



CREATE AN EFFICIENT OPERATING PLATFORM

The world is changing and competition within the airline industry is increasing, which is placing greater demands on SAS's operations and competitiveness. For this reason, we are enhancing the efficiency and flexibility of our operational platform to provide the conditions for long-term profitability at SAS and to enable SAS to invest in the customer offering and growth. Since 2012, SAS has implemented cost measures with an earnings impact of some SEK 4.3 billion that have considerably enhanced our operational efficiency. Between 2017 and 2019, further efficiency enhancements of SEK 1.5 billion will be implemented and, in parallel, we are planning new structural measures that will gradually reduce the cost differential to newly established competitors.

MSEK

670

IN EARNINGS IMPACT
FROM THE COST
PROGRAM IN
2015/2016

MSEK

1,500

IN COST MEASURES
TO BE IMPLEMENTED
FROM 2017 TO 2019

MSEK

500

IN IMPROVED
PROFITABILITY
FROM WET-LEASE
OPERATIONS

15–20%

LOWER FUEL CONSUMPTION
PER SEAT KM WITH NEW
AIRBUS A320NEOS

Compared with the A320CEO



WE ARE DOING THIS TO IMPROVE THE FLEXIBILITY AND EFFICIENCY OF OUR PRODUCTION PLATFORM

- Standardization and simplification of SAS's production by streamlining the aircraft fleet.
- Increased aircraft utilization and more efficient planning for flight crews.
- Build-up of wet-lease production on regional routes and departures with lower demand.
- Outsourcing of ground handling services outside our three primary airports.
- Digitalization of the travel chain and increased automation.



WE ARE BUILDING A MORE FLEXIBLE SAS

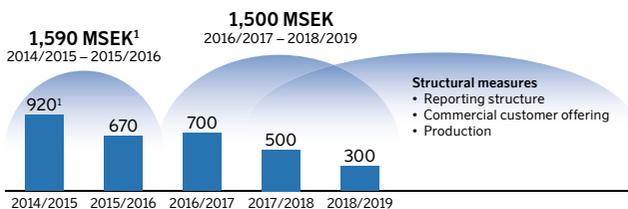
EFFICIENCY ENHANCEMENT OF WORK PROCESSES

SAS has been gradually implementing Lean principles into its work processes since 2010 to improve efficiency and quality in the long term. For example, we have introduced Lean principles to technical maintenance in Oslo, while in 2015/2016 we introduced Lean processes in Copenhagen and are now preparing their introduction in Stockholm. We are also increasingly implementing the Lean work process in administrative functions and other parts of SAS.

SAS EFFICIENCY-ENHANCEMENT MEASURES

SAS works continuously on efficiency enhancements and, from 2013–2016, these entailed savings of about SEK 4.3 billion. The earnings impact in 2015/2016 was SEK 0.7 billion. As part of this need for efficiency, SAS has identified additional opportunities. Therefore, we are now raising our target from SEK 0.8 billion to SEK 1.5 billion in 2017–2019. The actions are measured in gross amounts and encompass the entire organization.

IMPACT ON EARNINGS FROM SAS'S EFFICIENCY-ENHANCEMENT MEASURES, MSEK



Flight operations, government user fees and wet leasing - With-in flight operations, we are working on enhancing procedural efficiency and increasing productivity by scheduling flight crew among other measures.

The introduction of iPads for cabin crew means that we can enhance the efficiency of base procedures, give cabin crew better tools and improve the on-board customer experience.

We are investing in the aircraft fleet which, in addition to an improved customer experience, will enhance operational efficiency and reduce climate impact. Since autumn 2015, four Airbus A330Es have entered service and, in October 2016, we took delivery of the first Airbus A320neo of a total of 30 aircraft. SAS's new Airbus A320neo is about 15–20% more fuel-efficient per seat kilometer than our current Airbus A320s. Moreover, we are introducing more fuel-efficient procedures and are renegotiating aviation-related fees. Synergies have been achieved through the sale of Cimber to CityJet that further lower our wet-lease production cost. In total, we have identified efficiency enhancements corresponding to around MSEK 600 in 2017–2019.

Ground handling services - We have decided to retain our own ground handling services at our primary airports and are continuing to strengthen quality and productivity through digitalization of large parts of the operations.

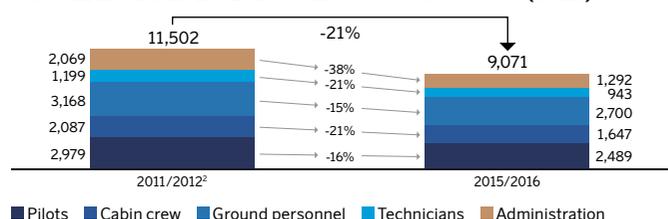
Moreover, we will increase automation and, through new collective agreements, increase flexibility and better adjust staffing to resource needs. Altogether, we are implementing efficiency enhancements of about MSEK 100 in 2017–2019.

Technical maintenance - Within technical maintenance, a new IT system was implemented for technical operations in May 2016, and means that we can substantially simplify and streamline our planning work. Through closer partnerships with our suppliers in 2016–2018, we will simplify and optimize our use of resources, which we expect to result in significant cost savings. In 2015–2016, we implemented Lean as a work process in Oslo and Copenhagen which has resulted in the time an aircraft is out of service due to unplanned maintenance decreasing significantly. The same processes are also being implemented in Stockholm in 2016–2017 and corresponding efficiency enhancements are expected. Altogether, we expect to realize efficiency enhancements of about MSEK 300 in 2017–2019.

