

SAS Q4 2016/2017

12.12.2017



SAS

Q4 in Summary: Earnings in line with November outlook

Positives

- + Passenger revenue up 5.4% (FX adj.)
- + Yield up 5.5%
- + Efficiency program delivered MSEK 240
- + 3-year collective bargain agreements
- + First flight from new London base within days
- + Recapitalization: shares and bond issued

Negatives

- Lower passenger numbers and load factor
 - Anniversary campaign in autumn 2016 and larger a/c in 2017
- Unit cost affected by provisions and monthly allocation of non-recurring items in Q4 FY16
- Negative currency effects of MSEK 273

Q4	CHANGE VS. Q4 FY16
EBT bef. non-recurring items	
MSEK 1,054	MSEK +113
Traffic, RPK in millions	
9,738	0%
Unit cost¹, SEK	
0.53	+4.5%
PASK², SEK	
0.70	+1.7%

Note: 1) Excluding jet fuel and currency adjusted; 2) Currency adjusted

Customers in focus

Improved customer offer

- Increased seasonal adjustments of network
 - Production increased by 40% on business-oriented routes in Scandinavia/Europe in Q4 vs. Q3
- 12 Airbus A320neo phased into traffic year to date
- Investments in Lounge concept
 - Chicago and Paris lounges upgraded
 - Next generation lounge at Oslo airport
- Net promoter score (NPS) up to 30 vs. 21 last year
 - Passenger numbers affected by last year's 70 year anniversary campaign

Growth of EuroBonus and related revenue

- >5.1 million members in program
 - Up 130,000 in Q4
- EuroBonus co-branded credit card points sale up 83 MSEK vs. Q4 FY16

CHANGE VS.
Q4 FY16

EB Silver, Gold,
Diamond revenue



+3%

SAS Plus &
Business revenue



+1%

EB members



+10%

Passengers



-2%

Stable operational quality in Q4

Improvements in operation

- Improved processes at technical maintenance reducing unscheduled down time
 - Work force scheduling
 - Component logistics
- SAS Cargo was the most punctual European carrier
 - >96% of shipments ready on time
- Website re-launched

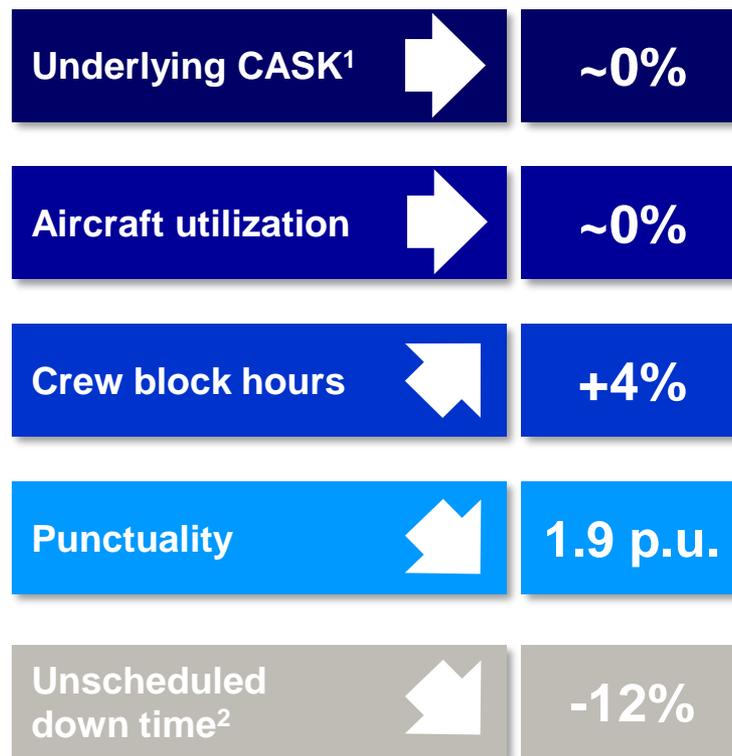
Productivity and punctuality

- Aircraft utilization at high historical levels – above 10h/day during Q4
- Punctuality and regularity negatively affected by phase in of new wet lease partners

