# SAS Group

# Interim Report
# January-September 2003

## Nine-month summary

- **Operating revenue for the first nine months of 2003** amounted to MSEK 43,930 (48,235), a decrease of 8.9%. For comparable units, and adjusted for currency effects, operating revenue for the period decreased by 7.7% or MSEK 3,698 and by 10.6% in the third quarter.
- **Income before depreciation and leasing costs for aircraft** (EBITDAR) was MSEK 2,947 (5,962) for the full period. EBITDAR in the third quarter amounted to MSEK 1,737 (2,130).
- **Income before capital gains and restructuring costs** during the period amounted to MSEK –1,895 (-83). This negative result is mainly attributable to the first quarter. Income for the third quarter was MSEK 101 (50).
- **Income before tax** amounted to MSEK –1,225 (233) and MSEK 564 (640) for the third quarter.
- **Income after tax** amounted to MSEK –834 (152) and MSEK 699 (506) for the third quarter.
- **CFROI** for the 12-month period October 2002-September 2003 was 7% (11%).
- **Earnings per share** for the period January–September amounted to SEK –5.07 (0.93) for the SAS Group and equity per share was SEK 83.88 (93.70).
- **The unit cost** for Scandinavian Airlines decreased by 14% in the third quarter.
- **The SAS Group's restructuring program**, Turnaround 2005, is proceeding as planned and the implementation rate as of September was somewhat faster than planned.
- **The SAS Group's forecast for the full year 2003 is unchanged:** income before tax, capital gains and restructuring costs will be negative by approximately SEK 2 billion. Uncertainty over yield development will continue in the fourth quarter

### Earnings by quarter and key ratios

| **SAS Group** | **October-December** | | **January-March** | | **April-June** | | **July-September** | | **October-September** | |
|---|---|---|---|---|---|---|---|---|---|---|
| (MSEK) | **2002** | 2001 | **2003** | 2002 | **2003** | 2002 | **2003** | 2002 | **2002-03** | 2001-02 |
| Operating revenue | **16,709** | 12,810 | **13,710** | 13,775 | **15,300** | 17,868 | **14,920** | 16,592 | **60,639** | 61,045 |
| EBITDAR | **1,332** | -122 | **-398** | 584 | **1,608** | 3,248 | **1,737** | 2,130 | **4,279** | 5,840 |
| EBITDAR margin | **8.0%** | -0.1% | **-2.9%** | 4.2% | **10.5%** | 18.2% | **11.6%** | 12.8% | **7.1%** | 9.6% |
| EBIT | **-307** | -1,123 | **-1,908** | -1,406 | **272** | 1,354 | **798** | 1,041 | **-1,145** | -134 |
| EBIT margin | **-1.8%** | -8.8% | **-13.9%** | -10.2% | **1.8%** | 7.6% | **5.3%** | 6.3% | **-1.9%** | -0.2% |
| Income before capital gains and non-recurring items | **-686** | -1,613 | **-1,939** | -1,313 | **-57** | 1,180 | **101** | 50 | **-2,581** | -1,696 |
| EBT | **-683** | -1,147 | **-1,876** | -1,446 | **87** | 1,039 | **564** | 640 | **-1,908** | -914 |
| Income after tax | **-284** | -997 | **-1,599** | -1,322 | **66** | 968 | **699** | 506 | **-1,118** | -845 |
| Earnings per share (SEK) | **-1.73** | -6.16 | **-9.72** | -8.17 | **0.40** | 5.90 | **4.25** | 3.08 | **-6.80** | -5.18 |
| Cash flow before financing operations | **310** | -214 | **-2,360** | -1,202 | **1,123** | -878 | **175** | 44 | **-752** | -2,250 |
| | | | | | | | | | | |
| RPK | **7,337** | 7,061 | **6,551** | 6,838 | **7,840** | 8,147 | **8,668** | 8,590 | **30,397** | 30,635 |
| ASK | **11,734** | 12,185 | **11,169** | 11,217 | **12,258** | 12,023 | **12,524** | 12,240 | **47,685** | 47,664 |
| Cabin factor | **62.5%** | 57.9% | **58.7%** | 61.0% | **64.0%** | 67.8% | **69.2%** | 70.2% | **63.7%** | 64.3% |

SAS AB is Scandinavia's largest listed airline and travel group and the fourth-largest airline group in Europe, in terms of number of passengers and operating revenue. The SAS Group offers air transport and related services from its base in northern Europe. Scandinavian Airlines provides services within Scandinavia, and to/from Europe, North America and Asia. Scandinavian Airlines is a founder member of the world's largest global airline alliance – Star Alliance™. The Group also includes the airlines Spanair, Braathens, Widerøe's Flyveselskap and Blue1. The Group's business areas Airline Support Businesses and Airline Related Businesses include companies that support the airline operations such as SAS Cargo Group and SAS Flight Academy. The Group also includes hotel operations with Rezidor SAS Hospitality.

# Important events

## First quarter 2003

- Sören Belin took over as Chief Operating Officer, COO, for Scandinavian Airlines on February 15.
- On March 7, the SAS Group announced that additional restructuring will be carried out in order to ensure long-term profitability and competitiveness.
- Spanair launched a new fare concept for Spanish domestic flights in March.
- Scandinavian Airlines' new low-fare concept snowflake was launched.

## Second quarter 2003

- Spanair became a member of Star Alliance on April 1.
- SAS AB's Annual General Meeting decided not to issue a dividend for 2002.
- The Board gave the SAS Group's management a mandate to carry out additional cost reductions amounting to approximately SEK 8-9 billion. The measures amount to a total of SEK 13-14 billion.
- Scandinavian Airlines announced a major reorganization as part of the implementation of the new cost-cutting measures.
- SAS Technical Services locates its main facility for base maintenance in Stockholm, while heavy maintenance remains in Oslo.
- The SAS Group was downgraded by the credit rating company Moody's to Ba3. Moody's also changed its outlook from "negative" to "stable".

## Third quarter 2003

- In July, Scandinavian Airlines had reached agreement with 38 of 39 trade unions. The agreements allow for a 40% increase in productivity for pilots and cabin crew as well as productivity improvements in production.
- The SAS Group joined "The UN Global Compact" which covers issues relating to the environment and human rights in society and at the workplace.
- Due to lower demand, Widerøe terminated it contracts for traffic in Finnmark and Nord-Troms.
- The SAS Group announced that parts of "Revenue Accounting" will be relocated to India.
- The SAS Group acquired 49% of the shares in Estonian Air for MSEK 176.
- The SAS Group's airlines Scandinavian Airlines, Braathens and Widerøe announced that starting on October 26 they will reduce prices on flexible tickets by 20-30% within Scandinavia and that ticket rules will be eased.
- In a judgment passed by the High Court of Eastern Denmark, SAS was not regarding as breaching any agreements with travel agencies with the introduction of the new net price model.
- As part of its continued growth Air Botnia realized its most extensive renewal program by changing its name to Blue1, which is the fastest-growing airline in Finland.
- The SAS Group announced that five office properties in Copenhagen had been sold to the Danish company Keops for MSEK 993.

## Events after September 30, 2003

- Asker and Bærum District Court, in Norway, ruled that SAS had not contravened operation transfer rules in connection with the outsourcing of Braathens Ground Handling to Scandinavian Ground Services. The plaintiff has decided to lodge an appeal against parts of this ruling.
- Scandinavian Airlines introduced a new reservations dialog for leisure travel on its website with greater price transparency to make reservations easier.
- The SAS Group's 2002 annual report ranked best environmental report by Deloitte & Touche.
- Scandinavian Airlines chosen as best European airline by Danish Travel Award.
- The SAS Group announced that its head office properties in Frösundavik had been sold to Nordisk Renting and leased back, providing a capital gain of approximately MSEK 700. This transaction means that the SAS Group releases capital of just over MSEK 1,100.
- The SAS Group is continuing its efforts to sell Scandinavian IT Group.

# Dear shareholders,

Following a first half of major challenges for the airline industry, the third quarter saw some stabilization. Traffic development was muted, however, without any real growth. The greater level of general business activity is in itself promising but has not yet led to increased travel. At the same time as demand is relatively weak, the trend towards ever-lower ticket prices continues.

Third-quarter earnings, MSEK 101 excluding restructuring costs and capital gains, are naturally not satisfactory, but we can be pleased that the lower revenues are now fully compensated on the cost side. We are heading in the right direction.

Following its acquisition of Braathens and Spanair, the SAS Group is the fourth largest airline group in Europe and we intend to consolidate and develop our position in our home market. We will do this by creating sustained cost efficiency throughout the Group so that the individual airlines can meet demands in their own markets. This will put us in a strong position when growth regains momentum.

Efforts to reduce costs within the Group are continuing as planned. This program, known as Turnaround 2005, will be fully implemented in 2004 and have its full effect in 2005. Of the SEK 13-14 billion cost savings specified, SEK 12 billion are decided and under implementation. The difference between the set target of SEK 13-14 billion and measures decided thus far is defined and will be met. We have no alternative.

Unit revenues continue to fall and this is a general trend in the airline industry. For Scandinavian Airlines the reduction for the third quarter is about 14% compared with 2002. On October 26, Scandinavian Airlines reduced its business class fares within Scandinavia by an average of 20%. This price change was carried out to raise competitiveness in the market. Customers are simply demanding cheaper travel.

Developments month by month provide a constant reminder that we must keep up the pace of our transformation. It is gratifying to see that the unit cost for Scandinavian Airlines has been pushed down by about 9% on an annual basis, and by 14% in the third quarter. The lower level of costs means a substantial reduction in the workforce and within the framework of Turnaround 2005, 6,000 jobs will disappear. 1,900 positions have already been discontinued and the remaining redundancies will be handled over the next 6-12 months. These staff cuts involve a number of painful but essential decisions and are being carried out expeditiously and with great respect for the people involved.

The change program applies to all parts of the Group with the main focus on Scandinavian Airlines. But Braathens, which experienced a similar pressure on yield in the Norwegian market, is also working efficiently to reduce costs. Spanair has enjoyed relatively strong development in the most recent quarter, despite a weak yield trend. Widerøe has carried out impressive changes in a short time and reports a positive result. Blue1, formerly Air Botnia, continues to grow and provides a strong spearhead in the Finnish market. The acquisition of Estonian Air and the stake in AirBaltic consolidate the Group's position in the Baltic region. The weak business climate is having a negative impact on the hotel operations but they are continuing to position themselves through the new Park Inn and Country Inn brands. The sale of properties in Copenhagen and Stockholm is part of efforts to focus on the core business while strengthening our financial position.

Our customers are the key driving force in our day-to-day activities. They have clearly and unequivocally said that they expect more, and less expensive, travel choices. We intend to meet their demands by strong action in the fast-changing industry in which we operate.

# The SAS Group's traffic development

**Traffic development for European airlines (AEA)**
The traffic trend in January-September 2003 has been weak. The year started well with growth in January, but unease about the war in Iraq, weak economic development and SARS had a very negative impact on traffic in spring and early summer. During the summer and early autumn, traffic in Europe and over the North Atlantic started to grow again. Traffic volumes (RPK) for total international traffic were unchanged in January-September compared with 2002. Capacity (ASK) rose during the same period by 1.8%. The weak traffic trend meant that the cabin factor for the period fell to about 74%, 1.4 percentage points lower than in 2002.

**The SAS Group's traffic development**
Traffic development for the SAS Group's airlines was generally weak in January-September 2003, but has stabilized since the end of June. In total, traffic (RPK) fell 2.2% in January-September, but rose 0.9% in the third quarter.

The SAS Group's airlines Spanair, Braathens, Widerøe and Blue1 all showed increased traffic (RPK) in the third quarter and during January-September compared with last year. The increase is due to new destinations and improved capacity utilization in a weak market. Scandinavian Airlines' traffic decreased in January-September by 6.6%. In the third quarter, traffic stabilized somewhat for Scandinavian Airlines and decreased by 3.6%. This decline was due to suspension of a number of destinations and lower demand combined with greater competition. The number of transported passengers fell for the SAS Group in January-September by 7.3%. Capacity rose 1.3%. The cabin factor was down 2.3 percentage points to 64.1%.

The SAS Group's intercontinental traffic was very negatively affected early in the year by the war in Iraq and SARS. Due to a sharp fall in demand, capacity to Beijing and Bangkok/Singapore was reduced in April-August. Intercontinental traffic decreased by 2.3% in January-September. Capacity increased by 8.7% during the period due to phasing in of new Airbus A330/340s.

