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Q3 2022: Net result still negative. Comparable EBIT positive, driven by seasonality and pent-up demand. Implementation of new strategy has begun

28.10.2022 Topi Manner, Finnair

Q3: Comparable EBIT positive for the first time in almost three years, but net result still negative

- Number of passengers increased to 2.8 million, as pent-up demand for air travel began to materialise
  - We operated 66% of Q3 2019 ASKs as our own flights, 80% when wet-lease operations for our partners are included
  - 25% increase in RASK compared to Q3 2019
  - PLF improved in all traffic categories
- Cooperation agreement with Qatar Airways: operations from three Nordic capitals to Doha.

Customer satisfaction continued to be at a good level

- Customer satisfaction remained at a good level (NPS 40).
- Our arrival punctuality was one of the best in Europe, despite the resourcing challenges in the aviation sector.
- Customers chose Finnair as the best airline in Northern Europe for the 12th consecutive time in Skytrax survey.

Comparable operating result 35M€, but the result for the period is still negative

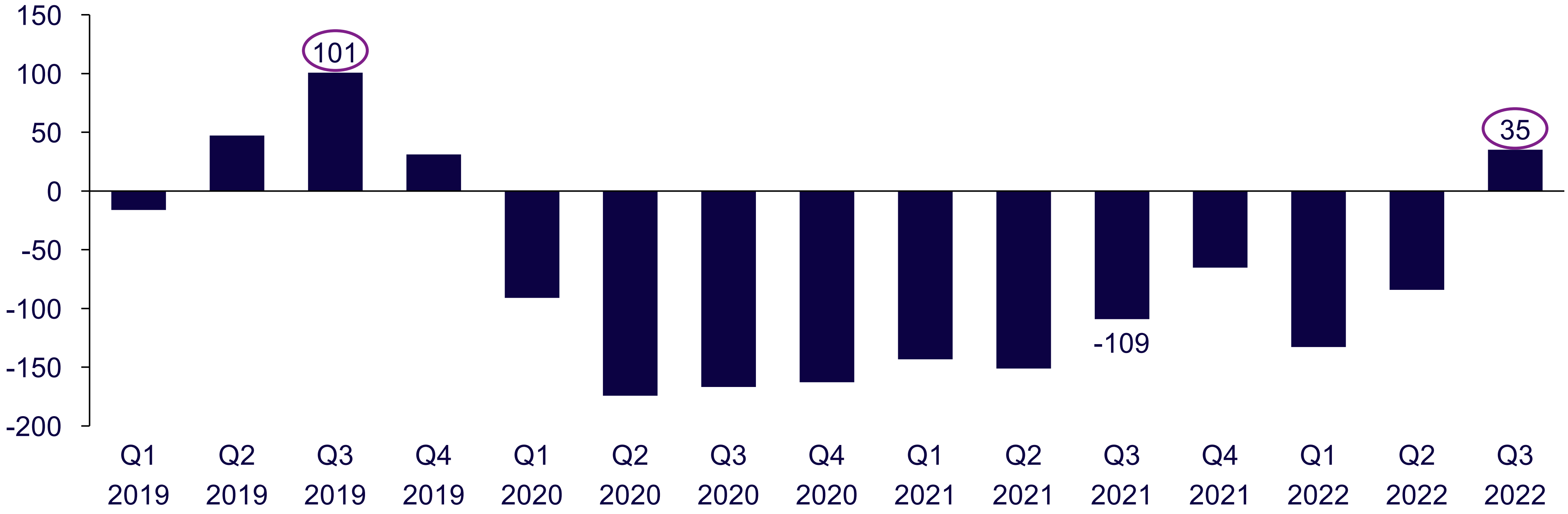
Income statement, M€	Q3 2022	Q2 2022	Q3 2021
Revenue	719	550	199
Other operating income	56	38	10
Operating expenses excl. depreciation and impairment	-661	-594	-240
Comparable EBITDA	**114**	**-6**	**-31**
Depreciation and impairment	-79	-78	-78
Comparable operating result	**35**	**-84**	**-109**
Items affecting comparability	-16	-9	3
Operating result	**19**	**-93**	**-106**
Financial income and expenses	-64	-76	-39
Result before taxes	**-45**	**-169**	**-145**
Income taxes	8	-110	30
Result for the period	**-37**	**-280**	**-115**

- Improved sales and revenue optimization resulted in higher ticket prices and RASK.
- Expense management was successful. However, volume-impacted costs increased notably, and increased flight-time to Asia as well as exceptionally high fuel price decreased profitability.
- Financial expenses increased from Q3 2021 mainly due to exchange rate fluctuations of USD-denominated liabilities.
- No income taxes and related deferred tax assets were recognized as there is increased uncertainty relating to utilization of the tax losses.

