

**SAS ANNUAL REPORT
NOVEMBER 2016–OCTOBER 2017**

TRAVELERS ARE THE FUTURE



SAS

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SAS ANNUAL REPORT 2016/2017

SAS's sustainability reporting is integrated in the SAS 2016/2017 Annual Report. Moreover, a separate sustainability report in line with the Global Reporting Initiative (GRI), with in-depth sustainability reporting, is available at www.sasgroup.net.

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SAS offers the most departures and has an attractive offering for people who travel frequently to, from and within Scandinavia. SAS conducted 817 flights daily in 2016/2017, and a total of around 30 million passengers traveled on SAS's 272 routes between 123 destinations in Europe, the US and Asia. Membership in Star Alliance™ offers SAS access to a far-reaching global network and smooth connections. In addition to airline operations, activities at SAS include ground handling services, technical maintenance and air cargo services.

SAS AB is the Parent Company of SAS and is listed on the stock exchanges in Stockholm (primary listing), Copenhagen and Oslo. The majority of the operations and assets are included in the SAS Consortium.

VISION

To make life easier for Scandinavia's frequent travelers.

OUR DNA

Safety, punctuality and care.

CUSTOMER OFFERING

Broad network with frequent departures and smooth journeys to, from and within Scandinavia.

WE ARE TRAVELERS

SAS makes life easier for people who travel frequently to, from, and within Scandinavia by offering smooth, attractively priced flights for those traveling on business and those traveling privately. We continually develop our services to provide all our travelers with a positive travel experience.



SCANDINAVIA'S LEADING AIRLINE

30

MILLION PASSENGERS

126

MILLION KG OF FREIGHT

226

THOUSAND DEPARTURES HANDLED FOR SAS AND OTHER AIRLINES

158

AIRCRAFT IN SERVICE

AIRLINE OPERATIONS

SAS is Scandinavia's leading airline for smooth flight connections to, from and within Scandinavia. In 2016/2017, a total of 30 million travelers flew with SAS. Airline operations are our primary operations, but SAS also has operations that support airline operations and which help us maximize use of our capacity.

CARGO SERVICES

SAS Cargo offers a broad selection of cargo and forwarding services, with a focus on smooth transportation solutions. Our cargo services are based on the cargo capacity of SAS aircraft, which is also complemented with ground distribution.

GROUND HANDLING SERVICES

SAS Ground Service is the leading ground services company at airports in Copenhagen, Oslo and Stockholm. Our operations provide passenger and cargo services, ramp services and load control for SAS and other airlines.

TECHNICAL MAINTENANCE

SAS Maintenance Production offers technical maintenance of aircraft and engines at five airports in Scandinavia for SAS and other airlines.

SAS IN FIGURES 2016/2017

SAS reported positive earnings before tax and nonrecurring items of MSEK 1,951, up MSEK 1,012 year-on-year. Due to higher jet-fuel costs and downward pressure on prices, earnings trended negatively at the start of the fiscal year. A positive economy and a strong summer, in which SAS increasingly customized its capacity, thereafter contributed to an underlying positive revenue trend. Together with the efficiency measures, these resulted in a significant improvement in profitability.

TARGETS

RETURN ON INVESTED CAPITAL (ROIC)

SAS's target is for ROIC to exceed 12% measured over a business cycle, and is a prerequisite for SAS to create shareholder value. The target corresponds to the capital markets' weighted average cost of capital (WACC) and is also linked to SAS's dividend policy, see page 38.

ROIC, 12-MONTH ROLLING, %



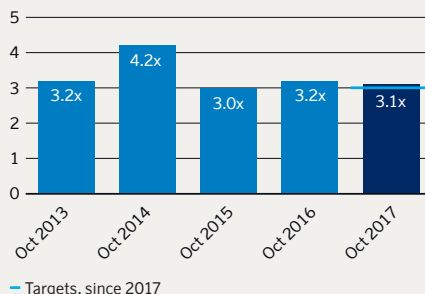
OUTCOME

A positive earnings trend contributed to ROIC improving by one percentage point to 13% during 2016/2017. Given the increase in the capital base from the investments in Airbus A320neos, moving forward profitability must increase if SAS is to maintain an above target ROIC.

ADJUSTED FINANCIAL NET DEBT/EBITDAR

SAS has a target for the adjusted financial net debt/EBITDAR ratio to be a multiple of less than three. The target was introduced during the fiscal year and is in line with SAS's ambition of improving the financial position and credit rating, and thereby lowering financing costs.

ADJUSTED FINANCIAL NET DEBT/EBITDAR



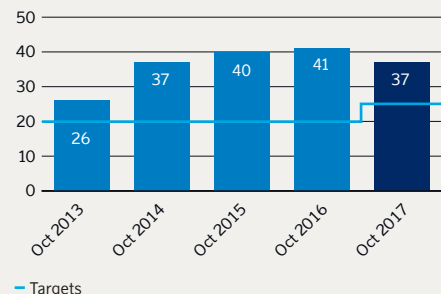
OUTCOME

The adjusted financial net debt/EBITDAR ratio fell during the fiscal year from a multiple of 3.2 to 3.1. This was due primarily to a higher EBITDAR, which was counteracted by an increase in capitalized leasing costs as a consequence of phasing in new Airbus A320neos that raised adjusted financial net debt.

FINANCIAL PREPAREDNESS

SAS has a target for financial preparedness, which is to exceed 25% of annual fixed costs. The target was raised during the fiscal year to reflect the need of an increased liquidity reserve, in light of SAS's increased production on long-haul routes and leisure routes, where the proportion of advance bookings is larger.

FINANCIAL PREPAREDNESS, %



OUTCOME

Positive cash flow from operations contributed to a stable trend for financial preparedness in 2016/2017, despite net loan repayments and preference share dividends of SEK 1.1 billion. At October 31, 2017, financial preparedness was 37%.

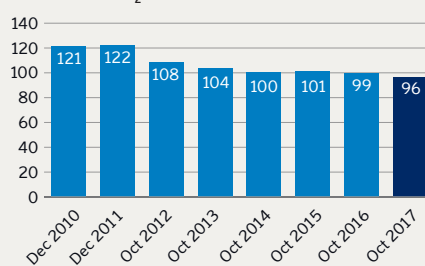
GREENHOUSE GAS EMISSIONS

The target is a 20% reduction in carbon dioxide emissions per passenger kilometer by 2020 compared with 2010.

OUTCOME

SAS's CO₂ emissions per passenger kilometer have been reduced 12.1% since 2010. Renewal of the aircraft fleet and continuous efficiency improvements have contributed to this reduction.

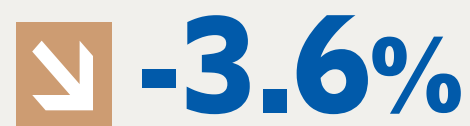
GRAMS OF CO₂/PASSENGER KILOMETER



UNIT REVENUE¹ (RASK)



UNIT COST² (CASK)

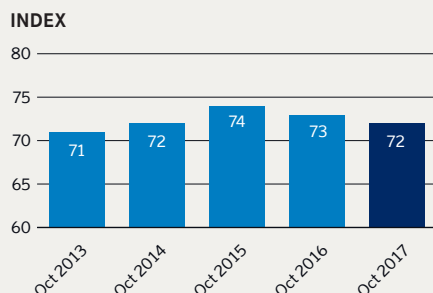


1) Currency adjusted. 2) Currency adjusted and excluding jet fuel.



CUSTOMERS

CUSTOMER SATISFACTION



COMMENTS

Customer satisfaction developed uniformly during the year, but decreased during the summer in connection with lower punctuality.

SUPPLIERS

During the year, SAS continued to outsource services and to collaborate closely with suppliers through active Supplier Relations Management, which generated positive effects. This has contributed to a reduction of 19% in the number of suppliers.

NUMBER OF SUPPLIERS



EMPLOYEES

The number of employees declined 3.6% during the year to 10,324 full-time equivalents. The reduction was due to the full-year effect from the outsourcing of line stations in Norway in February 2016, the sale of the subsidiary Cimber to CityJet and the enhancement of operational efficiency.

SICK LEAVE, %



EMPLOYEE COMMITMENT INDEX



EUROBONUS

EuroBonus is Scandinavia's largest travel-related loyalty program. During the fiscal year, the number of members passed the five million mark.

INCREASE IN THE NUMBER OF EUROBONUS MEMBERS



FINANCIAL INSTRUMENTS

SAS has issued several financial instruments that are regularly traded and which enable a diversified investment in SAS. In November 2017, SAS issued 52.5 million common shares. That same month, SAS redeemed a bond of SEK 1.5 billion and issued a new bond of SEK 1.5 billion, with a coupon rate of 5.375%.

COMMON SHARE PERFORMANCE



PREFERENCE SHARE DIVIDEND



SIGNIFICANT EVENTS DURING THE YEAR

PRODUCT AND OFFERING

- EuroBonus celebrated its 25th anniversary and reached the five million-member mark. We are now establishing a new platform for continued expansion of the program, with a focus on strengthening loyalty to SAS core operations and creating new growth initiatives through new services and products.
- SAS invested in new, upgraded lounges in Oslo, New York, Paris and Chicago.
- SAS introduced a new food and drink concept, New Nordic, in Scandinavia and Europe, which is based on local ingredients and is packaged in a new design adapted to today's modern travelers.
- Travelers in SAS GO were given the opportunity to order food for their journey, with several alternatives adapted to diet and lifestyle.
- New routes:
 - Stockholm–Stuttgart/Ibiza/Lisbon/Munich/Kraków/Shannon/Pristina/Eilat/Chambéry
 - Copenhagen–Faroe Islands/Riga/Malta/Olbia
 - Oslo–Aalborg/Pristina/Visby
 - Aarhus–Malaga, Stavanger–Nice, Bergen–Gdansk, Kristiansand–Malaga

OPERATIONAL

- Since October 2016, SAS has phased twelve Airbus A320neos into service.
- SAS sold Cimber and 11 CRJ900s to CityJet. At the same time, SAS signed a six-year wet-lease agreement with CityJet and extended parts of an existing wet-lease agreement by three years. In total, SAS has contracted 24 CRJ900s from CityJet.
- SAS decided to supplement its production through a new air operator certificate (AOC) with bases in London and Malaga. The first flight from the base in London took place in December 2017.
- SAS returned a wet-leased Boeing 737 that had flown the Copenhagen–Boston route to Private Air, and replaced it with its own production.
- A new agreement was concluded with Regional Jet OÜ regarding wet-lease operation of four ATR 72s.
- New Lean processes were introduced as working methods for technical maintenance at the technical base in Stockholm.

FINANCIAL

- SAS reported its highest income before tax and nonrecurring items in 20 years.
- SAS doubled the efficiency program target to SEK 3 billion, with effect in the 2017–2020 period.
- SAS completed a private placement of SEK 1.3 billion and issued an unsecured bond of SEK 1.5 billion in November 2017.
- SAS introduced new financial targets: ROIC of over 12% measured over a business cycle; Adjusted financial net debt/EBITDAR under 3.0x; and an increase in financial preparedness from 20% to 25% of SAS's annual fixed costs.
- The European Commission revised its earlier decision and has once again fined eleven airlines for alleged breaches of air freight competition rules. SAS has appealed the decision. The fine for SAS totaled MEUR 70.
- SAS sold two slot pairs at London Heathrow, which resulted in a positive earnings impact of MUSD 75.
- SAS financed seven Boeing 737s.

SUSTAINABILITY

- CO₂ emissions per passenger kilometer decreased 2.7% year-on-year.
- During the fiscal year, 11 brand-new A320neos were introduced, which have 18% lower fuel consumption compared with the previous A320 model.
- SAS maintained its ISO 14001 certification.
- SAS purchased approximately 100 tonnes of biofuel during the fiscal year, and continued to actively promote the commercialization of biofuel for aircraft.
- SAS achieved a score of B in the Carbon Disclosure Project (CDP) in 2017. More than 6,000 companies have reported how they work to reduce their climate impact to CDP since 2002.

EMPLOYEES

- New collective agreements were concluded with the cabin crew unions in Denmark and Sweden as well as the pilot associations and ground service staff in Denmark, Norway and Sweden.
- A new tool was introduced for measuring and working with employee commitment.
- Leadership was developed through several networks, training courses and mentoring programs.
- Sick leave fell to 5.9% (6.3%) and long-term sick leave to 3.8% (4.3%).
- Among its many distinctions, SAS was named one of Norway's most attractive employers among business students.
- The SAS Employee Benefits web portal was launched in April 2017.

THE STRATEGY LEADS US FORWARD

We close the page on an eventful year. A strong summer led to a significant improvement in earnings following a weak start to the year. Earnings were driven by increased revenue generated by the successful seasonal adjustments to the network, which boosted passenger numbers, and by the implementation of our promised efficiency measures. As a result of the targeted actions to raise profitability, we were able to start recapitalizing SAS in November. This will provide us with the preconditions for lowering financing costs moving forward. The trend confirms that the strategy is leading us in the right direction.

It is pleasing to be able to present a significant increase in profitability of slightly more than SEK 1 billion and earnings before tax and nonrecurring items of almost SEK 2 billion. The improvements were driven by increased revenue as more travelers than ever chose to fly with SAS and by the positive effects of the efficiency program. I would like to thank the employees at SAS as well as our partners for an intense year of work that has delivered results. This inspires us to continue the work with change to further strengthen competitiveness through product investments and efficiency measures.

Even if we are pleased that the lift in earnings led to SAS creating real shareholder value for the first time in many years, we cannot rest on our laurels. Our operating environment is changeable and we have noted that the increase in total market capacity is again accelerating, in parallel with the continued trend of declining unit revenue and willingness to pay for air travel. Moreover, a new aviation tax is will be introduced in Sweden from April 1, 2018. To meet the above, we are working on three focus areas:

1. Achieving SEK 3 billion in efficiency gains in core operations by 2020
2. Establishing complementary bases in London and Malaga
3. Capitalizing on SAS's strong brand and more than 5 million EuroBonus members.

