



“Sustainable traffic growth is our goal”

Sustainability Report

For many years the SAS Group has been working systematically for sustainable development as part of its overarching strategy. The renewed strategic approach, Core SAS, and the structural changes it involves, will further improve the chances for successful environmental work, and for reaching the environmental goals that SAS has set for 2008–2011.

Financial crisis and sustainability

The financial crisis, combined with an incipient downturn, hit the airlines hard in the second half of 2008. The market is now characterized by lower demand and an ongoing adjustment of overall capacity throughout the industry.

The airlines are sensitive to external disruptions and have experienced sudden shifts before. I am convinced that aviation will continue to play a natural and vital role in our infrastructure, socially as well as economically.

With regard to society's environmental problems, all I can say is that, whether we are in a financial crisis or a flourishing economy, they have not gone away. At SAS, sustainability work is an obvious and integral part of our strategy for future growth. Our fundamental view and our aims regarding sustainability issues are not affected by transitory events in the outside world. They are given the same high priority as before, and the efforts will help to strengthen SAS both financially and in the market. Initiatives to save fuel, green approach-

es, weight reduction, etc. will have beneficial effects on both costs and the environment.

In the wider perspective, an ongoing replacement of older aircraft with new ones with improved technology and environmental characteristics is an effective way to reduce harmful impacts. The implementation of Core SAS will lay the groundwork for the continued modernization of the SAS fleet.

Mats Jansson
President and CEO

In 2008 demands were even louder for global efforts to reduce greenhouse gas emissions and for measures to mitigate impacts on the climate.

The airlines' role continues to be debated, and the industry is reporting ambitious programs to do its part. The ongoing adjustment of production to lower demand and the airlines' phasing out of older equipment in favor of more modern aircraft and engines will help to improve overall environmental performance.

In 2008 the EU issued a special directive bringing aviation into the existing emission trading scheme. The directive covers air transport within as well as to and from the EU. To achieve the full effect, airlines outside the EU will have to be incorporated into the system, which requires agreements with third countries. The airline industry is now beginning the practical work for the introduction in 2012.

Important events in 2008

- Carbon dioxide (CO₂) emissions fell to 0.129 (0.130) kg per unit produced, becoming the lowest ever.
- The SAS Group's climate index deteriorated by one point to 93, primarily owing to relatively higher emissions of nitrogen oxides (NO_x).
- In an accident outside Madrid with an aircraft belonging to Spanair, 154 persons perished and 18 were injured. SAS's crisis organization provided support.
- SAS's fuel saving program achieved 2-3% by the end of 2008. The target for the program is 6-7% savings by 2011.
- In Norway the nitrogen oxides tax was replaced by a tax for a fund earmarked for efforts to reduce nitrogen oxides in Norwegian industry.
- Environmental charges were introduced at Amsterdam, Munich and Frankfurt airports.
- SAS Cargo accepted MUSD 52 in fines for antitrust violations in the U.S. The European investigation continues.

Sustainability-related KPIs ¹	2008	2007	2006
Operating revenue, MSEK	53,195	50,598 ²	50,152 ^{2,3}
EBT before nonrecurring items, MSEK	-395	1,234 ²	177 ^{2,3}
EBT margin before nonrecurring items, %	0.7	2.4	15.3 ^{2,3}
Average number of employees	24,635	23,538 ³	25,323 ³
on which men/women, %	58/42	59/41 ³	60/40
Sick leave, %	6.5	6.4 ^{3,4}	6.1
Carbon dioxide (CO ₂) emissions, 1,000 tonnes	5,840	6,295	6,213
Nitrogen oxides (NO _x), emissions, 1,000 tonnes	24.2	25.6	25.3
Kg carbon dioxide (CO ₂)/RPK	0.129	0.130	0.131
Total fuel consumption, 1,000 tonnes	1,857	1,999	1,969
Water consumption, 1,000 m ³	176	208 ³	4,269
Energy consumption, ground, GWh	213	209 ³	832
Unsorted waste, 1,000 ton	0.9	1.0 ³	13.5
External environment-related charges, MSEK	453	414	477
Number of passengers, 1,000 ⁵	41,741	44,772	43,511

¹ All financial key data follow the financial portion of the Annual Report. All environmental KPIs include operations owned during the reporting year wherever possible. ² Apart for average number of employees, all key data for 2008 exclude airBaltic. ³ Data have not been examined by an external party. ⁴ Only employees in Sweden in corporate and shared functions. ⁵ Including paying, bonus and charter passengers.

External review

The Group's auditors have reviewed all material sustainability information in the annual and sustainability reports for 2008. The Assurance Report is on page 124.

Sustainability information

For further information and views on the SAS Group's sustainability work, contact Niels Eirik Nertun, Director for Environment & Sustainability: niels-eirik.nertun@sas.no

SAS Group Annual Report & Sustainability Report was published in March 2008.

The SAS Sustainability Report 2008

The SAS Group Sustainability Report 2008 describes the most essential environmental and societal aspects of its operations impact. It reports what is felt, after an ongoing dialog, to be of interest to its main target groups: financial analysts, customers, suppliers, employees, authorities, policy-makers and shareholders.

It is the opinion of SAS that the SAS Group Annual Report & Sustainability Report 2008 meets the requirements for sustainability reporting an A+ level in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines, version 3.0.

Reporting principles

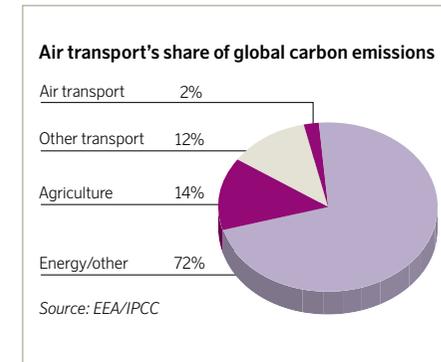
The SAS Group Sustainability Report is prepared on the basis of the SAS Group's accounting principles for sustainability reporting. They are based in part on Deloitte's "Checklist for preparing and evaluating information about the environment, ethics, corporate social responsibility and corporate governance," 2008 edition. In preparing the Sustainability Report the SAS Group has followed the GRI Sustainability Reporting Guidelines, version 3.0 and all key principles of the UN Global Compact.

→ The sustainability reporting includes all sustainability information in the SAS Group Annual Report & Sustainability Report 2008 as well as accounting principles, GRI cross reference list and stakeholder dialog, found on SAS website (www.sasgroup.net under "Sustainability").

- The main principle for sustainability reporting is that all units and companies owned by the SAS Group are to be accounted for. This means that sustainability-related data for divested companies owned by the Group during 2008 will be reported wherever possible.
- Material departures from GRI Sustainability Reporting Guidelines, version 3.0, are commented on in the SAS Group's accounting principles for sustainability reporting or in GRI cross-references on SAS's website. Cross-references also include the tables "GRI Application Levels".
- For financially related information in the Sustainability Report, we are aiming for the same accounting policies as in the financial portion of the Annual Report. In cases where other principles are applied, this is commented on in the SAS Group's accounting principles for sustainability reporting.
- Uniform environmental and social indicators are aimed for Group-wide. Aside from primarily national discrepancies regarding social data without material importance for the information reported, all operations in the Group were able to report in accordance with these definitions for 2008.
- The Sustainability Report was approved by SAS Group Management in February 2009. The SAS Group Board of Directors submitted the annual report in March 2009, and was informed of the sustainability report at the same time. SAS Group Management is responsible for organizing and integrating sustainability work with the operations of the Group.

Our world – our stakeholders

Besides creating growth in shareholder value, the SAS's sustainable development efforts are driven by expectations and demands of key stakeholders and others. SAS tries to meet these expectations and demands through systematic efforts, stakeholder dialog, and business intelligence. Sustainability work is thus a precondition for creating value.



In the airline business, profitability and sustainability work are affected by government policies, the cost of infrastructure and expenses for jet fuel, payroll, energy and waste management, among others.

Vision of zero emissions

One of the biggest challenges facing the world's industries and thus also the airlines, is limiting the environmental impacts of their operations. For the airlines this primarily means emissions of carbon dioxide (CO₂), nitrogen oxides (NO_x) and noise. The growing debate on and criticism of aviation and its environmental impact has led the International Air Transport Association (IATA) to formulate a vision of zero emissions for air transport. This vision is to be realized by no later than 2050 through a combination of new technology, more efficient air traffic management, new fuels and coordinated action to improve the conditions under which air transport operates and its infrastructure.

ACARE (the Advisory Council for Aeronautics Research in Europe) has set targets for air trans-

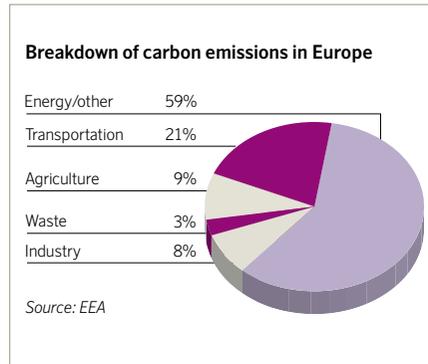
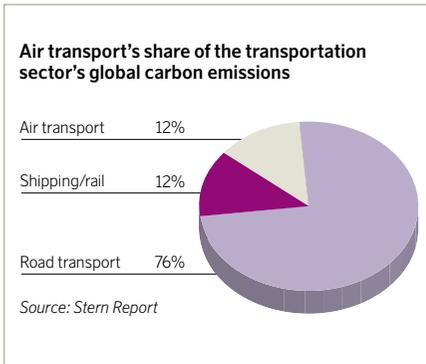
port to reduce its CO₂ emissions by 50% per unit produced and NO_x emissions by 80% by no later than 2020. In addition, noise levels are to be cut in half compared with today's.

Realization of zero emissions requires the total replacement of existing aircraft fleets with a new generation of aircraft and engines not yet on the market. The lead time for such a changeover is at least 20-30 years, which is why the vision of zero emissions should be interpreted to mean that the necessary technology is to be commercially available and adopted by the airlines at a financially reasonable and proper pace.

Impact of air transport

Today, air transport accounts for around 2-3% of global CO₂ emissions, which corresponds to 12% of transportation sector emissions.

The average growth of the airline industry in a longer perspective is estimated at around 3-4% per year. Industry and IPCC estimates indicate a possible relative reduction in emissions of an average of 2% per year, due to better technology and efficien-



cy gains. This means that if no further actions are taken, air transport's growth may increase greenhouse emissions by around 1-2% per year.

Asia, China in particular, will account for most of the expected growth. In Northern Europe growth will be subdued somewhat, reducing emissions as a result. Economic developments in the West in the latter portion of 2008 had an immediate impact on the airline industry. The financial crisis, combined with an incipient downturn, hit demand hard in both the business and leisure segments. The airlines have announced extensive production cuts, and considerable capacity is being mothballed. The shutdowns will likely involve older aircraft with below-average environmental performance. In combination with lower supply, this will lead to a short-term reduction in air transport's environmental impact. Historical data show that the airlines are cyclical bellwethers; they are affected early, but recover quickly once the economic trend turns upward.

SAS's main market is the Nordic region, with emphasis on travel to, from and between the Nordic countries. The Group share of total traffic

in its main market is around 40%. Norwegian domestic traffic accounts for 1.7% of national CO₂ emissions. The corresponding figures for Danish and Swedish domestic traffic are 0.4% and just under 1%, respectively. In relative terms, Group airlines account for hundredths of a percent of total global CO₂ emissions.

Viewed in a global historical perspective, air transport has traditionally belonged to the industrialized world. Today the major growth is taking place in Asia and the Middle East, where both private persons and industry can utilize the infrastructure previously reserved for the rich countries. Thus, global restrictions on aviation on account of its climate impact would primarily affect those who previously neither had the means nor the opportunity to fly. Air transport is a key part of the infrastructure of a globalized world, necessary for economic and social progress.

Environmental policies

Airline operations are subject to the environmental policies set by each airport. These usually in-

volve noise, rules for using deicing fluids and limits on discharges into soil and water. There are also ceilings for CO₂ and NO_x emissions. One of Stockholm-Arlanda Airport's environmental rules is a ceiling for how much CO₂ and NO_x airport activities may emit. This includes airport operation, takeoffs and landings as well as all ground transportation to and from the airport. The Swedish airport operator LfV has long worked to amend these rules, since they cover activities that it has no direct control over and they can send false signals and result in faulty management from a global environmental perspective.

In fall 2008 the Environmental Court ordered a postponement from 2011 to 2016 of the date when Arlanda's emission ceiling is supposed to go into effect. The decision will better enable SAS to adapt its ground transportation and aircraft to the new ceiling. However, this requires that the airport submit an application for a new environmental examination of its operations by no later than December 31, 2010.

Even before the ruling the airport had begun

work to apply for a new permit, and the goal is to submit a new application by June 30, 2010, at the latest. SAS has extensive activities at Arlanda and is very much dependent on the airport's environmental permit. For that reason, limitations can have consequences for SAS in the longer term. SAS is engaged in an ongoing dialog with Arlanda on the new application.

The environmental permit for Copenhagen Airport includes a noise limit of 80dB(A) for night traffic. SAS is evaluating technical fixes for lowering the noise level of its MD-80 aircraft. So far, this attempt has not had satisfactory results.

Due to stricter noise standards, a growing number of airports have tougher restrictions requiring aircraft to stay in designated approach and takeoff corridors. Weather and aircraft navigation equipment may occasionally complicate use of these paths. Deviations generally result in fines on the airline.

SAS and LfV have appealed a ruling concerning noise restrictions at Landvetter Airport outside Gothenburg. The ruling, which is based on



measurements of noise from an older cargo plane (not SAS) with poor environmental performance and used sporadically, requires unnecessary extensions of approach and takeoff corridors, with higher emissions as a consequence for all flights. SAS and LfV believe that an assessment of the restrictions should include all environmental impact factors.

