

RESULTS IN LINE WITH FORECASTS BUT FURTHER ACTIONS ARE REQUIRED

In line with our forecast, SAS posted positive income before tax and nonrecurring items in 2015/2016. The trend shows that our customer offering is generating a favorable response, but earnings were very negatively affected by currency effects and a lower yield, particularly during the second half of the year. The airline industry is changing fast as demand for air travel increases, particularly in terms of leisure travel where margins are lower and price sensitivity higher. Lower costs and greater competitiveness are required if we are to take advantage of the exciting opportunities for growth in this market. We are therefore raising the target for the efficiency enhancement program by MSEK 700 by 2019 and, in parallel, we are planning new structural measures that will gradually reduce the cost differential to newly established competitors.

SAS's income before tax and nonrecurring items totaled MSEK 939 in 2015/2016. It is pleasing to see that our strategy and focus on frequent travelers is having an effect. During the year, we received a positive response to our product investments, which contributed to 29 million travelers choosing SAS in 2015/2016. However, market conditions deteriorated in autumn 2016, not least due to an unfavorable currency trend that had a negative impact of SEK 1.7 billion on earnings. The yield trend and the airport departure tax introduced in Norway also had a negative impact on earnings.

The deterioration in market conditions, together with maturing borrowings and the aircraft financing need, all underline why we need to maintain a high and ambitious pace of change. Digitalization of the customer offering and our operations will be key to these efforts.

A STRONGER OFFERING

In line with our strategy to focus on frequent travelers, we have targeted our efforts to develop the product by using innovation and increased digitalization to simplify life and strengthen loyalty in this target group.

We have continued during the fiscal year to focus on product investments for our primary target group. Based on this strategy, we completed our investment in long-haul routes in September, using capital efficiently to expand the aircraft fleet from 12 to 16 aircraft, upgrading cabin interiors, opening new lines to Boston, Los Angeles and Miami and increasing the frequencies on existing lines. The investment has been well received, we have more passengers than ever and our customers are more satisfied.

Our next step is to upgrade the cabin interiors on our short and medium-haul fleet, and to install the market's fastest Wi-Fi on all our Airbus A320s and Boeing 737s in Europe. In October 2016, SAS took delivery of its first Airbus A320neo aircraft and will receive a further 12 aircraft over the next fiscal year. In addition to the aircraft being 15–20% more fuel-efficient and significantly quieter, the upgraded cabins enhance the overall travel experience.

Digitalization creates possibilities to improve our offering and enhance efficiency in line with our strategy. Our new website was finally launched at the end of November 2016. The simplified booking flow and the new digital platform mean that we can increasingly tailor offerings moving forward and offer an increasing number of popular supplementary services. All cabin crew

were equipped with iPads during the year to enable a more personal level of service while simultaneously simplifying on-board processes and making daily life more efficient for cabin crew. Together with more product improvements achieved through our digital investment, this aims protect our customers' time while simplifying the travel experience.

A cornerstone of our investment in frequent travelers is the EuroBonus program. It has continued to grow and, during the fiscal year, we saw a total of 0.5 million new members join. Perhaps the most pleasing aspect is that we have seen members increasing their travel by 6% during the year, which is more than SAS's other customers and demonstrates increased loyalty. As part of the investment in a new digital platform, we will gradually launch further product improvements in 2017 that aim to make it easier to use EuroBonus points when booking tickets.

DEVELOPED OPERATIONAL PRODUCTION PLATFORM

To increase its competitiveness, SAS has built a production model on a scope that has never previously been seen in Europe. It is based on us operating larger aircraft and on strategic partners managing production with smaller aircraft where demand is lower. The production model has led to us refining our own aircraft fleet while increasing flexibility through our partners and better adapting production to seasonal variations. In 2015/2016, eight CRJ900s successfully entered service, while over the past three years until spring 2017, 25 brand-new aircraft have been phased into service through our partners, corresponding to an investment of about SEK 5 billion. This cost-efficient operation provides annual savings of about SEK 0.5 billion and we have identified further development opportunities.

At the same time, the airline industry continues to change rapidly through external production companies and network airlines, which are starting their own low cost carriers. In parallel, the Scandinavian air travel market and demand for more long-haul routes and European leisure routes 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. The EuroBonus membership base also provides possibilities for broadening the offering, which we have started on a smaller scale with the SAS Dreams concept. However, a lower cost structure and increased competitiveness are required if SAS is to develop these exciting growth

SUCCESSSES DURING THE YEAR

- ✓ Successful investment in the intercontinental markets.
- ✓ Phasing-in of 8 wet-leased CRJ900s.
- ✓ Phasing-in of the first A320neos in SAS's aircraft fleet.
- ✓ SEK 0.7 billion earnings impact from the efficiency enhancement program
- ✓ New digital platform implemented that will enable several improvements for customers in 2017.



opportunities. While 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 these market opportunities, we have to address the structural disadvantages that result in SAS having a higher unit cost than newly established competitors.

In 2013–2016, SAS implemented efficiency enhancements with an earnings impact of SEK 4.3 billion, of which the effect in 2015/2016 was SEK 0.7 billion. As a natural response to the changed market conditions, we are now raising our target from SEK 0.8 billion to SEK 1.5 billion in 2017–2019.

However, we need to do even more. We are therefore planning further structural actions aimed at generating a considerable impact. The first step is to establish a new organizational structure to create increased ownership, smaller and faster units, and greater transparency. We will thereby be able to implement further efficiency enhancements, over and above the reduction of 1,000 FTEs in our administration by measures including outsourcing. Secondly, we have initiated a review of our customer offering. Over the past few years, we have implemented substantial and valued customer investments, but we have to ensure that we are offering that which is appreciated most in the continuously changing landscape of customer expectations. To a greater extent, we will therefore have to adapt the product to customer demands, lower distribution costs, streamline the organization and reprioritize resources.

Finally, efficiency must be enhanced for ground handling services, technical maintenance and flight operations. After having outsourced considerable parts of our ground handling services, including line stations in Norway in February, as well as 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, SAS must have the same conditions as our competitors. Therefore, we are considering shifting the focus in parts of our production by establishing airline operations based outside of Scandinavia.

As a company, we have to create shareholder value to be able to invest in our future and to remain relevant for our customers. Therefore, improving SAS's efficiency is a crucial and existential issue for the company.

FINANCIAL POSITION AND OUTLOOK

Improved profitability and the implementation of structural measures are necessary to develop our business and strengthen our financial position ahead of future investments and maturing loans. In 2015/2016, we worked on the strategically important financing of our A320neo order and now have sale and lease-back agreements in place for 18 aircraft.

We are now starting an exciting year in which I visualize major opportunities for SAS, but it is also a year of many challenges. Uncertainty in the macro environment has increased and, at the same time, exchange rates and jet-fuel prices are volatile. Higher jet-fuel costs and a lower yield will result in significantly lower earnings for the first quarter of 2016/2017 year-on-year, but we still expect to post positive income before tax and nonrecurring items for 2016/2017. The full outlook for 2016/2017 is presented on page 55.

Stockholm, January 31, 2017
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