

# FINAL TRANSCRIPT

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## **SAS.ST - Q4 2007 SAS AB Earnings Conference Call**

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## PRESENTATION

**Operator**

Good afternoon, ladies and gentlemen, and welcome to the SAS Group presentation of the fourth quarter report conference call. My name is Wendy and I will be your coordinator for this conference. Throughout the presentation you will be on listen-only. However at the end of the call there will be an opportunity to ask questions. (OPERATOR INSTRUCTIONS). I will now hand you over to Mr. Stolen to begin today's conference call. Thank you.

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**Sture Stolen - SAS AB - VP, IR**

Thank you very much for that. Welcome everyone to the SAS Group Analysts Investor conference call for the full year 2007. We have as usual a package of slides that you will find on our website. We will run through them, and after that we will have a possibility for you to ask questions, and so on. So I think I will just hand over then to our CEO, Mr. Mats Jansson, to start his presentation.

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**Mats Jansson - SAS AB - President and CEO**

Hello. Mats Jansson speaking. If I start as I used to do to give the overall comments about the full year '07 and also comment on the fourth quarter and also go through the different parts of the strategy. That's my presentation.

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After that Gunilla will go more in detail on the figures and the trends and so on. And as you know we had a presentation, a press conference for a couple of hours ago. It was a lot of people there from all the different countries in Scandinavia and so on. And it was a lot of questions about the figures for last year, especially on the fourth quarter and also the expectation, the forecast for '08. And also a discussion about, and questions about, and this was also part in my presentation about the cultural question in the company which I addressed also overall.

And you can see it's also in the newspapers that we announced that your concern about the situation we can look at the -- overall the whole strategy situation and look at -- into the different parts of the strategy, where we are delayed. I come back to that later on.

If you look at the figures overall, SEK1.2b, about the same amount as we had '06. Before that you remember that we had losses of about SEK6b, the last five years before '05. And it's not a good figure, as I mentioned on the press conference. And if we compare it with the expectation we have in the Strategy 2011 in our own internal calculation, and if we adjust the SEK1.2b for the temporary cost of the ECA agreement, about SEK500m, and that we expect that we have no strikes due in this year.

You can adjust if you want the SEK1.2b with about SEK600m, SEK700m, something like that. And then you reach the level of about nearly SEK2b. That's what you can call the starting point for this year.

And if we look at that figure as the starting point compared with the internal figure we have in our simulation about Strategy 2011 we can find now a gap. And this is not good. I come back to that later on.

The fourth quarter as you can see, you can see also the reaction from the stock market. They have got a lot of questions about the share price. As you know, I am relatively deep private shareholder in the company and I have -- I don't comment on the share price, as you know. Some of you have been -- you had the feel of two other lists of companies totaling 12 years, I think I am, I'm on my fourteenth year so far in the stock market. And I haven't comment on the share price. What I have said that the share price for long term reflects the -- what we delivered in the company from the Strategy 2011. So that was that.

And the fourth quarter is very weak, the total. And if you look at -- we look at November-December, something happened in November-December. And it's all the passengers figures. You saw that until October we had a growth, about 5%, 6%, something like that. And in November-December, it was a decline down to the level of 0%, 1%, something like that.

And when we analyze the situation, Gunilla's coming back later on and will describe it in more detail, so that we couldn't explain it only with the Q400 situation. It was a gap, still a gap, when we adjusted for Q400. We cannot see though, when we look at the business cycle, that the expectations are that we are going still to slow down or a downturn, we couldn't see that in the business either. It was other internal reasons of the decline in passenger figures, the cabin factor decreased, the deals press started and so on and so on. And as you know, when you have followed this industry, the fast track when we talk about the effect on bottom line when the key figures of key wages going in the wrong direction.

And the two main explanations for the decline is that we have had too much capacity in the market, if you compare with the demand. And the other negative effect is the overall discussion about our brand equity, our brand value or strength, one part is coming from the Q400 discussion about our safety level and strength overall.

Another part, and I think this is the most important that we hear that from customer call centers from agents and so on is that we haven't been stable enough. And the noise and discussion before the Board meeting December 17 about the structure of ground handling and technical (inaudible) had the direct effect that the consumers choose another airline. Or an agent there said to the customer that 'I think we're being definitely sure about the -- your flight, you should choose Norwegian or another operator'.

And when I discussed this for the media and so on I made a stop and said this is an example of a very bad thing in the culture which I saw when I started in the Group last year. And we were, Gunilla and I, very clear and distinct about that the culture now

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is absolutely the most important question. Because the delay of the Strategy 2011, the delay when we talk about cost-cutting program, the delay when we talk about revenue or profit, or the way we take decisions is related to the culture, all the services.

And as CEO coming from other industries and Gunilla has also the same background and history from other companies, when you allow the trade unions, because you have to accept and understand the environment, you can't crash the environment, and provoke the environment, why we allow them a process of eight months which is very, very long time to discuss about the role of those businesses. And ends up in the split in the steering group and end up at the Board meeting on the 17th and also the 5th, last day, the rumors and the time of that it could be a strike overall in Scandinavia.