SUCCESS FOR SAS'S IMPROVED CUSTOMER OFFERING

SAS focuses on and develops the customer offering for those who travel frequently to, from and within Scandinavia. For several years, as part of this strategy we have been increasingly adjusting the network to this target group's travel patterns. This means that at weekends and during holiday periods we have expanded the network with the addition of several exciting destinations, particularly for leisure travel. In summer 2017 for example, SAS offered more than 60 seasonal routes, before we refocused production in the autumn on more business-oriented routes. Network adjustments have strongly contributed to improved profitability at SAS and have also encouraged those who travel frequently to increase their travel with SAS.

EuroBonus, which celebrated 25 years in spring 2017, is at the core of strengthening customer relationships. The number of members in the program increased by almost half a million during the year, and we passed 5 million members. The expanded membership base and the increased number of EuroBonus partners create additional possibilities for strengthening loyalty to SAS and broadening the revenue base. For example, sales of EuroBonus points to our credit card partners increased by around MSEK 250 during the fiscal year. The trend shows both substantial potential and that EuroBonus and partners together can create growth and value. In 2017, we decided to further

develop this potential. A new organization has therefore been established and tasked with utilizing business opportunities through strengthened entrepreneurship. Moving forward, we aim to considerably increase our other customer revenue. Frequent travelers appreciate the possibility of being able to use lounges and fast track. After upgrading several lounges in Scandinavia in the last few years, we continued during the summer and autumn, and upgraded our lounges in Chicago, New York and Paris. We also opened a completely new lounge in Oslo. The response has been very positive and the travel experience with SAS has been enhanced.

Another key element in our efforts to improve the travel experience comprises digitalization, which entails possibilities to simplify for the customer and offer time-saving services. A key phase in our digitalization efforts was reached during the year with the launch of a new website. However, initially it did not meet the requirements for user-friendliness. This was improved during the autumn and we will be making further enhancements. The new website is based on a modern IT platform, which is a precondition for the development of new, relevant ancillary services and has been adapted to meet customers' differing needs.

Ahead of 2018, I look forward to receiving continued deliveries of the new Airbus A320neo. The new aircraft has had positive responses from our customers and we have noted that jet-fuel consumption per seat is around 18% lower compared with earlier versions. In addition, we will continue to upgrade the cabin interiors of existing aircraft and install high-speed WiFi.

DOUBLING OF THE EFFICIENCY PROGRAM

In last year's annual report, I announced that further efficiency measures were planned to strengthen competitiveness and core operations in Scandinavia. After exhaustive efforts, in June, we were able to announce that we had identified more than 200 new initiatives that mean we can double the target of our efficiency program to SEK 3 billion, with an effect in the 2017–2020 period. The efficiency enhancements aim to increase productivity and resource utilization across the organization. These measures will be noticeable in our work over the coming years and will require considerable effort from the entire organization.

In 2016/2017, the earnings impact from the measures totaled SEK 0.8 billion, which was slightly higher than indicated at the start of the year. The market continues to be challenging and full implementation of the efficiency measures is crucial for strengthening the financial position and the future of SAS.

In parallel with the efficiency program, we decided to establish new bases in London and Malaga during the year. This will enable us to secure the long-term profitability of key traffic flows and actively participate in the growing leisure market. The first flight from the London base took place in December and marked



During the year, SAS created shareholder value.

the end of intensive preparations, which have seen us progress from the decision to establishing a new airline with its own AOC in less than one year. These bases will complement production in Scandinavia and strengthen SAS's competitiveness. We look expectantly forward to being able to compete with full force on equal terms with our competitors. I would also like to take this opportunity to welcome all new employees at SAS Ireland to the SAS family.

SUSTAINABLE AVIATION

At the same time as we endeavor to increase SAS's competitiveness, we are well aware that the aviation industry must become even more sustainable. SAS takes its responsibility very seriously from a sustainability perspective. The long-term reduction of greenhouse gas emissions is a priority and, in the short-term, we aim to reduce CO₂ emissions by 20% per passenger kilometer by 2020 compared with 2010. Moreover, we are also striving to create possibilities for our customers to fly with significantly lower climate-changing CO₂ emissions by allowing them to upgrade the fuel used for their flight to biofuel.

The airline industry is in the midst of extensive change efforts and society needs to pull together to create the preconditions for accelerating the necessary transition. The introduction of national aviation taxes that do not differentiate based on the scope of the emissions and for which the revenues generated are not used for environmental improvements, is the wrong way forward. It would be different if the revenue was going to be used to support the airline industry's transition to sustainable travel, for example, by increasing the production of biofuel. These type of aviation taxes worsen the preconditions for investing in new technology and biofuel, which both contribute to materially decreasing climate-changing emissions. Aviation needs long-term and predictable controls to be able to continue to develop toward ever lower climate-changing emissions.

STRONGER FINANCIAL POSITION

As a result of targeted efforts to raise our profitability, SAS's financial position has gradually improved over the last few years. This was an absolute necessity given the considerable scope of SAS's need for investment in new aircraft and maturing loans. The hard work has delivered and has led to us being able to put in place a financing plan just after the close of 2016/2017. We completed the first step of the plan through a private placement of SEK 1.3 billion at the start of November 2017. Shortly thereafter, Moody's and Standard & Poor's upgraded SAS's credit rating. In conjunction with this, we were then able to issue a SEK 1.5 billion bond that immediately lowers our interest expense by slightly more than MSEK 55 moving forward.

We will, in the beginning of February, take the next step in re-capitalizing SAS and start to redeem the preference shares. Moving forward, the aim is then to redeem the remaining preference shares through profits generated by operations. We will thereby create improved preconditions for increasing the return for holders of common shares and, in the next step, provide the Board with the prerequisites to allow the reintroduction of dividends to holders of common shares.

In conclusion, I would like to thank the capital markets and customers for the confidence shown in SAS. We are aware that this requires us to deliver on our promises and I can affirm that we take this extremely seriously.

I would also like to welcome you on board one of our more than 800 daily flights in 2018!

Stockholm, January 29, 2018

*Rickard Gustafson
President and CEO*

HOW WE CREATE VALUE

OUR RESOURCES

SOCIETAL AND RELATIONSHIP CAPITAL

30 MILLION PASSENGERS and relationships with customers, suppliers, partners and decision-makers, as well as SAS's extensive community with 140 million website hits annually and 1.2 million followers on Facebook.

INTANGIBLE CAPITAL

5.1 MILLION MEMBERS in the EuroBonus program, over 800 slot pairs daily and a strong SAS brand.

HUMAN CAPITAL

10,324 FTES, of which 39% are flight crew, 39% ground personnel, 10% technical staff and 12% management personnel with extensive experience and highly developed skills.

MANUFACTURED CAPITAL

158 AIRCRAFT with a market value of about SEK 33 billion, a number of properties, vehicles, machines, tools and equipment, such as lounges and self-service terminals.

FINANCIAL CAPITAL

SEK 25 BILLION in capital invested by shareholders, lenders and lessors.

NATURAL CAPITAL

1,389 KTONNES OF JET FUEL, of which 100 ktonnes is biofuel for flight operations, as well as other raw materials, energy consumption, and food and drink for passengers and personnel.

OPERATIONS AND BUSINESS MODEL

VISION

TO MAKE LIFE EASIER FOR SCANDINAVIA'S FREQUENT TRAVELERS.

WHAT WE DO

SAS makes life easier for people who travel frequently to, from, and within Scandinavia by offering smooth, attractively priced flights for those traveling on business and those traveling privately.

HOW WE DO IT

Our offering is built on a broad network with frequent departures to, from and within Scandinavia. We have an attractive product with a high degree of freedom of choice, designed for travelers' business and leisure travel. Through our EuroBonus program, we reward our customers for their loyalty.

Our travel and cargo services are built on a production model in which SAS produces traffic on larger traffic flows with a uniform aircraft fleet, while smaller flows and regional traffic are flown via business partners. Aircraft operations are supported by efficient ground handling services, technical aircraft maintenance and sales organizations together with an attractive product.



WHAT WE CREATE

30
million journeys

272
routes

817
daily departures

126
million kg of
transported goods

123
destinations and
1,300 via Star Alliance

VALUE FOR SHAREHOLDERS

- Net income for the year of MSEK 1,149
- Market capitalization of SEK 8.5 billion¹
- MSEK 350 in preference share dividends

13
ROIC, %

VALUE FOR OTHER STAKEHOLDERS

CUSTOMERS

- Smooth & attractively priced travel that makes life simpler
- New experiences, relationships and personal development
- Making dreams a reality

72

Customer Satisfaction Index (CSI)

EMPLOYEES

- Job opportunities
- Personal & professional development
- Salary and benefits

57

Employee commitment index

FINANCIAL BACKERS & SUPPLIERS

- Supplier payments of about SEK 36 billion
- Interest expense of MSEK 480
- Lease expense for aircraft of MSEK 3,116

B+/B1

SAS's credit rating²

SOCIETY

- Infrastructure that enables trade, new companies, import/export, tourism, cultural exchange and regional development
- Scandinavian community
- Tax income & job opportunities

~1%

of GDP in Scandinavia³

ENVIRONMENT

- Increased production with more fuel-efficient aircraft, with a lower climate impact and reduced noise.

96

grams CO₂ emissions per passenger kilometer

1) Common shares

2) Credit rating: Standard & Poor's B+, Moody's B1 as of November 2017.

3) Cowi, Inregia, tòi and WSP.

OPERATING ENVIRONMENT AND TRENDS

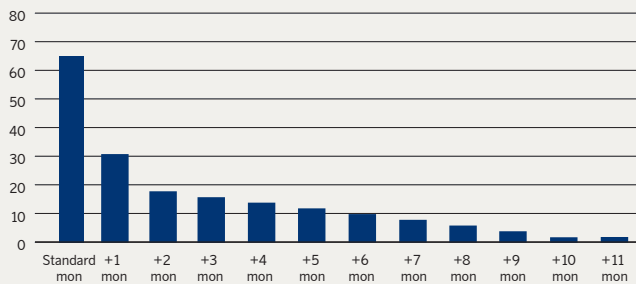
The value of air travel to, from, and within Scandinavia in 2016/2017 totaled approximately SEK 110 billion, and approximately 90 million journeys were made. Over time, the industry has been characterized by higher growth than the GDP as well as by intense competition and price pressure, which puts great demands on efficiency.

INDUSTRY OVERVIEW

The airline industry is capital and personnel-intensive, with a high proportion of fixed costs. In combination with a large share of sales occurring close to departures, this means that airlines are rapidly affected by changes in demand. Airlines are also dependent on a large number of subcontractors, which makes them vulnerable to various events.

Around 4 billion flights are made globally each year using commercial airlines. International Air Transport Association (IATA) airlines turn over some USD 700 billion per year, and just over one billion flights are made in Europe. The largest individual air travel market measured in passenger kilometers is Asia, followed by Europe and North America.

SHARE OF PRE-BOOKED REVENUE, %



The diagram shows the share of pre-booked revenue for a "standard month" and for the 11 following months. This shows that a large share of airlines' revenue depends on bookings made close to departures, which means profitability is rapidly affected by changes in demand.

Air travel is efficient in Scandinavia

Revenue from the Scandinavian air travel market is estimated to amount to about SEK 110 billion annually, with approximately 90 million journeys made. This makes the Scandinavian air travel market, in relation to its population, relatively large compared with the rest of Europe. This is due to Scandinavia's high level of economic prosperity, numerous internationally successful companies and its geographical conditions. The region is characterized by relatively long distances with relatively small towns, and difficult and highly mountainous topography where the land masses are largely surrounded by sea. This makes other forms of transport time-consuming and inefficient.

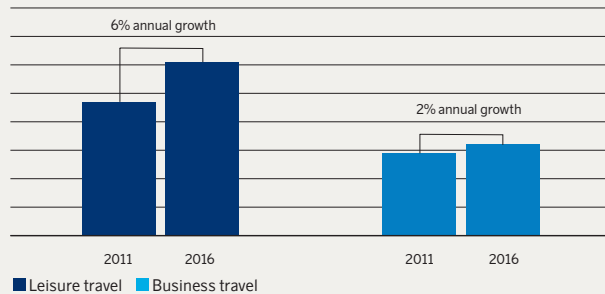
At the same time, the relatively small towns mean that there are only a limited number of routes that can be operated with several daily departures by jet aircraft with seats for 120 or more passengers. To be able to offer a broad network and high frequencies, an airline requires a flexible operating platform consisting of aircraft of various sizes, optimized for the different types of traffic flows.

TREND

Increased prosperity and economic growth	Contributes to increased demand for air travel and travel-related services. Historically, air traffic increases more than GDP, but also decreases more than GDP in connection with recessions.
Technical development and digitalization	Technical development contributes to airlines being able to increase productivity and to streamline operations, and to develop new services.
Price pressure	As a result of intense competition, there is clear price pressure in the market with a consequent pressure on airline profitability.
Increased leisure travel	Since 2010, leisure travel has posted annual growth of 6–8% leading to increased demand for cheaper air travel.
Increased product diversification	Customers are demanding both cheaper air travel and possibilities for increased comfort.
Increased environmental and social responsibility	Customers increasingly demand that airlines take responsibility for the environment and for society.

IMPACT ON THE AIRLINE INDUSTRY

LEISURE AND BUSINESS TRAVEL



Source: Airport statistics from Avinor, CPH and Swedavia

GROWTH TRENDS

The air travel market is growing by approximately 5% annually, and has doubled globally roughly every 15 years, which is more than GDP growth. This is due to increased prosperity, economic growth, attractive pricing and technological development that has promoted increased efficiency. The Scandinavian market has grown around 4% per year during the 2000s, despite the occurrence of several external events that negatively impacted growth, such as ash clouds and terror attacks in the operating environment.

A clear trend during the 2000s is growth in leisure travel outpacing that of business travel. This is driven by increased prosperity as well as travel and new experiences being given priority. Another growth trend is increased demand for intercontinental routes.

Growth during 2016/2017 was on a level with historical growth, and the number of passengers at Scandinavian airports increased 4.5%. The number of seats offered increased 2.3% in the same period.

SAS INITIATIVES

Increased capacity to meet customer demand for more air travel, as well as production model flexibility to enable us to decrease capacity in the event of recessions.

