

FINAL TRANSCRIPT

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the SAS Group second quarter conference call hosted by Sture Stolen. My name is Stephanie and I will be your coordinator for today's conference. For the duration of the call you will be listen only mode. However, at the end of the call you will have the opportunity to ask questions.

(Operator Instructions)

I am now handing you over to Mr. Sture Stolen. Thank you.

Sture Stolen - SAS AB - VP, Head of SAS Group IR

Yes, thank you, operator, and welcome to this SAS Group second quarter teleconference. Present here in Stockholm is our CEO, Mats Jansson. We have our CFO, Gunilla Berg, and we have myself and my colleagues and Gunilla. We have, as usual, a short slide presentation that you will -- I hope you have found on the website, under SAS Group Investor Relations. Around 12 slides should take around 30 minutes and then we can have a Q&A session after that. So, with that, I will leave over to Mats to go through the presentation.

Mats Jansson - SAS AB - President and CEO

Thank you, Sture. Hi, there and welcome to the press conference -- to the conference. As Sture said, I start and after me we are going deeper to the figures and what is happening around the different subsidiaries in the group. We have [all the data]. If you start with the highlights of the first half this year, to give my comments on the first half year, overall comment.

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Let me start with the figures and the results. And also related to my background after now two quarters in the group, formally and informally two months, before that we have to put the results, I believe, in the perspective of the history. And as you know, when you have followed SAS from 2001 until the end of 2005, the group had losses with about SEK6 billion. And after a lot of different activities -- one was to reduce the cost level with about SEK16 billion, we reached a profitable breakthrough during 2006 with about SEK1.2 billion in underlying earnings.

And when we started the strategy work for 2011 and made our internal calculation and simulation for the following years, we should end up with a profit about SEK4 billion. We had, for 2007, we have a starting point and financial starting point and earnings starting point. And the development of this second quarter and the first half is in line with our calculations and simulation, which we made in the early this year in January and February. This looks very good and stable and secure for us.

If you look at these figures in detail, separated for the first half and also for the second quarter, my comment is that we have for the first half an improvement with about SEK1 billion compared with last year, which is very good. And if we separate the second quarter and also if we adjust it for the strikes and some other extraordinary items, the improvement of the second quarter is not only SEK150 million, SEK160 million, it's about SEK500 million. I think it's fair to say that.

And so, the reasons for this development is, as it was also during the whole 2006 is the combination with different [wags] of the good business cycle and another way to steer the company, which means that we have more stable and more balance between yield development and also the load factor development and also that we now run and steer and have control over the capacity questions more than ever before. We have learned a lot during the four or five year crisis the group has gone through. So, the management team, both on the group level and on a subsidiary level are more capable now to operate and steer such a difficult company as an airline company.

So, that was my comment about the -- overall comment about the results. Another highlight is that we, during this period, as you know and remember because you joined also the analyst conference we had in June together with Sture, we launched the Strategy 2011, which was a little bit postponed because of the strike in Stockholm. And I think it was four or five weeks postponed. And I'm going to -- give my more comment on that later one, but now we have started after the summer holiday and start up to go through the master plan of the 2011 strategy in the group management team. We are going to do that every week in our management team to have full control to steer all those different activities which is going to implemented in the group.

And you know the different activities. One is to sell off the shares of Spanair and bmi. another is to launch a new profit sharing system or shareholder system, et cetera, et cetera. So, it's different topics, but we have full control over the agenda for the following years, I believe.

Strikes -- yes, we have had strikes. You have followed that. Unfortunately, we have had -- I think it's four strikes during this period. The most important, from a financial point of view, also a brand point of view was the strike in Copenhagen and also not followed up, but number two was the strike in Stockholm. The cabin strike, which was in five days, if I remember right. And the Copenhagen strike was about three days.

And as we mentioned in the report, those strikes have cost us about -- more than SEK300 million. And we had almost the same amount last year when we had strikes in Norway and also in Denmark. And that's why we give so high a priority of what we call the cultural turnaround, which has different topics in itself. And we hope that all those activities which is under the cultural turnaround umbrella is going to lead us to stable and strike-free company in a couple of years. I can come back to that later on.

