

# **SAS Q1 2016/2017**

**08.03.2017**



***SAS***

# Weak Q1 as expected – new structural actions underway

## Q1 in summary

### Positives

- + Currency adjusted passenger revenue up 5%
- + Strong development of ancillary revenues
- + Passengers up 500,000 and record high load factor
- + Efficiency program delivered MSEK 145

### Negatives

- Currency adjusted yield down 12% in Q1 vs. LY
- Norwegian aviation tax of MSEK 146
- Jet fuel costs up MSEK 351 in Q1 vs. LY

Q1	Change vs. LY
<b>EBT bef. nonrecurring items</b>	
MSEK -707	MSEK -303
<b>Traffic, RPK in millions</b>	
7,642	+18.9%
<b>Unit cost<sup>1</sup>, SEK</b>	
0.64	-5.7%
<b>PASK<sup>2</sup>, SEK</b>	
0.65	-5.6%

Note: 1) Excluding jet fuel and adjusted for currency; 2) Adjusted for currency

# Delivering on SAS's strategy to be the first choice for frequent travelers

## Activities in Q1

Long haul capacity increased by 23%

- New destinations: BOS/LAX/MIA
- 31% increased traffic

Capacity on European leisure routes increased by 22%





- 10 seasonal destinations
- 23% increased traffic

Improved SAS Plus offer

- New dedicated Fast Track for SAS customers in Oslo
- SAS Plus Saver introduced within Scandinavia

New web platform rolled out in Denmark and Sweden; more markets to follow

Change vs.  
Q1 FY16

<b>PASK</b>		<b>-5.6%</b>
<b>SAS Plus &amp; Business</b>		<b>+10%</b>
<b>EB Silver, Gold, Diamond trips</b>		<b>+7%</b>
<b>EB members</b>		<b>+12%</b>

# Delivering on SAS's strategy to create an efficient operating platform

## Activities in Q1

MSEK 145 in effect from the efficiency program

- New collective agreements implemented within Ground handling

Continued Airbus A320neo phase-in

- 3 additional A320neo in traffic
- 15-20% lower jet fuel consumption per seat

Productivity affected





- Increased aircraft utilization (more leisure/long haul)
- Reduced crew utilization due to lower sick leave and A320neo training

Improved processes at technical maintenance

- Regularity at 99.2%, up 0.4 p.u. vs. LY

Divestment of Cimber completes SAS's two tier production model

Change vs.  
Q1 FY16

<b>CASK</b>		<b>-5.7%</b>
<b>Aircraft utilization</b>		<b>+5.0%</b>
<b>Crew block hours</b>		<b>-4.2%</b>
<b>Punctuality</b>		<b>-1.4pu</b>

# Divestment of Cimber completes SAS's two tier production model

## Alternatives

2013:

Decision made to focus on large jet traffic to simplify SAS's operations

**X** **Outsource**  
RJ (regional jet) production to external suppliers

**Preferred option**, but no credible outsourcing providers available in the market

**X** **Divest/close down** RJ production

Not a viable option – difficult to realize inherent value + high lay-off costs

**✓** **Create an** RJ production supplier to **divest when appropriate**

**2014:** Cimber acquired to develop a competitive & flexible supplier of wet leased production

2017:

*Efficient setup for outsourcing of RJ production created*  
*Cimber divested – two tier production model completed!*

# Continuous operational improvements and new structural measures are being planned and implemented



**SEK 1.3bn  
Completed**

**SEK 1.5bn  
Initiated activities**

**Value TBD  
Under development**

ESTABLISH NEW  
PRODUCTION UNIT

OPTIMIZE COMMERCIAL OFFERING

STREAMLINE GROUND HANDLING

OPTIMIZE TECHNICAL MAINTENANCE

SIMPLIFY ADMINISTRATION SETUP

IMPROVE WORKFORCE PRODUCTIVITY & FLEXIBILITY

**FY15 - FY16**

**FY17 – FY19**

**FY18 →**

# We are identifying further structural measures within our operation – to be specified during second half of 2017



## COMMERCIAL

- Digitalization
- Differentiation & one-to-one interaction
- Reduce cost for non-customer facing elements



## FLIGHT OPERATIONS

- Improve planning to increase productivity
- Continued CBA modernization
- Higher fuel efficiency



