

FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen. And welcome to today's SAS Group's first interim report 2010 conference call. At this time I would like to hand the conference over to your host today, Mr. Mats Jansson, CEO and Mr. Mats Lonnqvist, CFO. Please go ahead, gentlemen.

Mats Jansson - SAS AB - CEO

Thank you very much. So we start as we used to do with an overall comment from my side and then Mats Lonnqvist is going to present the fully first quarter more in detail and also Sture Stolen is here, he is the historical expert on the SAS and the airline industry.

And as we said when we met last time in this conference format the February result was minus SEK960m. We also at that time announced that we believed that March is going to be flat, maybe a little bit positive or a little bit negative. We weren't quite sure at that time based on the sales figures, the load factor and the yield development, the so-called RASK, that we should deliver that level of results.

And as you can see in the fully first quarter we had a total loss of SEK844m and that means that we in March reached a positive result of SEK116m. Compared with last year's results it's an improvement with about SEK500m, something like that.

And the explanation for that and reasons for that are the same as we told you in last February that we have a positive, not fixed pattern, but some positive signs in the market, also in our operations. And the load factor is now increasing for, I think, it's nine

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months now has increased. And it's increased now on about the 5% level, 6%, 7%, 7.5%, etc., etc. And if you work it together with the yield you can see that the RASK development during March was positive and the month before it was a little bit negative. So it's much better now balance between the yield and the load, which we gave you a signal about when we met in March.

So also the development of the unit cost is very positive for us and that means that we still fulfill the implementation of the Core SAS cost cutting program. We are on track still.

And if you look at the rights issue process we are now in the subscription period and we have got a lot of questions from the journalists before we had this meeting about the ash cloud and regarding the ash cloud if it's going to hit or destroy the process of the rights issue. And so far we haven't heard anything negative or shaking from the underwriters or from the loan banks or from the main owners. And you can also see on the share price so far it's quite stable or yesterday it was up. I don't know exactly what the share price is now. Okay, a little bit down.

So the process will be fulfilled with the rights issue. As you know it's SEK5b and that will secure the financing the loan facilities. And as I've said before the whole plan, the whole rights issue is based on the business plan Core SAS and the additional program on the cost side and also on the revenue side.

So let's move over to next page and I think I have comment on that. Then we can go on third page and once again repeat that the conditions the owner has of the rights issue, the two conditions, one to refinance the bonds is fulfilled, is secured. The other condition was to have a legal, a fully legal settlement and agreement with the unions about another SEK500m, which is part of SEK2b in the savings of salaries, pension and so on.

As I said before, we deliver on the plan, we are on track when we talk about the amount still of the cost cutting program, that part --more than half of it SEK7.8m is already delivered. When we're talking about the employees who is going to leave the Company is on plan, on track also. And also when we talk about the capacity reductions, all important parts of the Core SAS plan, is according to plan.

Let's go over to the ash cloud and my overall comment on the ash cloud is a very, situation we have never seen or heard about before, that type of occasion in the Company. It started, as you know, last Thursday, the day after we were on the Investors Meeting in London. I had personally problems to come home on the Thursday via Munich, I came to Stockholm on Thursday afternoon before we closed the airport.

In the beginning, the whole aerospace was fully closed in nearly whole of Europe. And after a while it has been opened up so improvement has been made. For the moment when we talk about our production Stockholm is still open, Arlanda, Copenhagen is still open, Oslo and some parts of Sweden in the south is closed and some parts of Norway in the west part is also closed.

It's a little bit insecure situation but overall this is a temporary, you can call it, event, if you want. And when this situation is fully fulfilled or the cloud, the ash cloud problem is away then we believe that the fundamental -- our own business in a fundamental, in the market when we talk about demand and also price stability and so on is still working.

How long time it will take when this ash cloud problem is over we don't know exactly but it's going to take its time before we have balance and we talk about demand and the combination of demand, load factor and also the yield development. But once again overall this is a temporary event and the fundamental is still in the market, the trends are still in the market. The program we have is still so strong as it was before the ash cloud came in and so on.

