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**FINAVIA INTERIM REPORT 1 JANUARY 2011 – 31 MARCH 2011:****The number of air passengers returned to the pre-recession level****Summary of the key figures for January to March**

- Revenues increased by 15.6% to EUR 90.0 million (77.8).
- The number of passengers increased by 7.4%
- The operating result excluding non-recurring items was EUR 6.9 million (5.8)
- The profit before taxes was EUR 12.3 million (18.1)
- Cash flow from operations was EUR 12.3 million (15.7)
- The solvency ratio was 45.0% (41.2)

**Summary of the President and CEO**

In the first quarter, demand increased by 7.4%, and the number of passengers returned to the pre-recession levels of 2008. The growth in the Group's commercial revenues as well as the new supply of and growth in the real estate operations and Airpro operations increased revenues to above pre-recession levels.

Due to lower price levels in air traffic, the harsh winter and the higher cost level, the improvement of the operating result remained moderate. Investments have adjusted to the cash flow, and the Group's solvency ratio improved.

**Financial result 1 January 2011 – 30 March 2011**

Group revenues in January–March increased by 15.6% to EUR 90.0 million (EUR 77.8 million in the previous year). Revenues after the elimination of the reorganisation of the group structure were EUR 85.3 million, and comparable growth was 9.6%. The operating result excluding non-recurring items strengthened on the previous year and stood at EUR 6.9 million (5.8). Profit before taxes was EUR 12.3 million. The result includes EUR 7.1 million of non-recurring items consisting of capital gains from sale of assets.

Cash flow from operations stood at EUR 12.3 million in January–March, compared with EUR 15.7 million in the previous year. The Group's solvency ratio strengthened on the previous year and stood at 45.0% (41.2).

In the first quarter, the Group's operating expenses increased by 16.6% on the previous year and stood at EUR 73.6 million (63.1). In addition to the new company added to the corporate structure as a result of an acquisition, the growth is attributable to new cost items for the part of the parent company as well as the additional costs relating to winter maintenance and energy consumption due to the harsh winter. The increase in total costs eliminated due to reorganisation of the Group structure was 10.0%.

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Staff costs increased by 11.4%. The increase in total costs eliminated due to reorganisation of the Group structure was 2.3%. The growth was mainly the result of the across-the-board increase in wages and salaries. In the subsidiaries, personnel working increased at a moderate rate in the first quarter. In the parent company, the number of personnel working years has decreased by more than 3%, and salary costs have also fallen below last year's level.

## **Business areas**

Finavia Group's operations are divided into four business areas and other operations supporting them. The model follows the practice adopted by European airport operators.

The **Airport** segment comprises authorised airport services, and mainly commercial services produced for passengers by Finavia or through the network of partners. Airport services is responsible for the services produced at the airports for air carriers, such as the maintenance of runways and terminals, ramp handling services, security check and passenger services. Commercial operations include the leasing of commercial spaces in terminals and parking services, as well as shops and cafés.

**Air Navigation Services** is responsible for managing the use of Finnish airspace and the related route and air navigation services at Finavia's airports.

**Real estate operations** comprise real estate companies offering facilities services to companies operating at the airports. The most important individual company in the real estate operations is LAK Airport Real Estates Plc, which operates as an owner of buildings and also a developer of building projects. The revenues of real estate operations mainly come from outside the Group. The airports' terminals and other production areas are owned by the parent company and are the responsibility of airport services.

**Airpro** develops and provides traffic, airport and travel services for logistics and tourism companies and directly for passengers. Airpro Oy acquired 100% of RTG Ground Handling in July 2010. The Airpro segment comprises Airpro Oy and its subsidiary. RTG Ground Handling Oy was incorporated in the Group as of 1 July 2010.

The shares of the Group's common operations and centralised services as well as other minor business activities are reported in other business operations.

Eliminations of Group transactions between the business areas have been adjusted through line items.

## **Development of the business areas**

### **Airport**

The segment's first-quarter revenues stood at EUR 60.5 million (55.3), showing an increase of 9.3%. The operating result was EUR 11.1 million (21.7). The reference figures for 2010 include EUR 10.8 million of non-recurring sales revenue boosting the result. Thus, the comparable operating result for the first quarter is EUR 0.2 million higher than in the previous year.

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From the perspective of the performance of Airport Operations, the start of the year was extremely positive. While the 7.4% increase in the number of passengers and the 6.8 increase in landings are particularly attributable to the growth in international traffic, the first quarter also saw an upturn in domestic travel, which has long been sluggish. International transit travel at Helsinki airport (Via Helsinki) is still increasing markedly; passenger volumes showed an increase of 9.7% on the previous year.

The Airport segment has launched an action programme aimed at improving customer satisfaction and service experience at Helsinki airport as well as the other airports in the network during the current strategy period. The goals are set and results benchmarked on the basis of the international Airport Service Quality (ASQ) survey. The programme is connected to the World Design Capital 2012 project which involves Finavia's participation.

