



# Second Quarter 2004

Press Conference

Stockholm, August 11, 2004

**Group** | Scandinavian Airlines | Subsidiary & Affiliated Airlines | Airline Support Business | Airline Related Business | Hotels



# Second quarter marginally positive despite to strong yield pressure and record high jet fuel prices



MSEK, April-June	2004	2003	Change
▶ Revenues	15 143	15 300	-157
▶ EBITDAR	1 493	1 608	-115
▶ Lease, depreciation & financial net	-1 589	-1 692	+103
▶ EBT bef. cap gains *)	9	-13	+22

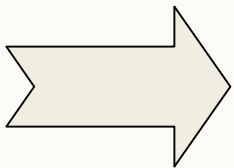
▶ \*) Ex restructuring costs of MSEK 75 (44)

# Unprecedented yield fall and record high jet fuel prices offset by significant cost reductions



## 1st Half 2004

- ▶ Traffic revenues down MSEK 1 900 due to yield pressure
- ▶ Currency and volume adjusted fuel costs up approx 500 MSEK
- ▶ Exceptionally strong pressure on yields but volumes up
  - ▶ Yields down (currency adjusted) 16% – Scandinavian Airlines
  - ▶ Group traffic up 11%
- ▶ Negative impact offset by large unit cost reduction
  - ▶ Turnaround 2005 ahead of plan
  - ▶ Unit cost (currency adjusted) for SK down 14% first half 23% accumulated vs 2002. Large reduction in European perspective.



First half earnings before taxes and exceptionals improved with MSEK 300 vs. last year

# Other important events 2<sup>nd</sup> Quarter and summer period



- ▶ SAS Braathens successfully launched on the Norwegian market
- ▶ Scandinavian Airlines transported a record number of intercontinental passengers
- ▶ Process to incorporate Business units initiated –
  - ▶ Implemented Oct 1 2004
- ▶ Scandinavian Airlines has signed more than 300 new corporate agreements with small and medium size companies
- ▶ Blue 1 introduces Finnish domestic routes
- ▶ The Norwegian Competition Authority examines price structures on the Norwegian market

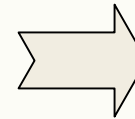
# Why our statement that a positive result is difficult to achieve in 2004?



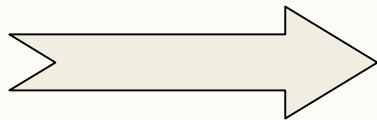
- ▶ The year started with weak demand
- ▶ Significant increased capacity in Scandinavia from a number of new start up airlines
- ▶ New players

=> overcapacity and low cabin factors  
=> very low average prices

- ▶ Record high oil prices



a non sustainable situation



Strong 2<sup>nd</sup> Quarter result not achievable

- ▶ As from June price increases to offset Jet Fuel as well as improved yield management initiated by the largest operator: SAS Group
- ▶ Yield development improved in June – uncertainties due to overcapacity situation

