

# SAS Q1 2017/2018

27.02.2018



# SAS

## Q1 in Summary: Improved earnings

### POSITIVES

- + Passenger revenue up 1% (FX adj.)
- + Cargo and EB-point sale revenue increased MSEK 109
- + Efficiency program delivered MSEK 165
- + Positive currency effects of MSEK 205
- + Operation from the new London base commenced
- + Positive cash flow from operating activities
- + 70% redemption of the preference shares completed

### NEGATIVES

- Lower passenger numbers and load factor
- Low punctuality and regularity due to very challenging weather conditions

Q1	CHANGE VS. Q1 FY17
<b>EBT bef. non-recurring items</b>	
<b>MSEK -373</b>	<b>MSEK +334</b>
<b>Capacity, ASK in millions</b>	
<b>11,139</b>	<b>-0%</b>
<b>Unit cost<sup>1</sup>, SEK</b>	
<b>0.61</b>	<b>-1%</b>
<b>PASK<sup>2</sup>, SEK</b>	
<b>0.63</b>	<b>0%</b>

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

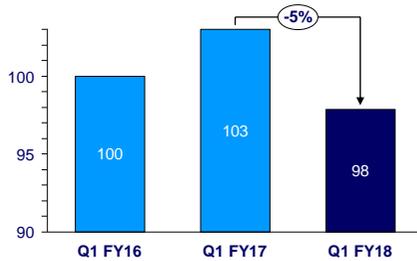
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## Improved earnings due to seasonal adjustments

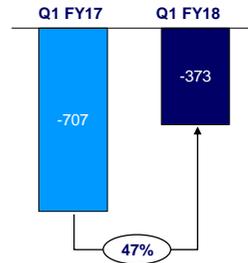
### DEPARTURES IN Q1 FY16 – FY18

Q1 FY16 = Index 100



### EBT BEFORE NONRECURRING ITEMS

MSEK



<b>EBT<sup>1</sup></b>	-404	-707	-373
<b>PAX</b>	5,976	6,513	6,141
<b>YIELD<sup>2</sup></b>	0.97	0.90	0.94

Note: 1) EBT before non-recurring items; MSEK 2) Nominal; SEK

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## Implementation of efficiency program according to plan

### EXAMPLES OF SAVING INITIATIVES

Q1



#### Flight operation, charges and fuel, MSEK 80

- Cimber divestment, long haul manning reduction, increased crew productivity and fuel efficiencies



#### Ground handling and technical, MSEK 55

- Renegotiated line station contracts, digitalization of ticket office & arrival service
- Optimization of engine maintenance, improved scheduling and admin reduction



#### Commercial and overhead, MSEK 30

- Ban of wholesale cards, reduced logistical costs for catering and marketing
- Renegotiated facility contracts

**Q1 savings**

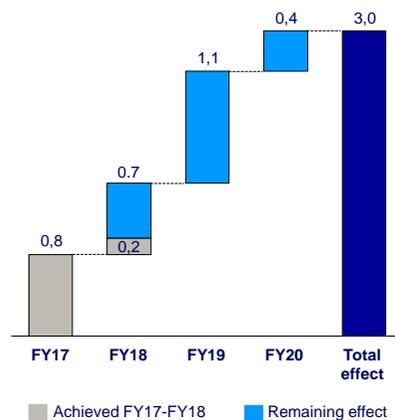
**MSEK 165**

**CASK, nom.**

**-5.6%**

### EFFICIENCY PROGRAM GROSS EARNINGS IMPACT

SEK bn



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## Successful launch of SAS Ireland in Q1

### KEY HIGHLIGHTS

- AOC approved in December
- First commercial flight on 20 Dec 2017 – now four aircraft in traffic
- 80,000 passengers transported until mid February 2018
- 800 flights completed
- Positive customer response in line with SAS's Scandinavian based production
- Punctuality in line with the Scandinavian based operation



### MALAGA BASE UNDERWAY

- First flight expected during summer 2018

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## Looking ahead, SAS maintains its strategic direction and steers towards a single type fleet

### MARKET TRENDS AND SAS CONDITIONS



### SAS ACTIONS

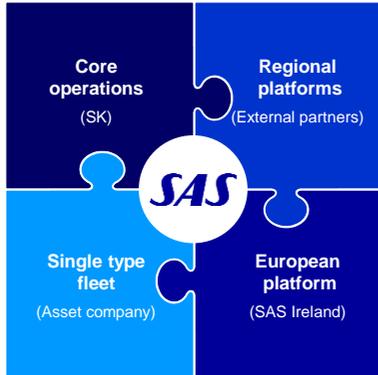


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## Building blocks to future proof SAS beyond 2020

### PRODUCTION OPTIMIZATION



### OUTCOME



#### Increased competitiveness

Improved efficiency and product offering.



#### Growth and flexibility

Greater seasonal adjustments and participate in growing markets.



#### Sustainability

A step toward lower emissions for a sustainable future.

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## FINANCIALS



## Breakdown of the income statement – Q1

Income statement	Nov 17-Jan 18	Nov 16-Jan 17	Change vs. LY	Currency
<b>Total operating revenue</b>	<b>8,978</b>	<b>8,957</b>	<b>+21</b>	<b>-225</b>
Payroll expenditure	-2,268	-2,398	+130	
Jet fuel	-1,555	-1,579	+24	
Government charges	-921	-970	+49	
Other operating expenditure	-3,383	-3,526	+143	
<b>Total operating expenses*</b>	<b>-8,127</b>	<b>-8,473</b>	<b>+346</b>	<b>+372</b>
<b>EBITDAR before non-recurring items</b>	<b>851</b>	<b>484</b>	<b>+367</b>	<b>+147</b>
<i>EBITDAR-margin*</i>	9.5%	5.4%	+4.1 p.u.	
Leasing costs, aircraft	-760	-733	-27	
Depreciation	-353	-327	-26	
Share of income in affiliated companies	-9	-11	+2	
<b>EBIT before non-recurring items</b>	<b>-271</b>	<b>-587</b>	<b>+316</b>	<b>+201</b>
<i>EBIT-margin*</i>	-3.0%	-6.6%	+3.6 p.u.	
Financial items	-102	-120	+18	
<b>EBT before non-recurring items</b>	<b>-373</b>	<b>-707</b>	<b>+334</b>	<b>+205</b>
Non-recurring items	100	10	+90	
<b>EBT</b>	<b>-273</b>	<b>-697</b>	<b>+424</b>	<b>+205</b>