## GROUND HANDLING

- Performance & efficiency
- Automation
- Review of current charges



## TECH

- Improved productivity – lean processes
- Better contract management

## Enablers



## SOURCING EXCELLENCE



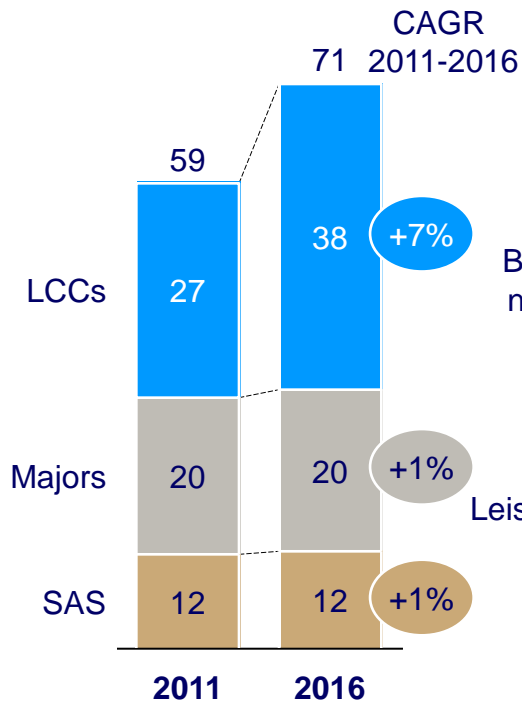
## DIGITALIZATION & AUTOMATION



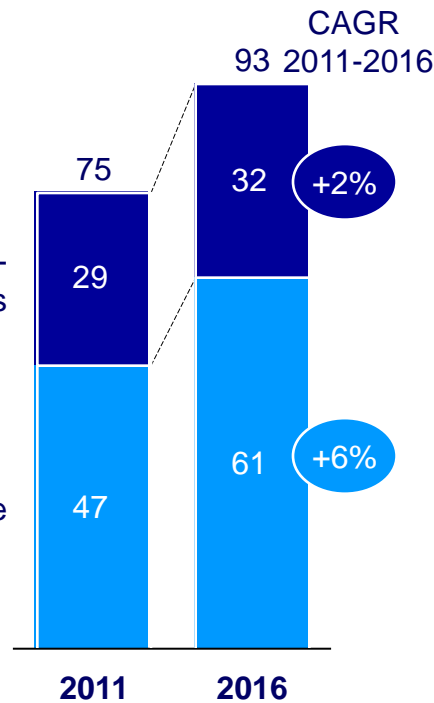
## PLANNING EXCELLENCE

# In recent years, growth has come from the leisure segment driven by increased LCC capacity

**Capacity Scandinavia-Europe (Seats in millions)**



**Purpose of travel – Scandinavia (Passengers in millions; CAGR %)**



Source: Innovata schedule data; airport statistics from Swedavia, Avinor and Copenhagen Airport (sub-set of total market)



# As a complement to SAS's Scandinavian based production, a new company with headquarters in Ireland to be established

## KEY PRINCIPLES

- New bases to be set up in London & Spain
- Fleet of A320neo
- Locally employed crew
- Safety standard comparable to SAS
- 1<sup>st</sup> flight during winter program 2017/2018

