In accordance with Regulation 32 of the Overseas Companies Regulations 2009.

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DON'T STAPLE

OS AA01

Statement of details of parent law and other information for an overseas company

Companies House

✓ **What this form is for**
You may use this form to accompany your accounts disclosed under parent law.

✗ **What this form is NOT for**
You cannot use this form to an alteration of manner of with accounting requiremen

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COMPANIES HOUSE

Part 1 Corporate company name

Corporate name of overseas company ❶	Finnair OYJ
UK establishment number	B R 0 0 9 6 1 0

→ **Filling in this form**
Please complete in typescript or in bold black capitals.

All fields are mandatory unless specified or indicated by *

❶ This is the name of the company in its home state.

Part 2 Statement of details of parent law and other information for an overseas company

A1 Legislation

Please give the legislation under which the accounts have been prepared and audited.

Legislation ❷	Finnish Law

❷ This means the relevant rules or legislation which regulates the preparation of accounts.

A2 Accounting principles

Accounts

Have the accounts been prepared in accordance with a set of generally accepted accounting principles?

Please tick the appropriate box.

☐ **No.** Go to **Section A3**.

☑ **Yes.** Please enter the name of the organisation or other body which issued those principles below, and then go to **Section A3**.

Name of organisation or body ❸	IFRS

❸ Please insert the name of the appropriate accounting organisation or body.

OS AA01

Statement of details of parent law and other information for an overseas company

A3 Audited accounts

Audited accounts	Have the accounts been audited in accordance with a set of generally accepted auditing standards? Please tick the appropriate box. ☐ **No.** Go to **Part 3 'Signature'**. ☑ **Yes.** Please enter the name of the organisation or other body which issued those standards below, and then go to **Part 3 'Signature'**.	❶ Please insert the name of the appropriate accounting organisation or body.
Name of organisation or body ❶	KPMG OY AB	

Part 3 Signature

	I am signing this form on behalf of the overseas company.
Signature	Signature X X
	This form may be signed by: Director, Secretary, Permanent representative.

OS AA01

Statement of details of parent law and other information for an overseas company

Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form. The contact information you give will be visible to searchers of the public record.

Contact name: Tuula Tikkanen-McCreath

Company name: Finnair OYJ

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Post town: London

County/Region:

Postcode: E C 1 Y 8 A F

Country:

DX:

Telephone: + 44 (0) 7766 110 688

Checklist

We may return forms completed incorrectly or with information missing.

Please make sure you have remembered the following:

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register.
- ☐ You have completed all sections of the form, if appropriate.
- ☐ You have signed the form.

Important information

Please note that all this information will appear on the public record.

Where to send

You may return this form to any Companies House address:

England and Wales:
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139 Fountainbridge, Edinburgh, Scotland, EH3 9FF.
DX ED235 Edinburgh 1

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Annual Report 2020

FINNAIR

CONTENTS

3 REVIEW OF THE YEAR 2020

5 THE REPORT OF THE BOARD OF DIRECTORS

44 FINANCIAL STATEMENTS

98 CORPORATE GOVERNANCE STATEMENT

117 REMUNERATION REPORT

122 SUSTAINABILITY APPENDIX

Review of the year 2020

IN 2020, WE RAISED APPROXIMATELY 1.8 BILLION EUROS OF NEW FINANCING

The year 2020 will go down in history as the most difficult peacetime year in commercial aviation's 100 years of existence. The COVID-19 pandemic has been first and foremost a human crisis and health crisis that has touched hundreds of millions of people. It has also been a severe crisis for aviation and for the tens of millions of people globally whose livelihcods depend on international travel, including us at Finnair. Yet in this uncharted territory we have built a path for ourselves through the pandemic. For that, Finnair's Executive Board and the Board of Directors are deeply grateful to the entire Finnair team. The commitment and resilience of our people during this year of challenges is a source of inspiration and hope.

Amid lockdowns and exceptional restrictions to travel across countries and continents, airlines suffered massive losses as passenger flows diminished. During the year, we carried 3.5 million passengers (14.7) and our revenue for the year shrank to 829.2 million euros (3,097.7); a drop of more than 70 per cent on both measures. Our comparable operating result was -595.3 million euros (162.8). Our operating result was -464.5 million euros (160.0) and the result for the period was -523.2 million euros (74.5).

In the spring, we operated with a capacity of a few per cent only, maintaining critical connections for Finland to key European cities. Even if people did not travel, goods had to keep moving and we quickly ramped up our cargo-only operations. All in all, we operated over 1,300 cargo flights during 2020, and cargo, supported by the shortage of capacity and increased prices in the market, played a significant role in our revenue. Among other things, cargo included goods and equipment for managing the pandemic. In summer 2020, we started increasing the number of passenger flights, but the pandemic situation continued to be challenging and we operated a limited network of approximately 50 destinations and 75 daily flights throughout the rest of the year.

We paid over 460 million euros in refunds for cancelled flights to our customers. Our health-related measures and flexible booking terms enabled travelling for those who needed to travel. Customers appreciated our actions and our net promoter score (NPS) rose to record heights during the year. In the last quarter, our NPS was 52. We are grateful for the trust our customers have shown us.

THE IMPORTANCE OF SOCIAL AND ECONOMIC RESPONSIBILITIES WAS HIGHLIGHTED

During the year, we concentrated on securing the continuation of operations and our long-term competitiveness in a post-pandemic market that will be different from what it was before the pandemic. Our financing measures were timely and comprehensive with which we secured our equity and cash position. We raised approximately 1.8 billion euros of new financing including an oversubscribed rights issue of over 500 million euros. In addition, together with the State of Finland, we are preparing a hybrid loan of up to 400 million euros, which awaits EU approval. The support from the State of Finland and other shareholders has been critically important in this situation.

We made overarching adjustments to our operations and processes during the year and reduced costs by over 1.5 billion euros compared to 2019. Of this, 30 per cent was fuel related. Almost all our personnel were furloughed for a part of the year and, unfortunately, furloughs continue for a large share of our personnel. Our savings programme, targeting a permanent reduction of 140 million euros with full run-rate impact in 2022, proceeded well as we sought savings from all parts of our operations. With these decisions, the number of personnel at Finnair decreases altogether by 1,100 persons through reductions, ending of fixed-term contracts, retirements, and natural attrition. The job losses are saddening, but necessary. To support redundant employees find new jobs, we have collaborated with employment authorities and training organisations to build a comprehensive NEXT programme that has started with encouraging results.

In making decisions that are crucial for Finnair's survival and future, our long-term strategy and Finnair values have been our compass. The Finnair team have shown their ability to renew ways of working in a rapidly changing environment. Our employee satisfaction survey shows that our value of working together has strengthened during the year. As a team, we have grown stronger amidst the enormous challenges brought by the pandemic.

In the long-term, only a profitable company can shoulder its responsibilities and be a positive force in society. Our key target during 2020 was to ensure Finnair's long-term future, our ability to continue to implement our strategy, and our ability to continue to offer excellent flight connections and employment for Finland. We need profitability and investment capability also for reducing our emissions because new technology plays a key role in solving the climate challenge.

The cornerstone of our strategy, the fuel-efficient route between Europe and Asia, enabled by the location of our Helsinki hub, supports global CO_2 emission targets. This means that Finland and Finnair can bring solutions larger than their size to climate action. The rebuild of our operations enables us to come back better, and we intend to ensure that our emissions do not increase at pace with traffic recovery.

Year 2020 showed concretely how tightly environmental, social, and economic responsibilities are interlinked. While CO_2 emissions from aviation decreased during 2020, tens of thousands of jobs were lost in aviation and the global travel industry faced severe difficulties. We saw this also in our home market. Air connections provided by Finnair play a significant role in the Finnish economy, both for export companies and for the Finnish travel industry.

At Finnair, sustainability is not a separate department or process, but an integral part of everything we do. In line with this, we report sustainability as a part of our annual report. Finnair's Annual General Meeting approved in 2020 an amendment to our articles of association, enabling us to participate more actively in activities that secure the acceptability of Finnair's business and its long-term profitability, such as taking alternative fuels into use. This change in our articles of association brought sustainability to the core of our operations, where it belongs.

We expect travel to begin to recover from summer 2021 onwards as vaccination coverage increases and countries start lifting their travel restrictions. We intend to come out stronger and serve our customers even better when the market starts moving. We have enhanced the agility of our operations so that we can act fast when our customers are again ready to travel.

The year 2020 showed how essential it is to balance social, economic, and environmental aspects of sustainability. This is a good guideline also in our rebuild phase, which we start now with the Finnair team, our customers, and our partners. We look forward to welcoming our customers on board again, calling our colleagues at Finnair back to work, and being able to bring strong value to Finland and to our shareholders again.

Topi Manner, President and CEO
Anne Larilahti, VP Sustainability

The Report of the Board of Directors

6 Business model and operational environment
10 Financial performance in 2020
15 Financial position and capital expenditure
18 Fleet
19 Strategy implementation
22 Financial performance 2016–2020
23 Non-financial performance 2020
28 Changes in company management
29 Shares and shareholders
33 Finnair's risk management principles
35 Significant near-term risks and uncertainties
37 Seasonal variation and sensitivities in business operations
39 Outlook
40 Performance indicators classified as alternative performance measures
42 Reconciliation of performance indicators classified as alternative performance measures
43 Other performance indicators

Business model and operational environment

VISION
SHAPING THE WONDERS
OF TRAVEL WITH YOU

MISSION
INSPIRE YOU TO EFFORTLESSLY
CONNECT AND EXPERIENCE
THE WORLD IN A MORE SUSTAINABLE WAY

Finnair is a network airline that specialises in passenger and cargo traffic between Asia and Europe. It also offers package tours under its Aurinkomatkat-Suntours (later Aurinkomatkat) and Finnair Holidays brands.

The cornerstone of Finnair's strategy is its geographical position, which confers a competitive advantage because it enables the fastest connections in the growing market of air traffic between Asia and Europe.

Finnair's business is impacted by the four megatrends described *in the adjacent picture*. They offer numerous opportunities, but also add new requirements for conducting business.

Finnair's business is cyclical in nature, and in addition to long-term megatrends, it is heavily influenced by external factors described *in the picture on the next page*.

Of these external factors, the COVID-19 pandemic had an unprecedented impact on Finnair's business in 2020. As many countries heavily restricted travelling, the company was forced to cut its passenger traffic capacity by over 70 per cent measured in available seat kilometres (ASK) and, thus, total revenue declined by more than 70 per cent. Finnair adjusted its operations significantly which resulted in temporary and permanent layoffs impacting almost all personnel during the majority of 2020. Also other significant volume-driven, but also permanent, cost adjustment measures were introduced to minimise the losses caused by the very limited operations since Q1 and to make sure that the company will be competitive and will operate from a more efficient cost base when passenger traffic gradually starts to recover. For some time, Finnair will be a smaller company and, therefore, the number of employees was adjusted downwards by approximately 600.

The timing of the recovery in demand will primarily depend on the implementation of the vaccination programmes, lifting of travel restrictions and global acceptance of vaccine passports. Finnair is prepared for a range of outcomes with three different recovery scenarios, namely an optimistic case, a base case and a pessimistic case, and is ready to react in an agile and timely manner to changing circumstances. In the scenarios, the recovery is expected to mate-

MEGATRENDS IMPACTING FINNAIR'S BUSINESS

Increasing significance of sustainability

Urbanisation

Technological progress, increase in the significance of network connections and digitalisation

Shift in economic and political focus from the United States and Europe to developing countries

Read more on Finnair's website.

rially begin in June, August or October 2021, respectively. The base case scenario is considered the most probable of the three.

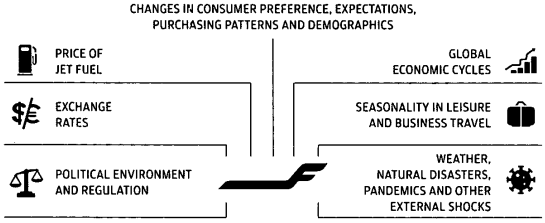
In 2020, Finnair carried out an extensive financing programme, consisting of e.g. a 500-million-euro rights offering, a 600-million-euro pension premium loan, several aircraft financing transactions and up to 400-million-euro hybrid loan the company is preparing together with the State of Finland. Due to these measures, Finnair expects to be able to execute its strategy and business model even if the impacts of the pandemic were to result in further deterioration of the demand for air travel from currently forecasted levels. The impact of COVID-19 on Finnair's strategy is described in more detail in the strategy section.

Business environment in 2020

Early Q1 was still in line with expectations and in accordance with Finnair's outlook, even though the first signs of the COVID-19 pandemic were already visible. Starting from March, the pandemic drastically impacted the global aviation sector, including Finnair's operations. As a result, airlines the world over were forced to significantly cut their capacity due to the continued strict travel restrictions and the resulting lack of demand for passenger air travel. This also applied to Finnair, as it cut its network significantly at the end of Q1. During Q2, the company only maintained the flight connections that were critical for Finland. The number of flights increased slightly starting from Q3, but the annual capacity (ASK) in 2020 was only c. 27 per cent compared to 2019. Thus, it became evident in mid-March that Finnair's performance would not align with the outlook it had provided in connection with the Q4 2019 result. As the pandemic is still present globally, and COVID-19 vaccinations started only a few weeks ago, Finnair estimates that it will only be able to meaningfully increase its traffic starting from the summer of 2021. The company currently estimates that its 2019 traffic levels measured in ASKs will be reached in 2023.

Starting from late Q1, market capacity between Helsinki and many European destinations declined drastically year-on-year. Measured in ASKs, the scheduled market capacity between origin Helsinki and Finnair's European destinations decreased by 68.2 per cent (+2.9) compared to

EXTERNAL FACTORS INFLUENCING AIRLINES



2019. After Q1, demand on European and domestic routes was soft due to the COVID-19-related route and frequency cancellations as well as strict travel restrictions. Similarly, direct market capacity between Finnair's Asian and European destinations decreased by 70.4 per cent (+4.5) year-on-year and the COVID-19 impact was already visible in Q1 as many Chinese routes were suspended. Due to continued travel restrictions, demand between Europe and Finnair's Asian destinations strongly declined during 2020.

Finnair engages in closer cooperation with certain oneworld partners through participation in joint businesses, namely the Siberian Joint Business (SJB) on flights between Europe and Japan, and the Atlantic Joint Businesses (AJB) on flights between Europe and North America. During the pandemic, Finnair and its JB partners have continued to work together to ensure the uninterrupted delivery of efficiencies and customer benefits, despite the severely reduced capacity and revenues. Further, Finnair continued the preparations to launch a Joint Business with Juneyao Airlines in H1 2021.

Customer demand for package holidays in the beginning of the first quarter was still stronger than during Q1 2019 and, at the

STRONG DEMAND FOR CARGO ALLEVIATED THE DECLINE IN FINNAIR'S CARGO REVENUE YEAR-ON-YEAR

same time, travel services allotment-based package holiday capacity was lower than in the comparison period. COVID-19 started to negatively affect demand in February, and holiday production was interrupted in mid-March following the travel restrictions set by the authorities in Finland as well as at the destinations. As a result, customer demand for package holidays declined significantly in the spring. During the summer, demand for package holidays started to recover but production remained low. In Q3, Aurinkomatkat introduced domestic package holidays and their demand has been stronger than expected. During Q4, Aurinkomatkat produced only domestic holiday packages. Even though there were promising signs of a demand recovery in late 2020 especially related to summer 2021 and winter 2021-2022, the outlook for the year 2021 continues to be uncertain and is dependent on COVID-19 developments and related travel restrictions as well as the recovery of customer demand.

The global air freight market was also heavily impacted by COVID-19 in 2020, decreasing industry cargo volumes significantly as the scheduled traffic capacity decreased beginning in late Q1. On the other hand, the market for cargo-only operations was available throughout 2020 and, therefore, Finnair was gradually able to also increase the number of scheduled Asian flights carrying belly cargo despite the low passenger load factor as demand for cargo remained strong. This also alleviated the decline in Finnair's cargo revenue that resulted from lower cargo volumes year-on-year. The total cargo load factor increased significantly compared to 2019. Finnair estimates that a similar cargo demand trend will continue at least during Q1 2021.

The US dollar, which is the most significant expense currency for Finnair after the euro, depreciated by 2.0 per cent against the euro year-on-year. The market price of jet fuel was 43.1 per cent lower in 2020 than in the comparison period, but this decline does not fully impact Finnair's 2020 fuel costs due to its hedging policy. Finnair hedges its fuel purchases and key foreign currency items; hence, market fluctuations are not reflected directly in its result. Finnair's 2020 fuel bill, however, decreased significantly due to the capacity decline. As a consequence, Finnair has also temporarily changed the lower limit its degree of fuel hedging to 0 per cent.

CAPITALS

Human
- Competent Personnel

Intellectual And Social
- Suppliers and partners
- Joint businesses (AJB/SJB) and alliance cooperation
- Distribution channels
- Public affairs

Intangible
- Traffic & overflight right
- Customer base and data
- Quality certifications
- Route network
- Brand
- Articles of Association

Financial And Material
- Adjusted interest-bearing debt €2197,5 million
- Equity capital €896,6 million
- Modern and efficient fleet of 83 aircraft
- COOL Nordic Cargo Terminal, Helsinki Hub
- Maintenance Facilities
- Catering Facilities

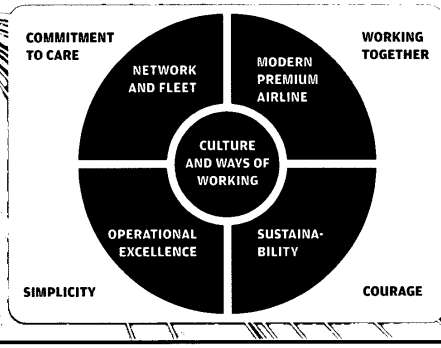
Natural Resources
- Fuel use (jet and ground)
- Energy consumption of facilities
- Water use
- Purchased goods
- Material use

BUSINESS ACTIVITIES

Customer Service And Products
Finnair and Oneworld Global network
Passenger and cargo traffic
Ancillary services
Package tours
Dynamic travel products

Support Services
Catering
Aircraft Maintenance
Ground Handling
Airline Training

STRATEGY AND VALUES



PURPOSE: ENRICHING LIFE BY BRIDGING THE WORLD

IMPACT

Increasing Value For Society
- Enabling safe and free movement of people, goods and services
- Improving Cultural, Societal and Commercial interaction
- Participating and inspiring cross-industry collaboration
- Economic multiplier effects for the Finnish society

Sustainable Growth
- Producing direct and indirect employment (e.g. tourism, international trade and foreign investments)
- Venturing out of our traditional business to find solutions for our core
- Producing value for shareholders' investments
- Increased brand value

Satisfied & Competent Personnel
- Equal opportunities for Personnel
- Good Governance
- Safe and Healthy work
- Support and respect of labour and human rights

Environmental Impact
- Air Emissions (CO_2 and non-CO_2)
- Noise Emissions
- Liquid waste (De-icing fluids)
- Material Waste

Financial performance in 2020

Revenue

In 2020, Finnair's revenue decreased significantly due to the impact of the COVID-19 pandemic.

Unit revenue (RASK) decreased by 2.4 per cent and amounted 6.41 cents (6.56). The unit revenue at constant currency decreased by 2.0 per cent.

Passenger traffic

The COVID-19 pandemic had an impact on the Asian traffic figures beginning in February; the impact was significant in all traffic areas from March. This resulted in a material decline in 2020 traffic figures. Passenger revenue decreased by 78.7 per cent and passenger traffic capacity, measured in Available Seat Kilometres (ASK), declined by 72.6 per cent overall against the comparison period. The number of passengers decreased by 76.2 per cent to 3,485,600 passengers. Traffic measured in Revenue Passenger Kilometres (RPK) decreased by 78.8 per cent and the passenger load factor (PLF) decreased by 18.7 percentage points to 63.0 per cent.

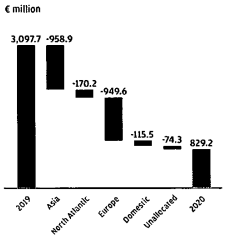
In Asian traffic, capacity declined significantly starting from February and there were only a few scheduled flights in Q2 and a limited number in Q3 and Q4. Even though the number of scheduled flights increased somewhat in Q3 and Q4 from Q2, ASKs were nevertheless down by 73.6 per cent in 2020. In total Asian traffic, RPKs decreased by 80.1 per cent and the PLF decreased by 20.6 percentage points to 62.3 per cent. The low PLF causing low yields in Q2-Q4 were, however, supported by the strong Asian cargo operations and a very high cargo load factor.

As there was only one passenger flight in Q2 and none in Q3 or Q4, capacity on North Atlantic routes decreased by 79.1 per cent year-on-year even though Q1 was still positive due to a new route, Los Angeles, that was opened at the end of March 2019 and ad hoc frequencies that were added in February when COVID-19 measures prompted cancelled frequencies from Asia. In total, North Atlantic traffic (RPKs) decreased by 81.4 per cent and the PLF decreased by 9.1 percentage points to 76.2 per cent.

Also in European traffic, capacity decreased due to the COVID-19 impact by 71.7 per cent. RPKs decreased by 78.3 per cent and the PLF was down by 18.8 percentage points to 62.1 per cent.

Due to the same reasons, domestic traffic capacity decreased by 54.7 per cent. RPKs decreased by 58.4 per cent and the PLF decreased by 5.4 percentage points to 60.2 per cent.

Revenue bridge by traffic area



Passenger revenue and traffic data by area, 2020

	Passenger revenue			ASK		RPK		PLF	
Traffic area	MEUR	Share %	Change, %	Mill. km	Change, %	Mill. km	Change, %	%	Change, %-p
Asia	186.0	35.2	-82.8	6,155.9	-73.6	3,837.7	-80.1	62.3	-20.6
North Atlantic	26.4	5.0	-85.3	848.9	-79.1	647.1	-81.4	76.2	-9.1
Europe	244.6	46.3	-75.5	5,061.1	-71.7	3,140.5	-78.3	62.1	-18.8
Domestic	69.1	13.1	-61.9	871.5	-54.7	524.7	-58.4	60.2	-5.4
Unallocated	1.9	0.4	-95.0						
Total	528.1	100.0	-78.7	12,937.5	-72.6	8,150.0	-78.8	63.0	-18.7

Ancillary

Ancillary revenue consisting of e.g. various service fees and inflight sales decreased by 64.6 per cent, mainly due to the low number of passengers, especially in Q2-Q4. In addition to service charges, advance seat reservations and excess baggage were the largest ancillary categories.

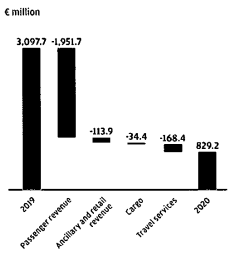
Cargo

Due to the limited number of scheduled flights - especially in Q2, but also in Q3 and Q4 - the impact of the COVID-19 pandemic was visible in Finnair's 2020 cargo volumes. Finnair commenced its cargo-only operations in April as demand was strong in the market due to overall lack of capacity. In Q3, Finnair was able to increase the number of Asian scheduled passenger flights carrying belly cargo as the cargo demand remained strong even though the passenger load factor was low. The same trend continued in Q4. In 2020, available scheduled cargo tonne kilometres decreased by 73.9 per cent, whereas revenue scheduled cargo tonne kilometres decreased by 73.2 per cent. However, cargo related available tonne kilometres decreased by 61.6 per cent and revenue tonne kilometres decreased by 55.6 per cent as they included also the cargo-only flights operated primarily between Asia and Europe but also between Europe and North America. Cargo revenue decreased only by 16.2 per cent.

Travel services

Despite the improved package holiday demand in early Q1, travel services development was negatively affected by the lower allotment-based capacity in Q1 caused by COVID-19 and later temporarily cancelled production both in allotment-based holidays and dynamic products in Q2. Further, Aurinko Estonia operations were discontinued at the end of 2019. As a result, there was no travel services revenue in Q2 and Q3 saw only a limited amount of production. On the other hand, Aurinkomatkat opened domestic package holidays for sale during Q3 and their demand has been stronger than estimated. In Q4, Aurinkomatkat produced only domestic package holidays. The total number of travel services passengers declined by 81.7 per cent and the load factor in Aurinkomatkat's allotment-based capacity was 94.5 per cent. Travel services revenue decreased by 73.4 per cent.

Revenue bridge by product



Revenue by product

EUR million	2020	2019	Change %
Passenger revenue	528.1	2,479.8	-78.7
Ancillary revenue	62.3	176.2	-64.6
Cargo	177.7	212.1	-16.2
Travel services	61.1	229.5	-73.4
Total	**829.2**	**3,097.7**	**-73.2**

Cost development

In 2020, Finnair's operating expenses decreased notably less than the decline in revenue, due to certain fixed cost items. Finnair has, however, introduced significant cost adjustment initiatives, including temporary and permanent layoffs, due to the COVID-19 impact; their effect was visible in Q2–Q4.

Unit cost (CASK) increased by 77.0 per cent and totalled 11.01 cents (6.22). CASK excluding fuel increased by 93.4 per cent and totalled 9.21 cents (4.76). The surges were caused by the limited capacity starting from Q2 and certain fixed cost items.

Operating expenses excluding fuel decreased by 46.2 per cent. Fuel costs, including hedging results and emissions trading costs, decreased mainly due to COVID-19-related capacity cuts and this was visible especially in Q2–Q4 although the price impact mitigated it.[1] Fuel efficiency (as measured by fuel consumption per ASK) weakened by 17.7 per cent. Fuel consumption per RTK, which also accounts for developments in both passenger and cargo load factors, increased by 20.8 per cent.

Staff and other crew related costs decreased as capacity was cut significantly and Finnair commenced the majority of its planned temporary layoffs in April 2020 and, thus, the effect was visible starting from Q2. On the other hand, items maintaining the costs were summer holidays in the middle of temporary layoffs, fixed pension fund costs, an increase in the employer's health insurance contribution in 2020 and a salary increase due to recently negotiated CLAs.

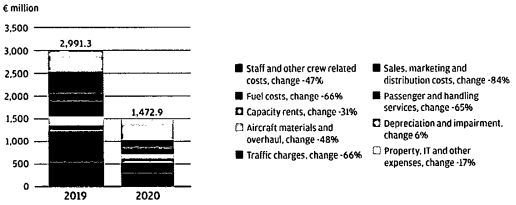
Passenger and handling costs (including also tour operation expenses related to e.g. hotels) were driven down by volume declines in both passenger and cargo traffic. The category also includes tour operation expenses.

Sales, marketing and distribution costs decreased even more than revenue due to a decline in sales commissions and payment costs added to material marketing cost savings. Further, some booking fees paid, particularly in Q1, were credited due to the wave of COVID-19-related flight cancellations.

Aircraft materials and overhaul costs also decreased and notably in Q1, they were

[1] Fuel price including impact of currencies and hedging.

Operating expenses included in comparable operating result



Key figures – Revenue and profitability		2020	2019	2018	2017	2016
Revenue	EUR mill.	829.2	3,097.7	2,836.1	2,568.4	2,316.8
change from previous year	%	-73.2	9.2	10.4	10.9	2.8
Comparable operating result	EUR mill.	-595.3	162.8	218.4	170.4	55.2
Comparable operating result of revenue	%	-71.8	5.3	7.7	6.6	2.4
Comparable operating result at constant currency and fuel price*	EUR mill.	-558.9	205.7	218.4		
Operating result	EUR mill.	-464.5	160.0	256.3	224.8	116.2
Comparable EBITDA of revenue	%	-30.3	15.8	18.1	17.0	11.7
Basic and diluted earnings per share (EPS)**	EUR	-0.51	0.09	0.13	0.23	0.10
Unit revenue per available seat kilometre (RASK)	cents/ASK	6.41	6.56	6.69	6.96	6.83
RASK at constant currency*	cents/ASK	6.40	6.53	6.69		
Unit revenue per revenue passenger kilometre (yield)	cents/RPK	6.48	6.44	6.48	6.57	6.71
Unit cost per available seat kilometre (CASK)	cents/ASK	11.01	6.22	6.18	6.49	6.67
CASK excluding fuel	cents/ASK	9.21	4.76	4.81	5.22	5.22
CASK at constant currency and fuel price*	cents/ASK	10.72	6.10	6.18		

* Key figures at constant currency and fuel price are reported on 2018 level.
** A rights offering was implemented between June and July 2020 and, therefore, 2016-2019 EPS figures have been restated accordingly.

positively impacted by a new engine MRO agreement and related revaluation, but this was netted by the decline in the USD-based discount rates of maintenance reserves. During Q2–Q4, the capacity decline was the main cause for the cost decrease.

Fleet growth and technical maintenance increased depreciation and impairment costs. Traffic charges decreased somewhat in line with traffic decline. Capacity rents, covering purchased traffic from Norra and any wet leases or cargo rents, decreased from the comparison period due to decline in capacity despite Norra's relatively significant operations during Q2–Q4. Property, IT and other expenses were nearly at the comparison period's level as they are mainly fixed even though some cost savings initiatives have already been executed.

Result

Finnair's 2020 result was heavily impacted by COVID-19 as the company was forced to cancel tens of thousands of flights and was able to operate only to a limited number of destinations as a result of strict travel restrictions in many countries worldwide starting from mid-Q1. Therefore, demand softened significantly.

Finnair's comparable EBITDA and comparable operating result decreased significantly as revenue declined notably more than operating expenses. Comparable EBIT margin was -71.8 per cent (5.3), when the targeted over the cycle level was above 7.5 per cent during the strategy period. The targeted level will, however, be reassessed due to the COVID-19 impact.

Unrealised changes in foreign currencies of fleet overhaul provisions were 12.2 million euros (-1.4) and fair value changes of derivatives where hedge accounting is not applied totalled -0.2 million euros (1.3). Other items affecting comparability consisting of changes in defined benefit plans, sales gains or losses and restructuring costs totalled 118.7 million euros (-2.8) of which 132.8 million euros was related to changes in defined benefit plans caused by the net impact of Finnair's pension fund index increment removals and pilots' early retirement costs. Further, -14.9 million euros was related to the restructuring costs caused by the COVID-19 impact. Driven by the changes in the defined benefit plans, Finnair's operating result declined notably less year-on-year than the comparable operating result.

2020 result

EUR million	2020	2019	Change %
Comparable EBITDA	**-251.5**	**488.3**	**-151.5**
Depreciation and impairment	-343.8	-325.4	5.6
Comparable operating result	**-595.3**	**162.8**	**<-200**
Items affecting comparability	130.8	-2.8	>200
Operating result	**-464.5**	**160.0**	**<-200**
Financial income	38.7	4.8	>200
Financial expenses	-255.2	-83.6	>200
Exchange gains and losses	26.6	12.7	109.5
Share of results in associates and joint ventures	-	-0.9	100.0
Result before taxes	**-654.4**	**93.0**	**<-200**
Income taxes	131.1	-18.4	>200
Result for the period	**-523.2**	**74.5**	**<-200**

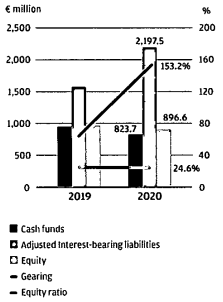
FINANCIAL EXPENSES INCREASED SIGNIFICANTLY DUE TO HEDGING WHICH WAS RECLASSIFIED FROM OTHER COMPREHENSIVE INCOME BUT THIS WAS NETTED BY MATERIAL COST SAVINGS RELATED TO CHANGES IN DEFINED BENEFIT PLANS

Financial expenses increased significantly, and the growth was mainly related to jet fuel and foreign exchange hedging. Due to COVID-19, Finnair operated only limited capacity and, thus, the underlying fuel price and foreign exchange exposures did not exist. As a result, Finnair discontinued the application of hedge accounting to most of its fuel and currency hedges and the market value of those hedges was reclassified to profit and loss from other comprehensive income due to IFRS 9 during Q1-Q3. Financial income increased for the same reason, but the related net expense totalled 136 million euros. Foreign exchange gains were mainly related to USD denominated aircraft lease payments and liabilities.

Finnair's result before taxes and result after taxes declined more than the other result key figures primarily due to the increase in financial expenses.

Financial position and capital expenditure

Gearing



[2] A rights offering was implemented between June and July 2020. The shareholders' equity per share for the comparison period has been restated accordingly.

Balance sheet

The Group's balance sheet totalled 3,646.5 million euros at the end of the year (3,877.9).

Fleet book value decreased 93.1 million euros despite the A350 deliveries in February and September 2020 due to depreciation and two A350 sale-and-leaseback transactions; the right-of-use fleet increased by 36.1 million euros despite depreciation mainly due to the effect of A350 sale-and-leaseback transactions. Receivables related to revenue decreased significantly due to the COVID-19 impact to 57.5 million euros (160.6). Netted deferred tax assets have increased to 84.8 million euros (-64.3) resulting from tax losses caused by the COVID-19 impact on Finnair's result. The pension assets totalling to 31.8 million euros (none in the comparison period) mainly relate to the changes in defined benefit plans (net impact of Finnair's pension fund index increment removals and pilots' early retirement costs) whereas pension obligations declined to 1.5 million euros (77.1) mainly due to the same reason.

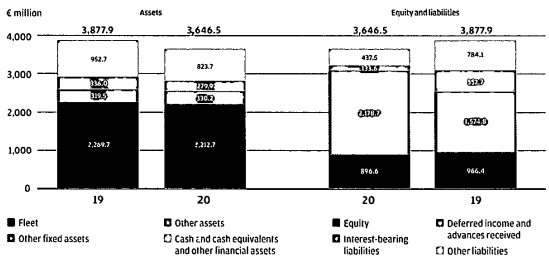
Deferred income and advances received also decreased significantly to 133.6 million euros (552.7) mainly due to the decline in ticket related liabilities. The unflown ticket liability decreased to 55.7 million euros (451.2) mainly as a result of paid out ticket refunds of 464 million euros related to the cancelled flights.

The loss for the period decreased shareholders' equity. Shareholders' equity also includes a fair value reserve that is affected by changes in the fair values of jet fuel and currency derivatives used for hedging as well as actuarial gains and losses related to pilots' defined benefit plans according to IAS 19. The value of the item at the end of December was -41.8 million euros after deferred taxes (-6.7) as the decrease in the fair value of hedge instruments had a decreasing effect on equity especially due to the decline in the jet fuel price and actuarial losses from defined benefit pension plans.

During 2020, Finnair booked 502.9 million euros of net proceeds related to a rights offering, which was finalised in July. Finnair also issued a new hybrid bond of 200 million euros in September to refinance the previous 200-million-euro hybrid bond. Shareholders' equity totalled 896.6 million euros (966.4), or 0.64 euros per share (1.39[2]).

Key figures – Capital structure		2020	2019	2018	2017	2016
Equity ratio	%	24.6	24.9	23.3	35.2	33.9
Gearing	%	153.2	64.3	76.9	24.2	11.2
Interest-bearing net debt	EUR mill.	1,373.8	621.0	706.7	246.0	95.8
Interest-bearing net debt / Comparable EBITDA, LTM		-5.5	1.3	1.4	1.6	2.5
Gross capital expenditure	EUR mill.	515.9	443.8	474.0	519.0	518.9
Return on capital employed (ROCE)	%	-15.2	6.3	9.3	13.6	8.9

Balance sheet



Cash flow and financial position

In 2020, the COVID-19 impact was clearly visible in net cash flow from operating activities, which turned significantly negative primarily due to working capital movements related to flight cancellations (e.g. paid ticket refunds of 464 million euros in total) and the decline in the financial result. Net cash flow from investments turned positive mainly due to changes in other current financial assets (maturity over three months), the A350 sale-and-leaseback transactions in August and December and lower fleet investments. Also net cash flow from financing turned positive mainly due to the fully-drawn 600-million-euro statutory pension premium loan, the rights offering net proceeds of 500.6 million received in cash and the export credit agency financing transaction of an A350 in December. The 175-million-euro unsecured syndicated revolving credit facility[3] drawn in March was repaid in September. Its maturity date is in January 2023.

The equity ratio on 31 December 2020 was almost the same as at the end of 2019 despite the lower result for the period and the change in the fair value reserve as 502.9 million euros related to the rights offering were booked. Gearing, on the contrary, rose significantly as interest-bearing net debt increased.

The company's liquidity remained strong during the period under review. Even though Finnair Group's cash funds declined due to the purchase of two A350 aircraft (one in Q1 and one in Q3) and negative net cash flow from operating activities, the fully-drawn 600-million-euro pension premium loan, the A350 sale-and-leaseback transactions in August and December as well as the export credit agency financing transaction of an A350 in December netted the decline. Further, the rights offering net proceeds of 500.6 million received in cash also increased the cash funds.

In addition to the currently fully undrawn 175-million-euro revolving credit facility, Finnair still has a 200-million-euro short-term commercial paper program, which was unused at the end of December. The company also announced in December that the State of Finland, together with Finnair, is preparing to make up to 400 million euros which is expected to be available to Finnair in Q1 2021 in the form of an unsecured hybrid loan. The possible arrange-

[3] The revolving credit facility includes a financial covenant based on adjusted gearing. The covenant level of adjusted gearing was waived during Q2 2020, was then reset to 225 per cent until 30 June 2021, reducing to 200 per cent until 30 June 2022 and then to 175 per cent thereafter. At the closing date, the figure was 153.2 per cent.

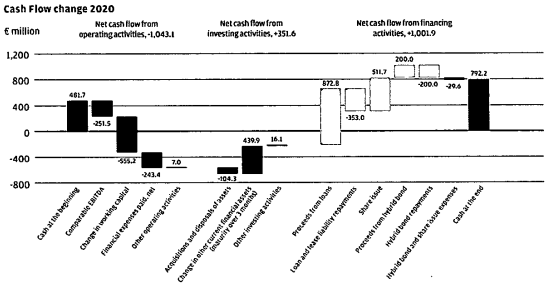
Cash flow

EUR million	2020	2019
Net cash flow from operating activities	-1,043.1	564.5
Net cash flow from investing activities	351.6	-513.2
Net cash flow from financing activities	1,001.9	-225.4

Liquidity and net debt

EUR million	2020	2019
Cash funds	823.7	952.7
Adjusted interest-bearing liabilities	2,197.5	1,573.7
Interest-bearing net debt	1,373.8	621.0

Cash Flow change 2020



THE STATE OF FINLAND, TOGETHER WITH FINNAIR, IS PREPARING A HYBRID LOAN OF UP TO 400 MILLION EUROS

ment is subject to a final decision by the Finnish Government and it also requires approval by the EU commission. Further, Finnair is planning to refinance its existing 200-million-euro senior unsecured bond which matures in March 2022.

Interest-bearing liabilities increased from 2019 year-end mainly as a result of the A350 sale-and-leaseback transactions, the A350 export credit agency financing and the pension premium loan. The share of lease liabilities amounted to 1,016.2 million euros (1,054.0). Interest-bearing net debt increased from the end of 2019 due to the decline in cash funds and the increase in interest-bearing liabilities.

Capital expenditure

Gross capital expenditure, excluding advance payments, totalled 515.9 million euros in 2020 (443.8) and was primarily related to fleet investments.

Cash flow from investments (including fixed asset investments and divestments, sublease payments received and advance payments) totalled -88.3 million euros (-460.6).

Change in other current financial assets (maturity over three months) totalled 439.9 million (-53.4) also forming a part of the net cash flow from investments, which amounted to 351.6 million euros (-513.2).

Cash flow from investments (including only fixed asset investments and advance payments) for the financial year 2021 relates mainly to fleet and is expected to total approximately -119 million euros. Investment cash flow includes both committed investments as well as estimates for planned, but not yet committed, investments.

The company has 38 unencumbered aircraft, which account for approximately 46 per cent of the balance sheet value of the entire fleet of 2,212.7 million euros.[4]

Dividend policy and the Board's proposal for the distribution of profit

The aim of Finnair's dividend policy is to pay, on average, at least one-third of the earnings per share as a dividend over an economic cycle. The aim is to take into account the company's earnings trend and outlook, financial situation and capital needs in the distribution of dividends.

In 2020, earnings per share were -0.51 euros (0.09). Finnair Plc's distributable equity amounted to 361,672,701.47 euros on 31 December 2020. The Board of Directors proposes to the Annual General Meeting that no dividend be distributed for 2020.

[4] Fleet value includes right of use assets as well as prepayments of future aircraft deliveries.

Fleet

Finnair's operating fleet

Finnair's fleet is managed by Finnair Aircraft Finance Oy, a wholly-owned subsidiary of Finnair. At the end of the year, Finnair itself had 59 aircraft, of which 24 were wide-body and 35 narrow-body aircraft. Of these aircraft, 30 were owned by Finnair Aircraft Finance Oy and 29 were leased.

At the end of the year, the average age of the fleet operated by Finnair was 10.6 years.

Fleet renewal

At the end of the year, Finnair had sixteen A350 aircraft, which have been delivered between 2015-2020 and three A350 aircraft on order from Airbus. These aircraft were originally scheduled for delivery from Q2 2021 to Q2 2022. Based on a new agreed schedule, the remaining three aircraft would be delivered to Finnair in Q2 2022, Q4 2024 and Q1 2025.

In the fourth quarter, Finnair also retired two of its oldest Airbus A319 aircraft, both of which were more than 21 years old.

Finnair's investment commitments for property, plant and equipment, totalling 429 million euros, include the upcoming investments in the wide-body fleet.

Finnair has the possibility to adjust the size of its fleet in line with demand forecasts through the staggered maturities of its lease agreements and changes in the number of owned aircraft.

Finnair continues to proceed with the introduction of the new Premium Economy cabin class. Due to the COVID-19 impact, the introduction has been postponed from 2021 to 2022.

Fleet operated by Norra (purchased traffic)

Nordic Regional Airlines (Norra) operates a fleet of 24 aircraft for Finnair on a contract flying basis. All of the aircraft operated by Norra are leased from Finnair Aircraft Finance Oy.

Fleet operated by Finnair* 31.12.2020	Seats	#	Change from 31.12.2019	Own**	Leased	Average age 31.12.2020	Ordered
Narrow-body fleet							
Airbus A319	144	6	-2	5	1	19.1	
Airbus A320	174	10		8	2	18.4	
Airbus A321	209	19		4	15	9.0	
Wide-body fleet							
Airbus A330	289/263	8		4	4	11.2	
Airbus A350	297/336	16	2	9	7	3.4	3
Total		59	0	30	29	10.6	3

* Finnair's Air Operator Certificate (AOC).
** Includes JOLCO-financed (Japanese Operating Lease with Call Option) A350 aircraft.

Fleet operated by Norra* 31.12.2020	Seats	#	Change from 31.12.2019	Own**	Leased	Average age 31.12.2020	Ordered
ATR	68-72	12		6	6	11.4	
Embraer E190	100	12		9	3	12.5	
Total		24	0	15	9	12.0	

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

Strategy implementation

Finnair is targeting sustainable, profitable growth. The company implements its strategy for the period of 2020-2025 in five focus areas, namely: Network and fleet, Operational excellence, Modern premium airline, Sustainability, as well as Culture and ways of working.

Due to the COVID-19 impact, the company has decided to reassess its strategy; though the foundation is still valid - for example, Finnair is still fully committed to Asian megacities and transfer traffic between Asia and Europe - the focus areas related to growth, network and fleet investments and their schedules, as well as long-term financial targets, will be re-evaluated in the autumn of 2021 as a result of the impact on demand caused by the COVID-19 pandemic. The company still estimates that it will return to the path of sustainable, profitable growth within a rebuilding period of approximately 2 years. At the same time, the company realises that the markets and the competitive environment will differ from the pre-pandemic era going forward.

The company's sustainability targets remain the same, even though available measures to reach the targets are being re-evaluated. The 2020 Annual General Meeting resolved that the Articles of Association be amended to expand the company's field of business. This amendment supports Finnair's sustainability strategy by enabling a more active role e.g. in the usage of alternative fuels and in activities that are aimed at ensuring the acceptability, and thereby the long-term profitability, of Finnair's business. It is an important step and, as a result, sustainability is at the core of Finnair.

Network and fleet

Exclusive of the COVID-19 impact, Finnair is targeting Asian market level growth focusing primarily on the most profitable Asian mega cities and transfer traffic. The previously expected annual capacity growth between 3-5% was in line with the anticipated market growth. However, the development of the capacity growth rate will be reassessed.

Finnair continues to leverage its home hub's unique geographic location, maximizing its efficiencies. Currently committed aircraft investments will be made, though Finnair was able to postpone deliveries of the remaining A350 aircraft by, on average, 24 months. The time horizon of the remaining fleet investment plan (including the narrow-body fleet renewal) will, however, be reassessed. The company will in particular follow the rapidly evolving aircraft market when it plans its future fleet investments.

Operational excellence

Finnair is recognised as one of the world's safest airlines. The strong safety culture (including health and safety measures), as well as the reliability and productivity of Finnair's operations, continues to be at the core of the company's strategy. In the future, more effort will be put into technology, automation and utilising data as well as into working together cross-functionally.

Particular focus will be on fuel efficiency and on-time performance, which have a significant impact on both cost and productivity as well as customer experience. In terms of on-time performance and fuel efficiency, Finnair aims to develop from being in line with peers to being among the leaders. The company's on-time performance was excellent (90.2%) during 2020.

In October, Finnair announced that it was targeting a 140-million-euro permanent cost base decline by 2022, compared to 2019 levels. The first savings target published in May was 80 million euros and the second published in August was 100 million euros. Finnair continues to seek savings in such areas as real estate, aircraft leasing, IT, sales and distribution and administration as well as employee compensation structures. The company will further continue streamlining its operations and the digitalisation and automation of its customer processes. The company will also renegotiate its supplier and partner agreements. In addition, it carried out staff co-operation negotiations due to the COVID-19 impact, which resulted in a reduction of approximately 600 employees globally. Also, indefinite and temporary layoffs were continued.

The company is preparing for a recovery in traffic and demand with different scenarios and it has already announced that it will e.g. soon commence training to reactivate furloughed pilots' eligibility to fly. With the help of these preparations, the company aims to ensure that the gradual increase

IN THE AUTUMN OF 2021, FINNAIR WILL RE-EVALUATE CERTAIN STRATEGY FOCUS AREAS AND FINANCIAL TARGETS DUE TO THE COVID-19 IMPACT

in traffic will be smooth once the demand recovers.

Modern premium airline

Finnair aims to be defined as a modern, premium airline. This will be achieved by allowing the customers to tailor the way they want to travel and by enabling a smooth travel experience with the help of digital services.

To win in the competitive airline market, Finnair must excel in everyday customer experience. Finnair's Net Promoter Score (NPS), measuring customer satisfaction, was at an excellent level with a score of 48 (38) in 2020. The customers especially appreciated Finnair's service and extensive health and safety measures during the pandemic. As a token of appreciation, Finnair received a Five-Star Global Airline rating from APEX (Airline Passenger Experience Association) in December based on customer reviews.

Due to the COVID-19 pandemic, Finnair introduced several health and safety measures in 2020 to restore customers' trust in air travel. These measures included e.g. intensified aircraft cleaning, plastic screens at the airport customer service points, minimisation of unnecessary human contact onboard, new boarding and disembarkation processes, handing out personal Clean Kits to the customers and mandatory face masks during flights. Finnair also added flexibility to change bookings.

In the autumn, a partnership related to COVID-19 testing with Finnish healthcare service provider Terveystalo was launched. Finnair also offered a complimentary Corona Cover, extending customers' own travel insurance to all international flights departing from Finland as well as to all Aurinkomatkat and Finnair Holidays international holiday packages between November–March. The Corona Cover compensates to a great extent potential COVID-19 related costs accrued during a trip.

Despite the pandemic, Finnair has continued to develop its distribution channels, Finnair.com and the travel agent channel. Finnair became the first European airline to modernize airline product sales using New Distribution Capabilities (NDC) with TravelSky, a leading Chinese distribution system and TongchengElong, a leading Chinese online travel service provider.

During Q4, Finnair launched a new Taste of Finnair concept where it sells ready-made meals in K-markets around the Helsinki area but also in other parts of Finland. The meals are made by Finnair Kitchen and, thus, utilises a workforce which would otherwise be furloughed. The same K-markets also started selling Finnair's signature blueberry juice, which was previously available only onboard Finnair flights. In addition, Finnair operated eight virtual flights from Helsinki to Rovaniemi to meet Santa Claus. The total virtual flight proceeds of 90,000 euros went to supporting UNICEF's work to slow the spread of COVID-19 and minimise the pandemic's impact on children worldwide.

In 2020, the average monthly number of unique Finnair website visitors totalled only 1.1 million (2.0) due to the COVID-19 impact. Similarly, the number of active users of the Finnair mobile application decreased by 44 per cent to 187,300 from 2019. Direct sales in Finnair's digital channels increased to 40.7 per cent (25.9) of all tickets sold.

Sustainability

Sustainability is an essential part of Finnair, Finnair's sustainability targets will remain unchanged despite the COVID-19 pandemic. Finnair will, however, reassess how its action plan to reach the targets should be amended due to COVID-19.

Finnair's long-term goal, which is among the most ambitious ones in the aviation sector, is carbon neutrality by 2045, with a 50% reduction in net emissions by the end of 2025 compared to the 2019 level. The company is on track to reach a 50% reduction in single use plastics by the end of 2022 and was able to reach a 50% reduction of food waste by the end of 2020.

Culture and ways of working

The strategy will be implemented by engaging all Finnair personnel and, thus, the strategy will be closely linked to the everyday work and targets. The strategy emphasises genuine collaboration, target-oriented leadership and utilising of new working methods such as lean and agile. These measures are emphasised in the pandemic but also during the future years. The number of employees

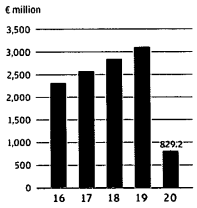
has decreased as a result of the COVID-19 impact and, therefore, new, mcre effective ways of working as well as extensive collaboration are necessary.

In Q4, Finnair announced a long-term incentive programme for those personnel groups with which it agreed on permanent cost savings that support Finnair's recovery during the rebuild period. The incentive programme started during 2020 and will end in the third quarter of 2023. Finnair also reached agreements with some of the personnel groups related to Finnair pension fund's index increment removals, which had a positive impact of more than 150 million euros on the 2020 financial result. These are outstanding examples of Finnair's common culture and collaboration during the pandemic.

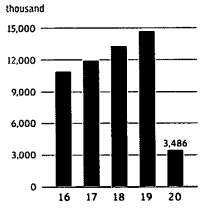
Despite the pandemic, Finnair retained its status as an attractive employer and Universum ranked Finnair as the most attractive employer amongst business students in Finland for the fourth consecutive year.

Financial performance 2016–2020

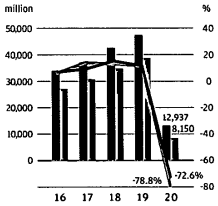
Revenue



Number of passengers

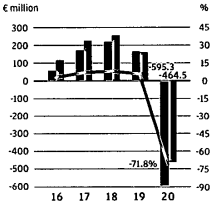


Available seat kilometres (ASK) and revenue passenger kilometres (RPK)



- Available seat kilometres (ASK)
- Revenue passenger kilometres (RPK)
- Available seat kilometres (ASK), %
- Revenue passenger kilometres (RPK), %

Comparable operating result and operating result

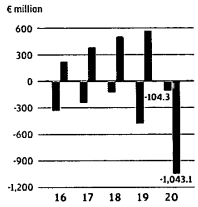


- Comparable operating result*
- Operating result
- Comparable operating result*, % of revenue

The target level of comparable operating result for the 2020–2025 strategy period will be reassessed due to the COVID-19 impact.

* Comparable operating result excluding changes in the fair values of derivatives and in the value of foreign currency denominated fleet maintenance reserves sales gains and losses on aircraft and other transactions and restructuring costs.

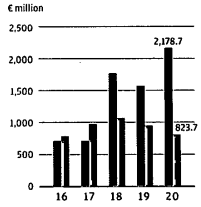
Cash flow of investments and net cash flow from operations



- Investment cash flow*
- Net cash flow from operations

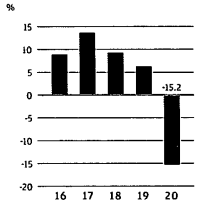
* Including investments and divestments of fixed assets and group shares.

Interest-bearing liabilities and cash funds



- Interest-bearing liabilities
- Cash funds

Return on capital employed (ROCE)

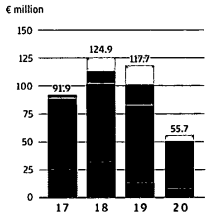


- Return on capital employed (ROCE)

The target level of return on capital employed (ROCE) for the 2020–2025 strategy period will be reassessed due to the COVID-19 impact.

Non-financial performance 2020

Paid taxes and other sustainability costs



- Direct taxes payable
- Indirect taxes collected
- EU ETS costs
- Other environmentally based costs

Other environmentally based costs include Noise and NOx costs, and environmental-based taxes

At the end of February, the COVID-19 pandemic started to affect company's financial prospects, and at the end of March, the virus hit the aviation industry with its full force. Due to travel restrictions and reduced demand, Finnair adjusted its flight operations, and at the lowest level only operated less than 10 per cent of its normal traffic plan.

Minor improvements in traffic were at times seen during the year, but overall, the continued significant travel restrictions lead to over 70 per cent decrease in available seat kilometres compared to 2019 figures. This was also directly reflected in the air emissions of the flying. The exceptional and unprecedented decrease in flights during the pandemic makes a comparison of performance with previous years challenging. Absolute amounts of emissions and waste have decreased significantly, while relative indicators have declined. Further adapting its operations to meet the weakening demand, Finnair began co-operation negotiations with personnel and adjusted personnel costs through layoffs and staff reductions.

Direct and indirect taxes paid during 2020 decreased due to reduced operations and negative result. Other performance-based payments, such as environmental payments, also decreased significantly.

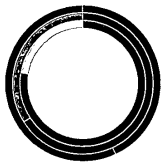
Customers, employees and other stakeholders

Finnair is committed to transporting customers, their luggage and cargo to agreed destinations safely, smoothly and on time. In 2020, the arrival punctuality was 90.0 (79.3). Particular attention was also paid to in-flight health safety, the use of a face mask was mandatory on flights, the number of commonly distributed magazines was reduced, and catering and boarding processes were changed to minimize personal contact. Due to these exceptional service measures, Finnair's overall customer satisfaction as measured by Net Promoter Score (NPS) increased to 48 (38).

Finnair, together with the Ministry for Foreign Affairs and the Finnish missions, carried out 16 subsidised repatriation flights for passengers who had difficulties in finding a return route to Finland due to the pandemic. We also started to fly direct cargo-only routes to deliver surgical masks and respirators the National Emergency Supply Agency had purchased, as well as other protective equipment to Finland. We modified three Airbus A330 aircraft as temporary cargo carriers to transport these protective equipment and medicines, among other things.

Finnair employed an average of 6,573 (6,771) people in 2020, which is 3 per cent less than in the previous year. The number of employees decreased during 2020 by 683 or 10 per cent, totalling 6,105 at the end of December (6,788). Altogether approximately 600 people were made redundant at Finnair in 2020. The decrease in personnel was due to adapting operations to meet the reduced demand caused by COVID-19. At the same time, preparations began for sustainable post-crisis growth. Due to the COVID-19 impact, Finnair has especially concentrated on its social responsibilities by offering extensive and active support to its employees who have been, or will be, laid off. The company has introduced a NEXT programme which supports the re-employment of those leaving the company. The programme consists e.g. of personalised plans to move forward in work life, a wide range of training options, career coaching,

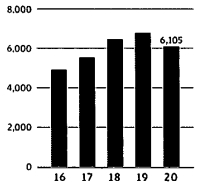
The diversity of the Personnel: Gender



Men:
- All personnel 43.0%
- Leaders/Managers 66.0%
- Excecutive Board 78.0%

Women:
- All personnel 57.0%
- Leaders/Managers 34.0%
- Excecutive Board 22.0%

Number of persons employed by Finnair at year-end



services and content that support coping and well-being, support from the TE Office and support for those interested in entrepreneurship.

Full-time staff accounted for 92 per cent (87) of Finnair employees in 2020, and 99 per cent (96) of staff were employed on a permanent basis. The attrition rate for the last 12 months was 7.4 per cent (3.8). The average age of employees was 43 years (42). Of the personnel, 33 per cent (29) were over 50 years of age, while 13 per cent (18) were under 30 years of age. At the end of 2020, 57 per cent (57) of Finnair's employees were women and 43 per cent (43) were men. Four (three) out of the nine (eight) members of Finnair's Board of Directors are women. Finnair does not maintain statistics based on ethnicity.

LTIF (Lost Time Incident Frequency), which measures the frequency of accidents at the company level, decreased when compared to previous year being 4.4 (9.6). Also, the number of absences due to illness was less than in the comparison period and was 3.81 per cent (4.62).

Finnair values good cooperation with labour unions representing its various employee groups. In 2020, the following collective agreements were negotiated:

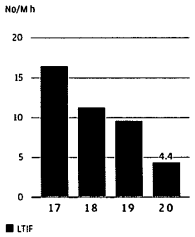
- Finnair Plc's agreement on Finnish commercial pilots between the Finnish Commercial Pilots' Association (SLL) and the representative association for service sector businesses and organisations (Palta). The agreement is valid until the end of March 2021.
- Agreement on Finnair's senior officers between Finnair Plc and Finnair's Engineers and Seniors (FINTO). The agreement is valid until the end of February 2022.
- Agreement with Aviation Association (IAU) and Palta, representing the employees of Helsinki Airport's customer and ground service, cargo, technical services and Finnair Kitchen. The agreement is valid until March 15, 2022.
- Agreement between PRO and Palta, trade unions representing technical and air transport clerical workers. The agreement is valid until the end of January 2022.

In 2019, a new collective agreement on Finnair's Finnish cabin crew was negotiated between Palta ry and the Transport Workers Union (AKT), which is valid until the end of January 2022. In 2017, an agreement was reached with the AKT on Aurinkomatkat's personnel. The agreement is valid until the end of April 2021. In addition, Finnair is still in the process of collective bargaining with its associations representing Spanish cabin crew.

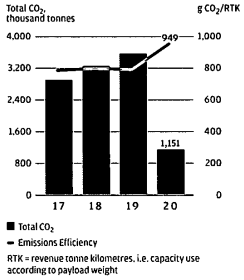
Environmental Performance

In 2020, Finnair's traffic dropped significantly (73 per cent) when compared to year 2019. This led to carbon dioxide (CO_2) emissions of flying decrease of 67.7 per cent compared to the previous year and were 1,151,299 tonnes (3,566,389). The pandemic affected company's network and traffic planning, and after the first months of the pandemic Finnair was able to utilise its fleet composition in more effective way. On the other hand, this led to a relative increase in the amounts of flights operated by Norra. Year 2020 Norra operated 57 per cent from the Finnair flights where 2019 they operated 42 per cent.

Lost Time Incident Frequency



Development in Finnair's emission efficiency



RTK = revenue tonne kilometres, i.e. capacity use according to payload weight

The fuel used per revenue tonne kilometres was 301 g/RTK (249) (without allocation between passenger and cargo) decreasing the flight's fuel efficiency by 20.8 per cent (1.0 per cent). At the same time the average length of the flights decreased about 6 per cent from about 1,700 kilometres to 1,600 and passenger load factor (PLF) decreased by 18.7 percentage points explaining the efficiency decrease.

