



SAS Group 3rd Quarter Analyst Presentation



London, November 12, 1999

Contents of 3rd Quarter presentation

- ▶ The quarter in brief
- ▶ SAS International Hotels
- ▶ Business review & financial summary
- ▶ Impact from fleet changes
- ▶ Regional, European and STARTM partners
- ▶ Result improvement program
- ▶ Distribution area
- ▶ Outlook

A very disappointing 3rd Quarter

- ▶ Weak traffic development (RPK) **down 3.0%**
- ▶ Business Class (RPK-C) **down 9.7%**
- ▶ Over-capacity (Cabin-factor) **down 3.5 p.u.**
- ▶ Yields under pressure **down 3.4%**
- ▶ Improved unit costs **down 0.8%**

Positive highlights in 3rd Quarter

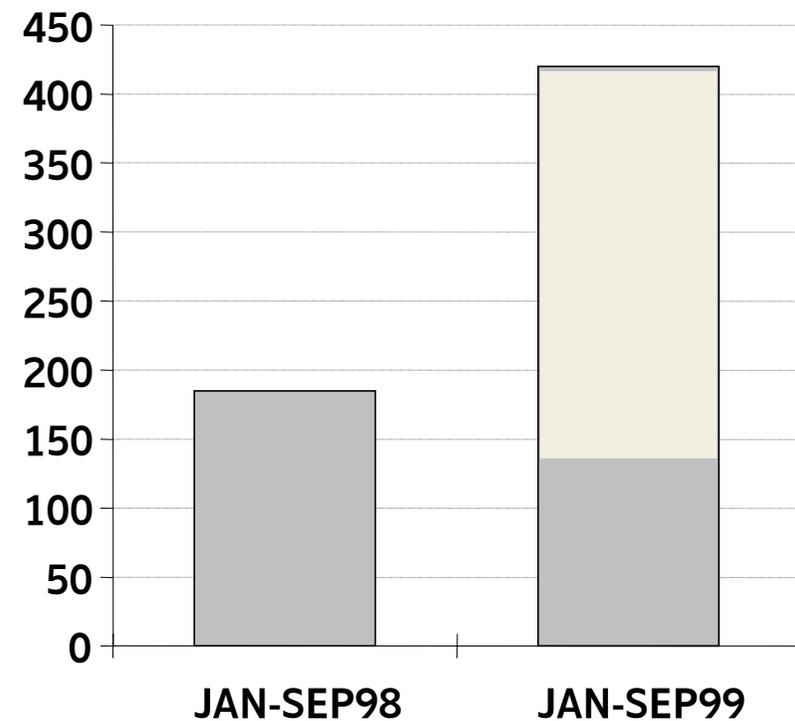
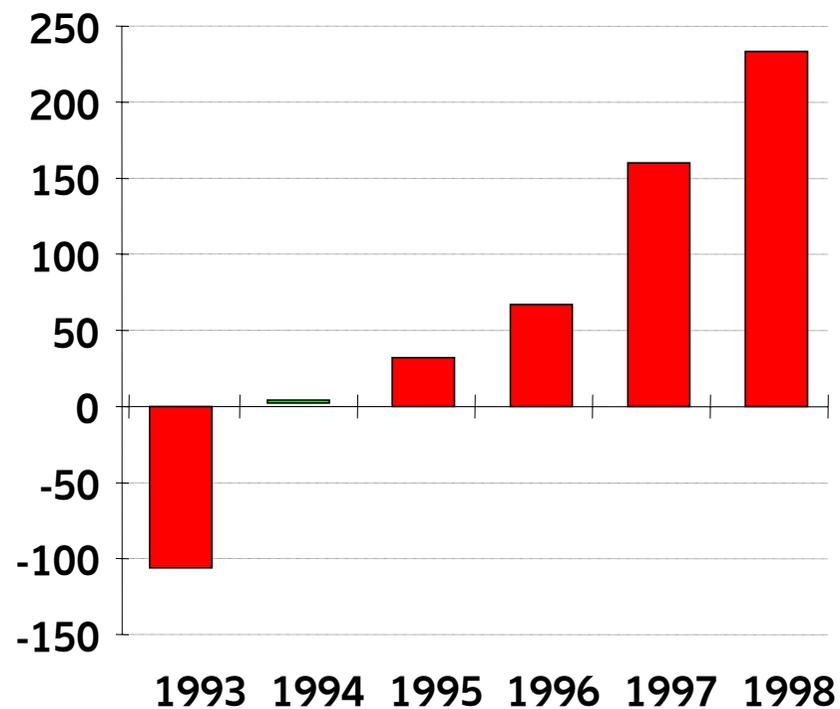
- ▶ Unit costs down 0.8% in spite of weaker volumes
- ▶ Punctuality and regularity improved
- ▶ British Midland to join STAR Alliance
- ▶ SAS to sell 20% of British Midland shares to Lufthansa

Positive highlights in 3rd Quarter

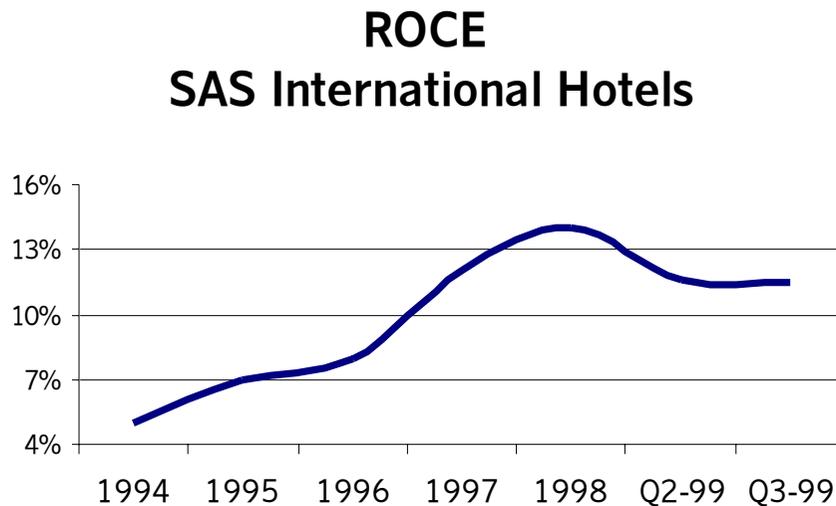
- ▶ Capacity adjustments on Norwegian and Swedish markets
- ▶ Swedish domestic continued strong
- ▶ Positive development on important markets U.K and Finland
- ▶ Improved capacity utilization on Asian routes

SIH - Third Quarter 1999 in line with 1998

Income before taxes (MSEK)



SIH - Creating value for SAS



- ▶ Returns above SAS Group WACC
- ▶ Positive development in Europe and Middle East
- ▶ Weaker development in Norway and England
- ▶ 15 new hotels opened Q3

