

# Finnair Group

Interim Report

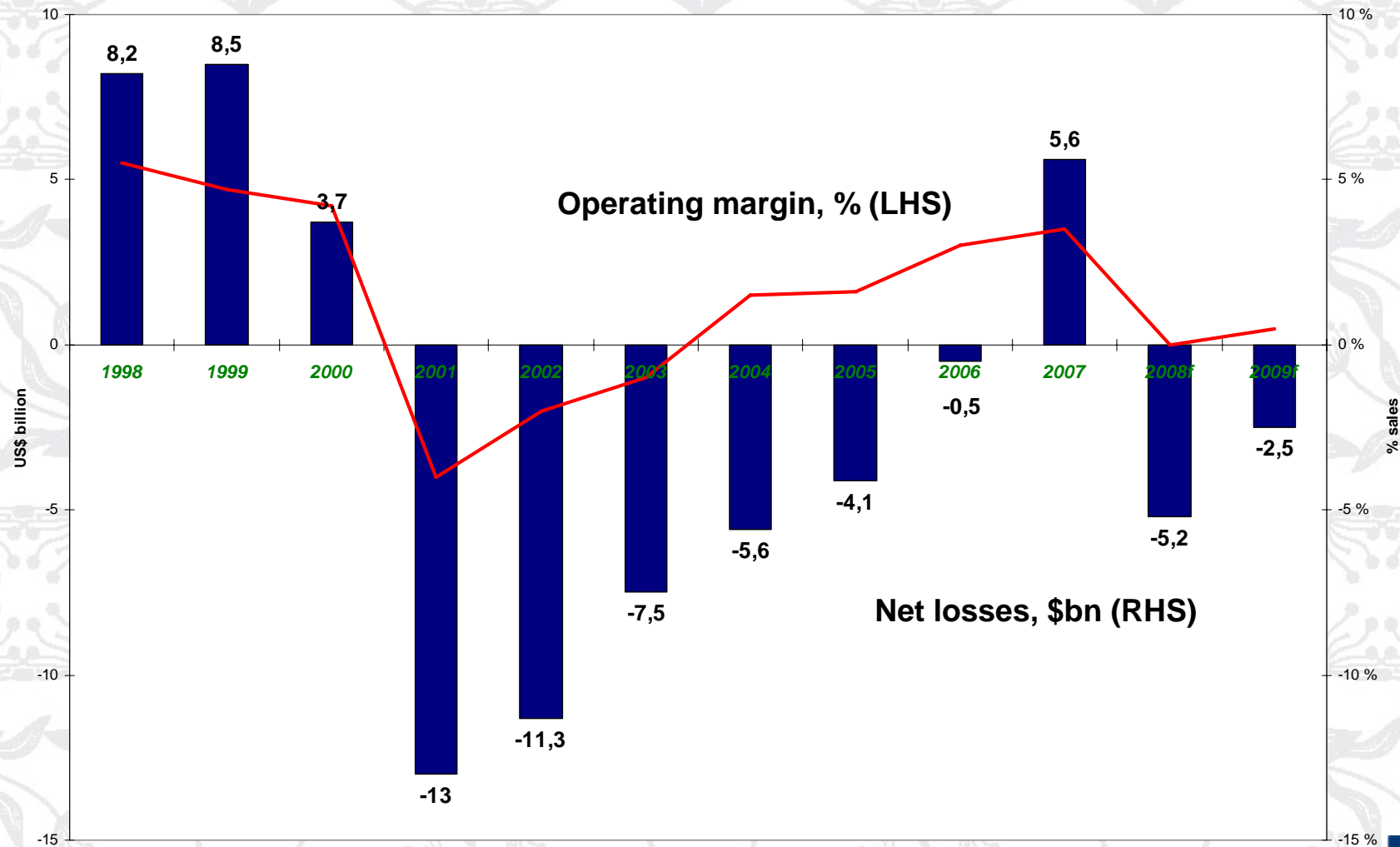
1 January – 31 December 2008



# Air transport in global upheaval

- ✈ Fuel price extremes in four months
- ✈ Fall in demand for air transport has been faster than during the SARS outbreak, but now the phenomenon is global
- ✈ Fewer business passengers, and customers' opting for cheaper price classes has led to price erosion
- ✈ Cargo demand collapsed by over 20 per cent late in the year
- ✈ IATA forecasts 5.2 billion dollar losses in 2008
- ✈ Roughly 30 airlines have folded and more bankruptcies coming
- ✈ Still too much capacity in the market
- ✈ Sector financing in difficulties; problems in accepting aircraft orders

# 2007 about to remain the only profitable year of the decade



# Poor result at Finnair

- ✈ Scheduled traffic profitability collapsed
- ✈ Passenger load factor remained good
- ✈ Leisure and Cargo traffic made a good result
- ✈ Operational quality and customer satisfaction improved significantly after problems early in the year
- ✈ 50 million euro efficiency programme being implemented
- ✈ YT negotiations led to ending of 120 and 400 fixed-term employment relationships; over 3,000 temporary lay-offs
- ✈ 10 per cent capacity cut compared to original scheduled traffic plans

