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SAS.ST - Q2 2010 SAS AB Earnings Conference Call

Event Date/Time: Aug. 18. 2010 / 12:00PM GMT



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PRESENTATION

Operator

Good day. And welcome to the SAS Group's second quarter interim report 2010. At this time, I'd like to hand the conference over to Mr. Sture Stolen. Please go ahead, sir.

Sture Stolen - *SAS AB - Director IR*

Thank you very much, operator. And welcome to this second quarter presentation. We have, as usual, our CEO and CFO here, and we're going to run through some slides that should be available on the web page. And after that we will, as usual, take questions.

So I think, with that, we are ready to start. Mats, please.

Mats Jansson - *SAS AB - President and CEO*

Thank you, Sture. If I start with the first slide, and the line with what we said during the press conference this morning, the recovery trend in the airline environment [would cease] early in -- late in the first quarter, in March. And as you remember, we separately presented March as to [profitable] month; compared with last year's March, it was about SEK500 million better than last year.

And we saw some signs of important recovery when regarding to the most important driving factors in the airline economy or airline industry. The load factor was improving; the yield was flattened out; and also the unit costs was decreasing on a very good level. So, the combination of those three things has had, as a result, the improvement in March compared with March '09.

We can see that the same trends and signs of recovery also during the second quarter. And if you look at the -- here you see the same trend also in the peer group. And when we look at the big three in Europe, they had enormous losses, as you know, first half-year because totally it was nearly [SEK13 billion] Air France-KLM was offered.

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If you separate the -- look at the second quarter, and also adjust for the [cloud] ash effect that Lufthansa is proving (technical difficulty). [After the month], those fees have to -- first improvement come from the international long-haul operation and also from the Cargo activities. That's why you can see that -- that's the reason for the 2.5 billion result Lufthansa had in the second quarter.

In line with our peer, we have improved also in the second quarter. We tried to explain for the media people and other people that the underlying business is improving in line with what the trend we saw in March. And as you have seen in the report, it was a minus of SEK236 million. If you adjust for both the cloud ash effect and also for the dynamic restructuring, you can call it the investment money, then we had nearly SEK500 million profit during the second quarter.

At the same time we had a good cash flow [band] during the second quarter. Second quarter, it was SEK500 million also. And the explanation is the same as for March. The combination between the load, and the yield drop, and the unit cost is quiet in balance. And we decreased the unit costs more and the prices are dropping; that's the explanation for the good signs in both when we talk about result and also cash flow.

If you go to the next slide, you can see for the first time we are quite aggressive and proactive when we -- we also have a slide which describes the performance from two of our main competitors in the Nordic area. And it's not so common that we give comment on the competitors. But we feel, after some of the articles in media when they describe [sales] position in a very bad way, we have to give the journalists and the analysts and other people facts what is happening; what's going on.

And we choose to show then the second quarter adjusted for the ash cloud effect in all three companies. And you can see that the profit margin is nearly 5% in the SAS Group; and Finnair is 1.4% minus; and 4.3% (sic - see Press Release) for Norwegian. Even if you are so fair that you also adjusted for SAS sake the restructuring costs, we have 1 percentage in profit margin; and Finnair's still 1.4% minus; and Norwegian 4.3% minus. So, we are in a better shape for the moment.

Next picture, which I went through on the press conference, is the -- I mentioned three important boxes or challenges to reach long-term profitability. The first is still to fully implement the rest of the Core SAS program in terms of the cost efficiency program; SEK2.3 billion still left to implement. In terms of -- to finally lock the operational or collective agreement costs gap, which is SEK700 million. We have reached now SEK2 billion; is a success for us.

You can see the effect in -- around the [underlying] basis. It's one of the reasons for the recovery. You see it also in the intercontinental business; the efficiency and the productivity has increased enormously since we changed the collective agreement.

So, implement SEK2.3 billion; close the final gap regarding the collective agreement; push top line to take part of the growth in the market, but it had to in profitable growth. And you see that, with the steps we are taking now, we have more and more aircraft on long-haul operation in the winter program. Soon we are going to decide about the summer program.

