



## SAS delivers in line with forecast and continues with extensive efficiency measures

### August–October 2014

Comparative figures include Widerøe for the August to September 2013 period.

- Income before tax and nonrecurring items: MSEK 789 (601)
- Revenue: MSEK 10,966 (11,059)
- Unit revenue (PASK) declined 0.1%
- Unit cost (CASK) decreased 1.1%<sup>1</sup>
- EBIT margin: -2.3% (16.5%)
- Income before tax: MSEK -450 (1,568)
- Net income for the period: MSEK -303 (1,465)
- Earnings per common share: SEK -1.21 (4.45)
- The outlook for the full year 2014/2015 is presented on page 8
- The Board proposes that no dividend be paid to holders of SAS AB's common shares for the 2013/2014 fiscal year
- The Board proposes a dividend of SEK 50 per preference share to holders of preference shares

1) Currency adjusted and excluding jet fuel.

2) Currency adjusted, excluding jet fuel and amended pension terms totaling MSEK 450 in the Feb–Apr 2013 period.

### November 2013–October 2014

Comparative figures include Widerøe for the November 2012 to September 2013 period.

- Income before tax and nonrecurring items: MSEK 347 (919) (including the positive effect of amended pension terms)
- Revenue: MSEK 38,006 (42,182)
- Unit revenue (PASK) declined 5.8%
- Unit cost (CASK) decreased 3.9%<sup>2</sup>
- EBIT margin: 0.4% (6.2%)
- Income before tax: MSEK -918 (1,648)
- Net income for the period: MSEK -719 (1,358)
- Earnings per common share: SEK -3.03 (4.12)

### Comments by the President and CEO of SAS:

“SAS has delivered the promised efficiency measures, with declining unit costs as a consequence. In parallel, passenger growth was strong and the load factor posted a year-on-year improvement for the eighth successive month. However, earnings were impacted by intense competition and strong price pressure. This trend is expected to continue. External production models, proprietary low cost carriers and the use of staffing agencies are increasingly becoming the established industry norm and are changing competitive conditions for European aviation from the ground up.

To meet these challenges and strengthen competitiveness, we are implementing additional long-term cost-saving measures that spans

the entire business and together generates an earnings impact of SEK 2.1 billion with full effect in 2017. Measures include our continued optimization of production and streamlining the aircraft fleet. On December 8, 2014, the Danish airline Cimber was acquired as part of this strategy and SAS intends to transfer regional CRJ900 production to Cimber in 2015. We are also enhancing our offering to our frequent travelers. For example, in 2015, the first of the new Airbus A330 Enhanced long-haul aircraft will be delivered to SAS and, in September, a new direct route from Stockholm to Asia will be opened,” says Rickard Gustafson, SAS President and CEO.

### Income and key ratios

Key ratios (MSEK)	Aug–Oct 2014	Aug–Oct 2013	Nov–Oct 2013–2014	Nov–Oct 2012–2013
Revenue	10,966	11,059	38,006	42,182
EBIT margin	-2.3%	16.5%	0.4%	6.2%
Income before tax and nonrecurring items	789	601	-697	919
Income before tax, EBT	-450	1,568	-918	1,648
Net income for the period	-303	1,465	-719	1,358
Cash flow from operating activities	776	510	1,096	1,028
			<b>31 Oct, 2014</b>	<b>31 Oct, 2013</b>
Equity/assets ratio			17%	12%
Financial preparedness (target >20% of fixed costs)			37%	26%
Shareholders' equity per common share, SEK			3.66	9.76

The SAS Group has applied the amended standard for pension reporting, IAS 19 – Employee Benefits since November 1, 2013. As part of implementing the amended accounting standard, reported figures for the preceding fiscal year (2012/2013) were restated to enable comparison with the 2013/2014 fiscal year. The effects of the restatement of the SAS Group's financial statements for 2012/2013 can be found at [www.sasgroup.net](http://www.sasgroup.net), under Investor Relations/Financial reports/Interim reports.

# Comments by the CEO

- Income for the year before tax and nonrecurring items was MSEK 347 (including the positive effect of amended pension terms)

#### Fourth quarter trend:

- Income before tax and nonrecurring items totaled MSEK 789
- The number of passengers increased by 590,000
- Load factor increased to 77.4%
- The number of EuroBonus members rose by 160,000

#### After the fourth quarter:

- Cost measures of SEK 2.1 billion initiated
- SAS acquired Cimber on December 8, 2014
- SAS is launching a new direct intercontinental route between Stockholm and Hong Kong in autumn 2015

In line with our forecast, SAS posted positive earnings before tax and nonrecurring items, including a positive effect from amended pension terms, for the 2013/2014 fiscal year. Earnings clearly reflect how we are impacted by the intense competition and continued strong price pressure in the market. Despite a challenging market, our established strategy has generated results and, during the quarter, SAS has continued to post robust passenger growth with 590,000 more passengers and a high load factor of 77.4%. During the quarter, the currency-adjusted unit cost fell 1.1%, resulting in an accumulated 3.9% reduction for the fiscal year.

The intense price pressure during the year has impacted the entire industry and escalated the reshaping of the European airline industry. The new norm with external production models, the launch of proprietary low cost carriers and using staffing agencies is becoming increasingly established and is radically changing competitive conditions. To meet these challenges, SAS has initiated discussions with its trade unions to achieve increased flexibility and reduced complexity. In parallel, SAS is implementing, across the entire business, cost measures that are organized in line with the strategic priorities: to establish an efficient operating platform, to win the battle for Scandinavia's frequent travelers and to invest in the future.

#### Toward an efficient production platform

When the restructuring program was launched in November 2012, the aim was to implement cost reductions of about SEK 3 billion by 2015. When we sum up the fourth quarter, we can note that all the measures have been implemented. The results of the measures include reduced annualized payroll expenses of about SEK 1.2 billion, the restructuring of IT and the efficiency enhancement of ground handling in parallel with the start of an outsourcing process.

In June, SAS announced that it was intensifying measures to strengthen competitiveness, which will generate an earnings impact of SEK 1 billion in 2014/2015 and additional savings in the billion range moving forward. During the quarter, the long-term savings have been planned in detail and SAS can now present measures that will generate an earnings impact of SEK 2.1 billion with full effect in 2017. The measures include continued efficiency enhancement of major parts of SAS's operations, including administration and ground handling services, as well as production optimization.

In line with the SAS strategy of streamlining the aircraft fleet, the two final steps are now being implemented to reduce the number of aircraft types. SAS has acquired the Danish airline Cimber and intends to transfer regional CRJ900 production to Cimber. During the year, SAS has reduced capacity at Blue1 by about 40% as a result of the decision to divest four Boeing 717s. The five remaining Boeing 717s will be phased out in 2015. As a consequence, the SAS aircraft fleet will only comprise four aircraft types compared with nine types in 2012. SAS has also transformed Blue1 into a competitive production company and future production is currently being evaluated. Together, the structural changes to Cimber and Blue1 are expected to generate an earnings impact of MSEK 250.

#### Strengthened offering to Scandinavia's frequent travelers

SAS has a vision that focuses on making life easier for Scandinavia's frequent travelers. In line with the vision, SAS continued to strengthen its position and invest in the customer offering, which contributed to more passengers choosing to fly with us, also in the fourth quarter. It is pleasing to note that punctuality remained at a high level, which means that SAS was one of the most punctual airlines in Europe during the quarter.

Our SAS Go and SAS Plus service concepts have performed well and we have identified a highly positive trend in the number of Plus travelers, which posted a year-on-year increase of slightly more than 20% for the quarter.

In addition to strong passenger growth, our success with the revamped EuroBonus program continued. The number of members increased by about 160,000 during the quarter and now totals 3.7 million. In addition to a larger membership base, EuroBonus members travel with SAS more often than previously, which means that members now account for about 50% of passenger revenue, up 19% compared with the year-earlier period.

SAS is launching a new direct route from Stockholm to Hong Kong starting in September 2015 with flights operating five times per week. SAS has also presented nine new routes for 2015 and opened more than 50 routes to selected destinations during the year. In August, SAS launched the new direct intercontinental route between Stavanger and Houston. This route particularly targets frequent travelers in the offshore and oil industries.

In 2015, the customer offering to frequent travelers was strengthened through the launch of a new concept with Café lounges directly connected to the gates. The lounges provide a relaxed environment with a coffee bar and Wi-Fi. In addition, new domestic lounges have been opened in Oslo and Gothenburg, and existing lounges have been upgraded to benefit our customers.

#### Continued investment in the future

At the start of 2015, the first upgraded long-haul aircraft will commence operation with entirely new cabin interiors and horizontal seats in SAS Business class. The first of the SAS Group's new Airbus A330 Enhanced aircraft will be delivered in the second half of the year, which comprises the first step in the renewal of the long-haul fleet. The renewal will result in an enhanced customer experience in parallel with lowered fuel and maintenance costs.

We are investing SEK 0.5 billion in a new digital platform to enable our customers to manage their travel and associated services in a fully digital manner. The aim is to offer each customer a relevant and individually tailored experience in parallel with facilitating increased revenue for SAS.