Efficiency program delivered MSEK 240

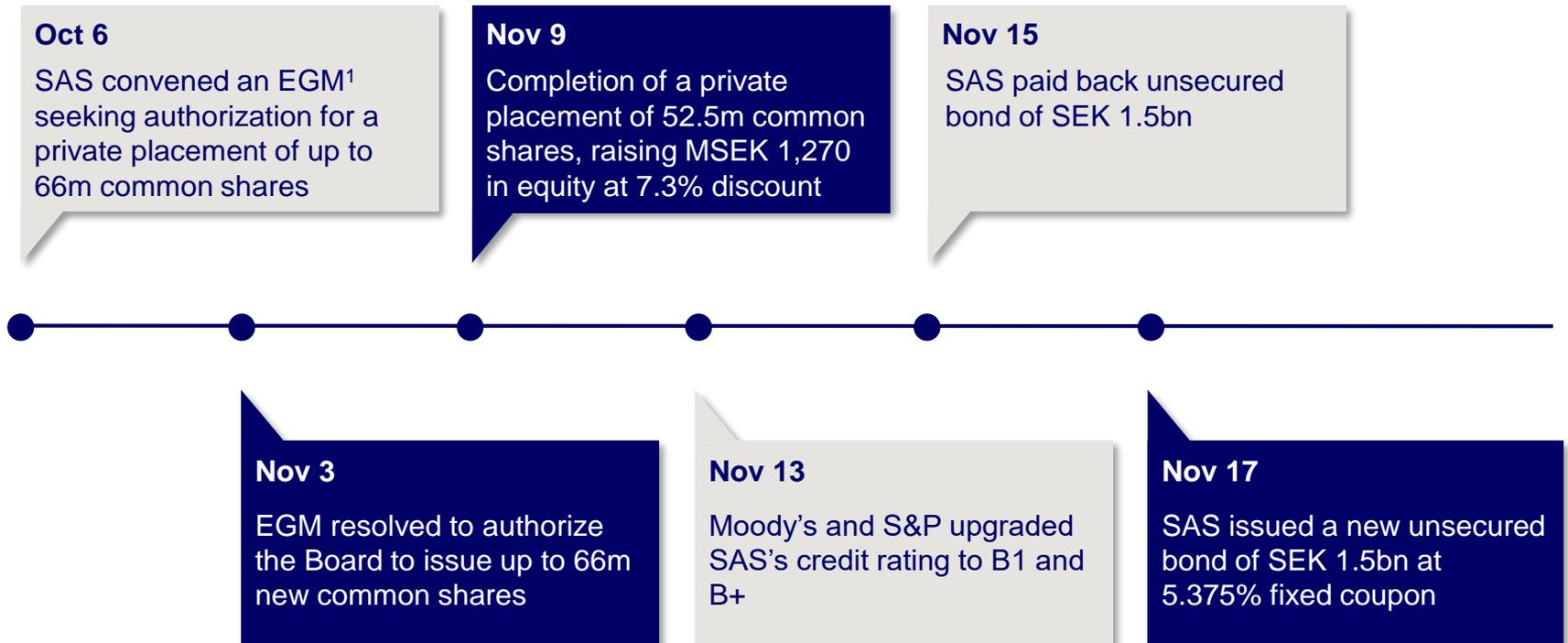
- Outsourcing of Cimber
- Improved pilot planning, reduced CC manning on long haul flights, and general efficiencies within SAS Cargo
- Wholesale card cancellation

CHANGE VS.
Q4 FY16



Notes: 1) Currency adjusted and excluding jet fuel costs; 2) Average daily # of aircraft out of traffic

SAS has successfully raised SEK 1.3bn equity and an unsecured bond of SEK 1.5bn



Notes: 1) Extraordinary general meeting

SAS has delivered in line with FY17 guidance

Ambition and guidance FY17

Outcome



Customer offer

- Increase network seasonality to grow leisure market
- Grow EuroBonus program and revenue base
- Complete long haul expansion and grow leisure production

