

Estonian Air

Review of performance for the first half of 2014

August 21, 2014



In the first half of the year, the airline's revenue was EUR 32.9m and net loss 5.0m, which is 18% less than in the same period last year

In the first half Estonian Air revenue decreased by 8% to EUR 32.9 million, and the net loss improved by 18% to EUR 5.0 million compared to the same period last year.

After the first quarter reporting period, Estonian Air started operating the other surplus Embraer 170 between Växjö (in southern Sweden) and Amsterdam in cooperation with the local authorities of Småland county and tourism agencies. However, due to the termination of the support contract by Småland Airport, the last Estonian Air flight between Växjö and Amsterdam was operated on August 10. "All together, we have seven aircraft, five of them serving regular flights, one of them charter flights. Now we are trying to find new job for the aircraft released from Växjö-Amsterdam route," said Jan Palmér, CEO of Estonian Air.

IATA's 2014 mid-year report "Economic performance of the airline industry" published in June 2014, notes that European airlines have been suffering across the board: "Breakeven load factors are highest in Europe, caused by a combination of low yields due to the highly competitive open aviation area, and high regulatory costs. As a result... financial performance has been poor."

From Tallinn airport, competition has become tougher as new carriers have entered the market – Air Lituanica on Vilnius route in March, Vueling on Barcelona route in June, and TAP Portugal on Lisbon route in July. Furthermore, Lufthansa increased frequencies on Frankfurt route and airBaltic has announced it starts flights to Paris in October.

"In the first half of the year, the total number of passengers was slightly behind the results from the previous year. The main reason for that is a smaller number of operated flights compared to last year," says Indrek Randveer, the CCO of Estonian Air. "However, in June and July we have seen the passenger volume coming back. We had better than expected development on our routes to Stockholm, Moscow, Berlin and Trondheim but on Kiev route the passenger volumes continued to be lower due to the uncertain situation in Ukraine."

During six months, Estonian Air has carried 260 thousand passengers, of which, 251 thousand passengers on regular flights. It's 8% less than in the same period last year, but less than the decrease in roundtrips (10%) in the same period 2013.

Estonian Air operates five seasonal routes – Munich during winter season and Nice, Paris, Split and Berlin during summer season. Berlin flights were extended until 1 November. From 29 September to 19 December 2014 and from 26 January to 19 June 2015 Estonian Air operates two daily flights between Tallinn and Bromma.

| Key Indicators | 2Q14 | 1Q14 | Δ, % | 1H14 | 1H13 | Δ, % |
|-------------------------|-------|-------|--------|--------|--------|--------|
| Passengers, k (regular) | 143 | 107 | 33% | 251 | 272 | -8% |
| Passengers, k (charter) | 5 | 3 | 62% | 9 | 3 | 154% |
| # of flying aircraft | 7 | 7 | 0% | 7 | 8 | -13% |
| Block hours | 4,323 | 3,477 | 24% | 7,800 | 8,681 | -10% |
| Roundtrips | 1,378 | 1,110 | 24% | 2,488 | 2,750 | -10% |
| Fuel cons, t | 5,820 | 4,741 | 23% | 10,561 | 11,312 | -7% |
| ASK, m | 219 | 179 | 22% | 398 | 413 | -4% |
| Load factors (RPK/ASK) | 66.5% | 59.4% | 7.1pp | 63.3% | 66.5% | -3.2pp |
| RASK | 0.082 | 0.074 | 0.008 | 0.079 | 0.085 | -0.006 |
| CASK | 0.083 | 0.090 | -0.007 | 0.086 | 0.097 | -0.011 |
| Full-time employees | 158 | 154 | +4 | 158 | 171 | -13 |

Note: Statistics show scheduled traffic, aside from RASK, CASK and passengers. Operational statistics may have corrections in historical data.

* ASK – Available seat kilometer RASK – Revenue per available seat kilometer
 RPK – Revenue passenger kilometer CASK – Cost per available seat kilometer

Financial statements 1H 2014, unaudited

Revenue fell 8% in the first half while flying decreased by 10% less roundtrips. Variable costs have decreased 7% compared to the same period last year. In the second quarter, the airline's revenues increased by EUR 5.3m (38%) compared the first quarter, while flying 24% more flights.

