



# SAS Group 1999 Full Year Analyst Presentation



Stockholm, February 18, 2000

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# The Year in brief

# A disappointing 1999

- Weak traffic development (RPK) **up 1.6%**
- Business Class (RPK-C) **down 5%**
- Over-capacity (Cabin-factor) **down 1.9 p.u.**
- Yields under pressure **down 2.4%**
  
- **EBITDAR** **down 26%**

# SAS Group

## January - December

	MSEK	1999	1998
<input type="checkbox"/> Revenue		41 508	40 946
<input type="checkbox"/> Op. inc. bef. depr.		2 765	4 143
<input type="checkbox"/> Operating income		1 662	2 985
<input type="checkbox"/> Income before tax		1 846	2 857

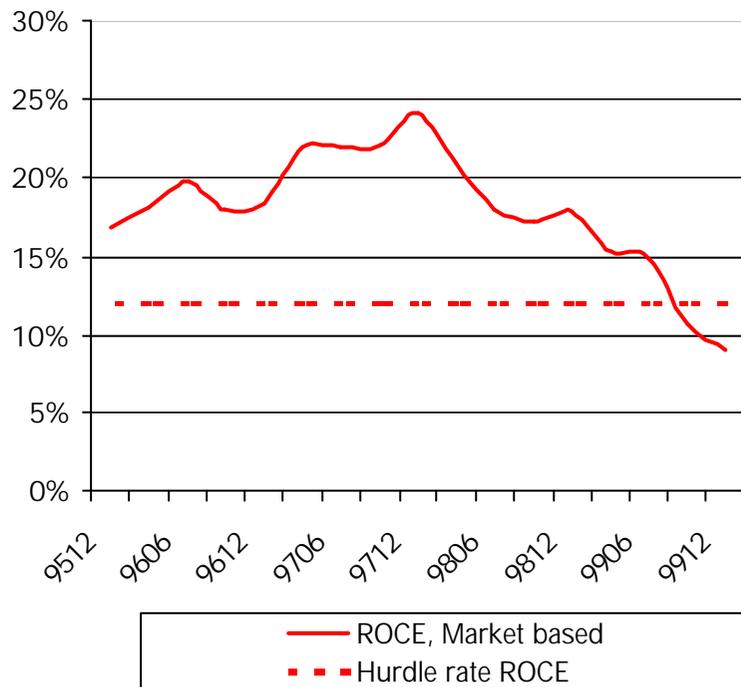
## Positive developments in 1999

- Unit costs down 1.1% in spite of weak volumes
- Unit cost down 5,4% in Q4/99
- Decision to expand long haul business
- Punctuality and regularity improved
- Customer satisfaction index (CSI) significantly improved

## Positive highlights in 1999

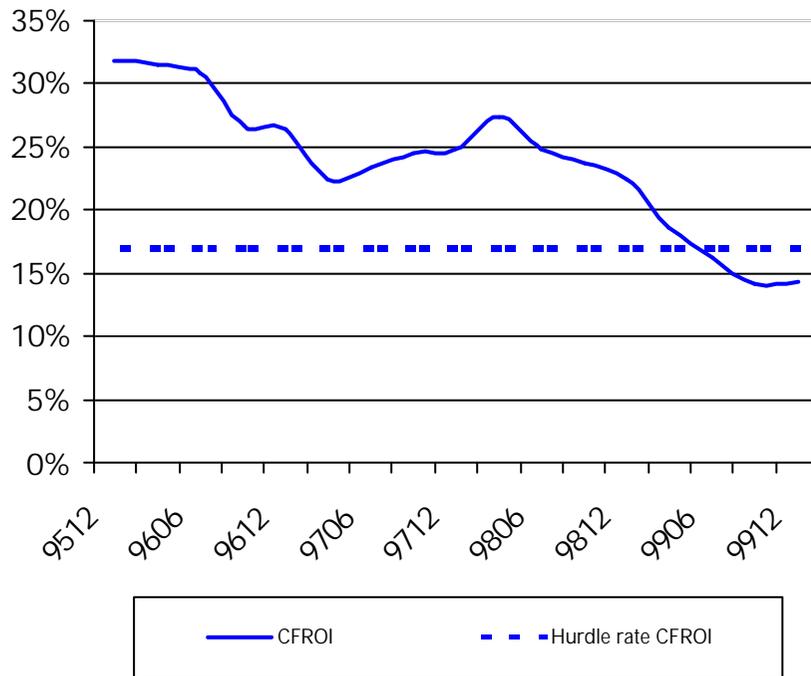
- Swedish domestic- continued strong growth
- Positive development on important markets U.K and Finland
- Improved capacity utilization on Asian routes
- Appointed "Grand Travel Award" as best Norwegian domestic carrier
- Appointed best business carrier in Sweden

# Overall return development - ROCE



- SAS market based ROCE **9%**
- Sale of shares in Equant N.A. **1,5%**
- Sale of hotel properties **1%**

# CFROI dropped below set hurdle rate



□ Focus on operating cash flow (EBITDAR)

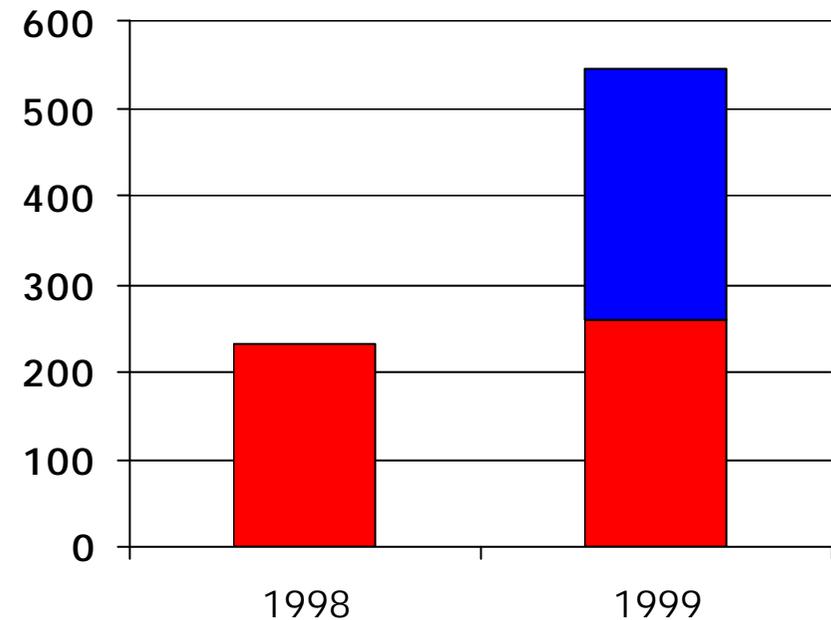
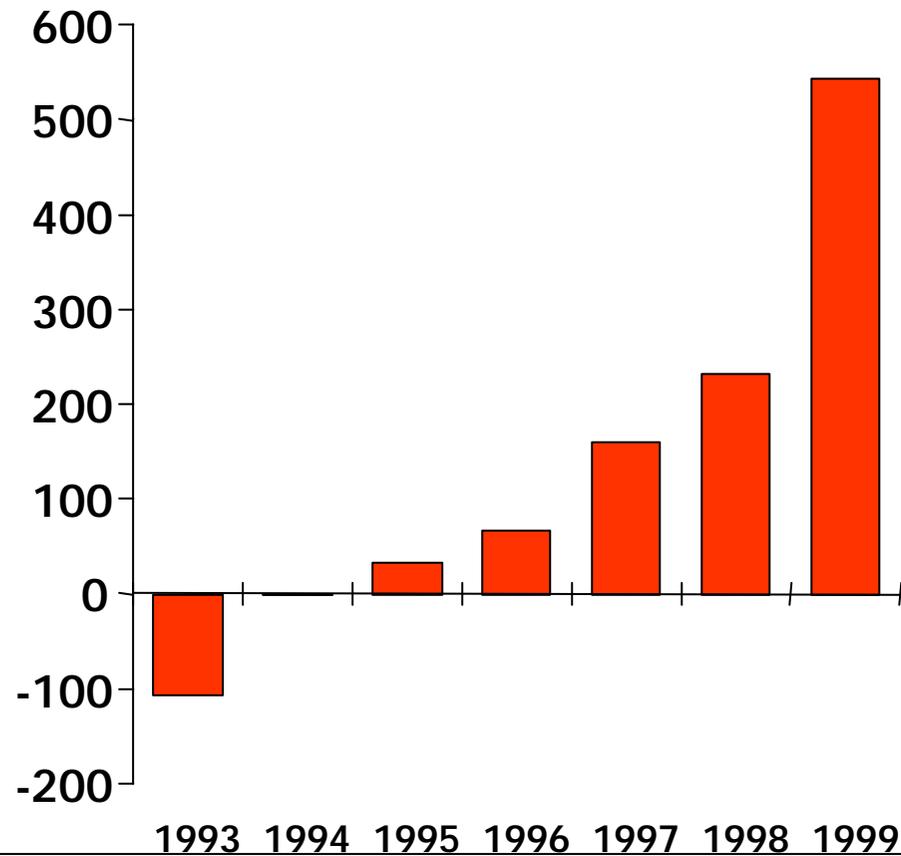
□ CFROI 1999 **14%**