European traffic was weak at the beginning of the year but rose 5.8% in January-September, compared with a growth for the AEA's European traffic of 0.4%. The SAS Group has therefore grown more than the market and taken market shares. In the third quarter, traffic rose 11.3% due to the introduction of snowflake and increased capacity in Spanair and Braathens. Capacity rose 7.0% in January-September and the cabin factor fell by 0.7 percentage points to 61.4%.

The SAS Group's traffic within Scandinavia and on domestic routes has been generally affected by a weak business climate, weaker total markets, the suspension of routes and a reduced number of frequencies. Intra-Scandinavian traffic decreased by 15.5% in January-September. Capacity decreased by 14.6%. Widerøe's intra-Scandinavian traffic increased by 83.3%, but from low levels. Danish domestic traffic decreased due to the discontinuation of traffic to Greenland for the Group by 58.3% and capacity by 51.4%. In Norway, traffic declined by 7.7% and capacity by 4.3%. In Norway the total market had very weak development and partly fell. In Sweden, the SAS Group's traffic decreased by 18.0% and capacity by 20.3%, which meant that the cabin factor rose by 1.7 percentage points to 61.1%.

| SAS Group* | | July-September 2003 | Change vs. 2002 | January-September 2003 | Change vs. 2002 |
|---|---|---|---|---|---|
| No. of passengers | (000) | **8,301** | -5.5% | **23,492** | -7.3% |
| Passenger km | (mill) | **8,668** | 0.9% | **23,059** | -2.2% |
| Seat km | (mill) | **12,524** | 2.3% | **35,951** | 1.3% |
| Cabin factor | | **69.2%** | -1.0 %pts | **64.1%** | -2.3 %pts |

| Traffic per company (January-September) | Traffic (RPK) | Capacity (ASK) | Cabin factor (%) | Change in cabin factor |
|---|---|---|---|---|
| **SAS Group** | **-2.2%** | **1.3%** | **64.1%** | **-2.3 %pts** |
| Scandinavian Airlines | -6.6% | -2.8% | 66.2% | -2.7 %pts |
| Spanair | 7.7% | 8.6% | 62.0% | -0.5 %pts |
| Braathens | 14.9% | 14.0% | 59.1% | +0.4 %pts |
| Widerøe | 25.6% | 20.8% | 52.8% | +2.0 %pts |
| Blue1 | 14.8% | 28.0% | 46.8% | -5.4 %pts |

| Traffic development by route sector* | July-Sept. 2003 vs. July-Sept. 2002 | | January-Sept. 2003 vs. January-Sept 2002 | |
|---|---|---|---|---|
| | Traffic (RPK) | Capacity (ASK) | Traffic (RPK) | Capacity (ASK) |
| Intercontinental | 1.3% | 6.6% | -2.3% | 8.7% |
| Europe | 11.3% | 9.7% | 5.8% | 7.0% |
| Intra-Scandinavian | -14.3% | -14.1% | -15.5% | -14.6% |
| Denmark (domestic) | -68.5% | -60.1% | -58.3% | -51.4% |
| Norway (domestic) | -10.9% | -3.9% | -7.7% | -4.3% |
| Sweden (domestic) | -22.1% | -20.5% | -18.0% | -20.3% |

* Passenger traffic for Scandinavian Airlines, Spanair, Braathens, Widerøe and Blue1.

# Financial development

## Acquisitions and sales

49% of the shares in AS Estonian Air were acquired in September. The purchase price was MSEK 176. Acquired goodwill amounted to MSEK 129.

In addition, 100% of the shares in Maersk Air Maintenance Estonia AS were acquired in September. The purchase price was MSEK 24.6 and acquired goodwill MSEK 23.4.

At the end of September five office properties were sold in Copenhagen. The selling price was MSEK 993 and the capital gain was MSEK 556. The SAS Group has signed a rental agreement for 10-15 years and will continue to use the premises. Rental costs are neutral compared with earlier depreciation and interest expenses.

## January-September 2003

The SAS Group's statement of income for January-September 2002 included Spanair from March 1 and SMART until August 31 when the company was sold. The 2003 figures include the Spanair-related companies Aerolineas de Baleares, which is consolidated as a subsidiary from January 1, 2003, and the handling company Newco, consolidated as a subsidiary from December 2002. To allow comparisons with 2002, adjustments are made under non-comparable units.

The net effect of exchange rate fluctuations between January-September 2002 and 2003 was MSEK 1,106. The effect on operating revenue was MSEK –1,645, MSEK 2,388 on operating expenses and MSEK 363 on net financial items.

The SAS Group's operating revenue amounted to MSEK 43,930 (48,235), a decrease of MSEK 4,305 or 8.9%. Adjusted for non-comparable units, MSEK 1,038, and currency effects, MSEK –1,645, the Group's operating revenue fell 7.7% or MSEK 3,698. Passenger traffic (RPK) decreased by a total of 2.2% in the Group's airlines. In Scandinavian Airlines, traffic decreased by 6.6% and yield by 12.7% compared with the same period in 2002.

Within the framework of Turnaround 2005 redundancies have occurred in the third quarter. Costs due to work-free notice periods of MSEK 96 (56) were charged against earnings.

Payroll expenses increased by MSEK 429 or 2.7% and amounted to MSEK 16,470 (16,041). Adjusted for non-comparable units, restructuring costs and currency effects, payroll expenses were 0.7% lower than in the previous year. The reduction in costs due to a lower number of employees is largely offset by payroll expense increases between the years (a salary freeze has been agreed from April 1, 2003). In addition, pension costs are higher than in 2002 and MSEK 174 for training and re-training costs related to phasing in and phasing out of the aircraft fleet was reported as a capital loss in January-September 2002.

The number of employees in the SAS Group rose 0.4%. In comparable units, the number of employees fell 4%, mainly due to implementation of Turnaround 2005.

The Group's other operating expenses decreased by MSEK 1,719, or 6.5% to MSEK 24,513.

Other operating expenses include the Group's jet fuel costs of MSEK 3,629 (3,603). The world market price for jet fuel was 29% higher in the first nine months of 2003 than in the same period last year. Despite this, Scandinavian Airlines reduced its jet fuel costs by 7.3% in January-September. This is due to hedging of jet fuel combined with a positive currency trend as well as slightly lower consumption.

Operating income before depreciation and leasing costs, EBITDAR, was MSEK 2,947 (5,962).

Leasing costs, adjusted for currency effects, were MSEK 153 lower than in the previous year. Depreciation rose by MSEK 159, mainly due to new investments.

Share of income in affiliated companies amounted to MSEK 56 (-337). Spanair was reported as an affiliated company through February 2002. Share of income amounted to MSEK –300 and comprised the period November 1, 2001 – February 28, 2002. Excluding Spanair, share of income amounted to MSEK –37 in January-September 2002. The improvement between 2002 and 2003 mainly comprises shares of income in British Midland MSEK –44 (-87), Polygon MSEK –2 (-21) and Skyways MSEK 9 (-16). Goodwill amortization is included with MSEK 11 (21).

Income before capital gains amounted to MSEK –1,991 (-145). The Group's income from the sale of aircraft and buildings was MSEK 745 (371) in January-September.

Office properties in Copenhagen were sold in September with a capital gain of MSEK 556. Other property sales provided capital gains of MSEK 51. Sale and leaseback of aircraft generated capital gains of MSEK 135. In addition, four Fokker F28s and three Douglas MD-80s were sold for a total gain of MSEK 3. In the previous year, phasing in and phasing out costs for aircraft were reported as a capital loss and amounted to MSEK –462. See accounting principles page 7.

Income from other shares and participations, MSEK –9 (-20), comprises a write-down of the Group's holding in Expo Investments Partnership, which holds 10% of the shares in Air Canada, by MSEK 30. In addition, the sale of the Group's participations in Copenhagen International Hotels K/S provided a gain of MSEK 13, and other shares and participations MSEK 8.

The Group's net financial items amounted to MSEK –378 (-736). Net interest was MSEK –696 (-691). The currency effect was MSEK 318 (-45).

Income before tax amounted to MSEK –1,225 (233).

The change in income before tax is due to:

| | |
|---|---|
| Currency effect | 1,106 |
| Income before depreciation and leasing costs, EBITDAR | -3,331 |
| Leasing costs and depreciation | -6 |
| Share of income in affiliated companies | 393 |
| Net interest | -5 |
| Capital gains and write-downs | 385 |
| Total changes | -1,458 |

## Third quarter 2003

Despite the continued negative yield trend, the Group's result for the third quarter was better than in the first two quarters of the year, taking seasonal fluctuations into account. Lower operating expenses due to lower volumes and the effects of Turnaround 2005 had a positive earnings impact.

The Group's operating revenue was MSEK 14,920 (16,592), a decrease of MSEK 1,672 or 10.1%. Adjusted for currency effects, MSEK –846, and operating revenue in comparable units, operating revenue decreased by 5.2%.

The Group's passenger traffic increased by 0.9%. In Scandinavian Airlines, traffic decreased by 3.6%. A recovery in traffic on international routes was noted in the third quarter.

Operating expenses amounted to MSEK 13,183 (14,462), a decrease of 8.8%.

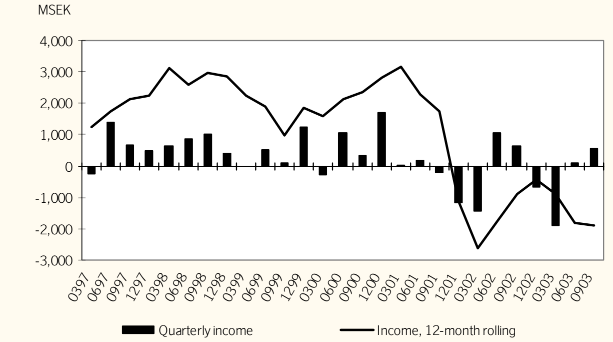
EBITDAR for the third quarter reached MSEK 1,737 (2,130). Adjusted for currency effects, the Group's aircraft leasing costs fell MSEK 99, mainly due to lower interest rates and phasing out a number of rented aircraft.

Income before capital gains was MSEK 5 (15).

In the third quarter the capital gains from the sale of aircraft and buildings was MSEK 559 (621), of which office properties in Copenhagen MSEK 556. The previous year included a capital gain from the sale of SMART, MSEK 826, and phasing in and phasing out costs of MSEK –232.

Income before tax amounted to MSEK 564 (640).

## Income before tax




# SAS Group's Turnaround 2005

The SAS Group has implemented extensive cost and rationalization measures since autumn 2001. The first part, designed to handle over the short term the negative effects of events in autumn 2001, is now completed. Subsequently, in autumn 2002, the SAS Group started implementation in two stages of restructuring measures with total cost savings of SEK 13-14 billion, of which SEK 12.0 billion was decided as of September 30. Since presentation of the second-quarter report, these measures are known as "Turnaround 2005" (previously plan B and C).

The SAS Group has analyzed the Group's markets, traffic flows and competitive situation and on the basis of this work set demands for effective flight operations. The purpose of Turnaround 2005 is to ensure the SAS Group's long-term competitiveness and profitability by efficient flight operations. These measures will simplify and enhance the efficiency of the airlines' working methods.

**SAS Group's cost reductions in Turnaround 2005**

| (SEK billion) | **Total** |
|---|---|
| Overhead functions (Group & Scandinavian Airlines) | 2.3 |
| Scandinavian Airlines | |
| Production concept | 2.9 |
| Inflight | 0.9 |
| Distribution and sales | 1.4 |
| Airline Support Businesses | |
| Scandinavian Ground Handling | 1.0 |
| SAS Technical Services | 1.6 |
| Subsidiary Airlines & Hotels | 1.9 |
| **Total** | **12.0** |

The remaining SEK 1-2 billion that is required so that the SAS Group and Scandinavian Airlines can operate their flight operations efficiently has been identified. This is mainly found within the area of compensation as well as choice of business models for different traffic flows. In addition to cost reductions, there are activities with a revenue enhancement effect (within Plan B) amounting to SEK 1.6 billion.

Effects from cost-cutting measures are expected as follows (SEK billion):

| | |
|---|---|
| 2004 | 6.0 |
| 2005 | 11.0 |
| 2006 | 12.0 |

### Follow-up of Turnaround 2005

Turnaround 2005 (for the airlines) is followed up through careful monitoring of four criteria: integration in internal budgets and business plans, operational key figures (including block hours for aircraft, pilots and cabin crews), full-time equivalents (FTEs), and completed activities.