Note: \* Before non-recurring items

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## Breakdown of the income statement – rolling 12 months

Income statement	Feb 17-Jan 18	Feb 16-Jan 17	Change vs. LY	Currency
<b>Total operating revenue</b>	<b>42,675</b>	<b>40,141</b>	<b>+2,534</b>	<b>+184</b>
Payroll expenditure	-9,001	-9,135	+134	
Jet fuel	-6,812	-6,800	-12	
Government charges	-4,213	-4,165	-48	
Other operating expenditure	-15,330	-14,816	-514	
<b>Total operating expenses*</b>	<b>-35,356</b>	<b>-34,916</b>	<b>-440</b>	<b>+197</b>
<b>EBITDAR before non-recurring items</b>	<b>7,319</b>	<b>5,225</b>	<b>+2,094</b>	<b>+381</b>
<i>EBITDAR-margin*</i>	17.1%	13.0%	+4.1 p.u.	
Leasing costs, aircraft	-3,143	-2,873	-270	
Depreciation	-1,453	-1,298	-155	
Share of income in affiliated companies	6	40	-34	
<b>EBIT before non-recurring items</b>	<b>2,729</b>	<b>1,094</b>	<b>+1,635</b>	<b>+396</b>
<i>EBIT-margin*</i>	6.4%	2.7%	+3.7 p.u.	
Financial items	-444	-458	+14	
<b>EBT before non-recurring items</b>	<b>2,285</b>	<b>636</b>	<b>+1,649</b>	<b>+409</b>
Non-recurring items	-136	407	-543	
<b>EBT</b>	<b>2,149</b>	<b>1,043</b>	<b>+1,106</b>	<b>+409</b>

Note: \* Before non-recurring items

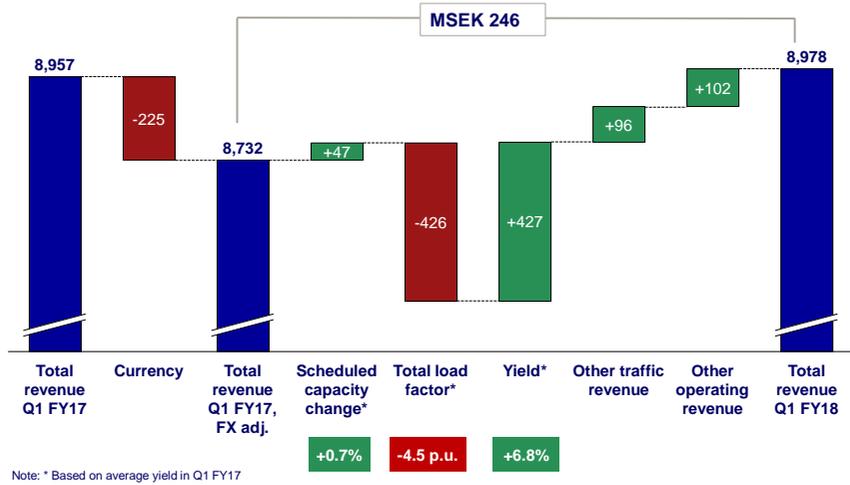
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## Revenue analysis

Total Revenue Q1  
MSEK

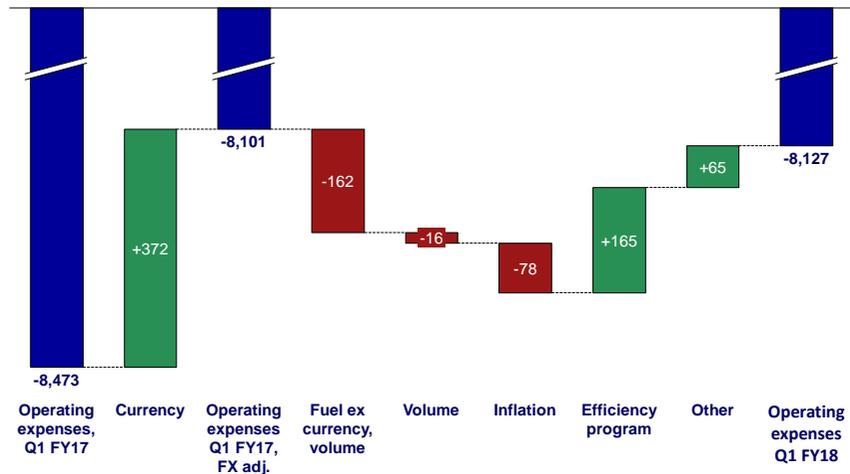


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## Operating expense analysis

Total Operating Expenses Q1  
MSEK



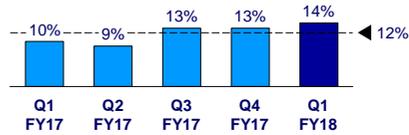
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## SAS meets all its financial targets, rolling 12 months

### Return on Invested Capital (ROIC) at 14%

- Improved in line with earnings during Q1
- Capital base to increase going forward
  - Requires improved earnings to maintain ROIC above target



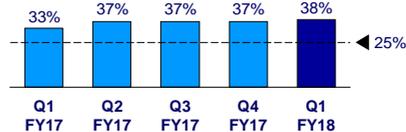
### Adjusted financial Net Debt/EBITDAR at 2.9x

- Improved 0.2 units during Q1
  - 12 months rolling EBITDAR up SEK 0.9bn
- Aircraft deliveries to increase the adjusted financial net debt going forward



### Financial preparedness at 38%

- Stable level in Q1
  - Cash position at SEK 9.3bn
  - Unutilized credit facilities of SEK 2.5bn
- Financial preparedness to decrease following the redemption of SEK 2.6bn in preference shares in Feb 18