#### Financial position

The recapitalization carried out by SAS in February 2014 and its implementation of the pension agreements, which reduced the Group's pension commitments from slightly more than SEK 33 billion to SEK 18.4 billion, mean that we have a more stable financial position. In the fourth quarter, an agreement was made regarding a sale and lease-back transaction for four Airbus A330-300 Enhanced aircraft. This, along with the recapitalization, means that the funding of maturing loans and aircraft deliveries until the second quarter of 2016 has been secured. With a financial preparedness of 37% and an equity/assets ratio of 17%, SAS is continuing to strive for long-term sustainable profitability.

Stockholm, December 18, 2014

Rickard Gustafson  
President and CEO

# Comments on SAS's financial statements

## Earnings analysis August–October 2014

On September 30, 2013, the sale of 80% of the shareholding of Widerøe's Flyveselskap AS (Widerøe) was completed, which means that Widerøe's earnings are included in the comparative figures for the August to September 2013 period.

SAS's operating income was MSEK -250 (1,829) and income before tax and nonrecurring items totaled MSEK 789 (601). Income before tax amounted to MSEK -450 (1,568) and income after tax was MSEK -303 (1,465). Nonrecurring items of MSEK 1,239 were charged to the fourth quarter.

The exchange-rate trend had a positive impact on revenue of MSEK 385 and a negative effect on operating income of MSEK -46 compared with the corresponding year-earlier period.

Revenue for SAS amounted to MSEK 10,966 (11,059). Adjusted for currency effects and Widerøe, revenue rose about 2.3% year-on-year, primarily due to increased production. Charter revenue and sales of EuroBonus points also increased year-on-year. The number of passengers increased 8.4%, capacity (ASK) rose 3.8% and the load factor increased 2.3 percentage points. The currency-adjusted yield declined 3.1%, the currency-adjusted unit revenue (PASK<sup>1</sup>) declined 0.1% and, after adjustments for currency and jet fuel, the unit cost (CASK) decreased 1.1% compared with the year-earlier period.

Total operating expenses for SAS amounted to MSEK -11,216 (-9,230). Adjusted for currency effects, Widerøe and nonrecurring items, operating expenses increased 0.4% year-on-year. Payroll expenses for the quarter were 5% lower year-on-year. Handling and wet-lease costs rose due to increased production. Total operating expenses included nonrecurring items of MSEK 1,187. The ongoing restructuring program during the period resulted in cost reductions of about MSEK 195.

Payroll expenses amounted to MSEK 2,756 (2,661), which included restructuring costs of MSEK -375 (-3). Payroll expenses, after adjustment for currency, Widerøe and nonrecurring items, declined 5.0% year-on-year.

Jet-fuel costs amounted to MSEK -2,533 (-2,502). Adjusted for currency effects and Widerøe, costs declined 3.0%, which was mainly attributable to lower prices.

Net financial items for SAS amounted to MSEK -151 (-261), of which net interest expense was MSEK -144 (-204).

Total nonrecurring items amounted to MSEK -1,239 (967) and comprised restructuring costs, capital gains/losses, impairment and other nonrecurring items. Restructuring costs totaled MSEK -1,113 (-3), of which MSEK -375 (-3) pertained to payroll expenses, MSEK -67 (0) pertained to leasing costs, MSEK -96 (0) pertained to amortization and depreciation and MSEK -575 (0) pertained to other operating expenses, primarily related to property agreements. Capital losses amounted to MSEK 0 (gain: 970) and pertained to aircraft transactions of MSEK 1 (-32), the sale of shares in subsidiaries and affiliated companies of MSEK 1 (1,002) and buildings of MSEK -5 (0) and the sale of other shares of MSEK 3 (0). Capital gains from the preceding year were primarily attributable to the sale of Widerøe. Impairment losses totaled MSEK -52 (0) and pertained to the impairment of receivables and shares. Other nonrecurring items amounted to MSEK -74 (0) and were attributable to expenses related to technical maintenance and properties.

## Earnings analysis November 2013–October 2014

On September 30, 2013, the sale of 80% of the shareholding in Widerøe's Flyveselskap AS (Widerøe) was completed, which means that Widerøe's earnings are included in the comparative figures for the November 2012–September 2013 period.

The SAS Group's operating income was MSEK 153 (2,596) and income before tax and nonrecurring items totaled MSEK -697 (919). Income before tax amounted to MSEK -918 (1,648) and income after tax was MSEK -719 (1,358).

The exchange-rate trend had a positive impact on revenue of MSEK 151 and a negative effect on total operating income of MSEK -183 compared with the corresponding year-earlier period.

Revenue for SAS amounted to MSEK 38,006 (42,182). Adjusted for currency effects and Widerøe, revenue declined 2.0% year-on-year, primarily due to a lower yield and lower other traffic revenue. The number of passengers increased 6.3%, capacity (ASK) rose 4.5% and the load factor increased 1.3 percentage points. The currency-adjusted yield declined 7.4%, the currency-adjusted unit revenue (PASK) declined 5.8% and, after adjustments for currency, jet fuel and nonrecurring items, the unit cost (CASK) decreased 3.9% compared with the year-earlier period.

Total operating expenses for SAS amounted to MSEK -37,853 (-39,586). Adjusted for currency effects, Widerøe and nonrecurring items, operating expenses increased 1.2% year-on-year, primarily due to higher volumes that resulted in higher handling and maintenance costs for engines as well as increased wet-lease costs. However, selling costs and government user fees decreased during the period. Other operating expenses were positively impacted by MSEK 106 for the dissolution of USD hedges for aircraft. Total operating expenses for SAS also included an expense of MSEK 169 for nonrecurring items. The ongoing restructuring program during the period resulted in cost reductions of about MSEK 1,150.

Payroll expenses amounted to MSEK -9,181 (-11,307), which included restructuring costs of MSEK -394 (-40) and nonrecurring items of MSEK 1,044 (0) pertaining to changed pension terms. Payroll expenses, after adjustment for currency effects, Widerøe and nonrecurring items, declined 1.5% year-on-year.

Jet-fuel costs amounted to MSEK -8,806 (-9,046). Adjusted for currency effects and Widerøe, costs declined 0.4%, which was mainly attributable to lower prices and positive hedging effects, despite a higher volume compared with the year-earlier period.

Net financial items for SAS amounted to MSEK -1,028 (-949), of which net interest expense was MSEK -732 (-773) and costs linked to the canceled credit facility were MSEK -175 (0).

Total nonrecurring items amounted to MSEK -221 (729) and comprised restructuring costs, capital gains/losses, impairment and other nonrecurring items. Restructuring costs totaled MSEK -1,132 (146), of which MSEK -394 (-40) pertained to payroll expenses, MSEK -67 (0) pertained to leasing costs, MSEK -96 (0) pertained to amortization and depreciation and MSEK -575 (186) pertained to other operating expenses, primarily related to property agreements. The year-earlier period included the dissolution of a restructuring reserve linked to buildings of MSEK 186. Capital losses amounted to MSEK -7 (gain: 583) and pertained to aircraft transactions of MSEK -14 (-118),

*The SAS Group has applied the amended standard for pension reporting, IAS 19 – Employee Benefits since November 1, 2013. As part of implementing the amended accounting standard, reported figures for the preceding fiscal year (2012/2013) were restated to enable comparison with the 2013/2014 fiscal year. The effects of the restatement of the SAS Group's financial statements for 2012/2013 can be found at [www.sasgroup.net](http://www.sasgroup.net), under Investor Relations/Financial reports/Interim reports.*

1) PASK (unit revenue) Passenger revenue/ASK (scheduled)

buildings of MSEK -2 (0), the sale of shares in subsidiaries and affiliated companies of MSEK 6 (700) and the sale of other shares of MSEK 3 (1). Capital gains from the preceding year were primarily attributable to the sale of Widerøe. Impairment losses totaled MSEK -52 (0) and pertained to the impairment of receivables and shares. Other non-recurring items amounted to MSEK 970 (0) and were attributable to the positive effect from amended pension terms of MSEK 1,044 (0) and expenses related to technical maintenance and properties of MSEK -74 (0).

## Financial position

Cash and cash equivalents were MSEK 7,417 (4,751) at October 31, 2014. SAS also had unutilized credit facilities amounting to MSEK 2,382 (1,986) at the end of October 2014. Financial preparedness amounted to 37% (26%) of the Group's fixed costs at the end of October 2014.

In February 2014, a preference share issue was carried out that strengthened shareholders' equity by SEK 3.5 billion before issue costs, which partly offsets the effect of the amended standard for pension reporting. According to a decision by the Shareholders' Meeting, a dividend of SEK 50 per preference share and year is payable on a quarterly basis, amounting to a total annual dividend of MSEK 350. By issuing a new convertible bond loan of SEK 1.6 billion in March, SAS also secured the refinancing of the existing convertible bond that matures in 2015. In connection with these issues, the credit facility amounting to SEK 1.8 billion was terminated in February and a new credit facility of MEUR 150 was agreed with UBS.