In general, the trend is toward increased use of environment-related charge systems and operational limits. The twofold purpose is to reduce local environmental impacts and create incentives for airlines to use aircraft with the best available “green” technology.

The climate issue

CO₂ emissions account for about two thirds of air transport’s total impact on climate, while nitrogen oxides (NO_x), water vapor and particulates are assumed to account for most of the balance.

Under the Kyoto Protocol to the UN Framework Convention on Climate Change, all industrialized countries must reduce their emissions by

5%, compared with 1990-levels, by 2012. The EU has gone a bit further, pledging to reduce the community’s total CO₂ emissions 20% by 2020.

To attain this there are various proposals and directives, one of which requires all EU countries to increase the proportion of energy from renewables from 6% to 12% by no later than 2010 and to 20% by no later than 2020. There are also rules to reduce buildings’ energy use by 22% by 2020. These rules affect property management at SAS, which even today can document achievement of energy reduction targets in the Group’s buildings and installations in Scandinavia.

So far, the climate impact of air transport has concentrated on CO₂ emissions. Since the EU decided to include the airline industry in emissions trading, the focus is likely to be on other environmental impacts, primarily NO_x.

Industry and scientists generally agree on the magnitude and impact of CO₂ emissions. There is less agreement, however, regarding NO_x, particulates and water vapor. In connection with the discussion in the EU on carbon emissions trad-

ing, a panel was appointed to study the impacts of and possible measures against other emissions, primarily NO_x.

SAS fully endorses the “polluter pays principle” and is prepared to account for its share. This assumes that any taxes imposed on it are based on scientific findings and that the total climate impact of competing modes of transportation is taken into consideration. It is also important that EU environmental standards do not create a situation that puts European operators at a disadvantage to non-European operators. There are currently discussions between the EU and representatives of governments of countries with extensive air traffic to and from Europe, primarily the U.S., on how the economic impact of the EU positions on emissions trading and air transport will affect competition. The best solution would probably be for all airlines serving Europe to be included in the scheme. This was met with resistance, however. At the same time the ICAO is promoting the issue of global emissions trading for aviation, which SAS endorses. SAS also supports

the AEA proposal for a global system to regulate the environmental impact of air transport.

ICAO appointed a group of 15 influential representatives of leading countries, GIACC (Group on International Aviation and Climate Change), with the aim of drafting proposals for reducing the CO₂ emissions of international aviation ahead of the UN Conference on Climate Change COP15 in December 2009 in Copenhagen.

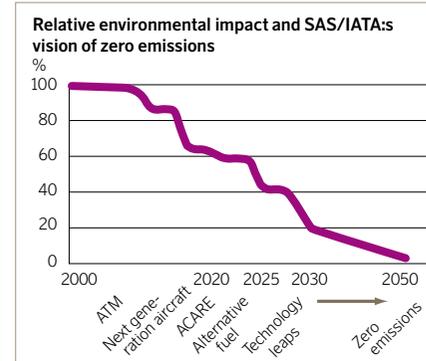
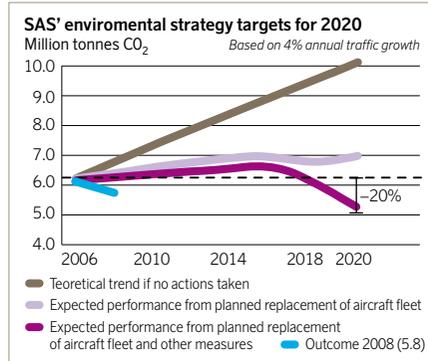
AEA has prepared a draft global system called GAP (Global Approach for International Aviations Emissions) aimed at achieving global competition-neutrality in air transport. The proposal divides the world into three blocs, with more onerous obligations on the industrialized portion than on developing countries.

IATA is also working on a document outlining ideas for economic instruments for reducing aviation’s CO₂ emissions.

At the World Business Summit on Climate Change on May 24–26, 2009, in Copenhagen, at which SAS is a major player, the hope is to move the process toward a global scheme forward.

Goals and strategies

The overall objective of SAS's sustainability work is to create long-term growth in shareholder value and help the Group reach its goals. Each investment in and action toward ensuring sustainable development should be measurable and pay off in economic terms. Set goals and strategies for sustainability work are a key part of Core SAS.



SAS endorses IATA's vision for air transport to eliminate all greenhouse emissions by 2050. This vision is to be realized through a number of measures.

Environmental goals for 2008–2011*

Goals for 2008–2011

SAS aims to

- be seen as the most environment-conscious airline in Europe
- have certified environmental management systems in accordance with ISO 14001
- have the industry's most effective fuel saving program
- be among the first airlines to use blends containing alternative fuel once they are approved and commercially available
- have a long-term plan for its aircraft fleet that leads to a significant reduction of greenhouse emissions
- have reached the target for SAS's eco-efficiency index.

* Goal attainment – see the following pages.

Eco-political vision

All modes of transportation, i.e., road, rail, sea and air, must bear their own costs for both investment and infrastructure and for society's other environment-related efforts according to the polluter pays principle. This implies total competition-neutrality regarding environmental and sustainability issues.

believes that open emissions trading is a tool for reaching its environmental goals

- will assume its responsibility for aviation's other greenhouse emissions in a cost-effective system based on scientific facts
- intends to engage in an open dialog on environmental issues with all affected stakeholder groups.

Environmental vision

- SAS intends to be a leader in work toward sustainable development in air transport, thus contributing to sustainable social progress,
- SAS intends to have the most ambitious long-term environmental program in the airline industry.

Environmental platform

The point of departure for SAS's environmental and sustainability work is its environmental platform, intended to guide attitudes and action and lay down routines for internal environmental efforts. The platform contains the following positions in which SAS:

- admits that aviation has an environmental impact
- accepts the conclusions of IPCC assessment reports on aviation's climate impact
- endorses the polluter pays principle
- seeks the economically best available technology (EBAT)
- will assume its responsibility for CO₂ emissions like every other sector, since the Group

Environmental action plan

SAS's environmental action plan for 2008-2011 is based on the principles of the environmental policy. This detailed and comprehensive plan contains measures aimed at customers and employees and at production and communication.

Environmental communication

The strategy for environmental communication involves having a credible basis for all communication on environmental issues to be able in turn to support vital commercial decisions. Among these are laying the foundation for a constructive debate on the environmental impact of air transport.

Principal strategic targets

In line with IATA's vision, the overarching long-term goal for SAS's environmental work is to have zero emissions. Zero emissions for air transport is to be realized by no later than 2050.

Principal strategic targets

- 20% lower emissions by 2020 with traffic growth included
- 50% lower emissions per unit produced by 2020.

Strategies for sustainable development

SAS aims to

- create a culture among its employees based on interest in and commitment to environmental work
- actively influence political decision-making to counteract distortion of competition within as well as between various sectors
- have documented sustainability appraisals as a basis for all decisions
- engaging in strategic environmental communication
- promote tomorrow's solutions, building alliances and support relevant R&D projects.

Goal attainment

In 2008 SAS's sustainability work intensified in that all Group units were called upon to prepare action plans for reaching the goals for 2008-2011. Despite the recession the goals remain firm. This section reports the current status at the end of 2008 and measures planned for 2009.



The inedible oil plant *Jatropha curcas* is being tested as a source for alternative jet fuel.

→ SAS will be seen as the most environment-conscious airline in Europe

Goal attainment in 2008: SAS offers all customers carbon offsets. Individual travelers can figure out their emissions using an Internet calculator. All major customers are offered data for carbon offsetting as part of their agreements. Carbon offsets are purchased for all business travel at SAS.

All employees are offered environmental training as part of the "SAS and the Environment" program. This program is also part of the upcoming ISO certification. Extensive internal environmental campaigns are being carried out in SAS's Danish, Norwegian and Swedish operations. In international bodies such as the IATA and AEA, SAS is regarded as a leader in environmental issues affecting air transport. The SAS Annual Report & Sustainability Report 2007 ranked fourth among 500 companies evaluated in Annual Report on Annual Reports. Environmental issues are increasingly on the Board's and management's agenda for the

Group's future development. Sustainability work is also having a greater impact in marketing and branding. Moreover, SAS sets clear environmental standards for its purchasing process and ensures they are complied with.

Measures in 2009: SAS intends to adopt a company car policy based on the current definition of green vehicles in the countries where SAS operates. In 2009 SAS will be integrating environmental work into projects aimed at customers and the public. This means, for example, that SAS will do more to communicate environmental issues as part of its marketing and external information. In a partnership with the Copenhagen Climate Council, SAS intends to promote its environmental work at the World Business Summit on Climate Change ahead of the UN climate conference in Copenhagen 2009 (COP15) and during the Swedish EU presidency. SAS's goal in the runup to COP15 is for the air transport sector to agree on a joint recommendation on a future global policy framework for aviation and climate change.

→ SAS will have ISO 14001-certified environmental management systems

Goal attainment in 2008: All Group companies have already integrated environmental and climate issues into their management systems. Now the goal for SAS is ISO 14001 certification by no later than 2011. This means that SAS will be among the first airlines in the world with its entire operations certified. SAS Cargo has been 14001-certified since 2006. During the year timetables and action plans for all companies were drawn up for all companies based on gap analyses. A central project manager with documented experience in certification was hired to support and coordinate the effort.

Measures in 2009: In 2009 all Group companies will be involved in the certification process and the first will be ready to be certified by Bureau Veritas. The certification process is anchored in the new organization and follows set timetables.

→ SAS will have the industry's most effective fuel saving program

Goal attainment in 2008: In 2005 SAS began a fuel saving program aimed at cutting consumption by 6–7% by 2011. The program follows set plans, and by the end of 2008, savings of 2-3% compared with the base year were realized. These measures are motivated both by climate considerations and by wildly fluctuating oil prices. In 2008 the price of crude oil varied between USD 40 and USD 140 a barrel. At the 2008 average price of jet fuel, a 1% cut in consumption meant savings of MSEK 100 for the whole Group. The fuel saving program includes a number of measures in areas such as technology, aircraft handling and route planning, as well as information and sharing experience with other players. SAS has amassed an extensive database (MRV)

of fuel-related KPIs for each aircraft, route and airline, which is constantly being evaluated and followed up with recommendations for improvements. The database provides data for the calculations needed to administer the future emission trading scheme. Consumption depends on the aircraft's weight, speed and handling. Among measures carried out are:

- *A new policy for optimizing speed.* Speed is adjusted to various external factors, which often results in lower fuel consumption. For instance, descent speed is reduced whenever possible. These measures are coordinated with several other players.
- *Lighter aircraft.* Weight can be reduced by lower volumes of water, lighter seats, new materials in oxygen tubes, etc., as well as lower fuel reserves for flights to alternative landing sites without jeopardizing safety.
- *Lowered landing flaps* reduces air resistance and thus fuel consumption.
- *Winglets* reduce air resistance, giving the wing added lift. The flight can be carried out with less throttle while climbing and at cruising altitude.
- *More frequent cleaning* of the engines, since particles accumulating in the engines raise the temperature and increase fuel consumption.
- *Green approaches* mean that the pilot does not begin the flight until the flight path and landing clearance have been given. Using the shortest possible flight path and without holding in the air, an even descent is made in sufficient time from the cruising altitude to the runway with the engines idle. Green approaches reduce fuel consumption and the noise near airports and are more comfortable for passengers. SAS is the European Commission's partner in trials of green approaches in intercontinental traffic.
- *Improved punctuality.* On-time arrivals and departures make many small contributions to cutting fuel and electricity use.

→ *Efficient route planning* To save fuel and thus reduce environmental impacts requires powerful automated system support to plan each flight with regard to altitude, weight, fuel consumption, traffic, weather conditions, etc. SAS's current system does not fully meet the requirements of today and tomorrow.

Measures in 2009: New system support that makes goal attainment possible will be introduced. The implementation is expected to take just over a year. In 2009, the work on the fuel saving program will go on so that relative savings of 6-7% are reached by 2011.

→ **SAS will be among the first airlines to use blends containing alternative fuel once they are approved and commercially available**

Goal attainment in 2008: The future of air transport highly dependent on the industry's ability to find alternative aviation fuels. This means not only biofuels that can be blended with fossil fuels to boost eco-efficiency and thus reduce greenhouse CO₂ emissions, but also completely new concepts. In that regard, the whipsawing oil prices combined with greater environmental awareness are pressing incentives.

SAS is part of the Sustainable Aviation Fuel User Group, which is tasked with speeding up the development of new long-term sustainable aviation fuels from renewable sources, including by initiating research efforts. Participants include Boeing, the fuel developer Honeywell UOP and a number of airlines. Participating airlines together account around 15% of commercial aviation's fuel consumption. The group is closely following the efforts currently ongoing in the market aimed at certifying alternative fuels (such as SPK) in 2010 and 2011.

Measures in 2009: Any renewable aviation fuels that are developed need to perform as well as today's fossil fuels, emit substantially lower volumes of greenhouse gases and have a minimal impact on ecosystems. Moreover, production must not compete with food production and must use as little drinking water, acreage and energy as possible.

Both algae and the plant *Jatropha curcas*, which produces vegetable oils, are deemed to be important alternative sources that can be used in existing manufacturing processes. In 2009 SAS will step up its collaboration with aircraft and engine manufacturers and Swedish Biofuels, which includes testing of alternative aviation fuel (SPK). SAS will search the market for other suppliers of alternative fuels after 2011.

→ **SAS will have a long-term plan for its aircraft fleet that leads to a significant reduction of greenhouse emissions**

Goal attainment in 2008: The most important element of SAS's sustainable development efforts is a cost-effective and economical aircraft fleet tailored to market needs, based on the strategy of replacing aircraft with the best available technology.

