# SAS Q2 2016/2017

21.06.2017

# Extended structural measures to strengthen profitability

## Q2 IN SUMMARY

### Positives

+ Currency adjusted passenger revenue up 4.4%
+ Passengers up by more than 300,000
+ Load factor up 3.1 p.u. to 71.3%
+ Strong development of ancillary revenues
+ Cargo revenue up 18% (MSEK 68)
+ Efficiency program delivered MSEK 175

### Negatives

- Currency adjusted yield down 7.5%
- Jet fuel costs up MSEK 162
- Norwegian aviation tax MSEK 154

| | Q2 | Change vs. Q2 FY16 |
|---|---|---|
| **EBT bef. nonrecurring items** | | |
| | MSEK -259 | MSEK +342 |
| **Traffic, RPK in millions** | | |
| | 8,381 | +12.9% |
| **Unit cost[1], SEK** | | |
| | 0.60 | -7.4% |
| **PASK[2], SEK** | | |
| | 0.64 | -3.3% |

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

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

## ACTIVITIES IN Q2

**Increased long-haul and leisure production**
- Long-haul up by 14% (MIA, LAX)
- Leisure up by 21% – more frequencies on existing routes (e.g. Spain, Portugal, Croatia)

**Improved customer offer**
- 6 Airbus A320neo in operation
- "New Nordic by SAS" – upgraded food & beverage concept on short-haul

**EuroBonus development**
- >100,000 more members
- New IT platform rolled out – individualized customer experience and continued growth

| | Change vs. Q2 FY16 |
|---|---|
| PASK ↓ | -3.3% |
| SAS Plus & Business ↑ | +4% |
| EB Silver, Gold, Diamond rev ↑ | +1% |
| EB members ↑ | +11% |

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

## ACTIVITIES IN Q2

**Reduced CASK**
- MSEK 175 in effect from the efficiency program
- New wet lease contract to operate four ATR 72
- Completion of centralized Tech organization
- Finalization of Cimber transition to CityJet

**Improved productivity**
- Increased leisure and long-haul production
- Digitalization driving improved planning

**Punctuality & regularity**
- Punctuality affected by weak April – weather
- Regularity at 98.9%, up 0.6 p.u. vs. LY

| | | Change vs. Q2 FY16 |
|---|---|---|
| CASK[1)] | ↓ | -7.4% |
| Aircraft utilization | ↑ | +4% |
| Crew block hours | ↑ | +1% |
| Punctuality | ↓ | -2.0 p.u. |

Note: 1) Currency adjusted and excluding jet fuel costs



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# Challenging market conditions

**Macro challenges**

- Recovering higher fuel prices
- Impact from strengthening USD
- Geopolitical challenges

**Yield pressure**

- Aircraft deliveries in Europe at record levels
- Aviation tax

**Changing business model**

- Non-traditional staffing models
- In-house low-cost production platforms, e.g. Vueling, Eurowings, Transavia

**Low-cost long-haul**

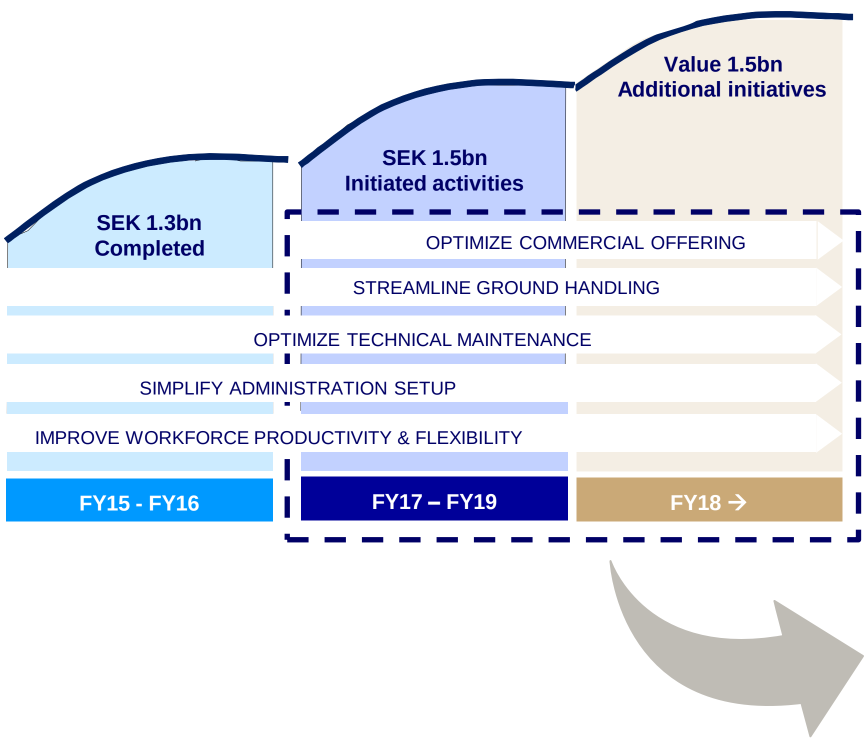
- Low-cost long-haul platforms among legacy carriers, e.g. Level, Boost, Eurowings
- LCC implementing transfer capabilities