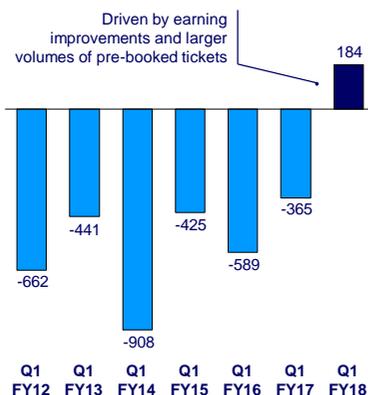
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## Positive cash flow in Q1 – in addition, financing spend being reduced

### IMPROVED CASH FLOW<sup>1</sup> BY MSEK 549

MSEK



Note: 1) Cash flow from operating activities

### LOWER FINANCING SPEND; MSEK ~300

#### Credit rating upgraded following equity private placement in November 2017

- Moody's and S&P upgraded SAS's credit rating to B1 and B+

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

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

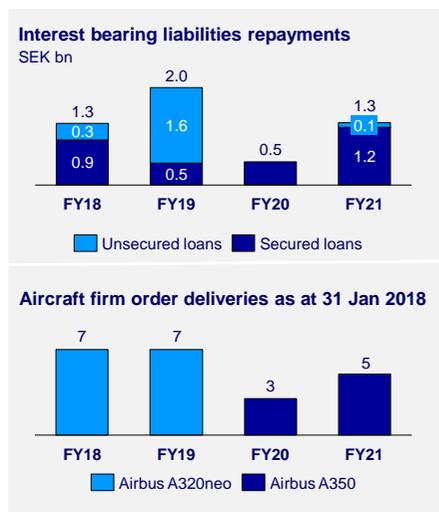
#### Redemption of SEK 2.6bn preference shares in February 2018 completed

- Reduces dividend payment by MSEK 245 annually
- Ambition to redeem remaining preference shares using retained earnings

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## Debt profile and capex



### Maturity profile

- Financing options for the convertible bond in FY19 of SEK 1.6 bn being considered
- SEK 0.2bn of secured maturing loans in FY18 relates to pre-delivery payments

### Investments and aircraft financing

- SAS to finance last ten A320neo and Airbus A350
- Gross investment expected at SEK 6bn
  - Non-aircraft capex of SEK –0.5bn

### Further aircraft investments considered

- Final negotiations being held with Airbus and lessors
  - Need to invest in about 50 aircraft from FY19

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## SAS has evolved over the last seven years

	MAR 2011	JAN 2018
CASK, SEK	0.85	0.75
Revenue/passenger, SEK	1,120	1,120
Pension liabilities, SEK bn	32	17
FTE	14,972	9,929
Aircraft	229	155
Interest bearing liabilities, MSEK	13,843	8,234
Interest expenses (quarter), MSEK	210	136
Passengers (SK), LTM, million	23.3	28.3

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## Maintained outlook for FY18 - Despite increased jet fuel prices

### Market environment

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

### Main assumptions

- Slightly less negative earnings than expected in Q1 FY18
- ASK +1-3%
- Fuel 580 USD/MT<sup>1)</sup> (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

**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

1) Including SAS hedge portfolio.

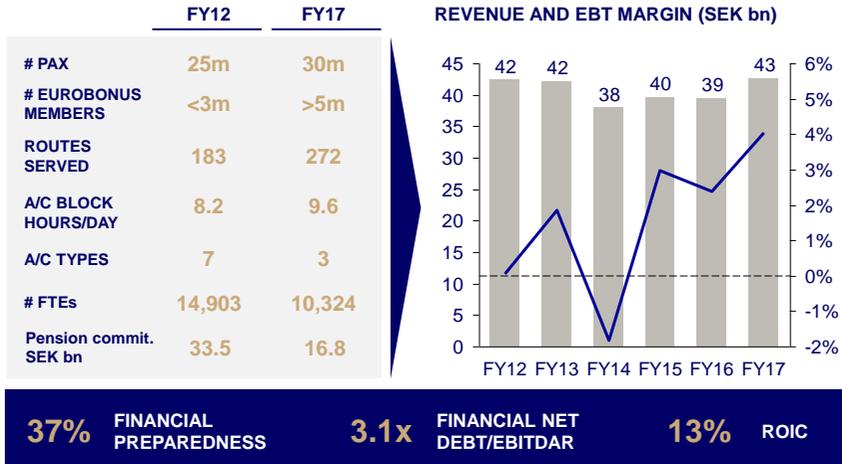
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# SAS

## SAS has undergone a significant transformation during the last five years



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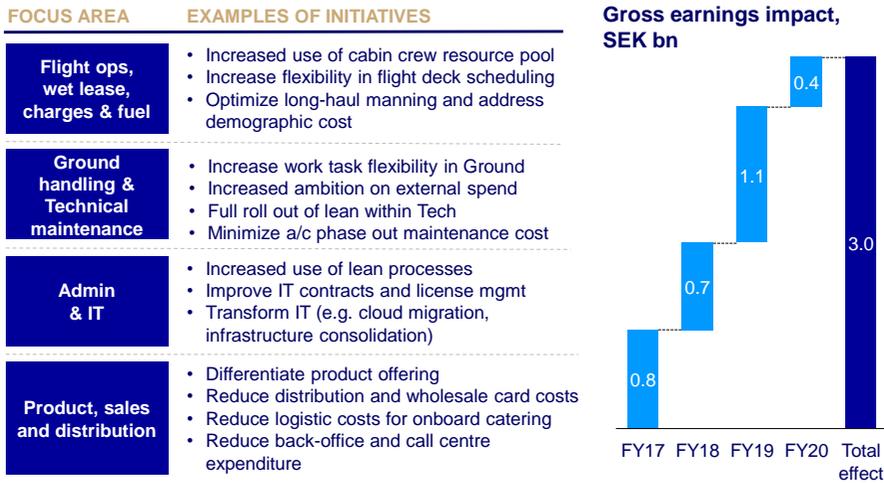
## SAS strategy is to focus on Scandinavia's frequent travelers