And we had also to consider if we take the plane 11, and 12, and so on. We opened new routes. We also increased the frequencies, but we had to take it very careful, step by step, and the base has to be that it's profitable routes otherwise we don't take part on the growth.

Number two is the yield problem. So, as I said at the press conference, we had two big threats who can, not destroy, but disturb the trends for the moment. One is what is happening in the world economy; the expert who say that there are risks for a double-dip again; hopefully, they are wrong. But it's an unsecure situation now in what direction the world economy is going to take.

Number two is the yield problem; the yield pressure we have in Europe. Not only intercontinental business because it has increased the yield; it was dropping 10%/15% in January and now it's increasing plus, on the same level, 10%/15%, something like that. And also, the load is extremely high. So, the intercontinental business for the moment is in balance.



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But the European short -- and the European and the Scandinavian routes, we have enormous price pressure. And the yield is flattened out, but it's on a low level, too low level, and that is a question mark. We try in different ways now to handle the yield pressure, to even more focus on the corporate or premium customers, and also, in one or another way, also steer the revenue activities and yield and the mix [prospects], etc., so we can increase step by step the [yields].

The third one is the financial preparedness. And as you know, after two Rights Issues in 15 or 16 months, and after that we have made a settlement agreement with the bank, so a new finance package you can call it, we have an equity level today on [SEK15 billion], and the financial preparedness is about SEK12 billion, something like that. So we are quite in balance.

The combination between the improvements in the operational business will help of our own program in combination with the market recovery. Together with that, we have also big parts still to implement on the Core SAS strategy, and have a result effect from that, and together with a strong balance sheet, so we are in a not very good situation, but we are in another situation if you compare with a half-year ago or one year ago.

So, if you look at the page five on the stable platform created, that was my last slide on the press conference, we mean that the culture now is much better, with no strikes. We have also proved that in the most critical situation we can make settlements with the Unions. That's why we reached the SEK2 billion in [lower] salaries, and pension, and so on (technical difficulty) pilot attendance and flight attendant.

We have another structure; it's more streamlined, easy to handle. And we have now a more efficient organization; it's one SAS, not four different SAS.

By those three things, we have reduced the complexity to compare with four years ago. Much easier to steer the Company now, and to implement [full] power the different activities. More time to market.

And as I said before, the bullet number two, cost reduction, SEK7.8 billion, including the SEK2 billion from the collective agreement. Remaining effect on the result is SEK3.9 billion, and we are still to implement the SEK2.3 billion on the total program of SEK7.8 billion.

Financial position's secure, as I said. I think we reduced the capacity at the right time when we saw the demand was dropping. That's why we now have to do the opposite, to step by step invest in new capacity, but in a profitable way.

And the base quality is very good; has been so now for a couple of quarters. We are now ranked as number one in the world when you talk about punctuality, which is one of the -- actually it's the most important base factor when a customer chooses an airline.

But as we said before, there are still some uncertainties in the market; one is the world economy; the other one is the yield pressure we have in the business, especially in Norway because the competing are extremely tough between Norwegian and (technical difficulty).

So, if I stop there and hand over to my colleague, Mr. Mats Lonnqvist. Come through, sir, please.

Mats Lonnqvist - SAS AB - CFO

Thank you, Mats. And I will present a little bit more in-depth our results and financial position for the [third] quarter, and I will also say a few words about our aircraft fleet and our hedging of fuel.

But, first, let me say that this is the seventh quarter I've presented since I joined SAS at January 1, 2009, and the previous six quarters have been a rather grim experience. The underlying business performance of our core business before restructuring

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charges and the non-recurring items have been decreasing compared to the quarter one year earlier in all those six consecutive quarters.