And as I said today, it's unfair to have that type of process when one part, trade unions, in the final, in the end, take up their last card. And I call it joker. And you can call it poison pill if you want also.

Because by that, because we are related to the customer, that has been something we have told the market from the beginning and this is a service company and we are dependent on the customers, customer satisfaction. And in that situation, to take a decision to take a fight and then have a long strike, with the negative effect on the shareholders and also in the long term, in the long conflict, a long strike, almost a negative effect when we talk about the (inaudible) or equity. It was impossible to do that.

That's why we postponed the decision from December 17 until the 5th. And it was the same situation when we took the decision yesterday. Because once again it was a lot of noise, discussion in newspapers, the announcement from trade unions leaders, and they put pressure on us and so on and so on.

And in this discussion I also said today and I believe that some of you think about that, that this is a battle between Mats Jansson and the trade unions. I said to the media, it's not a battle between me personally and the trade unions. It's the battle about the future for the strategy. This was a very important moment after one year when we now have a value added strategy and the way we have worked and implement the strategy, and the fact that we are in a delay in the different, important parts.

This is a very tricky situation and as I said, I'm very concerned. But I still believe and also Gunilla, in the Strategy, absolutely 100%. And I believe that we shall use this situation now, the moment now, to take a final discussion with the trade unions about the delay or the strategy and so on, and that they have to change their minds, otherwise we get into problems. So the whole strategy is depending on the culture, that's my point and has been all the time since I started in this company.

What are we doing with the business, with the trend in November-December and so on, the weak fourth quarter? What is the reaction? What is the action plan? What is the protection plan? Overall, Gunilla comes to that later on also. We are going to protect the profit, the plan and the budget with a lot of different action activities. But the main activity is to adjust or look at the capacity in question. We review the capacity if you could wait.

And also to secure the compensation for the incredible high fuel prices we have to be even more hands on, on that than ever before.

So that was the overall comments for the whole year, the weak fourth quarter, the profit protection actions and also about the Strategy 2011 and the key issues about that.

So let's go to the next slide, the Q400. And we said today that we are now quite close to an agreement hopefully with Bombardier and also with the (inaudible) and their insurance company. The counterpart on that discussion about two things. I think I mentioned for you the quarter, we talk about the whole package, three different questions. One is to sell out or lease out all the seats which we granted. Another thing is to replace the Q400 seats, Q400 operations. And what we mentioned today and also last quarter is that it's realistic cheaper seats that we are not going to operate because of course in Denmark and Sweden. It's more convenient or natural to operate if they would like business, the new, next generation of Q400 turboprop, a leader maybe.

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And the countries we are not going to operate the turboprop because of course the (inaudible) is to -- if they go to regional yet. And so on. That was emerging today. We had very good discussion with Bombardier about replacement of the fleet. New fleet order will be concrete. And the other thing is to also reach an agreement and settlement of the compensation on the right level. That will be (inaudible) of those meetings.

So hopefully we can announce something during this following quarter, fourth quarter. I'm quite, or a little bit optimistic about that.

When we look at the different parts in the Strategy, I have mentioned a lot of things before about the Strategy, but let me point out some important things.

When you look at the culture turnaround. We have had on the other hand progress during '07, we have made and fulfilled more activities than ever before. We have met the people, the BMI, the Group management team. We have met for four days in Sweden, days and nights to discuss everything. We have also established and we can call it the framework, an overall agreement between us and the unions. We did it in November if I remember right.

You of course remember the very important breakthrough from the union leaders in Denmark in August last year about their ambition to avoid the strike in the tricky Danish area. And so on. That in the end the most important is not what you're saying, what your words are, but what you do. And that was very negative when we compared the discussions we had in November with the trade unions. And we heard noise and rumors about the ground handling decision in December and the threats, the strike threats and so on. So the discussions and what we're doing in fact is not going hand in hand. The gap, that gap we have to fill, otherwise we're getting to deep problems in the company.

If we go on to the page number five, I believe, let me give my comments on these structural changes. If we talk about, if we take the ground handling, as we know from the announcement, we took the best decision we could take and we said that okay, it's still a company in-house in SAS and we keep all the operations we have, all these national operations, and we have this solution. But we put the demand on them that they have to reach the cost-cutting program of profits improvement you could call it also, about SEK400m at today's level. And also to deliver and upgrade in all the equality of the whole business, especially in Denmark where we have a huge problem with this, both cost and quality. Before the end of the next 1.5 years or 18 months.

During this period, if we can see that after one quarter or two or three that they can't deliver on the plan, and the agreement we have made with the unions about the action plan, and we can take the decision to set it up immediately. Are we going to do that, is one question? Are we going to come into the same situation about the strike that if we have to take the decision to set it up?

I believe at that time, if we learn from the history what I have said today and also Gunilla about the whole situation, that's over-capacity and so on. If they take a decision about selling us out because they can't reach their goals, we have to take them. If I am a little bit personal (inaudible). But let's see what happens.

The Technical Services is only a part. We also see the 737 Classic outside Scandinavia, I think mostly in Eastern Europe, we heard today on the press conference?