Implementation of Turnaround 2005 is proceeding as planned and was ahead of plan as of September. At the end of September, activities corresponding to 42% of the total financial effect of the entire plan had been completed compared with the planned 37%. The total effect of these measures (Turnaround 2005 including short-term measures carried out earlier) for January-September 2003 amounted to approximately SEK 2.6 billion.

### Overhead functions (Group & Scandinavian Airlines)

Within the Group's and Scandinavian Airlines' overhead functions in Stockholm, Copenhagen and Oslo, 370 FTEs were phased out in the period September-October. Further reductions have been made as a result of Scandinavian Airlines' new base distribution, efficiency enhancement measures and a lower level of ambition. In the third quarter a decision was made to relocate parts of Revenue Information to India, which will provide annual savings of about MSEK 85 with effect from May 2004.

**Scandinavian Airlines**
Defined other measures within Scandinavian Airlines amount to SEK 5.2 billion. These measures are designed to increase aircraft utilization, reducing turnaround time by 5-10 minutes for both jet and turboprop production. New collective agreements with pilots and cabin crew allow an increase in productivity by more than 40% to 700-750 hours, which has resulted in a lower staff requirement. September and October saw a reduction of just over 320 full-time equivalents within cabin crew. 140 pilots will go on leave of absence in the fourth quarter.

Within distribution and sales the call center structure is being simplified and the number of centers reduced. Internet sales and ticketless travel will increase considerably. The goal is to increase the proportion of tickets sold via the Internet to 40%. A new website with clearer, more transparent and simpler reservations was introduced in October 2003 and has been well received.

**Airlines Support Businesses**
Savings will be made within Scandinavian Ground Services (SGS) due to less traffic peaks over the traffic day following introduction of Scandinavian Airlines' traffic system, greater automation at check-in and generally improved efficiency within passenger service. The aim includes increasing the total proportion of self-service check-in to 60% by 2005 among Scandinavian Airlines' customers. Cost flexibility will be increased by purchasing services to meet volume changes, renegotiating agreements with external handling suppliers, simplifying all operations at the three base stations, reorganizing staff functions, exposing operation and administration of computer systems to competition, and renegotiating collective agreements. The measures within SGS total SEK 1 billion.

Starting in August 2003, Scandinavian Airlines' pilots perform the PFI (Pre Flight Inspection) and a new operational schedule for technical maintenance has been introduced. The full effect is expected in spring 2004. SAS Technical Services' (STS) establishment of a new organizational structure is under full implementation and expected to be completed by year-end. The main base is to be located at Stockholm-Arlanda which will lead to centralization of "Base Maintenance" (medium-heavy aircraft maintenance) and overhead/support functions. A central store for materials and spare parts will be introduced starting in the first quarter of 2004, which will gradually release capital. Efficiency has improved further through new collective agreements on unpaid meal breaks, changes in shift planning, etc. Due to efficiency enhancements within STS, Scandinavian Airlines can be offered better terms for heavy maintenance of the MD fleet which means that starting in the second quarter of 2004 all maintenance of the MD fleet will be carried out at Oslo Gardermoen instead of at Shannon in Ireland. STS is achieving total cost savings of SEK 1.6 billion.

**Subsidiary Airlines & Hotels**
Savings of over SEK 1.9 billion have been identified within the airlines in Subsidiary Airlines and the Hotels business area which will have their full effect in 2005, including MSEK 1,400 in 2004. Braathens will implement savings and productivity improvements of some SEK 0.5 billion. Widerøe and Spanair will implement measures worth SEK 0.3 billion and SEK 0.5 billion respectively. Rezidor SAS Hospitality and Blue1 are both implementing efficiency enhancements of MSEK 150 each. Additional measures for SEK 0.3 billion have been decided in the business area.

**Personnel**
Within Turnaround 2005 redundancies totaling 6,000 full-time positions have been identified. Of these, 1,900 full-time positions have already been phased out (170 within groupwide functions, 1,220 within Scandinavian Airlines and 510 within Airline Support Businesses). The remaining redundancies are: groupwide functions 340, Scandinavian Airlines 2,250 (of which 400-500 flight crew), Airline Support Businesses 1,500, and the remainder in other units within the Group.

**Restructuring costs**
Provision for restructuring costs within Turnaround 2005 was made in the third quarter with MSEK 96. These costs relate to employees during work-free regular notice periods and mean that cash is unaffected. The SAS Group has chosen to encourage employees to accept work-free notice periods to a greater extent than planned earlier in order to maintain a high pace in implementation of these measures. For the same reason, additional restructuring costs of a few hundred million SEK, depending on the work-free level, will be charged to earnings in the fourth quarter of 2003 with a very limited extra cash effect.

## Investments
The SAS Group's investments, including prepayments, amounted to MSEK 2,989 (6,987) for the period. Scandinavian Airlines accounted for MSEK 804 (4,574) of investments, Subsidiary & Affiliated Airlines for MSEK 1,015 (934), Airline Support Businesses for MSEK 418 (912), Airline Related Businesses for MSEK 124 (131) and Rezidor SAS Hospitality for MSEK 394 (132). Investments in aircraft and other flight equipment totaled MSEK 1,911 (6,227).

The SAS Group has had large surplus values in its aircraft fleet for several years. The size of surplus values mainly depends on the market value of aircraft, the depreciation rate applied, and the SEK/USD exchange rate. The estimated book value of the aircraft fleet owned by the SAS Group at September 30, 2003, was MSEK 351 below the market value. At the beginning of November, the book value largely corresponded to the market value.

At the end of September 2003, the sum of future investments, CAPEX, in the SAS Group amounted to MUSD 346.

### Firm orders for aircraft, 2003-2007:

| **SAS Group** | **Total** | 2003 | 2004 | 2005 | 2006 | 2007 |
|---|---|---|---|---|---|---|
| CAPEX (MUSD) | **346** | 23 | 134 | 37 | 86 | 66 |
| Number of aircraft | **10** | 1 | 3 | 1 | 3 | 2 |

### SAS Group's total aircraft fleet, September 30, 2003:

| Aircraft type | Own-ed | Leased in | **Total** | Leased out | Order |
|---|---|---|---|---|---|
| Airbus A330/340-300 | 7 | 3 | **10** | | 1 |
| Airbus A321-200 | 8 | 16 | **24** | | 5 |
| Boeing 767 | 3 | 4 | **7** | | |
| Boeing 737 | 32 | 50 | **82** | 7 | 4 |
| Boeing 717 | | 4 | **4** | | |
| Douglas MD-81/82/87 | 31 | 63 | **94** | | |
| Douglas MD-90 | 8 | | **8** | | |
| Avro RJ-85 | | 5 | **5** | | |
| Fokker F28 | 2 | | **2** | | |
| Fokker F50 | 7 | | **7** | 2 | |
| deHavilland Q100-400 | 25 | 28 | **53** | | |
| SAAB 2000 | | 5 | **5** | | |
| **Total** | 123 | 178 | **301** | 9 | 10 |
| Breakdown of Group's fleet by airline: | | | | | |
| Scandinavian Airlines | 100 | 82 | **182** | 9 | 9 |
| Spanair | | 53 | **53** | | 1 |
| Braathens | 4 | 23 | **27** | | |
| Widerøe | 19 | 10 | **29** | | |
| Blue1 | | 10 | **10** | | |
| **Total** | 123 | 178 | **301** | 9 | 10 |

## Financial position

The SAS Group's liquid assets at September 30, 2003, amounted to MSEK 7,483 (10,482). In addition to this, the Group has unutilized loan commitments totaling MSEK 6,800.

Net debt amounted to MSEK 12,563, an increase since year-end 2002 of MSEK 989. The financial net debt amounted to MSEK 19,375 (18,402). Cash flow from operations was weakly positive for the period January-September with MSEK 111 (1,879). The less favorable cash flow is mainly due to a very weak first quarter, MSEK –1,095 (-428). In 1998-2002 the SAS Group carried out an extensive investment program for replacement of the aircraft fleet. This program is now mainly completed and the SAS Group is in a period with very limited investments over the next 3-4 years.

In the third quarter properties in Copenhagen were sold. In the November, the properties at Frösundavik were sold, releasing capital of just over MSEK 1,100. The SAS Group's program to release capital will continue in 2003/2004 with the aim of releasing capital in all the Group's units. The SAS Group also has surplus values in other assets.

The SAS Group's financial position and preparedness are assessed as sufficient to carry out the measures within Turnaround 2005. Just over 20% of the SAS Group's assets in the balance sheet are linked to financing, primarily assets in the form of aircraft. Moody's monitors the development of SAS's creditworthiness and at September 30 the credit rating was Ba3 with a "stable" outlook.

The equity/assets ratio at September 30 was 22% (22%). The SAS Group's target is an equity/assets ratio of at least 30% and a debt/equity ratio of less than 50%. These financial targets will be achieved through a combination of the measures in Turnaround 2005 and the financial transactions mentioned above.

## Personnel

The average number of employees in the SAS Group in the period January-September 2003 was 34,856 (34,718), of whom 9,299 (10,013, excluding SAS World Sales 7,510) in Scandinavian Airlines, 7,076 (6,166) in Subsidiary & Affiliated Airlines, 11,807 (11,796, including SAS World Sales 14,299) in Airline Support Businesses, 2,132 (2,556) in Airline Related Businesses, 3,426 (2,966) in Hotels and 1,116 (1,222) for groupwide functions.

## Accounting principles

SAS AB's and the Group's interim report have been prepared in accordance with the Swedish Financial Accounting Standards Council's recommendations (RR20). Phasing in and phasing out costs for aircraft are reported as operating expenses from January 1, 2003. Only costs directly related to the sale of aircraft are included as a capital loss. Otherwise the accounting principles are the same as those applied in the most recent annual report.

## Parent Company SAS AB

Net income before tax for the period was MSEK -66 (-55).

Available liquidity for SAS AB at September 30 amounted to MSEK 1 compared with MSEK 1 at the beginning of the year.

The number of shareholders in SAS AB amounted to 21,271 at September 30, 2003.

In connection with the ongoing reorganization within the Group, SAS's management and board have decided with effect from November 1, 2003, to transfer most groupwide functions in the SAS Consortium to SAS AB.

| **Statement of income** (MSEK) | **January – September 2003** | 2002 |
|---|---|---|
| Operating revenue | **-** | - |
| Operating expenses | **-19** | -9 |
| Operating income | **-19** | -9 |
| Net financial items | **-47** | -46 |
| Income before tax | **-66** | -55 |
| Tax | **-** | - |
| Income after tax | **-66** | -55 |

| **Balance sheet** (MSEK) | **Sept. 30 2003** | Dec. 31 2002 |
|---|---|---|
| Fixed assets | **3,312** | 3,102 |
| Current assets | **2** | 2 |
| Total assets | **3,314** | 3,104 |
| | | |
| Shareholders' equity | **1,799** | 1,865 |
| Long-term liabilities | **1,511** | 1,091 |
| Current liabilities | **4** | 148 |
| Total shareholders' equity and liabilities | **3,314** | 3,104 |

**Shareholders' equity** (MSEK)

| | | |
|---|---|---|
| Restricted equity | | |
| Share capital | **1,645** | 1,645 |
| Premium reserve | **170** | 170 |
| Statutory reserve | **10** | 10 |
| Unrestricted equity | | |
| Profit brought forward | **40** | 92 |
| Net income for the period | **-66** | -52 |
| Total shareholders' equity | **1,799** | 1,865 |

## Outlook for the full-year 2003

The first four to five months of 2003 were marked by a number of negative factors in the business environment such as a weak macro economy, SARS and the conflict in Iraq. These factors affected the SAS Group's traffic and yield development, which led to a substantial decline in revenues compared with the previous year.

Traffic development in the key traffic flows stabilized in the third quarter, but the market in general remains weak.

The yield trend was still very negative during the third quarter and is expected to remain weak in the fourth quarter.

The SAS Group is currently implementing extensive cost-cutting measures within the framework of "Turnaround 2005" designed to raise the competitiveness of the Group. The effects of this program are starting to have a clear impact on the unit cost.

In the six-month report for 2003 an assessment was made that income before tax, capital gains and restructuring costs for the full year 2003 would be negative by approximately SEK 2 billion.

Earnings for the third quarter have developed as anticipated, but the yield trend has been slightly more negative which has been compensated on the cost side.