SAS's interest-bearing liabilities declined MSEK 705 compared with October 31, 2013 and amounted to MSEK 10,805 on the closing date. New loans raised during the fiscal year amounted to MSEK 1,485 and repayments amounted to MSEK 3,122. New loans raised principally comprised a bond of SEK 1.6 billion taking into account the deducted equity portion.

At October 31, 2014, the value of the debt and equity shares (conversion option and repurchase right) relating to the convertible bond loan issued in 2010 were set at MSEK 1,581 and MSEK 19, respectively. On the date of issue, these values were MSEK 1,374 and MSEK 226 respectively. At October 31, 2014, the debt and equity shares of the newly issued convertible bond loan were set at MSEK 1,426 for the debt portion and MSEK 174 for the equity share. At the date of issue, these values were MSEK 1,399 and MSEK 201 respectively. The value of the equity share was included in shareholders' equity, following a deduction for deferred tax.

During the year, financial net debt decreased MSEK 3,465 to MSEK 1,102 on the closing date, mainly due to the issue of preference shares.

At October 31, the equity/assets ratio was 17% (12%) and the adjusted equity/assets ratio was 11% (8%). The adjusted debt/equity ratio amounted to 3.1 (5.1). The adjusted ratios take into account leasing costs.

*For the balance sheet - refer to page 10.*

## Cash-flow statement

Cash flow from operating activities, before changes in working capital, for the full year amounted to MSEK 486 (1,806).

Non-cash items mainly comprised a nonrecurring item of MSEK -1,044 pertaining to the impact on earnings from amended terms for pension commitments and the year's provision for restructuring costs of MSEK 1,036.

Working capital improved by slightly more than MSEK 1,400 year-on-year. The positive trend was primarily attributable to the unearned transportation revenue liability and provisions, but also lower capital tied-up in accounts receivable.

Investments amounted to MSEK 1,426 (1,877), of which MSEK 1,237 (1,699) pertained to aircraft, which included MSEK 300 (711)

for aircraft, MSEK 190 (445) to ongoing aircraft investments/modifications, MSEK 506 (97) as advance payments to Airbus, MSEK 209 (189) to capitalized expenditures for engine maintenance and MSEK 32 (257) to spare parts. Other investments comprised capitalized system development costs of MSEK 189 (124) and shares of MSEK 0 (54).

In October, Gardermoen Technical Base ANS was acquired for MSEK 687 to then be immediately divested through a sale and lease-back agreement.

During the year, twelve MD-82s and nine spare engines were sold. In addition, the sale and leaseback was carried out for one Boeing 737 NG and for the one Airbus A330 that was acquired during the year.

Accordingly, cash flow before financing activities amounted to MSEK 615 (795).

In February a preference share issue was carried out that raised SEK 3.5 billion and, in March, a convertible bond loan totaling SEK 1.6 billion was issued. Repayments totaled approximately SEK 3.1 billion.

Cash flow for the full year was MSEK 2,665 (1,966).

Cash and cash equivalents amounted to MSEK 7,417 according to the balance sheet, compared with MSEK 4,751 at October 31, 2013.

*For the cash-flow statement - refer to page 11.*

## Seasonal variations

Demand, measured as the number of transported passengers, in SAS's markets is seasonally low from December to February and at its peak from April to June and September to October. However, the share of advance bookings is greatest from January to May, which has a highly positive effect on working capital ahead of the holiday period.

Seasonal fluctuations in demand impact cash flow and earnings differently, since passenger revenue is recognized when customers actually travel, which results in revenue generally increasing during months in which more passengers are transported. Since a substantial share of an airline's costs is fixed, earnings are impacted by fluctuations in revenue levels.

Seasonal variations indicate that the third and fourth quarters are seasonally the strongest quarters in terms of earnings. However, cash flow from operating activities is normally seasonally weak in the third quarter but positive in the fourth quarter.

## Financial targets

Given the ongoing extensive changes to the European airline industry with intensified competition as a result, SAS has initiated discussions with its unions addressing how to respond to the new industry requirements relating to flexibility and the need to reduce complexity.

It is of major importance that these discussions lead to a general strengthening of competitiveness and improvement in financial performance. SAS intends to review its target for EBIT margin and equity/assets ratio pending the outcome of the discussions.

SAS reiterates its 20% target for financial preparedness which SAS expects to continue to achieve.

## Description of events after October 31, 2014

- SAS initiated further cost-saving measures of SEK 2.1 billion with full effect in 2017.
- SAS acquired Cimber A/S on December 8, 2014. The acquisition makes it possible for SAS to transfer regional CRJ900 production to Cimber.
- SAS is launching a new direct intercontinental route between Stockholm and Hong Kong.
- SAS completed pre-delivery payment financing for eight Airbus aircraft.
- SAS signed a new collective agreement with flight crew at Blue1.

# Strategic priorities for SAS

To strengthen its competitiveness and to meet the challenges posed by the new industry norms, SAS has intensified measures within the strategic priorities:

1. Establish an efficient operating platform
2. Win the battle for Scandinavia's frequent travelers
3. Invest in our future

## Establish an efficient operating platform

### SEK 3 billion in cost measures in 2013–2015

When the restructuring program was launched in November 2012, the aim was to implement cost reductions of about SEK 3 billion in the 2013–2015 period. At October 31, 2014, all measures had been implemented and clear results were visible in the form of lowered unit costs, a more flexible cost base and increased productivity. SAS has completed the following measures:

- The implementation of new collective agreements
- The transition from defined-benefit to defined-contribution pension agreements
- The centralization and reduction in administrative functions
- The restructuring of the sales organization
- The optimization of the route network and resource planning
- The restructuring of IT
- The increased use of external production, known as wet leasing
- The outsourcing of certain ground handling services
- The divestment of assets

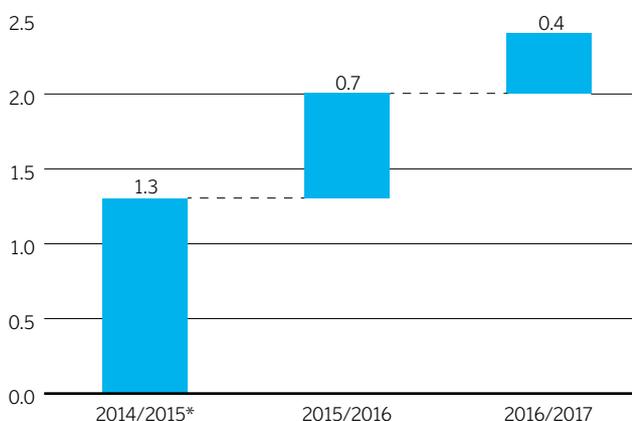
At October 31, 2014, an earnings impact corresponding to SEK 2.7 billion had been realized and the remaining earnings impact of SEK 0.3 billion is expected to be reached in 2014/2015. These measures have contributed to lowering unit cost for SAS by about 10% since October 2012.

### Additional cost measures 2015–2017

For the majority of 2013/2014, the increase in market capacity out-paced passenger growth, which led to additional price pressure and, accordingly, to the requirement to continue raising productivity and lowering unit costs. SAS expects the trend with lower prices for air travel to continue in the long-term. Therefore, SAS is entering a new phase of cost measures that will generate an earnings impact of SEK 2.1 billion with full effect in 2017. The measures will be applied across the entire organization.

### Expected earnings impact from cost measures

SEK billion



\* Including SEK 0.3 billion from the restructuring program launched in November 2012.

## Fleet streamlining and production optimization

SAS's strategy for simplifying and optimizing the production platform is to produce the majority of traffic for the larger traffic flows in-house based on one aircraft type per base, while smaller flows and regional traffic are managed via wet leasing. Therefore, SAS has, to an increasing degree, built up a wet-lease operation with turboprop aircraft that can serve smaller flows more efficiently while, concurrently, reducing complexity in SAS's own production. Agreements have been signed with JetTime and FlyBe for regional production and with Privatair for the Stavanger–Houston route.

SAS has acquired Cimber, which has an efficient and focused production platform with competitive cost levels for regional production. SAS aims to transfer its CRJ900 production to Cimber in 2015. The transfer of CRJ900 production will enable SAS to reduce its costs and increase flexibility from April 2015.

In 2013, the SAS Group's Finnish subsidiary Blue1 was transformed from a commercial airline focused on Finnish domestic traffic to a production company operating in major portions of the SAS network. During the year, capacity at Blue1 has been reduced by about 40% as a result of the decision to divest four Boeing 717s. The five remaining Boeing 717s will be phased out in autumn 2015, thereby further streamlining SAS's aircraft fleet.

To secure future operations at Blue1, new collective agreements were made with all flight crew in December 2014. The agreements make Blue1 fully competitive compared with other wet-lease operators in the market. The exact type of production that will be carried out by Blue1 moving forward is currently being evaluated.