□ Hurdle rate through cycle **>17%**

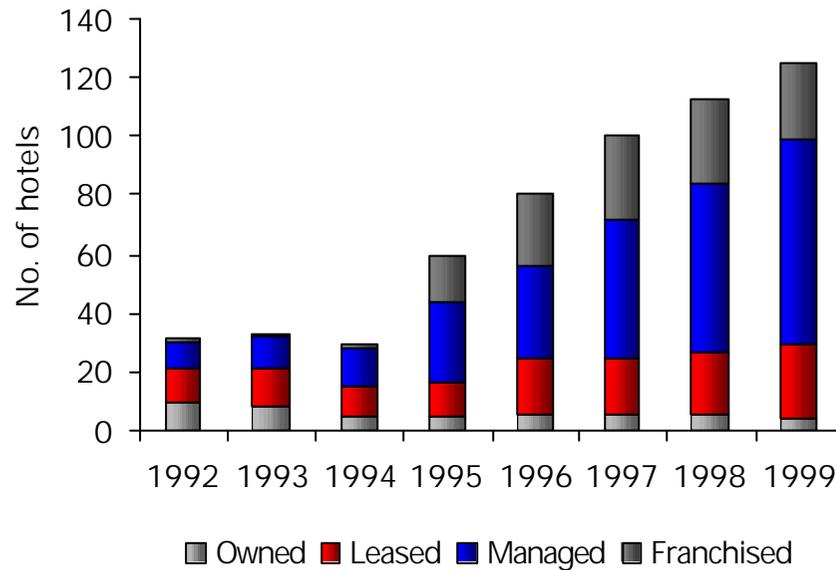
# SAS International Hotels

# SIH - 1999 profit stronger

Income before taxes (MSEK)

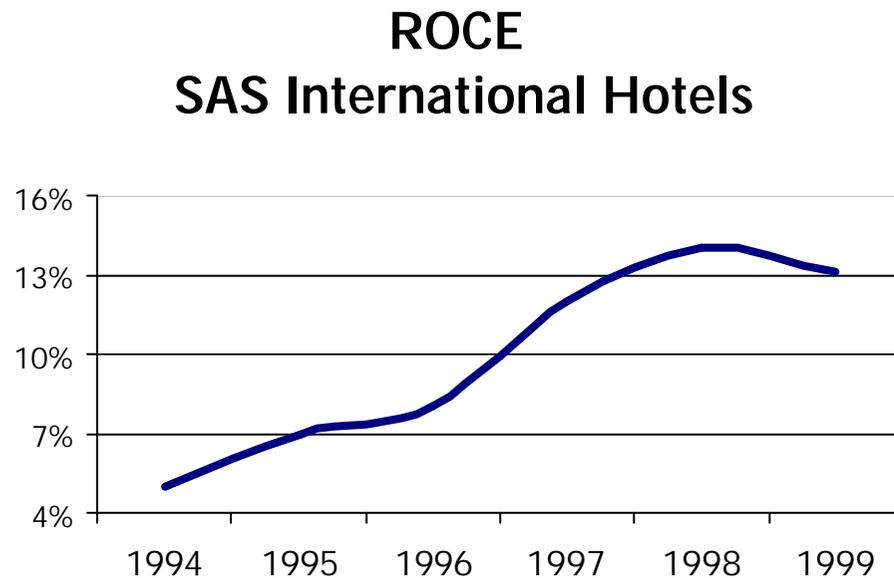


# Radisson SAS Hotels & Resorts - expanding to 125 hotels



- 22 new hotel contracts in 1999
- 2 properties sold in 1999
  - Amsterdam
  - London
- Reduces capital by 1,7 BSEK

# Radisson SAS Hotels & Resorts - Creating value for SAS



- Returns above SAS Group WACC
- Positive development in Europe and Middle East
- Weaker development in Norway and U.K.

# Business review

# Program of change - 2000+ pays off!

## Customer Satisfaction Index (CSI)



- CSI Index up from 70 to 74 from 1998 to 1999
- Repurchase Index up from 75-81 1996-1999

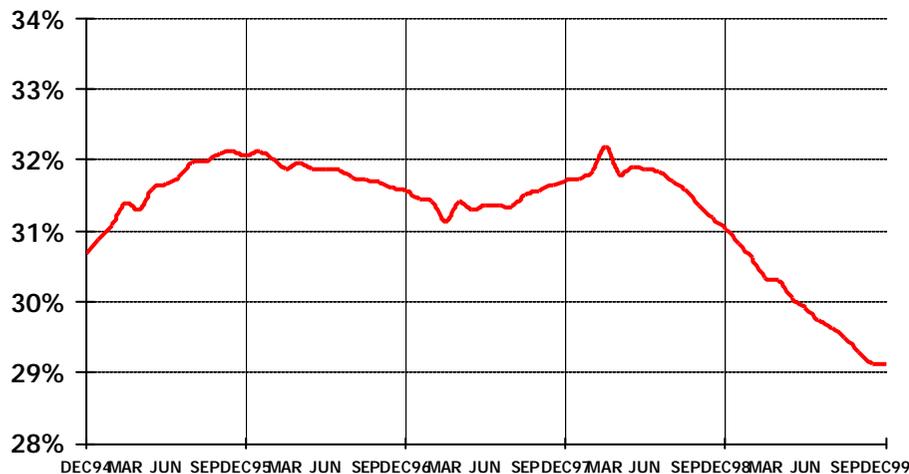
It's Scandinavian!