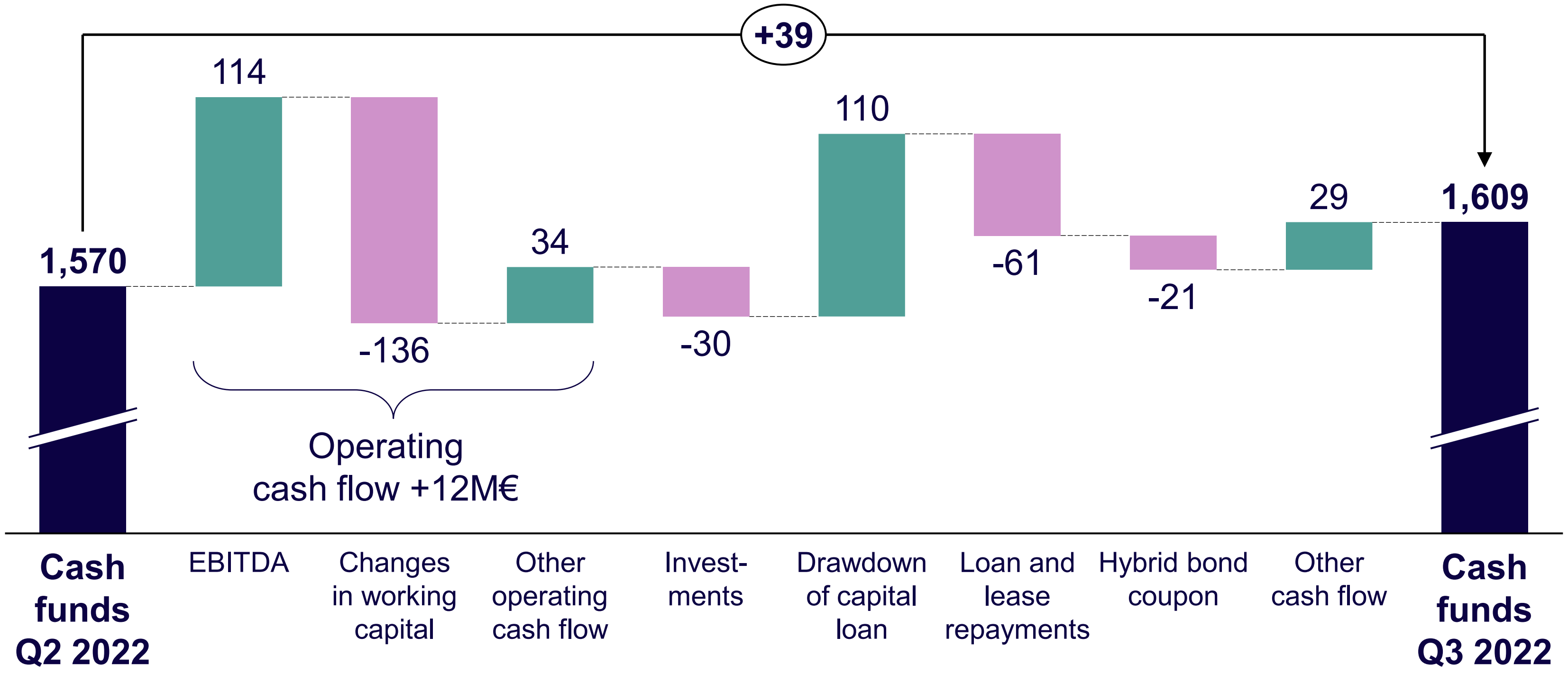
Comparable figures where applicable.