# Three focus areas to strengthen SAS's long term competeveness

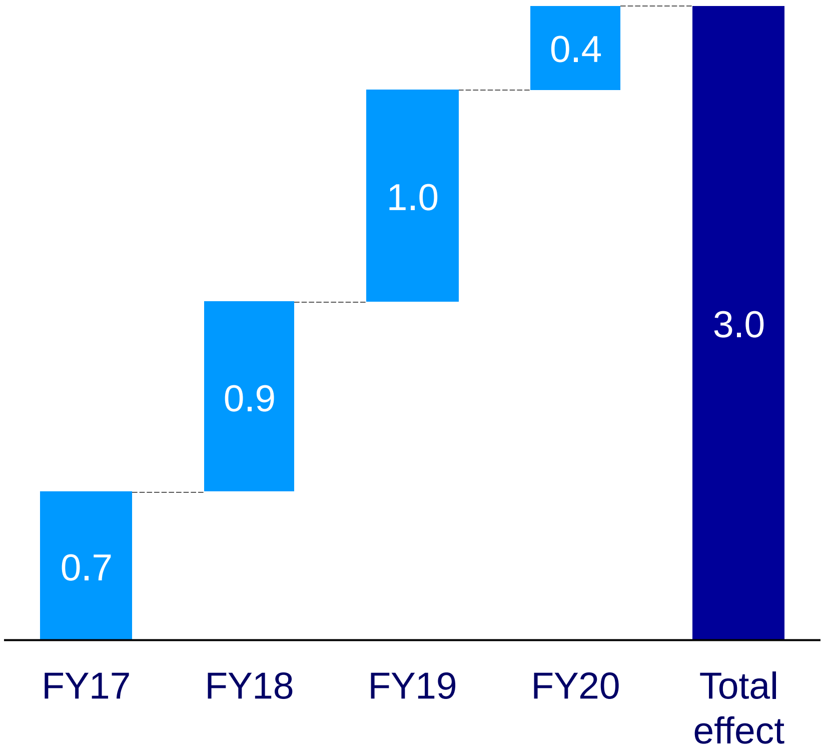
| | FOCUS AREAS | OBJECTIVES |
|---|---|---|
| **1** | Further **address legacy in core operations** – increase flexibility and reduce costs in all areas | **SEK 3bn** efficiency effect by 2020 |
| **2** | Establish a **complementing production platform** to secure critical traffic flows and participate in the growing leisure market | **COMPETIVENESS** to maintain important routes and take part in leisure market |
| **3** | Strengthen customer loyalty and develop new revenue streams by **utilizing SAS strong brand and EuroBonus program** | **GROW** Passenger and lifestyle related revenues |

# 1 SAS doubles the efficiency measures to SEK 3bn with full effect in FY20

## SAS's previous efficiency improvement program has been extended...




## ...to include >200 additional initiatives – total efficiency effect of SEK 3 bn



# 1 Comprehensive savings throughout SAS

| FOCUS AREA | EXAMPLES OF INITIATIVES | EST. POTENTIAL |
|---|---|---|
| **Flight ops, wet lease, charges & fuel** | • Increase use of resource pool amongst cabin attendants<br>• Increase flexibility in flight deck scheduling<br>• Align manning on long-haul flights to industry standard<br>• Address demographic cost | **SEK ~1.2bn** |
| **Ground handling & Technical maintenance** | • Increase work task flexibility and mobility within ground handling<br>• Increased ambition on external spend<br>• Full role out of lean within Tech<br>• Minimize aircraft phase out maintenance cost | **SEK ~0.9bn** |
| **Admin & IT** | • Increased use of lean processes and system improvements<br>• Improve IT contracts and license management<br>• Transform IT (e.g. cloud migration, infrastructure consolidation) | **SEK ~0.4bn** |
| **Product, sales and distribution** | • Differentiate product offering to increase individualization<br>• Reduce distribution and wholesale card costs<br>• Reduce logistic costs for onboard catering<br>• Reduce back-office and call centre expenditure | **SEK ~0.5bn** |