One important thing from the authorities, from the European Commission was the statement the President Barroso made when he said that this is an extraordinary situation, that this is a force majeure situation and therefore we understand that we have to support the airlines financially. And now it's up to each government to say, to accept that framework from the European commission. We have daily contact with the Swedish, Norwegian and Danish governments. And it is very important that we



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can make a settlement with the government coordinated with the other European Commission states and we have heard announcements from different ministers that they have the same opinion as the President Barroso.

So let see what's happen. And we are not going to mention for you at this time the exactly amount of the claim but it's a combination of all the airlines, especially for the small airlines, from liquidity support. And the other part is you can call it more support from the operational point of view when we talk about the wages and lost production and also the part we call the care service for the back customers outside their homes.

But there are different parts in this calculation but we have seen also in the report that so far until today it has cost SEK460m. The total amount now in Europe for the airlines is about EUR200m, EUR2b, something like that, each day. And the different parts, talk about the care service part is about EUR300m or EUR400m total in Europe each day. So we talk about billions in financial support and aid from the government. So that is my comments on the ash cloud.

Once again the situation's much better today than it was when it started. The decision from the Commission also to allow us and together with the local authorities from each country to fly in these zones is very important. In the beginning it was only two zones and you know they have added these zones, a second, which means that we can fly but we have to after three hours flight we have to make an inspection afterwards of the engines. But the possibility to have the use that soon too is very important for our flexibility and that has been a driver when we have started up our production in SAS and also in other airlines.

Unfortunately, the Swedish government or authorities have yet allowed or said yes to the second zone. The other, not even Finland, but the other states in the Scandinavia and in Europe have accepted that type of production or distribution model.

So after that Mats Lonnqvist can give you more comments on the financial figures and so on. Please, Mats.

Mats Lonnqvist - SAS AB - CFO

Thank you, Mats, and I will do that. I will comment on the revenue and the market situation. I will comment on the Core SAS cost savings programs and the implementation of Core SAS. And then finally, a few words about the strengthening of our balance sheet and the additional refinancing that we have put in place during the spring.

To get started to look at the revenues. And let's go slide number nine because there are some very interesting trends to observe during the first quarter. I should say that the basic situation is very much the same as by the end of February when we addressed you last time for the January/February report, i.e. the market is still a tough one. We see traffic increasing, we see load increasing, which is good signs of recovery. But we still have a yield that is depressed and is on a very low level.

So that's the basic situation even though I think there are some promising trends in the first quarter. If we look at the traffic development or maybe we should start with the number of passengers. For January/February the number of passengers were down 1.6% for SAS. But in March it was up 2.1%. And we actually carried 2.2m passengers in March.

So that is promising and you can see the same effect in the traffic, in the revenue passenger kilometers where we see a clear trend month by month. It was down 5.1% in the first month of the year January, then down 3.1% in February, but up 3.4% in March. So that trend is also reflected in the load factor development, still a good development month by month. And in the month of March we had an 8.6 percentage unit increase over last year.

If we go to Scandinavian Airlines that constitutes around 90% of our operation, we see a new milestone so to say being passed in March. And that is that the combined effect of the yield and the load factor, the RASK, the revenue per available seat kilometers actually was up for the first month since the crisis started.



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And the trend during the quarter is really promising. We were down 8.7% on the RASK in January, we were down 0.7% in February and we were up 3.1% in March. Being up means that the actual growth or increase in load factor more than compensates the low yield that we are still experiencing and that is the first month since I started in this industry in January 2009 that we see that development.

That should be then linked to the unit cost development where we actually see the effect of the cost savings in the quarter, the program, manifested by a 7.8% decrease in the fuel adjusted unit cost for the full quarter. When looking at this minus 7.8% in unit cost, one should bear in mind that we actually are -- have a capacity decrease in the first quarter of about 11% so in that environment and with a smaller base for the cost we can still report an 8% decrease in the unit cost.

And since we are now done with almost all of the capacity reductions - there is one aircraft remaining - that means that the effect on unit cost will not be affected by a shrinking base so to say going forward. And that means that you will see effects quarter by quarter on the unit cost by our cost savings materialize in hopefully a very obvious way.

And of course when the unit revenue, the RASK, is up 3.1% and the unit cost is down 7.8% that leads to a reasonably good development in March and actually a little bit stronger than we expected when we published our forecast for March.