Q3 comparable EBIT only 1/3 compared to 2019

Comparable EBIT (M€):



Operating cash flow positive, cash funds still strong

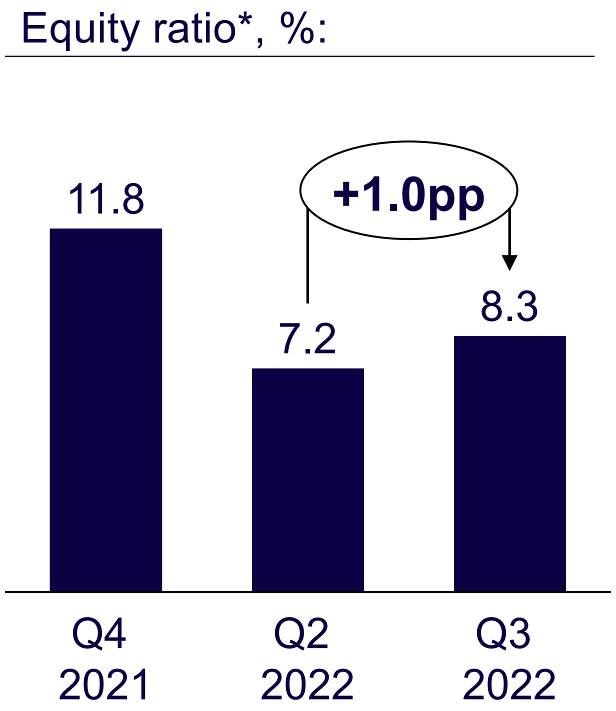


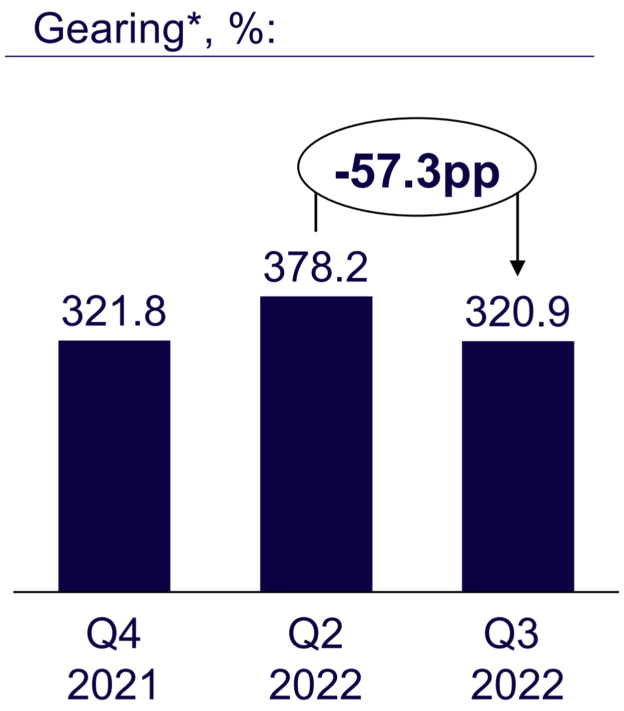
Comparable figures where applicable.

- EBITDA turned positive, and operating cash flow remained positive.
- The change in working capital is related to seasonality among other things.
- Remaining 110 M€ of the 400M€ capital loan was drawn down.

110 M€ drawdown of capital loan decreased gearing and improved equity ratio

- 110 M€ of the 400 M€ capital loan between Finnair and the State of Finland was drawn down.
- Equity ratio improved slightly despite the loss for the period.





* The figures include the full 400-million-euro capital loan between Finnair and the State of Finland.

New strategy aims at restoring profitability

- Strategy published in September is targeting profitability restoration:
  - More balanced network and fleet optimization
  - Strengthening unit revenues
  - Reducing unit costs
  - Building a sustainable balance sheet
  - Sustainability
- New strategy focuses on reaching the pre-pandemic comparable EBIT level of at least 5% from mid-2024.
- Support from all key stakeholder groups is needed.

Strategy implementation proceeds, but it is a long haul

- More balanced network: flights to Mumbai commenced in August, flights to Doha in Q4.
- Significant steps taken in improving distribution and sales as well as optimizing revenues.
- Conditional negotiation results achieved on savings with two unions. Discussions continue with others.
- Discussions with personnel to streamline structures globally with reductions of max. 200 employees.
- Savings are sought also from other cost items.

Outlook and guidance

New guidance issued on 28 October 2022:

Finnair estimates that in Q4 2022, it will operate an average capacity of c. 70 per cent, as measured in ASKs, compared to the corresponding period in 2019. With the leases of aircraft with crew to other airlines, the total capacity deployed would be c. 80 per cent, depending on future lease agreements.