SAS is following technological developments and is investing in modernization of its aircraft fleet and IT platform to increase productivity and improve the customer offering.

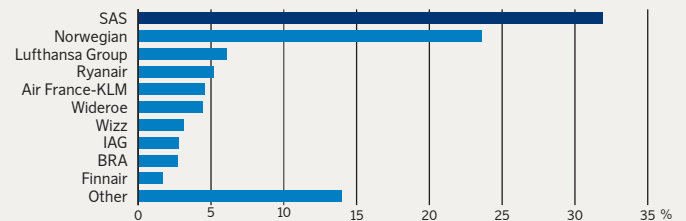
SAS is working hard to improve operational efficiency in order to manage price pressure in the industry with retained profitability.

SAS is expanding the number of leisure routes in line with customer demand, and is increasing the individualization of our customer offering.

A customer offering with greater flexibility, in which customers can increasingly select services and comfort levels.

Structured sustainability initiatives. Investments in quieter, more fuel-efficient aircraft and incorporating jet fuel based on renewable sources.

SHARE OF CAPACITY IN SCANDINAVIA 2016/2017



Source: Innovata Schedule Data

GLOBAL CHALLENGES

The airline industry continues to undergo strong change, which is setting new requirements for all participants. The rise of low cost carriers (LCCs) in the early 2000s has put pressure on existing airlines. The LCCs' share of capacity has also increased in Scandinavia, to just about 37% in 2016/2017. As the LCCs grew, this contributed to a decline in unit revenue and the willingness to pay for air travel. Airlines have compensated for this through efficiency enhancements and increased sales of ancillary services. SAS has met this yield pressure through continually enhancing the efficiency of its operations.

As part of improving efficiency, an increasing number of airlines are reallocating production to their own and newly started production companies, both within Europe and on intercontinental routes. Moreover, personnel will be increasingly hired in, with the aim of creating more flexible terms. Many network airlines are also simplifying their core offering and lowering prices even further, at the same time as customers are being offered more ancillary services.

In addition, Norway introduced a national aviation tax in 2016 and a similar tax will be introduced in Sweden on April 1, 2018. According to various assessments, these aviation taxes will generate marginal environmental effects but threaten to undermine profitability, since the intense competition in the industry means the airlines will have to absorb most of the tax and will be unable to correspondingly raise ticket prices. Overall, this indicates that yield pressure will continue.

A further challenge is that the air travel market is often affected by overcapacity. Aircraft are usually ordered with a lead time of several years from order to delivery. This means that the conditions existing when the order was placed may have changed by the time the aircraft is delivered. Over the next few years, many of SAS's competitors will receive large deliveries of aircraft; a number of these aircraft will most likely be allocated to Scandinavia. This could lead to overcapacity in the market and price pressure.

To meet these challenges in our operating environment, we are working with three strategic priorities, which are more closely described later in this report.

STRATEGIC PRIORITIES FOR A CHANGING MARKET

SAS focuses on people who travel frequently to, from and within Scandinavia. Focusing on this target group, we work with three strategic priority areas to strengthen competitiveness and to meet the challenges in the industry.



WIN SCANDINAVIA'S FREQUENT TRAVELERS

- Offer customers an attractive network and timetable, according to season
- Continue to develop our appreciated service concept adapted to customers' various needs
- Base our offering on efficient digital solutions along the entire travel chain



CREATE AN EFFICIENT OPERATING PLATFORM

- A more flexible production platform through efficiency enhancement measures and structural changes
- Establishing complementary bases outside Scandinavia
- Increased quality in the internal processes in all parts of production



SECURE THE RIGHT CAPABILITIES

- Strengthen employee commitment through frequent surveys and targeted measures to increase employee satisfaction
- Develop leadership through training courses, internal networks and mentor programs
- Secure talent supply and SAS as an attractive workplace through mentorship, training courses, strong leadership and a focus on internal mobility

Read more about our strategic priorities on the following pages.

VISION:

TO MAKE LIFE EASIER FOR SCANDINAVIA'S FREQUENT TRAVELERS



2012–2013

Launch of the strategy for increasing SAS's profitability and focus on frequent travelers.

2017

Product investments that strengthened SAS's customer offering for frequent travelers. Efficiency enhancements of SEK 5.1 billion implemented since 2013.

2020

Leading position among frequent travelers, as well as a strengthened offering and position for journeys in the leisure travel segment. The ambition is for SEK 8 billion

in efficiency enhancements to have been implemented since 2013, and that SAS creates shareholder value measured over a business cycle.





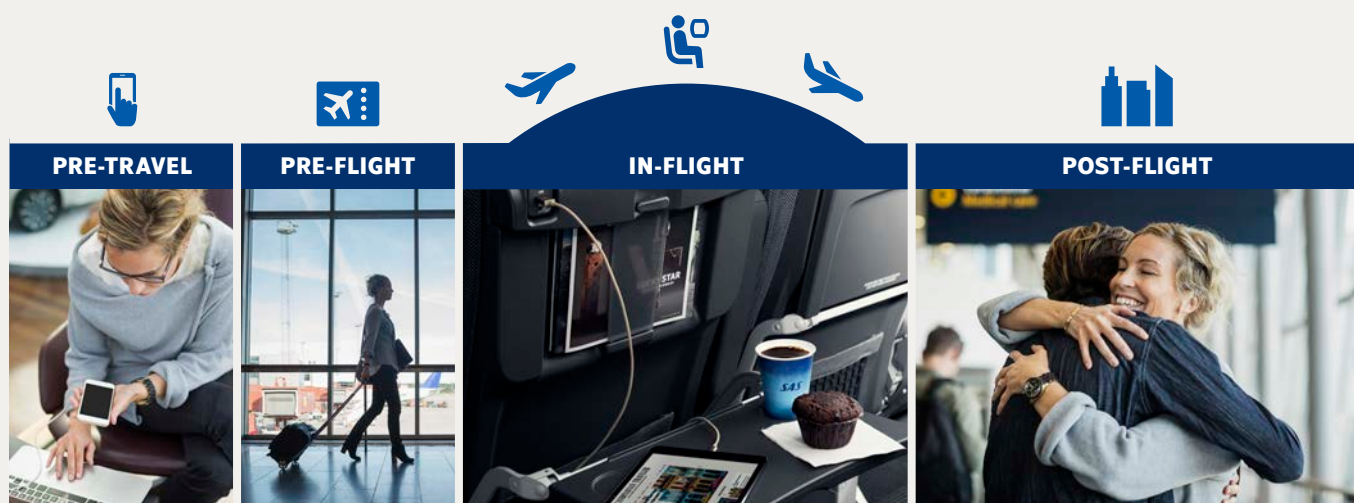
WIN SCANDINAVIA'S FREQUENT TRAVELERS

One of SAS's strategic priorities is to win Scandinavia's frequent travelers. By focusing on these customers, we develop our product and our network — which benefits all of our customers. We define frequent travelers as people who take five or more return flights per year. Altogether, they represent around 60–70% of the value of all flights within Scandinavia.



FREQUENT TRAVELERS:

- See themselves as experienced travelers — traveling is part of their lifestyle.
- Like to be on the move — it energizes them.
- Like to fly, this means time to themselves — time to relax and reflect.
- Are early adopters — test new things before others and keep up-to-date with the latest trends.
- Use the internet and social media to find new travel ideas and inspiration.
- Make active choices to promote sustainable development.



SAS IS WITH THE CUSTOMER THROUGHOUT THE TRAVEL CHAIN

By continually developing our customer offering, we make life easier for those who travel frequently to, from and within Scandinavia. Over the year, we have strengthened our offering across the travel chain.

Frequent travelers take trips for business purposes and for leisure. Regardless of the reason for traveling, frequent travelers appreciate a reliable, smooth travel experience in which they feel that we, as an airline, value their time. We know that customers value an attractive network, reliability in terms of high punctuality and regularity, and that we look after them when the unexpected occurs.

The most frequent travelers are also the people with the greatest demands on their travel experience. That is why SAS continually invests in improving and adapting our offering to ensure that it meets customers' expectations. For example, investments in the new digital platform will gradually promote an improved travel experience.

SAS'S AWARDS

One of the ways appreciation for the investments in our customer offering was shown in 2017 was through SAS receiving a number of independent awards.

- “Best airline in Europe” and “Best Domestic Transportation” at the Grand Travel Awards in Sweden.
- “Best Domestic Transportation” and “Best International Airline” at the Business Travel Awards.
- Four out of a possible five stars at the APEX Awards, where travelers gave their opinions on airlines' performance.
- Bronze Airline of the Year Award from ERA.

PRE-TRAVEL

To meet the demand from frequent travelers for smooth, easy journeys, we have further developed the popular SAS Go and SAS Plus service concepts, as well as SAS Go Light and SAS Plus Saver. SAS Plus Saver has the same advantages as SAS Plus, except for rebooking and cancellation free of charge. Many customers also see the advantage in traveling SAS Plus and Business on our long-haul routes; during the fiscal year, the number of journeys on those routes increased 17%.

We also launched SAS Go Light to meet customer demands for a simpler, baggage-free concept. Besides providing customers with an expanded range of options, SAS Go Light also strengthens our competitiveness in terms of price comparisons.

In 2016/2017, we launched a new website that builds on our new, modern IT platform. This is a precondition for the development of new services and customer enhancements moving forward. Following some initial problems, we upgraded the website in autumn 2017, and our digital customer interface is now smoother, easier and more intuitive. Going forward, the new IT platform and website will facilitate individualizing our offering even further. We can also more simply and rapidly add new services and products that are in demand by our customers.

SAS offers the most complete network with frequent departures and smooth journeys to, from and within Scandinavia. At our primary airports in Scandinavia, SAS accounts for around 45% of all departures.

As demand from our customers fluctuates considerably depending on the season, we have increased the seasonal adjustments to our route network. This was most clearly seen during the summer by our substantial production increase on routes to Southern Europe. For example, capacity on our leisure routes was almost twice as high in July than for an average month during February–April. In the winter, we fly both to popular ski destinations and to destinations such as Gran Canaria, Madeira, and Eilat.



The network adjustments were appreciated by our customers and during the fiscal year, passenger numbers increased 15% year-on-year on our leisure routes. We achieved this through increased productivity and seasonal redeployment of larger aircraft to where demand was greatest. Thanks to wet-lease production, we can maintain our frequencies and an attractive network in Scandinavia at the same time.

PRE-FLIGHT

Customers appreciate being able to manage their own check-in before a flight. Increased digitalization provides SAS with additional automation opportunities for the purpose of improving customer experience; we make their journey easier by offering self check-in together with service personnel who meet customers in the departure hall. Over 80% of SAS passengers with baggage in Scandinavia now use one of SAS's automated check-in services.

At the same time as we are seeing demand for various ticketing concepts, more people are choosing to customize their travel experiences. This has meant that sales of our ancillary services — baggage, lounges, and pre-seating, for example — have trended positively, climbing to just over 25% during the fiscal year. As one of the few scheduled airlines in Europe, SAS now offers travelers in SAS Go the possibility of pre-ordering meals for their journey.

During the fiscal year, we also added the possibility of packaging travel and hotels in their booking via our website. We will gradually launch additional options as we leverage the potential in our new IT platform.

To further adapt our product offering and increase its relevance for our passengers, we have also invested over the last few years in SAS lounges in Scandinavia. At the same time, we have ended collaboration with certain third-party lounges where our customer base has been low. In 2017, we took the next step and upgraded our international lounges in New York, Chicago, and Paris. We also launched a completely new lounge in Oslo. It is an experience lounge where we offer amenities, such as a gym, an innovation hub, a light room, a café with a barista and several other services. Time is important to our customers and our lounge should be a place where their time can best be utilized.

IN-FLIGHT

Our customers prioritize punctuality, high regularity, and SAS looking after them in the event flight irregularity and delays cannot be avoided. In 2016/2017, SAS's punctuality totaled 83.6%, and SAS was the sixth most punctual airline in Europe for the 2017 calendar year.

In May 2017, to meet the wishes of our primary target group, we launched New Nordic by SAS, a new and innovative food and drink concept where we focus on functionality and locally produced, high quality ingredients as well as on more and improved choices. The concept was positively received and was nominated for the Svenska Designpriset (Swedish Design Prize) in two categories: Graphic Identity and Packaging. The concept was created in consultation with SAS's customers and cabin crew.



In May 2017, we launched New Nordic by SAS — a new, innovative concept for food and drink packed in a new box, that was positively received by our customers. The concept is built on local ingredients, adapted to the season. We place great importance on our suppliers and try to find the absolute best, who are small-scale, can deliver the highest quality and can manage SAS volumes.

As part of efforts to improve the travel experience, we are continuing to invest in our aircraft fleet and 12 Airbus A320neos have been delivered since October 2016. We have also started upgrading our existing aircraft with the new cabin interiors and in 2018, we look forward to installing high-speed WiFi on our Airbus 320s and Boeing 737s.

With high-speed WiFi up to 12Mbit/second per passenger, time on board can be used more effectively for work or to enjoy streamed TV shows, music or films. With both passengers and personnel online, we can take on-board service and information to new levels and develop new services that make life easier for our customers.

POST-FLIGHT AND TRAVEL

Between journeys, we continuously communicate with our EuroBonus members. Through increasingly personalized communication, we can create relevant communication and relevant offerings to generate value for our customers.

