

FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the SAS AB first quarter 2007 earnings conference call. My name is Tanya and I'll be your co-coordinator for today. [OPERATOR INSTRUCTIONS]. I would now like to turn the presentation over to your host for today's conference, Mr. Sture Stolen, Head of Investor Relations. Please proceed.

Sture Stolen - SAS AB - IR Director

Yes. Thank you very much. Welcome everyone to this first quarter teleconference. We in Stockholm are present here, Mats Jansson, the CEO; we have Gunilla Berg, the CFO and also the Investor Relations team. We have a slide presentation that will take around 15 to 20 minutes and after that we'll have a questions and answer session so I ask you to hold your questions until after the presentation. And I think, with that, I will leave over to the CEO, Mats Jansson. Go ahead, Mats.

Mats Jansson - SAS AB - CEO

Welcome to this conference and, as you know, we have started this morning with having a press conference here in Stockholm [inaudible] at our headquarters. And yesterday we had also Board meeting in the SAS Group. And I started the press conference this morning with talking about the consequences of the wildcat strike in Copenhagen last week. And we discussed it also at the Board meeting yesterday.

And this situation we are in, to call it, an unstable situation for the whole Company when we talk about the wildcat strikes has also an effect on the strategy and the strategy work and how to implement the strategy for the following years. And, as I said this morning, I felt that we have [battered] our customers and we feel also that, when a wildcat strike is ongoing in the Company as it was last week and the consequences are so tremendous, with about 700 cancellations, it cost us about SEK100m and it cost us a lot of bad image and bad reputation. Therefore, we had to discuss internally in the Board. I said it this morning, the consequences in the short term and also in the long term, in that type of behavior.

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And I announced this morning one important consequence is to switch over the capacity and the production from the Copenhagen area into the Oslo area and also the Stockholm area. And then I'll talk about the defined [direct] destination between Copenhagen and Oslo and also a destination between Copenhagen and Stockholm, so the switch of production resources is allocated to those destinations, no other destinations.

And this is very important to understand and I also gave my comment about the overall traffic program and the role which Copenhagen has, as a hub for the whole Scandinavian Airlines, and they are still having the hub role in the Company. It is very important to understand that and not to speculate that step two in this direction is to start direct flights from Oslo and Stockholm to Europe or to the United States and Asia and so on.

This consequence program, you can call it, is related, as I said, to Copenhagen/Oslo, Copenhagen/Sweden and so people from, and resources from Norway and Sweden are going to manage those flights in the [following years]. It takes about three to seven months to change this, to start this because it's a lot of practical things to manage and so on.

So this was one important message and it was also an important [thing] of not a new culture in the Company but if we compare with the history, and I said in the press conference that we have a very bad track record in history where we talk about illegal or wildcat strikes, especially in Copenhagen. And when we look 10 years back, we can see that 73 wildcat strikes during this 10-year period and the last five years about 30 to 40 wildcat strikes.

And it's not so -- and then you understand that these areas are very unstable area and that's why we switch. Because we are related to the customer. We are a customer-driven Company. We have 38m passengers. We have to take care of the passengers, that's very important for us and the main goal for us, the main topic for us. That's why we switch over to areas which are more stable, if you compare with the Copenhagen area.

Another consequence we discussed in the Board yesterday and, as I told the people on the press meeting this morning, was that we are going to postpone or change launching time of the strategy 2011. That doesn't mean that we are going to adjust things in the program, or change the program, or compromise in the program.

For me, it's nearly the opposite because during this now serious situation related to the wildcat strike in Copenhagen, we had to take time now for a serious discussion, once again, in the Board and also with the main owners, with the three governments, about the starting position for SAS for the following years. And maybe to identify even more important activities or topics to include in the program, because we have to be convinced when we launch a program that it's stable, it's consistent and so on and that we have an environment which can take care of the different activities in the program for the following years.

