

# Finnair Group

Interim Report

1 January – 30 September 2008



# Airline industry at a historical turning point

- ✈ Expensive fuel price in the beginning of 2008 has dramatical effect on the operational result, benefit of cheaper fuel comes later
- ✈ Average ticket prices have not kept up with costs
- ✈ Depression atmosphere weakens demand of air traffic
- ✈ Finance sources have been closed for many airlines
- ✈ Over 30 airlines already under bankruptcy, more bankruptcies expected during the winter

# Expensive fuel and low ticket price level spoiled the result

- ✈ Finnair's operational result clearly weakened from last year
- ✈ Load factors above last year, demand still positive
- ✈ Finnair market share in Asian traffic increased
- ✈ Price level of scheduled passenger traffic dropped with 4 per cent
- ✈ Fuel costs went up by 35.8 per cent
- ✈ Unit costs exclusive fuel dropped with 3,4 per cent
- ✈ 50 million euro efficiency programme partly fulfilled, 25 million euro savings with lay-offs and redundancies
- ✈ Statutory employer-employee negotiations going on
- ✈ Punctuality among the best airlines in Europe



# Third quarter clearly weaker than previous year

	Q3/2008	Q3/2007	Change %
Turnover mill. €	559.7	545.2	2.7
Adjusted EBITDAR*	54.0	88.0	-38.6
Adjusted EBIT*	2.8	39.2	-92.9
One off items/ capital gains	-1.5	17.3	-
Fair value changes of derivatives	-26.1	3.4	-
Operating profit/loss (EBIT)	-24.8	59.9	-
Profit for period	-17.3	39.6	-

\*excl. capital gains, fair values changes of derivatives and non recurring items

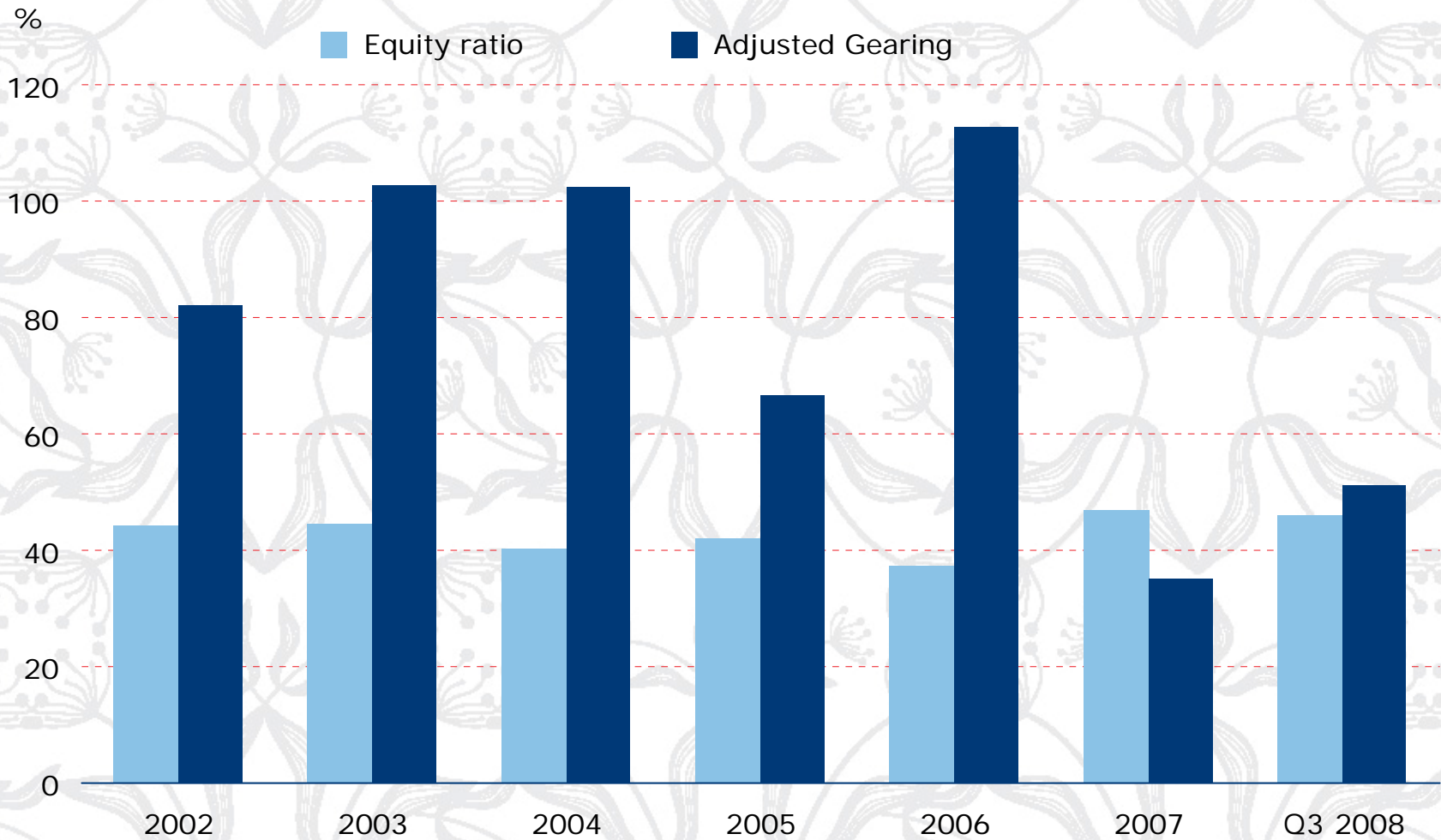
# Strong cash balance, weakened cash flow

Cash flow January-September

Cash flow statement (EUR mill.)	Q1-Q3/2008	Q1-Q3/2007
Cash flow from operations	70	169
Investments and sale of assets	-152	-238
Investments	-220	-264
Change of advances and others	68	26
Cash flow from financing	-84	32
Change in liquid funds	-166	-37
Liquid funds at the beginning	540	294
Liquid funds at the end with financial interest bearing assets at fair value*	374	257

\* In addition, agreed credit facilities of 310 MEUR, and 250 MEUR from EIB requiring a bank guarantee