Program of change - 2000+

Apr- Sep 99

Customer perceived quality slightly improved

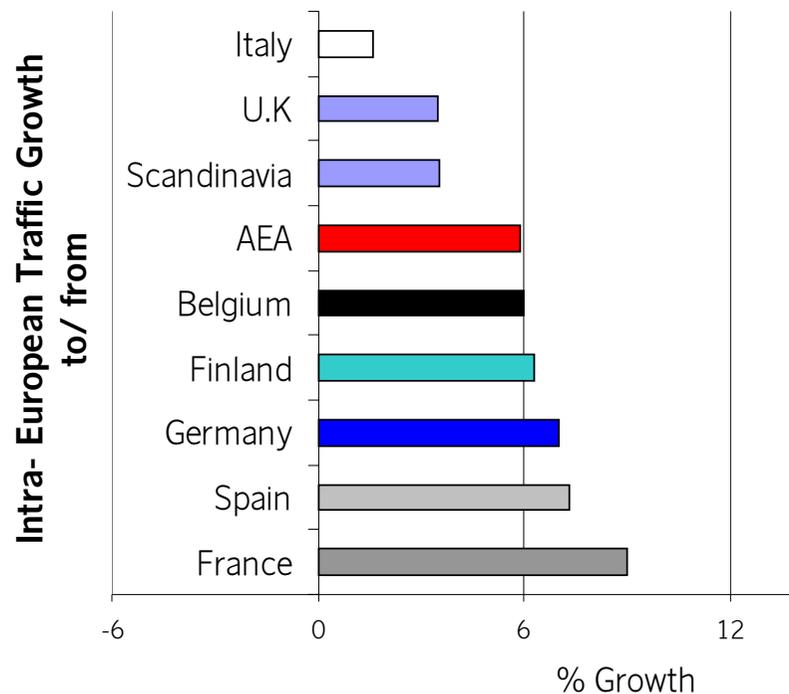


- ▶ CPQ Index up from 69 to 71
- ▶ Perceived punctuality up from 56 to 67
- ▶ In-flight product up from 58 to 60

Index 80 = Excellence

It's Scandinavian!

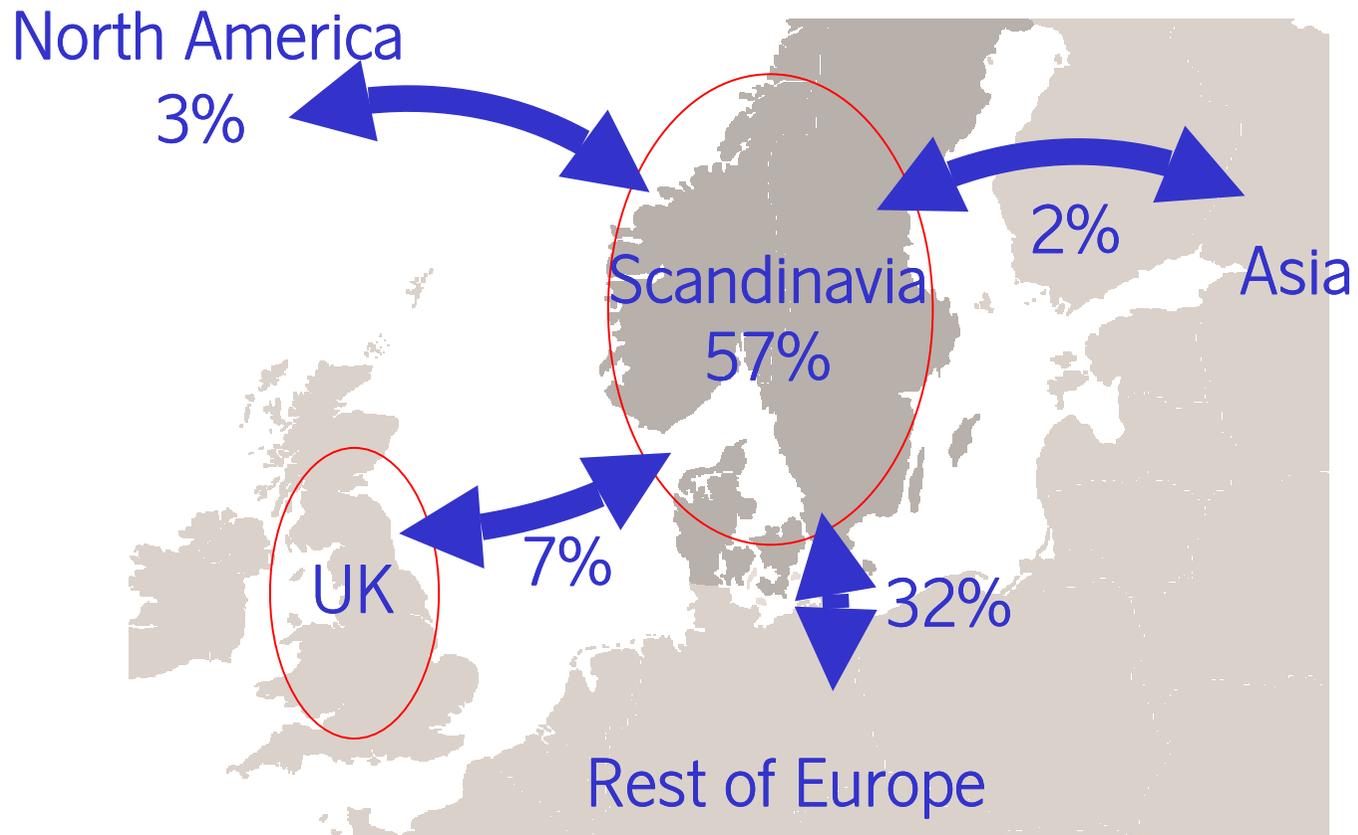
Scandinavian international traffic weaker than most major European markets



AEA Passenger growth 1st Half 1999

- ▶ Traffic in/out of Scandinavia one of weakest growing in AEA
 - ▶ AEA 6% (Total intra- EU)
 - ▶ Scandinavia 3- 3.5%
 - ▶ SAS 3%
- ▶ Traffic down on several routes
- ▶ Weak development of Business travel