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**Gunilla Berg - SAS AB - CFO**

Yes.

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**Mats Jansson** - SAS AB - President and CEO

What part I don't know. And then we had the cargo, the experience of cargo handling, about one thousand persons, it was about in two steps. And this was the final decision also. Then we had a Spanair situation, that we have had before. We had to repeat that, so we remember the arguments, the most is for a divestiture of Spanair. It first of all related to the whole business idea we had to concentrate on Scandinavia and Northern Europe. We start with that.

That means that we have no synergies between the Spanish operation and the Scandinavian operation. They haven't taken out ever. And another thing is that we -- maybe we thought that we should have a very good gain when we set it out. It was not the main motive, maybe, at least so the market last year, last summer.

And we said also that we should decrease our net debt situation. Net debt situation should be better, and we do that. And also solve some of the problems where we talk about replacing an old fleet, especially the (inaudible) part they have in Spanair. The change now is the environment is not so good overall in the world where we talk about different assets. And the Spanish market also has slowed down when we talk about valuation of assets especially the airline assets and so on. But as we said today, we still believe that it survived decisions set down. I don't go into exactly -- speculate about business, but it's a little bit another picture now than it was before. But we are going to sell out, we have to absolutely. I hope we can do that during following quarters. We are in the bid process for the moment.

BMI the same as we have said before. We have the possibility of selling it out now. We discussed it internally what to do, what is the best timing for it, selling out BMI. And we had to think about also the timetable because the ETA agreement ends last year. But we still have a negative contribution from the shareholding in BMI. I think we have to think about that when we think about what is the right timing for selling BMI and so on. But it's a lot of discussion about BMI. It's a lot of activities and so on. It's a lot of interest also for the minority holding we have.

Air/Baltic/Estonian in progress, is not only in process or in progress, maybe I could say, because we discussed with the different parties in those countries based on our strategy to increase our ownership up to at least 50% where we can lead the company. We had discussions about that, and let's see what has happened. It's quite positive.

Next you see the page six, the last one for me before -- is it?

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**Gunilla Berg** - SAS AB - CFO

No. No.

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**Mats Jansson** - SAS AB - President and CEO

No? Okay, it was another thing before Gunilla. Now it's Gunilla.

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**Gunilla Berg** - SAS AB - CFO

Good afternoon, Gunilla speaking. My first slide is underlying results. And if we look at the full year I would like to say it's a fairly good year. It was rather good until October. But then in November and December as Mats said we see a slowdown, which is not due to the business side but just a slowdown. I will come back to that.

But if we take into account this negative effect we have had in 2007, we can see that the improvement is almost 1.5 and the main reason as you know is the development in airlines but also improved finance net, due to the rest of the sales but also due to positive cash flow from operations.

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Q4 is weak, and if -- when we adjust for Q400 and other things, we can see that there is a worsening compared to last quarter last year, for quarter four last year with more than 200. And as mentioned, the reasons we see for that, is that we think that the main reasons are that we haven't got enough bookings due to the following effects of Q400 but also the strike threat.

We have put in some more capacitors -- capacity, but competitors have done as well. And especially if we look at the Swedish market, there is too much capacity and has been in November and December. And of course that affects both the (inaudible) factor and the (inaudible).

And then we see that we have some effects of the fuel. We haven't been able really to compensate during the last quarter or quarter four, it's the raisement of the fuel has been so quick. But we think when we come into the quarter one of this year, quarter one, we think that we'll be almost there with the compensation.

But as we said, we can see so far that there are business cycle reasons for the slow development in quarter four. But of course we are very careful with the science of the business cycle slowdown.

If we look at next page, or next slide. The cost-cutting program of SEK2.8b. We have so far seen it 25%. But unfortunately we are delayed. We should have finished a third of the program. And the delay you can say is a little more than 200. And the reasons, the main reasons are naturally very time-consuming processes due to the culture. We have a lot of unions discussions when we try to reduce the cost. And we have some difficulties in some parts.

If we look at the three parts of the program I think that the reduction of the administrative functions is doing very well. We have reduced the staff, the corporate staff by 20% and we have almost finished the process. And that will be about 100 totally in that process.

Then we are in the middle of the process with our shed services, accounting, human resources facilities, revenue information. And here for all these four shed services we're looking for outsourcing and offshoring.

If we look at the co-ordination of procurement, I think it's going well as well. We have a total new organization. The full organization isn't in place yet, but we are preparing for totally new organization and we have employed some new people. We have introduced new working methods and we have introduced as well new IT systems like E-buy, so all the procurement can go through one system.

So now the work starts with renegotiation and co-ordination with the supplier, so we will see the effects I think in 2008 and 2009.

If we look at the program, the cost program for the subsidiaries, there is a progress but there is rather slow progress in some parts. And I think I told you before SEK1b of this program are connected to collective agreements. And if we look at collective agreements we made in 2007 we can see that we didn't get any really improvement in productivity or other improvements. So here we see that we have a challenge to really succeed with that part. And therefore as Mats mentioned, the cultural turnaround and cultural discussions that everyone really understands are necessary, that we are really cost competitive where necessary.