In commercial operations, the first quarter was good as anticipated. The positive developments seen in the number of passengers, the opening of new commercial premises and new agreements boosted growth.

Disruptions due to renovations affected the operations at Helsinki Vantaa in the first quarter of 2011. The airport's largest café was closed in January. Several temporary cafés and mobile sales points were opened to ensure customer service and to replace the closed café. At Helsinki Airport, Finavia opened a new shop in Terminal 2 in mid-March. According to the initial figures, business has gotten off to a very good start. There are currently several projects underway, mainly at Helsinki Airport, aimed at developing the commercial services at airport and improving Finavia's revenues.

### **Air Navigations Services**

The segment's first-quarter revenues amounted to EUR 15.3 million (13.2), showing an increase of 16.1%. The operating result was a loss of EUR 0.4 million (-2.1).

Performance development in the first quarter of 2011 was also positive from the perspective of the air navigation operations. The TN units of commercial aviation, which are affected by the weight as well as the number of aircraft, increased by 12.5% in the first quarter, compared with the corresponding period in the previous year.

Delays due to regulation measures carried out by Finavia's air traffic control increased slightly in the first quarter. In international comparison, air traffic control delays in Finland continue to be very small. In the first quarter, there were no incidents classified as serious, and in this respect the development is extremely positive.

The European legislative and Community objective concerning airspace requires the creation of functional airspace blocks in 2012. In March, northern European air navigation service providers started the process of defining an alliance by launching the fixed-term project Boreal, the aim of which is to develop the provision of air navigation services and increase their efficiency across the region's airspace. The project involves the participation of Finland, Sweden, Denmark, Norway, Iceland, Estonia, Latvia, Ireland and the UK.

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**Real estate operations**

The revenues of the real estate operations increased by 19.6% and was EUR 4.3 million (3.6). The operating result improved to EUR 8.1 million from last year's EUR 3.9 million. A non-recurring item of EUR 7.0 million, which accrued from sales profits from trade in land undertaken by LAK Plc, has been recognised in the quarterly result. Correspondingly, the 2010 base figures include sales profits of EUR 3.2 million. Thus, the comparable operating result has improved by EUR 0-3 million on the previous year.

At the beginning of the year, LAK Oyj opened an office complex under the WTC concept at Helsinki Airport. Completed at the beginning of the year, the renovation of WTC burdened the first-quarter result of the real estate operations segment. Rental of the premises has progressed as planned, and the company expects its revenues to increase during the year due to the WTC complex.

The work to expand the Hilton Hotel at Helsinki Airport has progressed according to schedule and the cost estimate. The extension, which increases the hotel's capacity by some 80 rooms, will be opened in May 2011.

**Airpro**

Airpro's first-quarter revenues increased by 56.4% and stood at EUR 15.3 million (9.8). The operating result of EUR 1.7 million remained at the previous year's level.

In July 2010, Airpro Oy acquired 100% of RTG Ground Handling. The effects of the acquisition are visible in Airpro's 2011 result.

Integration of RTG Ground Handling Oy with the Group began in the autumn of 2010, and at the turn of the year, the company's financial administration and HR were integrated with Finavia Group's systems and processes. In February, RTG Ground Handling Oy launched location-specific layoff negotiations aimed at identifying additional synergies. The negotiations were concluded in March and resulted in Airpro's new organisational model being adopted at the provincial airports on 1 April 2011.

**Investments**

The Group's investments in January–March totalled EUR 6.2 million (8.5). In 2011 the investment level will be EUR 50 million; that is, at the same level as last year. The extensive viaHelsinki investment programme, launched in the early 2000s, was largely completed in 2009. No major projects will be launched in 2011.

In 2011, the focus of the most significant investments will be in Helsinki Airport. The major investments will be the renovation of Terminal 2, the new de-icing area and the extension of the hotel. The alteration and modernisation of Terminal 2 at Helsinki Airport involves several improvements aimed at enhancing the passenger experience and the infrastructure: the renovation and extension of the security check areas, refreshing the look of the departure halls, and changes to the placement of shops in the gate area and modernising their appearance. The repair work will be completed by the end of the year. The total cost of the project is estimated at EUR 18 million, of which this year's share is EUR 6.2 million.

A significant investment being implemented elsewhere in the airport network is the terminal expansion at Oulu Airport, which will be completed by the end of the year.

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Within the air navigation services, the follow-up development project to the Eurocat FRESH system is underway. The main objective of the project, which is estimated to cost around EUR 12 million, is to update Helsinki Airport's radar display system to meet internal and external requirements for the safe, economical, environmentally friendly and customer-oriented management of traffic. In 2011, a provision of EUR 3.6 million for investments has been made in the project.