# Prices in Scandinavia now among the lowest in Europe...



**European Cost per Mile Comparison: Destination/Class of Service**

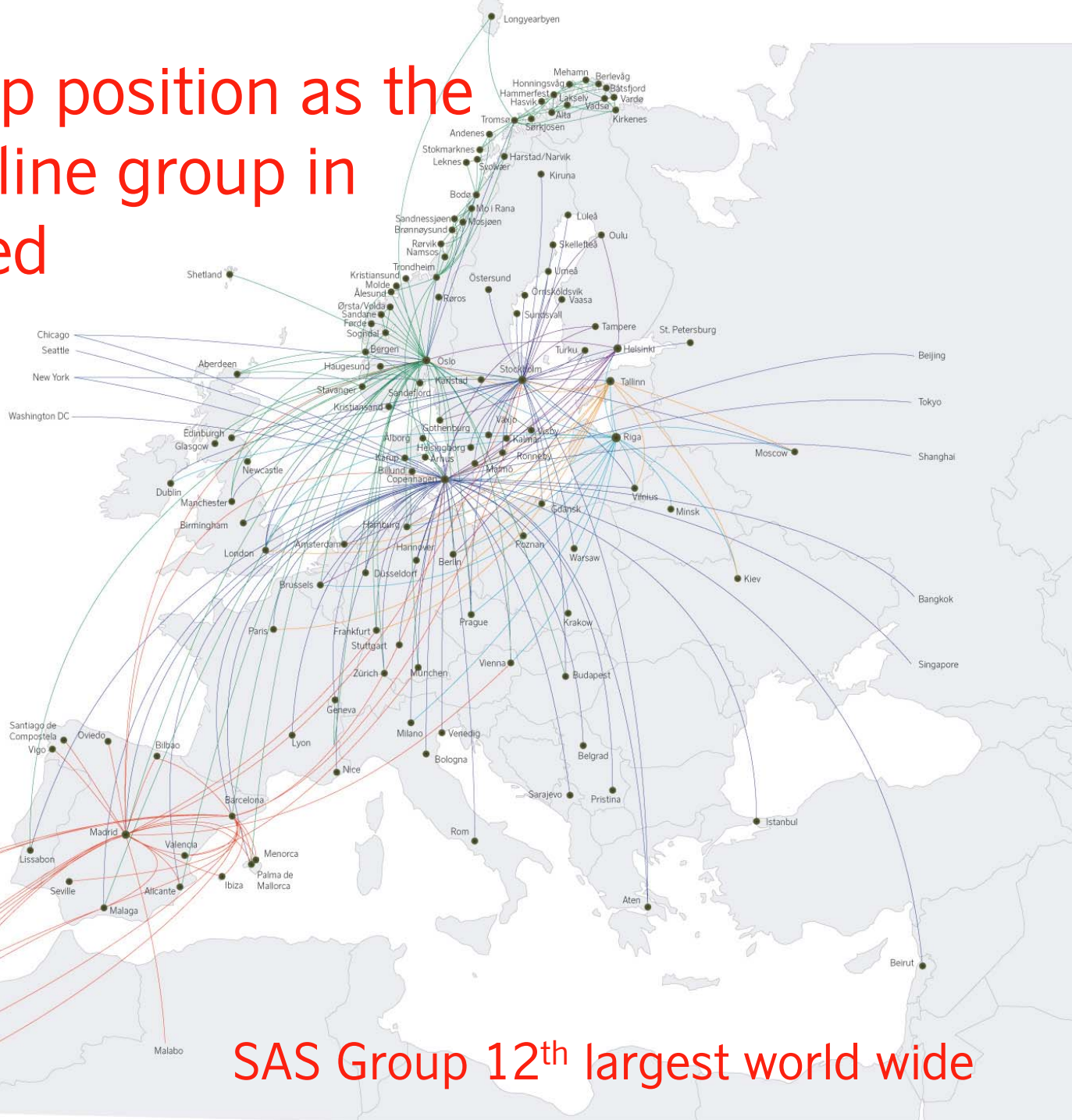
American Express (European Corporate Travel Index). Report Q1, 2004