CO_2 emissions figures of flying have also been calculated by allocating them between passengers and cargo using ICAO recommendations (see the sustainability appendix, Scope 1 emissions). Calculated in this way, year 2020 CO_2 emissions were 92 gCO_2/RPK (79) and 514 gCO_2/RTKCargo (488). Emissions per revenue passenger kilometre (RPK) increased by 17.1 per cent and per cargo revenue tonne kilometre (RTKCargo) by 5.3 per cent. The lower increase in the cargo emissions relates to the strong cargo market demand and successful increase of the cargo sales.

The energy consumption of the Finnair facilities decreased by 22.5 per cent 2020 (11.3). Year 2020 the total electricity consumption of the facilities was 21,495 MWh (27,356) and heat consumption 18,911 MWh (24,806). Total energy efficiency was 18.7 kWh/m³ (23.6), including both electricity and heat consumptions. The efficiency improvement was derived from the reduced operations in the facilities. Respectively, the carbon dioxide emissions decreased by 22.4 per cent (18.6) being 8,699 tons (11,203).

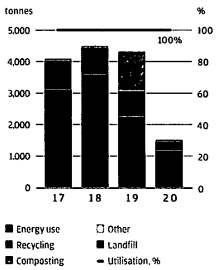
Total amount of waste generated by Finnair decreased by 64.8 per cent (5.5), or over 2,816 tonnes (253), from the previous year total mass being 1,532 tonnes (4,348). The largest waste stream has been food waste, part of which has been donated as food aid. The rest is utilised by either composting or incineration. Finnair continue to work on reducing food waste and we have set a new goal to reduce food waste by 30% by the end of 2022 compared to the level achieved in 2019-20. We also continue to work on developing our serving to be more sustainable. First, however, we use the cutlery, mugs and other serving utensils already existing in the warehouses to avoid unnecessary waste.

Supply chain, Human Rights, bribery and anti-corruption

After Q1, there were remarkably fewer new supplier evaluations and bidding processes due to low production. The procurement focused on demand management, price negotiations with current suppliers and supplier risk management. Due to the limited route network and flight operations, the number of active suppliers was reduced by 18 per cent. The company changed its approach with respect to supplier evaluations during the fiscal year. The supplier on-boarding process was updated and enforced, and now compliance checks are done for all new suppliers against external databases. Secondly, the use of the company's own resources in supplier evaluations was increased and the use of a dedicated external data system for the evaluation of social impacts and traceability in the supply chain was ended.

Finnair has a Whistleblowing line called Finnair Ethics Helpline in use, through which both our employees and partners can report on concerns related to ethical business principles. During 2020, no material incidents of material misconduct were notified through the Finnair Ethics Helpline nor were there any such investigations ongoing in the company.

Amounts of waste and utilisation percentage



Non-financial key performance indicators

Topic	Targets and KPIs	Performance 2020	Performance 2019	Key actions during the reporting period
Environmental responsibility	Half net CO_2 emissions by the end of 2025, compared to 2019 figures.	-67.7*	New	Due to the COVID-19 pandemic, 2020 figures are showing unusual performance, since passenger demand was weak and unnecessary flying was minimised.
	Carbon free flying by the end of 2045 (net emissions). 0 g CO_2/RTK	949	New	
	Improving the fuel efficiency of flying by 1% annually. Fuel Efficiency Index (FEI) is used here as a basis for the KPI where wind and payload impacts are normalised	-1.7	New	Two new energy efficient A350 aircraft were received and two narrow-body aircraft at the end of their lifecycle were sent for dismantlement and parts recycling. Operative methods to reduce the weight of the flight continued (e.g. rationalise fuelling, on-board printed material was reduced, potable water intake and cargo ULD loading were more efficient). The improvement of flying procedures were further implemented (e.g. adjusting Cost Index, Continuous Decent Approach, single-engine taxiing) Fleet utilisation was improved during the year to meet the passenger and cargo demand. (aircraft type allocation corresponding to the passenger and Cargo amounts)
	Reducing single-use plastics in Kitchen operations by 50% by the end of 2022	-23.0	-23.4	The share of plastic cups in onboard catering was reduced, meaning 11.5 tonnes less plastic consumed per year. Because of COVID-19, hygiene products were added to the flights and the plastic packaging of the sandwiches was reintroduced. This increased the use of plastic by 13.3 tonnes. The amount of plastic purchased in 2020 was 10 percent of the 2019 amount. Of this share, more than 33% were related to COVID-19 measures (clean wet wipes, clean kits, plastic-packed products, gloves)
	Recycle 50 % of plastics in Kitchen operations for reuse by the end of 2022	20.7	13.8	In aircraft cleaning, we started recycling the plastic bottles.
	Reducing food waste from Kitchen operations by 50% by the end of year 2020	-56.0	-34.2	We started a systematic reduction of food loss cases, which includes better monitoring, a root cause investigation and preventive measures. In 2020, food losses occurred due to obsolescence of stock as there was no demand. More than 30% of the losses could be donated to food-aid.

* Net emissions in 2020 were exceptionally low due to reduced amount of flights during COVID-19 pandemic.

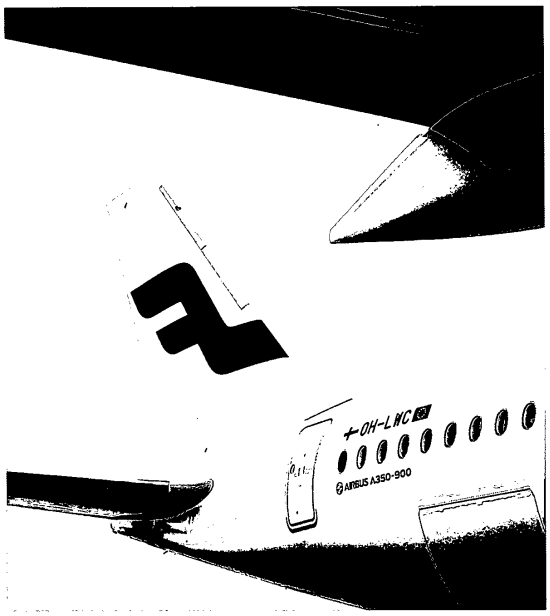
Non-financial key performance indicators

Topic	Targets and KPIs	Performance		Key actions during the reporting period
		2020	2019	
Social responsibility	Arrival punctuality at least 85%	90.2	79.3	Low air-traffic reflected positively on the arrival punctuality.
	Customer satisfaction. NPS increase on the previous year	48**	38	We invested in customer health-safety measures and repayment processes.
	WeTogether@Finnair Personnel Experience overall grade of at least 3.75 on scale 1-5	-	3.66	The WeTogether @ Finnair personnel survey was conducted in 2020 in a more concise manner than in previous years, and due to this, an overall rating is not available. The Employee Recommendation Index (eNPS) in 2020 was -1 compared to 17 in 2019.
	Absences due to illness decrease from the previous year	3.81	4.62	
	LTIF (Lost-time injury frequency) of less than 9.0 in 2020 and less than 10.0 in 2019	4.4	9.6	Decreased level of flight operations had an improving effect on sick leave and occupational safety.
Ethical Business conduct	Code of Conduct awareness grade in WeTogether@Finnair survey at least 4 on scale 1-5	4.26	4.14	Continuous training of employees, Renewal of Finnair Ethics helpline

** NPS is not fully comparable to 2019; customer satisfaction surveys were sent to all passengers towards the end of the year due to lack of respondents. The distribution of responses was also more strongly focused on the European Economy-class in 2020.

Read more about Finnair sustainability on our Corporate Responsibility web site

Changes in company management



During the first quarter, there were no changes in the company management.

Piia Karhu, Senior Vice President, Customer Experience, and a member of the Finnair executive board left the company on 30 June 2020. As a result, Finnair's Customer Experience unit was organised so that the operative parts of the unit were transferred to Finnair's Operations unit, which is led by Jaakko Schildt, and the travel service provider Aurinkomatkat, the Contact centers and the customer experience and service development functions became a part of Finnair's commercial unit, headed by Ole Orvér. The Commercial unit was renamed as Commercial and Customer experience (CX) unit.

During the third quarter, there were no changes in the company management.

Arja Suominen, Senior Vice President, Communications and Corporate Responsibility and member of the Finnair executive board left the executive board on 31 October 2020 but continued to serve as executive advisor in Finnair until 31 December 2020. Further, Päivyt Tallqvist was appointed Senior Vice President, Communications and a member of Finnair's Executive Board as of 1 November 2020. Previously, Tallqvist worked as a Director, Media Relations at Finnair, and has prior to her Finnair career served in different communications leadership roles in Nokia.

Shares and shareholders

Shares and share capital

On 31 December 2020, the number of Finnair shares entered in the Trade Register was 1,407,401,265 (128,136,115). As a result of the rights offering finalised in July, the number of shares increased by 1,279,265,150. The registered share capital was 75,442,904.30 euros. The company's shares are quoted on Nasdaq Helsinki. Each share has one vote at the General Meeting.

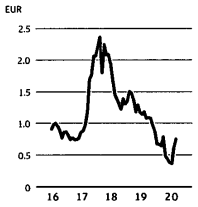
Share price development and trading

Finnair's market capitalization was 1,066.1 million euros at the end of December (753.4). The closing price of the share on 31 December 2020 was 0.76 euros (1.08). During January-December, the highest price for the Finnair Plc share on the Nasdaq Helsinki was 1.68 euros, the lowest price 0.36 euros and the average price 0.63 euros. Some 939.4 million company shares, with a total value of 780.1 million euros, were traded in Nasdaq Helsinki.

Key figures - Share		2020	2019	2018	2017	2016
Equity/share*	EUR	0.64	1.39	1.33	1.46	1.24
Dividend for the financial year**	EUR mill.	0	0	35	38	13
Dividend/share* **	EUR	0.00	0.00	0.05	0.06	0.02
Dividend/earnings**	%	0.0	0.0	39.4	24.4	18.2
Dividend yield**	%	0.0	0.0	3.9	2.3	2.5
Cash flow from operating activities/share*	EUR	-0.99	0.82	0.73	0.55	0.32
P/E ratio		-1.47	12.12	10.18	10.43	7.32

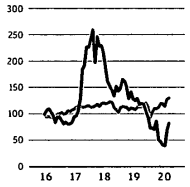
* A rights offering was implemented between June and July 2020 and, therefore, 2016-2019 key figures based on the number of shares have been restated accordingly.
** The dividend for year 2020 is a proposal of the Board of Directors to the Annual General Meeting.

Finnair share 2016–2020*



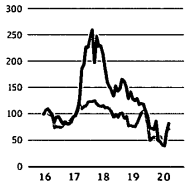
■ Average price
* A rights offering was implemented between June and July 2020 and, therefore, Finnair's share prices have been restated accordingly.

Comparison Nasdaq Helsinki



■ Finnair
■ Nasdaq Helsinki

Comparison European Airlines



■ Finnair
■ Bloomberg Europe Airline Index

Shareholders

The number of Finnair shareholders increased by 216.7 per cent in 2020 to 85,578 shareholders (excluding nominee registered shareholders). The number of domestic retail shareholders increased from 26,210 to 83,711, whereas their combined share of ownership increased by 87.8 per cent. Nominee registered or foreign investors held 7.4 per cent (13.9) of all shares.

Flagging notifications

No flagging notices were issued in 2020.

Government ownership

At the end of 2020, the Finnish Government owned 55.9 per cent of Finnair's shares and votes. According to the decision made by the Finnish Parliament on 20 June 1994, the Government must own more than half of Finnair Plc's shares. Decreasing the ownership below this level would require revision of the Parliament's decision.

Share ownership by management

On 31 December 2020, members of the company's Board of Directors did not own any Finnair shares, while the CEO Topi Manner owned 674,068 shares and the members of the Executive Board, including the CEO, owned a total of 1,672,969 shares, representing 0.01 per cent of all shares and votes.

Own shares

On 31 December 2019, Finnair held a total of 552,313 own shares, representing 0.43 per cent of the total number of shares and votes.

Shareholding by number of shares owned

%

- 1-1,000 1.2%
- 1,001-10,000 8.4%
- 10,001-100,000 11.1%
- 100,001-1,000,000 3.8%
- 1,000,001-10,000,000 2.8%
- 10,000,001-100,000,000 9.5%
- 100,000,001- 55.9%
- Registered in the name of a nominee 7.4%

Finnair Plc largest shareholders as at 31 December 2020

		Number of shares	%	Changes 2020
1	State of Finland, Prime Minister's Office	786,669,686	55.9	715,154,260
2	Ilmarinen Mutual Pension Insurance Company	37,000,000	2.6	33,994,358
3	Varma Mutual Pension Insurance Company	35,881,263	2.5	32,619,330
4	Keva	23,980,084	1.7	17,729,209
5	The State Pension Fund	22,000,000	1.6	20,300,000
6	Elo Mutual Pension Insurance Company	14,671,668	1.0	14,671,668
7	OP-Finland Fund	8,000,000	0.6	8,000,000
8	Veritas Pension Insurance Company Ltd.	5,287,377	0.4	4,484,203
9	OP-Finland Small Cap	4,917,609	0.3	4,663,416
10	Finnair Plc's Personnel Fund	4,000,000	0.3	3,340,600
	Nominee registered	103,961,549	7.4	86,121,231
	Others	361,032,029	25.7	338,186,875
	Total	**1,407,401,265**	**100**	**1,279,265,150**

Shareholders by type at 31 December 2020

	Number of shares	%	Number of shareholders	%
Public bodies	928,140,885	65.9	11	0.0
Households	307,578,879	21.9	83,711	97.8
Private companies	35,148,726	2.5	1,571	1.8
Financial institutions	28,158,843	2.0	44	0.1
Associations	1,817,658	0.1	52	0.1
Finnish shareholders, total	1,300,844,991	92.4	85,389	99.8
Registered in the name of a nominee	103,961,549	7.4	12	0.0
Outside Finland	2,594,725	0.2	189	0.2
Nominee registered and foreign shareholders, total	106,556,274	7.6	201	0.2
Total	**1,407,401,265**	**100.0**	**85,590**	**100.0**

In Q1, Finnair transferred, using the authorisation granted by the 2019 AGM, a total of 72,939 own shares as incentives to the participants of the FlyShare employee share savings plan. It also transferred 269,774 own shares as a reward to the key personnel included in Finnair's share-based incentive scheme 2017-2019.

In Q2 or Q3, Finnair did not exercise the authorisation granted by the AGM 2019 or 2020 to acquire or dispose its own shares.

In Q4, Finnair transferred, using the authorisation granted by the 2020 AGM, a total of 38,940 own shares as incentives to the participants of the FlyShare employee share savings plan.

On 31 December 2020, Finnair held a total of 170,660 own shares, representing 0.01 per cent of the total number of shares and votes.

Shareholder agreements

Finnair is not aware of any shareholder agreements pertaining to share ownership or the use of voting rights.

Change of control provisions in material agreements

Some of Finnair's financing agreements include a change of control clause under which the financier shall be entitled to request prepayment of the existing loan or to cancel the availability of a loan facility in the event that a person other than the Finnish state acquires control of Finnair either through a majority of the voting rights or otherwise.

Share-based incentive schemes

Employee share savings plan FlyShare

In December, Finnair's Board of Directors decided to launch its ninth consecutive 12-month savings period under the FlyShare Employee Share Plan. The objective of the plan, which was established in 2013, is to encourage the employees to become shareholders in the company, and thereby strengthen the employees' interest in the development of Finnair's shareholder value and to reward them over the long term. The share savings plan is described in a stock exchange release issued on 16 December 2020, in the Remuneration Statement 2020 and on the company's website.

Breakdown of shares at 31 December 2020

	Number of shares	%	Number of shareholders	%
1-500	5,980,871	0.4	30,526	35.7
501-1,000	10,302,218	0.7	12,995	15.2
1,001-10,000	118,490,518	8.4	35,209	41.1
10,001-100,000	155,895,172	11.1	6,581	7.7
100,001-1,000,000	53,574,702	3.8	246	0.3
1,000,001-10,000,000	38,993,534	2.8	15	0.0
10,000,001-100,000,000	133,533,015	9.5	5	0.0
100,000,001->	786,669,686	55.9	1	0.0
Registered in the name of nominee	103,961,549	7.4	12	0.0
Total	**1,407,401,265**	**100.0**	**85,590**	**100.0**

Acquisition and delivery of own shares and returns of shares

Period	Number of shares	Acquisition value, EUR	Average price, EUR
Jan 1 2016	325,205	922,678.40	2.84
2016	800,000	4,327,860.54	5.41
2016	-336,241	-975,326.55	2.90
2017	-355,597	-1,962,443.86	5.52
2018	452,000	3,206,965.70	7.10
2018	-236,359	-1,264,765.58	5.35
2019	164,651	1,042,355.90	6.33
2019	-261,346	-1,501,496.17	5.75
2020	-381,653	-2,701,783.40	7.08
Dec 31 2020	**170,660**	**1,094,044.98**	**6.41**

Effective authorisations granted by the Annual General Meeting 2020

Finnair's Annual General Meeting was held in Vantaa on 29 May 2020 under special arrangements due to the COVID-19 pandemic.

The AGM authorised the Board of Directors to decide on the repurchase of the company's own shares and/or on the acceptance as pledge and on the disposal of own shares held by the company. The authorisation shall not exceed 5,000,000 shares, which corresponds to approximately 0.4 per cent of all the shares in the company. The authorisations are effective for a period of 18 months from the resolution of the AGM.

The AGM also authorised the Board of Directors to decide on donations up to an aggregate maximum of EUR 250,000 for charitable or corresponding purposes. The authorisation is effective until the next Annual General Meeting.

The resolutions of the AGM are available in full on the company's website.

Finnair's risk management principles

Finnair operates in a global and highly competitive environment that is sensitive to economic fluctuations. In executing its strategy, Finnair and its operations are exposed to a broad range of risks and opportunities.

To exploit opportunities to create value, Finnair is prepared to take and manage risks within the limits of its risk appetite. In relation to flight safety matters, compliance with laws and regulations, and reliability of reporting, Finnair's objective is to minimise risks.

Finnair has in place sufficient insurance coverage regarding physical hazards and related business interruptions, both for aviation as well as non-aviation hazards.

Internal control and risk management activities are an integral part of the management's overall duties to ensure that the company achieves its business objectives. Through efficient systems of internal control and risk management, deviations from objectives can be prevented or detected as early as possible. The Board of Directors is responsible for monitoring and evaluating the efficiency of the company's internal control and risk management systems. The Board of Directors is responsible for approving the top-level policies, such as the Risk Management Policy, and setting Finnair's Risk Appetite.

The primary governance principle is adherence to the Three Lines of Defence model, with a clear division of roles and responsibilities with respect to internal control and risk management. A proper Three Lines of Defence governance ensures that the segregation of duties is defined and established between risk management and risk control.

- In the first line of defence, the business organisation and group functions are risk owners, and thus responsible for conducting day-to-day control and risk management activities in accordance with Finnair's Internal Control Framework.
- In the second line of defence, Risk & Compliance acts as a control function that is responsible for developing and maintaining the Internal Control Framework and Risk Management Framework as well as for monitoring the implementation of the policies, rules, procedures and key controls within the frameworks.
- In the third line of defence, Internal Audit performs audits and provides the Board of Directors with an independent assessment of the overall effectiveness and maturity of the internal control and risk management systems.

The main features of the internal control and risk management systems are described in the Corporate Governance Statement.

Policy, framework and process

The Finnair Risk Management Policy defines the overall framework for risk management. Finnair has an Enterprise Risk Management process in place to ensure the identification, evaluation and management of risks and uncertainties associated with set objectives. The process is designed to take a corporate-wide portfolio view to ensure that the risks and uncertainties are identified, analysed and managed within the boundaries of Finnair's risk-bearing capacity.

Based on the COSO Enterprise Risk Management Framework, the objectives are split into four categories: strategic, operational, compliance and reporting. The Enterprise Risk Management process integrates the identification, evaluation and management of risks and uncertainties by objective categories.

The Enterprise Risk Management process is executed according to the Annual Cycle defined in the Risk Management Policy. It takes place as an integral part of strategy process and operational objective setting across the organisation to enable a holistic view of risks and opportunities. Risk identification and evaluation at Finnair include the following phases:

- Identification of external and internal events affecting the achievement of objectives;
- Distinction between risks and opportunities;
- Analysis of identified risks;
- Integration (aggregation) of risks;
- Evaluation and prioritisation of risks based on their impact and likelihood.

Finnair's Risk Model and criteria for risk evaluation have been established to ensure comprehensive risk identification and systematic risk evaluation. Assumptions

behind strategic objectives are analysed and validated as a part of strategic risk assessment. A dedicated Risk Coordinator Forum has been established to support the execution and coordination of systematic risk identification and evaluation in units, functions and subsidiaries, and to ensure that risk management activities conform to the requirements set in the Risk Management Policy. Risk response strategies are applied to prioritised risks in order to reach reasonable assurance that their outcomes fall within an acceptable level.

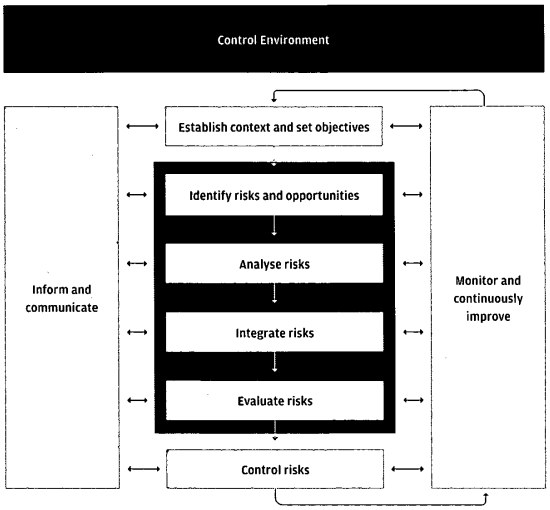
The Executive Board members are risk owners and they are responsible for planning and implementing risk management and control activities within units, functions and subsidiaries to ensure an acceptable level of residual risk.

The performance and efficiency of Finnair's risk management system is subject to systematic monitoring. Improving the risk management process, performance and capabilities takes place continuously based on the Plan-Do-Check-Act (PDCA) cycle.

The Risk Management Policy is annually reviewed by the Executive Board and approved by the Board of Directors.

Major risks

Risk and uncertainties that are considered to potentially have a significant effect on Finnair's business, financial results and future prospects are further classified under risk categories of the Finnair Risk Model. The model is divided into two parts, external business environment risks and internal process risks, both of which comprise a number of specific risk categories. The risks and Finnair's risk responses are further discussed on the company's website. Significant near-term risks and uncertainties are described *on the next page*.



Significant near-term risks and uncertainties

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

Uncertainties related to the recovery of air traffic pose a risk to Finnair's revenue development.

The key factors affecting revenue and operating loss, that Finnair can incluence, are operating cost adjustments and the ability to respond to changes in demand. Factors beyond Finnair's control are mainly related to the duration of the COVID-19 pandemic and the measures to fight the pandemic as well as the recovery of air traffic and demand. Other general risk factors in the industry and business, such as the fluctuation in prices of jet fuel, fluctuation in the demand, currency exchange fluctuations as well as regulatory and tax changes are also beyond Finnair's control.

Exceptional variations in the fuel price (including the impact of currencies and hedging) might affect capacity in Finnair's main markets. This together with changes in ticket prices pose a risk to Finnair's revenue development, as do sudden changes in the foreign exchange rates and slowing growth in demand. Generally, Finnair aims to pass exceptional variations in the fuel price to customers via ticket prices, however, the market conditions prevailing from time to time may not allow this.

Capacity increases and product improvements among Finnair's existing or new competitors may have an impact on the demand for, and yield of, Finnair's services. In addition, joint operations involving closer cooperation than airline alliances and joint businesses are expected to develop further. Industry consolidation could have a significant impact on the competitor landscape. Introduction of new digital distribution technologies and channels in Finnair's distribution strategy, including transition towards differentiation of fare content and availability between the channels, involves implementation and commercial risks.

The aviation industry is affected by a number of regulatory trends. Estimating the impacts of the regulatory changes on airlines' operational activities and/or costs in advance is difficult. Examples of such regulatory trends include regulation related to emissions trading, noise regulation and other environmental regulation, as well as regulations on privacy and consumer protection. Due to the extraordinary circumstances caused by the COVID-19 pandemic, uncertainties related to agreements and authority policies as well as interpretation and implementation of legislation, such as approval of state aid, may increase. This may increase the likelihood of litigation processes or disputes. Finnair is, however, not involved with any pending or threatening litigation processes or disputes which would include material claims.

Geopolitical uncertainty, the threat of trade wars, the threat of terrorism, cyber-attacks and pandemic risks (such as COVID-19) as well as other potential external disruptions may, if they materialise, significantly affect the demand for air travel and Finnair's operations. The COVID-19 pandemic had a significant negative impact on Finnair's operations in all quarters in 2020 and the negative impact will continue in 2021. A prolonged COVID-19 pandemic would result in a deterioration in Finnair's cash funds, although the company has already acted to mitigate this risk by introducing a funding package consisting of a 600-million-euro premium pension loan as well as *inter alia* sale and leaseback arrangements and export credit agency financing of aircraft. In case of a prolonged pandemic, it will also reduce the company's equity significantly. On the other hand, prolonged unprofitability will increase the risk of fleet and other fixed asset impairments. As a result, Finnair has also introduced a significant cost adjustment programme (140-million-euro permanent cost base decline by 2022, compared to 2019 levels), including e.g. renegotiating vendor agreements. Further, the company was forced to reduce the number of employees by 600 globally. Along with these actions, Finnair executed a 512-million-euro rights offering to strengthen the equity and is preparing, together with the State of Finland, an unsecured hybrid loan of up to 400 million euros to better ensure that it will weather a prolonged pandemic and the resulting impacts within the next 12 months.

In a changing aviation business environment, it is difficult to predict the impact the COVID-19 will have on airline market access and traffic right opportunities in general. Potentially increasing protectionism in the political environment may have an adverse impact on the market access required for the implementation of Finnair's strategy. At the same time, it is also possible that connectivity needs may increase in some countries, leading to increasing market access opportunities and new traffic rights.

Finnair's risk management and risks related to the company's operations are described in more detail on the company's website.

Seasonal variation and sensitivities in business operations

Due to the seasonality of the airline business, the Group's revenue and result are, in a normal situation, generally at their lowest in the first quarter and at their highest in the third quarter of the year. The growing proportional share of Asian traffic increases seasonal fluctuation due to destination-specific seasons in Asian leisure and business travel.

In addition to operational activities and market conditions, the fuel price development has a key impact on Finnair's result, as fuel costs are the company's most significant variable expense item. Finnair's foreign exchange risk arises primarily from fuel and aircraft purchases, divestments of aircraft, aircraft lease payments, aircraft maintenance, overflight royalties and foreign currency revenue. Significant dollar-denominated expense items are fuel costs and aircraft lease payments. The largest investments, namely the acquisition of aircraft and their spare parts, are also mainly denominated in US dollars. The most significant income currencies after the euro are the Japanese yen, the Chinese yuan, the US dollar, the South Korean won and the Swedish krona.

The company hedges its currency, interest rate and jet fuel exposure using a variety of derivative instruments, such as forward contracts, swaps and options, in compliance with the risk management policy approved annually by the Board of Directors. Under normal circumstances, fuel purchases are hedged for 24 months forward on a rolling basis, and the degree of hedging decreases towards the end of the hedging period. The higher and lower limits of the degree of hedging would normally be 90 and 60 per cent for the following six months but due to the uncertainty caused by COVID-19, Finnair has temporarily changed the lower limit from 60 per cent to 0 per cent during the hedging period. At the moment, Finnair has hedged its fuel purchases for the next 12 months.

Hedging of foreign currency exposure in balance sheet

Due to the introduction of IFRS 16 in 2019, Finnair's asset-related foreign currency exposure increased with the recognition of the present value of qualifying operating lease liabilities in the balance sheet as right-of-use assets. Unrealised foreign exchange losses/gains caused by the translation of

Sensitivities in business operations, impact on comparable operating profit (rolling 12 months from date of financial statements)	1 percentage (point) change
Passenger load factor (PLF, %)	EUR 11 million
Average yield of passenger traffic	EUR 7 million
Unit cost (CASK excl. fuel)	EUR 11 million

Fuel sensitivities (rolling 12 months from date of financial statements)	10% change without hedging	10% change, taking hedging into account
Fuel	EUR 14 million	EUR 7 million

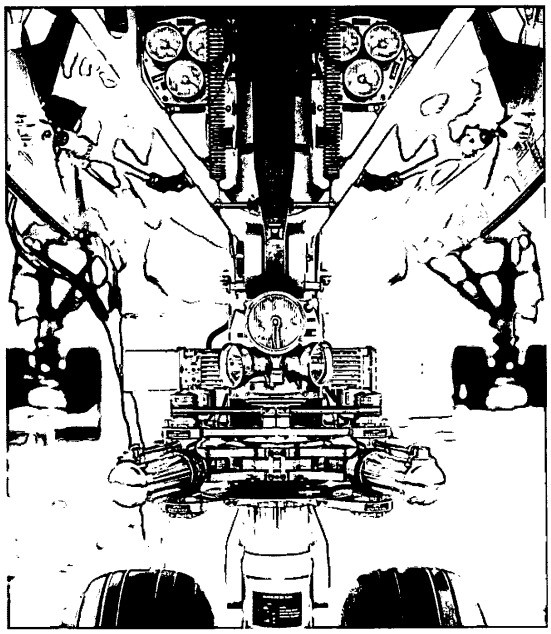
Fuel hedging ratios and average hedged price (rolling 12 months from date of financial statements)	Hedged fuel, tonnes*	Average hedge price, USD/ton* **
December 2020	12,000	634
Q1 2021	34,000	609
Q2 2021	65,000	521
Q3 2021	99,000	510
Q4 2021	30,000	491
Total	240,000	531

* Based on the hedged period, i.e. not hedging related cash flow.
** Average of swaps and bought call options strikes.

Currency distribution, %	2020	2019	Currency sensitivities USD and JPY (rolling 12 months from date of financial statements for operational cash flows)		Hedging ratio for operational cash flows (rolling next 12 months)
Sales currencies			10% change without hedging	10% change, taking hedging into account	
EUR	55	53	-	-	-
USD*	4	5	see below	see below	see below
JPY	7	11	EUR 11 m	EUR 5 m	44%
CNY	6	7	-	-	-
KRW	3	3	-	-	-
SEK	3	3	-	-	-
Other	21	19	-	-	-
Purchase currencies					
EUR	59	57	-	-	-
USD*	35	36	EUR 27 m	EUR 8 m	42%
Other	6	7	-	-	-

* Hedging ratio and sensitivity analysis for USD basket, which consists of net cash flows in USD and HKD. The sensitivity analysis assumes that the correlation of the Hong Kong dollar with the US dollar is strong.

the USD denominated liability will have an impact on Finnair's net result. In the future, the effect and amount of the foreign currency exchange could be positive or negative, depending on the USD-rate at the closing date. Since the beginning of 2019, Finnair has mitigated the foreign exchange volatility introduced by this difference by using hedges and is looking for alternative solutions to mitigate the effect of this volatility on its financial performance. The annual effect in net result going forward is dependent on the size of the qualifying operating lease portfolio, the duration of the leases and hedging ratio. At the end of December 2020, the hedging ratio of USD denominated aircraft lease payments and liabilities was approximately 50 per cent.



Outlook

Guidance issued on 28 October 2020:

Due to the continued strict travel restrictions, the comparable operating loss in Q4 will be of a similar magnitude as in Q2 and Q3.

As Finnair has announced today, certain amendments to the terms of Finnair pension fund have been approved and these and potential other similar changes are expected to have a significant positive one-off impact on Finnair's operating result in Q4. This impact is not included in the expected comparable operating result.

Based on the current assumptions, the revenue and capacity (measured in ASKs) will both decrease more than 70% in 2020 compared to 2019.

Finnair updates its outlook and guidance in connection with the financial statements bulletin for 2020.

New guidance on 18 February 2021:

Due to the continued strict travel restrictions, the comparable operating loss in Q1 2021 will be of a similar magnitude as in Q2, Q3 and Q4 2020.

In Q1 2021, Finnair continues to operate a limited network. As the visibility thereafter is weak and there are several potential scenarios of the timing of the recovery in demand, the company will not provide guidance on full year revenue.

Finnair updates its outlook and guidance in connection with the Q1 2021 interim report.

Performance indicators classified as alternative performance measures

Alternative performance measures	Calculation	Reason to use the measure
Items affecting comparability	Unrealized changes in foreign currencies of fleet overhaul provisions + Fair value changes of derivatives where hedge accounting is not applied + Sales gains and losses on aircraft and other transactions + Restructuring costs	Component used in calculating comparable operating result.
Comparable operating result	Operating result - Items affecting comparability	Comparable operating result is presented to better reflect the Group's business performance when comparing results to previous periods.
Comparable operating result, % of revenue	Comparable operating result / Revenue x 100	Comparable operating result is presented to better reflect the Group's business performance when comparing results to previous periods.
Revenue at constant currency	Revenue + Currency impact adjustment at 2018 currency	Component used in calculating comparable operating result at constant currency and fuel price and RASK at constant currency. All changes in currency levels and hedging results since 2018 are excluded from the measurement.
Costs at constant currency and fuel price	Other operating income + Operating expenses included in comparable operating result + Currency and fuel price impact adjustment at 2018 currency and price	Component used in calculating comparable operating result at constant currency and fuel price and CASK at constant currency and fuel price. All changes in fuel price, currency levels and hedging results since 2018 are excluded from the measurement.
Comparable operating result at constant currency and fuel price	Revenue at constant currency + Costs at constant currency and fuel price	Comparable operating result at constant currency and fuel price aims to provide a comparative, currency and fuel price neutral measurement for comparable operating result. All changes in fuel price, currency levels and hedging results since 2018 are excluded from the measurement.
RASK at constant currency	Revenue at constant currency / Available seat kilometres (ASK)	Unit revenue (RASK) at constant currency aims to provide a comparative, currency neutral measurement for unit revenues. All changes in currency levels and hedging results since 2018 are excluded from the measurement.
CASK at constant currency and fuel price	Costs at constant currency and fuel price / Available seat kilometres (ASK)	Unit cost (CASK) at constant currency and fuel price aims to provide a comparative, currency and fuel price neutral measurement for unit costs. All changes in fuel price, currency levels and hedging results since 2018 are excluded from the measurement.
Comparable EBITDA	Comparable operating result + Depreciation and impairment	Comparable EBITDA is presented to better reflect the Group's business performance when comparing results to previous periods. Comparable EBITDA is a common measure in airline business which aims to reflect comparable operating result excluding capital cost.

Alternative performance measures	Calculation	Reason to use the measure
Comparable EBITDA, % of revenue	Comparable EBITDA / Revenue x 100	Comparable EBITDA is presented to better reflect the Group's business performance when comparing results to previous periods. Comparable EBITDA is a common measure in airline business which aims to reflect comparable operating result excluding capital cost.
Equity ratio, %	Equity total / Equity and liabilities total x 100	Equity ratio provides information on the financial leverage used by the Group to fund its assets.
Adjusted interest-bearing liabilities	Lease liabilities + Other interest-bearing liabilities + Cross currency interest rate swaps in derivative financial instruments	Component used in calculating gearing.
Cash funds	Cash and cash equivalents + Other financial assets	Component used in calculating gearing. Cash funds represent the total amount of financial assets that are available for use within short notice. Therefore, cash funds provide the true and fair view of the Group's financial position.
Interest-bearing net debt	Adjusted interest-bearing liabilities - Cash funds	Interest-bearing net debt provides view of the Group's total external debt financing.
Gearing, %	Interest-bearing net debt / Equity total x 100	Gearing provides view of the level of the Group's indebtedness.
Interest-bearing net debt / Comparable EBITDA, LTM	Interest-bearing net debt / Comparable EBITDA, for last twelve months	The ratio provides information on the Group's leverage by comparing the Group's net debt to the amount of income generated before covering interest, taxes, depreciation and impairment.
Gross capital expenditure	Additions in fixed assets + New contracts in right-of-use assets + Reassessments and modifications in right-of-use assets	Gross capital expenditure provides information on the Group's capitalized investments and lease modifications.
Return on capital employed (ROCE), LTM, %	(Result before taxes + Financial expenses + Exchange rate gains and losses, for the last twelve months) / (Equity total + Lease liabilities + Other interest-bearing liabilities, average of reporting period and comparison period)	The ratio provides a view to monitor the return of capital employed.
Cash to sales, LTM, %	Cash funds / Revenue for the last twelve months x 100	The ratio provides information about the Group's liquidity in terms of available cash as a percentage of its sales.

Reconciliation of performance indicators classified as alternative performance measures

Items affecting comparability

EUR million	2020	2019
Operating result	**-464.5**	**160.0**
Unrealized changes in foreign currencies of fleet overhaul provisions	-12.2	1.4
Fair value changes of derivatives where hedge accounting is not applied	0.2	-1.3
Sales gains and losses on aircraft and other transactions	-0.8	-0.2
Changes in defined benefit pension plans	-132.8	
Restructuring costs	14.9	3.0
Comparable operating result	**-595.3**	**162.8**

Comparable operating result, RASK and CASK at constant currency and fuel price

EUR million, unless otherwise indicated	2020	2019
Revenue	829.2	3,097.7
Currency impact adjustment at 2018 currency	-0.8	-14.8
Revenue at constant currency	828.4	3,082.9
Other operating income	48.4	56.4
Operating expenses included in comparable operating result	-1,472.9	-2,991.3
Currency and fuel price impact adjustment at 2018 currency and price	37.2	57.7
Costs at constant currency and fuel price	-1,387.3	-2,877.2
Comparable operating result at constant currency and fuel price	**-558.9**	**205.7**
Available seat kilometres (ASK), million	12,937	47,188
RASK at constant currency, cents/ASK	**6.40**	**6.53**
CASK at constant currency and fuel price, cents/ASK	**10.72**	**6.10**

Equity ratio

EUR million, unless otherwise indicated	2020	2019
Equity total	896.6	966.4
Equity and liabilities total	3,646.5	3,877.9
Equity ratio, %	**24.6**	**24.9**

Gross capital expenditure

EUR million	2020	2019
Additions in fixed assets	348.3	420.2
New contracts in right-of-use assets	173.3	29.2
Reassessments and modifications in right-of-use assets	-5.7	-5.6
Gross capital expenditure	**515.9**	**443.8**

Gearing, interest-bearing net debt and interest-bearing net debt / Comparable EBITDA, LTM

EUR million, unless otherwise indicated	31 Dec 2020	31 Dec 2019
Lease liabilities	1,016.2	1,054.0
Other interest-bearing liabilities	1,162.6	520.8
Cross currency interest rate swaps*	18.8	-1.1
Adjusted interest-bearing liabilities	**2,197.5**	**1,573.7**
Other financial assets	-358.3	-800.8
Cash and cash equivalents	-465.3	-151.9
Cash funds	**-823.7**	**-952.7**
Interest-bearing net debt	**1,373.8**	**621.0**
Equity total	896.6	966.4
Gearing, %	**153.2**	**64.3**
Comparable EBITDA, LTM	-251.5	488.3
Interest-bearing net debt / Comparable EBITDA, LTM	**-5.5**	**1.3**

* Cross-currency interest rate swaps are used for hedging the currency and interest rate risk of interest-bearing loans, but hedge accounting is not applied. Changes in fair net value correlate with changes in the fair value of interest-bearing liabilities. Therefore, the fair net value of cross-currency interest rate swaps recognised in derivative assets/liabilities and reported in the note 3.8 Derivatives, is considered an interest-bearing liability in the net debt calculation.

Return on capital employed (ROCE), LTM

EUR million, unless otherwise indicated	31 Dec 2020	31 Dec 2019
Result before taxes, LTM	-654.4	93.0
Financial expenses, LTM	255.2	83.6
Exchange rate gains and losses, LTM	-26.6	-12.7
Return, LTM	**-425.8**	**163.9**
Equity total	896.6	966.4
Lease liabilities	1,016.2	1,054.0
Other interest-bearing liabilities	1,162.6	520.8
Capital employed	**3,075.4**	**2,541.1**
Capital employed, average of reporting period and comparison period	**2,808.3**	**2,616.8***
Return on capital employed (ROCE), LTM, %	**-15.2**	**6.3**

* Capital employed accounted was EUR 2,692.5 million as at 31 Dec 2018.

Cash to sales, LTM

EUR million, unless otherwise indicated	31 Dec 2020	31 Dec 2019
Other financial assets	358.3	800.8
Cash and cash equivalents	465.3	151.9
Cash funds	**823.7**	**952.7**
Revenue, LTM	829.2	3,097.7
Cash to sales, LTM %	**99.3**	**30.8**

Other performance indicators

Revenue and profitability	
Earnings per share (EPS), basic	(Result for the period - Hybrid bond expenses net of tax) / Average number of outstanding shares during the period
Earnings per share (EPS), diluted	(Result for the period - Hybrid bond expenses net of tax) / Average number of outstanding shares during the period taking into account the diluting effect resulting from changing into shares all potentionally diluting shares
Unit revenue per available seat kilometre (RASK)	Unit revenue (RASK) represents the Group's revenue divided by available seat kilometres (ASK).
Unit revenue per revenue passenger kilometre (yield)	Passenger revenue by product divided by Revenue passenger kilometres (RPK).
Unit cost per available seat kilometre (CASK)	Unit cost (CASK) represents the Group's operational costs divided by available seat kilometres. Other operating income is deducted from operational costs.
CASK excluding fuel	(Comparable operating result - Revenue - Fuel costs) / ASK x 100

Traffic	
Available seat kilometres (ASK)	Total number of seats available × kilometres flown
Revenue passenger kilometres (RPK)	Number of revenue passengers × kilometres flown
Passenger load factor (PLF)	Share of revenue passenger kilometres of available seat kilometres

Operational excellence	
On-time performance	The share of flights arrived less than 15 minutes late

Modern premium airline	
Net Promoter Score (NPS)	Net Promoter Score is based on a question: "Thinking about all aspects of this journey, how likely would you be to recommend Finnair to a relative, friend or colleague?" Scale is 0-10: The share of detractors (ratings 0-6) is deducted from the share of promoters (ratings 9-10).
Share of digital direct ticket sales	Share of ticket sales in Finnair's own direct channels in relation to total ticket sales for the period. Direct channels include Finnair.com, Finnair mobile app, New Distribution Capability (NDC) solutions and Finnair Holidays.

Sustainability	
Flight CO_2 emissions	CO_2 emissions from jet fuel consumption

Culture and ways of working	
Absences due to illness	Share of sickness absence hours relating to planned work hours
Attrition rate, LTM	Number of leavers on own request during the last twelve months compared to active employments on reporting date and leavers on own request during the last twelve months

Share	
Equity/share	Equity / Number of outstanding shares at the end of period
Dividend/earnings	Dividend per share / Earnings per share (EPS) x 100
Dividend yield, %	Dividend per share / Share price at the end of period x 100
Cash flow from operating activities/share	Net cash flow from operating activities / Average number of outstanding shares during the period
P/E ratio	Share price at the end of period / Earnings per share (EPS) x 100

Financial Statements

FINANCIAL STATEMENTS

How to read Finnair Financial Statements?
Finnair's financial statements are structured to facilitate reading and understanding of the financial statements and to clarify the overall picture derived from it. The notes to the financial statements have been combined to business related sections, separately listing the accounting principles, critical accounting estimates and sources of uncertainty in each section. In addition, comments on interesting figures and other highlights are provided in text areas marked with a star. The financial statements also include illustrative charts to support the understanding of the figures.

1 Notes to the financial statement have been combined into sections based on their context. The aim is to give a more relevant picture of the Finnair Group and its business. The content of each section is described and explained in the beginning of that section and marked with 1.

A Specific accounting principles are attached to the relevant note. The accounting principles can be recognised from character A.

E Critical accounting estimates and sources of uncertainty have been presented together with the relevant note and specified with character E.

★ Highlights related to the section are explained in a separate text box to underline significant matters.

46 Consolidated income statement
46 Consolidated statement of comprehensive income
47 Consolidated balance sheet
48 Consolidated cash flow statement
49 Consolidated statement of changes in equity

50 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
50 Accounting principles
50 Company information
50 Basis of preparation
50 Impact of the COVID-19 pandemic on the consolidated financial statements
51 Board's assessment of Finnair as a going concern
51 Presentation of consolidated income statement and balance sheet
52 Presentation of alternative performance measures
52 Critical accounting estimates and sources of uncertainty
53 Changes in accounting principles

53 1 OPERATING RESULT
53 1.1 Segment information
53 1.2 Operating income
54 1.2.1 Revenue by product and traffic area
54 1.2.2 Revenue by currency
55 1.2.3 Receivables related to revenue
55 1.2.4 Deferred income and advances received
55 1.3 Operating expenses
56 1.3.1 Operating expenses by currency
56 1.3.2 Passenger and handling services
56 1.3.3 Property, IT and other expenses
56 1.3.4 Inventories and other current assets
56 1.3.5 Other liabilities
56 1.3.6 Provisions
57 1.3.7 Items excluded from comparable operating result
58 1.3.8 Employee benefits
58 1.3.8.1 Employee benefit expenses and share-based payments
61 1.3.8.2 Pensions

62 2 FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
63 2.1 Fleet and other fixed asset
65 2.2 Leasing arrangements
67 2.3 Depreciation and impairment

69 3 CAPITAL STRUCTURE AND FINANCING COSTS
69 3.1 Financial income and expenses
69 3.2 Financial assets
70 3.2.1 Other current financial assets
70 3.2.2 Cash and cash equivalents
70 3.3 Financial liabilities
72 3.4 Contingent liabilities
72 3.5 Management of financial risks
75 3.6 Classification of financial assets and liabilities
76 3.7 Offsetting financial assets and liabilities
76 3.8 Derivatives
79 3.9 Equity-related information

81 4 CONSOLIDATION
81 4.1 General consolidation principles
81 4.2 Subsidiaries
81 4.3 Acquisitions and disposals
82 4.4 Investments in associates and joint ventures
82 4.5 Related party transactions

83 5 OTHER NOTES
83 5.1 Income taxes
84 5.2 Disputes and litigation
84 5.3 Events after the closing date

85 6 PARENT COMPANY FINANCIAL STATEMENTS

94 BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

95 AUDITOR'S REPORT

▶ CONSOLIDATED INCOME STATEMENT

▶ CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

Consolidated income statement

EUR mill.	Note	2020	2019
Revenue	1.1, 1.2	**829.2**	**3,097.7**
Other operating income		48.4	56.4
Operating expenses			
Staff and other crew related costs	1.3.8	-283.5	-534.7
Fuel costs		-232.7	-687.3
Capacity rents		-89.3	-130.2
Aircraft materials and overhaul		-104.7	-201.2
Traffic charges		-112.4	-331.3
Sales, marketing and distribution costs		-28.2	-172.1
Passenger and handling services	1.3.2	-168.6	-476.7
Property, IT and other expenses	1.3.3	-109.7	-132.4
Comparable EBITDA		**-251.5**	**488.3**
Depreciation and impairment	2.3	-343.8	-325.4
Comparable operating result		**-595.3**	**162.8**
Unrealized changes in foreign currencies of fleet overhaul provisions	1.3.7	12.2	-1.4
Fair value changes of derivatives where hedge accounting is not applied	1.3.7	-0.2	1.3
Sales gains and losses on aircraft and other transactions	1.3.7	0.8	0.2
Changes in defined benefit pension plans	1.3.7, 1.3.8.2	132.8	
Restructuring costs	1.3.7	-14.9	-3.0
Operating result		**-464.5**	**160.0**
Financial income	3.1	38.7	4.8
Financial expenses	3.1	-255.2	-83.6
Exchange rate gains and losses	3.1	26.6	12.7
Share of results in associates and joint ventures	4.4		-0.9
Result before taxes		**-654.4**	**93.0**
Income taxes	5.1	131.1	-18.4
Result for the period		**-523.2**	**74.5**
Attributable to			
Owners of the parent company		-523.2	74.5
Earnings per share attributable to shareholders of the parent company, EUR			
Basic earnings per share	3.9	-0.51	0.09
Diluted earnings per share	3.9	-0.51	0.09

Consolidated statement of comprehensive income

EUR mill.	Note	2020	2019
Result for the period		**-523.2**	**74.5**
Other comprehensive income items			
Items that may be reclassified to profit or loss in subsequent periods			
Change in fair value of hedging instruments		-29.9	75.8
Translation differences		-0.7	
Tax effect		6.0	-15.2
Items that will not be reclassified to profit or loss in subsequent periods			
Actuarial gains and losses from defined benefit plans	1.3.8.2	-13.1	-50.2
Tax effect		2.6	10.0
Other comprehensive income items total		**-35.1**	**20.5**
Comprehensive income for the period		**-558.4**	**95.0**
Attributable to			
Owners of the parent company		-558.4	95.0

Revenue declined by 73.2% as compared to year 2019
The year 2020 was heavily impacted by the COVID-19 pandemic which led to a significant decrease in demand and passenger revenue. The decline in revenue is also seen in the negative operating result of -464.5 million euro. The operating result includes a positive one-off effect of 132.8 million euro relating to changes in defined benefit pension plans. The reduced flying also led to a significantly lower jet fuel consumption than anticipated, which is why Finnair discontinued hedge accounting for majority of its fuel and foreign currency hedges. As a result, the financial expenses include a net cost of 135.8 million euro relating to the discontinued jet fuel and foreign currency hedges.

= Highlights

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

▶ CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

Consolidated balance sheet

EUR mill.	Note	2020	2019
ASSETS			
Non-current assets			
Fleet	2.1	1,440.3	1,533.3
Right-of-use fleet	2.2	772.5	736.4
Fleet total		2,212.7	2,269.7
Other fixed assets	2.1	185.3	178.4
Right-of-use other fixed assets	2.2	145.0	141.1
Other fixed assets total		330.2	319.5
Pension assets	1.3.8.2	31.8	
Other non-current assets		25.1	39.5
Deferred tax assets	5.1	84.8	
Non-current assets total		**2,684.7**	**2,628.7**
Current assets			
Receivables related to revenue	1.2.3	57.5	160.6
Inventories and other current assets	1.3.4	68.1	80.2
Derivative financial instruments	3.8	12.4	55.7
Other financial assets	3.2.1	358.3	800.8
Cash and cash equivalents	3.2.2	465.3	151.9
Current assets total		**961.8**	**1,249.2**
Assets total		**3,646.5**	**3,877.9**

EUR mill.	Note	2020	2019
EQUITY AND LIABILITIES			
Equity attributable to owners of the parent			
Share capital		75.4	75.4
Other equity		821.2	890.9
Equity total		**896.6**	**966.4**
Non-current liabilities			
Lease liabilities	2.2, 3.3	880.6	913.6
Other interest-bearing liabilities	3.3	1,111.0	477.3
Pension obligations	1.3.8.2	1.5	77.1
Provisions and other liabilities	1.3.6	161.1	156.9
Deferred tax liabilities	5.1		64.3
Non-current liabilities total		**2,154.2**	**1,689.1**
Current liabilities			
Lease liabilities	2.2, 3.3	135.6	140.4
Other interest-bearing liabilities	3.3	51.5	43.5
Provisions	1.3.6	20.0	17.2
Trade payables		24.8	84.7
Derivative financial instruments	3.8	99.7	38.9
Deferred income and advances received	1.2.4	133.6	552.7
Liabilities related to employee benefits	1.3.8.1	70.7	119.4
Other liabilities	1.3.5	59.8	225.7
Current liabilities total		**595.7**	**1,222.4**
Liabilities total		**2,749.9**	**2,911.5**
Equity and liabilities total		**3,646.5**	**3,877.9**

Financial position and equity remained strong as a result of the refinancing plan
Finnair's equity and cash funds remained strong as a result of its refinancing plan put in place to help overcome the COVID-19 pandemic. The refinancing plan included raising new equity financing from a share issue, adding new interest-bearing debt, entering into two new sale and leaseback transactions for A350 aircraft and receiving export credit support for one A350 aircraft. Current liabilities were significantly reduced as a result of refunds of prepaid ticket purchases to customers resulting from the flight cancellations.

The net impact from pension fund term amendments and pilots' early retirement announcements led to a significant decrease in the Group's pension obligations and the Group recognized a pension asset related to the affected pension plans. In addition, Finnair recognized a net deferred tax asset resulting from the significant losses caused by the COVID-19 pandemic.

■ = Highlights

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

▶ CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

Consolidated cash flow statement

EUR mill.	2020	2019
Cash flow from operating activities		
Result before taxes	-654.4	93.0
Depreciation and impairment	343.8	325.4
Items affecting comparability	-130.8	2.8
Financial income and expenses	189.9	66.1
Share of results in associates and joint ventures		0.9
Comparable EBITDA	-251.5	488.3
Change in provisions	0.8	29.5
Employee benefits	12.0	10.6
Other adjustments	0.6	1.5
Non-cash transactions	13.4	41.5
Changes in trade and other receivables	112.3	33.4
Changes in inventories	4.6	-2.2
Changes in trade and other payables	-672.0	46.9
Changes in working capital	-555.2	78.1
Financial expenses paid, net	-243.4	-31.5
Income taxes paid	-6.4	-11.9
Net cash flow from operating activities	-1,043.1	564.5
Cash flow from investing activities		
Investments in fleet	-300.7	-453.1
Investments in other fixed assets	-24.7	-25.2
Divestments of fleet and other fixed assets	221.1	1.3
Lease and lease interest payments received	16.1	16.3
Change in other current financial assets (maturity over 3 months)	439.9	-53.4
Change in other non-current assets	0.0	0.8
Net cash flow from investing activities	351.6	-513.2
Cash flow from financing activities		
Proceeds from loans	872.8	
Loan repayments	-218.0	-42.0
Repayments of lease liabilities	-134.9	-132.2
Share issue	511.7	
Share issue costs	-11.1	
Hybrid bond repayments	-200.0	
Proceeds from hybrid bond	200.0	
Hybrid bond interests and expenses	-18.5	-15.8
Acquisitions of own shares		-0.5
Dividends paid		-35.0
Net cash flow from financing activities	1,001.9	-225.4

EUR mill.	2020	2019
Change in cash flows	310.5	-174.1
Liquid funds, at beginning	481.7	655.8
Change in cash flows	310.5	-174.1
Liquid funds, at end*	792.2	481.7

*** Liquid funds**

EUR mill.	2020	2019
Other financial assets	358.3	800.8
Cash and cash equivalents	465.3	151.9
Cash funds	823.7	952.7
Other current financial assets (maturity over 3 months)	-31.5	-470.9
Liquid funds	792.2	481.7

Changes in equity and liabilities arising from financing activities are disclosed in the note 3.3 Financial liabilities and in the note 3.9 Equity-related information.

The Group's liquidity remained strong as a result of the refinancing activities
The COVID-19 pandemic had a significant negative impact on Finnair's operating cash flow in 2020. The net cash flow from operating activities turned negative due to the operating losses and refund payments to customers resulting from the flight cancellations. Finnair's total liquid funds at year-end remained strong as a result of the refinancing activities which are seen in the positive net cash flow from financing activities and divestments of fleet and other fixed assets.

= Highlights

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

▶ CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

Consolidated statement of changes in equity

EUR mill.	Share capital	Other restricted funds	Hedging reserve and other OCI items	Unrestricted equity funds	Retained earnings	Hybrid bond	Equity total
Equity 1 Jan 2020	**75.4**	**168.1**	**-6.7**	**256.1**	**275.2**	**198.2**	**966.4**
Result for the period					-523.2		-523.2
Change in fair value of hedging instruments			-23.9				-23.9
Actuarial gains and losses from defined benefit plans			-10.5				-10.5
Translation differences			-0.7				-0.7
Comprehensive income for the period			**-35.1**		**-523.2**		**-558.4**
Share issue				511.7			511.7
Share issue costs				-8.8			-8.8
Proceeds from hybrid bond						200.0	200.0
Hybrid bond repayments						-200.0	-200.0
Hybrid bond interests and expenses					-14.6	-0.2	-14.8
Share-based payments				0.6			0.6
Equity 31 Dec 2020	**75.4**	**168.1**	**-41.8**	**759.5**	**-262.6**	**198.0**	**896.6**

EUR mill.	Share capital	Other restricted funds	Hedging reserve and other OCI items	Unrestricted equity funds	Retained earnings	Hybrid bond	Equity total
Equity 1 Jan 2019	**75.4**	**168.1**	**-27.2**	**255.2**	**248.7**	**198.2**	**918.5**
Result for the period					74.5		74.5
Change in fair value of hedging instruments			60.7				60.7
Actuarial gains and losses from defined benefit plans			-40.2				-40.2
Comprehensive income for the period			**20.5**		**74.5**		**95.0**
Hybrid bond interests and expenses					-12.6		-12.6
Dividend					-35.0		-35.0
Acquisitions of own shares					-0.5		-0.5
Share-based payments				0.9			0.9
Equity 31 Dec 2019	**75.4**	**168.1**	**-6.7**	**256.1**	**275.2**	**198.2**	**966.4**

Equity ratio at 24.6% in 2020 (24.9%)
The COVID-19 pandemic had a significant negative impact on the the Group's consolidated result for the period and its equity. The equity decreased to 896.6 million euros from last year level (966.4) with the main contributor being the negative net result of -523.2 million euros (74.5). As part of its refinancing plan, Finnair completed a rights issue increasing the Group's equity by 502.9 million euros, which allowed it to maintain strong equity position at the year-end 2020. The proceeds from hybrid bond and hybrid bond repayments shown in the above table relate to a refinancing of an earlier outstanding hybrid note. As a result of the extreme circumstances under the COVID-19-pandemic and in accordance with the decision made at the Annual General Meeting held in May 2020, no dividends relating to year 2019 were paid out during 2020 (35.0).

Finnair hedges against jet fuel price fluctuations with forward contracts and options according to its risk management policy described in note 3.5 Management of financial risk. The negative fair value changes of hedging instruments amounted to -23.9 million (60.7). At the end of the year 2020, the price of jet fuel was lower than at year-end 2019, which contributed to the negative change of the fair value hedging reserve. Changes in hedging reserve and other OCI (other comprehensive income) items are presented in more detail in note 3.9 Equity-related information.

■ = Highlights

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

Notes to the consolidated financial statements

Accounting principles

How should Finnair's accounting principles be read?
Finnair describes the accounting principles in conjunction with each note with the aim of providing an enhanced understanding of each accounting area. The basis of preparation is described as part of this note at a general level, while the principles more directly related to a specific note are attached to the corresponding note. The Group focuses on describing the accounting choices made within the framework of the prevailing IFRS policy and avoids repeating the actual text of the standard, unless Finnair considers it particularly important to the understanding of the note's content. Refer to the table below to see which notes, accounting principles and IFRS standards are related.