If we look at the next slide there's only a picture of the results. In fact we have a result effect of SEK500m for Q4. We estimate the effect in 2008 with the Q400 to be about SEK700m to SEK800m. The reason for the rather high figure is that we will have a period especially in Denmark where we will continue with wet leases. But we have six MD-87s coming in and we will phase them in during the summer and combine them with some wet leases. So almost the whole spring, the winter and spring, or some months will continue with wet leases and of course that's rather expensive.

For the Swedish company we will phase in two, or maybe three, Boeing 737s to -- instead of the Q400s. And in the (inaudible) they have wet leases and we hope that we have a new agreement to find new Q400 rather fast.

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If we look at next slide, we can see the results of Scandinavian Airlines. And as you can see from the picture, the fourth quarter was bad due to Q400 of course, but also the reasons we have mentioned before. And the Q400 effect in Denmark is almost SEK300m and in Sweden about SEK100m. So I don't think we can comment more on this. We can comment just about the Intercontinental business. We can see rather weak result for the quarter and a weak result for the full year. And the main reasons are declining cargo revenues. But we also had some problems on the cost side because we have the last year improved the (inaudible) and the deal has been fairly well, or good, so we really have a challenge on the cost side in our Intercontinental business.

This slide, just to sum up. We implement the Strategy 2011 as fast as we can. But as Mats mentioned we are delayed in some parts. And we are delayed with the part of the cost measures. And due to the weak November and December, so parallel with the Strategy 2011 work we are working with what we call a profit protection action plan, where we really try to focus on -- to get back the customer confidence. We have discussed with all -- had discussions with all our big customers, with all the agents. We are doing some capacity adjustments, not dramatic but some. As I said, we hope that we -- when we are in Q1, the end of Q1 we will have the level of full compensation for the high fuel.

And then we try to do what we can on the cost side to step up the speed to really get the effect of the cost program. And as I said we don't see any signs so far, clear signs. But we prepare for the risk of a slowdown. And we expect that there will be a slowdown and we prepare for it.

Yes? I think that was all.

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**Mats Jansson** - SAS AB - President and CEO

Yes. Questions and answers. Questions please, yes?

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**Sture Stolen** - SAS AB - VP, IR

Sure. Hello? Operator?

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## QUESTIONS AND ANSWERS

**Operator**

Hello, I'm sorry, I hadn't realized. Thank you. (OPERATOR INSTRUCTIONS). Our first question comes through from the line of Chris Avery from JP Morgan. Please go ahead with your question.

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**Chris Avery** - JPMorgan Chase & Co - Analyst

Mats, Gunilla. Good afternoon.

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**Mats Jansson** - SAS AB - President and CEO

Hello, Chris.

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**Chris Avery** - JPMorgan Chase & Co - Analyst

(inaudible)

**Gunilla Berg** - SAS AB - CFO

We can't hear you.

**Mats Jansson** - SAS AB - President and CEO

We can't hear you enough, bit higher.

**Chris Avery** - JPMorgan Chase & Co - Analyst

On the issue with labor, are you telling us that you can't manage disposals without the unions objecting? Is that why SAS (inaudible) are going to stay in the Group?

And the second question, fuel expense according to your slide going up SEK1b, and you still have a SEK700m, SEK800m Q400 cost in '08. You haven't given overt guidance in the statements for '08. But is it reasonable to assume with that huge increase in fuel that it's almost impossible for the Group to increase EBIT in '08? Thanks.

**Mats Jansson** - SAS AB - President and CEO

If I take the first question and then Gunilla does the second question. If I understand you rightly, about the environment with trade unions about the power, the possibility to take the right decision when we talk about structural changes. And if I'm clear, maybe I wasn't full clear before, but if I'm very clear the motive for myself, when I went to the Board, my advice to the Board when we had a Board meeting on December 17 was to delay the decision about the ground handling and technical and (inaudible). The most important thing is the ground handling, of course, is about 6,000, 7,000 persons we talk about.

Because of the strike question though this could be a (inaudible) during your increased business, the one that will hurt even more the customer, the band (inaudible) the band (inaudible) and so, and also the shareholder.

And there we allow the trade unions and our top managers in the Group Management Team to have a discussion the following month, until the next (inaudible) this is February 5, the last day.

And as I said on the press conference, where we discussed this decision about the ground handling, my opinion, and I've said it to the media also as the President for the Group has been, because of the need of reducing complexity in our Group, which means that you can steer the Group in another way. It would be more easier to steer it and not be so employee intensive in the Group. It's enough being capital intensive.

But -- so this is what the main argument to outsource it. The next argument was that we should reach another cost level within external partners, partner. And as I said before it's more easier to steer a company with the reduced their own complexity.

But once again the rumors came, the discussions came, the newspapers wrote about the preparation for a strike all over -- not the world, but all over our area in Scandinavia. And that's why we took the decision. We -- you can call it we made the best out of the situation for the moment, and took the decision about the keeping the ground handling and give there the plan and demand to reach the profit goals SEK400m and so on, and also the new quality program.