So, instead of launching the strategy 2011 program in mid-May, we are going to launch it during June, instead. It's a three to four weeks delay, something like that. So that was what we started with at the press conference this morning. And, once again, I think this is very important thing of internal and also external that we are consequence in all our activities and in our relations with the different groups in the Company. And this action, or consequence activity is driven from and related to the customer need and customer demand; nothing else. It's not an example of a fight between the trade unions and the Group management team in SAS. It's only a fact-driven activity.

So, let's switch over to the first slide. As you can see still the growth is quite good, the underlying growth, the GDP growth is quite good. And we are a part of that growth. And you can see that, in all our markets, we have a good growth and particularly in Finland and also in Norway.

And if you switch over to the next slide, you can see the total profit or result for the first quarter. And this is my first quarter now in the Company, also, and I'm happy for [to presenting over] a good improvement in the Company and it's based on all the activities which have been implemented also in all the sectors for [steering model] from the old [growth] management team. We're still working that way so the improvement is nearly SEK900m.

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Remember that we have nearly SEK1.4b in [minus] first quarter last year. And we reached about 460 or SEK470m in losses first quarter. The first quarter, as you know, in this airline Company is quite weak. The second and third are much better and the fourth is something in between, something like that.

So we are very happy for this positive sign and, as we say in the report, it's a combination of a good business cycle, the good demand and also related to internal improvements when you talk about the way we steer the capacity and the yield and the overall cost control in the Company. It's a combination of those four things, the cycle and internal activities.

And Gunilla's going to tell you about the details in the results that the overall Company, the Scandinavian Airlines subsidiaries, they had very good improvements in this first quarter, as they had for last year '06. And we can also see some positive signs in the Group of [Individually Branded Airlines] especially in Blue1 and Wideroe also airBaltic is in line with their [own] plan.

Spanair has not big problems, but a little bit of disappointment in January but they improved in February and also improved a little bit more in March and Gunilla is going to tell you more about the result of the Spanish activities.

So, overall, we are quite satisfied with the results but, as we have said before, [our plan] we are going to explain it in detail in June when we present the strategy plan. The gap is still about SEK3b, SEK3.5b compared with the starting point last year of SEK1.2b. But it's a positive sign, it's a positive trend, so we are a little bit [happy]. Please, Gunilla?

Gunilla Berg - SAS AB - CFO

Okay. Good afternoon. If you look at the first slide you will see the results of the first quarter for our different business areas. The Group, as Mats said, we had a negative result of 469 but we are very pleased with the development for the Group with an improvement of more than 800m. And the result is mainly driven by the Scandinavian Airlines and I will come back to that.

We had for the business area, Individually Branded Airlines, a negative result of 343 and also negative change. The reason for both these figures are Spanair, as Mats mentioned. And Spanair has a very negative season [impact] and they are earning their money in quarter 2 and, especially, in quarter 3. The reason for the negative aviation compared to last year is mainly due to that they have had a rather high technical maintenance costs, mainly as a result of a delivery of aircraft. So if you take away that they are almost on the same results level as last year.

The [other] airlines, Wideroe, Blue1 and airBaltic developed, in our view, in a positive direction. For STS and, especially SGS, we have the same reasons for the result development as last year. Lower prices both internally and externally affects negatively the results, since they have not so far been able to adjust the cost level at the same time. [SAS] were also affected by lower volumes within, especially within [airplanes].

If you look at next slide you'll see the results development for our Scandinavian Airline Company. We have improved the results in all the four companies. The reasons are, as Mats mentioned, good [cabin] factor, good [deal] development, due to the good business cycle, our new business models and also the capacity adjustments we have done, especially in January and February where we have a lower demand. And these combined with our ongoing cost program gave these rather good and impressive result [demand] development.

Last year we were negatively affected by the pilot action we had in Norway and in Denmark. It is notable that we for, quarter 1, have an EBIT margin of almost 7% in both Norway and Sweden. Results for our Intercontinental operation is very seasonal, but if you look at the 12 month rolling figure for the Intercontinental business we are close to 200.