Accounting principle	Note	Nr.	IFRS
Segment reporting	Segment information	1.1	IFRS 8
Revenue recognition, other income and trade receivables	Operating income	1.2	IFRS 15, IFRS 9, IFRS 7
Provisions and contingent liabilities	Provisions	1.3.6	IAS 37
Employee benefits and share-based payments	Employee benefits	1.3.8	IAS 19, IFRS 2
Pensions	Pensions	1.3.8.2	IAS 19
Tangible and intangible assets	Fleet and other fixed assets	2.1	IAS 16, IAS 36, IAS 38
Leases	Leasing arrangements	2.2	IFRS 16
Impairment of assets	Depreciation and impairment	2.3	IAS 36
Interest income and expenses	Financial income and expenses	3.1	IFRS 7, IAS 32
Financial assets	Financial assets	3.2	IFRS 9, IFRS 7
Cash and cash equivalents	Financial assets	3.2	IFRS 9, IFRS 7
Financial liabilities	Financial liabilities	3.3	IFRS 9, IFRS 7
Derivative contracts and hedge accounting	Derivatives	3.8	IFRS 9, IFRS 7
Equity, dividend and treasury shares	Equity-related information	3.9	IAS 32, IAS 33
Consolidation principles of subsidiaries	Subsidiaries	4.2	IFRS 10
Non-controlling interests and transactions with non-controlling interests	Subsidiaries	4.2	IFRS 10
Investments in associates and joint ventures	Investments in associates and joint ventures	4.4	IFRS 11, IAS 28
Related party disclosures	Related party transactions	4.5	IAS 24
Income tax and deferred taxes	Income taxes	5.1	IAS 12

Company information

Finnair Group engages in worldwide air transport operations and supporting services. The Group's parent company is Finnair Plc, which is domiciled in Helsinki at the registered address Tietotie 9, Vantaa. The parent company is listed on the NASDAQ OMX Helsinki Stock Exchange.

The Board of Directors of Finnair Plc has approved these financial statements for publication at its meeting on 17 February 2021. Under Finland's Limited Liability Companies Act, shareholders have the option to accept, or reject the financial statements in the Annual General meeting of the shareholders, which will be held after the publication of the financial statements.

Basis of preparation

Finnair Plc's consolidated financial statements for 2020 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, and they comply with the IAS and IFRS standards and respective SIC and IFRIC Interpretations effective on 31 December 2020. The notes to the consolidated financial statements also comply with Finnish accounting and corporate law. Changes applied in accounting principles in 2020 and future periods are described in the below section Changes in accounting principles.

The 2020 consolidated financial statements have been prepared based on original acquisition costs, except for financial assets recognised through profit and loss at fair value and derivative contracts measured at fair value. Financial statement data is presented in millions of euros, rounded to the nearest hundred thousand euro. The sum of the individual figures may differ from the total shown.

Impact of the COVID-19 pandemic on the consolidated financial statements

The year 2020 was extremely challenging for the global aviation industry which has suffered severely from the COVID-19 pandemic and the continued spread of the virus. Airlines across the world, including Finnair, were faced with sudden lack of demand at the end of first quarter 2020 due to the strict travel restrictions imposed by the governments and were forced to significantly cut down their capacity. Finnair's capacity, measured in ASK's (Available Seat Kilometres), was down by -72.6 per cent as compared to 2019. The total ASK's in 2020 were 12,937 million (47,188). The sudden loss of demand for air passenger travel had a significant, adverse effect on Finnair's financial and operating performance resulting in unprecedented reduction in passenger volumes, revenue and profitability. Finnair's sales in 2020 totalled to 829.2 million euro (3,097.7), while the number of passengers decreased by 76.2% to 3.5 million (14.7). The impact of lower sales is seen in the negative operating result of -464.5 million euro (160.0). While Finnair was able to significantly reduce its variable operating expenses, its result for the period remained negative due to the inflexibility embedded in certain costs relating to lease and depreciation expenses, aircraft maintenance as well as certain administrative, property and IT expenses. Also the derecognition of fuel hedges from other comprehensive income to the financial expenses had a material, negative impact of 135.8 million euro (0) on Finnair's profitability in 2020. On the other hand, there was a 132.8 million euro positive one-off effect relating to certain amendments made to Finnair's pension fund terms and pilot's early retirement announcements. The loss for the period amounted to -523.2 million euro (74.5).

The Group's total non-current liabilities increased to 2,154.2 million euro (1,689.1) mainly because of withdrawal of the 600 million pension premium loan and the receipt of export credit financing in excess of 100 million euro which were both part Finnair's refinancing plan resulting from the COVID-19 pandemic. The above mentioned pension fund term amendments and pilots' early retirement announcements led to the significant decrease in the Group's pension obligations. The Group's current liabilities decreased to 595.7 million euro (1,222.4) mainly because of refunds of prepaid ticket purchases to customers. The refunds of ticket purchases were increased during the pandemic as many of Finnair's flights were cancelled. In total, Finnair refunded customers 464 million euro during the year 2020. The Group recognized a net deferred tax asset of 84,8 million euro (deferred tax liability -64.3) in its consolidated balance sheet, resulting from the significant losses generated during the year. Despite the negative impact of the loss on equity, the Group managed to maintain its equity balance at 896.6 million euro (966.4) with the help of the share issue finalized in July, 2020. The equity increase from the share issue totalled to 502,9 million euro.

The sudden drop in sales revenue and the refunds of ticket purchases resulted in a significant decrease in operating cash flow during the year, with the cash flow from operating activities being reduced to -1,043.1 million euro (564.5). Finnair's liquid funds at the end of the period totalled to 792.2 million euro (481.7) due to the significant, positive financing cash flow of 1,001.9 million euro (-225.4) resulting from the various refinancing activities carried out during the year. In addition to the abovementioned withdrawal of the pension premium loan and the completion of the share issue, activities that contributed into the strenghtening of the cash funds included three aircraft financing transactions relating to the A350 aircraft and the refinancing of the 200 million euro hybrid loan.

Further detail on the Group's financial figures can be found in the following notes: revenue and operating expenses (note 1.2 and 1.3), deferred income and advances received (note 1.2.4), pensions (note 1.3.8.2), aircraft financing transactions in notes 2.1, 2.2 and 3.3), derivatives and jet fuel hedges in notes 3.1 and 3.8, changes in liabilities and equity (notes 3.3 and 3.9) and income taxes (note 5.1).

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

The COVID-19 pandemic has also had an impact on the critical accounting estimates and sources of uncertainty. This have been dislosed in more detail in the below section Critical accounting estimates and sources of uncertainty.

Board's assessment of Finnair as a going concern

The consolidated financial statements have been prepared based on the going concern assumption. The Finnair Board of Directors has assessed the Group's ability to continue as a going concern based the Group's ability to meet its obligations as they fall due at least 12 months after the financial statements are issued. The Board of Directors' assessment is based on the Group's latest three-year business plan approved by the Board of Directors. Due to the current uncertainty embedded in the economic environment and the difficulty in forecasting the ultimate duration and impact of the COVID-19 pandemic, the Board of Directors have reviewed three different scenarios prepared by the management that cover a period of 36 months from January 2021 to December 2023. The abovementioned scenarios have been sensitised to reflect differences on the expected beginning of the recovery. Under all the three scenarios, Finnair will be able to meet its obligations as they fall due at least 12 months after the date that the financial statements are issued.

The main differences between the scenarios relate to the timing of the demand recovery, unit revenue development and development of customer demand. In the optimistic scenario, the demand recovery is expected to materially start in June 2021 and in July 2021, Finnair expects to operate around 60% of its capacity (measured in available seat kilometres) as compared to 2019. In the base case scenario, which is considered as the most probable of the three, the recovery is expected to materially start in August 2021 and the capacity would be around 70% of the 2019 levels in September 2021. In the pessimistic scenario, the start of the recovery would be expected to materially take place in October 2021 and the capacity to remain below 80% of the 2019 levels in November 2021. Under each of the scenarios, the business is expected to return to the operational levels (measured in available seat kilometres) comparable to 2019 in year 2023. All of the management forecast scenarios are based on the development of passenger demand and capacity levels that depend on the implementation of the vaccination programs, lifting of travel restrictions and global acceptance of vaccine passports. It is assumed in all scenarios, that the unit revenue (RASK) will remain below the 2019 levels throughout the period of the business plan due to lower passenger volumes and lower share of corporate travel. In the base case scenario, the passenger load factors and thus also the unit revenue would recover slower in 2021 than in the optimistic scenario, but faster than in the pessimistic scenario. At the same time, the committed cost saving program included in the scenarios will decrease unit costs. Flight related variable expenses depend on the planned capacity, whereas aircraft maintenance investments are assumed to stay rather constant between all scenarios.

In 2020, Finnair took immediate and decisive action to mitigate the negative impacts relating to the COVID-19 pandemic by adjusting its operations and targeting both temporary and permanent cost reductions. The temporary measures include temporary layoffs of employees, limiting spending only to the mandatory and compliance driven items and the temporary grounding of a large part of its fleet in order to accommodate its cost base to lower level of operations until the demand for flying returns again. On 28 October 2020, Finnair announced that it is targeting 140 million euro in permanent cost base reductions (as compared to year 2019) by 2022. As part of the mentioned cost savings program, Finnair has finalized significant co-operation negotiations which resulted in a reduction of ca. 600 jobs.

In addition to the operational measures, Finnair responded quickly in order to secure adequate funding to support its liquidity. Finnair's refinancing plan included e.g. raising 500 million euro of new equity through a rights issue, drawdown of 600 million euro pension premium loan, refinancing of the company's outstanding 200 million euro hybrid note, three refinancing transactions related to A350 aircraft and rescheduling of future aircraft deliveries to later periods.

As a result of the aforementioned actions, Finnair's liquidity position remained strong and as at 31 December 2020, the Group held liquid funds of 792.2 million euro (481.7). The cash funds including other current financial assets (maturity over 3 months) totalled to 823.7 million euro (952.7). The Group management and the Board of Directors continue to pay close attention to the Group's cash position considering the challenging dynamics in its current operating environment that are negatively impacting the Group's cash flows. Based on Finnair's current estimate (base case scenario), the covenant terms related to Finnair's undrawn 175 million euro revolving credit facility are estimated to be possibly breached during the second quarter of 2021. The credit facility is not in use as at the date of preparation of the financial statements and Finnair's financing during the going concern assessment period is not dependent on the existence of the facility. Finnair plans to initiate negotiations with the syndicate banks with respect to covenant amendments. The maturities of the Group's interest-bearing liabilities are presented in note 3.3. and information about the existing covenants, changes in hedging policies and management of liquidity risk is described in notes 3.4, 3.5 and 3.8.

The main identified uncertainties relating to the management estimates relate to the eventual duration of the COVID-19 pandemic as well as the timing of the expected demand recovery which depends on the timing and effectiveness of the vaccination programs, availability of a vaccine passport solution, lifting of the travel restrictions and increased competition all of which cannot be known with certainty at the time of the publication of the financial statements. These events are not in the sphere of Finnair management's influence. The management has been required to apply material judgement relating to the duration of the COVID-19 pandemic and make estimates about the effectiveness and realization of the vaccination programs as well as the time and speed of the demand recovery for air passenger travel. This again is heavily impacted by the actions of the governments in many parts of the world and the time that it takes to get the pandemic under control.

Despite of the abovementioned uncertainties, Finnair's management has at its disposal other mitigating measures that are within the sphere of its influence and with which it believes it will be able to meet its obligations for at least 12 months after the date the financial statements are issued. These include, in addition to the abovementioned 140 million euro savings plan, Finnair management's plan to continue to actively seek additional financing and cost adjustment opportunities, postponement of capital and maintenance investments as well as continuance of structural changes and temporary cost savings, including e.g. temporary layoffs.

In addition, to ensure adequate funding and sufficient liquidity, and to strengthen its financial position, Finnair has announced on 16 December 2020 that the State of Finland is preparing to make a hybrid loan of up to 400 million euros available to Finnair. The hybrid loan is expected to be finalized during the first quarter of 2021. The final decision on the possible financing arrangement is still subject to a decision by the Government Plenary session. The hybrid loan also requires an approval by the EU Commission. In addition, Finnair is planning to refinance its existing 200 million euro senior unsecured bond which matures in March 2022.

Considering the above-mentioned circumstances and uncertainties, as well as the already realized and planned measures to mitigate the impacts of the COVID-19 pandemic, the Board of Directors has concluded that the assessment does not cast significant doubt on the Group's ability to continue as a going concern and that consequently, the Group continues to adopt the going concern basis of accounting in preparing these consolidated financial statements. The Board of Director's conclusion is based on the information available as at the date of the issuance of the consolidated financial statements and an assessment conducted based on the information assuming, that the company is able to conduct its adjusted business operations according to the plan and to maintain sufficient financing for period of at least 12 months after the date that the financial statements are issued. The management and the Board of Directors have also considered events and developments taking place after the balance sheet date and concluded that there is no material impact on the scenarios approved by the Board of Directors and the going concern assessment of the Group.

Despite the various mitigating measures implemented by Finnair, the upcoming months will continue to be significantly affected by decreased demand for air travel resulting in lower revenues and weaker financial performance for a duration that is currently uncertain. Should future events or conditions cause the Group to be unable to continue its operations in accordance with the Board of Director's current assessment, using the going concern principle may prove to be no longer justified and the carrying values as well as the classification of the Group's assets and liabilities would have to be adjusted accordingly.

Presentation of consolidated income statement and balance sheet

IAS 1 Presentation of Financial Statements standard does not define 'operating result'. The Group has defined it as the net amount of operating income and expenses, including revenue and other operating income, less operating expenses, such as employee benefits, fuel costs, maintenance expenses, lease payments for aircraft and depreciations. Exchange rate differences and realised changes in fair values of derivatives are included in the operating result if they arise from

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

items related to business operations; otherwise, they are recognised in financial items. The operating result excludes financial items, share of results from associates and joint ventures and income taxes.

The consolidated income statement includes, in addition to the operating result, comparable operating result and comparable EBITDA which are presented to better reflect the Group's business performance when comparing results to previous periods (see also below, presentation on alternative performance measures). The comparable operating result does not include capital gains and losses, changes in the value of foreign currency denominated fleet maintenance reserves, changes in the unrealised fair value of derivatives, a one-off item relating to changes in defined benefit pension plans or restructuring costs. The basis for this is explained in more detail in note 1.3.7 Items excluded from comparable operating result. Comparable EBITDA is a common measure in the airline business which aims to reflect comparable operating result excluding capital cost. Therefore, comparable EBITDA is calculated by excluding depreciations from the comparable operating result.

In the consolidated balance sheet, assets and liabilities are classified as current when they are expected to realise within 12 months or when they are classified as liquid funds or as financial assets or liabilities classified at fair value through profit or loss. Other assets and liabilities are classified as non-current assets or liabilities. Interest-bearing liabilities include loans from financial institutions, bonds, loans taken for aircraft financing (JOLCO-loans & export credit support), lease liabilities and commercial papers. Interest-bearing net debt is the net amount of interest-bearing assets and liabilities and cross-currency interest rate swaps that are used for hedging the currency and interest rate risk arising from interest-bearing loans.

Presentation of alternative performance measures

Finnair uses alternative performance measures referred to in the European Securities Markets Authority (ESMA) Guidelines on Alternative Performance Measures to describe its operational and financial performance, to provide a comparable view of its business and to enable better comparability relative to its industry peers. The alternative performance measures do not replace IFRS indicators. Finnair's alternative performance measures reported in the financial statements are comparable operating result and EBITDA (defined above). Comparable operating result is reconciled in the note 1.3.7 Items excluded from comparable operating result.

Finnair applies consistent principles when excluding items from comparable operating result. The main principles are described in the above section 'Presentation of consolidated income statement and balance sheet' and in more detail in the note 1.3.7 Items excluded from comparable operating result. The calculation principles of key ratios are also defined in The report of the Board of Directors, in section Calculation of key ratios.

Critical accounting estimates and sources of uncertainty

The preparation of IFRS financial statements requires Group management to make certain estimates, assumptions and judgements in applying the accounting principles that affect the reported amounts of assets and liabilities as well as income and expenses. The application of the accounting policies prescribed by IFRS require making estimates and assumptions relating to the future where the actual outcome may differ from the earlier estimates and assumptions made. In addition, management discretion has to be exercised in applying the accounting principles especially when the IFRS has alternative accounting, valuation or presentation methods. The estimates and assumptions made are based on past experience and management's best estimate of future events and other factors, that are believed to be reasonable given the current circumstances. The estimates and associated assumptions are continuously evaluated and any changes therein are reflected in the period that the changes occur.

The COVID-19 pandemic has increased the level of uncertainty relating to the near- and long-term development of the economy and its impact on Finnair's future operating environment. Despite significant actions taken by the governments to contain the virus, it is difficult to forecast how long it takes to bring the global pandemic under control. Given the unpredictability of the duration and the reach of the pandemic, its impact on Finnair's future profitability, financial position and cash flows may eventually differ from the current management estimates and assumptions made.

In 2020, Finnair adopted the value in use model as its primary internal method of measuring the recoverable amount of the assets. In the comparison period ending 31.12.2019, Finnair was principally using the fair market value less cost to sell in its impairment review. The decision to change the approach was made because of the deemed impact of the COVID-19-pandemic on the accuracy of the market prices resulting from lower transaction volume and the impact of the distress situations on realized prices.

In order to consider the increased uncertainty in its estimates and assumptions caused by the COVID-19 pandemic, Finnair management has considered three different forecast scenarios incorporating possible variations of the expected timing of the recovery begin based on its best estimate at the time. These scenarios are discussed in more detail in the earlier section of the notes called Board's assessment of Finnair as a going concern. Further, in order to consider the increased uncertainty also in its impairment testing performed at the year-end, Finnair is applying the expected cash flow approach which incorporates expectations about all forecast scenarios instead of relying on just a single, most likely, cash flow estimate.

Information about the estimates and judgement exercised by management in applying the Group's accounting principles and the areas where estimates and judgements have biggest impact on the financial statements are highlighted in the following table Critical accounting estimates and sources of uncertainty.

The consolidated financial statements have been prepared on a going concern basis. Assessment of the going concern is made based on management estimates about future events and other information that is available to the management and the Board of Directors at the time of the assessment. The main identified critical estimates and sources of uncertainty related to the assessment are presented earlier in this note in section Board's assessment of Finnair as going concern. The identified main critical estimates and sources of uncertainty related to separate sections of the financial statements are presented in connection to the financial items considered to be affected and attached to the corresponding note. The table below shows where to find more information about those estimates and uncertainties.

Critical accounting estimates and sources of uncertainty	Note number	Note
Finnair Plus Customer Loyalty Program	1.2	Operating income
Maintenance reserves of the fleet	1.3.6	Provisions
Pension obligations	1.3.8.2	Pensions
Leasing arrangements	2.2	Leasing arrangements
Impairment testing of the fleet and other fixed assets	2.3	Depreciation and impairment
Derivative contracts and hedge accounting	3.8	Derivatives
Deferred taxes	5.1	Income taxes

= Critical accounting estimates

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

▶ 1. OPERATING RESULT

2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS

3. CAPITAL STRUCTURE AND FINANCING COSTS

4. CONSOLIDATION

5. OTHER NOTES

6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

I = Content of the section
A = Accounting principles

Changes in accounting principles

New and amended IFRS standards and IFRIC interpretations
The changes in the IFRS standards effective from periods beginning 1 January 2020 included mainly amendments or improvements to current standards and did not have an effect on Finnair financial statements.

Other standards issued that are effective from periods on or after 1st of January 2021 mainly include amendments and improvements to current standards that are not expected to have a material impact on the Group's consolidated financial statements.

Changes in presentation of Consolidated income statement, balance sheet and cash flow statement
Finnair has adopted a minor change in the presentation of its consolidated income statements and changed the description of the line item 'Staff cost' to 'Staff and other crew related costs' in order to better describe the nature of the line item. The change was initially applied in Finnair's half year report published on 24th July 2020. In addition, Finnair has renamed two line items presented on its consolidated cash flow statement as at the year end 2020 in order to better describe the nature of those line items. The line item formerly described as 'Divestments of fixed assets' was renamed to 'Divestments of fleet and other fixed assets' and the line item 'Net change in financial assets maturing after more than three months' was renamed to 'Change in other current financial assets (maturity over three months)'. The content of the line items remain unchanged and the change has no impact on the comparability between the periods.

1 Operating result

I Operating result includes notes related to revenue and operating result from the point of view of income statement and balance sheet. I

1.1 Segment information

A **Segment reporting**
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's Executive Board. Segments are defined based on Group's business areas. Group has one business and reporting segment: Airline business. A

The Finnair Executive Board, defined as the chief operative decision maker according to IFRS 8 Segment reporting, considers the business as one operating segment. Therefore, segment information is not reported.

The revenue by product and geographical area is presented in the note 1.2.1 Revenue by product and traffic area. The division is based on the destination of Finnair flights. Finnair operates international and domestic routes, but the assets are almost solely owned in Finland. The fleet composes the major part of the non-current assets (see note 2.1 Fleet and other fixed assets). The fleet is owned or leased by Finnair's Finnish subsidiary and the aircraft are operated flexibly across different traffic (geographical) areas. More details about fleet management and ownership can be found in the management report in the section "Fleet".

During the financial year Finnair transported 3.5 million passengers (14.7), which was 76.2 per cent less than in 2019. The significant drop in passenger demand was largely due to the COVID-19 pandemic and the following strict travel restrictions imposed by the governments, which have been used to help curb the global spread of the virus. The sudden drop in demand at the end of the first quarter continued to be followed with exceptionally low levels of demand lasting throughout the year and was particularly detrimental to Finnair's financial performance. With the significant decline in passenger volumes, Finnair was required to adapt its operations by reducing its flight capacity and targeting both temporary and permanent cost savings. The effects on revenue and operating expenses as well as the related receivables and liabilities are presented in more detail in the following notes 1.2 and 1.3.

Due to the wide scale of customers and nature of the business, sales to any individual customer is not material compared to Finnair's total revenue.

1.2 Operating income

I The operating income section includes both income statement and balance sheet notes that relate to revenue. The aim is to provide a more coherent picture of income related items affecting Finnair's result and financial position. Trade receivables and deferred income containing mainly prepaid flight tickets and travel tour services are presented in connection with this section, because those are an essential part in revenue recognition. I

A **Revenue recognition**
Revenue is recognised when goods or services are delivered. Revenue is measured at fair value of the consideration received or receivable, net of discounts and indirect taxes.

Passenger revenue includes sale of flight tickets, and is recognised as revenue when the flight is flown in accordance with the flight traffic program. Recognition of unused tickets as revenue is based on the expected breakage amount of tickets remaining unused in proportion to the pattern of rights exercised by the passenger.

Sales price is allocated to a flight ticket and points in Finnair Plus' Customer Loyalty Program. Finnair loyalty customers can earn Finnair Plus Points from tickets or services purchased, and use the earned points to buy services and products offered by Finnair or its cooperation partners. The points earned are measured at fair value and recognised as a decrease of revenue and debt at the time when the points-earning event (for example, flight is flown) is recognised as revenue. Fair value is measured by taking into account the fair value of those awards that can be purchased with the points and the customer selection between different awards based on historical customer behaviour. In addition, the fair valuation takes into account the expiry of the points. The debt is derecognised when the points are used or expire.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

▶ 1. OPERATING RESULT

2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS

3. CAPITAL STRUCTURE AND FINANCING COSTS

4. CONSOLIDATION

5. OTHER NOTES

6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

Customer compensations for delays or cancellations is a variable consideration in the contract and it is recognised as an adjustment to revenue.

Ancillary revenue includes sale of ticket related services, like advance seat reservations, additional baggage fees as well as different service fees, and sale of goods in the aircraft. The service revenue is recognized when the flight is flown in accordance with the flight traffic program, since it is considered as a contract modification instead of separate revenue transaction. The sale of goods is recognized when the goods are delivered to the customer.

Cargo revenue is recognized when the cargo has been delivered to the customer.

Tour operations revenue includes sale of flight and hotel considered as separate performance obligations, which are recognized as the service is delivered.

Public subsidies increased slightly due to COVID-19 pandemic, but they were not material in overall. Subsidies are recognised as other operating income. A

A Trade receivables

Finnair Group recognises impairment provisions based on lifetime expected credit losses from trade receivables in accordance with IFRS 9. Finnair has chosen to apply a simplified credit loss matrix for trade receivables as trade receivables do not have a significant financing component. Accordingly, the credit loss allowance is measured at an amount equal to the lifetime expected credit losses. The expected credit loss model is forward-looking, and expected default rates are based on historical realised credit losses. The lifetime expected credit loss allowance is calculated using the gross carrying amount of outstanding trade receivables in each aging bucket and an expected default rate. The changes in expected credit losses are recognised in other operating expenses. A

E Finnair Plus Customer Loyalty Program

Valuation and revenue recognition related to Finnair Plus debt requires management judgment especially related to fair valuation of points and timing of revenue recognition related to points expected to expire. The fair value of the point is defined by allocating the point to award selection based on historical behaviour of customers, after which the fair value of each award is defined. The liability is calculated by taking the total amount of points earned by customers, decreased by the expected expiry of the points. These points are then fair valued as described above, and the result is recognised as liability on the balance sheet.

Estimating customer behaviour relating to the expiry of the points has become somewhat more challenging as a result of the COVID-19 pandemic, which has led to low number of passenger flights and less recent activity of Finnair Plus members. This leads Finnair to have less recent data available that can be used as a basis of the estimates and thus increase the level of uncertainty about the expected customer behaviour and the point expiry rates in the future. E

1.2.1 Revenue by product and traffic area

2020

EUR mill.	Asia	North Atlantic	Europe	Domestic	Unallocated	Total	Share, % of revenue by product
Passenger revenue	186.0	26.4	244.6	69.1	1.9	528.1	63.7
Ancillary and retail revenue	18.5	1.4	9.4	2.4	30.6	62.3	7.5
Cargo	145.8	11.1	22.0	0.3	-1.5	177.7	21.4
Travel services	19.0	8.1	33.8	0.5	-0.2	61.1	7.4
Total	**369.3**	**47.0**	**309.8**	**72.4**	**30.8**	**829.2**	
Share, % of revenue by traffic area	44.5	5.7	37.4	8.7	3.7		

The division of revenue by traffic area is based on the destination of the Finnair flight.

Passenger revenue, ancillary and retail revenue as well as travel services decreased significantly following the COVID-19 related travel restrictions and decrease in passenger demand. Cargo revenue decreased less than the other products due to the relatively high demand for cargo-only flights. The total revenue decreased by 73.2% from prior year.

During financial year 2020, Finnair conducted repatriation flights for the Ministry for Foreign Affairs of Finland to assist travellers in returning from abroad to Finland and cargo flights for National Emergency Supply Agency to deliver protective equipment to Finland.

2019

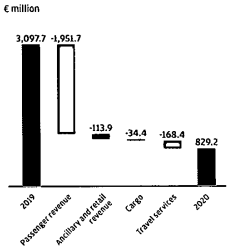
EUR mill.	Asia	North Atlantic	Europe	Domestic	Unallocated	Total	Share, % of revenue by product
Passenger revenue	1,083.6	179.1	997.9	181.4	37.8	2,479.8	80.1
Ancillary and retail revenue	54.8	11.1	45.1	5.2	60.0	176.2	5.7
Cargo	156.8	13.8	32.9	1.3	7.3	212.1	6.8
Travel services	32.9	13.0	183.6		-0.1	229.5	7.4
Total	**1,328.2**	**217.1**	**1,259.5**	**187.9**	**105.0**	**3,097.7**	
Share, % of revenue by traffic area	42.9	7.0	40.7	6.1	3.4		

1.2.2 Revenue by currency

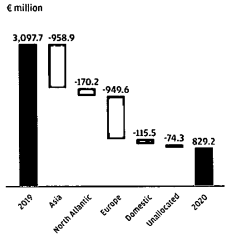
EUR mill.	2020	2019
EUR	456.0	1,626.5
JPY	61.4	351.4
CNY	50.0	211.4
USD	29.5	147.4
SEK	27.0	101.5
KRW	27.1	80.3
Other currencies	178.3	579.1
Total	**829.2**	**3,097.7**

The hedging policies against foreign exhange rate fluctuations are described in note 3.5 Management of financial risks.

Revenue bridge by product



Revenue bridge by traffic area



A = Accounting principles
E = Critical accounting estimates

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

▶ 1. OPERATING RESULT

2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS

3. CAPITAL STRUCTURE AND FINANCING COSTS

4. CONSOLIDATION

5. OTHER NOTES

6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

1.2.3 Receivables related to revenue

EUR mill.	2020	2019
Trade receivables	37.4	108.9
Accrued income	20.1	51.8
Total	57.5	160.6

The decrease in revenue related receivables during 2020 results from the decrease in passenger demand and the related revenues. The fair value of trade receivables do not materially differ from balance sheet value.

	2020			2019		
Aging analysis of trade receivables	Trade receivables, EUR mill.	Probability of not collecting, %	Expected uncollectible, EUR mill.	Trade receivables, EUR mill.	Probability of not collecting, %	Expected uncollectible, EUR mill.
Not overdue	33.0	0.3%	0.1	108.5	0.3%	0.4
Overdue less than 60 days	-0.2	0.2%	0.0	-1.4	1.3%	0.0
Overdue more than 60 days	4.6	0.8%	0.0	1.8	1.4%	0.0
Total	**37.4**	**0.3%**	**0.1**	**108.9**	**0.4%**	**0.4**

During the financial year, the Group has recognised total 0.0 million euros (0.3) of credit losses from trade receivables including received payments relating to previously recognised credit losses. Regardless of uncertainty caused by COVID-19 pandemic, trade receivables do not contain significant credit risk because of diversity in the customer basis. The maximum exposure to credit risk at the reporting date is the carrying amount of trade receivables. The Group does not hold any collateral as security related to trade receivables.

Trade receivables by currency

EUR mill.	2020	2019
EUR	15.3	48.6
JPY	5.7	9.9
CNY	3.7	5.6
KRW	3.4	3.6
HKD	2.2	4.9
NOK	2.1	3.7
THB	1.9	1.7
USD	1.6	11.3
SEK	0.9	3.7
Other currencies	0.7	15.8
Total	37.4	108.9

1.2.4 Deferred income and advances received

EUR mill.	2020	2019
Deferred revenue on ticket sales	55.7	451.2
Loyalty program Finnair Plus	51.9	43.3
Advances received for tour operations	3.4	45.4
Other items	22.5	12.7
Total	133.6	552.7

Deferred income and advances received includes prepaid, yet unflown flight tickets and package tours, for which the departure date is in the future. The Finnair Plus liability is related to Finnair's customer loyalty program, and equals the fair value of the accumulated, unused Finnair Plus points.

Deferred revenue on ticket sales and advances received for tour operations decreased significantly in 2020 due to the travel restrictions, reduced demand and flights cancellations following the pandemic. In total, Finnair refunded its customers 464 million euros relating to the flight cancellations. The debt balance related to the Finnair Plus loyalty program increased as the fair value of the point defined by historical behaviour of customers increased slightly and the expiry of points was prolonged due to the exceptional circumstances for the benefit of customers, who have not been able to use earned points in a normal manner during COVID-19 pandemic. The balance of other items increased as a result of customers being offered gift vouchers in exchange of cancelled flights.

1.3 Operating expenses

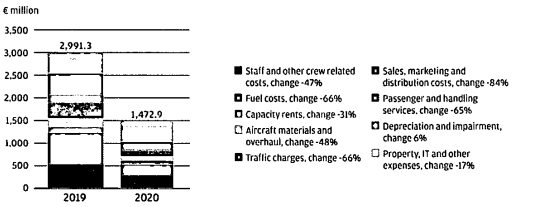
The operating expenses section includes the income statement and balance sheet notes related to operating expenses, aiming to provide a better overview of business operations and related expenses. Maintenance provisions of leased aircraft that inherently relate to aircraft overhaul costs are included in this operating expenses section. Also accrued expenses, such as liabilities related to jet fuel and traffic charges, are presented in this section. In addition, items related to employee benefits are presented at the end of this section in a separate note 1.3.8. Employee benefits. It includes the different forms of benefits received by Finnair employees, including share-based payments and pensions, their effect on staff costs and balance sheet as well as information on management remuneration.

Finnair's operating expenses decreased notably less than the decline in revenue, due to the inflexibility embedded in certain costs relating to lease and depreciation expenses, aircraft maintenance as well as certain administrative, property and IT expenses. Finnair was able to significantly reduce its variable operating expenses directly linked to the lower level of flying and reduced operational activity.

Finnair has introduced significant cost adjustment initiatives due to the effects of COVID-19 pandemic to Finnair's operations, such as temporary layoffs and certain amendments to Finnair's pension fund terms. These are presented more detailed in note 1.3.8.

Depreciation and impairment increased mainly due to impairment recognised in connection with aircraft part-outs and two aircraft sale and leaseback agreements. These are presented more detailed in note 2.3.

Operating expenses included in comparable operating result



CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

▶ 1. OPERATING RESULT

2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS

3. CAPITAL STRUCTURE AND FINANCING COSTS

4. CONSOLIDATION

5. OTHER NOTES

6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

1.3.1 Operating expenses by currency

EUR mill.	2020	2019
EUR	875.0	1,694.6
USD	510.7	1,073.3
Other currencies	87.2	223.4
Total	**1,472.9**	**2,991.3**

The hedging policies against foreign exchange rate fluctuations are described in note 3.5 Management of financial risks.

1.3.2 Passenger and handling services

EUR mill.	2020	2019
Ground and cargo handling expenses	80.9	206.2
Expenses for tour operations	27.8	120.3
Catering expenses	21.2	74.0
Other passenger services	38.7	76.3
Total	**168.6**	**476.7**

Expenses related to passenger and handling services reduced as a result of the lower operating volumes caused by the pandemic.

1.3.3 Property, IT and other expenses

EUR mill.	2020	2019
IT expenses	69.4	75.4
Property expenses	18.4	22.0
Other expenses	21.9	35.0
Total	**109.7**	**132.4**

Property, IT and other expenses mainly consist of fixed costs.

Audit fees in other expenses

EUR mill.	2020	2019
Authorised Public Accountants	KPMG	PwC
Auditor's fees	0.5	0.3
Tax advising	0.1	0.0
Other fees	0.2	0.2
Total	**0.8**	**0.5**

The auditor's fees of KPMG Oy Ab included fees of 519 thousand euros for audit and 3 thousand euros for auditor's statements. Non-audit services to entities of Finnair Group were 285 thousand euros in total during the financial year 2020. These services included mainly capital markets services and relocations services. 205 thousand euros of auditor's fees and 118 thousand euros of other fees were related to the rights issue and the hybrid bond issue and these were recognized directly in equity.

In 2019 auditor was PricewaterhouseCoopers Oy and its non-audit services were 128 thousand euros, which included auditors statements 58 thousand euros and other services 70 thousand euros.

1.3.4 Inventories and other current assets

EUR mill.	2020	2019
Inventories	22.9	27.4
Receivables from sublease contracts	14.2	13.2
Aircraft materials and overhaul	7.4	4.9
Capacity rent receivables	7.1	10.0
Interest and other financial items	5.3	0.3
Jet fuels	2.8	4.5
VAT receivables	0.9	5.0
Other items	7.6	14.8
Total	**68.1**	**80.2**

1.3.5 Other liabilities

EUR mill.	2020	2019
Jet fuel and traffic charges	15.6	96.9
Interest and other financial items	5.8	10.6
Aircraft materials and overhaul	4.9	6.9
Liabilities for tour operations	1.5	13.7
Income tax liabilities		3.0
Other items	31.9	94.5
Total	**59.8**	**225.7**

Other liabilities decreased significantly as a result of the pandemic, as it mainly includes liabilities relating to variable operating expenses such as jet fuel and traffic charges, aircraft materials and overhaul as well as tour operations for which the amounts are largely correlated with the actual operational volumes. Other items consists of several items, none of which are individually significant.

1.3.6 Provisions

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as the result of a past event, the fulfilment of the payment obligation is probable, and a reliable estimate of the amount of the obligation can be made. The amount to be recognised as provision corresponds to the management's best estimate of the expenses that will be necessary to meet the obligation at the end of the reporting period.

The Group is obliged to return leased aircraft and their engines according to the redelivery condition set in the lease agreement. If at the time of redelivery, the condition of the aircraft and its engines differs from the agreed redelivery condition, Finnair needs to either maintain the aircraft so that it meets the agreed redelivery condition or settle the difference in cash to the lessor. To fulfil these maintenance obligations, the Group has recognised airframe heavy maintenance, engine performance maintenance, engine life limited part, landing gear, auxiliary power unit and other material maintenance provisions. The provision is defined as a difference between the current condition and redelivery condition of these maintenance components. The provision is accrued based on flight hours flown until the next maintenance event or the redelivery and recognised in the aircraft overhaul costs in the income statement. The provision is reversed at the maintenance event or redelivery. The price of the flight hour depends on the market price development of the maintenance costs. Estimated future cash flows are discounted to the present value. The maintenance market prices are mainly denominated in US dollars, which is why the amount of maintenance provision changes due to currency fluctuation of the dollar. The unrealised changes in currencies are recognised in changes in exchange rates of fleet overhauls.

The final check and painting required at redelivery are considered unavoidable maintenance costs that realise when the aircraft is redelivered to the lessor, irrespective of the time or flight hours. The counterpart of the provision is recorded in the book value of the right-of-use asset at the commencement of the lease. Respectively, costs depending on the usage of the aircraft are not considered as part of the right-of-use asset cost, but these are recognised according to the principles presented above.

Restructuring provisions are recognised when the Group has prepared a detailed restructuring plan and has begun to implement the plan or has announced it.

= Accounting principles

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

▶ 1. OPERATING RESULT

2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS

3. CAPITAL STRUCTURE AND FINANCING COSTS

4. CONSOLIDATION

5. OTHER NOTES

6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

Maintenance reserves of the fleet
The measurement of aircraft maintenance provisions requires management judgement especially related to timing of maintenance events and valuation of maintenance costs occurring in the future. The future maintenance costs and their timing are dependent on, for example, how future traffic plans actually realise, the market price development of maintenance costs and the actual condition of the aircraft at the time of the maintenance event. The ultimate duration of COVID-19 pandemic may have impact on the level of future maintenance expenses, which could cause the actual outcome to differ from the estimates currently made.

EUR mill.	Aircraft maintenance provision	Other provisions	2020	Aircraft maintenance provision	Other provisions	2019
Provision at the beginning of period	166.3	3.1	169.4	132.2	1.0	133.2
Provision for the period	25.4	27.2	52.6	61.6	6.6	68.2
Provision used	-18.3	-6.7	-25.0	-31.7	-5.7	-37.3
Provision reversed	-1.3	-10.6	-11.9			
Provision for right-of-use assets redelivery	2.1		2.1	0.1		0.1
Reclassifications					1.1	1.1
Unwinding of discount	0.9		0.9	2.7		2.7
Exchange rate differences	-12.2		-12.2	1.4		1.4
Total	**162.8**	**13.0**	**175.8**	**166.3**	**3.1**	**169.4**
Of which non-current	153.6	2.2	155.8	151.8	0.4	152.2
Of which current	9.2	10.8	20.0	14.5	2.7	17.2
Total	**162.8**	**13.0**	**175.8**	**166.3**	**3.1**	**169.4**

Non-current aircraft maintenance provisions are expected to be used by 2032. Other provisions include mainly items related to restructuring actions due to COVID-19 impacts, which are expected to be used mainly by the end of 2021. Provision for the period and provision used relating to aircraft maintenance provision were significantly lower due to decreased flight operations during COVID-19 pandemic. Provision reversed in other provisions is mainly related to restructuring actions, which were originally estimated to be higher than realized as a result of co-operation negotiations.

In balance sheet, non-current provisions and other liabilities 161.1 (156.9) million euros includes, in addition to provisions, other non-current liabilities 5.2 (4.7) million euros, which mainly consists of received lease deposits.

1.3.7 Items excluded from comparable operating result

Comparable operating result aims to provide a comparable view on business development between periods. Therefore, items affecting comparability are excluded from the comparable operating result. The principles related to income statement presentation and principles related to usage of alternative performance measures are described under the section Notes to the consolidated financial statements. Calculation principles of alternative performance measures are also defined in The report of the Board of Directors, in the section Calculation of key ratios. The detailed content of items affecting comparability and the reasoning behind excluding those from comparable operating results is described below.

Unrealised exchange rate differences of US dollar denominated aircraft maintenance provisions are excluded from comparable operating result. These exchange rate effects are included in the comparable operating result only when the maintenance event or redelivery occurs and the exchange rate differences realise over a long period of time. Finnair provides for fulfilling maintenance obligations related to leased aircraft according to the principles described in the note 1.3.6. Provisions.

Further, unrealised fair value changes of derivatives where hedge accounting is not applied, are not included in the comparable operating result, as the business transactions which they are hedging are recognised to the comparable operating result only when they occur. The treatment of realised gains and losses on these derivatives is described in the note 3.8 Derivatives.

In addition to above, gains and losses on aircraft and other transactions, certain changes in defined benefit pension plans and restructuring costs are not included in the comparable operating result. Gains and losses on transactions include sales gains and losses as well as other items that can be considered to be directly related to the sale of the asset. Changes in defined benefit pension plans include amendments made to Finnair's pension fund terms relating to pension index increment removals and pilots' early retirement announcements. Restructuring costs include termination and other costs that are directly related to the restructuring of operations.

The table below demonstrates, which income statement items included in operating result the items affecting comparability have affected.

	2020			2019		
EUR mill.	Operating result	Items affecting comparability	Comparable operating result	Operating result	Items affecting comparability	Comparable operating result
Revenue	829.2		829.2	3,097.7		3,097.7
Sales gains on aircraft and other transactions	0.9	-0.9		0.2	-0.2	
Other operating income	48.4		48.4	56.4		56.4
Operating expenses						
Staff and other crew related costs	-163.9	-119.7	-283.5	-536.6	1.9	-534.7
Fuel costs	-232.8	0.2	-232.7	-686.0	-1.3	-687.3
Capacity rents	-89.3		-89.3	-130.2		-130.2
Aircraft materials and overhaul	-92.5	-12.2	-104.7	-202.5	1.4	-201.2
Traffic charges	-112.4		-112.4	-331.3		-331.3
Sales, marketing and distribution costs	-28.2		-28.2	-172.1		-172.1
Passenger and handling services	-168.6		-168.6	-476.7		-476.7
Sales losses on aircraft and other transactions	-0.1	0.1				
Property, IT and other expenses	-111.5	1.8	-109.7	-132.7	0.3	-132.4
EBITDA	-120.7	-130.8	-251.5	486.2	2,1	488.3
Depreciation and impairment	-343.8		-343.8	-326.2	0.8	-325.4
Operating result	-464.5	-130.8	-595.3	160.0	2,8	162.8

Staff and other crew related costs include items affecting the Group's result positively by 119.7 million euro. This consists of a 132.8 million euro positive one-off effect relating to amendments made to Finnair's pension fund terms and pilots' early retirement announcements as well as termination benefit costs of 13.1 million euro. These were mainly related to the cost saving measures and structural changes taken as a response to the COVID-19 pandemic.

= Critical accounting estimates

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

▶ 1. OPERATING RESULT

2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS

3. CAPITAL STRUCTURE AND FINANCING COSTS

4. CONSOLIDATION

5. OTHER NOTES

6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

A = Accounting principles

1.3.8 Employee benefits

1.3.8.1 Employee benefit expenses and share-based payments

A Share-based payments

Finnair provides a number of share-based compensation plans for its employees, under which the Group receives services from employees as consideration for share-based payments. Regarding share-based incentive plans for key personnel, the awards are paid only if performance criteria set by the Board of Directors is met. Share-based savings plan for employees (FlyShare) requires the employees to remain in Finnair's service for the defined period, but payment does not depend on any performance criteria.

The total expense for share-based payments is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. Share-based payments that are settled net of taxes are considered in their entirety as equity-settled share-based payment transactions. The reward is valued based on the market price of the Finnair share as of the grant date, and recognised as an employee benefit expense over the vesting period with corresponding entry in the equity. Income tax paid to tax authorities on behalf of employee is measured based on the market price of the Finnair share at the delivery date and recognised as a decrease in equity. If the reward includes the portion settled in cash, it is accounted for as a cash-settled transaction. The liability resulting from the cash-settled transactions is measured based on the market price of the Finnair share at the balance sheet date and accrued as an employee benefit expense for service period with corresponding entry in the liabilities until the settlement date.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination. Group is demonstrably committed when it has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

Accounting principles related to pension benefits are described in the note 1.3.8.2 Pensions. A

Staff and other crew related costs

EUR mill.	2020	2019
Wages and salaries	222.4	371.4
Defined contribution schemes	33.9	63.4
Defined benefit schemes	12.5	11.2
Pension expenses total	46.5	74.6
Other social expenses	-15.1	16.7
Salaries, pension and social costs	**253.8**	**462.7**
Operative staff related costs	15.8	42.8
Leased and outsourced crew	6.6	16.2
Other personnel related costs	7.3	13.0
Total	**283.5**	**534.7**
Staff costs included in items affecting comparability	-119.7	1.9
Total staff and other crew related costs in income statement	**163.9**	**536.6**

At Finnair, the total salary of personnel consists of fixed pay, allowances, short- and long-term incentives, fringe benefits and other personnel benefits. Short-term incentives for the financial year 2020 were cancelled due to the implementation of the savings program resulting from the pandemic.

Staff costs in items affecting comparability include items effecting on the Group's result positively by 119.7 million euro. This consists of 132.8 million euro positive one-off net effect relating to certain amendments made to Finnair's pension fund terms and pilots' early retirement announcements as well as termination benefit costs of 13.1 million euro. These items are mainly related to the cost saving measures and co-operation negotiations resulting from the COVID-19 pandemic that ended in October 2020. In 2019, staff costs in items affecting comparability included personnel related restructuring costs of 1.9 million euros. Total staff costs including items affecting comparability amounted to 163.9 million euros (536.6). The costs decreased, as capacity was cut significantly due to COVID-19 pandemic and Finnair commenced the majority of temporary layoffs in April 2020.

In 2020, Finnair established a new long-term Rebuild incentive program for the personnel. As part of the program, employee can earn a cash reward equals to one month base salary, when the target set by the Board of Directors are met. A maximum of two months' base salary can be paid when targets are exceeded. The possible reward is paid during third quarter 2023. The program is available to those employee groups which have agreed to actions related to staff cost savings. In 2020, the cost recognised for the Rebuild incentive established for personnel was 2.2 million euros excluding social security costs. The performance criteria are the same as those of the Rebuild incentive plan established for the Executive Board, which is described in the section Share-based payments of this note.

Transfer to Personnel Fund

Finnair has a Personnel Fund that is owned and controlled by the personnel. A share of Finnair's profits is allocated to the fund. The share of profit allocated to the fund is determined based on the targets set by the Board of Directors. The participants of the performance share plan (LTI) are not members of the Personnel Fund. Personnel Fund is obliged to invest part of the bonus in Finnair Plc's shares. In 2020, no profit was not allocated to the fund because the set performance criteria were not met. In 2019, 1.5 million euros were allocated to the fund.

Liabilities related to employee benefits

EUR mill.	2020	2019
Holiday payments	54.6	78.9
Other employee related accrued expenses	16.1	40.5
Liabilities related to employee benefits	**70.7**	**119.4**

Other employee related accrued expenses mainly include witholding tax and accrued expenses related to social security costs and remunerations. Liabilities related to employee benefits decreased due to ongoing temporary layoffs, summer holidays in the middle of temporary layoffs and cancelled short-term incentives for the financial year 2020. In addition, restructuring provisions related to termination benefits (see note 1.3.6 Provisions) amounted to 8.1 million euros (1.7).

Management remuneration

The President and CEO and Executive Board remuneration

Thousand euros	President and CEO Topi Manner	Executive Board	Total 2020	President and CEO Topi Manner	Executive Board	Total 2019
Fixed pay	725	1,865	2,590	752	2,078	2,830
Short-term incentives		7	7	217	385	602
Fringe benefits	15	99	114	17	58	75
Termination benefits					832	832
Share-based payments	132	568	700	263	390	653
Pensions (statutory)*	109	301	410	138	439	576
Pensions (voluntary, defined contribution)		47	47		50	50
Total	981	2,887	3,868	1,386	4,231	5,618

* Statutory pensions include Finnair's share of the payment to Finnish statutory "Tyel" pension plan.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

▶ 1. OPERATING RESULT

2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS

3. CAPITAL STRUCTURE AND FINANCING COSTS

4. CONSOLIDATION

5. OTHER NOTES

6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

Management remuneration is presented on an accrual basis. Share-based payments include LTI plans and employee share savings plans and are recognised over the vesting period until the end of lock-up period, according to IFRS 2. Therefore the costs accrued and recognised for the financial year include effects from several share-based payment plans independent of when the shares are delivered. Management has not been provided any other long-term incentives in addition to share-based payments.

During 2020, the CEO and Executive Board voluntarily cut their base salaries for a temporary period.

In conjunction with the rights offering in 2020, the EU commission set restrictions to CEO and Executive Board remuneration covering years 2020-2022. The restrictions cover variable compensation payouts and any changes to fixed compensation during year 2020-2022. As a result, Board of Directors decided to cancel the 2018-2020, 2019-2021 and 2020-2022 LTI plans as well as the 2020 STI plan for the CEO and Executive Board. A new share-based long-term Rebuild incentive program was established for the CEO and Executive Board for the period 7/2020-6/2023.

During 2020 the voluntary pension plans of two members of the Executive Board have been arranged through a Finnish pension insurance company. At the end of 2020 only one member of the Executive Board had this voluntary pension plan. The retirement age for these members of the Executive Board is 63 years. The plans are defined contribution plans.

More information on share-based payment schemes can be found later in this note and in a separate Remuneration report and on company website.

Remuneration paid to Board of Directors

Compensation paid for board service, EUR	Total 2020	Fixed remuneration	Meeting compensation	Fringe benefits	Total 2019
Board of Directors	**406,238**	**268,915**	**135,600**	**1,723**	**422,356**
Alahuhta-Kasko Tiina	42,375	27,375	15,000		
Barrington Colm	46,965	29,565	17,400		
Brewer Montie	44,775	27,375	17,400		
Du Mengmeng	44,175	27,375	16,800		
Erlund Jukka	43,965	29,565	14,400		
Karvinen Jouko	68,968	55,845	11,400	1,723	
Kjellberg Henrik	44,775	27,375	17,400		
Strandberg Maija, from 29 May 2020 onwards	23,875	14,875	9,000		
Tuominen Jaana	46,365	29,565	16,800		

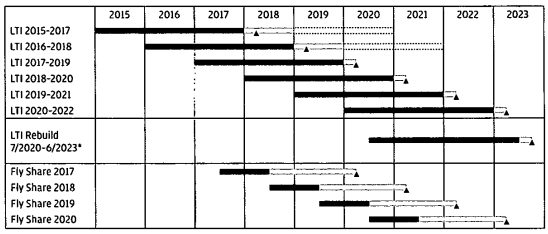
The remuneration of the Board of Directors is presented on an accrual basis. The compensation paid to the members of the Board of Directors include annual remuneration and meeting compensation. The members of the Board of Directors are entitled to a compensation for travel expenses in accordance with Finnair's general travel rules. In addition, the members of the Board of Directors and their spouses have a limited right to use staff tickets in accordance with Finnair's staff ticket rules. These tickets constitute taxable income in Finland and are reported as fringe benefits in the table above.

During 2020 the Board of Directors voluntarily cut their annual remunerations for a temporary period.

Share-based payments

The note below provides description and information on effects of the Group's share-based incentive schemes. More information on share-based personnel bonus schemes can be found in Remuneration report.

FINNAIR SHARE-BASED PAYMENT PLANS



■Earnings / savings period ☐Lock-up period for Executive Board
☐Lock-up period ▲Share delivery

* Total incentive rewards cannot exceed 120% of annual base salary in any year, possible exceeding amount is deferred from 2023 to following years.

Performance share plan for key personnel (LTI) from 2013 onwards

Finnair's share-based incentive plan is a performance-based, annually commencing long-term incentive (LTI) arrangement, and the commencement of each new plan is subject to a separate decision made by Finnair's Board of Directors. The purpose of these plans is to encourage the management to work to increase long-term shareholder value. The Finnish Government's guidance regarding the remuneration of executive management and key individuals have been taken into consideration when designing the plans.

Plans launched during 2013-2016 are four-six-year share plans and there are two plans ongoing (2015-2017 and 2016-2018). Each LTI plan contains a three-year performance period which is followed by a restriction period, during which the participant may not sell or transfer the shares received as a reward. The restriction period is three years for the members of Finnair's Executive Board and one year for other participants.

In 2017, a new LTI arrangement was launched and there are three plans ongoing (2018-2020, 2019-2021 and 2020-2022). In the revised structure the annually commencing performance share plans retain the three-year performance period like before. The potential share rewards will be delivered to the participants in one tranche after the performance period and they are at the participants' free disposal after delivery. In conjunction with the rights offering in 2020, according to the restrictions set by EU commission, the Board of Directors decided to cancel the 2018-2020, 2019-2021 and 2020-2022 LTI plans for the CEO and Executive Board.

In 2020, a new Rebuild incentive plan for CEO and Executive Board was launched. The program contains a three-year performance period (7/2020-6/2023) and it is designed to contain only this one plan. The potential share rewards will be delivered to the participants in a pre-determined proportion of shares and cash after the end of the performance period and the rewards are at the participants' free disposal after delivery. If the combined value of incentive rewards in 2023 exceeds 120% of executive's annual salary, the exceeding part is deferred to coming years so that the combined incentive payout in any year does not exceed 120% of the executive's annual base salary.

In all ongoing LTI plans, the members of Finnair's Executive Board are expected to accumulate their share ownership in Finnair until it corresponds to their annual gross base salary and thereafter retain it for as long as they are members of the Executive Board.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

▶ 1. OPERATING RESULT

2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS

3. CAPITAL STRUCTURE AND FINANCING COSTS

4. CONSOLIDATION

5. OTHER NOTES

6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

The potential reward will be delivered in Finnair shares. The shares are delivered to the participants during the year following the performance period, except for the new Rebuild incentive where the performance period ends in June 2023 and the reward is delivered in the same year.

The payout opportunity is defined in the beginning of each plan in relation to the participants annual base salary. For the plans commencing during 2013-2016, the payout opportunity is defined in a fixed euro amount. In the plans commencing in 2017-2020 as well as in the new Rebuild incentive plan, the payout opportunity is defined as a fixed share amount and therefore changes in the share price during the performance period impacts the value of the payout opportunity. If the performance criteria set for the plan are met at the target level, the incentive paid in Finnair shares to the President and CEO or other member of the Executive Board participating in the plans will be 30% of his or her annual base salary in the plans commencing 2013-2016 and 20% in the plan commencing in 2017 and a total of 180% in the Rebuild incentive plan. If the performance criteria set for the plan are met at the maximum level, the incentive paid in Finnair shares will be 60% of the participant's annual base salary and a total of 360% in the Rebuild incentive plan. The maximum level for incentives for other key personnel is 20-50% of the person's annual base salary. As a result of the rights issue in 2020, the share allocations for the ongoing 2018-2020, 2019-2021 and 2020-2022 plans were adjusted 5.5-fold in order for the earning opportunities to retain their value.

According to the rules of the share plans commencing in 2017-2020, the maximum combined value of all variable compensation (including both short- and long-term incentives) paid to an individual participant in any given calendar year may not exceed 120% of the participant's annual gross base salary. The amounts of shares paid are stated before tax. The number of shares delivered will be deducted by an amount corresponding to the income tax and transfer tax payable for the incentive at the time of payment. In the Rebuild incentive plan, the amount corresponding to tax payable at the time of payment is first deducted from the gross reward defined as shares. The net reward is delivered in a combination of cash and shares in a proportion decided by the Board of Directors.

The performance criteria applied to the plans 2015-2017 and 2016-2018 are Return on Capital Employed (ROCE, 50% weight) and Total Shareholder Return (TSR, 50% weight). The performance criteria applied to the plans 2017-2019 and 2018-2020 are earnings per share (EPS, 50% weight) and revenue growth (50% weight). The performance criteria applied to the plan 2019-2021 are earnings per share (EPS, 50% weight), revenue growth (16.7% weight) and unit cost with constant currencies and fuel price (CASK, 33.3% weight). The performance criteria applied to the plan 2020-2022 are earnings per share (EPS, 50% weight) and unit cost with constant currencies and fuel price (CASK, 50% weight). In the Rebuild incentive, the performance criteria are set for the whole 3-year period as well as for three 12-month mid-term periods. The performance criteria for the first mid-term period (7/2020-6/2021) are comparable EBITDA, gearing, Lost Time Injury Frequency and CO_2 emissions (measured through fuel efficiency). The criteria for the whole 3-year period, is cash flow from operating activities which functions as a multiplier (0-2) for the whole program. This means that the threshold level needs to be reached in order for any reward to be paid.

The target levels and maximum levels set for the criteria are based on the long-term strategic objectives set by the company's Board of Directors. Criteria are monitored against the performance on a quarterly basis. The performance criteria of the plan for 2017-2019 were met at 194% level while the target was at 100% and the maximum earning level at 200%. In the comparison period, the performance criteria applied to the 2016-2018 plan was met at 187% level.

The total expense for the share-based payments is recognised over the vesting period, which is 4-6 years in the plans commencing 2013-2016 and three years in the plans commencing 2017-2020 and in the Rebuild incentive plan. For the plans commencing 2013-2016, the compensation is measured during performance period in cash, and only after performance period at grant date translated into shares. In the plans commencing 2017-2020 and in the Rebuild incentive plan the grant date is at the beginning of performance period and the compensation is measured in shares. The expense recognised for 2020 amounted to 0.6 million euros (1.2). The amount expected to be transferred to the tax authority to settle the employee's tax obligation is 6.0 million euros (2.1). The cost related to share-based payments is recognised in staff and other crew related costs and unrestricted equity funds, except the cash-settled portion of the Rebuild incentive plan in liabilities related to employee benefits.

	2015-2017	2016-2018	2017-2019	2018-2020	2019-2021	2020-2022	Rebuild 2020-2023	Total
Grant date	17 Dec 2014	10 Feb 2016	7 Feb 2017	15 Feb 2018	14 Feb 2019	7 Feb 2020	9 Oct 2020	
Grant price, euros*	1.3196	1.1970	0.6685	1.4272	1.1914	1.0478	0.3948	
Number of persons at the end of the reporting year	1	1	0	29	30	47	9	
Expenses recognised for the financial year, LTI's total (million euros)	0.0	0.1	0.4	-0.5	-0.1	0.0	0.7	0.6
of which share-settled (net of taxes)	0.0	0.1	0.4	-0.5	-0.1	0.0	0.4	0.4
of which cash-settled							0.3	0.3
Liability related to LTI's total							0.3	0.3
Shares granted, million shares**	0.2	0.3	0.5	0.6***	1.0***	1.5***	19.0	23.0

* Grant price until plan granted on 7 February 2020 has been adjusted by a bonus element included in the rights issue in 2020.
** At the end of the performance period of 2015-2017 and 2016-2018 plans, the vested euros were translated into shares, and granted and delivered. In 2017-2019, 2018-2020, 2019-2021, 2020-2022 and 2020-2023 Rebuild plans shares are earned during vesting period, from the beginning of the program.
*** As a result of the rights issue in 2020, the share allocations for the ongoing 2018-2020, 2019-2021 and 2020-2022 plans were adjusted 5.5-fold in order for the earning opportunities to retain their value. These plans were cancelled for the CEO and Executive Board.

FlyShare employee share savings plan 2013 onwards

Finnair offers an annually commencing share savings plan for its employees. Commencing of each plan is subject to the decision of Finnair's Board of Directors. The first plan commenced in 2013, and for the time being there are three plans ongoing. The objective of the plan is to encourage employees to become shareholders in the company, and to thereby strengthen the employees' interest in the development of Finnair's shareholder value and reward them in the long-term.

Each plan consists of one year savings period followed by two year lock-up period. Through the plan, each eligible Finnair employee is offered the opportunity to save part of his or her salary to be invested in Finnair shares. The maximum monthly savings are 8% and the minimum 2% of each participant's gross base salary per month. Shares are purchased with the accumulated savings at the market price quarterly, after the release of Finnair's interim reports.