If you go slide 10 you have the P&L for the quarter. The combined effect from the revenue is a currency adjusted decrease of 8.4% on the total operating revenue, but the total operating expenses are currency adjusted down 17%. Again reflecting what I just described in terms of RASK in unit costs.

If we go into the different expenses I think payroll expenses stands out. There we actually have a currency adjusted decrease of 22% from the first quarter to the first quarter 2010. If we look at the number of full time employees the corresponding decrease is 18%. We actually in one year's time in our core business have reduced the number of FTEs from around 18,500 down to a bit above 15,000 full time employees. So that's a major effect from the Core SAS program.

This led to a positive EBITDAR which was more or less in line with the level from last year. And down to the earnings before tax before non-recurring items we are actually a little bit better than 2009 first quarter even though we still, of course, report a loss for this is seasonality wise weak quarter, a loss of SEK844m. On top of that we recorded restructuring cost in the first quarter of [SEK108m], almost all of it being cost for redundancies. And we had capital losses combined of SEK20m from the sale of Air Maintenance Estonia, SEK1m and then SEK19m as effect of divesting and exit of [Echo].

When looking at the figure for the first quarter one should also bear in mind that we have a negative currency effect from 2009 to 2010 of about SEK500m. So that gives you a perspective on the result.

If we continue to slide 11 we have described the implementation of Core SAS quarter by quarter. As most of you are aware of, we are more or less done with the capacity reductions. 20 of the 21 aircraft that should be grounded are actually on the ground. The last one flown in charter traffic will not be grounded until the third quarter this year. We have at this point in time no further plans for capacity reductions. We expect when the market starts to slowly grow again in 2011 to add 2 or 3 aircraft to the fleet on an annual basis for the next few years.

In terms of reduction of FTEs, 3,200 FTEs have actually left us, which is 70% out of the total number of 4,600 included in the Core SAS plan. And out of the SEK7.8b that constitutes the full cost saving program 63% or SEK4.9b on annual level is actually implemented. On a rolling 12 month basis, SEK3b out of the SEK7.8b has actually materialized itself in our P&L. And the cost saving in the first quarter 2010 above the first quarter of 2009 from Core SAS is SEK750m, which is actually means that from the start of the program since we had positive effect of SEK233m in Q1 2009 there is actually SEK1b lower cost in Q1 2010 compared to the situation before Core SAS.

And when it comes to divestments of non-core business we have all the main parts divested and there remain from a value perspective smaller transactions to be carried out during 2010 and '11.



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The SEK3m (sic - see presentation) in rolling 12-month effect in the P&L that means, to be very clear on that that there's another SEK4.8b to manifest itself in the P&L once we have carried out the full Core SAS cost saving program.

On page 12 you can see the cost savings divided by function. I will not go through those details but there you have the background.

And on page 13 we also have given some further information on the reduction of the unit cost, the 8% unit cost reduction that we see quarter on quarter. And I will not spend any more time going through that, might be questions afterwards if --

Let's continue to page 15, which gives you a picture of what would the effect on our balance sheet and our liquidity be if we had carried out the rights issue by the end of 2009. And I would like to point out the equity to asset ratio that would actually be somewhere about 35%, which is our long time target for equity to asset ratio.

The financial readiness is a very, very important target for us. We want to be at a level of at least 20% of the turnover in financial readiness including cash and undrawn credit facilities. And I think the ash cloud has proven that that is prudent target to have in place. And when we have carried out the rights issue we are actually on a 29% level pro forma 2009 on the financial preparedness.

On top of that we have a range for refinancing of all the maturities or close to all the maturities we have in different types of financing bonds and others during 2010. That's a SEK3.2b being arranged including bonds in euros and SEK and also including SEK1.6b through a convertible bonds issue.

And, of course, the rights issue will also be helpful in terms of getting our leverage on more acceptable level. But of course the development going forward is based on a stronger balance sheet but it's also in terms of leverage for instance based on us producing better results than we have done for the last year.