## OUTCOME: CONTINUE BEING A VITAL PART OF SCANDINAVIAN SOCIETY & INFRASTRUCTURE

SAS is a fundamental part of the Scandinavian infrastructure



# FINANCIALS



# Breakdown of the income statement

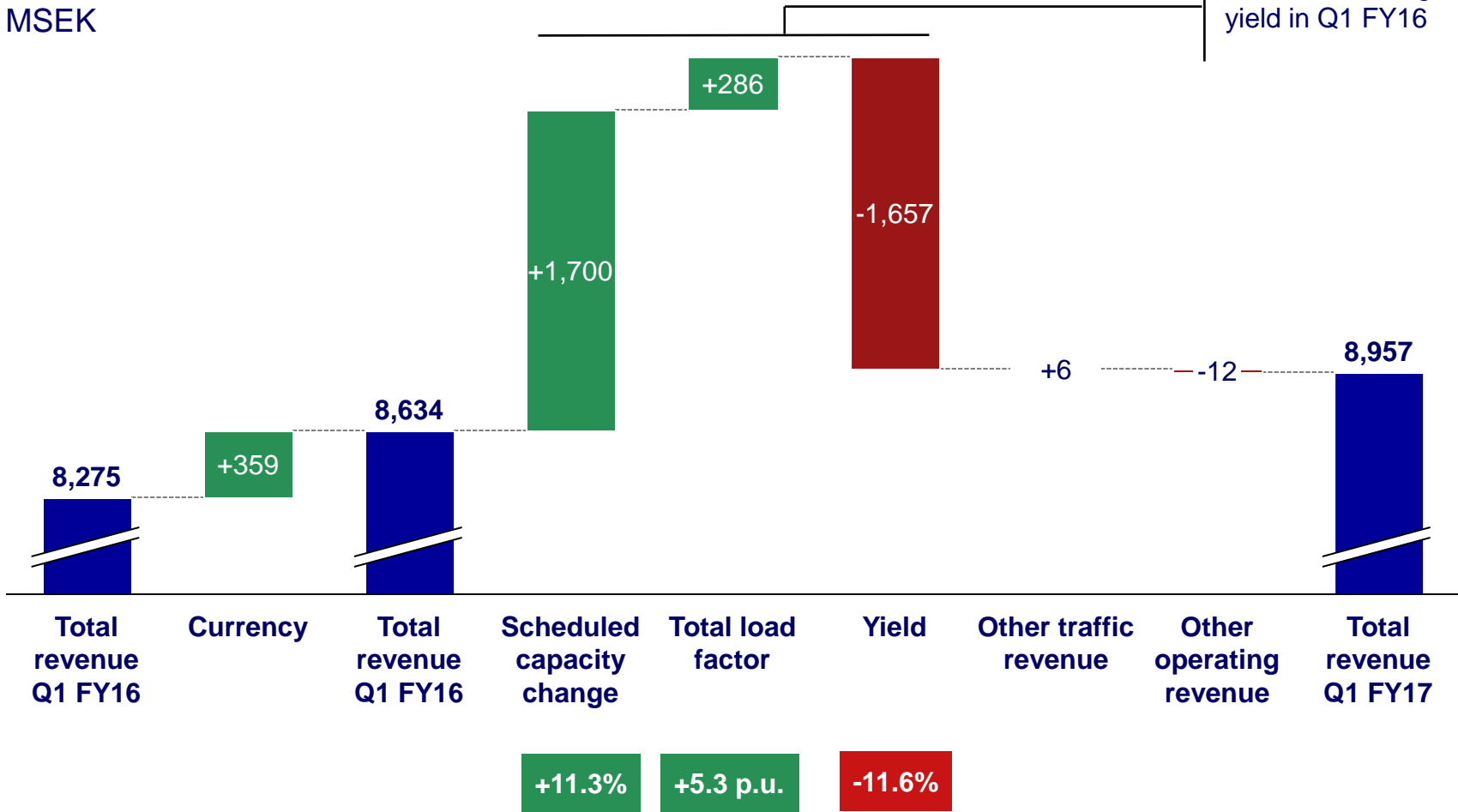
Income statement	Nov 16-Jan 17	Nov 15-Jan 16	Change vs LY	Currency
<b>Total operating revenue</b>	<b>8,957</b>	<b>8,275</b>	<b>+682</b>	<b>+359</b>
Payroll expenditure	-2,398	-2,334	-64	
Jet fuel	-1,579	-1,228	-351	
Government charges	-970	-911	-59	
Other operating expenditure	-3,526	-3,030	-496	
<b>Total operating expenses*</b>	<b>-8,473</b>	<b>-7,503</b>	<b>-970</b>	<b>-354</b>
<b>EBITDAR before non-recurring items</b>	<b>484</b>	<b>772</b>	<b>-288</b>	<b>+5</b>
<i>EBITDAR-margin*</i>	5.4%	9.3%	-3.9 p.u.	
Leasing costs, aircraft	-733	-700	-33	
Depreciation	-327	-341	+14	
Share of income in affiliated companies	-11	-12	+1	
<b>EBIT before non-recurring items</b>	<b>-587</b>	<b>-281</b>	<b>-306</b>	<b>-40</b>
<i>EBIT-margin*</i>	-6.6%	-3.4%	-3.2 p.u.	
Financial items	-120	-123	+3	
<b>EBT before non-recurring items</b>	<b>-707</b>	<b>-404</b>	<b>-303</b>	<b>-37</b>
Non-recurring items	10	95	-85	
<b>EBT</b>	<b>-697</b>	<b>-309</b>	<b>-388</b>	<b>-37</b>