- Increased leisure revenue with **MSEK >600** vs. LY
- **0.5 million** more members and EB point sale increased **26%**
- **BOS, LAX, MIA** and more frequencies. Leisure production increased **19%**



Operation & organization

- New bases outside Scandinavia
- Establish new organization to increase efficiency and growth opportunities
- Phase in A320neo

- **London** established and **Malaga** underway
- A **dedicated organization established** to focus on growth opportunities
- 12 A320neo in traffic



Financials

- Efficiency program to deliver SEK 0.7bn
- Reduced CASK
- EBT above last year (before nonrecurring items)

- Efficiency program delivered **SEK 0.8bn**
- Unit cost ex fuel **-3.6%** (FX adjusted)
- EBT improved by **SEK 1bn** (before non-recurring items)

SAS has a unique position that provides significant opportunities



**WIN SCANDINAVIA'S
FREQUENT TRAVELERS**



**CREATE AN EFFICIENT
OPERATING PLATFORM**

1) Strong brand preference and loyalty

2) New dedicated entity to focus on broadening revenue streams

3) Competitive product offering

4) Flexible production platform and new aircraft improving operational efficiency

5) Efficiency program to strengthen financial position

6) New IT platform developed – ready to deliver improved product features

Looking ahead, significant challenges and uncertainties remain

External



Intensified competition

Intensified competition due to **increased capacity** (~4% seat growth in Scandinavia¹) and SAS to phase in **larger aircraft** to **reduce cabin factor** going forward



Price pressure

Continued long term **price pressure** expected from **new entrants** and **traditional network airlines**



Swedish aviation tax

A Swedish national aviation tax is expected to be introduced in **April 2018**



Fuel and currency

Negative exposure to increasing jet fuel prices and USD

Internal



Legacy

Cost gap vs. new competitors - need to address remaining legacy



Financing

Maturing loans and large financing needs of aircraft

Note: 1) Winter program 2017/2018

Three focus areas to strengthen SAS's long-term competitiveness

FOCUS AREAS

OBJECTIVES

1

Further **address legacy in core operations** – increase flexibility and reduce costs in all areas

SEK 3bn
efficiency effect
by 2020

2

Establish a **complementing production platform** to secure critical traffic flows and participate in the growing leisure market

COMPETITIVENESS
to maintain important routes
and gain market share in
leisure market

3

Strengthen customer loyalty and develop new revenue streams by **utilizing SAS's strong brand and EuroBonus program**

GROW
Passenger and lifestyle
related revenues

1

SEK 3bn efficiency program – A pre-requisite for continuous development of SAS core business

FY18 – KEY CUSTOMER IMPROVEMENTS

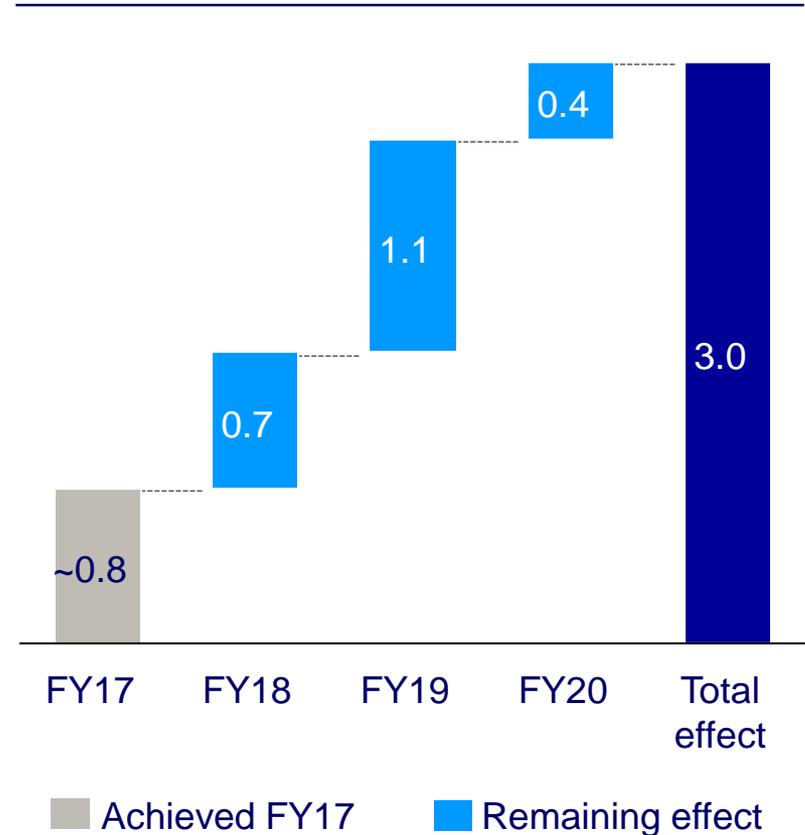
- Extended summer program with 27 new routes
- Additional deliveries of new Airbus 320neo
- Continued cabin upgrade (Short Haul)
- Installation of high speed WiFi



