

SAS Q2 2015/2016

TELECONFERENCE

10.06.2016

More passengers in a weak quarter

Positives

- + More passengers than last year, with record number of passengers on long-haul routes
- + Strong response on SAS upgraded Business Class
- + SEK 0.8bn lower jet fuel cost
- + EU-fee reversal

Negatives

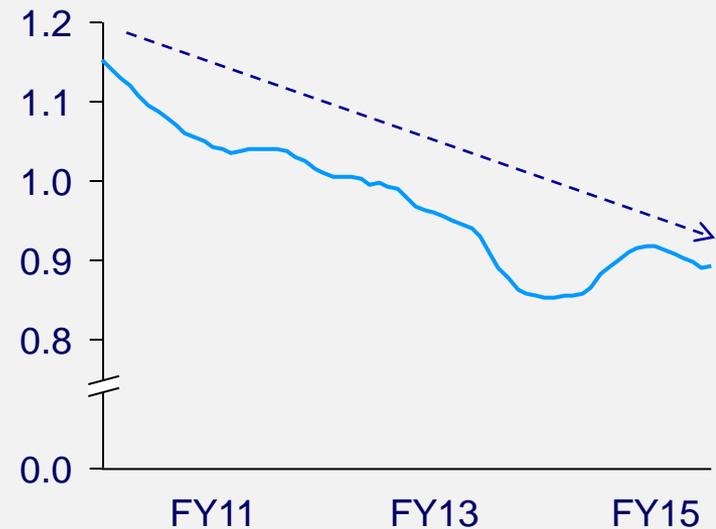
- Yield down 9.2% vs. last year
- Negative currency effect of SEK 0.5bn vs. last year
- Only SEK 0.2bn in impact from efficiency program
- Additional technical maintenance costs and engine provisions SEK 0.3bn

| Q2 | Q2 vs. LY |
|-------------------------------------|---------------|
| EBT bef. non-recurring items | Change |
| MSEK -601 | MSEK -270 |
| Traffic, RPK | Change |
| 7,424 | +7.9% |
| Unit cost excl. fuel, SEK | Change |
| 0.62 | -1.3% |
| PASK, SEK | Change |
| 0.64 | -11.5% |

Intensified yield pressure in the market as expected

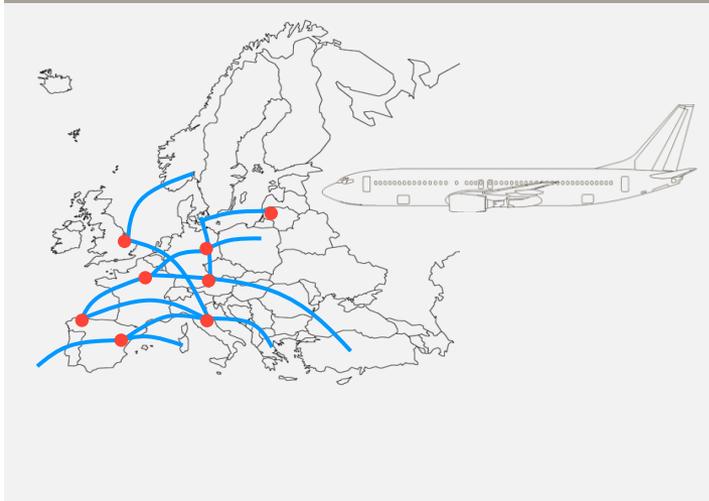
- **Resumed capacity growth after a stable FY15**
 - Capacity up 6% in Q2 and expected to increase 5-6% in FY16
- **Lower jet fuel prices**
- **SAS long-haul growth**
 - Longer stage length
- **Leisure driven growth**
- **Terror attacks**

SAS short-haul revenue per ASK (PASK)
(R12, scheduled, SEK)

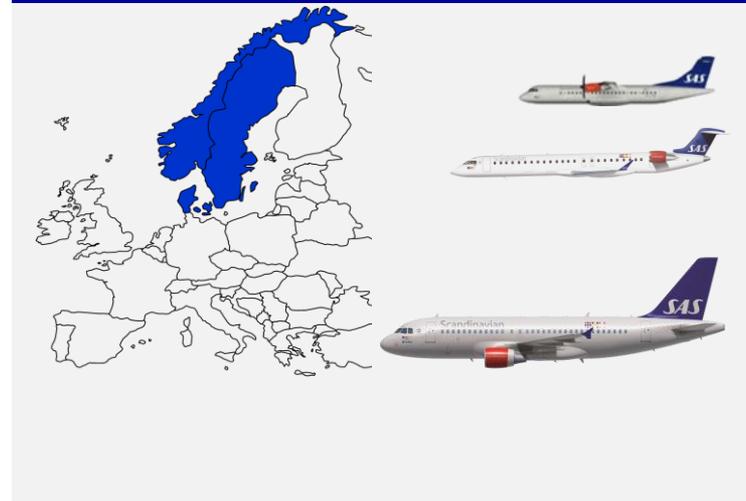


SAS strategy is to focus on Scandinavia's frequent travelers

Typical low cost carrier strategy



Strategy of SAS



Market

- Multimarket focus, general low yield, especially leisure

- Focus on Scandinavia's frequent travelers

Operational platform

- One type fleet, operate traffic flows that fit fleet

- Fleet designed to fit best network and schedule for customers

Growth

- New destinations, anywhere

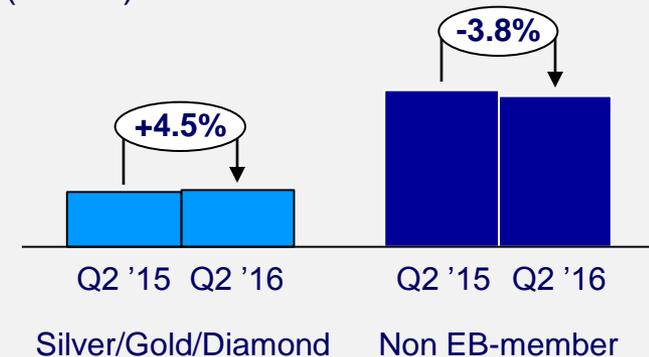
- Improve offer for primary customer base to increase loyalty