So with that if we conclude on slide 16. We think we have the fundamental pieces in place for a successful turnaround. We have during this year of capacity reductions and cost savings being able to develop our product. We see an increased customer satisfaction measured through the index. We see us being the most punctual airline in Europe and also on the top of the list in terms of baggage reclaims. So we think we have been able to develop the product but at the same time carrying out these necessary cost savings.

We are continuing to implement Core SAS both the strategy and the cost savings according to our plan meaning that the remaining SEK4.8b in P&L effect should be realized during 2010 and 2011.

And we are in the midst of the subscription period for our rights issue of SEK5b, which closes at April 29. And on the back of the rights issue we have been able to arrange refinancing of the maturities in 2010.

So I think the underlying development is in line with our expectations. And by that back to you, Mats.

Mats Jansson - SAS AB - CEO

Thank you, Mats. So after that what Mats said and I repeat what I said in the beginning the ash cloud is a temporary event and when the ash cloud problem is over we believe that the fundamentals of the improving market condition is still function. And also as the program, the aggressive program we have on the cost side and also on the revenue side will bring us into a better situation.

So it's time for Q&A. Please, operator.

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QUESTIONS AND ANSWERS

Operator

Thank you, gentlemen. (Operator Instructions). Gentlemen, our first question for today is from Patrick Hughes from Citi. Please go ahead, sir.

Patrick Hughes - Citigroup - Analyst

Yes, good morning to you. I just wanted to double check, on the target of the rights issue that you've given there's press reports out this morning suggest that there is potential for the underwriting banks to withdraw that underwriting commitment in exceptional circumstances. Can you just maybe give me a bit more color on that and whether you've had discussions with those banks and their commitment remains 100% behind it. Thank you.

Mats Jansson - SAS AB - CEO

As I said before and it's also on the article in the Swedish newspaper about the rights issue and when they are speculating about the agreement with the underwriters and so on. And my answer is the following that we haven't heard nothing from the underwriters, not from the loan banks or from the main owners and no signs that we have to discuss this question, etc., nothing.

And I think it's also when you look at this ash cloud effect it's not on SAS airline especially, it's covering all airlines. It's a huge European and also now in the US and Canada event. It's not direct towards SAS. So it's absolutely calm from those stakeholders, that's my answer.

Patrick Hughes - Citigroup - Analyst

So you can confirm that contrary to the report that the speculation in the press there is no ability for the underwriting banks to withdraw that underwriting commitment.

Mats Jansson - SAS AB - CEO

It's only speculation, if you read that article and look into the article, there's nothing concrete it's only a description about the rules of a rights issue and then try to say that this is special rules or withdrawn or exceptions for SAS. It's the same pattern for all rights issues when you use the guarantees and the underwriters.

Patrick Hughes - Citigroup - Analyst

Yes, okay. I'm not saying I agree with the article at all, sir, don't get me wrong. But the underwriting banks are fully 100% committed and can't withdraw at this stage.

Mats Jansson - SAS AB - CEO

No, they are committed, yes, they are.

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Patrick Hughes - Citigroup - Analyst

Okay, thank you.

Operator

Our next question today is from Jacob Pedersen from Sydbank. Please go ahead.

Jacob Pedersen - Sydbank - Analyst

Yes, hi, gentlemen. I have a couple of questions. First of all, I'd like to hear a bit about effect of currency fluctuations and how much of that effect, was of around SEK500m in the first quarter, how much of that is actually in the Scandinavian Airlines segment and how much is in the other segment of Core SAS.

Mats Lonnqvist - SAS AB - CFO

To start with we actually handle this on a Group level and our treasury operation is fully centralized so it would be wrong to divide this among the different entities. When it comes to how it's distributed in the material we have put on our home page in the appendices, you find the specification of the SEK539m in negative currency effect in the first quarter 2010, compared to the first quarter of 2009. But basically, it's around SEK365m in negative effect on the revenue its cost this year, on the cost side as a whole and on the financial net is around SEK150m in negative effect.

Jacob Pedersen - Sydbank - Analyst

Okay. Also I would like to hear a bit about the Easter effect this year. Now as I recall your March -- you've talked a lot about new development in March 2010. As I recall it March 2009 was extremely weak in load factor. I think a decrease of more than 10 percentage units. Could you talk a bit about the Easter effect this year compared to last year and then how much is March this year comparable to March last year?