# Strong balance sheet





# Unit costs arised

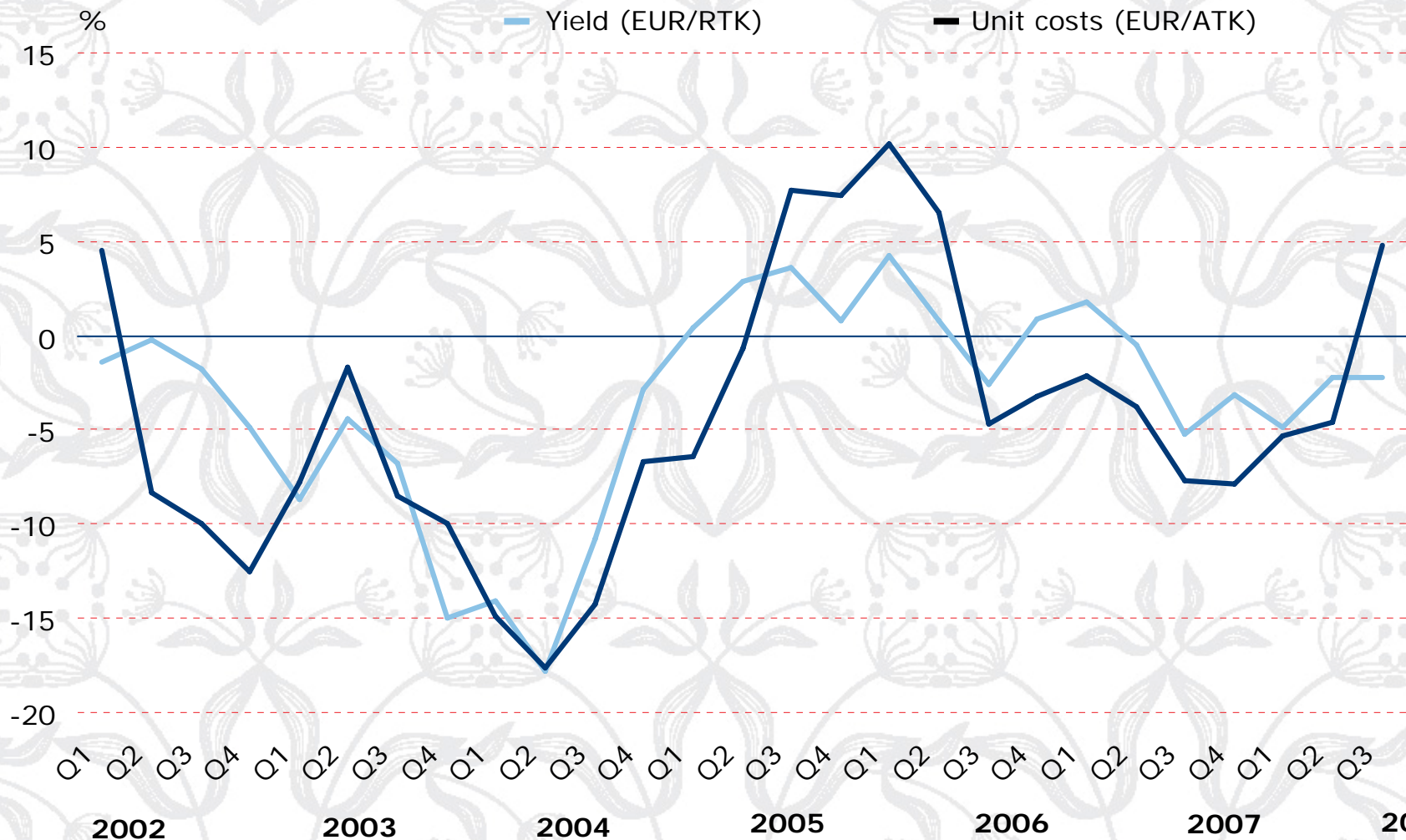
	Q3/08	Q1-Q3/08
Unit costs of flight operations* c/ATK	4,8%	-1,7 %
Unit costs of flight operations excl. fuel* c/ATK	-3,4%	-9,2 %
Personnel expenses c/ATK	-6,9%	-7,7 %
Fuel costs c/ATK	+27,5%	+21,4 %
Traffic charges c/ATK	-0,9%	-6,5 %
Ground handling and catering €/passenger	+5,8%	+13,8 %
Sales and marketing €/passenger	+27,8%	+25,6 %
Aircraft lease payments and depreciation c/ATK	-13,8%	-14,8 %
Other costs c/ATK	-4,6%	-14,7 %

