improve staff satisfaction and make for better business profitability

A skilled staff is a quality guarantee

Finnair has paid great attention to the professional skills and knowhow of its staff A consistently high standard of service is one of the primary cornerstones of our corporate strategy A successful flight is the result of the efforts of a highly trained workforce and seamless cooperation throughout every stage of the service chain Our vision and our personnel strategy on which it is based also stresses the importance of developing both our staff and the organization

Finnair s internal training programme is particularly active Air travel related duties often require special skills which can only be taught within the company Finnair Training Centre, a special professional training establishment owned by the company, is responsible for the basic training of professional pilots The company also provides flight and safety training passenger cabin services training and training in marketing and technical subjects During the 1999/2000 financial year the emphasis was on supervisor training, type training for pilots and service quality related instruction During 1999 the number of training hours provided amounted to 69,010, for a total of 35,671 people

Finnair has also put much effort into induction training for new staff A special two day initiation course has been designed to give new recruits an overall picture of the company and familiarize them with the company's strategic aims They also learn about the customer oriented thinking on which the company's values are based Almost 150 new recruits took part in the initiation courses during the financial year

Fresh corporate culture opens the way to a new Finnair

In a rapidly changing operating environment constant improvement in working methods is necessary if we are to achieve a consistently high quality of service In 1998 Finnair initiated an exhaustive process of change in its corporate culture with the aim of creating a common value-based working practice that will support the company s business objectives The common values are summed up as customer friendliness, constant improvement honesty openness a sense of responsibility, fairness and respect for others

A survey of values and corporate culture was conducted throughout the entire company in the spring of 1999 and the results were discussed with the staff In order to help staff embrace the new values in practice, more than 400 instructors were trained to assist the supervisors The progress of the project is being regularly monitored and during 2000, special emphasis will be placed on supervisor-subordinate relations and information flow The corporate culture overhaul has also focused on development dialogue between superior and subordinate as a tool of leadership and development

More efficient operations and incentive rewards make for profitable growth

The unsatisfactory financial performance for the 1998/1999 financial year partly the result of external factors clearly demonstrated the need for more efficient operations in order to bring costs under control The objectives of halting the growth in the

number of staff and raising productivity were set The number of staff at the Parent Company at the end of the 1999/2000 financial year was 8 985 representing a reduction from the previous year of 115 people

We also tried to rein in staff costs through the moderate collective pay settlements agreed between Finnair and seven trade unions at the beginning of 2000 The entire workforce has the opportunity of earning a profit bonus on the basis of the company s financial result, return on invested capital and staff expenses In addition, the company instituted an incentive pay scheme during the financial year in which the most decisive factors included staying within budget, punctuality, the ratio between aircraft load factor and yields and fulfilling the goals of the development dialogue between superior and subordinate

An overhaul of Finnair's organizational structure was begun in spring 1999 The aim is to create a more flexible and efficient organization by reducing the number of hierarchies removing redundancies within and between the various sectors, clarifying job descriptions and speeding up decision making The project also aims to improve business skills and awareness across the entire organization This work will continue throughout the whole of the next financial year

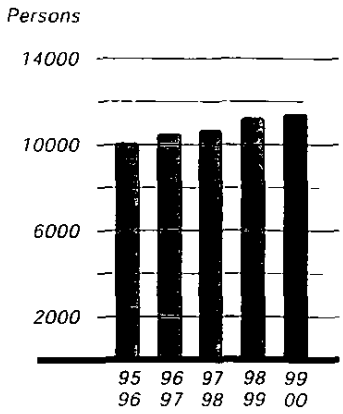
Well-being of the staff is the basis for sustainable development

Good staff welfare is the basis of Finnair s high quality of service The Well-being programme which the company started in summer 1998 continued into the current financial year with the assessment of staff capabilities The programme also stressed the significance of factors outside work as a source of well-being Exercise and hobbies improve staff performance on the mental as well as physical and social levels By the end of the financial year some 3 600 of Finnair s workforce had taken part in the voluntary capability assessment, in which the emphasis was on promoting health through active or preventative measures

The role of occupational health care in relation to customer segments and core processes among other things, was highlighted during 1999 A new, more customer oriented operational model was created for the Finnair Health Service on the basis of the goals set which was based on both the internal as well as external network of cooperating partners External partners include Mehilainen Group Health Services the Haaga Neurological Research Centre and Vantaan Fysioterapia Oy

Leisure and hobby activities are flourishing within the company There are a total of 34 different leisure clubs operating within Finnair with some 4 000 members In fact the combined membership of the hobby clubs exceeds 13,000

Personnel on average, Finnair Group



Environmental action for sustainable improvement

The primary focus of environmental activities during the 1999-2000 financial year was on questions concerning green house gas emissions, aircraft noise and in-flight waste Finnair is working on its environmental technologies and is able through proactive measures to stay ahead of environmental legislation Reconciling air traffic services with the needs of environmental protection is regarded by Finnair as an extremely important challenge to which it is devoting increasing amounts of resources