Country	Eastern Europe		Far East		Middle East		North America		South America		Western Europe	
	Economy	Business	Economy	Business	Economy	Business	Economy	Business	Economy	Business	Economy	Business
Austria	0.44	1.15	0.30	0.50	0.44	0.69	0.23	0.40			0.62	1.04
Belgium	0.35	0.71			0.19	0.33	0.26	0.51			0.56	1.19
Denmark	0.62	0.99	0.17	0.32			0.17	0.40			0.50	0.90
Finland	0.59	1.21	0.16	0.34			0.26	0.41			0.54	0.58
France	0.59	0.71	0.36	0.45	0.40	0.54	0.38	0.65	0.30	0.48	0.61	0.90
Germany	0.58	0.84	0.36	0.44	0.55	0.63	0.34	0.47	0.30	0.44	0.66	1.12
Greece	0.32	0.52	0.30	0.34	0.29	0.47	0.13	0.30			0.24	0.50
Ireland	0.25	0.54					0.25	0.66			0.40	0.79
Italy	0.57	0.75	0.19	0.41	0.36	0.47	0.23	0.45	0.14	0.35	0.44	0.89
The Netherlands	0.57	0.71	0.19	0.45	0.23	0.56	0.30	0.55	0.22	0.48	0.70	0.86
Norway	0.64	0.70									0.45	0.94
Portugal	0.15	0.22					0.17	0.47	0.28	0.32	0.37	0.59
Spain	0.34	0.46			0.24	0.30	0.25	0.48	0.18	0.35	0.45	0.73
Sweden	0.36	0.91	0.18	0.31				0.32			0.31	0.75
Switzerland	0.48	0.83	0.46	0.54	0.64	0.76	0.39	0.52	0.40	0.52	0.83	1.35
United Kingdom	0.30	0.56	0.23	0.65	0.28	0.60	0.30	0.93	0.24	0.59	0.51	1.01
Grand Total	0.45	0.74	0.26	0.43	0.36	0.54	0.26	0.51	0.26	0.44	0.51	0.88

▶ Table based on CRS bookings only

▶ “Sweden has the lowest leisure fares” (Source: Swedish Aviation Authority – Flygets utveckling 2003)




# The SAS Group position as the 4th largest airline group in Europe retained



SAS Group 12<sup>th</sup> largest world wide

# Strong performance from Airline Support Businesses in Q2



Jan-Jun in MSEK	 SAS Technical Services	 SAS Ground Services	
Revenues	2 446 -12,5%	3 066 9,7%	1 401 -4,5%
EBITDA	246 48%	92 n.m	34 -21%
EBT	69 n.m	29 n.m	1 n.m



# Flight Academy and Jetpak on track

## Weak result from SAS Trading



Jan-Jun in MSEK	 SAS Trading		 SAS Flight Academy			
Revenues	800	6,4%	276	3,8%	230	1,8%
EBITDA	-12	n.m	78	26%	20	33%
EBT	-24	n.m	31	181%	9	-18%

# Very promising start for SAS Braathens in Norway – to continue to build on Braathens strong profitability



- ▶ Operative in May 2004 – Boeing 737 fleet only
- ▶ New web site – 2<sup>nd</sup> most popular in Norway
- ▶ New price concepts – one way pricing
- ▶ 52 aircraft and 41 destinations - 440 daily departures
- ▶ Stable market share domestic appr. 85%
- ▶ Braathens today one of few European Airlines delivering shareholder returns

<u>Braathens April-June</u>	<u>2004</u>	<u>2003</u>
Total revenues	1 685	1 736
EBITDAR	389	274
EBIT	204	83
EBT	200	73

# Updated market segmentation and analysis of customer priorities



- ▶ Business- and Economy Class are 25 year old concepts in the airline industry
- ▶ Current concepts does not fully match the rational needs and emotional preferences of customers
- ▶ The competitive environment and products have changed in the European airline industry
- ▶ Three segments have been identified for the new commercial strategies

## Price

Customers looking for air transportation at low prices

40-45%

Estimated share of passengers

## Productivity

Customers who value hassle-free traveling and time-saving features

30-40%

## Comfort

Customers who also value additional comfort such as lounge access and better inflight service

20-30%

# After successfully reducing costs SAS committed to vitalize approach to the market



- ▶ Next step: Vitalized offer from Scandinavian Airlines Denmark, Sweden and from SAS Braathens to be introduced during fall 2004
- ▶ The approach is based on market segmentation study of customer priorities
- ▶ Platform: Network carrier at low cost
- ▶ Today's travelers want freedom of choice: flexible and cheap travel
  - Focus on Business travelers as well as leisure travelers
  - Improved service for Business travelers demanding extra comfort
- ▶ Low fare offer expanded through the introduction of Snowflake throughout most of SAS network<sup>1)</sup>
  - Scandinavia's largest low fare provider
- ▶ Details to be presented by the Danish, Swedish and Norwegian CEO's on August 23

