SAS Group

SAS Group

Interim Report
January-June 2004

Marginally positive earnings for second quarter of 2004

- **Operating revenue for the first half of the year** amounted to MSEK 27,710 (29,010), a decrease of 4.5%. For comparable units, operating revenue for the period fell 4.2% or MSEK 1,216.

- **Traffic growth was good for all the Group's airlines**. The SAS Group's total passenger traffic (RPK) increased by 11.1% for the half year and by 14.3% for the second quarter.

- **Income before depreciation and leasing costs for aircraft** (EBITDAR) amounted to MSEK 1,449 (1,210) for the first half of the year. EBITDAR for the second quarter was MSEK 1,493 (1,608).

- **Income before capital gains and nonrecurring items** improved by MSEK 300 and amounted to MSEK –1,622 (-1,922) for the period. Adjusted for currency effects, income improved by MSEK 415. The result for the second quarter was marginally positive at MSEK 9 (-13).

- **Income after financial items** amounted to MSEK –1,583 (-1,789), and was MSEK 0 (87) in the second quarter.

- **Income after tax** amounted to MSEK –1,304 (-1,533), and was MSEK 98 (66) in the second quarter.

- **CFROI** for the 12-month period July 2003-June 2004 was 8% (8%).

- **Earnings per share** for the SAS Group in the first half of the year amounted to SEK –7.93 (-9.32). Equity per share amounted to SEK 72.14 (80.42).

- **Income after financial items for the Group's largest units** in January-June amounted to MSEK –1,283 (-1,281) for Scandinavian Airlines, MSEK –221 (-283) for Spanair and MSEK 241 (-19) for Braathens. The result for the second quarter was Scandinavian Airlines MSEK –238 (-30), Spanair MSEK 71 (86) and Braathens MSEK 200 (73).

- **Currency-adjusted unit cost** for Scandinavian Airlines decreased by 14% in the first half of the year and by 12% in the second quarter. Adjusted for increased jet fuel prices, the unit cost decreased by 15% in the second quarter.

- **On June 23, the SAS Group announced** that due to development in January to May, and the uncertainty about the future yield trend and the competitive situation, the Board and Management's previously expressed aim of positive earnings before tax, capital gains and nonrecurring items is not expected to be met.

Quarterly breakdown of earnings and key figures – SAS Group

SAS Group	July-September		October-December		January-March		April-June		July-June	
(MSEK)	**2003**	2002	**2003**	2002	**2004**	2003	**2004**	**2003**	**2003-04**	2002-03
Operating revenue	**14,920**	16,592	**13,824**	16,709	**12,567**	13,710	**15,143**	15,300	**56,454**	62,311
EBITDAR	**1,737**	2,130	**814**	1,332	**-44**	-398	**1,493**	1,608	**4,000**	4,672
EBITDAR margin	**11.6%**	12.8%	**5.9%**	8.0%	**-0.4%**	-2.9%	**9.9%**	10.5%	**7.1%**	7.5%
EBIT	**798**	1,041	**-43**	-307	**-1,300**	-1,908	**207**	272	**-338**	-902
EBIT margin	**5.3%**	6.3%	**-0.3%**	-1.8%	**-10.3%**	-13.9%	**1.4%**	1.8%	**-0.6%**	-1.4%
Income before capital gains and nonrecurring items	**116**	50	**-415**	-647	**-1,631**	-1,909	**9**	-13	**-1,921**	-2,519
Income after financial items	**564**	640	**-245**	-683	**-1,583**	-1,876	**0**	87	**-1,264**	-1,832
Income after tax	**699**	506	**-581**	-284	**-1,402**	-1,599	**98**	66	**-1,186**	-1,311
Earnings per share (SEK)	**4.25**	3.08	**-3.53**	-1.73	**-8.52**	-9.72	**0.60**	0.40	**-7.21**	-7.97
Cash flow before financing activities	**175**	44	**917**	310	**-1,311**	-2,360	**1,997**	1,123	**1,778**	-883
Number of passengers	**8,301**	8,784	**7,512**	7,922	**7,238**	6,987	**8,879**	8,180	**31,930**	31,897
RPK	**8,668**	8,590	**7,344**	7,308	**7,031**	6,551	**8,960**	7,840	**32,003**	30,289
ASK	**12,524**	12,240	**11,931**	11,689	**11,852**	11,169	**13,456**	12,252	**49,763**	47,356
Cabin factor	**69.2%**	70.2%	**61.6%**	62.5%	**59.3%**	58.7%	**66.6%**	64.0%	**63.5%**	64.0%
Yield, SEK	**1.11**	1.35	**1.25**	1.50	**1.17**	1.45	**1.10**	1.32	**1.15**	1.40
Unit cost, SEK	**0.75**	0.92	**0.79**	0.98	**0.76**	0.94	**0.71**	0.82	**0.75**	0.95

SAS AB is the Nordic region'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, Widerøe's Flyveselskap and Blue1 and the partly owned airlines airBaltic and Estonian Air. The Group's business areas Airline Support Businesses and Airline Related Businesses include companies that support the airline operations. The Group also includes hotel operations with Rezidor SAS Hospitality.

Important events

First quarter

- The Swedish Transport Workers' Union took its members out on strike, which led to canceled flights during two half days for the SAS Group in Sweden.
- Widerøe won the tender for traffic in Nord-Troms in north Norway for a further three years.
- SAS AB's Board decided to incorporate Scandinavian Airlines in Sweden, Norway and Denmark, and to integrate the Norwegian operations with Braathens under the name SAS Braathens. It was also decided to incorporate SAS Ground Services (SGS), SAS Technical Services (STS), SAS Trading and Shared Services as SAS AB subsidiaries. These incorporations are expected to be completed by October 1, 2004.
- Within the framework of Turnaround 2005, the SAS Group signed new collective agreements with all trade unions except the Swedish Transport Workers' Union.
- It was decided to set up a new function, Airline Strategy & Coordination, in order to exploit synergies within the SAS Group and coordinate the airlines within the SAS Group.
- Scandinavian Airlines opened a new direct route to Shanghai on March 28.

Second quarter

- Blue1 opened new domestic routes in Finland during the quarter between Helsinki and Oulu, Mariehamn and Kuopio.
- SAS Braathens was launched in the Norwegian market, and Petter Jansen took over as President of SAS Braathens in Norway.
- SAS AB's Annual General Meeting decided not to issue a dividend for 2003.
- The Board gave group management a mandate to take the necessary steps for integration of SAS Commuter's operations in the other airline operations and in SAS Technical Services.
- The SAS Group was downgraded by the credit rating company Moody's to B1 which also changed outlook from "negative" to "stable".
- AirBaltic established a base in Vilnius.
- Star Alliance announced that Blue1 is expected to be the first regional member at the end of 2004.
- SAS Braathens' office at Fornebu in Bærum was visited by the Norwegian Competition Authority on June 22 and 23. The background to this is the Competition Authority's examination of price structure in the Norwegian market and whether SAS Braathens has abused its dominant position in the Norwegian market. The Competition Authority is currently working on this material and no further instructions are expected from the Authority until the end of August.
- Oslo Lufthavn AS/Avinor AS announced that they do not intend to proceed in contract negotiations with SAS Trading for the operation of tax-free stores at Norwegian airports during the period 2005-2011.
- The SAS Group sold its three remaining Boeing 767-300s for just over MSEK 500.

Events after June 30, 2004

- During weekends in July, Scandinavian Airlines had production disruptions from Copenhagen due to limited personnel reserves.
- Scandinavian Airlines signed agreements with 300 small and medium-sized companies in Scandinavia during the past six months. In addition a number of new charter contracts were signed for 2005.

Dear shareholder,

Traffic growth has steadily improved during 2004, particularly during the second quarter, and in May and June the growth rate for the Group's airlines ran into double figures. This positive trend reflects increased activity in the business world and growing leisure travel. Traffic and reservation figures on Scandinavian Airlines' long-haul routes are particularly gratifying. In the first half of 2004, Scandinavian Airlines had 728,000 passengers on its intercontinental routes, which sets a new record. Starting in the autumn, traffic to Shanghai will be doubled to six flights a week.

We are sustaining our market position well in the face of intense competition. So far this year we can see a ten-percent passenger increase on intra-Scandinavian routes and our market shares remain high. In Europe as a whole we are holding our position as the fourth largest airline group, in terms of both operating revenue and number of passengers.

The intense competition with many new players has led to a situation with overcapacity in most markets and a substantial fall in yields. The entire industry is affected by the very low average fares on many routes, fares that do not reflect the actual costs to the airlines. In May alone, the decline in the underlying yield for Scandinavian Airlines was 16-17%. Furthermore, throughout the second quarter jet fuel prices were 50% higher than in 2003.

In June, we noted some reduction in the decline in yield which indicates a better trend in the coming months. There is still considerable uncertainty, however, due to overcapacity in the market, while jet fuel prices continued to climb during the summer. We reckon, however, that the overcapacity will persist in several markets where some players continue to buy market share. A growing number of statements issued by different airlines point out that the price level in many markets is not sustainable over the long term. An adjustment of fares is now taking place to a somewhat higher level that better reflects the industry's actual costs.

Through Turnaround 2005, Scandinavian Airlines has been able to improve its cost scenario with substantial cost cuts over the past two years.

Following a loss in the first quarter, the earnings for the second quarter were marginally positive, adjusted for nonrecurring items.

Obviously, this result is far below a satisfactory level. As a result of Turnaround 2005 and general restraint, we were able during the second quarter to compensate on the costs side for a 16% decline in yield. The aim expressed earlier by the Board and management of positive earnings before tax and capital gains and nonrecurring items for the full year 2004, is not expected to be met due to pressure on yield and the high jet fuel costs in the second quarter.

Our Turnaround 2005 program is going according to plan. Of the total program of SEK 14 billion in reduced costs by the start of 2005, over SEK 9 billion had been achieved by July 1 this year. This provided a unit cost reduction of 15% for Scandinavian Airlines in the second quarter, adjusted for increased fuel costs. This means a reduction since 2002 of 23%, which is a substantial reduction viewed in a European perspective. As a natural part of this restructuring, the Group is incorporating a number of operations to make them better adjusted to conditions in their local market and to create greater transparency. The legal units will be in place on October 1 this year and when these companies start reporting earnings and operations separately in 2005, this will contribute to even greater transparency.

The airlines within the Group are acting very aggressively in their various markets and Scandinavian Airlines has concluded more than 300 new agreements with different companies within Scandinavia, including new charter agreements. Sales via electronic channels are showing strong growth and almost 20% of all reservations are made on Scandinavian Airlines' and Braathens' websites. In Norway, SAS Braathens has the country's second most visited website. Braathens is also one of the few airlines in Europe that actually met the stock market's return requirement in the first half of the year I would also like to call attention to two other units within the Group, SAS Ground Services and SAS Technical Services, which are showing strong results.

We have been working intensively with new commercial strategies in the airlines where SAS remains a network company, but with a low-cost platform. SAS is expanding its low-fare focus by offering Snowflake tickets on almost all Scandinavian Airlines' network. In Norway, SAS Braathens is already established as a low-fare concept.

Employees are naturally affected by the continued turbulence within the airline industry and their involvement in the ongoing restructuring is extremely important. The collective agreements concluded during the past period involve extensive changes in working conditions and compensation levels. Employee support here shows that they are being highly realistic. We are convinced that our strength will carry us through the challenges that lie ahead.