\* = Before non-recurring items

# Revenue analysis

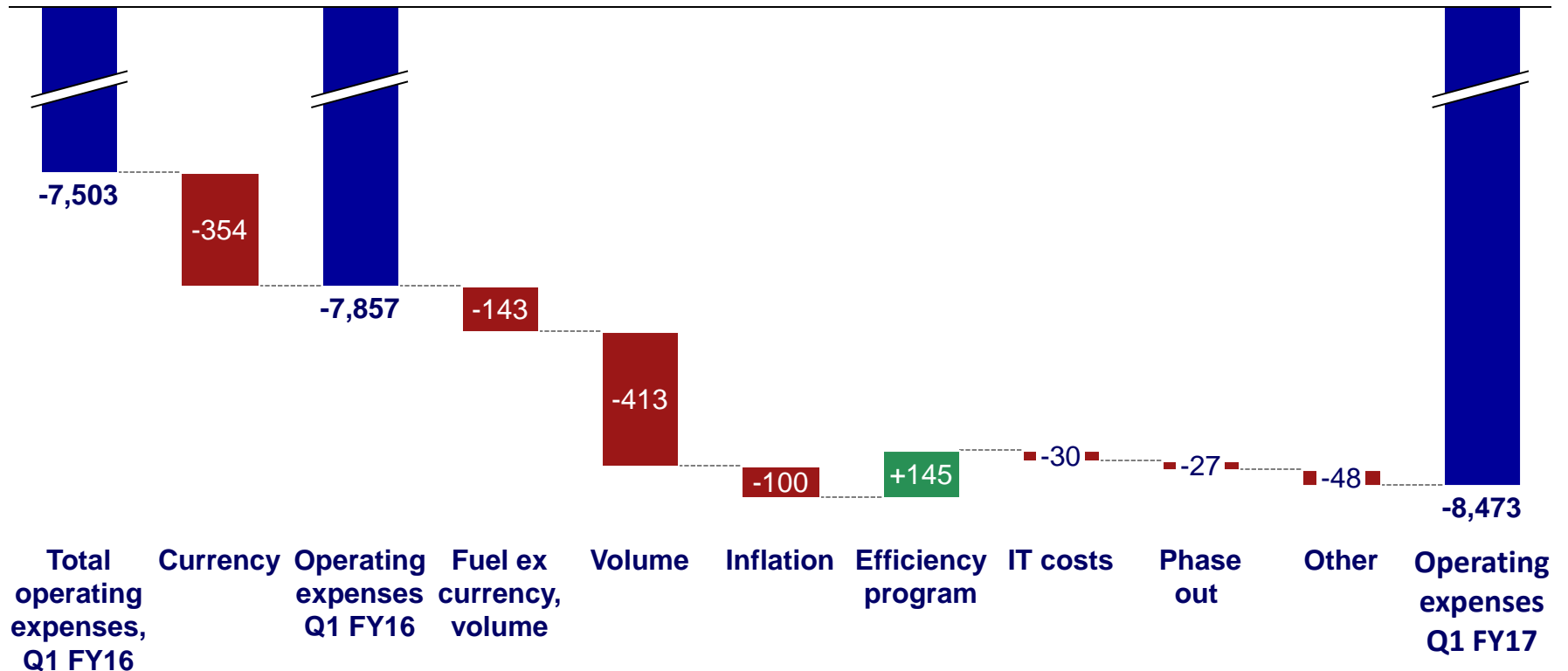
Total Revenue Q1  
MSEK

Based on average  
yield in Q1 FY16



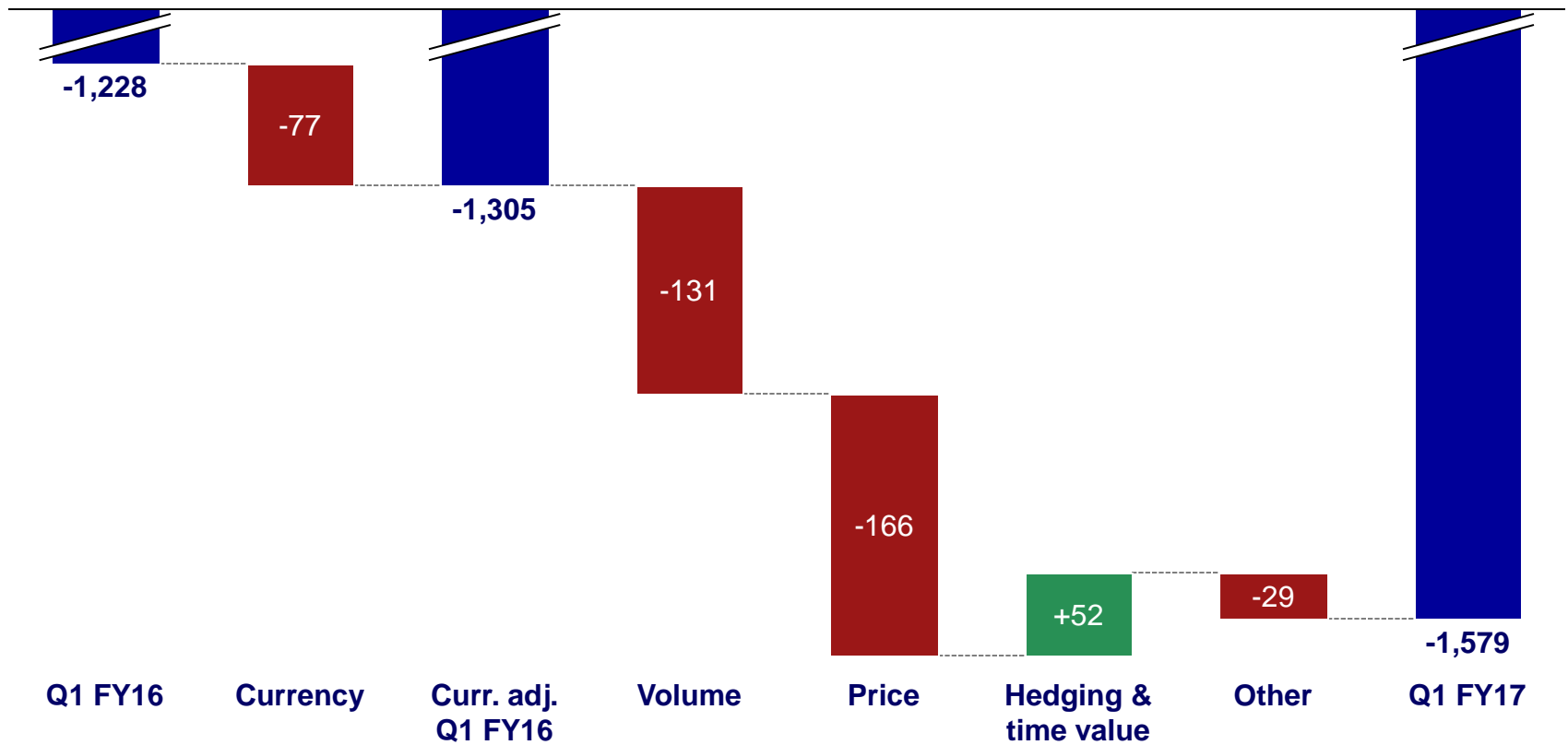
# Operating expenses analysis

## Total Operating Expenses Q1 MSEK



# Jet fuel costs increased MSEK 351 in Q1

Fuel cost Q1  
MSEK



# Jet fuel and currencies

## Jet fuel

- Policy to hedge 40-80% of expected fuel consumption for the next 12 months and up to 50% for the following six months
- Hedge position as at 31 January 2017