On medium-haul flights SAS mainly employs MD-80s and Boeing 737s. The most recently delivered Boeing 737s meet today's requirements for best available technology regarding fuel consumption, emissions and noise. Airbus A319/A320s also meet fuel efficiency standards, and SAS uses them on short- and medium-haul flights, and they replace MD-80s to destinations with noise restrictions.

SAS's long-haul fleet consists of Airbus A330s and A340s, which represent today's best available technology. The fleet has an average age of 6.6 years.

Currently an additional number of new aircraft are being phased in. In the period 2008-2010 four Boeing 737s will go into service. Twelve new CRJ aircraft have been ordered from Bombardier, ten to replace the Q400s, which SAS chose to phase out in 2007 after a number of incidents. The first was delivered in December 2008. There is an option on a further twelve. The CRJ is a regional jet with the market's best performance in its class. Five Q400NGs will be delivered to Widerøe in 2008.

At the same time, eleven older MD-80s and Boeing 737s will be taken out of service. This means an improvement in the climate performance and age structure of the fleet. The equipment temporarily taken out of service is primarily older aircraft, to be used as a buffer during high season and in the event of other changes in demand.

External analyses of SAS often stress that the Group's fleet is relatively old. Compared with other established European network carriers with similar products and offerings, SAS's fleet has the same average age, around 12 years.

An aircraft has a useful life of about 25-30 years, and age does not necessarily have anything to do with its environmental performance.

Measures in 2009: SAS plans to take 20 aircraft out of service in 2009.

After 2010, SAS has no plans to acquire any new medium-range capacity, though SAS will continually assess various alternatives for replacement. Both major manufacturers, Boeing and Airbus, have announced plans for the next generation of aircraft, as have the leading engine manufacturers. The new generation is estimated to be commercially available around 2015 at the earliest.

An intriguing new aircraft concept has already been presented by Bombardier. It is narrow-body (120-140-seat) aircraft with newly developed engines from Pratt & Whitney, estimated to cut fuel consumption by 15% compared with other available alternatives. Delivery of the aircraft will begin in 2013.

For a number of reasons, SAS has decided to wait to phase out the MD-80 fleet and the oldest Boeing 737s until the new generation of aircraft is available. The stagnation in the market means that SAS will be using the older aircraft less. Furthermore, the new generation of aircraft is expected to use 30-35% less fuel than current best technology. Thus, SAS will forgo short-term environmental improvements for more extensive improvements in the longer term.

Assuming that the manufacturers keep to the timetable known so far, this means a postponement of at least five and at most eight years.

→ **SAS will have reached the target for SAS's eco-efficiency index.**

Goal attainment in 2008: The most important components of SAS's environmental index are passenger load factor and fuel consumption. In 2008 the index was affected by the wild fluctuations in demand that were difficult to match with production adjustments. This led in turn to an average deterioration of the passenger load factor compared with 2007. The goal is constant improvements in the index. All reporting units set individual targets for the short and long terms in consultation with Group Management. Each unit also prepares an action plan that is followed up and corrected in step with changes in operations and the outside world. [p. 120-124](#)

Measures in 2009: In 2009 SAS will both tailor production to lower demand and temporarily take a number of aircraft out of service. This is expected to help raise the passenger load factor and thus improve the environmental index. Phasing in the new Q400NGs at Widerøe and CRJs in Denmark will impact the index in a positive direction. Some indices will be reformulated and adjusted to the new Core SAS structure.

Responsibility for sustainable development

For the SAS Group economically sustainable profitability is closely connected with environmental improvements and the ability to take social responsibility and behave ethically in all business relations.



In many ways, work on sustainability issues serves to increase shareholder value and competitiveness, such as through more effective control of risks. SAS is convinced that to have economically sustainable operations it must also be socially and environmentally responsible.

SAS benefits society by being a major employer and contractor and by maintaining crucial societal infrastructure. One goal of the business is to generate returns for its owners. At the same time SAS, through its airlines, engages in activities that currently contribute to an adverse environmental impact, including by emitting carbon dioxide (CO₂) and nitrogen oxides (NO_x) and noise, primarily close to airports.

Dialog with stakeholders

SAS sees that from a social, environmental, and economic perspective, responsibility is also largely governed by stakeholders' views on its activities and their performance. Stakeholder dialog serves to identify, define and develop the Group's highest priority sustainability issues.

Thus, an ongoing dialog with affected stakeholders is essential for work on sustainable development. SAS takes the initiative on dialogs, and all stakeholders seeking contact with SAS will be given a chance to air their views.

For SAS, as for other companies operating globally, it is becoming increasingly important to retain the acceptance and trust of the world around us. To succeed requires candor about operations and willingness to understand how stakeholders view the company and its activities.

In the fight against a growing environmental impact, the role of air transport is increasingly being called into question. Unfavorable opinions can help to create a policy framework less conducive to the industry's future growth. On the other hand, a fair and balanced debate on the benefits of aviation over other forms of transportation should create acceptance for competition-neutrality regarding laws, regulations, and taxes as well as other operating conditions. It is therefore essential that the entire industry take every opportunity in a candid dialog with the public to dis-

Sustainability policies for the SAS Group Environmental responsibility • CSR • Financial responsibility



Core values Consideration • Reliability • Value creation • Openness

SAS's four core values cover all operations in the Group and form the basis for all work on sustainability issues. On the basis of these core values, SAS has set overarching policies that along with a number of strategies govern its sustainability work. An account of the most important of SAS's policies can be found on the website. www.sasgroup.net

Sustainability policy

- To contribute to sustainable development, SAS employees must, in their day-to-day work, take the Group's financial performance into account as well as its environmental and social impacts on the community.
- For SAS, sustainable development means a simultaneous focus on financial growth, environmental improvements and social responsibility. The Group's task, based on its core values, is to create long-term growth in shareholder value. This requires integrating environmental and social responsibility into business activities. Maintaining and developing human resources is vital for the Group to reach its goals.

Environmental policy

- SAS will contribute to sustainable development by optimizing resource use and minimizing its environmental impact in all its operations.
- SAS's environmental goals are based on constant improvement and on each subsidiary setting specific targets and working to reach them.
- SAS will seek to use renewable energy.
- SAS will have an environmental program as good as or better than leading industry competitors' that attracts customers and capital.
- SAS's environmental goals and activities are to be coordinated and harmonized with other production, quality and financial targets.

cuss and point out the airlines' positive and negative impacts on society, travel and the environment. The aim of SAS is to play a leading role in this dialog. The airline industry has taken the initiative on a large-scale information campaign that will run until 2011. During the year SAS took part in the ICAO assessment of the airlines' envi-

ronmental management systems.

SAS's most significant stakeholder relationships with regard to its sustainability work are reported on the following page. SAS conducts regular interviews and engages in dialogs that help the Group to maintain and improve relations with key stakeholders through targeted measures.

Examples of measures prompted by stakeholder dialogs are:

- the opportunity for customers to purchase carbon offsets to neutralize the emissions generated by travel and air freight
- further emphasizing the description of employment conditions and relations with labor organizations in financial reporting
- reporting the financial consequences of the Group's sustainability work
- the strategy whereby SAS employees are to meet the customer on the correct terms
- efforts to make SAS a more attractive employer.
- greater emphasis on environmental communication via brochures and magazines for customers.

Our progress in 2008 shows that SAS's relationship with the outside world is improving steadily, but that the Group's relationships with key stakeholder groups need to be shored up. Although SAS's brand and image in the market are strengthening, much remains to be done. The increasing political and media focus on the adverse environmental impact of air travel is leading some to question its role in society, though in this regard SAS is not specifically affected. Nor are there any clear signs that the environmental impact of aviation has substantially affected demand for air travel. The decline now besetting the market has other causes.

It is management's aim for all supervisors to translate stakeholder relations and intelligence analyses into commercial targets and for relations with key groups to be managed in a wise and prudent way. This work is to help the Group attain and boost profitability in all parts of its operations.

Business relations

For the airline industry, with a tradition of close collaboration with competitors, antitrust issues are in focus. The SAS Group has therefore developed a special section on competition law in its Group policies and adopted a program to ensure compliance, the "SAS Competition Law Compliance Program." This program is under constant

development, and the Group is engaging in extensive training activities aimed at all supervisors and other affected staff. Group policies also contain strict prohibitions against paying or accepting bribes or improper perquisites.

Code of Conduct

To summarize and clarify the Group's stated values, policies, and other regulations, the SAS Board of Directors has issued a Code of Conduct. It exists in four languages and has been issued to all Group employees. To underscore the Code's importance, there are clear rules and structures for reporting and dealing with suspected violations. In the reporting that all units do each year on their sustainability work there is a separate section for information and training concerning the Code.

Supervisors and other managers play a key role in implementing and following up the Code.

In 2008 the Code was revised and reissued. An Internet-based training program is a key element in disseminating the Code and its message. The goal is for at least 90% of employees to have gone through the training program by no later than the end of 2009. By February 1, 2009, 30% of employees had gone through the program. Every employee is expressly required to take part. The Code is a key instrument for creating understanding and acceptance of SAS's fundamental values. That is why it is also every supervisor's duty to initiate and encourage dialog and discussion on its contents so that all employees feel a sense of responsibility and participation and are prepared to make their own decisions based on the Code.

The follow-up of work on the Code in 2008 shows that all units have introduced it. The Code's whistleblower function was used in ten cases, two of which were dismissed without further action. Three were investigated and dismissed without action taken. One report led to a change in procedures. Four cases are pending.

Global Compact and the GRI

The SAS Group joined the Global Compact in 2003 and participates in the Global Compact's Nordic Network. One criterion for publishing company information on the Global Compact website is an annual update of the material, the Communication On Progress (COP). The basis for this publishing is SAS's work on sustainability issues, its annual report and the company's commitment to social issues. The most recent update of SAS's information was done in October 2008.

SAS's sustainability reporting follows the guidelines of the Global Reporting Initiative (GRI) and is reviewed by the Group's auditors.

In Denmark a new law entered into force on January 1, 2009, that reflects the debate on corporate social responsibility (CSR). The law requires that the approximately 1,100 largest companies in Denmark include in their annual reports what actions were taken with regard to CSR. Government procurement contracts must

take account of social responsibility, and major state enterprises are to join the Global Compact.

In Norway the Storting has announced its intention to introduce a law similar to the one in Denmark. In Sweden, all state-owned companies must report in accordance with the GRI starting with the 2008 financial year.

SAS welcomes these initiatives and sees no problem with complying. Both its sustainability work and reporting already meet high standards, and new legislation is not expected to result in extra work or higher costs.



Stakeholders	Examples of dialogs*
Employees	Employee index PULS. Development interviews. Whistleblower function. Staff meetings – for flight staff, called Base Days
Customers	Customer surveys. Interviews. Customer Satisfaction Index (CSI). Image index
Contract customers	CO ₂ Reduction Network. Direct dialog in meetings and ongoing contact with several thousand contract customers
The traveling public	Qualitative and quantitative surveys, e.g. the CSI
Owners, investors and financial analysts	Surveys. Teleconferences. Regular meetings
Governments	International working groups. Ongoing contact with national governments and policymakers
Suppliers	The SAS Group's purchasing policy. Compliance with Global Compact principles
Aircraft, engine and chemical manufacturers	Dialog on greener products
Partnerships and networks	Star Alliance. Global Compact Nordic. CSR Sweden, Copenhagen Climate Council
NGOs	Bellona. Friends of the Earth, WWF, Save the Children
Organizations	ICAO Committee on Aviation Environmental Protection. Association of European Airlines. IATA's environmental committee. Confederation of Swedish Enterprise. Confederation of Danish Industries. Confederation of Norwegian Enterprise, etc.
Mass media	Interviews. Articles and opinion pieces

* * A more detailed description of the SAS Group's dialogs with stakeholders with in-depth information may be found at

www.sasgroup.net

Reducing environmental impact

Environmental responsibility

Airline operations account for 95% of the SAS Group's environmental impact, most of which is caused by the consumption of nonrenewable energy, primarily fossil fuels. Combustion emits CO₂ to the atmosphere, contributing to global climate change. Aircraft noise is a local environmental nuisance.

In various national and international contexts SAS works actively to reduce its environmental impact and acts to influence environmental policy affecting aviation and to develop and disseminate green technology.

SAS is part of Combat Climate Change (3C), a group of 55 leading international companies committed to initiatives from the business sector to deal with global environmental problems. Corporate Environment & Sustainability also participates in similar national and international bodies. SAS also works intensively together with engine and aircraft manufacturers, airlines, airports and air traffic control bodies for sustainable development in air transport.

Corporate social responsibility

SAS's social and societal responsibilities include the Group's employees and its impact on the surroundings and communities where it operates.

At SAS individual units give priority to issues based in their own operations (see pages 120-124). For that reason what their social responsibility entails may vary depending on time, place and the nature of the operations.

Corporate Environment & Sustainability also participates in a number of relevant forums for developing SAS's social commitment.

As an employer, SAS can help provide its employees with a long-term high standard of living and quality of life. The best possible physical and psychological working environment is essential,

as are opportunities for employees to develop, both in their professional roles and as people.

One requirement for reaching customer and profitability targets is taking care of and fostering employee skills and commitment. The Group also affects a number of subcontractors, thereby contributing to economic and social welfare in the countries and societies where its businesses operate.

By being committed to social issues and by joining the UN Global Compact, the Group has pledged in all its activities to defend and promote human rights and to combat corruption, discrimination and all forms of forced labor.

Financial responsibility

SAS's primary duty is to create long-term value growth for its shareholders through having satisfied customers and motivated employees. Sustainability work is also to help boost SAS's competitiveness through more efficient resource utilization. It is from this perspective that work on sustainability issues must be viewed.

SAS has a profound impact on the economy. Its direct impact comprises salaries to employees, purchases of services and materials from outside suppliers, and direct and indirect taxes to the community. Every employee of Group airlines generates one additional job in other industries and companies.