Lindegaard

SAS Group's traffic development

Traffic development for European airlines (AEA)
In general for European airlines the year started with rising traffic but with low activity for business travel on the short and medium-haul routes. Traffic on the intercontinental routes developed well within all segments. Traffic (RPK) within Europe gradually improved and rose by a total of 8.8% in the first half of the year. Growth was considerably greater on routes to/from North America and Asia. To/from Asia traffic rose 24.3% in the same period.

The gradual improvement within Europe and the strong development on the intercontinental routes meant that total international traffic (RPK) rose by 12.7% in the first half, compared with 2003. In the same period, capacity (ASK) increased by 8.5%, which led to a 2.7 percentage points increase in the cabin factor to 74.2%.

The SAS Group's traffic development
Traffic development for the SAS Group reflected the trend in the European market during the first half of the year. Traffic (RPK) rose in the first half of the year by 11.1% for the SAS Group, which is on a par with the market. In the second quarter, traffic rose by 14.3%. The bigger increase in the second quarter is mainly due to increased capacity utilization on the intercontinental routes which in the second quarter of 2003 had low volumes due to the war in Iraq and SARS.

Of the SAS Group's airlines, Blue1's traffic increased most with 80.0%. This large increase is due to newly opened routes to Europe, three new domestic routes in Finland and an increased share of traffic between Finland and Sweden/Denmark. The cabin factor improved by 1.3 percentage points to 47.7%. Spanair's traffic increased by 15.8% combined with an improved cabin factor. During the year, Spanair expanded its capacity on the longer routes to the Canary Islands and opened a new route between Barcelona and Seville. Widerøe's and Braathens' traffic increased during the six month period by 13.6% and 13.2% respectively. Both airlines had growth on Norwegian domestic traffic and above all internationally. Scandinavian Airlines' traffic rose during the first half of the year by 8.6%, strongly driven by increased traffic on the intercontinental and European routes but also within Scandinavia.

The number of passengers increased in the first half of the year by 6.3% and the SAS Group transported a total of 16.1 million passengers. The number of passengers rose in the second quarter by 8.5% compared with 2003. The largest increase was on the longer international routes, but intra-Scandinavian traffic also showed positive development. The SAS Group's capacity rose during the six month period by 8.1%. The cabin factor improved by 1.7 percentage points to 63.2%.

The intercontinental traffic, which is operated by Scandinavian Airlines, rose in the first half by 12.8% and capacity by 0.1%. The cabin factor rose 9.1 percentage points to 81.0%. A total of 728,000 passengers were transported on the intercontinental routes in the first half of the year, the highest number of transported passengers ever for Scandinavian Airlines. The greatest improvement was in traffic to/from Asia, due among other things to low volumes in 2003 as a result of SARS. On March 28, a new route was opened between Copenhagen-Shanghai, which started well. From November the number of departures will increase from 3 to 6 in each direction per week. Traffic to/from the U.S. also developed well with a cabin factor of approximately 85%.

European traffic rose substantially (including Spanish domestic) in the first half of the year and traffic rose 15.6%. Capacity rose 17.5% which meant that the cabin factor fell by 0.9 percentage points to 57.1%.

The SAS Group's traffic within Scandinavia, despite the very large overcapacity in the market, rose 1.4%. At the same time, the cabin factor improved by 0.7 percentage points. Intra-Scandinavian traffic showed the best development and rose 6.2% in the first half and by a strong 9.4% in the second quarter despite intensified competition. Capacity rose 4.5% in the first half which meant that the cabin factor improved by 0.9 percentage points. Danish domestic traffic developed well in the first half of the year and traffic rose 6.9%. Due to a higher proportion of Q400 production, the number of frequencies rose by approximately 18%, but in total capacity decreased by 10.4% resulting in a 9.9 percentage points improvement in the cabin factor. Norwegian domestic traffic rose 1.6% and capacity decreased by 1.3% which meant that the cabin factor improved by 1.6 percentage points to 57.2%. Market share was stable at approximately 85% of total Norwegian domestic traffic. Traffic in Sweden showed weak development and decreased by 3.2% and capacity by 0.2%. Scandinavian Airlines' market share of Swedish domestic traffic was approximately 60% in June. The cabin factor fell by 1.9 percentage points to 59.9%.

SAS Group		**Apr-Jun 2004**	Change vs. 2003	**Jan-Jun 2004**	Change vs. 2003
No. of passengers	(000)	**8,879**	8.5%	**16,117**	6.3%
Passenger km	(mill)	**8,960**	14.3%	**15,992**	11.1%
Seat km	(mill)	**13,456**	9.8%	**25,308**	8.1%
Cabin factor		**66.6%**	+2.6%pts	**63.2%**	+1.7%pts

Traffic development by route sector	**Apr-Jun 04 vs. Apr-Jun 03**		**Jan-Jun 04 vs. Jan-Jun 03**	
	Traffic (RPK)	Capacity (ASK)	Traffic (RPK)	Capacity (ASK)
Intercontinental	22.1%	6.1%	12.8%	0.1%
Europe	15.0%	17.0%	15.6%	17.5%
Intra-Scandinavian	9.4%	3.1%	6.2%	4.5%
Denmark (domestic)	14.4%	-9.3%	6.9%	-10.4%
Norway (domestic)	3.1%	-0.6%	1.6%	-1.3%
Sweden (domestic)	-1.1%	-0.3%	-3.2%	-0.2%

January-June	Traffic (RPK)	Capacity (ASK)	Cabin factor (%)	Change in cabin factor
SAS Group	**11.1%**	**8.1%**	**63.2%**	**+1.7%pts**
Scandinavian Airlines	8.6%	4.9%	65.6%	+2.2%pts
Spanair	15.8%	14.9%	58.0%	+0.4%pts
Braathens	13.2%	7.1%	62.0%	+3.3%pts
Widerøe	13.6%	13.5%	51.9%	+0.1%pts
Blue1	80.0%	75.0%	47.7%	+1.3%pts

Financial development

Acquisitions

In January 2004 a further 21% of the shares in Spanair SA and Aerolineas de Baleares respectively were acquired. The SAS Group's holding then amounted to 95%. The purchase price totaled MEUR 73.5 and goodwill for the acquisitions in both companies amounted to MEUR 64.7.

January-June 2004

The SAS Group's statement of income for January-June 2003 included Scandinavian IT Group, which was sold on December 31, 2003, and Travellink, where 10% of the shares were sold in December 2003. Maersk Air Maintenance Estonia AS was acquired in September 2003. To allow comparison with 2003, this is adjusted under non-comparable units

The net effect of exchange rate fluctuations between the period January-June 2003 and 2004 was MSEK -116. The effect is MSEK -1,116 on operating revenue, MSEK 1,361 on operating expenses and MSEK -361 on net financial items.

The SAS Group's operating revenue amounted to MSEK 27,710 (29,010), a decrease of MSEK 1,300 or 4.5%. Adjusted for non-comparable units, MSEK 84, and currency effects, MSEK -1,116, the Group's operating revenue fell 0.3% or MSEK 100. Passenger traffic (RPK) increased by a total of 11.1% in the Group's airlines. In Scandinavian Airlines traffic rose 8.6% while currency adjusted yield decreased by 16% compared with the same period in 2003.

Payroll expenses decreased by MSEK 1,347, or 11.9%, and amounted to MSEK 9,958 (11,305). This includes restructuring costs of MSEK 75 (44). Taking into account non-comparable units, currency effects and restructuring costs, payroll expenses were 11.5% lower than in the previous year.

The number of employees (full-time equivalents, FTEs) in the SAS Group decreased by 7.5%. In comparable units the number of employees decreased by 4.2%, due to implementation of Turnaround 2005.

As a result of Turnaround 2005 the Group's other operating expenses decreased by MSEK 192 or 1.2% to MSEK 16,303, despite substantially higher volumes and fuel costs.

Other operating expenses include the Group's jet fuel costs which amounted to MSEK 2,790 (2,378). Adjusted for a positive currency effect due to a weaker USD, fuel costs rose by MSEK 662, of which approximately MSEK 500 was due to higher fuel prices. The market price (current price) of fuel in January-June 2004 was on average 21% higher than in the previous year.

Operating income before depreciation and leasing costs, EBITDAR, was MSEK 1,449 (1,210).

Despite a higher number of leased in aircraft, leasing costs adjusted for currency effects were MSEK 74 lower than in the previous year and amounted to MSEK 1,317. This cost decrease is mainly due to more favorable leasing terms in the market.

Share of income in affiliated companies amounted to MSEK 94 (52). The improvement between 2003 and 2004 mainly comprises an adjustment of the previous year's result when final annual accounts were received. Goodwill amortization is included with MSEK 10 (7).

Income before capital gains, restructuring costs and nonrecurring items amounted to MSEK -1,622 (-1,922).

The Group's gains from the sale of aircraft and buildings in the period January-June amounted to MSEK 111 (186) and comprise sale and leaseback of four deHavilland Q400s, one Airbus A340, two Airbus A320s and three Boeing 767s and the sale of four Boeing 737s and two Fokker F28s.

The Group's shareholding in Flygtaxi Sverige AB was sold in the second quarter with a capital gain of MSEK 3.

The Group's net financial items amounted to MSEK -490 (-144). Net interest was MSEK -461 (-476). The currency effect was MSEK -29 (332).

Income after financial items amounted to MSEK -1,583 (-1,789).

The change in income after financial items is due to:

Currency effect	-116
Income before depreciation and leasing costs, EBITDAR	154
Leasing costs and depreciation	174
Share of income in affiliated companies	42
Net interest	15
Capital gains and write-downs	-63
Total changes	206

Second quarter of 2004
The Group's earnings for the second quarter were marginally positive.

The Group's operating revenue amounted to MSEK 15,143 (15,300), a decrease of MSEK 157 or 1%. Taking into account currency effects, MSEK -316, and operating revenue in comparable units, operating revenue rose 1.4%.

The Group's passenger traffic increased by 14.3%. In Scandinavian Airlines the increase was 12.5% but yield fell 16.3% during the quarter. Improved capacity utilization on the intercontinental routes was a contributory factor.

Operating expenses, including payroll expenses, amounted to MSEK 13,650 (13,692). Adjusted for currency effects, comparable units and restructuring costs, operating expenses were at the previous year's level despite substantially higher volumes and fuel costs. Taking currency effects into account, fuel costs increased by MSEK 481 compared with the second quarter of 2003. The market price of fuel in April-June 2004 was an average of 49% higher than in 2003.

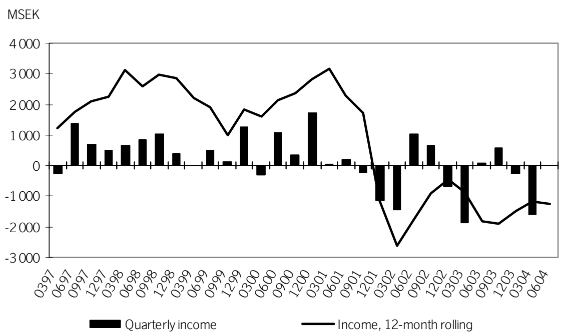
EBITDAR for the second quarter was MSEK 1,493 (1,608).

Income before capital gains and restructuring costs was MSEK 9 (-13).