The SAS Group's forecast for the full year 2003 is therefore unchanged: income before tax, capital gains and restructuring costs will be negative by approximately SEK 2 billion. Uncertainty over yield development will continue in the fourth quarter.

Stockholm, November 11, 2003
SAS AB

Jørgen Lindegaard
President and CEO

This interim report has not been audited

# SAS Group

## Summary statement of income

| (MSEK) | July-September 2003 | July-September 2002 | January-September 2003 | January-September 2002 | October-September 2002-2003 | October-September 2001-2002 |
|---|---|---|---|---|---|---|
| Operating revenue | **14,920** | 16,592 | **43,930** | 48,235 | **60,639** | 61,045 |
| Payroll expenses | **-5,165** | -5,335 | **-16,470** | -16,041 | **-22,781** | -20,866 |
| Other operating expenses | **-8,018** *) | -9,127 | **-24,513** | -26,232 | **-33,579** | -34,339 |
| **Operating income before depreciation and leasing costs, EBITDAR** | **1,737** | 2,130 | **2,947** | 5,962 | **4,279** | 5,840 |
| Leasing costs for aircraft | **-729** | -932 | **-2,280** | -2,860 | **-3,167** | -3,518 |
| **Operating income before depreciation, EBITDA** | **1,008** | 1,198 | **667** | 3,102 | **1,112** | 2,322 |
| Depreciation | **-773** | -781 | **-2,306** | -2,147 | **-3,112** | -2,858 |
| Share of income in affiliated companies | **4** | 3 | **56** | -337 | **-16** | -435 |
| Income from the sale of shares in subsidiaries and affiliated companies | **0** | 829 | **0** | 830 | **-13** | 831 |
| Income from the sale of aircraft and buildings | **559** | -208 | **745** | -459 | **884** | 6 |
| **Operating income, EBIT** | **798** | 1,041 | **-838** | 989 | **-1,145** | -134 |
| Income from other shares and participations | **0** | 4 | **-9** | -20 | **-169** | -20 |
| Net financial items | **-234** | -405 | **-378** | -736 | **-594** | -760 |
| **Income before tax, EBT** | **564** | 640 | **-1,225** | 233 | **-1,908** | -914 |
| Tax | **196** | -102 | **369** | -103 | **739** | 52 |
| Minority interests | **-61** | -32 | **22** | 22 | **51** | 17 |
| **Income after tax** | **699** | 506 | **-834** | 152 | **-1,118** | -845 |
| Earnings per share (SEK)[1] | **4.25** | 3.08 | **-5.07** | 0.93 | **-6.80** | -5.18 |

[1]Earnings per share is calculated on a weighted average of the number of shares outstanding (RR18), July-September 164,500,000 (164,500,000) shares, January-September 164,500,000 (163,496,133) and October-September 164,500,000 (163,076,199).

*) Includes restructuring costs of MSEK 96

## Segment reporting by business area

| Statement of income January - September | Scandinavian Airlines 2003 | Scandinavian Airlines 2002 | Subsidiary & Affiliated Airlines 2003 | Subsidiary & Affiliated Airlines 2002 | Airline Support Businesses 2003 | Airline Support Businesses 2002 | Airline Related Businesses 2003 | Airline Related Businesses 2002 | Hotels 2003 | Hotels 2002 | Groupwide & eliminations 2003 | Groupwide & eliminations 2002 | SAS Group 2003 | SAS Group 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| External sales | **22,908** | 26,864 | **13,275** | 12,802 | **3,244** | 3,515 | **1,864** | 2,460 | **2,537** | 2,525 | **102** | 69 | **43,930** | 48,235 |
| Inter-segment sales | **1,143** | 963 | **224** | 75 | **7,173** | 11,620 | **1,707** | 1,997 | **69** | 74 | **-10,316** | -14,729 | **0** | 0 |
| **Total operating revenue** | **24,051** | 27,827 | **13,499** | 12,877 | **10,417** | 15,135 | **3,571** | 4,457 | **2,606** | 2,599 | **-10,214** | -14,660 | **43,930** | 48,235 |
| Payroll expenses | **-6,026** | -4,893 | **-3,013** | -2,869 | **-4,634** | -5,425 | **-1,016** | -1,254 | **-1,086** | -990 | **-695** | -610 | **-16,470** | -16,041 |
| Other expenses | **-17,025** | -20,544 | **-8,653** | -7,314 | **-5,389** | -9,031 | **-2,318** | -2,805 | **-1,604** | -1,444 | **10,476** | 14,906 | **-24,513** | -26,232 |
| **EBITDAR per segment** | **1,000** | 2,390 | **1,833** | 2,694 | **394** | 679 | **237** | 398 | **-84** | 165 | **-433** | -364 | **2,947** | 5,962 |
| Leasing costs for aircraft | **-1,050** | -1,351 | **-1,331** | -1,478 | **0** | -31 | **0** | 0 | **0** | 0 | **101** | | **-2,280** | -2,860 |
| **EBITDA per segment** | **-50** | 1,039 | **502** | 1,216 | **394** | 648 | **237** | 398 | **-84** | 165 | **-332** | -364 | **667** | 3,102 |
| Depreciation | **-1,073** | -946 | **-430** | -355 | **-338** | -369 | **-194** | -223 | **-101** | -86 | **-170** | -168 | **-2,306** | -2,147 |
| Share of income in affiliated companies | **49** | 51 | **0** | -386 | **0** | -9 | **0** | -22 | **9** | 30 | **-2** | -1 | **56** | -337 |
| Capital gains | **121** | -524 | **36** | 7 | **0** | 0 | **0** | -5 | **4** | 5 | **584** | 888 | **745** | 371 |
| **EBIT per segment** | **-953** | -380 | **108** | 482 | **56** | 270 | **43** | 148 | **-172** | 114 | **80** | 355 | **-838** | 989 |
| **Non-segmented income statement items** | | | | | | | | | | | | | | |
| Income from other shares and participations | | | | | | | | | | | | | **-9** | -20 |
| Net financial items | | | | | | | | | | | | | **-378** | -736 |
| Tax on income for the year | | | | | | | | | | | | | **369** | -103 |
| Minority interests | | | | | | | | | | | | | **22** | 22 |
| **Income after tax** | | | | | | | | | | | | | **-834** | 152 |

# SAS Group

## Summary balance sheet

| (MSEK) | **September 30 2003** | December 31 2002 | September 30 2002 | September 30 2001 |
|---|---|---|---|---|
| Aircraft and spare parts | **26,192** | 27,256 | 26,429 | 17,391 |
| Other noninterest-bearing assets | **21,000** | 21,346 | 24,621 | 24,084 |
| Interest-bearing assets (excl. liquid assets) | **9,244** | 7,487 | 7,279 | 7,896 |
| Liquid assets [1] | **7,483** | 10,721 | 10,482 | 7,761 |
| **Assets** | **63,919** | 66,810 | 68,811 | 57,132 |
| | | | | |
| Shareholders' equity | **13,798** | 15,188 | 15,414 | 16,748 |
| Minority interests | **149** | 166 | -57 | 275 |
| Deferred tax liability | **3,134** | 3,606 | 3,746 | 4,040 |
| Subordinated debenture loan | **737** | 915 | 902 | 956 |
| Other interest-bearing liabilities | **28,553** | 28,867 | 29,027 | 20,287 |
| Operating liabilities | **17,548** | 18,068 | 19,779 | 14,826 |
| **Shareholders' equity and liabilities** | **63,919** | 66,810 | 68,811 | 57,132 |

## Shareholders' equity

| (MSEK) | **September 30 2003** | December 31 2002 | September 30 2002 | September 30 2001 |
|---|---|---|---|---|
| Opening balance | **15,188** | 15,544 | 15,544 | 17,520 |
| Dividend to shareholders | **-** | - | - | -754 |
| New issue | **-** | 197 | - | - |
| Change in translation difference | **-556** | -32 | 104 | 49 |
| Effect of consolidation of affiliated companies | **-** | -389 | -386 | - |
| Income after tax | **-834** | -132 | 152 | -67 |
| **Closing balance** | **13,798** | 15,188 | 15,414 | 16,748 |
| | | | | |
| Equity per share (SEK) [2] | **83.88** | 92.33 | 93.70 | 103.50 |

[1] The sale of properties for MSEK 993 in Copenhagen is as of September 30, 2003, booked as a receivable under other noninterest-bearing assets. The liquid assets were transferred at the end of October 2003.
[2] Calculated on 164,500,000 shares in September 2003, December 2002 and September 2002 (after the new issue) and on 161,816,396 shares in September 2001.

## Cash flow statement

| | **July-September** | | **January-September** | | **October-September** | |
|---|---|---|---|---|---|---|
| (MSEK) | **2003** | 2002 | **2003** | 2002 | **2002-03** | 2001-02 |
| Income before tax | **564** | 640 | **-1,225** | 233 | **-1,908** | -914 |
| Depreciation | **773** | 781 | **2,306** | 2,147 | **3,112** | 2,858 |
| Income from the sale of fixed assets | **-559** | -793 | **-766** | -777 | **-1,064** | -1,631 |
| Adjustment for items not included in cash flow, etc. | **-114** | -60 | **-30** | 396 | **237** | 500 |
| Paid tax | **-8** | -15 | **-174** | -120 | **-327** | -158 |
| **Cash flow from operations** | **656** | 553 | **111** | 1,879 | **50** | 655 |
| | | | | | | |
| Change in working capital | **-823** | -1,166 | **-1,178** | -786 | **-72** | 343 |
| **Cash flow from operating activities** | **-167** | -613 | **-1,067** | 1,093 | **-22** | 998 |
| | | | | | | |
| Investments including prepayments to aircraft suppliers | **-721** | -1,678 | **-2,945** | -6,806 | **-5,793** | -11,161 |
| Acquisition of subsidiaries | **-19** | 0 | **-38** | -46 | **-257** | -872 |
| Sale of subsidiaries | **0** | 733 | **0** | 733 | **0** | 733 |
| Sale of fixed assets, etc. | **1,082** | 1,602 | **2,988** | 2,990 | **5,320** | 8,052 |
| **Cash flow from financing activities** | **175** | 44 | **-1,062** | -2,036 | **-752** | -2,250 |
| | | | | | | |
| New issue | **0** | 0 | **0** | 197 | **0** | 197 |
| External financing, net | **-847** | 702 | **-2,176** | 659 | **-2,247** | 4,774 |
| **Cash in liquid assets according to balance sheet** | **-672** | 746 | **-3,238** | -1,180 | **-2,999** | 2,721 |

# SAS Group

## Summary of income by quarter

| | 2001 | | | 2002 | | | | | 2003 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | JUL- | OCT- | FULL YEAR | JAN- | APR- | JUL- | OCT- | FULL YEAR | **JAN-** | **APR-** | **JUL-** |
| (MSEK) | SEP | DEC | JAN-DEC | MAR | JUN | SEP | DEC | JAN-DEC | **MAR** | **JUN** | **SEP** |
| Operating revenue | 12,675 | 12,810 | 51,433 | 13,775 | 17,868 | 16,592 | 16,709 | 64,944 | **13,710** | **15,300** | **14,920** |
| Payroll expenses | -4,314 | -4,825 | -17,792 | -5,209 | -5,497 | -5,335 | -6,311 | -22,352 | **-5,741** | **-5,564** | **-5,165** |
| Other operating expenses | -7,479 | -8,107 | -30,473 | -7,982 | -9,123 | -9,127 | -9,066 | -35,298 | **-8,367** | **-8,128** | **-8,018** |
| **Operating income before depreciation and leasing costs, EBITDAR** | 882 | -122 | 3,168 | 584 | 3,248 | 2,130 | 1,332 | 7,294 | **-398** | **1,608** | **1,737** |
| Leasing costs for aircraft | -679 | -658 | -2,425 | -878 | -1,050 | -932 | -887 | -3,747 | **-832** | **-719** | **-729** |
| **Operating income before depreciation, EBITDA** | 203 | -780 | 743 | -294 | 2,198 | 1,198 | 445 | 3 547 | **-1,230** | **889** | **1,008** |
| Depreciation | -591 | -711 | -2,443 | -651 | -715 | -781 | -806 | -2,953 | **-753** | **-780** | **-773** |
| Share of income in affiliated companies | -43 | -98 | -70 | -328 | -12 | 3 | -72 | -409 | **25** | **27** | **4** |
| Income from the sale of shares in subsidiaries and affiliated companies | 1 | 1 | -24 | 0 | 1 | 829 | -13 | 817 | **0** | **0** | **0** |
| Income from the sale of aircraft and buildings | 377 | 465 | 1,165 | -133 | -118 | -208 | 139 | -320 | **50** | **136** | **559** |
| **Operating income, EBIT** | -53 | -1,123 | -629 | -1,406 | 1,354 | 1,041 | -307 | 682 | **-1,908** | **272** | **798** |
| Income from other shares and participations | 0 | 0 | 1 | 0 | -24 | 4 | -160 | -180 | **-17** | **8** | **0** |
| Net financial items | -160 | -24 | -512 | -40 | -291 | -405 | -216 | -952 | **49** | **-193** | **-234** |
| **Income before tax, EBT** | -213 | -1,147 | -1,140 | -1,446 | 1,039 | 640 | -683 | -450 | **-1,876** | **87** | **564** |
| Tax | 3 | 155 | 103 | 99 | -100 | -102 | 370 | 267 | **174** | **-1** | **196** |
| Minority interests | 2 | -5 | -27 | 25 | 29 | -32 | 29 | 51 | **103** | **-20** | **-61** |
| **Income after tax** | -208 | -997 | -1 064 | -1 322 | 968 | 506 | -284 | -132 | **-1,599** | **66** | **699** |