SAS's most frequent travelers increase their travel with SAS

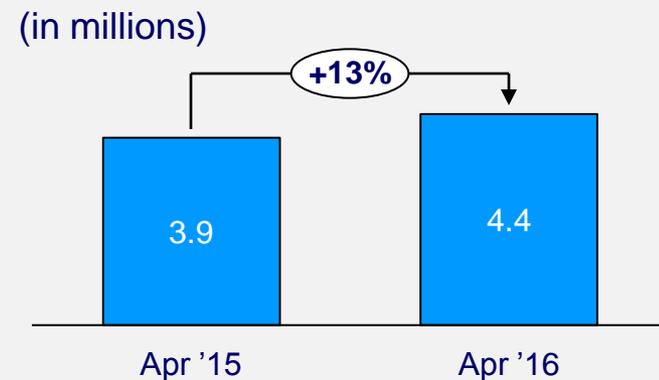
EuroBonus important to grow customer loyalty

- 4.4 million EuroBonus members
 - ~500,000 additional members since last year
 - ~75,000 additional Silver/Gold/Diamond members since last year
- Silver/Gold/Diamond members increased their travelling with SAS by 6% in Q2 vs LY
 - Revenue for this customer group up MSEK 100 in Q2 vs. LY
- EuroBonus members account for over 50% of SAS passenger revenue and contribute with more ancillary revenue than non-EB members

Passenger revenue FX adjusted (MSEK)



EuroBonus members (in millions)



SAS long-haul expansion – strong response in Business Class

Background

- Growing demand for more direct long-haul routes to/from Scandinavia
- SAS improved crew productivity
- Fleet expansion from 12 to 16 aircraft at minimal investment

Product investments

- Upgraded cabin interior
- New destinations and more frequencies

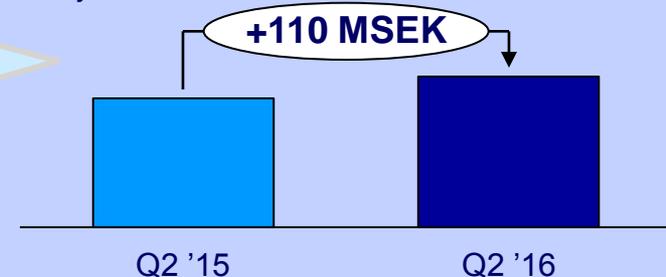


Strongly improved customer satisfaction and external awards



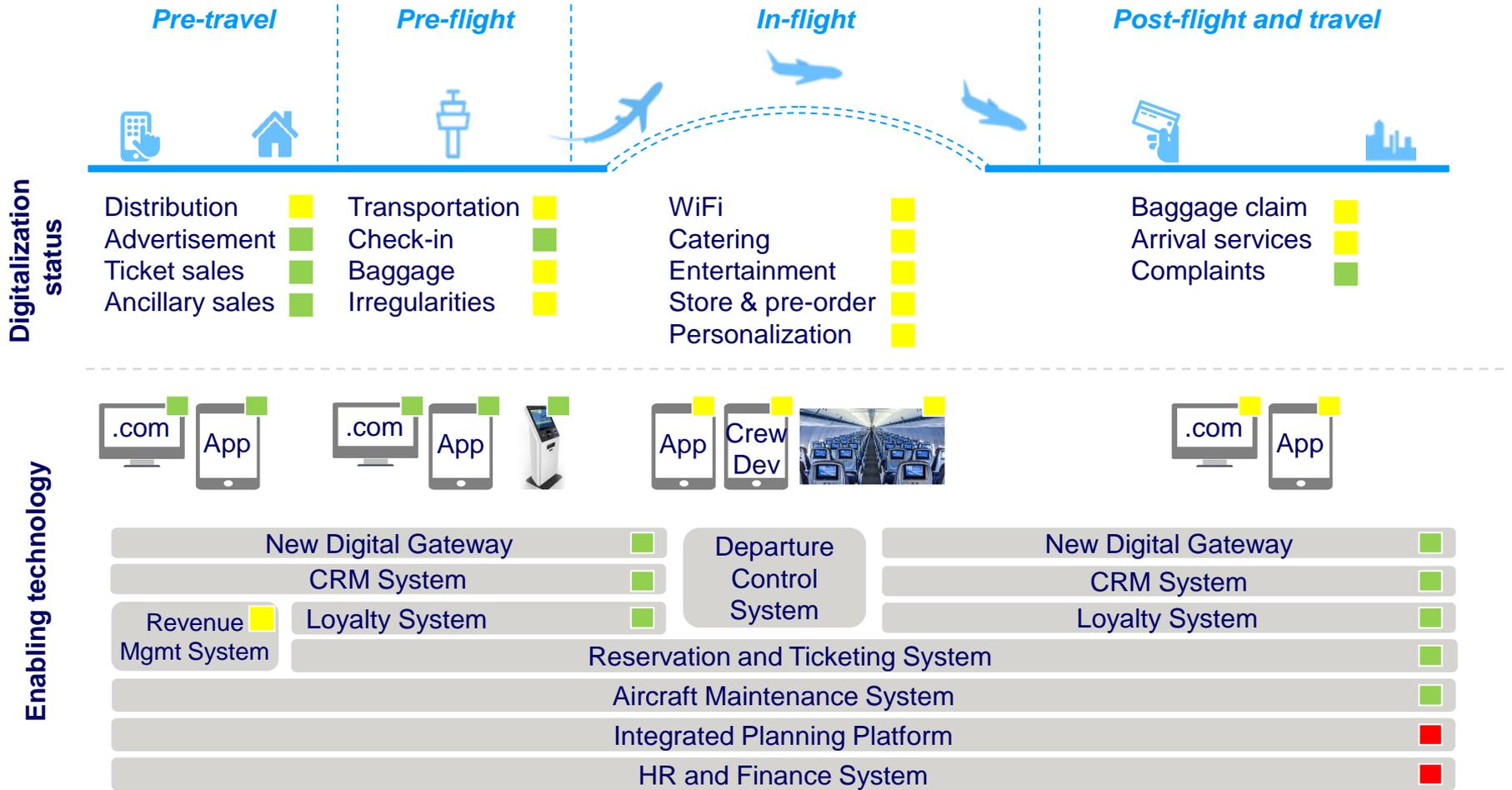
- Record number of passengers on long-haul routes in Q2
- Strong response on SAS upgraded Business Class - load factor up to close to 75% in Q2
- Cabin now upgraded on all long-haul aircraft in traffic