  - 44% of expected jet fuel consumption hedged next 12 months
  - Mixture of call options and swaps until June and swaps beyond

## Currency

- Policy to hedge 40-80% of expected currency deficit/surplus for the next 12 months

## Jet fuel cost sensitivity FY17, SEK bn\*

Average spot price	8.0 SEK/USD	9.0 SEK/USD	10.0 SEK/USD
USD 400/MT	6.0	6.6	7.2
USD 600/MT	7.0	7.6	8.3

## Currency hedges\*

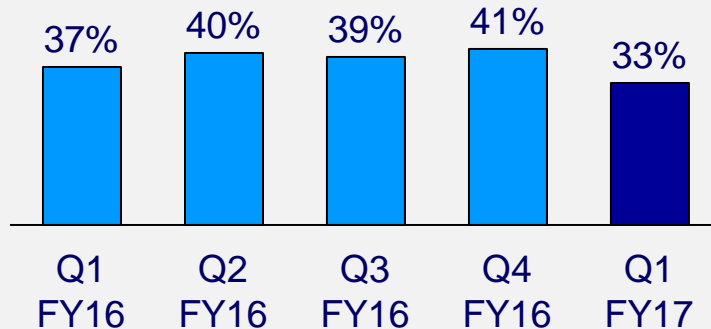
- 67% of USD hedged next twelve months
- 73% of NOK hedged next twelve months