With regard to costs, sustainability work primarily contributes lower fuel consumption, better economizing on resources, and a lower risk of sustainability-related disputes and complaints. Sustainability work thus helps to boost competitiveness and increase shareholder value.

SAS also helps to create added value for individuals as well as companies and society at large by facilitating people's travel and by furnishing the transportation of goods.

For SAS, as for the entire airline industry, set and implicit targets pose a big challenge moving forward. At the same time, the airlines need to take full responsibility for coming developments not being obstructed by political and media posturing.



The airline industry' commitment involves long-term investment in environment-related measures that take time to carry out and are capital-intensive. The industry's environmental work follows four main lines in close collaboration among airlines, aircraft and engine manufacturers, developers of alternative fuels, universities, colleges and other research institutions and governments and other affected parties. These four lines or pillars are Technology development, Infrastructure, Operational measures and Economic instruments.

Despite the industry's relative youth, there is considerable conservatism in the way individual airlines and the industry as a whole performs and operates. This means that the potential for environmental improvements are substantial, provided that they are economically justifiable and technically feasible. Previously there was often a lack of financial incentives for trying new ideas. Today, the picture is different. Volatile oil prices, airline deregulation and increasing competition and especially environmental considerations

have utterly transformed industry attitudes towards sweeping changes.

Technology development

Via the AEA SAS participates in the Advisory Council for Aeronautical Research in Europe (ACARE), whose targets are 50% lower CO₂ emissions, 80% lower NO_x emissions and a 50% lower noise level for new aircraft by no later than 2020. In ACARE there are representatives of the EU countries, researchers, the aviation industry, airport owners and aviation industry bodies.

Technology development primarily concerns lighter and more aerodynamic aircraft, more efficient engines and alternative fuels.

The major aircraft manufacturers Boeing and Airbus have announced a new generation of aircraft, expected to be commercially available by 2015 at the earliest. At the same time a new generation of engines will be launched by the leading manufacturers. The combination of new aircraft and new engines is estimated to result in a 30-35% reduction in fuel consumption compared

with current best technology, with attendant reductions in greenhouse emissions, primarily CO₂ and NO_x. The development of new engines will also be important for solving the noise problem.

One possibility for reducing greenhouse CO₂ emissions in existing fleets is to use raw materials from renewable sources instead of fossil fuels. Several research projects and tests are ongoing around the world. Initial tests of a 50% blend of alternative fuels in aviation kerosene were carried out by Air New Zealand and Continental Airlines and others. Alternative fuel is expected to be commercially available in 2011.

Infrastructure

Within the framework of Eurocontrol there is an ongoing effort to create a coordinated European air traffic control system. This would lead to shorter flight paths, shorter holding time in the air and on the ground and less congestion in the air and at airports. Fully-implemented, it would result in an estimated 10-15% lower environmental impact.

Ground-based environmental measures

With regard to energy saving in buildings, the SAS Group has achieved good results. All buildings have been inventoried regarding environmental data. A large portion of Energy consumption is based on renewables. All sources of energy consumption in offices, hangars, storage areas, in connection with passengers and freight, etc., are to be constantly be reviewed and optimized in line with SAS's targets and local actions taken.

SAS is working for all company cars to be green vehicles. Because green vehicles are defined differently in each country, it is not possible to issue identical recommendations.

As an initial specific example, with the support of SAS, the Danish and Swedish civil aviation authorities are working together to put some of the intentions into practice. The next step is to create a Nordic Single Sky, where Norway and Finland as well as the Baltic countries participate.

Operational measures

All major airlines have action programs for economizing on resource use in order to improve environmental performance. These include fuel saving, route planning, optimizing speed and altitude, weight reduction and improvements in communication, training and information to create awareness of the need for small- and large-scale measures at all parts of operations.

Economic instruments

Taxes and charges are often used by opinion makers as examples of effective economic instruments for reducing aviation's environmental impact. The debate largely takes two approaches. One is for the airlines to pay for their environmen-

Deicing aircraft before takeoff uses glycols, which are harmful for the environment. Along with civil aviation authorities in Sweden and Norway and equipment suppliers, SAS tested infrared deicing. The evaluation showed that the method was unsatisfactory for the Nordic climate. SAS is moving the development of technology in this area forward and continues its search for alternative technologies. Various methods for reducing glycol use and handling waste are currently being evaluated. For instance, a system is being tested where electronic control of glycol content led to a substantial reduction.



tal impact and bear all the costs of their infrastructure. The other is not only to limit the growth of air transport, but also its current scope.

The EU's own estimates show that taxes and charges do little to reduce demand. However, they raise the costs to the airlines, which affects fares, with undesirable economic and social consequences. At the same time the airline industry has the tide of opinion against it, which makes it easy for some governments to impose environment-related taxes and charges.

Air transport included in emissions trading

In 2008 the EU adopted the revised general ETS directive and a special directive to incorporate air transport into the EU/ETS from 2012. There will be a chance to overhaul the aviation directive in 2014. The directive is intended to facilitate negotiations with third countries, primarily those with heavy traffic to and from the EU, which is necessary for the system to have any substantial environmental effects.

The decision is in keeping with the view that SAS and most other airlines championed while the issue was being considered by the EU. The scheme has considerable advantages over national taxes and charges – measures that have so far proved virtually ineffective at limiting aviation's environmental impact. Moreover, it is vital that the ground rules are clarified so that the airlines can prepare for the coming change. Once air transport is included in emissions trading in 2012, SAS's current offering to customers of carbon offsets will be dropped.

SAS estimates that when the scheme is fully implemented in 2013 the costs to the airline may reach MSEK 300-400 per year, which will then have an impact on fares. SAS is now starting preparations by setting up an MRV (Monitoring-Reporting-Verifying) system, to be certified by an independent party. How certification will proceed has not yet been clarified, since there are no accredited specialists in the area of air transport. SAS believes that existing scheme units can be easily adapted to a future MRV system.

Organization and management

The SAS Group's operational sustainability work is based on its sustainability policy, as well as the Group's commitment to comply with the principles of the UN Global Compact. This section reports the organization and management of sustainability work that pertained to the Group in 2008. The strategy for sustainability work, sustainability and environmental policies, as well as targets and KPIs connected with them, are a part of the new Core SAS structure.



In February 2008 the Board of SAS adopted new targets and strategies for its sustainability work. A key element is an enhanced communication plan, a clear signal that SAS will actively help to shape opinion on the operating framework and future development of air transport in an environmental perspective. The management philosophy is based on SAS's policies and strategies. This also applies to sustainability issues. The final responsibility for these issues rests with Group Management, while the heads of units and companies have operational responsibility. Evaluations of supervisors include the performance of their units' environmental index. The targets for 2011 have been set by Group Management.

Management by objectives

Group units set targets for their respective activities and prepare action plans to reach these targets. The companies report yearly and in writing to Group Management on achievement of quantitative and qualitative targets, how work is progressing and what specific targets have been achieved.

SAS has a central, coordinating, and advisory department for Environment & Sustainability. This department comes under the Corporate Function Public Affairs, where the Group Director for Environment & Sustainability is part of management. The head of Public Affairs monitors sustainability and environment issues for Group Management.

Sustainability work is coordinated and developed through the SAS Group Sustainability Network, comprising sustainability coordinators from all companies and corporate functions. They report to the management of their respective company or unit. Many of the coordinators have sustainability work as their primary duty. In 2009 the network will be modified to match the new structure.

Issues directly related to employees' working conditions are dealt with by the SAS Group HR Management Team, which consists of twelve heads of human resources in Group companies and units. Employee issues are coordinated by Human Resources (HR), with functions for management development, company health services, salary and remuneration issues, and sick leave.

HR plays an advisory role in the Group's working environment efforts, which represent an important portion of its sustainability work. This includes a system of recurring working environment audits. It is each company's responsibility to ensure a well-functioning working environment. This work takes place in collaboration with safety representatives, supervisors and labor-management joint safety committees in each country.

Company health services

For a number of years SAS has had in place its own company health services in Scandinavia. In this way the company is better informed about the conditions of SAS's various employee groups.

Besides medical staff, the company health services or health, safety and environment (HSE) department employs therapists, stress and rehabilitation experts, and ergonomic engineers. The department has also developed and offers special services, including aviation medicine, stress management, sick leave follow-up, health profiles, ergonomics and advising in handling chemicals.

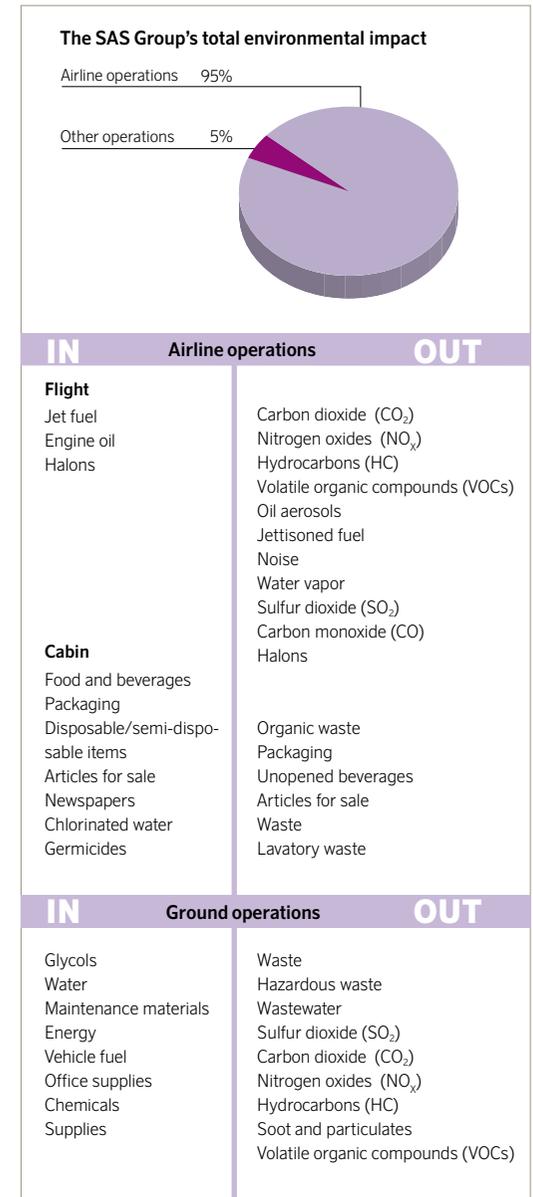
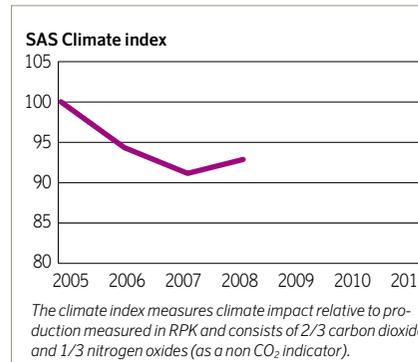
Handling sustainability data

Environmental data are reported twice a year, while data concerning employee sick leave and injuries are followed up at a local level on an ongoing basis. In addition, units and companies are to report at least once a year on measures to improve the Group's sustainability work. Reporting concerns such areas as community involvement, supplier contacts, cooperation with internal and external stakeholders, working environment, training, conflicts, key environmental aspects, environmental targets, nonconformances, licenses, work on the Code of Conduct and the UN Global Compact, etc.

Responsibility for reporting rests with the heads of each company and unit, but reporting is coordinated by the SAS Group Sustainability Network. Data are compiled by the Group coordinating and advisory department for Environment & Sustainability and is then reported to Group Management.

Results for the year

SAS's climate and environmental index showed steady improvement up to and including 2007. Performance in the first half of 2008 was still positive. Autumn was characterized by plummeting demand that could not be compensated for by cutting production at the same rate. This affected SAS's environmental performance, and the overall picture for 2008 is mixed.



Important events in 2008

- An extensive e-learning program on the environment was introduced and will become obligatory.
- SAS relaunched a revised Code of Conduct with an e-learning program. The goal is for 90% of employees to have completed the program during 2009.
- CSR legislation in Denmark. In Norway the Storting is expected to follow suit.
- SAS won first prize in the Danish Børsen and Institute of State Authorized Public Accountants in Denmark (FSR) competition for the best sustainability reporting and topped Deloitte's ranking in Sweden.

Definitions

The section Results for the year reports production data including paying, bonus and charter passengers, which produces figures that diverge from the financial part, but provides a truer picture of SAS's total and relative environmental impact.

→ The SAS Annual Report & Sustainability Report 2007 ranked fourth among 500 companies in the Annual Report of Annual Reports, and was first among airlines.

In 2008 SAS's CO₂ emissions per unit produced fell to 0.129 kg/RPK (0.130). This means the lowest emissions ever. The company's climate index also includes other emissions, where the trend was slightly negative. This led to a slight deterioration in the climate index, which is only measured at Group level. The primary reason was that the aircraft leased to replace the Q400s early in the year varied in environmental performance. As they are replaced with the new CRJs and Q400NGs, eco-efficiency will improve. With regard to the individual company and unit environmental index, the picture was also mixed. In the index, passenger load factor is a heavily weighted parameter. Scandinavian Airlines' national airlines were hit hard by the drop in demand, and were unable to match production to the declining market. The result was that the

passenger load factor fell and the index deteriorated. The capacity reductions now in progress will mean that the passenger load factor is likely to rise and also that equipment with poorer environmental performance than the SAS fleet average will be taken out of service. Thus, there is a good chance for the airlines to catch up with regard to their environmental index. In the plus column Scandinavian Airlines International is posting a higher passenger load factor and lower fuel consumption, the latter a result of successful work on the fuel saving program. Widerøe and Spanair are also reporting a clearly improved index, due in part to the phasing in of the new Q400NGs at Widerøe and good utilization of the aircraft fleet at Spanair. In February 2009 the renewed strategic approach, Core SAS, was adopted, which involves substantial production, organization and workforce changes.

