Fleet and funding strategy

Solid foundation for growth

Erno Hildén, CFO

Finnair Capital Markets Day, 22 May 2014

Disclaimer

This document includes forward-looking statements. These forward-looking statements may be identified by words such as “may,” “will,” “expect,” “intend,” “anticipate,” “believe,” “estimate,” “plan,” “project,” “could,” “should,” “would,” “continue,” “seek,” “target,” “guidance,” “outlook,” “forecast” and other similar words. Such statements include, but are not limited to, statements about the expected increase in debt, and other statements that are not historical facts. These forward-looking statements are based on the current objectives, beliefs and expectations of Finnair Plc. and its subsidiaries (the “Company”), and they are subject to significant risks and uncertainties that may cause actual results and financial position and timing of certain events to differ materially from the information in the forward-looking statements. The following factors, among others, could cause actual results and financial position and timing of certain events to differ materially from those described in the forward-looking statements: the impact of any business combination transaction, including the challenges and costs of integrating operations and achieving anticipated synergies; the effects of any planned or in process divestitures; the price of, market for and potential market price volatility of the Company’s common stock ; the Company’s significant liquidity requirements and substantial levels of indebtedness; potential limitations on the Company’s use of certain tax attributes; the impact of significant operating losses in the future; downturns in economic conditions that adversely affect our business; the impact of the price and availability of fuel and significant disruptions in the supply of aircraft fuel; competitive practices in the industry, including the impact of industry consolidation; increased costs of financing, a reduction in the availability of financing and fluctuations in interest rates; the Company’s high level of fixed obligations and ability to fund general corporate requirements, obtain additional financing and respond to competitive developments; any failure to comply with the liquidity covenants contained in financing arrangements; provisions in credit card processing and other commercial agreements that may affect the Company’s liquidity; the impact of union disputes, employee strikes and other labor-related disruptions; the inability to maintain labor costs at competitive levels; interruptions or disruptions in service at the Company’s hub airport; regulatory changes affecting the allocation of slots; the Company’s reliance on third-party regional operators or third-party service providers; the Company’s reliance on and costs, rights and functionality of third-party distribution channels, including those provided by global distribution systems, conventional travel agents and online travel agents; the impact of extensive government regulation; the impact of heavy taxation; the impact of changes to the Company’s business model; the loss of key personnel or inability to attract and retain qualified personnel; the impact of conflicts overseas or terrorist attacks, and the impact of ongoing security concerns; the Company’s ability to operate and grow its route network; the impact of environmental regulation; the Company’s reliance on technology and automated systems and the impact of any failure or disruption of, or delay in, these technologies or systems; costs of ongoing data security compliance requirements and the impact of any significant data security breach; the impact of any accident involving the Company’s aircraft or the aircraft of its regional operators; delays in scheduled aircraft deliveries or other loss of anticipated fleet capacity; the Company’s dependence on a limited number of suppliers for aircraft, aircraft engines and parts; the impact of changing economic and other conditions and seasonality of the Company’s business; the impact of possible future increases in insurance costs or reductions in available insurance coverage; the impact of global events that affect travel behavior, such as an outbreak of a contagious disease; the impact of foreign currency exchange rate fluctuations; the Company’s ability to use certain tax attributes; and other economic, business, competitive, and/or regulatory factors affecting the Company’s business, including those set forth in the filings of the Company with the relevant financial authorities, especially in the “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” sections of their respective annual reports. Any forward-looking statements speak only as of the date hereof or as of the dates indicated in the statements. The Company does not assume any obligation to publicly update or supplement any forward-looking statement to reflect actual results, changes in assumptions or changes in other factors affecting these forward-looking statements except as required by law.

Fleet and funding strategy

All-Airbus fleet delivers operational efficiency

9 AIRBUS **A319**
Avg. age 12.7 years

10 AIRBUS **A320**
Avg. age 11.6 years

10 AIRBUS **A321**
Avg. age 8.0 years

7 AIRBUS **A340**
Avg. age 11.2 years

8 AIRBUS **A330**
Avg. age 4.4 years

Airbus 350 XWB anchors long-haul growth plans

Finnair is the first European carrier to receive next generation Airbus 350 XWB's

- A340 replacements with superior cost performance
- Capacity growth also for congested Asian airports

Competitive advantage:

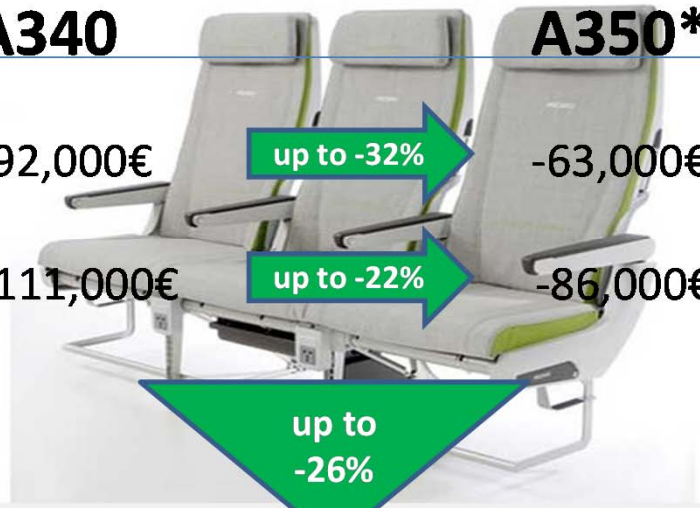
- **20 % more capacity**: approximately 40 additional seats with lower trip cost
- Estimated **seat cost advantage up to -30 %** compared to Airbus 340*
- Improved revenue position with superior product
- 11 orders and 8 options