Index 77-80 = Excellence

# A weak market with falling Business Class and passenger load factors

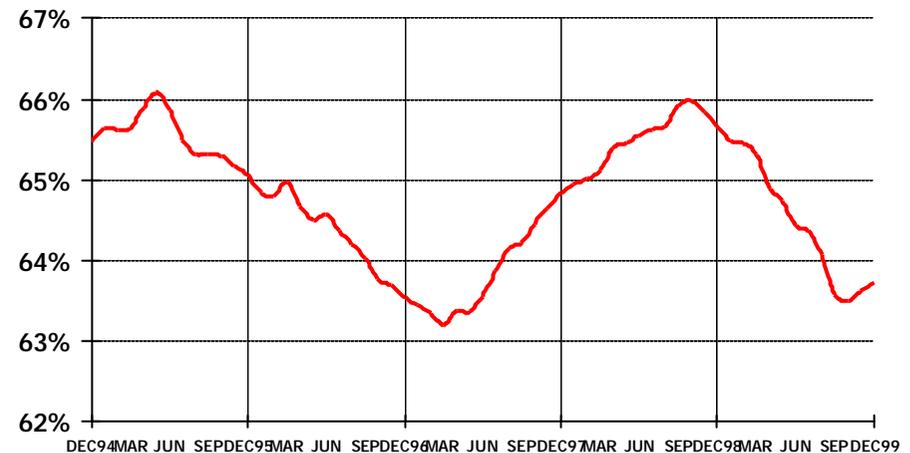
## Share of full-fare traffic total system 1995-99

Moving 12 months values



## Passenger load factor total system 1995-99

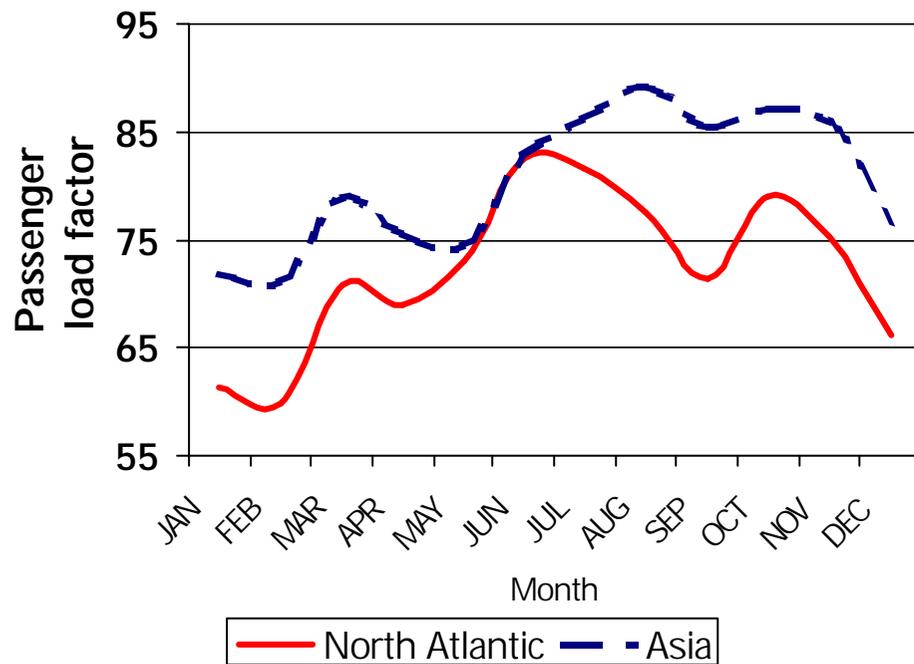
Moving 12 months values



# Intercontinental routes

## 1999

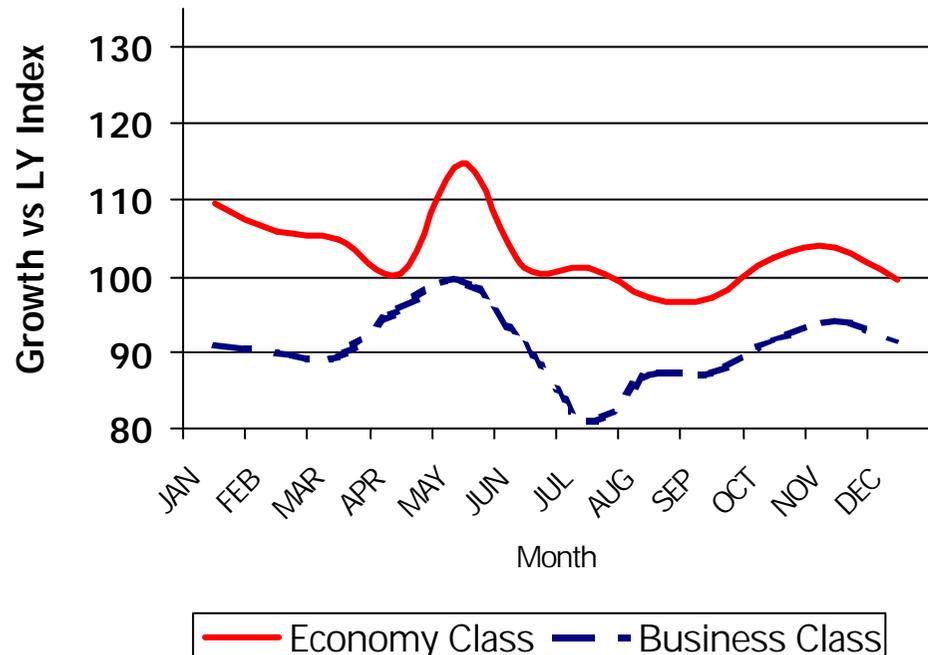
### Passenger load factors North Atlantic/ Asia



- Over-capacity on North America
- Strong yield pressure in Economy Class
- Weak development in business travel
- Strong recovery on Asia
- Chicago routes positive
- "Millennium" effect

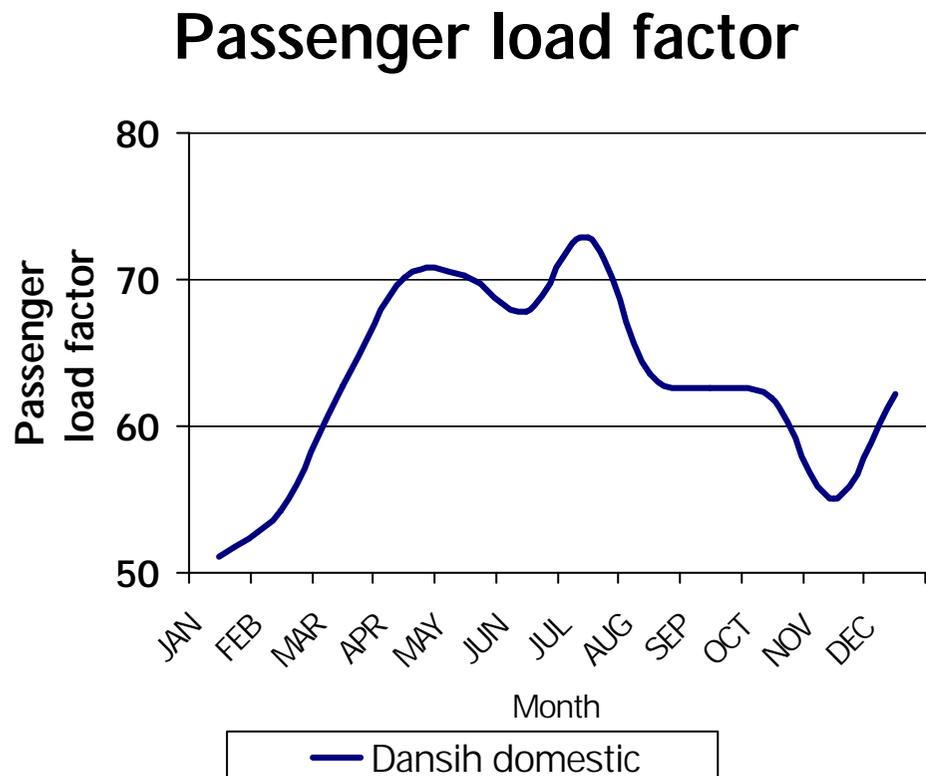
# European routes - weak development 1999