In the short term, the strong demand for travel is predicted to continue, which will support Finnair's unit revenues as in the summer months of 2022. Significant uncertainty in Finnair’s operating environment prevails, however, because the market price of fuel is exceptionally high and the length of the Russian airspace closure, the impact of inflation on demand and costs, as well as the development of the COVID-19 pandemic and related measures are unclear. The company reiterates its guidance according to which the 2022 comparable operating result will be significantly negative for a third consecutive year.

Finnair will update the progress in the implementation of its new strategy as well as provide guidance and outlook for 2023 in connection with the financial statements bulletin for 2022.

Guidance issued on 19 July 2022:

Demand has almost normalised particularly in Europe and in the United States. Finnair estimates that in Q3 2022, it will operate an average capacity of c. 70 per cent, as measured in ASKs, compared to the corresponding period in 2019 and in Q4 2022, it will operate similar or slightly higher volumes than in Q3. With the leases of aircraft with crew to other airlines, the total capacity deployed would be more than 80 per cent in Q3 and c. 80 – 85 per cent in Q4, depending on future lease agreements.

Significant uncertainty in Finnair’s operating environment prevails, however, as the market price of fuel is historically high and the length of Russian airspace closure, the impact of inflation on demand and costs, as well as the development of the COVID-19 pandemic and related measures are unclear.

Even though the impacts of the pandemic on Finnair’s operations have partially eased, the 2022 comparable operating result will be significantly negative for a third consecutive year due to the impacts of the Ukrainian war. Further, Finnair estimates that the difficult operating environment, inclusive of the closed Russian airspace, will prevail for a longer period and, therefore, the company is preparing a new strategy to improve its weak profitability and to strengthen its financial position. The company’s target is to complete the strategy work during the autumn of 2022.

Finnair will update its outlook and guidance in connection with the Q3 2022 interim report.

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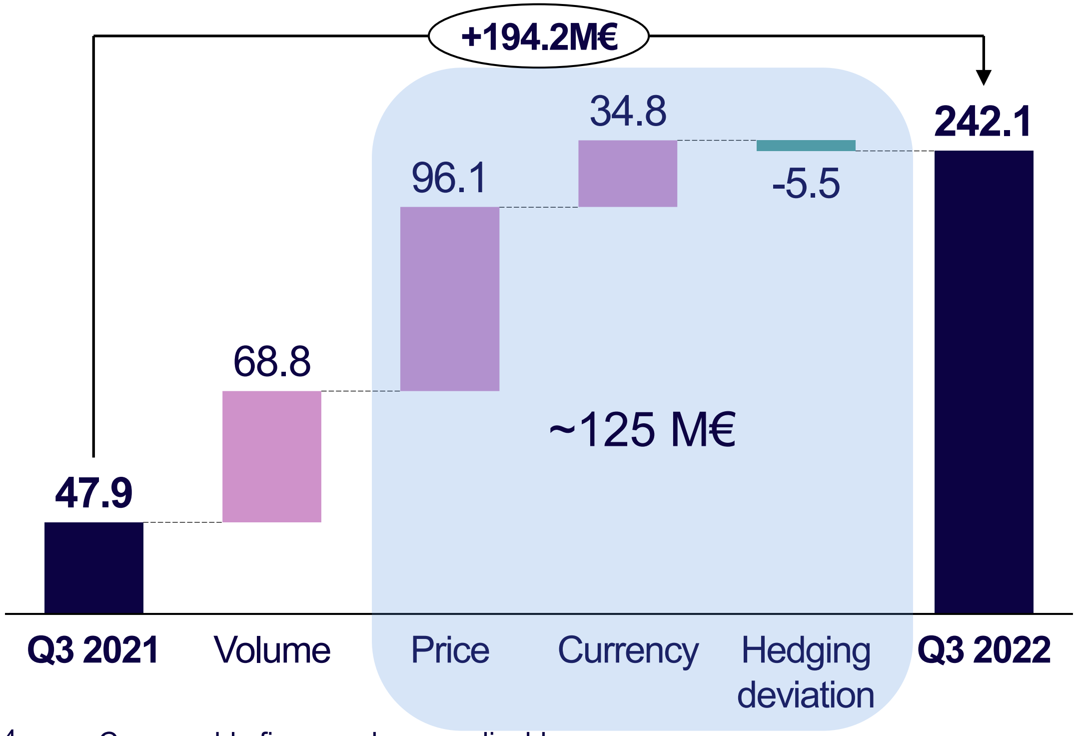
Appendices