Environmental responsibility

In 2008, the SAS Group's flight operations accounted for approximately 95% of its overall environmental impact. The remainder came from ground and cabin operations.

Customer perceptions of SAS as an environmentally responsible company are measured in the annual customer survey on which the Customer Satisfaction Index is based. In 2008, no measurements were taken. A new survey was conducted in February 2009.

Climate index

Starting in 2007 SAS has reported a climate index, which refers to weighted climate impact excluding noise, i.e., emissions of carbon dioxide (CO₂) and nitrogen oxides (NO_x).

The index measures the Group's overall climate impact relative to traffic measured in RPK and was

worked out in the period 2005-08. The trend was positive in 2005-07. In 2008 the climate index deteriorated by one point to 93. The chief cause was a change in the utilization of the aircraft fleet and a relative increase in NO_x emissions. CO₂ emissions, however, fell in both absolute and relative terms.

Environmental index

Since 1996 SAS has been measuring eco-efficiency using an environmental index in which environmental impact is measured relative to production. An environmental index is measured for each company, but not for the Group as a whole. These indices are a tool for managing and following up the Group's environmental performance. The companies' environmental index improved up to and including 2007. In 2008 some companies continued to post gains, while others broke the trend, primarily owing to slow capacity adjustments to flagging demand.

Environmental management system

Following the SAS Group's overarching objectives and strategies, each company or unit sets environmental targets based on the requirement for constant improvements in environmental performance. As part of the formulation of SAS's S11 strategic plan, the requirements were tightened and all companies and units have environmental targets for 2011. Moreover, there is a common goal for all companies and units to be certified according to ISO 14001 by no later than 2011. This effort began in 2008 and follows individual plans. So far only SAS Cargo has this certification. Other units have their own environmental management systems that are integrated into management and quality process and follow the principles of ISO 14001.

Environmental permits

Airline operations have no separate licenses or environmental permits for operation, but depend on permits that airport owners hold, such as for glycol handling, runway deicing, and noise and

emission thresholds. However, environmental approval is part of the process to certify aircraft followed in the three Scandinavian countries as well as in the terms for technical aircraft maintenance.

Airline operations have a dispensation for halon use and submit annual reports to the authorities on use and storage. The reason for the dispensation is that there is no certified alternative to halons for extinguishing fires in aircraft engines, cabins and aircraft toilets. In the SAS aircraft fleet in 2008 there was 7,920 kg of halons, and a total of 7.7 was emitted during the year.

SAS Oil is a jet fuel purchasing company for the SAS fleet at Copenhagen, Oslo and Stockholm airports. Through SAS Oil, SAS is a minority owner of a number of smaller companies that handle jet fuel. The Group is satisfied that these companies have the necessary permits, contingency plans and insurance.

A detailed description of SAS's licenses and environment-related permits is found in the Report by the Board of Directors. [p.59](#)

Carbon offsets

Offering carbon offsets for air travel is an important part of SAS's environmental efforts. All business travel is offset and corresponds to emissions of 4-5,000 tonnes per year. For organizers of conferences, seminars, trips, meetings, etc.

SAS offers customized offsets, often when SAS is the Official Airline, such as at the climate conferences in Copenhagen in 2008 and 2009.

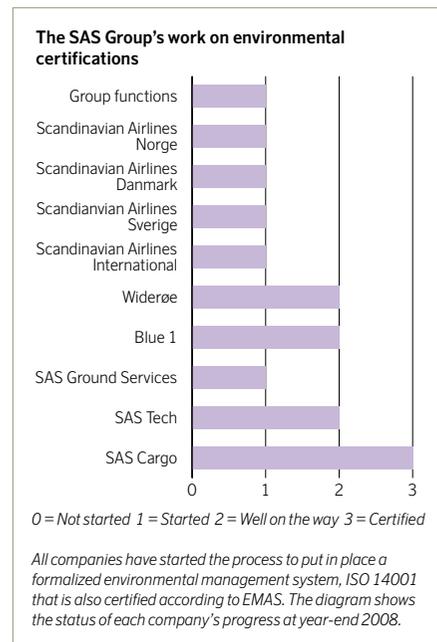
Major customers are encouraged to sign up for carbon offsets, which are based on estimates of travel volume on an annual or semiannual basis.

It has been relatively complicated for individual customers to buy carbon offsets. The main reason is that SAS's electronic ticketing system does not permit the necessary modifications. Starting in February 2009 SAS will offer a simplified payment solution for carbon offsets. Carbon offsets will be integrated into the emissions trading scheme as of 2012.

Carbon offset revenues go entirely to SAS's partner, the CarbonNeutral Company, which is responsible for funding energy projects based on renewables and verified/certified projects.

Purchasing

The SAS Group has numerous subcontractors, manufacturers of everything from disposable articles for onboard service to aircraft and engines. Negotiations are increasingly coordinated from the Group's central purchasing function, through which it is ensured that suppliers follow the guidelines in the Code of Conduct. Suppliers with documented environmental and sustainability work are given priority.



Approvals and certifications

One of six environmental objectives is for the SAS Group to have an environmental management system in accordance with ISO 14001 by 2011 at the latest. Already today SAS Group has an environmental management system based on ISO 14001.

SAS Cargo already has ISO 14001 certification, and parts of SAS Cargo are also ISO 9001-certified.

All consolidated airlines in the Group are IOSA-certified through the IATA. SAS Technical Services Maintenance Organization and SAS Maintenance Training were approved during the year as EASA Part 145 and 147 organizations, respectively. These units were previously JAA-approved.

CSR

The SAS Group's primary social responsibility is to its own employees and the communities dependent on and affected by SAS's operations in a number of countries, primarily Denmark, Norway and Sweden.

Competition in the airline business in Europe is fierce. The struggle for passengers to intercontinental destinations is even fiercer.

Today it is a buyer's market. In this situation employees play a key role in adding value to the product. For that reason, SAS's strategy efforts are aimed at raising the motivation and commitment of its own employees, so that they have a positive impact on relations with customers and thus boost SAS's competitiveness. In that respect the new tone in the dialog between employee organizations and management has substantially improved the chances for a rewarding future.

Service And Simplicity

The idea of the new commercial platform for Core SAS is to strengthen what we offer customers and make the airline the obvious choice for air travel. "Service And Simplicity" are the watchwords for SAS employees. The attitude towards customers should be characterized by knowledge of what customers have the right to expect of SAS. Duties are to be performed simply and efficiently with short decision-making paths and with staff taking significant responsibility themselves. Customers and coworkers alike are to be treated with friendliness, courtesy and helpfulness. Communication and dialog lay the groundwork for a culture of listening and willingness to change.

Simplicity means that the customer's total travel time is to be the shortest one imaginable. It means simpler booking and check-in, shorter lines, quick baggage handling, etc. Ultimately it means fewer SAS personnel in connection with the journey, without deterioration in service to customers.

Cultural development

The development of corporate social responsibility is based on the focus areas on which SAS's cultural turnaround rests, see page 7.

Incentive with customer focus

A project began in 2007 aimed at introducing a profit-sharing and employee stock ownership plan for all employees at a suitable point. In 2008 the project was shelved, since the first priority was on cost savings and the impact the falling market and financial crisis was having on SAS.

Management development

With regard to developing the company's social responsibility, management has a key role as examples and in interpreting and implementing SAS's strategies. SAS endeavors to have clear leadership, characterized by openness, participation and sincerity. Managers must be consistent, honest and reliable, be self-aware and mature, and know how personal qualities are to be used to achieve a trustful working relationship with personnel.

In 2008 SAS began to develop a "role model" for all managers in the organization. The program contains an assessment module that once a year will show whether managers live up to the model and a leadership program intended to deliver the requisite know-how.

Organizational development

For SAS there is still room to boost productivity and efficiency in existing operations. The focus in developing the organization will therefore increasingly be on measures to ensure efficient, customer-guided processes.

Adjustment and redundancy

The economy downturn in late 2008, combined with the global financial crisis showed yet again the airline industry's sensitivity to external shocks. The demand for air travel plummeted in both the tourist and business segments. The in-



dustry is responding with capacity reductions, timetable changes, fewer departures and savings programs. For SAS these developments mean that cost and workforce cuts are needed.

Redundancy is primarily dealt with in the individual unit or company. Negotiations follow national laws and agreements.

Working environment

In the SAS Group there are a large number of occupations represented, working in different environments and exposed to different sorts of occupational injuries, etc. Thus, average sick leave is not an unambiguous concept, nor does it provide general guidance for actions that can be taken to reduce absences and related problems for the individual and costs to the company.

By comparing similar operations, in some cases SAS has high sick leave and in others, low. To obtain data for analyses and better target systematic preventive efforts, reporting of sick leave has been stepped up. A new tool was introduced in 2007 for monthly reporting and follow-up of ab-

sences. Each unit is tasked with recommending programs for targeting its preventive efforts and actions to be taken to reduce absences.

In 2008 total sick leave in the Group totaled 6.5 (6.4) percent. The variation between various occupational groups is still high. This area has high priority, and in 2009 efforts are being redoubled to reduce sick leave. Besides sick leave, each unit and company is working actively on such issues as parental leave, telecommuting, flextime, health insurance, etc. In most companies, the number of occupational injuries fell, at SGS to 224 (238), STS 28 (34) and Scandinavian Airlines Denmark 39 (53), while at SAS Cargo they rose from 27 to 32. [p. 50](#)

Diversity and equality

The SAS Group's diversity policy is based on equal treatment of all employees and job applicants. Work on equal treatment includes promotion of diversity and equality in all its forms.

Union membership is high in SAS's parent countries, and labor organizations enjoy a strong

position. Collective agreements govern working hours, pay and other terms of employment in great detail. Full gender equality prevails in these issues: the same terms for the same job.

On the other hand, in certain occupations SAS is traditionally a male-dominated company. Of the company's pilots, 95 percent are men. Among captains, the figure is 97 percent men. At the same time, the recruitment base for female pilots is small, since few opt for such training. The ratio for cabin crew is 79 percent women.

Top management in Group is dominated by men. At the highest level there were two women and four men in 2008. After February 4, 2009, SAS Group Management will consist exclusively of men.

Women are found in such jobs as administrator, assistant, check-in, etc., whereas men predominate in technical, maintenance, loading and unloading, ramp, etc. Women also work more part-time than men.

Each year, an equal treatment plan is drawn up based on analysis and surveys of a number of factors, ranging from sick leave to bullying and harassment. A reference group representing the parties provides support.

Employee surveys

PULS, SAS's employee survey, was conducted at the end of the year. The response rate was 77 (72)%, which is the highest figure in the survey's history. This means that 16,830 of the 21,763 50-item questionnaires sent out were returned. New this year is an external comparison with a European Employee Index for the transportation business. This showed that motivation among SAS employees is higher than the average (69 for SAS versus 67 for the industry). Job satisfaction was at 69, the same level as the industry. Compared with the outcome for 2007, motivation increased by two points, and the leadership

index, which measures perceptions of immediate supervisors, also rose by two points to 65.

The survey shows that SAS is on the right path in terms of strengthening the relationship between the enterprise and employees. The PULS results are now being used to prepare further action plans and measures in each company and unit.

Human resource development

The SAS Group has around 1,500 managers, of whom just under 1,000 have direct customer contact.

Manager development goes hand in hand with the development of human resources based on and evaluated using SAS's "role model." A systematic survey is done of the whole Group, of existing managers as well as to identify persons who may meet the need for managers in the short and longer terms. The aim is for all manager material to have an individualized development program. The entire manager process is based on the aforementioned "role model," which reflects general personal attributes as well as SAS's business objectives. Evaluation focuses on the individual's performance, ability to change, leadership, potential and ambition. Around 30 persons with the potential to be future managers were also chosen via a talent program. They underwent a series of skills modules and worked on various projects in a "Business-Driven Action Learning" program.

Beyond this, there is the SAS Management Trainee Program, an 18-month program with internships in various positions in the Group.

Human resources development is an important, ongoing activity in the entire SAS Group. Flight staff and operational ground staff are covered by a number of requirements from EUP-OPS1 and the IATA through the IOSA (IATA Operational Safety Audit). The mandatory training programs were carried out for relevant personnel

groups for hazardous goods, passengers' rights, IT security, food safety, etc.

Courses of varying length were held in areas such as manager development, Company Business Understanding, working environment and the Code of Conduct. A growing share of total human resource development in the Group takes place through e-learning. During the year SAS employees had access to more than 70 e-learning courses, and the number of users doubled since 2007. At SAS Scandinavian Airlines virtually all employees are involved in e-learning.

Cooperation with labor unions

Cooperation with labor organization takes place primarily in each company, including the parent company SAS AB, where information goes to the associations with a collective agreement with SAS AB. Cooperation takes place within the framework of national laws and agreements affecting the company concerned.

Employee representatives from the Scandinavian countries sit on the SAS Group Board of Directors. The employees can elect representatives from companies in the Group's Scandinavian operations. Above all, Group Management is engaged in an ongoing discussion with union representatives on issues concerning the cultural turnaround and the need for a customer-oriented culture.

Contract negotiations and disputes

2008 was characterized by discussions and employee organizations to find ways to continue to work together on the basis of a shared interest in ensuring positive performance for the SAS Group, given the worrisome market situation.

In January 2009 an agreement was reached that is expected to lead to SEK 1.3 billion in savings, when fully implemented on an annual basis. In brief, the settlement is as follows:

- Pilots, the CEO and other members of Group Management will forgo salary increases in 2009 and will receive a 6% pay reduction. Moreover, Group Management will forgo the variable portion of their salary for 2008. The members of the SAS Board of Directors have agreed to 6% lower fees starting in January 2009.
- The new agreements involve cost reductions in the collective agreement area in the SAS Group of around 12%, of which about a third is related to pay and two-thirds to working hours and costs for expense allowance, pensions and insurance. The total savings of SEK 1.5 billion in 2009 includes a nonrecurring item of MSEK 156, which is the result of a reversal of pensions in SAS's Norwegian operations.