You can see also on the next slide and I mentioned as one of the reasons for still good results, not the level, quite far away from what level we should have in the future, but we have a good sign, a good trend when we talk about result and cash flow. One reason, as I said before, is that the business cycle is quite good. And as you can see on slide number three, there are quite good growth in the market where we're talking about the airline operation, airline industry and passenger growth. It's two, three times, somewhere four times more than the underlining GDP growth.

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And we are also growing in the whole group and per June, the total group, passenger group, has been about 6%. And after those strikes, when we see those 6% and also good figures in June and also July's figures, which is maybe the best ever, about 8% or 10% in growth. Then we feel also after the strike that the customer are still quite confident on the SAS. And I believe also that the commercial initiative which we implemented in April -- you have heard about them before -- they have been quite successful. And the customers like the changes we have made in the Scandinavian traffic program with two class system and also three class system, which we have now more distinct and clear than ever before in Europe.

And also some improvement we have made conceptually in the intercont traffic also reducing price in extra and also some activities in our -- on our airports. We talk about fast track and so on. So, all of those very important things together has increased the quality of our customer offer. So, the combination of what we have, as management still signalized about the change of our mindset in the group and to make this necessary cultural turnaround together with those commercial initiative has been quite -- the customer has appreciated the initiative we have taken.

So, next slide, is about what I am comment overall for a couple of minutes ago. And therefore, I hand over now to the Executive Vice President and CFO of the SAS group, Gunilla Berg.

Gunilla Berg - SAS AB - EVP and CFO

Hi. Gunilla speaking. I would like to start with the first slide and I must say to give the fair view of the result development of the group, we had to adjust for some effects. Sorry, this -- the first slide was about the financial targets. Sorry. I'll start with that. And you know we have launched some new financial targets within the Strategy 11. We raised our return target from 20% to 25%. And the main reason for that is that our average age of our fleet will increase during the next coming years before we start to renew the [lower] fleet, especially on the MD fleet.

We also needed to have a target which is more easy to communicate, especially internally. And my experience is that it's more easy to communicate a result margin target. And therefore, we have complemented the return target with EBT margin target. And then you can ask why did we chose EBT before EBIT, which a lot of companies choose. But since we have a lot -- a rather large part of our fleet on leases, but we own about 25% of the fleet ourselves, it's for us natural to talk about the EBT. So, the corresponding figure for the return target is 7% EBT margin. And then you can translate these to earnings of about SEK4 billion. And then you have to remember that in that figure we have excluded Spanair, which our intention is to dispose.

For the subsidiaries, we had the same need to get some target that is easier to communicate. Before they had some return targets and now we talk about the EBIT margin for them because that's natural. And they lease 100% of their aircraft, except Sverige that owns some of their aircraft. And if we look at technical and ground services, they have rather limited number -- limited capital employed.

Therefore, the airlines we put on a target of 9% and that corresponds more or less to the old targets they had. So, there's not really increasement of the targets. But there is another target except in another way. For Wideroe, we have 7% in sale turnover is rather high compared to the capital they employ. And for technical and ground we have 5%, [prospective] 4%. For the target for the financial strength, we adjusted some. As we have for the adjusted debt to equity ratio, we think it's more natural for us to talk about adjusted equity to asset ratios. Before we had a target for the equity to asset ratio. It seems the same explanation. We have a lot of lease capital, so it's more natural to talk about that.

They have the same level for the adjusted debt to equity ratio, below 100% and then we have a target for the financial preparedness of 20% of the revenue. So, these are the targets we will steer and the subsidiaries and the group and then we have complemented and think we will conclude at last time with some other key figures. So, we'll really ensure that all subsidiaries are competitive in all levels.

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If you look at next slide, as I said, I started with before -- to give a fair view of the result development for the group and to really understand underlying results, we have to adjust for some effects if we look at quarter two, but also for the first half year. And as Mats said, unfortunately we have been hit by strikes, both in 2006 and 2007. And in 2007 we got all the strikes in Quarter 2 and we estimate the result effect of that to be about SEK300 million. And last year we had the cabin strike in Quarter 2 in Norway, estimated SEK200 million. If you look at the first half year, we have almost the same negative effects this year compared to last year.

We have some negative effects if we look at the joint venture Lufthansa and the ECA agreement. For the joint venture Lufthansa, we got, as you maybe remember, a positive regulation last year which was a regulation from the year 2002 to 2005. And this year, of course, that has not been repeated. And so, if we compared figures this year to last year, we have there a negative effect. For the ECA, which is the joint venture between us, Lufthansa and bmi, it's really getting worse. And I think I mentioned that last time. This year, both for the quarter and for the half year. And here I would like to mention that we have to expect that for the full year it will be, we're saying some SEK100 million more worse than last year's figures of SEK400 million.