## Business Class/ Economy Class



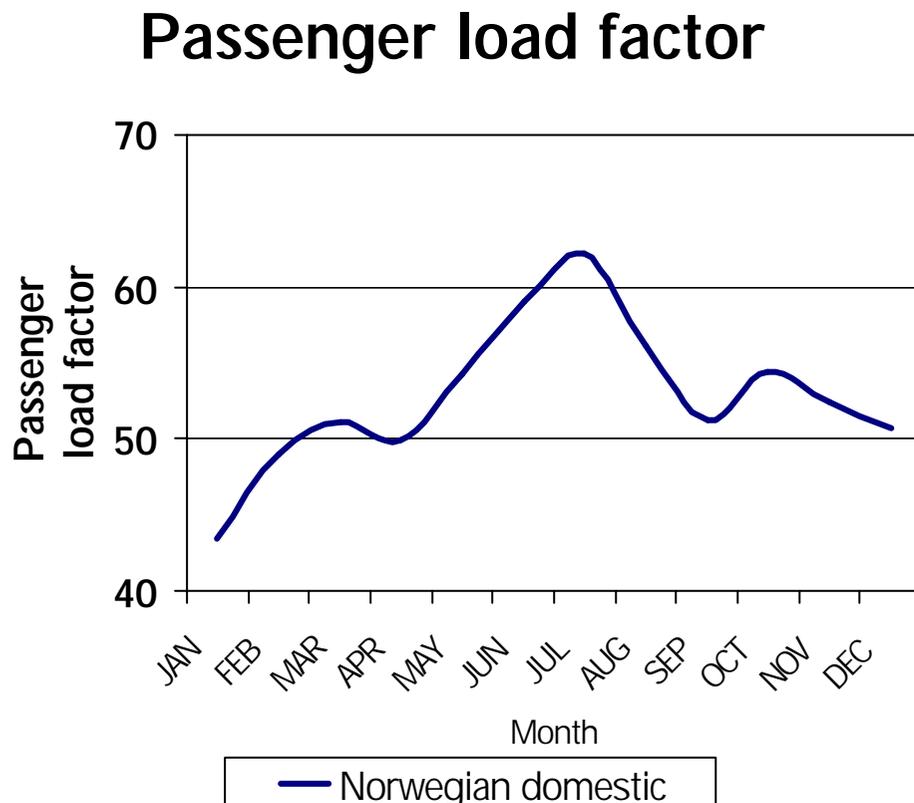
- Over-capacity in several markets
- Weak traffic development
- Negative mix
- Business Class down
- Pressure on yields
- Economy Class traffic to/from U.K strong

# Danish routes affected by capacity adjustments 1999



- Operation seized at Karup
- Aarhus negatively affected by "Storebæ Itsboren"
- Significant growth on Aalborg
- Passenger load factor improved

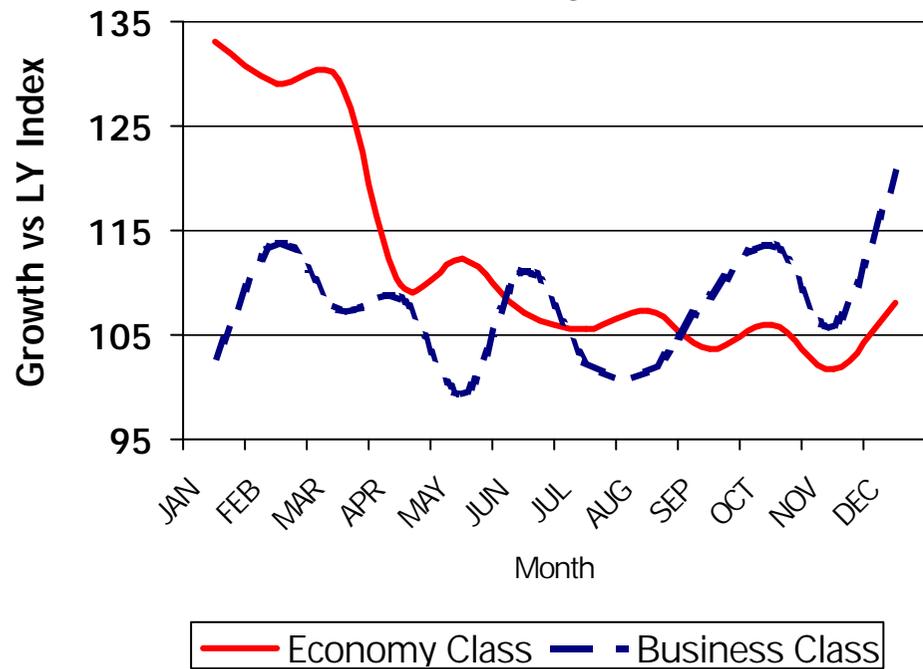
# Reduced over-capacity on Norwegian domestic routes 1999



- SAS capacity down 9-10% from peak fall-99
- Total capacity down 15%
- SAS market share up 2,2 p.u. to 50,5% including regional partner Widerøe

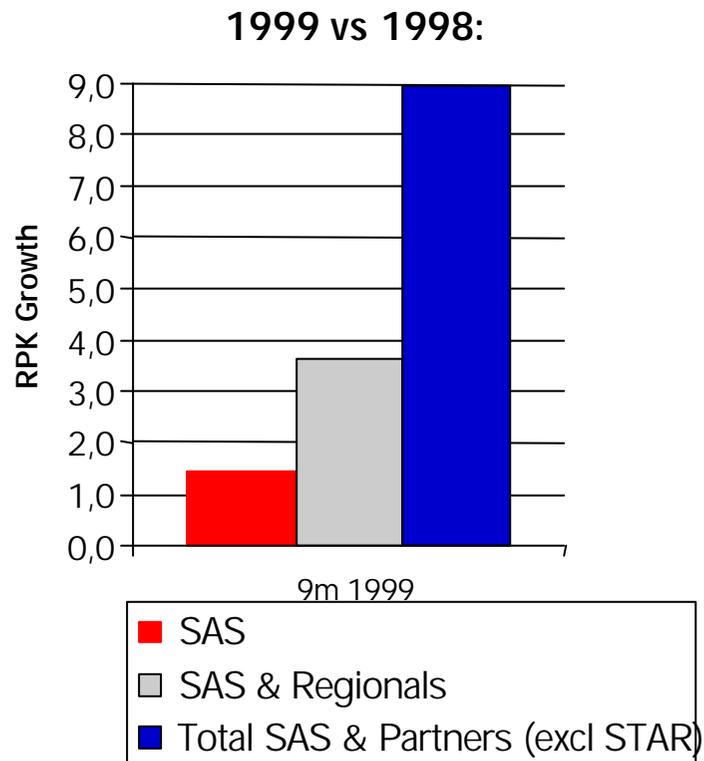
# Swedish domestic routes strong 1999

## Business Class/ Economy Class



- Strong growth, positive mix towards year end
- Passenger load factor 63,8% (up 0,2 p.u.) - larger aircraft phased in
- Number of passengers up 10,1%
- New price concepts introduced in September
- Main competitor announces changes NOV09