Humanitarian assistance and sponsorships/partnerships

In 2008 SAS employees participated in missions on behalf of the Swedish government in Myanmar on three occasions, and in Haiti on one. In connection with the terrorist attacks in Mumbai, six injured persons were evacuated by Swedish National Air Medevac (SNAM) on an SAS Boeing 737-800 specially equipped as an air ambulance.

Otherwise, SAS engages in sponsorships and aid activities of various sizes with a focus on local communities. Sponsorships and partnership agreements in the area of sustainability will grow in importance and scope, as a natural element of the SAS Group's commitment to society. In 2008 SAS renegotiated and renewed its main sponsorship agreement with Save the Children.

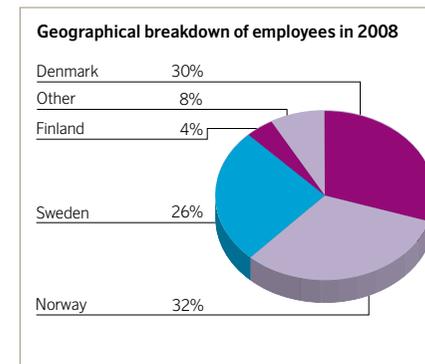
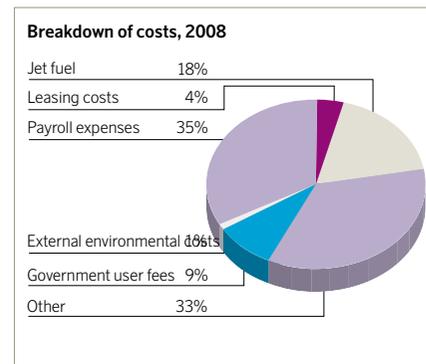
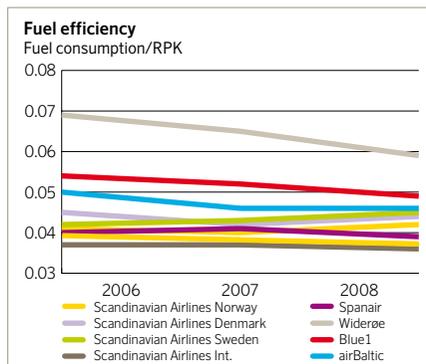
Financial responsibility

SAS is convinced that it is impossible to have economically sustainable operations in the long term without also being socially and environmentally responsible. To boost SAS's competitiveness, Core SAS was launched at the beginning of 2009. A more efficient and profitable SAS will come from targeting the Nordic market, focusing more on business travelers, improving the cost base, streamlining the organization and strengthening the capital structure.

The linkage between sustainable development and the bottom line is obvious to SAS. An analysis of SAS's statement of income reveals that major portions of revenue and expenses, and relevant industry-specific earnings measurements are items relevant from an environmental and/or social perspective. In short, the highest possible financial return is generated by the best possible resource utilization and management of the company's assets. Optimal resource utilization means flying fuel-efficiently and making the most of capacity for carrying passengers and freight. Optimal management of the company's assets includes having positive and improving relations with employees and responsibly ensuring maintenance of aircraft and other plant and equipment.

Conversely, long-term sustainable profitability and growth are a sine qua non for being able to meet and preferably surpass the environmental standards and demands for social responsibility and for ethical conduct placed on SAS today. If the financial resources are lacking for long-term investment and maintaining extensive sustainability work, progress in these areas will not be made.

SAS aims to show clearly how its strategic sustainability work helps to create long-term value. In the current debate the airline industry in



general and SAS in particular have been depicted as climate villains. This means that the ability to work to improve SAS's environmental performance, as well as to communicate this work, has a direct positive impact on earnings. The ability of SAS to increase its revenues relies on the ability to retain current customers as well as attract new ones. The customer's choice to use SAS's services depends a great deal on sustainability issues, since environmental matters have received more attention and since social issues, primarily related to labor conflicts, are something many customers are increasingly aware of.

For SAS it is relatively easy to specify the cost reductions that focused sustainability work can result in, not only in terms of resource use in the form of lower fuel and energy costs but also in terms of the taxes and charges the company pays.

One of the aims of systematic and proactive sustainability work is to prevent or at least reduce the risk of being surprised by new and tougher government and market demands. This is crucial, in view of the fact that bad press and direct

costs in the form of fines and civil damages can also result in indirect costs owing to a tarnished brand and poor market image. The ultimate consequence may then be that customers abandon SAS for other operators.

Financial aspects of environmental responsibility

SAS's environmental work has several overriding purposes: Besides making resource use more efficient and improving environmental performance, it includes ensuring that operations comply with environmental laws and regulations. In SAS's operations greater cost-efficiency is closely correlated with lower environmental impact. In recent years economic instruments from the authorities and other stakeholders have grown in importance. This means that SAS's endeavor to make its resource use more efficient, positive from an environmental standpoint, has an additional beneficial effect on earnings. A clear example is the relationship between CO₂ emissions and the aircraft's fuel consumption. Lower fuel

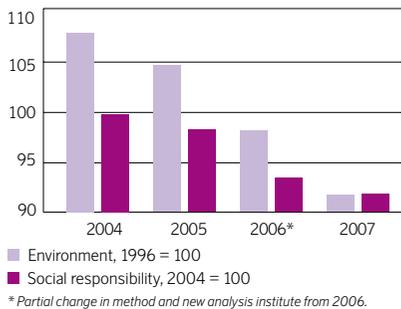
consumption leads to lower fuel costs, while also reducing the charges SAS pays for CO₂ emissions. The same applies to all other activities that, in addition to environmental considerations, have strong financial incentives to reduce consumption of energy and other resources. Below is an account of some of the most important financial aspects of environmental work.

Program for saving fuel

The diagram above shows fuel costs' share of the Group's total costs in 2008. The cost of fuel is affected not only by total consumption but also by factors beyond the SAS Group's control. These factors primarily include changes in the USD exchange rate and the price of fuel. For 2008 the cost of jet fuel accounted for 18% of total costs of SEK 52 billion. During the year both the price of fuel and USD exchange rate fluctuated wildly.

The goal of the fuel saving program, launched in 2005, is a 6-7% relative saving by 2011. At year-end savings of 2-3% since the program began were achieved. In view of the year's fuel

Image index, environmental and social responsibility



Work on sustainable development has a positive impact on the SAS Group's image since 1998. Results from the 2007 survey show that the image indices for environment and CSR fell compared with the previous year, while eco-efficiency and the climate index moved in a positive direction. A new survey will be done in February 2009.

costs, a 2-3% reduction corresponds to a cost savings of MSEK 200-300. The measures being carried out in connection with the fuel saving program are described on pages 106–107.

Infrastructure charges and security costs

Air transport pays its all own costs for the infrastructure it needs and uses to complete flights, i.e., airports and air traffic control. For 2008 these costs for SAS Group airlines totaled MSEK 7,680 (7,694), of which MSEK 4,120 (4,085) pertained to the Group's own costs. The remainder were taxes and charges that the airlines administer but that are paid directly by the customer. In addition there are Spanair's infrastructure charges of MSEK 2,015 (2,075), of which its own costs were MSEK 1,417 (1,498) for 2008.

The SAS Group's security costs for 2008 are estimated to be MSEK 1,372 (1,490) for continuing operations and MSEK 134 (118) for Spanair. Comparable security measures and costs connected with them for rail and ferry traffic are generally paid for by governments through taxes.

External environment-related costs

SAS believes that taxes and environmental charges are inefficient instruments for regulating civil aviation. One reason is that investment in aircraft and engines is costly and long-term. Furthermore, there is a long lead time from inquiries into purchasing new equipment to putting it into service. The equipment is used for such long periods that it is impossible to make short-term changes when governments or airports levy environmental charges and taxes. A number of studies by the ICAO and the EU confirm this assessment.

The SAS Group's external environment-related costs comprise environmental charges and environment-related charges and taxes. These totaled MSEK 453 (414) for 2008. Environmental charges are meant to cover the costs of special environmental measures such as noise measurement and noise insulation of properties near airports. These charges are linked to the aircraft's environmental performance and are included in the landing fee. The Group's environmental charges totaled MSEK 58.6 (43.6) for 2008.

Environment-related charges, too, are often based on the aircraft's environmental characteristics and are included in the landing fee. The intention is to create an incentive to use aircraft with better environmental performance. Environmental characteristics would then be a competitive factor since operators with such fleets would have lower costs. The SAS Group's environment-related charges for 2008 were MSEK 30.0 (29.0).

Environment-related taxes amounted to MSEK 364 (341) in 2008. The increase compared with the previous year primarily was the result of an increase in the Norwegian carbon tax to NOK 0.65/liter of fuel.

Other environment-related costs

The SAS Group's other environment-related costs concern e.g., expenses for waste management, purification plants and costs for the environmental organization. For 2008 these costs came to MSEK 76.4 (81.5).

The SAS Group has no known material environment-related debts or contingent liabilities, for example in the form of contaminated soil.

Environment-related investment

The investment made by SAS in accordance with company policies shall be both environmentally and economically sound, thus contributing to value growth and helping to ensure that future environmental standards can be met. It should be noted that investment not emphasized in this section may also have a positive impact on the environment. Investment that can clearly be linked to structured environmental work is disclosed here.

The most effective measure to improve the fleet's environmental performance is to renew the equipment, investing in aircraft with fuel-effi-

cient engines with low noise and emissions. This renewal is going on continuously at SAS, and investment plans and their rationale are found on pages 28–29 and 107.

Investment in 2008 in SAS Group airlines amounted to MSEK 4,455 (2,683), of which MSEK 17.6 (39.0) represented environment-related investment. Scandinavian Airlines Norge invested MSEK 167 in 2008 on retrofitting winglets on five Boeing 737 aircraft in the existing fleet and adding them to three new 737-800s. Winglets result in an estimated 2-5% reduction of fuel consumption depending on flight distance.

Research and development (R&D)

SAS contributes in many ways to the emergence of a more sustainable society. Among them are the company's commitment to and support of the development and dissemination of green technologies such as bio-based jet fuel and green approaches. In 2008 the SAS Group was involved in the Sustainable Aviation Fuel User Group whose goal is to hasten the development, certification and commercial use of environmentally and socially sustainable aviation fuel. SAS also collaborates with Airbus on the CRISTAL ITP project to reduce fuel consumption on intercontinental flights.

The SAS Group engages in – and to a certain degree pays for – technology development benefiting the entire industry. SAS also plays a leading role internationally in drafting environment-related norms and standards for air transport. The company is represented on a large number of committees, projects and working groups related to the environment and corporate social responsibility in such bodies as IATA, ICAO, AEA, and N-ALM. SAS participates in environmental R&D through a directorship in the Øresund Environment Academy, an organization for environmen-

tal research and cooperation among companies, researchers, and the education sector.

Employees of SAS Corporate Environment & Sustainability serve on the steering group of the Bodø Graduate School of Business, whose orientation is environmental economics and are also often in demand as lecturers on environmental and sustainability topics at universities, colleges, and independent institutes.

Financial aspects of CSR

SAS's first social responsibility is to its own employees and the communities dependent and affected by SAS's operations. For employees this includes issues concerning human resources development, pay and working environment efforts. In addition, SAS is to contribute to social progress wherever it operates and be a respected corporate citizen.

Air transport helps improve labor market conditions in rural areas in the Nordic countries and makes business travel easier in Europe and to other continents. Given increasing globalization, airlines facilitate business and other contact opportunities where efficient transportation to, from and within the countries is more or less a prerequisite for economic development and progress. The airlines also contribute expertise and transfers of technology and make necessary investment in infrastructure.

SAS's contribution to the economy

Airline operations are powerful engines of job creation. This is made clear in the report, Luftfarten i Skandinavien – værdi og betydning. Calculations in the report 2004 show that each employee of SAS's airline operations generates approximately one additional job in other companies and industries, indirectly creating employment for many in the Scandinavian countries.

In 2008 the SAS Group paid wages and salaries totaling MSEK 17,286 (16,407) in continuing operations, of which social security expenses were MSEK 3,047 (1,877) and pensions MSEK 2,594 (2,105).

Payroll expenses

SAS endeavors to offer market pay to all employee groups. In negotiations with all 39 unions, SAS has signed new agreements for pilots, cabin crew and ground staff. Total cost savings amount to SEK 1.5 billion in 2009, of which MSEK 156 is a nonrecurring item relating to pensions. This total corresponds to a decrease of about 12% of the total costs attributable to collective agreements. Approximately MSEK 300 comprises salary freezes and about SEK 1 billion is attributable to productivity improvements, changes to insurance and pensions and salary reductions.

All categories of SAS employee are contributing savings. Group Management's portion

amounts to MSEK 13 and includes, for example, salary reductions corresponding to 6% of basic salary, and no payments of variable salaries relating to 2008 will be made in 2009.

Human resource development

To retain and develop employee skills, extensive training programs are carried out each year. A growing share of the SAS Group's training takes place through web-based courses, or e-learning. E-learning cannot replace classroom instruction, but thanks to its greater flexibility and availability, more courses can be offered at a lower cost. In 2007 total training costs were MSEK 370. On the basis of data from selected companies, the costs for 2008 are estimated to be at the same level.

Costs of sick leave and accidents

Sick leave is affected by a number of factors such as illness and accidents as well as physically and mentally stressful working environments. SAS employs various methods to prevent short-term and long-term sick leave.

