

# SAS Group 1998

- Financial result
- Operational data
- Costs and productivity
- Actual issues
- Outlook



# SAS Group 1998

- Revenue **40 946 MSEK** up 5%
- Op. inc. bef. depr. **4 115 MSEK** 0%
- Operating income **2 957 MSEK** up 24%
- Income before tax **2 829 MSEK** up 27%

# Highlights 4th Quarter 1998

- Negative trend for premium traffic
- Continued strong traffic growth in Swedish domestic market
- Introduction of Boeing 737-600
- Airspace98 (new flight paths) in Scandinavia
- New airport Gardermoen in Oslo opened
- New cargo terminals opened in Oslo and Copenhagen

**Both Airspace98 and Gardermoen caused significant disturbances in SAS operation**

# Considerable Distorting Items Impacting Operating Profit

<b>MSEK</b>	<b>1998</b>
Currency	- 320
One-off costs, labour & operational disturbances	- 800
<hr/>	
<b>Total negative impact vs last year, approx.</b>	<b>- 1 120</b>

# SAS Group

## Statement of Income

(MSEK)

	<i>4th quarter</i>	
	<u>1998</u>	<u>1997</u>
Operating revenue	10 909	10 196
<b>Op. income before depr.</b>	<b>811</b>	<b>996</b>
<b>Operating income</b>	<b>425</b>	<b>532</b>
Financial items, net	- 61	- 54
<b>Income before taxes</b>	<b>364</b>	<b>478</b>

# SAS Group

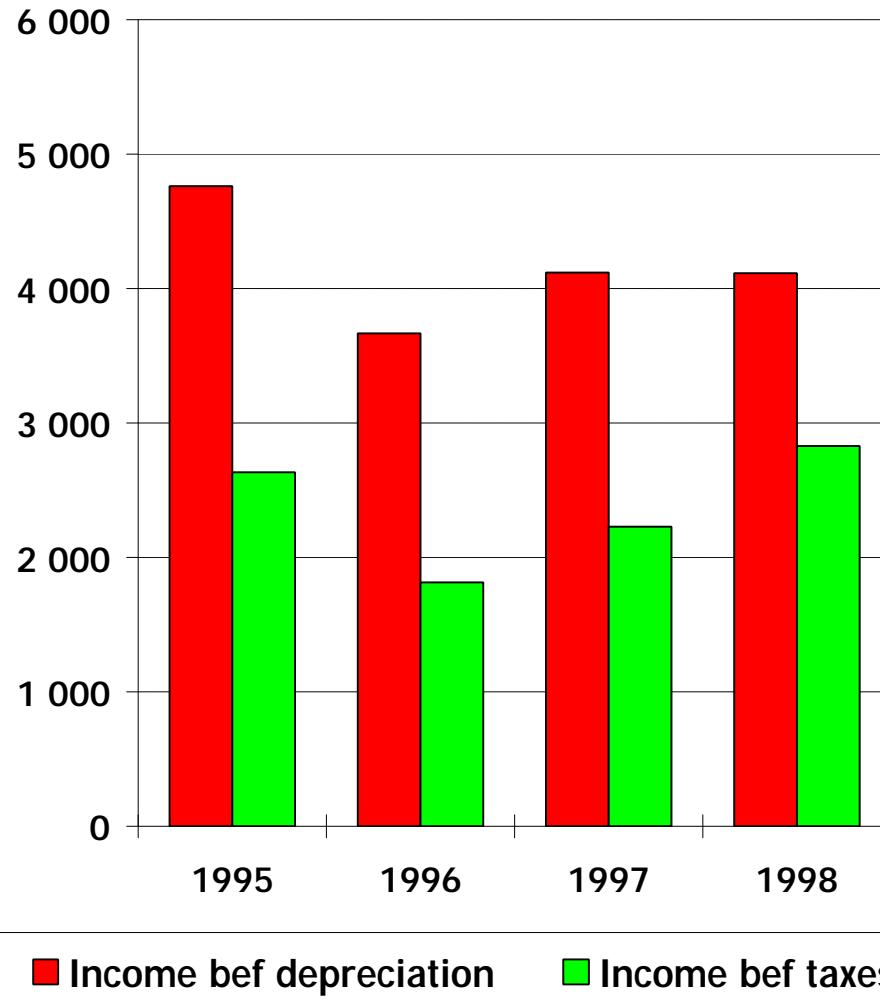
## Statement of Income

(MSEK)

	<u>1998</u>	<u>1997</u>
Operating revenue	40 946	38 928
<b>Op. income before depr.</b>	<b>4 115</b>	<b>4 118</b>
<b>Operating income</b>	<b>2 957</b>	<b>2 383</b>
Financial items, net	- 128	- 152
<b>Income before taxes</b>	<b>2 829</b>	<b>2 231</b>

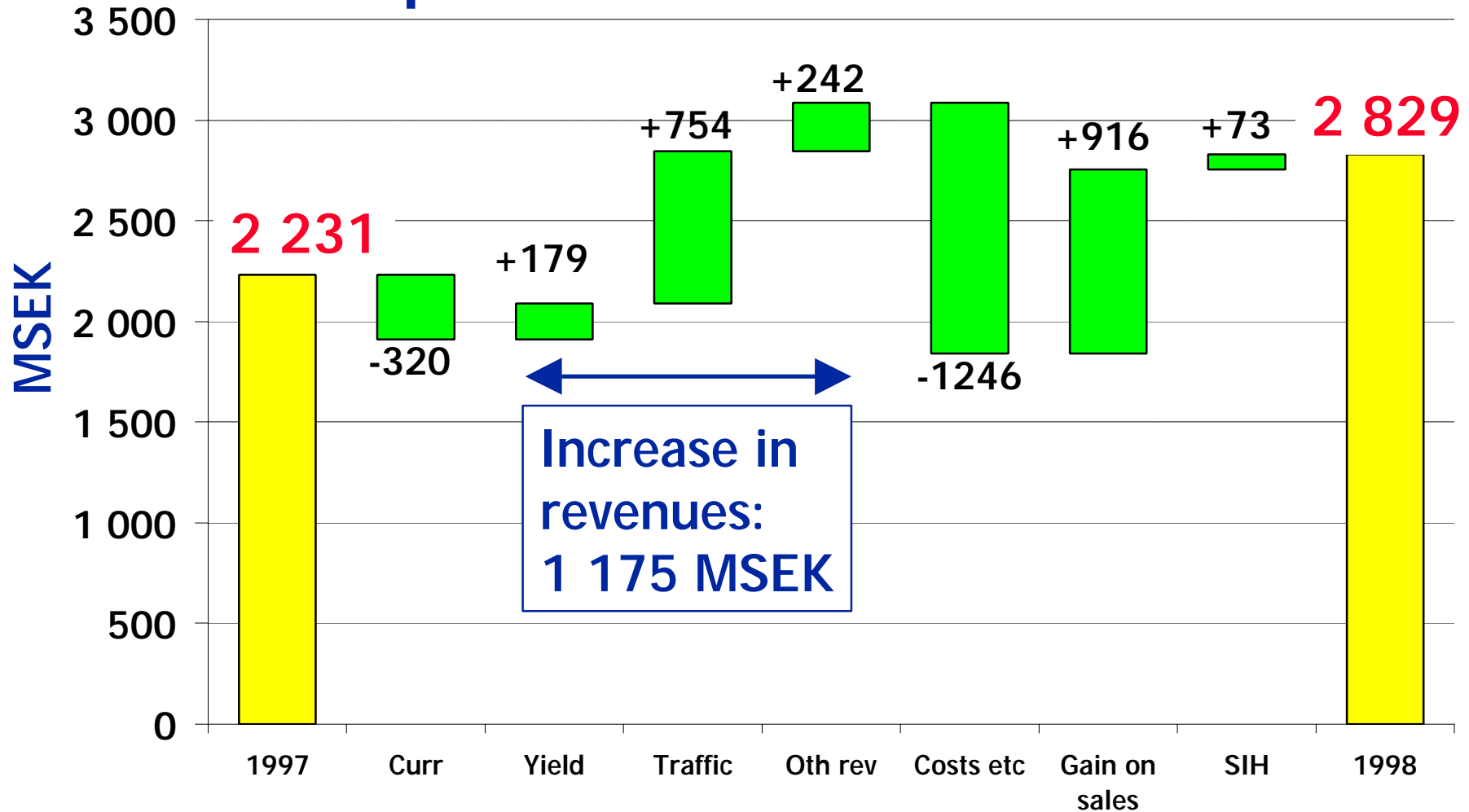
# SAS Group Result

## Before depreciation and Before taxes MSEK



# SAS Group

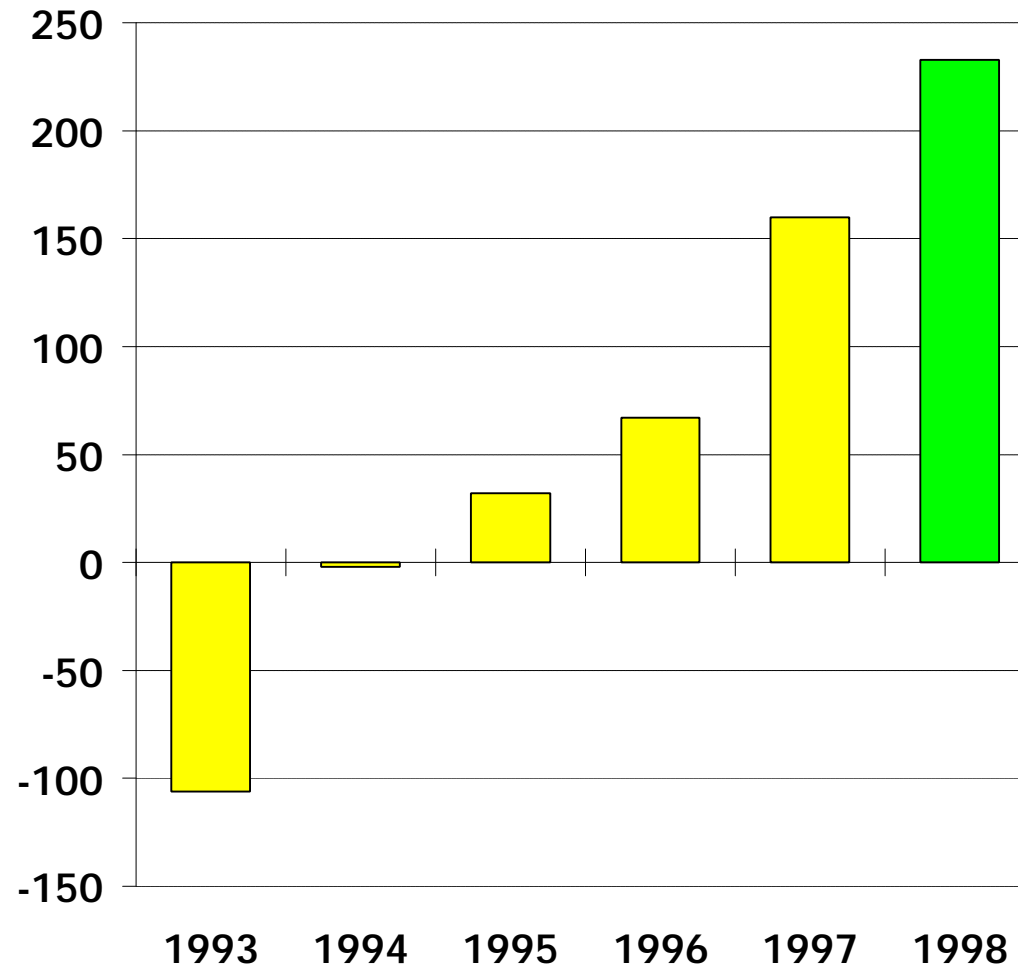
## Development of Income before Taxes





# SAS International Hotels

## Income before taxes (MSEK)



# SAS Group Balance Sheet

MSEK	31DEC98	31DEC97
Liquid funds	8 011	9 817
Other interest-bearing assets	1 769	946
Aircraft	11 339	12 248
Other assets	19 330	14 618
<b>Total assets</b>	<b>40 449</b>	<b>37 629</b>
Operating liabilities	12 461	11 261
Interest-bearing liabilities	11 005	11 324
Subordinated debenture loan	854	784
Minority interests	19	19
Equity	16 110	14 241
<b>Total liabilities and equity</b>	<b>40 449</b>	<b>37 629</b>
<b>Net debt</b>	<b>2 079</b>	<b>1 345</b>
<b>Net debt / equity ratio</b>	<b>0,1</b>	<b>0,1</b>

# SAS Group

## Changes in Financial Position

MSEK	1998	1997
Cash flow from operations	3 807	3 954
Change in working capital	+ 330	+ 302
<b>Net financing from operations</b>	<b>4 137</b>	<b>4 256</b>
Investments, advance payments	- 6 112	- 3 256
Sales of fixed assets, etc.	+ 2 360	+ 252
Dividends to mother companies	- 1 141	- 844
<b>Financing surplus</b>	<b>- 756</b>	<b>+ 408</b>
Changes in external financing, net	- 1 050	- 1 641
<b>Change in liquid funds</b>	<b>- 1 806</b>	<b>- 1 233</b>

# SAS Group Key Ratios

	1998	1997
Gross operating margin %	10	11
Return on capital employed %	13	12
Return on equity % *)	13	11
Equity / assets ratio %	40	38
Net debt / equity ratio	0,1	0,1

\*) After standard tax

# Goal for Shareholder Returns

The SAS Group's goal is to provide its shareholders with a competitive return. This refers to yearly rise in the share price plus dividends. The aim is to give shareholders a return of 14% per year, calculated as an average over a business cycle.

Annual Report 1997



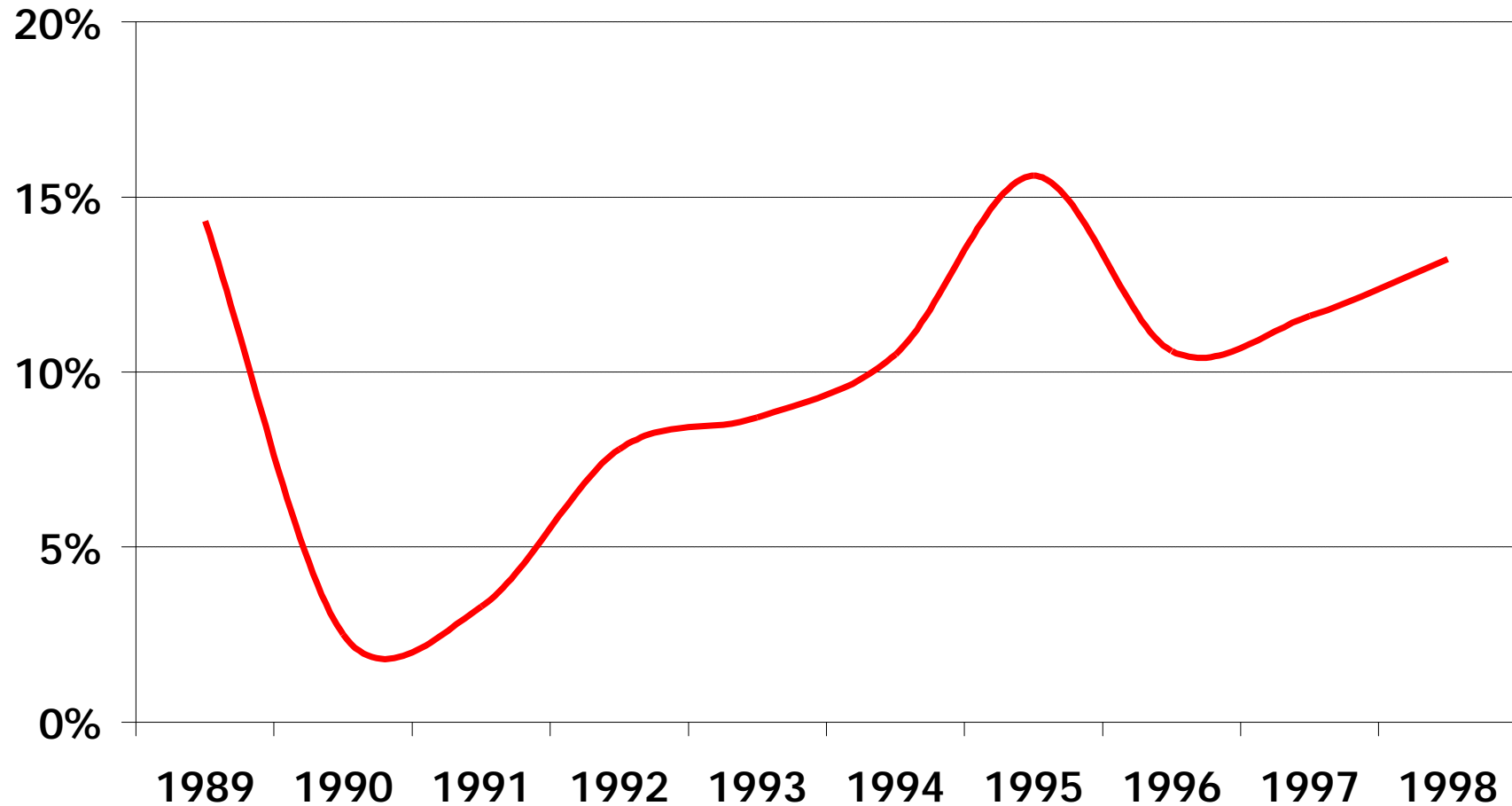
# SAS Group's Financial Target

The target for shareholder returns is translated into an internal financial target, return on capital employed (ROCE). The present ROCE target is 12% per year, calculated as an average over a business cycle.