Exceptionally high price, more volume and strengthened US dollar increased fuel costs; hedges partially mitigate cost effect

Fuel costs Q3/22 vs. Q3/21, M€

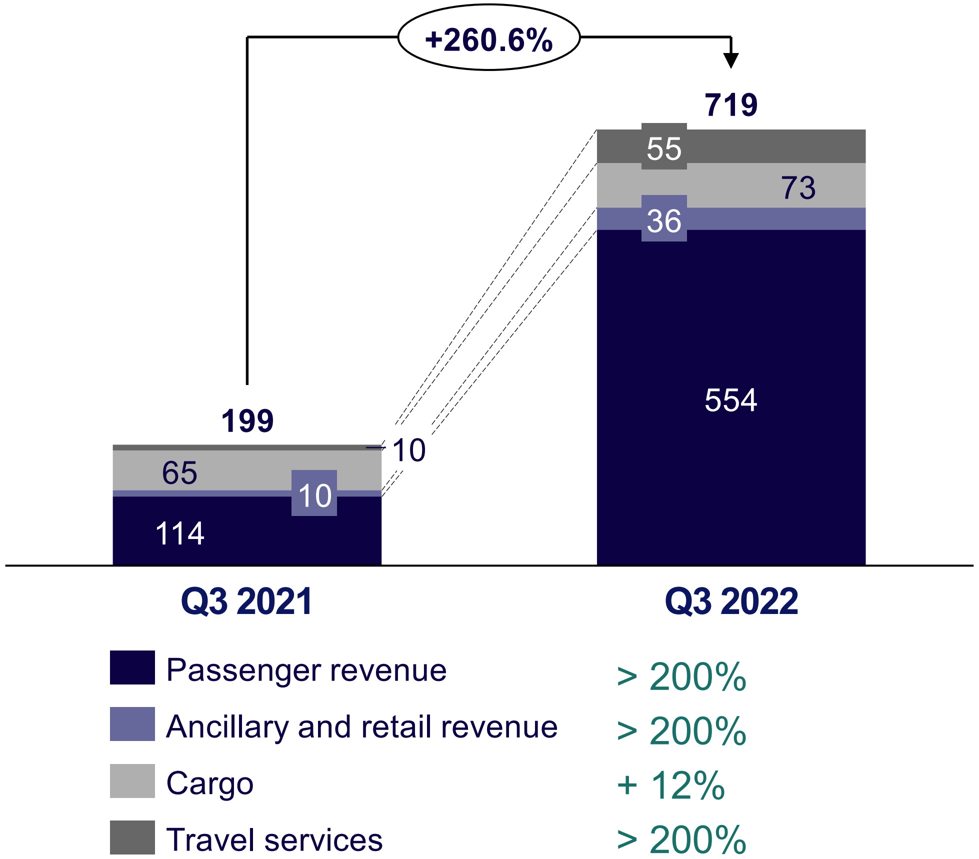


- Fuel price was on exceptionally high level.
- Despite the closed Russian airspace and COVID-19, traffic volumes increased.
- Operational volumes were exceptionally low during the comparison period.
- Strengthened US dollar had a negative impact on the fuel costs.

Comparable figures where applicable.