# Profitability melted down

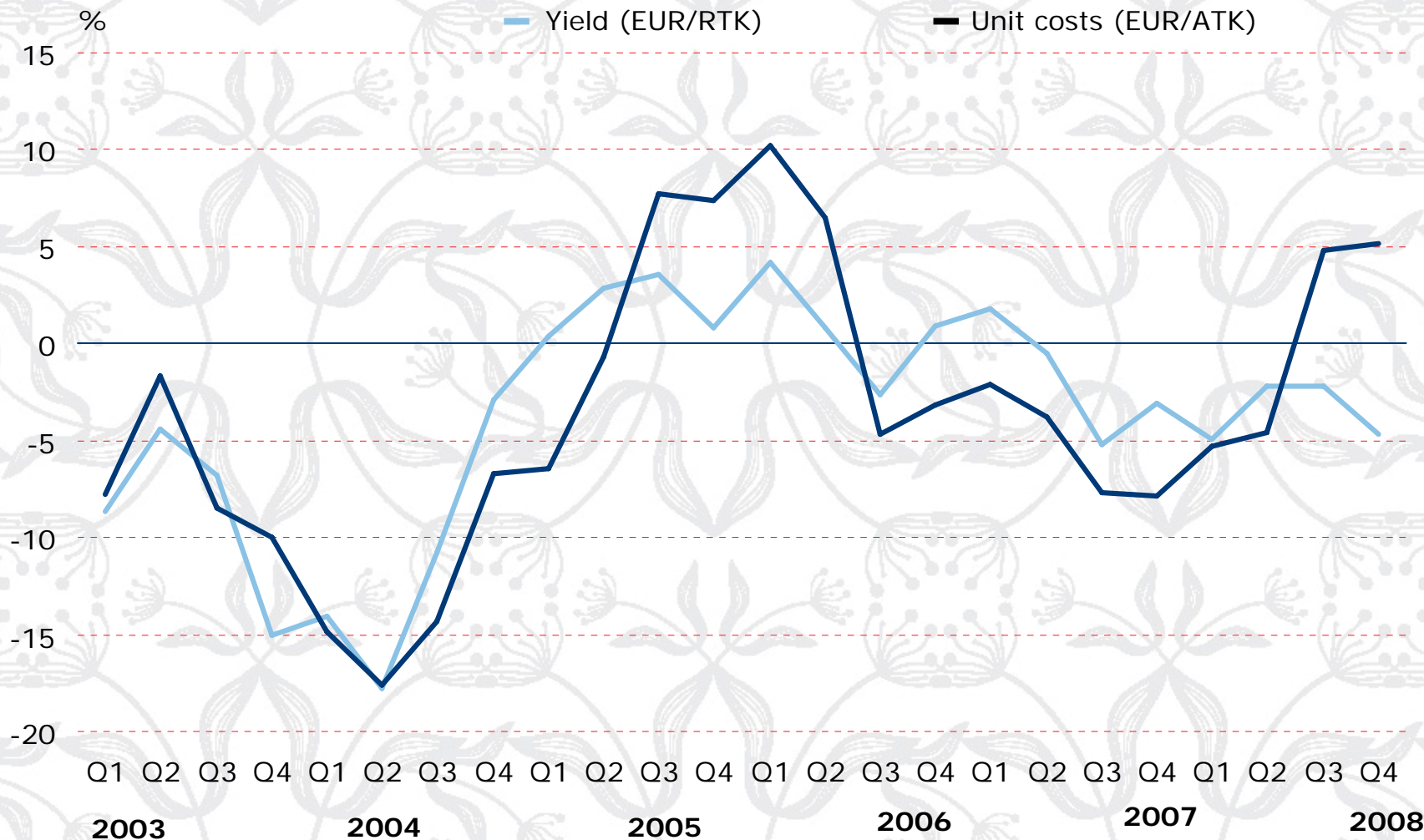
	2008	2007	Change %
Turnover mill. €	2 262,6	2180,5	3.8
EBITDAR excl. capital gains, fair values changes of derivatives and non recurring items	194,3	287,4	-32.4
EBIT excl. capital gains, fair values changes of derivatives and non recurring items	6,6	96,6	-
One off items/ capital gains	-1,3	30,4	-
Fair value changes of derivatives	-57,4	14,5	-
Operating profit/loss (EBIT)	-52,1	141,5	-
Profit before tax	-56,4	138,9	-

# Improved results by efficiency programme

	Q4/2008	Q4/2007	Change %
Turnover mill. €	580.3	568.7	2.0
EBITDAR excl. capital gains, fair values changes of derivatives and non recurring items	28.1	70.6	-60.2
EBIT excl. capital gains, fair values changes of derivatives and non recurring items	-12.5	24.4	-
One off items/ capital gains	-3.8	6.2	-
Fair value changes of derivatives	-43.8	0.2	-
Operating profit/loss (EBIT)	-60.1	30.8	-
Profit before taxes	-60.8	35.2	-

# Fuel boosted unit costs

Change YoY



# Unit costs climbing towards the end of the year

	2008	Q4/2008
Unit costs of flight operations* c/ATK	0.0%	+5.2%
Unit costs of flight operations* c/ATK excl. fuel	-4.8%	+2.2%
Personnel expenses c/ATK	-8.4%	-9.9%
Fuel costs** c/ATK	+14.5%	+13.9%
Traffic charges c/ATK	-3.3%	+6.9%
Ground handling and catering €/passenger	+13.5%	+12.1%
Sales and marketing €/passenger	+18.8%	+0.9%
Aircraft lease payments and depreciation c/ATK	-11.5%	-1.1%
Other costs* c/ATK	-4.2%	+6.9%