Finnair awards 110 bonus shares (was 20 prior the share issue in 2020) to each employee that participates in the plan for the first time, and continues savings at least the first three months of the plan. The bonus shares are delivered in October each year, and the effect is recognised as expense for the period. The plan lasts for three years, and Finnair awards each participating employee with one share for each two shares purchased and held at the end of three-year period. The awarded bonus and additional shares are taxable income for the recipient. The number of shares delivered will be deducted by an amount corresponding to the income tax and transfer tax payable for the shares at the time of payment. The cost related to additional shares delivered is recognised as expense during vesting period.

The expense recognised for FlyShare employee share saving plans in 2020 amounted to 1.3 million euros (1.1). The amount expected to be transferred to the tax authority to settle the employee's tax obligation is 0.7 million euros (1.1). The cost related to employee share saving plans is recognised in staff and other crew related costs and unrestricted equity funds.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

▶ 1. OPERATING RESULT

2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS

3. CAPITAL STRUCTURE AND FINANCING COSTS

4. CONSOLIDATION

5. OTHER NOTES

6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

A = Accounting principles
E = Critical accounting estimates

1.3.8.2 Pensions

A Defined benefit and defined contribution plans
Pension plans are classified as defined benefit and defined contribution plans. Payments made into defined contribution pension plans are recognised in the income statement in the period to which the payment applies. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. Current service cost is the present value of the post employment benefit, which is earned by the employees during the year and it is recognised as staff and other crew related costs. The liability recognised in the balance sheet in respect of defined pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. If fair value of plan assets is higher than present value of funded obligations, the net amount is presented as pension assets in the Group's balance sheet. A

E Pension obligations
The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations. The note below includes a description of exposure to most significant risks and a sensitivity analysis on impacts of changes in actuarial assumptions. E

Description of pension plans at Finnair

The statutory pension cover of the employees of the Group's Finnish companies has been arranged in a Finnish pension insurance company. The statutory pension cover is a defined contribution plan. The Group's foreign sales offices and subsidiaries have various defined contribution plans that comply with local rules and practices. CEO has no voluntary pension plan. At the end of 2020, the voluntary pension plan of one member of the Executive Board is arranged in a pension insurance company. The retirement age for this member is 63 years. These pension schemes are defined contribution schemes. Other (voluntary) pension cover of the Group's domestic companies has been arranged mainly through Finnair Plc's Pension Fund, in which the pension schemes are defined benefit plans. These pension plans cover old age pensions, occupational disability and survivors' pensions. The pension fund is fully funded in accordance with the provisions of Finnish law. 600 Finnair pilots have, in addition to the voluntary pension arranged in Finnair Pension Fund, special defined benefit pension scheme. This scheme applies only to pilots who work past 58 years of age. Voluntary pensions of pilots recruited in 2015 or later are defined contribution schemes arranged through Finnish insurance company, except for the occupational disability benefit, which is a defined benefit plan arranged through the Finnair Pension Fund.

In 2020, amendments related to pension index increment removals were done, which lowered pension obligations significantly. As a result of the amendment, there is no more inflation risk.

Exposure to most significant risks

Volatility of plan assets: Some of the plan assets are invested in equities which causes volatility but one in the long run expected to provide higher returns than corporate bonds. The discount rate of plan obligations is defined based on the interest rates of corporate bonds.

Changes in bond yield: A decrease in corporate bond yields increases plan obligations due to the fact that the pension obligation is discounted to net present value with a rate that is based on corporate bond rates. This increase in plan obligations is partially mitigated by a corresponding increase in the value of corporate bonds in plan assets.

Life expectancy: The most significant part of the provided pension benefits relate to old age pensions. Therefore, an increase in the life expectancy rate results in an increase of plan obligations.

Defined benefit pension plans

EUR mill.	2020	2019
Items recognised in the income statement:		
Current service costs	12.5	10.4
Past service cost	17.9	0.9
Amendments	-150.7	
Service cost total, recognised in staff costs	-120.3	11.2
Net interest expenses	0.6	0.2
Total included in the income statement	-119.7	11.5
Amounts recognised through other comprehensive income		
Experience adjustment on plan obligation	-4.2	-3.2
Changes in financial actuarial assumptions	22.5	93.1
Net return on plan assets	-5.2	-39.7
Amounts recognised through other comprehensive income total	13.1	50.2
Number of persons involved, pension fund	4,448	4,865
Number of persons involved, other defined benefit plans	159	168

Items recognised in the balance sheet

EUR mill.	2020		2019
	Pension assets	Pension obligations	Pension obligations
Present value of funded obligations	-397.8	-7.7	-523.2
Fair value of plan assets	429.6	6.2	446.1
Pension assets (+) / pension obligations (-) in the balance sheet	31.8	-1.5	-77.1

Pension assets 31.8 million euros in 2020 includes 31.0 million euros related to defined benefit plans insured through the pension fund and 0.9 million euros related to other defined benefit plans. Pension obligations in 2020 includes 1.5 million euros related to other defined benefit plans. Pension obligations in 2019 includes 77.0 million euros related to defined benefit plans insured through the pension fund and 0.1 million euros related to other defined benefit plans. The change during 2020 mainly relate to the changes in defined benefit plans (net impact of the saving of 150.7 million euros from Finnair's pension fund index increment removals and the cost of 17.9 million euros from pilots' early retirement).

Changes in pension obligations

EUR mill.	2020	2019
Fair value of pension obligations at 1 January	523.2	435.1
Current service costs	12.0	9.1
Past service cost	17.9	0.9
Amendments	-150.7	
Interest expense	3.8	7.4
Expense recognised in income statement	-117.0	17.4
Changes in actuarial assumptions	22.5	93.1
Experience adjustment on plan obligation	-4.2	-3.2
Remeasurements recognised through OCI	18.3	89.9
Benefits paid	-19.0	-19.3
Net present value of pension obligations	405.5	523.2

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

▶ 1. OPERATING RESULT

▶ 2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS

3. CAPITAL STRUCTURE AND FINANCING COSTS

4. CONSOLIDATION

5. OTHER NOTES

6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

Changes in plan assets

EUR mill.	2020	2019
Fair value of plan assets at 1 January	446.1	418.1
Administration expenses	-0.5	-1.2
Interest income	3.2	7.2
Items recognised through profit and loss	**2.7**	**6.0**
Acturial gain (loss) on plan assets	5.2	39.7
Items recognised through OCI	**5.2**	**39.7**
Contributions paid	0.8	1.6
Benefits paid	-19.0	-19.3
Fair value of plan assets at 31 December	**435.8**	**446.1**

Plan assets are comprised as follows

%	2020	2019
Listed shares	18.8	22.8
Debt instruments	56.6	52.2
Property	20.0	19.2
Other	4.6	5.8
Total	**100.0**	**100.0**

Plan assets of the pension fund include Finnair Plc shares with a fair value of 1.1 million euros (0.8) and buildings used by the Group with a fair value of 18.2 million euros (19.7).

Defined benefit plans: principal actuarial assumptions

	2020	2019
Discount rate %	0.254%	0.87%
Inflation %	0.98%	1.10%
Annual rate of future salary increases %	1.40%	1.60%
Future pension increases %	0.00%	1.40%
Estimated remaining years of service	8	9

Sensitivity analysis

The sensitivity analysis describes the effect of a change in actuarial assumptions on the net defined benefit obligation. The analyses are based on the change in the assumption while holding all other assumptions constant. The method used is the same as that which has been applied when measuring the defined benefit obligation recognised in the balance sheet.

Sensitivity analysis on principal actuarial assumptions

Actuarial assumption	Change in assumption	Impact when increase in assumption, EUR mill.	%	Impact when decrease in assumption, EUR mill.	%
Discount rate %	0.25%	-10.8	-2.8%	11.4	2.9%
Annual rate of future salary increases %	0.25%	2.8	0.7%	-2.7	-0.7%
Life expectancy at birth	1 year	9.9	2.5%		

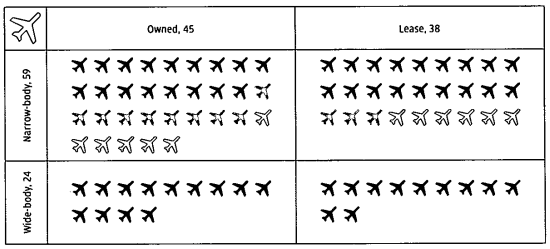
According to Finnish legislation, the pension fund needs to be fully funded. Finnair does not expect to pay contributions to the pension fund in 2021. The duration of defined benefit obligation is 11 years. The duration is calculated by using a discount rate of 0.25%.

2 Fleet and other fixed assets and leasing arrangements

Fleet and other fixed assets and leasing arrangements includes notes particularly related to the aircraft fleet. Notes related to the aircraft operated by the Group are combined in this section so that the general view of the fleet is easier to understand. In addition to owned aircraft, the notes cover leased aircraft under different kinds of aircraft lease arrangements.

The assets owned and leased by Finnair consist mostly of aircraft operated by Finnair and Norra. In 2020, the number of owned aircraft is 45 (47) and leased 38 (36).

FLEET



Fleet in Finnair balance sheet

EUR mill.	2020	2019	Change
Advances paid for aircraft	117.7	117.8	0.0
Owned aircraft	1,322.5	1,415.6	-93.0
Right-of-use fleet	772.5	736.4	36.1
Fleet total	**2,212.7**	**2,269.7**	**-57.0**
Fleet sublease receivables	**33.7**	**47.0**	**-13.2**
Fleet lease liabilities	**854.0**	**901.7**	**-47.7**
Depreciation for the period of owned aircraft	184.1	171.2	-12.9
Depreciation for the period of right-of-use fleet	107.2	106.1	-1.0
Impairment for the period related to owned aircraft	8.2		-8.2

= Content of the section

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
▶ 2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

A = Accounting principles

The number of operated aircraft remained unchanged during the period. Two new A350 aircraft were delivered based on the existing agreement between Finnair and Airbus. As the demand for passenger flights was significantly decreased due to COVID-19, not all of the fleet was used in its full capacity. As at the balance sheet date, 54 out of Finnair's 83 aircraft were kept at Helsinki-Vantaa airport and maintained in such a condition that they are flight-ready. Three wide-body aircraft and 26 narrow-body aircraft were not actively used in the operations and were temporarily stored in Prague or Southern France, where the climate is more suitable for storing of the aircraft. This represents approximately 17% of the year-end carrying value of the total fleet amounting to 350 million euros. All temporarily stored aircraft are expected to be used in their full capacity within next two to three years.

Finnair responded to the COVID-19 pandemic with several aircraft refinancing transactions with the aim of improving the Group's financial position and by decreasing costs of the aircraft not actively used. In December 2020, two older A319 aircraft were retired early and preparations for dismantling of the aircraft were started. These aircraft have some components that Finnair is able to keep as spares for its own maintenance operations and thus, reduce future maintenance costs. Some of the parts were sold or are expected to be sold and the rest will be recycled. In addition, two A350 aircraft were re-financed by sale and leaseback arrangements and the aircraft were transferred from owned to leased aircraft. One additional A350 aircraft was re-financed through a finance lease arrangement which transfers the ownership of the aircraft back to Finnair when fully paid. In the balance sheet, this aircraft is presented as part of Finnair's owned aircraft and the loan as interest-bearing liability. Further detail on these transactions is presented in notes 2.1-2.3 and 3.3.

More detailed information regarding the owned aircraft is found in note 2.1 and regarding the leased aircraft in note 2.2. Depreciation and impairment are presented in more detail in note 2.3.

2.1 Fleet and other fixed asset

A Fleet and other fixed assets are stated at historical cost less accumulated depreciation and accumulated impairment loss if applicable. Fleet includes aircraft and a rcraft prepayments. The acquisition cost of aircraft is allocated to the aircraft frame, cabin components, engines and mainte'nace components as separate assets. Maintenance components include heavy maintenance, C-checks, APU (auxiliary power unit) restorations, landing gear overhauls and thrust reversers of aircraft frames, as well as performance restoration and maintenance of life limited parts of engines. Aircraft frames and engines are depreciated over the useful life of the aircraft. The maintenance components are depreciated during the maintenance cycle. Cabin components are depreciated over their expected useful life. Significant modifications of own or leased aircraft are capitalised as separate items and depreciated over their expected useful life, which in the case of leased aircraft cannot exceed the lease period. Replaced components are derecognised from the balance sheet.

Advance payments for aircraft are recorded as fleet fixed assets. Interest costs related to advance payments are capitalised as acquisition cost for the period at which Finnair is financing the manufacturing of the aircraft. Hedging gains or losses related to the fair value changes of firm, USD nominated purchase commitments for aircraft are recognised in advance payments. Advance payments, realised foreign exchange hedges and capitalised interests are recognised as part of the aircraft acquisition cost once the aircraft is delivered and taken to commercial use.

Other fixed assets include rotable aircraft spare parts, other fixed assets and their prepayments. Other fixed assets are depreciated during their expected useful life.

Intangible assets mainly include computer software, connection fees and goodwill. Connection fees and goodwill are not depreciated.

Gains and losses on disposal of tangible and intangible assets are included in the items affecting comparability.

Useful life and residual value

Depreciation of fleet and other fixed assets is based on the following expected economic lifetimes:

- New aircraft and engines as well as flight simulators (other equipment) on a straight-line basis as follows:
  - Airbus A350 fleet, over 20 years to a residual value of 10 %
  - Airbus A320 and Embraer fleet, over 20 years to a residual value of 10 %
  - Airbus A330 fleet, over 18 years to a residual value of 10 %
  - Turboprop aircraft (ATR fleet), over 20 years to a residual value of 10 %
- Heavy maintenance, C-checks, APU and landing gear restorations and thrust reversers of aircraft frame, as well as performance maintenance and life limited parts of the engines, on a straight-line basis during the maintenance period
- Cabin components, over 7-20 years
- Rotable spare parts and components, over 15-20 years to a residual value of 10 %
- Buildings, over 10-50 years from the time of acquisition to a residual value of 10 %
- Other tangible assets, over 3-15 years
- Computer software, over 3-8 years

The residual values and estimated useful lives of the assets are assessed at each closing date and if they differ significantly from previous estimates, the depreciation periods and residual values are changed accordingly. Due to the COVID-19 pandemic the fleet has not been used in its full capacity, and therefore Finnair has paid additional attention to the review of useful lives and residual values of the fleet assets. Changes made as a result of the review were not significant due to the relatively long useful life of the fleet assets.

Assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction, a sale is considered highly probable and expected to take place within the next twelve months. Assets classified as held for sale are stated at the lower of the carrying amount or fair value less cost to sell. Assets classified as held for sale are no longer depreciated.

Impairment

The Group reviews its fleet and other fixed assets for indication of impairment on each balance sheet date. Impairment loss is recognized if an asset's recoverable amount is below its carrying amount. The recoverable amount is determined as the higher of the asset's fair value less costs to sell or its value in use. The recoverable amount is defined for a cash generating unit, and the need for impairment is evaluated at the cash generating unit level. The value in use is based on the present value of the expected net future cash flows obtainable from the asset or cash-generating unit. Individual assets are excluded from the cash generating unit if they no longer are held for service or are intended to be sold, and are tested for impairment based on their fair value less costs to sell. Impairment testing, including the critical accounting estimates and sources of uncertainty inherent in the calculations, is described in more detail in note 2.3. A

Fleet 2020

EUR mill.	Aircraft	Advances	Total
Acquisition cost 1 Jan 2020	2,460.7	117.8	2,578.5
Additions	244.4	47.0	291.4
Disposals	-306.5		-306.5
Currency hedging of aircraft acquisitions		32.4	32.4
Reclassifications	75.2	-79.5	-4.3
Transfer to assets held for sale			
Acquisition cost 31 Dec 2020	**2,473.8**	**117.7**	**2,591.5**
Accumulated depreciation and impairment 1 Jan 2020	-1,045.2		-1,045.2
Disposals	86.2		86.2
Depreciation for the financial year	-184.1		-184.1
Impairment for the financial year	-8.2		-8.2
Accumulated depreciation and impairment 31 Dec 2020	**-1,151.3**		**-1,151.3**
Book value 31 Dec 2020	**1,322.5**	**117.7**	**1,440.3**

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
▶ 2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

Additions to owned aircraft include the acquisition of two new A350 aircraft. Disposals are related to sale and leaseback arrangements of one new and one older A350 aircraft. The reclassifications relate to the capitalization of the aircraft prepayments at the time of the recognition of the two new A350 aircraft on Finnair's balance sheet. The currency hedging of aircraft acquisitions is described in notes 3.5 Management of financial risks and 3.8 Derivatives. Impairment for the financial year is presented in more detail in the note 2.3 Depreciation and impairment.

Fleet 2019

EUR mill.	Aircraft	Advances	Total
Acquisition cost 1 Jan 2019	2,082.2	120.4	2,202.7
Additions	310.7	76.0	386.7
Disposals	-9.7		-9.7
Currency hedging of aircraft acquisitions		-1.1	-1.1
Reclassifications	77.6	-77.6	0.0
Transfer to assets held for sale			
Acquisition cost 31 Dec 2019	**2,460.7**	**117.8**	**2,578.5**
Accumulated depreciation and impairment 1 Jan 2019	-882.4		-882.4
Disposals	8.5		8.5
Depreciation for the financial year	-171.2		-171.2
Impairment for the financial year			
Accumulated depreciation and impairment 31 Dec 2019	**-1,045.2**		**-1,045.2**
Book value 31 Dec 2019	**1,415.6**	**117.8**	**1,533.3**

Other fixed assets 2020

EUR mill.	Aircraft rotable parts	Buildings and land	Other equipment	Intangible assets	Advances	Total
Acquisition cost 1 Jan 2020	50.1	75.6	96.8	51.6	7.1	281.2
Additions	1.7		17.3	2.8	4.7	26.4
Disposals	-0.4		-3.0	-0.4		-3.8
Currency hedging of aircraft acquisitions						
Reclassifications	1.0		4.6	1.3	-4.5	2.4
Transfer to assets held for sale						
Acquisition cost 31 Dec 2020	**52.5**	**75.6**	**115.7**	**55.3**	**7.2**	**306.3**
Accumulated depreciation and impairment 1 Jan 2020	-33.4	-8.2	-28.5	-32.8		-102.9
Disposals	0.3		4.9	0.5		5.7
Depreciation for the financial year	-2.8	-1.6	-9.5	-9.9		-23.8
Impairment for the financial year						
Accumulated depreciation and impairment 31 Dec 2020	**-35.8**	**-9.8**	**-33.1**	**-42.3**		**-121.0**
Book value 31 Dec 2020	**16.7**	**65.8**	**82.6**	**13.0**	**7.2**	**185.3**

In addition to the aircraft rotable parts included in the other fixed assets, Finnair's inventories include non-rotable aircraft parts amounting to 19.2 million euros (23.1). Other equipment includes 3.3 million euros of assets related to retired A319 aircraft, that Finnair is expecting to sell but that are not classified as held for sale as the sale is not deemed highly probable within 12 months. Intangible assets mainly include computer software, connection fees and goodwill. The goodwill included in intangible assets amounted to 0.5 million euros (0.5).

Other fixed assets 2019

EUR mill.	Aircraft rotable parts	Buildings and land	Other equipment	Intangible assets	Advances	Total
Acquisition cost 1 Jan 2019	45.0	76.0	90.0	51.8	6.4	269.2
Additions	6.4	0.1	13.8	6.3	6.9	33.4
Disposals	-1.5	-0.4	-8.9	-10.6		-21.4
Currency hedging of aircraft acquisitions						
Reclassifications	0.2	-0.1	1.9	4.2	-6.2	0.0
Transfer to assets held for sale	0.1					0.1
Acquisition cost 31 Dec 2019	**50.1**	**75.6**	**96.8**	**51.6**	**7.1**	**281.2**
Accumulated depreciation and impairment 1 Jan 2019	-30.7	-6.8	-27.1	-31.4		-96.0
Disposals	0.6	0.4	6.9	10.6		18.6
Depreciation for the financial year	-3.3	-1.8	-8.3	-11.3		-24.7
Impairment for the financial year				-0.8		-0.8
Accumulated depreciation and impairment 31 Dec 2019	**-33.4**	**-8.2**	**-28.5**	**-32.8**	**0.0**	**-102.9**
Book value 31 Dec 2019	**16.8**	**67.4**	**68.3**	**18.8**	**7.1**	**178.4**

Capitalised borrowing costs

	Aircraft		Advances		Total	
EUR mill.	2020	2019	2020	2019	2020	2019
Book value 1 Jan	17.6	15.3	4.3	3.6	21.9	18.8
Additions			3.3	3.9	3.3	3.9
Disposals	-2.9				-2.9	
Reclassifications	4.8	3.2	-4.8	-3.2	0.0	
Depreciation	-0.9	-0.9			-0.9	-0.9
Book value 31 Dec	**18.6**	**17.6**	**2.8**	**4.3**	**21.4**	**21.9**

In 2020, borrowing costs of 3.3 million euros (3.9) were capitalised in tangible assets related to the Airbus A350 investment program. Finnair uses a quarterly effective interest rate to calculate the capitalised borrowing costs, that represents the costs of the loans used to finance the investment. The average yearly interest rate in 2020 was 4.29% (5.24%). The general borrowings used fo fund the acquisition of capital assets are included in the calculation of the capitalisation rate.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
▶ 2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

A = Accounting principles

Assets and liabilities held for sale
At the end of 2020 or 2019, Finnair did not hold any assets or liabilities for classified as held for sale in accordance with IFRS 5.

Pledged assets and other restrictions on fixed assets
Finnair does not have fixed assets pledged as a security for bank loans. Fleet assets include three A350 aircraft financed with JOLCO-loans and three owned A330 aircraft and one A350 aircraft where the legal title is transferred to Finnair after loans are repaid. More details on these arrangements are presented in the note 3.3. Financial liabilities.

Investment commitments
Investment commitments as at the end of the year totalled 429 million euros (730) and it includes firm aircraft orders, other aircraft related investments as well as committed maintenance investments. In response to the decrease in passenger demand caused by the COVID-19 pandemic, Finnair agreed with Airbus to postpone its three future deliveries of A350 aircraft to later periods in order to improve its near-term liquidity position and to be able to manage its capacity better. The amount of the total commitments fluctuates between the order and the delivery date of the aircraft mainly due to EUR/USD exchange rate changes and escalation clauses included in airline purchase agreements. The exact amount of the commitments in relation to each aircraft is only known at the time of the delivery.

2.2 Leasing arrangements

A The Group as lessee
Finnair assesses whether a contract that relates to tangible assets is, or contains, a lease in accordance with the IFRS 16. Lease agreements for tangible assets, where the contract conveys the right to use an identified asset for a period of time in exchange for consideration, are classified as leases.

The lease term is the non-cancellable period for which a lessee has the right to use an underlying asset, together with both periods covered by an option to extend the lease if Finnair is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if Finnair is reasonably certain not to exercise the option.

The lease recognition requirements are not applied to short-term leases, where at the commencement date, the lease term is 12 months or less and does not contain a purchase option. Finnair considers the lease period to be the period that is enforceable. Hence, for contracts where the contract term is non-fixed and Finnair has the right to terminate the contract without the permission from the other party with no more than an insignificant penalty and there are no other indications that the contract is enforceable, Finnair classifies these contracts as short-term. The lease recognition requirements are also not applied to leases that are not material to Finnair.

For short-term leases and immaterial leases to which these exemptions are applied, the lease payments are recognised as an expense on either a straight-line basis over the lease term, or on another systematic basis if that basis is more representative of the pattern of Finnair's benefit.

At the commencement date of a lease, Finnair recognises both a right-of-use asset and a lease liability.

The lease liability is the present value of future lease payments. At Finnair, lease payments for aircraft leases contain typically payments that depend on interest rates and indices, that are included in the measurement of the lease payments included in the measurement of the lease liability, using the interest or index rate at the commencement date of the lease.

The right-of-use asset is measured at cost, comprising
- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any incentives received;
- any initial direct costs incurred by Finnair; and
- an estimate of costs to be incurred by Finnair in restoring the assets to the condition required by the terms and conditions of the lease.

Finnair is obliged to return leased aircraft and their engines according to the redelivery condition set in the lease agreement. If at the time of redelivery, the condition of the aircraft and its engines differs from the agreed redelivery condition, Finnair needs to either maintain the aircraft so that it meets the agreed redelivery condition or settle the difference in cash to the lessor.

The maintenance costs can be divided into two main groups:
1) costs that are incurred independent of the usage of the aircraft / leasing period and
2) costs that are incurred dependent on the usage of the aircraft / leasing period

The final check and painting required at redelivery are considered unavoidable maintenance costs that realise when the aircraft is redelivered to the lessor, irrespective of the time or flight hours. The counterpart of the provision is recorded in the book value of the right-of-use asset at the commencement of the lease.

Respectively, costs depending on the usage of the aircraft are not considered as part of the right-of-use asset cost.

Finnair remeasures the lease liability when there is a lease modification that changes the scope of a lease or the consideration for the lease, that was not part of the original terms and conditions of the lease, including changes in lease payments resulting from a change in indices and rates used in variable aircraft lease payments. The amount of the remeasurement of the lease liability is generally recognised as an adjustment to the right-of-use asset. However, if the carrying amount of the right-of-use asset is reduced to zero and there is a further reduction in the measurement of the lease liability, the remaining measurement is recognised in profit or loss.

After initial recognition, right-of-use assets are measured at cost less any accumulated depreciations and accumulated impairment losses. The assets are depreciated with a straight-line method from the commencement date to the shorter of end of useful life of the right-of-use asset and the end of lease term. However, if the lease transfers ownership of the asset to Finnair by the end of lease term or if the cost of the right-of-use asset reflects that Finnair will exercise a purchase option, the right-of-use asset is depreciated from the commencement date to the end of useful life of the asset.

At Finnair aircraft lease contracts contain the interest rate implicit in the lease, even if the aircraft lease agreements do not clearly define the interest rate implicit in the lease. Since the fair values of the aircraft are provided publicly by third parties, Finnair is able to calculate the implicit interest rate for each qualifying aircraft operating lease. The rate implicit in the lease is defined as the rate that causes the sum of the present value of the lease payments and the present value of the residual value of the underlying asset at the end of the lease to equal the fair value of the underlying asset. The implicit interest rate is determined by each aircraft lease contract separately.

For other lease contracts at Finnair, an implicit interest rate cannot be usually determined. The incremental borrowing rate is therefore used and it is determined by each class of assets separately, based on management estimate.

Aircraft lease contracts are usually denominated in foreign currency (US dollars) and the foreign currency lease liabilities are revalued at each balance sheet date to the spot rate. The lease payments (lease payments made) are accounted for as repayments of the lease liability and as interest expense.

The Group as lessor
Agreements, where the Group is the lessor, are accounted for as operating leases, when a substantial part of the risks and rewards of ownership are not transferred to the lessee. The assets leased under operating lease are included in the tangible assets and they are depreciated during their useful life. Depreciation is calculated using the same principles as the tangible assets for own use. Under the provisions of certain aircraft lease agreements, the lessee is required to pay periodic maintenance reserves which accumulate funds for aircraft maintenance. Advances received for maintenance are recognised as liability, which is charged, when maintenance is done. The rents for premises and aircraft are recognised in the income statement as other operating income over the lease term.

Agreements, where the Group is the lessor, are accounted for as finance leases, when a substantial part of the risks and rewards of ownership are transferred to the lessee. Finnair recognises assets held under a finance lease in its statement of financial position and presents them as a receivable at an amount equal to the net investment of the lease.

Finnair subleases aircraft and a small amount of ground equipment, where by reference to the head lease, the lease term is for the majority of the remaining economic life arising from the right-of-use asset (i.e. the lease term of the sublease corresponds closely to the lease term of the head lease) and therefore these are classified as finance leases. At the commencement date, for the subleases, a net investment (lease receivable), equaling to the present value of lease payments and the present value of the unguaranteed residual value, is recognised. The proportion of the right-of-use asset subleased is derecognised from the balance sheet and the difference between the right-of-use asset and the net investment is recognised in the profit or loss, in sales gains and losses. Subsequently, the lease payments received are accounted for as repayments of the lease receivable and as interest income.

Sale and leaseback
In sale and leaseback transactions, where Finnair sells and then leases back aircraft, Finnair measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset that relates to the right-of-use retained by the Group. Accordingly, Finnair recognises only the amount of any gain or loss that relates to the rights transferred to the buyer-lessor.

Impairment
The Group reviews its leased assets for indication of impairment on each balance sheet date. Impairment loss is recognized if the recoverable amount is below its carrying amount. The recoverable amount is defined for a cash generating unit, and the need for impairment is evaluated at the cash generating unit level. Recoverable amount is determined as the higher of the asset's fair value less costs to sell or its value in use. The value in use is based on the present value of the expected net future cash flows obtainable from the asset or cash-generating unit. Individual assets are excluded from cash generating unit if they no longer are held for service or are intended to be sold, and are tested for impairment based on their fair value less costs to sell. Impairment testing, including the critical accounting estimates and sources of uncertainty inherent in the calculations, is described in more detail in note 2.3. A

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
▶ 2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

Leasing arrangements
Determining the interest rate and lease term used in discounting the lease payments, estimating the redelivery obligations of aircraft leases and the classification of sublease agreements to operating and financial leases require management discretion in interpretation and application of accounting standards.

The COVID-19 pandemic did not have a significant impact on the leasing arrangements of the Group, neither did it significantly increase the amount of discretion related to abovementioned critical accounting estimates and sources of uncertainty. The pandemic did not, for example, have significant impact on the estimated lease terms as extension options are usually not considered in the initial lease term determination. Additionally, the impact of contracts terminated early during the period was not significant. The carrying value of the right-of-use assets are tested for impairment as part of cash generating unit at the balance sheet date. More details is presented in the note 2.3.

Right-of-use assets 2020

EUR mill.	Aircraft	Buildings and land	Other equipment	Total
Book value 1 Jan 2020	736.4	124.0	17.1	877.5
Additions	167.5	2.6	3.3	173.3
Changes in contracts	-24.1	21.5	-3.0	-5.7
Disposals	-0.1	0.1	0.0	0.0
Depreciation for the financial year	-107.2	-14.3	-6.2	-127.7
Book value 31 Dec 2020	**772.5**	**133.8**	**11.2**	**917.5**

Additions to right-of-use assets in 2020 are mainly related to two sale and leaseback arrangements of A350 aircraft which were part of the Group's refinancing plan in response to the pandemic. The changes in contracts relate to changes either in the scope, or consideration, of leases.

Right-of-use assets 2019

EUR mill.	Aircraft	Buildings and land	Other equipment	Total
Book value 1 Jan 2019	834.3	153.6	10.7	998.6
Additions	10.0	5.3	13.9	29.2
Changes in contracts	-1.8	-3.4	-0.5	-5.6
Disposals		-15.1		-15.1
Depreciation for the financial year	-106.1	-16.4	-6.9	-129.5
Book value 31 Dec 2019	**736.4**	**124.0**	**17.1**	**877.5**

Lease liabilities

	Aircraft		Buildings and land		Other equipment	
EUR mill.	2020	2019	2020	2019	2020	2019
less than one year	118.5	118.9	12.7	15.8	4.4	5.7
1-5 years	495.1	507.0	49.9	58.9	7.1	11.6
more than 5 years	240.4	275.7	88.1	60.3		
Total	**854.0**	**901.7**	**150.8**	**135.0**	**11.5**	**17.3**

The Group leases aircraft, premises and other fixed assets, for which the lease liability is recorded on the balance sheet. The lease agreements have different terms of renewal and include index-linked terms and conditions. The Group was operating 29 leased aircraft at the end of the year with lease agreements of different tenors. The leased aircraft, that Finnair is subleasing to other operators is shown in the table below.

Finance lease receivables, Group as lessor

	Aircraft	
EUR mill.	2020	2019
less than 12 months	14.2	13.2
13-24 months	15.2	14.2
25-36 months	4.3	15.2
37-48 months		4.3
Total	**33.7**	**47.0**

Subleases include sublease arrangements of 9 aircraft that are classified as finance leases.

Leasing arrangements in profit and loss

EUR mill.	2020	2019
Depreciation expense of right-of-use assets	-127.7	-129.5
Interest expense on lease liabilities	-58.1	-68.5
Interest income on sublease receivables	2.8	3.7
Exchange rate changes of lease liabilities	68.5	-18.7
Hedging result of lease liabilities	-36.1	31.1
Short-term wet leases	-6.3	-26.6
Short-term office rents	-4.0	-3.7
Variable purchase traffic and cargo capacity rents	-83.0	-103.2
Gains and losses on sale and leaseback transactions	-4.4	
Total	**-248.3**	**-315.4**

Operating expenses include costs related to short-term and capacity based rental agreements, that are not material for the Group or do not contain a lease according to IFRS 16, and are therefore not recognised in the balance sheet. In the income statement, the short-term wet leases and variable purchase traffic and cargo capacity rents are included in capacity rents and the short-term office rents are included in property, IT and other expenses. Losses related to sale and leaseback transactions are classified as impairment in profit and loss. Total cash outflow relating to leases was -284.5 million euros (-317.5).

Off-balance sheet lease commitments, Group as lessee

	Premises rents		Other rents	
EUR mill.	2020	2019	2020	2019
less than one year	2.5	3.0	1.1	2.3
1-5 years	6.3	6.5	0.6	0.8
more than 5 years	8.5	7.8	0.0	
Total	**17.3**	**17.2**	**1.8**	**3.1**

Off-balance sheet lease commitments are short-term lease agreements and other lease agreements for which the underlying asset is of low value or contracts that do not contain a lease according to IFRS 16. Therefore, these contracts are not recognised as right-of-use assets and lease liabilities in the balance sheet. The most significant item in the premises rents is the right-to-use a test cell, which is excluded from the lease liabilty on the basis that it is not for the exclusive use of Finnair. Other rents include IT equipment leases, that are not material.

= Critical accounting estimates

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
▶ 2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

A = Accounting principles
E = Critical accounting estimates

Off-balance sheet lease receivables, Group as lessor

	Aircraft		Buildings and land	
EUR mill.	2020	2019	2020	2019
less than 12 months	13.2	27.0	1.5	2.1
13-24 months	13.2	21.9	1.5	2.1
25-36 months	9.2	9.7	1.5	2.1
37-48 months		5.1	1.5	2.1
49-60 months			1.5	2.1
more than 60 months			3.6	11.9
Total	35.6	63.8	11.0	22.4

The Group has leased 15 owned aircraft as well as premises with irrevocable lease agreements. These agreements have different terms of renewal and other index-linked terms and conditions.

2.3 Depreciation and impairment

A Depreciation
Depreciation of assets is determined based on their expected useful life or maintenance cycle and residual value. The depreciation for all assets is calculated using straight-line method. The depreciation is started when the asset is available for use. Depreciation is ceased when the asset is either classified as held for sale or derecognised. The useful life and residual value for assets are described in more detail in the note 2.1. A

EUR mill.	2020	2019
Amortisation of intangible assets	9.9	11.3
Depreciation of own fleet	184.1	171.2
Depreciation of right-of-use fleet	107.2	106.1
Depreciation of other tangible assets	13.9	13.5
Depreciation of other right-of-use assets	20.5	23.3
Amortisation and depreciation	335.6	325.4
Impairment of aircraft	8.2	
Impairment	8.2	
Total	343.8	325.4
Impairment of goodwill*		0.8
Total depreciation and impairment in income statement	343.8	326.2

*The impairment of goodwill recognized in 2019 was classified as an item affecting comparability.

Depreciation and impairment include both planned depreciations on fixed assets as well as impairment. In comparison to 2019, the planned depreciation increased due to two new A350 aircraft that were delivered during the period. Impairment recognized during the period is related to aircraft arrangements made as a response to COVID-19 pandemic. An impairment of 4.4 million euro was recognised in connection to sale and leaseback arrangements of two A350 aircraft and an impairment of 3.8 million euro in connection with early retirement of two A319 aircraft.

Impairment testing

A Impairment testing
The Group reviews its fleet, other fixed assets and other non-current assets for indication of impairment on each balance sheet date. The recoverable amount of an asset or a cash generating unit is determined as the higher of value in use and the fair value less cost to sell. Impairment loss is recognized if an asset's recoverable amount is below its carrying amount. The recoverable amount is defined for cash generating unit, and the impairment is evaluated at the cash generating unit level.

Starting in 2020, Finnair has adopted the value in use model as its primary method for determining the recoverable amount of the assets. The change in the selected approach was due to the deemed impact of the COVID-19 pandemic on the accuracy of the market prices resulting from the lower transaction volume and the impact of the distressed situations on realized prices. In the comparison period ending 31 December 2019, Finnair was using the fair market value less cost to sell approach as the primary method in its impairment testing. A

E Impairment testing of the fleet and other fixed assets
The preparation of the calculations used for impairment testing require significant management judgement and the use of management estimates. These estimates are based on budgets and forecasts, which already inherently contain some degree of uncertainty. The level of uncertainty is further increased in the current COVID-19 environment where for example, the eventual duration of the pandemic as well as the timing of the expected recovery of the passenger demand is not known in advance. Thus the actual outcome may differ from the current management estimates and assumptions made. The main factors requiring significant management judgement in impairment testing include ultimate duration of the pandemic and the speed of demand recovery, unit revenue development and cost of jet fuel. In addition, the value in use calculation is sensitive to changes in EBITDA margin, terminal growth rate and discount rate. The key assumptions used and the related sensitivities are described in more detail below.

In order to consider the increased uncertainty in its estimates and assumptions caused by the COVID-19 pandemic, the management has considered three different forecast scenarios incorporating plausible variations of the expected timing of the recovery begin based on its best estimate at the time. In the optimistic scenario, the demand is expected to materially start in June 2021. In the base case scenario, which is considered the most probable of the three, the recovery is expected to materially start in August 2021. In the pessimistic scenario, the demand recovery is expected to materially start in October 2021. These scenarios are discussed in more detail in the beginning of the notes, in the section Board's assessment of Finnair as a going concern. In order to consider the possibility of various outcomes also in its impairment testing performed at the year-end 2020, Finnair is applying the expected cash flow approach which incorporates expectations about all three forecast scenarios instead of relying on just a single, most likely, cash flow estimate. The determination of the probabilities used for each of the senarios requires the use of significant management judgement and is based on the management's best estimate at the time. The expected cash flow approach used in Finnair's year-end impairment testing is described in more detail below in this note. E

During the period 2020, Finnair has reviewed quarterly whether indications for impairment exist. Finnair considers various adverse economic and business implications resulting from the COVID-19 pandemic as indications of possible impairment and therefore, impairment testing has been carried out as at the balance sheet date. Such indicators include the unprecedented global market disruption, the negative impacts of the pandemic on the Group's own operating environment as well as the adverse impact of the currently extremely low passenger demand on the Group's financial performance and low capacity utilization rates.

The impairment review is carried out at the level of a cash-generating unit ('CGU'). Finnair is a network carrier with highly integrated fleet operations and it considers all its fleet (including right-of-use fleet) and other closely related assets as one CGU. The intangible assets with indefinite useful life, including goodwill, have been identified to belong to the aircraft CGU for impairment testing purposes. At year-end 2020, the amount of goodwill in Finnair's balance sheet amounted to 0.5 million euro (0.5) and the other intangible assets with indefinite useful life to 1.7 million euro (1.7). Assets that are held for sale are excluded from CGU and reviewed separately for impairment. The cash generating unit has been tested for impairment using value in use model based on which the recoverable amount of the CGU exceeds its carrying value at the balance sheet date. The recoverable amount of the CGU as at 31.12.2020 was 2,897.3 million euros based on expected cash flow approach as described below, and the carrying value of the assets was 2,498.3 million euros.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
▶ 2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

The value in use measurement is based on discounted cash flow model where the cash flow projections are based on the latest management forecast, covering a five year period. The cash flows beyond the five-year period are projected to increase in line with management's long-term growth assumptions. In order to consider the uncertainty caused by the current COVID-19 pandemic and the future outlook, Finnair is utilizing the expected cash flow approach which is using multiple, probability-weighted cash flow projections based on the three different forecast scenarios prepared by the management. The scenarios and probabilities allocated to each scenario have been reviewed and approved by the Board of Directors. When determining the probabilities, the management has reflected on the uncertainty related to the COVID-19 vaccination timetable, lifting of the travel restrictions and other factors affecting the demand. The optimistic scenario, where the demand recovery is expected to materially start in June 2021, is considered to have a probability weight of 5%. The base case scenario, where the recovery is expected to materially start in August 2021, is considered to have a 55% probability. The pessimistic scenario with the start of the recovery taking place in October 2021, is given a probability weight of 40%. Under each scenario, the business is expected to return to operational levels (measured in available seat kilometers) comparable to 2019 in year 2023.

Key assumptions used in impairment review

	Dec 31, 2020	Sep 30, 2020	June 30, 2020
Discount rate (post-tax long-term weighted average cost of capital), %	8.2	8.4	8.4
Discount rate (pre-tax, derived from the long-term weighted average cost of capital), %	9.3	9.5	9.8
Long-term growth rate, %	2.4	2.4	2.4
Fuel cost range per ton (USD)	540-610	500-615	520-650

Key assumptions used in the impairment review are presented in the table above. The assumptions are the same for all scenarios.

The discount rate used is based on the weighted average cost of capital (WACC), which reflects the market assessment of the time value of money and the risks specific to Finnair's business. Both pre-tax and post-tax discount rates are presented above. The increased uncertainty related to the COVID-19 is considered through the multiple scenarios and the expected cash flow approach used in impairment testing rather than in discount rate.

EBITDA and estimated business growth are based on management's best assessment of the speed of recovery from the current COVID-19 pandemic as well as the future market demand and environment, which are benchmarked against external information sources, such as long-term average growth estimates for industry.

Fuel price is based on hedge-weighted fuel price based on forward curve, estimated fuel consumption based on planned flights and the historical data of fuel consumption for each aircraft type.

Sensitivities of the key assumptions

Due to increased uncertainties related to the use of key assumptions and management estimates, the Group has prepared a sensitivity analysis to reflect, how the results of the impairment test would react to the changes in key assumptions and management estimates. The sensitivity analysis considers changes in one assumption at a time, whereby the other assumptions are kept unchanged. The results of the sensitivity analysis reflect the sensitivity of the recoverable amount based on expected cash flow model. The uncertainty related to the timing of the recovery from COVID-19 pandemic is taken into account in the calculation by using multiple forecast scenarios and the expected cash flow approach in impairment testing.

The table below shows the changes required to decrease the difference between the recoverable amount and the carrying value of the assets to zero.

	Change
EBITDA margin %	-1.0 %-p
Discount rate %	+0.9 %-p
Terminal growth rate %	-1.0 %-p
Fuel cost, % change in cost level	15 %

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
▶ 3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

3 Capital structure and financing costs

3.1 Financial income and expenses

I The notes related to financial assets, liabilities and equity have been gathered into the capital structure and financing costs-section in order to give a better overview of the Group's financial position. The note 'Earnings per share' has been added to the equity section. I

A Interest income and expenses
Interest income and expenses are recognised on a time-proportion basis using the effective interest method. Interest expenses related to the financing of significant investments are capitalised as part of the asset acquisition cost and depreciated over the useful life of the asset.
More detailed information about financial assets can be found in Note 3.2 and about interest bearing liabilities in Note 3.3. A

EUR mill.	2020	2019
Financial income from discontinued hedges	32.5	
Interest income on leases	2.8	3.7
Gains on investment instruments held at FVPL	3.3	0.4
Interest from assets held at amortised cost	0.0	0.1
Other interest income	0.0	0.4
Other financial income	0.0	0.2
Dividend income	0.0	0.0
Financial income total	**38.7**	**4.8**
Financial expenses for discontinued hedges	-168.3	
Interest on leases	-58.1	-68.5
Other financial expenses	-19.3	-5.5
Interest expenses for liabilities measured at amortised cost	-9.5	-9.6
Financial expenses total	**-255.2**	**-83.6**
Foreign exchange gains and losses	**26.6**	**12.7**
Financial expenses, net	**-189.9**	**-66.1**

In the effectiveness testing of the Group's hedge accounting, both cash flow and fair value hedging were found to be effective at year end 2020 after discontinuing part of the hedges. Thus, as in the comparison year 2019, no inefficiency is included in the financial items for 2020. The COVID-19 pandemic has had a negative impact on Finnair's business during the year 2020; as a result, Finnair has discontinued the application of hedge accounting to the majority of its hedges related to jet fuel price risk and foreign exchange risk. The discontinued hedges are shown in profit and loss instead of other compherensive income. Financial income and expenses includes an identical amount of profit and loss for fair value hedging instruments and for hedged items resulting from the hedged risk. In 2019, other financial expenses include the recovered interest on a loan to Nordic Regional Airlines in the amount of 1.8 million euros that was written down in 2014.

In 2020, foreign exchange gains and losses recognised in financial expenses consist of a net realised exchange loss of 50.2 million euro and a net unrealised exchange gain of 76.7 million euro. In the financial year 2020, Finnair recognized an expense of 168.3 million euro from discontinued hedges and 32.5 million euro as a gain. During the year 2020, 3.3 million euros of interest expense was capitalised in connection with the A350 investment program (2.2). More information about the capitalised interest can be found in note 2.1 Fleet and other fixed assets.

Other financial expenses include revolving credit facility and guarantee fees as well as interest and penalties related to taxes.

3.2 Financial assets

A Financial assets
In the Group, financial assets have been classified into the following categories according to the IFRS 9 standard "Financial Instruments": amortised cost and fair value through profit and loss. The classification is made at the time of the original acquisition based on the objective of the business model and the characteristics of contractual cash flows of the investment, or by applying a fair value option. All purchases and sales of financial assets are recognised on the trade date.

Financial assets at fair value through profit and loss include such assets as investments in bonds and money market funds. Financial assets at fair value through profit and loss have mainly been acquired to obtain a gain from short-term changes in market prices. All those derivatives that do not fulfil the conditions for the application of hedge accounting are classified as financial assets at fair value through profit and loss and are valued at fair value in each financial statement. Realised and unrealised gains and losses arising from changes in fair value are recognised in the income statement in the period in which they arise. Financial assets recognised at fair value through profit and loss, as well as those maturing within 12 months, are included in current assets.

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

Investments in debt securities are measured at amortised cost, but only when the objective of the business model is to hold the asset to collect the contractual cash flows and the asset's contractual cash flows represent only payments of principal and interest. Financial assets recognised at amortised cost are valued using the effective interest method. Financial assets valued at amortised cost include trade receivables and security deposits for aircraft operating lease agreements. Due to the nature of short-term receivables and other receivables, their book value is expected to be equal to the fair value.

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

Impairment of financial assets
Finnair Group recognises impairment provisions based on lifetime expected credit losses from trade receivables in accordance with IFRS 9. Finnair has chosen to apply a simplified credit loss matrix for trade receivables as trade receivables do not have a significant financing component. Accordingly, the credit loss allowance is measured at an amount equal to the lifetime expected credit losses. The expected credit loss model is forward-looking, and expected default rates are based on historical realised credit losses. The lifetime expected credit loss allowance is calculated using the gross carrying amount of outstanding trade receivables in each aging bucket and an expected default rate. The changes in expected credit losses are recognised in other expenses in the consolidated income statement. More information on the credit loss provision on trade receivables can be found in the note 1.2.3. Receivables related to revenue.

The impairment model does not apply to financial investments, such as bonds and money market funds, included in other financial assets as those are measured at fair value through profit and loss under IFRS 9, which already takes into account expected credit losses. With respect to the assets measured at amortised cost, Finnair is actively following such instruments and will recognise impairment through profit and loss if there is evidence of deterioration in credit quality.

Cash and cash equivalents
Cash and cash equivalents consist of cash reserves and short-term bank deposits with maturity of less than three months. Foreign exchange-denominated items have been converted to euro using the mid-market exchange rates on the closing date. A

I = Content of the section
A = Accounting principles

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

3.2.1 Other current financial assets

EUR mill.	2020	2019
Commercial paper, certificates and bonds		38.5
Money market funds	358.3	762.3
Total	358.3	800.8
Ratings of counterparties		
BBB		14.0
BB		5.0
Unrated	358.3	781.8
Total	358.3	800.8

As of 31 December 2020, investments in instruments issued by unrated counterparties mostly include investments in money market funds of 358.3 million euro.

The Group's financial asset investments and risk management policy are described in more detail in Note 3.5 Management of financial risks. The IFRS classifications and fair values of the financial assets are presented in Note 3.6 Classification of financial assets and liabilities.

3.2.2 Cash and cash equivalents

EUR mill.	2020	2019
Cash and bank deposits	465.3	151.9
Total	465.3	151.9

The items include cash and bank deposits realised on demand. Foreign currency cash and bank deposits have been valued using the closing date mid-market exchange rates. The reconciliation of cash and cash equivalents is illustrated in the notes of the consolidated cash flow statement.

3.3 Financial liabilities

A Financial liabilities
Finnair Group's financial liabilities are classified into two different classes: amortised cost and fair value through profit and loss. Financial liabilities are initially recognised at fair value on the basis of the original consideration received. Transaction costs have been included in the original book value of financial liabilities. Thereafter, all non-derivative financial liabilities are valued at amortised cost using the effective interest method. Financial liabilities are included in long- and short-term liabilities, and they can be interest-bearing or non-interest-bearing. Loans that are due for payment within 12 months are presented in the short-term liabilities. Foreign currency loans are valued at the mid-market exchange rate on the closing date, and translation differences are recognised in the financial items.

Accounts payable are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Derecognition of financial liabilities takes place when the Group has fulfilled the contractual obligations. A

Non-current liabilities

EUR mill.	2020	2019
Loans from financial institutions, non-current	599.0	
JOLCO loans and other	312.2	277.6
Bonds	199.8	199.6
Lease liabilities	880.6	913.6
Interest-bearing liabilities total	1,991.6	1,390.8
Non-interest-bearing liabilities	5.2	4.7
Total	1,996.8	1,395.5

Current interest-bearing liabilities

EUR mill.	2020	2019
JOLCO loans and other	51.5	43.5
Lease liabilities	135.6	140.4
Total	187.2	183.9

Finnair's interest-bearing liabilities increased significantly during the financial year as a result of the refinancing transactions carried out by the Group in response to the COVID-19 pandemic. The long-term loans from financial institutions grew as a result of the 600 million euro pension premium loan. Finnair has received a 540 million euro guarantee for the loan from the state of Finland and the remaining 60 million euro has been guaranteed by a commercial bank. Non-interest-bearing liabilities mainly include leases and maintenance reserves related to the aircraft leased to other airlines.

The Group's lease liabilities include two new lease agreements for A350 aircraft as a result of the completion of two sale- and leaseback transactions during the financial year. JOLCO loans and other include the JOLCO loans (Japanese Operating Lease with Call Option) for three A350 aircraft and Export Credit Support for one A350 and three A330 aircraft. The transactions are treated as loans and owned aircraft in Finnair's accounting.

	Short-term borrowings	Long-term borrowings	Short-term lease liabilities	Long-term lease liabilities	Total
Total liabilities from financing activities, 1 January 2020	43.5	477.3	140.4	913.6	1,574.8
Repayments	-174.9	-43.1		-134.9	-353.0
Acquisitions	175.0	697.8	3.1	170.1	1,046.0
Decreases				-4.1	-4.1
Foreign exchange adjustments		-20.7	-9.8	-58.3	-88.8
Reclassification between short-term and long-term liabilities	8.0	-8.0	3.9	-3.9	0.0
Other non-cash movements		7.7	-2.0	-1.9	3.8
Total liabilities from financing activities, 31 December 2020	51.5	1,111.0	135.6	880.6	2,178.7

A = Accounting principles

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

	Short-term borrowings	Long-term borrowings	Short-term lease liabilities	Long-term lease liabilities	Total
Total liabilities from financing activities, 1 January 2019	**100.5**	**514.2**	**125.1**	**1,034.3**	**1,774.0**
Repayments	-61.0	-42.2		-132.2	-235.3
Additions				8.3	8.3
Foreign exchange adjustments	1.9	6.8	5.7	13.0	27.4
Reclassification between short-term and long-term liabilities	2.1	-2.1	9.7	-9.7	0.0
Other non-cash movements		0.6			0.6
Total liabilities from financing activities, 31 December 2019	**43.5**	**477.3**	**140.4**	**913.6**	**1,574.8**

Maturity dates of interest-bearing financial liabilities 31 Dec 2020 EUR mill.	2021	2022	2023	2024	2025	Later	Total
JOLCO loans and other, fixed interest					28.9	14.5	43.4
JOLCO loans and other, variable interest	51.5	40.9	35.3	36.4	77.4	82.2	323.7
Loans from financial institutions, variable interest		300.0	300.0				600.0
Bonds, fixed interest		200.0					200.0
Lease liabilities, fixed interest	96.4	102.3	95.0	92.9	137.3	147.1	671.1
Lease liabilities, variable interest	39.2	41.5	43.8	46.0	35.3	139.3	345.1
Interest-bearing financial liabilities total	**187.2**	**684.7**	**474.1**	**175.2**	**278.9**	**383.1**	**2,183.3**
Payments from currency derivatives	865.9	36.3					902.2
Income from currency derivatives	-826.3	-33.2					-859.5
Commodity derivatives	44.4	0.2					44.6
Trade payables and other liabilities	84.5						84.5
Interest payments	65.3	63.5	50.1	32.3	41.8	61.2	314.3
Total	**421.0**	**751.6**	**524.2**	**207.5**	**320.8**	**444.3**	**2,669.4**

Maturity dates of interest-bearing financial liabilities 31 Dec 2019 EUR mill.	2020	2021	2022	2023	2024	Later	Total
JOLCO loans and other, fixed interest						45.0	45.0
JOLCO loans and other, variable interest	43.6	45.3	34.6	29.2	30.3	96.6	279.7
Bonds, fixed interest			200.0				200.0
Lease liabilities, fixed interest	94.6	95.7	99.4	91.2	88.7	182.9	652.5
Lease liabilities, variable interest	45.9	51.9	50.4	53.2	47.0	153.2	401.5
Other loans	-0.1						-0.1
Interest-bearing financial liabilities total	**183.9**	**192.9**	**384.5**	**173.6**	**166.0**	**477.7**	**1,578.6**
Payments from currency derivatives	1,759.5	254.5					2,014.0
Income from currency derivatives	-1,787.0	-257.9					-2,044.9
Commodity derivatives	16.9	-1.7					15.3
Trade payables and other liabilities	989.9						989.9
Interest payments	82.5	73.2	64.0	54.4	44.2	141.2	459.5
Total	**1,245.8**	**261.0**	**448.5**	**228.0**	**210.2**	**618.9**	**3,012.3**

The interest rate re-fixing period is three months for variable interest loans and six months for variable interest lease liabilities. The bonds maturing do not include the amortised cost of 0.2 million euros paid in 2017 and due in 2022. JOLCO loans do not include the amortised cost of 3.3 million euros paid on 2016 and due in 2025 and loans from financial institutions do not include 1.0 million euros paid as arrangement fee from the pension premium loan in 2020. Therefore, the total amount of interest-bearing financial liabilities differs from the book value by the amount equal to the amortised costs. The COVID-19 pandemic impact on Finnair's business has also increased the interest bearing liabilities in 2020 in comparison to 2019. The increase mainly consists of the 600 million euro pension premium loan that was fully drawn during 2020, and aircraft related sale and leaseback agreements, and export credit support received in connection with the refinancing of one A350

The currency mix of interest-bearing liabilities is as follows:

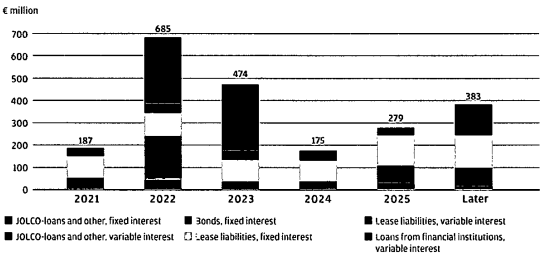
EUR mill.	2020	2019
EUR	994.5	412.8
USD	1,126.8	1,096.3
JPY	57.3	65.3
HKD	0.2	0.4
SGD	0.0	0.1
Total	**2,178.7**	**1,574.8**

The weighted average effective interest rate on interest-bearing liabilities was 3.3% (4.5%).

Interest rate re-fixing period of interest-bearing liabilities

	2020	2019
Up to 6 months	24.6%	40.5%
6-12 months	0.1%	3.1%
1-5 years	46.5%	18.0%
More than 5 years	28.9%	38.4%
Total	**100.0%**	**100.0%**

Maturity dates of interest-bearing financial liabilities



CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

State aid relating to Finnair's refinancing

The European Commission has concluded that the State of Finland's guarantee of Finnair's pension premium loan up to EUR 540 million, which was approved by the European Commission on 18 May 2020, and the State of Finland's participation in the rights offering are so closely linked that they must be regarded as an overall transaction that constitutes State aid within the meaning of Article 107(1) of the Treaty on the Functioning of the European Union. Under the Commission's decision, the Company has agreed to certain conditions following the offering, which include, among other things, a ban on acquisitions, restricting the Company from acquiring a stake of more than 10 per cent in competitors or other operators in the same line of business, including upstream or downstream operations for a period of three years from the offering.

As a result of the restrictions based on the Commission's decision, the remuneration of each member of Finnair's management will not go beyond the fixed part of his/her remuneration on 31 December 2019. For persons becoming members of the management on or after the rights issue, the applicable limit of the remuneration for such new member will be benchmarked to the remuneration of comparable managerial positions and areas of responsibility in Finnair applied on 31 December 2019. Finnair will not pay bonuses and other variable or comparable remuneration elements during the three fiscal years 2020-2022 to the members of the management.

Further, Finnair is committed to publishing information about the use of the aid received within 12 months from the date of the offering and thereafter periodically every 12 months, for a period of three years. In particular, this should include information on how the company's use of the aid received supports its activities in line with EU objectives and national obligations linked to the green and digital transformation, including the EU objective of climate neutrality by 2050.

Currently, the State of Finland and Finnair are preparing to make up to 400 million euros available to Finnair in the form of an unsecured hybrid loan. The final decision on the possible financing arrangement is subject to a decision by the Government Plenary session, which will also confirm the final terms and conditions of the loan. The hybrid loan requires approval by the EU Commission.

3.4 Contingent liabilities

EUR mill.	2020	2019
Guarantees on behalf of group companies	32.1	79.6
Total	**32.1**	**79.6**

3.5 Management of financial risks

Principles of financial risk management

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

The management of financial risks is based on the risk management policy prepared by the Financial Risk Steering Committee and approved by the Board of Directors. The policy specifies the minimum and maximum levels permitted for each type of risk. Financial risk management is directed and supervised by the Financial Risk Steering Committee. Practical implementation of risk management policy and risk management have been centralized to the parent company's treasury department.

In the management of foreign exchange, interest rate and jet fuel the company uses different derivative instruments, such as forward contracts, swaps and options. At inception, derivatives are designated as hedges of highly probable cash flows (cash flow hedges), hedges of firm orders (hedges of the fair value of firm commitments) or as financial derivatives where the hedging relationship does not qualifying for hedge accounting (economic hedges). Finnair Group implements cash flow hedging through foreign exchange hedging of highly probable forecasted sales and costs denominated in foreign currencies and jet fuel price risk, in accordance with the hedge accounting principles of IFRS 9. Hedge accounting compliant fair value hedges of Finnair Group consist of interest rate hedges of the issued bond and fair value hedges of firm aircraft purchase commitments.