# 2 As a complement to SAS's Scandinavian-based production, a new company with headquarters in Ireland is being established

## KEY PRINCIPLES

- To secure **competitiveness** and capture the **growing leisure market**
- **New bases** to be set up in London & Malaga
- Fleet of **A320neo**
- **Local crew**
- **Safety standard** comparable to SAS
- **1st flight** during winter program 2017/2018

## MAIN ACHIEVEMENTS UP TO DATE

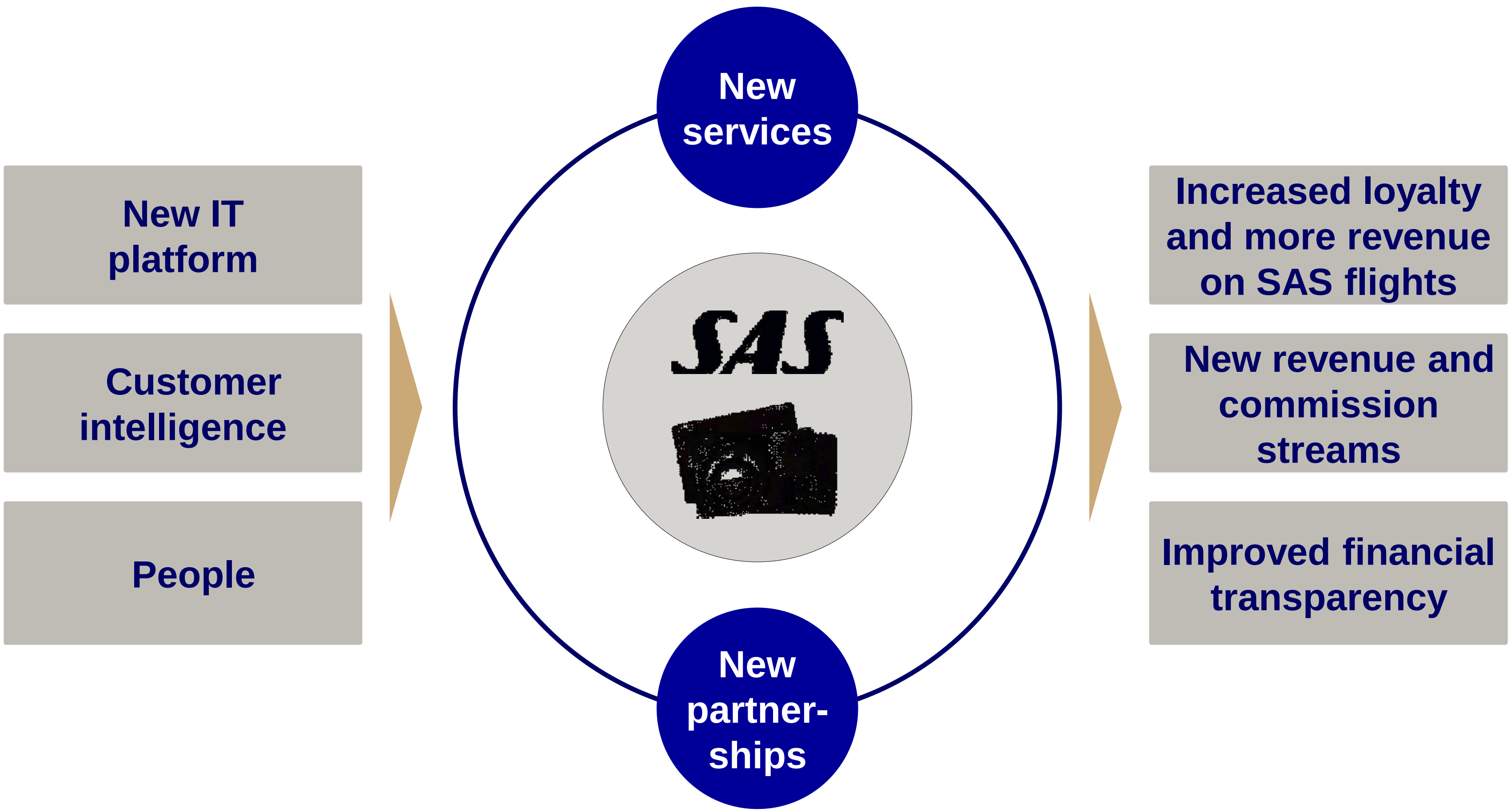
**AOC**
- AOC application submitted to the Irish authorities