	Typical low cost carrier strategy	Strategy of SAS
<b>Market</b>	• Multimarket focus, general low yield, especially leisure	• Focus on Scandinavia's frequent travelers
<b>Operational platform</b>	• One type fleet, operate traffic flows that fit fleet	• Fleet designed to fit best network and schedule for customers
<b>Growth</b>	• New destinations, anywhere	• Improve offer for primary customer base to increase loyalty

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## SAS is implementing efficiency measures of SEK 3bn with full effect in FY20



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## 1 Status of the efficiency program, January 31, 2018

FOCUS AREA	EXAMPLES OF IMPLEMENTED INITIATIVES	ACHIEVED	EST. POTENTIAL
<b>Flight ops, wet lease, charges &amp; fuel</b>	<ul style="list-style-type: none"> <li>Increase use of resource pool</li> <li>Increase flexibility in flight deck scheduling</li> <li>Align manning on long-haul and address demographic cost</li> </ul>	SEK ~0.39bn	SEK ~1.2bn
<b>Ground handling &amp; Technical maintenance</b>	<ul style="list-style-type: none"> <li>Increase work task flexibility and mobility</li> <li>Increase ambition on external spend</li> <li>Full role out of lean within Tech</li> <li>Minimize aircraft phase out maintenance cost</li> </ul>	SEK ~0.33bn	SEK ~0.9bn
<b>Admin &amp; IT</b>	<ul style="list-style-type: none"> <li>Increased use of lean processes and system improvements</li> <li>Improve IT contracts and license management</li> <li>Transform IT (e.g. cloud migration, infrastructure)</li> </ul>	SEK ~0.1bn	SEK ~0.4bn
<b>Product, sales and distribution</b>	<ul style="list-style-type: none"> <li>Differentiate product offering to increase individualization</li> <li>Reduce distribution and wholesale card costs</li> <li>Reduce logistic costs for onboard catering</li> <li>Reduce back-office and call centre expenditure</li> </ul>	SEK ~0.12bn	SEK ~0.5bn

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## Appendices

-  **Fleet & productivity**
-  Unit revenue (yield & PASK) & Unit cost
-  Traffic & capacity outlook
-  Financial update
-  Currency & Fuel

### SAS fleet – January 2018

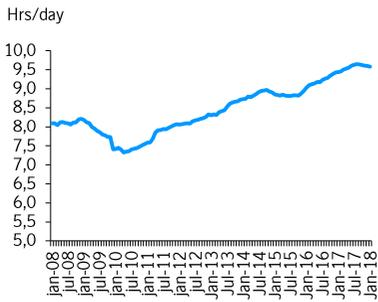
Aircraft in traffic under SK traffic license	Age	Owned	Leased	Total	Firm order	Lease order
Airbus A330/A340/A350	12.6	10	6	16	8	
Airbus A321/A320/A319	8.5	10	25	35	14	
Boeing 737 NG	14.2	24	43	67		
<b>Total</b>	<b>12.3</b>	<b>44</b>	<b>74</b>	<b>118</b>	<b>22</b>	

Aircraft in service with a different license than SAS	Age	Owned	Wet leased	Total	Firm order	Wet- lease order
Bombardier CRJ-900	2.4		24	24		2
Bombardier CRJ1000			-			1
ATR-72	2.9		9	9		
Airbus A320neo	0.1		4	4		
<b>Total</b>	<b>2.3</b>		<b>37</b>	<b>37</b>		<b>3</b>

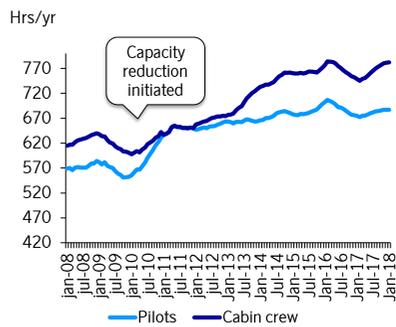
Total aircraft in traffic	Age	Owned	Wet leased	Total	Firm order	Wet- lease order
<b>Total</b>	<b>9.9</b>	<b>44</b>	<b>111</b>	<b>155</b>	<b>22</b>	<b>3</b>

## Productivity development

**Aircraft utilization (12 months rolling)**



**Cabin, pilot utilization (12 months rolling)**

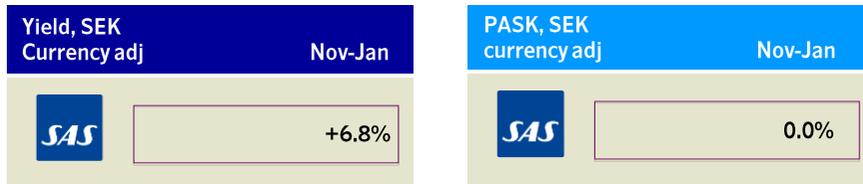


Block hours, 12 months rolling, January 2018	Aircraft, hours/day	Pilots, hours/year	Cabin, hours/year
SAS	9.6	687	782

## Appendices

- Fleet & productivity
- Unit revenue (yield & PASK) & unit cost**
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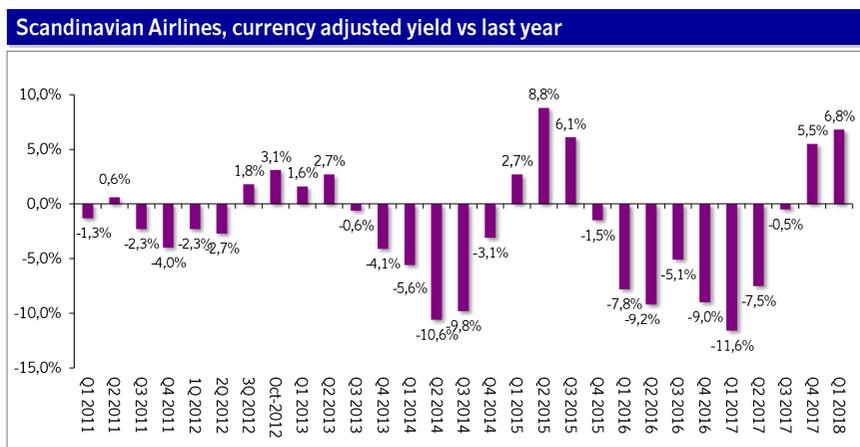
## Yield and PASK development vs. last year