<sup>1)</sup> SASBraathens established as low fare concept in Norwegian market

# Snowflake and SASBraathens symbols for the lowest available fares



March 2003



- ▶ Branded flights only

Summer 2004



- ▶ Branded flights and seats on selected Scandinavian Airlines destinations



- ▶ SAS Braathens to/from Norway

New



- ▶ Branded flights
- ▶ Symbol for the lowest available fares on most Scandinavian Airlines routes



- ▶ SAS Braathens to/from Norway



Gunilla Berg

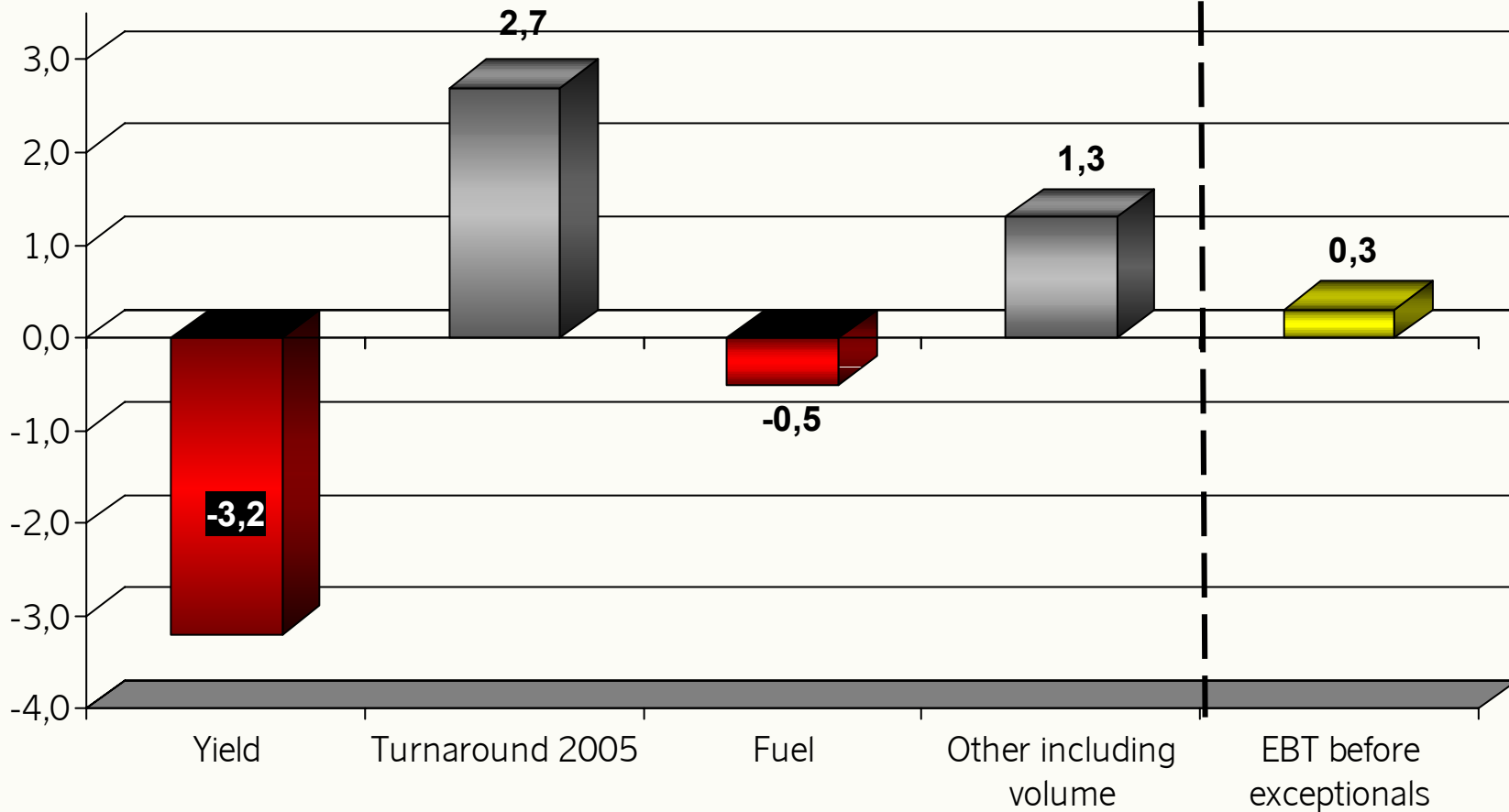
CFO



# Cost savings more than offset yield decline and increased jet fuel costs



January – June Change MSEK 2004 vs. 2003



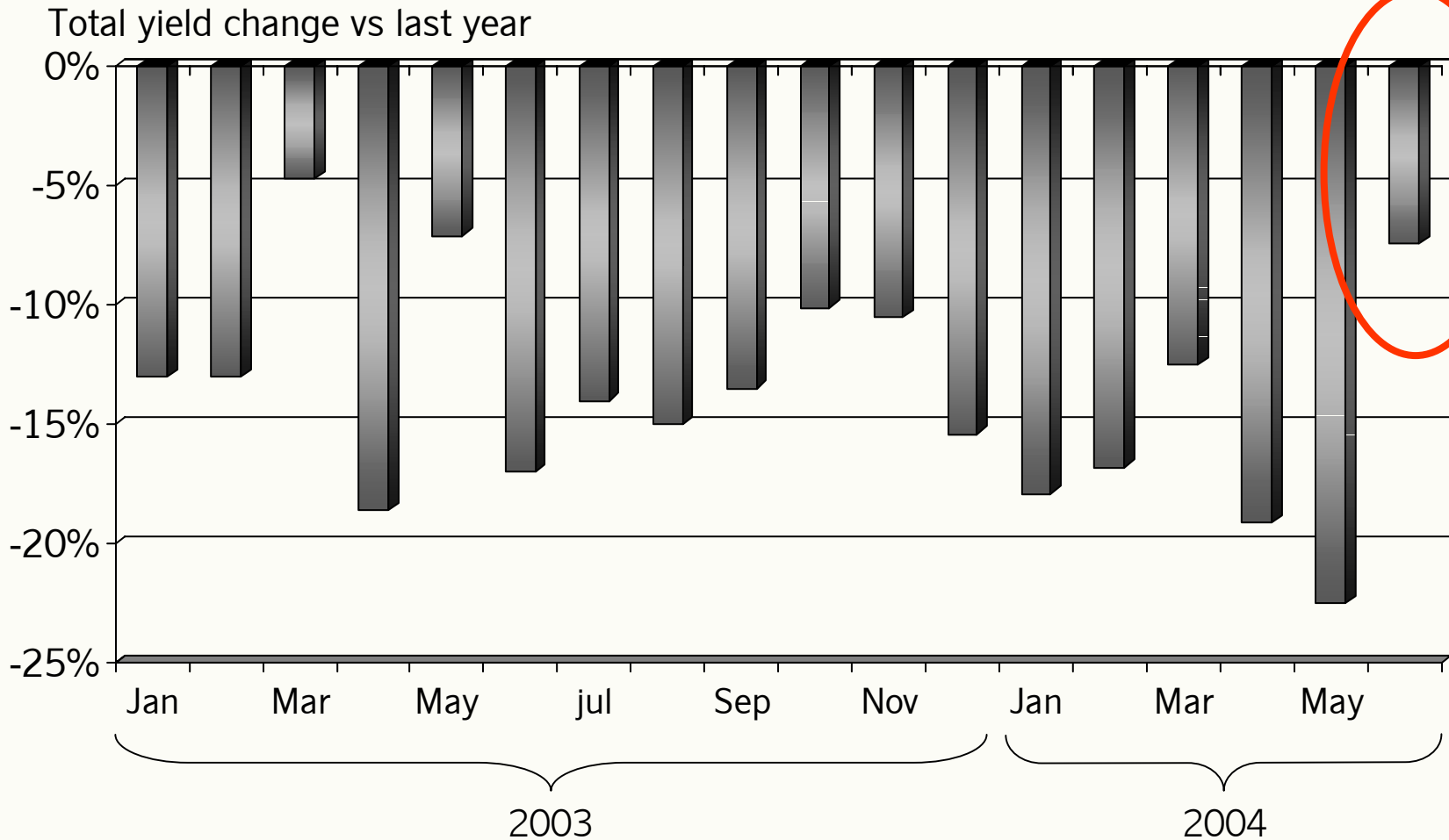
# EBT before gains and exceptionals - Business area