REQUIRES EFFICIENCY IMPROVEMENTS

- Increase staff productivity and address demography
- Reduce overall sales and distribution cost
- Improve scheduling at technical bases, logistics, reduce admin and optimize engine utilization
- Implement & leverage CBA's (3 years agreements) signed with multiple Unions in 2017

EFFICIENCY PROGRAM GROSS EARNINGS IMPACT, SEK bn



2

The London base is now established

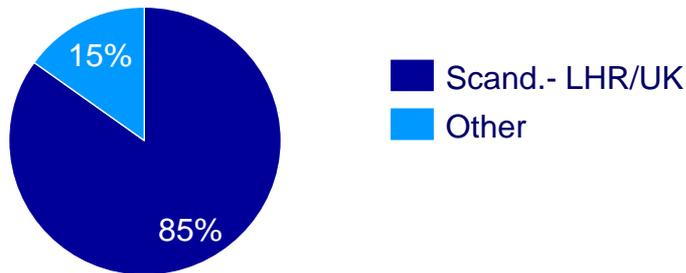
LONDON - first flight to take off soon

- 6 A320neo to be allocated
- 4 aircraft in traffic early 2018
- To operate ~65% of all SAS's flights to/from London

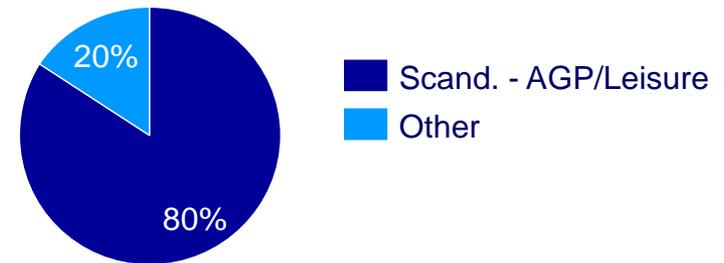
MALAGA - first flight during summer

- 3 A320neo to be allocated
- Sourcing of crew underway
- To operate ~80% of all SAS's flights to/from Malaga

Allocation of the London base operation (typical month), depart.



Allocation of the Malaga base operation (typical month), depart.



UNDERLYING CASK IN LINE WITH KEY COMPETITORS

3

Capitalize on SAS's strong brand and >5 million EuroBonus members

Q4 HIGHLIGHTS

Highest brand preference
among
Scandinavia's
frequent travelers

+10% YoY
EB members
growth

+30% YoY
cobranded credit
card revenue
growth

FOCUS AREAS GOING FORWARD

- Continued efforts to **make time matter** for SAS frequent travelers and development of the customer offering



New organization established with increased focus on growth and new revenue streams

- Utilize **customer data**
 - Offer members unique products/services
 - Personalized customer offers
- **Increase Earn & Burn** opportunities
 - Increase and simplify usage of award seats
 - Develop Star Alliance online award booking
- **Expand** the level and number of **partnerships** through new and existing business models
 - Further development of AMEX and SEB credit card partnership
 - Broader offering to include packaged holidays, conferences and other types of experience