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And then that's why I said today, I said once again Chris, that the media this is very important, because we have a delay on the whole strategy not only in the cost cutting program and revenue result. Also the way we take the decision. The time we take. And also that they have the card to show that if you take a wrong decision from these trade union point of view it is going to be a strike.

So this is the momentum and what are we doing? We, as I said today, once again to the journalists is that -- culture question, you can't force people and so on you have to discuss with them. You have to have even more intensive dialogue with them and describe the situation.

And also be very clear and say that if we can't manage the cancer, if we are going to be our own enemies, then we can't fulfill these strategies. And if we can't fulfill the strategy we don't reach the financial goals, we can't replace the fleet. We are not going to be independent in the future. That's was the clear message to -- to enhance that is why I started the whole strategy for the following years now is depending on the power we have to -- and the speed we have to implement the whole strategy.

So I suppose once again an explanation about the relations and so on. Let's take the next question to Gunilla.

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**Gunilla Berg** - SAS AB - CFO

Yes and the challenge with the fuel. As we see it now with the prices now we see that with the price adjustment the subsidiaries have done so far, and we believe the management will do, we will be able to compensate at these price levels.

As we said in our forecast for 2008 we said it will be a challenge if there will be a really slowdown in the business cycle and the price of the oil goes up even further. But at this level we see that we can compensate. And since we are the market leader we are taking these steps, and we think that everyone has the need to follow.

And if you look there we can't of course, give any guidance of 2008. But what will happen in 2008 hopefully no strike, but we can't rally assure you that there won't be. But the ECA will go away as you remember. But then we will have some negative impact of the results from BMI. But we think anyway that there will be a net effect of about SEK500 there.

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**Chris Avery** - JPMorgan Chase & Co - Analyst

Okay. Thanks.

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**Operator**

Thank you. Our next question comes through from Lars Heindorff from ABG. Please go ahead with your question.

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**Lars Heindorff** - ABG Sundal Collier - Analyst

Yes two questions if I may. Firstly relating to the cost cutting program, I don't know if you can give us a little bit more flavor about the impact and the effects on the cost cutting in 2008? I am particularly interested in the operational flight costs. As I understand it most of the collective agreement they still run until spring 2009. So how are you going to achieve that?

And secondly regarding the hours or the outlook for 2008, and you are guiding a capacity increase of up to 7% to 9%, and still you expect UTE to be stable and load factors to be flat to slightly up in a slowing environment. I just want to hear your reasoning behind that, that these assumptions and particularly in light of the slowdown in the fourth quarter and also what you said earlier.

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**Mats Jansson** - SAS AB - President and CEO

Gunilla.

**Gunilla Berg** - SAS AB - CFO

If we look at the cost cutting program we will have -- I think that we said before that we will have a result effect in 2008 of SEK1b. I have to lower that since we are delayed. And I see that this time consuming process is just -- I think you should count of a more result effect of 0.6 or maybe 0.7.

As I say there is a challenge since this collective agreement. They are for several years within the net progress in the selective agreements we made last year. We have to find another solution or try to find other solutions of that, but there is a challenge with that, especially on flight deck and the 72. I can't be more specific than that.

And then you say the guidance we haven't really guided, what? I know for 2008 but, of course, as we see it in November/December we can see that we are worried about that and we do what we can. We don't profit protection plan. We are worried about the slowdown of the business cycle. And, of course, if there will come a slowdown that effect, as we all know was the cabin factor and the --.

**Lars Heindorff** - ABG Sundal Coller - Analyst

I know you don't give earnings guidance, but still you give guidance for capacity growth and for yields and the load factor which you both -- the two last ones you expect those to be stable to slightly up. I just -- that doesn't fit into the picture that you have described, that you expect a slowdown.

**Mats Jansson** - SAS AB - President and CEO

Well you have -- we don't give EBITDAR guidance about those key ratios. In our forecast, you can see it in the announcement for each quarter, and also for this quarter that we give you an overall guidance about the business cycle and some other figures.

But the most important here is not the discussion about guidance, it's what Gunilla said now, and also in the press meeting that we -- SAS has done now for a couple of years. We are much better on that now than ever before that's to be -- how to reflect and how to act immediately when we can foresee something happening in the market. It could be the business cycle it could be other internal -- or other internal reasons.

That's why the management today and also here that we have to be very fast when we take decisions if we need to adjust and predict to reduce capacity. Whether we talk about defenses or routes and for one that's very important. And the fuel we have mentioned before.

And there are -- we have an action plan, an action program with Mr. John Dueholm. He is the Head of Scandinavian Airlines, he is also my Deputy. So we are very hands on now to react and implement different action plans to cover the business and secure the business cycle we have for this.

**Lars Heindorff** - ABG Sundal Coller - Analyst

Okay. Thank you.

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**Mats Jansson** - SAS AB - President and CEO

Thank you.

**Operator**

Thank you. Our next question comes from Jacob Pedersen from Sydbank. Please go ahead with your question.

**Jacob Pedersen** - Sydbank - Analyst

Hi. Good afternoon. I have a couple of questions. The first question is regarding restructuring costs. How much do you expect of restructuring in 2008? And also could you elaborate a bit on the restructuring costs expected from the decision on SGS and STS?