Thus, in line with the strategy of streamlining the fleet, SAS has solutions in place for the two remaining aircraft types for regional production, the CRJ900 and Boeing 717. Together, the structural changes to Cimber and Blue1 are expected to generate an earnings impact of about MSEK 250.

Optimization has also been carried out in technical operations. The maintenance program for the 737 fleet has been revised, as have changes in the component and engine agreements, and the reduction in technical maintenance at Arlanda. In total, optimization is expected to generate an earnings impact of about MSEK 300.

## Further efficiency enhancement of administration, sales and distribution

The overriding organizational structure of SAS has been changed to meet the next phase of efficiency measures. Under the new organization, all commercial functions are gathered into one division, which means increased focus and an improved time-to-market for customer offerings, product development and marketing activities. A new transformation unit is being created that exclusively focuses on driving efficiency enhancements and structural changes. The reorganization enables a reduction in support, commercial functions, administration and management of approximately 300 FTEs, which will be completed in 2015, thus lowering costs by about MSEK 250. A major review of the distribution model and marketing activities, including credit card costs and agent commissions, has been started and is expected to realize savings in the range of a hundred million kronor.

## Efficiency enhancement of ground handling

To ensure increased cost-base flexibility, reduce the level of dependency on external revenue and provide enhanced conditions for Ground Handling's operations to grow, SAS has initiated the outsourcing process of ground handling services. As a first stage, 10% of Ground Handling was sold to Swissport in November 2013. The parties have agreed to pause negotiations until Swissport has concluded the acquisition and integration of Servisair. As planned, negotiations were restarted in November 2014.

In the meantime, intensive efforts have been ongoing with improving the efficiency of and automating operations as well as creating preconditions for additional cost measures, for example the optimization of scheduling and increasing the proportion of part-time employees. In this manner, resource planning can better reflect demand and workloads, which vary substantially over a 24-hour period and by season. Through new collective agreements, roles and work duties can be combined thus increasing flexibility. Automation of ground handling services is ongoing and includes baggage drop services and boarding. Checking in is increasingly being carried out via the Group's digital channels.

A number of minor route stations in Sweden and Denmark have been outsourced to airport operators, thereby transferring ground handling services to these operators. The cleaning of aircraft at Kastrup has been outsourced to Sodexo, which already manages this at Arlanda, Gardermoen and Gothenburg. In total, increasing the efficiency of ground handling services is expected to generate an earnings impact of about MSEK 200.

### ***Optimization of purchasing and logistics***

SAS procures external goods and services to a value of about SEK 24 billion each year. The former purchasing department is being remolded as a supply chain unit with full responsibility for purchasing and logistics. The unit is organized with clear category responsibility and close coordination with line functions, from planning and supplier agreements to quality control and settlement. One of the key focus areas is catering, where the range and logistics flow are being optimized. In total, measures in this area are expected to contribute cost reductions of about MSEK 250.

### ***Measures pertaining to properties and rental costs***

As a consequence of major structural changes over an extended period, SAS has premises that are partially unused and rental costs that are too high for both offices and technical premises. A sweeping review of costs has been initiated, including divestments, the renegotiation of rental agreements and the letting of free capacity. In November, a sale and leaseback transaction was carried out of the technical base in Oslo with the Oslo Pensjons Forsikring (an Oslo-based life insurance company) and a number of other transactions are in progress. The transactions are expected to lower annualized operating expenses by about MSEK 200.

### ***Restructuring costs***

The additional cost measures for 2015-2017 will result in restructuring costs charged to 2013/2014 of a total of SEK 1.3 billion. The restructuring costs pertain primarily to staffing reductions, the phasing out of the Boeing 717s and extensive restructuring of SAS's properties and rental costs to allow significant cost reductions moving forward.

### ***Win the battle for Scandinavia's frequent travelers***

SAS has a vision of making life easier for Scandinavia's frequent travelers. In line with the vision, SAS has strengthened the customer offering and intensified marketing activities.

SAS has gradually built up its customer offering and, in 2013, a new service concept focused on the most frequent travelers was launched in the market, SAS Go and SAS Plus. The concept was well received by SAS's customers and resulted in a strong increase in the number of Plus travelers. In the fourth quarter of 2014, the number of Plus travelers increased slightly more than 20% year-on-year.

As the next step, in February 2014, SAS launched an extensive upgrade of EuroBonus to make the market's strongest loyalty program even better. Since the launch, the number of members in EuroBonus has increased by about 50,000 every month and, at the end of October, totaled 3.7 million. A larger membership base also increases possibilities for tying in more advantageous partnerships, for example Preem and Thon Hotels, that add value for SAS customers and create new revenue streams. EuroBonus members also travel with SAS more often than previously, which means that members now account for about 50% of passenger revenue, up 19% compared with the year-earlier period.

SAS has a strong offering with more destinations and more departures than any other Scandinavian airline. The offering has been strengthened through the addition of slightly more than 50 new routes during the year and, ahead of 2015, nine new routes have been presented. In August, SAS launched the new direct intercontinental route between Stavanger and Houston. This route particularly targets frequent travelers in the offshore and oil industries.

To make smooth and time-efficient travel available to more frequent travelers, SAS is investing in expanding the concept of SAS Lounges and Fast Track at more airports. New domestic lounges have been opened in Oslo and Gothenburg, and many SAS lounges have been upgraded. In Sweden, SAS has opened Fast Track for Arlanda domestic flights and in Norway at the airports in Stavanger, Bergen and Trondheim. At the end of 2014, Fast Track was also introduced in Aalborg. In September 2014, SAS and other Star Alliance partners moved into Heathrow's new Terminal 2, The Queen's terminal. The terminal offers world-class flying facilities, which provide SAS travelers with an enhanced experience and smooth paths through the airport area.

The response from SAS travelers was not slow in coming. Altogether, the commercial investments by SAS have resulted in more EuroBonus members, more Plus travelers and, not least, an increase in the number of passengers and a higher load factor.

In line with the vision, SAS is continuing to improve its offering to frequent travelers. SAS is strengthening the intercontinental network by launching a new direct route from Stockholm to Hong Kong starting in September 2015 with flights operating five times per week. In addition, in 2015, an entirely new concept of cafe lounges is being launched. These lounges will be directly connected to the gates with coffee bars and internet connections.

### ***Invest in the future***

SAS is introducing extensive changes to the aircraft fleet as part of the investments in the future. Since the end of 2013, the SAS in-service aircraft fleet has consisted solely of Next Generation aircraft – with greater comfort and higher fuel efficiency. In autumn 2015, the remaining Boeing 717s will be divested and, as a consequence, the SAS aircraft fleet will only comprise four aircraft types compared with nine types in 2012.

SAS has ordered 30 Airbus A320 NEOs, four Airbus A330Es and eight Airbus A350s, which combined with the upgrades of the cabin interiors further modernizes the aircraft fleet for the future. The first aircraft with the entirely new cabin interior is expected to be in-service at the start of 2015 and thereafter delivery of upgraded aircraft will be at a rate of one per month.

SAS is investing SEK 0.5 billion in a new digital platform to enable our customers to manage their travel and associated services in a fully digital manner. The aim is to offer each customer a relevant and individually tailored experience in parallel with facilitating increased revenue for SAS.

# Risks and uncertainties

SAS works strategically to refine and improve its risk management. Risk management includes identifying both new risks and known risks, such as changes in jet-fuel prices or exchange rates. SAS monitors general risks centrally, while portions of risk management are conducted in the operations and include identification, action plans and policies. For further information about risk management in the SAS Group, refer to the most recently published annual report.

## Currency and fuel hedging

SAS's financial policy is to handle changes in jet-fuel costs primarily through the hedging of jet fuel, price adjustments and yield management.

The policy for jet-fuel hedging states that fuel should be hedged at an interval of 40-80% of anticipated volumes for the coming 12 months. At October 31, 2014, the hedging ratio was 43% for the coming 12 months. The falling oil price has a substantial impact on jet-fuel costs even if the market value of hedges is negatively impacted. Hedging is performed using options and swaps, with strong emphasis on the next two quarters. As a consequence of lower market prices, the call options held by SAS at significantly higher strike prices for the November 2014 to January 2015 period have been classified as out of market and, accordingly, have no market value and have been excluded from the Group's hedging ratio for the period.

Under current plans for available flight capacity, the cost of jet fuel during forthcoming fiscal years is expected to be in line with the table below, taking into account different prices and USD rates.

For foreign currency, the policy is to hedge 40-80%. At October 31, 2014, the SAS Group had hedged 49% of its anticipated USD deficit for the next 12 months. SAS has covered its USD deficit using a combination of forward contracts and options. In terms of NOK, which is SAS's largest surplus currency and has a strong correlation to the oil price, 57% of the anticipated surplus for the next 12 months was hedged. A weakening of the NOK against the SEK of 1% would generate a negative earnings impact of MSEK 60, excluding hedge effects.