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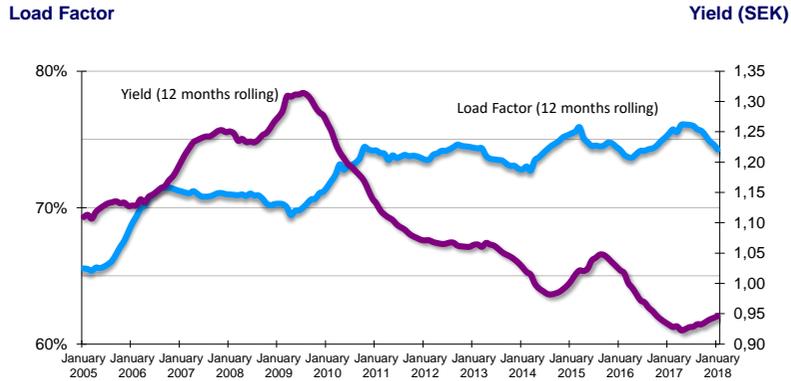
## Quarterly yield development



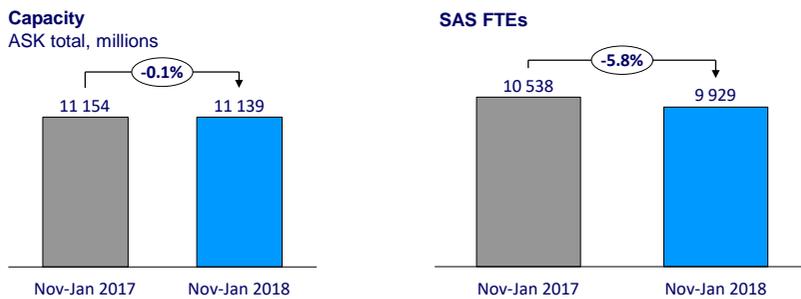
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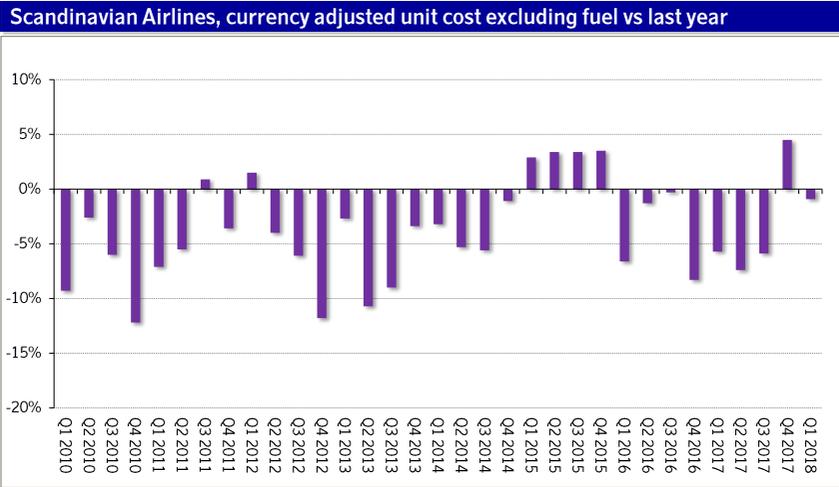
## Long term yield and passenger load development



## Capacity and FTE



## Quarterly unit cost development



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## Breakdown of unit cost, Nov 2017 – Jan 2018

SAS, SEK, currency adjusted

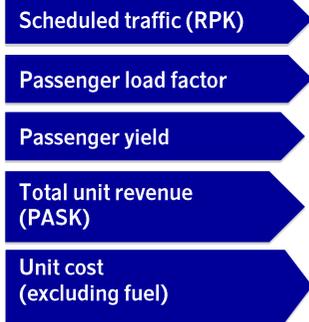
Unit cost breakdown	Nov 2017 – Jan 2018	Nov 2016 – Jan 2017	Var, %
Operating expenses	-8,127	-8,526	-4.7%
Aircraft leasing costs	-760	-733	+3.7%
Depreciation	-353	-327	+7.7%
Other operating revenue	1,071	990	+8.2%
<b>Operating expenses</b>	<b>-8,169</b>	<b>-8,596</b>	<b>-5.0%</b>
Total ASK	11,139	11,154	-0.1%
<b>Unit cost, nominal</b>	<b>0.73</b>	<b>0.77</b>	<b>-4.9%</b>
Exchange rate diff	-230	+176	
Non-recurring items	-	+53	
<b>Adjusted net operating expenditure</b>	<b>-8,399</b>	<b>-8,368</b>	<b>+0.4%</b>
<b>Unit cost, underlying</b>	<b>0.75</b>	<b>0.75</b>	<b>+0.5%</b>

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## Summary of key drivers

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	Q2 2016/17	Q3 2016/17	Q4 2016/17	Q1 2017/18
Scheduled traffic (RPK)	↑ +12.9%	↑ +6.9%	→ 0.0%	↓ -5.7%
Passenger load factor	↑ +3.1 p.u.	↓ -0.6 p.u.	↓ -2.8 p.u.	↓ -4.5 p.u.
Passenger yield	↓ -7.5%	↓ -0.5%	↑ +5.5%	↑ +6.8%
Total unit revenue (PASK)	↓ -3.3%	↓ -1.3%	↑ +1.7%	→ 0.0%
Unit cost (excluding fuel)	↓ -7.4%	↓ -5.9%	↑ +4.5%	↓ -0.9%

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## Breakdown of payroll expenses

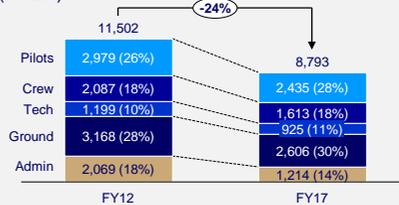
### Payroll expenses significantly reduced