If we look at the currency effect, of course, we have some positive effects over weaker dollar. But we also see that the fuel price is somewhat higher this year than last year. So, the net effect of these are almost zero. If we look at the result improvement -- underlying result improvement for the group, it's about SEK500 million compared to SEK1.1 billion for the first half year. So, the rate or the increasement rate is slightly lower this quarter than last quarter. But that is as we have expected. It seems -- maybe you remember that it was the first quarter we really got some result improvement last year was the second quarter. And then we will mete much better figures also for quarter three and quarter four.

If you look at next slide, you see the result for the -- our Scandinavian airline subsidiaries. And we are satisfied with the development within our three companies -- Norway, Denmark and Sweden. If you take away the strike effects in the respective company, we have an increasement of the result on EBT level from 140 to 180 for this quarter. And the reasons are, as Mats mentioned, of course, there is a good market, but we also have a good receivment of our new concept business model. And we have very, very good capacity control. And combined with the cost program, we get this result improvement.

If you look at rolling 12 on the EBIT margin level, you can see that Sweden are on the level and the target. And Norway will be there in a couple of months. Denmark are well under their way. And for intercont we have a decreasement on the result if we compare to last year. And you remember the last full year or last year, we had a rather -- or the best result level we have had so far for the intercontinent business, of course, not high enough. But anyway, this year they have been affected by the strikes. They have also been effected by some disturbances in the maintenance program. So, we have had almost one aircraft out of operation, both in April and in May. But we can also see that there is a tougher competition in the intercontinental business, especially to North America. So, we get some pressure both on the load and the yield.

If you look at next slide, we have the result level for Quarter 2 on our other subsidiaries. Here we have a little mixed picture. We are very satisfied with the development in Wideroe and Blue1. They improved their results month by month. And you have almost the same explanation as the result improvement for our SK companies. airBaltic has, despite that they have increased their capacity by 40%, the same result level. For Spanair it's somewhat a disappointment, there is a real tough market at the moment in Spain. A lot of overcapacity. And that, of course, gets pressure both on the load and yield side.

On top of that, we have, as we mentioned for Quarter 1, we have some phase out. Of course then, we have had some problems with the phase in and if we calculate the negative effect of that, it will be more than SEK100 million. Whereas before June, if we have the same pattern as we had in quarter one, we had tough problems with the result in STS. But as I said last quarter, we have prioritized in the delivery quality in our technical services before result improvement. We have seen some improvement in the delivery quality in Quarter 2 and we think now it's time to start to do cost reduction in STS so that we can improve the results.

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SGS, the same explanation. They are a little behind their cost program, but they are working very concentrated on it. For SAS Cargo, we face a lower demand as the flag business has [total due] at the moment. And they have also been affected of some production and capacity changes we have done for our airline. Yes.

If we look at the next slide, you can see the cost program we've launched within the Strategy 2011. And that cost program is SEK2.8 billion and it's totally necessary to do that to ensure our competitiveness. And this program consists of three main parts. The first one is coordination of the procurement. We will centralize all the purchasing activities to ensure that we really get use of our buying power.

The next one is that we will reduce our group joint function on the administrative side. And we will be able to do that since we have now a more decentralized structure. We are a leaner group. And as I said before, we -- this is a major process for everyone. And we ask for more streamlining, more efficiency. And then, of course, this is not only personnel costs. There are also costs that we, in the long-term view, can reduce.

The third one is operational costs for our subsidiaries. And you can divide this in three main parts. Operational flight costs or operational related flight costs, administrative and sales cost and ground and technical. Our intention is to be ready with this program until the end of 2009. And we have so far seen or implemented 14% in the second quarter.

Yet to just summarize before I hand over to Mats, we are on the right track. We are satisfied with the most results in our subsidiaries. We have a rather positive cash flow when combined with the sale of [rest]. Our key figures for our financial strength is much better than before. And of course, these strikes affects us very negatively. And therefore, the cultural turnaround is very necessary. Thank you.

