



Finnair Annual General Meeting, 27 March 2014

Distinguished shareholders, ladies and gentlemen,

You are warmly welcome to this Finnair annual general meeting. It is a great pleasure to see so many of our shareholders here.

Later in this meeting Finnair CEO Pekka Vauramo will discuss in detail Finnair's result from last year, and go through recent events and the company's future outlook. Let me just assure you that the board stands behind the difficult decisions made and disclosed today. It has given the management the full mandate to execute alternative cost savings plans IF we are not able to reach a solution with our personnel representatives at the negotiation table.

In my presentation, I am focusing on a few central and strategic questions that we at the Finnair Board have spent quite a lot of time with over the past year, as we have considered how to take Finnair forward and how to secure the future of Finnish aviation and the strong position of the Helsinki hub. These are serious strategic questions that merit looking into also in this Annual General Meeting. As shareholders, I am sure you also want the company to be developed in the most sensible possible way.

I am also sure you all know that a thorough transformation is underway in the global aviation business, and it is not likely to end any time soon. Despite the growth in air traffic, the traditional airline industry is, especially in Europe, struggling with major profitability problems. This difficult situation is also reflected in Finnair's 2013 financial performance.

On one hand, our key competitors have – just like us – implemented programs to improve their efficiency, and on the other hand, consolidation remains a strong trend in the sector. Our profitability must in the future be so robust that it is not immediately shattered if, for example, natural disasters, international political crises or exchange-rate fluctuations change our operating environment. And profitability must be so robust that it gives us a say in any potential partnership arrangements. We want to ensure that Helsinki Airport can continue to grow and that Finnair has an opportunity to continue to execute its strategy in all situations. The board will review consolidation as well as future investments keeping these basic principles in mind.

National carriers like Finnair are becoming an endangered species in today's aviation business. Industry consolidation started in the US a couple of decades ago, and has brought major changes in that market: in the not so distant past, there were seven major carriers in the US; now there are three. It is clear that consolidation will continue also in Europe, even if it so far has not been as visible to consumers, as several old brands have continued their lives as far as national branding is concerned despite consolidation. Brands like Iberia, British Airways, Germanwings, Air Brussels, airberlin,



Air Serbia, Air France, KLM, Swiss, Transavia, Austrian Airways and Czech Airlines all create an image of a national carrier in consumers' minds, but in reality these companies are totally or partially owned by much larger entities – such as International Airlines Group, Lufthansa Group, the Air France-KLM group, the Etihad group or Korea's Hanjin Group.

You may have been following how flag carriers with substantial government ownership, like SAS, Alitalia and LOT have run into sometimes severe financial difficulties. We do not wish the same fate for Finnair. The duty of the board is to consider Finnair's strategic options and prepare for the potential changes in the market and competitive environment.

Aviation is a business of small margins, especially after the low cost airlines entered the game. This means that being part of a larger group brings the benefits of scale desperately needed. Industry development will inevitably lead to a situation where Finnair will have to become a part of a larger entity, in one way or another, if its financial position is to improve on a sustainable basis. But, as I previously emphasized, we as board members want to ensure in all situations that Helsinki Airport can grow and further develop. In addition, we want to secure that Finns will have flight connections at least as good as what they currently have - if not even better.

Last year, we joined the Atlantic Joint Business on EU-North America traffic, and a similar joint business agreement on EU-Japan traffic will come into force with British Airways and Japan Airlines in the coming days. These revenue sharing agreements with partner carriers allow us to maintain our position in these major markets and help set the stage for further growth, while delivering fares and services we could not offer otherwise on our own.

These joint businesses are steps into the right direction, and they are beneficial for us in the near future. But they are not enough. In the coming years Finnair will without doubt need even closer partnerships with the largest players in the industry. In the medium term, some way of participating in consolidation – instead of passively allowing Finnair to become a marginal player– is also a prerequisite for first of all maintaining, and more importantly, for improving air connections for Finland and for Finns.