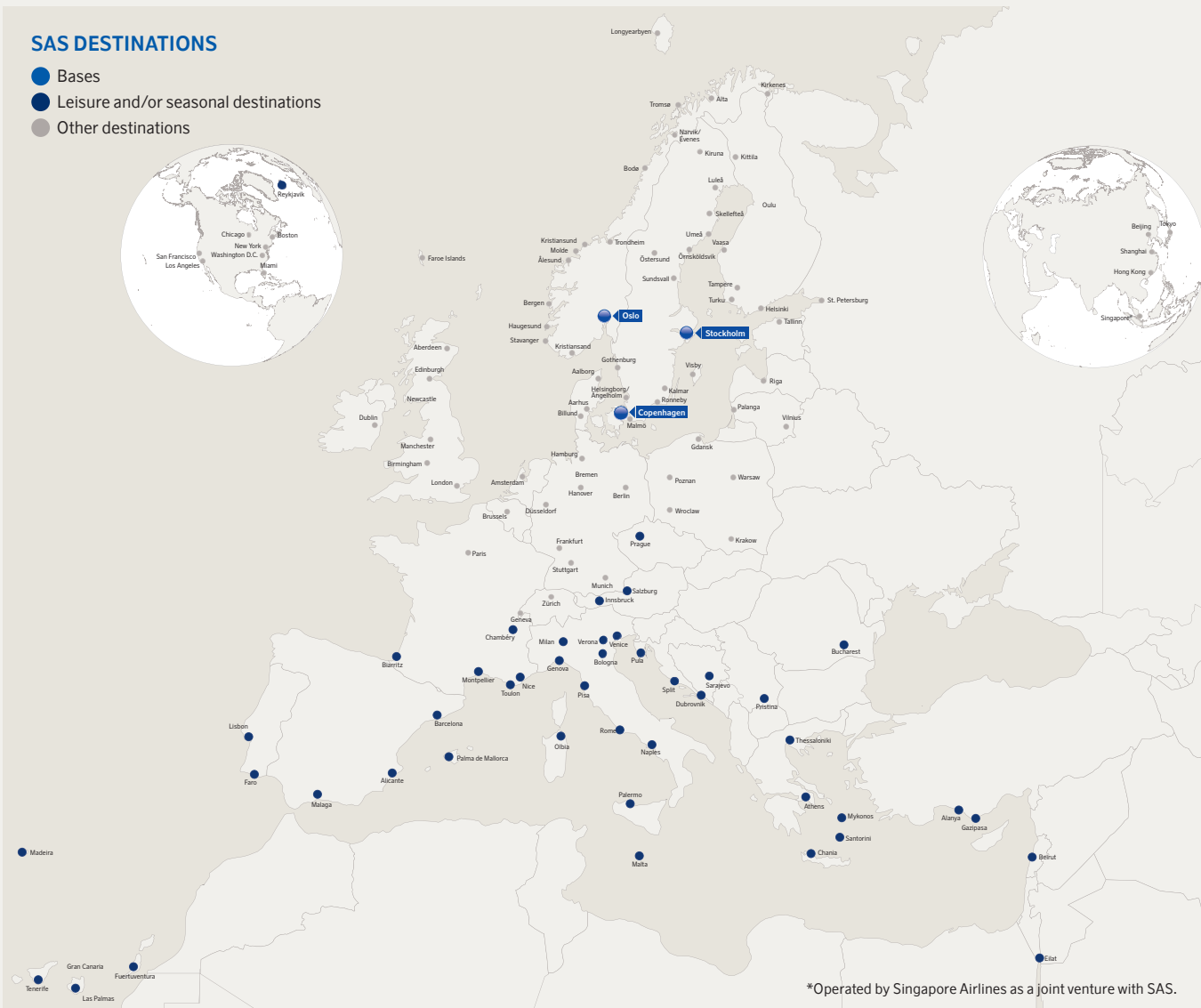
In 2017, we changed IT platforms for our EuroBonus program so that we can expand it and launch improvements for our customers.

By investing in new IT systems, we are also working on developing services that enable tracking of checked baggage in order to ensure a positive travel experience.



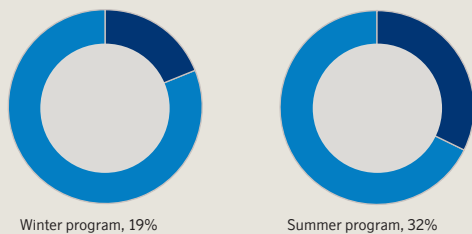
SAS DESTINATIONS

- Bases
- Leisure and/or seasonal destinations
- Other destinations



*Operated by Singapore Airlines as a joint venture with SAS.

SHARE OF LEISURE CAPACITY ON SAS ROUTE NETWORKS (ASK), %

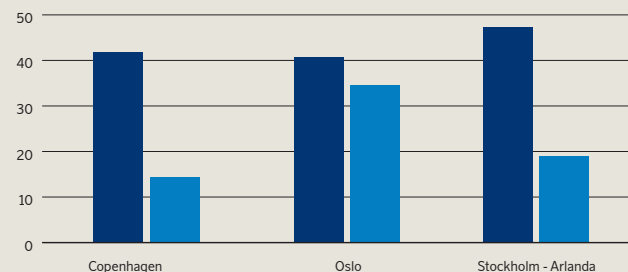


■ Leisure-share of SAS production in Europe and Scandinavia

During the year, SAS adjusts production to an increasing degree based on customer demand. Above all, SAS increases production markedly on its leisure routes during the summer. SAS also makes major adjustments in its network on bigger holidays such as Easter and Christmas.

Source: Innovata Schedule Data

SHARE OF DEPARTURES FROM PRIMARY SCANDINAVIAN AIRPORTS, %



■ SAS share ■ Largest competitor

SAS has a strong position at the primary airports in Copenhagen, Oslo and Stockholm, and offers more departures than any competitor.

Source: Innovata Schedule Data



DEVELOPMENT OF EUROBONUS AND OUR BUSINESS OFFERING

EuroBonus and SAS Credits, SAS's loyalty programs, are the cornerstones in building stronger customer loyalty. At the same time, they differentiate SAS from its competitors. Being a loyal SAS customer should be worthwhile and be notable across the travel chain, from booking until taking a trip.

DEVELOPING LOYALTY PROGRAMS

EuroBonus — which turned 25 in the spring of 2017 — increased by 500,000 during the fiscal year, passing the five-million-member mark. This made EuroBonus Scandinavia's leading travel-related loyalty program. EuroBonus differentiates us from our competitors; we are therefore developing and renewing the program to increase its attractiveness and relevance while substantially expanding our membership base.

EuroBonus has around 100 partners, such as American Express, MasterCard, Radisson Blu hotels, Avis, and many others. During the fiscal year, we added the opportunity to earn points directly in shops and restaurants: 520 affiliated shops in Sweden, 530 in Denmark, and 165 in Norway.

Many partners in every industry contribute to making EuroBonus more attractive to its members, while it increases opportunities for members to earn points and EuroBonus flights, hotel stays and other advantages.

SAS also has a business program, SAS Credits, aimed at small and medium-sized businesses. Affiliated companies earn bonuses on business trips that can be used for air travel and hotel stays. The number of member companies in SAS Credits increased by around 20,000 during 2016/2017, which contributed to a positive revenue trend.

HOW EUROBONUS POINTS WORK

When a EuroBonus member purchases an airline ticket, they receive EuroBonus points. The portion of the airline ticket price representing the value of the EuroBonus points is shown as a liability. Revenue is recognized when travelers use the points, for example by booking a trip with EuroBonus points. Sales of EuroBonus points to partners is recognized under "Other revenue" and the assessed cost is shown as a liability.

NEW GROWTH INITIATIVES

EuroBonus provides us with unique knowledge about Scandinavia's most frequent travelers and their preferences. The broadened member base and increasing number of partners has strengthened the EuroBonus program and made it more attractive as well. For example, collaboration with credit card partners has led to a year-on-year revenue increase from sales of EuroBonus points of about MSEK 250 in 2016/2017. The trend shows substantial potential and that EuroBonus and partners together can create growth and value that are positive for both.

Based on some five million EuroBonus members, we will use big data analyses to create offerings that, together with new partners, broaden and strengthen loyalty to SAS. By further developing existing business models — including through more credit cards linked to EuroBonus — and through new business models based on sales of bonus points to collaborating partners and differing forms of commission, we can broaden our offering with package holidays, conferences and other types of experiences.

Moving forward, we aim to considerably increase our other customer revenue. We therefore began efforts in the summer of 2017 to accelerate the work on developing new services and creating new growth initiatives, and thereby shareholder value. A new unit has been established and tasked with developing this business for increased focus on business opportunities and promoting entrepreneurship.

STRONG OFFERING TO CORPORATE CUSTOMERS

Corporate customers are an important customer segment for SAS; corporate-agreement customers represent more than one third of our passenger revenue. Through the most customized network in Scandinavia, high reliability and other smart business services such as Travel Pass, SAS has a strong offering for its corporate customers.

During 2016/2017, we launched a new booking service for corporate customers via our website; the response has been positive. Altogether, corporate customers increased their travel with SAS, but in line with the market trend, growth is lower than in leisure travel. We will be working further to strengthen our offering to corporate customers, with the aim of making travel experiences with SAS as smooth as possible.

STAR ALLIANCE ENHANCES SAS'S GLOBAL NETWORK

SAS is a co-founder of Star Alliance, which celebrated 20 years in May 2017. Membership in Star Alliance offers our travelers many advantages, for example access to lounges and Fast Track as well as the opportunity to earn and use points with member companies. In cases where our passengers are impacted by flight irregularities, they can reach their destinations by rebooking on the next available Star Alliance flight.

Apart from Star Alliance, SAS has several supplementary agreements with other airlines that, for example, make it possible to check baggage through to the final destination.

STAR ALLIANCE



- 28 member companies
- 1,300 destinations
- Service in 191 countries
- Over 1,000 lounges
- Some 18,400 daily departures
- 4,764 aircraft



INTERVIEW WITH ANNELIE NÄSSÉN, EXECUTIVE VICE PRESIDENT SALES & MARKETING



Your responsibilities include the SAS brand, global sales, pricing and the distribution of travel with SAS. What are the main reasons customers choose to fly with SAS?

Firstly, because we meet our customers' wishes and expectations. The basis for this is our broad network to, from, and within Scandinavia, in which we offer punctuality, facilities, time-saving services and innovative solutions.

How do you view the opportunity to create individualized offerings to our customers?

That is crucial today, since the information flow in society is considerable and not relevant to every individual. We therefore focus intensely on personalization, an effort we will be accelerating during the year. Using big data analysis, we gain good insight into what our customers want on individual levels, based on historical behavior and future wishes. We can then adapt our communication and offerings to our customers to ensure their relevance and to create value.

Demand is increasing, especially in leisure travel. How does this affect our corporate customers?

Our main target group and focus are frequent travelers — who definitely travel often on business but who also like to travel privately. For example, to meet our customers' expectations and needs — when traveling both on business and for leisure — we adjust our network and offer a large number of leisure destinations during the summer months.

What opportunities do you see with the digital transformation?

We know that our main target group generally has a high level of digital competence and therefore, high demands as regards the digital solutions we offer. Another important component is that they value their time. That is why we are focusing on improving and developing digital solutions, to enhance efficiency for our customers across the value chain.

How has customer behavior changed over the last few years?

Seamless travel is increasingly in demand. That means people want simple, time-saving digital solutions and an infrastructure that makes the journey — all the way from booking to arrival home — as simple and time-effective as possible. For SAS, digitalization will continue to be key to meeting our customers' wishes for easy travel.

How do you envisage travel in the future?

Leisure travel is increasing, and I see that as a sign that many people value being able to travel and have new experiences. Seeing different parts of the world is a tremendously positive thing from many perspectives, and something that develops us as people — something we base our communication on. Easy, time-effective journeys and services are a precondition for business travel, so that companies can continue to successfully pursue their operations. Being successful in a powerfully competitive market will require us to be flexible and innovative, and to continually adapt our offering.

This also obviously puts demands on proactively improving our pricing, sales, distribution and marketing so as to continue being relevant for our customers.

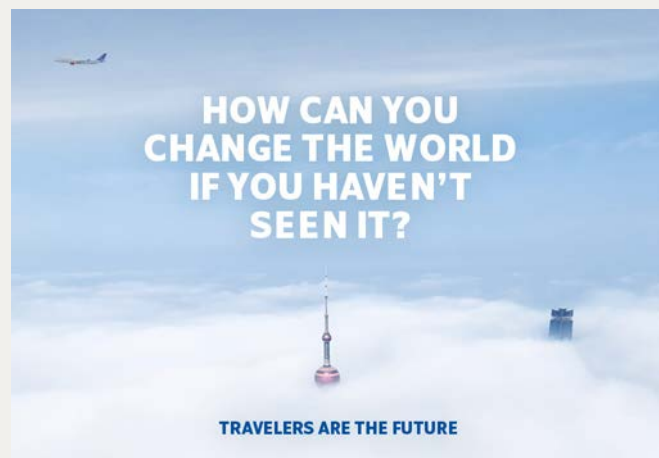
I also believe that travelers will continue to raise demands for sustainable travel, and I expect that we will continuously be able to deliver journeys with increasingly lower climate-changing emissions.

TRAVELERS ARE THE FUTURE

Under our “We are travelers” concept, we continue to focus on the endless possibilities that traveling and thinking big can offer. Our “Travelers are the future” campaign is built on the message that travelers see the world, gain new impressions, understand it better and get more out of life.

SAS wants to be part of making the world a better place, and personal development by traveling and seeing the world is the key to this positive change. Travelers therefore get more out of life and can contribute to the world in their own unique way.

To help our travelers achieve this, we have created a program: SAS Scholarship. The scholarships are intended for those people who have an idea they believe can change the world. SAS will help facilitate three ideas through travel — because how can you change the world if you haven't seen it?





CREATE AN EFFICIENT OPERATING PLATFORM

The world is changing and competition within the airline industry is increasing. In light of this, SAS has to adapt its operations to remain competitive. Two clear examples of adaptations are our efficiency enhancement program in Scandinavia, and the fact that we are in full swing with establishing bases in London and Malaga. SAS will thereby be able to compete on the same terms as its competitors.