### Hedging of jet fuel

Hedge level	Nov-Jan 2014-2015	Feb-Apr 2015	May-July 2015	Aug-Oct 2015
USD 951-1,000/tonne	79%			
USD 901-950/tonne		72%	26%	6%

### Vulnerability matrix, jet-fuel cost November 2014 to October 2015, SEK billion<sup>1</sup>

Market price	Exchange rate SEK/USD			
	6.00	7.00	8.00	9.00
USD 400/tonne	5.0	5.8	6.7	7.5
USD 600/tonne	5.9	6.9	7.9	8.9
USD 800/tonne	6.8	8.0	9.1	10.3
USD 1,000/tonne	7.8	9.2	10.5	11.8
USD 1,200/tonne	8.7	10.2	11.6	13.1

1) SAS's current hedging contracts for jet fuel at October 31, 2014 have been taken into account.

## Legal issues

As a consequence of the European Commission's decision in the cargo investigation in November 2010, SAS and other airlines fined by the Commission are involved in various civil lawsuits in Europe (the UK, the Netherlands, Germany and Norway). SAS, which appealed the European Commission's decision, contests its responsibility in all of these legal processes. Unfavorable outcomes in these disputes could have a significantly negative financial impact on SAS. Further lawsuits by cargo customers cannot be ruled out and no provisions have been made.

The SAS pilot associations have filed a lawsuit against SAS with the Swedish Labour Court claiming damages for breach of collective agreements. No financial damages were specified in the summons application. The dispute pertains to a large group of pilots employed at the Stockholm base but who worked out of the Copenhagen base, and the calculation and coordination of the rights to Swedish and Danish pension benefits of these pilots on changing bases. SAS contests all claims. Irrespective of the outcome, the assessment of SAS is that the dispute will not have any material negative financial impact on SAS.

A group of former Braathens cabin crew have, through the Parat trade union, initiated a legal process against SAS at a general court in Norway with a claim for correction of a work time factor (part-time percentage) in the calculation of pension rights in the occupational pension plan in accordance with the Norwegian Occupational Pensions Act. The summons application contains no specified demand for compensation. SAS contests the claim. The financial exposure is difficult to quantify, but SAS, which disputes the claim, considers the risk of a negative outcome to be limited and no provisions have been made.

A larger number of former cabin crew of SAS in Denmark are pursuing a class action against SAS at a Danish court, demanding additional payments from SAS to the Pension Improvements Fund for Cabin Crew (the CAU fund) citing that the CAU fund is a defined-benefit supplementary plan. The financial exposure is difficult to quantify, but SAS, which disputes the claim, considers the risk of a negative outcome to be limited and no provisions have been made.

The SAS pilot associations in Norway and Sweden have filed lawsuits against SAS at instances including the Swedish Labour Court claiming breach of collective agreements insofar as the seniority list has not been applied by SAS in conjunction with promoting and appointing pilots. SAS contests these claims on grounds including the legally binding ruling of the courts in Denmark that the seniority list is age discriminatory and, accordingly, null and void. It is difficult to assess the financial impact for SAS, but SAS considers the risk of a negative outcome to be limited and no provisions have been made.

# Outlook and dividend 2014/2015

## Dividend

The Board of Directors proposes to the 2015 AGM that no dividend be paid to holders of SAS AB's common shares for the November 1, 2013 to October 31, 2014 fiscal year. This is motivated by the SAS Group's financial position and future investment need for renewal of the aircraft fleet.

The Board proposes a dividend to holders of preference shares of SEK 50 per preference share, which will be paid each quarter in an amount of SEK 12.50 per preference share.

## Outlook

SAS is continuing the intensive efforts to strengthen competitiveness. The potential exists for SAS to post a positive EBT before tax and non-recurring items in the 2014/2015 fiscal year. This is provided that the economy does not weaken, that the trend continues in terms of reduced capacity and lower jet fuel prices, is maintained, that exchange rates are not subject to further deterioration and that no unexpected events occur.

The outlook is based on the following conditions:

- SAS plans to reduce total capacity (ASK) by about 1–2% in 2014/2015.
- In the 2014/2015 fiscal year, the earnings impact from the cost measures is expected to amount to about SEK 1.3 billion.
- SAS has hedged 43% of jet fuel consumption in 2014/2015.
- SAS has hedged USD and NOK at 49% and 57%, respectively, of the next 12 months' foreign currency exposure.
- Net investments are expected to amount to about SEK 1 billion in 2014/2015.

# Statement of income

## Statement of income including statement of other comprehensive income

(MSEK)	Aug–Oct 2014	Aug–Oct 2013	Nov–Oct 2013–2014	Nov–Oct 2012–2013
Revenue	10,966	11,059	38,006	42,182
Payroll expenses <sup>1</sup>	-2,756	-2,661	-9,181	-11,307
Other operating expenses <sup>2</sup>	-7,435	-6,684	-25,122	-25,442
Leasing costs for aircraft <sup>3</sup>	-617	-486	-2,127	-1,786
Depreciation, amortization and impairment <sup>4</sup>	-422	-388	-1,443	-1,658
Share of income in affiliated companies	17	19	30	25
Income from sale of shares in subsidiaries, affiliated companies and operations	1	1,002	6	700
Income from the sale of aircraft and buildings	-4	-32	-16	-118
<b>Operating income</b>	<b>-250</b>	<b>1,829</b>	<b>153</b>	<b>2,596</b>
Income from other securities holdings	-49	0	-43	1
Financial revenue	24	18	102	50
Financial expenses	-175	-279	-1,130	-999
<b>Income before tax</b>	<b>-450</b>	<b>1,568</b>	<b>-918</b>	<b>1,648</b>
Tax	147	-103	199	-290
<b>Net income for the period</b>	<b>-303</b>	<b>1,465</b>	<b>-719</b>	<b>1,358</b>
<b>Other comprehensive income</b>				
<i>Items that may later be reversed to net income:</i>				
Exchange-rate differences in translation of foreign operations, net after tax	-12	-45	86	-224
Cash-flow hedges – hedging reserve, net after tax	116	-102	325	-23
<i>Items that will not be reversed to net income:</i>				
Revaluations of defined-benefit pension plans, net after tax	-951	405	-1,222	1,988
<b>Total other comprehensive income, net after tax</b>	<b>-847</b>	<b>258</b>	<b>-811</b>	<b>1,741</b>
<b>Total comprehensive income</b>	<b>-1,150</b>	<b>1,723</b>	<b>-1,530</b>	<b>3,099</b>
Net income for the period attributable to:				
Parent Company shareholders	-309	1,464	-736	1,357
Non-controlling interests	6	1	17	1
Earnings per common share (SEK) <sup>5</sup>	-1.21	4.45	-3.03	4.12
Earnings per common share after dilution (SEK) <sup>5</sup>	-1.21	4.09	-3.03	3.99

1) Includes restructuring costs of MSEK 375 (3) during the period August-October and MSEK 394 (40) during the period November-October.

2) Includes restructuring costs of MSEK 575 (-) during the period August-October and MSEK 575 (-186) during the period November-October.

3) Includes restructuring costs of MSEK 67 (-) during the period August-October and MSEK 67 (-) during the period November-October.

4) Includes restructuring costs of MSEK 96 (-) during the period August-October and MSEK 96 (-) during the period November-October.

5) Earnings per common share are calculated as net income for the period attributable to Parent Company shareholders less preference share dividends in relation to 329,000,000 common shares outstanding.

SAS has no option or share programs. The convertible bond loans of MSEK 1,600 each, covering 34,408,602 shares and 66,618,646 shares only have a dilution effect in the comparative periods. In other periods, the interest rate per common share that can be obtained on conversion exceeds earnings per common share before dilution.

## Income before tax and nonrecurring items

(MSEK)	Aug–Oct 2014	Aug–Oct 2013	Nov–Oct 2013–2014	Nov–Oct 2012–2013
Income before tax	-450	1,568	-918	1,648
Impairment	52	0	52	0
Restructuring costs	1,113	3	1,132	-146
Capital gains/losses	0	-970	7	-583
Other nonrecurring items <sup>1</sup>	74	0	-970	0
<b>Income before tax and nonrecurring items</b>	<b>789</b>	<b>601</b>	<b>-697</b>	<b>919</b>

1) Includes a positive impact on earnings of MSEK 1,044 due to defined-benefit pension plans largely being replaced by defined-contribution pension plans during the first quarter of 2013/2014.

# Balance sheet

## Condensed balance sheet

(MSEK)	Oct 31 2014	Oct 31 2013
Intangible assets	1,905	1,802
Tangible fixed assets	8,901	9,677
Financial fixed assets	7,485	7,121
<b>Total fixed assets</b>	<b>18,291</b>	<b>18,600</b>
Other current assets	350	361
Current receivables	3,267	3,101
Cash and cash equivalents <sup>3</sup>	7,417	4,751
<b>Total current assets</b>	<b>11,034</b>	<b>8,213</b>
<b>Total assets</b>	<b>29,325</b>	<b>26,813</b>
Shareholders' equity <sup>1</sup>	4,907	3,226
Long-term liabilities	10,384	10,173
Current liabilities	14,034	13,414
<b>Total shareholders' equity and liabilities</b>	<b>29,325</b>	<b>26,813</b>
Shareholders' equity per common share <sup>2</sup>	3.66	9.76
Interest-bearing assets	13,481	10,371
Interest-bearing liabilities	10,805	11,510

1) Including non-controlling interests.