SAS traffic flows as % of total pax



Main points in traffic development

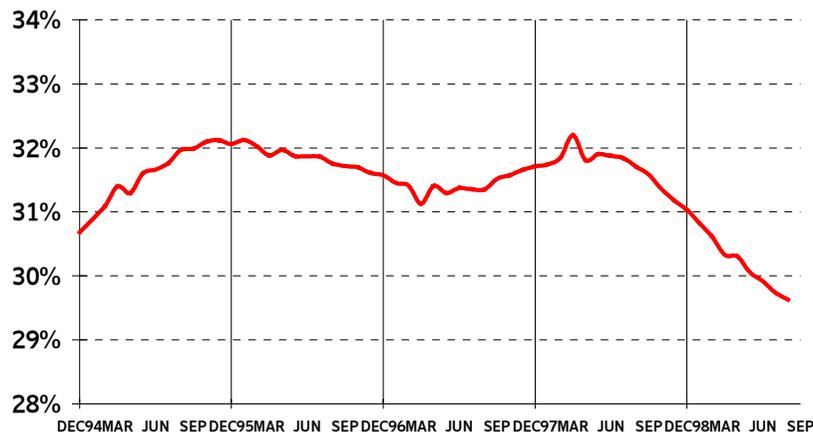
3rd Quarter 1999

- ▶ Negative traffic development
- ▶ Adversely negative passenger mix
- ▶ Continued over-capacity on:
 - North Atlantic
 - Norwegian domestic
 - Parts of European network
- ▶ Increased passenger load factor on all Asian destinations
- ▶ Swedish domestic continued strong
- ▶ Regional & European partners add traffic growth

A weak market with falling business class shares and passenger load factors

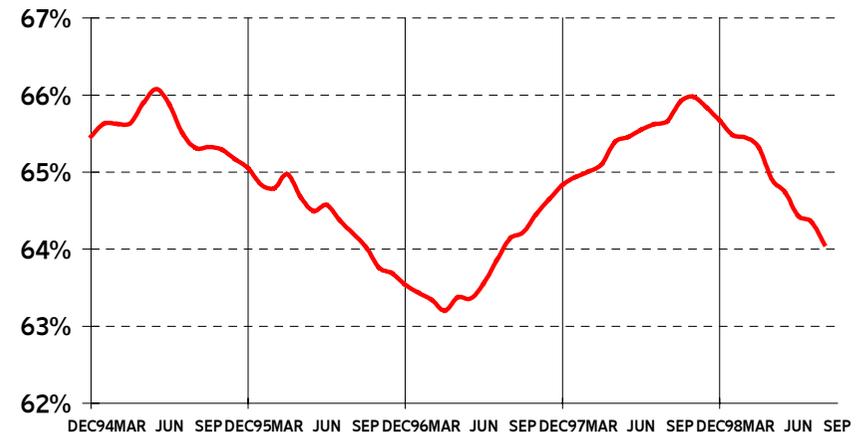
Share of Fullfare Traffic Total System

Moving 12 months values



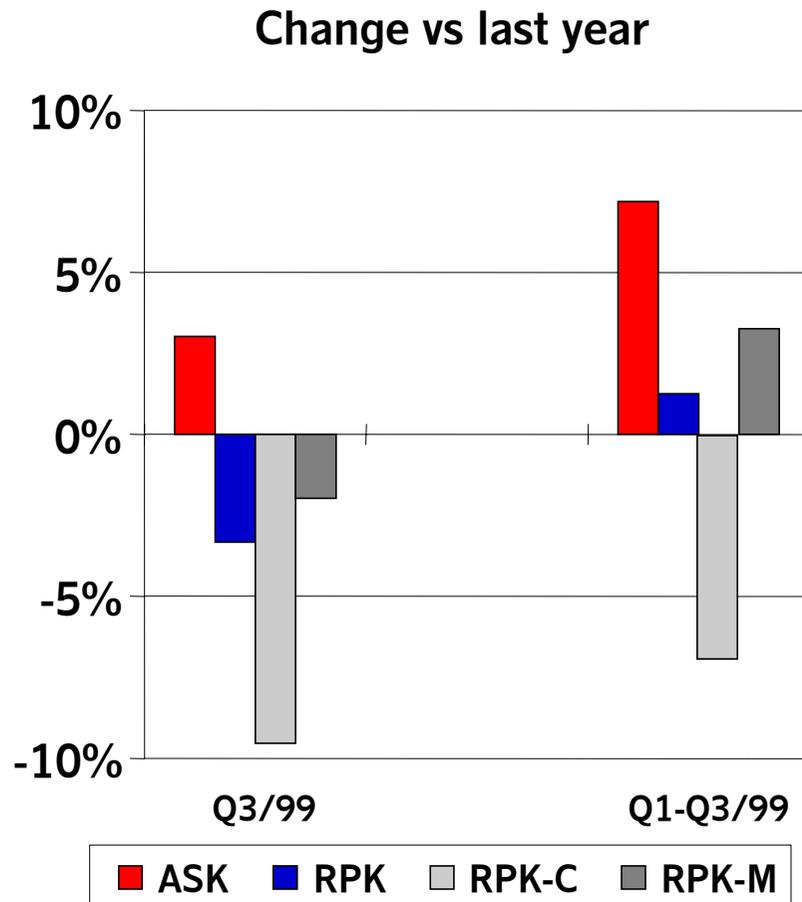
Passenger Load Factor Total System

Moving 12 months values



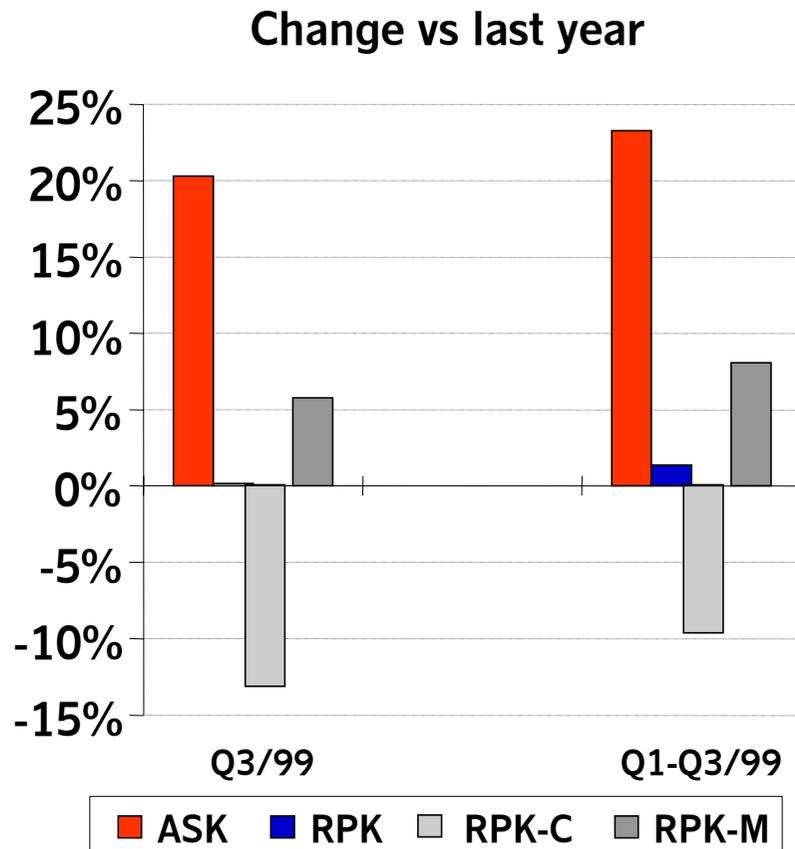
Intercontinental routes

3rd Quarter 1999



- ▶ Weak development in business travel
- ▶ Even discounted traffic down
- ▶ Passenger load factor 80,6% (down 5,3 p.u.)
- ▶ Asian routes improving
- ▶ Number of passengers down 1,2%