If you look at the next slide you can see our cost program, which is the [running] cost program we have [for] Scandinavian Airlines and in ground services and technical services. At the end of March we had implemented 85% of the activities and on

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the slide you can see some example of the activities we have implemented. But this program is a turnaround to 2005 through almost all areas within Scandinavian Airlines in ground and technical services. Okay, Mats?

Mats Jansson - SAS AB - CEO

Yes. Now you can see the slide, you have seen this before, I believe. It's a more description of the structure of the strategy [working]. And as I said before, we are going to postpone it until mid June, then we're going to present it for you and for all people internal also, then we'll have a separate press conference and so on and so on.

And, as I said before, we need now the time to have internal discussion and to reflect and think after what happened with the wildcat strike, what are the consequences, how we see the environment for the future for changes in the Company and so on. And we also have to have a discussion also with the employees and also the trade unions [during] this time.

I feel very confident when we talk about the strategic plan. We have made a very good and successful [work] together in the new Group management team and also when we have discussed the strategy during [the] different [targets] in the Board. So we feel, as I said, very confident in the plan so far. Maybe, as I said before, we are going to define even more new activities for the plan and, therefore, I feel it could be even more stable and even more a robust plan for the following five years.

The main activities or cornerstones in the strategic plan, as I've mentioned this before, it's still to implement, you can call it, a new cost efficiency program and also to launch and implement in our growth plan program. And also a program of activities to maybe change some part in the structure of the whole Company.

And also one part is going to be, which is very important, especially in airline companies, especially in SAS Group is a [as we forwarded that on track that] we have in co-operation between the management and the trade union and all those wildcat strikes. We have also a plan for implement and launch, you can call it, an employee program in different parts, soft and hard parts. So let us come back in June and talk about the program.

Next slide, you have also seen before, you have heard before. I want to mention again the, let's call it, the second phase of the new commercial initiative we have taken, the SAS Group. The first was for about two to three years ago when we started the one-way pricing system, which has been a revolution for the Company and I think also for the customer.

And, number two, when we talk about the commercial initiatives [of taking out] for [nearly] a month ago when we introduced a two-class system in Scandinavia, a three-class system in Europe and so on, and reduced the prices in the [middle-class] concept called Extra class and so on and so on. So we have felt that those initiatives have been very good and on the feedback from the customer has been very, very good. I think this is a very positive initiative from SAS and for the following years when we present the plan for 2011 one part, as I said, is the growth plan which includes also that we have to take even more initiatives when we talk about our product, our concept and so on and so on.

So if you look at the last slide, that picture sums up this first quarter and the starting point. So we are relatively satisfied with results, positive signs, but still it's a gap, and we have to reach other and higher levels in future. It's a combination of, what Gunilla said, a good balance between the cabin factor and yield which leads us to good results, a new business model. It's also very important, overall I must say nowadays, the good cost control and the capacity focus.

Next phase, as I said, to launch and implement very [consequent and hard] the different parts in the strategy. And the overall outlook, as we said before in February also, we expect that the market is going to be quite strong. We are still in a very good business cycle and we are going to grow in line with the overall growth, maybe even more, maybe. And there are some difficulties to measure and to evaluate the strength of the future growth and also the fuel prices and also the effect of the hard competition in the marketplace.

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So, that was all the information from our side and let us know have a dialogue. [Inaudible] questions and answers, good questions and good answers. Hello, operator?

QUESTIONS AND ANSWERS

Operator

[OPERATOR INSTRUCTIONS]. Your first question comes from the line of Chris Avery of JPMorgan. Please proceed.

Chris Avery - JPMorgan - Analyst

Two quick questions. Firstly, 16% improvement in Q1 yield but on a comparative that had pilot disputes affecting business in Norway and Denmark. Should we look for a 16% rate of yield improvement to be anything like continued in Q2 or Q3? So any kind of guidance on how that one will move going forward would be helpful.

And secondly, at Spanair, additional maintenance costs appear to be the main reason for nearly SEK150m worth of deterioration. Can you enlighten us on how additional maintenance can finish up costing that much? Thank you.

Mats Jansson - SAS AB - CEO

Gunilla?