	Q2		January-June
April-June	April-Jun	Q2	2004
Business area	2004	Change	
Scandinavian Airlines	-223	-68	-1 331
Subsidiary & Aff. Airlines	239	19	-48
Airline Support Businesses	130	137	138
Airline Related Businesses	10	-30	22
Hotels	7	48	-93
Group eliminations, other	-154	-84	-310
<b>EBT, before gains &amp; exceptionals</b>	<b>9</b>	<b>22</b>	<b>-1 622</b>



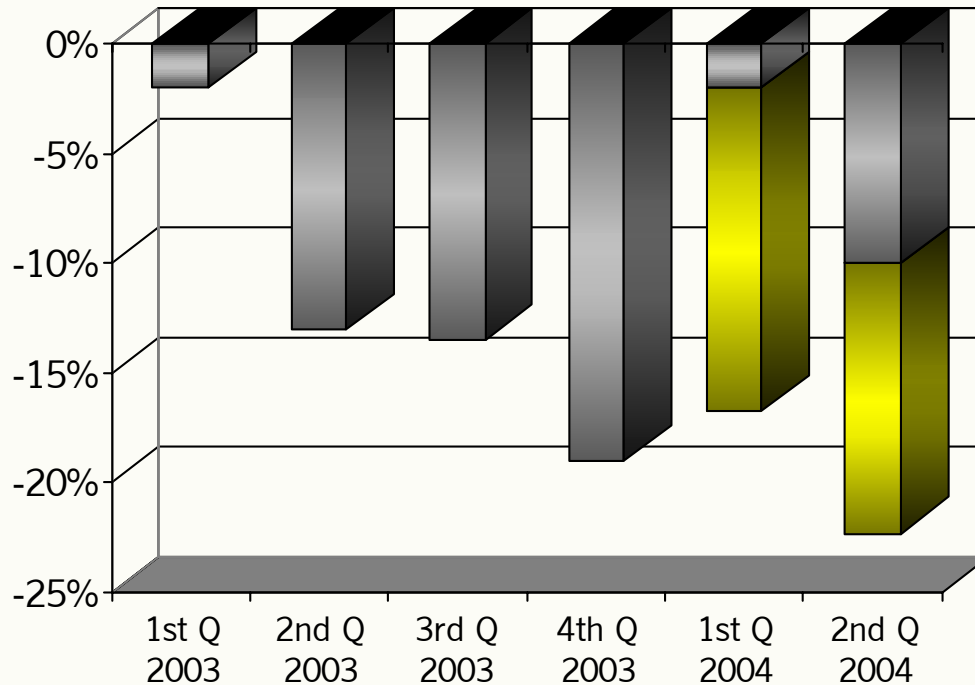
# Reduced yield pressure for June and indications for July positive