But now, for the first time, the seventh time, I have the pleasure to present a quarter where we actually have an improvement in the underlying performance of our core business. Before restructuring charges and before effects of the ash cloud, we have increased the EBT from SEK38 million positive in the second quarter of 2009 to SEK464 million in the second quarter 2010. I will be back to analyze that a little bit further.

But, first, let me say a few words about the environment and the pre-conditions that we have had to operate under in the second quarter. As Mats said, the pressure on the yield is still on. It's a very uncertain market and difficult to predict where the market will go. But we see on balance for the reduced yield by an improving load factor which, in this quarter, that was affected in many ways by the ash cloud in April.

The load factor improvement of 2 percentage units wasn't enough to fully balance the yield decrease of 6.6%, leading to RASK, revenue per available seat-kilometer, that was down 5.6% compared to the second quarter in 2009. Again, these figures are affected by the ash cloud. And I think when doing the analysis one has to be aware of April being a month with very strange figures. We'll get back to that as well.

The second precondition is that our cost saving program within Core SAS is really yielding effects. We have now implemented on an annual level 71% of the total cost savings, and the actual effect on the P&L (technical difficulty). That means that another SEK3.9 billion (technical difficulty).

We have more or less concluded the capacity reductions, 20 out of 21 aircraft are grounded, so you will not be seeing any further capacity reductions from us. We are now at [what] will be the lowest level [at least]. And we have taken out another 250 FTEs [in the second quarter], totaling 3,450 out of the total [4,600] (technical difficulty).

And the third precondition is that we have stabilized our financial platform through the Rights Issue that was finalized in April and through establishing new financing of SEK3.2 billion, leading up to us by the end of June holding liquid assets of SEK7.2 billion.

We have undrawn credit facilities of another SEK5.6 billion, adding up to SEK12.7 billion in total financial preparedness. That corresponds to 31% of our turnover. It's a significantly higher level than the 20% that we have established as the minimum financial preparedness. But during the uncertainty in the market, we think it's proper to be at the levels around 30% of the turnover in financial preparedness and we'll seek to stay at that level.

So, those three factors -- unfortunately we can add a fourth environmental factor in this quarter, and that is the impact from the volcanic ash cloud from Iceland. As you probably all know, the Scandinavian and European airspace closed, wholly or partly, between April 15 and April 20. That forced us to cancel around 5,200 flights, and that of course gave a major impact on our P&L in the month.

Actually, we have calculated the effect from these cancellations to a total of SEK700 million, which includes lost revenue of around SEK790 million, those 5,200 flights that were canceled, and also the ramp up period of a couple of weeks after the airspace opened again where we had to fly with very low load factor for a while.

We have, of course, gained something, and that is that we reduced the operational cost. No fuel was burned and no charges had to be paid during the time of closing; that saved us around SEK180 million. But we spent SEK90 million in what we call care cost; taking care of our passengers that were stranded in different parts of the world, helping them to pay their expenses and daily cost, and also costs for transporting them back to their origin as well.

So, the net of this is an effect of SEK700 million in the second quarter.



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We have got a lot of good feedback on our way of utilizing Facebook and Twitter to communicate and inform stranded passengers during this problem time. And I think that was a little bit of a breakthrough of a new way of communicating that we will hopefully learn by and continue to develop for the future.

We haven't received any compensation from authorities or states, we or any other airline, for the lost revenue or increased cost. The steps taken in Sweden and Denmark to mitigate the strain on liquidity for airlines have not affected SAS at all. We have a strong financial position, and that remains so.

So, in this market we have continued positive development in the load factor, I'm now at slide number eight, which actually grew about 1.8 percentage units in the quarter, but again affected by the ash cloud since the load factor was actually 2.9 percentage units in April. Then it was up in May 4.1% and in June 3.0%, which is more what we would have expected pre-ash cloud, but the total for the quarter being 1.8 percentage units.