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

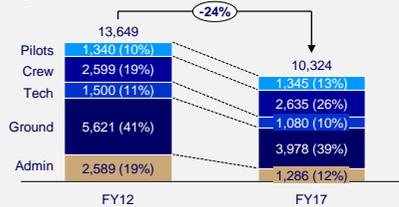
### Opportunities going forward

- 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



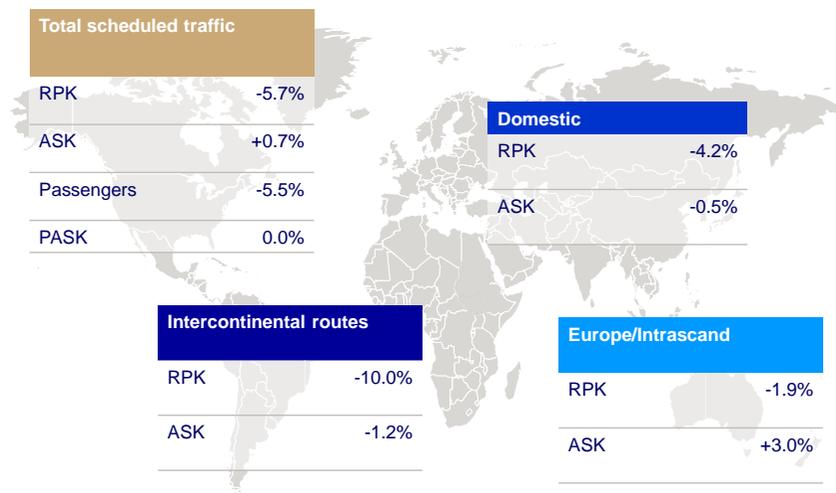
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## Appendices

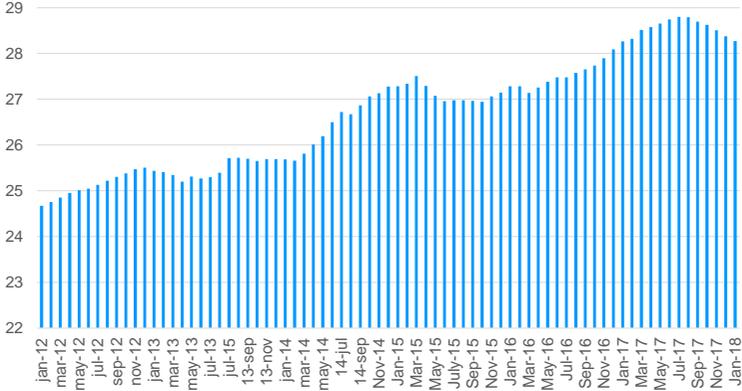
-  Fleet & productivity
-  Unit revenue (yield & PASK) & Unit cost
-  **Traffic and capacity outlook**
-  Financial update
-  Currency & Fuel

### SAS geographical traffic development in Q1 FY18

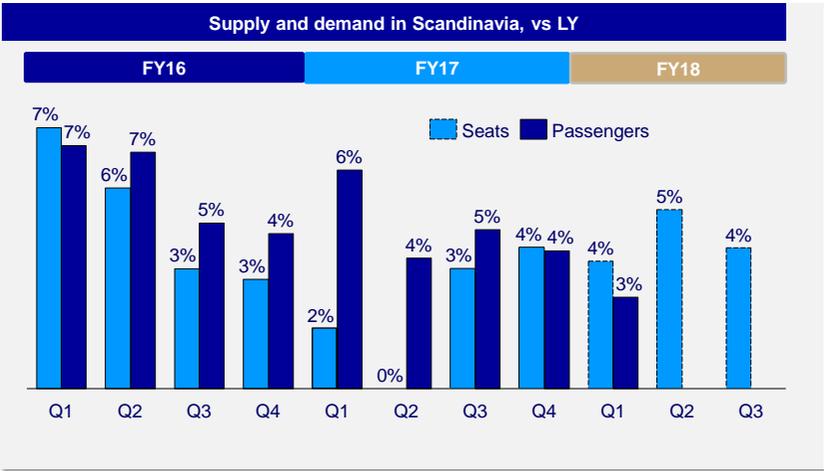


## SAS passenger development

Scheduled passenger, 12 months rolling  
(Million)



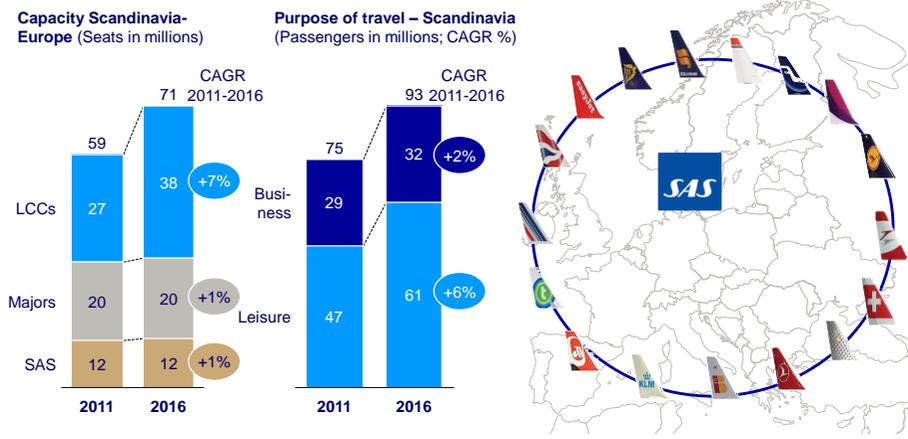
## Market seat capacity



38 Source: Innovata Schedule data, June 2017



## In recent years, growth has come from the leisure segment driven by increased LCC capacity



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## ASK outlook for 2017/2018

ASK outlook for November 2017 – October 2018

SAS – scheduled

+1-3%

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# Appendices

-  Fleet & productivity
-  Unit revenue (yield & PASK) & Unit cost
-  Traffic & capacity outlook
-  **Financial update**
-  Currency & Fuel

## Financial targets

<b>SAS's overriding goal is to create value for its shareholders</b>	
<b>Return on Invested Capital (ROIC)</b> (EBIT+(1/3) aircraft leasing costs) / (Equity+Financial net debt+capitalized aircraft leasing costs (x7))	<b>&gt;12%</b> over a cycle
<b>Adj. financial net debt/EBITDAR</b> (Financial net debt incl. capitalized aircraft leasing costs/EBITDAR)	<b>&lt; 3x</b>
<b>Financial preparedness</b> Cash & unutilized credit facilities / Annual fixed cost	<b>&gt;25%</b>

To reach this, SAS pursues three strategic priorities to meet trends and industry developments, ensure competitiveness and create the prerequisites for long-term sustainable profitability.