Annual Report 1997



# SAS Group - ROCE



# Market Based Key Ratios

## Cash flow return on investments (CFROI)

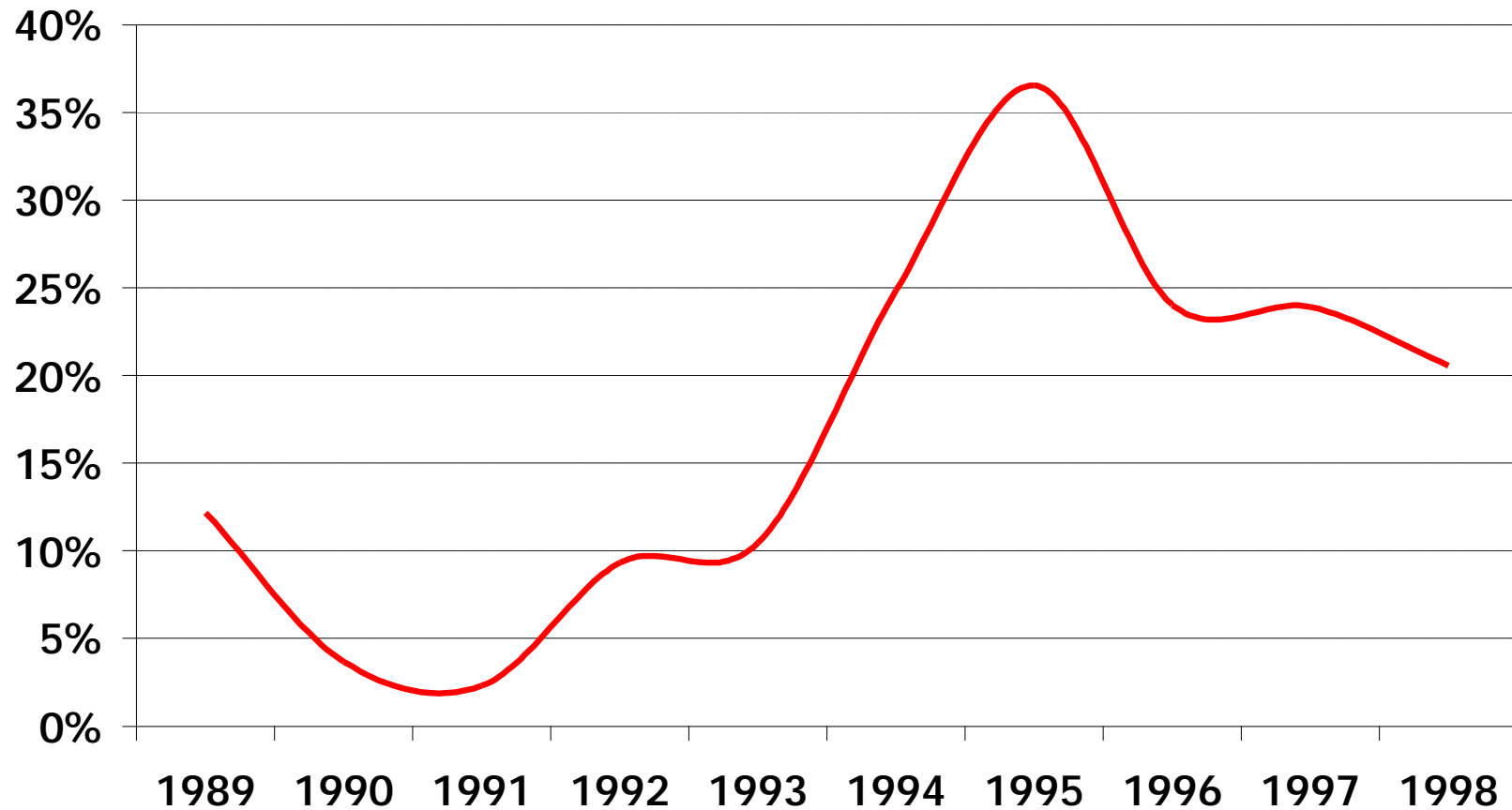
- Cash flow from operations (EBITDAR)
- Adjusted capital:
  - + total assets
  - + overvalues aircraft
  - + capitalized leases
  - interest-bearing assets
  - noninterest-bearing debt

## Market based ROCE

- Result:
  - + EBIT
  - + interest part of leases
  - + change of overvalues (aircraft)
- Adjusted capital:
  - + total assets
  - + overvalues aircraft
  - + capitalized leases
  - interest-bearing assets
  - noninterest-bearing debt

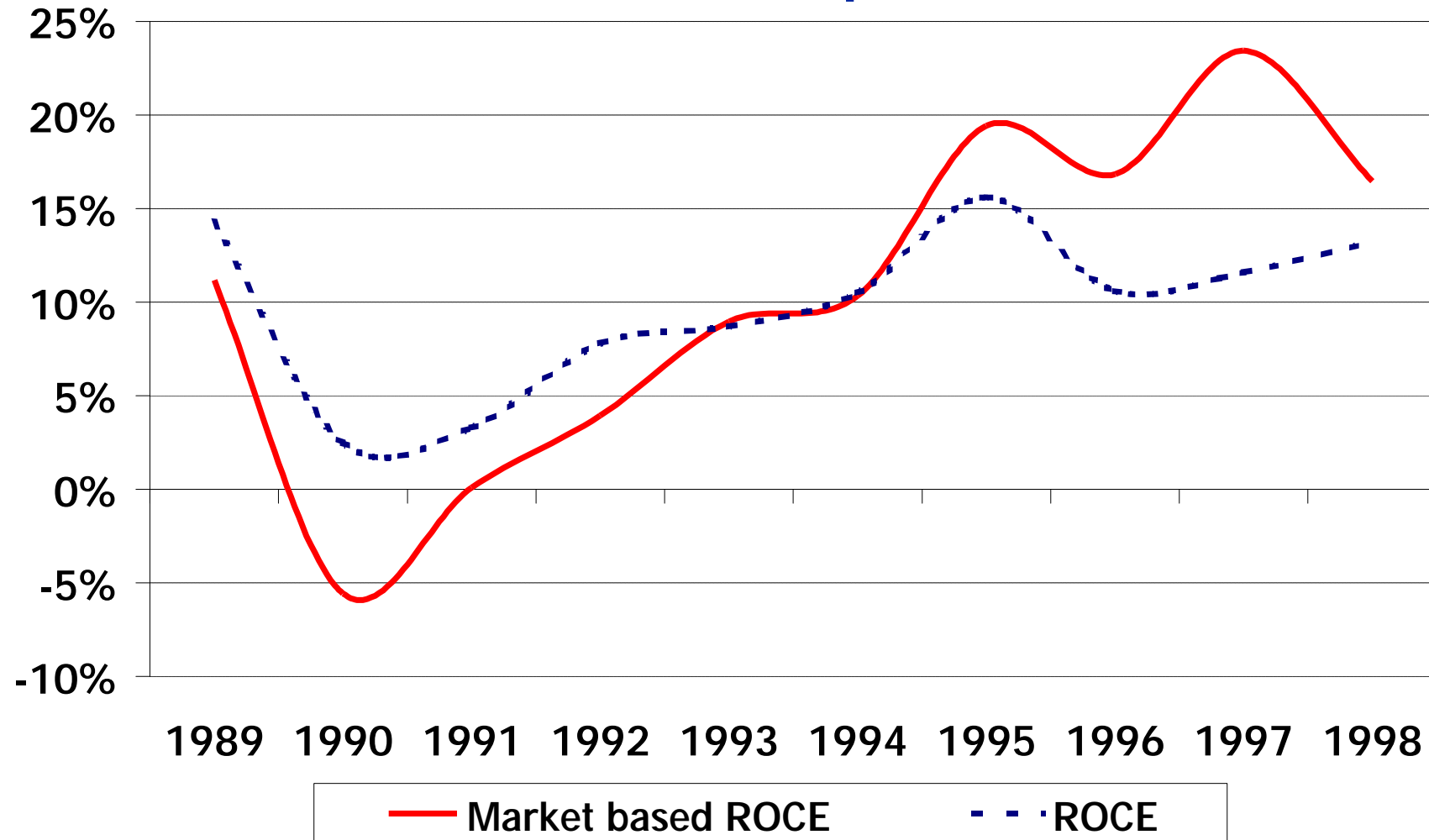


# Cash Flow Return on Investments (CFROI) - SAS Group



# Market Based ROCE vs ROCE

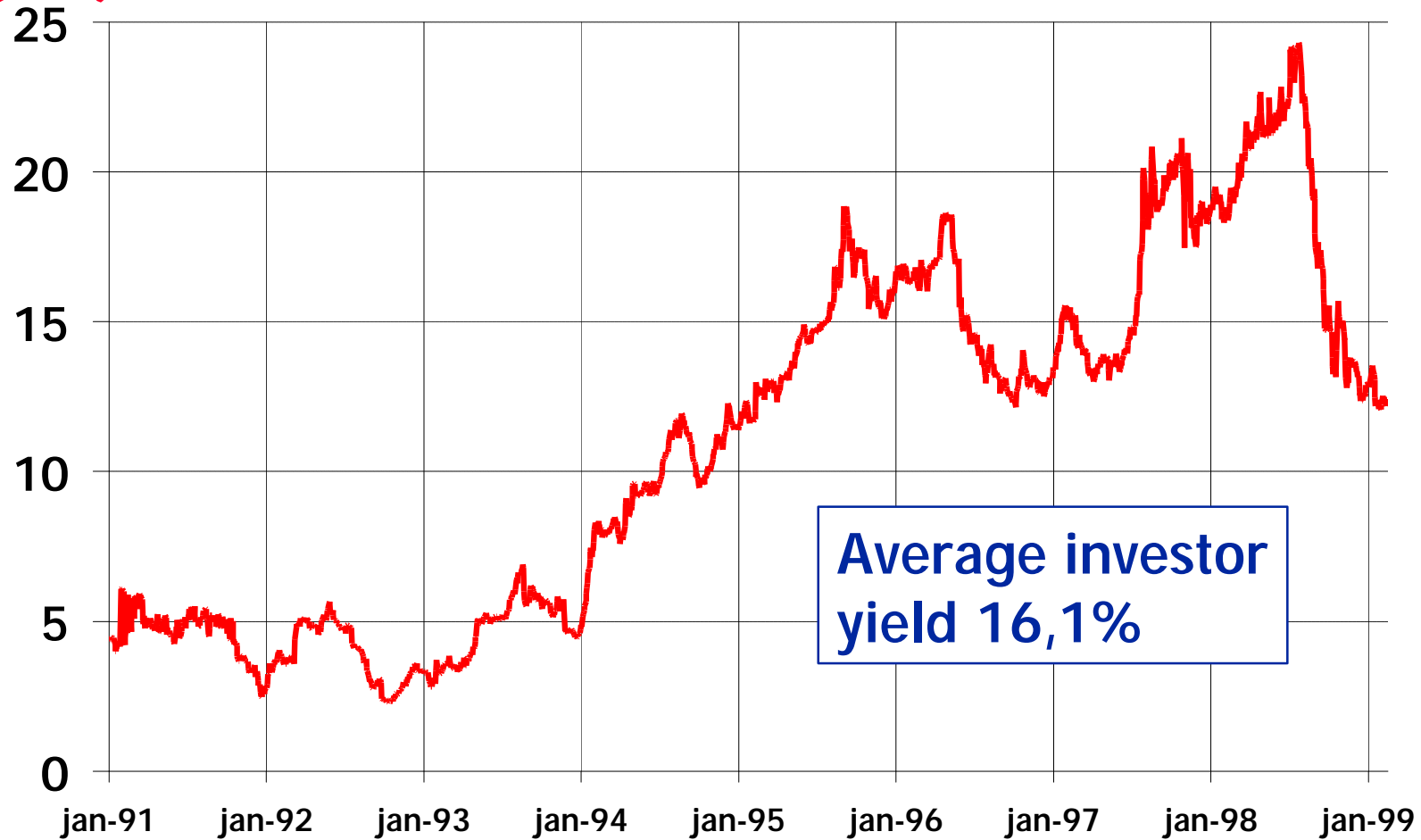
## SAS Group



# SAS Total Market Capitalization

SEK  
(bill.)