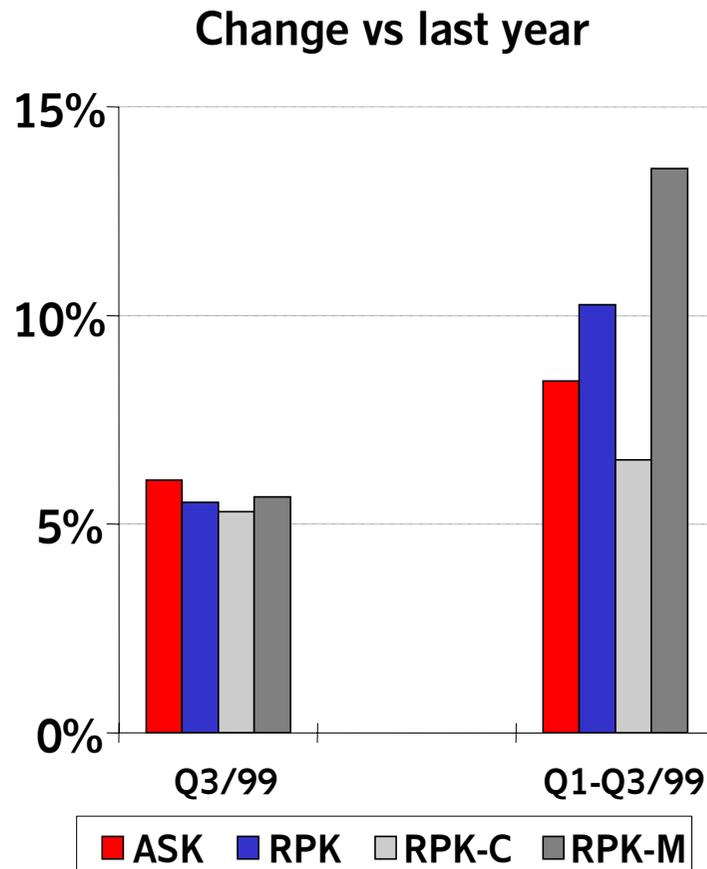
Reduced over-capacity on Norwegian domestic routes



- ▶ One market player withdrew SEP27
- ▶ Capacity reduced by 4-5%
- ▶ SAS to reduce capacity by 5%
- ▶ Total market growth 7-8%

Swedish domestic routes strong

3rd Quarter 1999



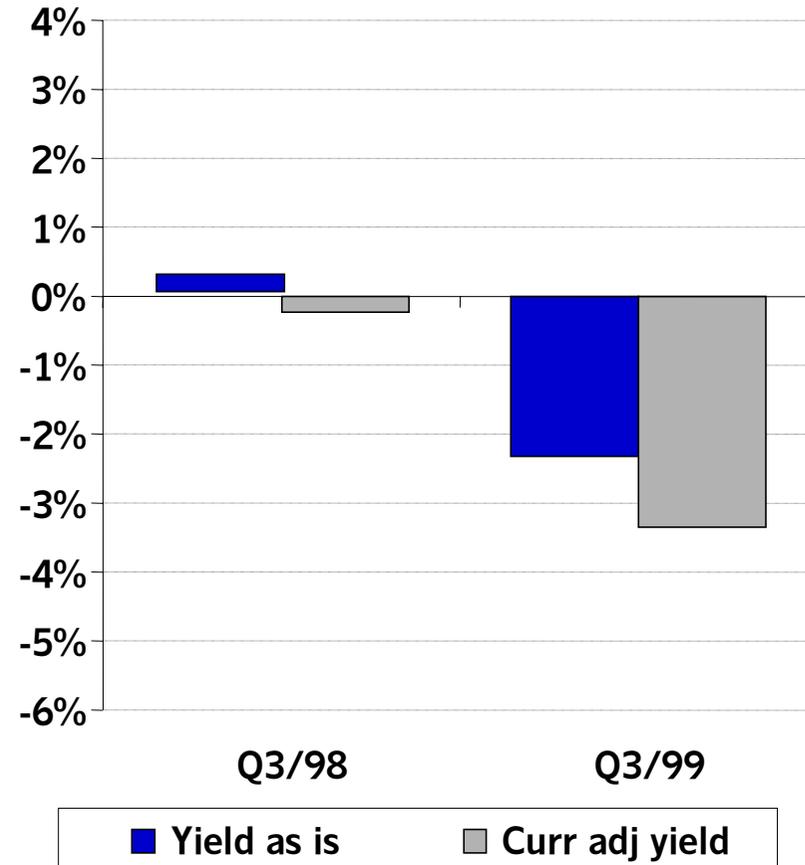
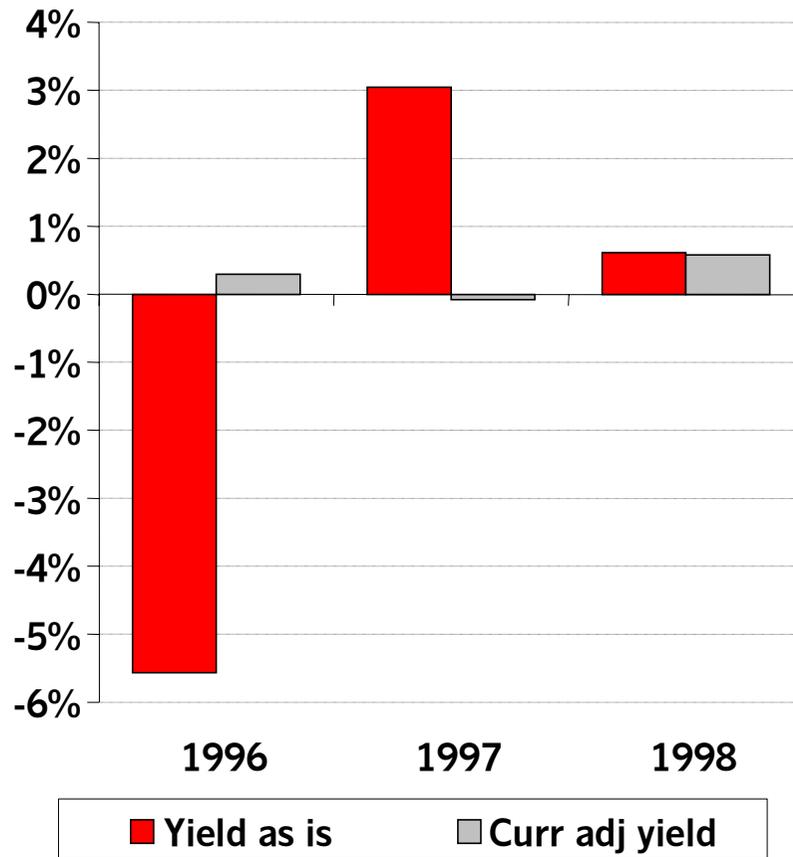
- ▶ Balanced and steady growth
- ▶ Passenger load factor 66,2% (down 0,3 p.u.)
- ▶ Number of passengers up 6,0%
- ▶ New Price concepts introduced in September
- ▶ Main competitor announces changes NOV09