\* excluding fair value changes of derivatives and restructuring items

\*\* includes realized fuel and currency hedging outside hedge accounting

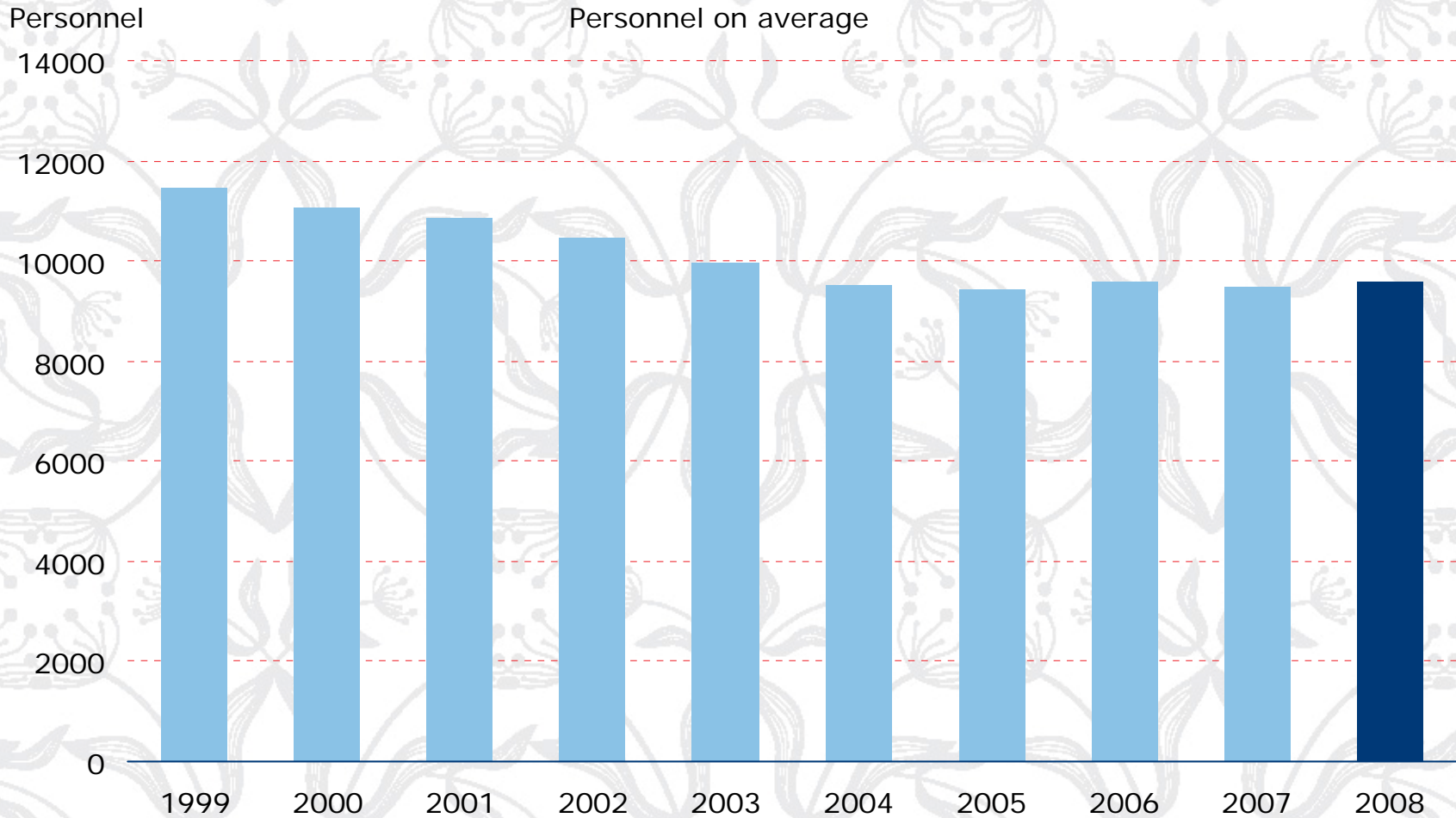
ATK = Available Tonne Kilometre



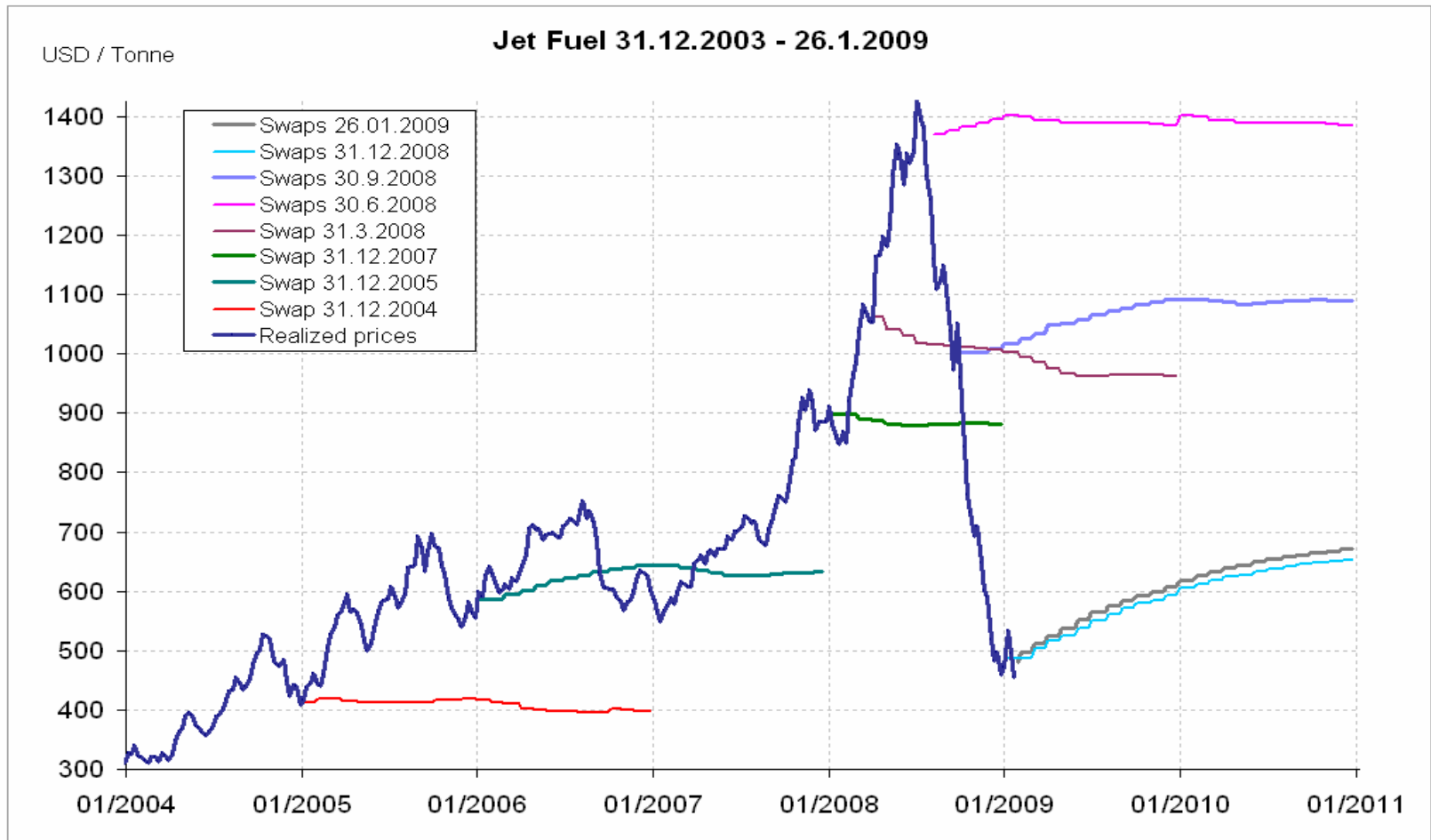
# Efficiency programme under way

- ✈ Over half of 50 million euro efficiency programme under way or fulfilled
- ✈ 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
    - Effect on staff and variable costs
  - Partners' pricing and deepening of cooperation
  - Fuel burn / flight procedures
  - Support functions and business unit interfaces
- ✈ Similar size programme is required once again