The traffic decreased 6.3% in the quarter; that should be linked to a capacity reduction of 8.5% in the quarter. But again the same pattern; since we were not actually flying that much in April the capacity was down 21% and the traffic was down 24%. Then, in May and June we saw back to normal pattern; we had a capacity reduction of 1.6% in May; 3.3% in June. And actually, in July we are flat in terms of capacity compared to July in 2009 so this is showing that we are catching up with our capacity reductions.

Actually, I told you about 24% reduction in traffic in April, but in May and June the traffic developed positively and increased. So that is what constitutes the total figure of minus 6.3% for the quarter.

The 1.8% improvement in load factor was not enough to offset a yield fall by 6.6%. That was also affected, not that dramatic but nevertheless, in April by the ash cloud. But it was also affected in June by periodic differences in the euro bonus program. That was a one-off affecting yield with around 2% to 3% negatively in the month of June, thus leading to us reporting a 9.9% decrease in yield in June. In the quarter, this ended up with a RASK, with the unit revenue, down 5.6%; but again, 11.8% fall in April and around 0% level in May and June.

This was offset by a reduction in the unit cost. Adjusted for currency, fuel, and the ash cloud effect, the unit cost was down 6% in the quarter. That 6% should also be linked to the fact that in the second quarter of 2009, which was the first quarter where we saw real effects from the Core SAS cost reduction programs, then the unit cost was down 12% in that quarter. And now, on top of the 12% in second quarter 2009, we have another 6% in the second quarter 2010. So, the cost reductions are actually reflecting themselves in the unit cost as well.

We have, as you know, published our traffic figures for July. And as I said, our capacity in July is flat. Our load is up 1.0 percentage units to a record level of 84.7% in the month; the traffic improved -- or increased by 1.1%; the number of passengers grew by 2.6%, that we were actually serving over 2 billion -- 2 million in the month of July. We have not yet published the yield development in July, but you should expect that will be much more in line with May than April or June.

So, just to point that out, slide nine, the long-term trends, and here you see the five-year trend, are continuing in terms of load factor improving; a steady improvement of the rolling 12 months figure. We expect that to continue.

But the yield not yet showing any real turnaround pattern; still under pressure, still on an absolute level that is low, and we have yet to see the yield starting to pick up. We actually see business travel in intercontinental flights in main business destinations in Europe picking up, which should give over a mix effect that is helping the yield. But on the other hand, competition is fierce and the pressure on prices is very hard.

If we then go to page -- okay, we'll continue with page 10 then, and there you see the actual status of the implementation of the Core SAS program. On an annual level, SEK5.6 billion -- or SEK5.5 billion has been implemented out of the SEK7.8 billion; that is the full program. That's 71% of the program.



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In the slide you can see how we have implemented and what is left in different functions of our Group. I think the key word here is according to plan. We are implementing very much in line with our original plans and we get the effect that we had actually expected and planned for. So, this work is continuing; will continue to affect the total costs; and will continue to affect the unit cost going further.

If we continue to page 11, you can see a more clear description of the total effect on the unit cost for the first half of 2010 where we have, everything included but adjusted for volume and currency, a 7% decrease between 2009 and 2010. The three major items of the unit cost is the payroll expenses that are around 40% of the unit cost; the jet fuel, which is around 20% of the unit cost; and the government charges, which are around 10% of the unit cost, in round figures.

And you can see that our actual decrease of our payroll expenses totally for the Group, which is actually down over 20% in the second quarter, that is also manifesting itself in the unit cost, which is volume adjusted, with a decrease of 10%. By the way, we are 16.3% down on the number of FTEs in the second quarter 2010 compared to 2009.

The jet fuel is also down, and this is volume adjusted, so this is an effect of the lower price.

In 2009, we were still affected by hedges that we went into during the very tough high oil price situation in 2008. And those hedges have now matured and are history and we are not affected any more by those. So that's why we can report a 9% decrease in the unit cost coming from -- in the jet fuel within the unit cost, even though the actual spot price today is somewhat higher than the spot price a year ago.

And then an interesting fact is that in the most troublesome times the airline industry have been undergoing ever, actually government charges increased by 4% between 2010 and 2009, which of course is something that we will, and are, pointing out to the authorities. That should -- yes, no more comments on that.