Gunilla Berg - SAS AB - CFO

The first question is that we have had a very good yield development this quarter. You can't expect that good development for the rest of the quarters, since we are meeting much tougher figures from second quarter up to the fourth quarter. So don't expect that, please.

Chris Avery - JPMorgan - Analyst

Quite. Would you really like to point in a direction, or does it decay back --

Gunilla Berg - SAS AB - CFO

[No]. As we have said, for the first half of the year, it will be a positive yield effect. For the second half, you can expect about stable.

Chris Avery - JPMorgan - Analyst

Okay, that's good guidance. Thank you. And the Spanair [thing]?

Gunilla Berg - SAS AB - CFO

For Spanair, we have had this quarter -- the main reason for this that we had re-delivery of, I don't really remember the number of aircraft, but I think we have had re-delivery of about five aircraft. And when you re-delivery an aircraft you have to get them to a normal, what you say, a normal standard back again.

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Chris Avery - JPMorgan - Analyst

This is re-delivered to lease companies?

Gunilla Berg - SAS AB - CFO

Yes, re-delivered to lease companies and they will be changed to some other aircraft. And some of the reasons, about SEK40m, is due to that we have a dispute to some suppliers. Part of that has been to our own technical services about costs prior year, and now this dispute has been settled and Spanair has to pay another SEK40m for this. About SEK100m is due to the re-delivery and about SEK40m is due to this dispute.

Chris Avery - JPMorgan - Analyst

The re-delivery conditions on leases are known in advance, is it that you just weren't providing enough on a monthly lease basis -- on the monthly lease or?

Gunilla Berg - SAS AB - CFO

[We haven't] had that arrangement and we are not allowed to do that provision by yourself, but we haven't had that arrangement with the lease agreement so that's why they are coming, a rather high cost to lease aircraft. They are old lease agreements.

Chris Avery - JPMorgan - Analyst

Okay, let's hope that doesn't recur. Thanks.

Mats Jansson - SAS AB - CEO

Thank you.

Operator

Your next question comes from the line of Lars Heindorf of ABG. Please proceed.

Lars Heindorf - ABG Sundal Collier - Analyst

Yes, two questions, if I may. One relates to the situation in Sweden. I don't know if you can give us some flavor about the competitive situation following the FlyMe closure earlier this year, and maybe also a little bit about sort of what you expect for capacity growth and [per] yield?

And the second question is relating to the technical services. The revenue declines year on year in the first quarter, but operating expenses increased despite that you have done some cost cutting there on [solar] during the course of last year. Could you please explain what causes the jump -- the cost to go up there in the technical services?

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Mats Jansson - SAS AB - CEO

The first part [really is] FlyMe and we had a discussion about that this morning also about, not only FlyMe, it was also about the consolidation process in the whole market and one example is FlyMe.

And another example is Finnair and FlyNordic and we have other examples in Europe and around the whole world. What has happened now [we are] a part of that process we discussed this morning. And, as I said and Gunilla said, the whole strategy for the following years which we are going to present in June, it's related to the structure we have today. We are not going to present our goals or targets when we talk about non-organic growth. So it's a standalone case to grow the profit from today's SEK1b up to the SEK4b, SEK4.5b.

And so FlyMe, for us, is only one example of the change in the structure of the airline industry. And the effect on top line and bottom line, we can't measure it substantially on the Group level. Maybe it could have had some effect on the Swedish operation, but it's relatively small.

Lars Heindorf - ABG Sundal Collier - Analyst

But the yields have been very, very strong now for some time in Sweden. Have you seen a positive impact on the yields following the closure of FlyMe?

Mats Jansson - SAS AB - CEO

Not as far as I can see, no. Okay, next -- the other question was about technical service?

Lars Heindorf - ABG Sundal Collier - Analyst

Yes.

Mats Jansson - SAS AB - CEO

Gunilla?