1991 - 1998

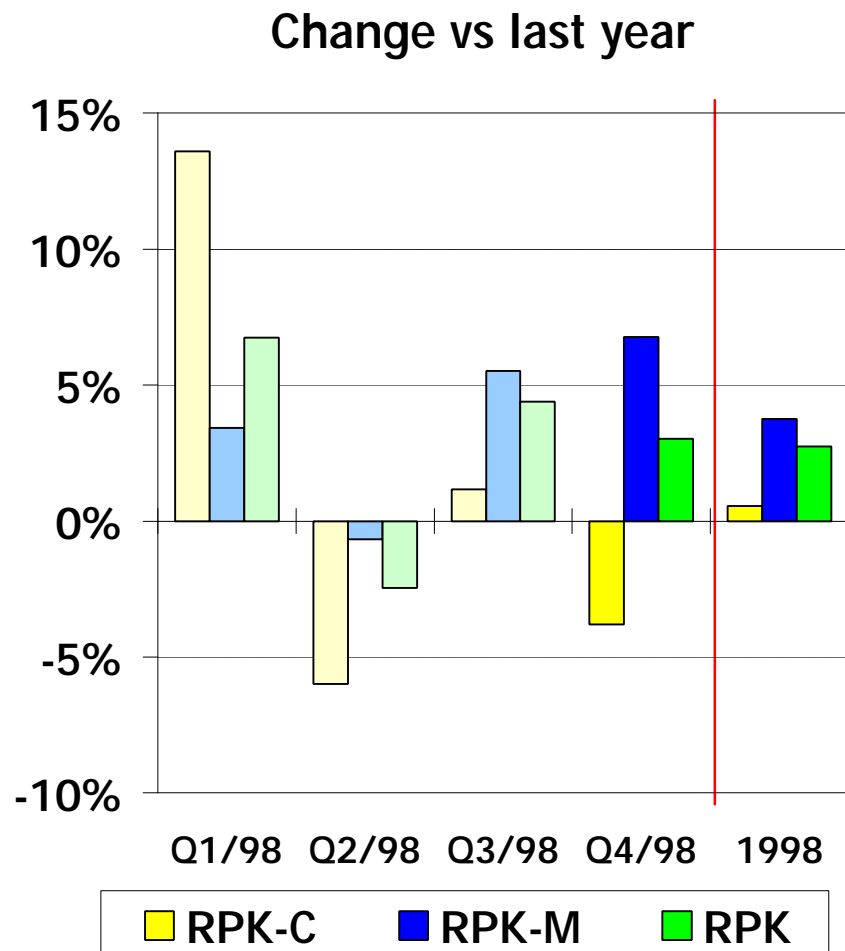


# SAS Aircraft Fleet

## Aircraft in SAS Traffic

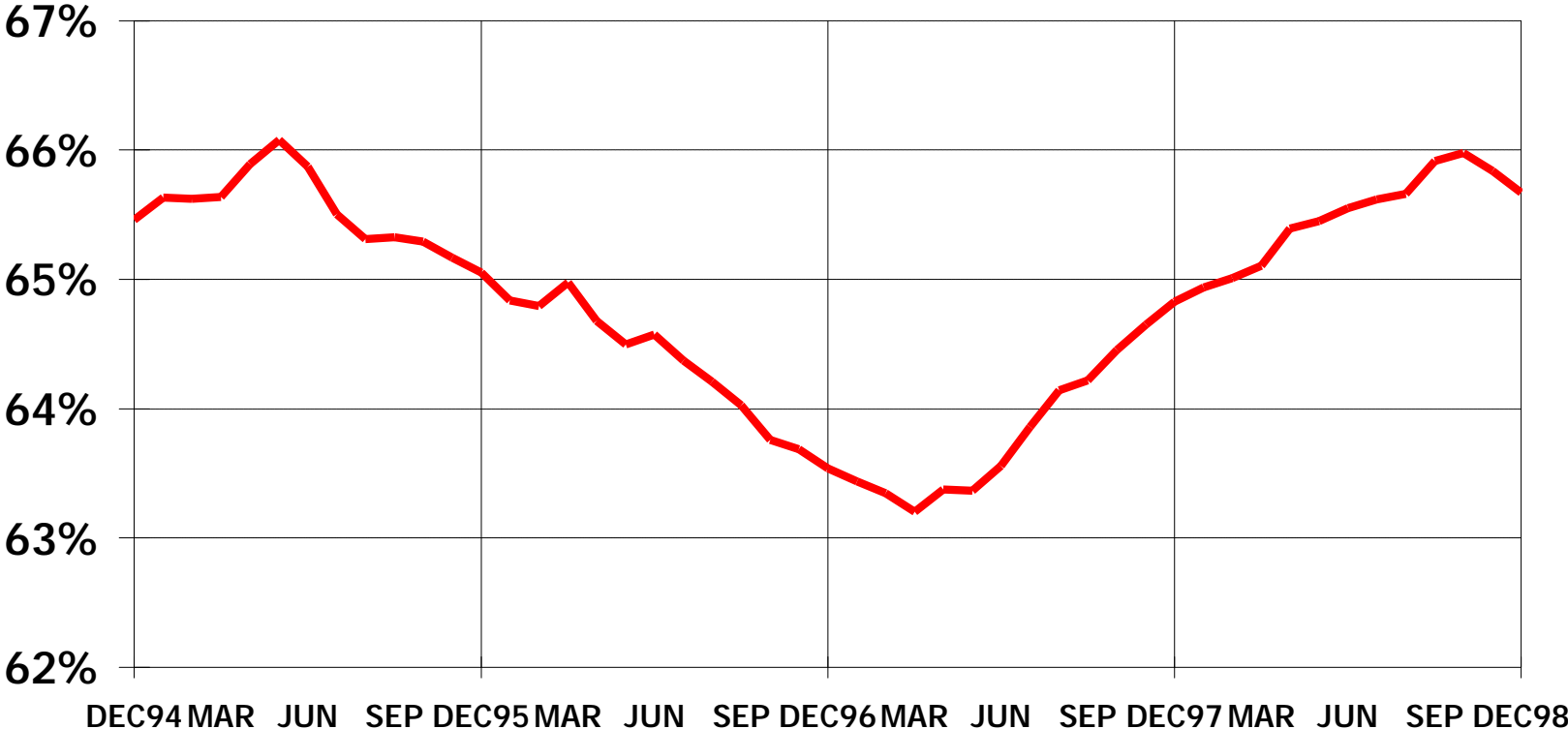
	<i>31DEC98</i>	<i>30SEP98</i>	<i>31DEC97</i>
Boeing 747-243	1	1	1
Boeing 767-300	14	14	14
MD-81/82/83	49	<b>49</b>	45
MD-87	18	18	18
MD-90	8	8	8
Boeing 737-600	<b>8</b>	<b>2</b>	
DC-9-81	9	9	9
DC-9-41	22	<b>22</b>	23
DC-9-21	4	4	4
Fokker F28	16	16	16
Fokker F50	22	22	22
SAAB 2000	6	<b>6</b>	4
<b>TOTAL</b>	<b>177</b>	<b>171</b>	<b>164</b>

# Passenger Traffic 1998



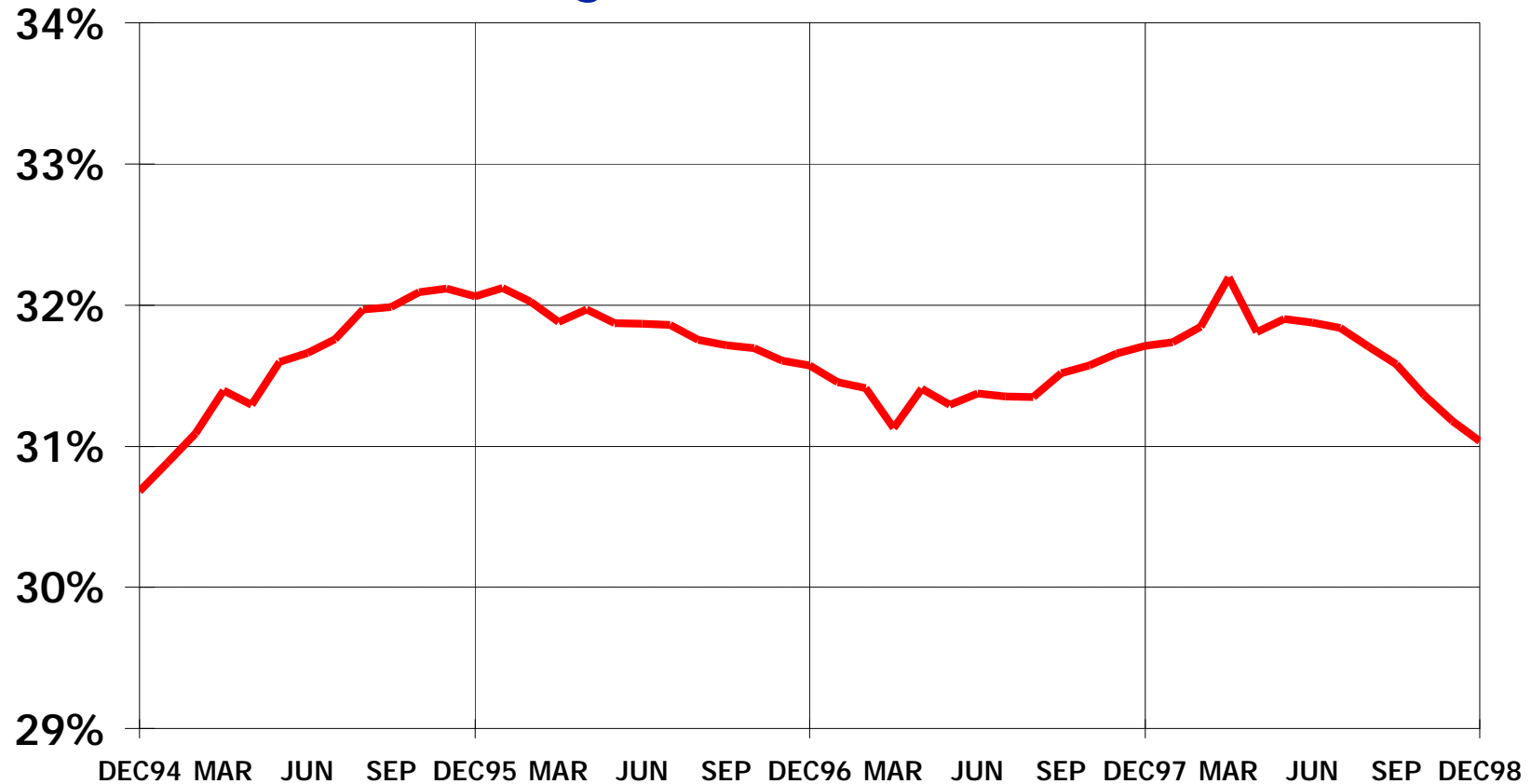
- General decrease in business travel in Q4
- Full year premium traffic almost flat
- Still strong growth of discounted traffic - partly driven by campaigns
- Passenger load factor 65,7% (up 0,8 p.u.)
- Number of passengers up 4,3%

# Passenger Load Factor Total System Moving 12 months values

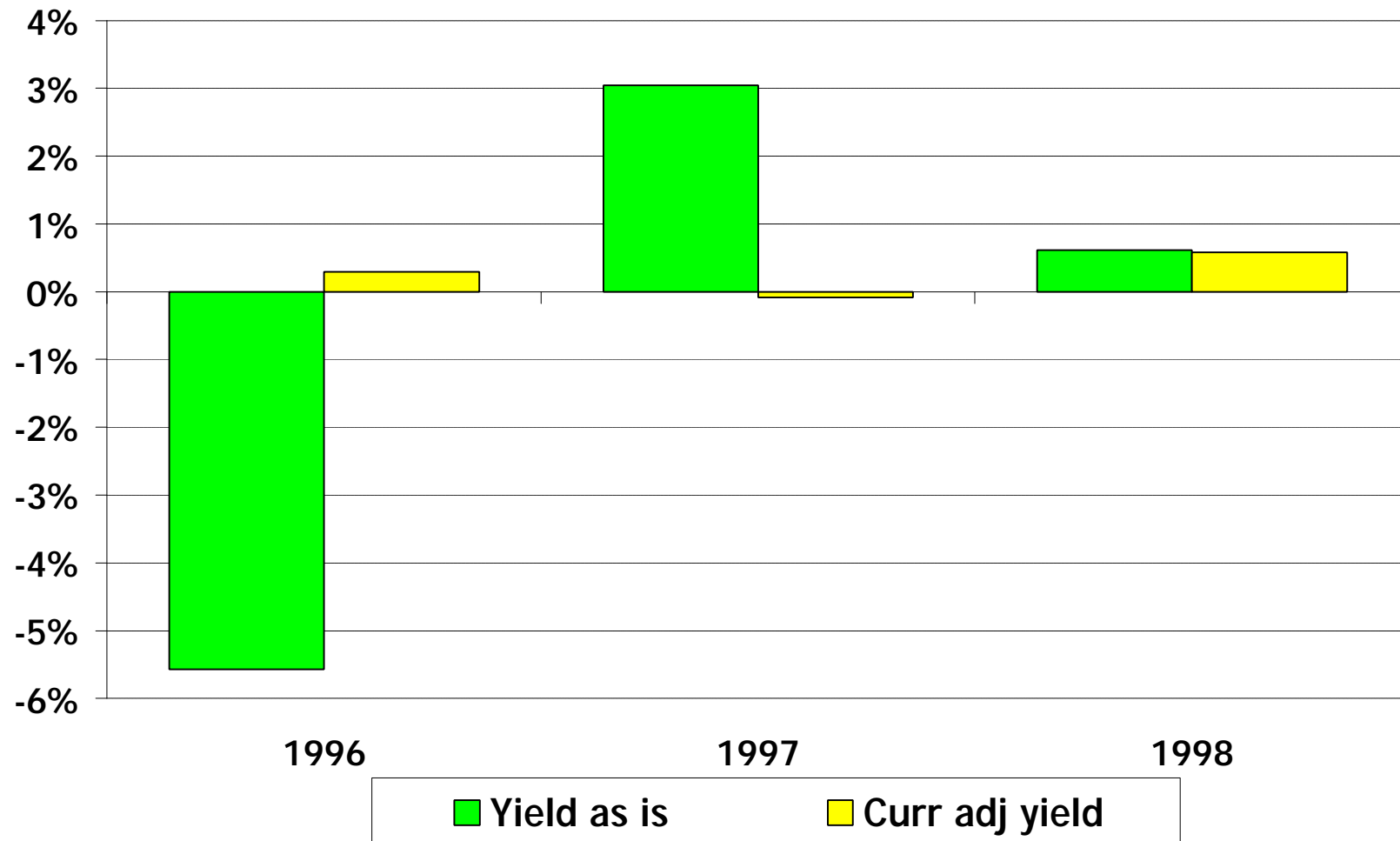


# Share of Fullfare Traffic Total System

Moving 12 months values



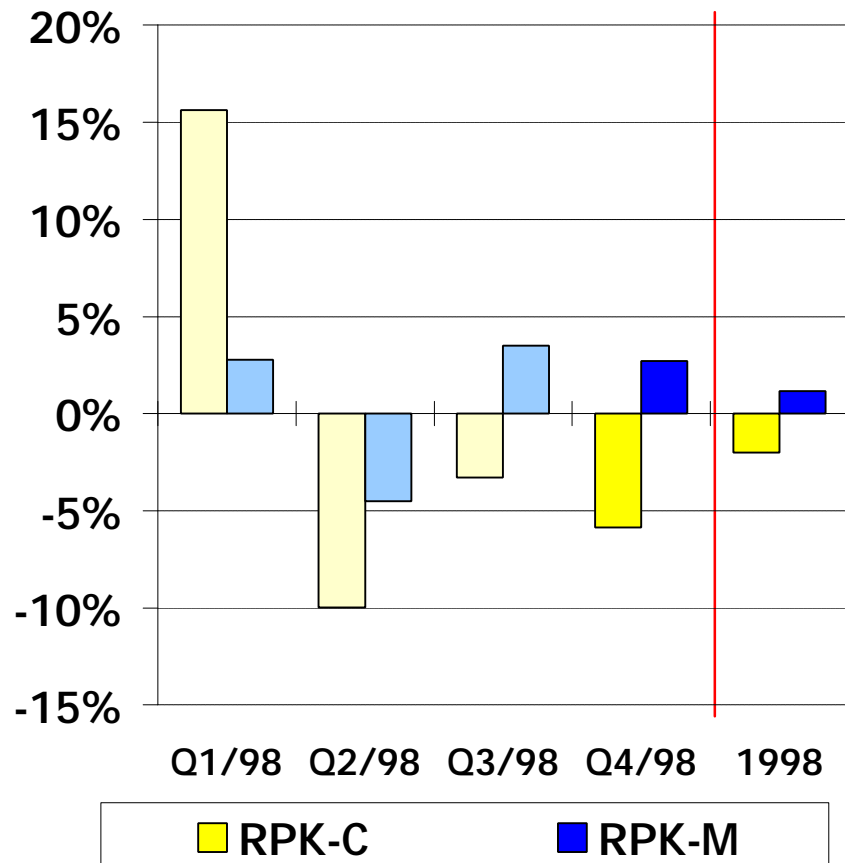
# Yield Total System





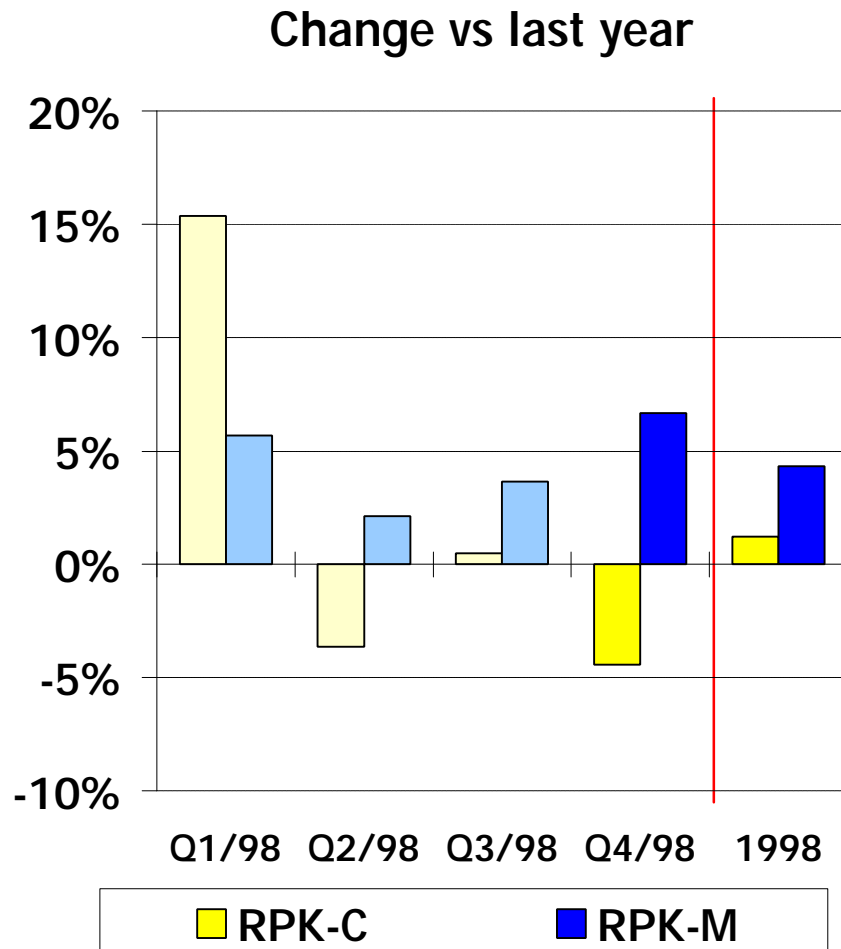
# Intercontinental Routes 1998

Change vs last year



- Stockholm-Chicago opened 25OCT
- Passenger load factor 77,7% (down 1,6 p.u.)
- Balance in production & traffic on Asia, negative on USA