## Financial key ratios

| | **September 30 2003** | December 31 2002 | September 30 2002 | September 30 2001 |
|---|---|---|---|---|
| EBITDAR margin[1] (12-month rolling) | **7%** | 11% | 10% | 10% |
| EBIT marginal[2] (12-month rolling) | **-2%** | 1% | 0% | 4% |
| CFROI[3] (12-month rolling) | **7%** | 13% | 11% | 12% |
| Return on equity (12-month rolling) | **-8%** | -1% | -6% | 8% |
| Equity/assets ratio | **22%** | 23% | 22% | 30% |
| Net debt, MSEK[4] | **12,563** | 11,574 | 12,168 | 5,586 |
| Financial net debt, MSEK[5] | **19,375** | 17,872 | 18,402 | 10,487 |
| Debt/equity ratio[6] | **1.39** | 1.16 | 1.20 | 0.62 |
| Interest coverage ratio[7] (12-month rolling) | **-0.1** | 0.8 | 0.5 | 2.6 |

1 EBITDAR in relation to operating revenue
2 EBIT in relation to operating revenue
3 Based on market-adjusted capital employed which includes the market value of the aircraft fleet and capitalized leasing costs
4 Interest-bearing liabilities minus interest-bearing assets
5 Interest-bearing liabilities minus interest-bearing assets excluding pension funds, net
6 Debt/equity ratio calculated as financial net debt in relation to shareholders' equity and minority interests
7 Operating income plus financial revenue in relation to financial expenses

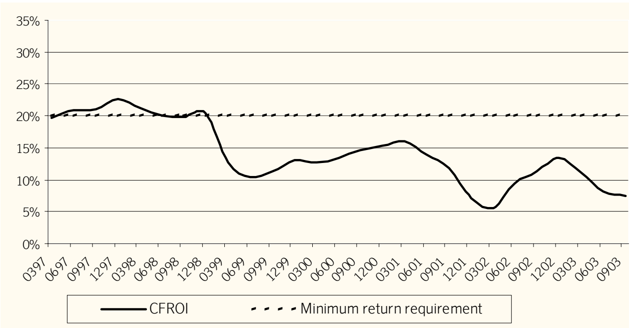
# The SAS Group's objectives

## Targets

The SAS Group has a target for total shareholder return (TSR) of a minimum of 14% over a business cycle. The return target refers to the sum of share price appreciation and reinvested dividends. Based on this return target, the SAS Group has set its internal financial target, CFROI.

**Performance target - CFROI**
One of the Group's objectives over the next five years is to reach a CFROI of an average minimum of 20% per year, where average capital allocation for replacement of the aircraft fleet is taken into account

## Development of cash flow return on investments, CFROI (%) (12-month rolling)




In the period October 2002-September 2003 the Group generated income before net financial items, tax, depreciation, capital gains and operating lease costs for aircraft (EBITDAR) of MSEK 2,947 (5,962). Adjusted EBITDAR amounted to MSEK 4,142 (5,785). Set in relation to adjusted capital employed, CFROI was 7% (11%), which is 13 percentage points below target.

## Income and capital concepts included in CFROI

| | September-October | |
|---|---|---|
| (MSEK) | **2003** | 2002 |
| Income | | |
| Income before depreciation, EBITDA | **1,112** | 2,322 |
| + Operating lease costs, aircraft | **3,167** | 3,518 |
| EBITDAR | **4,279** | 5,840 |
| - Revenues from operating leases, aircraft | **-137** | -55 |
| Adjusted EBITDAR | **4,142** | 5,785 |
| | | |
| Adjusted capital employed (average) | | |
| + Shareholders' equity | **14,198** | 15,202 |
| + Minority shares | **85** | 93 |
| + Surplus value, aircraft | **592** | 1,645 |
| + Capitalized leasing costs (x 7)* | **23,786** | 19,803 |
| - Equity in affiliated companies | **-540** | -931 |
| + Financial net debt | **19,087** | 15,428 |
| Adjusted capital employed | **57,208** | 51,240 |
| | | |
| CFROI | **7%** | 11% |

* In the capital market the calculation model 7 times the annual cost is used regardless of the term of the leases. NVP (Net Present Value) amounted at the end of September to MSEK 9,765 (10,516). Average NPV for the 12-month period amounted to MSEK 11,227 (9,804).

# Scandinavian Airlines

SAS World Sales (SWS) has been included in Scandinavian Airlines since August 15 and is consolidated in the statement of income from January 1, 2003, but not for 2002. Pro forma shows the statement of income including SAS World sales for 2002.

## Statement of income

| | July-September | | | January-September | | |
|---|---|---|---|---|---|---|
| | | | Pro forma | | | Pro forma |
| (MSEK) | **2003** | 2002 | 2002 | **2003** | 2002 | 2002 |
| Passenger revenue | **6,371** | 8,052 | 8,052 | **19,989** | 25,399 | 25,399 |
| Other traffic revenue | **678** | 621 | 621 | **2,087** | 1,632 | 1,632 |
| Other revenue | **674** | 216 | 422 | **1,975** | 796 | 1,462 |
| **Operating revenue** | **7,723** | 8,889 | 9,095 | **24,051** | 27,827 | 28,493 |
| | | | | | | |
| Payroll expenses | **-1,791** | -1,555 | -1,858 | **-6,026** | -4,893 | -5,848 |
| Selling costs | **-223** | -1,305 | -497 | **-699** | -4,092 | -1,534 |
| Jet fuel | **-728** | -795 | -795 | **-2,198** | -2,370 | -2,370 |
| Government user fees | **-784** | -923 | -923 | **-2,394** | -2,750 | -2,750 |
| Catering costs | **-307** | -367 | -367 | **-953** | -1,075 | -1,075 |
| Handling costs | **-1,101** | -1,347 | -1,356 | **-3,503** | -4,081 | -4,132 |
| Technical aircraft maintenance | **-1,078** | -1,241 | -1,241 | **-3,471** | -3,691 | -3,691 |
| Data and telecommunications costs | **-417** | -70 | -433 | **-1,376** | -325 | -1,556 |
| Other operating expenses | **-661** | -642 | -949 | **-2,431** | -2,160 | -2,944 |
| **Operating expenses** | **-7,090** | -8,245 | -8,419 | **-23,051** | -25,437 | -25,900 |
| | | | | | | |
| **Income before depreciation and leasing costs, EBITDAR** | **633** | 644 | 676 | **1,000** | 2,390 | 2,593 |
| | | | | | | |
| Leasing costs for aircraft | **-337** | -351 | -351 | **-1,050** | -1,351 | -1,351 |
| **Income before depreciation, EBITDA** | **296** | 293 | 325 | **-50** | 1,039 | 1,242 |
| | | | | | | |
| Depreciation | **-353** | -344 | -359 | **-1,073** | -946 | -986 |
| Share of income in affiliated companies | **17** | 16 | 16 | **49** | 51 | 51 |
| Capital gains | **14** | -206 | -206 | **121** | -524 | -524 |
| **Operating income, EBIT** | **-26** | -241 | -224 | **-953** | -380 | -217 |
| | | | | | | |
| Net financial items | **-152** | -238 | -240 | **-506** | -627 | -669 |
| **Scandinavian Airlines – Income before tax, EBT** | **-178** | -479 | -464 | **-1,459** | -1,007 | -886 |

## Traffic development and market development

The downturn in the Scandinavian economies, unease over the war in Iraq, SARS, reduced capacity and major traffic rescheduling affected traffic which decreased by 6.6% in January-September. Traffic (RPK) has stabilized since the end of June, but the total capacity availability in the market has been slightly higher which meant that occupancy fell by 0.4 percentage points in the third quarter. The U.S. market, which saw positive development during the summer, weakened in the third quarter. In total, intercontinental traffic rose in the third quarter by 1.3%. Traffic to/from Europe rose in the third quarter by 5.6% as a result of introduction of the low-fare concept snowflake. The trend for all international travel is heading towards development in line with levels last year. Traffic within Scandinavia remained weak. A weak market combined with suspended routes in Norway, Sweden and Greenland meant that traffic decreased by 25.9% in the third quarter compared with the same period in the previous year.

Yield development in January-September was negatively affected by changed customer behavior, a general decline in yield, a larger proportion of intercontinental traffic and the introduction of snowflake. The trend was the same in the third quarter. In total, currency adjusted yield fell in the period January-September by 12.7%. Passenger revenue for the period January-September amounted to MSEK 19,989 which adjusted for currency effects is 18.5% lower than in the previous year.

| Scandinavian Airlines Total | | July-September | | January-September | |
|---|---|---|---|---|---|
| | | 2003 | change vs. 2002 | 2003 | change vs. 2002 |
| Number of passengers | (000) | **4,927** | -11.8% | **14,533** | -13.0% |
| Revenue passenger km (RPK) | (mill) | **6,056** | -3.6% | **16,569** | -6.6% |
| Available seat km (ASK) | (mill) | **8,439** | -3.0% | **25,042** | -2.8% |
| Cabin factor | | **71.8%** | -0.4%pts | **66.2%** | -2.7%pts |

| Yield trend by route sector | July-September change vs. 2002 | January-September change vs. 2002 |
|---|---|---|
| Intercontinental routes | -4,7% | -6.5% |
| European routes | -17,5% | -14.9% |
| Intra-Scandinavian routes | -7.1% | -6.7% |
| Danish domestic | 73.1% | 53.2% |
| Norwegian domestic | -7.8% | -7.1% |
| Swedish domestic | 2.7% | 0.1% |
| **Total** | -14.0% | -12.7% |
| **Unit cost trend** | | |
| Total unit cost * | -12.7% | -8.5% |
| Operational unit cost* | -13.6% | -9.3% |

* Excluding change of method for phasing in and phasing out costs and reduced return on funded assets in Alecta (adjusted in quarter 3, 2002). Costs for the ITP Plan in Alecta calculated according to IAS19/RR29 are distributed to all business areas with effect from 2003.

### Organizational change

With effect from August 15, 2003, an organizational change was implemented in Scandinavian Airlines with division into four bases: Copenhagen, Oslo, Stockholm and Intercontinental.

### Earnings trend Scandinavian Airlines

In the first half of 2003 the market was very weak due to the war in Iraq and the SARS epidemic, which led to Scandinavian Airlines implementing short-term production cutbacks. A recovery in traffic on the intercontinental routes has been noted since June. The trend for all international travel is heading towards development in line with levels last year. Structural efficiency enhancement measures within the framework of "Turnaround 2005" are being carried out to create a long-term, competitive Scandinavian Airlines.

As a result of the transfer of SAS World Sales (SWS) from Airline Support Businesses to the Scandinavian Airlines business area, starting in this report SWS is consolidated in Scandinavian Airlines with effect from January. Scandinavian Airlines' operating revenue, including SWS, decreased by 13.6% to MSEK 24,051 (27,827) in the period January-September. Adjusted for currency effects, the decline was 10.7%. Passenger revenue decreased by 21.3%.