Fuel price risk in flight operations

Fuel price risk refers to the uncertainty of the cash flows and financial performance arising from fluctuations in the fuel price. Finnair hedges against jet fuel price fluctuations using jet fuel forward contracts and options. The Jet Fuel CIF Cargoes NWE index is used as the underlying asset of jet fuel derivatives, since over 60 per cent of Finnair's fuel purchase contracts are based on the benchmark price index for Northwest Europe jet fuel deliveries.

Finnair applies the principle of time-diversification in its fuel hedging. According to the risk management policy, the hedging horizon is two years. The risk management policy states that hedging must be increased during each quarter of the year, so that the hedge ratio is more than 60 per cent for the first six months, and thereafter a lower hedge ratio applies for each period. However, due to the COVID-19 pandemic and its impacts on Finnair's business a temporary amendment regarding hedging ratios was implemented. The temporary amendment description can be found from below. Due to hedging, the fuel cost per period is not as low as the spot-based price when prices fall, but when spot prices rise, the fuel cost rises more slowly.

The hedges of jet fuel consumption are treated as cash flow hedges in accounting, in accordance with the hedge accounting principles of IFRS 9. During 2020, Finnair has hedged the jet fuel price risk in its entirety, without separating it into underlying risk components, such as crude oil price risk. However, Finnair has used proxy hedging for certain layer components of its jet fuel consumption, as described below.

In the hedging of jet fuel price risk, Finnair Group designates layer components of its jet fuel consumption as hedged items. The layer components are defined as jet fuel consumption linked to different jet fuel price benchmarks. The first layer is defined as jet fuel purchases based on the Jet Fuel CIF Cargoes NWE index, with consumption linked to other price benchmarks, notably Cargoes FOB Singapore, representing other layers. Since the Jet Fuel CIF Cargoes NWE index is used as the underlying of all jet fuel derivatives, they are designated as proxy hedges for consumption based on other price benchmarks. Therefore, ineffectiveness may arise if the correlation between the NWE index and the price benchmark for the underlying consumption is not high enough for the fair value changes in the hedged item and the hedging instrument to be exactly offsetting. Any ineffectiveness resulting from overhedging or insufficient correlation is recognised in fair value changes in derivatives and changes in exchange rates of fleet overhauls.

Treasury policy temporary amendment

Due to the COVID-19 pandemic impacts to Finnair's business, Finnair's hedging operations regarding foreign exchange currencies and jet fuel price risk were also impacted. Demand disappearing as a result of COVID-19 pandemic meant that the amount of underlying risk was significantly reduced from forecasted amounts forcing Finnair to discontinue applying hedge accounting to majority of its hedges in foreign exchange and jet fuel. Since the uncertainty remains when the traffic and recovery will start to materialize post COVID-19 pandemic Finnair's board of directors approved a temporary amendment to the treasury policy. The amendment reduces the lower bound of hedging ratios in balance sheet position, cash flow position and jet fuel price risk position to zero per cent for the whole hedging period. However, for balance sheet position the target hedging ratio will be 50 per cent. For the cash flow position and jet fuel position the objective of the amendment is to avoid being on an over hedged situation if the recovery does not materialize due to the COVID-19 pandemic and for the balance sheet position the objective is to reduce cash flow risk in short-term. The amendment is in force until treasury policy is reviewed during 2021.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
▶ 3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

Timing of the notional and hedged price	Hedged price $/tonne	Notional amount (tonnes)	Maturity Under 1 year	Maturity 1 to 2 years
31 December 2020				
Jet fuel consumption priced with NWE index	527.7	237,423	227,423	10,000
Jet fuel consumption priced with SING index	609.8	2,577	2,577	
31 December 2019				
Jet fuel consumption priced with NWE index	655.2	992,382	761,382	231,000
Jet fuel consumption priced with SING index	682.6	61,618	61,618	

The average hedged price of the instruments hedging highly probable jet fuel purchases is calculated by taking into account only the hedging (bought) leg of collar option structures, and therefore represents the least favorable hedged rate. The most favorable rate, calculated by including only the sold leg of collar option structures, is 527.7 US dollars per tonne for NWE consumption, and 609.8 US dollars for SING consumption. Options excluded from hedge accounting are excluded in both cases.

At the end of the financial year, Finnair had hedged 67 per cent of its forecasted fuel purchases for the first six months of 2021 and 33 per cent of the purchases for the second half of the year. In the financial year 2020, fuel used in flight operations accounted for approximately one quarter of Group's turnover. At the end of the financial year, the forecast for 2021 is approximately one quarter of the Group's turnover. On the closing date, a 10 per cent rise in the market price of jet fuel – excluding hedging activity – increases annual fuel costs by an estimated 15 million euro. On the closing date – taking hedging into account – a 10 per cent rise in fuel lowers operating profit by around 8 million euro.
Due to the COVID-19 pandemic impacts to Finnair's business, Finnair's hedging operations regarding foreign exchange currencies and jet fuel price risk were also impacted. Demand disappearing as a result of the COVID-19 pandemic meant that the amount of underlying risk was significantly reduced from forecasted amounts forcing Finnair to discontinue the majority of its hedges in foreign exchange and jet fuel.

Foreign exchange risk

Foreign exchange risk means the uncertainty in cash flows and financial performance arising from exchange rate fluctuations. Finnair Group's foreign exchange risk mainly arises from fuel and aircraft purchases, divestments of aircraft, aircraft lease payments, aircraft maintenance, overflight royalties and foreign currency revenue. About 55 per cent of the Group's revenue is denominated in euros. The most important foreign revenue currencies are Japanese yen (7 per cent, percentage of revenue), Chinese yuan (6 per cent), US dollar (4 per cent) and Swedish krona (3 per cent). Approximately 40 per cent Group's operating costs are denominated in foreign currencies. The most important purchasing currency is the US dollar, which accounts for approximately 35 per cent of all operating costs. Most significant dollar-denominated expenses are fuel costs. The largest investments – aircraft and their spare parts – are also mainly made in US dollars.

The risk management policy divides the foreign exchange position into three parts, namely exposure to forecasted cash flows, balance sheet position and investment position.

The cash flow exposure mainly consists of sales denominated in a number of different currencies and dollar-denominated expenses. Forecasted jet fuel purchases, aircraft materials and overhaul expenses and traffic charges form a group of similar items that are hedged with the same hedging instrument. The purpose of currency risk hedging – for cash flow exposure – is to reduce the volatility of cash flows and comparable operating result due to fluctuating currency prices. This is done using a layered hedging strategy for the two biggest sources of currency risk and utilising diversification benefits of the portfolio of various currencies. The contracts are timed to mature when the cash flows from operating expenses are expected to be settled. The hedging limits are set only for the main contributors to currency risk: the Japanese yen and the US dollar basket consisting of the US dollar and the Hong Kong dollar. For both of these, the hedging horizon is two years, which is divided into four six-month periods. In order to achieve time diversification, the minimum hedge ratio for the closest six-month period is 60 per cent with a decreasing slope ending at zero per cent for the fourth six-month period. Currently there is a temporary amendment in force that reduces the minimum hedging ratio to zero percent until the treasury policy is reviewed during 2021. Even though the policy does not require hedging of smaller currency flows, it is allowed, in which case the layered hedging strategy is partially applied, although no minimum hedging ratio is specified.

The investment position includes all foreign currency denominated aircraft investments for which a binding purchase agreement has been signed as well as commitments for sale and leaseback transactions in the next four years. According to its risk management policy, Finnair Group hedges 50-100% of its aircraft investment exposure. New hedges of investments in aircraft are made as an IFRS 9 fair value hedge of a firm commitment.

Balance sheet exposure consists of foreign currency denominated financial assets and liabilities, as well as other foreign currency denominated balance sheet items, such as provisions, trade receivables, trade payables and assets held for sale. Finnair Group hedges 75-100% of net positions in foreign currency denominated financial assets and financial liabilities exceeding 10 MEUR. However, the amendment to the treasury policy lowers the minimum hedging ratio to zero per cent for balance sheet position, but target ratio is set to 50 per cent.

At the end of the financial year, Finnair had a hedge level for net operating cash flows of 42 per cent in the USD-basket and 44 per cent in JPY for the coming 12 months, and hedge levels of 4 per cent and 2 per cent for 2022, respectively. On the closing date – excluding hedges – a 10 per cent strengthening of the US dollar against the euro has a negative impact on the 12-month result of around 27 million euro and a 10 per cent weakening of the Japanese yen against the euro has a negative impact on 12-month of around 11 million euro. On the closing date – taking hedging into account – a 10 per cent strengthening of the US dollar weakens the result by around 10 million euro and a 10 per cent weakening of the Japanese yen weakens the result by around 5 million euro. In the above numbers, the USD-basket risk also the Hong Kong dollar, which historical correlation with the US dollar is high. Hedge levels for balance sheet position at the end of the financial year were 53 per cent for USD and 92 per cent for Japanese yen. On the closing date – excluding hedges – a 10 per cent strengthening of the US dollar against the euro has a negative impact on the result of around 115 million euro and a 10 per cent strengthening of the Japanese yen against the euro has a negative impact of around 6 million euro. On the closing date – taking hedging into account – a 10 per cent strengthening of the US dollar weakens the result by around 44 million euro and a 10 per cent strengthening of the Japanese yen weakens the result by around 0.5 million euro.

Timing of the notional EUR mill. 31 December 2020	Notional amount (gross)	Maturity Less than 1 year	Maturity 1 to 2 years
USD	1,100.7	973.6	127.1
JPY	270.6	265.7	5.0

Cross-currency interest rate swaps are included in the nominal amount calculation.

Foreign exchange P&L exposure EUR mill. 31 December 2020	JPY	USD-basket
Net forecasted operating cash flows, next 24m	474.8	-1,411.8
Net operating cash flow hedges, next 24m	-75.8	273.2
Weighted average exchange rate of hedging instruments against the euro	120.2	1.14
Foreign exchange exposure from operating cash flows after hedging, next 24m	**399.1**	**-1,138.6**

The average exchange rate of the instruments hedging highly probable forecasted sales and purchases denominated in foreign currencies is calculated by taking into account only the hedging (bought) leg of collar option structures, and therefore represents the least favorable hedged rate. The most favorable rate, calculated by including only the sold leg of collar option structures, is 1.17 for USD contracts and 118.42 for JPY instruments.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

Foreign exchange balance sheet exposure EUR mill. 31 December 2020	JPY	USD
Net balance sheet items	-63.3	-943.6
Net hedges of balance sheet items	57.6	509.0
Weighted average exchange rate of hedging instruments against the euro	126.8	1.18
Foreign exchange exposure from balance sheet items after hedging	**-5.7**	**-434.6**

Foreign exchange investment exposure EUR mill. 31 December 2020	USD
Net investment position	-335.5
Net hedges of investment position	180.4
Weighted average exchange rate of hedging instruments against the euro	1.14
Foreign exchange exposure from investment position after hedging	**-155.1**

Foreign exchange P&L exposure EUR mill. 31 December 2019	JPY	USD-basket
Net forecasted operating cash flows, next 24m	722.9	-1,852.1
Net operating cash flow hedges, next 24m	-319.8	836.7
Weighted average exchange rate of hedging instruments against the euro	125.2	1.17
Foreign exchange exposure from operating cash flows after hedging, next 24m	**403.1**	**-1,015.4**

Foreign exchange balance sheet exposure EUR mill. 31 December 2019	JPY	USD
Net balance sheet items	-69.3	-1,092.6
Net hedges of balance sheet items	66.4	907.7
Weighted average exchange rate of hedging instruments against the euro	121.3	1.12
Foreign exchange exposure from balance sheet items after hedging	**-2.9**	**-184.9**

Foreign exchange investment exposure EUR mill. 31 December 2019	USD
Net investment position	-668.0
Net hedges of investment position	336.5
Weighted average exchange rate of hedging instruments against the euro	1.20
Foreign exchange exposure from investment position after hedging	**-331.5**

Interest rate risk

Interest rate risk means the cash flow, financial performance and balance sheet uncertainty arising from interest rate fluctuations. In Finnair Group, the interest rate risk is measured using the interest rate re-fixing period. If necessary, interest rate derivatives are used to adjust the interest rate re-fixing period. According to the risk management policy, the mandate for the investment portfolio's interest rate re-fixing period is 0-12 months and for interest-bearing liabilities 36-72 months. On the closing date, the investment portfolio's interest rate re-fixing period was approximately 3 months and approximately 50 months for interest-bearing liabilities. On the closing date, a one percentage point rise in interest rates increases the annual interest income of the investment portfolio by approximately 7.1 million euros and the interest expenses of the loan portfolio by approximately 4.3 million euros. The situation as of December 31 2020 is a reasonable representation of conditions throughout the year given the current market environment.

Future lease agreements expose the group to interest rate risk, as the interest rate is one component of the lease price. The interest rate is fixed when the lease payments start. If necessary, the group can hedge this exposure with cash flow hedges.

Timing of the notional and hedged price range EUR mill. 31 December 2020	Notional amount (gross)	Maturity Less than 1 year	 1 to 2 years
Interest rate derivatives	286.0	189.4	96.6

Cross-currency interest rate swaps are included in the nominal amount calculation. Finnair has not entered into any interest rate derivatives on which it is paying a fixed rate.

Credit risk

The Group is exposed to counterparty risk when investing its cash reserves and when using derivative instruments. The credit risk is managed by only making contracts with financially sound domestic and foreign banks, financial institutions and brokers, within the framework of risk management policy for counterparty risk limits. Liquid assets are also invested in money market funds, bonds and commercial papers issued by selected companies, according to company-specific limits. This way, risk exposure to any single counterparty is not significant. Changes in the fair value of Group loans arises from changes in FX and interest rates, not from credit risk. The Group's credit risk exposure arises from other current financial assets presented in note 3.2.1, cash and cash equivalents presented in note 3.2.2, trade receivables presented in Note 1.2.3 and derivatives presented in note 3.8.

Liquidity risk

The goal of Finnair Group is to maintain good liquidity. Liquidity is ensured by cash reserves, bank account limits, liquid money market investments and committed credit facilities. Counterparties of groups' long term loans are solid financial institutions with good reputations.

The COVID-19 pandemic did not impact the basic principles of Finnair's liquidity risk management. However, the pandemic has increased the financing risk and due to high uncertainty relating to the duration of the pandemic, Finnair executed several financing transactions in order to secure liquidity levels. These transactions consisted of: withdrawing the 175 million euro revolving credit facility which has been since repaid in September 2020, securing the 600 million pension premium loan, rights issue of net proceeds over 500 million euro, refinancing the existing 200 million euro hybrid bond and aircraft transactions in the form of two sale and leasebacks in excess of 200 million euro and one export credit support transaction in excess of 100 million euro. In addition to the aforementioned financing transactions, Finnair also negotiated a waiver of its financial covenant of adjusted gearing in the revolving credit facility. Currently, the State of Finland and Finnair are in the process of preparing to make up to 400 million euros available to Finnair in the form of an unsecured hybrid loan. The final decision on the possible financing arrangement is subject to a decision by the Government Plenary session, which will also confirm the final terms and conditions of the loan. The hybrid loan requires approval by the EU Commission.

The Group's cash funds funds were 823.7 million euro at the end of financial year 2020. Finnair Plc has a domestic commercial paper program of 200 million euro, which was not in use as of the closing date. In addition, Finnair has an

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

unused 175 million euro committed revolving credit facility. The credit facility includes a financial covenant based on adjusted gearing. The covenant level of adjusted gearing based on the original facility agreement is 175 per cent. Due to the COVID-19 impact, Finnair negotiated a waiver in May 2020 of the adjusted gearing covenant with the lending banks. The waiver removed the adjusted gearing covenant fully until either end of the year 2020 or when rights issue would be completed. Thereafter the adjusted gearing covenant level will be 225 per cent until June 2021, from July 2021 until June 2022 adjusted gearing covenant will be 200 per cent and from July 2022 onwards 175 per cent. At the closing date the figure was 153.2 per cent. The maximum level set by the Board of Directors based on the adjusted gearing covenant.

During the financial year 2020 Finnair managed to maintain adequate liquidity in spite of the impacts of the COVID-19 pandemic on Finnair's underlying business, executing several financing transactions, which are described in the above paragraph. These transactions had several impacts on Finnair's financial position; first, Finnair has 28 per cent more interest-bearing liability on its balance sheet in comparison to the financial year 2019. Second, during the financial year 2020, Finnair's gearing rose significantly compared to financial year 2019; in 2019, the gearing was 64.3 per cent whereas at the end of financial year 2020 the gearing was 153.2 per cent. Third, despite being below the covenant levels defined in the revolving credit facility, based on Finnair's current estimate, the covenant terms related to Finnair's undrawn 175 million euro revolving credit facility are estimated to be possibly breached during the second quarter of 2021. Therefore, Finnair plans to initiate negotiations with the syndicate banks with respect to covenant amendments.

If the recovery from the COVID-19 pandemic takes significantly longer than currently expected, Finnair's available financing options may be more expensive, more limited, or both.

Capital management

The aim of Finnair's capital management is to secure the access to capital markets at all times despite volatile business environment, as well as support future business development. Through maintaining optimal capital structure Group also aims to minimize the cost of capital and maximize the return on capital employed. The capital structure is influenced via, for example, dividend distribution and share issues. The Group can vary and adjust the level of dividends paid to shareholders, the amount of capital returned to them or the number of new shares issued. The Group can also decide on sales of asset items in order to reduce debt. The aim of Finnair´s dividend policy is to pay on average at least one third of the earnings per share as dividend during an economic cycle.

The COVID-19 pandemic has had a significant impact on Finnair's business and therefore the balance sheet has also been impacted. During the 2020 Finnair executed financial transactions to strengthen its balance sheet to mitigate the COVID-19 pandemic impacts and to maintain a healthy adjusted gearing ratio. The main two transactions that were executed during the year 2020 were the rights issue and hybrid bond refinancing. The rights issue resulted in net proceeds of approximately 501 million euro to the company and the hybrid refinancing of 200 million euro enabled Finnair to further to mitigate the impacts of COVID-19 pandemic on Finnair's balance sheet.

The development of the Group's capital structure is continuously monitored using the adjusted gearing. When calculating adjusted gearing, adjusted interest-bearing net debt is divided by the amount of shareholders' equity. The Group's adjusted gearing at the end of 2020 was 153.2 per cent (64.3).

Sensitivity analysis of the fair value reserve

If the price of Jet fuel CIF NWE had been 10 per cent higher, the balance of the reserve would have been 6.6 million euro (50.7) higher. Correspondingly, a 10 per cent weaker Jet fuel CIF NWE price would have reduced the reserve by 6.6 million euro (52.0). In terms of the US dollar, a 10 per cent weaker level would have lowered the balance of the fair value reserve by 9.9 million euro (58.4) and a 10 per cent stronger dollar would have had a positive impact of 5.2 million euro (61.7). In terms of Japanese yen, a 10 per cent stronger yen would have had a negative impact of 5.1 million euro (20.7), and a 10 per cent weaker level would have increased the balance of the fair value reserve by 4.6 million euro (19.0). The effect of change in interests to the fair value reserve in own equity is not material. The enclosed sensitivity figures do not take into account any change in deferred tax liability (tax assets).

3.6 Classification of financial assets and liabilities

EUR mill.	Hedge accounting items	Fair value through profit and loss	Amortised cost	Book value
31 Dec 2020				
Financial assets				
Receivables			3.1	3.1
Other financial assets		358.3		358.3
Trade receivables and other receivables			125.7	125.7
Derivatives	7.4	5.0		12.4
Cash and cash equivalents			465.3	465.3
Book value total	7.4	363.3	594.1	964.9
Fair value total	7.4	363.3	594.1	964.9
Financial liabilities				
Interest-bearing liabilities			1,162.6	1,162.6
Lease liabilities			1,016.2	1,016.2
Derivatives	46.1	53.6		99.7
Trade payables and other liabilities			84.5	84.5
Book value total	46.1	53.6	2,263.2	2,362.9
Fair value total	46.1	53.6	1 244,9	1 344,6

EUR mill.	Hedge accounting items	Fair value through profit and loss	Amortised cost	Book value
31 Dec 2019				
Financial assets				
Receivables			3.3	3.3
Other financial assets		800.8		800.8
Trade receivables and other receivables			240.9	240.9
Derivatives	54.4	1.2		55.7
Cash and cash equivalents			151.9	151.9
Book value total	54.4	802.0	396.0	1,252.5
Fair value total	54.4	802.0	396.0	1,252.5
Financial liabilities				
Interest-bearing liabilities			520.8	520.8
Lease liabilities			1,054.0	1,054.0
Derivatives	29.4	9.5		38.9
Trade payables and other liabilities			999.6	999.6
Book value total	29.4	9.5	2,574.4	2,613.3
Fair value total	29.4	9.5	1 527,9	1 566,8

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. ▶ CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

In this note interest rate derivatives (currency and interest-rate swaps) are included in derivatives. Item Receivables mainly includes USD-denominated security deposits for leased aircraft. Trade payables and other liabilities include: trade payables and other interest-bearing and non-interest-bearing liabilities.

Derivatives are valued at fair value, with further details in the fair value hierarchy. Financial assets valued at fair value are money market funds (fair value hierarchy level 1) and bonds, or commercial papers (fair value hierarchy level 2). Loans and receivables are mainly current and the book value is equivalent to the fair value, because the discount effect is not significant. The current portion of loans valued at amortised cost, excluding bonds, is 187.2 million euro, and the book value is equivalent to the fair value, because the discount effect is not significant. The issued bond makes the most significant part of the loans valued at amortised cost. The senior bond maturing in 2022 was quoted at 98.584, which explains the difference between book value and fair value. The valuation principles of financial assets and liabilities are outlined in the accounting principles. The valuation principles of financial assets and liabilities are outlined in the accounting principles.

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

Fair values at the end of the reporting period

EUR mill.	31 Dec 2020	Level 1	Level 2
Assets			
Financial assets at fair value			
Securities held for trading	358.3	358.3	
Derivatives			
Currency derivatives	8.6		8.6
- of which in cash flow hedge accounting	4.3		4.3
Commodity derivatives	3.8		3.8
- of which in cash flow hedge accounting	3.2		3.2
Total	**370.8**	**358.3**	**12.4**
Liabilities			
Financial liabilities at fair value			
Derivatives			
Currency and interest rate swaps and options	18.8		18.8
Currency derivatives	32.5		32.5
- of which in fair value hedge accounting	13.8		13.8
- of which in cash flow hedge accounting	15.0		15.0
Commodity derivatives	48.4		48.4
- of which in cash flow hedge accounting	17.3		17.3
Total	**99.7**		**99.7**

During the financial year, no significant transfers took place between fair value hierarchy Levels 1 and 2.

The fair values of hierarchy Level 1 are fully based on quoted (unadjusted) prices in active markets of the same assets and liabilities.

The fair values of Level 2 instruments are, to a significant extent, based on input data other than the quoted prices included in Level 1, but still mainly based on directly observable data (price) or indirectly observable data (derived from price) for the particular asset or liability.

On the other hand, the fair values of Level 3 instruments are based on asset or liability input data that is not based on observable market information (unobservable inputs). The fair values are based on confirmations supplied by counterparties, based on generally accepted valuation models.

3.7 Offsetting financial assets and liabilities

EUR mill.	2020	2019
Derivative assets gross amounts	12.4	55.7
Amounts of financial assets presented in the balance sheet	**12.4**	**55.7**
Enforceable master netting agreement	-11.8	-22.3
Derivative assets net amount	**0.6**	**33.4**
EUR mill.		**2019**
Derivative liabilities gross amounts	-99.7	-38.9
Amounts of financial liabilities presented in the balance sheet	**-99.7**	**-38.9**
Enforceable master netting agreement	11.8	22.3
Derivative liabilities net amount	**-87.9**	**-16.6**

For the above financial assets and liabilities, subject to enforceable master netting arrangements or similar arrangements, each agreement between the Group and the counterparty allows net settlement of the relevant financial assets and liabilities when both parties choose to settle on a net basis. In the absence of such mutual decision, financial assets and liabilities will be settled on a gross basis. However, each party of the master netting agreement, or similar agreement, will have the option to settle on a net basis in the event of default of the other party. Depending on the terms of each agreement, an event of default includes failure by a party to make a payment when due, failure by a party to perform any obligation required by the agreement (other than payment), if such failure is not remedied within periods of 30 to 60 days after notice of such failure is given to the party, or bankruptcy.

3.8 Derivatives

A Derivative contracts and hedge accounting

According to its risk management policy, Finnair Group uses foreign exchange, interest rate and commodity derivatives to reduce the exchange rate, interest rate and commodity risks which arise from the Group's balance sheet items, currency denominated purchase agreements, anticipated currency denominated purchases and sales as well as future jet fuel purchases. It is the Group's policy not to enter into derivative financial contracts for speculative purposes.

The derivatives are initially recognised as well as subsequently valued at fair value in each financial statement and interim report. The fair values of the derivatives are based on the value at which the instrument could be exchanged between knowledgeable, willing and independent parties, with no compulsion to sell or buy in the sales situation. The fair values of derivatives are determined as follows:

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

The Group uses credit valuation adjustment for cross-currency interest rate swaps as the maturities of these derivatives are long. The credit valuation adjustment is not done for the rest of the derivatives as the maturities for these are short and the impact would not be material. Credit risk management is described in more detail in note 3.5.

Gains and losses arising from changes in the fair value are presented in the financial statements according to the original classification of the derivative. Gains and losses on derivatives qualifying for hedge accounting are recognised in accordance with the nature of the risk being hedged. At inception, derivative contracts are designated as hedges of future cash flows,

A = Accounting principles

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
▶ 3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

A = Accounting principles
E = Critical accounting estimates

hedges of the fair value of recognised assets or liabilities and binding purchase contracts (cash flow hedges or fair value hedges) or as derivatives not meeting the hedge accounting criteria or to which hedge accounting is not applied (economic hedges). Hedging of the fair value of net investments of foreign units or embedded derivatives have not been used.

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

Finnair Group implements the IFRS hedge accounting principles in the hedging of future cash flows (cash flow hedging). The principles are applied to the price and foreign currency risk of jet fuel, the foreign currency risk of lease payments and the foreign currency risk of highly probable future sales and costs denominated in foreign currencies. The IFRS fair value hedge accounting principles are applied to the hedging of foreign exchange and interest rate risk of aircraft.

The change in the fair value of the effective portion of derivative instruments that have been designated and qualify as cash flow hedges are recognised in comprehensive income and presented within equity in the fair value reserve, to the extent that the requirements for the application of hedge accounting have been fulfilled and the hedge is effective. The gains and losses, recognised in the fair value reserve, are transferred to the income statement in the period in which the hedged item is recognised in the income statement. When a hedging instrument expires or is sold, terminated or exercised, or the criteria for cash flow hedge accounting are no longer fulfilled, but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in the hedge reserve and is recognised in accordance with the above policy when the transaction occurs. If the underlying hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in the hedge reserve with respect to the hedging instrument is recognised immediately in the consolidated income statement.

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

Fair value hedging is implemented on firm orders of new aircraft, and in order to hedge the fixed interest rate bond. The binding purchase agreements for new aircraft are treated as firm commitments under IFRS, and therefore, the fair value changes of the hedged part arising from foreign currency movements are recognised in the balance sheet as an asset item, and corresponding gains or losses recognised through profit and loss. Similarly, the fair value of instruments hedging these purchases is presented in the balance sheet as a liability or receivable, and the change in fair value is recognised in profit and loss.

The gain or loss related to the effective portion of the interest rate swap, which hedges the fixed interest rate bond, is recognised as financial income or expenses in the income statement. The gain or loss related to the ineffective portion is recognised within other operating income and expenses in the income statement. The change in the fair value attributable to the interest rate risk of the hedged fixed interest rate loans is recognised in the financial expenses in the income statement.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item, for which the effective interest method is used, is amortized to profit or loss over the period to maturity.

Finnair Group uses cross-currency interest rate swaps in the hedging of the interest rate and foreign exchange risks of foreign currency denominated loans. Cross-currency interest rate swaps are excluded from hedge accounting, and therefore the fair value changes are recognised in derivative assets and liabilities in the balance sheet, as well as in the financial income and expenses in the income statement. The fair value changes of the loans are simultaneously recognised in the financial income and expenses. Realised foreign exchange rate differences, as well as interest income and expenses, are recognised in the financial income and expenses against the exchange rate differences and interest income and expenses of the loan.

Finnair Group uses jet fuel swaps (forward contracts) and options in the hedging of jet fuel price risk. Unrealised gains and losses on derivatives hedging jet fuel, which are designated as cash flow hedges and fulfil the requirements of IFRS hedge accounting, are recognised in the hedging reserve within other comprehensive income. Accrued derivative gains and losses, recognised in shareholders' equity, are recognised as income or expense in the income statement in the same financial period as the hedged item is recognised in the income statement. If a forecasted cash flow is no longer expected to occur, and as a result the IFRS hedge accounting criteria are not fulfilled, the fair value changes and the accrued gains and losses reported in shareholders' equity are transferred to the items affecting comparability in the income statement. Changes in the fair value of jet fuel swaps and opt ons excluded from hedge accounting are recognised in fair value changes in derivatives in the income statement, while realised result is presented in fuel costs.

For forward and option contracts, an economic relationship exists between the hedged item and the hedging instrument the hedging instrument and hedged item are expected to move in opposite directions because of the same underlying risk. This is true for all hedge relationships except for the SING consumption hedged with NWE hedges (as described in section 3.5). In that case, the underlying is different, but the underlying hedged item (SING) and the hedge (NWE) have a historical correlation of 0.99. Therefore, it can be classified as a relationship where the underlying and the hedge are economically closely related. Ineffectiveness on fuel derivatives can also arise from timing differences on the notional amount between the hedged instrument and hedged item, significant changes in credit risk of parties to the hedging relationship and changes in the total amount of the hedged item, for instance if the underlying fuel consumption forecast is not accurate enough, that can result in overhedging. However, as Finnair usually hedges less than 100%, the risk of overhedging is insignificant. Finnair has established a hedge ratio of 1:1 for hedging relationships.

Finnair uses forward contracts and options to hedge its exposure to foreign currency denominated cash flows. The hedges of cash flows denominated in foreign currencies are treated as cash flow hedges in accounting, in accordance with the hedge accounting principles of IFRS 9. Unrealised gains and losses on hedges of forecasted cash flows qualifying for hedge accounting are recognised in the hedging reserve in OCI, while the change in the fair value of such hedges not qualifying for hedge accounting is recognised in Fair value changes in derivatives and changes in exchange rates of fleet overhauls in the income statement. The change in fair value recognised in the hedging reserve in equity is transferred to the income statement when the hedged transaction is realised. Forward points are included in the hedging instrument and in the hedge relationship. Potential sources of ineffectiveness include changes in timing of the hedged item, significant changes in credit risk of parties to the hedging relationship and changes in the total amount of the hedged item, for instance if the underlying cash flow forecast is not accurate enough, that can result in overhedging. However, as Finnair usually hedges less than 100%, the risk of overhedging is insignificant. Realised profit or loss on derivatives hedging JPY-denominated operating cash flows is presented in revenue, realised profit or loss on derivatives hedging a group of similar USD costs is proportionally recognised in corresponding expense lines, while profit or loss on derivatives hedging cash flows denominated in other currencies is presented in Other expenses.

The hedge ratio is defined as the relationship between the quantity of the hedging instrument and the quantity of the hedged item in terms of their relative weighting. With currency hedging, hedge ratio is typically 1:1. For forward and option contracts, an economic relationship exists between the hedged item and the hedging instrument as there is an expectation that the value of the hedging instrument and the value of the hedged item would move in the opposite direction because of the common underlying.

Changes in the fair value of interest rate derivatives not qualifying for hedge accounting are recognised in financial income and expenses in the income statement. Changes in the fair value as well as realised gain or loss on forward contracts used to hedge foreign currency denominated balance sheet items of Finnair Group are recognised in financial expenses. Changes in the fair value and realised result of hedges of assets held for sale are recognised in items affecting comparability.

Cost of hedging

At Finnair, the time value of an option is excluded from the designation of a financial instrument and accounted for as a cost of hedging. Upon initial recognition, Finnair defers any paid premium in the cost of hedging reserve within other comprehensive income. The fair value changes of the time value are recognised in the cost of hedging reserve within other comprehensive income. The premium will be transferred to the consolidated income statement in the same period that the underlying transaction affects the consolidated income statement for transaction-related hedges. As of 31 December 2019, Finnair has deferred premiums only on transaction-related hedges.

Impact of COVID-19 to hedge accounting and derivatives

Due to the COVID-19 pandemic impacts to Finnair's underlying business, the hedging operations regarding foreign exchange currencies and jet fuel price risk were also impacted. Demand disappearing as a result of COVID-19 pandemic meant that the amount of underlying risk was significantly reduced from forecasted amounts forcing Finnair to discontinue hedge accounting on majority of its hedges in foreign exchange and jet fuel that were under hedge accounting. The discontinued hedges are shown in profit and loss instead of equity. The realized and unrealized gains or losses from discontinued hedges are shown in financial income and expenses. A

E Derivative contracts and hedge accounting

Finnair accounts for its cash flow hedges of forecasted foreign currency denominated purchases and sales and future jet fuel purchases in accordance with the IFRS 9. Under the hedge accounting principles, a forecast transaction can be designated as a hedged item only if that transaction is considered as highly probable. The evaluation of probability is based on the management forecasts about the future level of Finnair's operations and cash flows. Such forecasts require the use of management judgement and assumptions, which inherently contain some degree of uncertainty that is further increased under the existing COVID-19-pandemic. Should the expected circumstances or outcome change in the future, the management would need to reassess whether a hedged forecast transaction is still highly probable to occur. This could be the case if, for example, the expected recovery and thus the expected jet fuel consumption levels would not realize as expected. Should the forecast transaction no longer be highly probable, it would no longer qualify as an eligible hedged item and hedge accounting would need to be discontinued. Should it no longer be expected to occur at all, the balance of the cash flow hedge reserve included in other comprehensive income would need to be reclassified to profit or loss. E

CONSOLIDATED INCOME STATEMENT
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
CONSOLIDATED BALANCE SHEET
CONSOLIDATED CASH FLOW STATEMENT
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
▶ 3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS
BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND
AUDITOR'S REPORT

	2020				2019			
EUR mill.	Nominal value	Positive fair values	Negative fair values	Fair net value	Nominal value	Positive fair values	Negative fair values	Fair net value
Currency derivatives								
Operational cash flow hedging (forward contracts)	268.4	4.2	-13.1	-8.8	924.4	23.6	-5.9	17.6
Operational cash flow hedging, bought options	80.5	0.0		0.0	201.5	3.3		3.3
Operational cash flow hedging, sold options	74.3		-1.9	-1.9	201.8		-1.0	-1.0
Fair value hedging of aircraft acquisitions	180.4		-13.8	-13.8	336.5	19.0	-0.4	18.6
Hedging of lease payments					22.3	1.7		1.7
Hedge accounting items total	**603.7**	**4.3**	**-28.8**	**-24.5**	**1,686.5**	**47.5**	**-7.3**	**40.2**
Operational cash flow hedging (forward contracts)	173.9	4.1	-3.1	1.0				
Operational cash flow hedging, bought options	20.3	0.1		0.1				
Operational cash flow hedging, sold options	20.3	0.0	-0.1	-0.0				
Balance sheet hedging (forward contracts)	267.1	0.1	-0.5	-0.4	775.1	0.1	-9.4	-9.3
Items outside hedge accounting total	**481.6**	**4.4**	**-3.7**	**0.7**	**775.1**	**0.1**	**-9.4**	**-9.3**
Currency derivatives total	**1,085.3**	**8.6**	**-32.5**	**-23.8**	**2,461.6**	**47.7**	**-16.8**	**30.9**
Commodity derivatives								
Jet fuel forward contracts, tonnes	240,000	3.2	-17.3	-14.2	898,000	6.2	-21.5	-15.3
Bought options, jet fuel, tonnes					57,000	0.7		0.7
Sold options, jet fuel, tonnes					57,000		-0.5	-0.5
Hedge accounting items total		**3.2**	**-17.3**	**-14.2**		**6.9**	**-22.0**	**-15.1**
Jet fuel forward contracts, tonnes	336,000	0.6	-31.1	-30.5				
Sold options, jet fuel, tonnes					42,000		-0.1	-0.1
Items outside hedge accounting total		**0.6**	**-31.1**	**-30.5**		**0.0**	**-0.1**	**-0.1**
Commodity derivatives total		**3.8**	**-48.4**	**-44.6**		**6.9**	**-22.1**	**-15.2**
Cross currency interest rate swaps	286.0		-18.8	-18.8	217.9	1.1		1.1
Items outside hedge accounting total	**286.0**	**0.0**	**-18.8**	**-18.8**	**217.9**	**1.1**	**0.0**	**1.1**
Interest rate derivatives total	**286.0**	**0.0**	**-18.8**	**-18.8**	**217.9**	**1.1**	**0.0**	**1.1**
Derivatives total *		**12.4**	**-99.7**	**-87.2**		**55.7**	**-38.9**	**16.8**

* Positive (negative) fair value of hedging instruments as of 31.12.2020 is presented in the statement of financial position in the item derivative financial instruments within current assets (derivative financial instruments within current liabilities). Due to the impacts of the COVID-19 pandemic on Finnair's business, Finnair discontinued hedge accounting for majority of its hedges which resulted in having fewer hedges outstanding if comparing to year 2019. Finnair has also adopted a temporary amendment to the treasury policy reducing the minimum hedging ratios to zero percent until the treasury policy is reviewed during 2021.

Hedged items in hedge relationships

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		Line item in the statement of financial position in which the hedged item is included	Changes in fair value of the hedged item used for calculating hedge ineffectiveness, previous 12 months	Changes in fair value of the hedged item used for calculating hedge ineffectiveness, previous 12 months
31 December 2020	Assets	Liabilities	Assets	Liabilities			
Cash flow hedges							
Jet fuel price risk							
- Forecasted jet fuel purchases						612.7	-29.3
Foreign exchange risk							
- Forecasted sales and purchases						304.4	-21.0
- Lease payments						-33.2	-1.7
Fair value hedges							
Foreign exchange risk							
- Aircraft acquisitions	13.8		13.8		Non-current assets	32.4	-32.4

Ratings of derivative counterparties

EUR mill.	2020	2019
Better than A	-18.9	
A	-54.1	23.2
BBB	-14.2	-6.5
Total	-87.2	16.8

Derivatives realised through profit and loss

EUR mill.		2020	2019
Jet fuel hedging	Fuel costs	-73.5	-5.5
Hedging of lease payments	Financial expenses	1.7	8.1
Operational cash flow hedging	Fuel costs	12.1	25.0
Operational cash flow hedging	Aircraft materials and overhaul	2.1	3.4
Operational cash flow hedging	Traffic charges	4.0	3.9
Operational cash flow hedging	Revenue	-1.8	-10.8
Expenses of hedge accounting items total		**-55.4**	**24.1**
Jet fuel hedging	Fuel costs		1.0
Discontinued Jet fuel hedging	Financial expenses	-111.8	
Balance sheet hedging	Financial expenses	-40.3	37.2
Discontinued foreign currency hedging	Financial expenses	-5.4	
Cross-currency interest rate swaps	Financial expenses	1.9	5.1
Expenses of items outside hedge accounting total		**-155.6**	**43.2**

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
▶ 3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

3.9 Equity-related information

A1 Shareholders' equity

The nominal value of shares had been recognised in the share capital before an amendment to the Articles of Association registered on 22 March 2007. Share issue profit and gains on sale of own shares had been recognised in other restricted funds before the change in the Limited Liability Company Act in 2006.

The subscription proceeds from the 2007 share issue and 2020 rights issue less transaction costs after taxes as well as share-based payments according to IFRS 2 have been recognised in the unrestricted equity funds.

Hedging reserve and other OCI items include changes in the fair value of derivative instruments used in cash-flow hedging, in addition to actuarial gains and losses related to defined benefit pension plans, cost of hedging and translation differences.

The accuisition cost of repurchased owned shares less transaction costs after taxes is charged to equity until the shares are cancelled or reissued. The consideration received for sale or issue of own shares is included in equity.

The dividend proposed by the Board of Directors is not deducted from distributable equity until decided at the Annual General Meeting.

The hybrid bond is recognised in equity. It is unsecured and subordinated to all senior debt. The hybrid bond does not confer shareholders' rights, nor does it dilute the holdings of shareholders. Finnair is not required to redeem the hybrid bond at any time and they are not redeemable on demand of the holders of the hybrid bond. Interest expenses are debited from retained earnings on cash basis net of tax. In the calculation of earnings per share, interest and transaction expenses of the hybrid bond are included in the earnings for the financial year. A1

The COVID-19 pandemic and measures undertaken by local and national authorities to prevent the further escalation of the pandemic represent a unique challenge for Finnair. The negative shock caused by the pandemic to the global economy has resulted in a significant deterioration of macroeconomic conditions in the markets in which Finnair operates, with a sudden and material reduction in the demand for the company's services, reinforced by travel restrictions imposed by public authorities around the world.

Finnair is determined to continue or its long-term strategic path despite temporary adjustments related to the COVID-19 pandemic, and aims to ensure that the company remains a competitive airline company also in the future. The company's management believes that air traffic will, upon expiration of the COVID-19 pandemic related travel restrictions, still be a growth business, in which Finnair targets sustainable, profitable growth, supported by a strategy based on a geographical competitive advantage and strong ownership structure.

To achieve the goals of the company despite the exceptional circumstances, Finnair considered that it is prudent to seek to strengthen its balance sheet in these conditions and to lay a foundation for the successful execution of its long-term strategy, ensuring that the company is viable in a post-crisis environment. The rights issue was undertaken as part of Finnair's recapitalization plan, which has been carried out during 2020 and will continue in 2021.

Finnair decided to raise equity because of the challenging situation caused by the COVID-19 pandemic and this transaction was part of Finnair's refinancing plan in response to the COVID-19 pandemic. In Finnair's rights offering, a total of 1,416,635,293 new shares were subscribed for in the Offering, corresponding to approximately 110.7 per cent of the offer shares, and the Offering was oversubscribed. A total of 1,253,946,070 offer shares were subscribed for pursuant to the exercise of subscription rights. The remaining 25,319,080 offer shares subscribed for without subscription rights were allocated in the secondary subscription in accordance with the terms and conditions of the offering. The subscription price was EUR 0.40 per offer share. Finnair received gross proceeds of approximately EUR 512 million euro from the rights issue.

The European Commission has concluded that the State of Finland's guarantee of Finnair's pension premium loan up to EUR 540 million euro, which was approved by the European Commission on 18 May 2020, and the State of Finland's participation in the rights offering are so closely linked that they must be regarded as an overall transaction that constitutes State aid within the meaning of Article 107(1) of the Treaty on the Functioning of the European Union. More detailed information about state aid and remedies included can be found in section 3.3 Financial liabilities.

Number of shares	2020	2019
Number of outstanding shares in the beginning of the financial year	127,583,802	127,487,107
Rights issue	1,279,265,150	
Purchase of own shares		-148,000
Shares granted from the share-bonus scheme 2017-2019	269,774	
Shares granted from the share-bonus scheme 2016-2018		149,894
Shares granted from FlyShare employee share savings plans	111,879	111,452
Paper shares forfeited from the joint account to Finnair's book-entry account		-16,651
Number of outstanding shares at the end of the financial year	**1,407,230,605**	**127,583,802**
Own shares held by the parent company	170,660	552,213
Total number of shares at the end of the financial year	**1,407,401,265**	**128,136,115**

Finnair Plc's share capital, paid in its entirety and registered in the trade register, was at 75,442,904.30 euros at the end of 2019 and 2020. The shares have no nominal value. During the year 2020, Finnair transferred a total of 111,879 shares to FlyShare participants and a total of 269,774 shares to participants in Finnair's share-based incentive scheme 2017-2019.

Group's hedging reserve and other OCI items

EUR mill.	2020	Amounts reclassified to profit or loss	Unrealised gains and losses recognised in OCI	Discontinued hedges reclassified to financial expenses	2019	Line item affected in profit or loss because of the reclassification
Jet fuel price hedging	-14.2	73.5	-214.8	142.3	-15.1	Fuel costs
Hedging of lease payments		-1.7			1.7	Lease payments for aircraft
Operating cash flow hedging	-10.2	-16.3	-7.1	-6.5	19.6	Revenue and cost lines*
Hedging of interest related to future lease payments	-5.0	0.7			-5.7	Lease payments for aircraft
The actuarial gains and losses of defined benefit plan	-22.5		-13.1		-9.4	
Translation differences		-0.7			0.7	
Cost of hedging reserve	-0.4		0.1		-0.4	
Tax effect	10.5		8.6		1.9	
Total	**-41.8**	**55.4**	**-226.3**	**135.8**	**-6.7**	

*Forward and option contracts hedging forecasted sales and purchases denominated in foreign currencies are hedges of a group of similar hedged items, and the amounts reclassified from OCI to P&L are proportionally allocated to different cost lines based on the realised cost amounts. Amounts reclassified to revenue and different cost lines are specified in the table "Derivatives realised through profit or loss" in section 3.8.

A1 = Accounting principles

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. ▶ CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

Maturity dates of fair values recognised in the hedging reserve

EUR mill.	2021	2022	2023	2024	2025	Later	Total
Jet fuel price hedging	-14.0	-0.2					-14.2
Operating cash flow hedging	-8.2	-2.1					-10.2
Hedging of interest related to future lease payments	-0.7	-0.7	-0.7	-0.7	-0.7	-1.6	-5.0
The actuarial gains and losses of defined benefit plan	-22.5						-22.5
Cost of hedging reserve	-0.4						-0.4
Tax effect	9.1	0.6	0.1	0.1	0.1	0.3	10.5
Total	**-36.6**	**-2.4**	**-0.5**	**-0.5**	**-0.5**	**-1.2**	**-41.8**

Hybrid bond

The COVID-19 pandemic and measures undertaken by local and national authorities to prevent the further escalation of the pandemic represent a unique challenge for Finnair. The negative shock caused by the pandemic to the global economy has resulted in a significant deterioration of macroeconomic conditions in the markets in which Finnair operates, with a sudden and material reduction in the demand for the company's services, reinforced by travel restrictions imposed by public authorities around the world. Finnair considered that it is prudent to seek to strengthen its balance sheet in these conditions and to lay a foundation for the successful execution of its long-term strategy, ensuring that the company is viable in a post-crisis environment and decided to refinance its outstanding 200 million euro hybrid bond.

Shareholders' equity (after equity belonging to the owners) includes a 200 million euro hybrid bond that was issued during the third quarter of 2020. The hybrid bond coupon is fixed at 10.25 per cent per year for the first three years, and thereafter fixed, at 15.25 per cent per year. Finnair can postpone the interest payment if it does not distribute dividends or any other equity to its shareholders. The bond has no maturity date, but the company has the right to redeem it in three years and on every interest payment date thereafter. The overall hybrid bond net position recognised in equity is 197.5 million euro, due to issuing expenses. The hybrid bonds are unsecured and in a weaker preference position than promissory notes. A holder of hybrid bond notes has no shareholder rights. At the same time when the new hybrid bond was issued Finnair tendered the old hybrid bond issued in 2015. The aggregate principal amount of the old hybrid bond validly tendered by the holders for purchase pursuant to the tender offer was 157.8 million euro in conjunction of the new issue and the remaining 42.2 million euro was tendered according to the terms and conditions in fourth quarter of the 2020.

Earnings per share

The basic earnings per share figure is calculated by dividing the result for the financial year attributable to the parent company's shareholders by the weighted average number of shares outstanding during the financial year. The result for the financial year is adjusted for the after-tax amounts of hybrid bond interests regardless of payment date, transaction costs of the new hybrid bond issued and premium paid, when a hybrid bond is redeemed. When calculating the earnings per share adjusted by dilution, the weighted average of the number of shares takes into account the diluting effect resulting from changeing into shares all potentionally diluting shares. Finnair has not granted any options.

The exercise price in the rights offering in 2020 was less than the fair value of the shares immediately before the exercise of rights. A bonus element included in the rights issue effected on the number of outstanding shares before the rights issue in the calculation of basic and diluted earnings per share. The fair value per share was EUR 3.90 and theoretical ex-rights fair value per share was EUR 0.72. The fair value per share divided by theoretical ex-rights fair value per share results in bonus element multiplier 5.43.

EUR mill.	2020	2019
Result for the financial year, EUR mill.	-523.2	74.5
Hybrid bond interest, EUR mill.	-17.9	-15.8
Transaction costs paid related to redemption of the hybrid bond issued in 2015	-1.4	
Transaction costs of the hybrid bond issued in 2020	-2.5	
Tax effect	4.4	3.2
Adjusted result for the financial year	**-540.7**	**61.9**
Weighted average number of shares, mill. pcs	1,052.0	692.6
Basic earnings per share, EUR	-0.51	0.09
Diluted earnings per share, EUR	-0.51	0.09

Dividend

The Board of Directors proposes to the Annual General Meeting that no dividend is paid for 2020. In accordance with the proposal of the Board of Directors, the Annual General Meeting on 29 May 2020 resolved that no dividend be paid based on the balance sheet adopted for the year 2019.A dividend for 2018 of 0.274 euro per share, amounting to a total of EUR 35.0 million, was decided in the Annual General Meeting on 20 March 2019. The dividend was paid on 1 April 2019.

Finnair Plc's distributable equity

EUR mill.	2020
Hedging reserve	-19.8
Unrestricted equity	772.0
Retained earnings at the end of financial year	175.5
Result for the financial year	-566.0
Distributable equity total	**361.7**

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

4 Consolidation

Notes under the Consolidation section include a description of the general consolidation principles and methods of consolidation. The aim of the section is to provide an overall picture of the group's structure and principles applied in preparing consolidated financial statements and classifying ownership interests. In addition, notes include information about subsidiaries, associated companies and joint ventures held, acquired or sold by the group.

4.1 General consolidation principles

Consolidation

Consolidation, the consolidation method and classification of ownership interests depends on whether Group has power to control or jointly control the entity or have significant influence or other interests in the entity. When Group has the power to control the entity, it is consolidated as a subsidiary in the group according to principles described in the note 4.2 Subsidiaries. When Group has joint control or significant influence over an entity but does not have power to control, entity is accounted for by using equity method according to principles set in note 4.4 Investments in associates and such joint ventures. If Group does not have power to control nor significant influence in the entity, its ownership interests are classified as financial assets available for sale and accounted for according to principles described in the note 3.2 Financial assets.

Translation of foreign currency items

Items included in each subsidiary's financial statements are measured in the currency that is the main currency of the operating environment of each subsidiary ("functional currency"). The consolidated financial statements have been presented in euro, which is the parent company's functional and presentation currency. Transactions denominated in foreign currencies in group companies are translated into functional currency by using the exchange rate at the date of the transaction. Receivables and liabilities that are denominated in foreign currencies and are outstanding on the closing date are translated using the exchange rate of the closing date. Exchange rate differences are recognised in the income statement.

Foreign subsidiaries whose functional currency is not euro are translated into euro by using average rate for the financial year. Balance sheets are translated by using the closing rate for the financial period. Translation differences arising from the elimination of acquisition costs of foreign subsidiaries are recognised in other comprehensive income. When foreign subsidiary is sold, the differences are recognised as part of the sales gain or loss.

4.2 Subsidiaries

Consolidation principles of subsidiaries

Finnair Plc's consolidated financial statements include the parent company Finnair Plc and all of its subsidiaries. Subsidiaries are defined as companies in which Finnair has control. Control exists when Finnair has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Usually Finnair has power over the entity when it owns more than 50% of the votes or where Finnair otherwise has the power to govern the financial and operating policies. The acquired subsidiaries are included in the consolidated financial statements from the day the Group has control, and disposed subsidiaries until the control ceases.

Acquired and established companies are accounted for using the acquisition method of accounting. Accordingly, the acquired company's identifiable assets, liabilities and contingent liabilities are measured at fair value on the date of acquisition. The excess between purchase price and fair value of the Group's share of the identifiable net assets is recognised as goodwill.

All inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless there is evidence of impairment related to the transferred asset. The accounting principles of subsidiaries have been changed to correspond Group's accounting policies.

Non-controlling interest and transactions with non-controlling interest

Non-controlling interests are presented within the equity in the Consolidated Balance Sheet, separated from equity attributable to owners of the parent. For each acquisition the non-controlling interest can be recognised either at fair value or at the non-controlling interest's proportionate share of the acquirer's net assets. The carrying amount of non-controlling interests is the amount of the interests at initial recognition added with the non-controlling interests' share of subsequent changes in equity.

Subsidiaries

Name of the company	Group ownership %	Name of the company	Group ownership %
Finnair Cargo Oy, Finland	100.0	Balticport Oü, Estonia	100.0
Finnair Aircraft Finance Oy, Finland	100.0	Amadeus Finland Oy, Finland	95.0
Finnair Technical Services Oy, Finland	100.0	Oy Aurinkomatkat - Suntours Ltd Ab, Suomi	100.0
Finnair Engine Services Oy, Finland	100.0	Aurinko Oü, Estonia	100.0
Finnair Kitchen Oy, Finland	100.0	Matkayhtymä Oy, Finland	100.0
Kiinteistö Oy Lentokonehuolto, Finland	100.0	FTS Financial Services Oy, Finland	100.0
Northport Oy, Finland	100.0	Finnair Business Services Oü, Estonia	100.0

Finnair Kitchen Oy was merged into Finnair Travel Retail Oy on 31 December 2020. At the same time the company name of Finnair Travel Retail Oy was changed to Finnair Kitchen Oy.

OOO Aurinko was liquidated on 23 November 2020.

4.3 Acquisitions and disposals

There were no business acquisitions or disposals during 2020 and 2019.

= Content of the section
= Accounting principles

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

4.4 Investments in associates and joint ventures

A Associates are companies in which the Group generally holds 20-50 per cent of the voting rights or in which the Group has significant influence but in which it does not exercise control. Companies where the Group has joint control with another entity are considered as joint ventures. The Group's interests in associated companies and jointly controlled entities are accounted for using the equity method. The investment in associates and joint ventures include goodwill recognized at the time of acquisition. The Group recognises its share of the post-acquisition results in associates and joint ventures in the income statement. When the Group's share of losses in an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the Group does not recognise further losses, unless it has incurred obligations on behalf of the associate or joint venture.

Results from the transactions between the Group and its associates are recognised only to the extent of unrelated investor's interests in the associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associates is impaired. In case of such indications, Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value. The impairment is recognised in share of results in associates and joint ventures.

Accounting policies of associates or joint ventures have been changed where necessary to correspond with the accounting policies adopted by the Group. If financial statements for the period are not available, the share of the profit of certain associated or joint venture companies is included in the consolidated accounts based on the preliminary financial statements or latest available information. A

The Group's share of the result, asset items and liabilities of associates and joint ventures is presented below.

EUR mill.	2020	2019
At the beginning of the financial year	2.5	3.3
Disposals		0.9
At the end of the financial year	2.5	2.5

There were no changes in 2020. During 2019, the balance sheet value of Nordic Regional Airlines was revalued, resulting in a decrease in the share of assets and liabilities of joint operations. More information on transactions with associated companies and joint ventures can be found in the note 4.5 Related party transactions.

Information on the Group's associates and joint ventures 31 Dec 2020

EUR mill.	Domicile	Assets	Liabilities	Revenue	Profit/ Loss	Holding %
Nordic Regional Airlines AB	Sweden	103.2	104.7	86.6	-2.0	40.00
Suomen Ilmailuopisto Oy*	Finland	19.9	1.4	9.3	0.3	49.50

* The presented figures for 2020 are preliminary and unaudited.

Information on the Group's associates and joint ventures 31 Dec 2019

EUR mill.	Domicile	Assets	Liabilities	Revenue	Profit/ Loss	Holding %
Nordic Regional Airlines AB	Sweden	169.5	169.0	106.8	-3.4	40.00
Suomen Ilmailuopisto Oy*	Finland	19.4	1.2	10.5	0.1	49.50

* The presented figures have been adjusted according to the final and audited financial statements of 2019.

The associated company owned by Finnair, Suomen Ilmailuopisto Oy, is an unlisted company and is not considered material compared to Finnair's operations. The result of associated companies and joint ventures for 2020 was -1.7 (-3.3) million euros, of which Finnair's share was 0.0 (-0.9) million euros.

Suomen Ilmailuopisto Oy

Suomen Ilmailuopisto Oy (the Finnish Aviation Academy) is a vocational special purpose aviation school owned by Finnair Oyj (49.5%), Finnish Government (49.5%) and the City of Pori (1%). Finnair is not entitled to company's results nor net assets, but net results are invested in the development of the school's curriculum.

Nordic Regional Airlines AB

Nordic Regional Airlines AB (Norra) operates mainly purchased traffic for Finnair. The owners (Finnair 40% and Danish Air Transport 60%) have joint control over the entity. In the balance sheet of Finnair, Norra has been classified as a joint venture.

4.5 Related party transactions

Related parties of the Finnair group includes its subsidiaries, management, associated companies and joint ventures and Finnair pension fund. Subsidiaries are listed in the note 4.2 and associates and joint ventures in note 4.4. Related party transactions include such operations that are not eliminated in the group's consolidated financial statement.

The State of Finland which has control over Finnair owns 55.9% (55.8%) of Finnair's shares. During financial year 2020 the State of Finland participated in the rights issue in proportion to its holding by 286.1 million euro and guaranteed Finnair's pension premium loan up to 540 million euro. The European Commission concluded that these transactions, in combination, constituted state aid within the meaning of Article 107(1) of the Treaty on the Functioning of the European Union. The conditions relating to the state aid approval are described in the note 3.3. All the transactions with other government owned companies and other related parties are on arm's length basis, and are on similar terms than transactions carried out with independent parties.

A = Accounting principles

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
▶ 4. CONSOLIDATION
▶ 5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

The following transactions have taken place with associated companies, joint ventures and Finnair pension fund:

EUR mill.	2020	2019
Sales of goods and services		
Associates and joint ventures	28.4	27.0
Pension fund	0.4	0.7
Employee benefits		
Pension fund	-121.5	10.3
Purchases of goods and services		
Associates and joint ventures	88.2	107.8
Pension fund	1.9	2.5
Financial income and expenses		
Associates and joint ventures	2.8	5.7
Pension fund	-0.6	-0.3
Receivables		
Non-current receivables from associates and joint ventures	19.6	33.7
Non-current receivables from pension fund	31.0	
Current receivables from associates and joint ventures	15.9	23.4
Liabilities		
Non-current liabilities to associates and joint ventures	3.6	3.6
Non-current liabilities to pension fund		77.0
Current liabilities to associates and joint ventures	2.1	1.0

Employee benefits, non-current receivables from pension fund and non-current liabilities to pension fund are related to defined benefit pension plans in Finnair pension fund. These are described more detailed in the note 1.3.8.2. Management remuneration is presented in note 1.3.8. Management has not been granted any loans and there have not been any other transactions with management.

More information on associated companies and joint ventures can be found in the note 4.4.

Finnair pension fund

The Finnair pension fund in Finland is a stand-alone legal entity which mainly provides additional pension coverage to Finnair's personnel in the form of defined benefit plan, and manages related pension assets. The assets include Finnair's shares representing 0.1% (0.1%) of the company's outstanding shares. Real estate and premises owned by the pension fund have been mainly leased to Finnair. In 2020 and 2019 Finnair did not pay any contributions to the fund. The pension obligation of 77.0 million euros at the end of 2019 was changed to the pension assets of 31.0 million euros at the end of 2020, as the terms of Finnair pension fund were amended relating to pension index increment removals. More information on pensions can be found in the note 1.3.8.2.