Revenue increased due to materialised pent-up demand

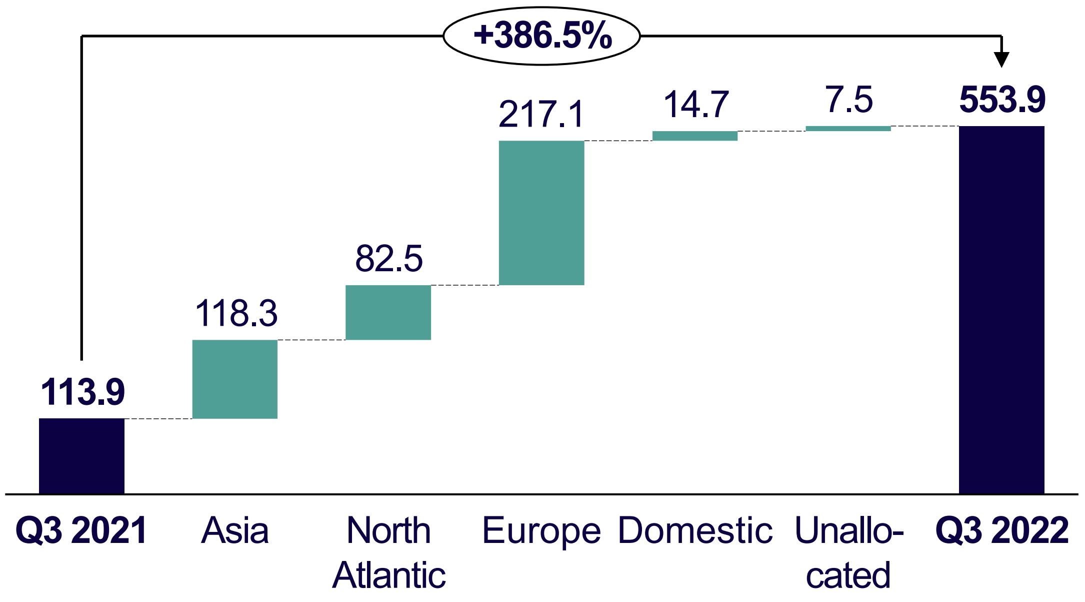
Revenue by product, M€



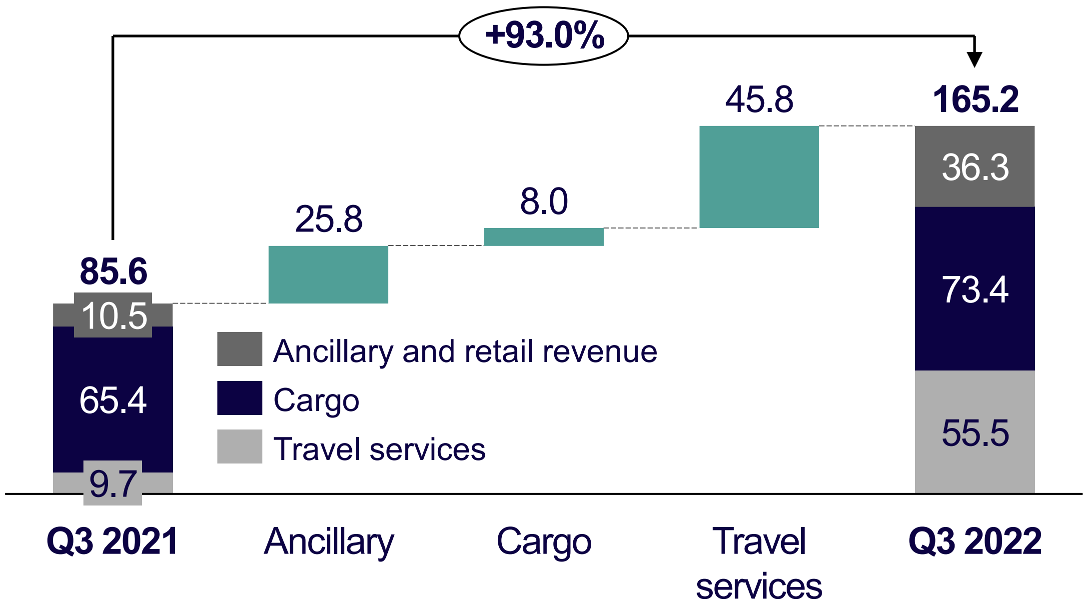
- Demand in intra-European and North Atlantic markets was strong in Q3 as there were no travel restrictions and capacity was also constrained, thus, resulting in healthy yields and improved passenger revenue.
- Lack of cargo capacity continued to benefit air freight, which led to strong quarter for cargo.
- The accelerating demand for package holidays continued throughout Q3 as travel restrictions were completely lifted in the European destinations. Demand in the comparison period was very limited.