Cargo business weak but positive signs in Asia

- ▶ Low exports from Scandinavia to Asia and Europe
- ▶ Low demand from Europe
- ▶ Fierce competition on North Atlantic (primarily on Chicago) due to over capacity and low prices
- ▶ Increasing demand from Asia to Scandinavia

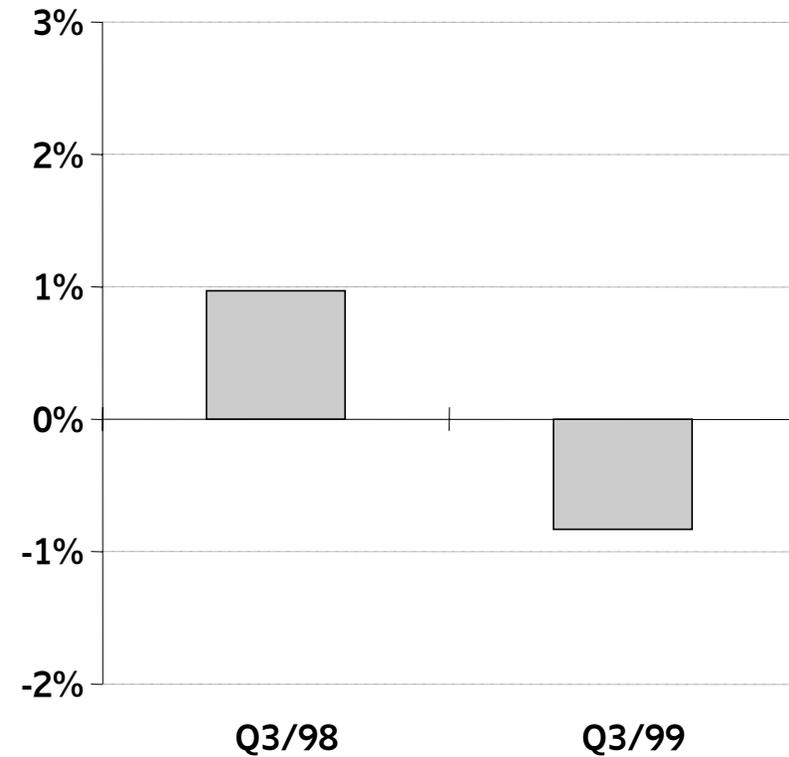
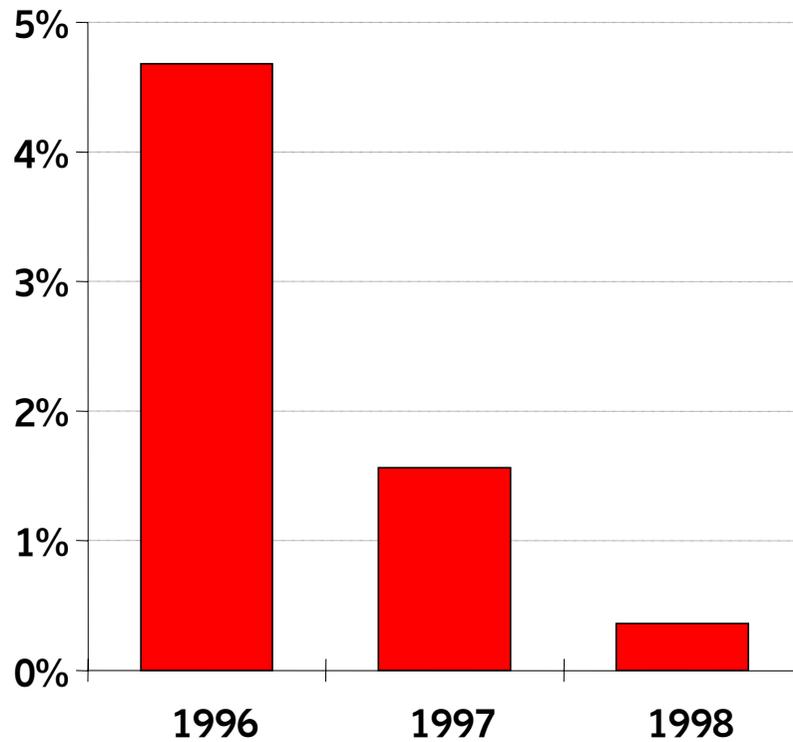
Yields under pressure

Total system



Unit cost development

Index Last Year



Lower Unit Costs - Lower Volume

July - September 1999 vs 1998

MSEK	Adjusted Q3/98	Q3/99	Var. %	Share of total var %
Commissions	515	374	27.4%	2.0%
Fuel	583	561	3.8%	0.3%
Government charges	912	882	3.3%	0.4%
Personnel	2 920	3 117	(6.7%)	(2.8%)
Other oper. net costs	2 020	1 959	3.0%	0.9%
TOTAL	6 951	6 893	0.8%	0.8%