ACTIVITIES CARRIED OUT DURING 2016/2017

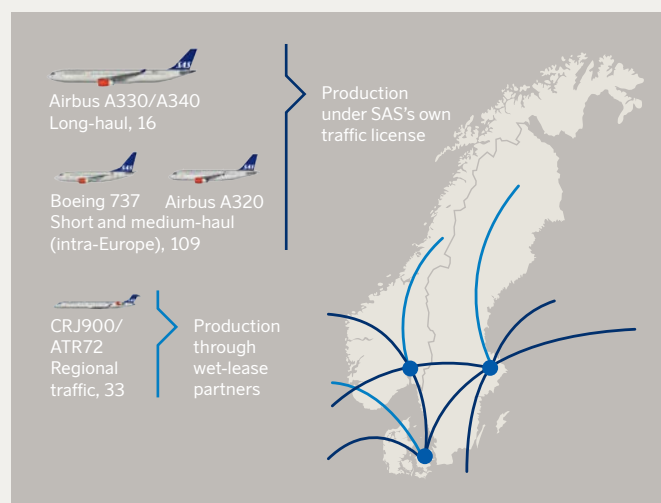
- Implemented cost measures with an earnings impact of SEK 0.8 billion.
- Doubled efficiency measures from SEK 1.5 billion to SEK 3 billion, with effect in the 2017–2020 period.
- Established SAS Ireland, with production bases in London (December 2017) and Malaga (summer 2018) as a complement to production in Scandinavia.
- Implemented Lean as a working method in large parts of the organization.
- Invested in digitalizing operations, which is a precondition for continued efficiency enhancements.



SAS PRODUCTION MODEL

AIRLINE OPERATIONS

SAS's production model is based on producing the majority of traffic for the larger traffic flows under SAS's own traffic license based on a homogeneous aircraft fleet, while smaller flows and regional traffic are flown via business partners (wet lease). The share of aircraft based on wet-lease partnerships totaled 21% in October 2017.



In January 2017, the subsidiary Cimber was sold to CityJet. As a part of the transaction, SAS sold its Bombardier CRJ900s at the same time as CityJet phased brand-new CRJ900s into service. SAS, under its own management, thereby reduced the number of aircraft types in service from seven in 2012 to three as of October 2017, which decreases the complexity in SAS's own production.

As a consequence of wet-lease operating costs being 15–20% more cost-effective, we have also been able to expand our regional network and increase the number of frequencies on existing routes. Flexibility in the production model also facilitates us in being able to optimize production according to how seasonal demand change.

GROUND HANDLING SERVICES

The SAS production model for ground handling services is built on operating our own ground handling services at SAS's primary airports in Copenhagen, Oslo and Stockholm. At the primary airports, we are working on further raising quality and productivity through increased automation and digitalization. The aim is to improve customer service through more modern processes for check-in and flight irregularity management, in order to promote loyalty among frequent travelers.

At other airports, SAS contracts ground handling services from subcontractors. This provides us with greater flexibility in our cost and planning structure, which means we can implement network changes more quickly.

TECHNICAL MAINTENANCE

SAS's technical maintenance means that at five airports in Scandinavia we perform ongoing technical maintenance of aircraft for SAS and other airlines. Heavier technical maintenance, in which aircraft are taken out of service for a longer period, has been outsourced to subcontractors with better preconditions for efficiently performing this type of maintenance.

After having introduced Lean processes into technical maintenance at Oslo and Copenhagen, we began the introduction in Stockholm in 2017. This helped improve the production stability of flight operations during 2016/2017. For example, year-on-year, unplanned maintenance decreased markedly during the second half of the year.

As a part of implementing improved processes, we have also analyzed the cost allocation around the technical maintenance of aircraft and engines.

CARGO SERVICES

SAS Cargo manages SAS's cargo services, which are built on our utilizing the space on SAS's over 800 daily flights. This is supplemented by ground transportation on shorter stretches as well as to and from the airports. Through SAS's broad network and many frequencies, we can offer high-quality, punctual transportation of cargo.

EFFICIENCY ENHANCEMENT PROGRAM

We are working on implementing an efficiency enhancement program for our core operations based in Scandinavia to meet developments in our operating environment. During the 2013–2017 period, we realized efficiency gains in our operations of SEK 5.1 billion. The earnings impact from efficiency enhancements in 2016/2017 totaled SEK 0.8 billion, which is slightly higher than we indicated at the start of the year. This contributed to a 3.6% fall in the currency-adjusted unit cost, excluding jet fuel.

Aircraft productivity during the fiscal year was the highest ever. Flight crew productivity also increased according to plan during the fiscal year, driven by longer flight distances and fewer retrainings between aircraft types.

At the same time, conditions in the operating environment remain tough. Given the above, the expected earnings impact of SEK 0.7 billion in 2017/2018 is not satisfactory. For SAS to continue to develop as a competitive airline, the implementation pace of the efficiency program must be raised moving forward.

PRODUCTIVITY

Aircraft	Pilots	Cabin crew
2016/17 vs 2015/16	2016/17 vs 2015/16	2016/17 vs 2015/16

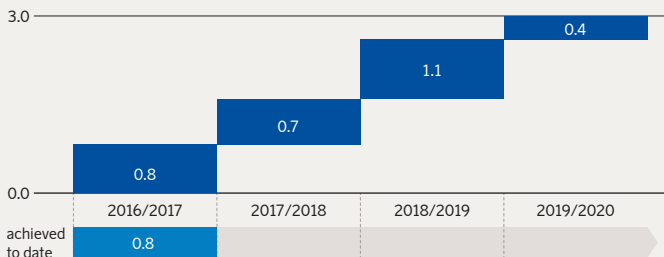
↗ +3%

→ +1%

↗ +2%



EARNINGS IMPACT (SEK BILLION)



During the year, we have identified a total of more than 200 new initiatives, and doubled our efficiency program from SEK 1.5 billion to SEK 3 billion. The actions will have an earnings impact in 2017–2020 and encompass the entire organization. The total effect is measured in gross amounts and before inflation effects.

Efficiency gains of some SEK 0.7 billion depend on changed agreements and routines with personnel groups. During 2016/2017 we concluded new three-year collective agreements through 2020, with the possibility of cancellation after two years, with all pilots, the cabin crew unions in Denmark and Sweden, and the personnel groups in ground handling services. This will enable us to focus on the implementation of the efficiency measures.

EXAMPLES OF ACTIONS IN THE EFFICIENCY ENHANCEMENT PROGRAM

Flight operations, including wet lease, government user fees and jet fuel

The aim is to increase productivity by measures including better adaptation of resources to seasonal variations. We can achieve this through more flexible planning and new scheduling, by adjusting our network and through increased use of a resource pool for cabin crew.

Since flight crews now use iPads; we can raise productivity through strong internal communication and simplified check-in procedures. In addition, in the short and long terms, we will work on balancing the age demographics among employees.

Ground handling operations and technical maintenance

In ground handling operations, we are working on improving planning and broadening work duties as well as renegotiating agreements with our sub-contractors. Moreover, we will streamline processes and raise quality in terms of flight irregularity management, which is also a key parameter for customer satisfaction.

In technical maintenance, we have initiated Lean projects that aim to standardize and enhance the efficiency of our processes and work methods in order to further increase the productivity and quality in our internal technical operations. In addition, we will change scheduling and renegotiate sub-contractor agreements for heavy maintenance, including engine maintenance.

Commercial functions

To ensure that we offer what customers want most, we will simplify our base offering and expand options by adding more an-

cillary services. These will help us partially compensate for the pressure on unit revenue. We will also continue efforts to lower SAS's distribution and credit card expenses as well as further decrease logistics costs for our on-board service and in the lounges. In addition, we will also streamline the back office and customer center functions.

Administration, Facility, Support and IT

We will further streamline internal processes, through measures including enhancing systems support for network planning, general staffing reductions and reducing the number of consulting hours. At the same time as we are developing and investing in IT in terms of our digitalization, we will simplify our infrastructure, optimize the use of our licenses and transform legacy platforms into modern cloud services.

OVERVIEW OF EFFICIENCY ENHANCEMENT PROGRAM

MSEK	Target	Realized
Flight operations, incl. wet lease, government user fees and jet fuel	1,200	310
Ground handling & technical maintenance	900	280
Commercial functions	500	80
Administration, Facility, Support and IT	400	115
Total	3,000	785

RESTRUCTURING COSTS

The efficiency program is expected to result in restructuring costs and nonrecurring items of about SEK 1 billion in 2017–2019. At October 31, SEK 0.3 billion in restructuring costs and impairment of IT systems had been expensed.

The restructuring costs relate to personnel, organizational changes in the administration and the termination of property agreements. Other nonrecurring items are primarily expected to relate to the development of IT systems.

EXAMPLES OF MEASURES THAT HAVE GENERATED MSEK 785 IN 2016/2017:

- Outsourcing of Cimber to CityJet.
- Discontinuance of the wholesale card.
- Reduced manning with cabin crew on intercontinental routes and increased use of the resource pool.
- Improved planning with fewer administration days for pilots.
- Continued implementation of Lean in technical maintenance in Copenhagen and Stockholm, and optimization of engine maintenance.
- New agreement covering properties and property-related services.
- Better planning in ground services operations, in which individual employees perform more work tasks.
- General efficiency enhancements in SAS Cargo.



BASES OUTSIDE SCANDINAVIA

SAS's competitors on traffic flows to and from Europe use almost exclusively crew based in EU countries outside of Scandinavia, and as a result have a lower total cost for labor. If SAS is to secure the long-term profitability of key traffic flows and actively participate in the growing leisure market, SAS must have the same preconditions as its European competitors. Otherwise, SAS will be forced to reduce its production and discontinue routes.

In parallel with the implementation of the efficiency enhancements in our core operations, in January 2017, SAS decided to establish a new air operator certificate (AOC) in Ireland. We decided to establish bases in London and Malaga, where a total of nine Airbus A320neos are planned for deployment. The first AOC was granted in December 2017, and the first flight took place that same month from the base in London. The first flight from the base in Malaga is planned for the summer of 2018.

The bases complement our production in Scandinavia, which will continue to account for the main share of our business.

Start-up costs for the new AOC and the new bases are initially expected to impact earnings and have been extremely low to date. Initially, the financial effects from operations at these bases will be small, but will gradually increase as operations grow. When the bases are fully operational, they are expected to have the same underlying unit cost as our low cost competitors.

The effect of efficiency enhancements from the bases outside Scandinavia have not been included in SAS's efficiency enhancement program of SEK 3 billion. The efficiency enhancement program is focused on the Scandinavian organization and is a precondition for SAS's continued competitiveness.

INTERVIEW WITH PAUL SCHEUTZ, CEO OF SAS IRELAND



How would you describe your role at SAS?

I took the role of CEO and Accountable Manager at SAS's new airline in Ireland in 2017. My assignment is to build a safe and flexible wet-lease operation that meets our customers' expectations. SAS determines how our capacity can best be utilized in the network. I lead a team that has experience from other airlines, such as LCC airlines, network airlines, and regional airlines — both in Europe and in the rest of the world. Everyone is dedicated to developing operations that are marked by quality and simple processes,

which will promote a positive trend for SAS moving forward. During the start-up phase, I've seen how both good relationships and partnerships have developed between our small team in Ireland and the various parts of SAS. Part of my role is to ensure that these partnerships continue to develop, that we proactively challenge each other, and that together we build a strong SAS for the future and for our customers.

SAS is establishing bases in London and Malaga to ensure its competitiveness in key traffic flows. Will these bases be as competitive as the LCC airlines?

In every area, we strive to have the same level of simplicity and efficiency as the LCC airlines. In parallel, we need to remember that here at the start, we have only a few aircraft in service, and accordingly no advantages of scale. Moreover, we will also deliver SAS's complete products to our customers, and not an LCC product. As we put more aircraft into service, our cost-efficiency will improve, and then we will have the best of both worlds: an efficient production platform and the SAS product. That will distinguish us from our competitors.

You've started an airline in less than a year. What was the most difficult task?

There have been many challenges in establishing an airline in such a short time. For example, the first aircraft from our supplier was delayed by more than one month. That made recruitment and training difficult to schedule.

One of the more positive challenges has been recruiting the team that will lead us forward, thanks to interest in all the disciplines being so great. SAS is an iconic brand that many people want to be part of — a part of something new and a little different, with a future in the SAS family.

What will the greatest challenges be going forward?

We have several challenges to face. Starting an airline was just the beginning! There are a large number of rules and regulations we have to follow. In addition, we have several employees who have just started and with whom we will be creating a shared culture. We've just gone from theory to reality in London. The next step is to receive more aircraft and start operations in Malaga. I have a fantastic team in Ireland, and with the support of SAS's 70 years of know-how, we will manage all challenges.

Safety is top priority at SAS. How do you work with safety, and what are the norms for our operations in London and Malaga?

We have recruited a team of specialists in their respective fields, where everyone has safety as their top priority. The safety standards of our operations will correspond to those in SAS's Scandinavian operations. In 2018, we will be IOSA accredited.



SECURE THE RIGHT CAPABILITIES

One of SAS's strategic areas is securing the right capabilities. Our employees are an important prerequisite for SAS's future — we share our customers' passion and interest for travel, which also drives our efforts to strengthen our offering. Our employees' commitment to our customers and to developing SAS has been crucial to SAS's historical success and is just as important going forward.



HOW WE CREATE THE RIGHT CONDITIONS FOR OUR EMPLOYEES

- Strengthening employee commitment through frequent surveys and targeted measures to increase employee satisfaction.
- Developing leadership by way of training courses, internal networks and mentor programs.
- Ensuring a supply of talent through mentoring, training courses and a focus on internal mobility.
- Creating an attractive workplace using improved tools, processes and strong leadership.



EMPLOYEES CREATE VALUE

Our employees are an important prerequisite for SAS's future. Commitment to our customers and to developing SAS has been crucial to SAS's historical success and is just as important going forward.

Those of us who work at SAS today share one thing in common: we will lead SAS into the future. We share our customers' passion and interest for travel, which also drives our efforts to strengthen our offering.

To secure the right skills in the short and long term, and to create a stimulating and rewarding workplace, we are working in a systematic and targeted manner on four priority areas: strengthening employee commitment, developing leadership, securing the right skills and making SAS an attractive employer.

A CHANGING ORGANIZATION

SAS is now in the implementation phase of our extensive efficiency enhancement program, which requires a great deal from the entire organization. Success will require a shared, structured method for change management and in that, taking into account the full range of stakeholders, including employees, trade unions and suppliers. In implementing this, we will focus on:

- *Communicative leadership.* Delegated responsibility and a mandate for communication and change, and taking decisions at the appropriate organizational level.
- *Clearer structures and processes.* For the purpose of securing a solid reporting structure with clear objectives.
- *Competence and ability to implement.* Secure the skills supply in the identified focus areas, for example, project management, digitalization, automation and business control, and improve succession and career planning. Moreover, we will promote a culture of accomplishment that helps increase employee motivation and commitment.