5 Other notes

I Other notes include all such notes that do not specifically relate to any previous subject matters. I

5.1 Income taxes

A The tax expense for the period includes current and deferred tax and adjustments to previous years' taxation. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or other equity items. Deferred taxes are calculated for temporary differences between accounting and taxation using the valid tax rates for future years at the closing date.

Deferred taxes are calculated for temporary differences between accounting and taxation using the valid tax rates for future years at the closing date. Deferred tax asset is recognised to the extent that realisation of the related tax benefit through future profits is probable. Temporary differences arise mainly from sales of tangible assets and depreciation, right-of-use assets, lease liabilities and tax losses. Deferred tax is recognised for foreign subsidiaries' undistributed earnings only when related tax effects are probable.

Deferred tax assets and liabilities are netted when they are levied by the same taxing authority and Finnair has a legally enforceable right to set off the balances. A

E **Deferred taxes**

Recognition of deferred tax asset is based on management estimates and require the use of management judgement in order to assess whether there will be sufficient taxable profits flowing to the company in the future. The expectations used in the calculation are based on the latest management forecasts at the reporting date and use assumptions that are consistent with those used elsewhere in the financial statements. Due to the current uncertainty embedded in the economic environment and the difficulty in forecasting the ultimate duration and impact of the COVID-19 pandemic, the management has considered alternative forecast scenarios that have been sensitised to reflect plausible variations relating to the expected recovery begin of the Finnair business. The scenarios have been discussed in more detail early in the beginning of the notes section under Board's assessment of Finnair as a going concern. Finnair expects to be able to use the tax losses well in advance of 10 years expiry date under all of the forecast scenarios. E

Income taxes

EUR mill.	2020	2019
Taxes for the financial year		
Current tax		-4.8
Adjustments recognised for current tax of prior periods	-3.4	0.1
Deferred taxes	134.5	-13.8
Total	**131.1**	**-18.4**

In 2020, Finnair Aircraft Finance Oy recognized an adjustment for prior year deferred taxes, which caused additional payable taxes of 3.4 million euro relating to the financial year 2019.

I = Content of the section
A = Accounting principles
E = Critical accounting estimates

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

The reconciliation of income taxes to theoretical tax cost calculated at Finnish tax rate

EUR mill.	2020	2019
Result before taxes	-654.4	93.0
Taxes calculated using the Finnish tax rate 20%	130.9	-18.6
Different tax rates of foreign subsidiaries	0.1	-0.1
Tax-exempt income	0.3	0.6
Non-deductible expenses	-0.2	-0.4
Adjustments recognised for taxes of prior periods	0.1	0.1
Income taxes total	**131.1**	**-18.4**
Effective tax rate	-20.0%	19.8%

Deferred tax assets and liabilities

The Group has evaluated the nature and classification of deferred tax assets. Based on the evaluation, deferred tax assets and liabilities levied by the same taxing authority met the requirements for offset eligibility in accordance with IAS 12 standard. The deferred tax assets and liabilities are shown net on the balance sheet.

Changes in deferred taxes during 2020:

EUR mill.	2019	Recognised in the income statement	Recognised in shareholders' equity	2020
Deferred tax assets and liabilitities				
Confirmed losses	0.0	135.6	5.9	141.5
Defined benefit pension plans	15.3	-24.1	2.6	-6.2
Property, plant and equipment	-116.4	32.5		-83.9
Leases	30.7	-13.6		17.1
Valuation of derivatives at fair value	0.0		6.0	6.0
Other temporary differences	6.1	4.2		10.3
Total	**-64.3**	**134.5**	**14.5**	**84.8**

Finnair's taxable result was highly negative in year 2020 as a result of the impact of the COVID-19 pandemic on its operations and financial performance and the Group has recognized a deferred tax asset of 84.8 million euro. The estimated amount of confirmed tax losses after the 2020 taxable result totals to approximately 707 million euros. The tax losses to be confirmed for the year 2020 will expire in 10 years and Finnair expects that these can be used against its future taxable results. The assessment is based on Finnair's latest management forecasts that consider different plausible scenarios relating to the start of the recovery. Finnair would be able to use the tax losses well in advance of 10 years expiry date under all of the forecast scenarios. This is based on both the expected future profits and allowed tax planning methods available to Finnair. In 2019, Finnair recognized a deferred tax liability balance of 64.3 million euro.

Distributing retained earnings of foreign subsidiaries as dividends would cause a tax effect of 0.2 million euros (0.2).

Changes in deferred taxes during 2019:

EUR mill.	2018	Recognised in the income statement	Recognised in shareholders' equity	2019
Deferred tax assets and liabilitities				
Confirmed losses	0.1	-3.2	3.2	0.0
Defined benefit pension plans	3.3	2.0	10.0	15.3
Property, plant and equipment	-100.1	-16.3		-116.4
Leases	21.8	8.9		30.7
Valuation of derivatives at fair value	15.1		-15.2	0.0
Other temporary differences	12.1	-5.0	-0.9	6.1
Total	**-47.6**	**-13.8**	**-2.9**	**-64.3**

5.2 Disputes and litigation

Finnair reports only cases of which the interest is material and that are not insured. As of 31 December 2020 there were no such disputes pending.

5.3 Events after the closing date

On 26 January 2021, Finnair has announced that the Board of Directors of Finnair approved a new individual performance share plan covering the years 2021-2023. Within the plan, the participants have the opportunity to earn Finnair shares as a long-term incentive reward if the performance targets set by the Board of Directors are achieved. The potential share rewards will be delivered to the participants in the spring of 2024. The plan applies to some 70 persons, and it is also described in a stock exchange release, in the Remuneration Statement 2020 and on the company's website.

On 17 February 2021, Finnair announced that it has completed a lease financing arrangement for its next A350 aircraft delivery where it will assign the purchase of the Airbus A350 aircraft to a third party, and then leases it back for its own operation. The aircraft is expected to be delivered to Finnair in the second quarter of 2022. The operating lease period is a minimum of 12 years, including a storage period expected to commence in the fourth quarter of 2021, concurrent with the aircraft's sale. The total positive cash effect of the arrangement for Finnair in 2021-2022 is in excess of 100 million US dollars compared to a situation in which the aircraft had been purchased and owned by Finnair.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. ▶ PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

6 Parent company financial statements

Finnair Plc income statement

EUR mill.	Note	2020	2019
Revenue	6.2	791.9	2,935.8
Other operating income	6.3	84.1	84.5
Operating income		876.0	3,020.4
Materials and services	6.4	574.3	1,431.9
Staff expenses	6.5	183.7	350.7
Depreciation and reduction in value	6.6	18.4	15.1
Other operating expenses	6.7	812.2	1,217.7
Operating expenses		1,588.6	3,015.4
Operating profit/loss		-712.6	4.9
Financial income and expenses	6.8	-189.8	-11.1
Profit/loss before appropriations and taxes		-902.4	-6.1
Appropriations	6.9	194.6	33.1
Income taxes	6.10	141.8	-4.8
Profit/loss for the financial year		-566.0	22.1

Finnair Plc balance sheet

EUR mill.	Note	2020	2019
ASSETS			
Non-current assets			
Intangible assets	6.11	35.3	40.9
Tangible assets	6.12	93.5	82.5
Investments			
Holdings in group undertakings		640.6	440.6
Participating interests		2.5	2.5
Other shares and similar rights of owr ership		0.4	0.4
Loan and other receivables	6.14	218.2	1.5
Total investments	6.13	861.6	444.9
Total non-current assets		990.5	568.3
Current assets			
Deferred tax assets	6.15	147.4	0.0
Current receivables	6.16	303.5	887.6
Marketable securities	6.17	358.3	800.8
Cash and bank equivalents	6.18	464.2	149.7
Total current assets		1,273.4	1,838.1
TOTAL ASSETS		2,263.9	2,406.3
EQUITY AND LIABILITIES			
Equity			
Share capital		75.4	75.4
Share premium account		24.7	24.7
Other reserves			
Unrestricted equity funds		772.0	258.7
Legal reserve		147.7	147.7
Hedging reserve		-19.8	3.3
Retained earnings		175.5	153.4
Profit/loss for the financial year		-566.0	22.1
Total equity	6.19	609.5	685.3
Accumulated appropriations	6.20	21.0	26.0
Provisions	6.21	155.9	157.0
Liabilities			
Non-current liabilities	6.22	1,002.1	401.8
Current liabilities	6.23	475.3	1,136.2
Total liabilities		1,477.4	1,538.0
EQUITY AND LIABILITIES TOTAL		2,263.9	2,406.3

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. ▶ PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

Finnair Plc cash flow statement

EUR mill.	2020	2019
Cash flow from operating activities		
Result before appropriations	-902.4	-6.1
Depreciation	18.4	15.1
Other non-cash transactions	-5.6	35.4
Financial income and expenses	189.8	12.2
Changes in working capital	-512.0	62.9
Interest and other financial expenses paid	-199.9	-20.9
Received interest and other financial income	39.1	11.2
Income taxes paid	-3.0	-10.6
Cash flow from operating activities	-1,375.6	99.1
Cash flow from investing activities		
Investments in intangible and tangible assets	-23.9	-22.1
Change in loan and other receivables	180.6	-249.5
Received dividends	0.0	0.0
Cash flow from investing activities	156.7	-271.7
Cash flow from financing activities		
Purchase of own shares		-0.5
Proceeds from loans	775.0	
Loan repayments and changes	-229.8	39.5
Proceed from share issues	511.7	
Proceeds from hybrid bond	200.0	
Hybrid bond repayments	-200.0	
Dividends paid		-35.0
Received and given group contributions	34.1	48.3
Cash flow from financing activities	1,091.0	52.4
Change in cash flows	-127.9	-120.2
Change in liquid funds		
Liquid funds, at beginning	950.4	1,070.6
Change in cash flows	-127.9	-120.2
Liquid funds, at end	822.5	950.4

Notes to Finnair Plc financial statements

6.1 Accounting principles

General

Finnair Plc is the parent company in Finnair Group, domiciled in Helsinki, Finland. Financial statements are prepared in accordance with accounting principles required by Finnish law.

Foreign currency items

Business transactions in foreign currencies have been valued using the exchange rate at the date of transaction. Receivables and liabilities on the balance sheet date are valued using the exchange rate on the balance sheet date. Advances paid and received are valued in the balance sheet using the exchange rate at the date of payment. Exchange rate differences on trade receivables and payables are treated as the adjustments to turnover and other operating expenses. Exchange rate differences on other receivables and liabilities are entered under financial income and expenses.

Derivative contracts

According to its risk management policy, Finnair uses foreign exchange, interest rate and commodity derivatives to reduce the exchange rate, interest rate and commodity risks which arise from the Finnair's balance sheet items, currency denominated purchase agreements, anticipated currency denominated purchases and sales as well as future jet fuel purchases. The balance sheet exposure is hedged only at group level, except for Finnair Aircraft Finance that has hedged its own exposures. The combined entity-level exposure for all Group companies differs from the Group-level exposure by the amount of intercompany items. Therefore, the balance sheet position and contracts hedging it are presented only in note 3.5. of the Group financial statements. Similarly, the foreign currency cash flow exposure is only hedged at the Group level to take advantage of the netting effect, and is presented in note 3.5 of the Group financial statements. Derivative contracts are valued using the rates on the balance sheet date according to Accounting Act 5:2 a §.

The derivatives are initially recognized at original acquisition cost (fair value) in the balance sheet and subsequently valued at fair value in each financial statement and interim report. The fair values of the derivatives are based on the value at which the instrument could be exchanged between knowledgeable, willing and independent parties, with no compulsion to sell or buy in the sales situation. The fair values of derivatives are determined as follows:

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

Gains and losses arising from changes in the fair value are presented in the financial statements according to the original classification of the derivative. Gains and losses on derivatives qualifying for hedge accounting are recognized in accordance with the underlying asset being hedged. At inception, derivative contracts are designated as future cash flows hedges, hedges of binding purchase contracts (cash flow hedges or fair value hedges) or as derivatives not meeting the hedge accounting criteria or to which hedge accounting is not applied (economic hedges). Hedging of the fair value of net investments of foreign units or embedded derivatives have not been used.

At the inception of hedge accounting, Finnair documents the economic relationship and the hedge ratio between the hedged item and the hedging instrument, as well as the company's risk management objectives and the strategy for the inception of hedging. At the inception of hedging, and at least at the time of each financial statement, Finnair documents and assesses the effectiveness of hedge relationships by examining the past and prospective capacity of

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

the hedging instrument to offset changes in the fair value of the hedged item or changes in cash flows. The values of derivatives in a hedging relationship are presented in the balance sheet items current assets and current liabilities.

Finnair implements the IFRS hedge accounting principles in the hedging of future cash flows (cash flow hedging). The principles are applied to the foreign currency risk of foreign currency denominated purchases and sales, the price risk of jet fuel purchases and the price risk of electricity.

The change in the fair value of the effective portion of derivative instruments that fulfil the terms of cash flow hedging are directly recognised in the fair value reserve of other comprehensive income, to the extent that the requirements for the application of hedge accounting have been fulfilled. The gains and losses, recognised in fair value reserve, are transferred to the income statement in the period in which the hedged item is recognised in the income statement. When an instrument acquired for the hedging of cash flow matures or is sold, or when the criteria for hedge accounting are no longer fulfilled, the gain or loss accrued from hedging instruments remains in equity until the forecast transaction takes place. However, if the forecasted hedged transaction is no longer expected to occur, the gain or loss accrued in equity is immediately recognised in the income statement.

Financial assets and liabilities

Financial assets have been classified into the following categories: amortised cost and fair value through profit and loss. The classification is made at the time of the original acquisition based on the objective of the business model and the contractual cash flows of the investment. All purchases and sales of financial assets are recognised on the trade date. Liabilities are recognised at acquisition cost. Financial assets at fair value through profit and loss as well as assets and liabilities maturing within 12 months are included in current assets and liabilities. Investments in debt securities are measured at amortised cost, but only when the objective of the business model is to hold the asset to collect the contractual cash flows and the asset's contractual cash flows represent only payments of principal and interest. Financial assets recognised at amortised cost are valued using the effective interest method. Financial assets valued at amortised cost include trade receivables, deferred charges and security deposits for aircraft operating lease agreements. Due to the nature of short-term receivables and other receivables, their book value is expected to be equal to the fair value. Derecognition of financial assets takes place when Finnair has lost its contractual right to receive cash flows or when it has substantially transferred the risks and rewards outside the company.

Finnair recognises impairment provisions based on lifetime expected credit losses from trade receivables in accordance with IFRS 9. Finnair has chosen to apply a simplified credit loss matrix for trade receivables as trade receivables do not have a significant financing component. The expected credit loss model is forward-looking, and expected default rates are based on historical realised credit losses. The lifetime expected credit loss allowance is calculated using the gross carrying amount of outstanding trade receivables in each aging bucket and an expected default rate. The changes in expected credit losses are recognised in other expenses in the consolidated income statement. The impairment model does not apply to financial investments, such as bonds and money market funds, included in other financial assets as those are measured at fair value through profit and loss under IFRS 9, which already takes into account expected credit losses. With respect to the assets measured at amortised cost, Finnair is actively following such instruments and will recognise impairment through profit and loss if there is evidence of deterioration in credit quality.

Fixed assets and depreciation

- Buildings, 10–50 years from the time of acquisition to a residual value of 10 %.
- Other tangible assets, over 3–15 years

Research and development costs

Except for major software development costs, research and development costs are expensed as they occur. Research and development of aircraft, systems and operations is conducted primarily by the manufacturers.

Leasing

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

Appropriations

The difference between total and planned depreciation is shown as accumulated appropriations in the balance sheet and the change during the financial year in the income statement. Appropriations contain also given and received group contributions.

Income taxes

Income taxes in the income statement include taxes calculated for the financial year based on Finnish tax provisions, adjustments to taxes in previous financial years and the change in deferred taxes.

Pension schemes

The mandatory pension cover of the company's domestic employees has primarily been arranged through a Finnish pension insurance company and other additional pension cover through the Finnair pension fund or a Finnish pension insurance company. Since 1992, the pension fund has no longer accepted employees other than pilots for additional pension coverage. The Finnair pension fund's pension obligation is fully covered with respect to additional coverage. Pension fund liabilities are presented in the notes to the financial statements.

Provisions

Provisions in the balance sheet and entered as expenses in the income statement comprise those items which the company is committed to covering through agreements or otherwise in the foreseeable future and which have no corresponding revenue and whose monetary value can be reasonably assessed.

The company is obliged to return leased aircraft at the required redelivery condition. To fulfil these maintenance obligations the company has recognised provisions based on flight hours flown during the maintenance period.

6.2 Revenue by business area

EUR mill.	2020	2019
Revenue by division		
	791.9	2,935.8
Passenger revenue	561.4	2,587.8
Ancillary services	52.8	131.0
Cargo revenue	178.6	217.0
Distribution of turnover by market areas based on flight routes, % of turnover		
Finland	9%	6%
Europe	36%	38%
Other countries	55%	55%
Total	**100%**	**100%**

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. ▶ PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

6.3 Other operating income

EUR mill.	2020	2019
Aircraft lease income	28.0	28.1
Other rental income	23.5	26.1
Other income	32.6	30.4
Total	**84.1**	**84.5**

6.4 Materials and services

EUR mill.	2020	2019
Materials and supplies		
Ground handling and catering expenses	116.6	323.6
Fuel costs	232.7	687.3
Aircraft materials and overhaul	165.6	288.3
IT expenses	11.5	19.7
Other items	48.0	113.1
Total	**574.3**	**1,431.9**

6.5 Staff costs

EUR mill.	2020	2019
Wages and salaries	168.9	286.6
Pension expenses	27.3	49.5
Other social expenses	-12.5	14.7
Total	**183.7**	**350.7**
Salary and bonus expenses of Chief Executive Officer and Members of the Board of Directors		
Chief Executive Officer and his deputy	1.0	1.4
Board of Directors	0.4	0.4
Personnel on average	4,852	4,796

6.6 Planned depreciation and amortisation

EUR mill.	2020	2019
On other long-term expenditure	13.4	13.1
On buildings	1.0	1.2
On other equipment	4.0	0.7
Total	**18.4**	**15.1**

6.7 Other operating expenses

EUR mill.	2020	2019
Lease payments for aircraft	442.6	419.3
Other rents for aircraft capacity	89.2	129.6
Office and other rents	29.9	31.3
Traffic charges	112.4	331.3
Sales and marketing expenses	24.5	161.8
Other expenses	113.6	144.4
Total	**812.2**	**1,217.7**

Audit fees in other expenses

EUR mill.	2020	2019
Authorised Public Accountants	KPMG	PwC
Auditor's fees	0.4	0.2
Tax advising	0.1	0.0
Other fees	0.1	0.2
Total	**0.6**	**0.4**

6.8 Financial income and expenses

EUR mill.	2020	2019
Interest income		
From group companies	7.0	10.6
From other companies		
Net gains on debt instruments held mandatorily at FVPL	3.3	0.4
Other interest income	0.1	0.5
Total	**10.4**	**11.5**
Gains on disposal of shares		1.1
Interest expenses		
To other companies	-28.5	-23.7
Total	**-28.5**	**-23.7**
Other financial income		
From other companies		
Financial income from discontinued hedges	32.0	
Other		0.9
Total	**32.0**	**0.9**
Other financial expenses		
To other companies		
Financial expenses for discontinued hedges	-168.3	
Other	-31.1	-0.7
Total	**-199.4**	**-0.7**
Exchange gains and losses	-4.3	-0.2
Financial income and expenses total	**-189.8**	**-11.1**

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. ▶ PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

6.9 Appropriations

EUR mill.	2020	2019
Change in depreciation difference	5.0	-1.0
Received group contribution	189.6	34.1
Total	194.6	33.1

6.10 Income taxes

EUR mill.	2020	2019
Income tax for the financial year	138.2	-4.9
Change in deferred taxes	3.6	0.0
Total	141.8	-4.8

6.11 Intangible assets

EUR mill.	2020	2019
Other long-term expenditure		
Acquisition cost 1 January	77.8	66.2
Additions	7.9	21.6
Additions from merger		0.1
Disposals	-0.3	-10.2
Acquisition cost 31 December	85.4	77.8
Accumulated depreciation 1 January	-37.0	-34.0
Disposals	0.3	8.8
Depreciation and reduction in value	-13.4	-11.7
Accumulated depreciation 31 December	-50.1	-37.0
Book value 31 December	35.3	40.9
Intangible assets Total 31 December	35.3	40.9

6.12 Tangible assets

Tangible assets 2020

EUR mill.	Land	Buildings	Other equipment	Advances paid	Total
Acquisition cost 1 January	0.7	54.3	43.6	5.1	103.8
Additions			13.9	6.6	20.5
Disposals			-3.1	-4.5	-7.6
Acquisition cost 31 December	0.7	54.3	54.5	7.2	116.7
Accumulated depreciation 1 January	0.0	-5.2	-16.0	0.0	-21.3
Disposals			1.6		1.6
Depreciation and reduction in value		-1.0	-2.5		-3.5
Accumulated depreciation 31 December	0.0	-6.3	-17.0	0.0	-23.2
Book value 31 December	0.7	48.1	37.5	7.2	93.5
The share of machines and equipment in the book value of tangible assets 31 December			39.9%		

Tangible assets 2019

EUR mill.	Land	Buildings	Other equipment	Advances paid	Total
Acquisition cost 1 January	0.7	54.7	9.1	6.0	70.6
Additions		0.0	3.2	3.0	6.2
Additions from merger			31.7	1.9	33.6
Disposals		-0.4	-0.3	-5.8	-6.5
Acquisition cost 31 December	0.7	54.3	43.6	5.1	103.8
Accumulated depreciation 1 January	0.0	-4.4	-4.4	0.0	-8.8
Disposals		0.2	0.3		0.6
Depreciation and reduction in value		-1.0	-0.7		-1.7
Depreciations from merger		0.0	-11.3		-11.3
Accumulated depreciation 31 December	0.0	-5.2	-16.0	0.0	-21.3
Book value 31 December	0.7	49.1	27.6	5.1	82.5
The share of machines and equipment in the book value of tangible assets 31 December			31.0 %		

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. ▶ PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

6.13 Investments

EUR mill.	2020	2019
Group companies		
Acquisition cost 1 January	440.6	447.3
Additions	200.0	
Disposals from merger		-6.7
Book value 31 December	640.6	440.6
Associates and joint ventures		
Acquisition cost 1 January	2.5	2.5
Book value 31 December	2.5	2.5
Shares in other companies		
Acquisition cost 1 January	0.4	0.4
Book value 31.12.	0.4	0.4

Associates and joint ventures	Share of parent company %
Suomen Ilmailuopisto Oy, Finland	49.50
Nordic Regional Airlines AB, Sweden	40.00

Group companies	Share of parent company %		Share of parent company %
Finnair Cargo Oy, Finland	100.00	Kiinteistö Oy Lentokonehuolto, Finland	100.00
Finnair Aircraft Finance Oy, Finland	100.00	Amadeus Finland Oy, Finland	95.00
Northport Oy, Finland	100.00	Oy Aurinkomatkat - Suntours Ltd Ab, Finland	100.00
Finnair Technical Services Oy, Finland	100.00	FTS Financial Services Oy, Finland	100.00
Finnair Engine Services Oy, Finland	100.00	Finnair Business Services OÜ, Estonia	100.00
Finnair Kitchen Oy, Finland	100.00		

Finnair Kitchen Oy, Finland was merged to Finnair Travel Retail Oy, Finland on 31.12.2020. At the same time the company name of Finnair Travel Retail Oy was changed to Finnair Kitchen Oy.

6.14 Non-current loan and other receivables

EUR mill.	2020	2019
From group companies	216.7	
From other companies	1.5	1.5
Total	218.2	1.5

6.15 Deferred tax assets

EUR mill.	2020	2019
Deferred tax assets 1 January	0.0	17.3
From result for the financial year	138.2	-1.9
From temporary differences	3.6	0.2
From valuation of derivates at fair value	5.8	-15.7
Offset against deferred tax liabilities	-0.1	0.1
Deferred tax assets 31 December	147.4	0.0

6.16 Current receivables

EUR mill.	2020	2019
Short-term receivables from group companies		
Trade receivables	7.5	21.6
Group contribution receivable	189.6	34.1
Accrued income and prepaid expenses	1.5	5.3
Other receivables	8.5	605.4
Total	207.1	666.4
Short-term receivables from associates and joint ventures		
Trade receivables	0.1	0.0
Prepaid expenses	7.2	9.9
Total	7.3	10.0
Short-term receivables from others		
Trade receivables	32.6	102.5
Prepaid expenses	40.8	58.3
Derivative financial instruments	12.4	33.9
Other receivables	3.3	16.6
Total	89.0	211.3
Short-term receivables total	303.5	887.6

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. ▶ PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

6.17 Investments

EUR mill.	2020	2019
Short-term investments at fair value	358.3	800.8

6.18 Cash and bank equivalents

EUR mill.	2020	2019
Funds in group bank accounts and deposits maturing in three months	464.2	149.7

6.19 Equity

EUR mill.	Share capital	Share premium account	Legal reserve	Hedging reserve	Un-restricted equity funds	Retained earnings	Equity total
Equity 1.1.2020	75.4	24.7	147.7	3.3	258.7	175.5	685.3
Change in fair value of equity instruments				-23.1			-23.1
Share issue					511.7		511.7
Share-based payments					1.6		1.6
Result for the financial year						-566.0	-566.0
Equity 31.12.2020	75.4	24.7	147.7	-19.8	772.0	-390.5	609.5

EUR mill.	Share capital	Share premium account	Legal reserve	Hedging reserve	Un-restricted equity funds	Retained earnings	Equity total
Equity 31.12.2019	75.4	24.7	147.7	-59.6	256.5	188.8	633.6
Change in fair value of equity instruments				62.9			62.9
Share-based payments					2.2		2.2
Purchase of own shares						-0.5	-0.5
Dividend						-34.9	-34.9
Result for the financial year						22.1	22.1
Equity 31.12.2019	75.4	24.7	147.7	3.3	258.7	175.5	685.3

Distributable equity

EUR mill.	2020	2019
Hedging reserve	-19.8	
Unrestricted equity funds	772.0	258.7
Retained earnings	175.5	153.4
Profit/loss for the financial year	-566.0	22.1
Total	361.7	434.2

6.20 Accumulated appropriations

EUR mill.	2020	2019
Accumulated depreciation difference 1 January	26.0	22.4
Change in depreciation difference	-5.0	3.6
Accumulated depreciation difference 31 December	21.0	26.0
Accumulated appropriations total	21.0	26.0

6.21 Provisions

EUR mill.	2020	2019
Provisions 1 January	157.0	121.0
Provision for the period	36.4	78.1
Provision used	-25.2	-43.5
Exhange rate differences	-12.2	1.4
Provisions 31 December	155.9	157.0
Of which long-term	141.7	140.1
Of which short-term	14.2	16.9
Total	155.9	157.0

Long-term aircraft maintenance provisions are expected to be used by 2032.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. ▶ PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

6.22 Non-current liabilities

EUR mill.	2020	2019
Loans from financial institutions	600.0	0.0
Bonds	200.0	200.0
Hybrid loan	200.0	200.0
Deferred tax liability total	0.0	0.1
Other liabilities	2.1	1.7
Total	1,002.1	401.8
Maturity of interest-bearing liabilities		
1-5 years	800.0	200.0
after 5 years	200.0	200.0
Total	1,000.0	400.0

6.23 Current liabilities

EUR mill.	2020	2019
Current liabilities to group companies		
Trade payables	22.5	46.3
Accruals and deferred income	8.8	17.5
Group bank account liabilities	107.2	162.1
Total	138.5	225.9
Current liabilities to associates and joint ventures		
Trade payables	0.0	0.1
Accruals and deferred income	0.3	
Total	0.3	0.1
Current liabilities to others		
Trade payables	23.8	74.5
Accruals and deferred income	308.5	824.2
Other liabilities	4.2	11.5
Total	336.5	910.2
Current liabilities total	475.3	1,136.2

Accruals and deferred income	2020	2019
Unflown air transport revenues	55.7	450.7
Jet fuels and traffic charges	15.6	96.9
Holiday payment liability	44.0	64.1
Loyalty program Finnair Plus	52.0	43.9
Derivative financial instruments	66.6	29.1
Other items	83.8	157.1
Total	317.6	841.7

6.24 Collateral, contingent liabilities and other commitments

EUR mill.	2020	2019
Guarantees and contingent liabilities		
On behalf of group companies	32.1	79.6
Total	32.1	79.6
Aircraft lease payments		
Within one year	367.8	377.0
After one year and not later than 5 years	1,215.8	1,285.7
Later than 5 years	507.0	543.9
Total	2,090.7	2,206.5

Parent company has leased the aircraft fleet from the fully owned subsidiary.

EUR mill.	2020	2019
Other lease payments		
Within one year	27.5	30.2
After one year and not later than 5 years	87.0	91.5
Later than 5 years	162.4	130.9
Total	276.9	252.6
Pension obligations		
Total obligation of pension fund	345.9	350.0
Non-mandatory benefit covered	-345.9	-350.0
Total	0.0	0.0

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

▶ NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. ▶ PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

6.25 Derivatives

EUR mill.	2020 Nominal value	2020 Positive fair values	2020 Negative fair values	2020 Fair net value	2019 Nominal value	2019 Positive fair values	2019 Negative fair values	2019 Fair net value
Currency derivatives								
Jet fuel currency hedging								
Operational cash flow hedging (forward contracts)	268.4	4.2	-13.1	-8.8	924.4	23.6	-5.9	17.6
Operational cash flow hedging, bought options	80.5	0.0		0.0	201.5	3.3		3.3
Operational cash flow hedging, sold options	74.3		-1.9	-1.9	201.8		-1.0	-1.0
Hedge accounting items total	**423.3**	**4.3**	**-15.0**	**-10.7**	**1,327.4**	**26.8**	**-6.9**	**19.9**
Operational cash flow hedging (forward contracts)	173.9	4.1	-3.1	1.0				
Operational cash flow hedging, bought options	20.3	0.1		0.1				
Operational cash flow hedging, sold options	20.3	0.0	-0.1	0.0				
Balance sheet hedging (forward contracts)	5.7	0.0		0.0				
Items outside hedge accounting total	**220.4**	**4.3**	**-3.2**	**1.1**				
Currency derivatives total	**643.5**	**8.5**	**-18.1**	**-9.6**	**1,327.4**	**26.8**	**-6.9**	**19.9**
Commodity derivatives								
Jet fuel forward contracts, tonnes	240,000	3.2	-17.3	-14.2	898,000	6.2	-21.5	-15.3
Bought options, jet fuel, tonnes					57,000	0.7		0.7
Sold options, jet fuel, tonnes					57,000		-0.5	-0.5
Hedge accounting items total		**3.2**	**-17.3**	**-14.2**		**6.9**	**-22.0**	**-15.1**
Jet fuel forward contracts, tonnes	336,000	0.6	-31.1	-30.5				
Sold options, jet fuel, tonnes					42,000		-0.1	-0.1
Items outside hedge accounting total		**0.6**	**-31.1**	**-30.5**			**-0.1**	**-0.1**
Commodity derivatives total		**3.8**	**-48.4**	**-44.6**		**6.9**	**-22.1**	**-15.2**
Derivatives total *		**12.4**	**-66.6**	**-54.2**		**33.9**	**-29.1**	**4.8**

* Positive (negative) fair value of hedging instruments on 31 Dec 2020 is presented in the statement of financial position in the item derivative assets within current assets (derivative liabilities within current liabilities).

6.26 Financial assets and liabilities measured at fair value

Fair value hierarchy of financial assets and liabilities valued at fair value
Fair values at the end of the reporting period

EUR mill.	31 Dec 2020	Level 1	Level 2
Financial assets at fair value			
Securities held for trading	404.6	404.6	
Derivatives			
Currency derivatives	8.5		8.5
- of which in cash flow hedge accounting	4.3		4.3
Commodity derivatives	3.8		3.8
- of which in cash flow hedge accounting	3.2		3.2
Total	**417.0**	**404.6**	**12.4**
Financial liabilities at fair value			
Derivatives			
Currency derivatives	18.1		
- of which in cash flow hedge accounting	15.0		
Commodity derivatives	48.4		
- of which in cash flow hedge accounting	17.3		
Total	**66.6**		

6.27 Fuel price risk in flight operations

Timing of the notional and hedged price

31 Dec 2020	Hedged price $/tonne	Notional amount (tonnes)	Maturity: Under 1 year	Maturity: 1 to 2 years
Jet fuel consumption priced with NWE index	527.7	237,423	227,423	10,000
Jet fuel consumption priced with SING index	609.8	2,577	2,577	

Foreign exchange risk

Timing of the notional EUR mill. 31 Dec 2020	Average exchange rate of hedging instruments against the euro	Notional amount (gross)	Maturity: Less than 1 year	Maturity: 1 to 2 years
USD	1.14	430.5	399.9	30.5
JPY	120.20	213.1	208.1	5.0

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

▶ BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

AUDITOR'S REPORT

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

Finnair Plc's distributable equity on 31 December 2020 amounts to 361,672,701.47 euros, of which the net result for the financial year 2020 is -566,008,349.96 euros.

The Board of Directors proposes to the Annual General Meeting that no dividend be paid based on the balance sheet to be adopted for the financial year, which ended on 31 December 2020, and the result be retained in the equity.

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

Helsinki, 17 February 2021
The Board of Directors of Finnair Plc

Jouko Karvinen | Tiina Alahuhta-Kasko | Colm Barrington

Montie Brewer | Mengmeng Du | Jukka Erlund

Henrik Kjellberg | Maija Strandberg | Jaana Tuominen

Topi Manner
President and CEO of Finnair Plc

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

▶ AUDITOR'S REPORT

AUDITOR'S REPORT

(This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.)

To the Annual General Meeting of Finnair Plc

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Finnair Plc (business identity code 0108023-3) for the year ended December 31, 2020. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 1.3.3 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Financial position and funding arrangements (Refer to Accounting principles for consolidated financial statements and Notes 3.3 and 3.5)	
Resulting from the COVID-19 pandemic the Group has incurred a net loss of € 523 million and negative operating cash flow of € 1,043 million. Liquid funds amounted to € 792 million and the interest-bearing liabilities were € 2,184 million. The refinancing plan executed during the financial year included several significant funding arrangements and refinancing transactions. As disclosed in the accounting principles to the financial statements due to the current uncertainty embedded in the economic environment and the difficulty in forecasting the ultimate duration and impact of the COVID-19 pandemic, the Board of Directors have reviewed three different scenarios prepared by the management. According to the assessment of the Board of Directors Finnair will be able to meet its obligations under all three scenarios as they fall due at least 12 months after the date of the issuance of the financial statements.	We assessed the terms of the financing agreements and the impacts on classification and recognition in relation to accounting principles and accounting standards applied in the consolidated financial statements. We obtained an understanding of the financial forecasting process. We analyzed, among others, cash flow forecasts based on different scenarios, the reliability of the data underlying the forecasts and whether effective implementation of management plans is reasonable. We challenged the appropriateness of key assumptions used in the cash flow forecasts that require significant management judgement. We evaluated the sensitivity calculations prepared by the management to test the headroom for the Group to be able to conduct its adjusted business operations. In addition, we assessed the appropriateness of the disclosures provided on the financing arrangements and financial position.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

▶ AUDITOR'S REPORT

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Fleet valuation (Refer to Accounting principles for consolidated financial statements and Note 2)	
The Group has own aircraft and right of use aircraft with total carrying value of € 2.213 million representing 61 % of total consolidated assets. The aircraft-related depreciation charge was € 291 million. As a result of the COVID-19 pandemic, part of the aircraft fleet has been grounded and several aircraft refinancing transactions were completed with an impairment of € 8 million. The evaluation of the expected useful life of the components of the aircraft, the expected residual value, impairment of existing aircraft and assessment of whether onerous contract exists related to the future committed aircraft purchases requires a significant degree of management judgement. The valuation of the fleet is considered as a key audit matter due to the significance to the Group's consolidated statement of financial position, and due to management judgement and inherent uncertainty increased by pandemic involved in forecasting future cash flows.	We assessed the reasonableness of assumptions made for useful lives, components and residual values regarding owned and leased aircraft and reconciled these assumptions against carrying values of aircraft components and associated depreciation recorded in the income statement. Our audit procedures, with the involvement of KPMG valuation specialists, included testing the integrity of the calculations and the technical model. We have challenged the assumptions used in impairment testing and their reasonableness by reconciling against external market data, scenarios approved by the Board of Directors and our own views. Furthermore, we considered the potential impact of uncertainties related to COVID-19 on the assumptions within management's cash flow estimates. We performed our own sensitivity analyses over the key assumptions used. We assessed the appropriateness of the related disclosures.
Deferred passenger revenue (Refer Accounting principles for consolidated financial statements and Note 1.2.4)	
The deferred passenger revenue amounted to € 134 million. Passenger ticket sale is presented as deferred income in the consolidated statement of financial position from the point of sale until the flight is flown and the sale is recognized as revenue. Recognition of unused tickets as revenue is based on the expected breakage amount of tickets remaining unused. The points earned in the customer loyalty program are measured at fair value and recognised as a decrease of revenue and debt at the time when the points -earning event is recognised as revenue or when the points expire. COVID-19 pandemic has increased the level of uncertainty about the expected customer behaviour. Large volumes of transactions flow through various computer systems from the date of sale until revenue is recognized in the consolidated statement of profit or loss. The recording process is complex, which gives rise to inherent risk of error, in determining the amount and timing of the revenue recognition. Timing and accuracy in the recording of passenger revenue is therefore determined as a key audit matter in our audit of the consolidated financial statements.	We obtained an understanding of revenue recognition process. We used data analytics tools for identifying revenue flows and risks in revenue recognition of ticket sales and focused our audit on key risks identified. Further, we used data analyses in testing deferred revenue of unflown tickets. We evaluated the design and tested the operating effectiveness of key controls over revenue recognition. We tested the mathematical accuracy and input data of the calculation used to recognize revenues from the breakage model. We also analysed the assumptions used in the revenue recognition of the customer loyalty program. We tested a sample of passenger revenue recognized as well as a sample of unused tickets in the deferred revenue.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Aircraft maintenance provision (Refer to Accounting principles for consolidated financial statements and Note 1.3.6)	
The Group operates aircrafts which are owned or held under lease agreement. The Group is obliged to return leased aircraft and their engines according to the redelivery condition set in the lease agreement. To fulfil these maintenance obligations, the Group has recognised airframe heavy maintenance, engine performance maintenance, engine life limited part and other material maintenance provisions which amounted to € 163 million. The measurement of aircraft maintenance provisions requires management judgement especially related to timing of maintenance events and valuation of maintenance costs occurring in the future. The future maintenance costs and their timing are dependent on, for example, how future traffic plans realise, the market price development of maintenance costs and the actual condition of the aircraft at the time of the maintenance event. We identified aircraft maintenance provision as a key audit matter due to the inherently complex model and management judgement incorporated in the assumptions used in the calculation.	We obtained an understanding of the process by which the lease agreements are analysed and recorded in the maintenance model and by which the variable factors within the provision are estimated. We evaluated the appropriateness of the maintenance provision model and challenged the key assumptions of maintenance provision model such as expected timing and cost of maintenance checks. We obtained and inspected a sample of asset lease agreements to evaluate the completeness of the restoration and return liabilities for obligations at the redelivery at the end of the lease. We tested the input data and mathematical accuracy of the calculations as well as recalculated the maintenance provision by using data analysis tools. In addition, we performed retrospective analysis on the accuracy of the provision.
Defined benefit pension plans (Refer to Accounting principles for consolidated financial statements and Note 1.3.8.2)	
The liability recognised in the balance sheet in respect of defined pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The net defined benefit (pension) asset amounted to € 32 million. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method and based on actuarial assumptions. The present value of the defined benefit obligations is determined by discounting the estimated future cash flows using interest rates of high-quality bonds with consistent maturities. In the financial year, amendments related to pension index increment removals decreased pension obligations by € 151 million. The plan assets are valued at fair value involving use of judgment in particular relating to unlisted investments. We considered valuation of the defined benefit obligation and plan assets as a key audit matter in the audit of the Group due to materiality of the related balances, material changes in the terms of pensions and judgments involved in these estimates.	With the assistance of KPMG pension specialist, we assessed the appropriateness of the actuarial assumptions used in calculating the defined pension benefit obligation. We assessed the appropriateness of the valuation methods, estimates and judgements used by management to value the assets. We tested the valuation of the plan assets related to defined employee benefit plans by testing a sample of listed equity holdings against prevailing market prices at closing date. Related to unlisted investments we have created independent expectation based on the nature of the investment, historical purchase price and publicly available information on similar investments and compared that to the management valuation. In addition, we assessed the appropriateness of the related disclosures.

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CONSOLIDATED BALANCE SHEET

CONSOLIDATED CASH FLOW STATEMENT

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. OPERATING RESULT
2. FLEET AND OTHER FIXED ASSETS AND LEASING ARRANGEMENTS
3. CAPITAL STRUCTURE AND FINANCING COSTS
4. CONSOLIDATION
5. OTHER NOTES
6. PARENT COMPANY FINANCIAL STATEMENTS

BOARD OF DIRECTORS' PROPOSAL ON THE DIVIDEND

▶ AUDITOR'S REPORT

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements
The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement
We were first appointed as auditors by the Annual General Meeting on May 29, 2020, and our appointment represents a total period of uninterrupted engagement of one year.

Other Information
The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors and the Annual Report prior to the date of this auditor's report. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

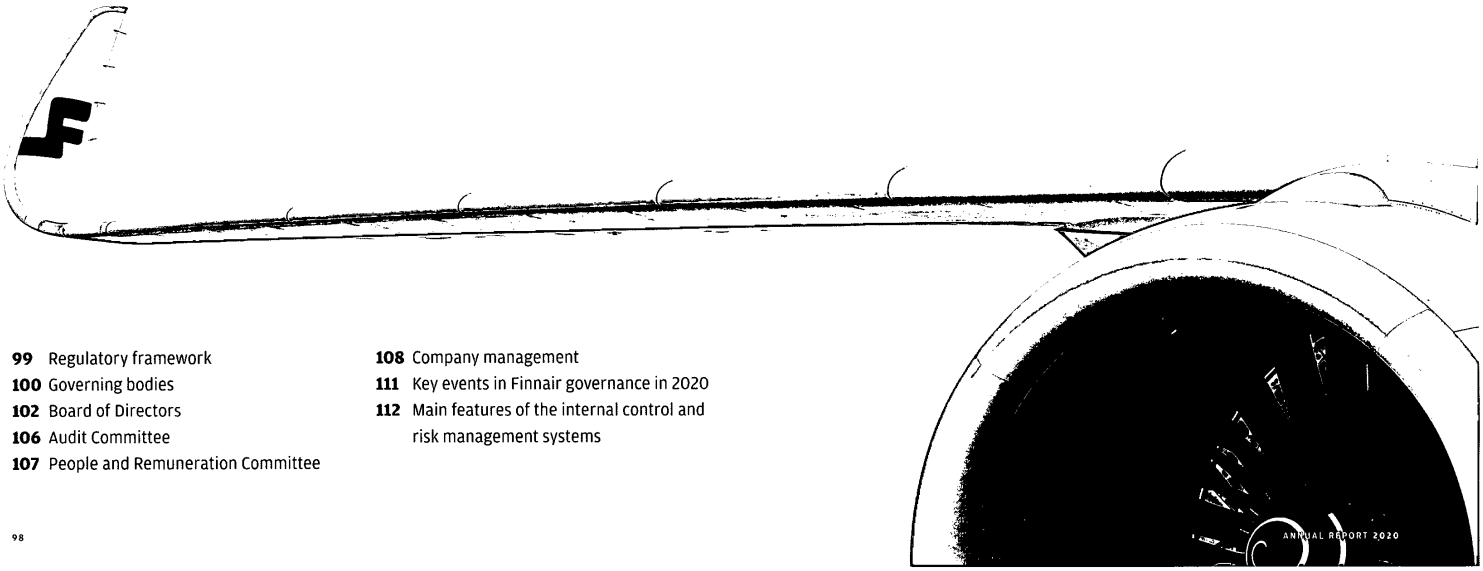
If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other opinions
We support that the financial statements and the consolidated financial statements should be adopted. The proposal by the Board of Directors regarding the treatment of distributable funds is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors of the parent company and the Managing Director should be discharged from liability for the financial period audited by us.

Helsinki, 17 February 2021
KPMG OY AB

Kirsi Jantunen
Authorized Public Accountant, KHT

Corporate Governance Statement 2020



99 Regulatory framework
100 Governing bodies
102 Board of Directors
106 Audit Committee
107 People and Remuneration Committee
108 Company management
111 Key events in Finnair governance in 2020
112 Main features of the internal control and risk management systems

Regulatory framework

Finnair Plc ("Finnair" or "the Company") is a Finnish public limited liability company domiciled in Helsinki. Finnair is the ultimate parent of Finnair Group, and its shares are listed on Nasdaq Helsinki Stock Exchange. The State of Finland is the majority owner in Finnair with 55.9% of the shares as of 31 December 2020.

Corporate governance at Finnair is based on Finnish laws and the Company's Articles of Association. Finnair complies fully with and has prepared this corporate governance statement in accordance with the Finnish Corporate Governance Code 2020. This corporate governance statement is issued separately from the Board of Directors' report, and it has been reviewed by the Audit Committee of Finnair's Board of Directors.

Finnair prepares consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS), the Finnish Securities Markets Act as well as the Financial Supervision Authority's regulations and guidelines and Nasdaq Helsinki's rules. The Company's financial statements are prepared in accordance with the Finnish Companies Act, Accounting Act, Securities Markets Act, and the opinions and guidelines of the Finnish Accounting Board. The auditor's report covers the consolidated financial statements and the parent company's financial statements.

This corporate governance statement and other information to be disclosed in accordance with the Finnish Corporate Governance Code 2020, the Company's financial statements, the Board of Directors' report, the auditor's report, the Company's Articles of Association and its published policies are available at Finnair's website.

The Finnish Corporate Governance Code 2020 is available on the website of the Securities Market Association.

Regulatory framework for Corporate Governance at Finnair

External framework

- Finnish Companies Act
- Finnish Securities Markets Act
- Market Abuse Regulation (MAR)
- Finnish Corporate Governance Code 2020
- Regulations and guidelines issued by the Financial Supervisory Authority and by Nasdaq Helsinki

Internal framework

- Articles of Association
- Code of Conduct
- Charters of the Board of Directors and its Committees
- Charters of Internal Audit and Risk & Compliance
- Policies, Standards, Rules, and Manuals

Governing bodies

The governing bodies of Finnair pursuant to the Companies Act and the Articles of Association are the General Meeting of Shareholders, the Board of Directors (the "Board") and the Chief Executive Officer (the "CEO").

The roles of the governing bodies are described below.

General Meeting of Shareholders

The ultimate authority in Finnair is vested in the General Meeting of Shareholders. An Annual General Meeting (the "AGM") must be held each year by the end of May.

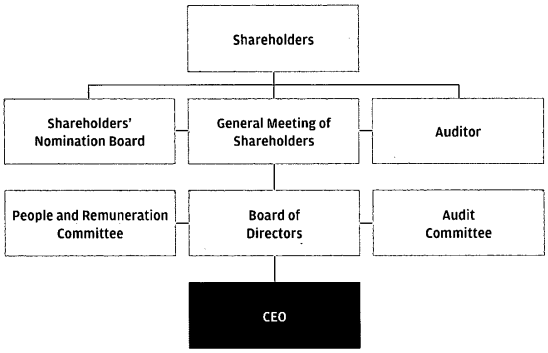
The competence of the General Meeting of Shareholders is set out in the Companies Act and in Finnair's Articles of Association. The AGM shall annually decide on the following matters:

- adoption of the financial statements and the consolidated financial statements
- the use of the profit shown on the balance sheet
- the discharging of the Members of the Board and the CEO from liability
- the appointment of the Members of the Board and their remuneration
- election of the Chairman of the Board from among the Members
- the election and remuneration of the auditor.

The Board convenes the General Meetings of Shareholders by publishing a notice no earlier than three months and no later than three weeks before the date of the meeting and always at least nine days before the record date of the meeting. The notice shall be published as a stock exchange release and on Finnair's website.

Each shareholder who is registered on the record date as a shareholder in the Company's public register of shareholders, maintained by Euroclear Finland Oy, has the right to participate in the General Meeting of Shareholders. A holder of nominee-registered shares that wishes to participate in the meeting has to register temporarily in the register of shareholders. Furthermore, in order to attend the meeting, a shareholder must register for the meeting in the manner defined in the notice convening the meeting. A shareholder has the right to have a matter falling within the competence of the General Meeting of Shareholders addressed by the meeting, if the shareholder so demands in writing from the Board by the date announced on Finnair's website.

GOVERNING BODIES OF FINNAIR



The minutes of the General Meeting of Shareholders and the voting results, if any, shall be made available to shareholders on Finnair's website within two weeks of the meeting.

2020 Annual General Meeting

Finnair's AGM 2020 was held at the headquarters of the Company in Vantaa on 29 May 2020. The Board of Directors of the Company decided by virtue of Section 2, Subsection 3 of the temporary legislative act 290/2020 to limit the spread of the Covid-19 pandemic approved by the Finnish Parliament on 24 April 2020 ("Temporary Act"), that the Company's shareholders and their proxy representatives could participate in the meeting and exercise shareholder rights only through voting in advance as well as

by making counterproposals and asking questions in advance. A total of 238 shareholders, representing 66.6 per cent of the shares and voting rights of the company, participated by voting in advance. No counterproposals or questions were presented by shareholders.

Present at the meeting were Chairman of the Board of Directors Mr. Jouko Karvinen, member of the Board of Directors and Chairman of the Audit Committee Mr. Jukka Erlund, Chief Executive Officer Mr. Topi Manner, General Counsel Mr. Sami Sarelius, IR Director Mr. Erkka Salonen (remote access), Chairman of the General Meeting Mr. Manne Airaksinen, person to confirm the minutes and to verify the counting of votes Ms. Vuokko Rajamäki, the responsible auditor appointed by the Company's audit firm Mr. Markku Katajisto and the new responsible auditor candidate Ms. Kirsi Jantunen. In addition, the representative of the Company's annual general meeting registration and voting service provider Euroclear Finland Oy, Jarkko Heinonen, attended by telephone.

Auditor

The Annual General Meeting 2020 elected KPMG Oy Ab as the Company's new auditor, and Ms. Kirsi Jantunen acted as the auditor with principal responsibility.

The audit fees paid in 2020 amounted to 0.5 million euros, and the fees for other services rendered amounted to 0.3 million euros.

Shareholders' Nomination Board

The AGM 2013 decided to establish a permanent Shareholders' Nomination Board. The term of the Nomination Board continues until further notice.

The purpose and task of the Nomination Board is to prepare and present to the AGM - and if necessary, to an Extraordinary General Meeting - proposals on the composition and remuneration of Board of Directors. In addition, the task of the Nomination Board is to seek potential future candidates for Board members. The Nomination Board shall forward its proposals to the Company's Board of Directors by 31 January each year.

The Nomination Board consists of four members nominated annually. The Company's three largest shareholders appoint three of the members, and the current Chairman of the Board serves as the fourth member. The Nomination Board appoints its chairman from among its members. The Company's largest shareholders entitled to appoint members to the Nomination Board are determined on the basis of the registered holdings in the Company's shareholder register held by Euroclear Finland Oy as of the first working day in September each year. In the event that a shareholder does not wish to exercise their right to appoint a representative, such right passes to the next largest shareholder.

The members of the Nomination Board are not remunerated by Finnair for their membership in the Nomination Board. The members' expenses are reimbursable in accordance with the Company's expense policy. In addition, the Nomination Board's costs of using external experts shall be borne by the Company.

The Charter of the Nomination Board is available at the Company website.

2019 Nomination Board

The 2019 Nomination Board consisted of the representatives of the first, third and fourth largest shareholders as at the first working day in September 2019, i.e. the State of Finland, Varma Mutual Pension Insurance Company and Etola Oy (through its subsidiaries Tiiviste-Group Oy and Etra Invest Oy), and of the Chairman of the Board. The composition of the 2019 Nomination Board was the following:

- Ms. Minna Pajumaa, b. 1963, Senior Financial Counsellor, Government Ownership Steering Department (Chairman)
- Mr. Timo Sallinen, b. 1970, Senior Vice President, Investments, Varma Mutual Pension Insurance Company
- Mr. Mikael Etola, b. 1977, Managing Director, Etola Oy
- Mr. Jouko Karvinen, b. 1957, Chairman of the Board of Finnair.

The Nomination Board convened once in 2019 and the participation rate was 100%. On 27 January 2020, the Nomination Board submitted to the Board its proposals for the 2020 AGM that was planned to be held on 18 March 2020 but which was postponed due to the Covid-19 containment measures. On 5 May, the Nomination Board submitted its complementary proposal for the 2020 AGM that was held on 29 May 2020. The proposals are available at Finnair's website.

2020 Nomination Board

The 2020 Nomination Board consisted of the representatives of the first, third and fourth largest shareholders as at the first working day in September 2020, i.e. the State of Finland, Ilmarinen Mutual Pension Insurance Company, Varma Mutual Pension Insurance Company, and of the Chairman of the Board. The composition of the 2020 Nomination Board was the following:

- Ms. Minna Pajumaa, b. 1963, Senior Financial Counsellor, Government Ownership Steering Department (Chairman)
- Mr. Esko Torsti, b. 1964, Head of Cross Asset Allocation, Ilmarinen Mutual Pension Insurance Company
- Mr. Timo Sallinen, b. 1970, Senior Vice President, Investments, Varma Mutual Pension Insurance Company
- Mr. Jouko Karvinen, b. 1957, Chairman of the Board of Finnair.

The Nomination Board convened three times and the participation rate was 100%. On 26 January 2021, the Nomination Board submitted to the Board its proposals for the 2021 AGM to be held on 17 March 2021. The proposals are available at Finnair's website.

Board of Directors

The Chairman and the Members of the Board are elected by the Annual General Meeting. According to the Articles of Association, the Board consists of the Chairman and a minimum of four and a maximum of nine other members. The Board elects a Vice Chairman from among its members. The term of the office of the members of the Board ends at the close of the first AGM following their election.

According to the Companies Act, the Board represents all shareholders of Finnair and has the general duty to act diligently in the interests of the Company. The Board is accountable to the shareholders for the appropriate governance of the Company and for ensuring that the operations of the Company are run adequately.

The accountability for the Company's governance pertains specifically to the reliability of the financial reporting and to the efficiency of the Company's internal control and risk management systems. The main features of the internal control and risk management systems are described later in this Corporate Governance Statement. The Board has extensive general competence in the governance of the Company as its competence covers all matters that are not within the powers of other governing bodies of the Company.

The main duties of the Board of Directors:

- approve the Company's strategic targets and monitor the achievement of strategic targets
- ensure the administration of the Company and the appropriate organisation of its operations
- confirm the values and top-level policies of the Company
- monitor and ensure the appropriateness of the accounting, financial administration and risk management
- approve significant strategic matters, business plans, partnerships and other decisions exceeding the limits of the CEO's decision-making power
- decide on guarantees and other commitments for external parties' liabilities
- appoint and dismiss the CEO and other members of the Executive Board, as well as evaluate their performance and determine their remuneration, also attend to the succession planning of the management
- establish and regularly evaluate the Company's personnel policies and its compensation systems
- evaluate its own work on an annual basis
- prepare and approve the charters of the Board of Directors and its Committees and confirm the charters of the Internal Audit and Risk & Compliance

The Charter of the Board of Directors is available on the Finnair's Corporate Governance website.

Members of the Board in 2020

Jouko Karvinen

b. 1957, M. Sc. (Tech.)
Chairman of the Finnair Board of Directors since March 2017 and member of the Board since March 2016

Main occupation:
Board professional

Key positions of trust:
Member of the Foundation and Supervisory Boards of IMD Business School, Lausanne, Switzerland

Tiina Alahuhta-Kasko

PR

b. 1981, M. Sc. (Econ.), CEMS MIM.
Member of the Finnair Board of Directors since 2019

Main occupation:
President & CEO of Marimekko Corporation

Key positions of trust:
-

Colm Barrington

A

b. 1946, M. Sc. (Econ.)
Vice Chairman and member of the Finnair Board of Directors since 2017

Main occupation:
CEO and Director of Fly Leasing Limited

Key positions of trust:
Member of the Board of Directors of Hibernia REIT Plc

Montie Brewer

A

b. 1957, BA (Business Administration).
Member of the Finnair Board of Directors since 2018

Main occupation:
Board professional

Key positions of trust:
Member of the Board of Directors of Allegiant Travel Company

Mengmeng Du

PR

b. 1980, M. Sc. (Econ.), M. Sc. (Computer science)
Member of the Finnair Board of Directors since 2017

Main occupation:
Digital advisor, board professional

Key positions of trust:
Member of the Board of Directors of Skandia, Netonnet Group and Claes Ohlson

Jukka Erlund

A

b. 1974, M. Sc. (Econ.), eMBA.
Member of the Finnair Board of Directors since 2019

Main occupation:
Executive Vice President, CFO, of Kesko Oyj

Key positions of trust:
The Chair of the Tax and Economic Policy Committee of Finnish Commerce Federation, Member of the Economy and Tax Committee of Confederation of Finnish Industries EK, and Member of the Supervisory Board of Varma Mutual Pension Insurance Company (until 22.10.2020)

Henrik Kjellberg

A

b. 1971, M. Sc. (Econ.).
Member of the Finnair Board of Directors since 2018

Main occupation:
CEO of Awaze

Key positions of trust:
-

Maija Strandberg

PR

b. 1969, M.Sc. (Econ)
Member of the Finnair Board of Directors since 29 May 2020

Main occupation:
Senior Financial Counsellor Prime Minister's office, Government Ownership Steering Department

Key positions of trust:
Member of the Board of Directors and Chairman of the Audit committee of Nordic Morning Group. Member of the Board of Directors of Vapo Oyj

Jaana Tuominen

PR

b. 1960, M. Sc. (Eng.).
Member of the Finnair Board of Directors since 2014

Main occupation:
Advisor

Key positions of trust:
Chair of the Board of Directors of the Confederation of Finnish Industries (EK)

Committees

A = Audit Committee

PR = People and Remuneration Committee

Members of the Board and their independence

The 2020 Annual General Meeting held on 29 May elected Mr. Jouko Karvinen as Chairman of the Board of Directors and Ms. Tiina Alahuhta-Kasko, Mr. Colm Barrington, Mr. Montie Brewer, Ms. Mengmeng Du, Mr. Jukka Erlund, Mr. Henrik Kjellberg, Ms. Maija Strandberg and Ms. Jaana Tuominen as other members of the Board. The Board elected Mr. Colm Barrington as its Vice Chairman.

Finnair complies with applicable requirements regarding independence of the Board of Directors according to Finnish laws and regulations as well as according to the Finnish Corporate Governance Code. The Board considers all the members elected by the shareholders, except for Ms. Maija Strandberg and Mr. Jukka Erlund, to be independent of the Company and independent in relation to the Company's major shareholders according to the Code. Ms. Maija Strandberg is considered dependent on the Company's significant owners as she is a civil servant of the government of Finland. Mr. Jukka Erlund was considered dependent on the Company until 30 June 2020 because Piia Karhu, Finnair's Senior Vice President in Customer Experience and a member of the Executive Board until 30 June 2020, is a member of Kesko Corporation's Board of Directors and Jukka Erlund is the Chief Financial Officer of Kesko Oyj.