Mats Jansson - SAS AB - President and CEO

Okay. Then let's go through the last slides and pages here. And as you can see on page 12 -- and I also mentioned it during the press conference this morning, about the Strategy 2011 -- that the overall condition or reflection when we started the strategy work in the group management team was to reduce and minimize the group complexity because otherwise it's very difficult to steer and to have control over the group's development. And I have mentioned before and Sture mentioned it also last time when I met you last time in June, that if you look at the SAS Group after the divestment of the non-core operation, it's still quite diversified and spread out and so on, both when we talk about geography and both when we talk about the different roles and different operation we run in the group because we are still in three parts in the value chain in the SAS Group.

So, one overall goal is to reduce the complexity. And by those first, we need [Shatir] to sell out Spanair and BMI and other assets so we reduce in some part the complexity. And that's why we also have started now the work and the process to define the role, the future role for the ground handling operation and technical and also for the cargo handling. It's in line with the goal to reduce complexity in the whole group.

And if the complexity question is the umbrella and under the umbrella we have the five leading words in the whole strategy. If I repeat them, the culture turnaround, the focus on airline operation, concentration on our home geography and to harmonize even more the business concepts and also to be competitive in every part in the value chain we work in and have lead in and control in.

The cultural turnaround, let me repeat again. It's not a project, it's not a question you can decide about and take decision about after one or two board meetings or meeting with the top guys in the trade unions. It's a never ending process. And it takes its time. And I believe that it would take about two, two-and-a-half, maybe three years to definitely make a cultural turnaround

But we have started to take another initiatives. We started in January or February to work and to talk with and to live with the trade unions in another way than before. And I believe after those strikes, after the debate we have heard officially and also

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internally the opinion and the goal to reach a common value ground between the trade unions, especially, and the group management team has been better and better.

So, we have made improvement. We are not yet in announcing and breakthrough when we talk about the cultural turnaround, but I hope we are going to see the following year now from today some concrete positive signs in the direction of changing our mindset to be a customer-driven company which can live without strikes. And as I said before, there's different parts in the cultural turnaround and the part which has more material substance is the profit sharing system which we now have started to create. And also how -- what type of system should we have when we offer the employees to be shareholders in the company. This has also started and we are going to launch those system in the beginning of 2008.

Focusing on airline operation, I've said before, one of the most important decisions still to take during this year is in December when we have board meeting. And in that meeting, we're going to decide about the future role of the ground handling and technical and I also call the [rally]. If there are going to be one party in the group or if we are going to outsource part of it or all of it. That's what -- what's the whole question about.

To concentrate on Northern Europe, yet in line with that is the divestment of the Spanair operation and New Corporation and the holding in bmi and Air Greenland and so on. To harmonize the concept and the business format, one important decision to secure that we could do that in efficient way in the future is that we now have created and established what we call the airline commercial board.

And in that board, the members are the managing directors from the different airline subsidiaries, my deputy, John Dueholm, which is responsible for the business area, Scandinavian Airlines, and myself. I'm going to be the chairman of that board. And this is also important thing now that the CEO and the president of the company also work with his hands with the commercial questions to secure quality also and speed and power in the decision of that very important question.

And competitiveness, as Gunilla had mentioned before. The most important part now is to reduce the cost level to SEK2.8 billion until the end of 2009. And then we had to define more activities on the cost level to reduce during the year 2007, 2011.

Let's jump over page 13 about the cultural turnaround. I've talked about that before and that period, the timetable on slide 14 about the structural changes in the group. And we have started that work, the preparing work of divesting -- the Newco, bmi agreement of Spanair, the scheduled time period and timetable for that. As Sture have told you before is to sell out the shares of Spanair in the beginning of next year or during the first half '08. bmi -- we can start that process earliest from the 1st of January.

And we believe and hope that we can make the sellout of the shares maybe in combination and coordination with the Lufthansa maybe during the first half '08, too. Newco, I believe, the ground handling company, maybe we can make the divestiture in a higher speed than Spanair and bmi maybe during this year. And Air Greenland is not a big asset, but still it's a non-core asset. We're going to sell it out this year or in the beginning of next year.

And as we said before, the core operation is the airline operation. Focus on the Scandinavian and Northern Europe area and that's why we now have to define the future role of the ground, technical and the cargo handling. And, at the same time, in line with our ownership strategy, try to reach majority in the Baltic operation by airBaltic and Estonian Air. It's also one of the goals for this year or maybe first quarter next year. Because the (inaudible) have to sell out their own shares to other shareholders or together also with other partners, maybe.