\* excluding fair value changes of derivatives and non-recurring items

ATK = Available Tonne Kilometre

# Unit costs increased more than yield

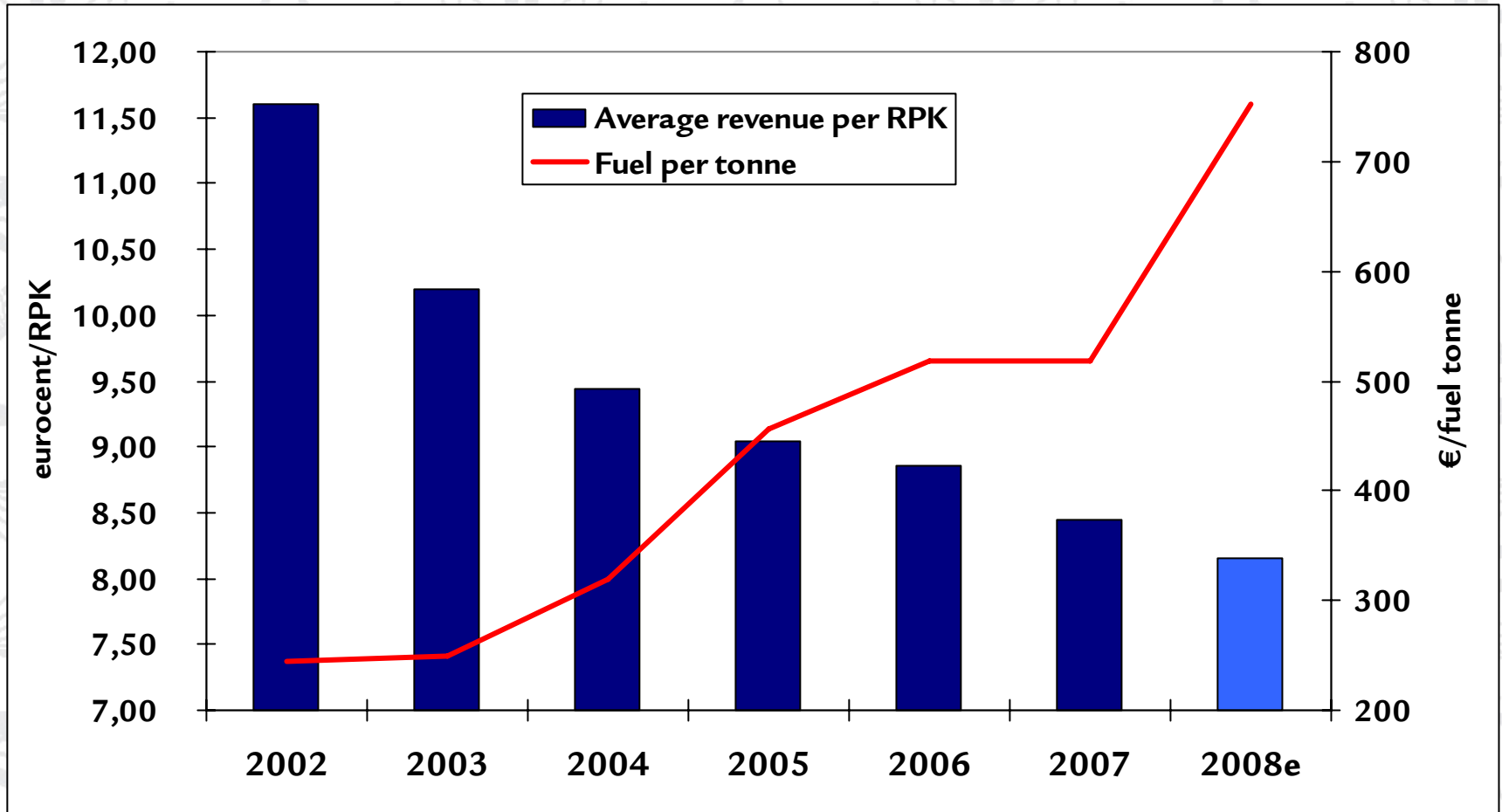
Change YoY





# Fuel and ticket prices on separate paths

Development of fuel costs and average ticket prices in scheduled traffic 2002–2008



# Number of staff stable



# Efficiency programme under way

- ✈ Over half of 50 million euro efficiency programme under way or fulfilled
- ✈ Result effects will take place next year
- ✈ Personnel cut savings approx. 25 million euro
- ✈ Main efficiency improvement areas:
  - Capacity adjustment/ discontinuing unprofitable flights
    - Discontinuing flights to Guangzhou
    - 3 Embraer 170 aircraft away from traffic as of January
    - Effect on staff and variable costs
  - Partners' pricing and deepening of cooperation
  - Fuel burn / flight procedures
  - Support functions and business unit interfaces



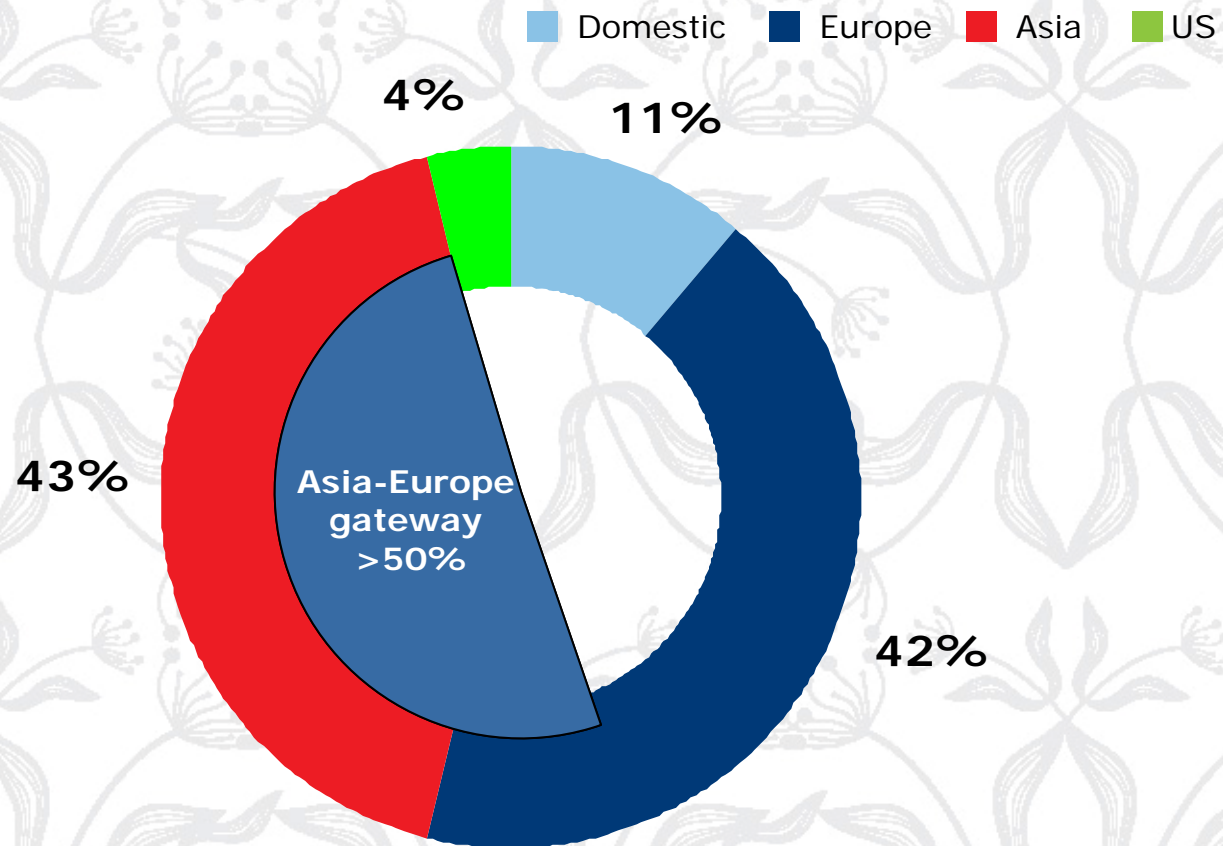
# Growth in Asian traffic continues

- ✈ Seoul launched as new destination in June
- ✈ Asian demand grew 17.4% in January-September, cargo loads by 25.0%
- ✈ 60 flights a week to Asian destinations
- ✈ Non-stop flights to 10 destinations
- ✈ India up to 13 flights per week
- ✈ Guangzhou discontinued
- ✈ Zero growth in 2009 due to the fleet renewal