Operating expenses decreased during the period by MSEK 2,386 or 9.4%. Adjusted for currency effects the decrease was 5,1%. Payroll expenses were MSEK 1,133 higher than last year. Adjusted for SWS, payroll expenses were MSEK 178 higher than in the same period in 2002. The average number of employees decreased by 7.1% compared with 2002 (from 10,013 to 9,299) for the Scandinavian Airlines business area including SWS due to completed Turnaround measures. Higher pension costs, salary increases up until the salary freeze on April 1, 2003, and a changed method for phasing in and phasing out costs which from 2003 are defined as operating expenses, resulted in a rise in payroll expenses despite staff cuts. A salary freeze has been introduced for the period April 1 – December 31, 2003. The operational unit cost fell 9.3% during the period.

The lower costs within most other items is due to implementation of Turnaround 2005 and lower volumes. Fuel prices were considerably higher than in 2002 but were reduced by positive currency effects and lower volume.

Operating income before depreciation and leasing costs (EBITDAR) amounted to MSEK 1,000 (2,390) for January-September.

Leasing costs decreased by MSEK 301 to MSEK 1,050 (1,351). Income excluding capital gains amounted to MSEK –1,580 (-483).

### Third quarter

Operating income in the third quarter of 2003 was on a par with the same period in the previous year. Passenger revenue decreased by 20.9% to MSEK 6,371 (8,052). Adjusted for currency effects, passenger revenue decreased by 17.1% due to lower traffic volumes, lower yield and the introduction of net pricing to travel agencies and agents. The currency adjusted yield decreased by 14.0% in the third quarter.

Operating expenses decreased by 14.0% in the third quarter compared with the previous year. Adjusted for currency effects, the decrease was 8,3%. The operational unit cost decreased by 13.6% in the third quarter.

The joint venture agreement, ECA (European Cooperation Agreement), between British Midland, Lufthansa and Scandinavian Airlines had a negative earnings impact of MSEK –71 (-86) in the third quarter.

Income excluding capital gains improved by MSEK 81 from MSEK –273 to MSEK –192.

# Subsidiary & Affiliated Airlines

## Statement of income

| (MSEK) | July-September 2003 | 2002 | January-September 2003 | 2002 |
|---|---|---|---|---|
| Passenger revenue | **3,236** | 3,532 | **9,452** | 9,418 |
| Freight revenue | **22** | 27 | **72** | 182 |
| Charter revenue | **1,259** | 1,145 | **2,536** | 2,182 |
| Other traffic revenue | **169** | 125 | **343** | 180 |
| Other revenue | **362** | 299 | **1,096** | 915 |
| **Operating revenue** | **5,048** | 5,128 | **13,499** | 12,877 |
| Payroll expenses | **-983** | -1,030 | **-3,013** | -2,869 |
| Selling costs | **-164** | -266 | **-491** | -636 |
| Jet fuel | **-529** | -574 | **-1,426** | -1,279 |
| Government user fees | **-753** | -686 | **-2,008** | -1,693 |
| Catering costs | **-332** | -250 | **-801** | -586 |
| Handling costs | **-386** | -370 | **-1,033** | -800 |
| Technical aircraft maintenance | **-306** | -284 | **-987** | -707 |
| Data and telecommunications costs | **-187** | -135 | **-500** | -437 |
| Other operating expenses | **-442** | -405 | **-1,407** | -1,176 |
| **Operating expenses** | **-4,082** | -4,000 | **-11,666** | -10,183 |
| **Income before depreciation and leasing costs, EBITDAR** | **966** | 1,128 | **1,833** | 2,694 |
| Leasing costs for aircraft | **-445** | -569 | **-1,331** | -1,478 |
| **Income before depreciation, EBITDA** | **521** | 559 | **502** | 1,216 |
| Depreciation | **-155** | -141 | **-430** | -355 |
| Share of income in affiliated companies | **-18** | -24 | **0** | -386 |
| Capital gains | **-10** | 0 | **36** | 7 |
| **Operating income, EBIT** | **338** | 394 | **108** | 482 |
| Income from other shares and participations | **0** | 0 | **-30** | 0 |
| Net financial items | **-30** | -78 | **-120** | -101 |
| **Subsidiary & Affiliated Airlines - Income before tax, EBT** | **308** | 316 | **-42** | 381 |

## Earnings trend

The business area's operating revenue for the period January-September amounted to MSEK 13,499, an increase compared with the same period in the previous year of MSEK 622. This deviation is mainly due to the fact that in the previous year Spanair was consolidated as a subsidiary from March 2002.

In the third quarter operating revenue amounted to MSEK 5,048 (5,128).

For the first nine months of 2003, the business area reported income before capital gains of MSEK –78 (374) and MSEK 318 (316) for the third quarter.

The affiliated company **British Midland**, 20% holding, provided a share of income of MSEK -44 (-87).

Goodwill amortization for **Spanair** was charged against the business area's earnings with MSEK 39 (27). Spanair has been consolidated as a subsidiary in the SAS Group since March 1, 2002, and previously provided a share of income of MSEK –300 (January-February 2002).

Goodwill amortization for **Braathens** amounting to MSEK 31 (31) was charged against earnings for January-September.

Spanair

| (MSEK) | Jul-Sep 2003 | Jan-Sep 2003 | Jan-Sep 2002[1] |
|---|---|---|---|
| Passenger revenue | **1,415** | **3,510** | 3,353 |
| Other revenue | **1,233** | **2,510** | 2,153 |
| Total revenue | **2,648** | **6,020** | 5,506 |
| Payroll expenses | **-304** | **-815** | -774 |
| Other operating expenses | **-1,753** | **-4,290** | -3,916 |
| Total operating expenses | **-2,057** | **-5,105** | -4,690 |
| **Operating income before depreciation, leasing costs, EBITDAR** | **591** | **915** | 816 |
| Leasing costs | **-289** | **-851** | -872 |
| Operating income before depreciation, EBITDA | **302** | **64** | -56 |
| Depreciation | **-46** | **-89** | -46 |
| Capital gains | **-21** | **18** | 27 |
| Operating income, EBIT | **235** | **-7** | -75 |
| Net financial items | **3** | **-38** | -136 |
| Income before tax, EBT | **238** | **-45** | -211 |
| | | | |
| EBITDAR margin | **22.3%** | **15.2%** | 14.8% |
| Average number of employees | **2,610** | **2,559** | 2,043 |

[1] Pro forma. Spanair consolidated in the SAS Group March-December 2002. January-February Spanair included as share of income.

| **Traffic and production** | | **Jan-Sep 2003** | Change |
|---|---|---|---|
| **Scheduled traffic** | | | |
| Number of passengers | (000) | **4,105** | **3.4%** |
| Revenue passenger km | (RPK) | **3,513** | **7.7%** |
| Available seat km | (ASK) | **5,663** | **8.6%** |
| Cabin factor | % | **62.0%** | **-0.5%** |
| Yield, local currency | | | **-4,5%** |
| Unit cost, total incl. charter, local currency | | | **-4.8%** |
| **Charter traffic** | | | |
| Number of passengers | (000) | **2,119** | **12.3%** |

## Traffic and earnings trend

Spanair's scheduled passenger traffic, RPK, increased in January-September 2003 by 7.7% and by 22.7% on the European routes. Capacity, ASK, increased by 8.6% due to increased capacity between Spain and Scandinavia/Germany. The cabin factor fell by 0.5 percentage points. In the third quarter, the cabin factor rose by 0.5 percentage points and traffic by 13.6%. Spanair has increased its market shares within Spain in the third quarter. The year has been characterized by strong pressure on yield in Spanish domestic. Charter traffic was also weaker at the beginning of 2003 but has gradually improved since April and returned to good levels during the summer months.

Spanair's passenger revenue amounted to MSEK 3,510 (3,353) in January-September, an increase of 4.7%. Total revenues amounted to MSEK 6,020 (5,506). EBITDAR for the period improved by 12% to MSEK 915 (816) and income before tax to MSEK –45 (-211). Income before tax in the third quarter amounted to MSEK 238 (154), an earnings improvement of 54.5%.

Unit cost decreased in January-September by 4.8% compared with 2002. Spanair has started cost improvement measures which will reduce costs by MSEK 500 with full effect in 2005.

BRAATHENS

| (MSEK) | Jul-Sep 2003 | Jan-Sep 2003 | Jan-Sep 2002 |
|---|---|---|---|
| Passenger revenue | **1,262** | **4,050** | 4,514 |
| Other revenue | **351** | **848** | 1,001 |
| Total revenue | **1,613** | **4,898** | 5,515 |
| Payroll expenses | **-368** | **-1,221** | -1,491 |
| Other operating expenses | **-920** | **-2,974** | -2,726 |
| Total operating expenses | **-1,288** | **-4,195** | -4,217 |
| **Operating income before depreciation, leasing costs, EBITDAR** | **325** | **703** | 1,298 |
| Leasing costs | **-151** | **-465** | -574 |
| Operating income before depreciation, EBITDA | **174** | **238** | 724 |
| Depreciation | **-37** | **-116** | -130 |
| Capital losses | **-11** | **0** | 0 |
| Operating income, EBIT | **126** | **122** | 594 |
| Net financial items | **-6** | **-21** | 40 |
| Income before tax, EBT | **120** | **101** | 634 |
| | | | |
| EBITDAR margin | **20.1%** | **14.4%** | 23.5% |
| Average number of employees | **2,039** | **2,052** | 3,061 |

| **Traffic and production** | | **Jan-Sep 2003** | Change |
|---|---|---|---|
| **Scheduled traffic** | | | |
| Number of passengers | (000) | **3,170** | **0.5%** |
| Revenue passenger km | (RPK) | **2,307** | **14.9%** |
| Available seat km | (ASK) | **3,907** | **14.0%** |
| Cabin factor | % | **59.1%** | **+0.4%pts.** |
| Yield, local currency | | | **-19.1%** |
| Unit cost, total incl. charter, local currency | | | **-1.3%** |
| **Charter traffic** | | | |
| Number of passengers | (000) | **208** | **-34.0%** |

## Traffic and earnings trend

Braathens' scheduled traffic, RPK, increased by 14.9% in the first nine months of the year compared with 2002. This increase was due to a changed traffic program on Norwegian domestic and four new international routes. Capacity rose in the same period by 14.0%. The cabin factor rose by 0.4 percentage points to 59.1% (58.6%). Due to the new traffic program and new international routes with a longer average leg, a changed mix and increased competition, yield fell by 19.1%. The total domestic market in Norway increased by approximately 1% during the year measured in number of passengers.

Passenger revenues in January-September amounted to MSEK 4,050 (4,514) and EBITDAR amounted to MSEK 703 (1,298). The lower yield is the main reason for the decline in earnings. Unit costs fell 1.3% but include approximately MSEK 37 in provisions for expenses in connection with the transfer of ground handling in Norway to Scandinavian Ground Services in autumn 2002. Income before tax amounted to MSEK 101 (634). Income for the third quarter amounted to MSEK 120 (190).

Braathens has started implementation of cost-reducing measures amounting to approximately MSEK 500 which will be fully implemented in 2004.

widerøe

| (MSEK) | Jul-Sep 2003 | Jan-Sep 2003 | Jan-Sep 2002 |
|---|---|---|---|
| Passenger revenue | **368** | **1,235** | 1,318 |
| Other revenue | **206** | **627** | 583 |
| Total revenue | **574** | **1,862** | 1,901 |
| **Operating income before depreciation, leasing costs, EBITDAR** | **88** | **256** | 329 |
| Operating income before depreciation, EBITDA | **69** | **184** | 225 |
| Operating income, EBIT | **28** | **73** | 119 |
| Income before tax, EBT | **18** | **30** | 66 |
| | | | |
| EBITDAR marginal | **15.3%** | **13.7%** | 17.3% |
| Number of employees | **1,294** | **1,301** | 1,189 |

| **Traffic and production** | | Jan-Sep 2003 | Change |
|---|---|---|---|
| Number of passengers | (000) | **1,241** | **13.2%** |
| Revenue passenger km | (RPK) | **381** | **25.6%** |
| Available seat km | (ASK) | **721** | **20.8%** |
| Cabin factor | % | **52.8%** | **+2.0%pts** |
| Yield, local currency | | | **-20.5%** |
| Unit cost | | | **-12.7%** |

## Traffic and earnings trend

Widerøe's scheduled traffic, RPK, increased in January-September by 25.6% compared with 2002. This substantial increase is due to a number of new and longer routes since September 2002. Capacity, ASK, therefore rose 20.8% while the number of flights only increased by 2%. The cabin factor rose in the same period by 2.0 percentage points to 52.8%. Yield decreased by 20.5% compared with the previous year. The reason for the large decline in yield is mainly a lower proportion of full-fare paying passengers. The number of passengers transported rose, however, by 13.2%.