To create the right preconditions for implementing the structural measures, on July 1, 2017, we established a new organization with the following objectives:

- to ensure delivery of the efficiency measures until 2020;
- to increase internal transparency and ownership; and
- to create the preconditions for identifying new growth initiatives and broadening the revenue base.

As a result of the new organization, changes were made in SAS Group Management. On July 1, 2017, Annelie Nässén took up her position as the new Executive Vice President for Global Sales & Marketing and Karl Sandlund transitioned to the role as Executive Vice President for Commercial.

A new unit — SAS Growth Initiatives — was established, tasked with creating new revenue streams and new partnerships that will also strengthen SAS's core operations. The operations will be conducted in a separate unit, to promote entrepreneurship.

STRENGTHEN EMPLOYEE COMMITMENT

A culture marked by a high degree of commitment is important, as satisfied and motivated employees with inspiring managers create better customer experiences. That is why SAS works continually on strengthening employee commitment. During the year, we completed the implementation of &frankly, a tool for measuring and working with employee commitment. It creates opportunities for our employees to follow their own commitment over time, but managers and employees use it above all to continually take the temperature of the organization and to encourage good behavior that takes the team forward.

In January 2017, the winners of the 2016 SAS Awards were selected — an opportunity to showcase and celebrate good examples and role models at SAS. The categories were SAS Person, SAS Leader, SAS Team Achievement, SAS Lean Achievement and SAS Safety, which brings out different types of initiatives in organizational development.

DEVELOP LEADERSHIP

Leading for change requires confident managers with the right preconditions. SAS offers targeted efforts for managers and specialists where needed, and a number of networking and training opportunities were offered during the year.

In addition, we offer two mentoring programs, one of which is open to all employees and the other a senior program where mentees have Group Management as mentors. The program promotes networking, collaboration and professionalism.

DEVELOP COMPETENCE AND THE ABILITY TO IMPLEMENT

In 2017, a people review process was conducted for the third year running, in which SAS systematically analyzes future skills supply needs as well as existing competence and ability.

Important skills areas to strengthen in the future are project management and business control. A project office was established in 2017 and was tasked with ensuring that we have a high level of project competence as well as that we are creating a strong project culture and working in an integrated fashion on projects in different parts of SAS. A number of courses were also offered in order to build future competence in project management and control.





Both the new organization and SAS's efficiency enhancement programs aim at strengthening internal transparency and ownership in line functions. This places new and higher demands on SAS Business Control. The current organization was analyzed during the year with the aim of developing the Business Control function into a proactive business partner that purposefully contributes to developing SAS in a profitable manner.

Other important components identified are Contract Management: professionally managing and developing collaboration with our partners and suppliers in distribution, and understanding future distribution models as well as capacity and staffing planning in all sections of our operations.

Furthermore, SAS needs to improve its succession and career planning. The goal is for 80 percent of the senior positions to be filled internally. The share increased by 7 percentage points in 2017, but still stands under the long-term target.

In 2016, a mentoring program for new first officers was started. The aim was to strengthen a culture of learning and development, and to obtain an effective way of developing internal competence. The mentoring program has been very successful in increasing commitment and collaboration between new employees and mentors, and has therefore continued during 2017. Currently, we have around 30 mentors in Scandinavia.

Training in the Lean philosophy is important in our efforts to work in a structured and standardized manner, and it is an important skill linked to our efficiency program. Just over half of our managers have undergone a five-day training course on the subject, and 40 employees have been trained in the basics of Lean.

There are many personnel categories in SAS. Read more about a selection of these, and meet a few of our employees, on page 27.

SAS AS AN ATTRACTIVE WORKPLACE

Among its many distinctions in 2017, SAS was selected as one of Norway's most attractive employers among business students. We work proactively on becoming a better employer, which includes ensuring that we have a sound, sustainable workplace and also gradually introducing new digital tools and processes.

As a part of improving and supporting internal efficiency, this year we began work on the Make Work Easier project. Through new tools and applications, we are improving flexibility and communication as well as simplifying the workplace with increased automation.

For example, we launched SAS Insight — an app that enables employees to access news and information on the SAS intranet via mobile phones and iPads. This way, we ensure that all employee groups can acquaint themselves with internal communication, and digital services and functions. Moreover, in 2017 and 2018, SAS will transition to Microsoft Office 365, which will create new possibilities for SAS as a digital workplace.

During the year, we implemented SAS Employee Benefits — a platform for our employees to provide effective, integrated information on everything from wage statements to adjusted benefits.

In addition, at present we are developing individual development plans for all our salaried employees.

We are continuing our long-range work on reducing long-term sick leave. The goal of 4% was reached during the fiscal year. The work on reducing total sick leave has also yielded results. A marked reduction has taken place, primarily among flight crew groups, over the last year. Contributing factors include systematic support for managers and employees in connection with early detection of ill health in order to offer rehabilitation planning.

In the event of repeated short-term absences, health dialogues are conducted with employees; in the event of longer-term absences, continual support is offered in the rehabilitation process for a faster return to work.

SAS has zero tolerance for any breach of SAS's policies regarding alcohol and drugs. During the year, we started work on upgrading and coordinating our alcohol and drug policy at the Scandinavian level. The objective is that all employees, regardless of personnel category and workplace, will be covered by the same policy and process in order to prevent addiction problems and to offer remedial efforts.

We are also working continually to counteract all forms of harassment. This is regulated in our Code of Conduct, and web-based training in the Code is mandatory for all employees.

NEW COLLECTIVE AGREEMENTS

In 2017, new three-year collective agreements — with the possibility of cancellation after two years — were concluded with all cabin crew unions in Denmark and Sweden, and all pilot associations and with all ground services personnel at SAS's bases in Scandinavia. This will enable SAS and the unions to work jointly on enhancing cost effectiveness, where the focus is on adapting production according to the need for increased flexibility according to the seasonal fluctuations in customer demand. The goal is to find smarter, more efficient scheduling through an increased share of part-time solutions in flight operations.

EMPLOYEES IN FIGURES

	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Average number of employees	10,324	10,710
of whom women, %	39	39
of whom men, %	61	61
Sick leave, %	5.9	6.3
Employee commitment according to index	57	64



WE REPRESENT SAS!



MAGDALENE MBURU
HEAD OF IT & REVENUE,
GROUND HANDLING, NORWAY

Magdalene Mburu works at SAS Ground Handling Norway. She started at SAS Airport IT Tech in 1997 and since then has had varying roles in IT.

For me, SAS is distinguished by reliability, quality, refined simplicity and pride in a fantastic Scandinavian brand that is both well-known and international. I usually try to think of the overall picture and take decisions based on how they make life easier for our frequent travelers.

We have a culture that promotes personal development and enables people to progress within the company. Working in IT means that I have the benefit of being part of the digital revolution under way in SAS, whether that concerns automation, digitalization or development of new customized systems that directly benefit our frequent travelers.



MOGENS STOKHOLM NIELSEN
EXAMINATION AND DEVELOPMENT
MANAGER, TECHNICAL
COPENHAGEN

Mogens Stokholm Nielsen works at the technical base in Copenhagen; he has worked for SAS for 39 years. He started as an apprentice in technical operations, and has worked as a flight technician and technical instructor.

A large part of my work is training personnel from the technical division in safety. Over the last few years, we have focused on the behavior we want in our employees so that we can retain the high level of safety SAS has even when we're financially pressed.

What distinguishes being part of SAS is that you don't only work for SAS, you are SAS. When I'm on assignment outside the company, I'm met with respect for the work we do. SAS has a brand and a status that gives us a kind of seal of quality. And that makes me proud.



ELISABETH ARENTOFT
PURSER, STOCKHOLM

Lisa Arentoft is based out of Stockholm, and has been working for SAS since 1987. She has also worked in the company as a vendor and marketing coordinator.

SAS is distinguished by strong loyalty and a good work atmosphere. Everyone works hard to ensure our customers are happy, and we always try to solve the problems that arise as best we can.

An individualized operating environment and increased travel means increased demands on those of us in the cabin crew, but also demands on cooperation between personnel and customers, especially in connection with boarding. Since all of the cabin crew have been equipped with iPad minis, parts of our work have become simpler and enabled us to provide better service. SAS's efforts for an increased route network and improved product feels like an exciting forward investment that we are getting a positive response to.



NIKLAS MELIN
AIRCRAFT LOADER, ARLANDA

Niklas Melin works in baggage sorting at Stockholm Arlanda Airport. He has been working for SAS since 1989, in various ground service units.

Being part of SAS is being part of a giant puzzle — getting travelers on their way smoothly and safely. Increased travel means increased pressure on those of us in baggage handling, but we've come a really long way in being solution-oriented and helping one another. With hundreds of arrivals and departures every day, as well as any number of unexpected events like snowstorms, it's a question of having efficient basic processes for bags and aircraft.

Digitalization has meant significantly better aids for aspects of the job such as better supervision of baggage and of the transfer process, and it provides the opportunity to communicate with the customer about whether or not their baggage has been loaded.



“The biggest distinguishing aspect for me is that SAS personnel are passionate about always delivering the best possible experience in every situation to our customers.”

Tobias Jönsson
CEO, SAS Ground Handling Sweden



“As a pilot, I am part of the team on board, focused on delivering what our customers expect. In order of priority, these are the greatest: safety, punctuality, and the best service.”

Ole Simonsen
Pilot, Copenhagen

MORE SUSTAINABLE FLIGHT

For SAS, sustainable development means continual improvements in the areas of climate and the environment, as well as taking charge of social responsibility. Sustainable development also assumes continuously striving for sustainable profitability and financial growth. As an employer, and a purchaser and producer of infrastructure, SAS has a significant societal impact. At the same time, the airline industry has a significant climate and environmental impact, mainly from greenhouse gas emissions and airport noise. SAS's ambition is that the products and services offered will enable more sustainable societal development globally, with the smallest climate and environmental impact possible.

MORE EFFICIENT AERODYNAMICS

The majority of the aircraft used on longer distances have been equipped with winglets/sharklets. Depending on the distance, a reduction in fuel consumption can be realized.



RENEWAL OF THE AIRCRAFT FLEET CONTINUES

In 2016/2017, SAS introduced 11 brand-new A320neos. A number of new ATR72s and CRJ900s were also phased into service by SAS's long-term wet-lease operators. Over the same period, 20 older aircraft were taken out of service. Since its introduction in SAS, the A320neo has proved to be as efficient as expected, with a fuel reduction of up to 18–20% compared with the previous version of the A320.

MARKET-BASED EMPLOYMENT TERMS

SAS supports the ten principles of the UN Global Compact, requiring all employees working in or for SAS to have market-based employment terms where they are based geographically, that these are regulated in the agreement and that employees have the right to organize.

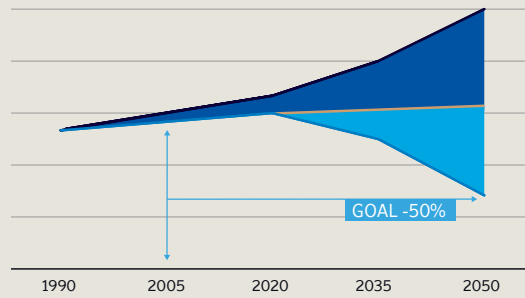
AN ATTRACTIVE WORKPLACE

SAS strives to be an attractive workplace, with committed and dedicated employees. SAS therefore placed greater focus in 2017 on employee commitment and introduced a flexible digital tool to measure employee commitment on a quarterly basis, and to provide managers and teams the opportunity to work with the results so that they are suited to their operations and challenges.

THE GLOBAL AIRLINE INDUSTRY'S 2050 ENVIRONMENTAL GOALS

The global airline industry is unified around the goal of reducing CO₂ emissions by 50% by 2050 compared with 2005. This goal will be realized through continued technological development, with a focus on aircraft and air traffic control. Additionally, large-scale production of renewable jet fuel is required. SAS's ambition is to exceed this goal.

- Emissions without efficiency enhancements
- Current technology including growth
- Airline industry's goal



GLOBAL GOALS FOR SUSTAINABLE DEVELOPMENT

SAS has identified the UN sustainable development goals that are the most essential for its operations. Based on analyses, the conclusion is that the goals: Gender Equality; Decent Work and Economic Growth; Responsible Consumption and Production; and Climate Action are the most relevant. SAS is pursuing activities in all these areas and will further adapt all its activities to these goals.

NEW INTERIORS

SAS has installed new interiors on all new aircraft introduced in 2016/2017 and on a growing number of existing short-haul aircraft. The interiors are characterized by a more modern feel, with better materials and lower weight. This lower weight enables fuel savings to be realized.

NEW FOOD CONCEPT

In 2016/2017, SAS introduced an updated food concept. Important changes include better ingredients, healthier alternatives, reduced resource use and more efficient waste management.



NEW TECHNOLOGY IN THE ENGINES

In the renewal of the aircraft fleet currently in progress, it is mainly the engines that are contributing to positive developments. They consume less fuel and generate less noise. One clear visual difference is that the circumference of the engines has increased.

RENEWABLES IN THE TANKS

For decades, SAS has been working to accelerate the commercialization of renewable jet fuel. In 2016/2017, SAS used just over 100 tonnes of renewable jet fuel. Jet fuels based on renewable sources can realize a reduction of approximately 80% in climate-changing carbon emissions compared with fossil-based jet fuels.

HIGHER ATTENDANCE RATES AND FEWER OCCUPATIONAL INJURIES

SAS is working actively and on a systematic basis to reduce the number of occupational injuries and to increase attendance rates.

SAS AS AN INVESTMENT

The airline industry is capital and personnel-intensive and often exposed to macro-economic impact, which makes it extremely demanding. A high level of price transparency between the different airlines' offerings contributes to fierce competition. Creating shareholder value requires optimizing utilization of resources and an attractive customer offering.

1 WELL-DEFINED STRATEGY

SAS focuses on people who travel frequently to, from and within Scandinavia. Focusing on this target group, we work with three strategic priority areas to strengthen competitiveness and to meet the challenges in the industry.