So, if we sum up the second quarter as Gunilla made it in line with we see improved results, in line with our own internal calculation about the future goal, financial goals in the Strategy 11 and the combination of internal and external factors. The good combination the business cycle and how we steer the company are the main reasons. And the main phase now is to implement consequently the 2011 strategy. And then, this strategy, as you know, below the main topics, we have about 50 or 60 different decisions to fulfill and implement for the following five years.

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And the outlook you can see is on the slide and we told about it also during the press conference. So, let's save our time and go into the Q&A directly.

Sture Stolen - SAS AB - VP, Head of SAS Group IR

Operator, Q&A.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) The first question comes through from the line of Chris Avery from JPMorgan. Please go ahead with your question.

Chris Avery - JPMorgan Chase & Co. - Analyst

A couple of easy ones. The depreciation charge down Q2 on Q2, wondering if you can explain that. And secondly, on Spanair, why are you still growing Spanair so aggressively if you're in the middle of trying to sell it? And I suppose the third one would be on bmi. Who else could you sell it to but Lufthansa? Thank you.

Mats Jansson - SAS AB - President and CEO

If you, Gunilla, take the depreciation question and if I -- then I can start there with Spanair. It's not a simple question. It's a very important question. And Spanair has traditionally, historically gone from being not the smaller, but middle-sized shorter airline to a more a traditional network operator, service operator in the airline industry. They have made a tremendous change since they started, the entrepreneurs started the company. And they have been also in our portfolio. And when I entered the sales group, we owned 95% and now we own 100% of the company. It's also in line with our strategy that we have full flexibility of what we are going to do.

And the whole story has been to grow. And I agree with you, we have been growing the company rapidly and very fast speed. And the positive side, as you know, we have reached during a very short time a very good market share. We're number two in Spain, as you know, and before Spain is also a very important market in Europe. And Spain is growing when you talk about GDP. There's a very good economy in Spain. And the priority has been to grow top line more than to grow the bottom line so far. And I agree with you. When you see the figures now and also for last year and some other years also, there is not a balance between top line and bottom line yield.

But still I believe this is only half year. And if you look the following quarters and also into first quarter next year, the plan -- the action plan, without being 100% sure -- but the action plan is to have a better combination between the cabin factor and yield, to take care of the capacity problem in the much harder and consequent way than they have done so far during this year and maybe also other years. And some other activities will lead us to a positive cash flow and positive result the following quarters. So, we still believe in the management team in Spanair that they can reach that.

So, another comment on this. As we did when we launched the whole Strategy 2011 is that we are not selling out the Spanair because of financial reasons, if you relate it to the balance sheet in the whole group. It's -- this decision is in line with the new business ID and the new vision of the SAS Group which says, as you know, that we are a Scandinavian company. We have our market shares in Scandinavia. You should concentrate on the Scandinavian customers and their different needs to travel around in the Scandinavia and Europe and to U.S. or to Asia.

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And that's why Spanair could not belong to our group. And the synergies we have taken out between Spanair and the Scandinavian part in different dimension hasn't been so big. But that's why we sell out Spanair. It's not the financial question. But we take care of the value. It's very important that we have the right timing when we set it out and that we get the right price and right value and so on and so on. So, the following amount now in quarters is Spanair is going to focus more on the bottom line than top line. It's our ambition. And let's see what's happened off that.

That was one question. The other question was about the bmi. What did you ask about bmi?

Chris Avery - JPMorgan Chase & Co. - Analyst

Who else would buy it? Who else is interested in it apart from Lufthansa?

Mats Jansson - SAS AB - President and CEO

I don't want to speculate about who is interested about the -- our part in bmi. What I can see coming from the outside, but not being an outsider still is that after the open sky decision and also before that, that the main asset in bmi are not the running operation, is the slots we have control over on Heathrow. And I could imagine and understand that there are some players -- not only one -- or some other players also which are very interested of investing in new slots on Heathrow. So, we are not isolated to one point. I don't want to comment on Lufthansa either, but I think it's definitely more than one who is interested of this. Not more than ten, but more than one. That's good for the depreciation.

Gunilla Berg - SAS AB - EVP and CFO

Yes. Main explanation for this is that the last year done a lot of sale and leasebacks. And if you look at the leasing and then there is almost the same figure. But that's due to the rather low dollar rate.