Widerøe has rescheduled its traffic program during the year in order to increase utilization of the aircraft fleet. This resulted in two aircraft being taken out of production. In winter 2003/2004 these are expected to go back into production on newly signed contract traffic in north Norway and new Norwegian domestic routes.

Unit cost fell by 12.7% during the year.

Widerøe's production is divided into two parts. One is contracted traffic on the Norwegian short runway network which accounted for 36% of passenger revenue in January-September 2003. The other part of operations comprises scheduled commercial flights within and to/from Norway and accounted for 64% of passenger revenue in the same period.

Passenger revenue totaled MSEK 1,235 (1,318) for the period January-September and EBITDAR was MSEK 256 (329). Income before tax amounted to MSEK 30 (66).

During 2003 Widerøe has started implementation of efficiency enhancement measures amounting to approximately MSEK 300. These measures will largely be completed during 2004. Due to an unexpectedly weak market development on the short runway network, in July 2003 Widerøe terminated its contracted traffic in Finnmark and Nord-Troms with effect from July 2004. Widerøe will soon submit a new tender for this contracted traffic.

Blue1

| (MSEK) | Jul-Sep 2003 | Jan-Sep 2003 | Jan-Sep 2002 |
|---|---|---|---|
| Passenger revenue | **191** | **657** | 780 |
| Other revenue | **10** | **29** | 1 |
| Total revenue | **201** | **686** | 781 |
| **Operating income before depreciation, leasing costs, EBITDAR** | **14** | **75** | 202 |
| Operating income before depreciation, EBITDA | **-21** | **-27** | 87 |
| Operating income, EBIT | **-24** | **-35** | 77 |
| Income before tax, EBT | **-25** | **-38** | 77 |
| | | | |
| EBITDAR margin | **7.0%** | **10.9%** | 25.9% |
| Number of employees | **287** | **283** | 293 |

| **Traffic and production** | | Jan-Sep 2003 | Change |
|---|---|---|---|
| Number of passengers | (000) | **442** | **8.9%** |
| Revenue passenger km | (RPK) | **289** | **14.8%** |
| Available seat km | (ASK) | **618** | **28.0%** |
| Cabin factor | % | **46.8%** | **-5.4%pts** |
| Yield, local currency | | | **-23.3%** |
| Unit cost | | | **-18.7%** |

## Traffic and earnings trend

In line with its continued expansion, Air Botnia is carrying out its most extensive renewal program which includes a totally new identity program with a new logotype and graphic design and new liveries for the aircraft. Air Botnia is changing its name to Blue1.

Despite falling demand in the market, Blue1 increased the number of revenue passenger kilometers, RPK, by 14.8%. The number of passengers rose by 8.9%. Capacity, ASK, increased by 28.0% which is due to a higher number of daily frequencies on existing routes and the introduction of new direct routes to Europe.

Passenger revenue in January-September amounted to MSEK 657 which is 15.8% lower than in the previous year. This decline is mainly due to lower yield due to lower fares, falling demand in the market and changed customer behavior. Despite capacity increases of 28%, operating expenses only rose 2.6%. Unit costs decreased by 18.7% compared with the previous year. Improved efficiency is mainly due to greater utilization of aircraft, increased crew productivity and a favorable dollar trend. Income before tax amounted to MSEK –38 (77).

In the third quarter, ERA - European Regions Airlines Association – awarded Blue1 a third prize - "Bronze Award Airline of the Year 2003/2004"- in competition with 80 regional airlines from 29 countries.

In the third quarter, Blue1 signed an agreement for delivery of four new jet aircraft which will be put into scheduled traffic starting with the winter traffic program at the end of October 2003. This new capacity will be used to strengthen production and optimize the timetable on Helsinki-Stockholm/Copenhagen. In addition, a new daily service Helsinki-Geneva started on October 6.

# Airline Support Businesses

## Statement of income

| | Juli-September | | | Januari-September | | |
|---|---|---|---|---|---|---|
| (MSEK) | **2003** | 2002 | Pro forma 2002 | **2003** | 2002 | Pro forma 2002 |
| **Operating revenue** | **3,437** | 5,047 | 3,550 | **10,417** | 15,135 | 10,415 |
| Payroll expenses | **-1,442** | -1,740 | -1,437 | **-4,634** | -5,425 | -4,470 |
| Selling costs | **-1** | -488 | 0 | **-2** | -1,531 | -2 |
| Handling costs | **-257** | -292 | -292 | **-796** | -896 | -896 |
| Technical aircraft maintenance | **-485** | -462 | -462 | **-1,396** | -1,316 | -1,316 |
| Data and telecommunications costs | **-173** | -544 | -181 | **-539** | -1,784 | -553 |
| Other operating expenses | **-840** | -1,258 | -947 | **-2,656** | -3,535 | -2,733 |
| **Operating expenses** | **-3,198** | -4,784 | -3,319 | **-10,023** | -14,487 | -9,970 |
| **Income before depreciation, EBITDA** | **239** | 263 | 231 | **394** | 648 | 445 |
| Depreciation | **-113** | -131 | -116 | **-338** | -369 | -329 |
| Share of income in affiliated companies | **0** | -6 | -6 | **0** | -9 | -9 |
| **Operating income, EBIT** | **126** | 126 | 109 | **56** | 270 | 107 |
| Net financial items | **-7** | -8 | -6 | **-70** | -34 | 8 |
| **Airline Support Businesses - Income before tax, EBT** | **119** | 118 | 103 | **-14** | 236 | 115 |

## Earnings trend

Airline Support Businesses' operations comprise ground services, technical aircraft maintenance and freight services. On August 15, 2003, the sales operations, SAS World Sales (SWS) were transferred from Airline Support Businesses to Scandinavian Airlines. SWS is therefore not included in the statement of income for 2003, but in comparative figures for 2002.

During the period January-September the various units adapted their operations to the lower market demand. Extensive structural changes are under implementation within all units designed to reduce costs with full effect in 2005. Operating revenue decreased in January-September by 31.2% to MSEK 10,417 (15,135). This decrease was due to the transfer of SWS to the Scandinavian Airlines business area. Income before tax amounted to MSEK –14 (236).

Airline Support Businesses' operating revenue for the third quarter amounted to MSEK 3,437 (5,047), a decrease of 31.9%. Adjusted for the transfer of SWS, the decrease in operating revenue in the third quarter was 3.2%. EBIT amounted to MSEK 119 (118).

SAS

Scandinavian Ground Services

| (MSEK) | **Jan-Sep 2003** | Jan-Sep 2002 | Jan-Dec 2002 |
|---|---|---|---|
| Operating revenue | **4,205** | 4,508 | 6,083 |
| of which external operating revenue | **14.7%** | 12.7% | 13.1% |
| Operating income before depreciation, EBITDA | **-38** | 102 | 48 |
| Operating income, EBIT | **-136** | 5 | -87 |
| EBITDA margin | **-0.9%** | 2.4% | 0.8% |
| Number of employees | **6,915** | 6,827 | 6,891 |

Scandinavian Ground Services (SGS) had operating revenue for the period January-September of MSEK 4,205 which is MSEK 303 lower than the previous year. Sales to Scandinavian Airlines have decreased, but this decline was partly compensated by new contracts. During the year SGS has concluded agreements with MyTravel, Air Canada, LOT, and re-opened operations at Bromma airport in Stockholm.

Throughout the year earnings have been negatively affected by weak economic development and falling volumes in the airline industry. In addition, price pressure and increased competition have intensified this negative trend. The Turnaround 2005 project within SGS is proceeding according to plan. Major savings have been carried out during the year but full-year effects and additional saving potential will be effected in 2004. EBIT for the period amounted to MSEK –136 (5).

SAS Technical Services

| (MSEK) | Jan-Sep 2003 | Jan-Sep 2002 | Jan-Dec 2002 |
|---|---|---|---|
| Operating revenue | **4,163** | 4,161 | 5,874 |
| of which external operating revenue | **13.5%** | 12.6% | 13.0% |
| Operating income before depreciation, EBITDA | **314** | 220 | 365 |
| Operating income, EBIT | **106** | 15 | 91 |
| EBITDA margin | **7.5%** | 5.3% | 6.2% |
| Number of employees | **3,621** | 3,835 | 3,808 |

SAS Technical Services' (STS) sales for the period January-September amounted to MSEK 4,163 (4,161). Traffic-related revenues were lower than in the previous year since most customers have reduced their traffic in the current market situation. A new maintenance contract with Spanair, increased orders for modification activities from Scandinavian Airlines and a number of new external contracts, kept revenues at the 2002 level.

Implementation of Turnaround 2005 is currently under way with full vigor and most of the measures will be in place around year-end. The resulting redundancy program has started and a large number of employees will be given notice in October/November. The relocation of Base Maintenance to Stockholm has started and will be completed in the fourth quarter of 2004.

EBIT amounted to MSEK 106 (15). This improved result is due to lower costs due to implementation of cost-cutting measures.

SAS Cargo

| (MSEK) | Jan-Sep 2003 | Jan-Sep 2002 | Jan-Dec 2002 |
|---|---|---|---|
| Operating revenue | **2,166** | 2,043 | 2,844 |
| of which traffic revenue | **1,589** | 1,632 | 2,269 |
| Proportion of external operating revenue | **95.3%** | 95.3% | 95.5% |
| Operating income before depreciation, EBITDA | **62** | -26 | 47 |
| Operating income, EBIT | **30** | -63 | 1 |
| Income before tax, EBT | **10** | -64 | -4 |
| EBITDA margin | **2.9%** | -1.3% | 1.7% |
| Average number of employees | **1,261** | 1,134 | 1,146 |
| Flown tonnes | **211,249** | 197,703 | 271,103 |
| Tonne km (000) | **729,855** | 670,412 | 928,307 |
| Cargo yield, SEK/tonne km | **2.18** | 2.29 | 2.27 |

Operating revenue for the period January-September amounted to MSEK 2,166 (2,043), an increase of 6%. Operating revenue has been positively affected by integration of Braathens' cargo operations from July 1, 2002.

Competition has increased in recent years which had led to pressure on yield combined with changed exchange rates. Yield (SEK/tonne km) fell 5% from SEK 2.29 to SEK 2.18. Two campaigns "Ask4More" and "Double Up" have started which are expected to reduce pressure on yield.

SAS Cargo's accumulated income before tax improved by MSEK 74 compared with 2002 and amounted to MSEK 10 (-64).

In order to guarantee and offer capacity in the long term, as of September 2003 SAS Cargo reached an agreement with Korean Airlines on the New York-Copenhagen route.

# Airline Related Businesses

## Statement of income

| (MSEK) | July-September 2003 | July-September 2002 | January-September 2003 | January-September 2002 |
|---|---|---|---|---|
| **Operating revenue** | **1,188** | 1,368 | **3,571** | 4,457 |
| Payroll expenses | **-313** | -405 | **-1,016** | -1,254 |
| Handling costs | **-53** | -53 | **-171** | -154 |
| Costs of goods sold incl. concession charges | **-359** | -403 | **-996** | -1,228 |
| Data and telecommunications costs | **-166** | -178 | **-472** | -643 |
| Other operating expenses | **-190** | -215 | **-679** | -780 |
| **Operating expenses** | **-1,081** | -1,254 | **-3,334** | -4,059 |
| **Income before depreciation, EBITDA** | **107** | 114 | **237** | 398 |
| Depreciation | **-63** | -74 | **-194** | -223 |
| Share of income in affiliated companies | **0** | 0 | **0** | -22 |
| Capital gains | **0** | -2 | **0** | -5 |
| **Operating income, EBIT** | **44** | 38 | **43** | 148 |
| Income from other shares and participations | **0** | 0 | **0** | -27 |
| Net financial items | **-32** | -2 | **-13** | -10 |
| **Airline Related Businesses - Income before tax, EBT** | **12** | 36 | **30** | 111 |

## Earnings trend

Airline Related Businesses consists of business units with operations related to airline operations within and outside the SAS Group. The business area comprises stores at airports, IT support for the airline industry and training of pilots and cabin crew. A large part of the business area's sales are to external customers. Since SMART was sold to Amadeus in August 2002, SMART is included in comparative figures for 2002.