2 LEADING MARKET POSITION IN SCANDINAVIA

From a European perspective, SAS is a niche airline focusing on Scandinavia. For flights to, from and within Scandinavia, SAS has a strong market position with the most complete network. Together with Star Alliance and partners, we are in a position to offer a broad network with frequent departures. This means that SAS is often the first choice for frequent travelers. No other airline in Scandinavia has such a high level of preference among frequent travelers.



3 STRONG BRAND

SAS is one of Scandinavia's strongest and best-known brands. In 2017, SAS was ranked the strongest brand within the travel category in Sweden. In a survey by the Norwegian market research firm IPSOS, SAS was the company that had the fifth most positive overall impression in Norway. SAS was also awarded the title of best domestic and long-haul airline in 2017 in both Denmark and Sweden.



4 STRONG LOYALTY PROGRAM

EuroBonus is Scandinavia's largest travel-related loyalty program, and forms the core of our efforts to establish a closer relationship with our customers. EuroBonus has over 5 million members and approximately 100 partners, which — thanks to our updated digital platform — represents a valuable customer database and sets us apart from the competition. SAS also offers a program to reinforce loyalty among corporate customers — SAS Credits. Corporate-agreement customers account for just over a third of SAS's passenger revenue.



5 FOCUS ON CAPITAL EFFICIENCY

Airlines have become capital-intensive as a result of major investments in aircraft and engines, and this requires efficient capital management. In 2017, SAS introduced two financial targets that increase focus on optimizing its capital structure. Over the last few years, we have completed several transactions and structural changes that have increased capital efficiency through the purchase of Airbus A340s on expiring leases, as well as sale and leaseback of Airbus A330Es and Airbus A320neos. The capital structure surrounding each major investment is carefully assessed, and has been strengthened through the targets introduced.



6 ACTIVE SUSTAINABILITY INITIATIVES

Flights fulfill an important function in Scandinavia's infrastructure. However, given the climate and environmental impacts linked to fossil-based jet fuels, our main priority in terms of sustainability initiatives is to reduce climate impact from our airline operations. This will occur through increased energy efficiency (newer aircraft and continual efficiency enhancements in daily operations) and a transition to jet fuels based on renewable raw materials. This work has been integrated into SAS management systems and is ISO 14001 certified. Our target is to reduce our carbon emissions per passenger kilometer flown by 20% up through 2020, compared with 2010.



THE SHARE AND FINANCIAL INSTRUMENTS

SAS strives to provide transparent and relevant information to the capital market so that efficient trade can be conducted in SAS's financial instruments. These instruments are the common shares, listed on Nasdaq Stockholm with secondary listings in Copenhagen and Oslo, the preference shares listed on Nasdaq Stockholm, and an issued convertible bond.

RECAPITALIZATION

From 2017 to 2019, SAS has loan maturities totaling SEK 5 billion, of which SEK 3.7 billion are unsecured loans. In addition, the terms and conditions are changing for redemption and the dividend for SAS's preference shares. In all, this means that SAS has a considerable recapitalization need.

Current unsecured loans and SAS's preference shares were issued in a period when the company's financial position was weak. This has led to high financing costs for SAS.

The implemented efficiency enhancements have helped increase profitability as well as increase the capital market's confidence and interest in SAS. This created the preconditions for putting a financing plan into effect in November 2017. As a first step, a private placement of just under SEK 1.3 billion was carried out. The proceeds from the new issue and profits generated by operations will be used to begin the redemption of the preference shares. In November 2017, SAS also issued a new unsecured

bond of SEK 1.5 billion. In addition, SAS is investigating the possibility of using slots at London Heathrow airport as collateral for loan financing. The completed transactions reduce SAS's financing costs, and also create the preconditions for SAS to obtain better terms on future loan maturities as well as aircraft investments.

TREND FOR FINANCIAL INSTRUMENTS 2016/2017

The common share fell at the start of the fiscal year, but rose during the second half of the fiscal year. In total, the price of the common share rose 69% to SEK 25.9 during the fiscal year. Over the same period, the Nasdaq Stockholm OMX30 index rose 15.6%. SAS's preference shares declined 2% to SEK 543. The terms for redeeming preference shares will change as of February 2018 from SEK 600 to SEK 525.

The SAS convertible loan is traded on the Frankfurt stock exchange. The share price, in percent of the nominal amount, rose during the fiscal year from 89.6% to 114.7%.

INTERVIEW WITH GÖRAN JANSSON, CFO AND DEPUTY PRESIDENT

Questions from the capital market concerning SAS's financing and liquidity



At October 31, SAS had cash and cash equivalents and unutilized credit facilities of SEK 11.5 billion. Why does SAS have such high liquidity?
During the 2017–2019 period, SAS has major loan maturities and significant investments as well as engine maintenance needs. In addition, the terms for redeeming SAS's preference

shares are changing. In light of this, we have strategically constructed a cash position to be able to manage these cash flows. Moreover, since the financially critical years from 2009 to 2013, showing solid financial preparedness has provided assurance to suppliers and customers.

Would it not be more cost-effective for liquidity to be lower?

Lower liquidity would reduce our financing costs. The fact that an airline's liquidity largely consists of pre-paid flight tickets, however, should be taken into account. With the current liquidity, our customers know that their advance payments are "secure." In future, and since SAS's credit rating has recently been upgraded, my assessment is that we will better be able to optimize liquid assets.

During the year, SAS raised its goal for financial preparedness. Why?

This is linked to our increased production on long-distance and leisure routes. These journeys are booked and paid for much further in advance, compared with other flights. This leads to an increased unearned transportation revenue liability for us, which should be reflected in the increased liquidity reserve.

How does SAS invest its cash holdings?

We invest cash and cash equivalents with counterparties who have ratings of at least A from Standard & Poor's and Moody's, respectively.

Why did you conduct a private placement in November 2017?

We did this to create the scope to redeem preference shares, and thereby strengthen SAS's financial position over the long term and lower its financing costs. This in turn creates scope for dividends to holders of common shares. Since the credit market defines preference share capital as interest-bearing liabilities, this means that a reduction in preference share capital will also improve important key figures.

How much interest is there in SAS as a borrower?

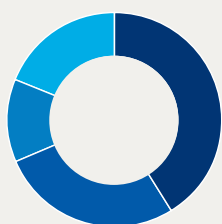
The capital market, both from a Scandinavian and an international perspective, has shown increased interest in SAS. As a consequence of our previous weak financial position, SAS has higher borrowing costs than what I consider to be long-term sustainable. It is gratifying, however, that the issue of a new bond in November lowers our annual interest expense by just over MSEK 55. By implementing efficiency enhancement measures, I expect that the financing costs will gradually decrease.

DISTRIBUTION OF SHAREHOLDERS AND CHANGES

At October 31, 2017, SAS had 51,596 holders of common shares and 7,991 preference shareholders. The number of individual shareholders totaled 58,865, which is a 9% decrease compared with the year-earlier period.

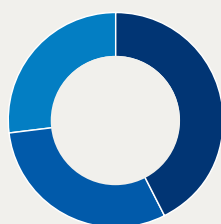
Holdings in Scandinavia totaled about 81%, with Sweden accounting for 40%, Denmark 28% and Norway 13% at October 31, 2017. Of the remaining holdings outside Scandinavia, totaling 19%, the number of holdings outside the EEA area was around 7%, of which the majority were registered in the US.

VOTING RIGHTS IN SAS, BY COUNTRY, OCTOBER 31, 2017

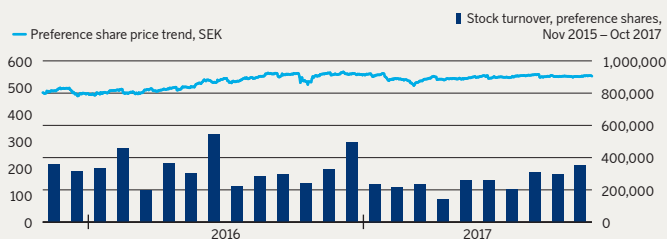


■ Sweden, 40%
■ Denmark, 28%
■ Norway, 13%
■ Others, 19%

BREAKDOWN OF SAS'S SHARE CAPITAL, BY VOTES, OCTOBER 31, 2017



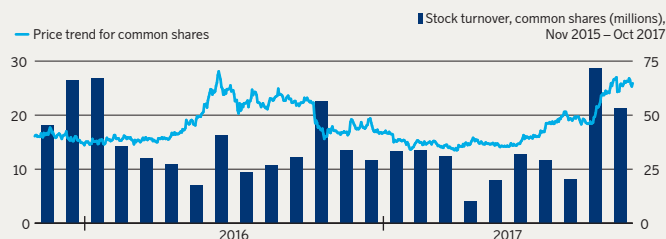
■ State ownership, 43%
■ Institutional ownership, 30-35%
■ Private ownership, 25-30%



DISTRIBUTION OF SHARES, COMMON AND PREFERENCE SHARES

	No. of common shares	Number of preference shares	Voting rights
Oct 31, 2017			
The Swedish Government	56,700,000	-	17.1%
The Danish Government	47,000,000	-	14.2%
The Norwegian Government	37,800,000	-	11.4%
Knut and Alice Wallenberg Foundation	24,855,960	-	7.5%
State Street Bank & Trust	4,672,217	1,489	1.4%
Försäkringsaktiebolaget Avanza Pension	3,741,862	446,585	1.1%
Ålandsbanken in the owners' stead	3,241,909	63,093	1.0%
Gerald Engström	3,300,000	-	1.0%
JPMC:Escrow German Resident Treaty	3,030,828	-	0.9%
Swedbank Försäkring	2,513,972	287,825	0.8%
JP Morgan Securities	2,785,771	4,042	0.8%
Banque de Luxembourg	2,595,304	-	0.8%
Vätterleden AB	2,103,437	-	0.6%
Morgan Stanley and Co	1,936,129	-	0.6%
Färna Invest AB	1,800,000	-	0.5%
Brymsanv re gclb re bny gcm client	1,773,374	-	0.5%
SEB Sverige expanderad	1,611,216	-	0.5%
SEB	1,567,289	8,687	0.5%
JP Morgan Bank Luxembourg	1,503,801	17,273	0.5%
Unionen	1,251,444	-	0.4%
Other shareholders	124,298,038	6,171,006	37.8%
Total	330,082,551	7,000,000	100.0%

Source: Euroclear, VP and VPS.



DISTRIBUTION OF SHARES, COMMON AND PREFERENCE SHARES

	No. of share-holders	No. of votes	% of share capital	% of all shareholders
Oct 31, 2017				
1-1,000	48,165	8,126,018	2.5%	81.8%
1,001-5,000	8,090	18,587,109	5.6%	13.7%
5,001-10,000	1,343	9,946,534	3.0%	2.3%
10,001-100,000	1,114	29,025,218	8.8%	1.9%
100,001-1,000,000	123	38,083,227	11.5%	0.2%
1,000,001-	30	217,684,304	65.8%	0.1%
Unknown shareholders		9,330,141	2.8%	0.0%
Total	58,865	330,782,551	100.0%	100.0%

Source: Euroclear, VP and VPS.

PREFERENCE SHARES AND COMMON SHARES TRADED PER EXCHANGE

	Value, MSEK		No. of shares, million	
	Nov-Oct 2016-2017	Nov-Oct 2015-2016	Nov-Oct 2016-2017	Nov-Oct 2015-2016
Common shares				
Stockholm	4,730	5,983	252	294
Copenhagen	2,433	3,269	134	155
Oslo	210	3,998	13	18
Total common shares	7,373	9,650	399	467
Preference shares				
Stockholm	1,766	2,080	3.3	3.9

Source: Nasdaq OMX Nordic.

CHANGE IN SHARE CAPITAL¹

Event	No. of new shares	Total no. of shares	Nominal value/share, SEK	Nominal share capital	
May 2001	Company registration	50,000	50,000	10	500,000
July 2001	Non-cash issue	155,272,395	155,322,395	10	1,553,223,950
August 2001	Non-cash issue	6,494,001	161,816,396	10	1,618,163,960
May 2002 ²	New share issue, common shares	2,683,604	164,500,000	10	1,645,000,000
April 2009	New share issue, common shares	2,303,000,000	2,467,500,000	2.5	6,168,750,000
April 2010	New share issue, common shares	7,402,500,000	9,870,000,000	0.67	6,612,900,000
June 2010	Reverse split, common shares	-	329,000,000	20.1	6,612,900,000
February 2014	New issue of preference shares	7,000,000	336,000,000	20.1	6,753,600,000
January 2016	Conversion of convertible bond	1,082,551	337,082,551	20.1	6,775,359,275
November 2017	New share issue, common shares	52,500,000	389,582,551	20.1	7,830,609,275

1) Before SAS AB was formed in May 2001, SAS was listed through SAS Danmark A/S, SAS Norge ASA and SAS Sverige AB.
2) Technical change in connection with consolidation to one common share.

ANNUAL REPORT 2016/2017

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REPORT BY THE BOARD OF DIRECTORS

SUMMARY OF 2016/2017

- Income before tax and nonrecurring items: MSEK 1,951 (939)
- Revenue for the year: MSEK 42,654 (39,459)
- The total number of passengers rose 3.4% and amounted to 30 million.
- Unit revenue (PASK) declined 1.9%¹
- Unit cost (CASK) decreased 3.6%²
- Income before tax was MSEK 1,725 (1,431)
- Net income for the year was MSEK 1,149 (1,321).

1) Currency adjusted. 2) Currency adjusted and excluding jet fuel.

The Board of Directors and the President of the Parent Company, SAS AB, hereby submit the annual report for SAS AB and the SAS Group for the 2016/2017 fiscal year (November 2016–October 2017). SAS AB is registered in Stockholm and the address of its head office is Frösundaviks allé 1, Solna, Stockholm, Sweden, and its Corporate Registration Number is 556606-8499. The company conducts airline operations in a Scandinavian and international network.

MARKET PERFORMANCE 2016/2017

Following high capacity growth in the Scandinavian market in 2015/2016, the growth rate was slower in 2016/2017. Measured in the number of seats offered, capacity to, from and within Scandinavia increased 2.3% during 2016/2017. Capacity growth was largest on routes between Scandinavia and Europe, as well as intercontinentally. The total number of passengers to, from, and within Scandinavia rose 4.5% during the fiscal year.