2) Total shareholders' equity attributable to Parent Company shareholders excluding total preference share capital in relation to the 329,000,000 common shares outstanding. The SAS Group has not carried out any buyback programs.

3) At October 31, 2014, including receivables from other financial institutions, MSEK 997 (766).

## Specification of financial net debt October 31, 2014

	According to balance sheet	Of which, financial net debt
Financial fixed assets	7,485	1,692
Current receivables	3,267	594
Cash and cash equivalents	7,417	7,417
Long-term liabilities	10,384	8,261
Current liabilities	14,034	2,544
Financial net debt		1,102

## Condensed changes in shareholders' equity

(MSEK)	Share capital <sup>1</sup>	Other contributed capital <sup>2</sup>	Hedge reserves	Translation reserve	Retained earnings <sup>3</sup>	Total share- holders' equity attributable to Parent Company shareholders	Non- controlling interests	Total share- holders' capital
Opening shareholders' equity in accordance with approved balance sheet, November 1, 2012	6,613	337	-12	29	4,189	11,156	-	11,156
Effect of new accounting policy					-11,044	-11,044	-	-11,044
Opening balance shareholders' equity adjusted in accordance with new policy, November 1, 2012	6,613	337	-12	29	-6,855	112	-	112
Change in holdings in subsidiaries						-	15	15
Comprehensive income, November–October			-23	-224	3,345	3,098	1	3,099
Closing balance, October 31, 2013	6,613	337	-35	-195	-3,510	3,210	16	3,226
New issue of preference shares	141				3,359	3,500		3,500
New issue costs					-96	-96		-96
Preference share dividend					-350	-350		-350
Other contributed capital		157				157		157
Change in minority share					6	6	-6	0
Comprehensive income, November–October			325	86	-1,958	-1,547	17	-1,530
<b>Closing balance, October 31, 2014</b>	<b>6,754</b>	<b>494</b>	<b>290</b>	<b>-109</b>	<b>-2,549</b>	<b>4,880</b>	<b>27</b>	<b>4,907</b>

1) Number of shares in SAS AB: 329,000,000 common shares with a quotient value of SEK 20.10 and 7,000,000 preference shares with a quotient value of SEK 20.10.

2) The amount comprises share premium reserves and the equity share of convertible loans.

3) No dividends were paid for 2012 and 2012/13. Of the preference share dividend liability for the year, MSEK 175 had been paid as of October 31, 2014.

# Cash-flow statement

## Condensed cash-flow statement

(MSEK)	Aug–Oct 2014	Aug–Oct 2013	Nov–Oct 2013–2014	Nov–Oct 2012–2013
Income before tax	-450	1,568	-918	1,648
Depreciation, amortization and impairment	422	388	1,443	1,658
Income from sale of aircraft, buildings and shares	0	-970	7	-583
Adjustment for other items not included in the cash flow, etc.	1,179	-65	-45	-916
Tax paid	-2	0	-1	-1
<b>Cash flow from operations before change in working capital</b>	<b>1,149</b>	<b>921</b>	<b>486</b>	<b>1,806</b>
Change in working capital	-373	-411	610	-778
<b>Cash flow from operating activities</b>	<b>776</b>	<b>510</b>	<b>1,096</b>	<b>1,028</b>
Investments including advance payments to aircraft manufacturers	-716	-690	-1,426	-1,877
Acquisition of shares	-687	0	-687	0
Sales of shares	688	0	688	0
Sales of subsidiaries and operations	0	207	4	267
Sales of fixed assets, etc.	763	102	940	1,377
<b>Cash flow before financing activities</b>	<b>824</b>	<b>129</b>	<b>615</b>	<b>795</b>
Preference share issue	0	0	3,500	0
Dividend on preference shares	-87	0	-175	0
External financing, net	-249	1,384	-1,275	1,171
<b>Cash flow for the period</b>	<b>488</b>	<b>1,513</b>	<b>2,665</b>	<b>1,966</b>
Translation difference in cash and cash equivalents	-1	-2	1	-4
Cash and cash equivalents transferred from assets held for sale	0	214	0	0
<b>Change in cash and cash equivalents according to the balance sheet</b>	<b>487</b>	<b>1,725</b>	<b>2,666</b>	<b>1,962</b>

## Financial key ratios

	31 Oct 2014	31 Oct 2013
CFROI, 12-month rolling	18%	31%
Financial preparedness (target >20% of fixed costs)	37%	26%
Equity/assets ratio	17%	12%
Adjusted equity/assets ratio	11%	8%
Financial net debt, MSEK	1,102	4,567
Debt/equity ratio	0.22	1.42
Adjusted debt/equity ratio	3.14	5.13
Interest-coverage ratio	0.2	2.6

# Financial assets and liabilities

## Fair value and carrying amount of financial assets and liabilities

(MSEK)	Oct 31, 2014		Oct 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>				
Financial assets at fair value	472	472	137	137
Financial assets held for trading	5,179	5,179	3,662	3,662
Other assets	4,052	4,052	3,144	3,144
<b>Total</b>	<b>9,703</b>	<b>9,703</b>	<b>6,943</b>	<b>6,943</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value	346	346	141	141
Financial liabilities held for trading	59	59	21	21
Financial liabilities at amortized cost	10,400	9,461	11,348	11,105
<b>Total</b>	<b>10,805</b>	<b>9,866</b>	<b>11,510</b>	<b>11,267</b>

Fair value is generally determined by using official market quotes. When market quotes are not available, the fair value is determined using generally accepted valuation methods such as discounted future cash flows based on observable market inputs.

The Group's financial assets and liabilities are measured at fair value as stated below:

Level 1: Financial instruments for which fair value is based on observable (unadjusted) quoted prices in active markets for identical assets and liabilities. This category includes mainly treasury bills and standardized derivatives, where the quoted price is used in the

valuation. Cash and bank balances are categorized as level 1.

Level 2: Financial instruments for which fair value is based on valuation models that utilize other observable data for the asset or liability other than the quoted prices included within level 1, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Financial instruments for which fair value is based on valuation models, whereby significant input is based on unobservable data. At present, SAS has no financial assets or liabilities where the valuation is essentially based on unobservable data.

## Fair value hierarchy

(MSEK)	Oct 31, 2014			Oct 31, 2013		
	Level 1	Level 2	Total	Level 1	Level 2	Total
<b>Financial assets</b>						
Financial assets at fair value	-	472	472		137	137
Financial assets held for trading	3,025	2,154	5,179	3,270	392	3,662
<b>Total</b>	<b>3,025</b>	<b>2,626</b>	<b>5,651</b>	<b>3,270</b>	<b>529</b>	<b>3,799</b>
<b>Financial liabilities</b>						
Financial liabilities at fair value	-	346	346	-	141	141
Financial liabilities held for trading	-	59	59	-	21	21
<b>Total</b>	<b>0</b>	<b>405</b>	<b>405</b>	<b>0</b>	<b>162</b>	<b>162</b>

# Parent Company SAS AB

Income before appropriations and tax for the full year amounted to MSEK -149 (-1,117). The divestment of 80% of the shareholding in Widerøe in the year-earlier period had a negative earnings impact of MSEK 909. At November 1, 2013, personnel from SAS AB were transferred to the SAS Consortium. In the second quarter of 2014, 7 million preference shares corresponding to SEK 3.5 billion and a convertible bond loan of SEK 1.6 billion were issued.

The number of common and preference shareholders in SAS AB amounted to 58,433 and 4,927 respectively at October 31, 2014. The average number of employees amounted to 6 (35).

## Condensed statement of income

(MSEK)	Nov–Oct 2013–2014	Nov–Oct 2012–2013
Revenue	0	20
Payroll expenses	-34	-90
Other operating expenses	-65	-85
<b>Operating income before amortization and depreciation</b>	<b>-99</b>	<b>-155</b>
Amortization and depreciation	0	0
<b>Operating income</b>	<b>-99</b>	<b>-155</b>
Income from participations in Group companies	4	-938
Income from other securities holdings	-3	0
Net financial items	-51	-24
<b>Income before tax</b>	<b>-149</b>	<b>-1,117</b>
Appropriations	82	3
Tax	12	-42
<b>Net income for the period</b>	<b>-55</b>	<b>-1,156</b>
Net income for the period attributable to:		
Parent Company shareholders	-55	-1,156

Net income for the period also corresponds with total comprehensive income.