A few words in terms of our -- all around our aircraft fleet. We are often told that SAS has a very old fleet and that's one of your major, major problems, and we don't entirely agree to that statement.

I think if we, on slide 12, actually look at the comparison with our peers and other network companies or airlines, there you can see that Scandinavian Airlines average age of the aircraft is 11.1% (sic - see Press Release), which is perfectly in line with the other companies. One company stands out in this comparison, and that is Finnair with their 6.6 years. And it should be noted that we are close to the median in this group.

If we look at the composition of our fleet, actually 70% to 75% of the Scandinavian Airline fleet are new generation aircraft, i.e., Boeing 737 new generation, new generation Airbus, CRJs, and the Q400 new generation. And a minor part is the older aircraft, with an average age of around 19% (sic - see Press Release) when it comes to Scandinavian Airlines.

This composition of the fleet, and also the fact that two-thirds of our fleet, in round figures, are leased and one-third is owned, creates a flexibility in our fleet that helps us to cope with changes in demand. I think that was very clearly demonstrated during the Core SAS reductions, where we could utilize leases on old aircraft to reduce the fleet.

Also, it should be pointed out that there are of course some disadvantages with the older aircraft in terms of fuel consumption and the maintenance. But that is clearly outweighed by the favorable low capital cost for those aircraft. So, we don't view this as a main problem. We have a reasonable position when it comes to our fleet. Of course, in due time we will have to work with, and are working with, our fleet plan and renewal of our fleet, but it's not a major problem.

The hedging policy, finally. Actually, at the Board meeting yesterday the Board decided to amend the fuel hedging policy and increase the interval from 40% to 60% to 40% to 70% of the expected consumption for the next 12 months to be hedged. That allows us to hedge more than the former policy.



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And, of course, that takes into account the experiences from 2008 and the very high fuel prices. And I think also we have analyzed what are network's doing and what our -- sorry, what our network airline's doing and what are the trends. And I think it's prudent to increase this interval. We also allow for hedging up to 50% of the consumption 12 to 18 months out in time.

And, of course, all this is not based on speculation. It's based on our hedging policy and approach gives us time to, through yield management and cost initiatives, adjust the changes in the fuel prices.

Our present position is that we are 53% hedged for the next 12 months, and that the levels of the hedges can be read in a table in our quarterly report, as usual.

So, summing up on slide 14, we have our cost program on track and it continues to be implemented according to our plan. Is the effects it should give, but there are still SEK3.9 billion to naturalize itself in cost savings in the P&L on an annual basis.

We see improved market conditions in terms of improved load and increasing demand. We clearly see business traveling picking up on intercontinental and main business destinations in Europe, but there is still a high degree of uncertainty around the yield and we don't see any improvement in the absolute yield levels happening as of today.

SAS financial position has been, through the Rights Issue and through renegotiation of loans and new loans, stabilized. We now enjoy a strong liquidity with a very high financial preparedness. So we think that we have established a platform that allows us, in a balanced and cautious way, and profitable way, to take part in the expected 4% to 6% growth in our industry [going forward].

Thank you.

QUESTIONS AND ANSWERS

Sture Stolen - SAS AB - Director IR

Okay, Operator, I think we're now ready to take questions.

Operator

Thank you. (Operator Instructions). We'll take the first question from Johannes Moller from Danske Bank. Please go ahead.

Johannes Moller - Danske Bank - Analyst

Yes, hi. I have a question regarding your staff number. If I look at the Core SAS plan, you expect to reduce staffing with roughly 1,000 employees more, but then on the other hand now you expect to grow with around 5% per year so how do you expect these two developments to equal out?

Mats Lonnqvist - SAS AB - CFO

Shall I?

Mats Jansson - SAS AB - President and CEO

Yes, you can take it.