The ownership of the Directors and companies controlled by them in Finnair

At the end of 2019 and 2020, neither the members of the Board of Directors nor any companies under their control held any shares or share-based rights in any company within Finnair Group.

The Committees of the Board

The Board delegates some of its functions to the Audit Committee and to the People and Remuneration Committee. The Board appoints the Committee members and their Chairs from among the members of the Board. The minimum number of members is three in both Committees.

Each Committee meets regularly under their respective charters. The Committees report on their work regularly to the Board but they do not have decision-making powers independent from the Board, except where expressly authorised by the Board. Copies of the Committees' charters are available on Finnair's website.

Number of the Board meetings and Board Committee meetings in 2020 and the attendance rate of the members

Member	Board of Directors	Audit Committee	People and Remuneration Committee
Jouko Karvinen	16/16		
Tiina Alahuhta-Kasko	16/16		9/9
Colm Barrington	16/16	7/7	
Montie Brewer	16/16	7/7	
Mengmeng Du	16/16		9/9
Jukka Erlund	16/16	7/7	1/1
Henrik Kjellberg	16/16	7/7	
Maija Strandberg (member since 29 May)	8/8		7/7
Jaana Tuominen	16/16		9/9

In addition to the sixteen meetings, the board made decisions six times without convening.

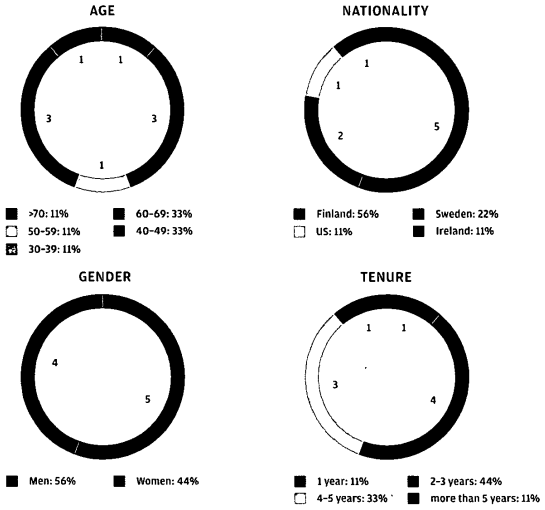
The diversity principles of the Board of Directors

The Board of Directors has determined its diversity principles for the use of the Shareholders' Nomination Board when preparing proposals on the composition of the Board to the General Meeting of Shareholders.

The diversity principles of the Board of Directors are:

- The Board as a whole must have sufficient expertise and experience to conduct the duties carefully and effectively, taking into account the quality, scope and international nature of the Company's operations, the Company's strategic targets and changes in the business environment and society.
- The members of the Board must be capable of cooperating with the other members and the management.
- The members of the Board should have training and experience that complement each other and experience from industries that are important for the Company.
- The members should have experience of Board work and conducting managerial duties in business or other areas of society.
- The Board shall have at least 40 per cent both men and women. The composition should show diversity also in terms of the age distribution, length of service and cultural background.
- Sufficient continuity should be ensured in reforming the composition of the Board, but the continuous term of any member may not exceed 10 years.

The diversity of the Board of Directors



Audit Committee

The Audit Committee assists the Board in matters relating to financial reporting and control in accordance with the duties specified for audit committees in law and in the Finnish Corporate Governance Code.

The Audit Committee monitors and evaluates the Company's reporting process of financial statements and the efficiency of the internal control and risk management systems as well as the internal audit. The Committee monitors the statutory audit and evaluates the independence of the auditor. In addition, the Audit Committee monitors the efficiency of the Company's compliance systems.

Pursuant to the Finnish Corporate Governance Code, the members of the Audit Committee shall have the qualifications necessary to perform the responsibilities of the committee, and at least one of the members shall have expertise specifically in accounting or auditing.

The main duties of the Audit Committee:

- monitor the financial position of the Company
- monitor and assess the financial reporting process
- monitor and assess the efficiency of the Company's internal control and risk management systems as well as internal audit
- monitor the statutory audit of the financial statements
- monitor and assess the independence of the statutory auditor, and particularly the provision by auditor of non-audit services to the Company
- prepare the Board's proposal for resolution on the election of the auditor and its remuneration
- review the auditor's and internal auditor's plans and reports
- monitor and assess agreements and transactions between the Company and its related parties with respect to compliance with the governance and disclosure requirements of the same
- review the Company's corporate governance statement
- prepare the Board's decisions on the Company's risk management policies
- monitor the processes and risks relating to cyber security
- prepare the Board's decisions on significant changes in the accounting principles or in the valuations of the group's assets
- assess the efficiency of the Company's compliance systems
- maintain contact with the auditor

In addition to the Committee members, the CEO, the CFO, the auditor, and the General Counsel as secretary to the Committee attend the Committee meetings. Other executives attend the meetings as invited by the Committee.

Audit Committee in 2020

In 2020, the members of the Audit Committee were Jukka Erlund (Chair), Colm Barrington, Montie Brewer and Henrik Kjellberg. The Audit Committee met seven times in 2020 and its attendance rate was 100%.

People and Remuneration Committee

The People and Remuneration Committee assists the Board in matters pertaining to the compensation and benefits of the CEO and other senior management, their performance evaluation, appointment and successor planning. The Committee assists the Board also in establishing and evaluating the Company's compensation structures and other personnel policies. Pursuant to the Board's authorisation, the Committee reviews and confirms the achievement of targets for short-term incentives and approves the payment of the incentives to the CEO and other senior management.

The main duties of the People and Remuneration Committee:

The Committee prepares the following matters for the Board:

- the key principles of the Company's compensation policies and practices
- compensation, pension, benefits and other material terms of the contract of the CEO and the Executive Board members
- CEO's and the Executive Board members' incentive and retention plans
- CEO's and the Executive Board members' performance reviews
- nominations of the CEO and the Executive Board members
- composition and responsibilities of the Executive Board
- CEO's and the Executive Board members' succession planning and leadership development
- assessment of the people strategy and key development initiatives
- equity-based incentive plans
- the remuneration policy for the Company's governing bodies
- annual remuneration reporting based on the recommendations of the Finnish Corporate Governance Code for listed companies

The CEO, the SVP People and Culture, and the General Counsel as secretary to the Committee attend the Committee meetings.

People and Remuneration Committee in 2020

After the AGM of 29 May 2020, the Board elected the following members to the People and Remuneration Committee: Jaana Tuominen as the Chair, and Mengmeng Du, Tiina Alahuhta-Kasko and Maija Strandberg as members. Between 1 January and 29 May 2020, Jaana Tuominen acted as the Chair of the Committee and Mengmeng Du and Tiina Alahuhta-Kasko acted as members. Additionally, the Chair of the Audit Committee, Jukka Erlund, attended one meeting of the People and Remuneration Committee. The Committee met nine times in 2020 and the attendance rate was 100%.

Company management

Finnair's corporate structure

Finnair's core airline activities are operated in the Group's parent company, Finnair Plc, whereas technical services, travel services (package tours), catering services and financial business services are run in wholly owned subsidiaries. Finnair business is considered one operating segment, consisting of the Commercial and Customer Experience, and Operations units. The shared functions in Finnair's Group administration are Finance, People and Culture, Digital Services, Strategy, Communications, Legal Affairs, Risk & Compliance, and Internal Audit.

The CEO

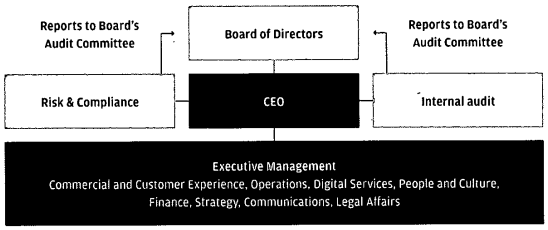
The CEO is appointed by the Board. The CEO manages the Company's operations in accordance with guidelines and instructions issued by the Board. The CEO acts as the Chairman of the Executive Board.

The Board determines the CEO's compensation and sets his short- and long-term incentive targets. The main contents of the CEO's contract, including his compensation and benefits, are described in the Remuneration Statement and on Finnair's corporate governance website.

Mr. Topi Manner, M.Sc. (Econ.), b. 1974, has been the CEO of Finnair since 1 January 2019. Prior to joining Finnair, Manner had a long career in management positions at Nordea, the largest financial group in the Nordic countries, where he worked as a member of Nordea's Group Executive Management and as Head of Personal Banking.

The CEO belongs to Finnair's short- and long-term incentive programs, described in more detail in Note 1.3.8 to the financial statements and in the Remuneration Statement.

COMPANY MANAGEMENT



Executive Board

The Executive Board of the Company is led by the CEO, and it comprises the senior management responsible for Finnair commercial and customer experience activities, operations, digital services, finance, people and culture, strategy, communications and legal affairs.

The Executive Board members are appointed by the Board, which also determines their remuneration.

The Executive Board assists the CEO in the strategy implementation, coordinates group-wide development projects and defines policies that guide the Company's activities. The Executive Board members report to the CEO and their main task is to lead the daily operations of their respective units or shared functions.

Executive Board subsets

The governance structure contains two Executive Board subsets which are the Investment Steering Board and Safety Review Board.

The Investment Steering Board acts as the forum for preparing investment decisions for the Executive Board's approval as well as exercises delegated powers to approve investments below a given threshold. The Investment Steering Board is headed by the Chief Financial Officer.

Finnair has a Safety Review Board that is responsible for reviewing the Company's safety policy and assessing the safety performance against the safety policy and objectives. The Safety Review Board reviews the effectiveness of the flight safety, security and compliance management systems relating to safety, and ensures that appropriate resources are allocated to achieve the targeted safety performance. The Safety Review Board is headed by the SVP Operations and it convenes at least four times per year.

Management Board

The Finnair Management Board is principally a communication and co-operation forum designed for the personnel's participation in the Company's governance processes, especially with regard to matters that affect the personnel. The Management Board discusses the implementation of the Company's strategic objectives and development projects that affect Finnair's personnel as well as business plans and financial performance of the Group, the operational quality and customer satisfaction. The Management Board comprises the Executive Board members, certain senior managers and the representatives of all personnel groups. In 2020, the Finnair Management Board met six times.

Corporate Governance in Finnair subsidiaries

For major subsidiaries, the members of the boards of directors are selected from individuals belonging to Finnair's senior management and, in selected subsidiaries, also from representatives proposed by personnel groups. The subsidiaries of Finnair are presented in the Financial Statements 2020 under Note 4.2.

Governance principles in key partnerships and outsourcings

Finnair has equity partnership in Nordic Regional Airlines Oy through Nordic Regional Airlines AB (Finnair's ownership 40 per cent as at 31 December 2020). 60 per cent of Nordic Regional Airlines AB is owned by Danish Air Transport (DAT). Nordic Regional Airlines Oy is a Finnish regional passenger airline operating ATR turboprop and Embraer 190 aircraft. Its route network is designed to provide convenient feeder connections to Finnair's European and long-haul routes. Finnair's influence over the governance of the Company is based on shareholding and contractual rights.

Finnair procures certain important operational services from strategic partners, such as the ground handling and cargo terminal handling services in Helsinki hub from Swissport Finland Ltd, and the engine and component services from SR Technics, Lufthansa Technik and Rolls Royce. In the area of IT and mobile services Finnair partners with Amadeus, IBM and Apple, among others. The cost and quality targets of these agreements have been determined so as to correspond at least to a good general market level.

Finnair participates in joint businesses with certain airlines belonging to the oneworld alliance. These joint businesses seek to improve competitiveness and efficiency in a manner benefitting the passengers. Finnair's influence in the joint businesses is based on contractual arrangements. Decisions by the joint businesses are sought to be made unanimously.

All Finnair's service providers are expected to comply with Finnair's Supplier Code of Conduct. Finnair aims to secure in its supply contracts the rights to audit the Supplier's governance and security measures.

Finnair's Code of Conduct and Supplier Code of Conduct are available on Finnair's website.

Executive Board members in 2020

Topi Manner
b. 1974, M.Sc. (Econ.)
Main occupation:
CEO as of 1 January 2019
Key positions of trust:
Vice Chairman,
Finland Chamber of Commerce
Member of the Board of Directors,
Elisa
Member of the Board,
Service Sector Employers Palta
Shareholding 31 December 2020:
674,068

Nicklas Hebrand
b. 1980, M.Sc. (Computer Science)
Main occupation:
SVP Strategy as of 1 May 2019
Key positions of trust:
Chairman of the Board of Directors,
Nordea Hypotek AB 2016-
Shareholding 31 December 2020:
105,705

Johanna Karppi
b. 1968, LLM, (trained on bench)
Main occupation:
SVP People & Culture as of
1 October 2019
Key positions of trust:
-
Shareholding 31 December 2020:
16,115

Ole Orvér
b. 1966, Degree in Market
Economics
Main occupation:
Chief Commercial Officer as of
1 May 2019
Key positions of trust:
-
Shareholding 31 December 2020:
87,682

Tomi Pienimäki
b. 1973, Dr. Tech, M.Sc. (Eng.),
M.Sc. (Econ.)
Main occupation:
Chief Digital Officer as of
1 October 2019
Key positions of trust:
Member of the Board of Directors,
Router Group Oy
Shareholding 31 December 2020:
38,375

Sami Sarelius
b. 1971, LLM
Main occupation:
SVP and General Counsel as of
20 August 2010
Key positions of trust:
-
Shareholding 31 December 2020:
225,000

Jaakko Schildt
b. 1970, B.Sc. (Eng.), MBA
Main occupation:
SVP Operations as of 1 March 2016
Key positions of trust:
Chairman of the Board, Nordic
Regional Airlines Oy
Member of the Board of Directors,
Finnish Aviation Academy Oy
Member of the Board of Directors,
Kallioinen Yhtiöt Oy
Shareholding 31 December 2020:
127,005

Mika Stirkkinen
b. 1968, M.Sc. (Econ.)
Main occupation:
Chief Financial Officer (CFO) as of
1 July 2019, interim Chief
Key positions of trust:
Member of the Board of Directors,
Nordic Regional Airlines Oy
Shareholding 31 December 2020:
235,680

Päivyt Tallqvist
b. 1970, M.Sc. (Econ.)
Main occupation:
SVP Communications as of
1 November 2020
Key positions of trust:
-
Shareholding 31 December 2020:
4,939

Piia Karhu
(member until 30 Jun 2020)
b. 1976, Dr. Business Administration
Main occupation:
SVP Customer Experience from
1 March 2016 until 30 June 2020
Key positions of trust:
Member of the Board of Directors,
Kesko Oyj 2018-
Shareholding 31 December 2020:
16,250

Arja Suominen
(member until 31 Oct 2020)
b. 1958, MA, e-MBA
Main occupation:
SVP Corporate Communications
and Corporate Responsibility
from 14 March 2011 until
31 October 2020
Key positions of trust:
Member of the Board of Directors,
Savonlinna Opera Festival Ltd
Shareholding 31 December 2020:
163,339

The CEO's and the Executive Board members' direct and indirect shareholdings in Finnair as at 31 December 2020 are shown in the table above.

Key events in Finnair governance in 2020

Shareholders

The ownership profile of Finnair Plc remained unchanged in 2020 as regards name-registered shareholder. The largest shareholder at the end of the year was the Government of Finland, holding 55.90% of the shares and votes, followed by mutual pension insurance company Ilmarinen (2.63%) , mutual pension insurance company Varma (2.55%), and Keva (1.70%). The ownership of nominee-registered shareholders almost halved from last year, and was 7.39 % at year-end. The number of shareholders increased from 27,029 to 85,590 between 1 January and 31 December 2020.

Finnair Plc issued 1,279,265,150 new shares in its Rights Issue in June 2020.

The shareholders' Annual General Meeting was held on 29 May 2020.

Subsidiaries

Finnair Kitchen Ltd merged into Finnair Travel Retail Ltd as of 31 December 2020. In connection with the merger, Finnair Travel Retail Ltd's name was changed to Finnair Kitchen Ltd.

Auditor

On 29 May 2020, the Annual General Meeting elected KPMG Oy Ab as the Company's auditor for the year 2020.

Board of Directors and the Executive Board

The composition of the Board of Directors changed in 2020 as one new member was elected by the Annual General Meeting. In 2020, the Board of Directors and the Executive Board focussed on resizing the Company, mitigating the negative impact of the Covid-19 pandemic on different areas of business, ensuring liquidity, as well as defining the Company's post-pandemic rebuild plan.

The composition of the Executive Board changed in 2020 as the SVP Customer Experience position was discontinued on 30 June 2020.

Management Board

The Management Board's composition changed in 2020 as some of the personnel groups replaced their representatives.

Internal Control and Risk Management

Adherence to the Three Lines of Defence model - with a clear division of roles and responsibilities with respect to internal control and risk management - was further strengthened in 2020. In the second Line of Defence the Risk & Compliance function acts as a control function that is responsible for developing and maintaining the Internal Control Framework and Risk Management Framework as well as for monitoring the implementation of the policies, rules, procedures and key controls within the frameworks.

Internal Audit

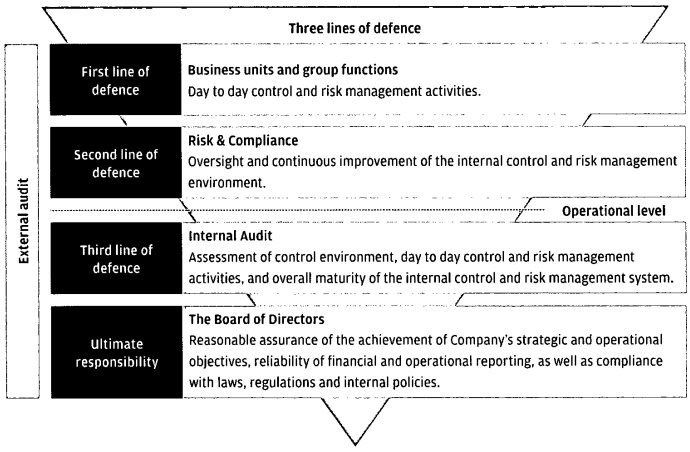
Internal audit, the independent assurance function in the third Line of Defence, performed audits according to the annual plan approved by the Audit Committee of the Board of Directors and performed also assignments requested by the management.

Main features of the internal control and risk management systems

Based on the limited liability companies act the management of the Company shall act with due care and promote the interests of the Company. The Board of Directors shall see to the administration of the Company and the appropriate organisation of its operations. The Board is responsible for the appropriate arrangement of the control of the Company accounts and finances. The CEO shall see to the executive management of the Company in accordance with the instructions given by the Board. The CEO shall see to it that the accounts of the Company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Internal control and risk management activities are an integral part of the management's overall duty to ensure that the Company achieves its business objectives. Through efficient systems of internal control and risk management, deviations from objectives can be prevented or detected as early as possible. The Board of Directors is responsible for monitoring and evaluating the efficiency of the Company's internal control and risk management systems.

THE ROLE IN THE IMPLEMENTATION OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS



Finnair's Internal Control Framework is the defined set and structure of the Company's internal policies, rules, procedures and key controls. The framework is systematically developed and maintained to ensure the efficiency of the internal control system. The Internal Control Framework is designed to ensure effective and efficient operations, adequate identification, measurement and mitigation of risks, prudent conduct of business, including safeguarding of assets, sound administrative and accounting procedures, reliability of financial and non-financial information both externally and internally, and compliance with laws,

regulations, supervisory requirements and with Finnair's internal policies and rules.

The primary governance principle is adherence to the Three Lines of Defence model, with a clear division of roles and responsibilities with respect to internal control and risk management. A proper Three Lines of Defence governance ensures that the segregation of duties is defined and established between risk management and risk control.

- In the first line of defence, the business organisation and shared functions are risk owners, and thus responsible for conducting day-to-day control and risk management activities in accordance with the Internal Control Framework.
- In the second line of defence, Risk & Compliance acts as a control function that is responsible for developing and maintaining the Internal Control Framework and Risk Management Framework as well as for monitoring the implementation of the policies, rules, procedures and key controls within the frameworks.
- In the third line of defence, Internal Audit performs audits and provides the Board of Directors with an independent assessment of the overall effectiveness and maturity of the internal control and risk management systems.

Internal control and risk management systems in relation to financial reporting

The systems for internal control and risk management of financial reporting are designed to provide reasonable assurance about the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, applicable laws and regulations, and other requirements for listed companies. Internal control and risk management of financial reporting at Finnair can be described in accordance with the COSO framework which consists of the five components: control environment, risk assessment, control activities, information and communication, and monitoring.

Control environment

The control environment constitutes the basis for Finnair's internal control system. The control environment encompasses the culture and values as well as a clear and transparent organisational structure. Finnair's Internal Control Framework is a fundamental element in the control environment and consists of the Code of Conduct, Finnair Policies, Standards, Rules, and Manuals, as well as the related key controls.

For the proper functioning of the internal control and risk management of financial reporting, clearly defined roles and responsibilities are critical. The risk owners in the first line of defence - i.e. business units, Finance organisation as well as certain other shared functions - are responsible for the risk management activities, whereas Risk & Compliance, being a control function in the second line of defence, facilitates the identification and evaluation of risks, assists the first line of defence in defining the controls, and monitors the implementation of controls and risk management activities. In the third line of defence. Internal Audit provides the Board of Directors with an assessment of the overall effectiveness of the governance, risk management and control processes.

Risk assessment

Risks are continuously identified and analysed as part of the risk management process. Risk management is an integral part of running the business. Performing risk assessments as part of the business activities improves the relevance and quality of risk assessment. Main responsibility for performing risk assessments regarding financial reporting risks lies with the business organisation and shared functions, i.e. the first line of defence. Processes related to financial reporting are subject to on-going risk assessment by the business controllers, financial controllers and other shared service staff as part of their activities.

Consistent with the Three Lines of Defence model, the role of Risk & Compliance function is to develop and maintain the Finnair Risk Management Framework.

Control activities
Financial reporting manuals and instructions have been prepared to be followed across the organisation. The manuals and instructions outlining the content and schedule for the reporting aim to increase the overall controllability of the financial reporting process and ensure that financial statements fulfil the requirements set in the IFRS standards and other applicable requirements.

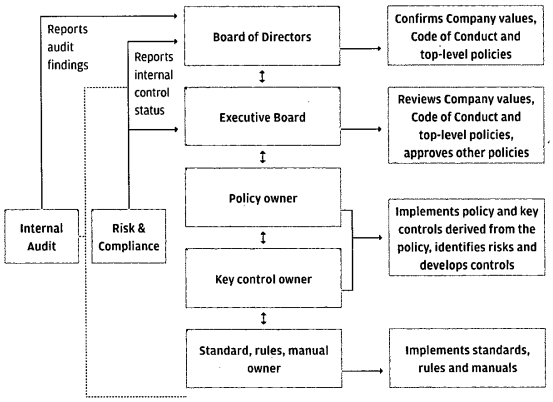
Risks related to financial reporting are managed through controls aiming to provide reasonable assurance that the information of interim reports and year-end reports are correct and that they have been prepared in accordance with legislation, applicable accounting standards and other requirements for listed companies.

Control activities are applied in the business processes and, from the financial reporting perspective, they ensure that errors or deviations are prevented or detected and corrected. Controls in financial reporting pertain to the initiation, recognition, measurement, approval, accounting and reporting of financial transactions as well as disclosure of financial information. The general IT controls support the financial reporting controls in areas like access control and back-up management. Responsibilities are assigned in the Finance function ensuring that analyses of the business performance, including analyses on volumes, revenues, costs, working capital, and asset values are performed in accordance with the control requirements.

Information and communication
The Finance organisation is responsible for ensuring that the financial reporting manuals and instructions are up-to-date and that changes are communicated to the relevant units and functions. The process owners of the main finance processes are responsible for informing about upcoming changes in International Accounting Standards, new accounting principles and other changes in reporting requirements.

The key principles of Finnair's Disclosure Policy regarding disclosure to the stock markets are reliability, openness, consistency and fairness. Finnair publishes press and stock exchange releases without undue

THE KEY COMPONENTS AND ROLES IN CONTROL PLANNING, IMPLEMENTATION AND MONITORING



delay and makes them available to the markets and all principal stakeholders simultaneously.

Monitoring and improvement
The business units and shared functions regularly assess the maturity of their control activities. The control function - Risk & Compliance - facilitates the identification and evaluation of risks, assists business units and shared functions in defining the controls, and monitors the implementation of controls and risk management activities.

The design and effectiveness of the internal control and risk management systems are also assessed as part of the audits by Internal Audit. Audit results, corrective actions and their status, are regularly reported to the Executive Board and to the Audit Committee.

Internal Audit

The Internal Audit is established by the Board of Directors, and its responsibilities are defined by the Audit Committee of the Board as part of their oversight responsibility.

Internal audit, the independent assurance function in the third Line of Defence, performed audits according to the annual plan approved by the Audit Committee of the Board of Directors and performed also assignments requested by the management.

The mission of Internal Audit in Finnair is to provide independent, objective assurance and consulting services designed to add value and improve the organisation's operations. Internal Audit helps the organisation to mitigate factors that might undermine its business objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Related party transactions

Related party transactions are regulated by the Finnish Companies Act and the Corporate Governance Code issued by the Securities Market Association, as well as in the IAS 24 Related parties. Finnair related parties include the subsidiaries, associated companies and joint ventures. Also, the members of the Board of Directors, the CEO and other members of the Executive Board, their close family members and entities controlled directly or indirectly by them, as defined in IAS 24, are related to Finnair. Major shareholders with more than 20 per cent ownership of shares or of the total voting rights in the Company, are included in related parties. Finnair has defined procedures in place for identifying related party transactions.

In relation to any transaction with the Company the related parties must obtain permission in advance. The permission can be given by the Executive Board, or if the permission concerns the CEO or a member of the Board of Directors, by the Board of Directors. The person concerned may not participate in discussing the matter on the Executive Board or the Board of Directors or participate in preparations, decisions or implementation of the matter on behalf of the Company.

In addition, the members of the Executive Board and the Board of Directors are required to file an annual report of transactions conducted by them or their related parties with Finnair during the financial period, as well as of transactions anticipated for the next period. The permission and notification procedures only apply to negotiated transactions. Hence, they do not apply to service or product purchases available on normal commercial terms or to normal employee discounts.

Significant transactions between Finnair and its related parties are announced with a stock exchange release in accordance with the rules of Nasdaq Helsinki. Information on transactions with related parties is also provided in note 4.5 to the financial statements and they have been carried out at market prices.

Managers' transactions and key insider management procedures

Inside information within the Company and transactions on Finnair financial instruments by persons discharging managerial responsibilities in the Company or their closely related persons are managed in accordance with the Market Abuse Regulation (MAR) and the insider guidelines of Nasdaq Helsinki and of the Company. The Company's insider rules also apply to employees in the so-called informative core of the Company.

The Company maintains a list of persons discharging managerial responsibilities in Finnair (managers), including their closely related persons and entities, who must notify the Company and the Financial Supervisory Authority of their transactions on the Company's financial instruments within three business days of the execution of the transaction. The Company must disclose these transactions in a stock exchange release within two business days from having received the notification of the transaction. The Company's managers are the members of Finnair's Board of Directors and of the Executive Board.

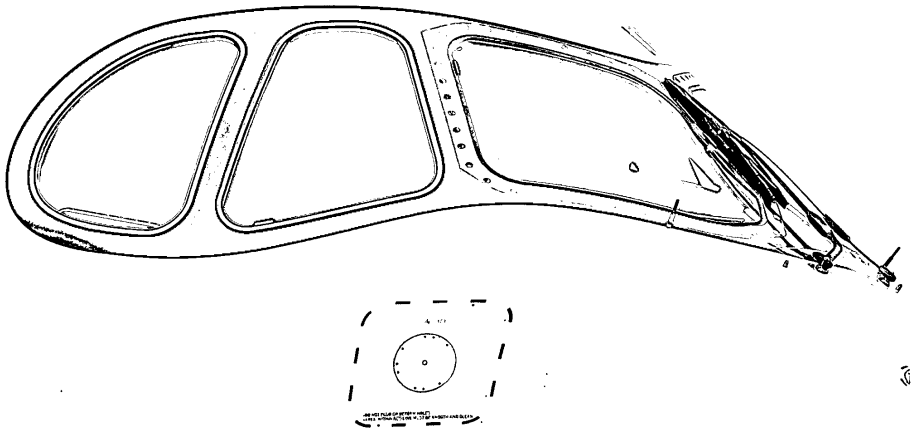
The Company's managers and employees in the so-called informative core of the Company are bound by a closed window on trading, which begins 30 days before the release of interim or annual results and continues until the end of the release date. The Company may also impose other trading restrictions and grant exemptions in accordance with its insider rules.

The Company's managers and employees in the so-called informative core of the Company must give an advance notice to the Company before the execution of a planned transaction. In addition, they can request an advance assessment of the legality of a planned transaction. The advance notice obligation and advance assessment opportunity are intended to reduce the risk of trading during a closed trading window or at a time when the Company has undisclosed inside information. Giving an advance notice does not affect the responsibility of the Company's managers and employees in its so-called informative core regarding the abuse of inside information.

The disclosure policy of the Company requires, in accordance with the Market Abuse Regulation (MAR), that the Company discloses any inside information it may have as soon as possible. However, the disclosure may be delayed if the requirements specified in MAR are met. The identification of inside information and decisions regarding the disclosure or delay of disclosure are made by the Company's Disclosure Committee, which is comprised of the members of the Executive Board. The Disclosure Committee assesses the Company's information typically twice a month and otherwise whenever necessary. If the Company delays the disclosure of inside information, it establishes a project-specific insider list and enters the persons with access to the relevant information on the insider list.

The person responsible for insider issues within the Company is the General Counsel. Finnair's insider rules are available at the Company's website.

Remuneration Report 2020



118 Directors' Remuneration Report 2020
- **118** Introduction
- **120** Paid remuneration of the Board of Directors in 2020
- **121** Paid remuneration of the CEO in 2020

Directors' Remuneration Report 2020

This Report presents the remuneration paid to members of the Board of Directors and the CEO of Finnair during 2020. Remuneration paid to members of the Executive Board is described on Finnair.com website. The report has been prepared based on the Finnish Corporate Governance Code 2020 and it complies with the requirements of the EU's Second Shareholder Rights Directive.

Introduction

Year 2020 was an exceptionally challenging year for Finnair due to the Covid-19 pandemic and its' impact on Finnair's business. This had a major impact also on remuneration for the CEO, Executive Board members and all employees at Finnair. As incentive payouts are based on previous years' performance, the pandemic's impact on paid variable compensation was not yet visible in 2020. The STI and LTI payouts in the beginning of 2020 were based on 2019 performance (STI plan) and 2017-2019 performance (LTI plan).

CEO Topi Manner together with other Executive Board members voluntarily cut their base salaries by 15% for a 6-month period during 2020. Also the Board of Directors voluntarily cut their annual fees by 15 % starting June 2020 until the 2021 Annual General Meeting.

The European Commission issued on 9 June 2020 a state aid decision regarding the participation of the State of Finland in Finnair's Rights Offering finding such participation compatible with the EU state aid rules under the Treaty on the Functioning of the European Union Article 107(3)(b). Under the Commission's decision, the Company agreed to certain conditions following the Rights Offering, which include, among other things, limitations on management remuneration for a period from June 2020 till the end of 2022. These limitations resulted in Finnair not being able to implement the STI and LTI structures as described in the Directors' Remuneration Policy. To comply with the defined limitations, Finnair cancelled ongoing 2020 STI as well as 2018-2020, 2019-2021 and 2020-2022 LTI plans for the CEO and Executive Board members and launched a new performance share plan for the CEO and Executive Board members for the period 7/2020-6/2023. At the same time, a rebuild incentive plan for personnel was launched that is based on the same period and target setting.

Development of remuneration 2016-2020
Annual fees for the Board of Directors were last changed in 2020 and before that, in 2008. The average paid remuneration to the Board of Directors in the table below has mainly varied from year to year depending on the amount of Board and committee meetings held during each year. The total amount paid to the Board has increased as the number of Board members increased from 7 to 8 in 2018 and from 8 to 9 in 2020. The Annual General Meeting held on 29 May 2020 decided to increase the annual board fee by three percent for the Chair and by one percent for the other members. The Board decided to forego the increases and additionally cut their current annual fees by 15% until the 2021 Annual General Meeting. A significant share of the CEO's remuneration is based on performance and variable pay. As the performance targets for short- and long-term incentives are linked to Finnair's business results, this development is reflected in the performance-based rewards paid to the CEO. Remuneration of the CEO increased strongly during 2016-2018 mainly due to increased variable remuneration reflecting the company's improved financial performance. 2018 CEO remuneration includes both CEO Pekka Vauramo's and interim CEO Pekka Vähähyyppä's remuneration. CEO Topi Manner joined Finnair on 1 January 2019, and hence did not receive any short- or long-term incentives during 2019 based on previous years' performance. The CEO's variable compensation paid in 2020 was based on 2019 (STI) and 2017-2019 (LTI) performance.

Average paid remuneration of employees have been impacted by a number of factors during the past 5 years. In 2020, the extensive temporary lay-offs decreased the paid average remuneration per employee (all employees, including active (at work) and inactive (leave of absence)). Paid average remuneration per active employee on the other hand increased as the temporary lay-offs were extensive in operative employee groups where the salary level is

lower than average. The other main items impacting average remuneration over time are CLA-based annual salary increases, personnel incentive plan payouts as well as the volume of recruitments and retirements (especially in those employee groups where remuneration structures are heavily based on seniority).

Financial performance 2016–2020

The development of Finnair's business performance impacts the CEO's performance-based variable compensation. During 2016-2018 both Finnair's business results and the CEOs remuneration increased strongly. The challenging year 2020 will be visible in paid variable compensation in 2021.

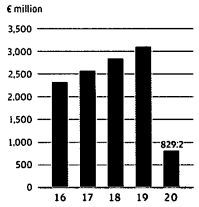
Paid total remuneration 2016–2020

Member	2020	2019	2018	2017	2016
Chair of the Board	71,968	77,907	89,308	74,223	82,800
Deputy Chair of the Board	52,365	55,984	70,500	51,367	67,029
Other members of the Board, average	46,102	43,878	53,873	49,982	54,613
CEO	1,125,233 Topi Manner	769,205 Topi Manner	1,456,648 Pekka Vauramo 1.1.-31.10.2018 123,714 Pekka Vähähyyppä 4.9.-31.12.2018	1,241 910 Pekka Vauramo	992,886 Pekka Vauramo
Finnair employees (active employees), average*	66,072	57,608	56,131	62,880	59,766
Finnair employees (active and inactive employees), average**	33,835	54,852	53,333	59,866	56,557

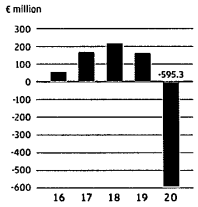
* Average salary is calculated by dividing the total paid salaries with the average number of active (at work) employees during the year.
** Average salary is calculated by dividing the total paid salaries with the average number of all employees (includes both active (at work) and inactive (leave of absence) workers) during the year. Temporary lay-offs have a significant impact on average paid remuneration of all employees.

Financial performance 2016–2020

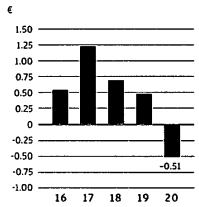
Revenue



Comparable operating result



Earnings per share



Paid remuneration of the Board of Directors in 2020

The fees for Board of Directors were paid in cash.

Members 1.1.–31.12.2020	Annual fees[1]	Board meetings (participated/total number of meetings)	Committee meetings (participated/total number of meetings)	Meeting fees in total[3]	Taxable benefits[2]	Total
Jouko Karvinen (Chair)	55,845	16/16	0/0	14,400	1,723	71,968
Colm Barrington (Deputy Chair)	29,565	16/16	7/7	22,800		52,365
Mengmeng Du	27,375	16/16	9/9	21,000		48,375
Jaana Tuominen	29,565	16/16	9/9	17,400		46,965
Montie Brewer	27,375	16/16	7/7	21,600		48,975
Henrik Kjellberg	27,375	16/16	7/7	21,600		48,975
Jukka Erlund	29,565	16/16	8/8	15,000		44,565
Tiina Alahuhta-Kasko	27,375	16/16	9/9	15,600		42,975
Members 29.5.–31.12.2020						
Maija Strandberg	14,875	8/8	7/7	7,800		22,675

[1] Annual fees are expressed at the annual level but paid in monthly instalments. Annual fees were cut by 15% starting June 2020 so that the impact for the whole year 2020 was approximately 9%. The cut continues until 2021 Annual General Meeting.
[2] Taxable benefits include Finnair staff tickets. The members of the Board and their spouses have a right to use staff tickets in accordance with Finnair's staff ticket rule.
[3] Meeting fees include fees paid during the year regardless of which year the meeting has been held. In the financial statement meeting fees are reported based on attended meetings and therefore the figures can be different.

Paid remuneration of the CEO in 2020

Remuneration paid, euros per year		CEO 2020 Topi Manner	CEO 2019 Topi Manner
Base Salary[1]	In total, euros	724,866	751,597
Employee benefits[2]	In total, euros	14,821	17,488
Short-term incentives[3]		based on 2019 performance:	based on 2018 performance:
	In total, euros	216,727	0
	as % of paid base salary	28%	0%
Long-term incentives		based on 2017-2019 performance:	based on 2016-2018 performance:
	Key personnel LTI, monetary and share reward, euros	168,819	0
	Fly Share, monetary and share reward, euros	0	120
	In total, euros	168,819	120
	as % of paid base salary	22%	0%
Supplementary pensions	In total, euros	0	0
REMUNERATION PAID IN TOTAL		**1,125,233**	**769,205**

[1] Base salary includes holiday bonus.
[2] Benefits include car, phone, staff tickets and possible voluntary health insurance.
[3] CEO Topi Manner joined Finnair on 1 January 2019, and hence did not receive any short- or long-term incentives based on previous years' performance.

The 2020 short-term incentive as well as 2018-2020, 2019-2021 and 2020-2022 long-term incentive plans were cancelled for the CEO due to the limitations set by the European Commission. Hence, there are no due short or long-term incentive payments that will be paid during 2021.

During 2020, a new 3-year performance share plan was launched for the CEO and the Executive Board members. The program contains a three-year performance period (7/2020-6/2023). The potential rewards will be delivered to the participants in a pre-determined proportion of shares and cash after the end of the performance period and the rewards are at the participants' free disposal after delivery. To comply with the restrictions set by the European Commission, the program structure differs from the STI and LTI incentive structures described in the Director's Remuneration Policy but the maximum annual incentive opportunity remains within the 120% cap defined in the Policy.

The pandemic's impact on paid variable compensation was not yet visible in 2020 as STI and LTI payouts were based on 2019 performance (STI plan) and 2017-2019 performance (LTI plan). The 2019 STI performance (based on a variety of financial and non-financial measures) for the CEO was slightly below target level and hence resulted in and STI payout equaling 28% of annual base salary. The 2017-2019 EPS and revenue performance significantly exceeded set targets and resulted in LTI payout equaling 22% of paid annual base salary. For CEO Topi Manner the LTI payout was pro-rated to the length of his service during the performance period.

Sustainability appendix 2020

123 Sustainability reporting principles
124 Global Compact Communication on Progress -report
125 GRI Content Index
153 Independent Practitioner's Assurance Report

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- GRI 102 General disclosure
- GRI 103 Management approach
- GRI 200 Economic
- GRI 300 Environmental
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

Reporting Principles

This Sustainability Appendix is integrated into the Annual Report and together they form Finnair's sustainability reporting. This appendix has been prepared in accordance with the GRI Standards: Core option and Global Compact's Communication on Progress (CoP). The report covers the parent company and all Finnish subsidiaries. The descriptions and information presented in the Annual Report provide an overview of the operations sustainability context, while this appendix provides the reader with more detailed information and figures for the reporting year. The priorities of the report are based on the materiality analysis described on GRI-table Row 102-47 list of Material Topics.

Finnair group does not report on the operations of foreign subsidiaries, because they are deemed not to be of key significance in terms of the group's sustainability issues as minor operators. Any exceptions to this should be mentioned separately in connection with each indicator. Finnair does not report on outsourced operations, either. The business units and subsidiaries covered by the report are listed in the adjacent table.

The information of the report has been collected from the group's internal statistics systems and from various subcontractors. In terms of measurement and calculation methods, the GRI topic-specific accounting principles have been adhered to whenever the available data have so allowed. If some other measurement or calculation method has been used, this shall be mentioned in connection with the key figure concerned. The figures have been presented in time series when this has been appropriate and reliably possible.

There have been no significant changes in the data compared with the previous report. Small amendments have been made to provide reader with even more reliant comparable data between reporting periods.

Changes pertaining to Finnair's organisational structure and the calculation of financial statement data are described in more detail in connection with Finnair's financial key figures.

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- GRI 102 General disclosure
- GRI 103 Management approach
- GRI 200 Economic
- GRI 300 Environmental
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

Global Compact; Communication on Progress -report

Human rights & Labour

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights;
Principle 2: Make sure that they are not complicit in human rights abuse;
Principle 4: The elimination of all forms of forced and compulsory labour; and
Principle 5: The effective abolition of child labour.

Practical actions	Finnair's human rights management is described in the Finnair Code of Conduct, The Supplier Code of Conduct, and the company's personnel management principles. The company aims to prevent any violations of human rights and the use of forced or child labour both within its own operations and its supply chain. Sustainability Appendix: 102-16, 103

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Practical actions	Freedom of association and the collective right to negotiate on occupational issues are recognised as fundamental rights in Finland. There is a long tradition of trade union activity in Finnair. Labour market culture in the company has been constructed in such a way that the organisation of workers and collective negotiations between Finnair and employee groups are part of normal practice. All Finnair employees have the right and opportunity to agree on terms of employment collectively. The terms of employment of management employees are agreed on locally. Personnel and management remuneration principles are described in the Remuneration statement. Sustainability Appendix: 103, 407

Principle 6: The elimination of discrimination in respect of employment and occupation.

Practical actions	Equality and non-discrimination are embedded in the Finnair values, and Finnair is committed to providing its customers, personnel and partners with equal opportunities. Finnair does not discriminate based on gender, age, ethnic or national origin, nationality, language, religion, conviction, opinion, health, disability, sexual orientation or other personal attributes or circumstances. Finnair offers everyone equal opportunities for recruitment, work performance, career progression and development. Finnair implements the equal pay principle based on the Finnish Equality Act and gives both men and women equal opportunities for balancing work and family life. The working group for equality frequently updates the Equality and non-discrimination plan published internally and externally. Sustainability Appendix: 103, 406 Company's Equality and Non-discrimination Plan

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: Undertake initiatives to promote greater environmental responsibility; and
Principle 9: Encourage the development and diffusion of environmentally friendly technologies.

Practical actions	Finnair's goal is to be an engaging leader in the field of environmental responsibility. Finnair strives being a pioneer in evaluating, reducing and reporting environmental impacts. Company is also committed complying with current environmental legislation, but its environmental work aims at exceeding statutory requirements. Modern aircraft are always more fuel-efficient and silent than previous-generation aircraft, and hence Finnair's most significant environmental action has been continuous, ongoing investments in a modern fleet. Sustainability Appendix: 102-1, 103, 300 series (Environmental Topics)

Anti-corruption

Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.

Practical actions	Anti-corruption policies are outlined in Finnair's Code of Conduct and Supplier Code of Conduct as well as in the Rules for Anti-Bribery, Corporate Hospitality and Hosting of Public Officials. Receiving and giving of bribes is strictly prohibited at Finnair. The group's Conflict of Interest Guidelines cover the identification and avoidance of conflicts of interest and related conduct. Sustainability Appendix: 103, 205-2, 206-1

Implementation and Measurement of Outcomes

Practical actions	Finnair has a Whistleblowing line called Finnair Ethics Helpline in use, through which both internal and external stakeholders can report on concerns for ethical business conduct. During 2020 no material incidents of material misconduct were notified through the Finnair Ethics Helpline nor were there any investigations ongoing in the company. Annual report p 25, Non-Financial Performance Sustainability Appendix: 102-17, 300 & 400 series (Social & Environmental topics)

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- ▶ **GRI 102 General disclosure**
- GRI 103 Management approach
- GRI 200 Economic
- GRI 300 Environmental
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

102: Organisation Profile
102-1 Name of the organisation
Finnair Plc
102-2 Activities, Brands, Products and Services
Annual Report pages 6–11
102-3 Location of the Headquarters
Tietotie 9, Vantaa, Finland
102-4 Location of the Operations
Annual Report pages 50, 18, 6–9
102-5 Ownership and Legal Form
Annual Report pages 30, 50
102-6 Markets Served
Annual Report page 10
102-7 Scale of the Organisation
Annual Report pages 10–14, 23–24

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- ▶ **GRI 102 General disclosure**
- GRI 103 Management approach
- GRI 200 Economic
- GRI 300 Environmental
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

102-8 Information on employees and other workers

Annual report, pages 23-24, Non-Financial Performance

	Number of employees	Share of females, %	Share of permanent contracts, %
Employees	6131	57%	99%
Management	73	34%	100%
Executive Board	9	22%	100%
Board of Directors	9	44%	0%

Distribution of employee groups, %

	2020		2019	
Employee Group	Share from total, %	Share of females, %	Share from total, %	Share of females, %
Cabin Crew	38	89	32	89
Pilots	15	3	14	3
White Collar Employees	14	44	15	44
Ground services and Finnair Kitchen	11	59	14	64
Abroad	7	70	9	72
Technical Services	7	5	7	7
Technical Employees	3	13	3	13
Aviation Employees	2	81	3	82
Management	1	34	1	35
Travel Guides	1	76	1	85
Travel Agency Staff	1	95	1	94

Indicators on personnel are based on active employment relationships as at 31 December 2020 and are derived from company's HR system.
The figures exclude dormant employees and Aurinkomatkat Baltic subsidiary (number of personnel on 31 December 2020).

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- ▶ **GRI 102 General disclosure**
- GRI 103 Management approach
- GRI 200 Economic
- GRI 300 Environmental
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

102-9 Supply chain

A report of the organistaion's supply chain can be found under the chapter 103 Management Approach.

102-10 Significant changes to the organisation and its supply chain

Annual Report pages 28, 25

102-11 Precautionary Principle of Approach

Finnair has signed the Global Compact initiative, according to Principle 7 of which we support a precautionary approach to environmental challenges. To apply this approach, Finnair has an Environmental Policy in place and has included systematic risk assessment, management and communication in its environmental management system. All environmental objectives, targets, impacts and promotion are managed and continuously developed through Finnair's Environmental Management System (EMS).

102-12 External initiatives

- UN Global Compact
- UN Universal Declaration of Human Rights
- UN Women's Empowerment Principles
- Finnish Government's Society's Commitment 2050 (UN Agenda2030)
- Nordic Network for Electric Aviation
- IATA's 25by2025
- IATA resolution against modern slavery and human trfficking
- Diversity Charter Finland (by FIBS)
- Wildlife Transport Taskforce: Buckingham Palace Declaration
- Helsinki Declaration
- Feasibility study on producing P2X fuel

102-13 Membership of associations

- Airlines for Europe (A4E)
- International Air Transport Association (IATA)
- Global Compact Finland Network
- Climate Leadership Council (CLC)
- Nordic Initiative for Sustainable Aviation (NISA)
- Finnish Business & Society (FIBS)
- Nordic CEOs for Sustainable Future

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- ▶ **GRI 102 General disclosure**
- GRI 103 Management approach
- GRI 200 Economic
- GRI 300 Environmental
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

102: Strategy

102-14 Statement from senior decision-maker

Annual Report, pages 3-4, CEO Review
Annual Report, pages 6-9, Business Model and Operational Environment

The sustainability strategy is geared at preserving the license to operate from key stakeholders and contributing to the good reputation and long-term shareholder value of Finnair. It also helps protect Finnair from the downside risk that breaches of environmental regulations, climate change, human rights abuses or governance issues, such as corruption, can bring to a company.

102-15 Key impacts, risks, and opportunities (comprehensive)

Annual Report, page 9, Value creation
Annual report, page 6, Megatrends
Annual report, pages 33-36, Risk management
Company's website: https://investors.finnair.com/en/governance/risk-management

102: Ethics and integrity

102-16 Values, principles, standards, and norms of behaviour

Annual report page 9, Value creation model.

Finnair's corporate sustainability is reflected in its purpose, strategy, mission, vision and values of commitment to care, simplicity, courage and working together. Sustainability is integral to all Finnair operations, as stated in its strategy's target; Sustainable, profitable growth. The target of Finnair's sustainability strategy is to reduce the environmental impact and increase the financial and social return for society.

The Finnair Code of Conduct and Finnair Supplier Code of Conduct lay the foundation of how the company conducts its business responsibly, in all areas. The values, Codes of Conduct and policies implemented thereunder set the standard for Finnair and its employees across the jurisdictions and environments in which the company operates.

The key areas of the strategy fall under the following themes: Environment, Social and Economic. Finnair is committed to complying with international and national legislation in its operations and the ethical business principles laid out in the Code of Conduct, as well as continuously developing its sustainability performance. The most significant environmental aspects are the combustion of fuel, aircraft noise, energy usage in corporate facilities and waste generation. The most important social responsibility areas concern safety, personnel and customers, as well as ethical business conduct and responsible sourcing.

Finnair respects the UN Universal Declaration on Human Rights and the core conventions of the International Labour Organization (ILO). Finnair has also signed the United Nation's Global Compact initiative and as required by the Global Compact principles, the company aims to prevent any violations of human rights and the use of forced or child labour both within its own operations and its supply chain. Finnair has been reporting on its corporate responsibility pursuant to the GRI G4 reporting guidelines since 2015 and from 2018 have followed the GRI standard framework.

102-17 Mechanisms for advice and concerns about ethics (comprehensive)

Finnair conducts its business in a responsible way and in accordance with its Code of Conduct. In order to protect the company and our business, all employees with knowledge of suspected violations of the law, misconduct or fraudulent or unethical conduct in violation of the Code of Conduct are encouraged to raise the concern and report it in accordance with the reporting procedures provided. Primarily, all employees are encouraged to raise concerns and report possible violations through normal reporting procedures. Supporting this, Finnair has a Whistleblowing line called Finnair Ethics Helpline in use, through which both internal and external stakeholders can report on concerns for ethical business conduct. All reports through the Ethics Helpline are received and handled directly by the Compliance function.

The identity, or anonymity as the case may be, of the person raising concerns will be protected and Finnair has a strict policy of non-retaliation against anyone raising a concern in good faith. Third party that hosts Ethics Helpline will never disclose voice-files, IP addresses or phone numbers, unless authorities are involved. The right of non-retaliation is guaranteed under the Finnair Code of Conduct and violation of this right will not be tolerated. Filing a report will not, however, automatically result in immunity for misconduct.

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- ▶ **GRI 102 General disclosure**
- GRI 103 Management approach
- GRI 200 Economic
- GRI 300 Environmental
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

102: Governance

102-18 Governance structure

Finnair's management system is aimed to create value for all its stakeholders by bridging the world in a sustainable and safe manner.
A detailed description of Finnair governance model can be found from Company internet pages: https://investors.finnair.com/en/governance

102-19 Delegating Authority (comprehensive)

The company management structure can be viewd on the Company's website: https://investors.finnair.com/en/governance/company-management

102-20 Executive-level Responsibility for Economic, Environmental and Social Topics (comprehensive)

The executive-level responsibilities and reporting structure can be viewed on the company's website: https://investors.finnair.com/en/governance

102-30 Effectiveness of risk management processes

The internal control and risk management system at Finnair - corporate-wide coverage, hence 100% of operations - is the following:
Finnair's Internal Control Framework is the defined set and structure of the company's internal policies, rules, procedures and key controls, including those in place in the area of sustainability. The framework is systematically developed and maintained to ensure the efficiency of the internal control system. The Internal Control Framework is designed to ensure effective and efficient operations, adequate identification, measurement and mitigation of risks, prudent conduct of business, including safeguarding of assets, sound administrative and accounting procedures, reliability of financial and non-financial information both externally and internally, and compliance with laws, regulations, supervisory requirements and with Finnair's internal policies and rules. The Finnair Internal Control Framework covers the whole Finnair group, and thus all operations. The primary governance principle is adherence to the Three Lines of Defence model, with a clear division of roles and responsibilities with respect to internal control and risk management. A proper Three Lines of Defence governance ensures that the segregation of duties is defined and established between risk management and risk control.

102: Stakeholder engagement

102-40 List of stakeholder groups

Stakeholder groups are listed in a table presented in 102-43: approach to stakeholder engaement.

102-41 Collective bargaining agreements

Annual Report, pages 23-27, Non-Financial Performance
Employees can agree on their terms of employment through collective bargaining in countries in which that is the local practice. Finnair does not limit its employees' rights to participate in trade union activities. Senior management constitutes an exception to this, as its terms of employment are agreed on locally or individually.

102-42 Identifying and selecting stakeholders

An open and transparent dialogue with various stakeholder groups provides the basis for an active stakeholder identification and responding process. We pro-actively provide and gather information through social media, print, and other forms of communication medias.

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- ▶ **GRI 102 General disclosure**
- GRI 103 Management approach
- GRI 200 Economic
- GRI 300 Environmental
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

102-43 Approach to stakeholder engagement

Stakeholder Group	Topics	Channels
Customers	Travel experience, customer service issues, product quality, on-time performance, emissions and noise reduction, safety, recycling, responsible sourcing, responsible tourism, corporate responsibility projects via Finnair Plus.	Surveys, research, written feedback, Finnair website, social media, customer events, customer service encounters at every stage of the journey, messages to Finnair Plus customers, Finnair mobile app, Blue Wings inflight magazine, In-flight Entertainment system (IFE).
Personnel	Occupational health and wellbeing at work, equality, diversity and inclusion, target setting, Code of Conduct and ethical issues, safety and security, changes to improve profitability, values and business practices, increasing trust, reducing environmental impact on the job, corporate responsibility in partnerships, changes affecting personnel.	Intranet, internal blogs, theme weeks, Yammer, personnel events, WeTogether@Finnair-Wellbeing at Work -survey, occupational health services, performance evaluation and development planning, discussions with labour organisations, Leadership forum.
Shareholders and investors	Market environment and competitive landscape, the company's operations, corporate responsibility, goals, reporting, strategy and financial position.	Stock exchange bulletins under periodic and ongoing disclosure obligation; interim reports, financial statements, report of the Board of Directors, Corporate Governance Statement, Annual General Meeting; investor, analyst and media meetings and events; corporate website; Carbon Disclosure Project.
Aviation sector	Safety, emissions and noise reduction, emissions reduction schemes, air traffic management, biofuel and supply chain development, sustainable tourism, economic impacts of the sector.	Membership in IATA and A4E; cooperation forum for sustainable tourism; membership in oneworld alliance; Joint Businesses; cooperation with Finavia and other airport operators; sector seminars and working groups; manufacturers.
Authorities and government	Competitiveness, market access, safety, emissions trading and reduction schemes, air traffic management, supply chain responsibility, reporting, economic contribution of aviation, impact of operations on environment and noise, disruptions and irregularities, biofuels, employee relations, the Transport Code.	Dialogue with local, national, EU-level authorities and governments; dialogue with governments and authorities in destination and overflight countries, events and other cooperation with the Finnish Consumer Agency, Flight Safety Authority (Traficom), embassies and other relevant Finnish and foreign actors.
NGOs	Greenhouse gas emissions and environmental impact reduction, public health measures, human rights, disaster relief, wildlife protection, common interest projects for sustainability and development cooperation, supply chain responsibility.	Cooperation with the WWF, Finnish Association for Nature Conservation, UNICEF, Finnish Red Cross, Cancer Society of Finland and other NGOs. Membership in the Carbon Disclosure Project and the Climate Leadership coalition, Commitment 2050 -cooperation, Science Based Targets initiative -cooperation.
Research, Development and Innovation Partners	Greenhouse gas emissions and environmental impact reduction, common interest projects for sustainability and development cooperation, supply chain responsibility.	Finnair website, social media, customer events and cooperation projects.
Suppliers	Cooperation efforts to reduce emissions and other environmental impacts, monitoring of responsibility and business ethics everywhere in the value chain.	Contractual cooperation, Finnair procurement guidelines and Supplier Code of Conduct.
Media	Company strategy and business, Finnair products and network, daily operations irregularities, investments, emissions reduction, personnel relations, financial sustainability, economic contribution of aviation, ethics, cooperation projects with NGOs, trends in travel and traffic, biofuels, emissions trading and reduction schemes, noise, impact of aviation on local economy and mobility.	Press releases, press conferences, visits by reporters, press trips, interviews, Finnair media desk calls and emails, websites social media, Blue Wings magazine.
General public	Customer service, product quality, labour relations, economic contribution of aviation, ethics, emissions reduction, presence in local economies, cooperation projects with NGOs, corporate citizenship.	Communications via media, websites, email and lectures; social media including blogs, Facebook, Twitter and Sina Weibo.

102-44 Key topics and concerns raised

Key Topics of the stakeholder groups are listed in a table presented in 102-43; approach to stakeholder engaement

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- ▶ **GRI 102 General disclosure**
- GRI 103 Management approach
- GRI 200 Economic
- GRI 300 Environmental
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

102: Reporting practice

102-45 Entities included in the consolidated financial statements

Annual report pages 81–83, Consolidation

102-46 Defining report content and topic Boundaries

Finnair has performed materiality analysis to identify the key economic, environmental and social values and impacts in Finnair's value chain as well as impacts on business and stakeholder decision making. The materiality analysis issues have been identified through an analysis of industry trends, legislation, sustainability reporting guidelines, the reporting of peer companies and issues highlighted by various stakeholders. Priorities have been given for the identified sustainability topics based on their business impact and stakeholder interest. The material topics defined, as a result of the materiality analysis, have been grouped under four themes and have been used as the basis for 2020 reporting. Finnair's sustainability focus areas, material topics, and related GRI standards and boundaries can be found in the table below (102-47).