## Condensed balance sheet

(MSEK)	31 Oct 2014	31 Oct 2013
Financial fixed assets	5,373	5,984
Other current assets	12,501	7,099
Cash and cash equivalents	1	1
<b>Total assets</b>	<b>17,875</b>	<b>13,084</b>
Shareholders' equity	12,631	9,475
Long-term liabilities	3,395	3,478
Current liabilities	1,849	131
<b>Total shareholders' equity and liabilities</b>	<b>17,875</b>	<b>13,084</b>

## Changes in shareholders' equity

(MSEK)	Share capital <sup>1</sup>	Restricted reserves	Unrestricted equity <sup>2</sup>	Total equity
Opening balance, Nov 1, 2013	6,613	473	2,389	9,475
Reclassification		-167	167	-
New issue of preference shares	141		3,359	3,500
New issue costs			-96	-96
Preference share dividend			-350	-350
Other contributed capital			157	157
Net income for the period			-55	-55
<b>Shareholders' equity, October 31, 2014</b>	<b>6,754</b>	<b>306</b>	<b>5,571</b>	<b>12,631</b>

1) Number of shares: 329,000,000 common shares with a quotient value of SEK 20.10 and 7,000,000 preference shares with a quotient value of SEK 20.10.

2) No dividends were paid for 2012 and 2012/13. Of the preference share dividend liability for the year, MSEK 175 had been paid as of October 31, 2014.

# Notes

## Note 1 Accounting policies and financial statements

This interim report for the SAS Group was prepared in accordance with IAS 34 Interim Financial Reporting and the Swedish Annual Accounts Act. The interim report for the Parent Company was prepared in accordance with the Swedish Annual Accounts Act and RFR 2.

A number of amendments of standards, new interpretations and new standards took effect for fiscal years beginning November 1, 2013, of which IAS 19 Employee Benefits (Amended) has affected the preparation of this financial report with retrospective application. IFRS 13 has also impacted the preparation of this financial report with additional information about financial assets and liabilities. Other amendments, new interpretations and new standards are not deemed relevant to the preparation of this financial report, which means that the SAS Group has continued to apply the same accounting policies as in its 2012/2013 Annual Report, with the exception of the amended IAS 19.

IAS 19 Employee Benefits (Amended) means that it is no longer permitted to defer recognition of certain deviations in estimates (the "corridor" approach has now been eliminated) and all estimates are to be immediately recognized in other comprehensive income. Pursuant to the amended standard, accumulated unrecognized deviations

"Unrecognized actuarial gains and losses and plan amendments" were recognized in their entirety in shareholders' equity, which had a negative impact of about SEK 7.8 billion on the Group's shareholders' equity. The Parent Company SAS AB's recognized shareholders' equity has not been affected by this amendment. Furthermore, interest expense and expected return on plan assets are replaced with a "net interest," which is calculated using the net discount rate on the defined-benefit pension liability or pension asset. SAS classifies this net interest expense as a payroll expense and recognizes the net interest expense in operating income.

In November 2012, new collective agreements were signed with flight crew in Scandinavia. Among other things, the new agreements mean that the defined-benefit pension plans were, largely, replaced with defined-contribution pension plans effective as of the first quarter of 2013/2014, which reduced pension commitments by about SEK 12.9 billion. In addition, the change in terms gave rise to an improvement in earnings of about SEK 1 billion.

At October 31, 2013, pension commitments amounted to SEK 28.5 billion and at October 31, 2014 to SEK 18.4 billion.

## Note 2 Quarterly breakdown

### Statement of income

(MSEK)	Nov-Jan 2012-2013	Feb-Apr 2013	May-Jul 2013	Aug-Oct 2013	FULL-YEAR		Nov-Jan 2013-2014	Feb-Apr 2014	May-Jul 2014	FULL-YEAR	
					Nov-Oct 2012-2013	Nov-Oct 2013-2014				Aug-Oct 2014	Nov-Oct 2013-2014
Revenue	9,597	9,933	11,593	11,059	42,182	7,871	8,472	10,697	10,966	38,006	
Payroll expenses	-3,160	-2,599	-2,887	-2,661	-11,307	-1,446	-2,484	-2,495	-2,756	-9,181	
Other operating expenses	-6,119	-6,260	-6,379	-6,684	-25,442	-5,446	-5,828	-6,413	-7,435	-25,122	
Leasing costs for aircraft	-397	-423	-480	-486	-1,786	-485	-500	-525	-617	-2,127	
Depreciation, amortization and impairment	-426	-418	-426	-388	-1,658	-329	-338	-354	-422	-1,443	
Share of income in affiliated companies	-13	0	19	19	25	-12	1	24	17	30	
Income from sale of shares in subsidiaries, affiliated companies and operations	0	-302	0	1,002	700	1	4	0	1	6	
Income from the sale of aircraft and buildings	-7	-40	-39	-32	-118	-22	12	-2	-4	-16	
<b>Operating income</b>	<b>-525</b>	<b>-109</b>	<b>1,401</b>	<b>1,829</b>	<b>2,596</b>	<b>132</b>	<b>-661</b>	<b>932</b>	<b>-250</b>	<b>153</b>	
Income from other securities holdings	1	0	0	0	1	5	0	1	-49	-43	
Financial revenue	8	13	11	18	50	25	25	28	24	102	
Financial expenses	-251	-233	-236	-279	-999	-308	-442	-205	-175	-1,130	
<b>Income before tax</b>	<b>-767</b>	<b>-329</b>	<b>1,176</b>	<b>1,568</b>	<b>1,648</b>	<b>-146</b>	<b>-1,078</b>	<b>756</b>	<b>-450</b>	<b>-918</b>	
Tax	179	-76	-290	-103	-290	34	278	-260	147	199	
<b>Net income for the period</b>	<b>-588</b>	<b>-405</b>	<b>886</b>	<b>1,465</b>	<b>1,358</b>	<b>-112</b>	<b>-800</b>	<b>496</b>	<b>-303</b>	<b>-719</b>	
Attributable to:											
Parent Company shareholders	-588	-405	886	1,464	1,357	-115	-806	494	-309	-736	
Non-controlling interests	0	0	0	1	1	3	6	2	6	17	

## Note 2 Quarterly breakdown – continued

### Earnings-related key ratios and average number of employees

(MSEK)	Nov–Jan 2013–2014	Nov–Jan 2012–2013	Feb–Apr 2014	Feb–Apr 2013	May–Jul 2014	May–Jul 2013	Aug–Oct 2014	Aug–Oct 2013	Nov–Oct 2013–2014	Nov–Oct 2012–2013
Revenue	7,871	9,597	8,472	9,933	10,697	11,593	10,966	11,059	38,006	42,182
EBITDAR	979	318	160	1,074	1,789	2,327	775	1,714	3,703	5,433
EBITDAR margin	12.4%	3.3%	1.9%	10.8%	16.7%	20.1%	7.1%	15.5%	9.7%	12.9%
EBIT	132	-525	-661	-109	932	1,401	-250	1,829	153	2,596
EBIT margin	1.7%	-5.5%	-7.8%	-1.1%	8.7%	12.1%	-2.3%	16.5%	0.4%	6.2%
Income before tax and non-recurring items	-1,169	-745	-1,076	34	759	1,029	789	601	-697	919
Income before tax	-146	-767	-1,078	-329	756	1,176	-450	1,568	-918	1,648
Net income for the period	-112	-588	-800	-405	496	886	-303	1,465	-719	1,358
Earnings per common share (SEK)	-0.35	-1.79	-2.72	-1.23	1.24	2.69	1.21	4.45	-3.03	4.12
Cash flow before financing activities	-1,177	-1,054	733	1,712	235	8	824	129	615	795
Average number of employees (FTE)	12,290	14,354	12,217	14,078	12,548	14,432	12,262	13,643	12,329	14,127

The Board of Directors and President hereby assure that this year-end report provides a true and fair overview of the performance of the Parent Company's and the Group's operations, financial position and earnings, and describes the significant risks and uncertainty factors to which the Parent Company and the companies included in the Group are exposed.

Stockholm, December 18, 2014

Fritz H. Schur  
*Chairman of the Board*

Jacob Wallenberg  
*First Vice Chairman*

Dag Mejdell  
*Second Vice Chairman*

Monica Caneman  
*Board member*

Lars-Johan Jarnheimer  
*Board member*

Birger Magnus  
*Board member*

Sanna Suvanto-Harsaae  
*Board member*

Carsten Dilling  
*Board member*

Jens Lippestad  
*Board member*

Sven Cahier  
*Board member*

Bo Nielsen  
*Board member*

Rickard Gustafson  
*President and CEO*

*This year-end report is unaudited.*

# Traffic data information

The traffic data information on this page and other parts of this report pertains solely to Scandinavian Airlines (SAS) and the production company Blue1's traffic. Widerøe was sold on September 30, 2013, but is not included in any comparative figures. The traffic data information thus shows the traffic trend for the current organization of SAS compared with the preceding year.