And then my second question, if you could comment a bit more on the competitive landscape in Scandinavia? It's a bit -- following other questions. Also you guide a high ASK expansion in the Scandinavian business in 2008. And do you still expect that you will be able to lift profit also with that capacity growth?

**Mats Jansson** - SAS AB - President and CEO

Would you like to take the restructuring and also the position of this?

**Gunilla Berg** - SAS AB - CFO

Yes. The restructuring costs level I think you should count about almost the same level as we had in 2007, SEK200 to SEK300. If there will be even more due to the STS and SGS decision I can't do last year now, so I think so far you can count about SEK200 to SEK300 for 2008.

**Mats Jansson** - SAS AB - President and CEO

And then the competition, if I thought overall my opinion as coming from the outside still is that the competition for this year is going to be tougher and tougher. We see also weighing in is the expectation we have that we are going to see a slowdown.

And we also see that our competitors, for example, Norwegian in Norway their ambition initiatives, when they talk about acquiring new aircraft, increasing the traffic program and so on is one example of tougher competition in the future.

But we can force the harder competition in our market area overall definitely from the different competitors. Gunilla can you add something to that?

**Gunilla Berg** - SAS AB - CFO

No. I agree.

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**Jacob Pedersen** - Sydbank - Analyst

Okay. Just a quick follow then, also related to the work with the unions. You've cut costs over a lot of years now. And it seems like for every time you need to cut costs it's getting more and more difficult to get through with these cost cuttings. Is it simply a question of the union sitting with a joker, as you say, or are there are other issues also?

**Mats Jansson** - SAS AB - President and CEO

That's what I mentioned today, and also Gunilla and I think we mentioned it also in our report about when you look at the cost cutting programs in the strategy 2011 the amount is SEK2.8b has been set. This is -- at least that in piece, what is easy is what is not so easy to fulfill.

The second part about SEK1b I think it is of those SEK2.8b is related to collective agreements. And this is absolutely the most important question. As you know overall in the industry all over the world it's the same question.

And that's why I say today that I am little concerned about the situation the relation with the -- in reality with the trade unions, because where we take decisions about the ground handling and technical services is only one small part in series. The financial impact of that type of divestment is not so big. It's a question, as I said before, of reducing the complexity to steer the Group in that decision.

And if you meet that type of reaction with the noise about the -- and also it's on the discussion about flight deck what should happen when we go into the absolutely core problem the main problem, the productivity on flight deck and so on, and cabin crew and flight deck.

And that's why we give that signal now that this is very important -- not a point of no return, but it's a very important point in our development and how we fulfill exactly, because still we have face in reality with the trade unions their collective agreement and to increase the productivity in the Group.

And add to that is the -- we haven't done any official estimation about the cost cutting lease for 2010 and 2011. And I think I mentioned, also Gunilla something approximately it will be SEK1b or something like that but not in the exact numbers.

But as you say and mention in your question, and mean in your question, by your question, is that when we come into the program for 2010 and 2011 I think it's even a big in part to be related to the collective agreement, absolutely. So we have to solve that problem absolutely. This is absolutely the most important thing for us when we talk about the cost cutting program.

The other part to increase the -- to take the benefits of the joint purchasing activities to reduce staff costs and so on. It's no problem with that. It's more the way how we as the management team can fulfill the program. But the most sensitive question is the collective agreement definitely.

**Jacob Pedersen** - Sydbank - Analyst

Okay. Thank you very much.

**Operator**

Thank you. Our next question comes through from Areti Loizou from Blue Mountain Capital. Please go ahead with your question.

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**Areti Loizou** - Blue Mountain Capital - Analyst

Hi there. I want to switch a little bit gears and go and look a little bit on the balance sheet, especially given what's going on to the financial markets. And I was wondering if you could give us a split between your short term and long term debt? I know that all the details will be in the annual report. I was just hoping to get a little bit of a color today if possible. And then I've got a couple more questions following from that.

**Gunilla Berg** - SAS AB - CFO

I think you will have to give us some time. Wait a minute.

**Areti Loizou** - Blue Mountain Capital - Analyst

Thank you.

**Gunilla Berg** - SAS AB - CFO

Can we have another question?

**Mats Jansson** - SAS AB - President and CEO

I think it's a little bit more, as you say it's in the --

**Gunilla Berg** - SAS AB - CFO

You can call us if you want. You can call investor relations to get exact numbers.

**Mats Jansson** - SAS AB - President and CEO

Yes, because there is plenty other people are sitting around.

**Areti Loizou** - Blue Mountain Capital - Analyst

Sure. Then my next question was going to be related to the big maturity that you have coming up in June, which is a euro bond. And I know that in the past you have been quite reluctant to commit to a method of how this bond is going to be repaid or refinanced.

But I was just wondering given that we are now less than six months away from that maturity coming due, if you have now made up your mind whether that is going to be paid down from existing cash balances or you are going to wait for some of the asset proceeds. Or whether you are looking to maybe tap the capital markets anything like that?