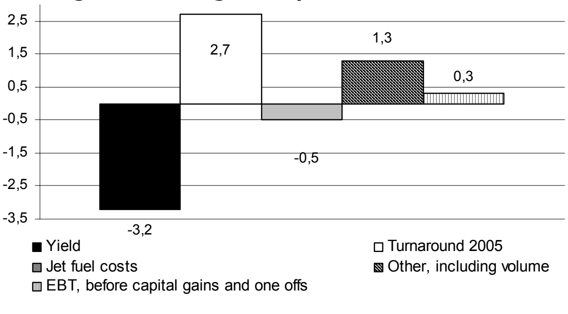
In the second quarter the capital gain from aircraft transactions was MSEK 63.

Income after financial items amounted to MSEK 0 (87).

Income after financial items



Change in earnings compared with 2003



SAS Group's Turnaround 2005

The airline industry in Europe is currently undergoing fundamental structural changes and new business models are being developed and emerging. As early as 2001 the SAS Group initiated major cost reductions and since 2002 extensive structural changes, more than two-thirds of which have been implemented. These changes are yielding results and Scandinavian Airlines' unit cost for the period April-June 2004 fell by 23% (currency adjusted) compared with the same period in 2002. All measures have been placed within the Turnaround 2005 program which will reduce the SAS Group's costs by SEK 14 billion and reduce Scandinavian Airlines' total unit cost by between 25-40% depending on traffic flows.

The SAS Group has analyzed all traffic flows where the Group's airlines operate flights and during 2005 will have a long-term, sustainable competitive cost level for all these traffic flows that matches other effective players. These analyses also included an estimation of the yield assessed as being sustainable in the long term so that the most effective players can give their shareholders an acceptable return. The SAS Group has seen that the yield level has been under pressure which makes it difficult for all players to provide their shareholders with a reasonable return.

SAS Group's cost reductions in Turnaround 2005

(SEK billion)	**Implemented Level effect June 30**	**Total**
Overhead functions (Group & Scandinavian Airlines)	1.9	2.1
Scandinavian Airlines (SK)		
Salary and compensation levels	1.5	1.5
Production concept	1.3	2.8
Inflight	0.7	0.7
Distribution and sales	0.8	1.5
Airline Support Businesses		
SAS Ground Handling (SGS)	0.7	1.0
SAS Technical Services (STS)	1.5	1.6
Subsidiary Airlines & Hotels	1.4	2.8
Total	**9.8**	**14,0**

Effects from decided cost-cutting measures have had and will have the following impact on earnings, including recently agreed salary and compensation levels (SEK billion):

	Full year earnings impact
2003	3.6
2004	6.0
2005	3.8
2006	0.6
Total	**14.0**

Follow-up of Turnaround 2005
Follow-up of Turnaround 2005 is based on four criteria: integration in internal budgets and business plans, operational key figures, full-time equivalents (FTEs) and completed activities.

In the first half of 2004 activities corresponding to SEK 9.8 billion were implemented, corresponding to 70% of total measures compared with the planned 66%. The earnings impact of the measures within Turnaround 2005 in the first half of 2004 amounted to approximately SEK 2.7 billion compared with the same period in 2003. The earnings impact for the second quarter alone amounted to SEK 1.2 billion compared with the same period in 2003.

Overhead functions (Group & Scandinavian Airlines)
Measures comprise extensive efficiency enhancements and rationalization within the overhead functions of the Group and Scandinavian Airlines in Stockholm, Copenhagen and Oslo. A large part of these reductions have been achieved due to Scandinavian Airlines' division into three production bases and general efficiency enhancements. In 2003 it was decided to relocate parts of Revenue Information (ticket settlement) to India which provides annual savings of approximately MSEK 85 with effect from May 2004. A total of 800 FTEs were phased out during 2003, and in the first half of 2004, 670 FTEs were phased out. In total, measures within overhead functions total SEK 2.1 billion, of which approximately MSEK 800 relates to non-employee costs for consultants, IT, etc. The sale of Scandinavian IT Group to CSC will reduce IT costs by more than MSEK 400 on an annual basis in the various units in the Group.

Scandinavian Airlines
A new traffic program, the division of Scandinavian Airlines' operations into three production bases and changed collective agreements provide opportunities for significant efficiency gains. Changed collective agreements with pilots and cabin crew provide an opportunity to raise productivity by approximately 40% to 700-750 hours. Aircraft utilization will increase from 7.4 hours/day to 8.2 hours/day in 2004. In the rolling 12-month period (July 2003-June 2004) aircraft utilization amounted to 7.9 hours/day, block hours for pilots and cabin crew recomputed on an annual basis to 510 and 540 hours respectively. Major redundancies among cabin crew were handled in June and July 2004. Redundancies among pilots were also identified and are expected to be solved through leave of absence, hiring out and shorter working hours.

From the collective agreements signed in the first quarter, pilots and cabin crew accounted for savings of SEK 1.2 billion. The changes that apply from April 1, 2004, include per diem reductions and lower salary levels. In many cases new salary scales apply to new employees, but this is not included as part of Turnaround 2005. Within distribution and sales the call center structure is being simplified and the number of call centers reduced.

Airline Support Businesses
At SAS Ground Services a large portion of savings will come from greater automation at check-in and increased efficiency within passenger service. The aim includes increasing the total proportion of self-service check-in to 60% by 2005 among Scandinavian Airlines' customers. The collective agreements signed in March 2004 until 2006 represent reduced compensation levels to a value of SEK 0.2 billion. Of the redundancies within SAS Ground Services, 560 FTEs have been phased out as per June 30. Measures within SAS Ground Services total SEK 1 billion.

SAS Technical Services has measures for a total of SEK 1.6 billion. Restructuring means that a large number of FTEs will be made more effective. Efficiency enhancements are being realized among other things by Scandinavian Airlines' pilots carrying out the PFI (Pre Flight Inspection) since August 2003. A new operational schedule for technical maintenance was also introduced in 2003. The full effect of this reorganization is expected to be achieved in autumn 2004. Efficiency enhancements within the other operations mean that heavy technical maintenance can be moved from Shannon, Ireland, to Oslo/Gardermoen. Collective agreements signed in March 2004 until 2006 represent reduced compensation levels worth SEK 0.1 billion.

Subsidiary Airlines & Hotels
Savings of over SEK 2.8 billion have been identified within the airlines in Subsidiary Airlines and the Hotels business area which are expected to have their full effect in 2005, including SEK 2.1 billion in 2004. Braathens will implement savings and productivity improvements amounting to approximately SEK 1.0 billion. Widerøe and Spanair will implement measures worth SEK 0.3 billion and SEK 1.1 billion respectively. Rezidor SAS Hospitality and Blue1 are both implementing efficiency enhancements of MSEK 150 each.

Reduction of full-time equivalents (FTEs)
Within Turnaround 2005 redundancies totaling 6,000 FTEs have been identified. Of these, 3,560 FTEs have been phased out (employees have left the SAS Group) through June 2004 (435 within groupwide functions, 1,955 within Scandinavian Airlines, 1,170 within Airline Support Businesses).

Restructuring costs
The SAS Group has chosen to maintain a fast pace in the Turnaround 2005 work and restructuring costs arose in 2002-2003. The restructuring costs relating to Turnaround 2005 in 2004 are expected to be limited. Integration of SAS Braathens in Norway and some changes in Sweden are expected to lead to restructuring costs in the latter part of 2004 in the order of a couple of hundred million SEK, but with a very limited cash effect. In the second quarter restructuring costs totaled MSEK 75 for reductions in SAS Commuter's administrative staff and redundancies at the head office in Frösundavik.

Long-term effects of the new collective agreements
In addition to the changes in collective agreements described above, Scandinavian Airlines concluded agreements that simplify and ensure fewer salary grades for cabin crew and pilots. Grades have been reduced to approximately ten levels, which will have an additional long-term effect

Financial position
The SAS Group's liquid assets at June 30, 2004, amounted to MSEK 8,829 (8,155). In addition to this, the Group has unutilized contracted loan commitments totaling MSEK 4,550. In the first half of 2004, existing bilateral bank facilities of MUSD 144 were renewed for one year. Furthermore, a further bilateral facility of MSEK 500 has been raised. In May 2004, a Revolving Credit Facility for MUSD 700 was replaced with a newly signed credit facility for MEUR 400. This facility matures in 2007.

The SAS Group's program to release capital is continuing in 2004. In the first half the SAS Group sold four Boeing 737-800s and two Fokker F28s which were surplus aircraft. The Group also effected sale and leaseback of four deHavilland Q400s, one Airbus A340, two Airbus A320s and three Boeing 767-300s as part of the capital optimization program. This provides a total sales value of MSEK 3,872.

The financial net debt has improved since March by MSEK 1,925 and amounted to MSEK 18,352 (19,232). The SAS Group's financial position and preparedness are assessed as sufficient to carry out the measures within Turnaround 2005. Moody's downgraded SAS's creditworthiness in May from Ba3 to Ba1 but at the same time changed the outlook from "negative" to "stable".

The equity/assets ratio at June 30 was 20% (21%). The SAS Group's target is a debt/equity ratio that allows the Group to be regarded as an attractive borrower over the long term. The SAS Group's target is an equity/assets ratio of at least 30% and a debt/equity ratio that does not exceed 50%. These financial targets will be achieved through a combination of the measures within Turnaround 2005 and the program for release of capital.

Investments

The SAS Group's investments, including prepayments, amounted to MSEK 2,335 (2,239) for the six-month period. Investments in aircraft and other flight equipment were MSEK 1,346 (1,556).

	April - June		January - June	
	2004	2003	**2004**	2003
Scandinavian Airlines	**88**	70	**546**	680
Subsidiary & Affiliated Airlines	**756**	806	**798**	896
Airline Support Businesses	**124**	110	**203**	253
Airline Related Businesses	**6**	66	**13**	102
Hotels	**49**	195	**98**	282
Groupwide functions and eliminations	**40**	13	**677**	26
SAS Group	**1,063**	1,260	**2,335**	2,239

The SAS Group has had large surplus values in its aircraft fleet for a number of 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 June 30, 2004, exceeded the market value by approximately MSEK 600.

Firm orders for aircraft 2004-2007:

		Jun-Dec	Jan-Dec	Jan-Dec	Jan-Dec
SAS Group	**Total**	2004	2005	2006	2007
CAPEX (MUSD)	**256**	23	9	93	131
No. of aircraft	**7**	1	-	2	4

SAS Group's total aircraft fleet, June 30, 2004:

Aircraft type	Owned	Leased in	Total	Leased out	Order
Airbus A330/340-300	7	4	**11**		
Airbus A320/A321-200	8	19	**27**		4
Boeing 767-300		3	**3**	3	
Boeing 737	29	50	**79**	5	3
Boeing 717		4	**4**		
Douglas MD-81/82/83/87	31	61	**92**	4	
Douglas MD-90	8		**8**		
Avro RJ-85/100		9	**9**		
Fokker F28	1		**1**		
Fokker F50	7	1	**8**	2	
deHavilland Q100-400	17	36	**53**		
SAAB 2000		5	**5**		
Total	108	192	**300**	14	7
Breakdown of Group's fleet by airline:					
Scandinavian Airlines	88	88	**176**	13	7
Spanair		54	**54**		
Braathens	4	23	**27**	1	
Widerøe	16	13	**29**		
Blue1		14	**14**		
Total	108	192	**300**	14	7

The average age of the SAS Group's aircraft fleet at June 30, 2004, was 8.6 years. The average age of the owned fleet was 8.3 years.