**Network**
- Malaga chosen as location for the Spanish base

**People**
- Management team in Ireland secured
- Recruitment of crew initiated, using an external manning company

**OUTCOME: Underlying CASK in line with key competitors**

## 3 New revenue streams to be generated through capitalization on SAS's strong brand and EuroBonus



# Organizational changes to drive financial transparency, achieve greater business focus and secure innovative culture for new areas

## Group Management

**President & CEO**
*Rickard Gustafson*

**Staff Functions**
*Carina Malmgren Heander*

**Finance**
*Göran Jansson*

**Operations**
*Lars Sandahl*

**Product, Network & Revenue**
*Karl Sandlund*

**Sales & Marketing**
*Annelie Nässen*

**IT & Digital Innovation**
*Mattias Forsberg*

## New business units

**SAS Ireland**
*Paul Schuetz*

**SAS Growth Initiatives**
*Eivind Roald*

# FINANCIALS

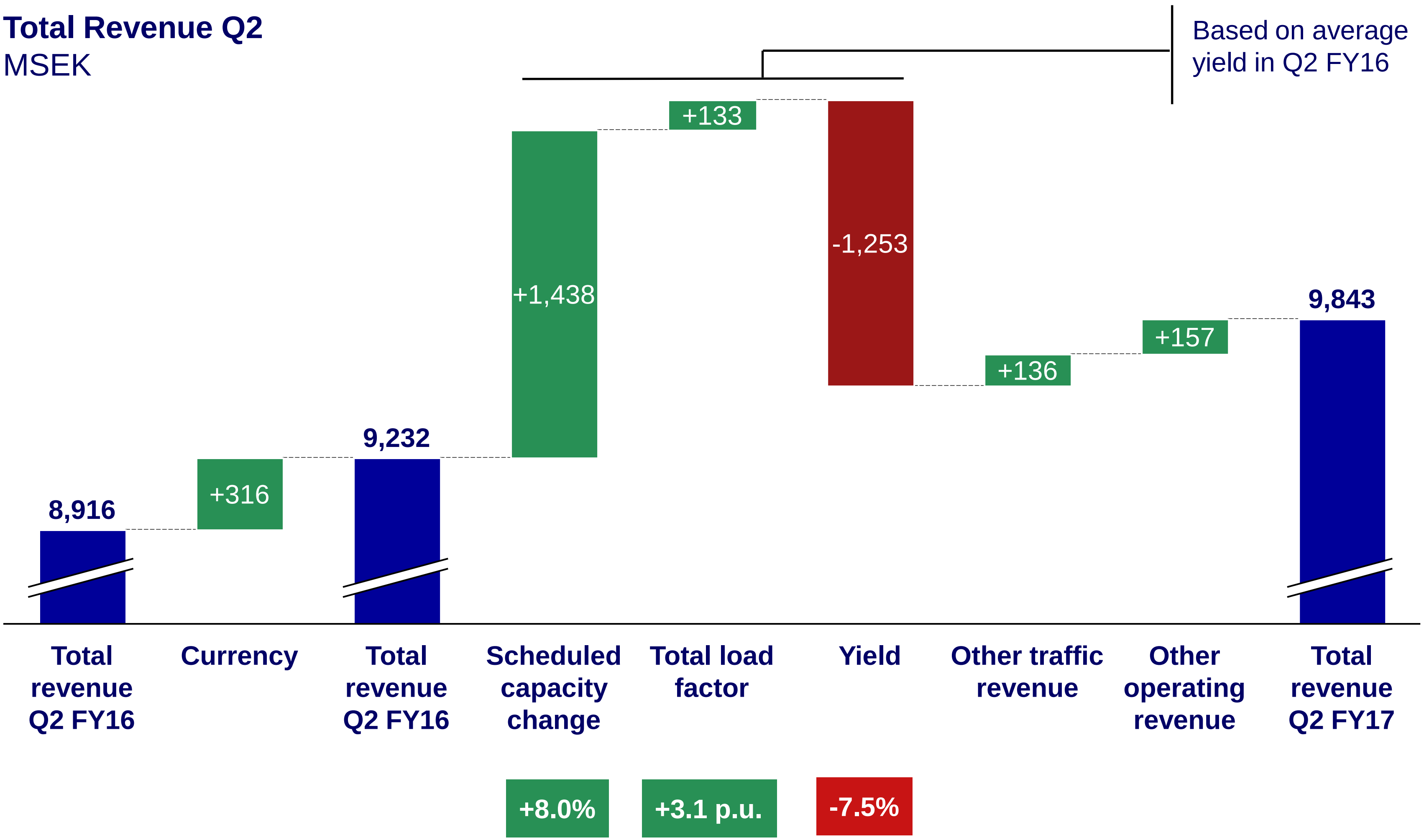
# Breakdown of the income statement

| Income statement | Feb-Apr 17 | Feb-Apr 16 | Change vs LY | Currency |