## Scheduled passenger traffic, yield, PASK and unit cost for SAS

	Aug–Oct 2014	Aug–Oct 2013	Year-on-year change	Nov–Oct 2013–2014	Nov–Oct 2012–2013	Year-on-year change
Number of passengers (000)	7,571	6,983	+8.4%	27,061	25,446	+6.3%
RPK, Revenue Passenger Kilometers (mill)	8,688	8,123	+7.0%	30,686	28,854	+6.3%
ASK, Available Seat Kilometers (mill)	11,227	10,821	+3.8%	40,971	39,202	+4.5%
Load factor	77.4%	75.1%	+2.3 <sup>3</sup>	74.9%	73.6%	+1.3 <sup>3</sup>
Passenger yield (currency-adjusted)	0.97	1.00	-3.1%	0.94	1.01	-7.4%
Unit revenue, PASK (currency-adjusted)	0.75	0.75	-0.1%	0.70	0.74	-5.8%
Unit cost (CASK), total (currency-adjusted)	0.73	0.75	-2.7% <sup>1</sup>	0.75	0.77	-2.8% <sup>2</sup>

1) Excluding jet fuel, the total unit cost decreased 1.1%.

2) Excluding jet fuel, the total unit cost decreased 2.2%. Excluding jet fuel and amended pension terms totaling MSEK 450 in the Feb–Apr 2013 period, the total unit cost declined 3.9%.

3) Figures in percentage points

## Total traffic (scheduled and charter traffic) for SAS

	Aug–Oct 2014	Aug–Oct 2013	Year-on-year change	Nov–Oct 2013–2014	Nov–Oct 2012–2013	Year-on-year change
Number of passengers (000)	7,997	7,399	+8.1%	28,417	26,746	+6.3%
RPK, Revenue Passenger Kilometers (mill)	9,845	9,265	+6.3%	34,594	32,658	+5.9%
ASK, Available Seat Kilometers (mill)	12,465	12,038	+3.5%	45,158	43,244	+4.4%
Load factor	79.0%	77.0%	+2.0 <sup>1</sup>	76.6%	75.5%	+1.1 <sup>1</sup>

1) Figures in percentage points

## Scheduled traffic trend for SAS by route sector

	Aug–Oct 2014 vs. Aug–Oct 2013		Nov–Oct 2013–2014 vs. Nov–Oct 2012–2013	
	Traffic (RPK)	Capacity (ASK)	Traffic (RPK)	Capacity (ASK)
Intercontinental	+3.3%	+5.6%	+3.5%	+4.6%
Europe/Intra-Scandinavia	+10.9%	+3.6%	+10.0%	+4.9%
Domestic	+3.5%	+1.4%	+2.4%	+3.3%

## Scheduled destinations and frequencies for SAS

	Aug–Oct 2014	Aug–Oct 2013	Year-on-year change	Nov–Oct 2013–2014	Nov–Oct 2012–2013	Year-on-year change
Number of destinations	125	110	+13.6%	125	120	+4.2%
Number of daily departures	875	847	+3.2%	807	791	+2.0%
No. of departures per destination/day	7.0	7.7	-9.2%	6.5	6.6	-2.2%

# Aircraft fleet

## The SAS aircraft fleet at October 31, 2014<sup>1</sup>

Aircraft in service	Age	Owned	Leased	Total	On purchase order	On lease order
Airbus A330/A340/A350	12.9	5	7	12	12	0
Airbus A319/A320/A321	9.7	6	19	25	30	0
Boeing 737 NG	12.1	16	68	84	0	3
Boeing 717	14.2	0	5	5	0	0
Bombardier CRJ900	5.4	12	0	12	0	0
<b>Total</b>	<b>11.2</b>	<b>39</b>	<b>99</b>	<b>138</b>	<b>42</b>	<b>3</b>

Leased out and parked aircraft	Owned	Leased	Total	Leased out	Parked
Douglas MD-90	8	0	8	8	0
Bombardier Q400	0	1	1	1	0
Boeing 717	4	0	4	0	4
<b>Total</b>	<b>12</b>	<b>1</b>	<b>13</b>	<b>9</b>	<b>4</b>

1) In addition, the following aircraft are wet-leased: four CRJ200s, nine ATR 72s, four Saab 2000 and one Boeing 737-700.

### Main



Airbus A330/A340-300



Airbus A319/A320/A321



Boeing 737-600/700/800

### Regional



Bombardier CRJ900



Boeing 717

For further information on each model of aircraft, refer to [www.sasgroup.net](http://www.sasgroup.net)

# Important events

## Events after October 31, 2014

- SAS initiated further cost-savings of SEK 2.1 billion with full effect in 2017.
- SAS acquired Cimber A/S on December 8, 2014. The acquisition makes it possible for SAS to transfer regional CRJ900 production to Cimber.
- SAS is launching a new direct intercontinental route between Stockholm and Hong Kong.
- SAS completed the financing of PDPs for eight aircraft from Airbus.
- SAS has signed a new collective agreement for flight crew at Blue1.

## Fourth Quarter 2013/ 2014

- Executive Vice President and COO Flemming Jensen gave notice that he was leaving SAS in May 2015 to join DSB A/S as President.
- Carina Heander will become the new Executive Vice President and Chief of Staff of SAS with responsibility for areas including HR & Communication. She succeeds Henriette Fenger Ellekrog, who left SAS in October 2014.
- SAS started flights on the Stavanger-Houston route.
- SAS signed a sale and leaseback agreement with the Chinese bank Bocomm that secured the financing of four Airbus A330-300 Enhanced aircraft with delivery in 2015 and 2016.

## Third quarter 2013/2014

- SAS made a downward adjustment of the forecast for the 2013/2014 fiscal year.
- SAS launched further streamlining measures with an earnings impact of SEK 1 billion in the 2014/2015 fiscal year. In addition, longer-term measures in the billion range will be made concrete in the latter part of 2014.
- SAS launched 34 seasonal routes over the summer period.

## Second quarter 2013/2014

- The AGM resolved to authorize the Board to decide on the issue of up to 7 million preference shares and convertibles for a maximum amount of MSEK 2,000.
- SAS carried out a preference share issue. Since interest far exceeded expectations, the offer was increased from 4 million to 7 million preference shares at a subscription price of SEK 500 per preference share, corresponding to SEK 3.5 billion. The settlement date was February 28. A dividend of SEK 50 per preference share and year is payable on a quarterly basis, amounting to a total annual dividend of MSEK 350.

- SAS carried out a convertible issue amounting to MSEK 1,600 with annual interest of 3.625%, which falls due for payment every six months at a conversion price of SEK 24.0173, corresponding to a conversion premium of 25%. The value of the equity share (conversion option and repurchase right) was set at MSEK 201 at the date of issue. The value of the equity share was included in shareholders' equity, following a deduction for deferred tax.
- Due to the preference share issue, SAS canceled the revolving credit facility, (the RCF), which was entered into in connection with the launch of the 4XNG restructuring program in autumn 2012.
- A new credit facility of MEUR 150 was entered into with UBS.
- The credit-rating agency Moody's upgraded the credit rating for SAS by one notch, from the previous Caa1 rating to B3, with a continued positive outlook.

## First quarter 2013/2014

- SAS AB was informed that Danmarks Nationalbank had sold all of its shares in SAS AB and, accordingly, the bank's representative on the company's Nomination Committee stepped down from his position in accordance with the Nomination Committee's work instructions as adopted by the AGM.
- In November, the SAS Group's balance sheet and statement of income was affected as follows by the implementation of new pension terms, the reversal of deferred tax liabilities related to pensions, the accounting for special payroll tax on the pension surplus in the Alecta and Euroben plans, and the implementation of the revised IAS 19. The above will negatively impact the Group's shareholders' equity in an amount of about SEK 6.8 billion:
  - Pension commitments were reduced by about SEK 12.9 billion
  - Plan assets were reduced by about SEK 10.7 billion
  - Remaining actuarial gains and losses of about SEK 10.3 billion were recognized in shareholders' equity
  - Deferred tax liabilities were reduced by about SEK 1.2 billion
  - An improvement in the statement of income (payroll expenses) of about SEK 1 billion.
- The Board proposed that the AGM authorize the Board to decide on the issue of up to 7 million preference shares and convertibles for a maximum amount of MSEK 2,000.

## Financial calendar

Annual Report 2013/2014	January 20, 2015
Annual General Shareholders' Meeting 2015	February 19, 2015
Interim report 1, 2015 (November–January)	March 5, 2015
Interim report 2, 2015 (February–April)	June 18, 2015
Interim report 3, 2015 (May–July)	September 8, 2015
Interim report 4, 2015 (August–October)	December 16, 2015

All reports are available in English and Swedish and can be ordered over the Internet at: [www.sasgroup.net](http://www.sasgroup.net) or from: [investor.relations@sas.se](mailto:investor.relations@sas.se)

SAS' monthly traffic data information is normally issued on the fifth business day of the following month. A complete financial calendar can be found at: [www.sasgroup.net](http://www.sasgroup.net)

For definitions, refer to the Annual Report, or [www.sasgroup.net](http://www.sasgroup.net), under Investor Relations/Financial reports.

## Press/Investor Relations

Telephone conference 10.00 a.m., December 18, 2014

SAS discloses this information pursuant to the Swedish Securities Market Act and/or the Swedish Financial Instruments Trading Act. The information was provided for publication on December 18, 2014, at 8:00 a.m.