FINANCIALS

SAS

Breakdown of the income statement - Q4

Income statement	Aug-Oct 17	Aug-Oct 16	Change vs LY	Currency
Total operating revenue	11,644	11,135	+509	-154
Payroll expenditure	-2,138	-2,154	+16	
Jet fuel	-1,774	-1,959	+185	
Government charges	-1,103	-1,128	+25	
Other operating expenditure	-4,325	-3,859	-466	
Total operating expenses*	-9,340	-9,100	-240	+125
EBITDAR before non-recurring items	2,304	2,035	+269	-29
<i>EBITDAR-margin*</i>	19.8%	18.3%	+1.5 p.u.	
Leasing costs, aircraft	-774	-697	-77	
Depreciation	-369	-322	-47	
Share of income in affiliated companies	16	28	-12	
EBIT before non-recurring items	1,177	1,044	+133	+11
<i>EBIT-margin*</i>	10.1%	9.4%	+0.7 p.u.	
Financial items	-123	-103	-20	
EBT before non-recurring items	1,054	941	+113	-10
Non-recurring items	-397	-364	-33	
EBT	657	577	+80	-10

* = Before non-recurring items

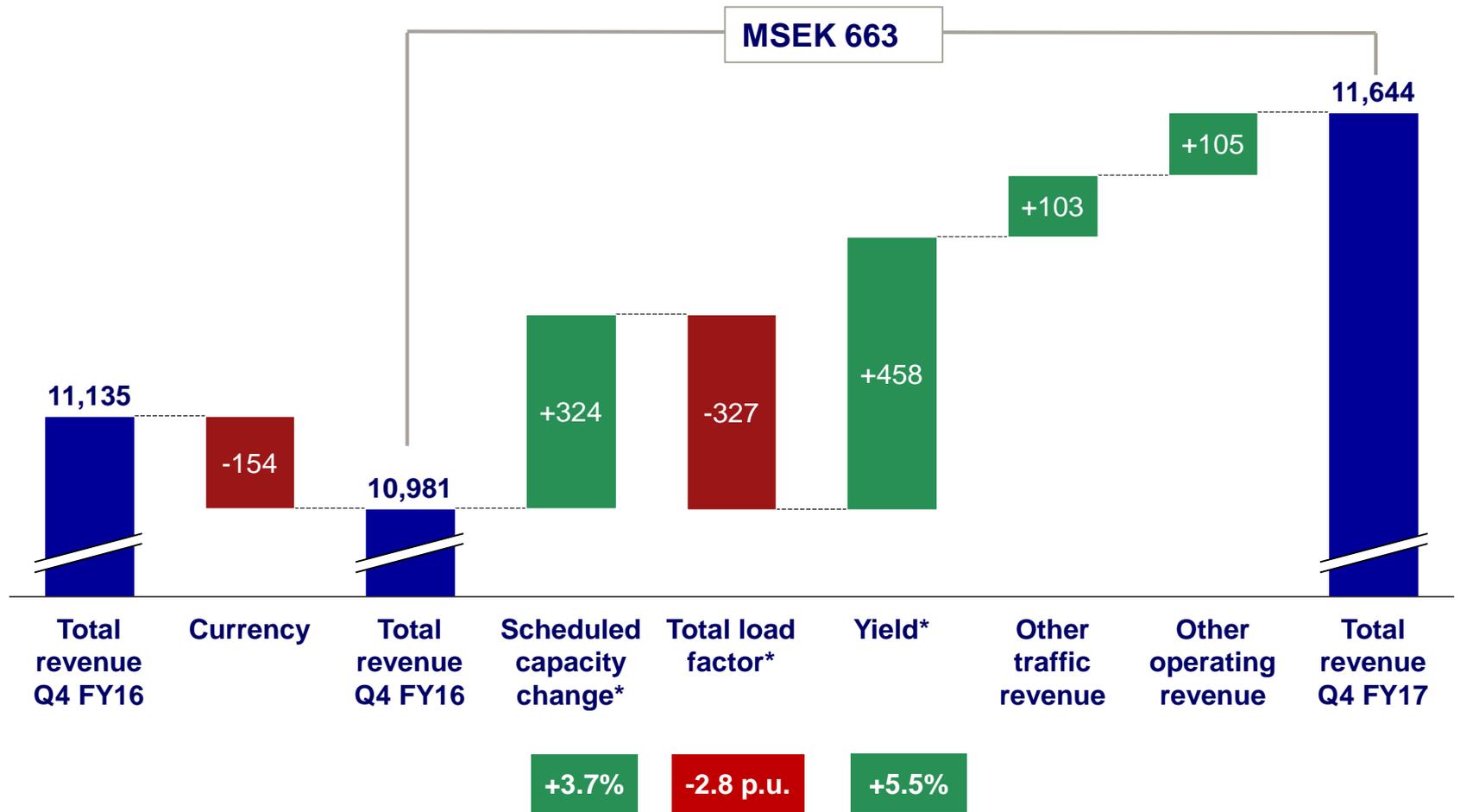
Breakdown of the income statement – FY17