|---|---|---|---|---|
| **Total operating revenue** | **9,843** | **8,916** | **+927** | **+316** |
| Payroll expenditure | -2,302 | -2,308 | +6 | |
| Jet fuel | -1,659 | -1,497 | -162 | |
| Government charges | -1,041 | -977 | -64 | |
| Other operating expenditure | -3,816 | -3,602 | -214 | |
| **Total operating expenses*** | **-8,818** | **-8,384** | **-434** | **-299** |
| **EBITDAR before non-recurring items** | **1,025** | **532** | **+493** | **+17** |
| *EBITDAR-margin** | *10.4%* | *6.0%* | *+4.4 p.u.* | |
| Leasing costs, aircraft | -801 | -706 | -95 | |
| Depreciation | -388 | -312 | -76 | |
| Share of income in affiliated companies | 3 | -2 | +5 | |
| **EBIT before non-recurring items** | **-161** | **-488** | **+327** | **-26** |
| *EBIT-margin** | *-1.6%* | *-5.5%* | *+3.9 p.u.* | |
| Financial items | -98 | -113 | +15 | |
| **EBT before non-recurring items** | **-259** | **-601** | **+342** | **-17** |
| Non-recurring items | 51 | 728 | -677 | |
| **EBT** | **-208** | **127** | **-335** | **-17** |