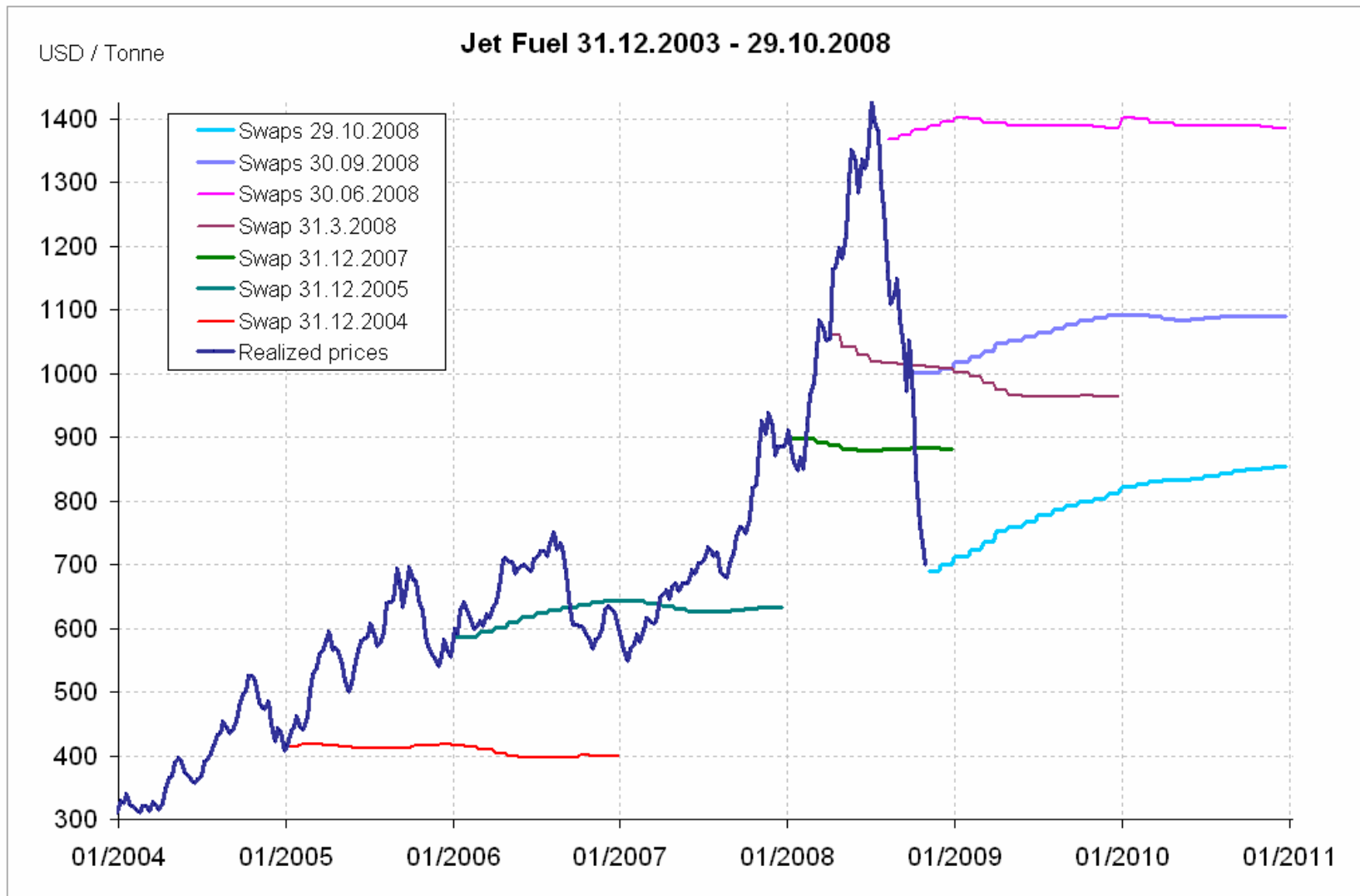


# More revenues from Asian traffic

Distribution of passenger and cargo revenues in scheduled traffic



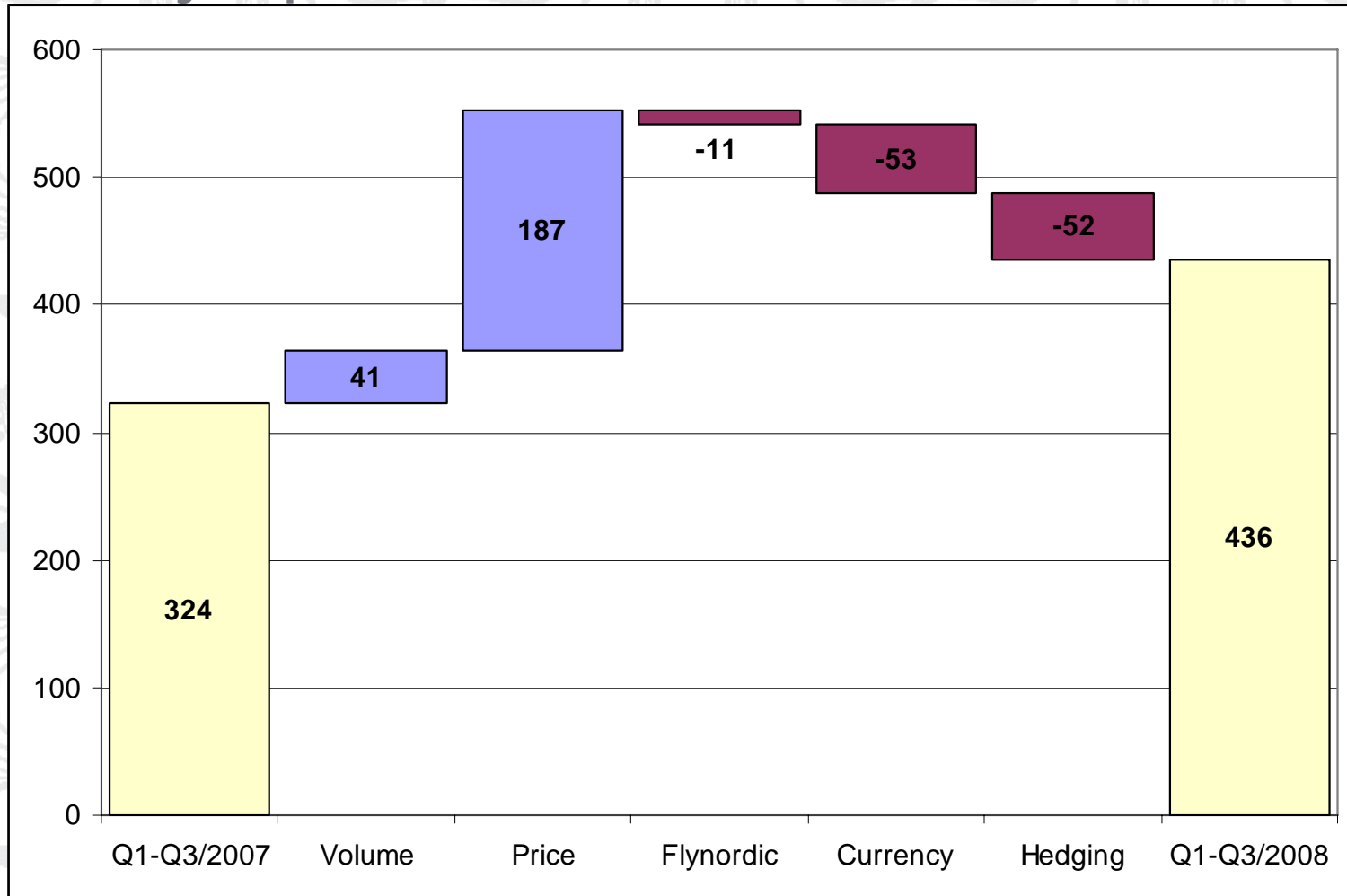
# Future price of fuel still high





# Fuel costs 2007 vs. 2008

January-September



Fuel hedging outside hedging calculations:  
Q1-Q3/Y2007 -2 MEUR ja Q1-Q3/Y2008 +21 MEUR

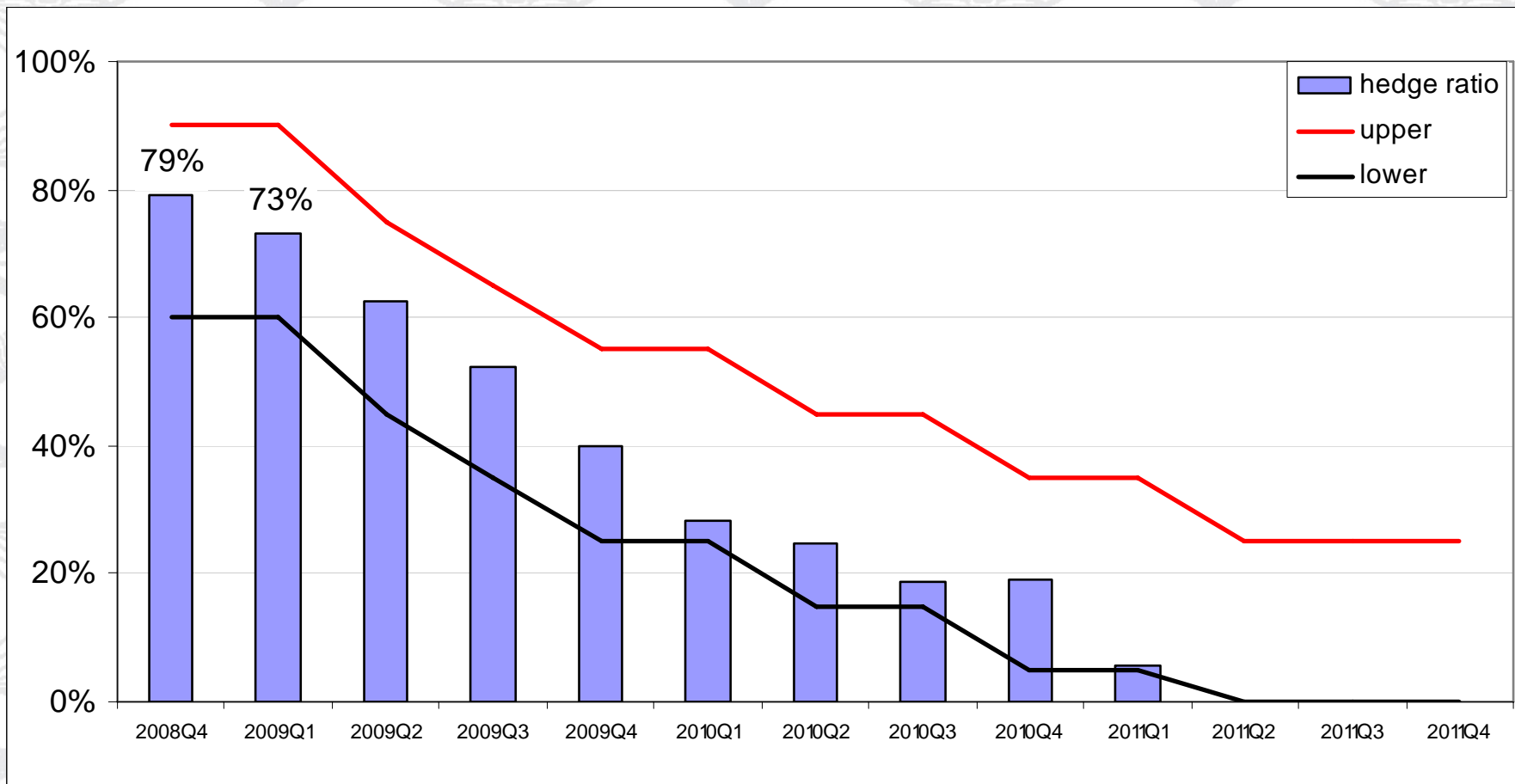
# Fuel costs clearly over a quarter of turnover

- ✈ 2003: 10.2% of turnover
- ✈ 2004: 12.5% of turnover
- ✈ 2005: 15.6% of turnover
- ✈ 2006: 19.4% of turnover
- ✈ 2007: 20,2% of turnover
- ✈ 2008: ~26% of turnover

Finnair scheduled traffic has hedged 76% of its fuel purchases for the next six months, thereafter for the following 24 months at a decreasing level.