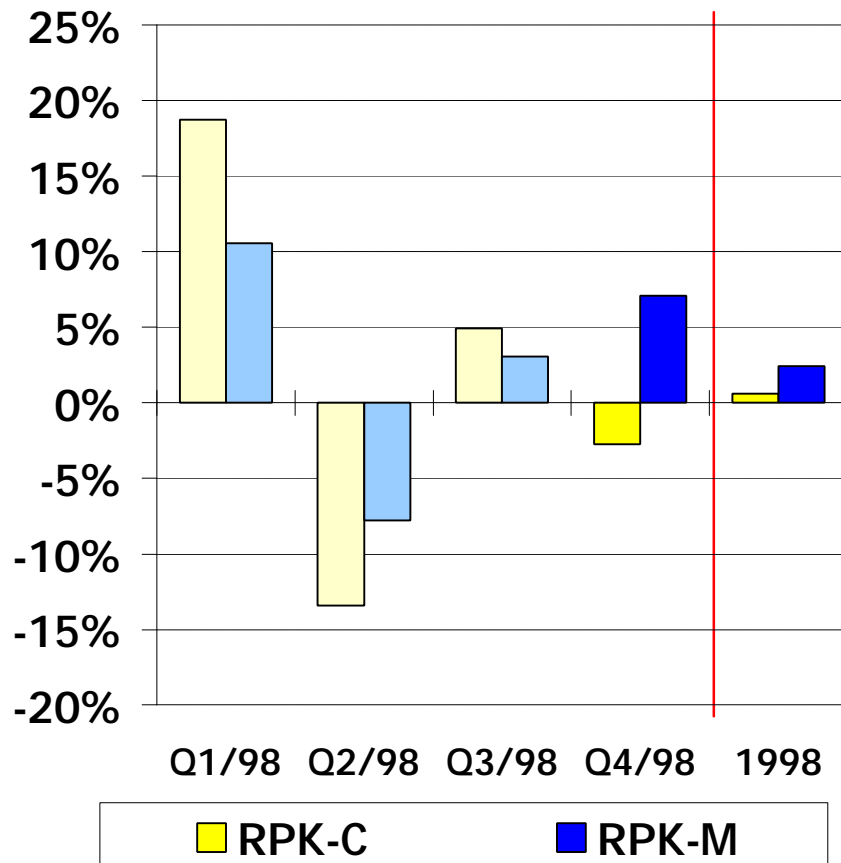
# European Routes 1998



- Passenger load factor 59,2% (up 1,9 p.u.)
- High load factor and premium traffic growth on UK, France, Germany, Estonia

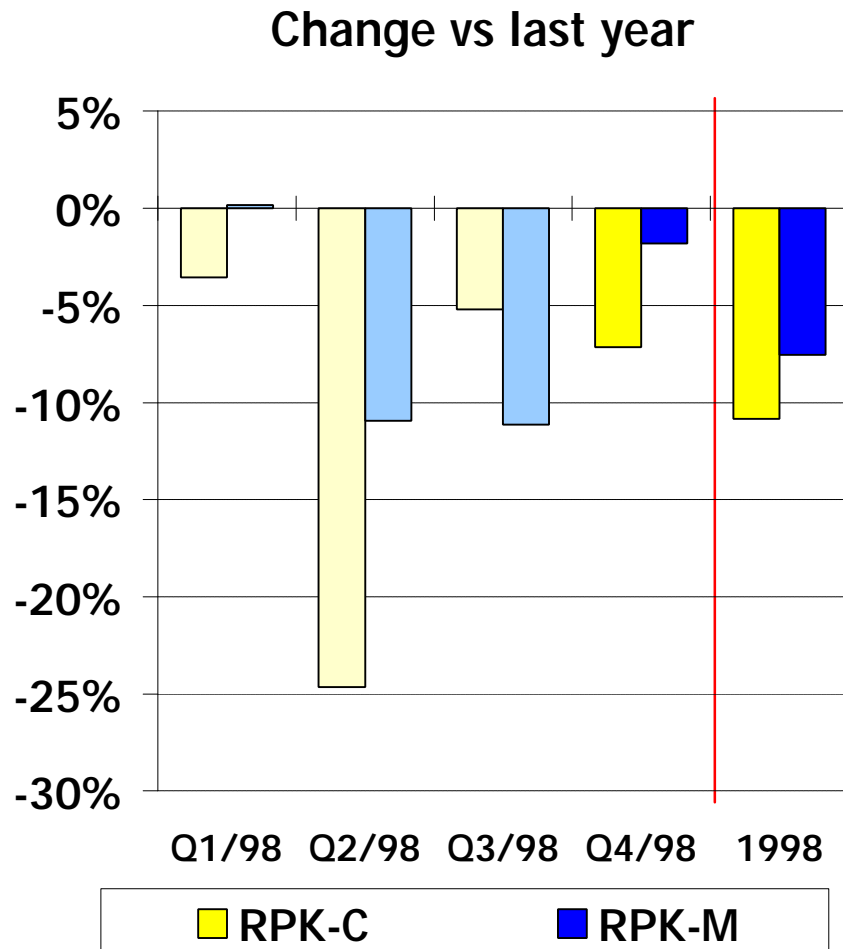
# Intrascandinavian Routes 1998

Change vs last year



- Passenger load factor 59,2% (down 0,6 p.u.)
- General decrease in business travel means fewer transfer passengers

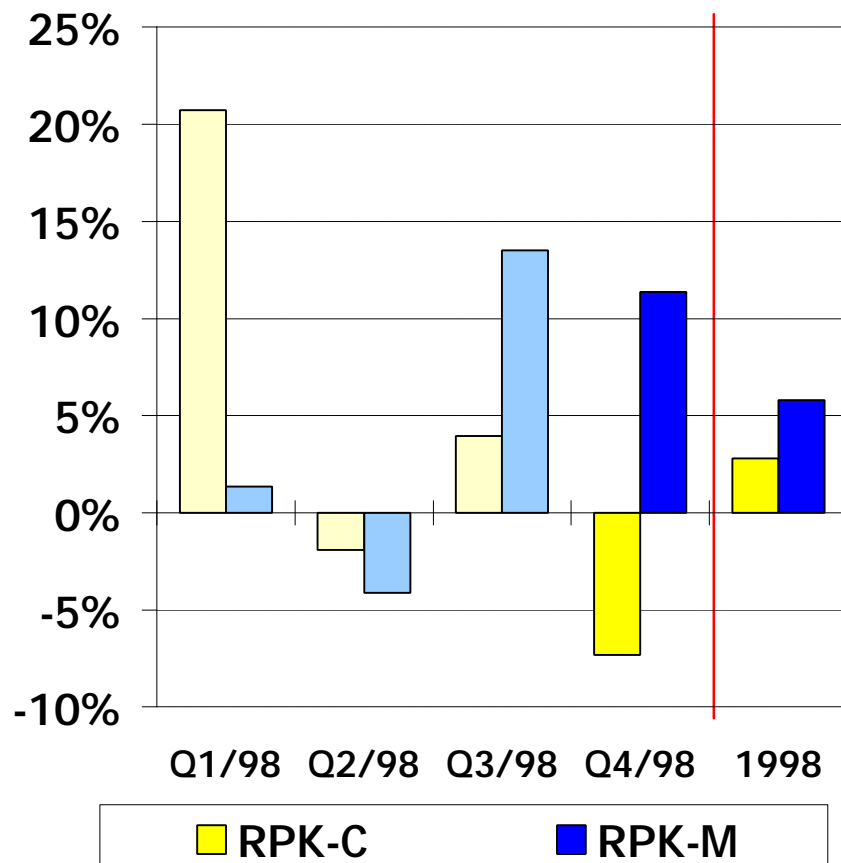
# Danish Domestic Routes 1998



- Passenger load factor 62,5% (up 3,7 p.u.)
- Adjustments in traffic system due to infra-structural changes in Danish domestic market successful

# Norwegian Domestic Routes 1998

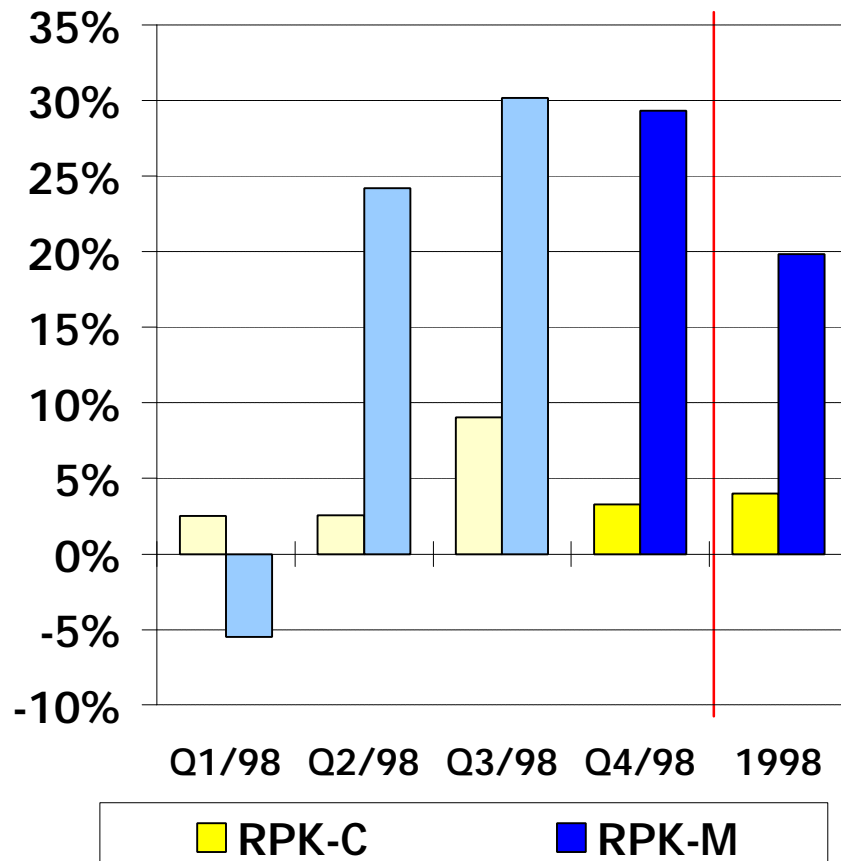
Change vs last year



- Passenger load factor 62,7% (up 1,7 p.u.)
- Troublesome opening of Gardermoen when Norwegian domestic capacity was increased

# Swedish Domestic Routes 1998

Change vs last year



- Passenger load factor 63,6% (up 3,4 p.u.)
- Only route area with increasing premium traffic in Q4
- Continued strong growth in discounted segment

# SAS Cargo 1998

- Competition hardened, primarily due to the crisis in Asia
- Three cargo terminals opened:
  - JAN Newark
  - OCT Gardermoen
  - DEC Copenhagen
- Cargo tonnage increased 0,4 p.u.,  
cargo tonne kilometers increased 3,3 p.u.

# Star Alliance Synergies

## Code-Sharing with 19 Partners

Number of destinations		
	20SEP98	31DEC98
SAS network	101	101
SAS code-shared with LH	+42	+42
SAS code-shared with other	+66	+88
<b>TOTAL</b>	<b>209</b>	<b>231</b>
Number of frequencies/day		
	12-18OCT98	11-17JAN99
SAS operated, no code-sharing	577	470
Partner flts on SAS	428	473
SAS comm. flts on partners	673	722
<b>TOTAL</b>	<b>1 678</b>	<b>1 715</b>



# Lufthansa Joint Venture Traffic 1998 vs 1997

## Joint Venture routes Germany-Scandinavia

		Index Last Year
Passengers	2 397 300	111
Traffic, RPK		116
Production, ASK		110
Cabin factor	1998	62,0%
	1997	58,6%

# SAS EuroBonus

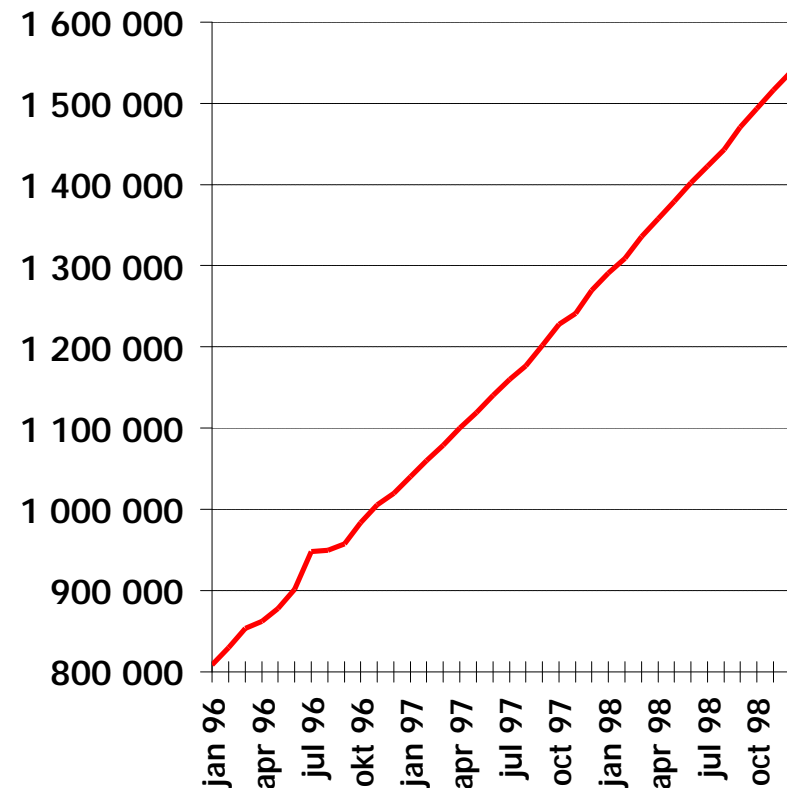
## Development 4th quarter 1998

- Number of members during 4th quarter increased by 4,5% to 1 537 200

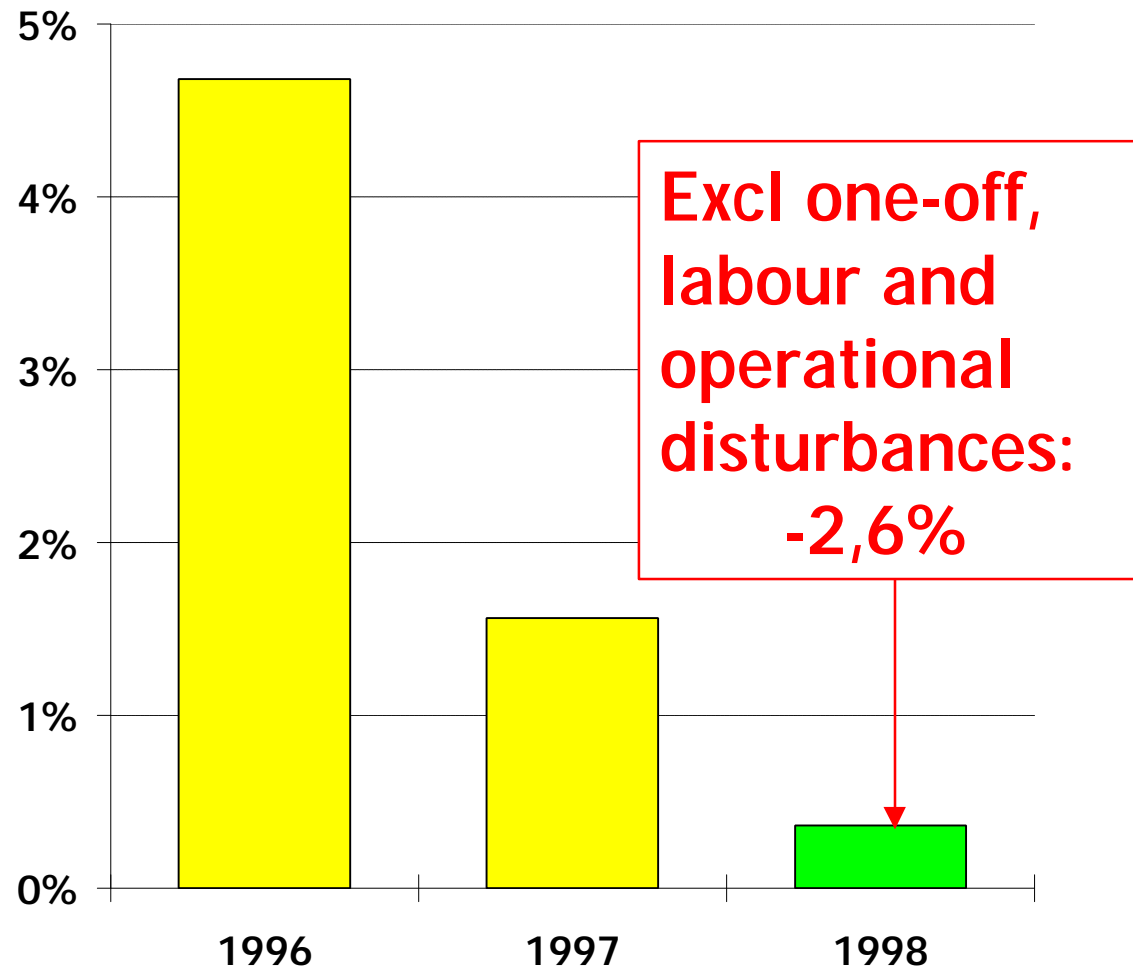
- Member distribution by country:

Outside Scandinavia	31%
Denmark	16%
Norway	31%
Sweden	22%

Number of members



# Unit Cost Development Index Last Year



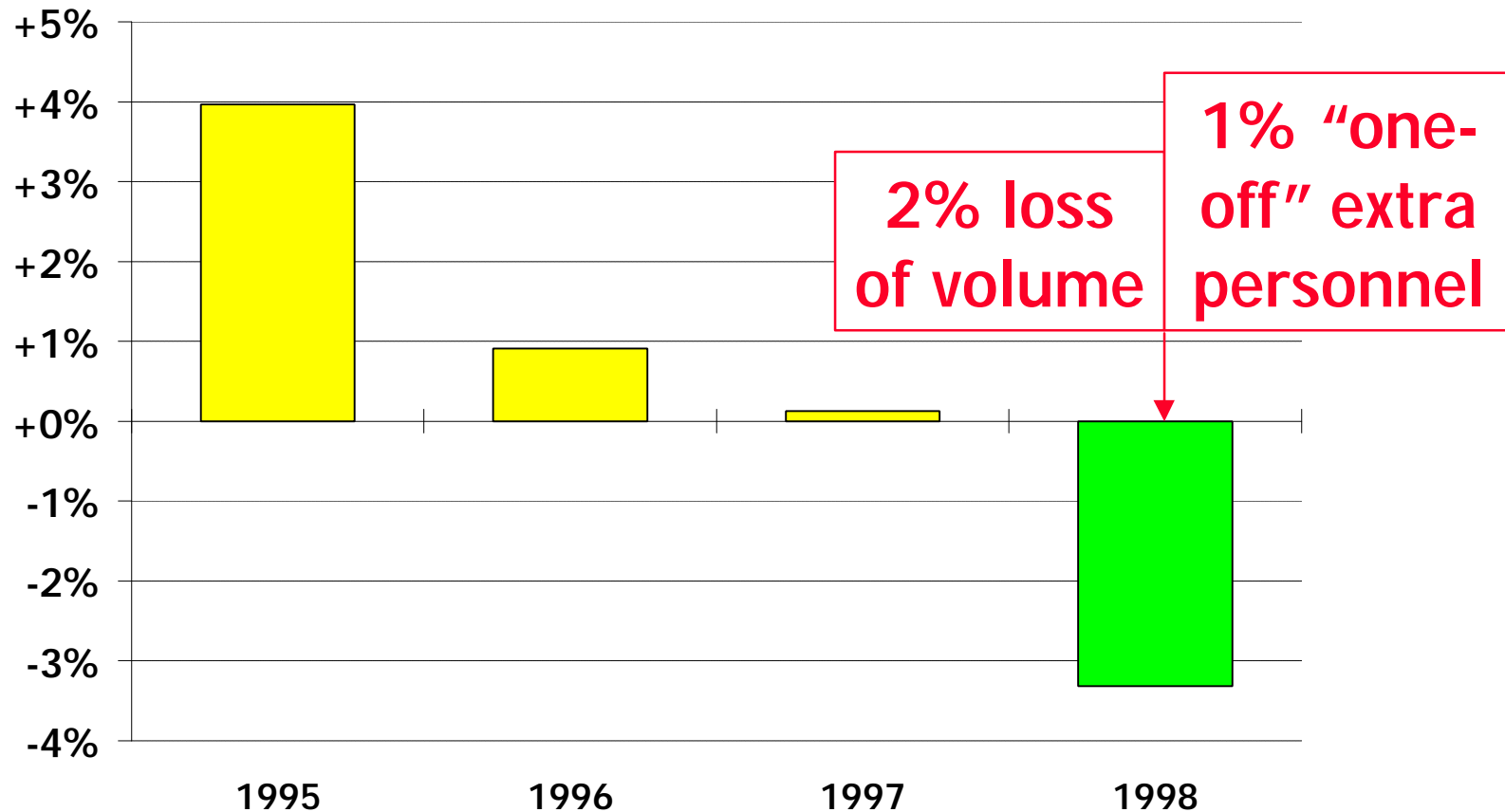
# Slightly Increased Unit Costs

## 1998 vs 1997

MSEK	Adjusted		Var. %	Share of total var %
	JAN-DEC/97	JAN-DEC/98		
Commissions	2 255	2 072	8.1%	0.7%
Fuel	2 603	2 322	10.8%	1.0%
Government charges	4 101	3 558	13.2%	2.0%
Personnel	10 972	11 805	(7.6%)	(3.0%)
Other oper. net costs	7 468	7 741	(3.7%)	(1.0%)
<b>TOTAL</b>	<b>27 399</b>	<b>27 498</b>	<b>(0.4%)</b>	<b>(0.4%)</b>

Volume = average growth in ASK and RPK = 2,1%

# Productivity Negatively Effected by Labour Conflicts, Airspace98, Gardermoen and One-off Activities



Measure is average change of RPK /ASK over change in number of full time employees

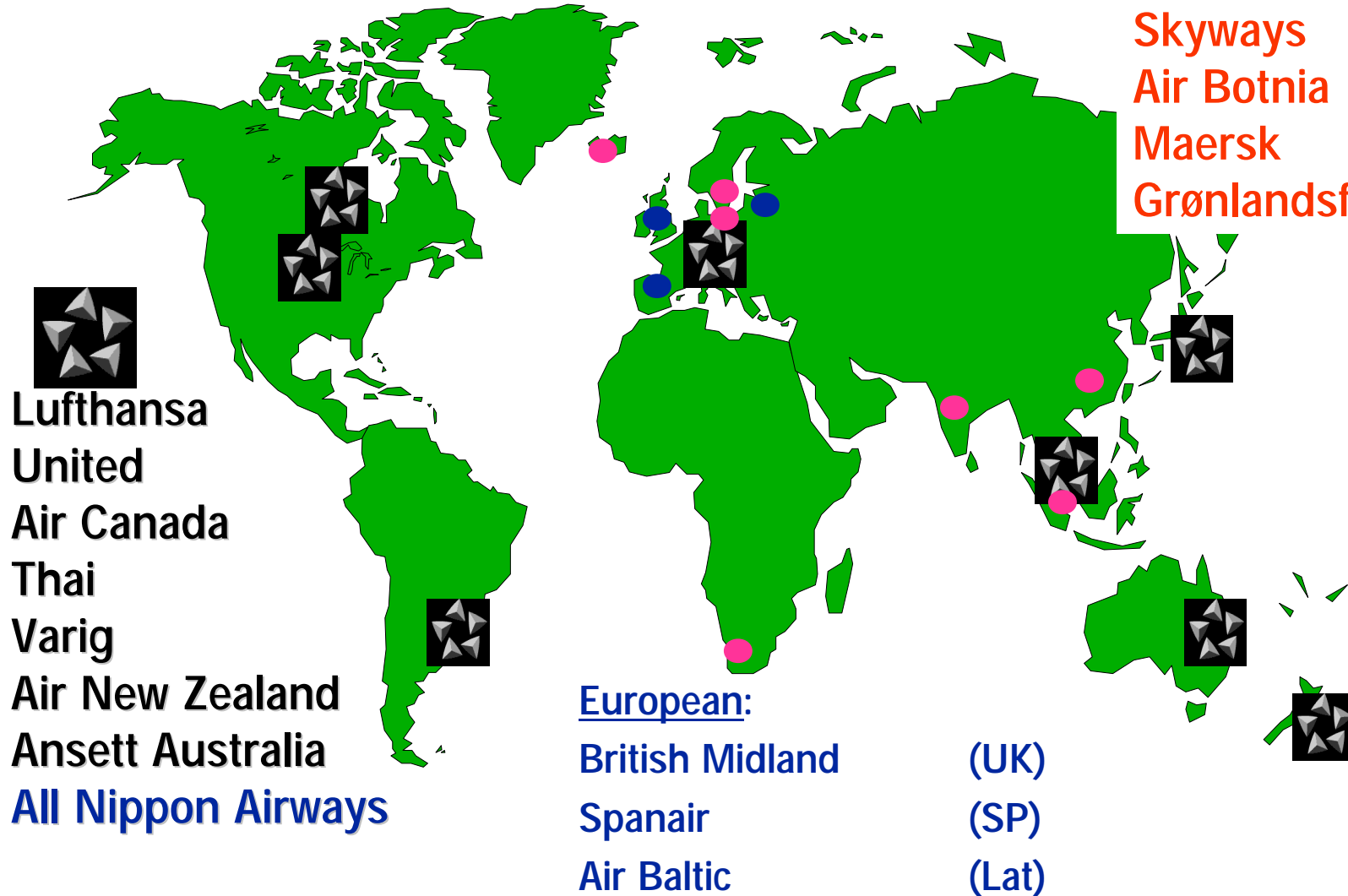
# In Pipeline 1999

- Complete review of long haul operations
- Evaluate of larger aircraft medium haul
- Further develop partner cooperation
- Implement program SAS 2000+
- Complete and implement result improvement program



# SAS & Partners today

Regionals:  
Cimber Air (DK)  
Widerøe (NO)  
Skyways (SE)  
Air Botnia (FI)  
Maersk (DK)  
Grønlandsfly (DK)



# SAS 2000+

- New products and services based on:  
**individual, informal and personal**
- New corporate identity
- Strengthening of the SAS brand
- Internal motivation program





# Program to Improve Result

Result improvement program to be implemented 1999-2000 with ambition to increase SAS Airline gross profit margin by 3 p.u. from 12% to 15%:

- Strengthening revenues - maintaining yields
- Cost reduction program to lower costs 3 000 MSEK
  - evaluation of core activities
  - evaluation of current structures
  - 3 000 MSEK from gap 1 200 MSEK plus reduction of two years "natural" cost increase

# Example of Structural Actions

- Distribution - Multi Channel Strategy
- Background

/4 of total cost

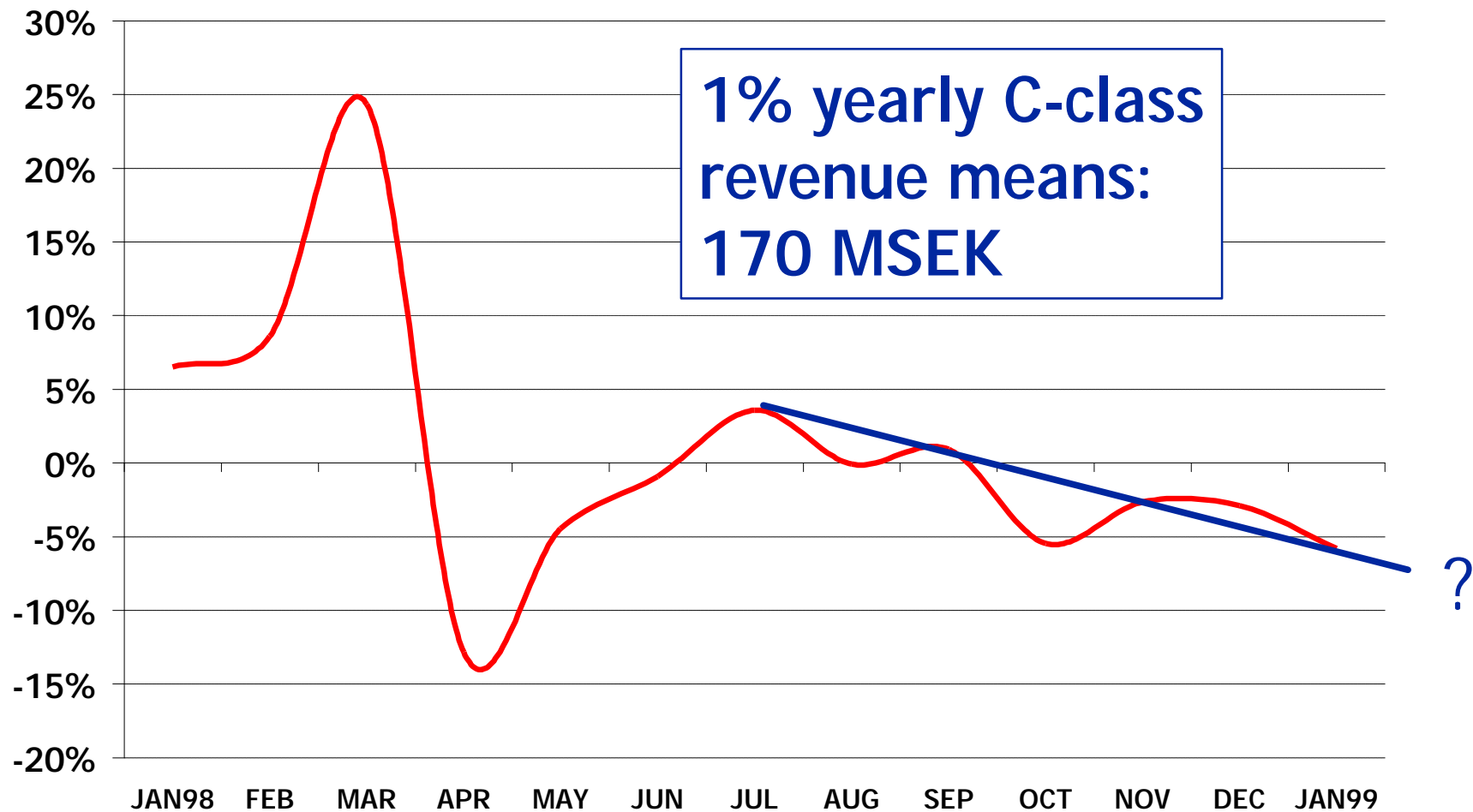
# Outlook 1999

- Weakening business traffic
- Higher risk of overcapacity
- Norwegian market slowing down since opening of Gardermoen (travel patterns) and from lower economic growth in Norway