We want to ensure that these changes are implemented so that Finnair has a strong role in this changing sector. We do not want to become market driftwood. The board wants Finnair to remain in control of its own destiny and we want Finnair to be able to find an ownership structure that protects Finland's vital interests in the Vantaa hub and global non-stop connections from Helsinki Airport.

As we evaluate our strategic options, we must be a strong and compelling potential partner - and our shareholders naturally need to support our decisions. For the sake of Finnair's future it is imperative to improve the efficiency of Finnair's operations and structure, and to achieve sustainable profitability.

Finnair's cost savings program is a part of this, but it is not the only part. We must also ensure that Finnair can find financing for its future investments. This would call for



greater flexibility and more options with financing tools, based on a strong equity position. This is naturally something about which Finnair's shareholders would make the final decisions. It is in the interest of both Finnair and its shareholders.

We must be able to invest in a next generation, energy-efficient fleet in cost-effective and financially sensible ways. This investment is also an absolute must for us to be able to offer a competitive travel experience to our customers, who are becoming increasingly demanding. It is vital that Finnair's financial performance is credible and that our shareholders support Finnair in its investment efforts if we want to find financing for these urgent investments.

I hope that you, distinguished shareholders, are willing to openly discuss different ownership and financing solutions that are in line with your interests, as we prepare for the largest investments in the company's history. In my opinion it would be good to have open discussion about different alternatives prior to any more severe pressures arising from crisis situations in the marketplace.

As you are well aware, we are in the process of renewing our long-haul fleet of 15 aircraft with new state of the art, fuel-efficient Airbus 350 aircraft, starting from next year. We have a firm order for eleven aircraft and we hope to be able to exercise our option to buy eight additional aircraft. To a large extent these aircraft will be replacement investments, but if we confirm the purchase of the optional aircraft, we will have opportunity to grow, bring more jobs to our Helsinki hub, and further improve air connections for Finns.

But the long-haul fleet renewal is not the only major investment Finnair is faced with during this decade. Already this year, we need to consider how and in what time frame we will renew our European narrow-body fleet – because we need to be able to fly in a competitive, environmentally sustainable way in Europe too. In today's environment of high energy costs, flying the most modern and fuel efficient aircraft is no longer nice to have, but a must to survive against low cost carriers. As I mentioned, we must be in top shape to be able to finance that investment, and we need to be able to consider all financing instruments, including those with equity character, that are at our disposal. It is important that Finnair selects the most cost-efficient solution when making investment decisions.

I am well aware that there has been a lot of discussion in Finland about our cost savings program. There has been speculation about Finnair's ownership structure. The need for change has been questioned.

Dear shareholders,

The Board's objective is to develop Finnair in the coming years in a way that, amid sector-wide transformation, enables the company to emerge as a winner. This means that to finance necessary aircraft investments and to forge equity partnerships, we have to also openly consider flexibility from the equity point of view. I fully understand that this kind of discussion will not be easy, because any Finnair dialogue always involves so much emotions and mixed views. But it is nonetheless critical and necessary. The Board



is convinced that, in the end, doing nothing about Finnair's shareholder structure will not benefit Finnair.

I am asking you to keep an open mind and consider shareholder issues that Finnair's development might require, so that Finnair would have the opportunity to favourably develop its operations. The board feels that it is very important that the air connections so vital to Finland will continue to develop favourably and that the Helsinki hub will continue to flourish. We believe it is important to enable Finnair to create work for as many people as possible in the Finnish aviation cluster.

However, this is not possible without determined action and even some difficult changes. If we leave Finnair as it is now, its future will be grim. If we act in a responsible way and develop Finnair as a strong, well-connected player in the future, it will in the long term benefit our customers, our personnel, you as shareholders as well as all Finns.

Thank you!

Klaus Heinemann
Chairman of the Board of Directors, Finnair