# Strong growth in SAS affiliates



1999 vs 1998:

- Regional partners  
RPK up 25%
- European partners  
RPK up 29%
- Total RPK growth SAS  
& Partners 9%
- SAS RPK up 1,6%

# Summary traffic development 1999

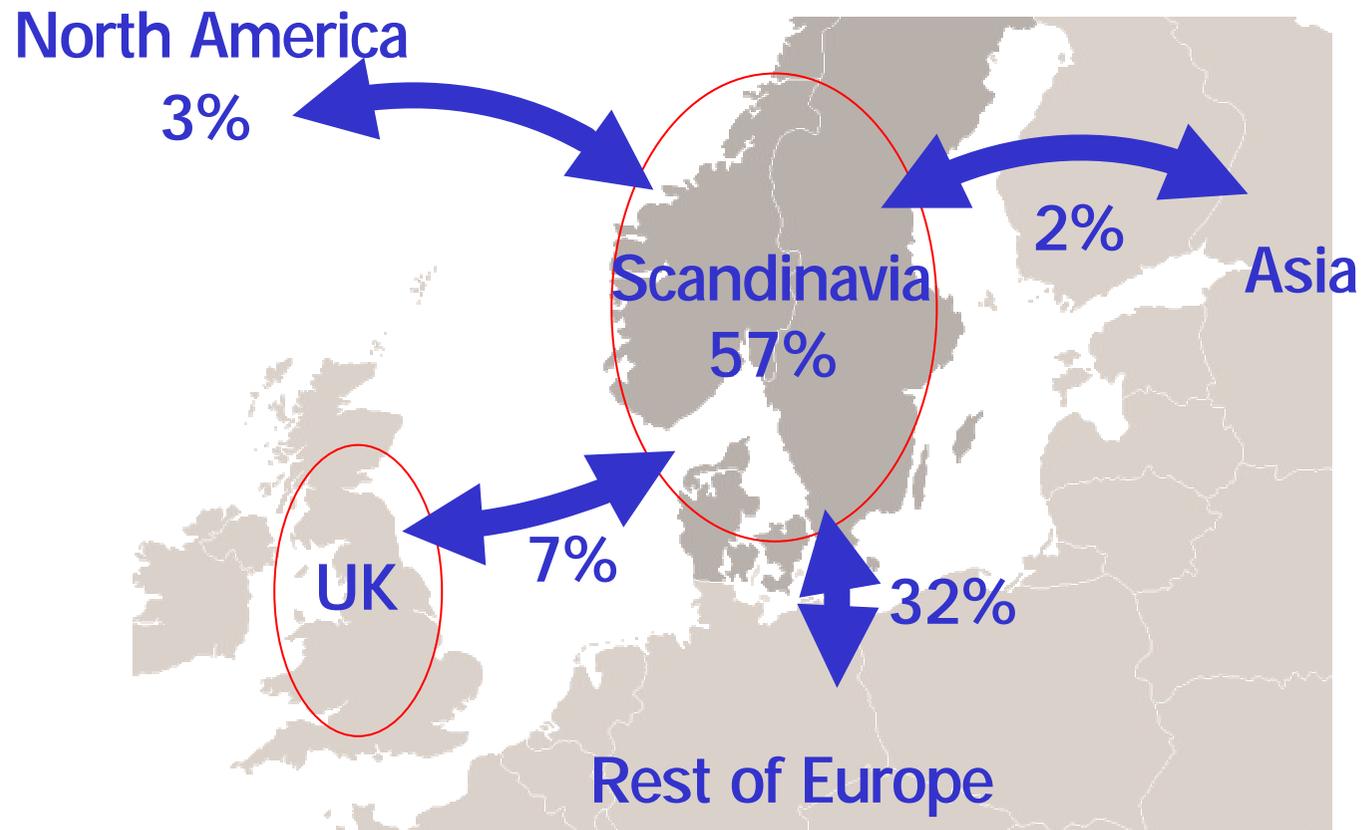
- Weak traffic development & negative mix
- Global over-capacity on:
  - North Atlantic
  - Parts of European network
- Local over-capacity on:
  - Norwegian domestic
- Increased passenger load factor on all Asian destinations
- Swedish domestic continued strong
- Regional & European partners add traffic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

# Cargo business ready for improvements

4th Quarter 1999

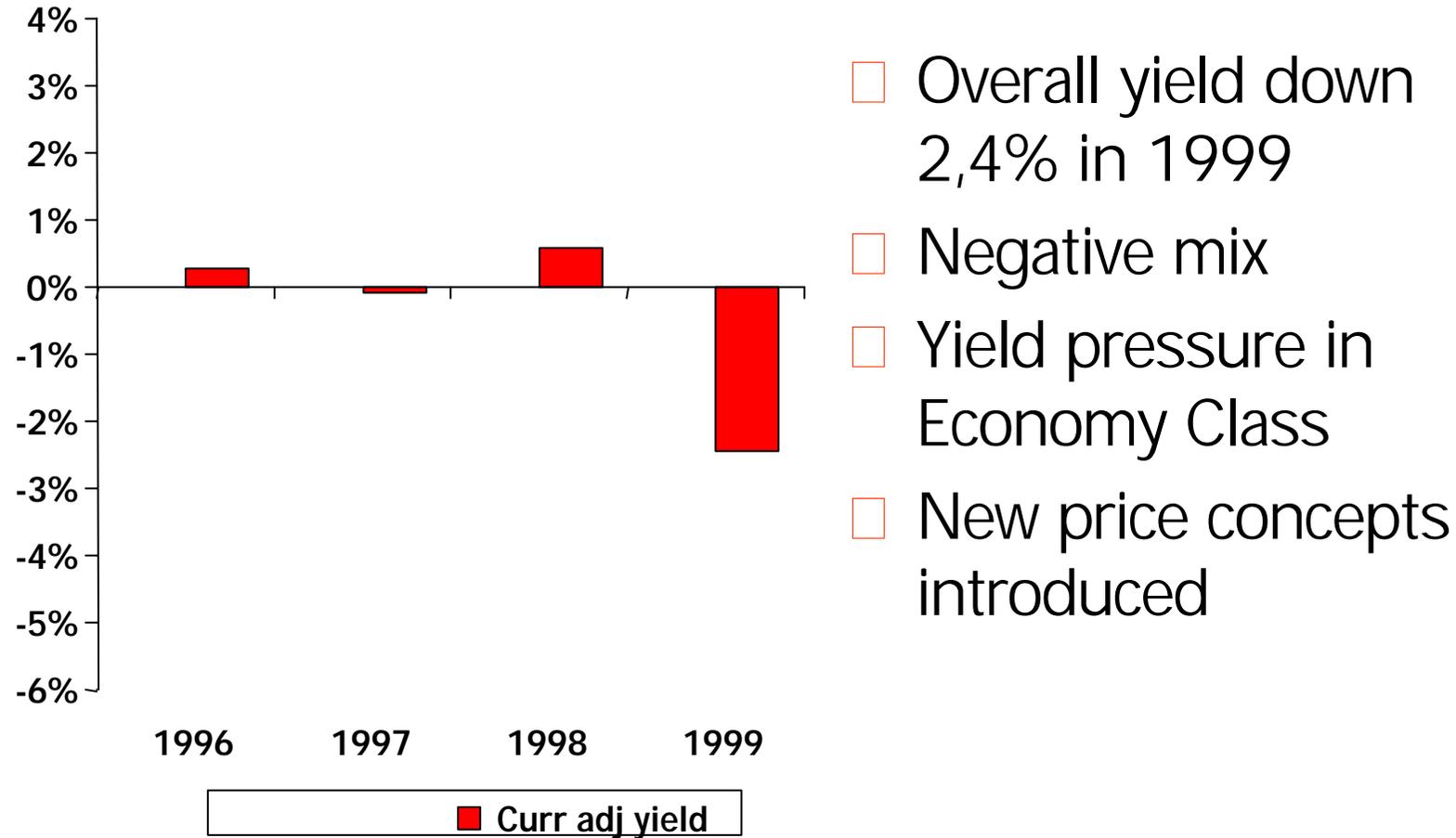
- Same trends as previous quarter:
- Low exports from Scandinavia to Asia and Europe
- Low demand from Europe
- Hard competition on North Atlantic (primarily on Chicago) due to over-capacity and low prices
- Increasing demand from Asia to Scandinavia