*Airbus estimate

A350: Lower costs, more passengers

Operational cash out expenses per seat, per year / normalized traffic

	A340		A350*
Fuel cost	-92,000€	up to -32%	-63,000€
Other operational expenses	-111,000€	up to -22%	-86,000€

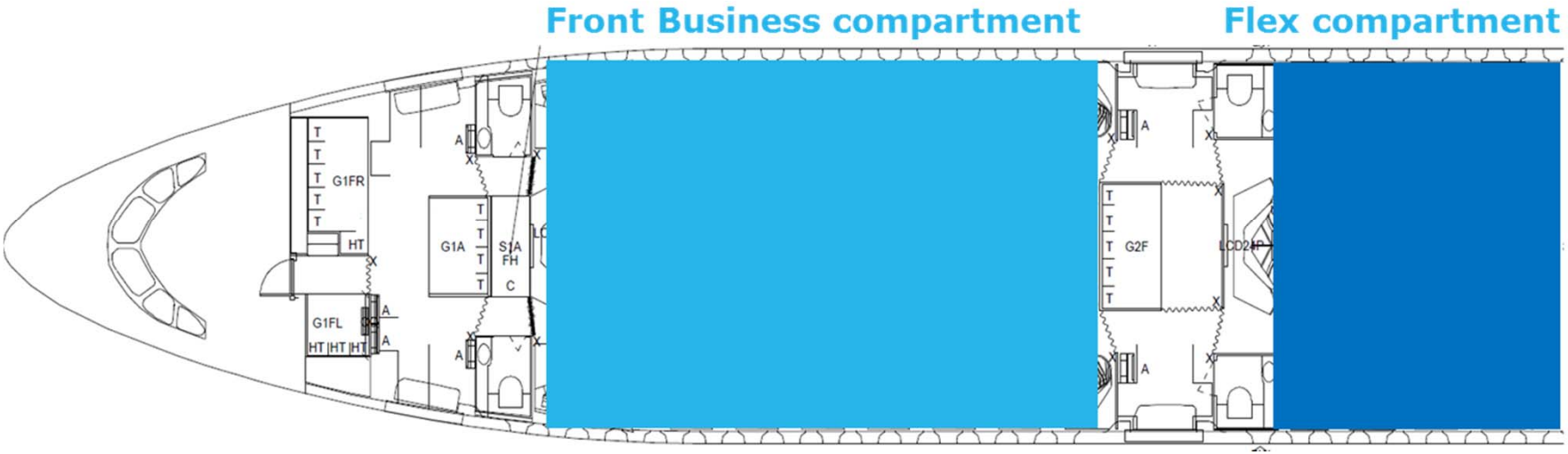


up to -26%

Estimated aggregate annual cash seat cost savings of c. 10MEUR per aircraft

*Airbus estimate

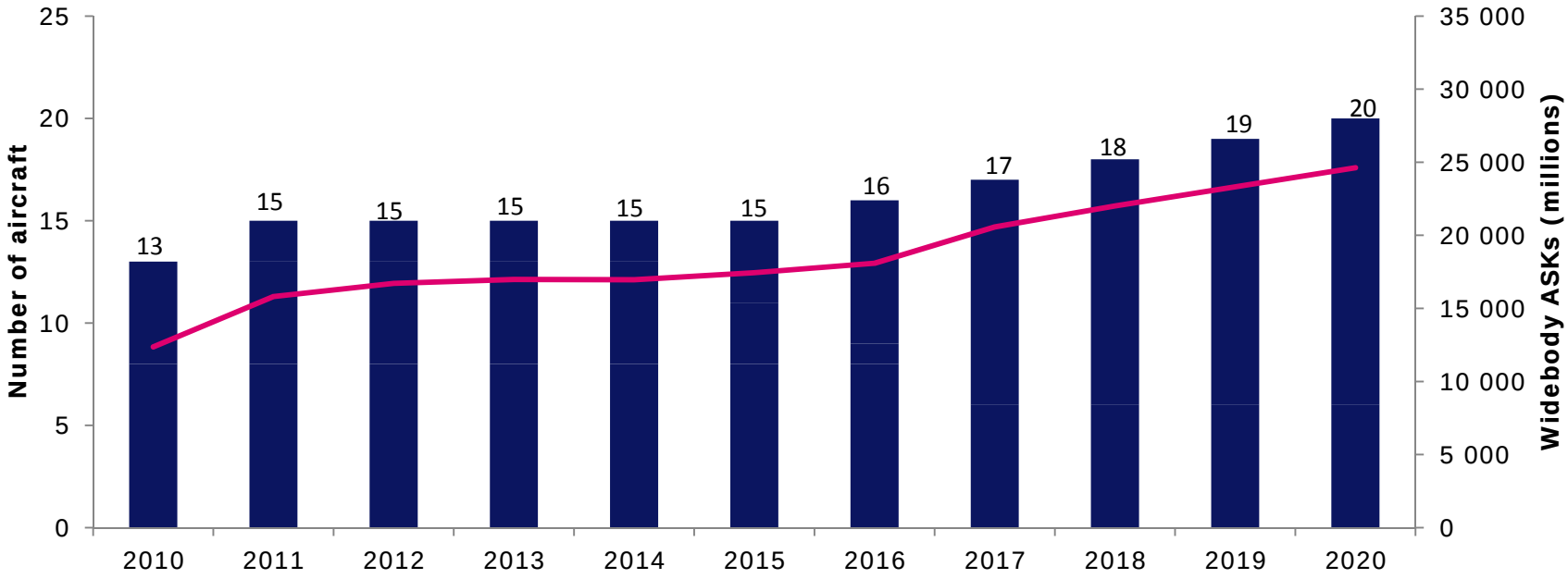
Business cabin convertibility adds flexibility