Active and organized environmental protection work began 10 years ago in autumn 1990 with the foundation of Finnair s environmental policy working group Since 1991 Finnair s environmental organization has continued the work Through its activities, Finnair has succeeded in creating confidential relations with those responsible for regulating the environmental effects of air traffic and peripheral activities and has significantly improved its ecological effectiveness

Finnair observes the environmental regulations of the International Civil Aviation Organization (ICAO) as well as local bylaws Finnair participates in the environmental work of the International Air Transport Association (IATA) and the European Airlines Association (AEA), as well as in the activities of the Nordic ministerial working group on environmental issues

Practising environmental protection

Sparing use of natural assets is observed in the consumption of energy water and other natural resources We aim to reduce the amount of emissions energy consumption and waste products caused by our activities Wherever possible and economically feasible we replace environmentally hazardous materials with others We are constantly improving on the efficient use and recycling of materials

When choosing materials, processes, equipment and aircraft we take care that the risk to customers employees and the environment is as small as possible As far as pressure for change concerning aircraft and equipment is concerned the following factors are taken into account as regards environmental protection

- the change must not endanger air or job safety
- the change has to be technically possible
- the change has to be operationally and financially feasible
- the benefit of the change to the environment has to be manifest

Finnair has made noise suppression modifications to its DC-9-50 aircraft almost two years ahead of the official deadline The reduction of noise nuisance is a primary factor in our choice of aircraft and our flight planning

Staff environmental training

The environmental organization at Finnair consists of experts in the subject who are also responsible for the environmental aspects of their own areas of work Where necessary these experts can set up working groups so that any upcoming task can be dealt with as a project The EVP Technical Divison acts as chairman of the environmental organization who is in direct contact with the senior management of Finnair Oyj

It is the environmental organization s goal to create an environmental management system covering the entire company Finnair Catering has already implemented the system and the work will continue with cabin services The Catering division sorts out waste for recycling, for example The amount of waste particularly of disposable packaging, is being reduced whilst recycling and new uses for waste are being stepped up

The entire staff of Finnair Catering has undertaken environmental training and similar systematic training of other staff has already begun The Finnair environmental programme forms part of the business-puzzle training for middle level marketing management

Influencing environmental risks in the planning stage

The use of chemicals by Finnair is classified as a large-scale activity under current legislation which requires that their use and storage be supervised An action document to prevent serious and other accidents relating to aircraft maintenance and repair is in preparation

Pollution reduction is the goal

As far as waste water is concerned, particular attention is paid to reducing heavy metal emissions The solvent waste reduction programme is being continued by using low-solvent paints and by replacing solvent washing methods with water based ones

Finnair has drawn up a five year programme to reduce energy consumption and costs for its properties The scheme includes expanding the energy monitoring system to cover all of Finnair's properties It also aims to look at specific energy consumption for each building In the new building projects the very latest technology has been incorporated for heat recovery

As far as flight operations are concerned Finnair Oyj is committed to the AEA s goal of reducing fuel consumption and emissions per flight by 22 4 % during the term of the Kyoto accord 1990-2012 Our choice of aircraft takes careful account of fuel consumption and atmospheric emissions

Regular progress monitoring by management

Finnair has been examining its key environmental statistics ever since the 1970s initially monitoring fuel heat electricity and water consumption In 1993 we also began reporting waste water quality and quantities Reporting of waste quantities in their present form began in 1997 and solvent emissions into the atmosphere in 1987 Systematic documentation of key environmental figures and measurements began in 1998 and the work continued in 1999 The aim is to create a company-wide "eco-balance sheet" which is as accurate as possible Finnair s environmental organization collates and calculates key environmental protection data

Finnair Oyj s management responsible for environmental matters regularly monitor the environmental protection figures Interested parties are kept informed via the annual report and environmental report as well as articles in the company's publications and Internet pages

A report was carried out on the condition of the ground beneath Finnair's technical facilities, which concluded that it was clean Finnair has also begun to tighten up the accuracy of its reporting on aircraft engine emissions, which will also help interest groups In future, the new material management system will assist the reporting of solvent emissions into the atmosphere

Most important environment projects in 1999

As far as the environment is concerned the most important projects for the 1999/00 financial year were the purchase of one Airbus A321 and two Airbus A319 aircraft for the fleet as well as the fitting of noise suppressors to the DC-9-50 s The overhaul of the waste water treatment plant for the aircraft repair shop is also a major environmental investment

The future

Finnair will continue to strive to be an eco-effective and responsible airline which pays attention to the terms of nature In addition to global environmental effects Finnair takes care for its part to see that the ground waters in the vicinity of the airport remain drinkable and that the area around the airport should be a good place to live

For more on Finnair Oyj's environmental activities see the separate environmental report

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