Currency and fuel hedging

The SAS Group has hedged approximately 60% of the USD deficit during a 12-month period. Of anticipated fuel consumption in the fourth quarter, the SAS Group has hedged 33% at an average price of USD 390/MT.

Average no. of employees in the SAS Group (FTEs)

	April - June		January - June	
	2004	2003	**2004**	2003
Scandinavian Airlines	**8,105**	9,196	**8,199**	9,284
Subsidiary & Affiliated Airlines	**6,987**	7,059	**6,907**	7,026
Airline Support Businesses	**11,405**	11,811	**11,256**	11,799
Airline Related Businesses	**855**	2,153	**854**	2,152
Hotels	**4,373**	3,420	**4,035**	3,424
Groupwide functions	**902**	1,113	**940**	1,131
SAS Group	**32,627**	34,752	**32,191**	34,816

Accounting principles

SAS AB's and the Group's interim accounts are prepared in accordance with the Swedish Financial Accounting Standards Council's recommendations (RR20). The accounting principles are the same as those used in the 2003 annual report.

Parent Company SAS AB

Income after financial items for the period was MSEK -297 (-43). Available liquidity for SAS AB at June 30, 2004, was MSEK 2 compared with MSEK 1 at the start of the year.

The number of shareholders in SAS AB amounted to 21,090 at June 30, 2004. The average number of employees at SAS AB at June 30 2004, was 156 (1).

Statement of income	**January – June**	
(MSEK)	**2004**	2003 *
Operating revenue	**10**	-
Payroll expenses	**-111**	-7
Other operating expenses	**-123**	-5
Operating income before depreciation	**-224**	-12
Depreciation	**0**	0
Operating income	**-224**	-12
Net financial items	**-73**	-31
Income after financial items	**-297**	-43
Tax	**-**	-
Income after tax	**-297**	-43

* As per November 1, 2003, certain groupwide functions were transferred to SAS AB.

Balance sheet	**June 30**	Dec 31
(MSEK)	**2004**	2003
Fixed assets	**8,520**	8,418
Current assets	**121**	4
Total assets	**8,641**	8,422
Shareholders' equity	**2,007**	2,304
Long-term liabilities	**6,569**	6,028
Current liabilities	**65**	90
Total shareholders' equity and liabilities	**8,641**	8,422
Change in shareholders' equity	**June 30**	Dec 31
(MSEK)	**2004**	2003
Opening balance	**2,304**	1,865
Income after tax	**-297**	439
Closing balance	**2,007**	2,304

Outlook for the full-year 2004

In conjunction with publication of the year-end 2003 report in February and the interim report for the first quarter in May 2004, the SAS Group stated that the SAS Group's Board and management's primary aim is to ensure that the SAS Group attains positive earnings before tax, capital gains and nonrecurring items for the full-year 2004, and to take the necessary decisions for this to be achieved.

Due to major overcapacity in many markets and strong price pressure, yield (unit revenue), in particular for Scandinavian Airlines, showed very weak development in April and May. The other airlines developed according to plan. Total yield in Scandinavian Airlines decreased by 22.5% in May 2004 compared with the previous year. In addition, jet fuel prices were at a very high level during the second quarter.

Passenger volumes have developed well in 2004 and Turnaround 2005, with cost reductions of SEK 14 billion, is proceeding according to plan and has provided and will continue to provide substantial reductions in unit costs for all the airlines in the SAS Group.

On June 23, the SAS Group announced that due to development in January to May, and the uncertainty about the future yield trend and the competitive situation, the Board and Management's previously expressed aim is not expected to be met.

In June, the fall in yield was 7% and indications for July also show a further improvement. This points to a better trend for the months ahead, although uncertainty over yield development remains considerable due to major overcapacity while jet fuel prices continued to rise in the summer.

The Board and Management's forecast from June 23 for the full-year 2004 remains unchanged.

Stockholm, August 11, 2004
SAS AB

Jørgen Lindegaard
President and CEO

The interim report has not been audited.

SAS Group

Summary statement of income

(MSEK)	April-June 2004	April-June 2003	January-June 2004	January-June 2003	July-June 2003-2004	July-June 2002-2003
Operating revenue	**15,143**	15,300	**27,710**	29,010	**56,454**	62,311
Payroll expenses	**-5,069**	-5,564	**-9,958**	-11,305	**-20,580**	-22,951
Other operating expenses	**-8,581**	-8,128	**-16,303**	-16,495	**-31,874**	-34,688
Operating income before depreciation and leasing costs, EBITDAR	**1,493**[2]	1,608	**1,449**[2]	1,210	**4,000**[3]	4,672
Leasing costs for aircraft	**-678**	-719	**-1,317**	-1,551	**-2,701**	-3,370
Operating income before depreciation, EBITDA	**815**	889	**132**	-341	**1,299**	1,302
Depreciation	**-704**	-780	**-1,433**	-1,533	**-2,946**	-3,120
Share of income in affiliated companies	**30**	27	**94**	52	**81**	-17
Income from the sale of shares in subsidiaries and affiliated companies	**3**	0	**3**	0	**654**	816
Income from the sale of aircraft and buildings	**63**	136	**111**	186	**574**	117
Operating income, EBIT	**207**	272	**-1,093**	-1,636	**-338**	-902
Income from other shares and participations	**0**	8	**0**	-9	**8**	-165
Net financial items	**-207**	-193	**-490**	-144	**-934**	-765
Income after financial items	**0**	87	**-1,583**	-1,789	**-1,264**	-1,832
Tax	**103**	-1	**269**	173	**101**	441
Minority interests	**-5**	-20	**10**	83	**-23**	80
Income after tax	**98**	66	**-1,304**	-1,533	**-1,186**	-1,311
Earnings per share (SEK)[1]	**0.60**	0.40	**-7.93**	-9.32	**-7.21**	-7.97

Statement of income with additional cost specifications is available at www.sasgroup.net

1) Earnings per share is calculated on 164,500, 000 outstanding shares (RR18). Since the SAS Group has no options, convertibles or share programs, no dilution can occur.
2) Includes restructuring costs of MSEK 75 (44).
3) Includes restructuring costs of MSEK 527 (560).

Segment reporting: income by business area

Statement of income January - June	Scandinavian Airlines 2004	Scandinavian Airlines 2003	Subsidiary & Affiliated Airlines 2004	Subsidiary & Affiliated Airlines 2003	Airline Support Businesses 2004	Airline Support Businesses 2003	Airline Related Businesses 2004	Airline Related Businesses 2003	Hotels 2004	Hotels 2003	Groupwide & eliminations 2004	Groupwide & eliminations 2003	SAS Group 2004	SAS Group 2003
External sales	**13,880**	15,566	**8,290**	8,294	**2,170**	2,158	**1,189**	1,232	**1,992**	1,696	**189**	64	**27,710**	29,010
Sales between business segments	**679**	762	**139**	157	**4,670**	4,822	**250**	1,151	**47**	49	**-5,785**	-6,939	**0**	0
Total operating revenue	**14,559**	16,328	**8,429**	8,451	**6,840**	6,980	**1,439**	2,383	**2,039**	1,745	**-5,596**	-6,941	**27,710**	29,010
Payroll expenses	**-3,590**	-4,235	**-1,955**	-2,030	**-3,029**	-3,192	**-216**	-703	**-784**	-728	**-384**	-417	**-9,958**	-11,305
Other expenses	**-10,783**	-11,726	**-5,372**	-5,554	**-3,400**	-3,633	**-1,115**	-1,550	**-1,275**	-1,093	**5,642**	7,061	**-16,303**	-16,495
EBITDAR per business segment	**186**	367	**1,102**	867	**411**	155	**108**	130	**-20**	-76	**-338**	-233	**1,449**	1,210
Leasing costs for aircraft	**-545**	-713	**-866**	-886	**0**	0	**0**	0	**0**	0	**94**	48	**-1,317**	-1,551
EBITDA per business segment	**-359**	-346	**236**	-19	**411**	155	**108**	130	**-20**	-76	**-244**	-185	**132**	-341
Depreciation	**-658**	-720	**-287**	-275	**-232**	-225	**-79**	-131	**-77**	-67	**-100**	-115	**-1,433**	-1,533
Share of income in affiliated companies	**30**	32	**52**	18	**0**	0	**0**	0	**15**	4	**-3**	-2	**94**	52
Capital gains	**55**	107	**60**	46	**0**	0	**0**	0	**0**	4	**-1**	29	**114**	186
EBIT per business segment	**-932**	-927	**61**	-230	**179**	-70	**29**	-1	**-82**	-135	**-348**	-273	**-1,093**	-1,636
Unallocated income statement items														
Income from other shares and participations													**0**	-9
Net financial items													**-490**	-144
Tax on income for the year													**269**	173
Minority interests													**10**	83
Income after tax													**-1,304**	-1,533

SAS Group

Summary balance sheet

(MSEK)	June 30 2004	December 31 2003	June 30 2003	June 30 2002
Aircraft and spare parts	**22,572**	25,561	26,552	26,033
Other noninterest-bearing assets	**20,346**	18,314	20,528	25,104
Interest-bearing assets (excl. liquid assets)	**8,757**	8,334	8,433	7,281
Liquid assets	**8,829**	9,066	8,155	9,736
Assets	**60,504**	61,275	63,668	68,154
Shareholders' equity	**11,867**	13,134	13,229	14,742
Minority interests	**22**	112	93	-104
Deferred tax liability	**2,947**	3,273	3,436	3,781
Subordinated debenture loan	**761**	742	855	892
Other interest-bearing liabilities	**27,676**	28,124	28,487	28,160
Operating liabilities	**17,231**	15,890	17,568	20,683
Shareholders' equity and liabilities	**60,504**	61,275	63,668	68,154

Change in shareholders' equity

(MSEK)	April-June 2004	January-June 2004	Jan-Dec 2003	April-June 2003	January-June 2003	January-June 2002
Opening balance	**11,849**	**13,134**	15,188	13,362	15,188	15,544
Change in translation difference	**-80**	**37**	-639	-199	-426	17
Effect of consolidation of affiliated company	**-**	**-**	-	-	-	-465
Income after tax	**98**	**-1,304**	-1,415	66	-1,533	-354
Closing balance	**11,867**	**11,867**	13,134	13,229	13,229	14,742
Equity per share (SEK) [1]	**72.14**	**72.14**	79.84	80.42	80.42	89.62

[1] Calculated on 164,500,000 outstanding shares. The SAS Group has not carried out any share buy-back programs.