Convertibility allows +/- 10% capacity adjustment

Current order book facilitates growth

Long-haul fleet plan



Short-haul fleet plan: under review

- The optimal solutions for the Finnair European feeder network are driven by:
  - Finnair network characteristics and bank structure
  - Finnair's cost position in European traffic
  - Use of partners
- Finnair's A320 fleet is approaching mid-life
  - Synergies from combining short and long haul operations with single type rating requirement
  - Future short-haul capacity decision to be made during next 18-24 months
  - Further investment in short haul capacity requires competitive cost position
- Flybe already operating 1/3 of Finnair network flights
  - FlyBe operating Embraer regional jets and ATR turboprops

Finnair funding strategy: liquidity, flexibility

Positive operational cash flow

- Ability to produce positive operational cash flow even through the most challenging years in the industry*

**2009 has been the only exception since 1997*

Maintaining high liquidity through the cycle

- Target cash-to-sales 15-20%
- 5-year senior bond with competitive margin
- Undrawn 180 MEUR revolving credit facility
- Commercial paper program provides additional liquidity, if needed

Strong credit with additional debt capacity

- The current low indebtedness facilitates higher leverage potential by utilizing new aircraft as collateral
- Current asset base mostly unencumbered

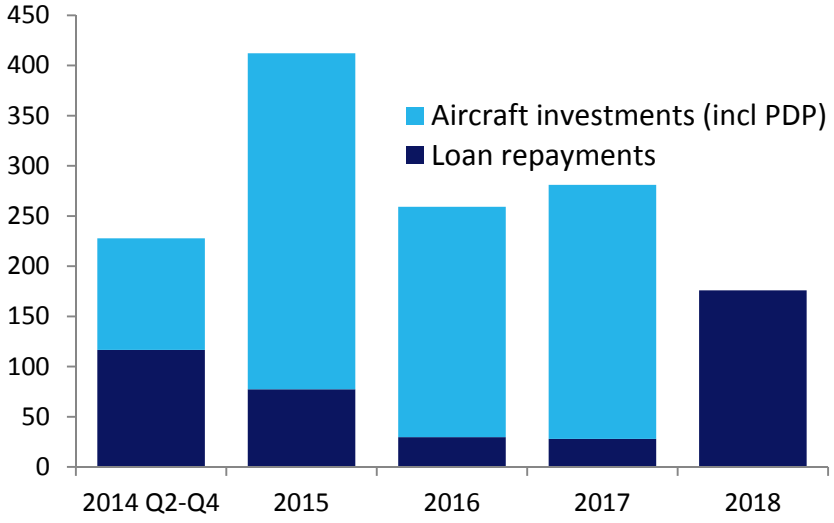
Hedging strategy and funding diversification

- Duration diversification to minimize short and mid-term volatility of jet fuel and F/X
- Diversified funding base to secure availability and low cost of funding