Gunilla Berg - SAS AB - CFO

Yes. As we have said that [some] technical services has to really focus on the delivery quality, since we have had some problems with the delivery quality from [some] technical services. And the cost increase you see there are that they have put in more resources, especially in line in Copenhagen. But also we have had some external help to look at the processes so we can streamline the processes and really have a good quality in all our processes. That's why you can see some cost increase[ment]. And the focus from, we have said, from the Group management is that they have to focus on the delivery quality. That's why they are little -- they don't do so much now on the cost side because they have to focus on this.

Lars Heindorf - ABG Sundal Collier - Analyst

Is that something that will continue throughout the year? Will we see that this is mainly related to the first quarter, yes?

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Gunilla Berg - SAS AB - CFO

Yes, I think you should expect that we will have a rather bad result for technical services this year.

Mats Jansson - SAS AB - CEO

Yes. And the improvement in 2008.

Gunilla Berg - SAS AB - CFO

'08.

Mats Jansson - SAS AB - CEO

Yes.

Lars Heindorf - ABG Sundal Collier - Analyst

Alright, thank you.

Mats Jansson - SAS AB - CEO

Thank you very much. Next?

Operator

Your next question comes from the line of Andrew Lobbenberg of ABN Amro. Please proceed.

Andrew Lobbenberg - ABN Amro - Analyst

Hello, there. Three questions, if I may. The situation with the Danish crew doesn't sound particularly stable. I know it's hard to quantify but what is the risk of further industrial action at the moment?

And second question is that cargo revenues don't appear very strong. Should we expect that to remain weak through the year? The yields looked to have dropped quite sharply.

And, third question, I think there was some stuff in the press about you guys being interested in increasing your stake in Estonian. Is that right and what's the timeline, or when do we hear news on that?

Mats Jansson - SAS AB - CEO

Okay, if I start with the Estonian. What did you say that you have heard rumors?

Andrew Lobbenberg - ABN Amro - Analyst

Yes. Are you going to buy it?

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Mats Jansson - SAS AB - CEO

Buy?

Andrew Lobbenberg - ABN Amro - Analyst

Yes, or increase your stake.

Mats Jansson - SAS AB - CEO

Okay, buy. I thought you said the opposite, that you should divest the stake, okay. I don't want to make any comment on Estonia or Baltic, the ownership structure with [BMI], or our agreement and so on. Let's come back to that when we present the whole strategy in June. That was the one question.

The other was about the Danish crew and the risk when we now switch the production to Stockholm and Oslo, the risk for new wildcat strikes. I believe that we are not going to see any more wildcat strikes but I can't guarantee that.

But when we discussed this matter in question seriously and during a long time yesterday in the Board meeting, when we look at the risks, when you act like we are doing now, very consequent, then it's a risk by definition that it could be even one more wildcat strike. So we have calculated with that but we hope that we are not going to see that, absolutely. But we have calculated with that, yes. When we took the decision we had a discussion about that. We have to take that risk.

And then we have the cargo question for Gunilla.

Gunilla Berg - SAS AB - CFO

But you can answer the Estonian question?

Mats Jansson - SAS AB - CEO

I think I answered the Estonian.

Gunilla Berg - SAS AB - CFO

Okay, I didn't listen. Okay, about the cargo revenue, the main reason is that we lost Norway Postal Company last year. Then you have two other that you mentioned and that we have some negative currency effects and also there are still a rather high yield pressure in this kind of business.

Mats Jansson - SAS AB - CEO

[Good.] Okay, next?

Operator

[OPERATOR INSTRUCTIONS]. Your next question comes from the line of Faisal Ahmad of Handelsbanken. Please proceed.

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Fasial Ahmad - *Handelsbanken - Analyst*

Yes, gentlemen, this is Fasial Ahmad from Handelsbanken. Two questions, if I may. The first one relates to your new Economy Extra offering. Could you try and give us some flavor on how this has been received by customers and what kind of impact on yields we should expect from this offering during the year?

And the second question is more a question to Gunilla. Could you provide us with some guidance on full-year depreciation costs and also [net] net financial costs? Thank you.