# SAS traffic flows as % of total pax



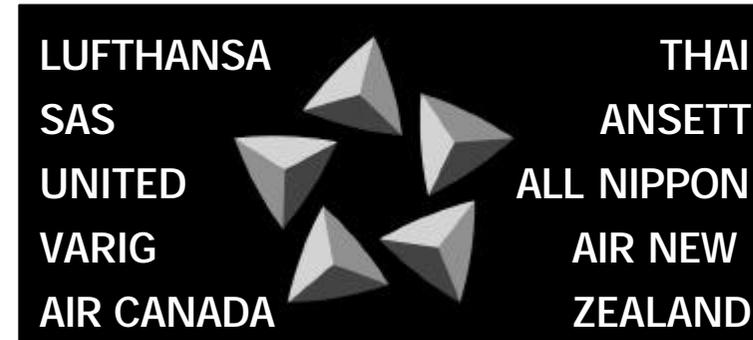
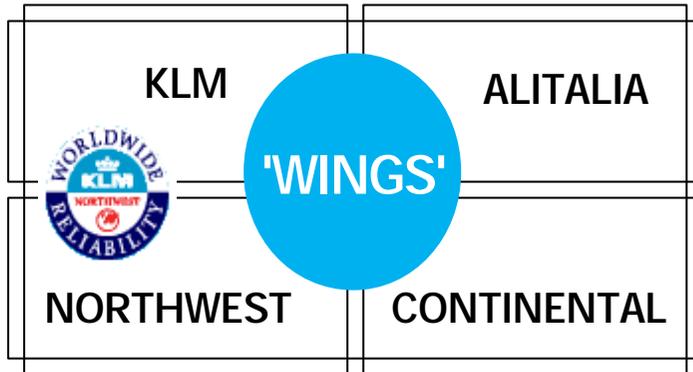
# Yields under pressure in 1999

Total system - currency adjusted



# STAR™ Alliance and other partnerships

# The big alliance picture



# Joint Ventures

- SAS capacity allocated



- Non-SAS capacity allocated



- Between Finland/Scandinavia and Germany

- Between Spain and Scandinavia

- Between Toronto - Copenhagen

# STAR™ Alliance - result effect MSEK 800 in 1999



Vision:  
The airline network  
for Earth

- Growing steadily -
  - 9 members
- 5 new members in 2000
- British Midland to join
  
- Effect on SAS result in 1999: MSEK 800

# Increased contribution from Joint Ventures

## Scandinavia - Germany Joint Venture with LH

- Traffic, RPK
- Cabin Factor
- Net Revenues

1999 vs 1998

+4.8%

58,7% vs 62,0%

+9,1%

## Scandinavia-Canada Joint Venture with AC

- Cabin Factor

June-Nov 1999

76%

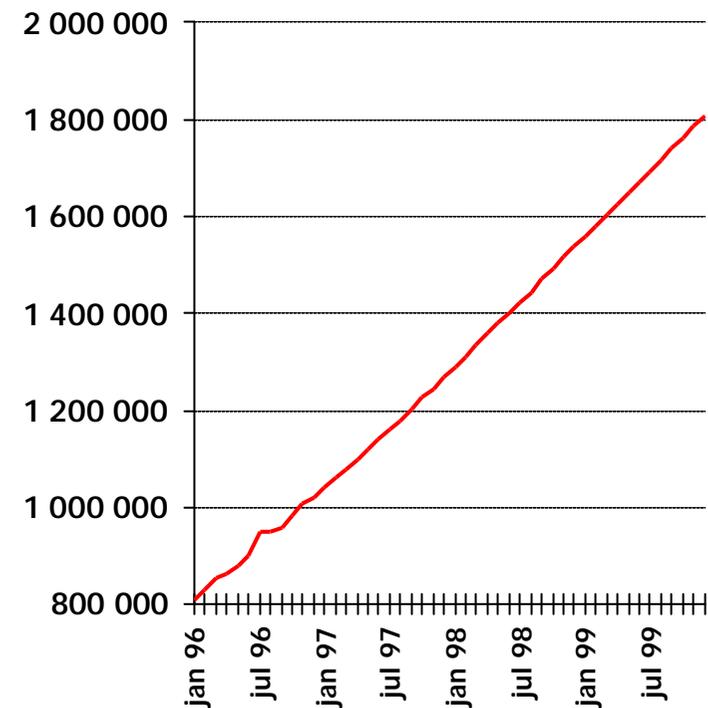
# Freddie Award for 4th consecutive year



- Number of members during 4th quarter increased by 3,8% to 1 807 000
- Member distribution by country:

Outside Scandinavia	30%
Denmark	16%
Norway	32%
Sweden	22%

## Number of members



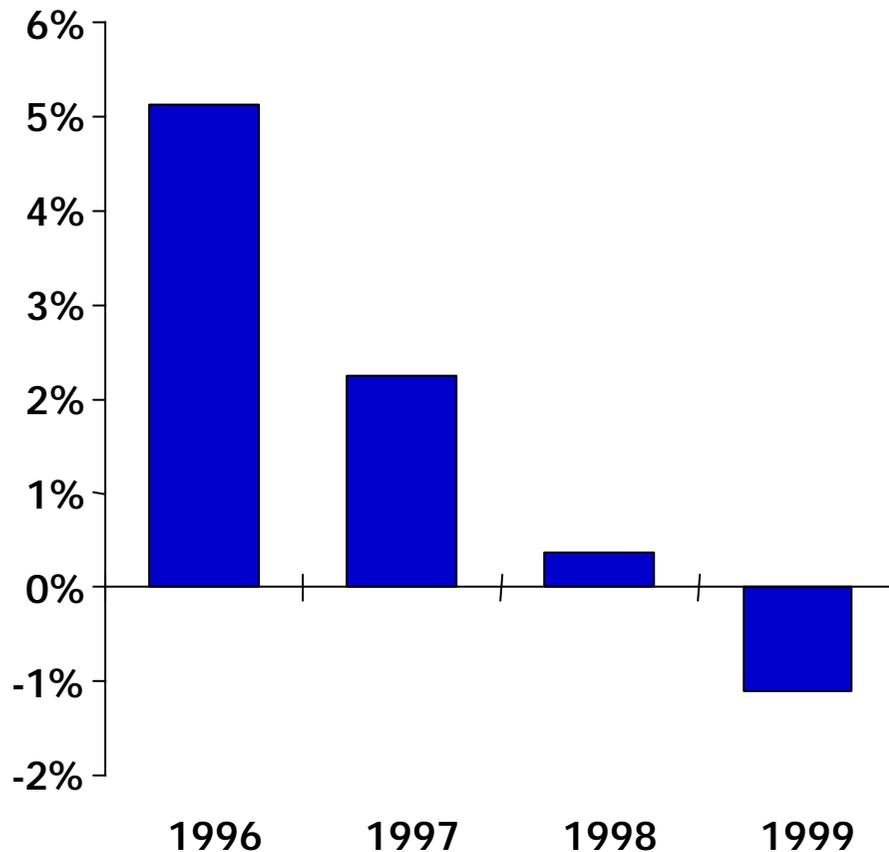
# British Midland to join STAR™ Alliance



- SAS to sell 20% to Lufthansa
- Joint ventures to be established
- Total sales proceed 91,4 MGBP
- Gain on Sale approx. MSEK 1000 (Pre-tax) during 2000

# Unit cost down on weak volumes

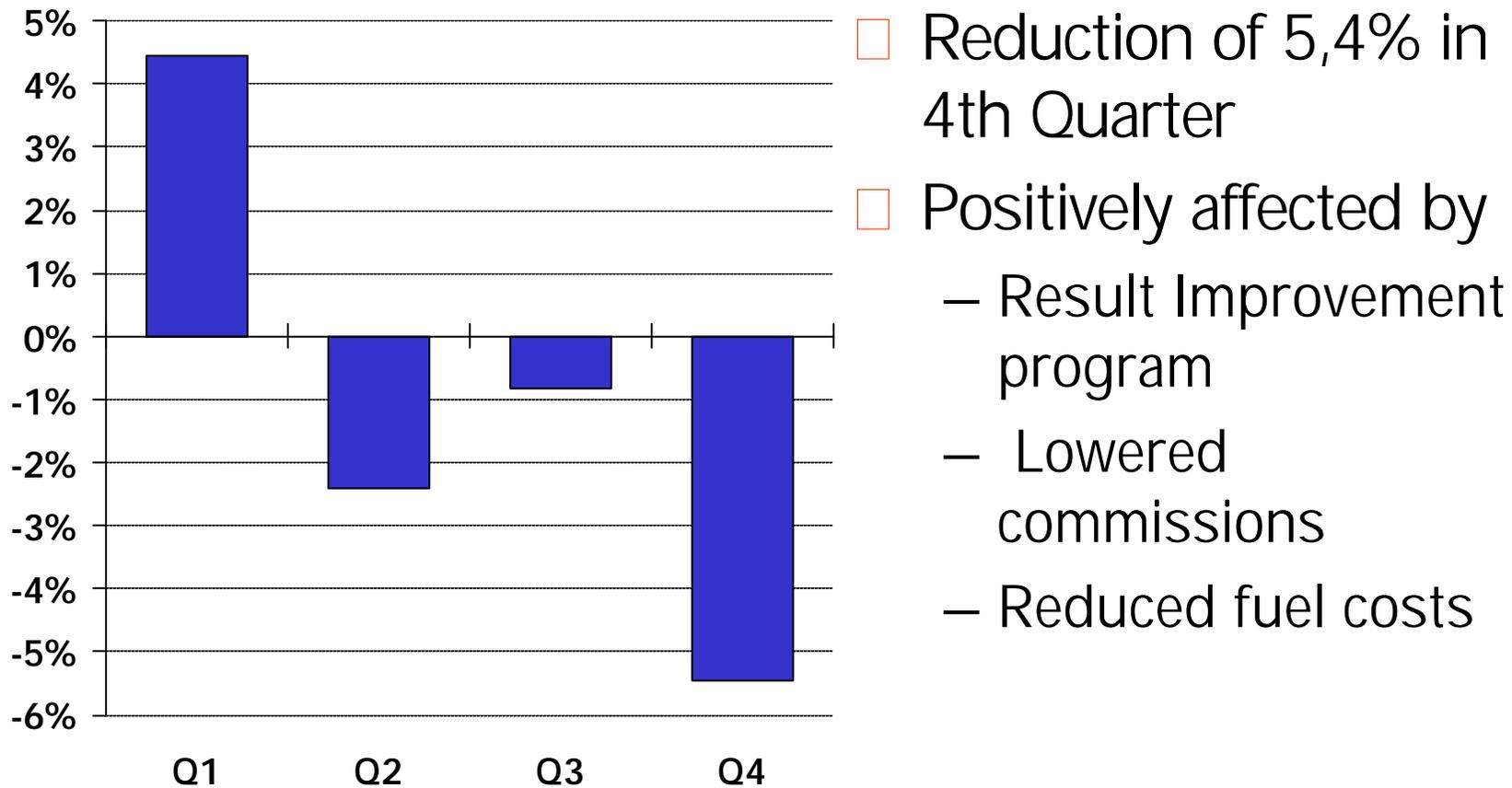
Index Last Year



- Weak volumes 3,2% (RPK/ASK)
- Unit cost down 1,1% in 1999
- Reduction of 5,4% in 4th Quarter

# Strong focus on costs - positive trend in unit costs for 1999

Index Last Year



# Decreased Unit Cost

## January - December 1999 vs 1998

### MSEK

	Adjusted JAN-DEC98	JAN-DEC99	Var. %	Share of total var %
Commissions	2 175	1 597	26.6%	2.0%
Fuel	2 491	2 181	12.4%	1.1%
Government charges	3 701	3 486	5.8%	0.7%
Personnel	12 255	12 728	(3.9%)	(1.6%)
Other oper. net costs	8 190	8 503	(3.8%)	(1.1%)
<b>TOTAL</b>	<b>28 812</b>	<b>28 495</b>	<b>1.1%</b>	<b>1.1%</b>