### **Development in air traffic**

In the first quarter of 2011, Europe's internal air traffic continued to increase at the same rate, 5–7%, as in the previous year. In its statistical review, the Airports Council International<sup>1</sup> (ACI) reported the January–February development as 6.5% and the increase in the number of operations as 4.5%. According to preliminary information, passenger numbers available for March are slightly more modest. For example, based on its weekly monitoring, the Association of European Airlines<sup>2</sup> (AEA), another air transport industry organisation, reported the March growth rate to be 5.5%. In cargo traffic, growth has gradually returned from last year's double-digit figures to the same level as the development in passenger traffic. According to ACI statistics, the growth in January–February was 6.7%.

In the main airports in the Nordic region, passenger numbers increased in January–March as follows: Stockholm, +11%; Oslo, +9% and Helsinki, +8%; in Copenhagen growth remained at the level of 4%.

Compared with the almost zero-level growth rate last year (0.3%), the first quarter of the current year was a period of clear growth in Finnish air traffic. The number of passengers in international traffic increased by 9.3%, and domestic traffic also showed a growth rate of 3.7%. Positive figures in domestic traffic were previously achieved in the first quarter of 2007. The total number of passengers, 4.33 million, was only a fraction smaller than the record level achieved during the first quarter of 2008 (4.37 million).

In international traffic, the number of passengers between Finland and the EU increased by 11.3%. Strong growth areas in the EU traffic were Belgium, Germany, Spain and Hungary. Low-cost airlines continue to increase their market share in Finland, which was visible as the 40% growth in EU traffic. Throughout last year, traffic to countries outside the EU grew faster than the EU traffic. This was true also for the first quarter of 2011: the number of passengers from Finland to countries outside the EU increased by 13.4%. In Asian traffic, passenger numbers increased by 9% in January–February; however, in March, growth stagnated at the level of 3%. This is not yet so much due to the impact of the earthquake and tsunami occurring in Japan on 11 March, but rather the lower passenger numbers to China, Hong Kong and India.

In domestic traffic, the number of landings increased by 3.8%. This is consistent with the change in the number of passengers. In international traffic, the increase in the number of landings was as high as 13.6%, which is even higher than the increase in the number of passengers. In commercial traffic, the average size of aircraft expressed as tonnes increased by 4.8%.

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Overflights in Finnish airspace have returned to a strong growth after the slight drop (-0.5%) last year. The increase in January–February was 9.5%. The number of overflights (excluding Kvarken), 7,501, was higher than ever before in the first quarter.

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<sup>1</sup> ACI Europe represents over 400 airports in 46 countries in Europe.

<sup>2</sup> AEA is an association of 35 European airlines.

<sup>3</sup> Stockholm Arlanda, Copenhagen, Oslo Gardermoen and Helsinki Airport.

## **Administration and changes in the Group structure**

Finavia Corporation's General Meeting did not convene during the period under review. No changes took place in the company's management.

In March, Finavia launched an investigation concerning the transfer of the observation system relating to the provision of meteorology services for aviation purposes from Finavia's operational air navigation to the Finnish Meteorological Institute. The investigation is related to the policy which is in line with the ownership strategy published by the Ministry of Transport and Communications in March.

According to the policy, Finavia launched an investigation with Senaatti-kiinteistöt concerning the transfer of the assets of its subsidiary IP-Kiinteistöt Oy from Finavia to Senaatti-kiinteistöt. IP-Kiinteistöt Oy owns and maintains buildings and constructions related to military aviation at Finavia's airports.

No changes occurred in the Group structure during the first quarter.

## **Outlook for the rest of 2011**

In its short and medium-term forecast published in February, Eurocontrol's Statfor-Unit<sup>4</sup> predicts a growing trend for the number of operations<sup>5</sup> for 2011. According to the forecast, growth across the Eurocontrol region would increase to 5.4 from last year's 3.5%. However, the forecast points out the several risk factors affecting the development (for example, the state of the European economy, increasing fuel prices, modest growth plans of low-cost airlines and the political situation in northern Africa and the Middle East).

The operational forecasts for Scandinavian countries are somewhat lower than the overall Eurocontrol development (Norway, 5.0%; Denmark, 4.8%; Sweden, 4.5%). However, Finland's situation is regarded as being more promising than the average, with growth predicted at 7.3%. The underlying factors include the relatively good economic development, the capacity increases announced and the modest level of last year's reference figures.

In the first quarter, demand for air traffic increased by 7.4%, and the number of passengers returned to pre-recession levels. The company believes that demand will continue to grow at a similar rate in the next few months.

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In order to support growth, the company has launched projects aimed at enhancing the service experience and customer satisfaction. The cost effectiveness achieved during the recession will be maintained, and ongoing projects will be continued. The higher winter maintenance costs for January and February are reflected in the profit for the period. The Group expects its profit development to strengthen slightly by the end of the year.

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<sup>4</sup> Statfor, which operates under Eurocontrol, produces statistics and forecasts on air traffic in Europe and monitors and analyses trends in the aviation sector. The unit generally produces short-term forecasts on the development of flight operations four times a year.

<sup>5</sup> IFR operations in total (including overflights).