Cash flow statement

	April-June		January-June		July-June	
(MSEK)	**2004**	2003	**2004**	2003	**2003-04**	2002-03
Income after financial items	**0**	87	**-1,583**	-1,789	**-1,264**	-1,832
Depreciation	**704**	780	**1,433**	1,533	**2,946**	3,120
Income from the sale of fixed assets	**-66**	-144	**-114**	-207	**-1,236**	-1,298
Adjustment for items not included in cash flow, etc.	**-62**	-34	**-42**	84	**-372**	291
Paid tax	**-13**	-139	**-26**	-166	**-139**	-334
Cash flow from operations	**563**	550	**-332**	-545	**-65**	-53
Change in working capital	**-47**	229	**-557**	-359	**-1,309**	-419
Cash flow from operating activities	**516**	779	**-889**	-904	**-1,374**	-472
Investments including prepayments to aircraft suppliers	**-1,063**	-1,260	**-1,721**	-2,224	**-3,951**	-6,750
Acquisition of subsidiaries	**0**	0	**-614**	-15	**-633**	-234
Sale of subsidiaries	**0**	0	**0**	0	**884**	733
Sale of fixed assets, etc.	**2,544**	1,604	**3,910**	1,906	**6,852**	5,840
Cash flow before financing activities	**1,997**	1,123	**686**	-1,237	**1,778**	-883
External financing, net	**-1,553**	-1,502	**-923**	-1,329	**-1,104**	-698
Change in liquid assets according to balance sheet	**444**	-379	**-237**	-2,566	**674**	-1,581

Comments on the cash flow statement

Cash flow from operations for the period January-June was negative with MSEK -332 (-545). The improved cash flow compared with the previous year is mainly explained by improved operating income. The negative working capital is largely due to increased receivables.

Investments in aircraft and other flight equipment amounted to MSEK 1,346 (1,556) and mainly relate to delivery of one Airbus A330 and two Airbus A320s. In 1998-2002 the SAS Group carried out an extensive investment program for replacement of the aircraft fleet. The last Airbus A330, which was phased into the long-haul fleet, was delivered in January 2004. This program is now mainly completed and the SAS Group will have very limited investments over the next 3-4 years. Acquisition of subsidiaries amounted to MSEK 614 (15) and comprised the increased holding in Spanair from 74% to 95%. Sale of fixed assets amounted to MSEK 3,910 (1,906) and mainly relates to the sale of aircraft. The SAS Group's cash flow before financing activities thus amounted to MSEK 686 (-1,237).

External financing amounted to MSEK -923 (-1,329). The SAS Group's liquid assets according to the balance sheet therefore improved compared with the previous year by MSEK 674 to MSEK 8,829 (8,155).

SAS Group

Summary of income by quarter

	2002				2003					**2004**	
(MSEK)	APR-JUN	JUL-SEP	OCT-DEC	FULL YEAR JAN-DEC	JAN-MAR	APR-JUN	JUL-SEP	OCT-DEC	FULL YEAR JAN-DEC	**JAN-MAR**	**APR-JUN**
Operating revenue	17,868	16,592	16,709	64,944	13,710	15,300	14,920	13,824	57,754	**12,567**	**15,143**
Payroll expenses	-5,497	-5,335	-6,311	-22,352	-5,741	-5,564	-5,165	-5,457	-21,927	**-4,889**	**-5,069**
Other operating expenses	-9,123	-9,127	-9,066	-35,298	-8,367	-8,128	-8,018	-7,553	-32,066	**-7,722,**	**-8,581**
Operating income before depreciation and leasing costs, EBITDAR	3,248	2,130	1,332	7,294	-398	1,608	1,737	814	3,761	**-44**	**1,493**
Leasing costs for aircraft	-1,050	-932	-887	-3,747	-832	-719	-729	-655	-2,935	**-639**	**-678**
Operating income before depreciation, EBITDA	2,198	1,198	445	3,547	-1,230	889	1,008	159	826	**-683**	**815**
Depreciation	-715	-781	-806	-2,953	-753	-780	-773	-740	-3,046	**-729**	**-704**
Share of income in affiliated companies	-12	3	-72	-409	25	27	4	-17	39	**64**	**30**
Income from the sale of shares in subsidiaries and affiliated companies	1	829	-13	817	0	0	0	651	651	**0**	**3**
Income from the sale of aircraft and buildings	-118	-208	139	-320	50	136	559	-96	649	**48**	**63**
Operating income, EBIT	1,354	1,041	-307	682	-1,908	272	798	-43	-881	**-1,300**	**207**
Income from other shares and participations	-24	4	-160	-180	-17	8	0	8	-1	**0**	**0**
Net financial income	-291	-405	-216	-952	49	-193	-234	-210	-588	**-283**	**-207**
Income after financial items	1,039	640	-683	-450	-1,876	87	564	-245	-1,470	**-1,583**	**0**
Tax	-100	-102	370	267	174	-1	196	-364	5	**166**	**103**
Minority interests	29	-32	29	51	103	-20	-61	28	50	**15**	**-5**
Income after tax	968	506	-284	-132	-1,599	66	699	-581	-1,415	**-1,402**	**98**

Financial key ratios

	June 30 2004	December 31 2003	June 30 2003	June 30 2002
EBITDAR margin[1] (12-month rolling)	**7%**	7%	7%	8%
EBIT margin[2] (12-month rolling)	**-1%**	-2%	-1%	-2%
CFROI[3] (12-month rolling)	**8%**	7%	8%	9%
Return on equity (12-month rolling)	**-9%**	-10%	-9%	-10%
Equity/assets ratio	**20%**	22%	21%	22%
Net debt, MSEK[4]	**10,851**	11,466	12,754	12,035
Financial net debt, MSEK[5]	**18,352**	18,122	19,232	17,926
Debt/equity ratio[6]	**1.54**	1.37	1.44	1.22
Adjusted debt/equity ratio[7]	**3.13**	2.92	3.21	2.79
Interest cover ratio[8] (12-month rolling)	**0.2**	0.1	0.1	-0.4

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 Adjusted debt/equity ratio calculated as financial net debt plus 7 times leasing costs for aircraft (12-month rolling) in relation to shareholders' equity and minority interests
8 Operating income plus financial revenue in relation to financial expenses

The SAS Group's objectives

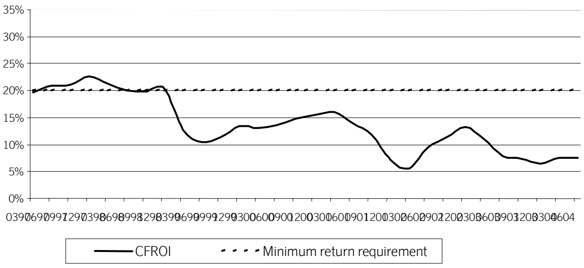
Targets

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.

In the period July 2003-June 2004, the Group generated income before net financial items, tax, depreciation, capital gains and operating leasing costs for aircraft (EBITDAR) of MSEK 4,000 (4,672). Adjusted EBITDAR amounted to MSEK 3,839 (4,545). Set in relation to adjusted capital employed, CFROI was 8% (8%), which is 12 percentage points below target.

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)



Income and capital concepts included in CFROI

(MSEK)	**July-June 2003-2004**	July-June 2002-2003
Income		
Income before depreciation, EBITDA	**1,299**	1,302
+ Operating lease costs, aircraft	**2,701**	3,370
EBITDAR	**4,000**	4,672
- Revenues from operating leases, aircraft	**-161**	-127
Adjusted EBITDAR	**3,839**	4,545
Adjusted capital employed (average)		
+ Shareholders' equity	**12,775**	14,387
+ Minority shares	**78**	35
+ Surplus value, aircraft	**-380**	949
+ Capitalized leasing costs, net (x 7)	**19,860**	24,073
- Equity in affiliated companies	**-602**	-583
+ Financial net debt	**19,072**	18,797
Adjusted capital employed	**50,803**	57,658
CFROI	**8%**	8%

* In the capital market the calculation model 7 times the annual cost is used regardless of the term of the leases. The SAS Group takes leasing revenues into account in this item. NPV (Net Present Value) amounted at the end of June to MSEK 12,435 (11,656). Average NPV for the 12-month period amounted to MSEK 11,140 (11,552).

Scandinavian Airlines

Statement of income

(MSEK)	**April-June 2004**	April-June 2003	**January-June 2004**	January-June 2003
Passenger revenue	**6,513**	7,030	**12,035**	13,618
Other traffic revenue	**639**	792	**1,149**	1,409
Other revenue	**687**	691	**1,375**	1,301
Operating revenue	**7,839**	8,513	**14 559**	16,328
Payroll expenses	**-1,787**	-2,063	**-3,590**	-4,235
Selling costs	**-196**	-244	**-382**	-476
Jet fuel	**-919**	-715	**-1,666**	-1,470
Government user fees	**-863**	-814	**-1,638**	-1,610
Catering costs	**-252**	-308	**-460**	-646
Handling costs	**-1,259**	-1,190	**-2,477**	-2,402
Technical aircraft maintenance	**-1,007**	-1,146	**-1,880**	-2,393
Data and telecommunication costs	**-380**	-486	**-763**	-959
Other operating expenses	**-679**	-814	**-1,517**	-1,770
Operating expenses	**-7,342**	-7,780	**-14,373**	-15,961
Income before depreciation and leasing costs, EBITDAR	**497**	733	**186**	367
Leasing costs for aircraft	**-277**	-331	**-545**	-713
Income before depreciation, EBITDA	**220**	402	**-359**	-346
Depreciation	**-319**	-367	**-658**	-720
Share of income in affiliated companies	**15**	16	**30**	32
Capital gains	**6**	107	**55**	107
Operating income, EBIT	**-78**	158	**-932**	-927
Net financial items	**-160**	-188	**-351**	-354
Scandinavian Airlines - Income after financial items	**-238**	-30	**-1,283**	-1,281

Traffic and market development

Traffic volumes improved in the first half of 2004. Traffic (RPK) rose during the period January-June by 8.6%. Capacity rose in the same period by 4.9% and the cabin factor improved by 2.2 percentage points to 65.6%. The greatest improvement was attributable to continental traffic.

The yield trend in the first half of the year was weak and in total currency adjusted yield fell 16.0%. The lower yield was due to a negative mix, fare reductions and an increased offering of low-price tickets. This negative development continued in the second quarter when currency adjusted yield decreased by 16.3%.

Yields on the intercontinental routes are normally approximately 1/3 of the yield in Europe. Intercontinental traffic was under considerable pressure in the previous year due to the Iraq war and SARS and has proportionally increased significantly in the second quarter of 2004, which in mathematical terms means that total yield falls. The estimated technical effect in the second quarter amounts to 4-5 percentage points.

In the different route sectors the yield on the intercontinental routes performed best with a reduction of 1.1% in the first half. Among other things the mix on Asian routes was positive. The currency adjusted yield for European traffic decreased by 14.8%. In Scandinavia, yield decreased most on the intra-Scandinavian routes despite a favorable traffic trend and improved cabin factor. This decrease abated somewhat during the second quarter. The yield on Danish domestic routes fell 11.2%. In Sweden, the currency adjusted yield decreased by 16.8% following several major campaigns, particularly in the second quarter.