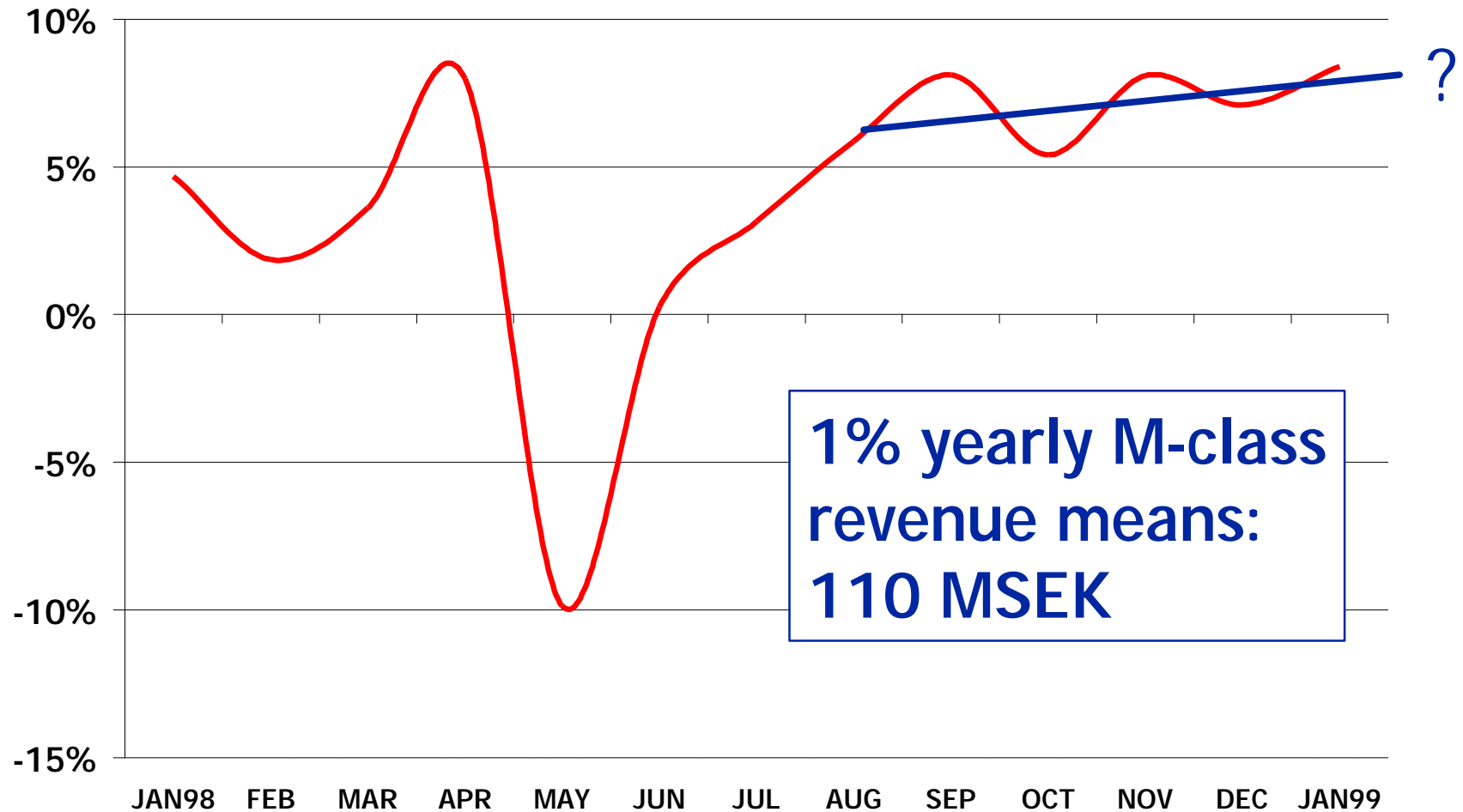
## Increased risk exposure

- General global economic uncertainty
  - Asia and South America
  - Weaker stock exchanges

# Monthly Change in Total C-class Traffic JAN98 - JAN99



# Monthly Change in Total M-class Traffic JAN98 - JAN99



# 1999 - A Tough Year Ahead

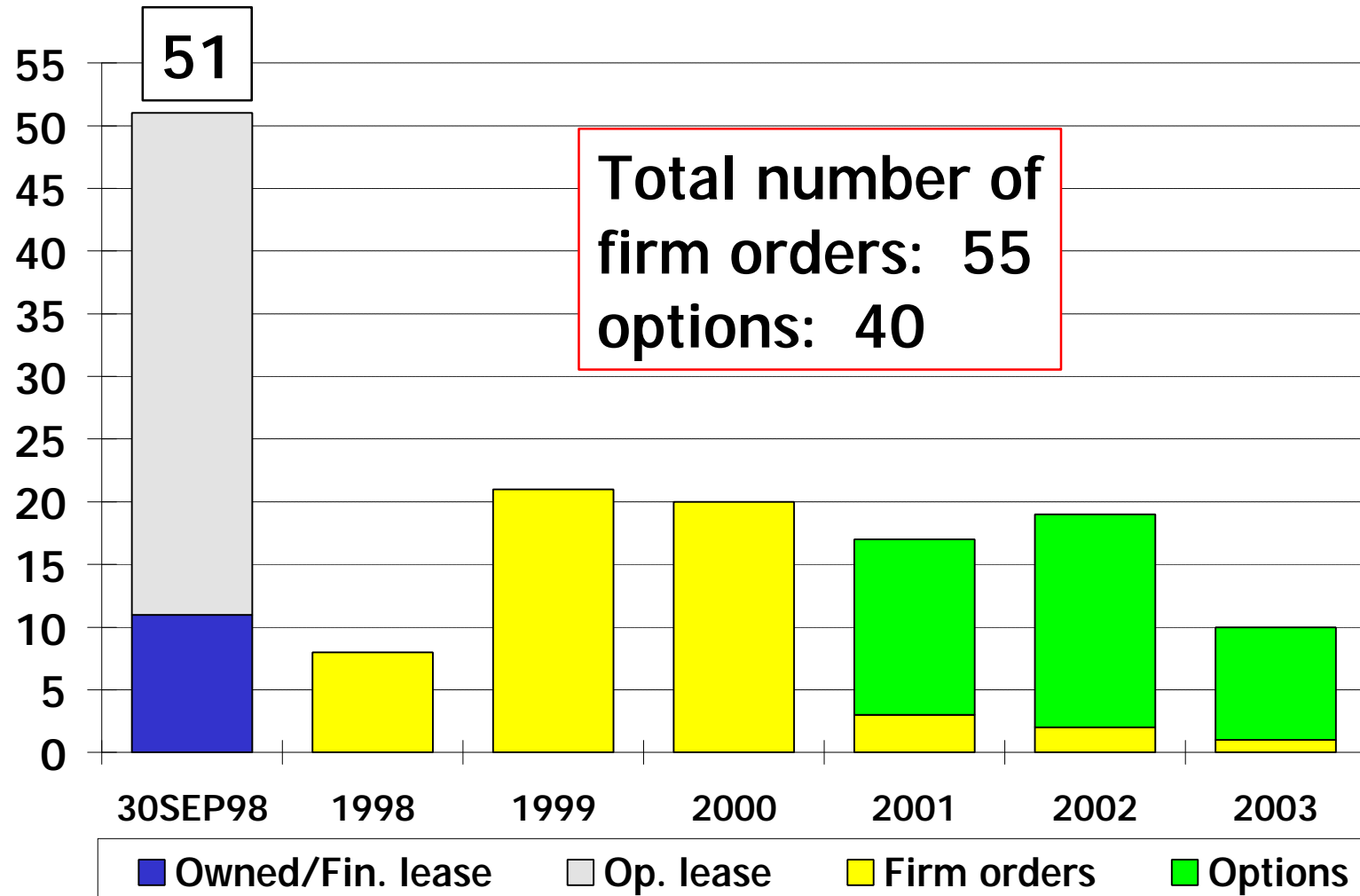
1999 will be a tough year facing increased uncertainties:

- global economic development
- capacity development
- revenues, especially from premium traffic development

Firm actions to improve costs in the downturn

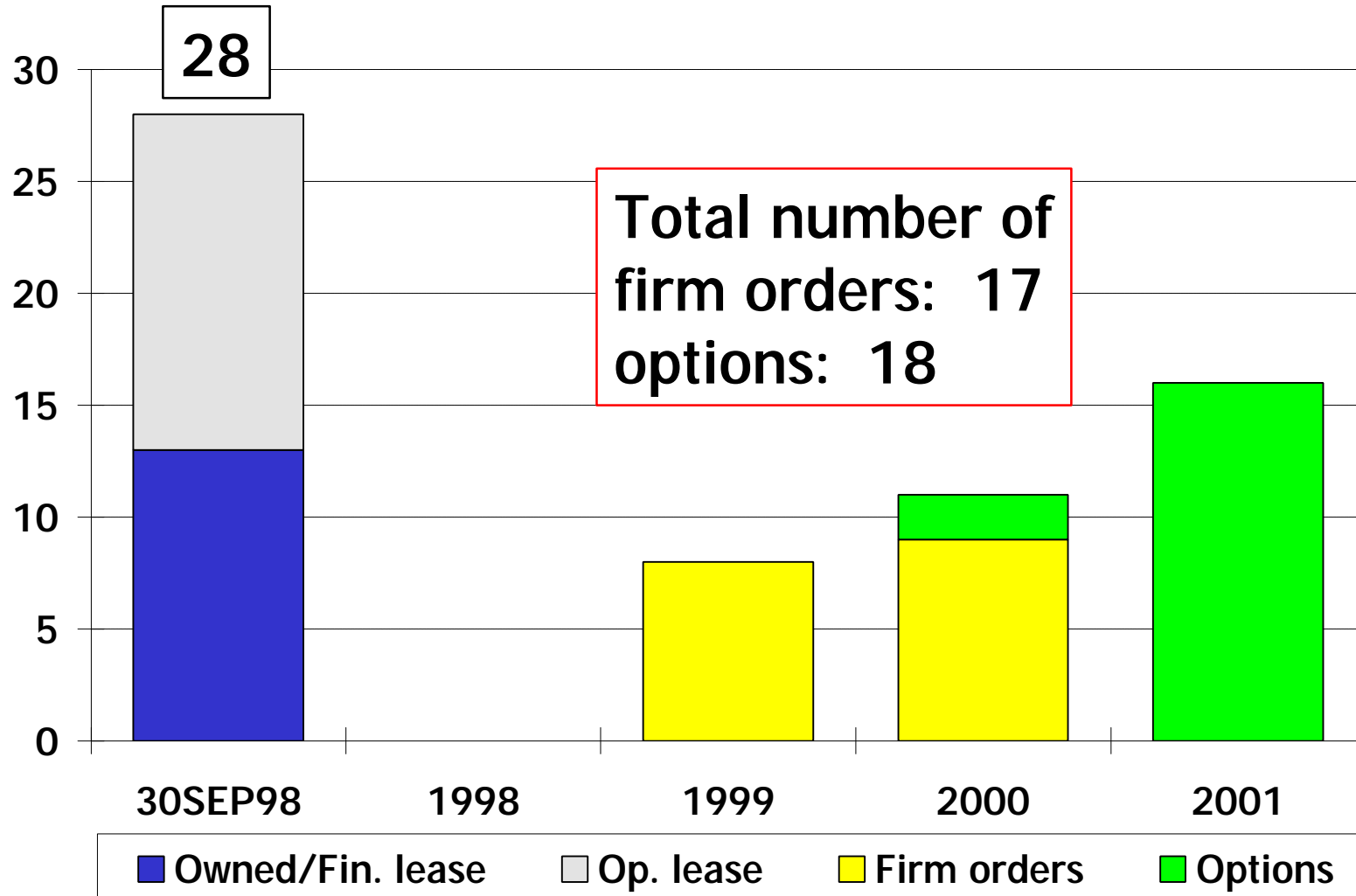
# Aircraft fleet

Present DC-9 & F-28 / Future 737-600/700/800



# Aircraft fleet

Present F-50 & Saab2000 / Future Dash 8-Q400





# Investments

- Aircraft MUSD  
Firm orders:      1999      2000      2001      2002-  
                         640      710      75      75
- Other investments in SAS normally 800-900 MSEK annually

# Capacity Increase Planned for 1999

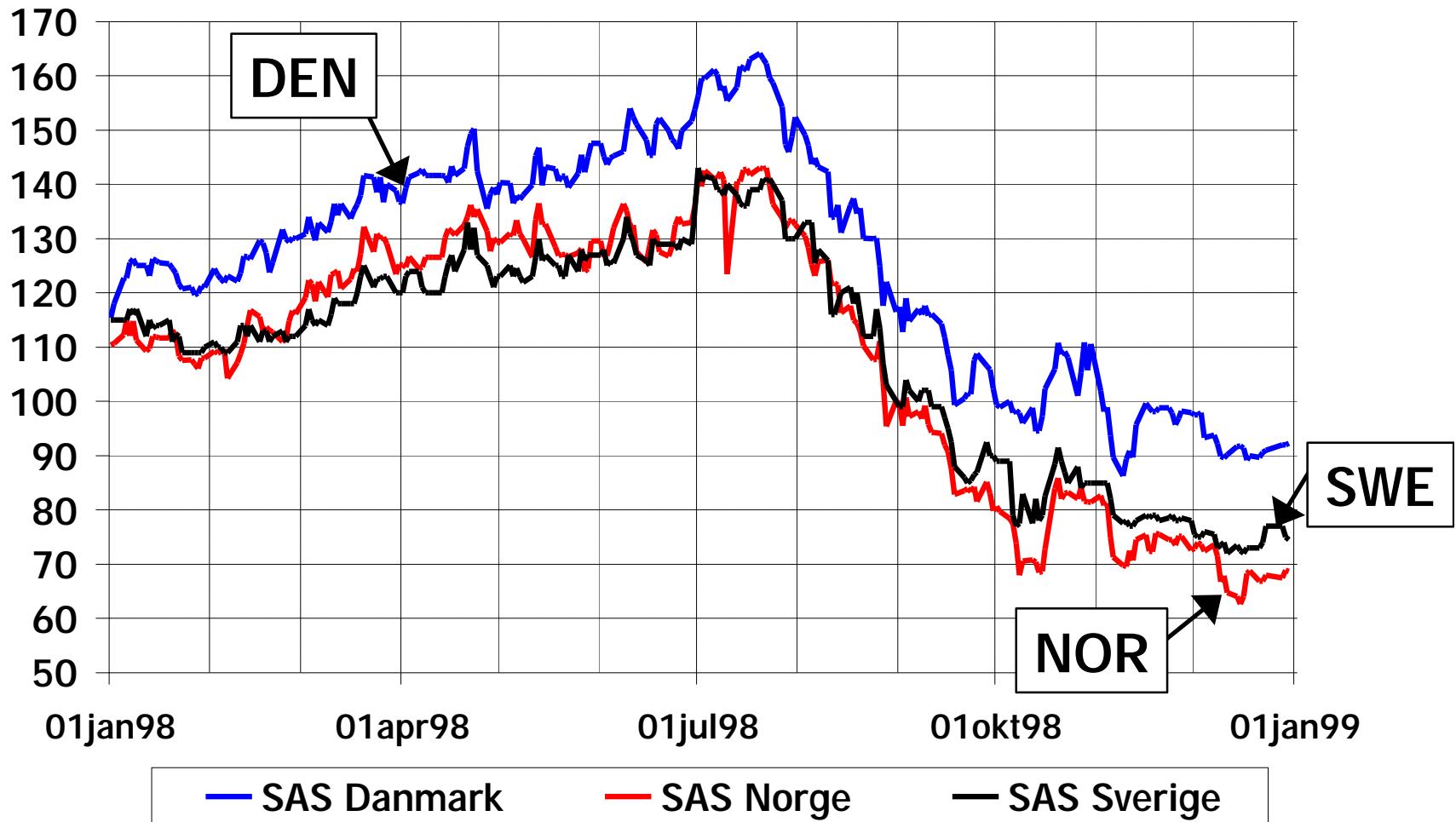
- Planned capacity (ASK) increase for 1999 vs 1998 is 6,5%
- **Comparison to 1998:**  
The labour conflicts and operational disturbances related to both opening of Gardermoen and Airspace98 meant approx. 2,5% loss of production in 1998
- **Flexibility:**  
If traffic prognosis fail, aircraft planned for phase out can be phased out earlier