\* Based on hedge position as at 31 January 2017

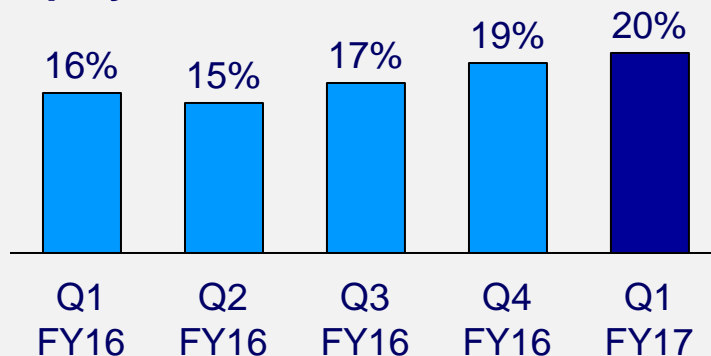
Max jet fuel price	Q2 FY17	Q3 FY17	Q4 FY17	Q1 FY18
\$450-510/MT	86%	65%	20%	-

# Liquidity and equity position

## Financial preparedness



## Equity ratio



## Financial preparedness at 33%

- Cash position at SEK 7.2bn
  - Seasonally low position in January
- Unutilized credit facilities of SEK 3.2bn
- Net amortization in Q1 of SEK 0.7bn

## SEK 6.0bn in equity

- Strengthened equity position in Q1 driven by revaluation of pensions
  - Higher discount rate following increasing interest rates



# Financing costs and capex

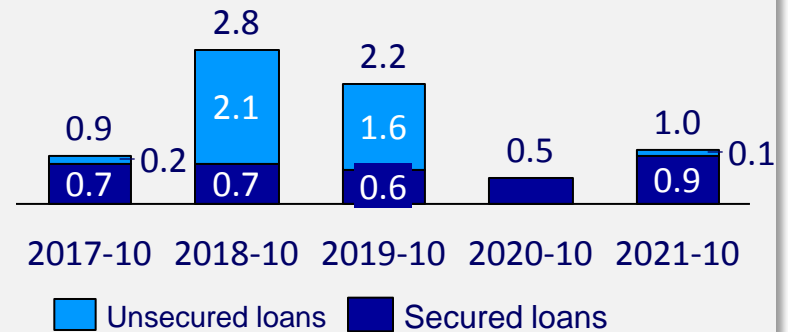
## Maturing liabilities provide an opportunity to reduce financing costs

- Review of capital structure
  - Risk/return optimize the ratio of equity and debt
- Alternative financing possibilities to be considered

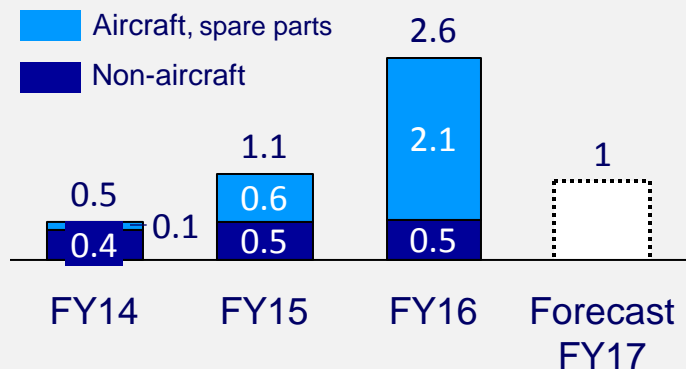
## Net investments in FY17 at SEK ~1 bn

- Purchase of operating leased aircraft
- Pre-delivery payments of aircraft
- Investments in the IT platform
- In addition, an engine overhaul program during FY17-FY18 will affect working capital negatively -cost provisions already made

## Interest bearing liabilities repayments FY17-FY21, SEK bn



## Net capital expenditure, SEK bn



# Outlook FY17 and upcoming highlights

## High market uncertainty

- Volatile currency and jet fuel prices
- Geo-political uncertainty
- Introduction of aviation taxes

## Assumptions for FY17

- SAS to increase ASK by 6-8%
- Lower PASK and unit cost
- Efficiency program to deliver SEK 0.7bn
- Higher jet fuel costs

## Outlook FY17

*Despite weak Q1, SAS expects to post a positive EBT before non recurring items*

Start implementation of structural actions

2<sup>nd</sup> Half 2017



Digitalization:  
- New website  
- EB platform

Spring 2017



Airbus A320neo to be delivered

12 during FY17



*SAS*