Mats Lonnqvist - SAS AB - CFO

Of course there is -- Easter is always creating problems as you know since it's some years in Q1 and some years in Q2. Between Q1 2009 and 2010 there is no major Easter effect. Part of the Easter was actually in Q1 this year, but as you know it was exactly on -- between March and the main part in April. So there are no major Easter effects between those two quarters.

Jacob Pedersen - Sydbank - Analyst

Okay. And then a question on the ash cloud. How do you see things going forward? How well equipped are you to handle on and off closure and opening of airports in your ability to getting your -- getting the full benefit of your traffic program?

Sture Stolen - SAS AB - VP & Head of IR

Well, this is Sture here. As you know, yesterday we had around 60% of the operation running and today we expect around 75% of the operation running. Of course it is critical for us to reach a certain level in order for the whole network to operate. It's about logistics and distribution of crew and so on. But we are far beyond that point when we are operating 50% of the flights.

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So I think as long as -- as you know the European Union and the Eurocontrol, more correctly, have introduced a new system where you also can fly in the Zone B.

Mats Jansson - SAS AB - CEO

Zone 2.

Sture Stolen - SAS AB - VP & Head of IR

Zone 2. And that significantly improves our ability to have a larger part of the network running and therefore it reduces the risk of this negative effect as you indicated.

Jacob Pedersen - Sydbank - Analyst

Okay. So as long as we're above 50% you're comfortable.

Sture Stolen - SAS AB - VP & Head of IR

Well, of course, we would like to have the whole network running but it's a big difference between having 10% and 50% running in terms of having to rotate crew and aircraft and so on. But we're targeting to get back to normal operations of course as soon as absolutely possible. And if there's no ash cloud effect coming in, in the next few days we will be there shortly. But this is very unpredictable, the whole situation.

Mats Jansson - SAS AB - CEO

The first part of this period, Jacob, has been to -- when the sky was open was to pick up all the stuck people outside Scandinavia. Now it's the first moment that we start to work in a traditional way, do traditional bookings and distribution.

Jacob Pedersen - Sydbank - Analyst

How do you see things developing from here? Are we going to see an effect of pent up demand from your business customers and you will be able to increase load factor dramatically in a few weeks? Or do you expect to fly fewer or with lower load factors in the coming weeks?

Mats Jansson - SAS AB - CEO

I think it's a combination. First things have to be more stable. It's more stable now than in the start last week. As Sture said and I tried to say in the beginning, it's very positive that we have now three different zones to operate in. That gives us space for production and also flexibility.

And what we have to do when things improve more and more, about the ash cloud, is also to inform and to push the corporate customers that things are -- and also private customers -- that things are getting stable, more stable, that we start up all our destination and our frequency. You should not be scared to be stuck again because one of the big restrictions now when you talk with business leaders in Scandinavia is that they don't allow their managers or people to fly out from Scandinavia, even if Copenhagen and Stockholm and Oslo is open because they are scared that they shouldn't come back.

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So when things are getting more and more stable, we have to inform and push the market and even push them more than before. And that's why we also had to run operations and flights, not ghost flights but flights which have a very low load factor. Because otherwise if the competitors operate in the market and we stay on the ground, I think it will be negative in the future. But it's very important to keep the balance.

Jacob Pedersen - Sydbank - Analyst

Okay.

Mats Jansson - SAS AB - CEO

Sture, can you add something to that?

Sture Stolen - SAS AB - VP & Head of IR

No, I think you covered it really well. Maybe I should add that we tried to use all kinds of electronic ways we have possible to communicate to the customers, because one of the problems has been to tell them that the flight is actually leaving. And -- but now there is more and more predictability in the situation. So again if nothing changes, things will significantly improve.

Jacob Pedersen - Sydbank - Analyst

Okay. But still from what I hear you saying we should expect some more costs than the SEK460m that you have recognized up until now.

Mats Lonnqvist - SAS AB - CFO

Yes, Jacob, there will be -- (Multiple Speakers).

Mats Jansson - SAS AB - CEO

It's not over yet. That's why I told you that in the northern part Umea in Sweden is closed and maybe also Lulea, I don't know. Umea is in the south, Gothenburg is closed now and the west coast of Norway is closed. It could be a threat that Oslo could be closed today, etc., etc.