## Overview of credit facilities – January 2018

Available funds, SEK billion	Jan 2018	Maturity
<b>Undrawn portion of credit facilities</b>		
Revolving Credit Facility, MEUR 150	1.5	Jan 2021
Credit facility, MUSD 137 & 31	1.0	Jun 2020, Dec 2020
Credit facility, MUSD 36	0.0	Sep 2021
Credit facility, MUSD 41	0.0	Feb 2020
Credit facility, MUSD 18	0.0	Jun 2018
Credit facility, MUSD 65	0.0	Jan 2023
<b>Total undrawn credit facilities</b>	<b>2.5</b>	
<b>Drawn portion of credit facilities</b>	<b>1.5</b>	
<b>Total credit facilities</b>	<b>4.0</b>	

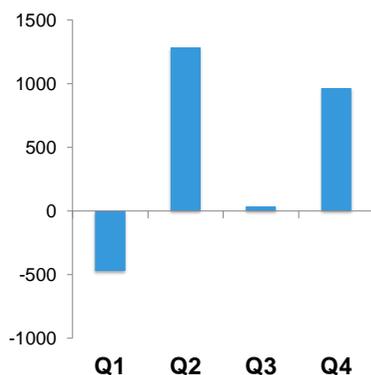
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## Cash seasonality

**Seasonality of SAS cash flow from operating activities, MSEK\***



\* Average between 2010 and 2017

- Cash flow from operating activities strongest in Q2 and Q4
- Seasonality has increased due to
  - increased production during the summer as leisure travelling generates a higher degree of early bookings
  - Lower growth within the business segment
- For the first time, positive cash flow from operating activities in Q1 FY18

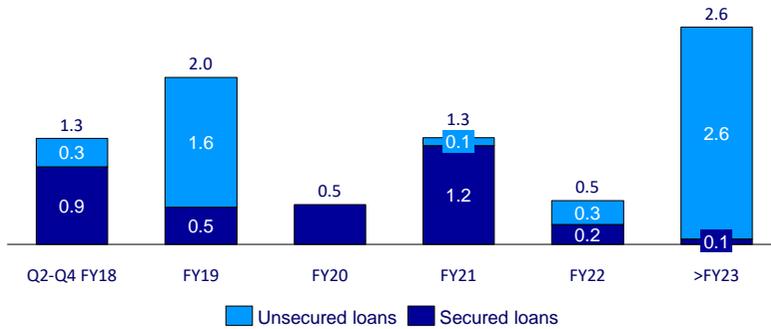
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## Amortization profile

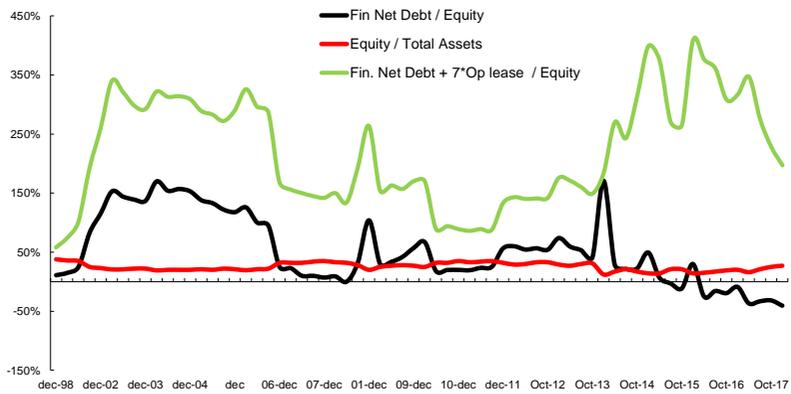
Scheduled amortization profile as of 31 January 2018, SEK billion



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## Gearing ratios



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**SAS Group**  
Financial Net November- January

MSEK	Oct 17 – Jan 18	Oct 16 – Jan 17	Difference
Interest net and others	-108	-122	+14
Exchange rate differences	+6	+2	+4
<b>Financial net</b>	<b>-102</b>	<b>-120</b>	<b>+18</b>

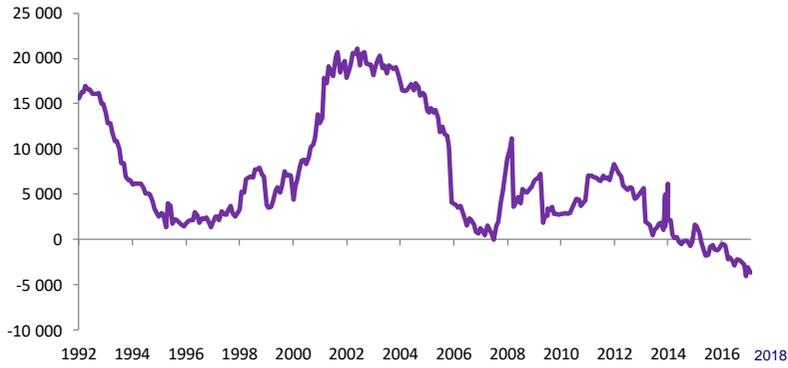
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**Development and Break Down**  
Financial Net Debt