Mats Jansson - SAS AB - President and CEO

Okay?

Chris Avery - JPMorgan Chase & Co. - Analyst

Okay. Thank you.

Mats Jansson - SAS AB - President and CEO

Thank you. You are satisfied with the answers?

Chris Avery - JPMorgan Chase & Co. - Analyst

Within -- for the extent that you can say. Yes. I mean, you've told us that there is more than one for bmi and I guess that's about a good an answer as you can give. Thanks.

Mats Jansson - SAS AB - President and CEO

Lower than ten. Lower than ten. Okay.

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Operator

Thank you. The next question comes through from the line of Brian Borsting from LD Markets. Please go ahead with your question.

Brian Borsting - LD Markets - Analyst

Yes, thank you and good afternoon. My first question is regarding the all cost cutting plan that you had. It was 85% implemented at the end of March. Could you give us an update about -- is it 100% implemented now? My second question is related to the unit cost development in the second quarter. Excluding fuel, could you give us guidance regarding unit cost in the second half? And my third and final question is regarding the CapEx outlook, especially in regard to the -- in the 80s. Could you give us an update on the timing and the amount of CapEx?

Gunilla Berg - SAS AB - EVP and CFO

Okay. The first question was --

Mats Jansson - SAS AB - President and CEO

The cost program.

Gunilla Berg - SAS AB - EVP and CFO

The cost program.

Mats Jansson - SAS AB - President and CEO

The 85%.

Gunilla Berg - SAS AB - EVP and CFO

And we made a [pact] of that program since we can't have two programs running within the group. So, about SEK300 million that was left from that program is incorporated in the SEK2.8 billion program. And therefore, we have been able to implement about 14% of the program already in Quarter 2.

The -- June cost development is about 1.5% and for the first half year, it's about 0.7%. And that's for fuel adjusted and that's for Scandinavian Airline.

Mats Jansson - SAS AB - President and CEO

[One plus flat.]

Gunilla Berg - SAS AB - EVP and CFO

If we look at the CapEx, we are -- within the Strategy 2011, we will have a plan and strategy for how we will phase off the MDs and when is the time for it. And we will be ready for that stress during the off term and we will have it going through, it will be

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bought in about November or December. We can't give you any more clear answers about that, but we know from the -- Strategy 2011, we have growth ambition and we have said that there will be needed about 15 to 20 aircraft during this period.

Apart from phasing out the MD fleet, we will also increase our fleet somewhat. Most of the growth we hope that we can come to that we increase the load factor with increased utilization of the fleet and, in some aircraft, put in more seats. But of course, we will need some aircraft during the next coming year.

Mats Jansson - SAS AB - President and CEO

Okay.

Brian Borsting - LD Markets - Analyst

Thank you.

Operator

Thank you. The next question comes through from the line of Jacob Pedersen from Sydbank. Please go ahead.

Jacob Pedersen - Sydbank - Analyst

Thank you. Good afternoon. I have a couple of quick questions. First of all, you take a cost of SEK476 million from the SAS component agreement. Could you elaborate a bit on the terms of this agreement and should we expect a similar impact in the future? And my second question is really a clarifying question also. In your Scandinavian Airlines business, other traffic revenue seems to experience a large drop. What does this line in -- what does this line represent? And also, your charter revenue in the individually branded airlines also is somewhat lower than last year. Could you explain why this is happening?

Mats Jansson - SAS AB - President and CEO

It's not really component.

Gunilla Berg - SAS AB - EVP and CFO

Yes, what we've done is that we have done a final agreement with the component because we have agreed upon some things that have to be finalized. Of course, this is a disappointment for us. That is such a large figure. But what we can see -- and that's a lesson for us -- that the component business wasn't really in good shape for selling. And therefore, there have been some guarantees that we have to accept from the buyer. And therefore, the final agreement with them is like this. But if you take in view what the payment we got for SAS component and the result development they have had so far, it's still a very, very good financial -- what to say, transaction for us.

Jacob Pedersen - Sydbank - Analyst

Okay. So, there will be no more impacts from the component.

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Gunilla Berg - SAS AB - EVP and CFO

No. No. But we still own 33% of it and there is still a negative running business. But we can see that they have, during this year, improved the result. But we still have some. But they are very small and negative result effect from our minority stake.