**Gunilla Berg** - SAS AB - CFO

As we see it now we will take it from the cash. We have a rather good cash position and some [unavailable] credit facilities. And then we are in the process of selling Spanair as well (inaudible). So that's our plan so far.

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**Areti Loizou** - Blue Mountain Capital - Analyst

Okay. That's great. Thanks for that clarification. And then my last question was going to be on Spanair where you mentioned that you have already received potential bids. The valuation that has been going around in the press for about EUR500m but could you give us an indication whether you've -- higher -- that's low?

**Mats Jansson** - SAS AB - President and CEO

No I am sorry I can't I don't see that is published.

**Areti Loizou** - Blue Mountain Capital - Analyst

Oh sorry I thought you said low, okay.

**Mats Jansson** - SAS AB - President and CEO

No. I said no.

**Areti Loizou** - Blue Mountain Capital - Analyst

Okay. All right. Thank you very much for help.

**Mats Jansson** - SAS AB - President and CEO

Thank you.

**Operator**

Thank you. Our next question comes through from Faisal Kalim Ahmad from Handelsbanken. Please go ahead.

**Faisal Kalim Ahmad** - Handelsbanken - Analyst

Yes gentlemen it's Faisal Ahmad from Handelsbanken. A few questions if I may. And the first one basically relates to Mr. Heindorff's question regarding capacity outlook for 2008. In the analysts' slide pack, on slide 63 you do actually -- you are actually guiding for ASK increases of 79%. And I would just like to follow up on Lars question how does this compare to you seeing a proper macroeconomic environment?

And the second question basically relates to Gunilla. You were saying that you are preparing for the slowdown. Could you try and explain what exact measures you are planning?

**Gunilla Berg** - SAS AB - CFO

Yes. If we take the first one, I see the page now that we have guided on the ASK 7% to 9%. What we are in the middle of now is seeing of that capacity will be put in the market. And some reason for the ASK increase is that we have long estate like for probably Norway and in Sweden we have some new routes to Southern Europe. But we will be careful with the capacity.

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And when I say that we prepare for a slowdown mostly it comes to capacity adjustment. That is what you usually can do when there is a slowdown to really adjust for the capacity. So all the subsidiaries have, what we call, a contingency plan. If the slowdown is coming what kind of effect they take out from the market, and they will reduce the personnel costs and if we take leave of absence and things like that. So that's kind of the path we have for a slowdown.

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**Fasial Kalim Ahmad** - *Handelsbanken - Analyst*

Okay. And then just two very short questions. Could you guide on lease costs for 2008, and also the depreciation charge for 2008?

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**Gunilla Berg** - *SAS AB - CFO*

I think you should almost expect the same level that is what I can say so far. But you have to take away Spanair of course.

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**Fasial Kalim Ahmad** - *Handelsbanken - Analyst*

Okay. Thank you.

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**Operator**

Thank you. There are no further questions in the queue at this time. (OPERATOR INSTRUCTIONS). I do have a question coming through from Galia Velimoukhametova from King Street Capital. Please go ahead with your question.

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**Galia Velimoukhametova** - *King Street Capital - Analyst*

Hi. I just have a follow up question on Spanair. Could you confirm that you are classifying SEK1.1b of operating leases, which will go with Spanair into your discontinuing operations?

And also I noticed in your yearly results that EBITDA of Spanair was only SEK830m. So excluding this SEK1.1b of operating leases it looks like the airline did not generate positive EBITDA in 2007. So I was just wondering whether you will be able to get a positive price for this asset?

And my second question is regard -- relates to liabilities SEK5.3b of liabilities which you classified on your balance sheet as liabilities relating to assets held for sale. Is it all related again your Spanair and how much debt is included in this figure? Thank you.

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**Gunilla Berg** - *SAS AB - CFO*

If you look at the valuation of Spanair we can't really comment that. But I think that the buyer of Spanair is more look to the strategic position of the -- to be second in the domestic market of Spain than really the EBITDA level. We think it's correct with SEK1.1b in lease costs.

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**Galia Velimoukhametova** - *King Street Capital - Analyst*

Okay.

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**Gunilla Berg** - SAS AB - CFO

And you said that -- the last question was?

**Galia Velimoukhametova** - King Street Capital - Analyst

The last question was about liabilities, SEK5.3b liabilities which are classified as relating to assets held for sale. Whether it's all related to Spanair, and how much of this is debt.

**Gunilla Berg** - SAS AB - CFO

The net debt in Spanair is about SEK2.5b.

**Galia Velimoukhametova** - King Street Capital - Analyst

Okay.

**Mats Jansson** - SAS AB - President and CEO

Okay. More questions?

**Operator**

Thank you. We have one last question coming through from Mikael Lofdahl from Carnegie. Please go ahead with your question.

**Mikael Lofdahl** - Carnegie - Analyst

Yes.

**Mats Jansson** - SAS AB - President and CEO

Hello.

**Mikael Lofdahl** - Carnegie - Analyst

Hi. First of all the impairment test of Spanair had the write down in the quarter, how much lift do you have in terms of goodwill for Spanair?