Scandinavian Airlines Total		**April-June**		**January-June**	
		2004	Change	**2004**	Change
Number of passengers	(000)	**5,365**	+4.6%	**9,846**	+2.5%
Revenue passenger km (RPK)	(mill)	**6,317**	+12.5%	**11,419**	+8.6%
Available seat km (ASK)	(mill)	**9,217**	+7.6%	**17,419**	+4.9%
Cabin factor		**68.5%**	+3.0%pts	**65.6%**	+2.2%pts

Currency adjusted yield trend by route sector	**April-June** Change vs. 2003	**January-June** Change vs. 2003
Intercontinental routes	-1.1%	-1.1%
European routes	-13.6%	-14.8%
Intra-Scandinavian routes	-26.2%	-26.5%
Danish domestic	-10.8%	-11.2%
Norwegian domestic	-18.2%	-14.9%
Swedish domestic	-18.9%	-16.8%
Total	**-16.3%**	**-16.0%**

Currency adjusted unit cost trend		
Total unit cost	-12.8%[1]	-13.8%[2]
Operational unit cost	-12.3%[1]	-13.6%[2]

1) Increased fuel costs had a negative impact on the unit cost of 2.4%pts
2) Increased fuel costs had a negative impact on the unit cost of 1.5%pts

Earnings trend

The first half of 2004 started very weakly with low business volumes and low yield throughout the industry. The market gradually improved in February/March and volumes rose to satisfactory levels. The major overcapacity, particularly in Scandinavia, meant that yield declined which led to the recovery in the spring being weaker than expected. Yields within Scandinavia and to/from Scandinavia are now among the lowest in Europe according to official calculations.

Scandinavian Airlines' operating revenue decreased during the period January-June 2004 by 10.8% to MSEK 14,559 (16,328). Currency adjusted operating revenue decreased by 7.7%. Passenger revenue amounted to MSEK 12,035 (13,618), a decrease of 11.6% due to a decline in yield of 16.0%. Adjusted for currency effects passenger revenue decreased by 8.7%.

Operating expenses continued to fall as Turnaround 2005 had an impact and the total unit cost, adjusted for jet fuel costs, decreased by 15.3%. Despite a substantial increase in volumes and increased fuel costs, operating expenses decreased by MSEK 1,588 or 9.9% compared with 2003. Adjusted for currency effects the decrease in costs was 8.1%. The number of FTEs decreased compared with the previous year by 1,085. Payroll expenses decreased by 15.2% and were MSEK 645 lower than in the previous year.

Fuel costs rose during the period and were MSEK 316 higher, adjusted for currency effects, than in the previous year. The increase is due to increased capacity and significantly higher price levels. Adjusted for fluctuations in capacity and exchange rates, the jet fuel cost rose by 17.5%. Handling costs increased during the same period by MSEK 75 due to the transfer of certain activities from SAS Technical Services to SAS Ground Services. Technical aircraft maintenance decreased by MSEK 513, due to enhanced efficiency and the transfer of operations to SGS.

The joint venture agreement, ECA (European Cooperation Agreement), between British Midland, Lufthansa and Scandinavian Airlines had a negative earnings impact for the period January-June of MSEK -26 (-208). The effects of improvement measures carried out combined with a better market trend explain these improved earnings.

Operating income before depreciation and leasing costs (EBITDAR) amounted to MSEK 186 (367) for the period January-June.

Income after financial items, excluding capital gains, amounted to MSEK –1,331 (-1,422).

Second quarter

Operating revenue decreased in the second quarter by MSEK 674 to MSEK 7,839 (8,513) or 7.9%. Passenger revenue decreased by 7.4% to MSEK 6,513 (7,030) despite volumes being under pressure in the second quarter of 2003 due to SARS and the situation in Iraq. The decline in passenger revenue is due to the fact that yield was 16.3% lower than in the same period in 2003. Adjusted for currency fluctuations, passenger revenue decreased by 5.8%.

Operating expenses decreased despite substantially increased volumes and high fuel costs during the second quarter by MSEK 438 to MSEK 7,342 (7,780) or 5.6%. Adjusted for currency effects, costs decreased by 4.5%. The greatest unit cost improvement was in payroll expenses which fell 18.3%. Fuel costs, on the other hand, rose MSEK 244, currency adjusted. In total, unit costs decreased in the second quarter by 12.8% and adjusted for jet fuel costs by 15.2%. Compared with 2002, the unit cost fell by approximately 25%.

Income before capital gains and nonrecurring items amounted to MSEK -223 (-155).

Subsidiary & Affiliated Airlines

Statement of income

	April-June		January-June	
(MSEK)	**2004**	2003	**2004**	2003
Passenger revenue	**3,362**	3,329	**6,080**	6,216
Freight revenue	**30**	25	**54**	50
Charter revenue	**799**	827	**1,246**	1,277
Other traffic revenue	**137**	101	**252**	174
Other revenue	**411**	371	**797**	734
Operating revenue	**4,739**	4,653	**8,429**	8,451
Payroll expenses	**-997**	-1,009	**-1,955**	-2,030
Selling costs	**-133**	-167	**-254**	-327
Jet fuel	**-617**	-458	**-1,084**	-897
Government user fees	**-716**	-675	**-1,308**	-1,255
Catering costs	**-213**	-254	**-371**	-469
Handling costs	**-364**	-336	**-718**	-647
Technical aircraft maintenance	**-261**	-309	**-537**	-681
Data and telecommunication costs	**-117**	-167	**-224**	-313
Other operating expenses	**-472**	-483	**-876**	-965
Operating expenses	**-3,890**	-3,858	**-7,327**	-7,584
Income before depreciation and leasing costs, EBITDAR	**849**	795	**1,102**	867
Leasing costs for aircraft	**-447**	-436	**-866**	-886
Income before depreciation, EBITDA	**402**	359	**236**	-19
Depreciation	**-146**	-142	**-287**	-275
Share of income in affiliated companies	**7**	6	**52**	18
Capital gains	**60**	32	**60**	46
Operating income, EBIT	**323**	255	**61**	-230
Income from other shares and participations	**0**	0	**0**	-30
Net financial items	**-24**	-41	**-49**	-90
Subsidiary & Affiliated Airlines - Income after financial items	**299**	214	**12**	-350

Earnings trend

Comprises the airlines Spanair, Braathens, Widerøe's Flyveselskap and Blue1. Estonian Air has been included in the business area as an affiliated company since September 2003. airBaltic, Air Greenland, Skyways and British Midland are also included as affiliated companies.

The business area accounted for 30% of the SAS Group's operating revenue during the six-month period. The airlines within the business area transported 6.3 million passengers during the six-month period with an aircraft fleet of 124 aircraft in June 2004. The average number of employees in January-June was 6,907 (7,026).

The business area's operating revenue for the first half of 2004 amounted to MSEK 8,429 (8,451) and to MSEK 4,739 (4,653) in the second quarter.

The business area reports income after financial items of MSEK 12 (-350) MSEK and MSEK 299 (214) for the second quarter.

Goodwill amortization for Spanair was charged against the business area's earnings with MSEK 41 (26). Spanair's income after financial items amounted to MSEK –221 (-283).

Goodwill amortization for Braathens was charged against the business area's earnings with MSEK 19 (21). Braathens' income after financial items amounted to MSEK 241 (-19).

SAS Braathens, comprising Scandinavian Airlines in Norway and Braathens will be established as a legal entity on October 1, 2004. Starting in the first quarter of 2005 SAS Braathens will report its earnings as a unit.

Spanair

(MSEK)	Apr - Jun 2004	Jan - Jun 2004	Jan - Jun 2003
Passenger revenue	**1,252**	**2,153**	2,095
Other revenue	**805**	**1,309**	1,277
Total revenue	**2,057**	**3,462**	3,372
Payroll expenses	**-282**	**-549**	-511
Other operating expenses	**-1,428**	**-2,550**	-2,537
Total operating expenses	**-1,710**	**-3,099**	-3,048
Operating income before depreciation, leasing-costs, EBITDAR	**347**	**363**	324
Leasing costs	**-287**	**-547**	-562
Operating income before depreciation, EBITDA	**60**	**-184**	-238
Depreciation	**-28**	**-55**	-43
Capital gains	**52**	**52**	39
Operating income, EBIT	**84**	**-187**	-242
Net financial items	**-13**	**-34**	-41
Income after financial items	**71**	**-221**	-283
EBITDAR margin	**16.8%**	**10.5%**	9.6%
Average number of employees	**2,643**	**2,564**	2,533

Specified statement of income available at www.sasgroup.net

Traffic and production	**Apr-Jun 2004**	Apr-Jun Change	**Jan-Jun 2004**	Jan-Jun Change
Scheduled traffic				
No. of passengers (000)	**1,547**	15.6%	**2,661**	11.7%
RPK (mill)	**1,354**	19.9%	**2,294**	15.8%
ASK (mill)	**2,199**	16.0%	**3,958**	14.9%
Cabin factor	**61.6%**	+2.0%pts	**58.0%**	+0.4%pts
Yield, local currency		-12.5%		-11.0%
Unit cost, tot. incl. charter, local currency				-12.6%
Charter traffic				
No. of passengers (000)	**585**	-12.6%	**926**	-13.1%

Traffic and earnings trend

In the first half Spanair adapted its capacity to the increased demand compared with the previous year. Traffic, RPK, rose in the first half by 15.8% and capacity, ASK, by 14.9% which resulted in a 0.4 percentage points improvement in the cabin factor to 58.0%. A negative effect was noted from the terrorist attack in Madrid on March 11. Yield decreased by 11.0% during the period due to a shift from short haul to longer routes, introduction of a net pricing system and marketing campaigns. Charter volumes in the first half of 2004 were slightly lower than in the previous year due to weak demand in the U.K. and Scandinavia.

Spanair's passenger revenue rose in January-June by 2.8% to MSEK 2,153 (2,095). Total revenues rose 2.7% to MSEK 3,462 (3,372). EBITDAR improved by MSEK 39 to MSEK 363 (324) but was adversely affected by considerably higher jet fuel costs which rose by approximately MSEK 114. The EBITDAR margin was 10.5%. Despite the high costs for jet fuel, the unit cost for scheduled traffic decreased during the period by 12.6%. Income after financial items improved by MSEK 62 to MSEK -221 (-283).

BRAATHENS

(MSEK)	Apr - Jun 2004	Jan - Jun 2004	Jan - Jun 2003
Passenger revenue	**1,375**	**2,549**	2,788
Other revenue	**310**	**555**	497
Total revenue	**1,685**	**3,104**	3,285
Payroll expenses	**-391**	**-770**	-853
Other operating expenses	**-905**	**-1,720**	-2,054
Total operating expenses	**-1,296**	**-2,490**	-2,907
Operating income before depreciation, leasing-costs, EBITDAR	**389**	**614**	378
Leasing costs	**-149**	**-296**	-314
Operating income before depreciation, EBITDA	**240**	**318**	64
Depreciation	**-36**	**-72**	-79
Capital gains	**-**	**-**	11
Operating income, EBIT	**204**	**246**	-4
Net financial items	**-4**	**-5**	-15
Income after financial items	**200**	**241**	-19
EBITDAR margin	**23.1%**	**19.8%**	11.5%
Average number of employees	**1,907**	**1,904**	2,059

Specified statement of income available at www.sasgroup.net

Traffic and production	**Apr-Jun 2004**	Apr-Jun Change	**Jan-Jun 2004**	Jan-Jun Change
Scheduled traffic				
No. of passengers (000)	**1,199**	5.7%	**2,199**	5.5%
RPK (mill)	**946**	9.3%	**1,661**	13.2%
ASK (mill)	**1,402**	3.2%	**2,679**	7.1%
Cabin factor	**67.5%**	+3.7%pts	**62.0%**	+3.3%pts
Yield, local currency		-9.4%		-11.9%
Unit cost, tot. incl. charter, local currency				-14.1%
Charter traffic				
No. of passengers (000)	**73**	-4.8%	**101**	-3.9%

Traffic and earnings trend

Braathens' scheduled traffic, RPK, rose 13.2% in the first half of 2004 compared with 2003. The increase was due to the opening of new international routes in 2004 and more passengers on both domestic and international routes. Capacity, ASK, rose during the same period by 7.1% and the cabin factor improved by 3.3 percentage points to 62.0% (58.7%). The increase in capacity is due to the new international routes. Yield fell 11.9% compared with the same period in 2003. This decline was due, among other things, to the introduction of a new price structure at the end of 2003 and in May 2004 combined with fare reductions. In addition, competition increased in both the domestic and international market. The total market in Norway increased by 8.6% during the period, measured in number of passengers.