Business Class and SAS Plus revenue FX adjusted

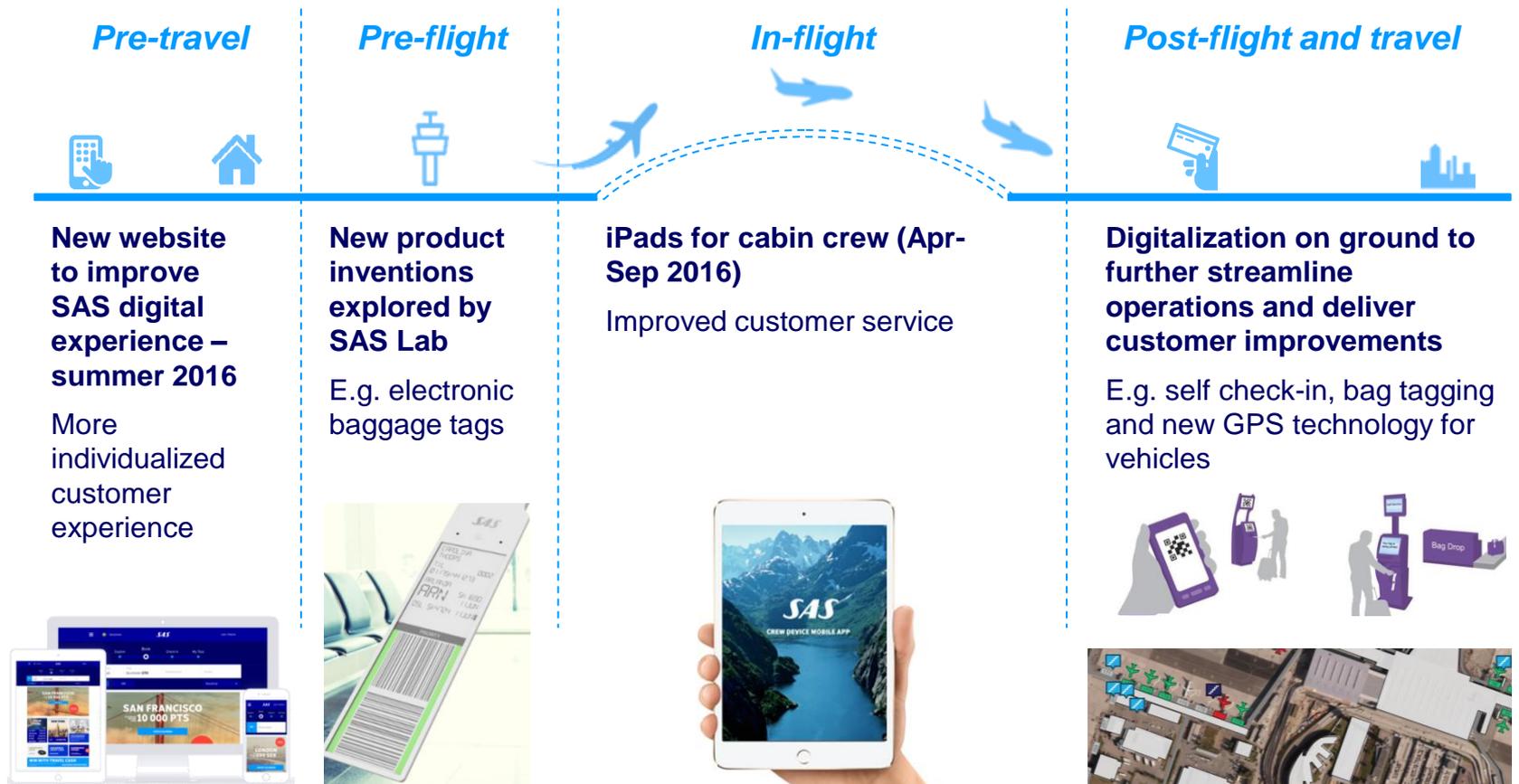


Digitalization of SAS processes and customer offering

■ Implemented
■ Under development
■ Not started



Digitalization and innovation of SAS customer interface – making life easier for Scandinavia’s frequent travelers



SAS production model enables SAS to offer the frequent travelers a better network