# Fuel hedging rates

(Scheduled Passenger Traffic, 30 September 2008)





# Fleet renewal safeguarded

- ✈ In 2007-14 a fleet of maximum 15 Airbus A330/A340 aircraft
  - Five new Airbus A330 planes arrive in 2009
  - Boeing MD-11 fleet will be phased out in early 2010
- ✈ In 2014-16 a fleet of maximum 15 new technology Airbus A350XWB aircraft

## Fuel consumption and emission index\*

Boeing MD-11	Airbus A340	Airbus A330	Airbus A350
100	89	80	69

\*) Per seat



# Investment program

2006

- ✈ 6 E170 purchases
- ✈ 1\* E190 purchase
- ✈ 1 A340 purchase

2007

- ✈ 5\* E190 purchases
- ✈ 2 A340 purchases

2008

- ✈ 2 A340 firm orders
- ✈ 2\* E190 firm orders

2009

- ✈ 5 A330 firm orders
- ✈ 2 E190 firm orders

2010

- ✈ 3 A330 firm orders (+ two options)

✈ Total capex of €250m in 2008 and over €400m in 2009

\*) Total number of four E190 sale and lease backs after a short period of ownership

# Future prospects

- ✈ Demand and price level will be challenging
- ✈ Benefits of lower fuel prices with delay
- ✈ Minimum level of 50 million euro savings
- ✈ Pilots' collective agreement under negotiations
- ✈ Capacity scheduled passenger traffic in Q4 will be eight per cent lower than originally planned
- ✈ Capacity will be dropped with 1-2 per cent in 2009
- ✈ Renewal of fleet for long-haul flights
- ✈ Operating result is expected to be negative for last quarter at current expectations