# Unit cost continues to improve significantly - down 23% since 2002



Index last year, EBITDAR level  
(currency adjusted) Scandinavian Airlines

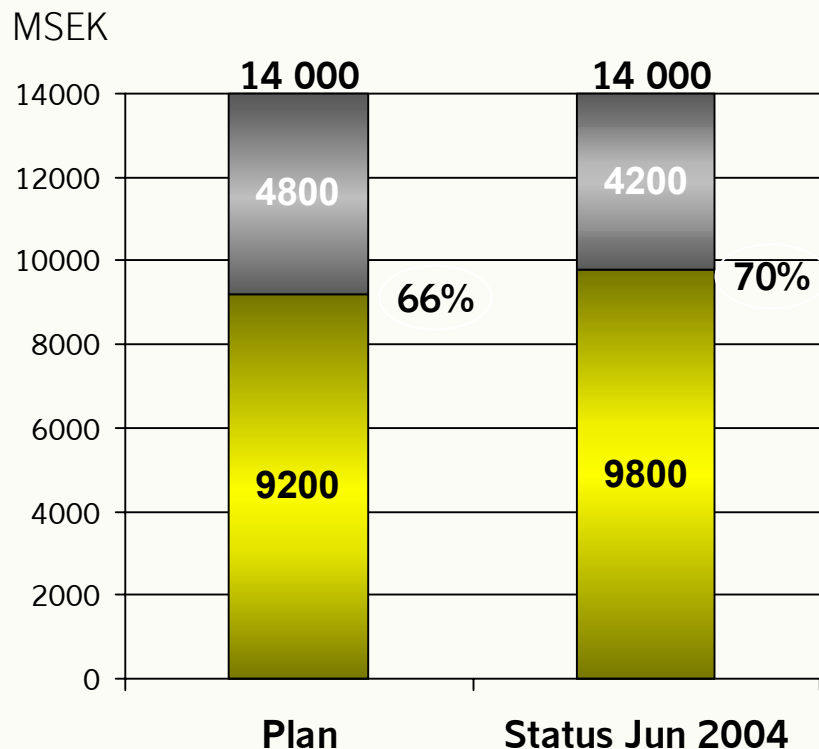


- ▶ 9th Quarter in a row with improved unit cost
- ▶ Unit cost in Q2 down by 12%
  - Adjusted for jet fuel price increases unit cost down by 15%
  - Accumulated unit cost down 23% since 2Q 2002
- ▶ One of largest reductions among European Airlines

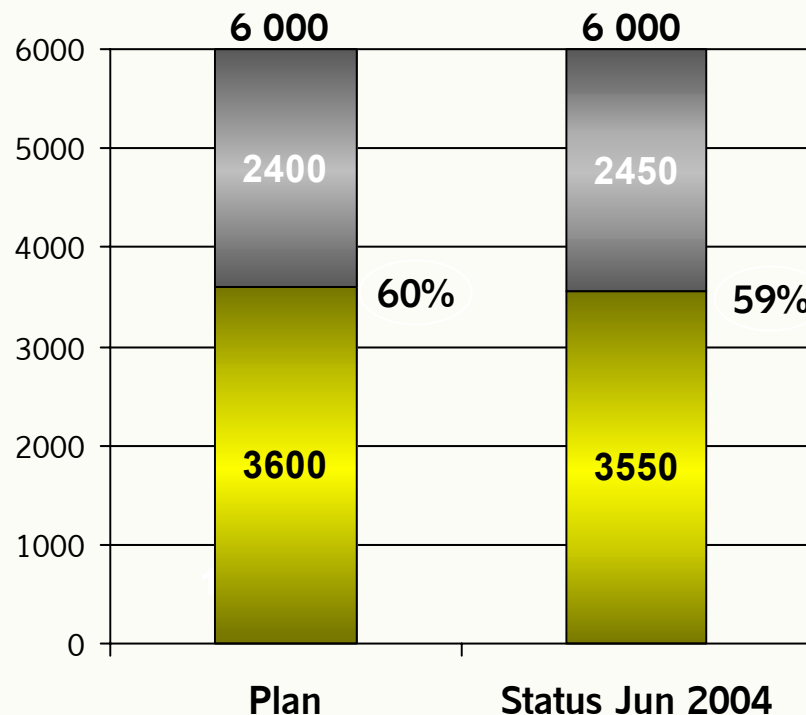
# SAS Group – Turnaround 2005 ahead of plan