Sture Stolen - SAS AB - VP & Head of IR

So it's stop and go, stop and go. But it's more open now, if you compare with one week ago. When we started -- when it opened up first, a couple of days ago, we had about as a Group, 10%, 15% production. Now we have 20% production and now we increase production more and more. But it's important now to have traditional bookings that the people pay for their trips when it comes to the aircraft.

Jacob Pedersen - Sydbank - Analyst

Okay, I understand you. Okay, thanks very much.

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Sture Stolen - SAS AB - VP & Head of IR

Thanks, Jacob.

Operator

(Operator Instructions). Our next question is from Andrew Lobbenberg from RBS. Please go ahead.

Andrew Lobbenberg - RBS - Analyst

Hi there, guys. Can I just say, to start with on the ash cloud, when we look at the SEK500m, nearly SEK500m to yesterday, how much of that is cash cost?

Mats Lonnqvist - SAS AB - CFO

I think over time, almost all of it will be liquidity affecting.

Andrew Lobbenberg - RBS - Analyst

And are you expecting to have incremental maintenance costs as we get flying with the ash around to check out the engines more regularly?

Mats Lonnqvist - SAS AB - CFO

Not in any significant way I would say. There will be some more inspections having to be done in the flying in Zone 2. That's not a very significant cost.

Andrew Lobbenberg - RBS - Analyst

Not major. Okay.

Mats Jansson - SAS AB - CEO

The cost is more on the Zone 2, on the productivity side, that we can't use 100% or full utilization of aircraft, because you have to make maintenance and inspection of the flights.

Andrew Lobbenberg - RBS - Analyst

Okay, that makes sense. Can I ask on AirBaltic and on Spanair? I think from when we last spoke at Spanair there was a possibility that Spanair could call some more cash from you guys. It looks as though you've paid out the maximum now. Is that correct?

Mats Jansson - SAS AB - CEO

More cash?

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Andrew Lobbenberg - RBS - Analyst

They could call on a loan of an incremental I think EUR20m and I think -- it sounds like you've paid that out recently. Is that right?

Mats Lonnqvist - SAS AB - CFO

That is more or less correct.

Andrew Lobbenberg - RBS - Analyst

And then when we look at AirBaltic they're due to pay you back a bunch of money by the end of this month. It appears from the report that they've paid you back a little bit but nothing like the full amount they owe you. Is that correct? And how confident are you of getting that money within the month?

Mats Lonnqvist - SAS AB - CFO

We will not get the full amount within the month, that's pretty obvious during this period in a recession, not taking the ash cloud into account but the general situation. So we have received some amortizations which is good and we have a continuous dialogue with AirBaltic. I think AirBaltic is doing reasonably well under the circumstances and we think that we will eventually get fully paid for that amount.

Andrew Lobbenberg - RBS - Analyst

So you won't take write-off even though they're not paying on time.

Mats Lonnqvist - SAS AB - CFO

No.

Andrew Lobbenberg - RBS - Analyst

Or you will take write-off?

Mats Lonnqvist - SAS AB - CFO

We will not take any write-off of that.

Andrew Lobbenberg - RBS - Analyst

Okay, fine. And then can I ask about the financial charges because if we very simply look at the performance of the business in the quarter, at the operating level you're SEK200m better off and at the bottom line you're about the same because there's a bigger financial hit.

How large a financial cost should we be thinking of going forward for the full year? Obviously there's a bunch of moving parts, because hopefully we get the money in for the rights issue, but we've done the convert which is kind of expensive and we've taken the money from there and we've done the other short term bonds which are expensive too, right.

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Mats Lonnqvist - SAS AB - CFO

Yes. I think if we take the full year to start with, it's -- you should expect something in the neighborhood I guess of SEK700m, SEK800m, something like that.

Andrew Lobbenberg - RBS - Analyst

Okay, that's helpful.

Mats Lonnqvist - SAS AB - CFO

That gives you an indication what to expect quarter by quarter.

Andrew Lobbenberg - RBS - Analyst

Yes, fine.