* = Before non-recurring items

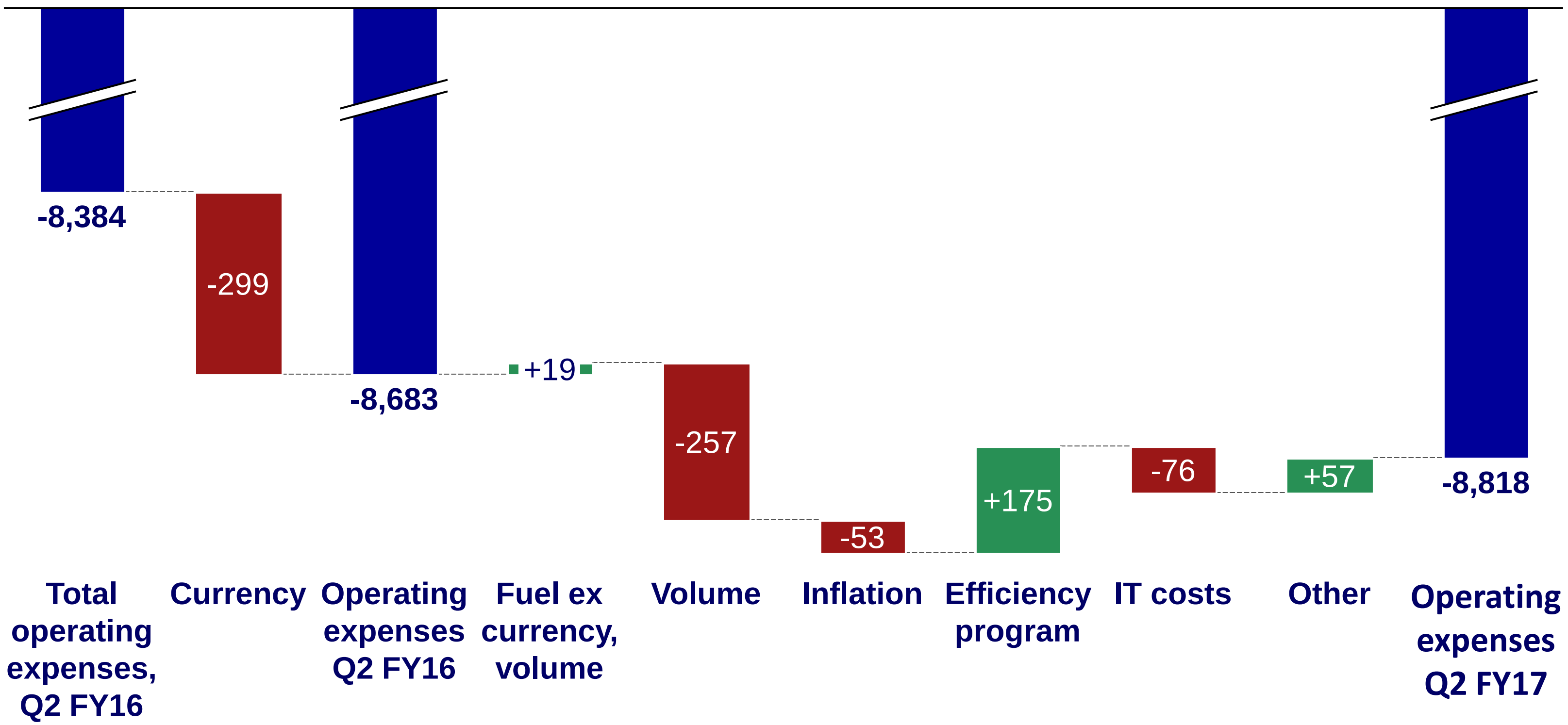
# Revenue analysis

**Total Revenue Q2**
MSEK



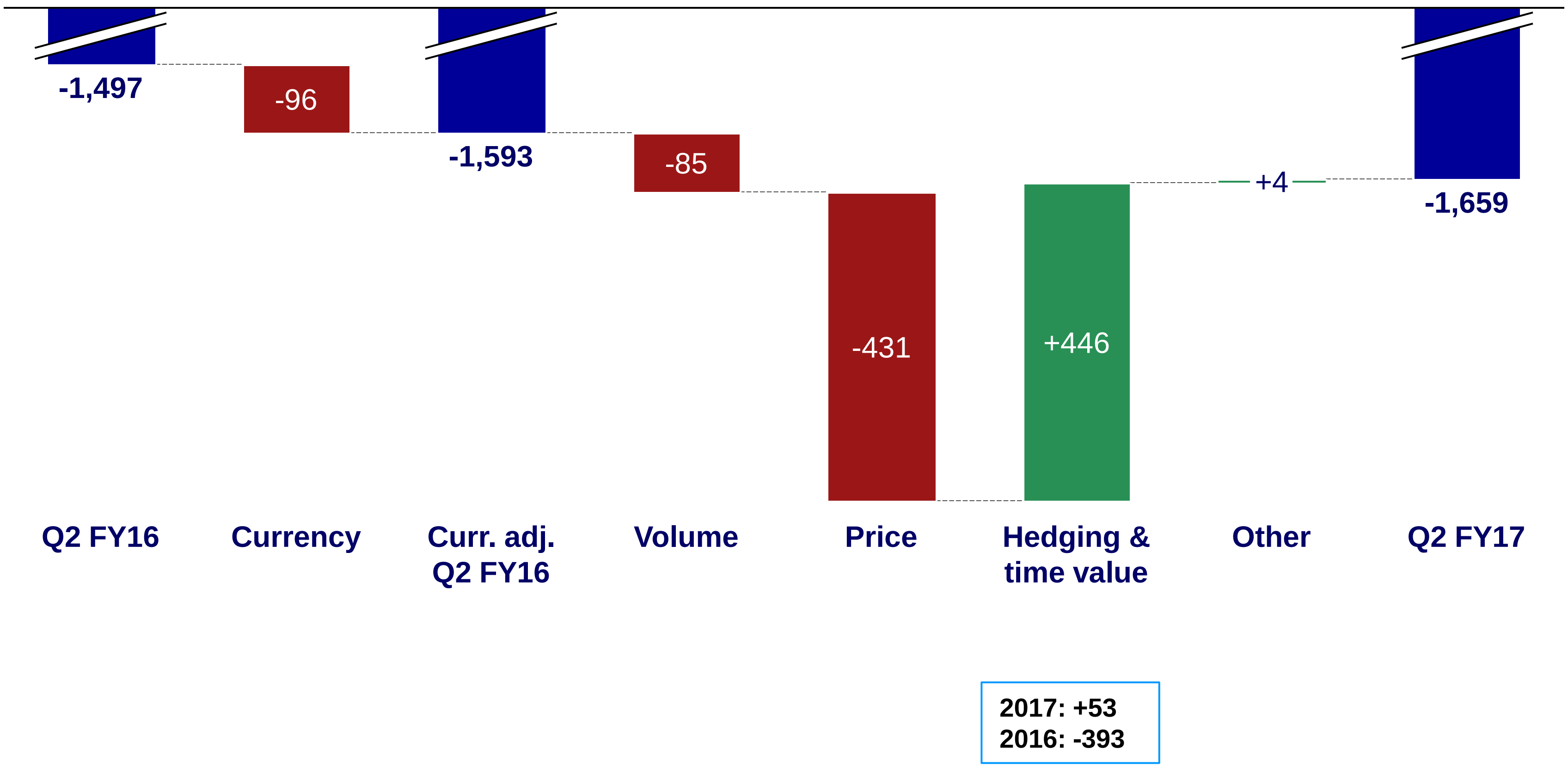
# Operating expenses analysis

**Total Operating Expenses Q2**
MSEK



# Jet fuel costs increased MSEK 162 in Q2

**Fuel cost Q2**
MSEK



# SAS introduces ROIC as financial target to focus on the capital structure and create a clear return target

## Return on Invested Capital (ROIC)

- Consistent with an external and internal view of SAS's pre-tax WACC
- **Target**: >12% over a cycle

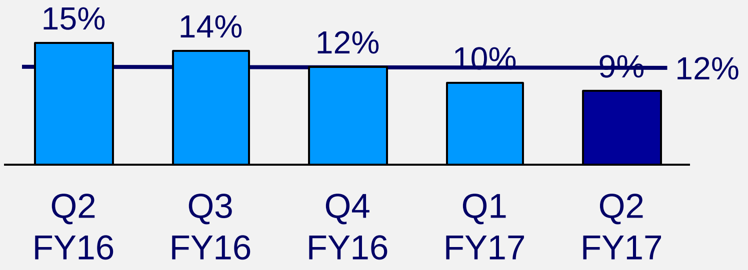
## Declining ROIC last twelve months

- Lower EBIT driven by non-recurring items (EU fine, gains & restructuring etc.)
- Invested capital has increased (capitalized leasing costs and lower financial net debt)

| MSEK | April 2017 |
|---|---|
| EBIT (12 months) | 1,151 |
| + 1/3 of operating lease costs | 959 |
| **Adjusted EBIT** | **2,110** |
| Equity* | 5,573 |
| Financial net debt* | -1,162 |
| Capitalized aircraft leasing costs (x7)* | 19,673 |
| **Invested Capital** | 24,083 |
| **ROIC, pre-tax** | **9%** |

* Calculated as an average over the last 12 months

## Return on invested capital (ROIC)



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# SAS introduces Adjusted financial net debt/EBITDAR as financial target and adjusts the target for financial preparedness to 25%

### Adjusted financial net debt/EBITDAR

- Core ratio for credit rating
- **Target**: Below 3x

### Higher Adjusted financial net debt/ EBITDAR

- Adjusted financial net debt up due to phase-in of new aircraft
- EBITDAR negatively affected by non-recurring items