Significant wet lease operation established

- Enables SAS to offer a better network
 - ~20 destinations that otherwise could not be served
 - More off peak flights on larger traffic flows
- About 8% of ASK and 20% of flights and more than 1 million passengers in Q2
 - 6 CRJ900 phased into traffic with CityJet during Q2
- Wet lease production 15-20% more cost efficient than internal operation*
 - Collective agreements in Scandinavia



Wet lease aircraft in operation



SAS two tier production model

SAS's AOC - 123 aircraft

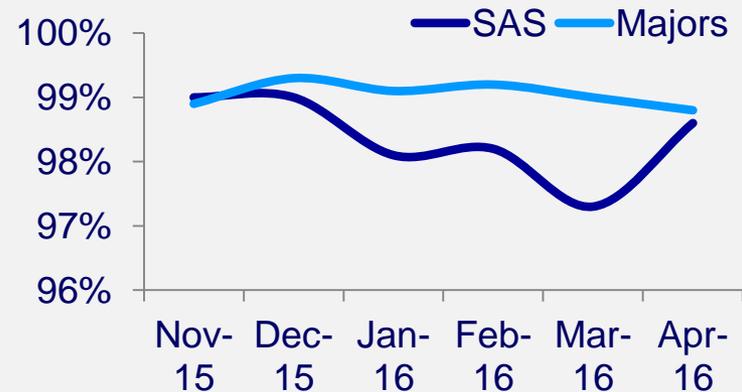
Wet lease operation – 33 aircraft

* Excludes jet fuel, airport/overflight charges, ground handling and overhead costs

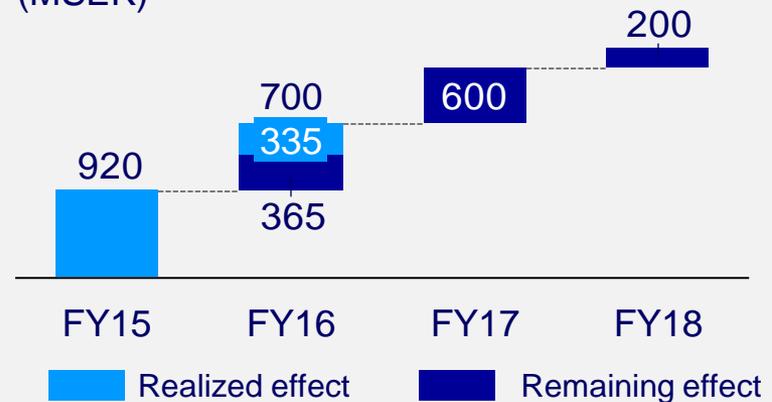
Focus on improving quality in operations delays cost program

- SAS has had unsatisfactory regularity and punctuality levels in Q1-Q2 FY16
 - Abnormal level of unscheduled maintenance
 - Technical resources tied up in system migration
- Prioritization of quality standards to protect customer satisfaction and loyalty
 - Additional spare aircraft
 - Reprioritization of resources

Regularity* %



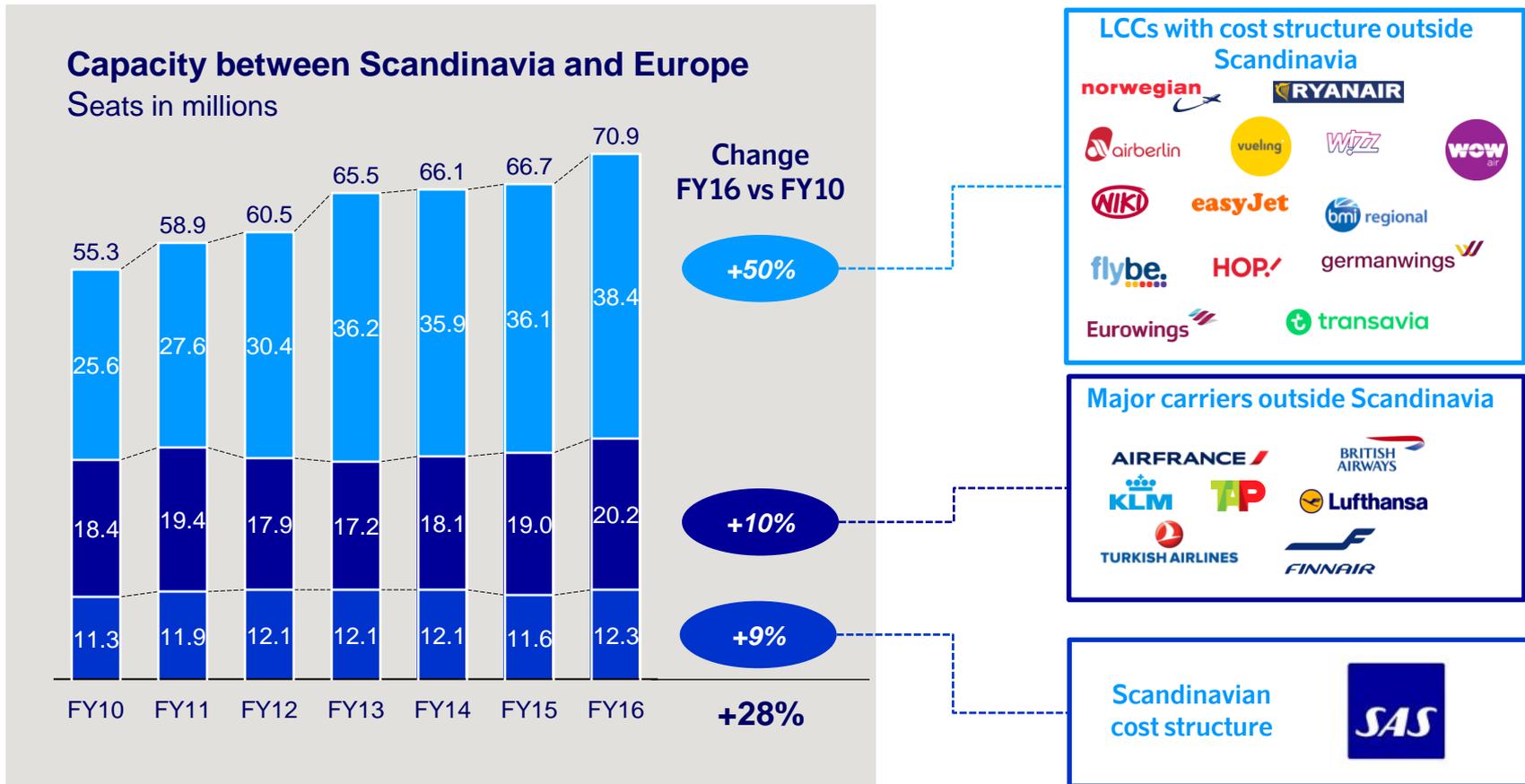
Revised impact from cost program (MSEK)