Mats Lonnqvist - SAS AB - CFO

Of course, this will change over time, with all of these proceeds and liquidity coming into the picture. One quarter will not look exactly like the preceding quarter, of course.

Andrew Lobbenberg - RBS - Analyst

Yes. And then let me ask about the cost cutting, because you're explaining how Core SAS cost cutting is working and it's playing out in Q1 at SEK750m incremental cost savings over Q1 '09. But if we look at it simplistically you lost the same amount of money. So how confident can we be that we'll see anything on the bottom line? How are you going to explain that the SEK750m cost savings disappeared?

Mats Lonnqvist - SAS AB - CFO

I think if you look at the cost savings, they are all there. But we are operating on a much lower level in terms of revenue, to start with. And also we have the currency effect between the years.

So I think that -- I hope there is no doubt that we are actually delivering on the cost savings as such. And then of course one has to take into account a lower yield, a lower capacity, other effects from fuel and currencies.

Sture Stolen - SAS AB - VP & Head of IR

I think, Andrew, you have in the analysts' material in the appendix the breakdown where we calculate the unit cost in quite a transparent way. And as you see the cost is down almost 8% which is probably our best evidence that we are really delivering on the cost side.

Andrew Lobbenberg - RBS - Analyst

Okay, cool. Thanks.

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Operator

Ladies and gentlemen, our next question would be from Brian Borsting from LD Markets. Please go ahead.

Brian Borsting - LD Markets - Analyst

Thank you and good afternoon. My first question is regarding the development in net working capital in March. It seems like there's been a big decrease in March. Could you maybe explain that?

Mats Lonnqvist - SAS AB - CFO

As you know we have a working capital that is evolving over the year and over the season, where January and February is typically a very, very good period for us in terms of building up bookings. So that is the main explanation that March looks slightly different.

Brian Borsting - LD Markets - Analyst

Okay. So the SEK600m difference from the end of February to the end of March, that's because of that, so to say?

Mats Lonnqvist - SAS AB - CFO

Mostly, largely the explanation, yes.

Brian Borsting - LD Markets - Analyst

Okay. Then regarding your cargo traffic, which maybe can be seen as a leading indicator for other parts of the traffic especially business class traffic, how has the development been there? And what do you expect for the coming quarters? Do you still see a big volume increase in the coming quarters on the cargo side?

Mats Lonnqvist - SAS AB - CFO

Yes, we see a good development of cargo revenue. From a low level, but we are talking 20% increases here year-on-year.

Brian Borsting - LD Markets - Analyst

Okay. Last question, regarding -- on the short haul European routes, the big question is whether the business class, Economy Flex is under structural pressure or just is down because of this financial crisis. We've seen some of the other companies, mainly long haul companies reporting quite strong business class traffic in recent months. Could you speak a bit about your business class, Economy Flex bookings and how you see the situation here going forward? Is it just getting more stable on a low level or are you seeing more optimism in some of your big customers?

Sture Stolen - SAS AB - VP & Head of IR

As you know we do not report the business class or Economy Extra separately. But we have clearly seen indication that business class is improving and increasing particularly on the Asian routes. That's what we have seen in line with the whole industry, in line with what we have seen with British Airways.

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Brian Borsting - LD Markets - Analyst

Yes, exactly.

Sture Stolen - SAS AB - VP & Head of IR

So business class is coming back there. And of course on long haul business class is a very important and a large part of the business. Short haul we don't look at the business class separately. We look at the business class together with the Economy Extra or Economy Flex. And those two classes together have shown signs in some markets of recovering. I would say some markets -- it's selected areas, for example the UK London. Of course they were really hit hard last year and now it's coming back. But on other areas, they're still lagging.

We strongly believe that the combination of having the business and the Economy Extra gives the customers flexibility to choose. And this is something that will be positive for us whenever you see the market turning further.

Brian Borsting - LD Markets - Analyst

And you are actually seeing the market turning also in the (multiple speakers).

Sture Stolen - SAS AB - VP & Head of IR

Some signs in select markets. But it's not a general turnaround.

Mats Jansson - SAS AB - CEO

Not a fixed path yet. Outside of -- maybe as Sture told you that the significant sign before the ash cloud came in was the -- has been the intercontinental routes, especially from Northern America. We see improving yield and demand from the business passengers.