Passenger revenue for the first half of 2004 amounted to MSEK 2,549 (2,788). EBITDAR improved by MSEK 236 to MSEK 614 (378). The EBITDAR margin was 19.8%. The improved earnings are to a great extent attributable to reduced costs as a result of Turnaround 2005. The unit cost fell during the period by 14.1%. Income after financial items for the period amounted to MSEK 241 (-19), an improvement of MSEK 260.

Widerøe

(MSEK)	Apr-Jun 2004	Jan-Jun 2004	Jan-Jun 2003
Passenger revenue	**408**	**794**	867
Other revenue	**234**	**436**	421
Total revenue	**642**	**1,230**	1,288
Operating income before depreciation, leasing-costs, EBITDAR	**101**	**173**	168
Operating income before depreciation, EBITDA	**77**	**127**	115
Operating income, EBIT	**42**	**58**	45
Income after financial items	**37**	**51**	12
EBITDAR margin	**15.7%**	**14.1%**	13.0%
Average number of employees	**1,258**	**1,261**	1,304

Traffic and production	Apr-Jun 2004	Apr-Jun Change	Jan-Jun 2004	Jan-Jun Change
Scheduled traffic				
No. of passengers (000)	**443**	8.2%	**872**	9.6%
RPK (mill)	**136**	14.6%	**265**	13.6%
ASK (mill)	**251**	15.7%	**510**	13.5%
Cabin factor	**54.2%**	-0.5%pts	**51.9%**	+0.1%pts
Yield, local currency		-13.0%		-10.8%
Unit cost, tot. incl. charter, local currency				-8.4%

Traffic and earnings trend

Widerøe's traffic, RPK, rose 13.6% in the first half of the year compared with 2003, while the number of transported passengers increased by 9.6%. This positive development was due to Widerøe both transporting more passengers and longer routes as well as an increased number of seats in its aircraft. Capacity rose 13.5% in the same period, while the number of landings increased by approximately 8%. Yield in Widerøe fell compared with 2003 by 10.8%, mainly because Widerøe reduced fares on its commercial routes by up to 25%. The reduced fares have not so far resulted in the anticipated increase in volume, which meant that the cabin factor rose by a weak 0.1 percentage points to 51.9% (51.8%).

In the second quarter, Widerøe changed its traffic program in order to increase the utilization rate of its aircraft fleet. As a result of reallocation of the fleet, one aircraft went into operation in north Norway in April after Widerøe won two new contract areas starting on January 1, 2004. In addition, more new routes are planned during the year in Norwegian domestic traffic. The number of flying hours increased by approximately 7%.

The unit cost fell in the first half of the year by 8.4% compared with the same period in 2003.

Widerøe's production can be divided into two main parts: The company provides services on the Norwegian short runway network based on three-year contracts from the Norwegian state. These operations account for approximately 40% of passenger revenue. The other part of operations comprises scheduled commercial flights within and to/from Norway and account for approximately 60% of passenger revenue.

Passenger revenue amounted to MSEK 794 (867) in the first half of 2004, 8.4% lower than in 2003. EBITDAR amounted to MSEK 173 (168). The EBITDAR margin was 14.1%. Income after financial items improved by MSEK 39 MSEK to MSEK 51 (12) MSEK. Widerøe can now see clear effects from the extensive rescheduling and efficiency enhancement work started in 2003 within Turnaround 2005. Measures amount to approximately MSEK 300 and will have their full effect in 2005.

Blue1

(MSEK)	Apr-Jun 2004	Jan-Jun 2004	Jan-Jun 2003
Passenger revenue	**327**	**584**	466
Other revenue	**18**	**29**	19
Total revenue	**345**	**613**	485
Operating income before depreciation, leasing-costs, EBITDAR	**42**	**14**	61
Operating income before depreciation, EBITDA	**7**	**-55**	-6
Operating income, EBIT	**3**	**-61**	-11
Income after financial items	**0**	**-66**	-13
EBITDAR margin	**12.2%**	**2.3%**	12.6%
Average number of employees	**341**	**333**	280

Traffic and production	Apr-Jun 2004	Apr-Jun Change	Jan-Jun 2004	Jan-Jun Change
Scheduled traffic				
No. of passengers (000)	**325**	91.3%	**539**	79.4%
RPK (mill)	**207**	84.9%	**353**	80.0%
ASK (mill)	**387**	77.8%	**741**	75.0%
Cabin factor	**53.6%**	+2.0%pts	**47.7%**	+1.3%pts
Yield, local currency		-27.4%		-28.6%
Unit cost, tot. incl. charter, local currency				-21.2%

Traffic and earnings trend

Blue1 increased its traffic, RPK, by 80% in the first half of the year compared with the previous year. The number of passengers increased by 79.4%. The increase in capacity, ASK, was 75% compared with the previous year as a result of the increase in the aircraft fleet with four Avro aircraft at the end of 2003 and increased utilization of the fleet.

Passenger revenue for the first half of the year amounted to MSEK 584, which is 25.3% higher than in the previous year. Yield fell 28.6'% compared with the previous year due to intensified competition and a changed route network. Unit costs decreased by 21.2% compared with the previous year, despite a marked increase in fuel costs in the second quarter.

Income after financial items amounted to MSEK -66 (-13). These lower earnings are attributable to the first quarter and are mainly due to lower yield and partly to costs of implementing the new corporate identity which was launched at the end of 2003. Due to the decline in earnings the traffic program was rescheduled and the unprofitable routes Helsinki-Düsseldorf and Helsinki-Geneva were suspended. Instead, Blue1 opened Helsinki- Hamburg, Helsinki-Berlin and Helsinki-Amsterdam.

Blue1 started domestic traffic in Finland in the second quarter between Helsinki-Oulu with five daily round trips and two daily round trips between Helsinki-Kuopio. These routes started well. The Helsinki-Mariehamn route is served as a summer destination in the period June-August.

Blue1 launched its own Internet online sales with a one-way pricing system at the end of March. Sales over the Internet have exceeded expectations and the proportion of Internet reservations is rising steadily. In addition to its own online sales, future membership of Star Alliance as a regional member is expected to make a positive contribution and increase revenues.

Blue1 has measures within Turnaround 2005 which amount to approximately MSEK 150 and are proceeding as planned.

Airline Support Businesses

Statement of income

(MSEK)	April-June 2004	April-June 2003	January-June 2004	January-June 2003
Operating revenue	**3,472**	3,413	**6,840**	6,980
Payroll expenses	**-1,546**	-1,567	**-3,029**	-3,192
Handling costs	**-281**	-260	**-568**	-539
Technical aircraft maintenance	**-432**	-380	**-861**	-911
Data and telecommunication costs	**-131**	-184	**-287**	-366
Other operating expenses	**-819**	-891	**-1,684**	-1,817
Operating expenses	**-3,209**	-3,282	**-6,429**	-6,825
Income before depreciation, EBITDA	**263**	131	**411**	155
Depreciation	**-113**	-114	**-232**	-225
Operating income, EBIT	**150**	17	**179**	-70
Net financial items	**-20**	-25	**-41**	-63
Airline Support Businesses - Income after financial items	**130**	-8	**138**	-133

Earnings trend

Airline Support Businesses' operations comprise SAS Technical Services, SAS Ground Services and SAS Cargo Group. Air Maintenance Estonia has been part of the business area since September 2003. SAS Technical Services (STS) provides technical maintenance of aircraft, engines and other components to airlines within and outside the SAS Group. SAS Ground Services (SGS) is a full service supplier within airline ground handling and airport-related services. SAS Cargo Group offers goods transport services to/from and within Scandinavia.

In recent years the units within the business area have adapted to structural changes within the industry. Extensive structural changes within Turnaround 2005 are under implementation designed to reduce costs with full effect in 2005. Operating revenue decreased in the first half by 2.0% to MSEK 6,840 (6,980). Operating expenses decreased despite increased volumes in the same period by 5.8% due to rationalization within Turnaround 2005. Income after financial items, compared with the previous year, improved by MSEK 271 to MSEK 138 (-133).

Operating revenue in the second quarter increased by 1.7% to MSEK 3,472 (3,413) due to increased volumes. Costs decreased at the same time by MSEK 73 to MSEK 3,209 (3,282) and income after financial items amounted to MSEK 130 (-8).

SAS Ground Services

(MSEK)	Apr-Jun 2004	Jan-Jun 2004	Jan-Jun 2003
Operating revenue	**1,549**	**3,066**	2,796
of which external operating revenue	**16.1%**	**16.2%**	13.5%
Operating income before depreciation, EBITDA	**71**	**92**	-102
Operating income, EBIT	**40**	**26**	-167
Income after financial items	**42**	**29**	-165
EBITDA margin	**4.6%**	**3.0%**	-3.6%
Average number of employees	**6,769**	**6,954**	6,879

SAS Ground Services' (SGS) operating revenue amounted to MSEK 3,066 (2,796) in the first half of 2004, an increase of 9.7% compared with the previous year. The increase in operating revenue and improvement in earnings are due among other things to the fact that starting on January 1, 2004, SGS took over deicing and towing of aircraft from SAS Technical Services (STS) without needed to increase its workforce to any appreciable extent. Deicing in particular had high volumes particularly in the first quarter due to the cold winter season.

Price pressure and competition in the industry for new customers remain very intense. Earnings have been positively affected by lower IT costs. Income after financial items improved by MSEK 194 to MSEK 29 (-165).

SAS Technical Services

(MSEK)	Apr-Jun 2004	Jan-Jun 2004	Jan-Jun 2003
Operating revenue	**1,276**	**2,446**	2,796
of which external operating revenue	**9.6%**	**12.0%**	13.6%
Operating income before depreciation, EBITDA	**142**	**246**	166
Operating income, EBIT	**70**	**104**	28
Income after financial items	**54**	**69**	-15
EBITDA margin	**11.1%**	**10.1%**	5.9%
Average number of employees	**3,096**	**3,138**	3,659

STS's operating revenue for the first half of the year amounted to MSEK 2,446 (2,796). The lower revenue is mainly attributable to lower revenue from Scandinavian Airlines of MSEK 470, primarily as a result of completed Turnaround activities. External and other intra-Group revenues rose by MSEK 120 compared with the same period in the previous year. In the first half of 2004 new external contracts were signed corresponding to annual operating revenue of approximately MSEK 150.

Activities are under way to secure cooperation partners for increased growth in the external market.

Most of the activities in Turnaround 2005 were implemented by year-end 2003 and have led to a substantial reduction in costs and improved earnings compared with the previous year, despite lower operating revenue. Completed activities include the establishment of Stockholm-Arlanda as a main base including concentration of Base Maintenance, implementation of a new product concept where operations at route stations are phased out as an effect of the introduction of Pre Flight Inspections (PFIs), and implementation of a totally new product-oriented organization with independent business units. The introduction of a central depot in Copenhagen is expected to be completed in November 2004.