Mats Jansson - *SAS AB - CEO*

If I start with the Economy Extra, I think, as a new guy in the team, coming from the outside we have had a lot of discussion about your concept and our product, what kind of offer should we have for the customer in the future. I believe and I think you're also going to see that when we present the whole strategy for the following year that we had to take care of two groups of customers. One is the distance related group and the other is, you can call it, leisure related.

And you know, about 60% of our customers are distance related. The rest, 40%, is quite a strong group, leisure related. So I think there are needs for having nowadays in this economy, with this demand, to have a two-class system in Scandinavia, which we introduced four to six weeks ago. And also the three-class system on the strongest destinations in Europe is also a good thing and also to have still the three-class system in the long-haul operation.

One important part for the future, when we look at the configuration in the aircraft, for example, to Europe from Scandinavia, we can see the trend that the Extra class is expanding. Business class, the share of business class passengers has decreased since four, five, six years ago, something like that. And a very important part in our strategy also, from a financial point of view, we're talking about yield and so on, is to make the Extra part or class even stronger in the future. And the demand is very good for that class and I feel that the customers are quite satisfied with the offering in this class.

And one new initiative, as you know, when we introduced the new program four to six weeks ago, something like that, was also to be more price competitive in the Extra class by, I think, you choose one [price point level] from the Economy level up to the Extra level. And the reaction from the customer has been very good for that. So the key issue, when we talk about return to make the Extra class stronger and bigger for the future, and I can see also this is a pattern when you look at other airline companies around Europe and the whole world. So let us switch over to Gunilla.

Gunilla Berg - *SAS AB - CFO*

Yes, and we don't guide, especially on the yield development in different classes. As I said, our general yield development [expectation] is that we will have a stable second half of this year.

The second question about what we expect about the depreciation level and the finance net. The depreciation level we will have about SEK2b and the finance net we expect to be about SEK0.6b for the full year.

Fasial Ahmad - *Handelsbanken - Analyst*

Okay. Just a follow-up question on the new Economy Extra class. If this concept has been taken so positively by customers, how does this compare to your flat yield guidance for the second half of the year because, as far as I know, this new concept has been implemented at the end of March. Shouldn't we see an acceleration in yield development in the second half of the year?

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Mats Jansson - SAS AB - CEO

As new in the Company, being the Head of the Company, having [lined] what Gunilla say, and she is very careful when we talk about guidance in different crucial important parts, I don't want to give any guidance about the yield development.

Gunilla gave you some overall guidance about the yield and expectation for the following year, but the different parts on yield level in different classes and so on, we can't go into that now. But, as we said before, we are in a good business cycle. The Company is still in another way nowadays, you know, more consequence when we talk about the capacity yield and whatever. And the combination of a good economy and that we have taken a lot of initiatives on the commercial side, in the way we steer the Company, I think we, this year should be quite a good year.

Fasial Ahmad - Handelsbanken - Analyst

Okay, thank you.

Operator

You have a follow-up question from the line of Lars Heindorf of ABG. Please proceed.

Lars Heindorf - ABG Sundal Collier - Analyst

Just regarding the [ECA] agreements with Lufthansa and BMI, I can see that you have lost almost the same, or actually a bit more in the first quarter compared to last year. I don't know if you could give us some sort of guidance on that? Up front, I would have thought that now that BMI is making a bit more money and Lufthansa as well, that the cost associated with this Joint Venture should decline in 2007?

Gunilla Berg - SAS AB - CFO

It's a rather complicated agreement, this ECA. [Technical difficulty].

Mats Jansson - SAS AB - CEO

Okay.

Operator

This now concludes the Q&A session. I'd like to turn it over to management for closing remarks.

Mats Jansson - SAS AB - CEO

So, thank you guys for this meeting and, as we said before, we hope to see you, meet you, to hear from you again in June, in mid-June, I believe. So thank you very much and goodbye.

Gunilla Berg - SAS AB - CFO

Goodbye.

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Operator

Thank you for your participation in today's conference. This now concludes the presentation. You may disconnect. Have a great day.

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