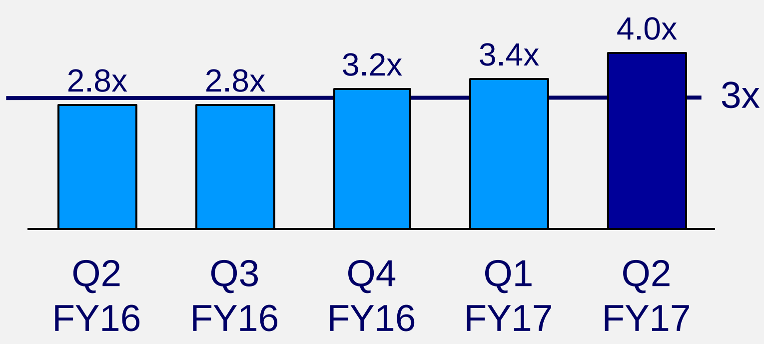
### Financial preparedness

- Cash in relation to fixed cost
- **Target**: Increased to 25% due to more long-haul and leisure production

| MSEK | April 2017 |
|---|---|
| Financial net debt* | -1,162 |
| Capitalized aircraft leasing costs (x7)* | 19,673 |
| **Adjusted financial net debt** | **18,511** |
| EBITDAR (12 months) | 4,638 |
| **Adjusted financial net debt/EBITDAR** | **4.0** |

* Calculated as an average over the last 12 months

### Adjusted financial net debt/EBITDAR



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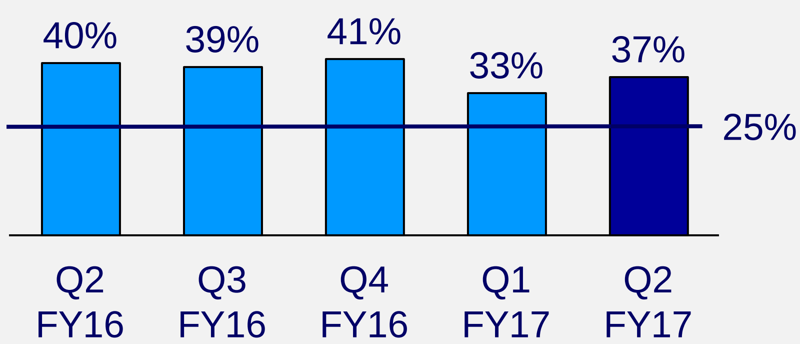
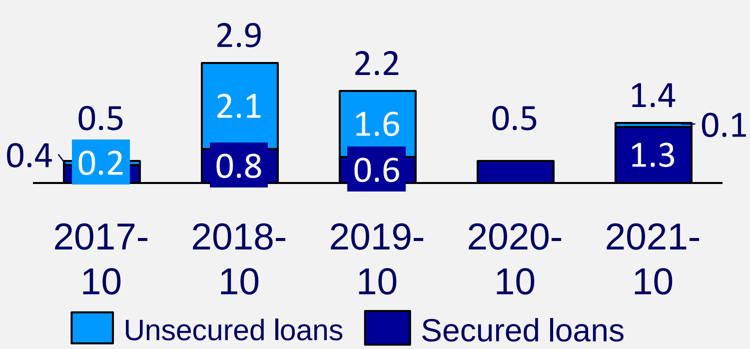
# Sufficient liquidity position in the short term, but significant upcoming maturities

**Financial preparedness**




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




**Currently sufficient liquidity position…**

- SEK 9.1 bn in cash
- Unutilized credit facilities of SEK 3.2 bn
- Seasonal variations of SEK 2 bn during the fiscal year

**…but significant upcoming maturities**

- SEK 5.6 bn in maturities until Oct 2019, whereof SEK 1.5 bn unsecured bond in Nov 2017
- In addition, need to handle preference share

**Net investments in FY17 now expected to be close to zero**

- Two slot-pair transactions at LHR
- Disciplined capex management
- Overhaul of engine program during FY17-FY18 will negatively affect working capital

# Outlook FY17 and upcoming highlights

**High market uncertainty**

- European aviation industry undergoes significant change
- Geo-political uncertainty
- Introduction of aviation taxes

**Assumptions for FY17**

- ASK to increase by 6-8% and frequencies up ~1%
- Lower PASK and unit cost
- Efficiency program to deliver SEK 0.7bn
- Higher jet fuel costs
- Net investments to be close to zero

**Outlook FY17**

***SAS expects to post a positive EBT before non recurring items***

**Implementation of structural measures**

**SEK 0.7 during FY17**

**1st flight from base outside Scandinavia**

**Winter program 2017**

**Airbus A320neo to be delivered**

**12 during FY17**

SAS