**Volume = average growth in ASK and RPK = 3,2%**

# Impact from Fleet Changes

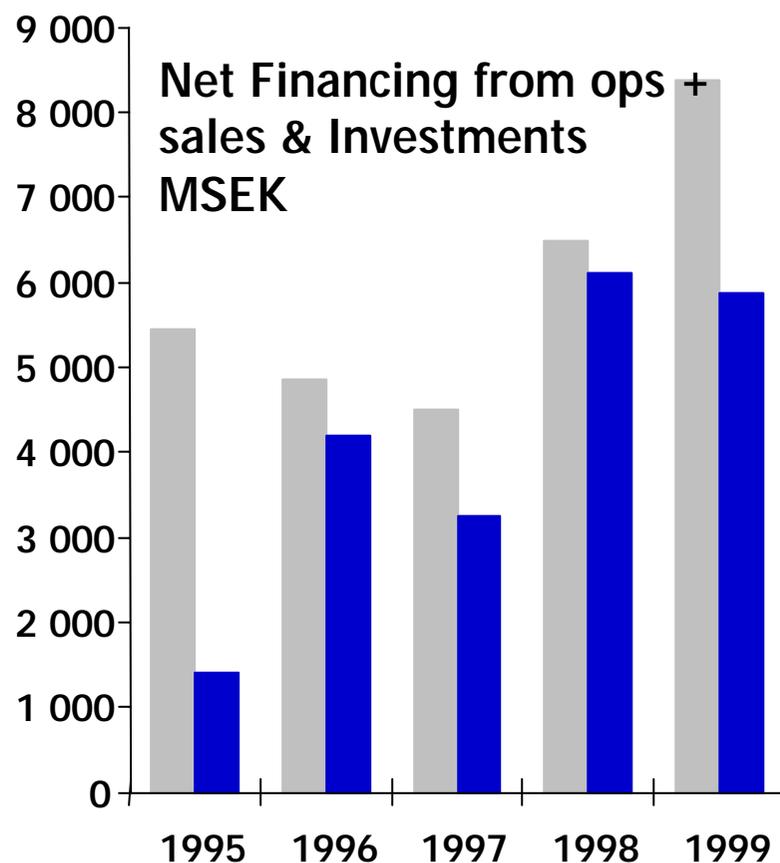
# Fleet renewal will lower cost per ASK

	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	275	85-88	Ex cargo c.
F28/ DC921/41	87	100	
Boeing 737-600	98	96	

# Fleet composition according to strategy

	<u>30DEC99</u>	<u>Changes until end year 2000</u>
Boeing 767-300	13	Unchanged
MD-80	67	Unchanged
MD-90	8	Unchanged
Boeing 737	<b>29</b>	<b>17 new deliveries</b>
DC-9-81	8	<b>Phase out 2000</b>
DC-9-41	<b>20</b>	<b>Phase out 2001</b>
DC-9-21	4	<b>Phase out 2000</b>
Boeing 737-300	0	Flexible capacity, wet lease
Fokker F28	5	<b>Phase out 1999/00</b>
Fokker F50	<b>20</b>	<b>Gradual phase out</b>
DeHaviland Q400	0	<b>Phase in 2000</b>
SAAB 2000	5	Gradual phase out
<b>TOTAL</b>	<b>180</b>	

# High financial flexibility - focus on capital employed



■ Generated cash flow ■ Investments

- Solidity up to 41%
- Net debt down to 0,5 BSEK (lowest since '86)
- Market adjusted capital employed, stable
- Liquidity 8,3 BSEK
- Committed facilities: 8 BSEK

# SAS in Joint Venture with GECAS

30 Douglas MD-80 aircraft



**Increased operating  
and financial flexibility**

- Release of capital
- Long term access to aircraft
- Future book profits translated to lower lease rentals
- Access to lower WACC
- Reduced residual value risk

# Well prepared for investment program of 3 Billion USD

- Aircraft CAPEX

MUSD	2000	2001	2002	2003-
	1000	670	650	610

- 10 Airbus A340/330-300
- 12 Airbus A321
- 26 Boeing 737
- 22 deHavilland Q400
- Other investments in SAS 800-900 MSEK annually

# Result Improvement Program

# Result Improvement Program 1999/00

- MSEK 1030 achieved in 1999
- Target by early 2001: 3 000 MSEK

Area	Targeted effect vs. 1998
Cargo	100 MSEK
Catering & In-flight service	300 MSEK
IT & communications	250 MSEK
Distribution & Electronic channels	850 MSEK
Air crew	650 MSEK
Ground handling	300 MSEK
Technical maintenance	310 MSEK
Overhead & other	340 MSEK
<b>Total</b>	<b>3100 MSEK</b>

# Distribution Area

# www.scandinavian.net

It's Scandinavian



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## Company Guide

SAS Corporate Information

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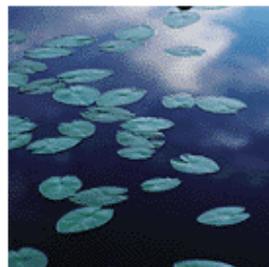


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A STAR ALLIANCE MEMBER 

# Electronic channels - development as planned



- New web site launched in November
  - Sale also through Intranet, Extranet
- WAP-based booking service launched
- Ticket-less travel 4% of volume in 1999
  - E-TIX, Travel Pass, Travel Pass Corporate

# Long haul expansion

# Decision to expand long haul business

Order of 10 Airbus A 340/330



**First delivery 2nd  
Quarter 2001**

- 6 A 340-300's and 4 A 330-300's
- Cost / ASK down 12-15% vs. B 767 (ex. cargo contr,)
- Seat capacity up 45% on long haul routes
- Cargo capacity up 40-45%
- Investment approx 10 BSEK

# Long haul - natural growth for SAS

- Current market share *artificially* low - 25%
- Capacity increase to absorb target market share of about 30%
  - 40-45 more Economy Class passengers needed to break-even vs B 767
- Positive cargo contribution
- Generic growth in traffic system - positive feeder effects

# New larger short haul aircraft

Decision to purchase 12 Airbus A321-100



**First delivery 2nd  
Quarter 2001**

- Natural link to long haul business expansion
- Cost / ASK down 13% vs. MD 80's
- Seat capacity up 33%
- Ideal for peak periods and constrained airports
- 4,5 BSEK total investment

# Outlook 2000

# 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

# January traffic figures weak

- Negatively affected by millennium travel patterns
- **Improved passenger mix**

	Passenger- traffic (RPK)	Seat capacity (ASK)	Cabin- factor
<b>SAS Total</b>	+0,5%	-2,3%	+1,6 p.u.
<b>Intercontinental</b>	-2,0%	-4,9%	
<b>Europe</b>	-0,5%	-4,0%	
<b>Domestic and Intrascandinavian</b>	+4,9%	+2,1%	

# Outlook 2000

- Positive macroeconomic outlook
- Reduced over-capacity
- Significantly reduced capacity in Norway
- Effects from Improvement program
- Lower unit costs

## Uncertainties

- Continued over- capacity.
- Passenger growth and price development

# Operating key figures - year 2000

Continued pressure on yields expected going forward...but to a lesser extent than in 1999

SAS	2000
ASK	Up 2-3%
Frequencies	Marginally up
RPK	Up 5-7%
Passenger yield	Down 1-2%
Unit costs	Down at least 1%

# Further positive factors

- Strong position in finish market, main competitor to cut
- New growth through Joint Ventures
- New marketing opportunities - e.g. Electronic Channels
- BMA to join STAR
- Fleet renewal program to lower costs

# The Board of Directors

## Assessment for full year 2000:

- After a weak 1999, it is deemed that SAS Group's operating income for 2000 will be considerably better.

## Proposed dividend:

- MSEK 658 in total
  - SEK 4            SAS Sverige AB
  - NOK 3,75        SAS Norge ASA
  - DKK 3,50        SAS Danmark A/S