- Completion of cost program prolonged to FY18

* Source: Based on Flightstats Monthly Reports

European routes is driven by non-Scandinavian LCC platforms



SAS must explore additional measures to stay competitive

A photograph of a clear blue sky with several white contrails from an aircraft. The sky is framed by dark tree branches in the top left and right corners, and a dark silhouette of a forest line at the bottom. A dark blue rectangular box is positioned in the lower right quadrant of the image.

FINANCIALS

eBreakdown of the income statement

| Income statement | Feb-Apr 16 | Feb-Apr 15 | Change vs LY | Currency |
|---|---------------|---------------|--------------|-------------|
| Total operating revenue | 8,916 | 9,403 | -487 | -291 |
| Payroll expenditure | -2,308 | -2,427 | +119 | |
| Jet fuel | -1,497 | -2,299 | +802 | |
| Government charges | -977 | -993 | +16 | |
| Other operating expenditure | -3,602 | -2,843 | -759 | |
| Total operating expenses* | -8,384 | -8,562 | +178 | -139 |
| EBITDAR before non-recurring items | 532 | 841 | -309 | -430 |
| <i>EBITDAR-margin*</i> | 6.0% | 8.9% | -2.9 p.u. | |
| Leasing costs, aircraft | -706 | -662 | -44 | |
| Depreciation | -312 | -405 | +93 | |
| Share of income in affiliated companies | -2 | -2 | 0 | |
| EBIT before non-recurring items | -488 | -228 | -260 | -429 |
| <i>EBIT-margin*</i> | -5.5% | -2.4% | -3.1 p.u. | |
| Financial items | -113 | -103 | -10 | |
| EBT before non-recurring items | -601 | -331 | -270 | -463 |
| Non-recurring items | 728 | 686 | +42 | |
| EBT | 127 | 355 | -228 | -463 |

* = Before non-recurring items

Extraordinary items in Q2

| Extraordinary items and unplanned events | MSEK |
|---|------------|
| Currency effect | -463 |
| <i>Spot currency changes on operation net vs. last year</i> | -135 |
| <i>Hedging effects vs. last year</i> | -383 |
| <i>Working capital and net financial items</i> | +55 |
| EU- fee reversal | +655 |
| Engine reservations, return conditions and airframe | -273 |
| Brussels attack | -50 to -60 |

Positive net effect from strikes in Q2 FY15 of about SEK 0.2bn

Breakdown of payroll expenses

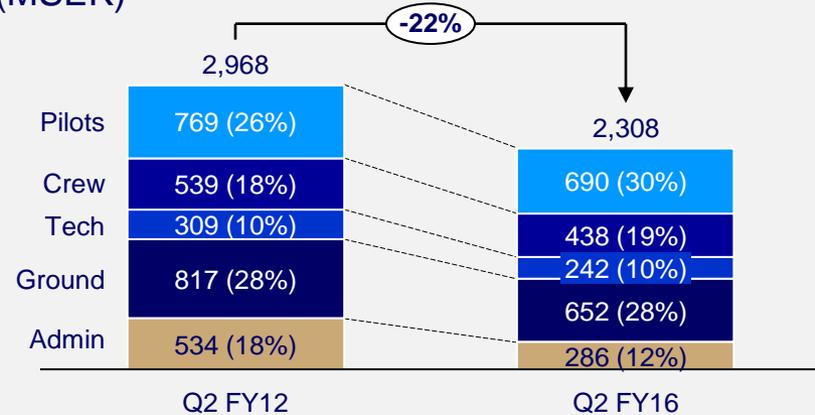
Payroll expenses significantly reduced

- New pension and remuneration agreements in November 2012
- Outsourcing significant parts of operation and administration
- Increased productivity in all areas

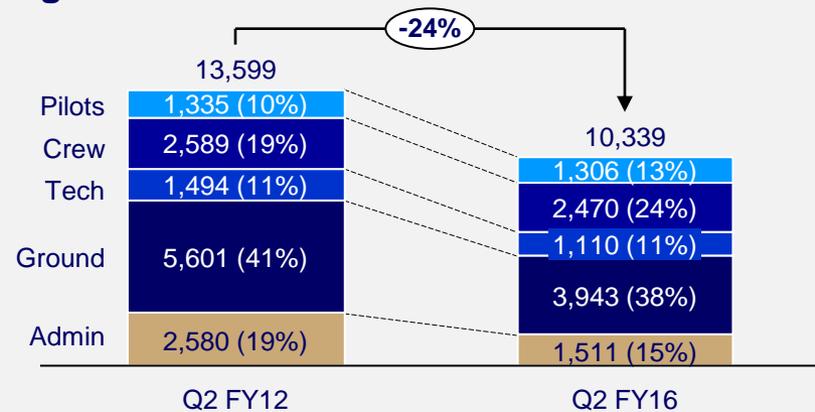
Opportunities going forward

- Digitalization and automation of operation on the ground and administration and where possible also for flying personal