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Mats Lonnqvist - SAS AB - CFO

It's correct; there's another 1,000 persons, or FTEs I should say, included in the Core SAS program, and that is carried out. That is in different functions and different parts of the Company, many of them being within ground service and administration, so that will continue to be implemented.

Every decision on increased capacity will be based on its own merits and its own calculation of the financial effects, so that will be treated totally separately from the cost reduction programs.

And actually, in the near time, we can absorb growth through better utilization of the actual aircraft and higher productivity of crews. So we are not talking about adding FTEs or new aircraft in the short term, except for the 10th intercontinental aircraft that we are actually taking into traffic for the winter program, 2010-'11.

Johannes Moller - Danske Bank - Analyst

So, basically, for 2011 you can grow ASK with around 5% and then still reduce FTE with the remaining 1,000?

Mats Lonnqvist - SAS AB - CFO

More or less, yes.

Johannes Moller - Danske Bank - Analyst

Okay. Thank you.

Mats Jansson - SAS AB - President and CEO

Thank you.

Operator

We'll now take our next question from Suzanne Todd from Morgan Stanley.

Suzanne Todd - Morgan Stanley - Analyst

Hello, gentlemen. I just want to ask you about your liquid assets. Do you foresee any expansion of the SEK5.6 billion credit facility by the year end? And just secondly, related to that, can you give an idea of what liquid asset-to-turnover ratio you'd expect to have by year end?

Mats Lonnqvist - SAS AB - CFO

Well, in terms of our unutilized -- because when you're talking about the SEK5.6 billion you're talking about the unutilized --

Suzanne Todd - Morgan Stanley - Analyst

That's correct, yes.

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Mats Lonnqvist - SAS AB - CFO

Credit facilities, and of course it's a continued ongoing process to work with our financing. So adjustment to that figure cannot be ruled out, but we don't see any major refinancing taking place full term.

When it comes to the financial preparedness including the liquid assets and the undrawn facilities, as I said initially, we will strive to stay on the level of around 30%, which is 50% higher than the minimum 20% that we have as a financial objective. As long as the insecurity in the market and the unpredictability in the market prevails and we haven't seen any effects on the yields, we think it's prudent to be on the level of around 30% so that's where we will strive to stay.

Suzanne Todd - Morgan Stanley - Analyst

Great. Thank you very much.

Operator

(Operator Instructions). We'll now take the next question from Pablo Morales from Pelham Capital.

Pablo Morales - Pelham Capital - Analyst

Hi. Good afternoon, everybody. I have one question; it's on the other revenue line, and meaning other revenue, charter revenue, other traffic revenue, and other operating income. It has suffered in the last three quarters, can you give us some color on why this is happening? And what should we expect going forward for the year in this plan? Thank you.

Mats Jansson - SAS AB - President and CEO

Give us a second here and we'll find the figures.

Sture Stolen - SAS AB - Director IR

Pablo?

Pablo Morales - Pelham Capital - Analyst

Yes.

Sture Stolen - SAS AB - Director IR

Could we come back to you on this, because I didn't bring my analysis on the development of the other revs?

Pablo Morales - Pelham Capital - Analyst

Sure, no problem.

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Mats Lonnqvist - SAS AB - CFO

There's a lot of different items in there, so (multiple speakers) --

Pablo Morales - Pelham Capital - Analyst

Yes.

Sture Stolen - SAS AB - Director IR

But we can try and guide you for how it should develop.

Pablo Morales - Pelham Capital - Analyst

Okay, brilliant. Thank you.

Operator

(Operator Instructions). As there are no further questions, I'd like to hand the call back over to your hosts for any additional or closing remarks.

Sture Stolen - SAS AB - Director IR

Yes, I think, Mats, closing remarks?

Mats Jansson - SAS AB - President and CEO

Yes, so, guys, thank you so much for this telephone conference. We keep in touch all the time. So, bye-bye and thank you.

Mats Lonnqvist - SAS AB - CFO

Yes, thank you.

Sture Stolen - SAS AB - Director IR

Thank you.

Operator

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



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