Brian Borsting - LD Markets - Analyst

Okay, thank you.

Operator

(Operator Instructions). From Handelsbanken our next question is from Faisal Ahmad. Please go ahead.

Faisal Ahmad - Handelsbanken - Analyst

Yes, Faisal Ahmad from Handelsbanken Capital Markets. Gentlemen, just one short question. Obviously the ash cloud has triggered significant losses or costs for you during April and also eaten into your financial position and obviously also a significant part of the proceeds you're raising from the rights issue. To what extent do you see a need for further strengthening your financial position due to this incident, unfortunate incident you're seeing at the moment?

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Mats Lonnqvist - SAS AB - CFO

Actually as I described before we are entering into a rather strong financial position, also in terms of financial preparedness. So what has happened up to now is not changing that position and there we see no need for further strengthening of the balance sheet.

Fasial Ahmad - Handelsbanken - Analyst

And even if costs eat up to one-fifth of the proceeds you're raising, you don't see any need to further strengthening your balance sheet or your financial position, liquidity in any manner?

Mats Lonnqvist - SAS AB - CFO

As we have communicated we are working based on a very robust business plan and a very robust approach in terms of balance sheet equity/asset ratio and liquidity. So we have made lots and lots of sensitivity analyses and I must admit we didn't include an ash cloud in those sensitivity analyses. But nevertheless it's within the limits of our financial position. So it doesn't trigger any further need.

Fasial Ahmad - Handelsbanken - Analyst

Okay. And a second question basically relating to the antitrust litigation. In your financial report you're commenting that you expect a ruling as early as Q2. Do you have any specific date here?

Mats Lonnqvist - SAS AB - CFO

No, and this is a wording we have been using for some time in terms of -- it can't be ruled out that it will be presented already in the second quarter. Then one can of course speculate on how has this process been affected by the general situation for the airline industry at this point in time. And my personal take on that would be that I would be surprised if something was published in terms of the cargo issue in the very near time. Again this is SAS, but it's also a major part of all the other airlines in Europe that is affected by this.

Fasial Ahmad - Handelsbanken - Analyst

Okay. Thanks very much gentlemen.

Operator

Lars Heindorff of ABG has our next question. Please go ahead.

Lars Heindorff - ABG Sundal Collier - Analyst

Yes, afternoon, gentlemen. Just a question regarding your European business. If we look at the traffic stats it appears that we can see some signs of rebound there. Just -- what I'm curious about is you've been reducing your capacity quite significantly during the past couple of quarters. What's the plan going forward now in terms of capacity development? Have you grounded the number of aircrafts that you want to ground? Or are you likely to take some aircraft back in if we see any signs of a pickup in the markets?



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Mats Lonnqvist - SAS AB - CFO

We have carried out the capacity reductions that we are planning to carry out, short of one aircraft. And that means that there are no further plans in reducing the capacity. When the market starts to grow again and we think that will be from 2011 -- or we have based our plans on 2011 and onwards, a modest growth, then we see no problems in finding the necessary capacity to grow by two to three aircraft during 2011. We don't expect any major need for new capacity. But if that would be, I think there are possibilities also to handle that situation.

Lars Heindorff - ABG Sundal Collier - Analyst

So are there any -- if I understand you correctly 2011 is quite far out. But most of those that have been grounded I assume that those are on operating leases and something that you can hand back to the leasing companies fairly quickly.

Mats Lonnqvist - SAS AB - CFO

And also they are mainly older aircraft, the ones being grounded, being MD 80s or B-7s -- Boeing 737 Classic. So those are aircraft that we don't primarily plan to use in production again.

Lars Heindorff - ABG Sundal Collier - Analyst

Okay, thank you.

Operator

As we have no further questions at this stage, I'd like to hand the conference back to you gentlemen, for additional or closing remarks.

Sture Stolen - SAS AB - VP & Head of IR

Okay. Thank you very much for participating and look forward to talk to you again. Thank you.

Mats Jansson - SAS AB - CEO

Thank you very much.

Operator

This will conclude today's conference call. Thank you for your participation, ladies and gentlemen, you may now disconnect.

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