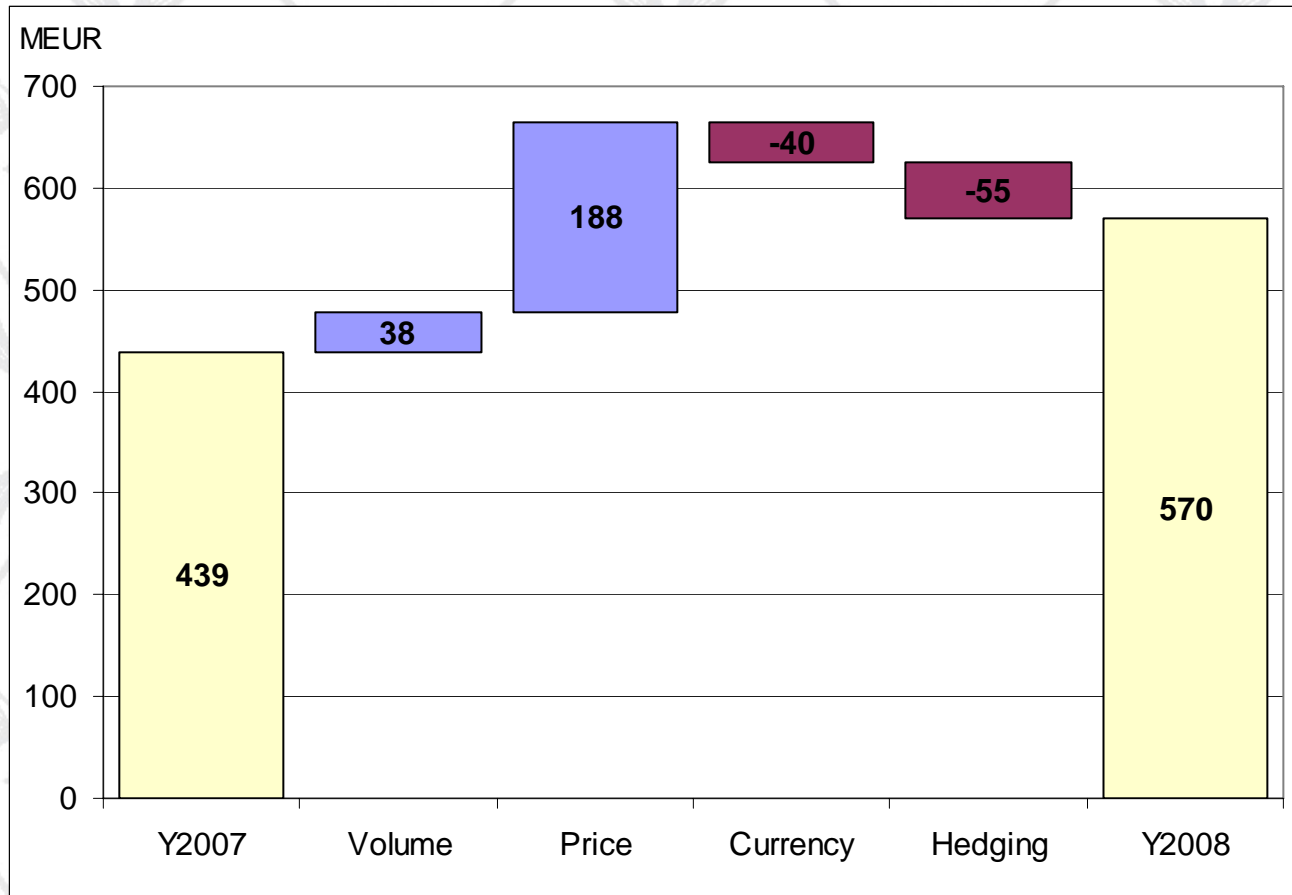
# Number of staff declining in 2009



# Oiled roller-coaster

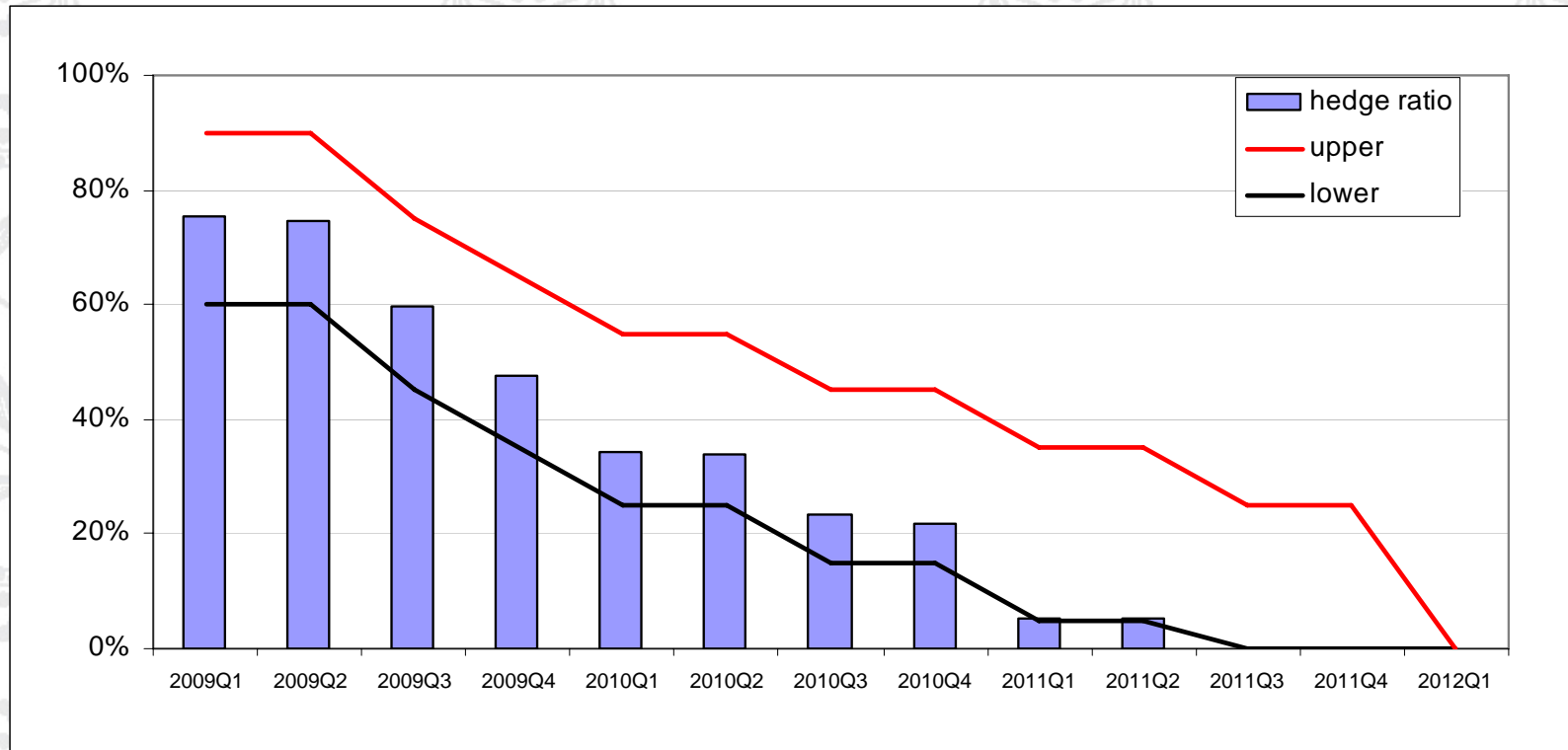


# Components of jet fuel cost change



✦ Additionally, realized gains of 10 mEur were posted due to jet fuel related hedges in other expenses.

# Finnair has consistent hedging policy



# Fuel costs a fifth of turnover

- ✈ 2004: 12.6% of turnover
- ✈ 2005: 15.6% of turnover
- ✈ 2006: 19.4% of turnover
- ✈ 2007: 20.3% of turnover
- ✈ 2008: 24.6% of turnover
- ✈ 2009: >22% of turnover

Finnair scheduled traffic has hedged 75% of its fuel purchases for the next six months, thereafter for the following 24 months with a decreasing level.