Besides lower costs, a low sick leave rate may improve SAS's attractiveness as an employer among current and potential staff. To better monitor and follow up sick leave and provide data for measures to deal with it, quarterly reporting and evaluations of the costs of sick leave have begun. Given SAS's total payroll expenses of MSEK 18,153, it is possible to estimate the total cost of sick leave at around SEK 1.2 billion. According to these calculations, a one-point reduction in sick leave would have a positive impact on earnings of just over MSEK 180.

Sustainability-related business opportunities and business risks

The intention of SAS's sustainable development work is to identify new business opportunities and minimize the environmental and social business risks that operations are subject to. For that reason, for SAS, the climate change issue is not only a matter of minimizing risks in the form of regulations and adverse public opinion, but also a reason to offer customers added value through the opportunity to buy carbon offsets and aim for externally examined sustainability information, greater transparency and reliable corporate governance.

In the same way, SAS's work on safety issues is a matter both of minimizing the risk of near accidents and of developing security routines and systems that are highly reliable, but pose little inconvenience, such as biometric security control. Working to minimize safety and security risks not only protects customers and employees, but also bolsters public confidence in SAS.

Thanks to the growing interest in social and environmental issues among investors, customers and other stakeholders, SAS is convinced that structured sustainability work and transparent reporting of both progress and setbacks is an advantage in the stiff competition prevailing in the markets where it operates.

Environment-related investment (MSEK)	2008	2007	2006	2005	2004
Flight operations	16.7	38.9	63.3	22.2	0.0
Ground operations	0.9	0.1	2.4	0.2	14.3
Total	17.6	39.0	65.7	22.4	814.3
Share of the SAS Group's total investment in %	0.4	1.5	2.9	1.2	0.4

The investment for 2008 primarily related to winglets for portions of the aircraft fleet.

Business areas

In 2008 the business area comprised Scandinavian Airlines Norge, Scandinavian Airlines Danmark, Scandinavian Airlines Sverige and Scandinavian Airlines International.

During the year the business area's fuel efficiency deteriorated marginally, and relative CO₂ emissions rose somewhat, primarily owing to a lower passenger load factor in some of the airlines.

Scandinavian Airlines Norge

Scandinavian Airlines Norge had 2,422 (2,465) employees at the end of 2008 and accounted for 27 (24)% of the Group's passengers. This makes the company the largest in the Group. During the year the passenger load factor fell to 69.5 (72.9)%. Fuel consumption was 0.042 (0.040) kg/RPK. Production measured in RPK was up nearly 3%, while CO₂ emissions fell by 7% to 1,133 tonnes. The environmental index reached 94 (91). The target for 2011 is 87.

In 2008 Scandinavian Airlines Norge started a project to reduce sick leave by quickly making personal contact in the event of absences.

Scandinavian Airlines Norge invested in three new Boeing 737-800s and could therefore phase out two old 737 Classics with poorer environmental performance. The company also retrofitted winglets on five Boeing 737 aircraft in the existing fleet.

Scandinavian Airlines Norge has made good progress in its ISO 14001 certification effort.

During the year, spills of Jet A1 fuel were noted in connection with aircraft fueling as was a halon emission of 1 kg, which were reported to the inspection authorities. In mid-2009 a new law will go into effect banning the disposal in landfills of degradable waste. The company is studying the consequences and is establishing new waste management routines.

In 2007 all company managers took part in a development program that concluded with a comprehensive assessment of each participant's efforts and potential for future duties. In 2008 the recommended changes that emerged in the program were carried

out. All managers took a seven-day leadership training course during the past two years.

The policy against bullying and harassment was revised in 2008 and a campaign against bullying was carried out.

The company has extensive cooperation with authorities and organizations on environmental issues. An environmental declaration was formulated, to be used in connection with agreements and invitations to tender. In 2008 a greater interest was noted from corporate customers in the company's environmental management system.

During 2008 SAS Norway signed a new three-year agreement with the Bellona Foundation aimed at speeding up the development of biofuels and improving the dialog on sustainable aviation.

There were a number of activities in 2008 in partnership with Save the Children and SOS Children's Villages. The company's occupational injury rate, its LTI (lost time to injury) rate, was 6 (8), and the number of occupational injuries was 27 (33).

Scandinavian Airlines Danmark

In 2008 Scandinavian Airlines Danmark accounted for 20 (20)% of the Group's passenger volume and had 2,162 (2,188) employees.

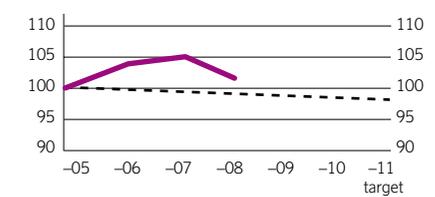
Production measured in available tonne kilometers, ATK, was up 9%, with fuel consumption up 2.3%. The passenger load factor fell to 72.5 (74.6)%. Fuel consumption was to 0.044 kg/RPK compared with 0.042 kg/RPK for 2007. The environmental index was 98, a deterioration of 4 points over 2007. The target for 2011 is 87.

Noise from the MD-80 aircraft affect the vicinity of Copenhagen Airport. The highest level permitted after 11 p.m. is 80dB. For that reason SAS introduced a takeoff routine, called a cutback, in which the throttle is reduced shortly after takeoff. Around 30 infringements were reported in early 2008, primarily because SAS was forced to use leased aircraft after it decided to phase out the Q400 fleet. Starting in April other aircraft were deployed on the late departures, thus eliminating the problem. The infringements did not result in any fines. The new

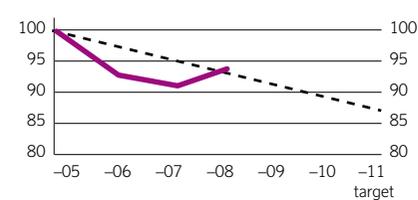
Environmental index and target scenario for airline operations

Starting in 2007 all environmental indices have been reformulated according to a new model with 2005 as the base year. Company targets have been set in consultation with Group Management. Targets for 2011 remain firm despite the downturn and the impact of the financial crisis on the industry.

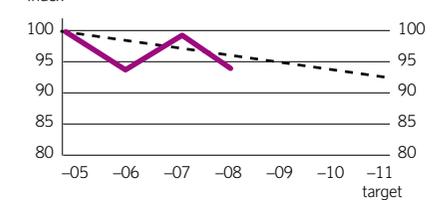
Scandinavian Airlines International



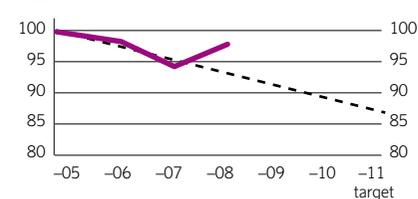
Scandinavian Airlines Norge



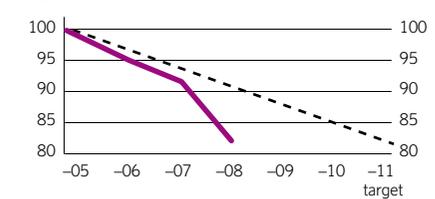
Spanair



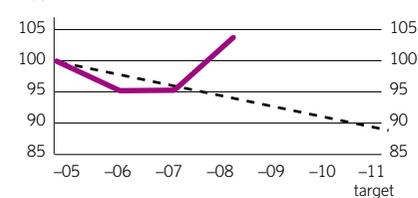
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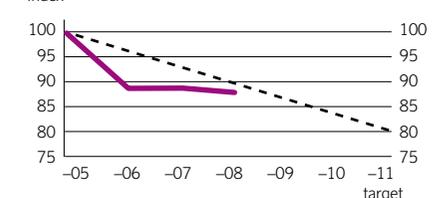
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Scandinavian Airlines Sverige



Blue1





KPIs SAS Scandinavian Airlines

	Scandinavian Airlines Norge			Scandinavian Airlines Danmark			Scandinavian Airlines Sverige			Scandinavian Airlines Intern.		
	2008	2007	2006	2008	2007	2006	2008	2007	2006	2008	2007	2006
RPK, mill. ¹	8,585	8,366	8,222	7,551	7,666	7,105	5,646	5,836	5,909	10,125	9,953	10,541
ASK, mill. ¹	12,360	11,482	11,443	10,417	10,276	9,475	8,056	7,872	7,891	11,700	11,616	12,323
Passenger load factor, % ¹	69.5	72.9	71.9	72.5	74.6	75.0	70.1	74.1	74.9	86.5	85.7	85.5
Fuel consumption, kg/RPK	0.042	0.040	0.041	0.044	0.042	0.045	0.045	0.043	0.042	0.036	0.037	0.037
Carbon dioxide (CO ₂) emissions, 1,000 tonnes	1,133	1,056	1,059	1,046	1,022	998	798	783	787	1,147	1,158	1,226
Nitrogen oxide (NO _x) emissions, 1,000 tonnes	3.58	3.41	3.49	4.50	4.46	4.35	2.75	2.60	2.70	6.26	6.40	6.74
Noise impact, km ² /85dB(A) at takeoff ²	1.67	1.66	1.66	3.06	2.70	2.40	3.18	2.50	2.53	4.52	4.50	4.50
Environmental index	94	91	93	98	94	98	104	95	95	102	105	104

¹ Includes scheduled traffic, charter, ad-hoc flights and bonus trips, etc., which means that the figures may deviate from traffic figures from the airline concerned, where only scheduled traffic is reported.

² Weighted average noise contour by number of takeoffs by respective aircraft type in the traffic system.

CRJ aircraft, used in regional service, have the best environmental performance in their class, in terms of both fuel consumption and noise.

A project team was appointed for ISO 14001-certification, and a gap analysis will be done in early 2009. Major customers are offered carbon offsets via the website and in corporate travel. The company also engaged in a dialog with affected authorities and Navair to introduce more eco-efficient takeoffs and landings at Copenhagen Airport. A changeover of the airline's cars to diesel-powered with particle filters and low CO₂ emissions is under way.

SAS in Denmark is involved in the preparations for the climate conference in Copenhagen in 2009 through a partnership in the World Business Summit on Climate Change in May 2009.

SAS is the Official Airline for attendees, and all travel will be carbon-offset. SAS will also participate in several other conferences.

SAS in Denmark participates in the Ministry of Climate and Energy's "One Tonne Less" campaign, aimed at getting all citizens to reduce their CO₂ emissions. The airline is a sponsor of Save the Chil-

dren, Fonden for Socialt Ansvar and the Danish Association of Young Scientists and participates in the climate and energy minister's Business Panel on Climate Change.

SAS in Denmark is participating in a research project at the University of Copenhagen concerning the physical strains of working in the cabin and a project concerning physical activity in office work together with the Ministry of Health and Prevention. The company's occupational injury rate, its LTI rate was 11 (14), and the number of occupational injuries was 39 (53).

Scandinavian Airlines Sverige

In 2008 Scandinavian Airlines Sverige accounted for 16 (15)% of the Group's passenger volume and had 1,665 (1,704) employees at year end. The passenger load factor fell to 70.1 (74.1)%, and fuel consumption rose to 0.045 (0.043) kg/RPK. The environmental index was 104 (95). The target for 2011 is 89. The deterioration is attributable to the fact that SAS was forced to use leased aircraft after deciding to phase out the Q400 fleet and to the evidently

worsened market situation at the end of 2008.

During the year testing of green approaches that use the most advanced method concluded at Arlanda Airport outside Stockholm, after 2,300 approaches were made. In May 2008 a simpler version of green approaches was made permanent, and during the year, around 4,000 green approaches were made using the new, simpler version, with an estimated savings of 80 kg of fuel per approach.

The CASSIS consortium began testing time-based green approaches on behalf of Eurocontrol. This time the testing is aimed at making green approaches in all traffic densities, using the most advanced method around the clock.

Green approaches won the ECOLogistics Award for 2008 and Airline Business "Leadership in Technology Award 2008."

During the year, all company cars were replaced by green vehicles that run on ethanol and use non-studded winter tires. All company car drivers will take an ECOSafe course in 2009.

There was great interest in Scandinavian Airlines Sverige's sustainability work in 2008. A large

number of presentations were held at seminars organized by corporate customers, stakeholders in the travel industry and at Swedish travel fairs.

A number of suggestions for SAS's sustainability work emerged from an in-house activity for employees within the framework of the "Market Council." Among them were to speed up the development of simpler solutions for voluntary carbon offsetting and to offer organic products for onboard sale. SAS in Sweden also offers carbon-offset agreements to corporate customers. The company's occupational injury rate, its LTI rate, was 2 (3), and the number of occupational injuries was 5 (8).

Scandinavian Airlines International

In 2008 Scandinavian Airlines International accounted for 3 (3)% of the Group's passenger volume and had 753 (782) employees at year end. The passenger load factor improved to 86.5 (85.7)%. Fuel consumption measured in kg/RPK was 0,036 (0.037). The environmental index was 102 (105), primarily thanks to better fuel efficiency. The target for 2011 is 98.

The airline is well under way in its environmental certification work. Scandinavian Airlines International also has the highest proportion of employees trained in the Code of Conduct. The airline's environmental work focuses on improving punctuality, weight reduction and information for employees, above all for pilots. No fuel was jettisoned in 2008.

SAS Individually Branded Airlines

Spanair

Spanair had 25 (25)% of the Group's passenger volume in 2008 and 3,334 (3,415) employees at year end. At the beginning of 2009 an agreement was reached with a Spanish consortium to divest 80.1% of the shares in the airline.

The passenger load factor was 72.6 (71.1)% and fuel consumption was 0.039 (0.041) kg/RPK. The environmental index reached 94 (98).

On August 20, 2008, an MD-80 154 belonging to Spanair crashed outside Madrid. 154 persons perished, while 18 survived the accident. The SAS Group immediately placed its crisis organization at Spanair's disposal, and cooperation with affected authorities got under way quickly in order to assist family members and employees and determine the causes.

Widerøe

Widerøe had 5 (4)% of the Group's passenger volume in 2008 and 1,329 (1,358) employees at the end of 2008. The passenger load factor was 58.9 (59.2)% and fuel consumption was 0.063 (0.065) kg/RPK. The environmental index was 83 (92). The target for 2011 is 82.