## Total financial effect of implemented activities compared to plan



## Reduction of personnel



To be implemented



Implemented



Gunnar Reitan  
Deputy CEO



# Spanair on track



Hit by 23% increased jet fuel costs in Q2

- ▶ Most punctual in Europe in February
- ▶ One way prices on whole system
- ▶ New Business Class setup well received
- ▶ Traffic up 19,9%
- ▶ Yields down 12%
- ▶ Unit cost down 13% in 1<sup>st</sup> Half
- ▶ Jet fuel costs up MSEK 107 in Q2
- ▶ Positive expectations for 2004

<u>MSEK April-June</u>	<u>2004</u>	<u>2003</u>
Total revenues	2 057	1 997
EBITDAR	347	382
EBIT	84	101
EBT	71	86

# Widerøe continued very strong, Blue1 break even



## Widerøe very strong performance

- ▶ Stronger revenues than expected
- ▶ Improved efficiency as Turnaround 2005 take effect
- ▶ Traffic up 14,6%
- ▶ Decreasing yield compensated by improved efficiency



## Successful launch of Finnish domestic operations

- ▶ New Internet site
- ▶ Blue1 traffic increased 84,9% as new routes were introduced.
- ▶ Finnish domestic cabin factor over 60%
- ▶ Unit cost down 21%, but result negatively affected by cost for new identity and phasing in of new aircraft

MSEK April-June	2004	2003
Total revenues	642	647
EBITDAR	101	112
EBIT	77	58
EBT	37	43

MSEK April-June	2004	2003
Total revenues	345	262
EBITDAR	42	55
EBIT	3	19
EBT	0	16

# Hotels back in black numbers 2nd Quarter – mostly driven by the new hotel brands



## Recovery in the marketplace and effects from Turnaround 2005

- ▶ Number of rooms sold increased
  - ▶ Price pressure reduced
  - ▶ REVPAR increased 3%
- ▶ Revenues up 17% driven by new units
- ▶ Unit cost sharp down

- ▶ Market share position unchanged
- ▶ Number of hotels in operation increased 11% (from 162 to 180)
  - ▶ New hotels have significantly contributed to improved result
- ▶ 7 new Radisson SAS hotels and 15 Park Inn, and 1 Regent hotels opened in the first half 2004

MSEK	April-June		January-June	
	2004	2003	2004	2003
▶ Revenues	1 121	903	2 039	1 745
▶ Operating expenses	-1 084	-904	-2 059	-1 821
▶ EBITDA	37	-1	-20	-76
▶ Adjusted EBITDA	45	4	-5	-72
▶ EBIT	6	-28	-82	-135
▶ EBT	7	-39	-93	-154



Jørgen Lindegaard

CEO





# Sum up 1<sup>st</sup> half 2004



- ▶ **Very difficult trading conditions**
  - 1<sup>st</sup> Half –high fuel prices and yield pressure
- ▶ **Turnaround 2005 according to plan**
  - Unit cost reductions so far up to 23% for Scandinavian - large reduction in European perspective
- ▶ **Yield improvements expected in second half**
  - Still uncertainties due to overcapacity situation
  - Strong performance by several business units
- ▶ **New Commercial strategies to repossess initiative**
  - Snowflake expanded to most of network
  - To be presented in details August 23