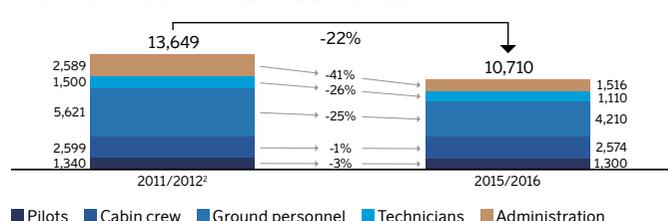
Commercial, administrative and other - Digitalization has enabled further efficiency enhancements and, since 2015, we have reduced the global sales organization by almost 100 FTEs.

In 2017, SAS will have implemented a new digital platform that allows the launch of new services and, at the same time, we will start installing the market's fastest Wi-Fi on the short and medium-haul fleet. We will also continue efforts to lower distribution costs. For example, we are increasing the efficiency of the invoicing process and reducing the number of suppliers. We are also continuing to renegotiate property agreements and to simplify our IT structure. Altogether, we are implementing efficiency enhancements of about MSEK 500 in 2017–2019.

PAYROLL EXPENSES EXCLUDING RESTRUCTURING COSTS (MSEK)



AVERAGE NUMBER OF FULL-TIME EMPLOYEES



¹ Includes SEK 0.3 billion from the 4Excellence NG action plan.

² Pertains to the 12-month period, November 2011 to October 2012.

STRUCTURAL CHANGES

The airline industry continues to change rapidly and, in parallel, the Scandinavian air travel market and demand for more long-haul routes and leisure routes to/from Europe is on the rise. With our extensive network, frequent departures and substantial customer base, SAS holds a strong market position in Scandinavia. SAS has a major opportunity to leverage market growth and to start additional long-haul routes as well as accelerate growth in the European leisure route market.

However, a lower cost structure and increased competitiveness are required if SAS is to leverage these exciting growth opportunities. At the same time, our 70-year history has contributed to our strong position, it also means that structures have been built that are no longer competitive. To leverage the market opportunities, we have to address the structural disadvantages that result in SAS having a higher unit cost than newly established competitors.

One of the measures we have implemented is the construction of a production model based on us operating a homogenous aircraft fleet and using strategic partners to manage production with smaller aircraft on those routes and departures with lower demand. This has enabled increased flexibility and streamlined and simplified production. We now have only two aircraft types for traffic in Europe. At the same time, through expanded wet-lease production, we can offer higher frequencies and more destinations.

However, we need to do even more. We are therefore planning further structural actions. The first step is to establish a new organizational structure to create increased ownership, and smaller and faster units. We will thereby increase transparency, which will facilitate the implementation of further efficiency enhancements, over and above the reduction of 1,000 FTEs in our administration by, among other measures, outsourcing outside of Scandinavia. Secondly, we have initiated a review of our customer offering. Over the past few years, we have implemented substantial and appreciated customer investments, but we have to ensure that we are offering that which is appreciated most in the continuously changing landscape of customer expectations. Therefore, we have to adapt the product to the prevailing willingness to pay, lower distribution costs, streamline the organization and reprioritize resources.

Finally, efficiency must be raised for ground handling services, technical maintenance and flight operations. After having outsourced considerable parts of our ground handling services and technical maintenance, we will continue digitalization initiatives to optimize resource utilization and planning. Moreover, we need to be more flexible and increase the productivity of flight operations. To leverage the market potential, we have to create the preconditions to compete on equal terms with our competitors. Therefore, we are considering shifting the focus in parts of our production by establishing airline operations based outside of Scandinavia.

WET LEASING INCREASES SAS'S EFFICIENCY

Questions for Mikael Wångdahl, external production manager



Why is SAS not managing this operation internally?

By allowing companies whose main focus is on such operations to manage them, we can increase the efficiency of our business while also simplifying and increasing the focus on our own production, thus increasing our own efficiency. The wet-lease agreements are more flexible compared to how it would be if we managed this production by ourselves, and they also have lower costs. This gives us a flexibility that can be combined effectively with our own operations and can thus improve SAS's profitability by about SEK 0.5 billion per year.

What is your working relationship with the strategic wet-lease operators?

We have a close relationship and work in a goal-oriented and collaborative manner to ensure the positive customer experience that our passengers expect when they fly with SAS. Close collaboration is the prerequisite for ensuring a long-term, stable partnership.

How long do the agreements last?

The agreements are for 3–6 years. We aim to have regular intervals between the expiry dates of the agreements. This reduces our exposure to an individual supplier, while also giving us the opportunity to adjust capacity if we need to.

How does SAS's wet-lease operation compare to other airlines in Europe?

We are pioneers in Europe. No other airline has built up an equivalent wet-lease operation in Europe. That said, several airlines in the US have extensive wet-lease operations.

How do you ensure stable operations?

We require the suppliers to have equivalent quality and safety standard to SAS's own product. We ensure this through continuous follow-ups. We work closely together at different levels to quickly identify potential problems and to improve quality and deliveries.



No other airline has built up an equivalent wet-lease operation in Europe.