Payroll expenses excl. restructuring costs (MSEK)



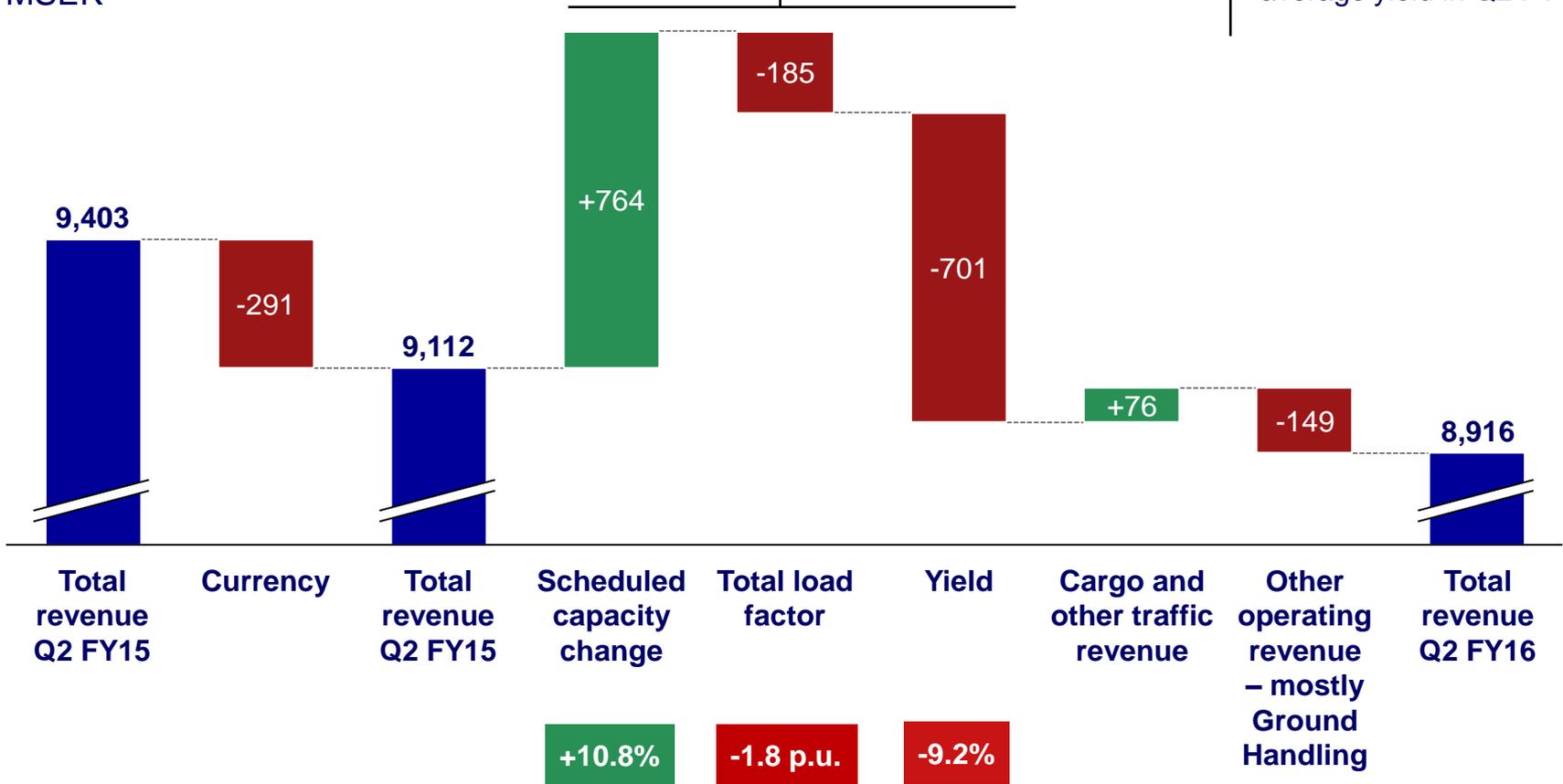
Avg. number of FTEs



Revenue primarily affected by lower yield in Q2

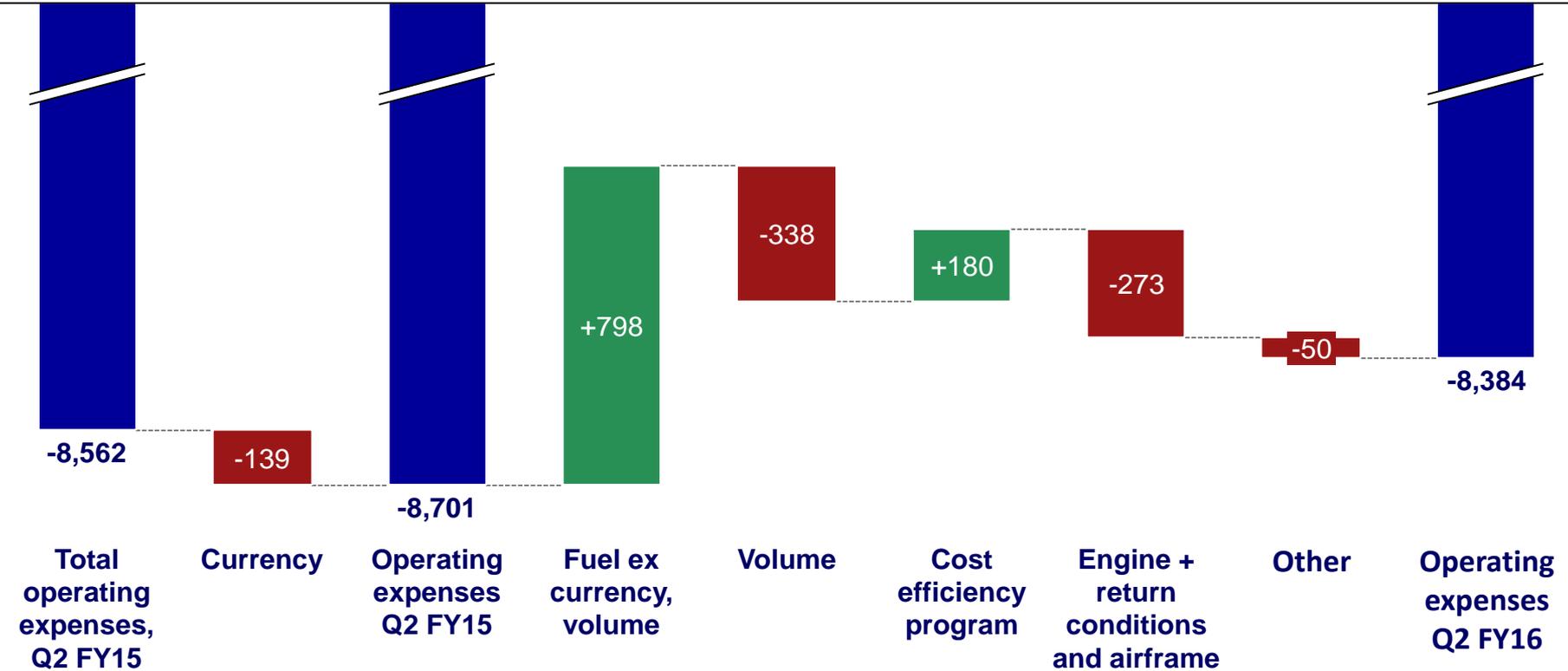