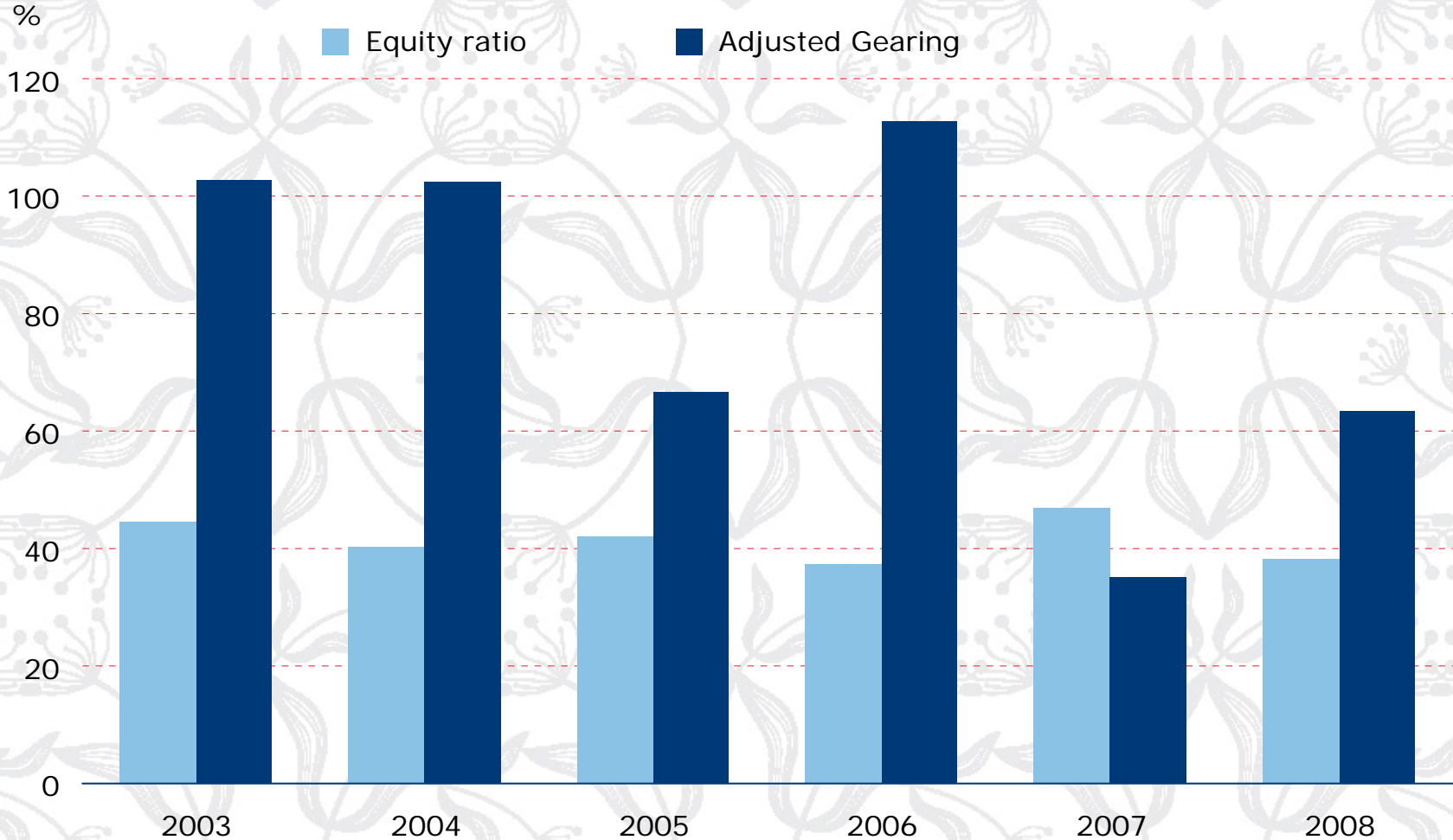
# Cash flow declined

Cash flow January-December

Cash flow statement (EUR mill.)	2008	2007
Cash flow from operations	120	302
Investments and sale of assets	-186	-273
Investments	-233	-326
Change of advances and others	+47	+53
Cash flow from financing	-82	217
Change in liquid funds	-148	+246
Liquid funds at the beginning	540	294
Liquid funds at the end with financial interest bearing assets at fair value	392	540

# Strengthening balance sheet by cash flow and share issue

Equity ratio and adjusted gearing





# Investment program

2006	✈ 6 E170
	✈ 1* E190
	✈ 1 A340
2007	✈ 5* E190
	✈ 2 A340
2008	✈ 2 A340
	✈ 2* E190
2009	✈ 5 A330
	✈ 2 E190
2010	✈ 3 A330
	✈ 2 E190

✈ Total capex of €400m in 2009 and approx. €300m in 2010

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

# Pilot negotiations deadlocked

- ✈️ Pilots' collective agreement requires new approach; old agreement concluded in different circumstances
- ✈️ Normalised retirement age
- ✈️ Management's power of decision on use of company's aircraft
- ✈️ Pay to correspond with productivity
- ✈️ New rest and free days would raise costs
- ✈️ Healthy profitability requires a change in structure
- ✈️ Overtime ban already disrupting flights
- ✈️ Strike threaten for 25 Feb

# Finnair's challenging outlook

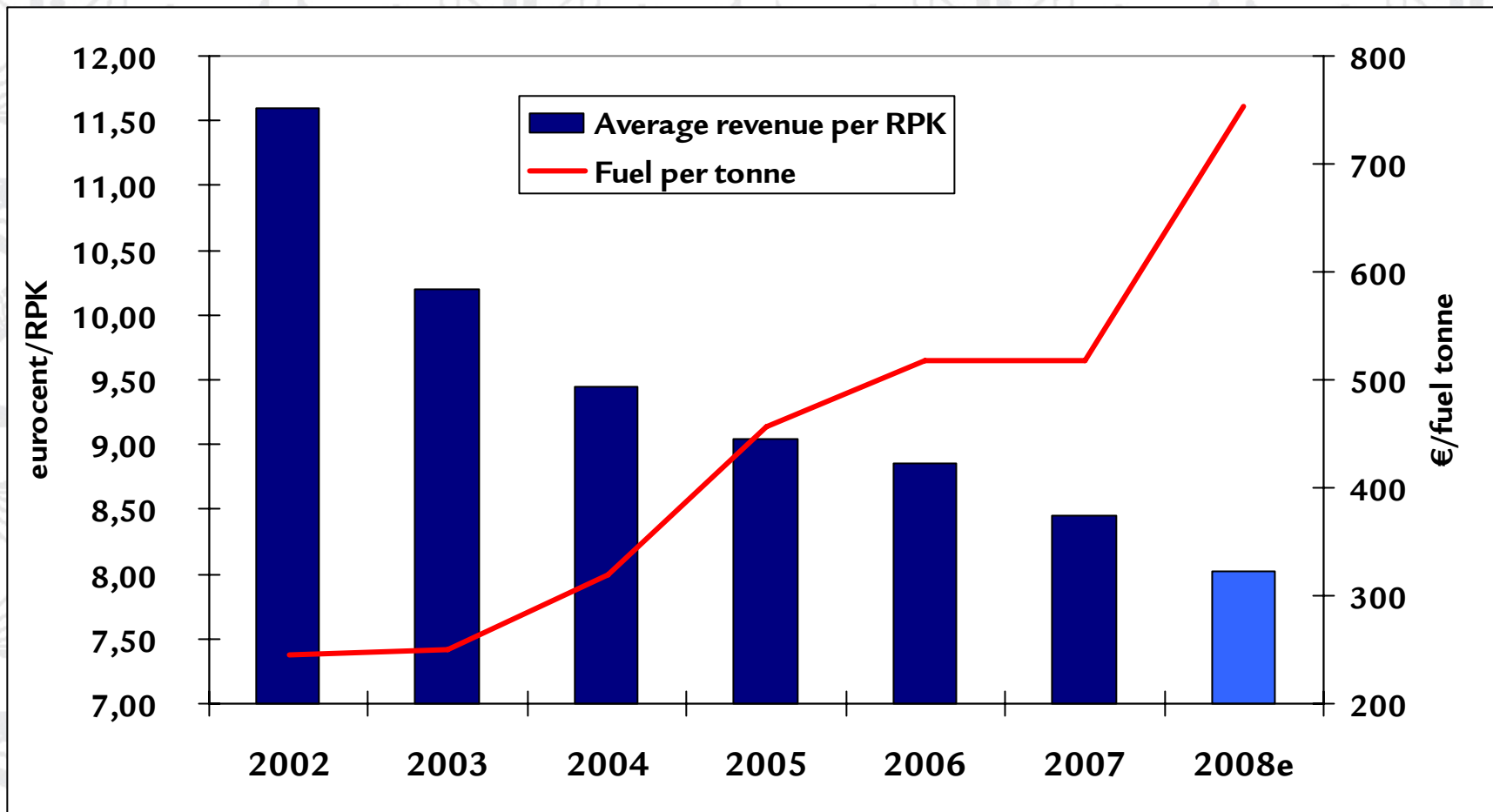
- ✈ Demand situation remains difficult
- ✈ Price level will stay low
- ✈ Scheduled traffic capacity at least three per cent below last year
- ✈ Big investments, A330 aircraft replacing MD-11 aircraft
- ✈ Funding for this year's investments arranged
- ✈ New efficiency areas continually being sought within the Group
- ✈ Pilots' collective agreement solution must not burden cost structure more
- ✈ First quarter clearly loss-making; outlook too hazy to give full-year forecast