Volume = average growth in ASK and RPK = -0,5%

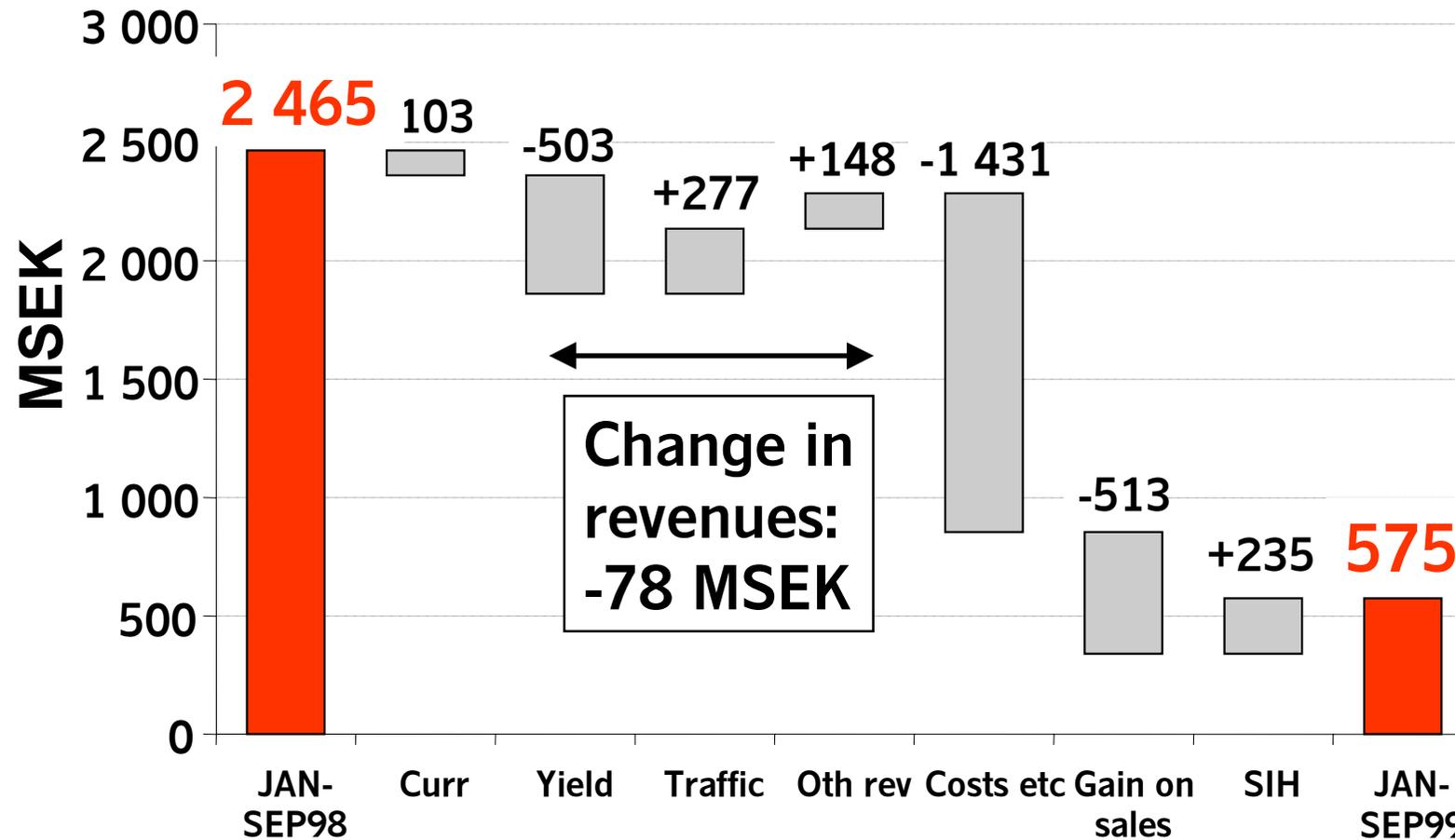
SAS Group

January - September

MSEK	1999	1998
Revenue	30 612	30 037
Op. inc. bef. depr.	1 626	3 304
Operating income	522	2 532
Income before tax	575	2 465

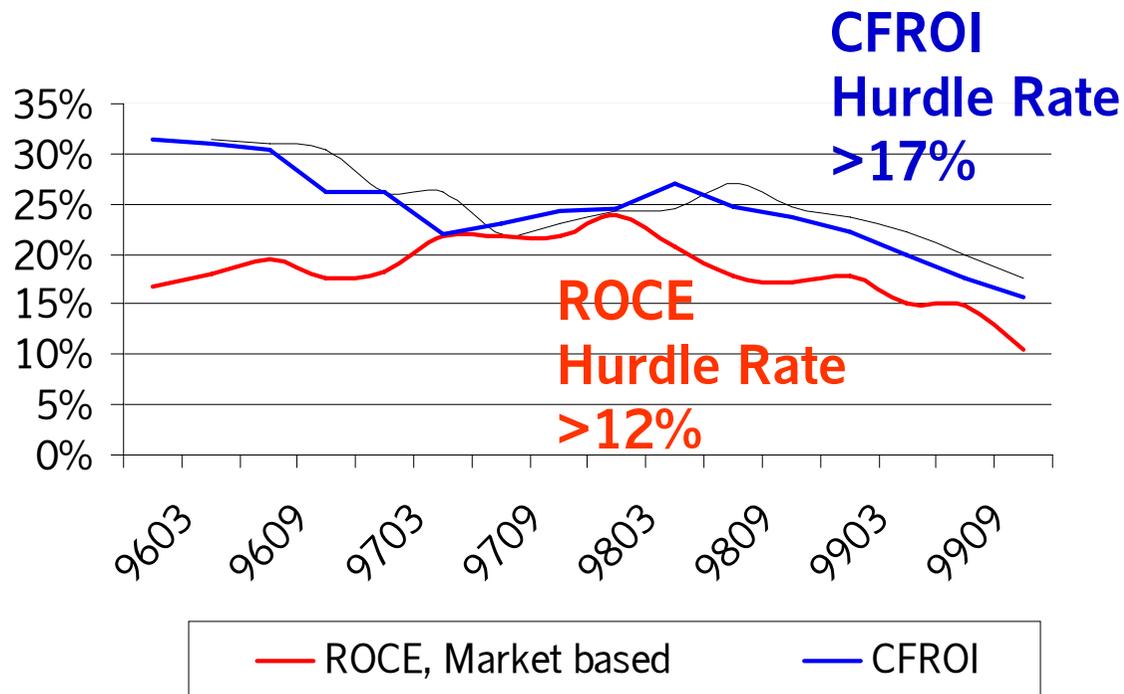
SAS Group - Revenues almost unchanged

Development of Income before Taxes Q1-Q3/99 vs 98



Sharply weaker returns in 1999

CFROI, ROCE 1996-1999



- ▶ 1996-1998 returns well above set hurdle rates
- ▶ 1999 return to drop below set hurdle rates