Passenger revenue increased especially in European traffic, cargo still strong

Passenger revenue Q3/22 vs Q3/21, M€



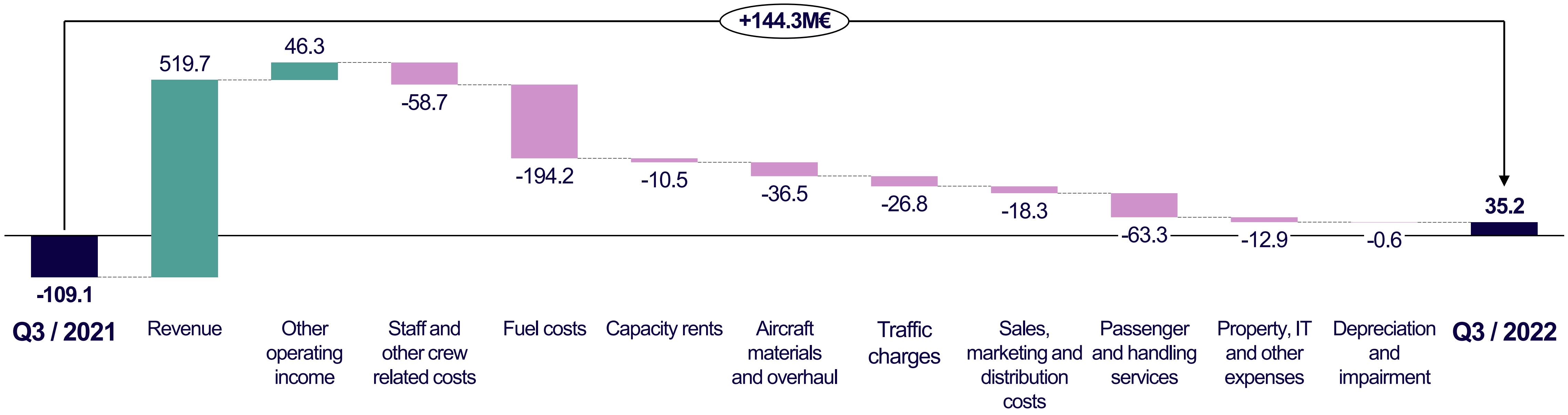
Other revenue Q3/22 vs Q3/21, M€



Strong demand and cost mitigating measures resulted in positive comparable EBIT, exceptionally high fuel price was clearly visible in costs

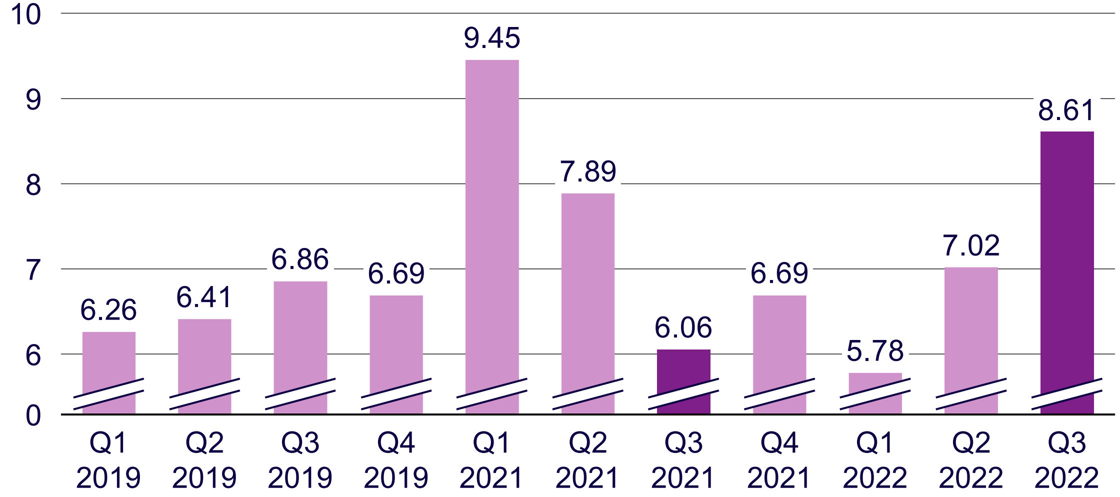
Comparable EBIT Q3/22 vs Q3/21, M€

- **Operating expenses 739.8M€ in total**
- Capacity increased 153.7 %
- Revenue increased >200 %
- Operating expenses +132.6%
- Operating expenses excluding fuel +84.2%