Jacob Pedersen - Sydbank - Analyst

Okay.

Mats Jansson - SAS AB - President and CEO

And the business about the traffic schedule, listed in short, there -- I guess Sture can take that question maybe.

Sture Stolen - SAS AB - VP, Head of SAS Group IR

I think, was your question about the traffic revenues -- the positive traffic revenues in SK that you were a bit disappointed with?

Jacob Pedersen - Sydbank - Analyst

Well, it's in your income statement, in the individually branded airlines -- shadow revenue and in the Scandinavian Airlines -- other traffic revenue in the income statement.

Mats Jansson - SAS AB - President and CEO

Okay. Then we understand. Gunilla?

Gunilla Berg - SAS AB - EVP and CFO

Yes. Last year we took a decision in Spanair that shifts some of their aircraft from shorter to, what do you say, scheduled traffic. And therefore, you can see this decrease in shorter revenue. But increasement in the scheduled business.

Jacob Pedersen - Sydbank - Analyst

Okay. And it simply translates into a higher number in the passenger revenue?

Gunilla Berg - SAS AB - EVP and CFO

Yes.

Jacob Pedersen - Sydbank - Analyst

Yes. Okay. Okay.

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Mats Jansson - SAS AB - President and CEO

Okay. I think I can add on Scandinavian Airlines on passenger revenues. We do have a negative impact on the passenger revenues due to some currency impact in 2007 of SEK400 million. So, that's why you don't see a bigger traffic revenue in 2007 compared with '06.

Jacob Pedersen - Sydbank - Analyst

Okay. Thank you very much.

Mats Jansson - SAS AB - President and CEO

Thank you.

Operator

Thank you. The next question comes through from the line of Andrew Lobbenberg from ABN AMRO. Please go ahead with your question.

Andrew Lobbenberg - ABN AMRO - Analyst

Hi. It's Andrew here. Can I ask about Spanair and the labor environment because you've had some strikes going on there and, obviously, the cultural change program is an SAS thing. And the cultural environment at companies which are subject to takeover can sometimes be stressful, counting on what experience I have. Can I also ask about long haul? You said the North Atlantic was weak. Is Asia weak as well? And then, a third question. You appear to slam the breaks on the growth of capacity at Blue1. Can you explain what your thinking is?

Mats Jansson - SAS AB - President and CEO

If I take the Spanair. During this summer we had a (inaudible). And I think it was also mentioned in some media this Spanair strike and it was quite -- not a small, but not so big as the Swedish or the Danish strike when we talk about financial effect and other effects. And it was quite complicated because we -- in the Spanair company, they have, I think it is three different cabin attendant unions. And there were negotiations with all those three. And they were not coordinated because they couldn't coordinate. And the -- our management team made an agreement with the two largest cabin attendant unions and both sides were satisfied.

But a third union, which is the smallest union, they couldn't sign the agreement and then [fulfilled] the strike and it was strike -- I think it was during two weeks or something like that. And one day or two day -- one-and-a-half day, something like that per week. And it ended up with a solution. And in the [pages], when you look at Spanair, one negative effect is the strike. I think the strike is about -- the strike effect is about SEK30 million, something like that in the Spanish numbers. So, I think we have control of the environments when we talk about the culture in the Spanish company. I think not it's going to be a problem when we sell out the shares to another player.

So, what I'm saying that the culture problem we have is mainly in the Scandinavian Airlines. Not in airBaltic or Blue1 or Spanair. And does one call it a coincidence, but it's -- you can't see it (inaudible - background noise). And if we take into context -- all in my overall comment that, as I said about the -- when I told you about the overall comments about the result for this year compared with last year and compared with the analyst expectation, we have to put everything in perspective. And when I entered the company, the intercont subsidiary defined a new strategy for the following three years, I think it was, with a new

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traffic program in three different dimension, with better and more developed business format for the customer, with reducing costs and so on.

And last year it was the first time ever they reached the profit of about SEK150 million. And now, we can see in the field is a decline, which is caused by a lot of different reasons. One is -- was the cabin strike in Copenhagen and also in Stockholm, which has had an indirect effect and direct effect on the intercont business. It was about SEK30 million -- SEK40 million if I remember right.