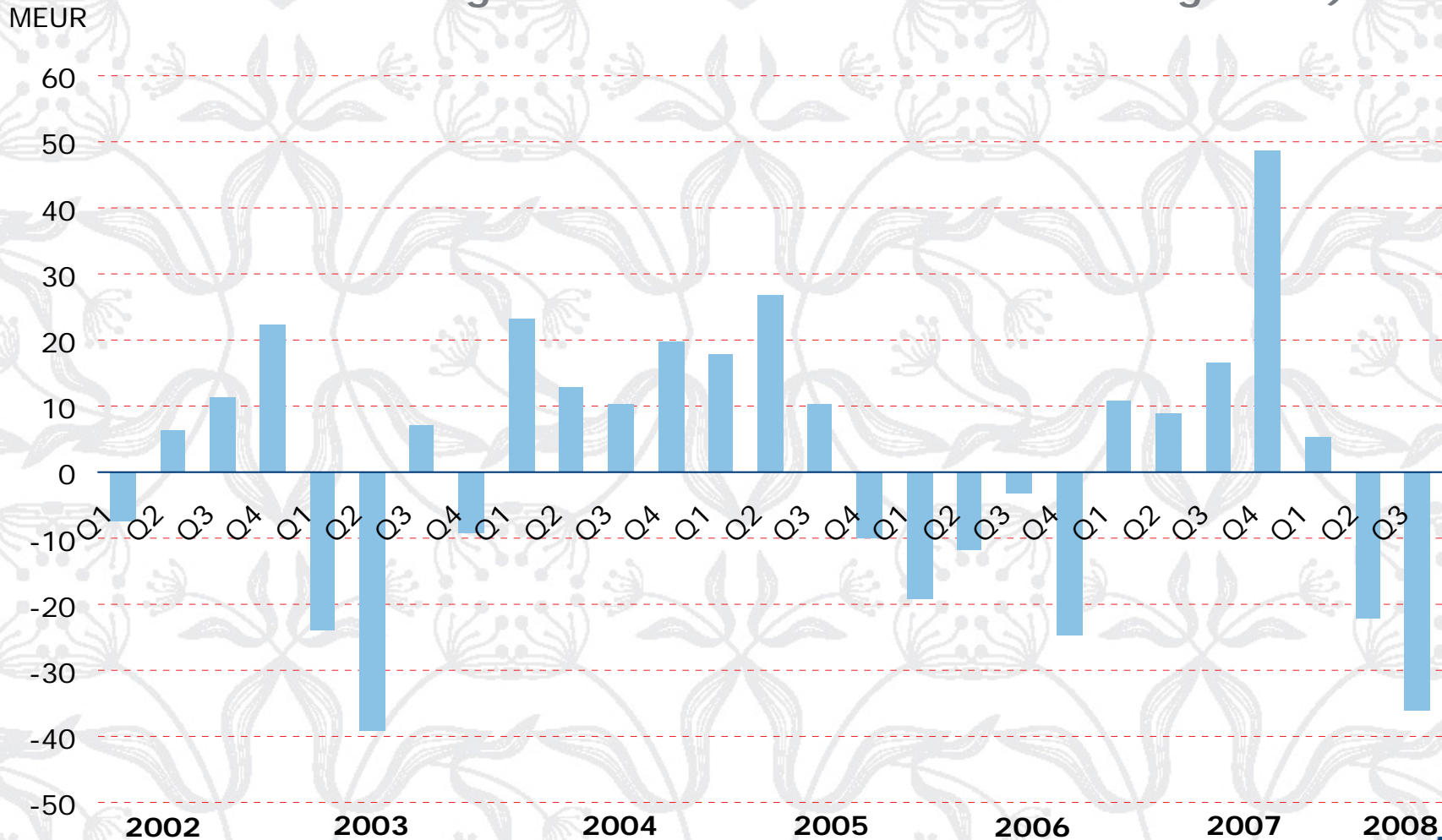


# Appendices



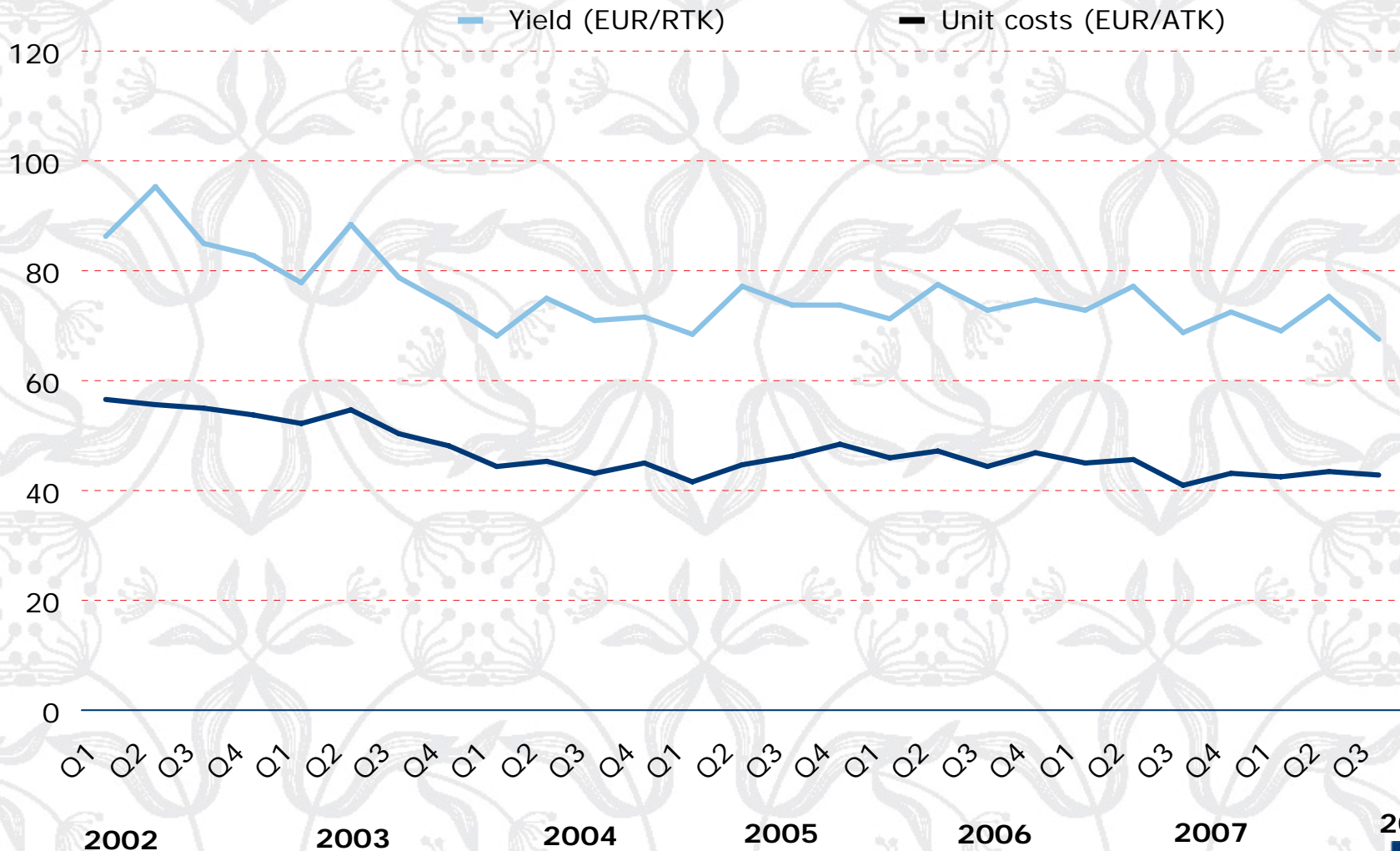
# Quarterly change in profitability

Change in EBIT per quarter (Excluding capital gains, fair value changes of derivatives and non recurring items)



# Average yield and costs

EUR c/RTK & EUR c/ATK





# Segment results

Excluding capital gains, fair value changes of derivatives and non restructuring items