102-47 List of material topics

FOCUS AREA	MATERIAL TOPICS	GRI TOPICS	TOPIC BOUNDARIES
Ethical business and responsible sourcing			
Ethical business and responsible sourcing	Code of Conduct	Ethics and integrity	Finnair's own operations, partners and supply chain
		Environmental compliance	
		Socioeconomic compliance	
	Anti-corruption and bribery	Anti-corruption	
	Compliance with anti-competition regulations	Anti-competitive behaviour	
	Supply chain sustainability	Supplier social assessment	
		Human rights assessment	
Environmental			
Energy	Fuel efficiency	Energy intensity	Finnair's own operations, supply chain, indirect impacts on greenhouse gas emissions and biodiversity
Noise	Flight noise		
Protection of the natural environment	Biodiversity	Biodiversity	
Emissions	Climate change mitigation	GHG Emissions (Scope 1,2 and 3), Reduction of GHG emissions	
	Renewable fuels		
	Offsetting		
Waste	Reusing products	Effluents and waste	
	Reducing waste		
	Reducing disposable plastics		
	Recycling of materials		

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- ▶ **GRI 102 General disclosure**
- GRI 103 Management approach
- GRI 200 Economic
- GRI 300 Environmental
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

FOCUS AREA	MATERIAL TOPICS	GRI TOPICS	TOPIC BOUNDARIES
Social			
Caring for our employees	Employee experience	Employment	Finnair's own operations
	Employee brand image	Labour/management relations	
	Employee well-being	Occupational health and safety	
	Working conditions	Training and education	
	Equality	Diversity and equal opportunity	
		Human rights assessment	
Respecting our customers	Flight safety	Stakeholder engagement	Finnair's own operations and customers
	Customer experience	Customer health and safety	
	Equality	Marketing and labelling	
	Responsible use of customer data	Customer privacy	
		Human rights assessment	
Stakeholders		Stakeholder engagement	Finnair's own operations, society and local communities
		Public policy	
Economic			
Economic impact	Economic responsibility	Economic performance	Finnair's own operations, society and local communities
		Indirect economic impacts	

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- ▶ **GRI 102 General disclosure**
- GRI 103 Management approach
- GRI 200 Economic
- GRI 300 Environmental
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

102-48 Restatements of information
In 2020 restatements have been made to the 2019 figures concerning the facilities' energy consumption and emissions. Also, 2019 Scope 3 emissions have been amended to include ground vehicles indiect emissions. More detailed information on these minor changes are provided under the sections on the indicator in question.
102-49 Changes in reporting
There has been no significant changes in the material topics in year 2020.
102-50 Reporting period
1 January–31 December 2020
102-51 Date of most recent report
February 2020
102-52 Reporting cycle
Annually
102-53 Contact point for questions regarding the report
Finnair strategy, Finnair Plc, Tietotie 9, 01053, e-mail: Finnair.comms(at)finnair.com
102-54 Claims of reporting in accordance with the GRI Standards
This sustainability appendix has been prepared in accordance with the GRI Standards: Core option
102-55 GRI content index
The easy-to-navigate index of this GRI appendix content is implemented with a table of contents in the left margin.
102-56 External assurance
Sustainability Appendix pages 153–154

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- GRI 102 General disclosure
- ► **GRI 103 Management approach**
- GRI 200 Economic
- GRI 300 Environmental
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

103: Management approach	
103-1 Explanation of the material topic and its Boundary **103-2 The management approach and its components** **103-3 Evaluation of the management approach**	
Annual report, pages 6–9, Business model and operational environment Annual report, pages 19–21, Strategy Annual report, pages 23–27, Non-Financial Performance	

General Management Principles

Company Internet pages: https://investors.finnair.com/en/governance/company-management

Sustainability Management

Finnair's purpose is to create value for all its stakeholders by bridging the world in a sustainable and safe manner. Finnair's standpoint in sustainability is reflected in its purpose, strategy, mission and values. Sustainability is integral to all Finnair operations. Finnair sustainability strategy's target is to reduce the environmental impact and increase the financial and social return for society. The material topics of sustainability fall under the following themes: Ethical business, Social, Economic and Environment. Sustainability at Finnair concerns everyone and we strive to incorporate the sustainability topics equally in all our processes and product design.

ETHICAL BUSINESS

Human Rights and Code of Conduct

Finnair is committed to comply with international and national legislation in its operations, as well as the ethical business principles laid out in the Code of Conduct and the Sustainable Development Goals (SDG) set by The United Nations General Assembly. The Code of Conduct applies to all Finnair personnel and all locations. Further, Finnair's Supplier Code of Conduct provide clear principles to ensure e.g. ethical purchasing and zero-tolerance for corruption. The company requires that its suppliers comply with ethical standards that are essentially similar to those that Finnair complies with in its own operations. Finnair is working to further integrate sustainability and ethical business conduct into all business processes. Finnair's Code of Conduct includes an anti-corruption section according to which the receiving and giving of bribes is strictly prohibited. Preventing corruption is everyone's responsibility at Finnair, including the heads of business operations, compliance function and the internal audit.

Finnair respects the UN Universal Declaration on Human Rights and the core conventions of the International Labour Organization (ILO). The company has signed the United Nation's Global Compact initiative and as required by the Global Compact principles, the company aims to prevent any violations of human rights and the use of forced or child labour both within its own operations and its supply chain.

Public affairs and lobbying

Aviation is a strictly regulated industry. Therefore, it is important for Finnair to participate in discussions and decision-making regarding its operating conditions. It is part of the company's growth strategy to aim towards securing adequate traffic rights. Finnair pursues its interests in an ethically sustainable manner by appropriately introducing its views, perspectives and expertise. The company does not pressurise or support political decision-makers in any way in pursuing its interests. The legality and ethicality of lobbying activities is controlled as part of the company's general supervision and audit processes. The aim of Finnair's lobbying activities is to maintain relationships concerning relevant policy and to participate in relevant negotiations and the operations of advocacy organisations. When lobbying on various civil aviation and industry regulation issues, Finnair typically cooperates with various organisations and chambers of commerce. Finnair is an active member of various aviation industry organisations, such as A4E and IATA, but also in the Confederation of Finnish Industries (EK), and its sub-associations and in several chambers of commerce.

Communications

Finnair aims at open, honest and timely communications. In line with these principles, Finnair's communications are also in compliance with regulations governing listed companies and limited liability companies, as well as the obligations of the Finnish Act on Cooperation within Undertakings and the communications guidelines of the State Ownership Steering Department.

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- GRI 102 General disclosure
- ► **GRI 103 Management approach**
- GRI 200 Economic
- GRI 300 Environmental
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

Finnair takes different perspectives into consideration and respects all stakeholders' views of its operations. Finnair's internal communications are based on reciprocity. Every employee has the duty to communicate matters related to their area of responsibility to the relevant target groups. Those in supervisory roles have a further duty to communicate goals, operations and results to their own work community and create a work environment that enables genuine constructive discussion. The company systematically develops its communication channels to enable more efficient communications and to facilitate constructive discussion.

Ethics Helpline

Finnair has a Whistleblowing line called Finnair Ethics Helpline in use, through which concerns for ethical business conduct can be raised. This is open for both internal and external stakeholders. During 2020 no material incidents of material misconduct were notified through the Ethics Helpline nor were there any investigations on-going in the company.

ECONOMIC RESPONSIBILITY

Finnair has substantial direct and indirect financial implications on Finland's national and local economies. Aviation is a significant industry for Finnish society and the national economy. The accessibility created by airline traffic is a necessity for Finland's global competitiveness and its economic impact is considerable; aviation is estimated to account for 3.5-4 per cent of GDP, employment and tax revenue.

Finnair's objective is to create sustainable economic added value by producing flight services profitably, cost-competitively and in harmony with the needs of the environment and society. Sustainable operations are the cornerstone of profitable business activity, and Finnair considers the effects of its operations on society.

Finnair's Board of Directors set the company's financial targets which are provided with investors. As a public limited company, Finnair is committed to earning a profit for its shareholders. The company's profit distribution principles are expressed in Finnair's dividend policy. Finnair's financial reporting aims to transparently provide information about Finnair's financial position and development.

In financial reporting, Finnair applies the rules relating to listed companies as well as international financial reporting standards. Most of Finnair's operational activities are based on the official regulations and are subject to official supervision. Within the group, the legality and acceptability of operations is monitored as part of Finnair's general control and audit processes.

ENVIRONMENTAL RESPONSIBILITY

Finnair's goal is to be an engaging leader in the field of environmental responsibility. Finnair's environmental responsibility management is based on the principle of continuous and systematic improvement. The company has identified the key environmental aspects of its operations, their impacts, risks and opportunities involved, and set targets related to them.

Finnair shall enforce circular economy principals and pollution prevention hierarchy in its functions; prevent, reduce, reuse, control. Finnair Group is committed to the airline industry's common goal of carbon neutral growth from 2020 onwards, to halve the carbon net emissions by 2025 compared to the 2019 level, and fly carbon neutral by the end 2045. Finnair strives being a pioneer in evaluating, reducing and reporting environmental impacts. Company is also committed complying with current environmental legislation, but its environmental work aims at exceeding statutory requirements.

The biggest environmental impact of an airline is its aircraft engine air emissions. Another easily observed impact is aircraft noise at the areas surrounding airports. Other material environmental impacts arise from common company operations, including different waste streams and corporate buildings' energy consumption. Finnair considers environmental aspects and impacts in all its flight and ground operations. In addition to solutions around energy use that reduce the environmental impact, Finnair's environmental strategy includes also the implementation of circular economy principals and the preservation and promotion of natural diversity, known as biodiversity thinking.

Finnair participates actively in civil aviation environmental committees as well as in industry workgroups in Finland and the Nordic countries, promoting the reduction of the aviation sector's environmental load. An open dialogue with different stakeholders, continuous development of operations according to the latest available information and being active in implementing new technologies are the prerequisites for environmental responsibility.

Finnair report on environmental impacts regularly as part of the annual reporting and as a part of the Carbon Disclosure Project (CDP). Company also communicate directly with various parties about its operations and gladly answers any questions arising from its stakeholders.

All the above-mentioned environmental objectives, targets, impacts and promotion are managed and continuously developed through Finnair's Environmental Management System (EMS). The system complies with IATA Environmental Assessment Program (IEnvA) Stage 2 and ISO 14001. IEnvA is an environmental management system developed by IATA specifically for airlines, which helps the company to make use of the best practices in the industry.

SOCIAL RESPONSIBILITY

Finnair's operations is by nature very diverse and in many ways highly technical. Company organisation and partners are present in dozens of countries around the globe and are subject to a wide range of laws and regulations. The core areas of the company's social responsibility include safety, care for our employees and customers, and supply chain management.

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- GRI 102 General disclosure
- ▶ **GRI 103 Management approach**
- GRI 200 Economic
- GRI 300 Environmental
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

Safety

Safety is at the core of all Finnair's operations. Flight safety and giving priority to it are part of all decision-making at every stage. Finnair has implemented a Safety Management System (SMS) through which it continuously develops the safety performance of the operations. It covers all aspects of flight safety: policy, risk management, training and communications for the entire personnel and subcontractor chain, continuous compliance evaluation of operations and the assessment of the potential impact of new factors in the operating environment. Official regulations and standards set the minimum standards for Finnair's safety management, which the company aims to exceed in all areas.

One of the central elements in Finnair's safety system is the safety reporting concerning the entire staff. The company encourages its personnel and subcontractors to actively report any events they come across that could potentially compromise safety. Each report is analysed, classified and assessed for risk, followed by necessary corrective or preventive actions. The person submitting the report will be notified of the outcome of the investigation. Alongside subjective observations, Finnair extensively monitors and analyses objective indicators, such as flight data. Ongoing monitoring and analysis enable a transparent risk level in all areas, which in turn enables prompt action on any indication of altered safety level.

Events that seriously jeopardise safety are extremely rare and almost without exception an impartial safety investigation is launched on each such event. Serious incident investigations are coordinated by public officials (Safety Investigation Authority) or, if the authorities elect not to investigate the event, Finnair will conduct its own internal safety investigation. The safety investigators always carry out the investigation independently and the company's management has no opportunity to influence the investigation outcome.

A strong safety culture, objective monitoring of the company's own operations, continuous development and implementing improving measures as well as open dialogue with the authorities guarantee safe and high-quality airline operations.

Personnel Experience

A core part of Finnair's social responsibility involves taking care of its employees and their working conditions. Finnair personnel management policies cover all aspects of social responsibility that have been identified as material. The impacts affecting the personnel and the working conditions are managed as based on the respective national regulations, Finnair values, guidelines and policies.

Finnair does not discriminate based on gender, age, ethnic or national origin, nationality, language, religion, conviction, opinion, health, disability, sexual orientation or other personal attributes or circumstances. Finnair does not condone harassment in the work community. Reporting infractions is employee's basic right and the company is determined to take steps to intervene in all cases brought to its knowledge. Every employee is responsible for acting in a way no one is accorded unequal status.

Finnair offers equal opportunities to everyone with regard to recruitment, work performance, career progression and development. Finnair implements the equal pay principle based on the Finnish Equality Act and gives both men and women equal opportunities for balancing work and family life. In 2011, Finnair signed the United Nations Women's Empowerment Principles, which give guidance on the empowerment of women in the workplace, marketplace and community. Year 2019 Finnair signed on an aviation initiative 25by2025, pledging that by 2025 we will have either 25% or women in all work groups or a 25% improvement in the gender equality.

Finnair complies with procedures jointly agreed by the employer and employees for the prevention of harassment, inappropriate conduct, and conflicts. Finnair has also promoted the prevention culture and processes of easily accessible services. The procedures are based on the Finnish Act on Occupational Safety and Health and complies with the model recommended by the Finnish Ministry of Social Affairs and Health.

Leadership and competencies are developed on an individual, team, unit and organisation level. Learning and development solutions are typically either adopted by the entire personnel or tailored for specific development needs within a unit. They may also be aimed at developing professional skills, based on official requirements or in support of personal development. Development needs in teams and the organisation are identified and the wellbeing and commitment of the personnel are regularly monitored through a personnel survey.

Finnair has employee wellbeing high on the agenda. Company's People & Culture roadmap covers all the aspects of employee wellbeing: Leadership and Management, People development, Strategic resource management, Compensation and Benefits and driving Workability. In workability area sick leave development and means to improve early pensions due to workability reasons have been top on the agenda and Occupational health and safety has kept on building even more safe working environments at all Finnair locations.

At Finnair, the Finnair Health Services unit is responsible for the implementation of occupational health care services. Finnair Health Services focus on preventive care. The model of early caring and the occupational ability risk management system provide two examples of preventive health care guidelines. The operational and service quality of Finnair Health Services is based on the European Foundation for Quality Management's EFQM Excellence Model. The quality system is used to ensure that Finnair Health Services meets the requirements for good occupational health care practice in both aviation health care and aviation medicine services.

Freedom of association and the collective right to negotiate on occupational issues are recognised as fundamental rights in Finland. There is a long tradition of trade union activity in the company. Labour market culture in the company has been constructed in such a way that the organisation of workers and collective negotiations between the company and employee groups are part of normal practice. All Finnair employees have the right and opportunity to agree on terms of employment collectively. The terms of employment of management employees are agreed on locally. Personnel and management remuneration principles are described Remuneration statement.

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- GRI 102 General disclosure
- ▶ **GRI 103 Management approach**
- GRI 200 Economic
- GRI 300 Environmental
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

Customer Experience

Finnair is committed in transporting customers, their baggage and cargo to appointed destinations safely, smoothly and punctually. The most material product responsibility aspects in the Finnair Group operations are flight safety, health safety, one-time-performance, food safety, responsibility for individual customers, and responsibility for the cargo carried. The aviation industry consists of regulated value chains comprised of multiple suppliers of products and services. As an airline and service company at the top of this value chain, Finnair creates added value for the customers by providing them with a variety of product and service choices together with its partners.

Customers must be able to trust in the fact that they will be cared for throughout the entire service chain. Finnair has the responsibility for the customers' overall quality experience, although some services are produced by its partners rather than the company itself. Therefore, Finnair pays increased attention to the selection of its partners and they are required to comply with Finnair's quality assurance policies and ethical guidelines. Monitoring and supervision of customer service is based on regular auditing, customer feedback and customer satisfaction surveys, as well as external measurements. Finnair's partners' operations are also continually evaluated. Monitoring is systematic and is based on set targets and evaluating performance. Finnair continuously develop these processes and assess the possibilities to use new technologies to improve the customer experience and operational efficiency. At Finnair, situations that deviate from the norm are prepared for in advance. The group has developed processes for various unexpected situations, and they are continually updated and maintained. Flight traffic irregularities are handled with care, and efforts are made to minimise inconvenience to the customer. Finnair has recently invested in new tools to both serve the customers better and perform the operations in a more optimized way.

Finnair respects the privacy of its customers and is committed to ensuring that personal details and other customer information are processed appropriately. Finnair has implemented the requirements of the EUs General Data Protection Regulation (GDPR) in all its business processes. Company do all its best to guarantee the confidentiality, security and accuracy of customer data under all circumstances. Company processes personal details at all stages of travel in compliance with the legislation on personal data and regulations issued by the authorities in the countries in which we operate.

Finnair Kitchen is responsible for food- and product-safety for all Finnair inflight services. Quality and safety of the catering operations are covered by Finnair Kitchen Quality Management System. Official regulations and industry standards set the minimum requirements, which the company aims to exceed in all areas.

Finnair's Ground Operations unit is responsible for the acquisition, quality criteria and quality control of ground handling services required at airports. The unit's task is to ensure that the ground services used by Finnair fulfil the requirements set for them, both in terms of quality and with respect of safety and official regulations.

To deliver on their service promises, Finnair Cargo, Kitchen and Ground Operations unit apply a systematic evaluation process to select subcontractors and partners. Partners are required, for example, to ensure and maintain the competency of their personnel, and to ensure that vehicles, equipment and premises are appropriate. In addition to quality audits, Finnair regularly performs quality inspections to continuously monitor both its own and subcontractors' work. Finnair Cargo and Ground Operations are responsible for maintaining and updating their own quality systems and ensuring that operations comply with the requirements.

Supply Chain

The sustainability of the supply chain is very important for the airline as Finnair uses partners and service providers to an increasing degree as it expands its international route network. As provided in Finnair's Code of Conduct, its procurement operations are based on the fair treatment of suppliers. Finnair has its own ethical guidelines for suppliers, the Finnair's Supplier Code of Conduct, and expects all suppliers and partners to comply with the Supplier Code or essentially similar ethical standards. All partners and subcontractors, moreover, are obliged to comply with the principles of the UN Universal Declaration of Human Rights as well as local legislation. Finnair's Responsible Sourcing Manual complements the Supplier Code of Conduct as internal instructions for implementation.

The persons making sourcing decisions must always stay independent in relation with business partners concerned. Finnair employee must declare themselves disqualified due to bias whenever they are required to make a decision pertaining to a contract or business relationship involving family relationships, ownership in the company concerned (with the exception of a reasonable share of ownership in a listed company), or any other business or debt relationship external to Finnair. Finnair does not accept corruption in any form and requires that its personnel and partners comply with the principles of the UN's Universal Declaration of Human Rights. Finnair has a process and guidelines for continuously improving the sustainability of supply chain and for handling possible non-compliances. Company aspires to continuously develop practices ensuring negative sustainability impacts can be mitigated and responsible sourcing is favoured.

Finnair's Executive Board group is responsible for the steering of the group's procurement activity. The management of the Procurement unit has the duty to ensure that the personnel carrying out purchasing has access to valid purchasing guidelines and that the guidelines are observed. Audits are performed in certain product and service groups and especially among strategic and key suppliers. Auditing focuses on quality and safety factors.

Finnair is aware of the risks related to environment and human rights in geographical and industry-specific areas and aims at continuous improvement of preventive actions. The dialogue with the suppliers is continuous via themed supplier events.

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
GRI 102 General disclosure
GRI 103 Management approach
▶ **GRI 200 Economic**
GRI 300 Environmental
GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

201: Economic Performance

201-1 Direct economic value generated and distributed

EUR mill.	2020	2019	2018	2017
Direct economic value generated				
Revenue	829.2	3,097.7	2,836.1	2,568.4
Other operating income	48.4	56.4	73.7	77.0
Sales gains and losses on aircraft and other transactions	0.8	0.2	42.7	44.1
Financial income	38.7	3.3	-2.2	-0.3
Total	**917.2**	**3,157.6**	**2,950.3**	**2,689.3**
Economic value distributed				
Materials, services and other operating expenses	831.8	2,128.3	1,899.3	1,909.6
Staff costs	158.6	530.9	494.7	418.9
Payments made to shareholders and loan providers	247.2	120.1	181.0	41.9
Dividend	0.0	35.0	38.4	12.8
Hybrid bond interests and expenses	18.5	15.8	15.8	15.8
Financial expenses	228.6	69.4	126.8	13.4
Payments to governments	8.7	14.5	19.2	7.2
Donations and other charitable payments	0.0	0.0	0.0	0.0
Total	**1,246.3**	**2,793.9**	**2,594.2**	**2,377.5**
Economic value retained for operational development	-329.1	363.7	356.2	311.8
Investments in tangible and intangible assets and accuisitions of subsidiaries	515.9	443.8	474.0	511.5
Comparable operating result	-595.3	162.8	218.4	170.4
Return on capital employed (ROCE), %	-15.2	6.3	9.3	13.6

Figures on economic responsibility are mainly derived from the financial statements and collected from company's reporting system.

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- GRI 102 General disclosure
- GRI 103 Management approach
- ▶ **GRI 200 Economic**
- GRI 300 Environmental
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

201-2 Financial implications and other risks and opportunities due to climate change

Annual report pages 33-35, Risk management
Company Internet -pages: https://investors.finnair.com/en/governance/risk-management

Finnair has implemented a systematic Enterprise Risk Management (ERM) framework and process, which is based on the COSO ERM framework. The process considers all potential risks, including climate change-related risks and evaluates their potential financial impacts. The summary of the process and the list of most significant risks are presented in the Company Internet -pages. Finnair has identified and assessed various short- (1-2 years) and mid-term (3-5 years) climate-related risks and opportunities against IEA WEO 450 and IPCC RCP4.5 scenarios. In brief, Finnair prepare for jet fuel price increase, advocate on global or regional sustainability charges instead of national ones and upkeeps active dialogues between different stakeholders to secure the reputation and basic need of the aviation industry.

201-4 Financial assistance received from government

Public subsidies normally consist of subsidies received for training and they are primarily related to the aviation training services provided by Finnair. The Finnair Aviation College, founded in 1964, is a special vocational educational establishment maintained by Finnair Plc, which operates as a special educational establishment under the Act on Vocational Adult Education (631/1998). The reported public subsidies do not include subsidies paid to the airline business by the authorities in various countries, as they are considered business secrets.

	2020	2019
Public subsidies received	4.4*	1.3

* 3.3 million euros relate to COVID-19 subsidies.

Figures are derived from the financial statements.

203: Indirect economic impacts

203-2 Significant indirect economic impacts

Finnair's sustainable growth and current route network utilising Helsinki Hub's geographical position enable Finland to have better connections to other parts of the world than domestic demand alone could support. This has a significant impact on the travel opportunities of Finns and on the Finnish business sector competiveness. In addition, the aviation sector is a major job creator in Finnish society.
Blue Wings: Why travel is essential for Finland (https://www.finnair.com/it-en/bluewings/travel-experience/why-travel-is-essential-for-finland-2167526)

205: Anti-corruption

205-1 Operations assessed for risks related to corruption

During 2020, no incidents of corruption were notified through Finnair Ethics Helpline, available to both internal and external stakeholders, nor were there any material investigations on-going in the company.

205-2 Communication and training about anti-corruption policies and procedures

Finnair's Code of Conduct includes an anti-corruption section, and the receiving and giving of bribes is strictly prohibited. During 2020, Finnair continued to train its employees on Finnair's Code of Conduct, and all new employees receive the mandatory e-learning module on the Code of Conduct.

205-3 Confirmed incidents of corruption and actions taken

No incidents of corruption were reported in 2020.

206: Anti-competitive behaviour

206-1 Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices

No incidents identified.

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- GRI 102 General disclosure
- GRI 103 Management approach
- ▶ **GRI 200 Economic**
- GRI 300 Environmental
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

207: Tax

207-1 Approach to tax

Finnair's principle is to pay, collect, remit and report the indirect and direct taxes it is subject to in each country according to local laws and regulations. The aim of Finnair's tax principles is to support business decisions and to ensure their appropriate implementation, also from the perspective of taxation.

207-2 Tax governance, control, and risk management

Finnair group does not have any structures in place to transfer taxable income from Finland to jurisdictions with lower tax rates. Finnair's tax related risk management is based on a responsibility assignment matrix (RACI matrix) and in addition to Finnair group's tax function, the risk management processes are monitored by the internal audit function. Potential tax risks are reported also for the Executive Board of Finnair as well as for the Audit Committee.

207-3 Stakeholder engagement and management of concerns related to tax

No incidents

207-4 Country-by-country reporting

Finnair's international business operations are mainly related to the sales of flight tickets and cargo through Finnair Plc's foreign sales units, as well as local sales promotion activities. Sales units are not separate legal entities. The sales units' income is taxed pursuant to the regulations and double tax treaties pertaining to the international airline business as part of the parent company's taxable income in Finland. The operations of Finnair's foreign subsidiaries have primarily been related to travel and back office services, and they are very minor in scale relative to the group's business operations as a whole. Finnair has also had minor holdings (less than 20 per cent) in some insurance captives located in Guernsey for business reasons, the results of which are subject to taxation in Finland.

Finnair's taxable operations in individual countries outside of Finland are minor in scale, which can be seen from the tables presented in the tables on the next page.

Finnair Group's foreign operative subsidiaries are located in Estonia, where income tax is due in connection with distribution of dividends. The group had also a dormant subsidiary in Russia. It was liquidated at the end of 2020. Specification for foreign subsidiaries' external revenue, result before taxes, income tax payable and number of personnel is presented on the next page.

Profits of sales units are taxed in accordance with regulations and double tax treaties pertaining to the international airline business and, hence, revenue, result before taxes, income tax payable and number of personnel in other countries are not separately adopted in financial statements. Specification of taxes paid and collected in other countries is presented on page 21.

Other taxes primarily include environmental and electricity taxes. Due to the nature of the international airline business, jet fuel is tax-free.

Finnair has confirmed losses in taxation from previous tax periods amounting to approximately 0 million euros. The estimated amount of confirmed tax losses after 2020 taxable result is approximately 707 million euros due to the COVID-19 impact. The confirmed tax losses can be utilised against positive taxable income over the next ten years.

More information on direct taxes, such as the taxes pursuant to the consolidated income statement, deferred tax assets and liabilities and the adjustment of the effective tax rate is presented in Note 5.1 in Finnair's consolidated financial statements.

The most significant indirect taxes collected during the financial year are withholding tax liabilities, value added tax and excise taxes.

The passenger tariffs collected from flight passengers are not considered as tax-like payments remitted to the authorities subject to reporting as part of the tax footprint as these payments are usually remitted to the private or public party responsible for airport operations.

Country specific information for 2020 is presented in the chart on page 21 only regarding countries where the amount of taxes paid, collected or deducted was at least 0.05 million euros. Countries where this threshold was not met are presented as two separate geographical areas. The figures below include taxes paid and collected by subsidiaries and sales units.

Employer contributions paid relate to mandatory employer payments regarding employees located outside of Finland. Withholding taxes on salary are collected based on local legislation. Value added tax on sales and purchases relate mainly to passenger sales and cargo services.

Total amount of excise taxes outside Finland in 2020 has been less than 0.1 million euros and, hence, this information is not presented on a country-by-country basis.

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- GRI 102 General disclosure
- GRI 103 Management approach
- ▶ **GRI 200 Economic**
- GRI 300 Environmental
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

	2020				2019			
Finnair's operations in Finland and in other countries	**Finland***	**Estonia**	**Other countries**	**Total**	**Finland**	**Estonia**	**Other countries**	**Total**
Revenue, EUR million	829.0	0.2	0.0	829.2	3,088.2	9.5	0.0	3,097.7
Result before taxes, EUR million	-654.6	0.3	0.0	-654.4	93.5	-0.5	0.0	93.0
Number of personnel	5,982	217	374	6,573	6,164	235	372	6,771

* Internal turnover has been eliminated.

	2020			2019		
Direct taxes payable, EUR million	**Finland**	**Other countries**	**Total**	**Finland**	**Other countries**	**Total**
Employer contributions	4.7	2.3	7.0	4.5	2.2	6.7
Property taxes	0.7	0.0	0.7	0.7	0.0	0.7
Other taxes	0.9	0.0	1.0	2.2	0.0	2.2
Public subsidies received*	-1.9	-2.5	-4.4	-1.3	0.0	-1.3
Taxes included in direct operating expenses and subsidies in total	**4.5**	**-0.2**	**4.3**	**6.1**	**2.3**	**8.4**
Income taxes payable**	0.0	0.0	0.0	8.3	0.0	8.3
Total direct taxes payable	**4.5**	**-0.2**	**4.3**	**14.4**	**2.3**	**16.7**

* 3.3 million euros of public subsidies received were COVID-19 related.
** Income taxes payable are tax expenses recorded based on the taxable result, which has partly been utilised against confirmed tax losses.

	2020			2019		
Indirect taxes collected for the financial year, EUR million	**Finland**	**Other countries**	**Total**	**Finland**	**Other countries**	**Total**
Value added taxes, sales	63.1	0.1	63.2	95.0	0.9	96.0
Value added taxes, purchases	84.8	2.6	87.3	125.2	5.1	130.3
Value added taxes, net	**-21.7**	**-2.5**	**-24.2**	**-30.1**	**-4.2**	**-34.3**
Withholding taxes on wages and salaries and other indirect taxes	64.8	2.0	66.8	100.1	2.5	102.6
Excise taxes	0.1	0.0	0.1	0.5	0.0	0.5
Total	**43.2**	**-0.5**	**42.8**	**70.5**	**-1.7**	**68.8**

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
GRI 102 General disclosure
GRI 103 Management approach
▶ **GRI 200 Economic**
GRI 300 Environmental
GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

2020 Country specification, EUR million	Employer contributions	Value added taxes, sales	Value added taxes, purchases	Value added taxes, net	Withholding taxes on wages and salaries	Total
Countries						
Estonia	1.1	0.0	0.1	-0.1	0.0	1.0
China	0.3	0.0	0.0	0.0	0.1	0.4
Belgium	0.1	0.0	0.0	0.0	0.2	0.3
USA	0.1	0.0	0.0	0.0	0.2	0.3
Germany	0.0	0.0	0.0	0.0	0.1	0.2
Spain	0.1	0.0	0.1	0.0	0.1	0.2
Russia	0.0	0.0	0.0	0.0	0.0	0.1
Switzerland	0.0	0.0	0.0	0.0	0.1	0.1
South-Korea	0.0	0.0	0.1	-0.1	0.1	0.1
Japan	0.3	0.0	0.7	-0.6	0.5	0.1
Italy	0.0	0.0	0.1	0.0	0.0	0.0
France	0.0	0.0	0.1	-0.1	0.0	0.0
Denmark	0.0	0.0	0.0	0.0	0.1	0.0
Sweden	0.1	0.0	0.3	-0.3	0.1	0.0
Norway	0.0	0.0	0.2	-0.2	0.0	-0.2
The UK	0.0	0.0	0.4	-0.4	0.1	-0.3
Thailand	0.0	0.0	0.5	-0.4	0.0	-0.4
Areas						
Other European countries*	0.1	0.0	0.0	0.0	0.1	0.1
Rest of the world**	0.0	0.0	0.1	-0.1	0.0	0.0
Total	**2.3**	**0.1**	**2.6**	**-2.5**	**2.0**	**1.9**

* Austria, Czech Republic, Hungary, Ireland, Latvia, Lithuania, The Netherlands, Poland, Portugal
** Australia, India, Singapore

Figures on economic responsibility are mainly derived from the financial statements. Other information with respect to economic responsibility is derived from the group's various operators.

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- GRI 102 General disclosure
- GRI 103 Management approach
- GRI 200 Economic
- ▶ **GRI 300 Environmental**
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

302: Energy

302-1 Energy consumption within the organisation

Annual report pages 23-27, Non-financial Performance

Finnair's primary energy consumption consists of the use of transport fuels. Aviation is very energy-intensive, and Finnair's largest environmental load arises from flying and particularly from the use of fossil jet fuel. Finnair's total jet fuel consumption comprises flights operated by Finnair itself, flights operated by Norra on Finnair's behalf, as well as so-called wet-lease flights leased on a short-term basis from other operators due to lack of fleet or crew. In addition, jet fuel is consumed on transfer and training flights, as well as on test runs.

	2020		2019	
Direct Energy Consumption	**Non-renewable**	**Renewable**	**Non-renewable**	**Renewable**
Jet Fuel, kg	365,491,837	0	1,132,187,001	32,452
Jet Fuel, GJ	15,643,051	0	48,457,604	1,410
Ground Vehicles Fuel, kg	68,807	26,252	203,789	54,887
Ground Vehicles Fuel, GJ	2,836	1,119	8,335	2,305
Solar Power, MWh	0	278	0	297
Solar Power, GJ	0	1,001	0	1,069
Total, GJ	**15,645,887**	**2,120**	**48,465,939**	**4,784**
Indirect Energy Consumption				
Facilities Electricity, MWh	20,420	1,075	27,356*	0
Facilities Electricity, GJ	73,513	3,869	98,482	0
Facilities Heat, MWh	15,129	3,782	24,806*	0
Facilities Heat, GJ	54,464	13,616	89,302	0
Total, GJ	**127,977**	**17,485**	**187,784**	**0**
Grand Total, GJ	**15,773,864**	**19,605**	**48,653,723**	**4,784**

* Year 2019 figures have been amended to include two missing energy figures and due to minor chanages in facilites square meter allocation between different tenants.

Fuel consumption and emission figures for flight operations are derived from the company's own monitoring systems and based on actual fuel consumptions (Annex 1 EU ETS Directive 2003/87/EC of the European Parliament and of the Council, 'Method A' EU ETS Monitoring and Reporting Regulation (EU) N:o 601/2012).

The used 'Method A' formula: Fuel consumption for each flight = Amount of fuel contained in aircraft tanks once fuel uplift for the flight is complete - Amount of fuel contained in aircraft tanks once fuel uplift for subsequent flight is complete + Fuel uplift for that subsequent flight. This method is used in order to capture the fuel consumption by the aircraft's auxiliary power unit (APU) on the ground also. Where the Method A cannot be used, estimated average fuel burn per block hour per aircraft type is used. For wet-leased flights fuel burn has been requested from wet-lessor. If not received, respective fuel burn has been calculated by aircraft manufacturer specifications or lessor's information on aircraft type fuel burn per block hour. Data gaps and erroneous data have been handled using substitution data as close to actual values as possible.

Ground vehicles' fuel consumption figures have been derived from the company's own fuel filing station. The densities reported by different fuel vendor(s) have been used for different fuel qualities. Where technical data sheets for fuels used in ground vehicles (biodiesel, petrol, fuel oil) have not been available from the manufacturer, UK Government Conversion Factors for greenhouse gas (GHG) reporting 2020 have been used.

Solar power production figures have been received from the service provider's on-line up-to-date web-based reporting channel.

Organisations' indirect energy consumption includes those corporate facilities where company's own operations take place. The properties owned and leased by Finnair are mainly located in the Helsinki Airport area. The data include electricity and heating consumption. The figures have been obtained from service providers and is based on paid invoices. Energy consumption figures are not available for Finnair's offices abroad (which are mainly sales offices), as their energy consumption is typically invoiced as a fixed part of rent. According to the data provided by the energy suppliers 20 % of the purchased district heat and 5% of electricity is produced from renewable sources.

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- GRI 102 General disclosure
- GRI 103 Management approach
- GRI 200 Economic
- ▶ **GRI 300 Environmental**
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

302-3 Energy intensity

Annual report pages 23-27, Non-Financial Performance

In this report jet fuel is treated as energy because in terms of its purpose and environmental effects it is sensible to understand jet fuel as stored energy. Finnair's measures to improve its fuel efficiency focus on flights operated by the company itself. Finnair monitors the fuel efficiency of its flights primarily by the payload indicator (RTK), which accounts for the passenger load factor, the mass of cargo transported and the distance between the origin and destination.

Jet Fuel consumption	2020	2019	2018	2017
g / RTK (total, pax + cargo)	301.4	249.3	251.3	247.7
g / RPK (allocated)	29.3	25.0	25.2	25.0
liters / Pax / 100km (allocated)	3.7	3.1	3.2	3.1

RTK = Revenue Tonne Kilometer,
RPK = Revenue Passenger Kilometer
PAX = Passenger

The allocated intensity figures have been calculated by dividing the burned fuel between cargo and passenger masses. The total revenue mass of the transport activity has been calculated following the ICAO emissions allocation principle; An average passenger mass with baggage is assumed as 100 Kg, plus a 50 Kg add-on to account of the on-board equipment and infrastructure associated with passenger use (for example, the weight of seats, toilets, galleys and crew). Allocation of fuel consumption between passenger and cargo activities derives from this relation.

302-4 Reduction of energy consumption

Annual Report, pages 23-27, Non-Financial Performance

Finnair discloses its progress in emissions and energy reduction work in detail through CDP reporting. Those who would have interest and have CDP membership can found detailed disclosures at https://www.cdp.net/en.

302-5 Reductions in energy requirements of products and services

Annual Report, page 24; Fuel Efficiency Graph
Finnair is a network airline that specialises in passenger and cargo traffic between Asia and Europe. It also offers package tours under its Aurinkomatkat and Finnair Holidays brands. The energy consumption of Finnair's services is easiest to observe with the jet fuel consumption intensity figures presented in the table 302-3.

304: Biodiversity

304-2 Significant impacts of activities, products, and services on biodiversity

Finnair takes environmental aspects into consideration on the ground and in the air. Besides energy solutions that reduce the environmental load, Finnair's environmental policy also includes the preservation and promotion of natural diversity, known as biodiversity thinking. Finnair has assessed the ecosystem services, or benefits provided to people by nature, that are most relevant to its business, and its operations most significant impacts on them. Of the different categories of the ecosystem services, cultural services and regulating services are the most relevant to Finnair's business. Cultural services include tourism, human value and aesthetic value. Regulating services include the regulation of air quality and climate, disease control, pest control and pollination.

Finnair's core business and key product areas benefit ecosystem services in various ways. Cultural services are particularly important for travel services. Accordingly, Finnair's travel agency, Aurinkomatkat, has participated in various local projects to maintain biodiversity at various destinations for severa years. When planning its destination programmes, Aurinkomatkat carefully evaluates their potential effects on the environment and biodiversity. For example, it has stopped all trips to zoos and other attractions where animals are held captive. The operations aim also to avoid excursions to sites where visits could pose a threat to biodiversity. The customers are informed at destinations on appropriate conduct to preserve biodiversity.

In the airline business, Finnair has supported both cultural and regulating services by prohibiting the transportation of hunting trophies or memorabilia originating from endangered species or their parts in its cargo network. Also, primates and canines intended for laboratory, experimental or other exploitation use will never be accepted for transport. Furthermore, Finnair has signed the United for Wildlife (UFW) Buckingham Palace declaration of the Duke of Cambridge to prevent the illegal wildlife trade. As a signatory, the company has undertaken to promote the awareness of different stakeholders about this topic.

The significance of biodiversity in Finnair's airline business will be highlighted further in the coming years through climate change mitigation measures. When Sustainable Aviation Fuels (SAFs) replace fossil fuels in the future, the company wants to ensure that the primary production of feedstocks for renewable energy sources is used in line with the principles of sustainable development and does not compromise ecosystem services. For example, in the manufacturing of biofuel, measures must be taken not directing to Indirect Land Use Change (ILUC). The objective is to ensure that arable land used for growing food crops is not used to produce raw material for biofuel, which would result in either the clearing of forests or wetlands to create space for food production or a decline in food production. Regulating services have a significant impact on both the airline business and travel services. The local decline of biodiversity erodes the operating conditions of the tourism industry and increases the risk of infectious diseases.

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- GRI 102 General disclosure
- GRI 103 Management approach
- GRI 200 Economic
- ▶ **GRI 300 Environmental**
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

304-3 Habitats protected or restored

In 2020 Finnair collaborated with Snowchange Co-op and the Landscape Rewilding Programme by supporting a 26 hectares namesake boreal peatland plot, Laineensuo. Laineensuo is a highly relevant biodiversity area, with bird life including European Golden Plover and other relevant species. The site acts as a carbon sink alleviating climate change. The carbon inventory is assessed using latest trace gas analyzers. Laineensuo restoration helps to improve water quality downstream on Finnish boreal lakes and rivers. The project is part of Finnair's work to further understand climate change mitigation possibilities as well as contributing to biodiversity.

305: Emissions

305-1 Direct (Scope 1) GHG emissions

Annual report, pages 23-27, Non-Financial Performance

Nearly all of Finnair Group's greenhouse gas emissions arise from flight operations. Flying primarily causes two kinds of direct greenhouse gas emissions: carbon d'oxide and water vapour. Water vapour is the most important greenhouse gas in the atmosphere, but it is not generally examined directly as a human-derived greenhouse gas emission, because the water vapour in the atmosphere is mainly the result of natural evaporation. Air transport is in a special position in this respect because the water vapour generated by the engines is released high in the atmosphere, which increases the atmosphere's H2O content above the cloud layer. However, not enough is yet known about the impacts of water vapour and other GHG temissions han CO_2 from aviation and while more scientific results are available company report the CO_2 emissions only.

Direct GHG Emissions	2020	2019	2018	2017
Jet Fuel, t CO_2	1,151,299	3,566,389*	3,248,045	2,902,787
Ground Vehicles @ HEL, t CO_2	218	650**	755	740
Total, t CO_2	**1,151,517**	**3,567,039**	**3,248,800**	**2,903,408**

* The 2019 figure has been amended; Sustainable aviation fuel (SAF) emissions removed from Scope 1 reporting.
** The 2019 figure has been amended; Biodiesel emissions removed from Scope 1 reporting.

Emission factor for jet fuel used in the report has been 3,15 kg CO_2/kg (Default IPCC emission factors, taken from the 2006 IPCC Inventory Guidelines). Fuel mass has been converted to volume using densities provided by fuel vendor. If density has not been available a default value of 0.80 kg/l has been used. Ground vehicles' emissions (biodiesel, petrol, fuel oil) have been calculated using emission conversion factors for different fuel qualities originating from UK Government Conversion Factors for greenhouse gas (GHG) reporting 2020.

305-2 Energy indirect (Scope 2) GHG emissions

Indirect GHG Emissions	2020	2019	2018	2017
Facilities electricity, t CO_2				
Market-based	5,352	6,812*	7,270	8,225
Location-based	3,031	4,322	5,018	5,722
Facilities heat, t CO_2				
Market-based	3,347	4,391*	6,487	11,040
Location-based	2,912	4,068	5,200	7,417
Total (market-based), t CO_2	**8,699**	**11,203***	**13,757**	**19,265**

* The 2019 emissions figures have been amended to match the emission factors received from the suppliers.

Market-based emission factors used have been received from the energy company. Since the energy company update it's emissions factor after Q1/2021, the 2015 emissions factors have been used for 2020. 2019 factors being 249 kgCO_2/MWh for electricity and 177 kgCO_2/MWh for heat. Respectively, 2019 figures above have been updated compared to the previous year's reporting. Location-based emission factors have been received through Motiva, factors used for year 2020 being 141 kgCO_2/MWh for electricity and 154 kgCO_2/MWh for heat.

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- GRI 102 General disclosure
- GRI 103 Management approach
- GRI 200 Economic
- ▶ **GRI 300 Environmental**
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

305-3 Other indirect (Scope 3) GHG emissions

Other Indirect GHG Emissions	2020	2019	2018	2017
Fuel transportation & production, t CO_2	248,755	770,575*	702,790*	627,200*
Business travel, t CO_2	109	326	485	N/A
Total, t CO_2	248,864	770,901	703,186	627,113

*) Figures have been amended to include ground vehicles indirect emissions and emissions from sustainable aviation fuel (SAF).

Finnair has assessed its Scope 3 emissions based on GHG Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard). The most material scope 3 emissions derives from Category 3 (Fuel and Energy related activities not included in Scope 1-2). Emission factor source: SFS-EN 16258 standard Table A.1 for Jet A-1, petrol and fuel oil. Biodiesel emission factor (transport and production emissions) has been received from the manucaturer.

Business travel by Finnair employees primarily are made by the company's own flights, the emissions of which are reported under Direct greenhouse gas emissions (Scope 1). Business travel made by other airline services is reported under the Other indirect (Scope 3) greenhouse gas emissions. These emissions are estimates, calculated utilising Finnair fuel consumption data from the same or similar (distance-based) Finnair route network.
Finnair fully compensates emissions arising from its employees' business flights (both Scope 1 and 3, year 2020 total 353 tonnes).

305-4 GHG emissions intensity

Annual report, pages 23-27, Non-Financial performance

Finnair prefers to use RTK (revenue tonne kilometres) to divide its carbon emissions, since it measures emissions in relation to the distance travelled and the combined mass of passengers and cargo. Emission intensity figures below incude scope 1 emissions only (TTW).

Energy Intensity	2020	2019	2018	2017
g CO_2 / RTK (total pax + cargo)	949	785	792	780
g CO_2 / RPK (Allocated)	92	79	80	79
g CO_2 / RTKCargo (Allocated)	514	488	493	492

RTK = Revenue Tonne Kilometer.
RPK = Revenue Passenger Kilometer
PAX = Passenger

The allocated intensity figures have been calculated by dividing the burned fuel between cargo and passenger masses. The total revenue mass of the transport activity has been calculated following the ICAO emissions allocation principle; An average passenger mass with baggage is assumed as 100 Kg, plus a 50 Kg add-on to account of the on-board equipment and infrastructure associated with passenger use (for example, the weight of seats, toilets, galleys and crew). Allocation of fuel consumption between passenger and cargo activities derives from this relation.

305-5 Reduction of GHG emissions

Annual Report, pages 23-27, Non-Financial Performance

Finnair discloses its progress in emissions and energy reduction work in detail through CDP reporting also. Those who are interested and have CDP membership can found detailed disclosures at https://www.cdp.net/en.

305-6 Emissions of ozonedepleting substances (ODS)

Airline operators are bound to use aircraft manufacturers' certified and safe fire extinguishers. The manufacturers are constantly working on replacing halons from aircrafts but currently there are applications in aircraft where decent replacements aren't yet found. There wes one reported event of leakage where halon 1301 was emitted to the air during the year 2020. The amount of halon 1301 emission was 2.3 kg (used in engines).

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
GRI 102 General disclosure
GRI 103 Management approach
GRI 200 Economic
▶ **GRI 300 Environmental**
▶ **GRI 400 Social**

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

306: Waste

306-2 Waste by type and disposal method

Annual report, pages 23-27, Non-Financial Performance

	2020		2019	
	Hazardous, kg	Non-hazardous, kg	Hazardous, kg	Non-hazardous, kg
Energy use	45,227	1,130,864	74,057	3,281,482
Recycling	12,113	279,515	15,134	917,232
Composting	0	64,540	0	13,296
Landfill	0	0	0	0
Other	216	0	47 034	0
Total	**57,556**	**1,474,919**	**136,225**	**4,212,010**

The waste volumes have been obtained from the service providers' reporting channel.

307: Environmental compliance

307-1 Non-compliance with environmental laws and regulations

No incidents

400: Social Standards

401: Employment

401-1 New employee hires and employee turnover

Annual report, pages 23-27, Non-Financial Performance

	under 30 years		30–50 years		over 50 years		Total	
	Men	Women	Men	Women	Men	Women	Men	Women
New employee hires	45	49	32	60	2	9	79	118
Employee turnover (including both voluntary and involuntary terminations)	154	294	199	275	97	117	450	686

The figures have been retrieved from Finnair's HR information system.

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- GRI 102 General disclosure
- GRI 103 Management approach
- GRI 200 Economic
- GRI 300 Environmental
- ▶ **GRI 400 Social**

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

402: Labour/management relations

402-1 Minimum notice periods regarding operational changes

Significant operational changes in Finland are governed by the Finnish Act on Cooperation within undertakings. Depending on the matter in question, the minimum time period applied can range from one day to six weeks. The collective bargaining agreements that concern Finnair do not include provisions that run counter to these legislative provisions.

403: Occupational health and safety

403-1 Occupational health and safety management system

Finnair has implemented an internal occupational health and safety management system in order to systematically maintain and improve occupational health and safety related work in all Finnair units in Finland.

403-2 Hazard identification, risk assessment, and incident investigation

Work-related hazards are identified through systematic risk assessment process. Risk assessments have been carried out for our operations and they are being regularly reviewed and updated, also if a significant change to its scope is implemented.

All our employees have access to the occupational safety reporting system through which they can report incidents, near misses experienced and hazardous conditions noticed. All reports are investigated, and corrective and preventive actions set to prevent recurrence. This approach applies similarly to injuries, near misses and occupational safety observations reported.

403-3 Occupational health services

Occupational health services regularly carry out workplace surveys in order to assess the operations' impact on workers occupational health. Regular health checks are provided for employees that are exposed to health hazards through their work, such as noise, chemicals and working during nighttime. The exposure levels are kept as low as possible.

403-4 Worker participation, consultation, and communication on occupational health and safety

The company's occupational health and safety management system is developed in close contact with the employees. The employees have access to the occupational safety reports and the risk assessments. There is a formal regular occupational health and safety committee in place with the employee occupational health and safety representatives from all Finnair units as members.

403-5 Worker training on occupational health and safety

The basic training of occupational health and safety is mandatory for all employees as an e-learning module. In addition, the occupational health and safety is part of all work-related trainings depending on the task.

403-9 Work-related injuries

	Occupational accidents	Workplace accidents	Loss time injury frequency*	Commuting accidents
Airline's flight personnel	8	4	5	4
Airline's ground personnel**	14	13	5	1
Aurinkomatkat Ltd	1	0	0	1
Total	**23**	**17**	**4**	**6**

* Loss time injury frequency (LTIF) refers to the number of workplace accidents per million working hours.
** Airline's ground personnel include group management, support services, ground crew, and operative ground personnel.

Accident statistics are obtained from the insurance company and they are updated retroactively, as a result of which the 2020 figures may be subject to further adjustment.

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- GRI 102 General disclosure
- GRI 103 Management approach
- GRI 200 Economic
- GRI 300 Environmental
- ▶ **GRI 400 Social**

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

403-10 Work-related ill health

	Number of work-related ill health cases	Number of work-related ill health fatalities
Airline's flight personnel	0	0
Airline's ground personnel*	0	0
Aurinkomatkat Oy	0	0
Total	**0**	**0**

* Airline's ground personnel include group management, support services, ground crew, and operative ground personnel.

Accident statistics are obtained from the insurance company and they are updated retroactively, as a result of which the 2020 figures may be subject to further adjustment.

404: Training and education

404-1 Average hours of training per year per employee

	All training hours and share between men & women			Average hours of training			Count of employees		
	Total, h	Women, %	Men, %	Total, h	Women, h	Men, h	Total, ea	Women, ea	Men, ea
Office staff	8,935	33%	67%	5	3	8	1,686	919	767
Cabin	75,025	81%	19%	30	27	48	2,534	2,240	294
Pilots	66,644	2%	98%	65	58	65	1,025	28	997
Other Employees	13,294	19%	81%	7	3	11	1,806	813	993
Total	**163,898**						**7,051**	**4,000**	**3,051**

The training figures have been retrieved from Finnair's HR information system.

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- GRI 102 General disclosure
- GRI 103 Management approach
- GRI 200 Economic
- GRI 300 Environmental
- ► **GRI 400 Social**

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

404-2 Programmes for upgrading employee skills and transition assistance programs

Improving employee competence has a significant effect on the strategy implementation and finding critical competence development areas itself is an integral part of strategic implementation process. The strategic competencies development requires cooperation with various parties. Thus, in Finnair, learning and development plans are built at the company, unit, team and individual levels. These are further discussed during the annual My Journey development discussions.

Personnel competency is developed using varieties of different learning methods including; traditional classroom training, on-the-job learning, e-learning, workshops, coaching, shadowing, and mentoring. On-the-job learning, for example, is a widely utilised effective learning method in ever charging working environment where continuous self-learning is required.

Permanent learning themes include the Code of Conduct, flight safety management, occupational safety and health in aviation, work induction, occupational safety and health awareness for supervisors, and occupational safety card training. Other vocational training includes outstation training, first aid and emergency training, basic and recurrent trainings, systems training. Also, cooperation with various educational institutions is organised.

The vocational training for Finnair flight crew is conducted in cooperation with Finnair Flight Academy, while Finnair's Technical Services-Unit handles its own technical-specific training requirements. Our Learning & Development team is responsible for strategic and general business competency development.

The Finnair Aviation Academy, founded in 1964, is a special vocational educational establishment maintained by Finnair Plc, which operates as a special educational establishment under the Act on Vocational Adult Education (631/1998). Its task is to arrange further vocational training leading to a vocational or special vocational qualification as well as other further vocational training required for the practice of Finnair Plc's and its subsidiaries' operations (Further Vocational Training Arrangement Permit 551/530/2006, 13 December 2006). As a privately-owned educational establishment, the Aviation Academy funds its operations in accordance with government aid practices and it is a member of Business Education Establishments ELO (Elinkeinoelämän oppilaitokset Elo ry).

404-3 Percentage of employees receiving regular performance and career development reviews

Performance and career development reviews (called My Journey) cover all Finnair personnel. The My Journey process is a management tool based on (bi-)annual discussions that guide individual performance reviews, target setting, development and wellbeing.

405: Diversity and equal opportunity

405-1 Diversity of governance bodies and employees

Annual report, pages 23-27, Non-Financial Performance

406: Non-discrimination

Disclosure 406-1 Incidents of discrimination and corrective actions taken

During 2020, no incidents of discrmination were notified through Finnair Ethics Helpline, available to both internal and external stakeholders, nor were there any material investigations on-going in the company concerning non-discrimination.

407: Freedom of Association and Collective Bargaining

Disclosure 407-1 Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk

During 2020, it was assumed that Finnair's operations did not pose a risk to employees' freedom of association or collective bargaining rights.

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- GRI 102 General disclosure
- GRI 103 Management approach
- GRI 200 Economic
- GRI 300 Environmental
- ► **GRI 400 Social**

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

408: Child Labor

Disclosure 408-1 Operations and suppliers at significant risk for incidents of child labor

The responsibility of our supply chain is very important in the airline's operations, as Finnair is increasingly using partners and service providers while its international route network expands. In accordance with the UN Global Compact initiative, Finnair strives to prevent human rights violations and the use of child labor or forced labor both in its own operations and in its chain of operations.

The supply chain, which is directly related to aviation, operates in accordance with aviation regulations, thus these suppliers are closely monitored. International aviation safety regulations require that all airport employees must be registered and always carry an official identity card. This creates a basis for the fact that Finnair's own operations do not directly involve a significant risk to children's rights.

However, there may underlie indirect risks and consequences associated with the supply chain and outsourced operations. Aviation rules require us to inspect aircraft component suppliers and service facilities ourselves. In these inspections, we have not detected any use of child labor. We use some manufacturing companies in Asian countries where local laws may not exist to protect children's rights, so full assurance of supply chain cleanliness cannot be guaranteed.

During 2020, no cases of child labor were reported and there were no ongoing investigations in the company.

414: Supplier social assessment

414-1 New suppliers that were screened using social criteria
414-2 Negative social impacts in the supply chain and actions taken

During 2020 Finnair discontinued using Sedex in assessing suppliers' social criteria. The company is now developing new processes and guidelines to continuously improve supply chain's sustainability and handling of non-compliances. The company is constantly striving to develop practices to mitigate negative sustainability impacts and encourage responsible sourcing.

415: Public policy

415-1 Political contributions

Finnair does not support any political parties or persons.

416: Customer health and safety

416-1 Assessment of the health and safety impacts of product and service categories

Sustainability Appendix; Chapter 103 -Customer expericene

In connection with the coronavirus, the company has continuously assessed the health safety of travel in 2020. Instructions related to safe travel are available on the company's website at: https://www.finnair.com/en/safe-travel-during-coronavirus

Blue Wings: Covid and Flying (https://www.finnair.com/it-en/bluewings/travel-experience/covid-19-and-flying---a-medical-expert-s-view-2113316)

416-2 Incidents of non-compliance concerning the health and safety impacts of products and services

No incidents

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- GRI 102 General disclosure
- GRI 103 Management approach
- GRI 200 Economic
- GRI 300 Environmental
- ► **GRI 400 Social**

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

GRI Content Index

417: Marketing and labelling
417-3 Incidents of non-compliance concerning marketing communications
No incidents.
418: Customer privacy
418-1 Substantiated complaints concerning breaches of customer privacy and losses of customer data
No incidents.
419: Socioeconomic compliance
419-1 Non-compliance with laws and regulations in the social and economic area
No incidents identified.

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- GRI 102 General disclosure
- GRI 103 Management approach
- GRI 200 Economic
- GRI 300 Environmental
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

Independent Practitioner's Assurance Report

To the Management of Finnair Plc

We have been engaged by the Management of Finnair Plc (hereinafter also the Company) to perform a limited assurance engagement on selected environmental performance indicators for the reporting period 1 January to 31 December 2020 (hereinafter the Selected environmental information), disclosed in Finnair's Sustainability Appendix of the Annual Report 2020.

The Selected environmental information consists of the following performance indicators:

1. Jet Fuel consumed by all flights under the Finnair call sign.
2. Fuel consumed by Finnair's ground vehicles
3. Finnair's Solar Power
4. Electricity and heating consumed in Finnair's properties.
5. CO_2 emissions originating from the consumption referred to in points 1, 2 and 3 (Scope 1).
6. CO_2 emissions originating from the consumption referred to in point 4 (Scope 2).
7. CO_2 emissions in Scope 3 category 3 (Fuel- and energy-related activities) and category 6 (Business travel).

Management's responsibility

The Management of Finnair Plc is responsible for preparing the Selected environmental information in accordance with the Reporting criteria:

For items 1 to 6 of the scope above:

- Finnair's own reporting instructions as described in Finnair's Sustainability Appendix of the Annual Report 2020.
- The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard.

For item 7 of the scope above:

- The Greenhouse Gas Protocol: Corporate Value Chain (Scope 3) Accounting and Reporting Standard as applicable.
- Finnair's own reporting instructions as described in Finnair's Sustainability Appendix of the Annual Report 2020.

The Management of Finnair Plc is also responsible for such internal control as the management determines is necessary to enable the preparation of the Selected environmental information that is free from material misstatement, whether due to fraud or error.

Practitioner's independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

PricewaterhouseCoopers Oy applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Practitioner's responsibility

Our responsibility is to express a limited assurance conclusion on the Selected environmental information based on the procedures we have performed and the evidence we have obtained. Our assurance report has been prepared in accordance with the terms of our engagement. We do not accept, or assume responsibility to anyone else, except to Finnair Plc for our work, for this report, or for the conclusions that we have reached.

We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3410 "Assurance Engagements on Greenhouse Gas Statements". That Standard requires that we plan and perform the engagement to obtain limited assurance about whether the Selected environmental information is free from material misstatement.

SUSTAINABILITY REPORTING PRINCIPLES

GLOBAL COMPACT COMMUNICATION ON PROGRESS REPORT (CoP)

GRI CONTENT INDEX
- GRI 102 General disclosure
- GRI 103 Management approach
- GRI 200 Economic
- GRI 300 Environmental
- GRI 400 Social

INDEPENDENT PRACTITIONER'S ASSURANCE REPORT

In a limited assurance engagement the evidence-gathering procedures are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than in a reasonable assurance engagement. An assurance engagement involves performing procedures to obtain evidence about the amounts and other disclosures in the Selected environmental information. The procedures selected depend on the practitioner's judgement, including an assessment of the risks of material misstatement of the Selected environmental information.

Our work consisted of, amongst others, the following procedures:

- Visiting virtually the Company's Head Office in Finland.
- Interviewing employees responsible for collecting and reporting the Selected environmental information at the Group level.
- Assessing how Group employees apply the Company's reporting instructions and procedures.
- Testing the accuracy and completeness of the information from original documents and systems on a sample basis.
- Testing the consolidation of information and performing recalculations on a sample basis.

Limited assurance conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that Finnair Plc's Selected environmental information for the reporting period ended 31 December 2020 is not properly prepared, in all material respects, in accordance with the Reporting criteria.

When reading our assurance report, the inherent limitations to the accuracy and completeness of sustainability information should be taken into consideration.

Helsinki, 16 February 2021

PricewaterhouseCoopers Oy

Tiina Puukkoniemi
Authorised Public Accountant (KHT)

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