New aircraft investments require capital

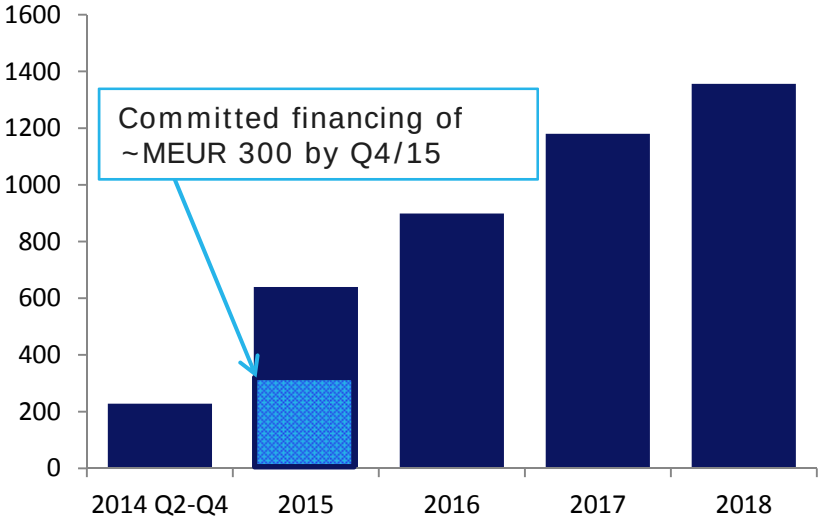
11 Airbus 350 XWBs on firm order*

Aircraft investments and loan repayments 2014 – 2018, MEUR



Cumulative outflow

2014 – 2018, MEUR



*Finnair also has options for an additional 8 A350s

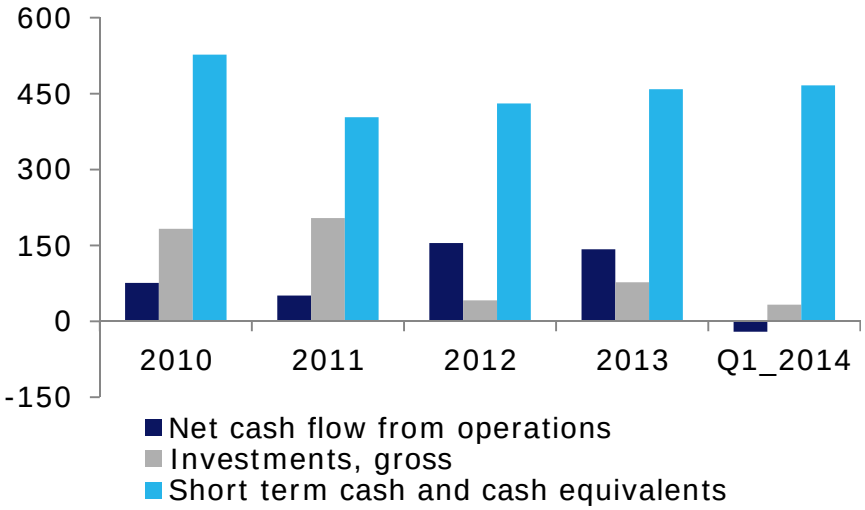
Funding plans optimize cost of capital

- Finnair's current aircraft financing portfolio
  - **Secured financing**
  - **Earlier generation ECA covered finances**
  - **Aircraft operating leases**
  - **Japanese operating leases with call option (JOLCO)**
- The targeted future financing mix
  - **Secured financing (loans and finance leases)**
  - **Japanese operating leases with call option (JOLCO)**
  - **Aircraft operating leases**
- Strong appetite to overweight the on-balance-sheet option for the A350XWBs because;
  - Very attractive purchase price for the A350s
  - Strong debt capacity enables further leverage
  - New generation of long haul aircraft with strong residual value outlook