# Appendix

- Share prices
- Currency effects
- SAS Group data
- SAS data

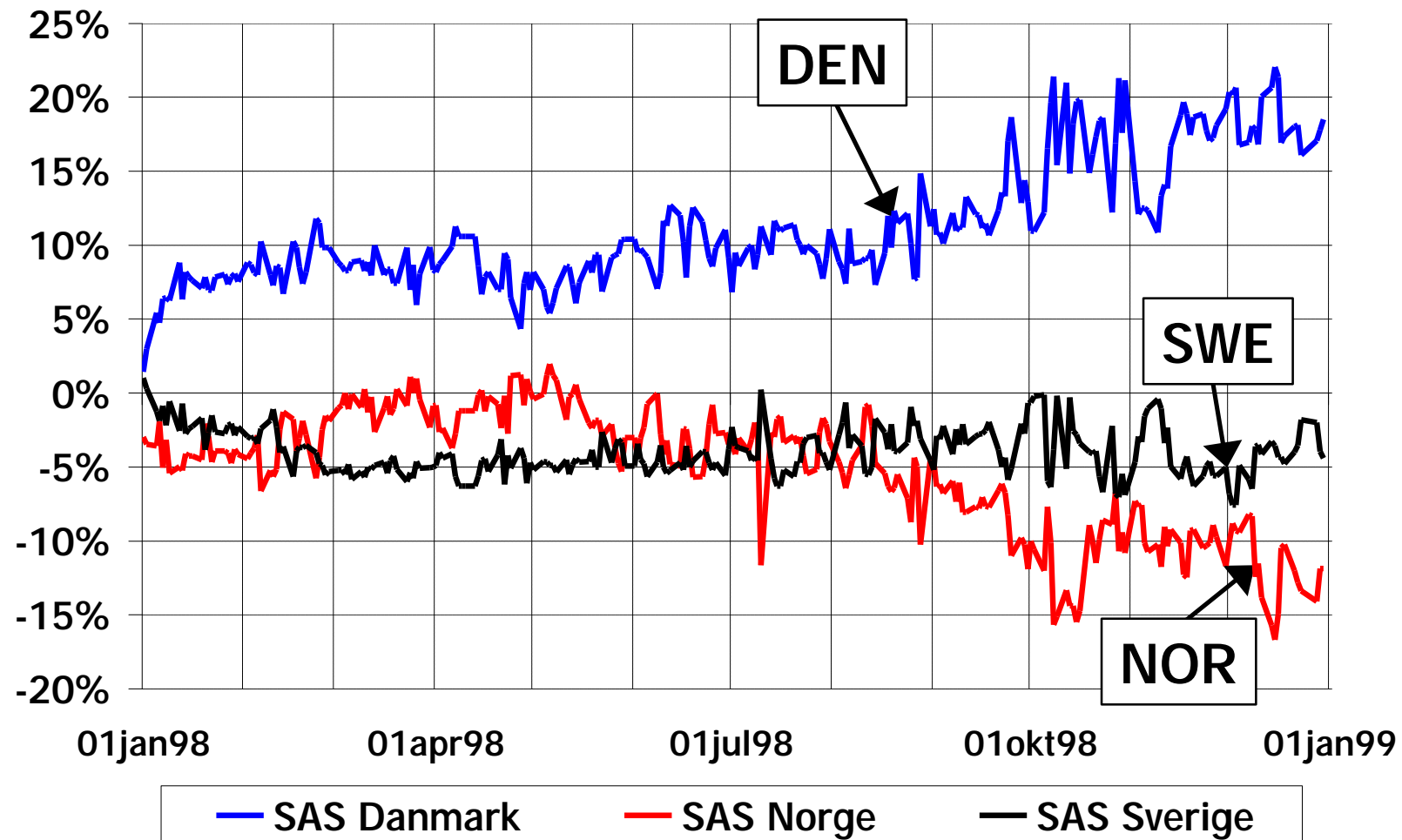
# SAS Share Prices 1998

## SEK



# SAS Share Prices 1998

## Deviation from Mathematical Parity



# SAS Parent Companies 1998

Key values                      SAS Danmark      SAS Norge      SAS Sverige

## Earnings per share

- local curr.	11,60	11,51	12,77
- SEK	13,78	12,13	12,77

## Equity per share

- local curr.	70,62	81,96	89,77
- SEK	90,11	87,94	89,77



# Development of SEK vs ECU

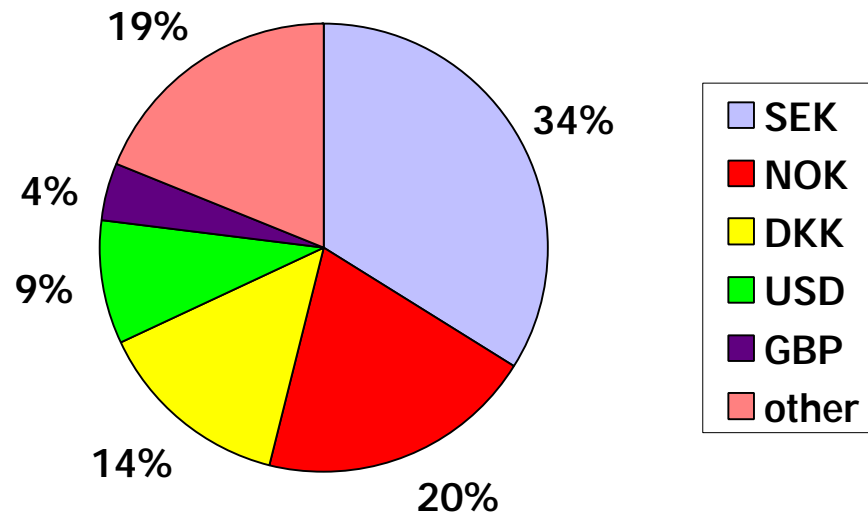
index 1991-05-17 = 100



# SAS Airline

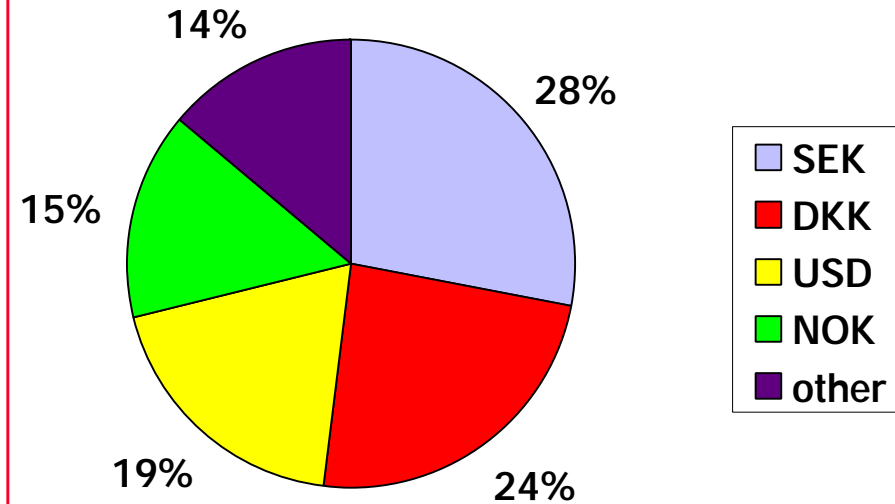
## Currency Distribution

### Revenues



### Costs

Major deficiency  
currencies: USD, DKK





# SAS Airline

## Currency Effects 1998 vs 1997

(MSEK)

	<i>Q4</i>	<i>1998</i>
Total revenues	+ 291	+ 122
Total costs	- 319	- 370
Forward cover costs & working cap.	+ 44	- 76
<b>Income bef. depr.</b>	<b>+ 16</b>	<b>- 324</b>
Financial items	+ 1	+ 4
<b>Income before tax</b>	<b>+ 17</b>	<b>- 320</b>

# Currency Effects SAS Airline

## 1998 vs 1997

### Total revenues & costs: (Total -248 MSEK)

Major approx. effects:

USD	-130
Asian curr.	-120
NOK	-60
DKK	-35
GBP	+65

### Forward cover costs: (Total -73 MSEK)

1997	+206
1998	+133

### Working capital: (Total -3 MSEK)

1997	-71
1998	-74

### Financial items: (Total +4 MSEK)

1997	+2
1998	+6

**Grand total: - 320 MSEK**

# SAS Group

## Net Financial Items

(MSEK)

	<u>1998</u>	<u>1997</u>
Interest net	- 115	-166
Currency loss	- 14	- 1
<b>Financial items, net</b>	<b>- 129</b>	<b>- 167</b>

# SAS Group

## Income by Business Unit

(MSEK)

	<i>4th quarter</i>	
	<i>1998</i>	<i>1997</i>
SAS	314	420
SAS International Hotels	48	55
Other operations/Group elim.	+ 2	+ 3
<b>Income before taxes</b>	<b>364</b>	<b>478</b>

# SAS Group

## Income by Business Unit

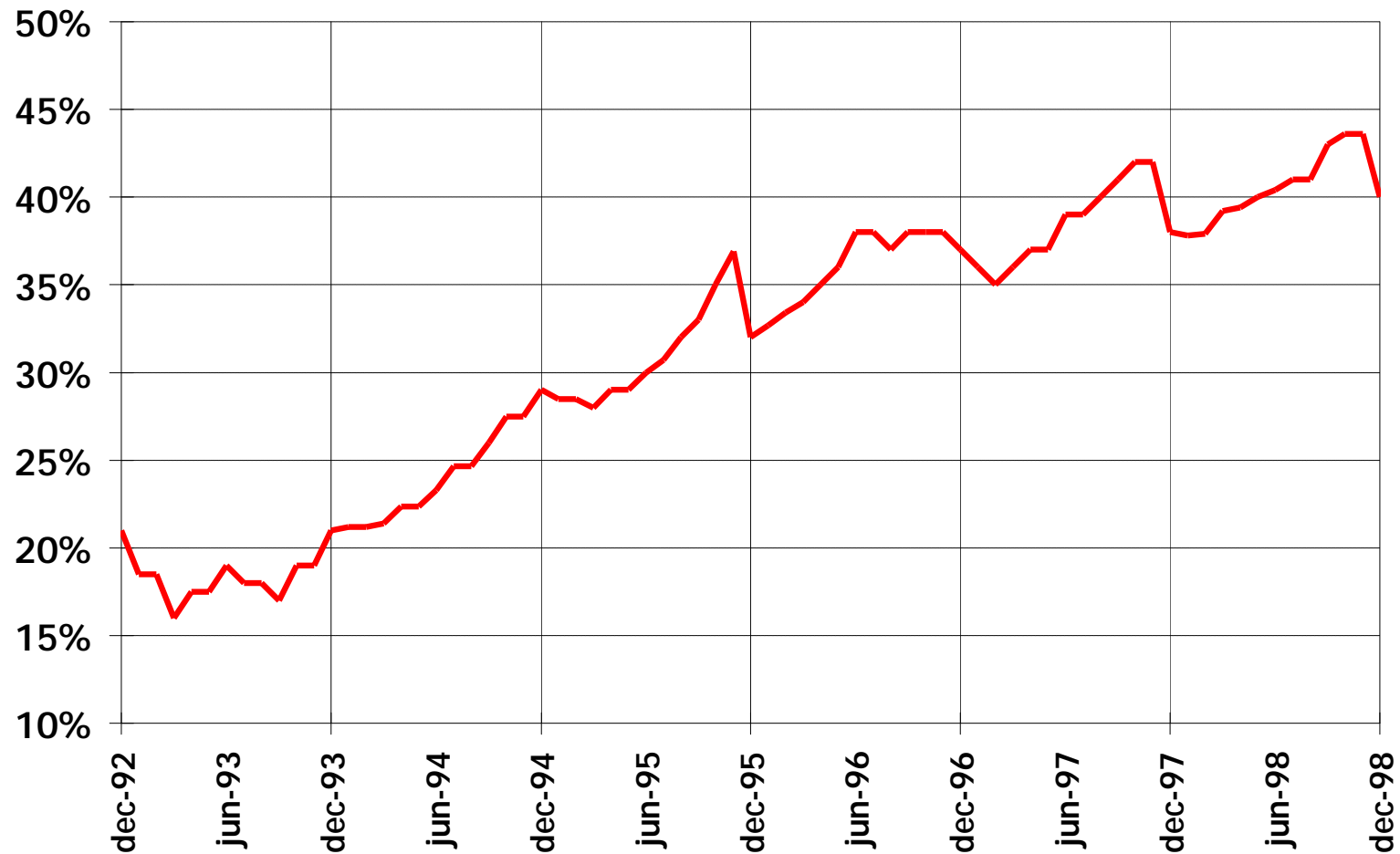
(MSEK)

	<u>1998</u>	<u>1997</u>
SAS	2 588	2 067
SAS International Hotels	233	160
Other operations/Group elim.	+ 8	+ 4
<b>Income before taxes</b>	<b>2 829</b>	<b>2 231</b>