And secondly just to clarify the last question, the net debt of Spanair of SEK2.5b is that included in the SEK5.3 of liabilities related to assets held for sale or is it included in the Group's net debt? Or have you excluded Spanair somehow in the balance sheet?

**Gunilla Berg** - SAS AB - CFO

No it's included in the 'held for sale'. So the net debt is included in the 'held for sale'. I can't really comment on the goodwill but the book value of Spanair after the write down is still SEK0.9b.

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**Mats Jansson** - SAS AB - President and CEO

Okay?

**Mikael Lofdahl** - Carnegie - Analyst

Okay. Just one more. On the -- you anticipated costs for the Q400 replacement in '08. In that cost that you have stated of SEK700m to SEK800m have you included anticipated higher costs for the new planes that you will probably buy from Bombardier, which will have higher jet fuel costs than the old ones?

**Mats Jansson** - SAS AB - President and CEO

Now you are speculating about what we are going to choose when we replace the fleet. Let's see what happens -- what type of aircraft we are going to choose, or what kind of mix it will be. Maybe it will be between the different tariffs and the effect it has when we talk about the cost for operating the aircraft and so on. So let's make a solution first with Bombardier.

**Mikael Lofdahl** - Carnegie - Analyst

Okay. But this cost does not include the probability of higher costs for the actual replacement aircraft then?

**Mats Jansson** - SAS AB - President and CEO

No. We have taken to different strategy. First we have to decide about what type of aircraft we are going to replace the Q400 with. So one point, the internal calculation about this traffic program, the short and middle distance is the cost of -- to operating those aircraft absolutely. Its one point if you look at this.

The point is I know what you mean, if we go from turboprop up to the (inaudible) it costs more money than to operate the turboprop and so. That's the one thing we weighed in our own internal calculation absolutely.

**Gunilla Berg** - SAS AB - CFO

But these are -- I compliment on that, it is -- this calculation of SEK700 to SEK800 it's mainly the wet lease costs and the sub-lease costs we have. And you should expect that most part of that will be in the first half year of the very most part in the first quarter.

**Mikael Lofdahl** - Carnegie - Analyst

Okay. Let me just continue for a little while here? First of all you have said before you are going to present a reinvestment plan for your aircraft fleet during '08. Is this still on the agenda, and if so when?

**Mats Jansson** - SAS AB - President and CEO

Yes. As I said in the beginning about the discussion we had with Bombardier.

**Gunilla Berg** - SAS AB - CFO

And with the fleet, the reinvestment.

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**Mats Jansson** - SAS AB - President and CEO

(Inaudible). Okay the overall fleet.

**Mikael Lofdahl** - Carnegie - Analyst

Yes.

**Mats Jansson** - SAS AB - President and CEO

We have that discussion with the Board and we haven't analyzed. Our Steering Group is working with analyzing the total fleet plan for the following years. And one part has been the Q400 discussion, how to replace the Q400 in the short term. And so we come back to that. We have a discussion also one of the [tollgate] is in summer together with the Board. We come back to that.

**Gunilla Berg** - SAS AB - CFO

But we have almost (inaudible). But, of course, since the autumn some things have been there. The business cycle and things like that we are revising it and we have to have deep discussions with the Board because that includes planning so much investments. But we have a grasp of it.

**Mikael Lofdahl** - Carnegie - Analyst

Okay. One quick last question. The restructuring program - you have completed 25% of the announced. How -- the net effect from this during the second half of this year. We know that some SEK200m to SEK300m you've charged in restructuring costs, but the net effect has it been positive or negative so far? And what do you expect for next year, will you have SEK200m to SEK300m in restructuring costs there as well? But how much do you expect to save actually in '08?

**Gunilla Berg** - SAS AB - CFO

The result effect, as I said before, we think will be about 0.6, 0.7 under restructuring that you say SEK200m to SEK300m. So the net effect is positive there and the same in 2007.

But, of course, these kind of programs comes with some restructuring costs. But most of the restructuring costs are -- I can't find the English word for it, but (inaudible) --.

**Mats Jansson** - SAS AB - President and CEO

Yes the non-cash it relates to personnel, when we lay off personnel. And they get the -- if they get leave without salary.

**Gunilla Berg** - SAS AB - CFO

And they can leave. During the leave period. So there is not really cash out.

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**Mikael Lofdahl** - *Carnegie - Analyst*

But some SEK300m to SEK400m in net cost savings, we saw that already then in the second half of '07, and that's what you are predicting for '08 as well?

**Gunilla Berg** - *SAS AB - CFO*

Yes.

**Mikael Lofdahl** - *Carnegie - Analyst*

Okay.

**Mats Jansson** - *SAS AB - President and CEO*

Okay?

**Mikael Lofdahl** - *Carnegie - Analyst*

Thank you.

**Mats Jansson** - *SAS AB - President and CEO*

Okay. More questions?

**Operator**

That was our last question so I will hand you back to your host to conclude today's conference call. Thank you.

**Mats Jansson** - *SAS AB - President and CEO*

Thank you.

**Operator**

Ladies and gentlemen thank you for joining today's conference you may now replace your handsets.

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