Fixed costs decreased 23% compared to 2013, mainly from lower personnel cost and aircraft maintenance cost. Efficiency in maintenance costs was partly gained from having less aircraft types - in 1H 2014, Estonian Air fleet consisted of jets only, while during 1H 2013, the airline had jets, a Boeing and two Saabs. Fleet cost fell 10% as in 2014, the airline had seven aircraft compared to ten in 2013.

| Income statement, EURk | 2Q14 | 1Q14 | Δ, % | 1H14 | 1H13 | Δ, % |
|----------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Total Revenue | 19.1 | 13.8 | 38% | 32.9 | 35.7 | -8% |
| Variable costs | -12.2 | -10.2 | 20% | -22.4 | -24.3 | -7% |
| Direct Contribution | 6.9 | 3.6 | 92% | 10.5 | 11.5 | -9% |
| Fixed costs | -3.9 | -3.5 | 10% | -7.4 | -9.7 | -23% |
| EBITDAR | 3.0 | 0.1 | | 3.1 | 1.8 | 69% |
| Fleet costs | -3.1 | -2.9 | 6% | -6.0 | -6.7 | -10% |
| Non-fleet depreciation | -0.1 | -0.1 | 3% | -0.2 | -0.2 | 2% |
| Net other operating items | 0,0 | -0.1 | | -0.1 | 1.1 | |
| EBIT | -0.2 | -3.0 | -93% | -3.2 | -3.9 | -19% |
| Net financial income | -0.8 | -0.9 | -10% | -1.8 | -2.1 | -17% |
| Net profit | -1.0 | -3.9 | -73% | -5.0 | -6.1 | -18% |

| Balance sheet, EURm | 2Q14 | 1Q14 | Δ, % | 1H14 | 1H13 | Δ, % |
|--------------------------------|--------------|--------------|------------|--------------|--------------|-------------|
| Assets | | | | | | |
| Cash | 6.5 | 9.0 | -28% | 6.5 | 10.8 | -40% |
| Other current assets | 8.5 | 7.9 | 7% | 8.5 | 11.0 | -23% |
| Fixed assets | 34.7 | 35.9 | -3% | 34.7 | 39.1 | -11% |
| Other non-current assets | 12.9 | 12.3 | 5% | 12.9 | 10.9 | 19% |
| Total assets | 62.6 | 65.2 | -4% | 62.6 | 71.8 | -13% |
| Liabilities | | | | | | |
| Short-term liabilities | 53.7 | 57.0 | -6% | 53.7 | 44.4 | 21% |
| Long-term liabilities | 34.9 | 34.9 | 0% | 34.9 | 48.1 | -28% |
| Total liabilities | 88.6 | 91.9 | -4% | 88.6 | 92.6 | -4% |
| Share capital | 40.8 | 40.8 | 0% | 40.8 | 40.8 | 0% |
| Retained earnings and reserves | -66.7 | -67.5 | -1% | -66.7 | -61.6 | 8% |
| Equity | -25.9 | -26.7 | -3% | -25.9 | -20.8 | 25% |
| Total Liab.,SE | 62.6 | 65.2 | -4% | 62.6 | 71.8 | -13% |

In comparison to 1H 2013, the balance sheet decreased by 13% driven by decrease in cash (-40%), other current assets (-23%) and fixed assets (-11%).

The cash balance compared to the first quarter has decreased by EUR 2.5 million from operational losses. No additional loans from the Republic of Estonia were drawn down in the first quarter. By the end of 1H 2014, the airline had received EUR 24.9 million from its rescue loan facility from the Republic of Estonia.

At the end of 1H 2014, equity was negative EUR 25.9m. The airline plans to resolve the negative equity after the European Commission (EC) makes a positive decision on the airline's Restructuring Plan, which will trigger the ensuing recapitalization of the company.

In the second quarter 2014, the airline's cash flow from operations was slightly positive. However, cash balance in the first half of 2014 decreased by EUR 4.9m compared to the year end. In 1H 2013, the airline's cash flow was positive from receiving a loan from the Republic of Estonia in EUR 23.8 million.

| Cash flow, EURm | 2Q14 | 1Q14 | Δ, % | 1H14 | 1H13 | Δ, % |
|-----------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Net profit | -1.0 | -3.9 | -73% | -5.0 | -6.1 | -18% |
| Depreciation and impairment | 1.2 | 1.2 | 1% | 2.4 | 2.4 | 1% |
| Change in current assets | -0.5 | -1.0 | -46% | -1.6 | 4.2 | |
| Change in current liabilities | 1.0 | 2.1 | -50% | 3.1 | -9.6 | |
| Cash Flow from operations | 0.6 | -1.7 | | -1.0 | -9.1 | -89% |
| Investments to fixed assets | 0.1 | 0.1 | -18% | 0.1 | -0.2 | |
| Investments to financial assets | -0.7 | -0.6 | 22% | -1.2 | -1.2 | 1% |
| Cash flow from investments | -0.6 | -0.5 | 28% | -1.1 | -1.4 | -22% |
| Loan repayments and received loans | -4.3 | -0.2 | | -4.6 | 17.0 | |
| Cash flow from financing | -2.5 | -0.2 | | -2.7 | 17.0 | |
| Cash position at start of period | 9.0 | 11.4 | -21% | 11.4 | 4.4 | 161% |
| Total cash flow | -2.5 | -2.4 | 3% | -4.9 | 6.5 | |
| Cash position at end of period | 6.5 | 9.0 | -28% | 6.5 | 10.8 | -40% |