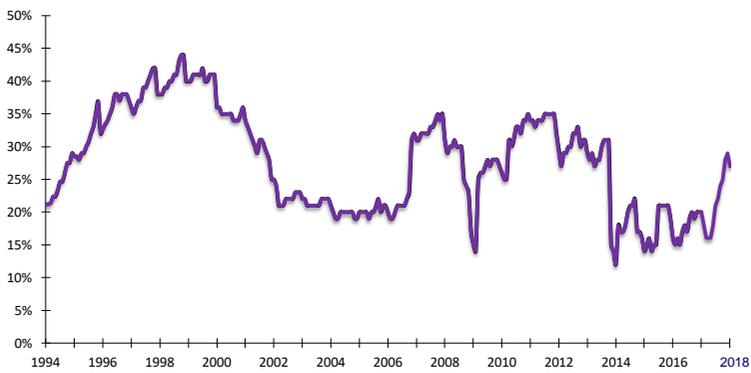
MSEK	31 Oct 2017	31 Oct 2016	Difference
Cash	9,251	8,836	+415
Other interest bearing assets	2,651	2,538	+113
Interest bearing liabilities	-8,234	-8,575	+341
<b>Financial net debt</b>	<b>+3,668</b>	<b>+2,799</b>	<b>+869</b>

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### Development of financial net debt 1992-2017 as reported on a quarterly basis

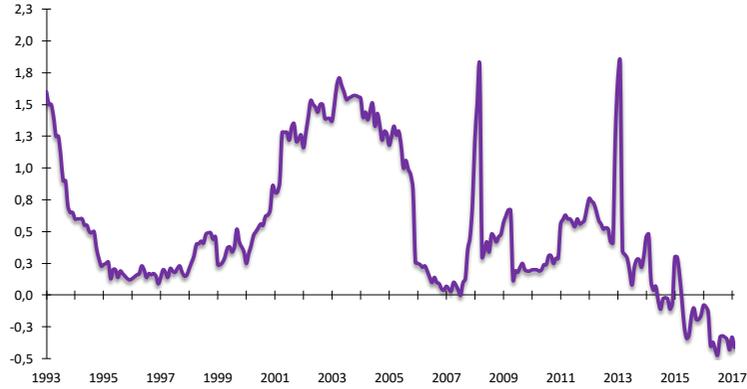


### Equity / Assets Ratio 1993-2018 as report on a quarterly basis



## Financial Net Debt / Equity

1993-2018 as reported on a quarterly basis



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## Appendices

-  Fleet & productivity
-  Unit revenue (yield & PASK) & Unit cost
-  Traffic & capacity outlook
-  Financial update
-  **Currency & Fuel**

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## Breakdown of currency effects SAS Group

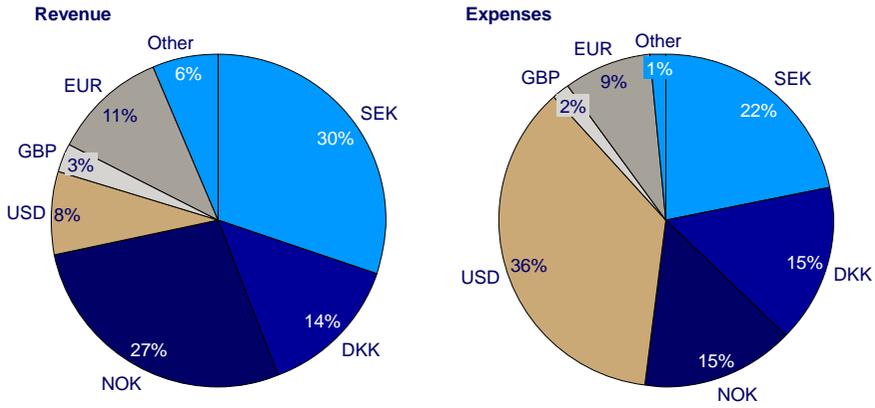
Total revenues & costs currency effects		Nov 2017-Jan 2018 vs LY
Total revenues & costs	USD	219
	DKK	-3
	NOK	-62
	EUR	-2
	Asian currencies	-20
	All other	-7
	<b>Total</b>	<b>125</b>
Forward cover costs	2017	86
	2018	81
	<b>Difference</b>	<b>-5</b>
Working capital	2017	68
	2018	149
	<b>Difference</b>	<b>81</b>
Financial items	2017	2
	2018	6
	<b>Difference</b>	<b>4</b>
<b>Total currency effects</b>		<b>205</b>

## Changes in currency exchange rates

affected the result by MSEK 205 in Nov 2017-Jan 2018 vs Nov 2016-Jan 2017

Currency effects MSEK on SAS Group 2017/2018 vs 2016/2017		Nov 2017-Jan 2018
<ul style="list-style-type: none"> <li>➤ Negative impact on revenue due to the weaker NOK and USD.</li> <li>➤ Positive impact on other operating expenditure due to the weaker NOK and USD.</li> </ul>	Total revenue	- 225
	Total costs	350
	Forward cover costs & working capital	76
	<b>Income before depreciation</b>	<b>201</b>
	Financial items	4
	Income before tax	205

**SAS currency distribution  
- Nov 2016 – Oct 2017**



**Jet fuel costs decreased MSEK 24 in Q1**

**Fuel cost Q4  
MSEK**



## Jet fuel and currencies

### Jet fuel

- Policy to hedge 40-80% of expected fuel consumption for the next 12 months and up to 50% for the following six months
- Hedge position as at January 2018
  - 64% of expected jet fuel consumption hedged next 12 months
  - Mixture of call options and swaps

### Currency

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

Jet fuel cost sensitivity FY18, SEK bn*			
Average spot price	7.0 SEK/USD	8.0 SEK/USD	9.0 SEK/USD
USD 500/MT	6.1	6.8	7.4
USD 600/MT	6.5	7.3	8.0
USD 700/MT	6.8	7.6	8.4

Currency hedges*	
• 57% of USD hedged next twelve months	
• 70% of NOK hedged next twelve months	
* Based on hedge position as at 31 January 2018	

Max jet fuel price	Q2 FY18	Q3 FY18	Q4 FY18	Q1 FY19
USD 500-520/MT	80%	-	-	-
USD 590-620/MT	-	73%	39%	-