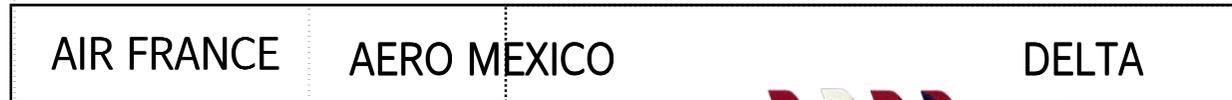
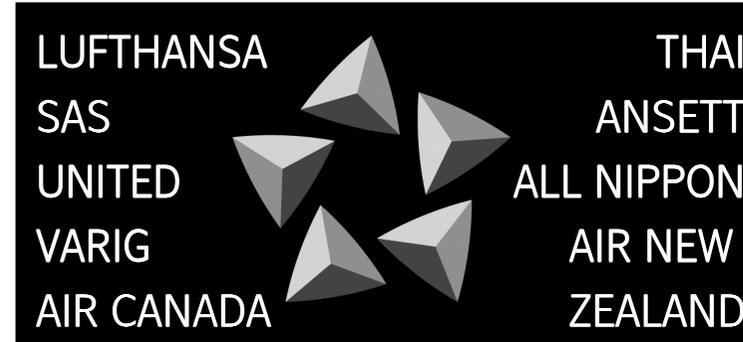
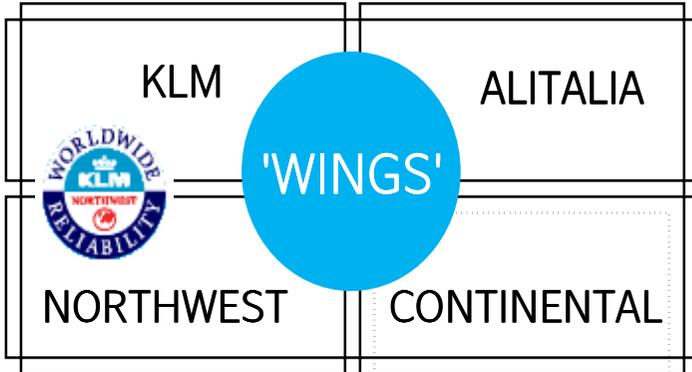
Fleet changes in 2000

	<u>30SEP99</u>	<u>Changes until end year 2000</u>
Boeing 767-300	13	Unchanged
MD-80	67	Unchanged
MD-90	8	Unchanged
Boeing 737	26	20 new deliveries
DC-9-81	9	Phase out 2000
DC-9-41	20	Phase out 2001
DC-9-21	4	Phase out 2000
Boeing 737-300	2	Flexible capacity, wet lease
Fokker F28	11	Phase out Nov 1999
Fokker F50	20	Gradual phase out
DeHaviland Q400	0	Phase in 2000
SAAB 2000	6	Gradual phase out
TOTAL	186	

Fleet renewal will lower cost per ASK

	Seats	Index	
MD-81	130	100.0	
MD-81	141	92.2	Config 2000
A321	174	87.2	
F50	46	100.0	
Q400	72	78.4	
767-300	189	100.0	
A330/A340	277	77.5	
F28/ DC921/41	87	100	
Boeing 737-600	98	96	

The big alliance picture



Three Joint Ventures established - Two main categories

- ▶ SAS capacity allocated



- ▶ Between Finland/Scandinavia and Germany

- ▶ Non-SAS capacity allocated



- ▶ Between Spain and Scandinavia
- ▶ Between Toronto - Copenhagen

Joint Ventures

Scandinavia - Germany Joint Venture with LH

		<u>9m 1999 vs 1998</u>
▶ Passengers	1 878 000	+3.3%
▶ Traffic, RPK		+5.9%
▶ Cabin Factor		60,0% vs 63,2%
▶ Net Revenues		+7,9%

Scandinavia-Canada Joint Venture with AC

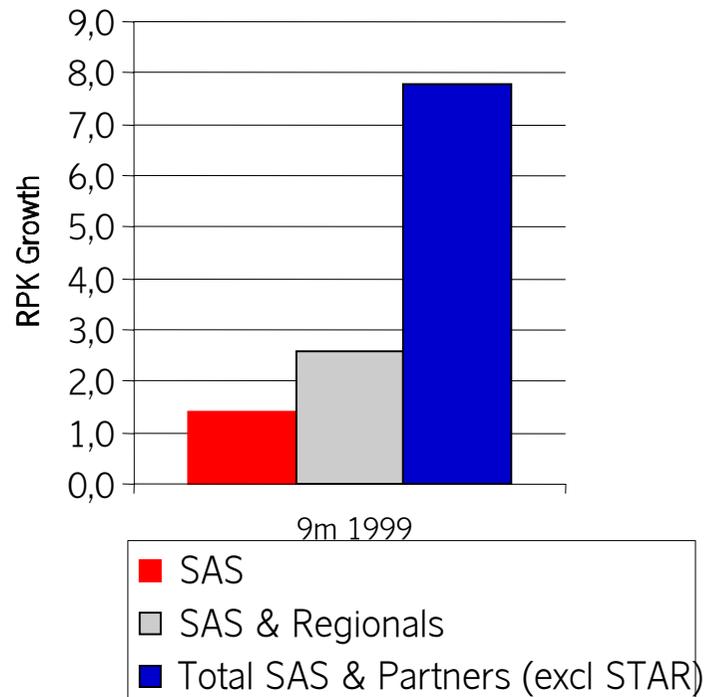
▶ Cabin Factor	<u>June-July 1999</u> 90%'s
----------------	--------------------------------

British Midland to join STAR™ Alliance

- ▶ SAS to sell 20% to Lufthansa
- ▶ Implies change of SAS Investment Strategy
 - ▶ From Financial investment to strategic investment
 - ▶ in partnership with main partner Lufthansa
 - ▶ Total sales proceed 91,4 MGBP
 - ▶ Implied full value 457 MGBP
 - ▶ SAS Gain on Sale approx. MSEK 1000 (Pre-tax)

SAS equity linked partners

First 3 Quarters of 1999 vs 1998:



First 3 Quarters of 1999 vs 1998:

- ▶ SAS RPK up 1,4%
- ▶ Regional partners RPK up 28%
- ▶ European partners RPK up 27%
- ▶ Total RPK growth SAS & Partners 8%

Result Improvement Program 1999/00

- ▶ MSEK 990 achieved so far Q3/1999 ¹⁾
- ▶ Target at year end 1999: 1 200 MSEK

Area	Targeted effect vs. 1998
Cargo	100 MSEK
Catering & Inflight service	300 MSEK
IT & communications	180 MSEK
Distribution & Electronic channels	Revised down 830 MSEK
Air crew	Revised up 640 MSEK
Ground handling	260 MSEK
Technical maintenance	Revised down 310 MSEK
Overhead & other	Revised up 380 MSEK
Total	3000 MSEK

Improved agent relations

Base commission:

- ▶ Increased to 7% on European and Intercontinental destinations sold in Scandinavia.
- ▶ Domestic and Intrascandinavian destinations unchanged at 4%.