Income after financial items improved by MSEK 84 compared with the same period in 2003 and amounted to MSEK 69 (-15).

SAS Cargo

(MSEK)	Apr-Jun 2004	Jan-Jun 2004	Jan-Jun 2003
Operating revenue	**687**	**1,401**	1,467
of which traffic revenue	**480**	**992**	1,080
Proportion ext. operating revenue	**96.2%**	**96.3%**	95.4%
Operating income before depreciation, EBITDA	**29**	**34**	43
Operating income, EBIT	**18**	**11**	22
Income after financial items	**13**	**1**	-4
EBITDA margin	**4.2%**	**2.4%**	2.9%
Average number of employees	**1,265**	**1,257**	1,261
Flown tonnes	**70,792**	**138,415**	141,610
Tonne km (000)	**250,633**	**484,615**	486,754
Cargo yield, SEK/tonne km	**2.01**	**2.05**	2.22

SAS Cargo's operating revenue in the first half of the year amounted to MSEK 1,401 (1,467), a decrease of 4.5%. Operating revenue was affected, among other things, by negative currency effects.

SAS Cargo's income after financial items amounted to MSEK 1 (-4), an improvement over the previous year of MSEK 5. Earnings during the second quarter improved by MSEK 14 to MSEK 13 (-1).

In the second quarter, SAS Cargo concluded an agreement with Korean Air on capacity on the New York-Oslo route. In the summer SAS Cargo also signed an agreement with Singapore Airlines on the Copenhagen-Singapore route.

A new IT system, Sirius, was implemented in February 2004 which will contribute to continued efficiency enhancements and thus a positive earnings trend for SAS Cargo.

Airline Related Businesses

Statement of income

(MSEK)	April-June 2004	April-June 2003	January-June 2004	January-June 2003
Operating revenue	**769**	1,217	**1,439**	2,383
Payroll expenses	**-108**	-341	**-216**	-703
Handling costs	**-50**	-58	**-100**	-118
Costs of goods sold, incl. concession charges	**-398**	-344	**-692**	-637
Data and telecommunication costs	**-15**	-136	**-28**	-306
Other operating expenses	**-145**	-246	**-295**	-489
Operating expenses	**-716**	-1,125	**-1,331**	-2,253
Income before depreciation, EBITDA	**53**	92	**108**	130
Depreciation	**-40**	-65	**-79**	-131
Operating income, EBIT	**13**	27	**29**	-1
Net financial items	**-3**	7	**-7**	19
Airline Related Businesses - Income after financial items	**10**	34	**22**	18

Earnings trend

Airline Related Businesses includes SAS Trading, SAS Flight Academy, Jetpak, European Aeronautical Group and SAS Media. SAS Trading is a retailer within Travel Retail. SAS Flight Academy is a leading training center for pilots, cabin crew, flight technicians and ship's officers. Jetpak offers door-to-door express deliveries. Also included are European Aeronautical Group which provides flight navigation data and the media house SAS Media. Scandinavian IT Group was sold to Computer Sciences Corporation (CSC) in December 2003.

Operating revenue decreased in the first half of the year by 39.6% to MSEK 1,439 (2,383). The decrease is due to the sale of Scandinavian IT Group. For comparable units operating revenue rose by 3%. Operating expenses decreased in the first half of the year by 40.9% and amounted to MSEK 1,331 (2,253). Income after financial items improved by MSEK 4 to MSEK 22 (18).

Operating revenue in the second quarter decreased by 36.6% to MSEK 769 (1,217) and operating expenses fell 36.8%. Income after financial items decreased by MSEK 24 to MSEK 10 (34).

SAS Trading

(MSEK)	**Apr-Jun 2004**	**Jan-Jun 2004**	Jan-Jun 2003
Operating revenue	**453**	**800**	752
of which external operating revenue	**96.9%**	**96.0%**	95.5%
Operating income before depreciation, EBITDA	**-8**	**-12**	-63
Operating income, EBIT	**-12**	**-21**	-72
Income after financial items	**-14**	**-24**	-49
EBITDA margin	**-1.8%**	**-1.5%**	-8.4%
Average number of employees	**332**	**333**	342

SAS Trading's operating revenue amounted to MSEK 800 (752) in the first half, an increase of MSEK 48 over the previous year. Operating revenue is showing a positive trend.

Income after financial items amounted to MSEK -24 (-49), an improvement of MSEK 25. The first half normally contains the weakest months of the year at the beginning of the year. The improved earnings are due to improved goods supply and improved routines for purchasing and distribution. In addition store communications with customers improved considerably. Administration and overhead expenses have been reduced significantly as a result of efficiency enhancement measures.

SAS Trading has had a concession to operate tax-free operations at Oslo/Avinor's airports in Norway. These concessions expire at the end of December 2004 and new concessions have been under negotiation during spring 2004 for which SAS Trading has submitted a tender. Oslo/Avinor have announced that they intend to sign new contracts with another operator, which will affect SAS Trading's operations for 2005, since this was SAS Trading's largest single contract. Without the concessions from Oslo/Avinor, SAS Trading has 32 stores in Scandinavia, Poland and the Baltic countries.

SAS Flight Academy

(MSEK)	**Apr-Jun 2004**	**Jan-Jun 2004**	Jan-Jun 2003
Operating revenue	**131**	**276**	266
of which external operating revenue	**45.8%**	**41.7%**	33.1%
Operating income before depreciation, EBITDA	**35**	**78**	62
Operating income, EBIT	**12**	**32**	15
Income after financial items	**11**	**31**	11
EBITDA margin	**26.7%**	**28.3%**	23.3%
Average number of employees	**147**	**148**	173

SAS Flight Academy' operating revenue for the first half of 2004 amounted to MSEK 276, which is MSEK 10 higher than in the previous year. Income after financial items improved by MSEK 20 to MSEK 31 (11). This positive development is mainly due to an increased need for pilot training among external customers and streamlining of operations. As part of efforts to coordinate pilot and cabin crew training in the SAS Group, SAS Flight Academy reached agreement with Scandinavian Airlines, Braathens and Widerøe on training at SAS Flight Academy's new training center in Gardermoen which is expected to start in August 2004.

JETPAK

(MSEK)	**Apr-Jun 2004**	**Jan-Jun 2004**	Jan-Jun 2003
Operating revenue	**117**	**230**	226
of which external operating revenue	**99.4%**	**99.6%**	99.6%
Operating income before depreciation, EBITDA	**13**	**20**	15
Operating income, EBIT	**8**	**11**	12
Income after financial items	**7**	**9**	11
EBITDA margin	**11.1%**	**8.7%**	6.6%
Average number of employees	**176**	**176**	179

Jetpak's operating revenue in the first half of the year amounted to MSEK 230 (226), an increase of 1.8% compared with the first half of 2003. Income after financial items was MSEK 9 (11) which is 18.2% lower compared with the first half of 2003. Compared with 2003, first-half earnings were charged with increased depreciation of MSEK 6 for a new business system. Operating income before depreciation, EBITDA, improved by MSEK 5 compared with 2003. The trend for operating revenue and earnings improved towards the end of the second quarter. A number of major customer deals worth more than MSEK 40 on an annual basis were contracted in May and June.

The process of introducing new agreements and a new profile for Jetpak's franchise chain (formerly Adena-Picko's) has developed well. At the end of the first half agreements were in place with 60% of the chain. Reprofiling of the entire chain is expected to be completed during the fourth quarter of 2004. The work of streamlining the business platforms and organization is going according to plan and had a positive impact on income after financial items of more than MSEK 4 in the first half of the year.

Hotels

Rezidor SAS

Statement of income

(MSEK)	April-June 2004	April-June 2003	January-June 2004	January-June 2003
Rooms revenue	**612**	470	**1,084**	875
Food and beverage revenue	**337**	288	**646**	566
Other revenue	**172**	145	**309**	304
Operating revenue	**1,121**	903	**2,039**	1,745
Operating expenses	**-369**	-304	**-697**	-620
Payroll expenses	**-422**	-372	**-784**	-728
Rental expenses, property insurance and property tax	**-293**	-228	**-578**	-473
Operating income before depreciation	**37**	-1	**-20**	-76
Depreciation	**-39**	-34	**-77**	-67
Share of income in affiliated companies	**8**	5	**15**	4
Capital gains	**0**	2	**0**	4
Operating income, EBIT	**6**	-28	**-82**	-135
Income from other shares and participations	**0**	0	**0**	13
Net financial items	**1**	-11	**-11**	-32
Hotels - Income after financial items, EBT	**7**	-39	**-93**	-154
Key figures				
EBITDA, MSEK [1]	**45**	4	**-5**	-72
Revenue per available room (SEK) (REVPAR) [2]	**585**	567	**541**	531
Revenue per available room (EUR) (REVPAR) [2]	**64**	62	**59**	58
Gross profit margin	**29.4%**	25.1%	**27.4%**	22.7%

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

Earnings trend

Revenue for the first half of the year amounted to MSEK 2,039 (1,745), an increase of 16.8%. The increase is mainly attributable to new hotels, but even adjusted for these the increase was 6.2%, adjusted for currency effects.

The hotel market in Europe showed signs of a recovery in the first half of the year, although not in all areas. Revenue per available hotel room (REVPAR), adjusted for currency effects, is 3.1% higher than in the previous year. For comparable units within Rezidor SAS, REVPAR was 5.2% higher. Other revenues, mainly restaurant revenues, showed a weaker trend.

The strongest growth figures are in the U.K., Russia, the Baltic countries and the Middle East.

Rezidor SAS retained its market shares in the first half of the year.

In the second quarter Rezidor SAS signed 17 new agreements, of which five were Radisson SAS and eight Park Inn. A total of 24 new agreements were signed in the first half of 2004.

EBITDA, income before depreciation and including share of income in affiliated companies, amounted to MSEK -5 (-72) for the six-month period. EBITDA in the second quarter was MSEK 45 (4). This positive development compared with 2003 is attributable to improved EBITDA for comparable units as a result of measures started in 2003 to reduce the level of costs. Furthermore, two Swedish hotels and one Swiss hotel were transferred to leasing contracts.

The gross profit margin improved by 4.7 percentage points to 27.2%.

Income after financial items for the six-month period amounted to MSEK -93 (-154) and to MSEK 7 (-39) for the second quarter.

Definitions

AEA - Association of European Airlines. An organization comprising the largest 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.
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 financial 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.
FTE - Full Time Equivalent, full-time positions.
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 - Flight operations' total operating expenses minus non-traffic related revenue per ASK.
Unit cost, total - Flight operations' total operating expenses including 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

Interim Report 3, January-September 2004……..……………………………………………………………… November 2,.2004
Year-end report 2004……………………………………………………………………………………..February 10, 2005
Annual Report & Sustainability Report 2004……………………………………………………………...….March 8, 2005
Interim Report 1, January-March 2005……………………………………………………………………..……..May 3, 2005
Interim Report 2, January-June 2005………………………………………………………………...………August 17, 2005
Interim Report 3, January-September 2005…………………………………………………………………….November 4, 2005

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 be accessed and ordered via the Internet: www.sasgroup.net

The SAS Group's monthly traffic and capacity statistics are normally published on the fifth working day of each month. A financial calendar is available at: www.sasgroup.net
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