# Appendices



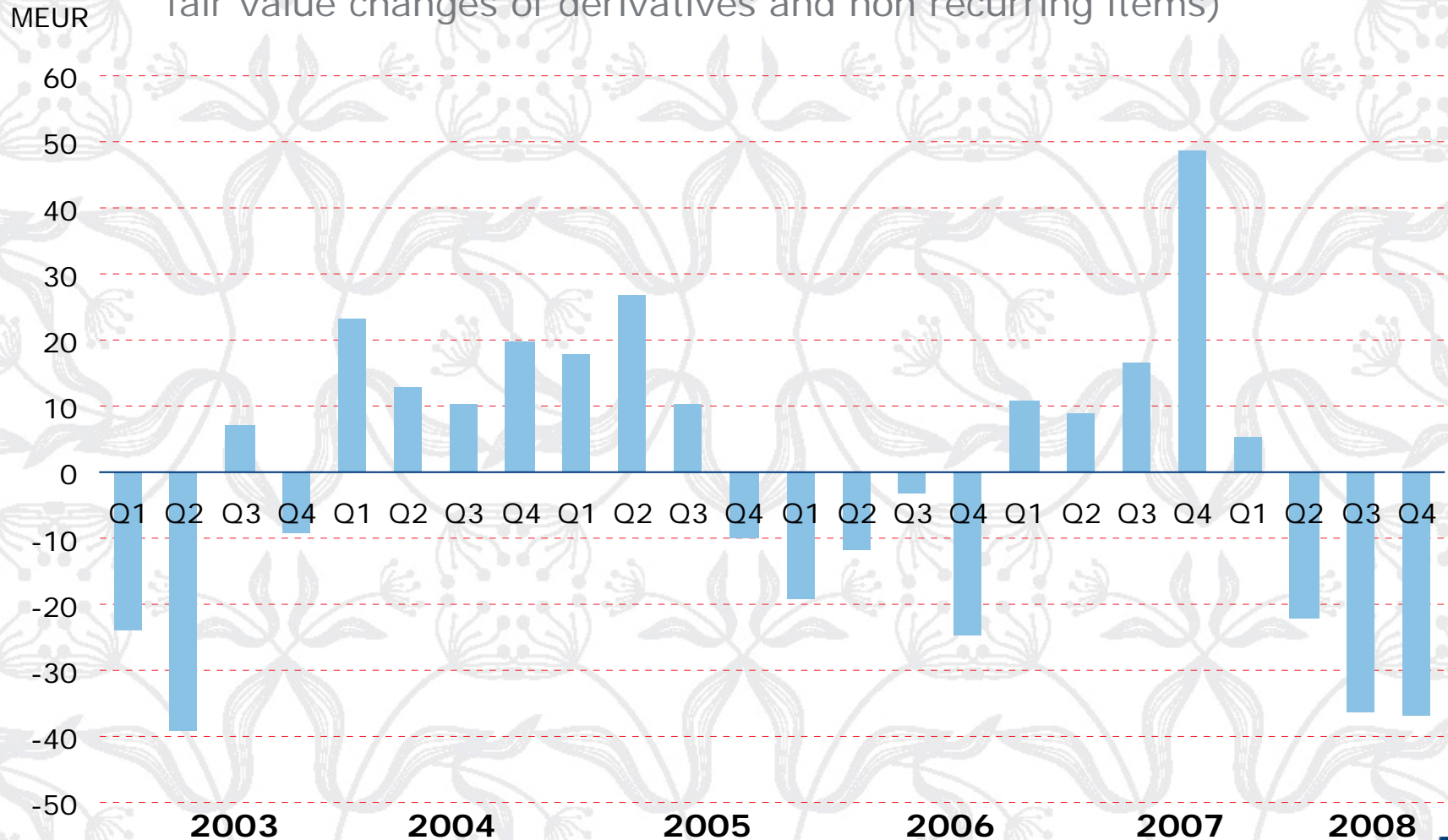
# Fuel and ticket prices on separate paths

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



# Profitability weakened through three quarter

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



# Segment results

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

	2008	2007
	Q4	Q4
<b>MEUR</b>		
<b>Scheduled Passenger Traffic</b>	<b>-27.6</b>	<b>20.0</b>
<b>Leisure Traffic</b>	<b>12.1</b>	<b>9.7</b>
<b>Aviation Services</b>	<b>5.0</b>	<b>3.0</b>
<b>Travel Services</b>	<b>-1.0</b>	<b>-0.9</b>
<b>Unallocated items</b>	<b>-1.0</b>	<b>-7.4</b>
<b>Total</b>	<b>-12.5</b>	<b>24.4</b>