SAS Agent Program:

- ▶ A new incentive program for agents is under development.

www.scandinavian.net

It's Scandinavian



Travel Guide Reservations, EuroBonus & Travel Services

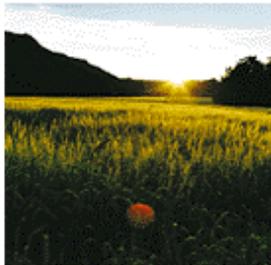
*Please select your country of residence.
This enables us to present special offers
and flights specifically tailored to you!*

→ Enter Travel Guide

Company Guide

SAS Corporate Information

→ Enter Company Guide

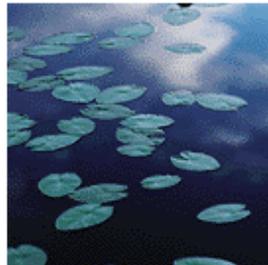


Existing Users (sign in here)

User Name

Password

→ Enter Travel Guide



Copyright © 1999 Scandinavian Airlines System - N.B: Important Legal Notices

A STAR ALLIANCE MEMBER 

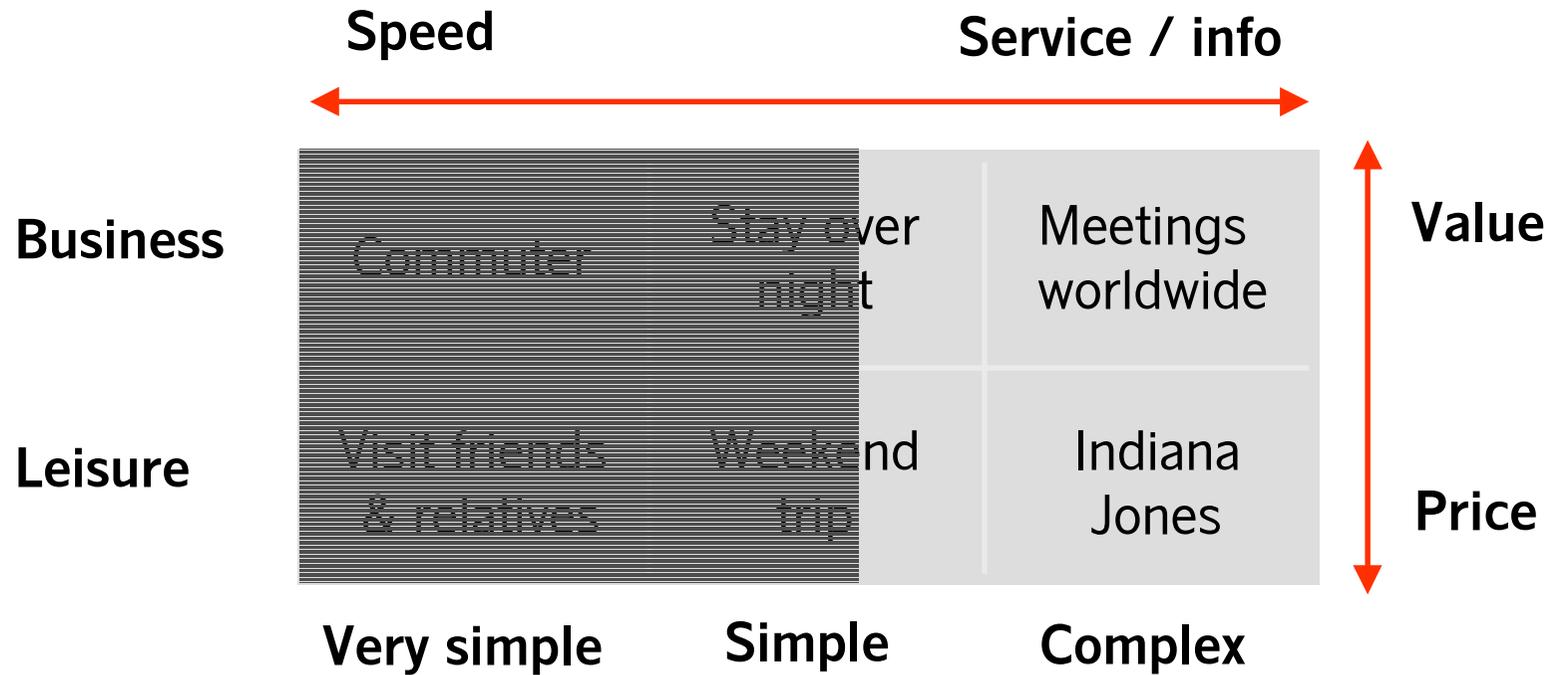


ANA/12NOV99
DU/UZ/STU
DU/GR/UP



Multi Channel project

Main customer "needs"



Consensus macroeconomic outlook

SAS' main markets

Sweden: ↑

- Export, consumption and GDP stronger

Norway: ↗

- GDP 2.5-3%
- Int. rates down

Denmark: →

- Slow growth

UK: ↗

- GDP +3%

Euroland: ↗

- Strong growth
Germany & Italy
catching up

US: →

- GDP +3% (down.)
- Weaker USD

Japan: ↗

- Slightly better
but from low
level

Asia excl. Japan: ↗

- Continued
recovery in most
regions

October traffic figures are improving

- ▶ But compared to a weak 1998 with airport and ATC problems
- ▶ **Negative mix: Business Class: -3,7% Economy Class: +6,9%**

	Passenger- traffic (RPK)	Seat capacity (ASK)	Cabin- factor
SAS Total	+3,4%	+5,2%	-1,2 p.u.
Intercontinental	+6,3%	+3,4%	
Europe	-1,1%	-0,2%	
Domestic and Intrascandinavian	+5,1%	+13,5%	

Outlook 1999

- ▶ Continued weak demand in most markets
- ▶ Business class growth slow
- ▶ Positive macroeconomic signs
- ▶ Over-capacity continue to put pressure on passenger yields and cabin factor
- ▶ Increased Jet Fuel prices
- ▶ Unit costs slightly down in 1999

The Board of Directors

Assessment for full year 1999:

- ▶ Trading conditions in the third quarter, as reported monthly, have, in general been less favorable than previously expected.
- ▶ Consequently, the full year result, excluding gains from the sale of shares and assets, is now deemed to be only marginally positive.

Looking ahead

- ▶ Encouraging factors pointing in positive direction
- ▶ Signs of new growth - positive macro picture
- ▶ Punctuality and regularity on standard
- ▶ Capacity down on Norwegian domestic and other route areas
- ▶ Strong position in finish market, main competitor to cut
- ▶ New growth through Joint Ventures

Looking ahead

- ▶ New marketing opportunities - e.g. Electronic Channels
- ▶ Improvement program as planned
- ▶ BMA to join STAR
- ▶ Fleet renewal program to lower costs
- ▶ Agent relations improved