Income statement	Nov 16-Oct 17	Nov 15-Oct 16	Change vs LY	Currency
Total operating revenue	42,654	39,459	+3,195	+768
Payroll expenditure	-9,131	-9,071	-60	
Jet fuel	-6,836	-6,449	-387	
Government charges	-4,262	-4,106	-156	
Other operating expenditure	-15,473	-14,320	-1,153	
Total operating expenses*	-35,702	-33,946	-1,756	-529
EBITDAR before non-recurring items	6,952	5,513	+1,439	+239
<i>EBITDAR-margin*</i>	16.3%	14.0%	+2.3 p.u.	
Leasing costs, aircraft	-3,116	-2,840	-276	
Depreciation	-1,427	-1,312	-115	
Share of income in affiliated companies	4	39	-35	
EBIT before non-recurring items	2,413	1,400	+1,013	+155
<i>EBIT-margin*</i>	5.7%	3.5%	+2.2 p.u.	
Financial items	-462	-461	-1	
EBT before non-recurring items	1,951	939	+1,012	+167
Non-recurring items	-226	492	-718	
EBT	1,725	1,431	+294	+167

* = Before non-recurring items

Revenue analysis

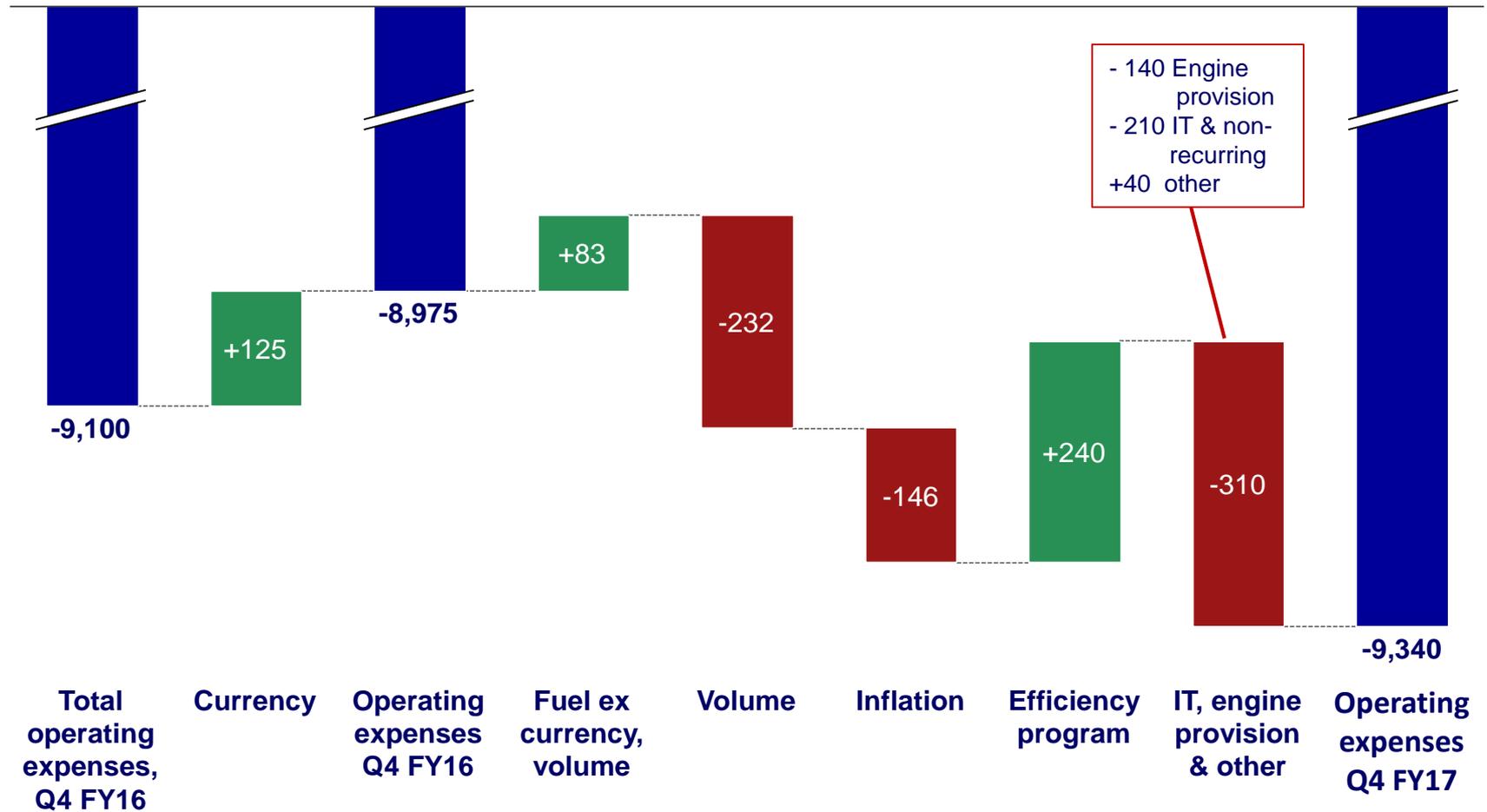
Total Revenue Q4
MSEK



* Based on average yield in Q4 FY16

Operating expense analysis

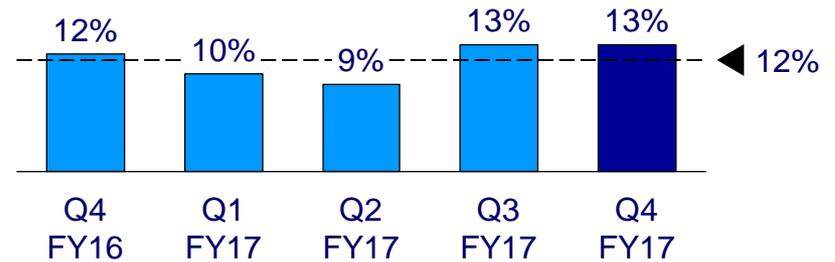
Total Operating Expenses Q4
MSEK



Development of SAS financial targets

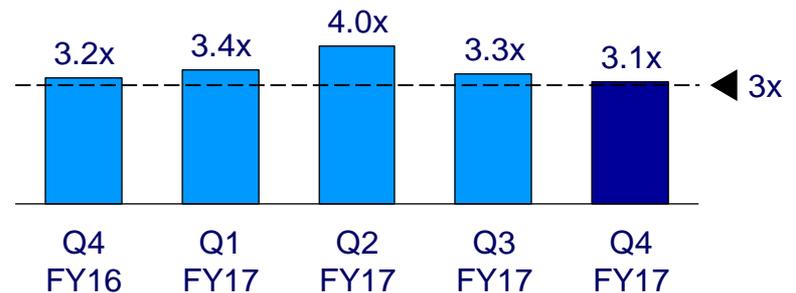
Return on Invested Capital (ROIC) at 13%

- Stable level during Q4
- Going forward, invested capital to increase
 - Requires improved earnings to maintain ROIC above target