Total Revenue Q2
MSEK

Estimated based on
average yield in Q2 FY15



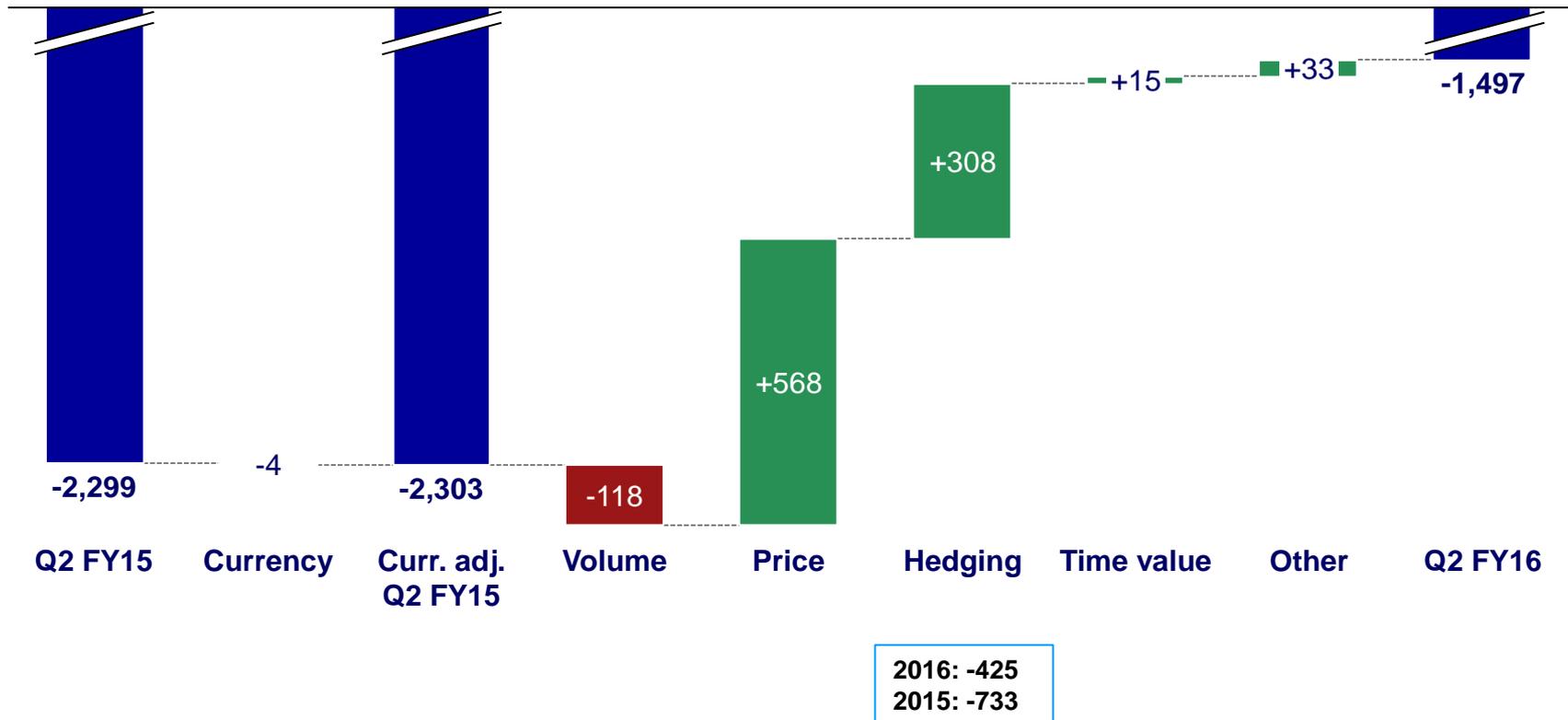
Operating expenses down due to fuel costs and efficiency measures