	2008	2007
	Q3	Q3
<b>MEUR</b>		
<b>Scheduled Passenger Traffic</b>	-4.0	28.8
<b>Leisure Traffic</b>	6.0	7.8
<b>Aviation Services</b>	1.9	2.7
<b>Travel Services</b>	1.3	1.3
<b>Unallocated items</b>	-2.4	-1.4
<b>Total</b>	<b>2.8</b>	<b>39.2</b>

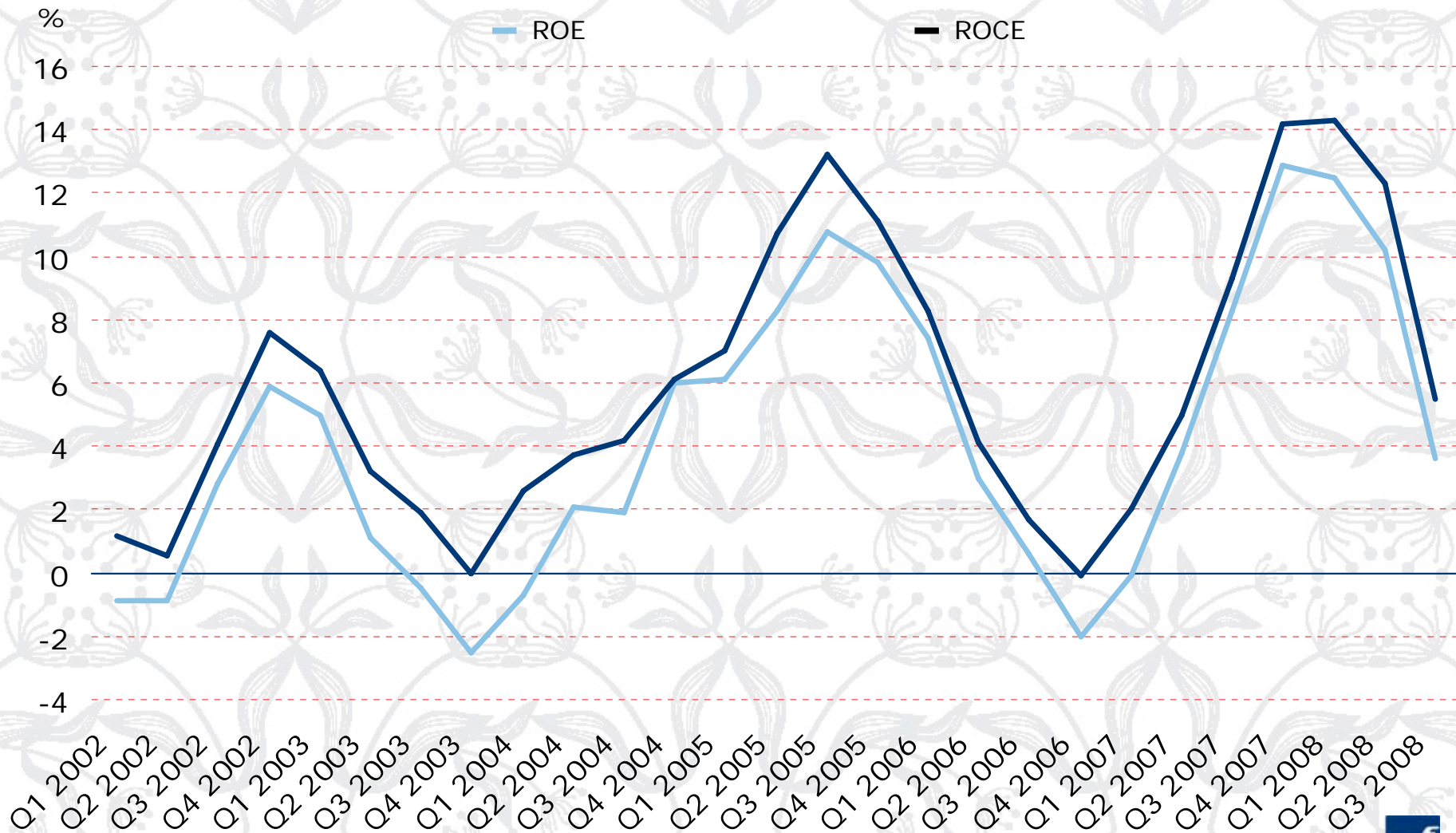
# Segment results

Excluding capital gains, fair value changes of derivatives and non restructuring items