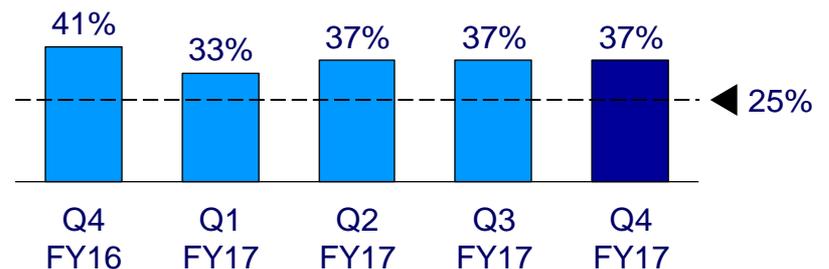
Adjusted financial Net Debt/EBITDAR at 3.1x

- Improved 0.2 units during Q4
 - 12 months rolling EBITDAR up SEK 1bn
- Aircraft deliveries to increase the adj. financial net debt going forward



Financial preparedness at 37%

- Unchanged during Q4
 - Cash position at SEK 8.1bn
 - Unutilized credit facilities of SEK 2.7bn
- Financial preparedness to decrease following planned redemption of preference shares



SAS has recently completed an equity issue and the credit rating has been upgraded

- **Equity private placement of MSEK 1,270 completed**

- Proceeds from private placement and retained earnings to be used to start redemption of preference shares from February 2018

- **Credit rating upgraded**

- Moodys: B1 Stable
- R&I: B+ Stable
- S&P: B+ Stable

- **New non-secured bond of MSEK 1,500 issued**

- Replaces an existing bond and reduces interest costs annually by more than MSEK 50

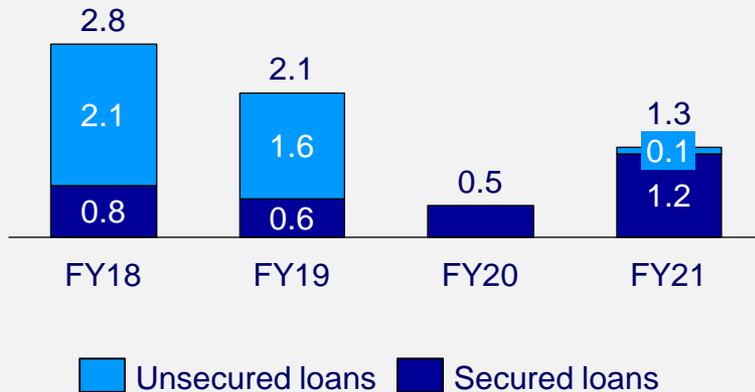


**REDUCED FINANCING COSTS FOR
DEBT AND AIRCRAFT**

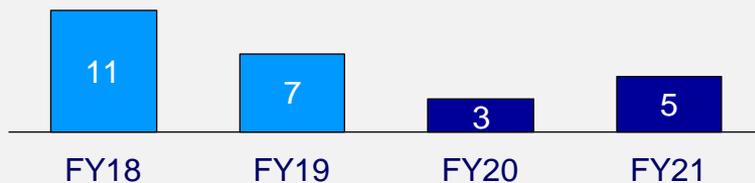


Debt profile and capex

Interest bearing liabilities repayments (SEK bn)



Aircraft firm order deliveries as at 31 Oct 2017



Maturity profile

- SEK 1.5bn of FY18 maturities refinanced early November

Investments and aircraft financing

- SAS to finance last ten A320neo and Airbus A350
 - Attractive leasing rates
 - Low financing costs in Asia
- Gross investment expected at SEK 6bn
 - Non-aircraft capex of SEK ~0.5bn

Further aircraft investments considered

- Need to invest in 40-50 aircraft beyond FY21
- Estimated value of USD ~2-3bn

Outlook for FY18

Market environment

- Aviation industry undergoes significant change
- Geo-political uncertainty
- Introduction of aviation taxes
- Higher USD and jet fuel prices

Short term SAS specifics

- Load factor to be lower during first half FY18

Main assumptions for FY18

- ASK +1-3%
- Fuel 550 USD/MT
- FX rate 8 SEK/USD
- Gross investments of approximately SEK 6bn
- The introduction of an aviation tax in Sweden
- Continued stable macro trend

OUTLOOK FY18

**SAS expects to deliver
income before tax and
nonrecurring items in
the interval of SEK
1.5–2.0 billion**

Note: The outlook is based on no unexpected events occurring

SAS