# Segment results

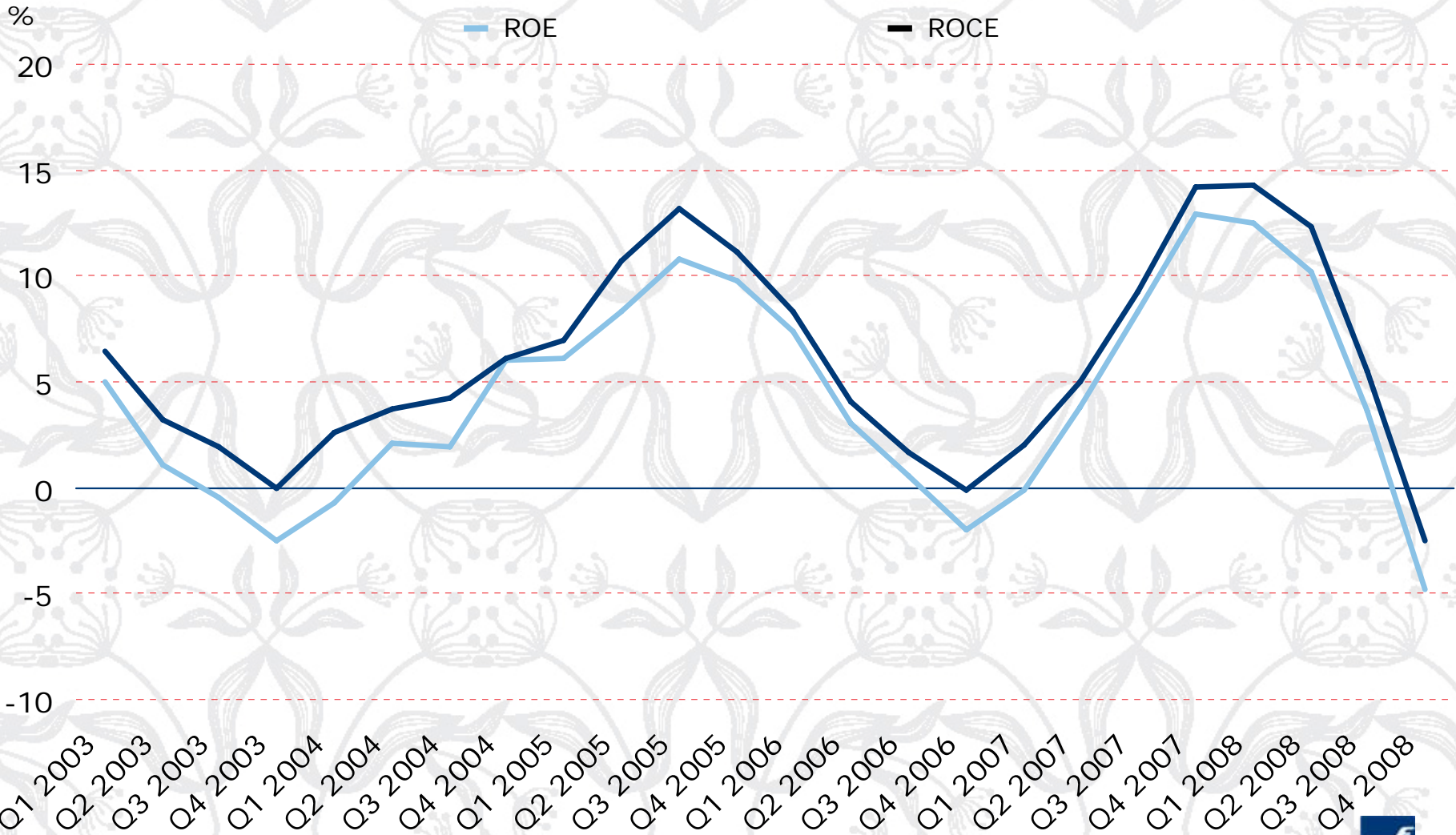
Excluding capital gains, fair value changes of  
Derivatives and non restructuring items

	2008	2007
	Q1- Q4	Q1 - Q4
<b>MEUR</b>		
<b>Scheduled Passenger Traffic</b>	-30.1	76.2
<b>Leisure Traffic</b>	26.7	24.2
<b>Aviation Services</b>	13.8	10.3
<b>Travel Services</b>	2.1	2.9
<b>Unallocated items</b>	-5.9	-17.0
<b>Total</b>	6.6	96.6