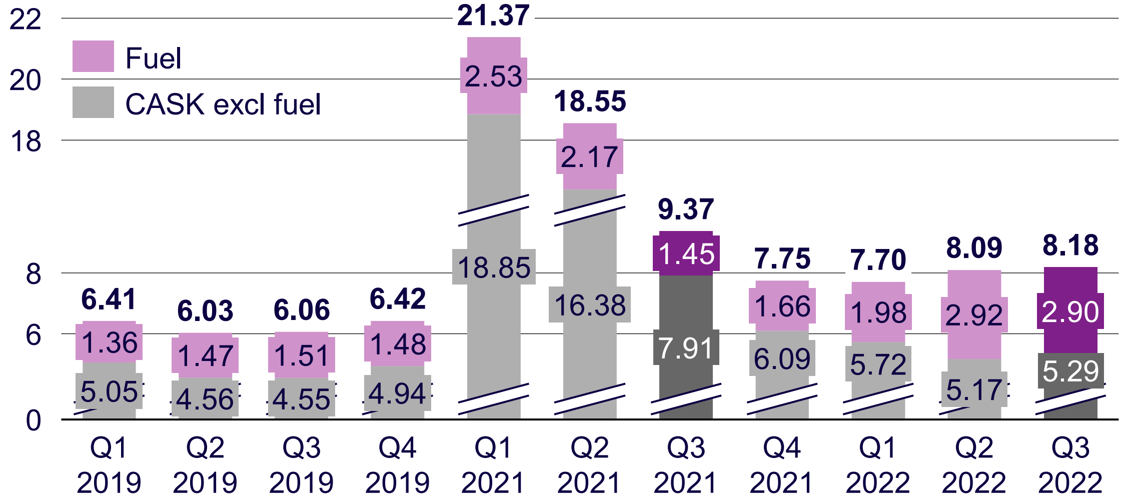
Unit revenue increased and unit cost declined from comparison period, despite the significant increase in fuel price

RASK development, € cents



Unit revenue (RASK) increased from 6.06 € cents in Q3 2021 to 8.61 € cents in Q3 2022 driven by the higher ticket prices despite the higher volume of Cargo only operations in comparison period, that generate no available seat kilometres.

CASK development, € cents



Unit cost (CASK) decreased from 9.37 € cents in Q3 2021 to 8.18 € cents in Q3 2022 driven by improved asset utilization, smaller number of cargo only operations, new wet-lease out operations and successfully implemented cost savings program, even though the fuel price increased significantly.

Comparable figures where applicable.

Comparable income statement

in mill, EUR	Q3 2022	Q3 2021	Change %	Q1-Q3 2022	Q1-Q3 2021	Change %
Revenue	**719.2**	**199.4**	**> 200**	**1,669.3**	**424.9**	**> 200**
Other operating income	55.9	9.6	> 200	109.4	26.2	> 200
Operating expenses						
Staff and other crew related costs	-117.1	-58.4	-100.5	-332.6	-164.8	-101.8
Fuel costs	-242.1	-47.9	<-200	-608.1	-109.0	<-200
Capacity rents	-28.7	-18.2	-57.5	-76.3	-48.4	-57.5
Aircraft materials and overhaul	-57.9	-21.5	-169.7	-131.4	-55.7	-135.9
Traffic charges	-53.8	-27.0	-99.2	-155.4	-67.0	-132.0
Sales, marketing and distribution costs	-27.3	-9.1	<-200	-76.3	-19.1	<-200
Passenger and handling services	-99.7	-36.4	-173.7	-249.5	-82.7	<-200
Property, IT and other expenses	-34.2	-21.3	-60.8	-95.1	-66.0	-44.1
Comparable EBITDA	**114.1**	**-30.7**	**> 200**	**54.1**	**-161.7**	**133.4**
Depreciation and impairment	-78.9	-78.4	-0.7	-235.9	-241.9	2.5
Comparable operating result	**35.2**	**-109.1**	**132.3**	**-181.8**	**-403.6**	**54.9**
Items affecting comparability	-16.0	3.1	<-200	-56.7	9.4	<-200
Operating result	**19.2**	**-106.0**	**118.1**	**-238.6**	**-394.2**	**39.5**
Financial income	0.4	0.3	56.5	-0.5	12.7	-104.3
Financial expenses	-33.4	-28.6	-16.9	-101.2	-84.2	-20.1
Exchange rate gains and losses	-30.9	-10.8	-184.8	-85.7	-11.3	<-200
Result before taxes	**-44.7**	**-145.2**	**69.2**	**-426.1**	**-477.1**	**10.7**
Income taxes	7.5	30.1	-74.9	-103.4	96.5	<-200
Result for the period	**-37.2**	**-115.1**	**67.7**	**-529.5**	**-380.7**	**-39.1**

Thank You.

Have a wonderful day.

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