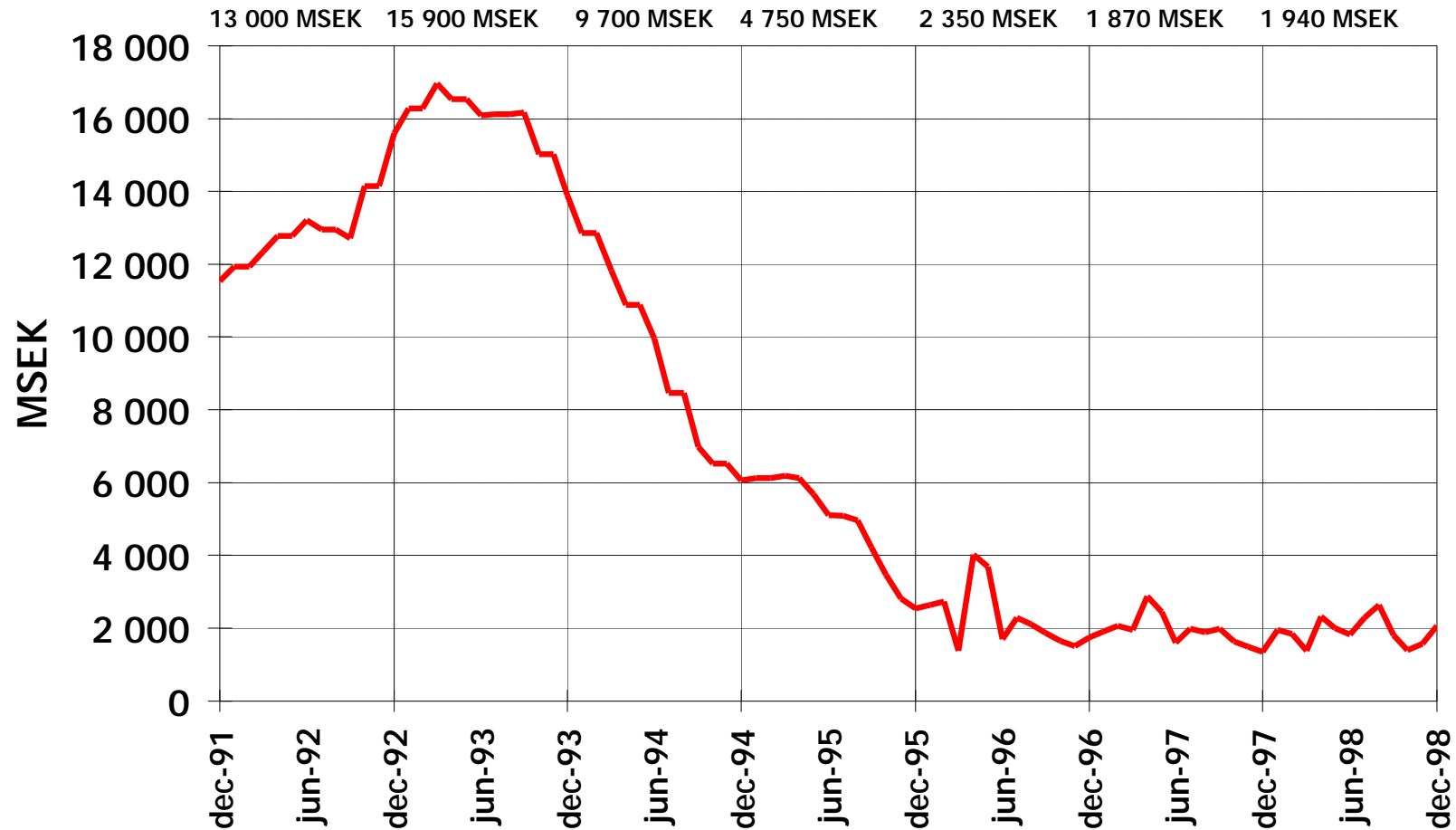
# SAS Group

## Development of Equity/Assets Ratio



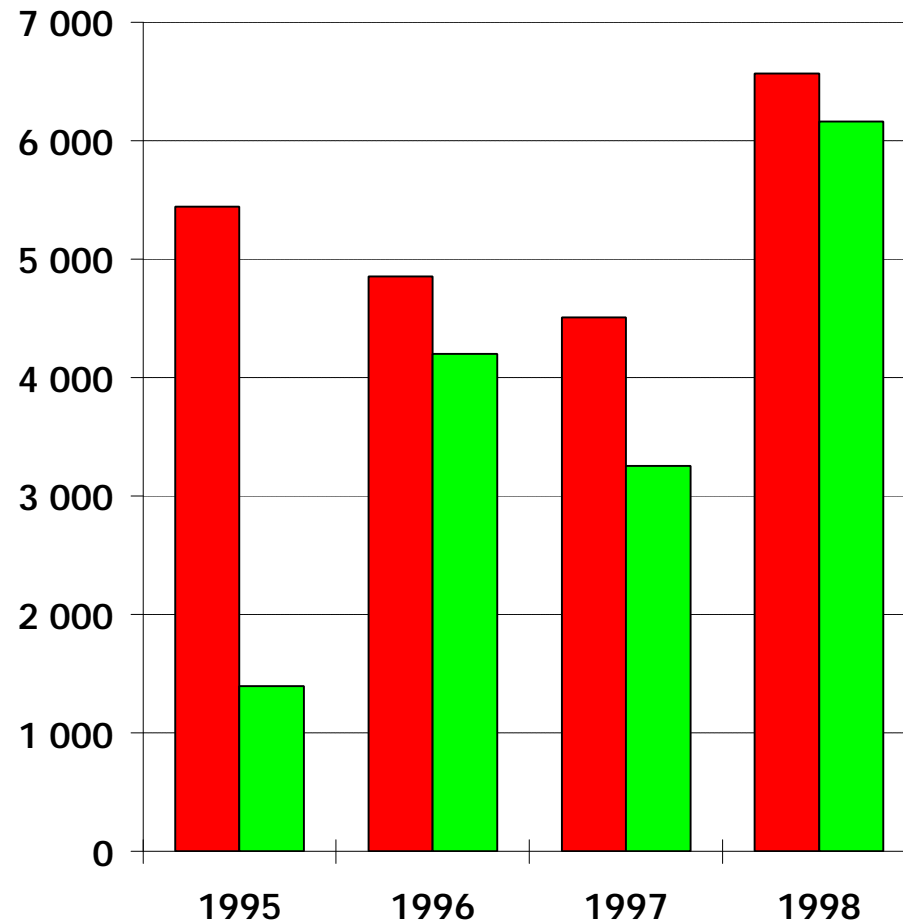
# SAS Group

## Development of Net Debt



# SAS Group Cash Flow

Net Financing from ops + sales & Investments  
MSEK



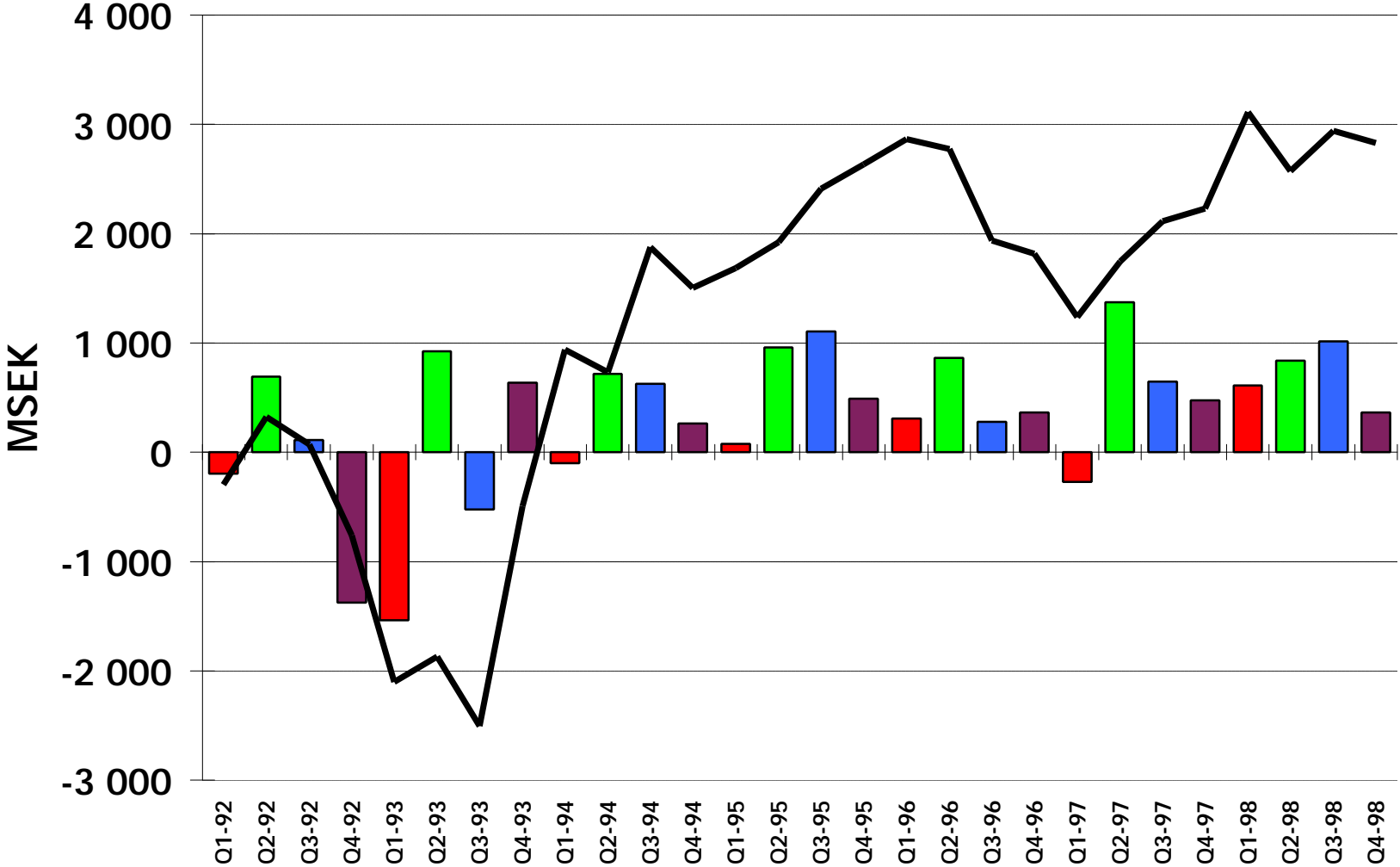
■ Generated cash flow ■ Investments





# SAS Group

## Income before taxes



# SAS

## Revenues (as is)

MSEK	1998	1997	<i>curr adj 97</i>
Passenger revenues	28 240	27 259	27 307
Cargo revenues	2 240	2 212	2 229
Other traffic revenues	1 407	1 269	1 282
Other revenues	6 324	6 066	6 110
<b>TOTAL REVENUES</b>	<b>38 211</b>	<b>36 768</b>	<b>36 890</b>



# SAS

## Operating Costs (as is)

MSEK	1998	1997	<i>curr adj 97</i>
Personnel costs	12 051	10 937	10 959
Leasing costs (aircraft)	1 059	859	894
Sales costs	2 072	2 209	2 209
Fuel	2 322	2 440	2 550
Governmental charges	3 558	3 969	4 017
Meals costs	1 596	1 482	1 486
Handling costs	1 700	1 546	1 570
Maintenance costs	1 732	1 773	1 804
Other costs	8 477	7 781	7 953
<b>TOTAL COSTS</b>	<b>34 567</b>	<b>32 996</b>	<b>33 442</b>

# Slightly Increased Unit Costs

## 1998 vs 1997

(MSEK)	1998	1997
<b>Operating net costs</b>	<b>27 498</b>	<b>26 466</b>
excluding A/C lease and other revenue		
<i>Adjustments:</i> Currency effect		+ 372
Volume (RPK/ASK=2,1%)		+ 561
<b>Comparable operating net costs</b>	<b>27 498</b>	<b>27 399</b>
Change in operating net cost		(99)
<b>In % of comparable net cost 1997</b>		<b>(0,4%)</b>

# Traffic and Yield

## 1998 vs 1997

	1998	1997	<i>Index, variance</i>
SAS Total Scheduled			
Production (mill ASK)	31 705	31 259	101
Traffic (mill RPK)	20 821	20 266	103
Cabin factor (%)	65,7	64,8	+ 0,8
C-class share (%)	31,0	31,7	- 0,7
Yield (öre/RPK)	135	134	101
Currency adj. yield	135	135	101

# Production and Traffic

## 1998 vs 1997

Route Sector	<i>Production</i> ASK	<i>Traffic</i> RPK	<i>Cabin</i> factor %
<b>SAS Total</b>	<b>101</b>	<b>103</b>	<b>+ 0,8</b>
Intercontinental	103	101	- 1,6
Europe	100	103	+ 1,9
Intrascandinavian	103	102	- 0,6
Denmark/Greenland	85	91	+ 3,7
Norway	102	105	+ 1,7
Sweden	106	112	+ 3,4

# Traffic Analysis

## 1998 vs 1997

Route Sector Scheduled	<i>Fullfare RPK-C</i>	<i>Discounted RPK-M</i>	<i>Total traffic RPK</i>
<b>SAS Total</b>	<b>101</b>	<b>104</b>	<b>103</b>
Intercontinental	98	101	101
Europe	101	104	103
Intrascandinavian	101	102	102
Denmark/Greenland	89	92	91
Norway	103	106	105
Sweden	104	120	112

# Passenger Yield

## 1998 vs 1997

Route Sector	<i>Nominal yield</i>	<i>Currency effect</i>	<i>Adjusted yield</i>
Scheduled			
<b>SAS Total</b>	<b>101</b>	<b>100</b>	<b>101</b>
<hr/>			
Intercontinental	98	100	98
Europe	104	99	103
Intrascandinavian	99	100	99
Denmark/Greenland	93	99	91
Norway	100	103	102
Sweden	93	100	93



# Traffic and Yield

## 4th Quarter 1998 vs 1997

	<i>4th quarter</i>		<i>Index, variance</i>
	<i>1998</i>	<i>1997</i>	
SAS Total Scheduled			
Production (mill ASK)	8 116	7 771	104
Traffic (mill RPK)	5 089	4 940	103
Cabin factor (%)	62,7	63,6	- 0,9
C-class share (%)	33,1	35,4	- 2,3
Yield (öre/RPK)	144	140	103
Currency adj. yield	144	144	100

# Production and Traffic

## 4th quarter 1998 vs 1997

Route Sector Scheduled	<i>Production</i> <i>ASK</i>	<i>Traffic</i> <i>RPK</i>	<i>Cabin</i> <i>factor %</i>
<b>SAS Total</b>	<b>104</b>	<b>103</b>	<b>- 0,9</b>
Intercontinental	106	101	- 3,9
Europe	102	103	+ 0,5
Intrascandinavian	106	102	- 2,2
Denmark/Greenland	91	95	+ 2,5
Norway	107	103	- 2,4
Sweden	108	115	+ 4,0

# Traffic Analysis

## 4th quarter 1998 vs 1997

Route Sector Scheduled	<i>Fullfare RPK-C</i>	<i>Discounted RPK-M</i>	<i>Total traffic RPK</i>
<b>SAS Total</b>	<b>96</b>	<b>107</b>	<b>103</b>
Intercontinental	94	103	101
Europe	96	107	103
Intrascandinavian	97	107	102
Denmark/Greenland	93	98	95
Norway	93	111	103
Sweden	103	129	115

# Passenger Yield

## 4th quarter 1998 vs 1997

Route Sector	<i>Nominal yield</i>	<i>Currency effect</i>	<i>Adjusted yield</i>
<b>SAS Total</b>	<b>103</b>	<b>97</b>	<b>100</b>
Intercontinental	99	97	96
Europe	109	96	105
Intrascandinavian	102	98	100
Denmark/Greenland	99	92	91
Norway	93	100	93
Sweden	94	100	93

# SAS

## Statement of income

(MSEK)

	<u>1998</u>	<u>1997</u>
Operating revenue *)	35 505	34 190
<b>Operating income bef. depr. *)</b>	<b>4 388</b>	<b>4 236</b>
<b>Operating income</b>	<b>2 620</b>	<b>2 149</b>
<b>Income before taxes</b>	<b>2 588</b>	<b>2 067</b>

\*) Excluding SAS Trading and aircraft lease net

# SAS

## Statement of income

(MSEK)

	<i>4th quarter</i>	
	<i>1998</i>	<i>1997</i>
	<hr/>	
Operating revenue *)	9 362	8 829
<b>Operating income bef. depr. *)</b>	<b>955</b>	<b>1 045</b>
<b>Operating income</b>	<b>342</b>	<b>456</b>
<b>Income before taxes</b>	<b>944</b>	<b>597</b>

\*) Excluding SAS Trading and aircraft lease net

# Sales of Aircraft 1998

- **Sold:**
  - 1 MD-83 (Q1)
  - 1 Saab 340 (Q1)
  - 1 Boeing 767-200 (Q4)
  - 1 Boeing 737-500 (Q4)
- **Sale/leaseback:**
  - 1 Boeing 767-300 (Q1)
  - 4 DC-9-21 (Q1)
  - 1 Boeing 767-300 (Q3)
  - 20 DC-9-41 (Q3)
- **Gain on sales:**  
**1 009 MSEK**

# Present Surplus Aircraft

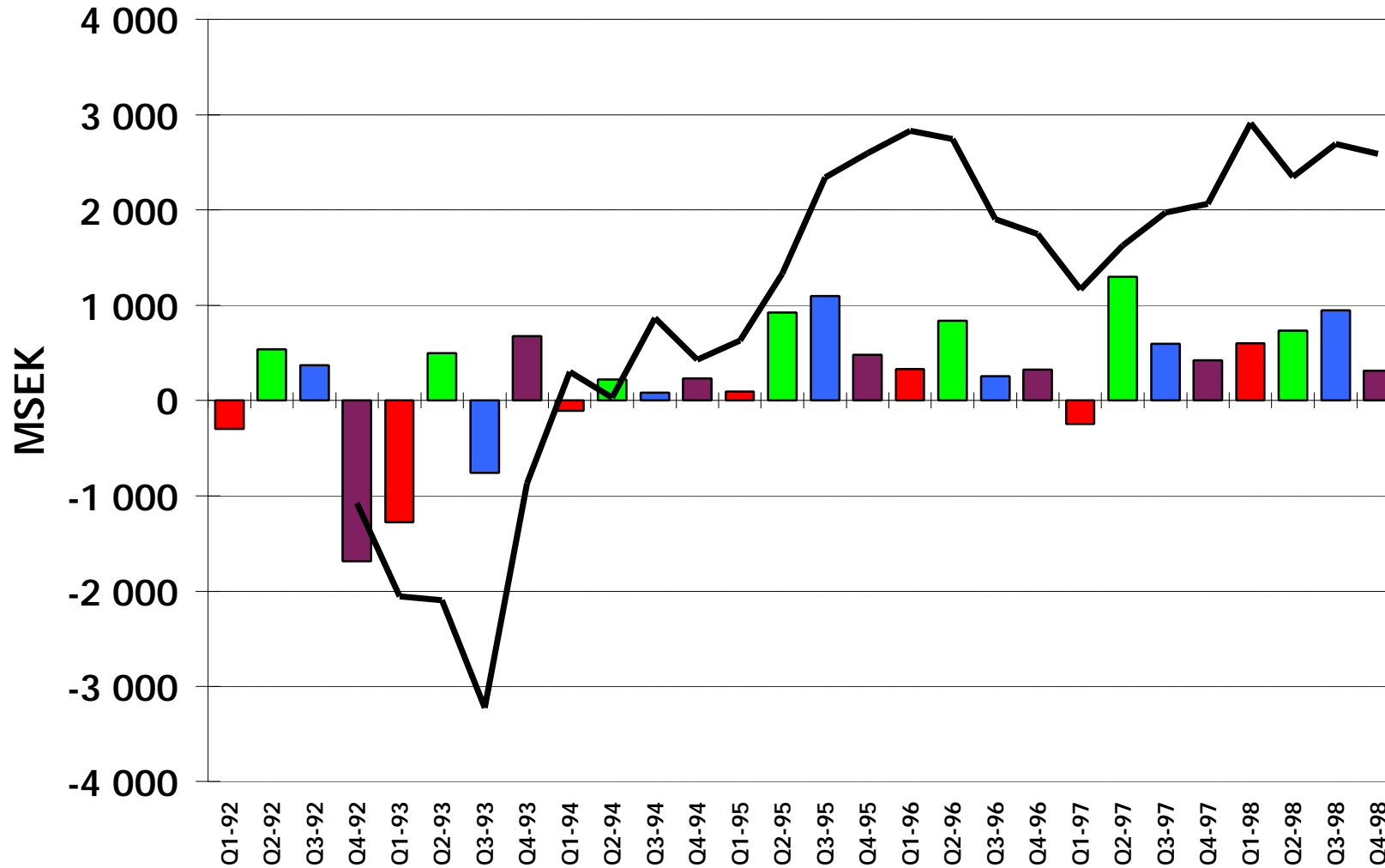
- 1 a/c 737-500
- 4 a/c Saab340

**To be sold when suitable**



# SAS

## Income before e.o. items



# Unit Cost Definition

The unit cost change is calculated as follows:

## **Costs:**

Operating expenses excluding depreciation and lease costs for aircraft and reduced with other external revenue

Last year figure is for comparison adjusted with currency effect

## **Volume growth rate:**

Average growth rate of ASK and RPK

## **Net unit cost change:**

Growth rate of comparable costs in relation to volume growth rate