Widerøe has ordered six Q400NGs. In 2008 Widerøe operated five Q400s, four of which were leased pending delivery of the new aircraft. This goes far to explain the improvement in the environmental index. The aircraft have the best environmental performance in their class.

	KPIs SAS Individually Branded Airlines ¹											
	2008	Spanair		2008	Widerøe		2008	Blue1		2008 ³	airBaltic	
		2007	2006		2007	2006		2007	2006		2007	2006
RPK, mill. ¹	11,420	12,077	12,035	647	608	608	1,399	1,413	1,432	–	2,315	1,538
ASK, mill. ¹	15,741	16,981	16,727	1,098	1,028	1,076	2,146	2,169	2,157	–	3,674	2,548
Passenger load factor, % ¹	72.6	71.1	72.0	58.9	59.2	56.5	65.2	65.1	66.4	–	63.0	60.4
Fuel consumption, kg/RPK	0.038	0.041	0.040	0.063	0.065	0.069	0.049	0.052	0.054	–	0.046	0.050
Carbon dioxide (CO ₂) emissions, 1,000 tonnes	1,372	1,574	1,500	128	125	132	216	230	249	–	338	242
Nitrogen oxide (NO _x) emissions, 1,000 tonnes	6.03	6.49	6.09	0.34	0.38	0.40	0.80	0.77	0.77	–	1.13	0.77
Noise impact, km ² /85dB(A) at takeoff ³	3.70	3.86	4.14	0.33	0.34	0.34	2.17	2.22	1.98	–	1.22	1.08
Environmental index	94	98	94	83	92	95	88	89	89	–	83	89

¹ Includes scheduled traffic, charter, ad hoc flights and bonus trips, etc., which means that the figures may deviate from traffic figures from the airline concerned, where only scheduled traffic is reported.

² Weighted average noise contour by number of takeoffs by respective aircraft type in the traffic system. ³ KPIs for airBaltic are not available.

Widerøe is well under way in its ISO 14001-certification effort, and is likely to be certified in 2009/2010. The airline collaborates with Avinor on SCART 1 to be able to make green approaches in Norway that also improve safety.

Since May, Widerøe has had a simple "one-click" Internet solution for carbon offsets. Nearly 5% of customers make use of this offer, which is a higher percentage than for other SAS airlines. Widerøe has actively participated in a Norwegian program aimed at training apprentices and admit about 10 each year. Among sponsored projects is the Dyrepark airplane for children with cancer. The company's occupational injury rate, LTI rate, was 6, and the number of occupational injuries was 13.

Blue1

In 2008 Blue1 accounted for 4 (4)% of the Group's passenger volume and had 460 (506) employees at year end. The passenger load factor was 65.2 (65.1)% and fuel consumption was 0.049 (0.052) kg/RPK. The environmental index was 88 (89). The target for 2011 is 80.

The airline's environmental certification work is well under way. The fuel saving program yielded good results during the year. Growing interest in Blue1's environmental performance was noted from customers and the authorities.

Twice in 2007 the airline exceeded the night restrictions at Charles de Gaulle Airport outside Paris. The fines may total MSEK 0.2. The company's occupational injury rate, its LTI rate, was 0 (14), and the number of occupational injuries was 0 (11).

airBaltic

In 2008 a decision was made to sell the SAS Group's 47% stake in airBaltic, and as of 2009 the airline no longer belongs to the Group. Environmental data for 2008 are not available.

Estonian Air

Based in Tallinn, Estonia, Estonian Air is 49% owned by the SAS Group. The passenger load factor was 68.1 (67.7)% and fuel consumption was 0.042 (0.041) kg/RPK. The environmental index was 84 (83). Environmental data is not consolidated.

SAS Aviation Services

SAS Ground Services (SGS)

Europe's third largest provider of passenger and ramp services on the ground, SAS Ground Services (SGS) is the SAS Group's biggest unit in terms of staff, with 7,040 (6,873) employees at the end of 2008.

SGS operates at 160 airports in 40 countries and is the biggest company in its business in the Scandinavian countries.

The most important environmental aspects are the use of energy, water, gasoline and diesel and exhaust emissions from motor vehicles. Deicing fluids pose a risk of being released into surface water. In addition, operations generate considerable quantities of waste.

Water consumption declined substantially in 2008.

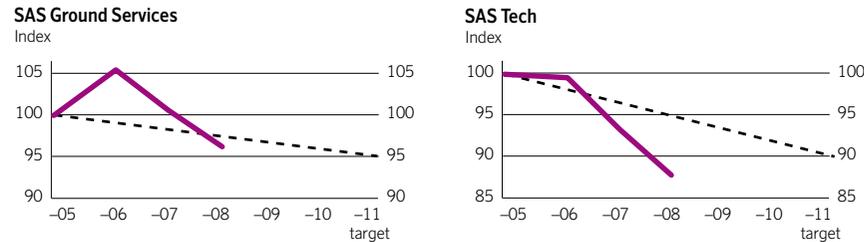
SGS's environmental target is a one point per year improvement in the environmental index. There are environmental targets for each local unit. The environmental index was 96 (101), and the target for 2011 is 95).

KPIs SAS Aviation Services

	2008	2007	2006
Energy consumption, ¹	196	191	200
Water consumption, 1,000 m ³ ¹	149	184	180
Unsorted waste, ton ¹	682	754	545
Hazardous waste ¹	480	494	460
Fuel consumption, vehicles, 1,000 liters	3,706	3,993	4,144
Glycol consumption, m ³	2,842	2,947	3,667
Total number of employees	10,651	10,565	

¹ Data from SAS Group FM/Coor Service Management and Air Maintenance Estonia..

Environmental index and target scenario for SAS Aviation Services



SGS and SAS Tech measure their environmental performance using an environmental index with 2005 as the base year. The companies' environmental indices include the six most important production parameters per weighted landing for SGS and hours worked for SAS Tech.

SGS has extensive local environmental programs with continuous monitoring and follow-up. These include water consumption and waste management and contacts with governments, airline customers and suppliers.

In Swedish operations, work is being prioritized to reduce sick leave, improve job satisfaction and the working environment and cut the number of job accidents. Efforts are being made to streamline safety and working environment inspections.

SGS utilizes preventive deicing to reduce glycol use. SGS has the strictest environmental policy in the Nordic countries for purchasing deicing fluid. Vacuuming up fluid at the ramp is provided by LFV or another contractor.

In 2008 testing of Petro-Aid began on diesel vehicles at Arlanda Airport. The additive cleans the engine, reduces the amount of soot and boosts combustion, producing cleaner exhaust and cutting fuel consumption. The Rampsnake loading system continues to be modified to improve functionality and the working environment.

In the fall of 2008 the Environmental Court set

requirements for LFV concerning exhaust emissions at Gothenburg airport. The operator was ordered to ensure that only vehicles with the highest environmental classification are used at the ramp. This will have serious consequences for SGS's vehicles and machinery fleet.

In Norway a glycol discharge in connection with an accident in Tromsø, when a truck overturned, was reported, as were discharges of oil and glycol outside a workshop at Oslo Airport.

In Denmark the Danish Working Environment Authority cited the poor air quality at Copenhagen Airport and ordered that action be taken. SAS appealed, since it lacked the technical ability to reduce the nuisance, and its appeal was granted.

In contracts with subcontractors, environmental performance is becoming increasingly important. The share of suppliers with ISO 9001- and/or ISO 14001-certification is now just over 15%.

SGS has a close partnership with the educational system and participates in an apprentice program in Denmark.

The company's occupational injury rate, its LTI

rate, was 19 (20), and the number of occupational injuries was 224 (238). One cancer case was classified as an occupational injury.

SAS Tech

SAS Tech, which provides technical maintenance of aircraft, operates primarily in Scandinavia. At the end of 2008 the number of employees was 2,344 (2,422). The biggest customers are Group airlines.

SAS Tech accounts for most of the operations in the Group requiring environment-related permits. SAS Tech is also the biggest user of chemicals and generates the biggest share of hazardous waste. This is handled by approved waste management companies.

SAS Tech is developing its environmental management system, and at the end of 2008 work began on ISO 14001 certification.

In 2008 the operations at SAS Facility Management were turned over to Coor Service Management. The contract pertains to management of all of the Group's owned and leased properties. SAS Tech thus becomes a participant in Coor's environment

and energy program for property management.

SAS Tech has long-standing cooperation with suppliers and researchers to find materials containing less heavy metals and other chemicals than those used till now. SAS Tech intends to switch chemical suppliers in order to reduce the quantity of hazardous waste, cut storage time and have better cost control. This will also facilitate the transition to the European REACH rules. SAS Tech also has a department primarily tasked with systematizing and checking all products suspected of being hazardous to human health.

The environmental index for 2008 was 88 (93). The target for 2011 is 90. The company's occupational injury rate, its LTI rate, was 7 (8), and the number of occupational injuries was 28 (34).

SAS Cargo

SAS Cargo had 1,247 (1,356) employees at the end of 2008. The company provides air freight within the framework of the operations of Scandinavian Airlines, Blue1 and other partners. The bulk of SAS Cargo's freight capacity is found in SAS's own airlines.

SAS Cargo is ISO 14001-certified, and parts of the company are also ISO 9001-certified. This means that the company has a management system that addresses quality, environmental and sustainability issues. Sustainability work includes environmental performance and working environment, as well as ethics and CSR. The aim of environmental work is to minimize the harmful impacts of operations by making the most of capacity participating in the development of materials and systems. Most recently SAS Cargo developed a temperature-regulating "Temptainer," which with its improved cooling system and lighter weight will have a lower environmental impact.

Since 2006 SAS Cargo has been the target of collusion investigations in the EU and U.S. During the year the company acknowledged violating U.S.

antitrust rules and accepted MUSD 52 in fines to be paid over four years. It is not possible at this time for SAS to predict the outcomes of the European Commission investigation or of the U.S. civil lawsuits.

During the year SAS Cargo set an environmental target for 2011 for its vehicle transportation of a reduction in CO₂ emissions from 0.153 to 0.148 kg/tonne km.

The company's occupational injury rate, its LTI rate, was 16 (12), and the number of occupational injuries was 32 (27).

Coor Service Management

As part of SAS's Strategy 2011, SAS Facility Management Sweden AB with subsidiaries in Denmark and Norway were sold to Coor Service Management on June 1, 2008. Since most of the employees continued under the new owner, expertise and experience were ensured.

With around 3,500 employees and operating revenue of SEK 4.5 billion, Coor Service Management is Scandinavia's largest facility management company.

Coor has taken over day-to-day operation and maintenance of all of SAS's buildings and premises in Scandinavia, including follow-up of energy, waste management, cleaning facilities, environmental regulations and reporting to the authorities. This is governed in agreements between SAS Group FM and Coor. Coor is contractually obligated to initiate improvement measures and, along with SAS Group FM, follow up on a continuing basis when potentials for improvements and any unforeseen incidents are evaluated.

SAS Group FM has primary responsibility for all facility-related requirements being met, which also includes environmental responsibility. Coor is ISO 14001-certified in Denmark and Sweden and is well on the way to certification in Norway and Finland.

Limited assurance report

To the readers of SAS Group Sustainability Report 2008:

We have performed a review of SAS Group Sustainability Report 2008. The sustainability reporting includes the SAS Annual Report and Sustainability Report 2008, pages 101-124, as well as accounting principles, GRI cross reference list and stakeholder dialogue, found on SAS website (www.sasgroup.net under "Sustainability"). It is the executive team that are responsible for the continuous activities regarding environment, health & safety, quality, social responsibility and for the preparation and presentation of the sustainability report in accordance with applicable criteria. Our responsibility is to express a conclusion on the sustainability report based on our review.

The scope of the limited review

Our review has been performed in accordance with FAR SRS (the institute for the accountancy profession in Sweden) draft recommendation "RevR 6 Assurance of sustainability reports". A limited review consists of making inquiries, primarily of persons responsible for sustainability matters and for preparing the sustainability report, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the Standards on Auditing in Sweden RS and other generally accepted auditing standards. The procedures performed in a limited review do not enable us to obtain an assurance that would make us aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The criteria used in the course of performing review procedures are based on SAS Group's Principles for Sustainability Reporting (www.sasgroup.net) as well as applicable parts of "Sustainability Reporting Guidelines, G3", published by The Global Reporting Initiative (GRI), suitable for the sustainability report. We consider those criteria to be suitable for our engagement.

Our limited review has been based on an assessment of materiality and risk, among other things included the following review procedures:

- a. An update of our knowledge and understanding for SAS Group's organization and activities
- b. Assessment of suitability and application of criteria in respect to stakeholders need of information
- c. Assessment of the result of the company's stakeholder dialogue
- d. Interviews with responsible management, at group level, subsidiary level and at selected business units with the aim to assess if the qualitative and quantitative information stated in the Sustainability Report is complete, correct and sufficient
- e. Share internal and external documents to assess if the information stated in the Sustainability Report is complete, correct and sufficient
- f. Evaluation of the design of systems and processes used to obtain, manage and validate sustainability information
- g. Evaluation of the model used to calculate emissions of carbon dioxide, nitrogen oxides and noise
- h. Analytical review of reported information
- i. Reconciliation of financial information against company's Annual Report 2008
- j. Assessment of the company's stated application level according to GRI's guidelines
- k. Overall impression of the Sustainability Report, and its format, considering the information's mutual correctness with applicable criteria
- l. Reconciliation of the reviewed information against the sustainability information in company's Annual Report 2008

Conclusion

Based on our review procedures, nothing has come to our attention that causes us to believe that SAS Group Sustainability Report 2008 has not, in all material aspects, been prepared in accordance with the above stated criteria.

Stockholm, March 12, 2009

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