	2008	2007
	Q1-Q3	Q1-Q3
<b>MEUR</b>		
<b>Scheduled Passenger Traffic</b>	-2.5	56.2
<b>Leisure Traffic</b>	14.6	14.5
<b>Aviation Services</b>	8.8	7.3
<b>Travel Services</b>	3.1	3.8
<b>Unallocated items</b>	-4.9	-9.6
<b>Total</b>	<b>19.1</b>	<b>72.2</b>

# ROE and ROCE

## Rolling 12 months

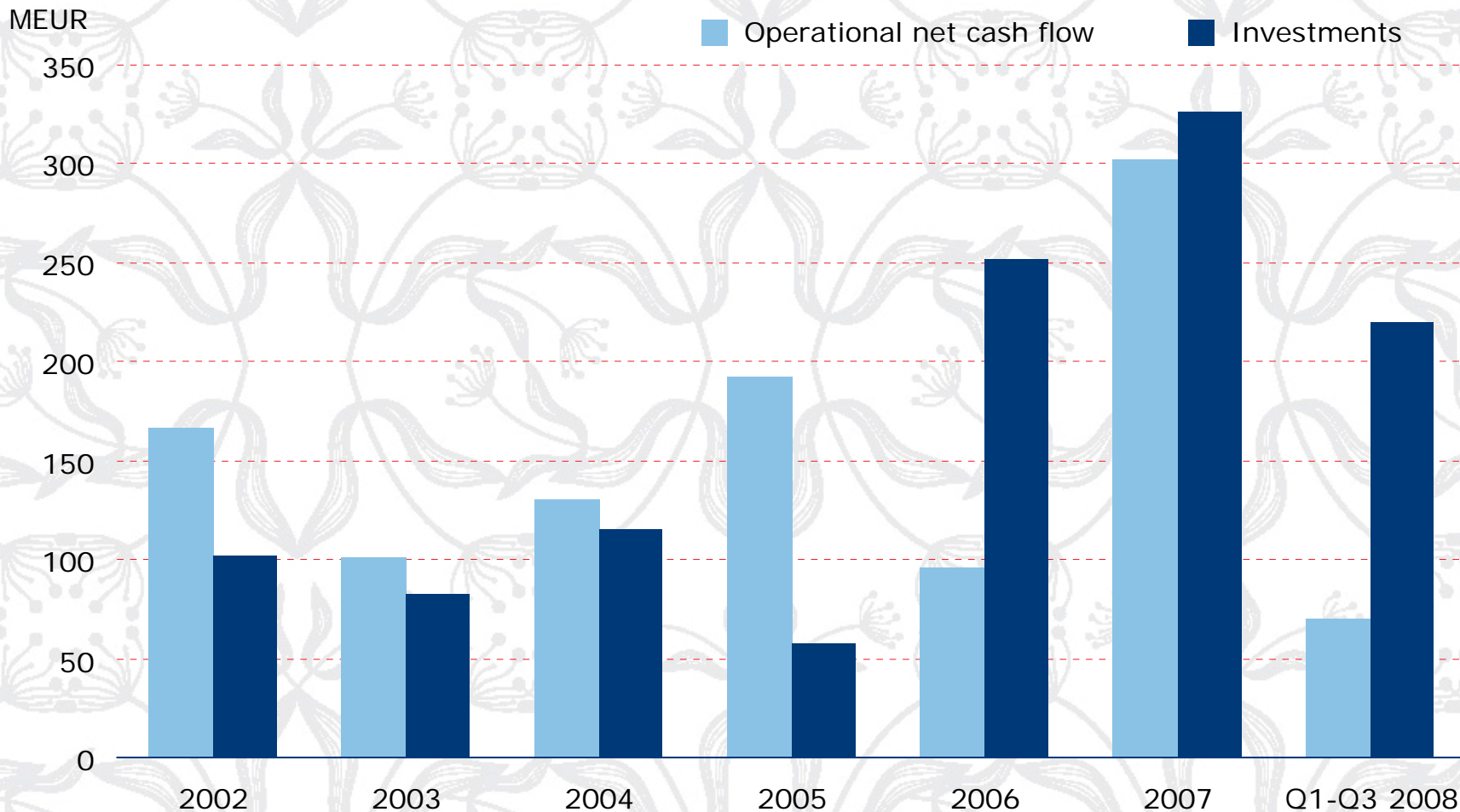




# Most modern European fleet

- ✈ Average age of Finnair's European fleet approximately five years
- ✈ 29 Airbus A320 family aircraft
- ✈ Ten smaller Embraer 170 aircraft and eight larger 190 model aircraft already in the fleet, three more arriving in 2009-2011
- ✈ New aircraft have increased flexibility, improved load factors, reduced costs and are eco-efficient

# Investments and cash flow from operations



# Aircraft operating lease liabilities



On 30 September all leases were operating leases. If capitalised using the common method of multiplying annual aircraft lease payments by seven, the adjusted gearing on 30 September 2008 would have been 51,1%



# Finnair Financial Targets

**"Sustainable value creation"**

<b>Operating profit (EBIT)</b>	<b>EBIT margin at least 6% =&gt; over 120 mill. € in the coming few years</b>
<b>EBITDAR</b>	<b>EBITDAR margin at least 17% =&gt; over 350 mill. € in the coming few years</b>
<b>Economic profit</b>	<b>To create positive value over pretax WACC of 9,5%</b>
<b>Adjusted Gearing</b>	<b>Gearing adjusted for aircraft lease liabilities not to exceed 140 %</b>
<b>Pay out ratio</b>	<b>Minimum one third of the EPS</b>

# Finnair's Financial Targets

## Description of targets

<b>Operating profit (EBIT)</b>	<b>Turnover + other operating revenues – operating costs</b>
<b>EBITDAR</b>	<b>Result before depreciation, aircraft lease payments and capital gains</b>
<b>Economic profit</b>	<b>Operating profit EBIT – Weighted Average Cost of Capital</b>
<b>Adjusted Gearing</b>	<b>Interest bearing debt + 7* Aircraft lease payments – liquid funds) / (Equity + minority interests)</b>
<b>Pay out ratio</b>	<b>Dividend per share / Earnings per share</b>



[www.finnair.com](http://www.finnair.com)

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