Due to a low level of activity in the airline industry, the business area's operating revenue during the third quarter decreased by MSEK 180 to MSEK 1,188 (1,368). Income before tax decreased by MSEK 24 to MSEK 12 (36).

Operating revenue for January-September 2003 amounted to MSEK 3,571 (4,457), a decline of 19.9%. Income before tax decreased to MSEK 30 (111).

**Scandinavian IT Group**
Scandinavian IT Group's operating revenue amounted to MSEK 1,535 (1,676), a decline of 8.4% compared with 2002. Despite this decline, income only decreased by MSEK 4 to MSEK 77 compared with the previous year. This improved profit margin is explained by effects from the cost and efficiency measures carried out in 2002 and effects from measures implemented in 2003.

**SAS Trading**
SAS Trading's total operating revenue amounted to MSEK 1,175 which is MSEK 385 lower than the previous year. This decline is due to a lost concession for sales at airports in Sweden, weak passenger development and the weakening of the Norwegian krone against the Swedish krona. The lower operating revenue affected income before tax which fell from MSEK 4 in 2002 to MSEK –58 for the period January-September 2003. Due to a new cooperation with Inflight Service AB within purchasing, logistics and distribution, SAS Trading carried out internal efficiency improvements during the autumn. SAS Trading now acts as a purchasing pool for Flightshop, Spanair and Braathens for purchases for sales on board.

**SAS Flight Academy**
SAS Flight Academy's (SFA) total sales for the period January-September 2003 amounted to MSEK 368, which is a decrease of 16.4% compared with the previous year. Most of this negative development is explained by a lower training requirement within Scandinavian Airlines. As part of efforts to coordinate pilot and cabin crew training in the SAS Group, SFA has concluded an agreement with Scandinavian Airlines, Braathens and Widerøe on training at SFA's new training center at Gardermoen. The lower volume was partly compensated by SFA acquiring a number of new customers during 2003. Income before tax amounted to MSEK 7, which is MSEK 31 lower than in the same period last year.

**Jetpak**
Jetpak's operating revenue for the period January-September amounted to MSEK 332 which is 18.6% higher than in the same period in 2002. During the period, Jetpak intensified its efforts to increase the proportion of distribution logistics solutions from warehouses in Northern Europe. The first order is for Sandvik and comprises distribution of more than 100,000 consignments on a yearly basis. The company's total income before tax for the period amounted to MSEK 17 which is MSEK 20 higher than in the previous year.

Scandinavian IT Group

| (MSEK) | **Jan-Sep 2003** | Jan-Sep 2002 | Jan-Dec 2002 |
|---|---|---|---|
| Operating revenue | **1,535** | 1,676 | 2,255 |
| of which external operating revenue | **10.2%** | 5.5% | 6.7% |
| Operating income before depreciation, EBITDA | **148** | 176 | 192 |
| Operating income, EBIT | **75** | 83 | 72 |
| Income before tax, EBT | **77** | 81 | 70 |
| EBITDA margin | **9.6%** | 10.5% | 8.5% |
| Number of employees | **1,223** | 1,296 | 1,289 |

SAS Trading

| (MSEK) | **Jan-Sep 2003** | Jan-Sep 2002 | Jan-Dec 2002 |
|---|---|---|---|
| Operating revenue | **1,175** | 1,560 | 1,964 |
| of which external operating revenue | **95.0%** | 96.9% | 97.0% |
| Operating income before depreciation, EBITDA | **-37** | 36 | 13 |
| Operating income, EBIT | **-51** | 9 | -24 |
| Income before tax, EBT | **-58** | 4 | -34 |
| EBITDA margin | **-3.1%** | 2.3% | 0.7% |
| Number of employees | **343** | 510 | 471 |

SAS Flight Academy

| (MSEK) | **Jan-Sep 2003** | Jan-Sep 2002 [1] | Jan-Dec 2002 |
|---|---|---|---|
| Operating revenue | **368** | 440 | 568 |
| of which external operating revenue | **34.8%** | 31.1% | 30.6% |
| Operating income before depreciation, EBITDA | **82** | 117 | 141 |
| Operating income, EBIT | **11** | 44 | 44 |
| Income before tax, EBT | **7** | 38 | 38 |
| EBITDA margin | **22.3%** | 26.6% | 24.8% |
| Number of employees | **170** | 170 | 174 |

1) Pro forma, excluding Norwegian Aviation College

JETPAK

| (MSEK) | **Jan-Sep 2003** | Jan-Sep 2002 | Jan-Dec 2002 |
|---|---|---|---|
| Operating revenue | **332** | 280 | 385 |
| of which external operating revenue | **99.4%** | 99.3% | 99.5% |
| Operating income before depreciation, EBITDA | **23** | 2 | 4 |
| Operating income, EBIT | **18** | -3 | -2 |
| Income before tax, EBT | **17** | -3 | -3 |
| EBITDA margin | **6.9%** | 0.7% | 1.0% |
| Number of employees | **181** | 150 | 153 |

# Hotels

Rezidor SAS

## Statement of income

| (MSEK) | July-September 2003 | 2002 | January-September 2003 | 2002 |
|---|---|---|---|---|
| Rooms revenue | **463** | 473 | **1,338** | 1,258 |
| Food and beverage revenue | **246** | 257 | **812** | 789 |
| Other revenue | **152** | 245 | **456** | 552 |
| **Operating revenue** | **861** | 975 | **2,606** | 2,599 |
| | | | | |
| Operating expenses | **-282** | -277 | **-902** | -821 |
| Payroll expenses | **-358** | -351 | **-1,086** | -990 |
| Rental expenses, property insurance and property tax | **-229** | -206 | **-702** | -623 |
| **Operating income before depreciation** | **-8** | 141 | **-84** | 165 |
| | | | | |
| Depreciation | **-34** | -31 | **-101** | -86 |
| Share of income in affiliated companies | **5** | 17 | **9** | 30 |
| Capital gains | **0** | 5 | **4** | 5 |
| **Operating income, EBIT** | **-37** | 132 | **-172** | 114 |
| | | | | |
| Income from other shares and participations | **0** | 0 | **13** | 0 |
| Net financial items | **0** | -3 | **-32** | -11 |
| **Hotels – Income before tax, EBT** | **-37** | 129 | **-191** | 103 |

| **Key figures** | **Jan-Sep 2003** | Jan-Dec 2002 | Jan-Sep 2002 |
|---|---|---|---|
| EBITDA, MSEK [1] | **-75** | 220 | 195 |
| Revenue per available room (SEK) (REVPAR) [2] | **559** | 632 | 643 |
| Gross profit margin | **23.7 %** | 29.3% | 30.3% |

[1] Operating income before depreciation and share of income in affiliated companies.
[2] Including hotels operated on a management basis.

## Earnings trend

Revenues for the nine-month period amounted to MSEK 2,606 (2,599). This increase is mainly attributable to new hotels opened since the previous year and to the strike in Norway last year. Currency adjusted revenues from comparable units decreased compared with 2002 by 4.7%.

The hotel market continued to show negative development and revenue per available room (REVPAR), adjusted for currency effects, is 4% lower than the previous year. The main reasons for this negative trend are the weak economy after the Iraq war and SARS. The negative trend has been particularly noticeable in the Nordic countries and Central Europe, while both the U.K. and Ireland were characterized by a positive trend during the autumn. All destinations in Eastern Europe have developed well.

During the first eight months of the year the hotels retained market shares, but in September the trend was slightly weaker.

In the first nine months of the year Rezidor SAS signed 32 new agreements, comprising ten Radisson SAS hotels, 21 Park Inn hotels and one Cerutti hotel.

During the period, eleven new Radisson SAS hotels opened, in countries including Sweden, Germany and Saudi Arabia. In addition, 18 Park Inn hotels opened, including 14 in Sweden.

EBITDA, income before depreciation and including share of income in affiliated companies, amounted to MSEK –75 (195) for the period January-September. In the third quarter, EBITDA was MSEK –3 (158).

A cost saving program was started at the beginning of 2003. As of September, total operating expenses had been reduced by 50% of the reduction in revenues for comparable units. The target is to reduce fixed operating expenses by 15% by next year.

The negative development compared with 2002 can mainly be attributed to lower revenues for comparable units due to the decline in the market and negative results for newly opened hotels. Furthermore, a non-recurring payment of MSEK 103 was made for termination of the Malmaison contract in 2002.

Income before tax, EBT, for the period amounted to MSEK -191 (103).

# Definitions

**AEA -** Association of European Airlines.
**ASK, Available seat kilometers -** The total number of seats available for passengers multiplied by the number of kilometers which they are flown.
**AV, Asset value (adjusted capital employed) -** Book shareholders' equity, plus minority interests, plus surplus value in the aircraft fleet, plus 7 times the net annual cost for operating leases for aircraft, plus financial net debt, minus share of equity in affiliated companies. Can also be expressed as book value of total assets, plus surplus value in the aircraft fleet, plus 7 times the net annual cost for operating leases for aircraft, minus share of equity in affiliated companies, minus noninterest-bearing liabilities and interest-bearing assets, excluding net pension funds.
**Cabin factor, passengers -** Relation between RPK and ASK expressed as a percentage. Describes the capacity utilization of available seats. Also called occupancy rate.
**CAPEX (Capital Expenditure) -** Future payments for aircraft on firm order.
**Cash flow from operations -** Cash flow from operating activities before change in working capital.
**CFROI –** Adjusted EBITDAR in relation to AV.
**Debt/equity ratio -** Financial net debt in relation to shareholders' equity and minority interests.
**Earnings per share (EPS) -** Income after tax divided by the total number of shares.
**EBIT (including capital gains) -** Operating income.
**EBIT margin -** EBIT divided by operating revenue.
**EBITDA, Operating income before depreciation -** Operating income before net financial items, tax, depreciation, share of income in affiliated companies, and income from the sale of fixed assets.
**EBITDAR, Operating income before depreciation and leasing costs -** Operating income before net financial items, tax, depreciation, share of income in affiliated companies, income from the sale of fixed assets and leasing costs for aircraft.
**EBITDAR margin -** EBITDAR divided by operating revenue.
**EBT -** Income before tax.
**Equity method -** Shares in affiliated companies are taken up at the SAS Group's share of shareholders' equity, taking acquired surplus and deficit values into account.
**Equity/assets ratio -** Shareholders' equity plus minority interests in relation to total assets.
**EV (Enterprise Value) -** Average market capitalization plus average net debt during the year and 7 times the net annual cost for operating leases for aircraft.
**Financial net debt -** Interest-bearing liabilities minus interest-bearing assets, excluding net pension funds.
**Gross profit margin -** Operating income before depreciation in relation to operating revenue.
**Interest coverage ratio -** Operating income plus financial income in relation to financial expenses.
**Net debt -** Interest-bearing liabilities minus interest-bearing assets.
**Return on capital employed (ROCE) -** Operating income plus financial income in relation to average capital employed. Capital employed refers to total assets as specified in the balance sheet minus noninterest-bearing liabilities.
**Return on equity -** Income after tax in relation to average shareholders' equity.
**Revenue passenger kilometers (RPK) -** See RPK.
**REVPAR, Revenue per available room -** Revenue per available hotel room.
**RPK, Revenue passenger kilometers -** Number of paying passengers multiplied by the distance they are flown in kilometers.
**Sale and leaseback -** Sale of an asset (aircraft, building, etc.) which is then leased back.
**TSR, Total shareholder return -** Average total return
**Unit cost, operational -** Airline operations' total operating expenses minus non-traffic related revenue per ASK.
**Unit cost, total -** Airline operations' total operating expenses plus capacity costs for aircraft minus non-traffic related revenue per ASK.
**Unit revenue (yield) -** Average traffic revenue per RPK.
**Yield -** See Unit revenue.

# Financial calendar

| | |
|---|---|
| Year-end report 2003 | February 11, 2004 |
| Annual Report and Environmental Report 2003 | March 10, 2004 |
| Interim report 1, January-March 2004 | May 5, 2004 |
| Interim report 2, January-June 2004 | August 11, 2004 |
| Interim report 3, January-September 2004 | November 2, 2004 |

All reports are available in English and Swedish and can be ordered from SAS, SE-195 87 Stockholm, telephone +46 8 797 00 00, fax +46 8 797 51 10. The reports can also be accessed and ordered via the Internet: www.sasgroup.net

The SAS Group's monthly traffic and capacity statistics are published on the sixth working day of each month. From February 2004 this information will be published on the fifth working day of each month. A financial calendar is available at: www.sasgroup.net
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