Strong financial position supports business development and future investments

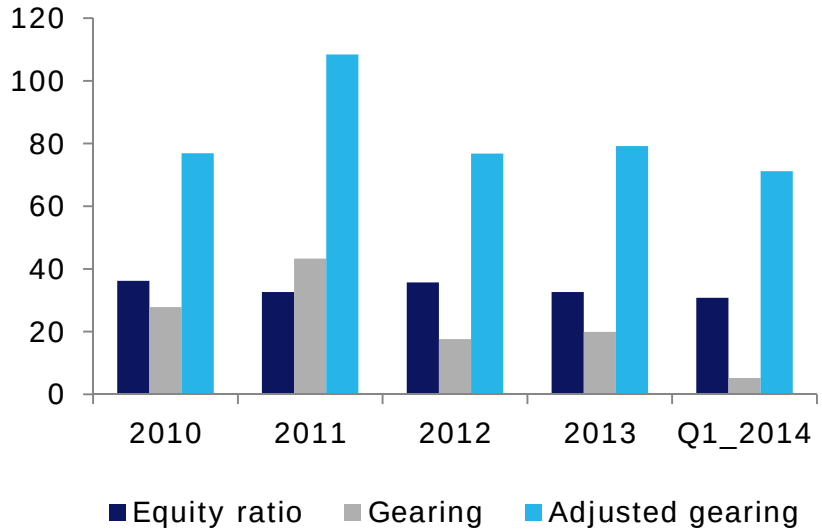
Strong cash position

MEUR



Strong balance sheet

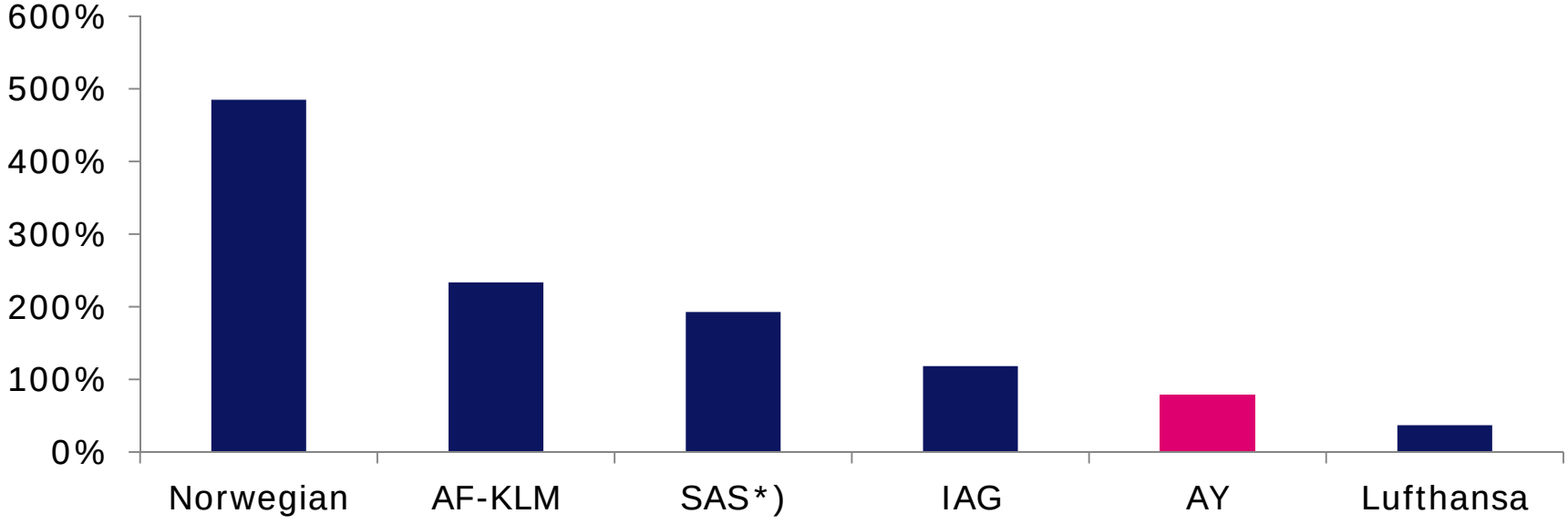
%



Finnair indebtedness among the lowest in the sector

Adjusted gearing on selected European carriers

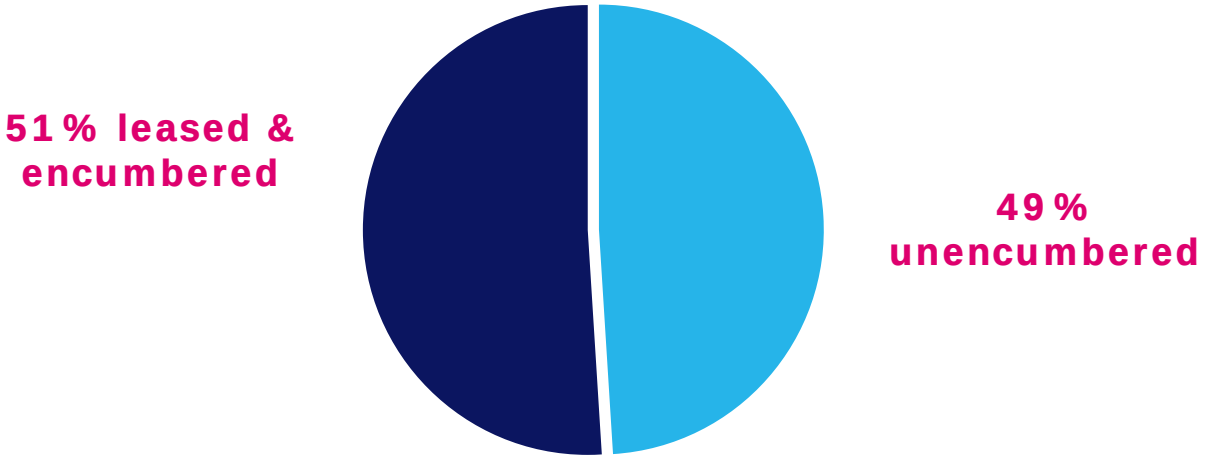
FY 2013 – Finnair accounting principles



*) Includes IAS19 restatement & Preference Share Issue

Additional debt capacity from owned fleet

Total Fleet: 77 aircraft*



Total book value: €1bln, of which 65% unencumbered**

*Aircraft owned or leased by Finnair
**As of March 31, 2014

Recent fleet transactions well-received

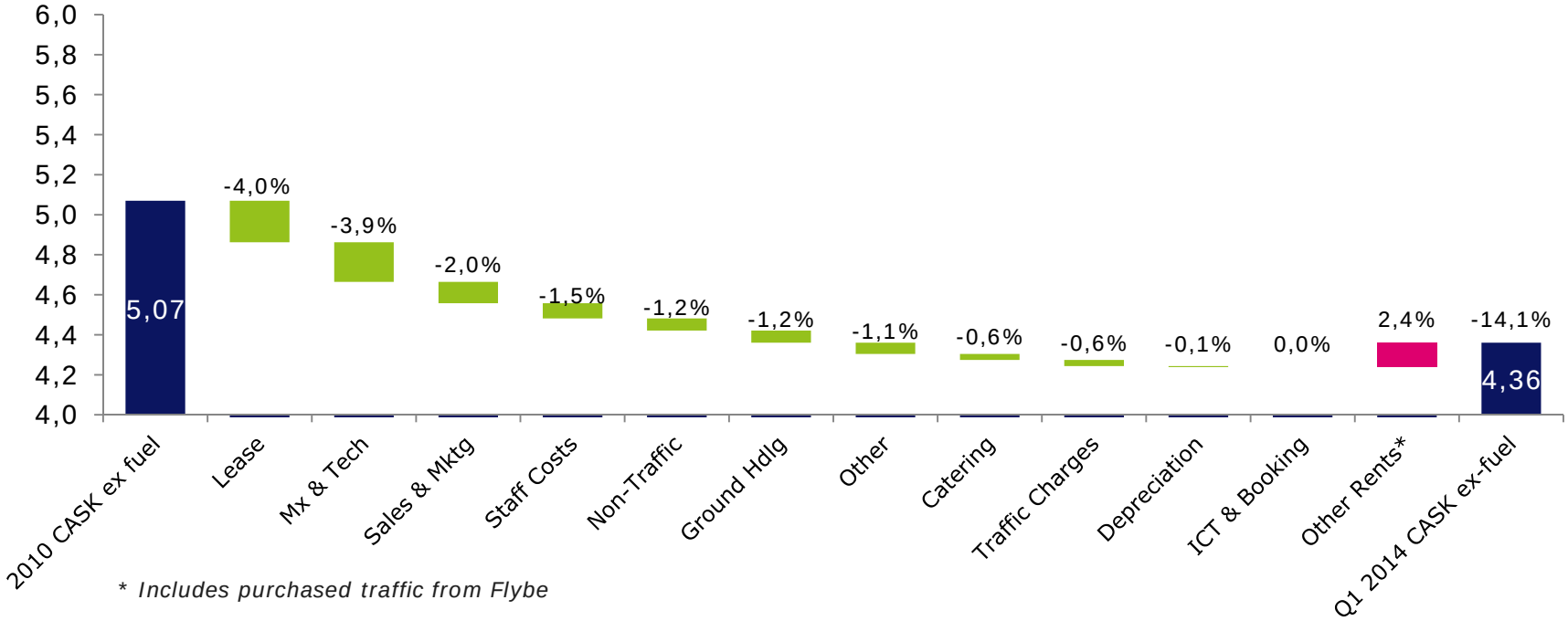
- Sale and leasebacks of three Airbus 330 aircraft and one A321 Sharklet aircraft completed during Q1/2014
  - Sale and leaseback of the fourth A330 aircraft to be completed in Q2 2014
- In addition, Finnair agreed on the sale and leaseback of two A350 aircraft in Q1 2014
- Sale and leaseback agreement for the fifth A321 Sharklet aircraft completed in Q2, all five financed with SLBs
- MoU on the sale of three E170 aircraft announced in Q2, expected closing in H2/2014
  - Divestment of non-core assets to continue
- The financial arrangements of A330 and A350 aircraft relate to Finnair's long-haul fleet renewal program
  - Total value of A330 and A350 arrangements 430 MEUR
  - In Q1, a loan of 107 MEUR from the European Investment Bank was repaid