And then you have also a harder competition on long haul. As you know, our main operation is the U.S. operations. And we have also a part in Asia. And we have pressed on the cabin factor and also on the yield in that operation. So, I don't see there's some disappointment. Spanair was (inaudible - background noise), but the intercont is a decline, but we have still control over the long haul operation. That's my comment.

Blue1, I don't remember exactly. Gunilla?

Gunilla Berg - SAS AB - EVP and CFO

Last year, we increased the capacity a lot when we introduced the three MD line piece in Q1. This year we are seeing that we had to reduce some capacity, especially on Europe where we introduced some new routes. But also in domestic. And this is what we want the -- our subsidiaries to do. To be very dramatic in their traffic planning and reduce capacity when necessary and very quickly and increase when we can see opportunity. So, this has been important that we reduce the capacity because we have put in too much capacity in the beginning.

Andrew Lobbenberg - ABN AMRO - Analyst

Okay. Cool. Thanks.

Mats Jansson - SAS AB - President and CEO

Okay. We are a little bit in a hurry, so we can -- we have a few [minutes] more before we leave the country. We're going to London with an SAS flight. And they always go on time nowadays. We have to go to Arlanda. But this -- one more question. Yes?

Operator

The next question comes through from the line of Steven Brooker from Enskilda. Please go ahead with your question.

Steven Brooker - Enskilda Securities - Analyst

Yes, hello.

Mats Jansson - SAS AB - President and CEO

Hello.

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Steven Brooker - *Enskilda Securities - Analyst*

And congratulations with the turnaround. One key thing regarding Spanair. You're telling in the half year report that you saw a turnaround in trend in June, which when we saw the report also for July also continued. Is that where -- on this path you want to continue with the 1 million plus passengers in Spanair? And also that probably we're seeing a turnaround also in profitability in the second half?

Mats Jansson - *SAS AB - President and CEO*

I don't -- we don't give any forecast. But as I said before, I -- we, in the [graph] group management team and [Guta Raisa], which has been in the group management team response, just the vice chairman of the company, when he reported about the different activities in Spanair and also the shift we are going to make now and I'm going to be the chairman of the board together with some other people here in the group management team. In Stockholm, we believe that the program they present now for the following month because we had to focus more on bottom line -- and as I said before, that's the overall description of the program, the parts in the program.

To more -- have more balance and to be more stable when we talk about the relation between cabin factor and yield and also to be more faster, have more speed when we talk about reducing capacity because it's a lot of capacity in the Spanish market now. You know there's new players, new competitors. They are very hard competition, especially on the route between Madrid and Barcelona and so on. And this is also one important part for the Spanair operation.

So, to take care of the load factor, cabin factor and the yield and also to adjust capacity, if we had to do that. And then they have also a cost cutting program. And they have some other activities on the income side. So, the combination of those things should end up with a better result or improvement during Quarter 3 and Quarter 4. But we can't -- don't want to estimate it at this time. The focus is on bottom line now.

Steven Brooker - *Enskilda Securities - Analyst*

Okay. Fine. And a last question regarding the bmi. When you look through -- or when you look at the structure which you're having today with Lufthansa and also with Michael Bishop, it seems like you have an option to purchase also an additional part of bmi. How does that work. Does Lufthansa has to exercise their option before you can buy or can you buy ahead of Lufthansa? Or how does it actually work the structure?

Mats Jansson - *SAS AB - President and CEO*

I don't go into discuss, officially, the details in the different agreement. But what is most important for us is that we are free to do something after the 1st of January. So, what type of transaction is going to be -- let's see later on and we are going to announce that. So, I don't want to speculate on that and give you any details in our agreement of this kind of [meet].

Steven Brooker - *Enskilda Securities - Analyst*

Okay. Thank you.

Mats Jansson - *SAS AB - President and CEO*

Thank you very much.

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Sture Stolen - SAS AB - VP, Head of SAS Group IR

Okay. Thank you very much for attending the meeting. If you have any other questions, we are available on the road, so you can call us and call me and to [Belse]. So, with that, I thank you very much.

Mats Jansson - SAS AB - President and CEO

Thank you very much.

Gunilla Berg - SAS AB - EVP and CFO

Thank you.

Mats Jansson - SAS AB - President and CEO

Thank you. Bye-bye.

Gunilla Berg - SAS AB - EVP and CFO

Bye.

Operator

Thank you for joining today's call. You may now replace your handsets.

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