Total Operating Expenses Q2
MSEK



Jet fuel costs MSEK 802 lower in Q2

Fuel cost Q2
MSEK



Jet fuel and currencies

Jet fuel

- Policy to hedge 40-80% of expected consumption next 12 months and up to 50% for the next 6 months
- Hedge position as at 30 April 2016
 - 68% of jet fuel hedged next twelve months
 - Mostly swaps in Q3-Q4 FY16
 - Only call options in FY17 below USD 500/MT

Currency

- Policy to hedge 40-80% of expected currency deficit/surplus next 12 months

Jet fuel cost sensitivity FY16, SEK bn*

| Average spot price | 8.0 SEK/USD | 9.0 SEK/USD |
|--------------------|-------------|-------------|
| USD 300/MT | 6.1 | 6.5 |
| USD 400/MT | 6.2 | 6.6 |
| USD 600/MT | 6.3 | 6.8 |
| USD 800/MT | 6.5 | 6.9 |

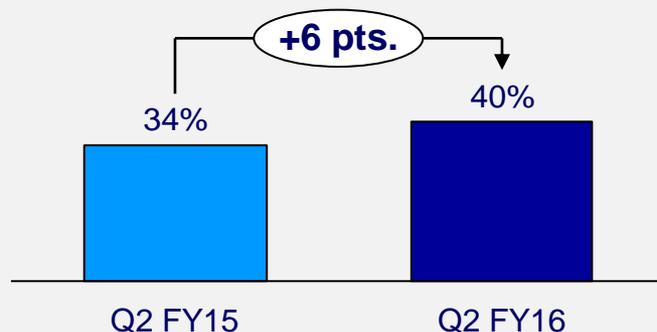
* Based on actual jet fuel costs during Q1 FY16 and hedge position as at 30 April 2016

Currency and hedges

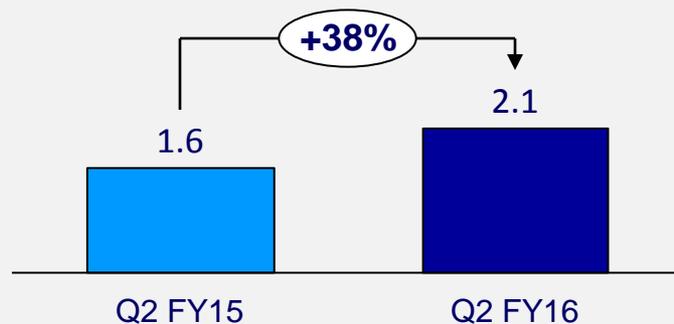
- 60% of USD hedged next 12 months
- 60% of NOK hedged next 12 months

Liquidity, cash flow and investments

Financial preparedness



Change in working capital (SEK bn)



- **Financial preparedness at 40%**
 - Cash of SEK 9.1bn
 - Unutilized credit facilities of SEK 2.7bn
- **Cash flow from operating activities up SEK 1bn in Q2**
 - Reversal of EU fee SEK 0.6bn
 - Unearned transportation revenue up SEK 0.3bn vs. last year
- **Net investments to be SEK 2bn in FY16**
 - Engine replacement investments

Optimization of capital structure and risk exposure – equity and optimization of aircraft investments

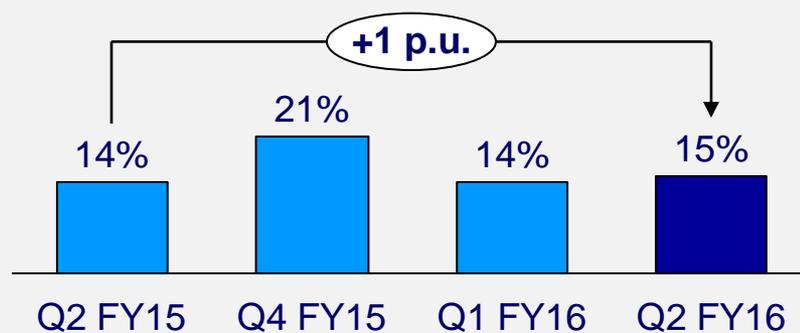
Total comprehensive income Q2

- Net income SEK 0.2bn
- Revaluation of pensions SEK -0.5bn
- Revaluation of hedge portfolio SEK 0.5bn
 - Jet fuel SEK 0.3bn
 - Cash flow SEK 0.2bn

Optimization of funding and fleet

- Cabin refresh and growth of long-haul fleet with 4 aircraft at very cost efficient investment
- Transactions during Q2
 - Final Airbus A330E delivered during Q2 on sale/leaseback
 - 4 MD90 sold
 - Airbus A321 – one lease extension and one sale/leaseback on more attractive terms
- Airbus A320neo
 - LOI regarding financing of 7 Airbus A320neo on sale/leaseback terms

Equity ratio



Summary and outlook

Summary of Q2 FY16

More passengers in a weak quarter

- Significant extraordinary items and FX effects
- Increased competitive pressure

Commercial progress

- More passengers and traffic up 7.9%
- Strong development in Business Class
- EuroBonus customers up 130,000

MSEK 180 in effect from the efficiency program

- SAS prioritizes production quality and defers impact from cost savings program

FY16 outlook

Market seat capacity expected to increase 5-6%

SAS to increase ASK by 10%

Number of flights up 1%

Lower PASK and unit cost

Efficiency program to deliver about SEK 0.7bn

Net investments of about SEK 2bn

Outlook remains firm:

SAS expects to post a positive EBT before non-recurring items

SAS