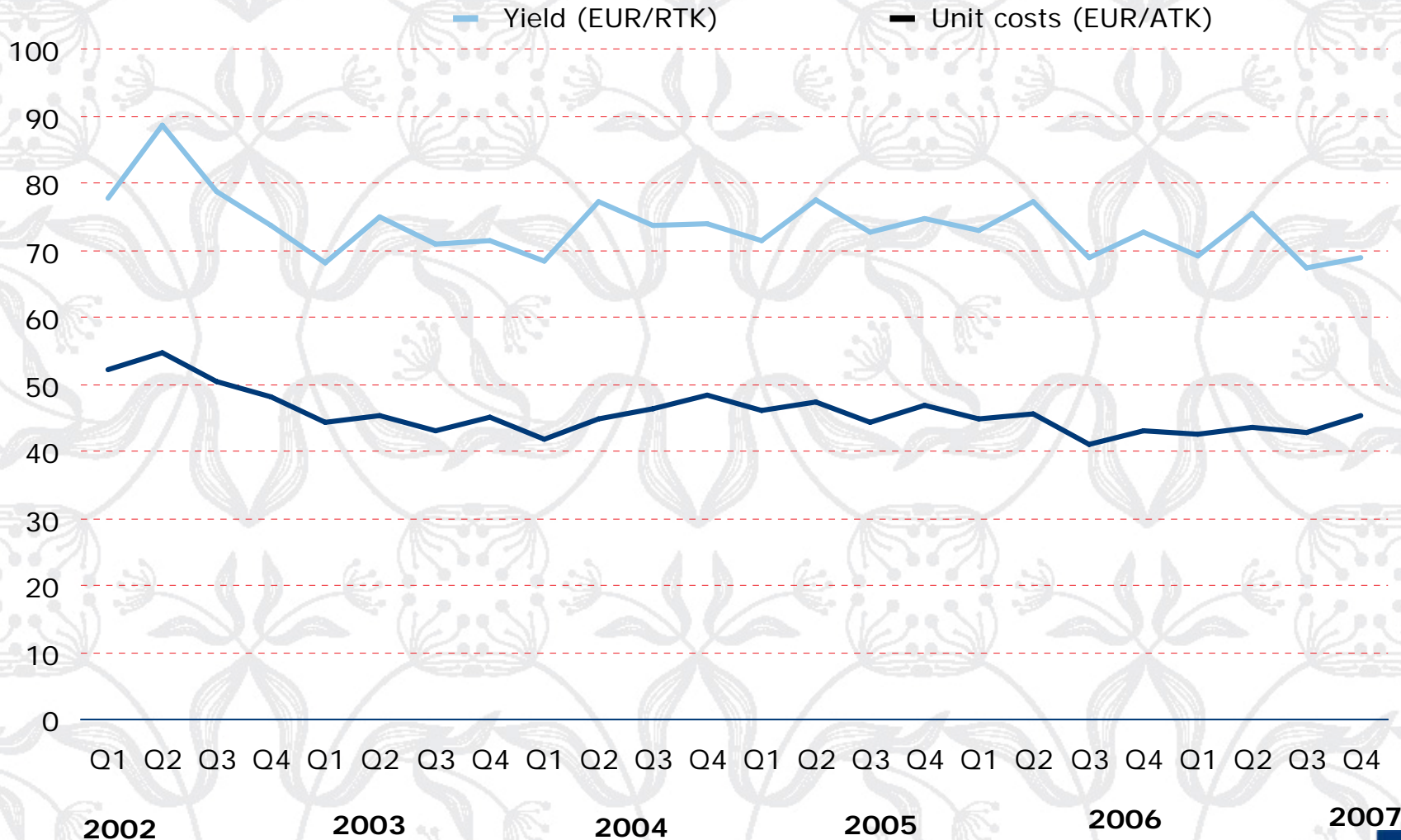
# ROE and ROCE

Rolling 12 months

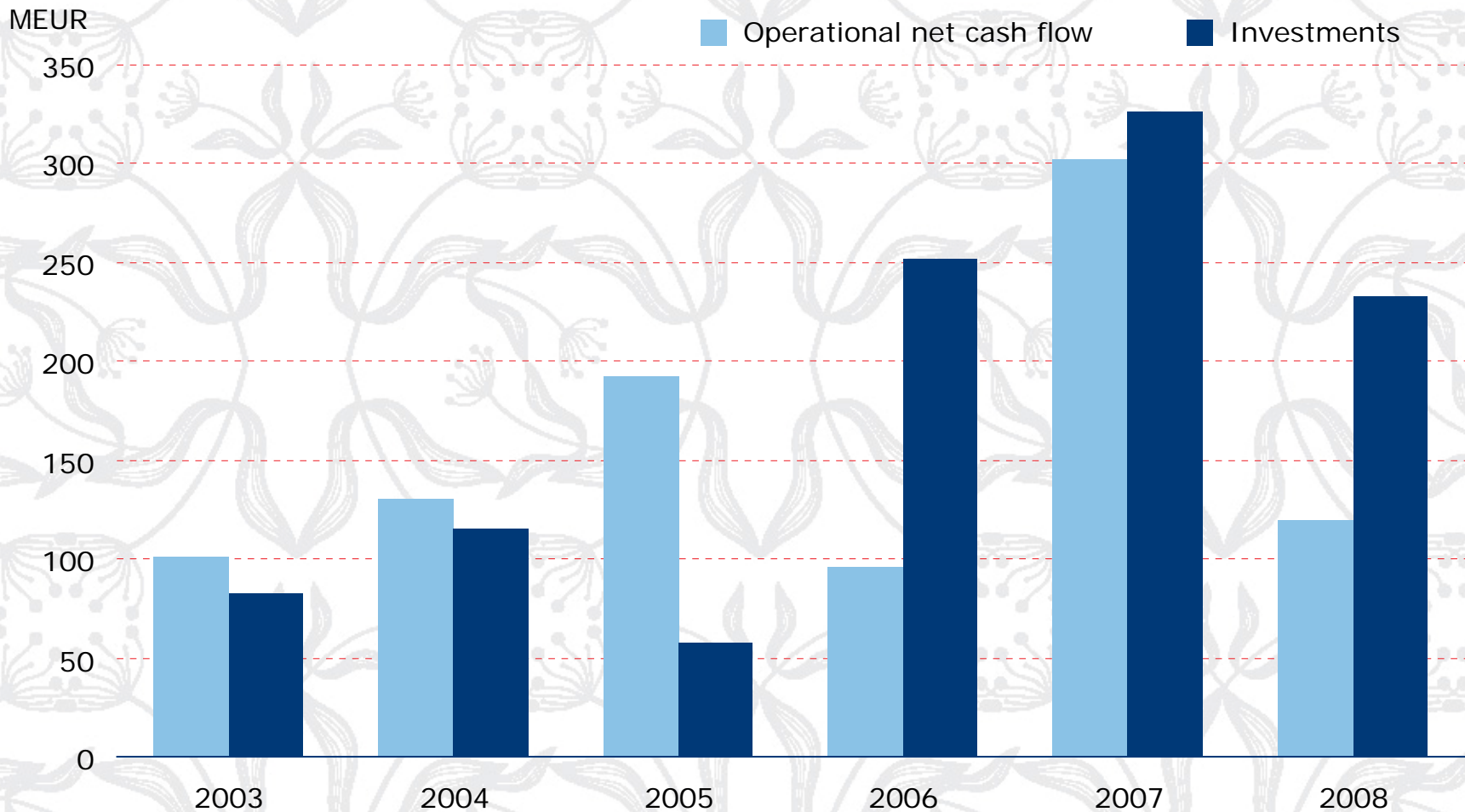


# Average yield and costs

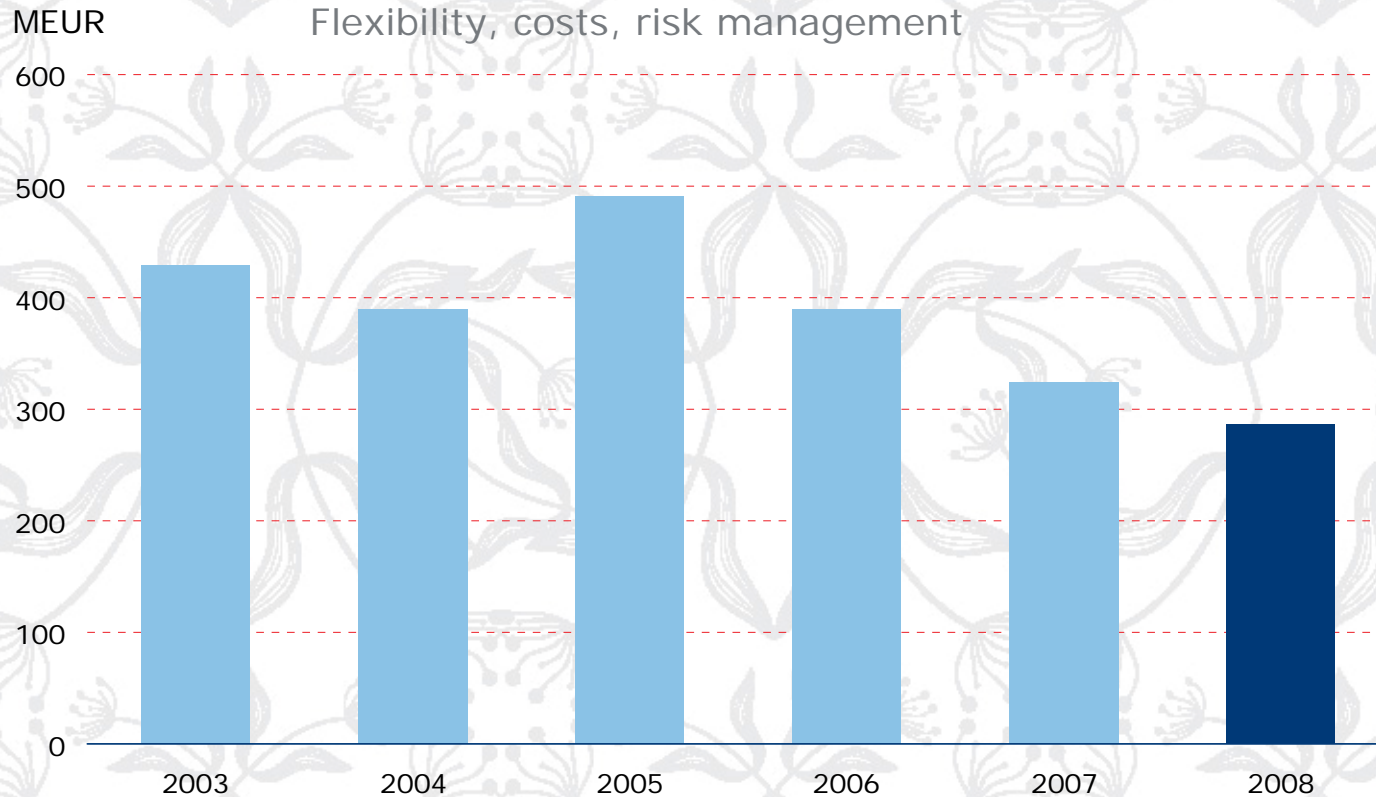
EUR c/RTK & EUR c/ATK



# Investments and cash flow from operations



# Aircraft operating lease liabilities



On 31 December all leases were operating leases. If capitalised using the common method of multiplying annual aircraft lease payments by seven, the adjusted gearing on 31 December 2008 would have been 63,2%

# 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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