Closing the revenue and cost gaps – Reaching 6% operational EBIT

Unit costs down by 14.1% since end of 2010...

Bridge to Q1 2014 CASK

€ cents / ASK

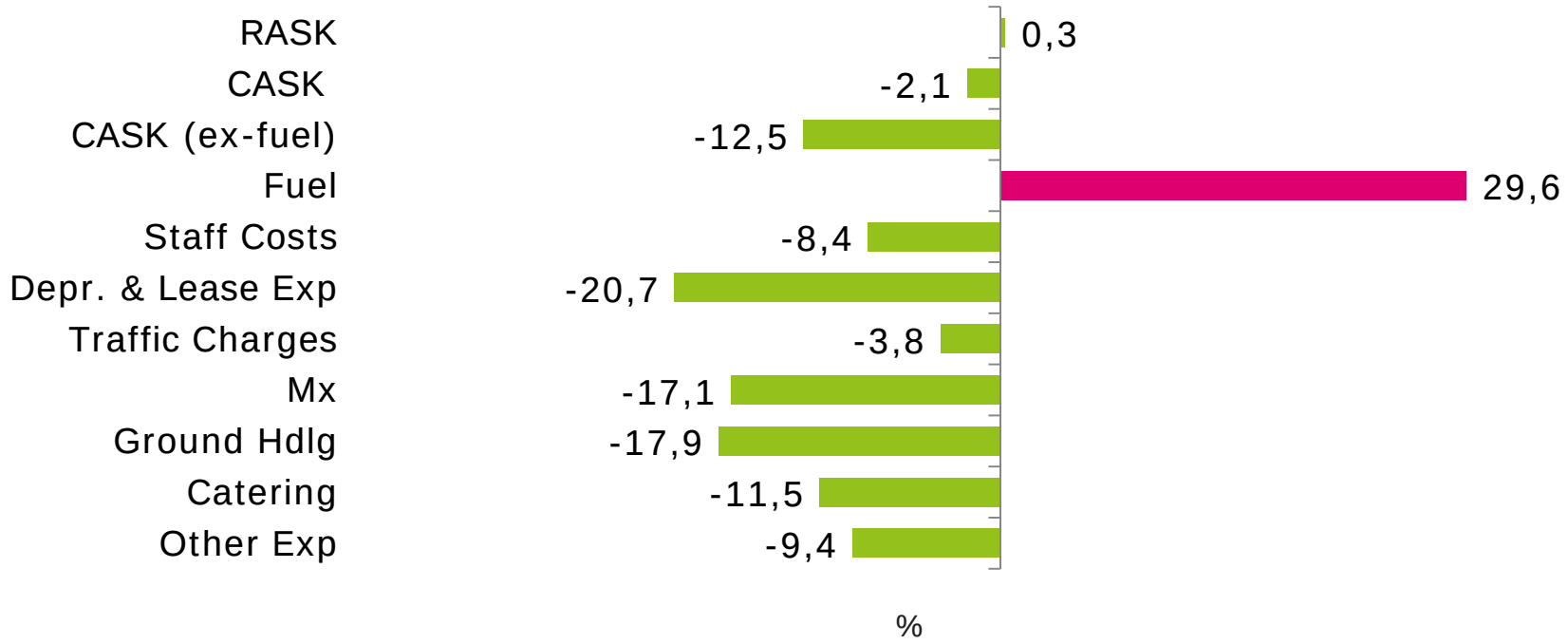


** Includes purchased traffic from Flybe*

...across most cost categories

RASK & CASK Development

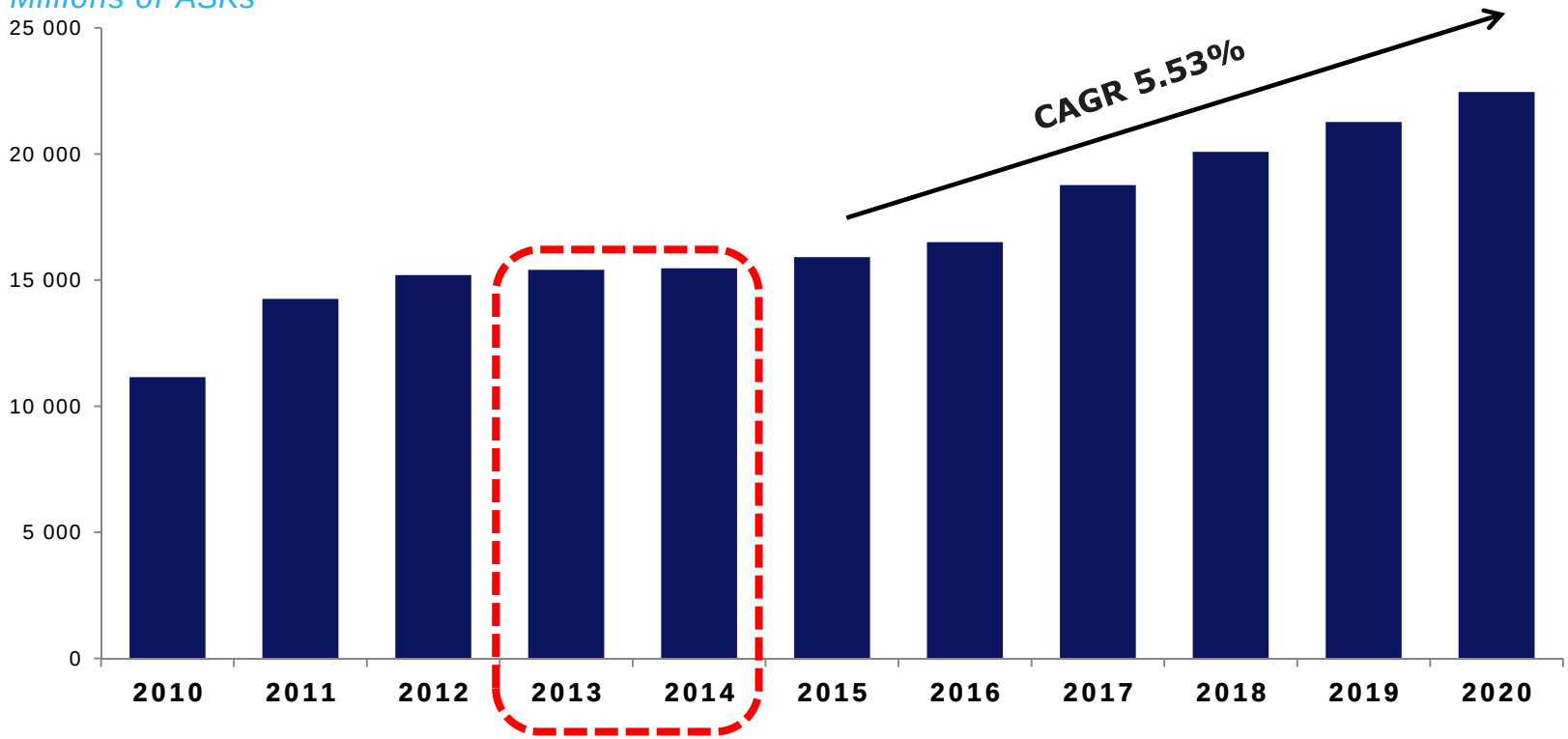
Airline business, % change 2013 vs 2010



Asian traffic forecast to grow with wide body fleet

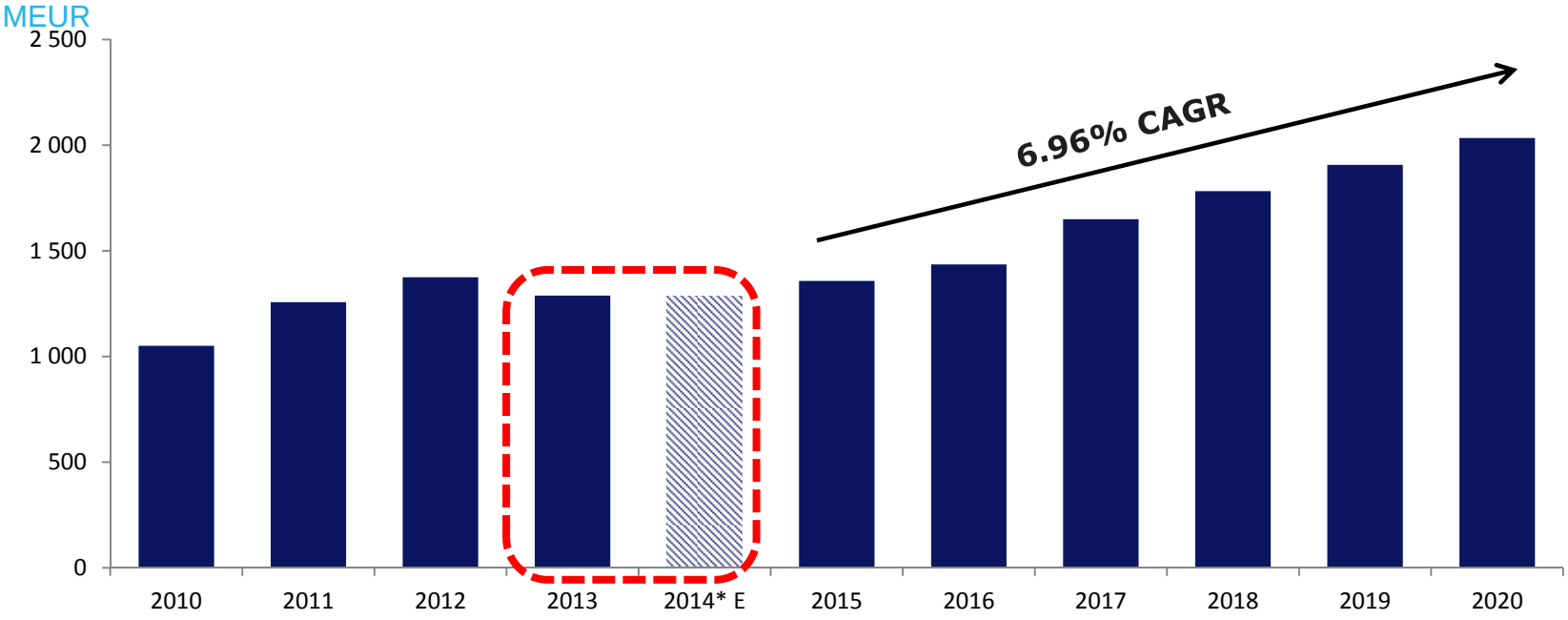
Far East Asia traffic

Millions of ASKs



...as are revenues from Asian traffic, targeting doubling the revenue from 2010

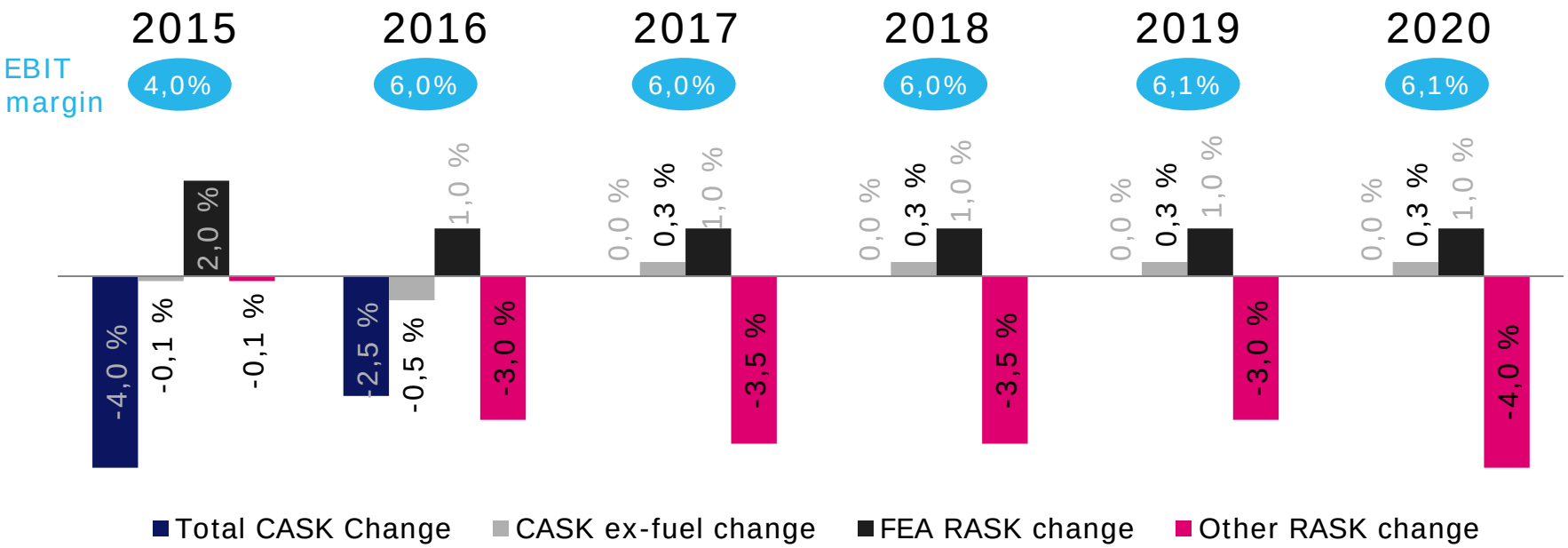
Total revenues from Asia traffic



* Based on guidance given on 7 May 2014:"Finnair estimates 2014 turnover to be close to 2013 level."

6 % EBIT margin target well within reach

Improvement in RASK and CASK, 2015-2020



Summary and conclusions – fleet and funding

- Finnair is targeting doubling its Asian revenues by 2020 and is gearing up with the A350XWB investment program with 11 firm orders and options for 8 additional aircraft to provide the necessary growth
- Finnair is among the least-levered airlines in Europe, with additional debt capacity provided by a strong balance sheet, an attractively-priced orderbook for the A350XWBs, and the cash generated by our strong position in Asia-Europe traffic
  - Nonetheless, the majority of the A350XWBs are planned to be taken on balance sheet
- Solutions for European feeder network to be decided based on:
  - Bank structure
  - Relative cost position of the European platform
  - Partnerships

Summary and conclusions – Profitability

- Our renewed commercial strategy aims to close the fair share revenue gap of MEUR 80
- Finnair is well-positioned with its Asian strategy and already established in all the most important markets
- Finnair will enjoy a competitive advantage from being the first European carrier to take delivery of the A350
- Our cost savings programme is one of the most ambitious in the sector and we remain committed to deliver the targeted results by end of 2014
- The financial target on 6% operational EBIT is unchanged and reachable by successful implementation of our strategy

Thank you

For further information, please contact Finnair IR:

Financial Comms & IR Director **Mari Reponen**,
tel. +358 9 818 4054, mari.reponen@finnair.com
Follow me on Twitter: @marireponen

IRO **Kati Kaksonen**,
tel. +358 9 818 2780, kati.kaksonen@finnair.com
Follow me on Twitter: @KatiGemini