The number of passengers who traveled on SAS's scheduled routes increased 3.2%, totaling 28.6 million in 2016/2017. The largest increase was on the intercontinental routes, where passenger numbers increased around 10%. In 2016/2017, SAS received a full-year effect from the new intercontinental production to Los Angeles and Miami. In total, intercontinental capacity increased 10.9%. SAS expanded capacity on international routes within Europe and Scandinavia by 6.4%, primarily owing to increased production for leisure routes to/from Southern Europe. Traffic simultaneously increased 8.6% on the European and intra-Scandinavian routes. Domestic traffic trended stably and rose 3.2%. The trend was strongest in Sweden.

SAS's charter production grew 6.8% in the fiscal year, which resulted in the total number of charter passengers increasing 8% to almost 1.4 million. Growth depended above all on higher volumes during the spring and summer period.

During the fiscal year, the yield decreased 2.9% and unit revenue (PASK) declined 1.9%. The downturn was attributable to a 5% increase in average flight distances as well as to intense competition. At the same time, SAS's currency-adjusted unit cost excluding jet fuel sank 3.6%.

TRAFFIC TRENDS FOR SAS

SAS's scheduled traffic	2016/2017	2015/2016	Change
Number of passengers (000)	28,625	27,738	+3.2%
RPK, Revenue Passenger Kilometers (mill)	36,360	33,508	+8.5%
ASK, Available Seat Kilometers (mill)	48,303	44,956	+7.4%
Load factor	75.3%	74.5%	+0.7 ¹
Passenger yield (currency-adjusted), SEK	0.90	0.92	-2.9%
Currency-adjusted unit revenue, PASK, SEK	0.68	0.69	-1.9%

Geographic trends, scheduled traffic	2016/2017 vs. 2015/2016	
	RPK	ASK
Intercontinental	+10.8%	+10.9%
Europe/Intra-Scandinavia	+8.6%	+6.4%
Domestic	+3.2%	+3.2%

SAS charter traffic	2016/2017	2015/2016	Change
Number of passengers (000)	1,373	1,270	+8.0%
RPK, Revenue Passenger Kilometers (mill)	3,718	3,432	+8.3%
ASK, Available Seat Kilometers (mill)	3,914	3,665	+6.8%
Load factor	95.0%	93.6%	+1.3 ¹

Total traffic (scheduled and charter traffic) for SAS	2016/2017	2015/2016	Change
Number of passengers (000)	29,998	29,009	+3.4%
RPK, Revenue Passenger Kilometers (mill)	40,078	36,940	+8.5%
ASK, Available Seat Kilometers (mill)	52,217	48,620	+7.4%
Load factor	76.8%	76.0%	+0.8 ¹

1) percentage points

PUNCTUALITY AND REGULARITY

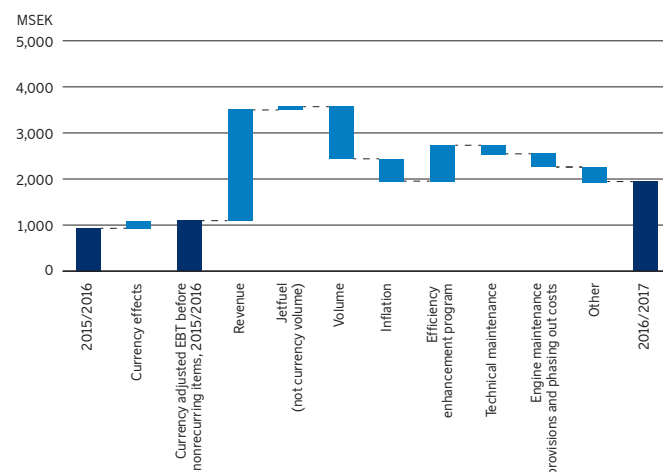
SAS achieved an arrival punctuality rating of 83.6% (84.3) in 2016/2017. Initiatives aimed at improving punctuality were begun during the fiscal year, and are part of SAS's efficiency program, which is being carried out in the 2017–2020 period. SAS was the sixth most punctual airline in Europe for the 2017 calendar year.

Regularity for SAS was 98.9% (98.4%). This improvement was due in part to improved internal processes in technical maintenance and to SAS canceling 1,000 flights in the preceding year in connection with a labor conflict in Sweden.

INCOME NOVEMBER 2016 –OCTOBER 2017

SAS's operating income was MSEK 2,187 (1,892) and income before tax and nonrecurring items totaled MSEK 1,951 (939). Income before tax amounted to MSEK 1,725 (1,431) and income after tax was MSEK 1,149 (1,321). The exchange-rate trend had a positive impact on operating income of MSEK 155. Ultimately, currency had a positive impact on income before tax of MSEK 167.

TREND FOR INCOME BEFORE TAX AND NONRECURRING ITEMS, FROM 2015/2016 TO 2016/2017



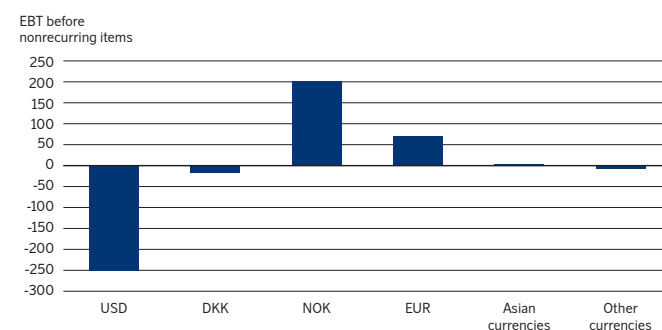
CURRENCY EFFECT BETWEEN YEARS

MSEK	Nov–Oct 2016–2017 vs. 2015–2016	Nov–Oct 2015–2016 vs. 2014–2015
Revenue	768	-572
Payroll expenses	-233	170
Other expenses	-538	-250
Translation of working capital	-327	-183
Income from hedging of commercial flows	485	-931
Operating income	155	-1,766
Net financial items	12	25
Income before tax	167	-1,741

CURRENCY EFFECTS ON NET INCOME FOR THE YEAR

MSEK	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Translation of working capital	239	-246
Income from hedging of commercial flows	-175	152
Operating income	64	-94
Currency effect on the Group's financial net debt	42	30
Income before tax	106	-64

IMPACT OF THE LARGEST CURRENCIES ON REVENUE/ OPERATING EXPENSES, 2016/2017



REVENUE

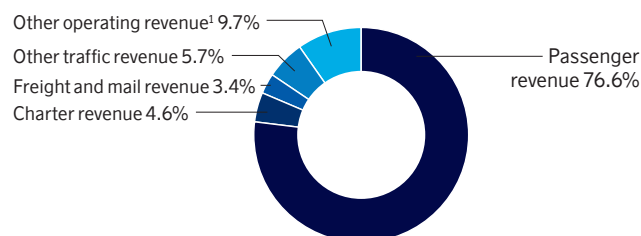
Revenue totaled MSEK 42,654 (39,459), see Note 2. After adjustment for currency effects, revenue was up MSEK 2,427 year-on-year. Currency-adjusted passenger revenue rose 5.4%. The increase was a result of higher scheduled capacity (ASK) which, based on the preceding year's circumstances, had a positive impact on revenue of MSEK 2,323. A higher load factor had a positive impact of MSEK 321. Revenue was negatively impacted in an amount of MSEK -977 as a result of the lower yield.

The currency-adjusted revenue from charter and cargo increased 7.9% and 15.0%, respectively. The main reason for these increases was higher volumes.

Other traffic revenue (currency-adjusted) rose MSEK 90. The increased sales of ancillary services had a positive effect on other traffic revenue.

Other operating revenue (currency-adjusted) climbed MSEK 336, mainly due to increased sales of EuroBonus points — primarily to credit card partners — and short-term letting of CRJ900s to CityJet.

REVENUE BREAKDOWN 2016/2017



¹) Ground handling services, technical maintenance, terminal and forwarding services, sales commission and fees, on-board sales and other operating revenue.

OPERATIONAL AND FINANCIAL EXPENSES

Payroll expenses amounted to MSEK -9,205 (-9,105). After adjustment for currency and restructuring costs, payroll expenses declined 1.9% year-on-year. The main reasons for the reduced payroll expenses were the outsourcing of the line stations in Norway last year, the sale of the subsidiary Cimber and efficiency enhancement measures.

Other operating expenses amounted to MSEK -27,489 (-24,552), see Note 4. The main reason for the increase was the European Commission's decision to fine SAS MEUR 70.2 for alleged breaches of competition rules. In the corresponding year-earlier period, the fine was repaid and recognized as a decrease in expenses.

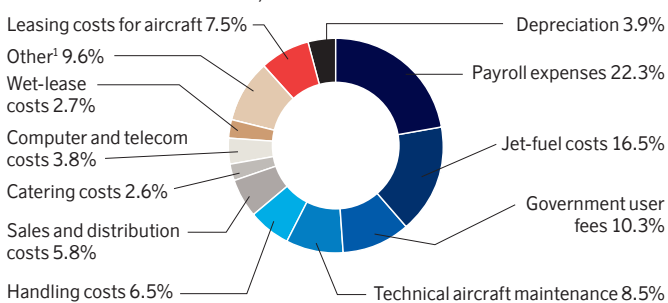
Jet-fuel costs amounted to MSEK -6,836 (-6,449). Adjusted for currency, jet-fuel costs increased 3.7%. The cost was negatively impacted in an amount of MSEK -967 due to a higher oil price, while currency had a negative impact of MSEK -140. Changes in hedge effects (including the effect of time value) had a positive impact of MSEK 1,061 year-on-year and volume, based on the preceding year's terms, had a negative impact on costs of MSEK -330. Handling costs (currency-adjusted) increased 6.8%, primarily due to the outsourcing of the line stations in Norway last year. Technical maintenance costs amounted to MSEK -3,515 (-3,292). After adjustments for currency and nonrecurring items, technical maintenance costs increased 0.9%. Wet-lease costs were MSEK -367 (currency-adjusted) higher year-on-year, and were mainly due to increased production.

During the period, the implementation of the ongoing restructuring program resulted in cost reductions of about MSEK 785.

Leasing costs for aircraft amounted to MSEK -3,116 (-2,840). Adjusted for currency effects, leasing costs increased 6.6%.

Financial revenue and expenses amounted to MSEK -463 (-462), of which net interest expense was MSEK -451 (-451).

COST BREAKDOWN FOR SAS, 2016/2017



1) Property costs, cost of handling passengers on the ground, freight and administration costs, etc.

NONRECURRING ITEMS

Total nonrecurring items for the period amounted to MSEK -226 (492). Of nonrecurring items, MSEK 317 (235) pertained to capital gains from aircraft transactions, MSEK 678 (0) pertained to the transfer of two slot pairs at London Heathrow, MSEK -672 (655) to the fine for alleged breaches of air cargo competition rules from 1999 through 2006, MSEK -21 (4) to the divestment of subsidiaries, MSEK -30 (0) to a contractual settlement in cargo activities and MSEK -110 (-42) to restructuring costs in ground operations. The impairment of intangible assets pertaining to system development costs amounted to MSEK -208 (0) and changed assessments for return requirements and future maintenance of landing gear, air frames and auxiliary power units (APUs) for leased aircraft totaled MSEK -180. In the corresponding year-earlier period, provisions were made of MSEK -160 that related to aircraft, MSEK -219 for indirect taxes and MSEK 30 pertained to a capital gain on property. The corresponding year-earlier period was also impacted by impairments of MSEK -11. The positive figure for the previous year, MSEK 655 as shown above, pertained to the repayment of the MEUR 70.2 fine and the cost for the year just ended of MSEK 672 pertains to the same issue and a new judgment that SAS has appealed.

BALANCE SHEET AND FINANCIAL POSITION

ASSETS

Intangible and tangible fixed assets decreased MSEK 845 during the fiscal year. Change for the period included investments of MSEK 7,315, amortization and depreciation of MSEK -1,635, divestments of MSEK -6,292, and other and currency effects of MSEK -233. Investments during the period included delivery payments for 11 new Airbus A320neos that were immediately divested on the basis of a sale and leaseback agreement and the acquisition of eight Boeing 737s, one Airbus A340 and one Airbus A319 that were previously under operating leases. Other aircraft investments comprised capitalized expenditures for engine maintenance, modifications, spare parts and advance payments to Airbus. Aside from the sale and leaseback of the 11 Airbus A320neos, divestments also included a spare engine acquired during the year as well four Boeing 737s. Moreover, 12 Bombardier CRJ900s were sold.

Financial fixed assets increased MSEK 1,778. The increase was mainly due to actuarial gains from defined-benefit pension plans. Current receivables decreased MSEK 607, which was mainly attributable to interim receivables and other current receivables.

Cash and cash equivalents were MSEK 8,836 (8,370) at October 31, 2017. Unutilized contracted credit facilities amounted to MSEK 2,700 (3,567). Financial preparedness was 37% (41%) of SAS's fixed costs.

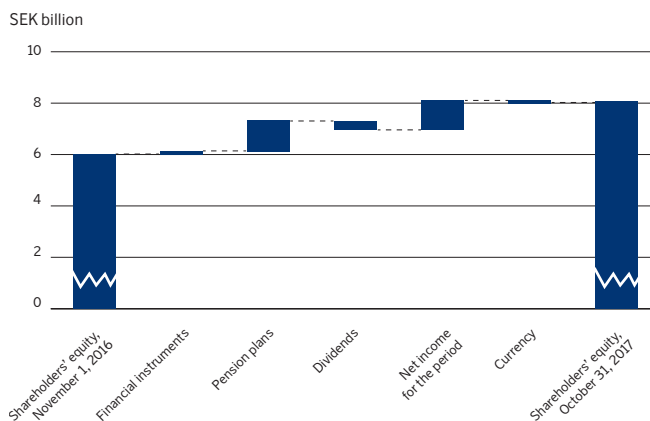
SHAREHOLDERS' EQUITY AND LIABILITIES

Shareholders' equity increased MSEK 2,032. The increase was due to net income for the year of MSEK 1,149, dividends of MSEK -350, and the change in other comprehensive income, which comprised translation effects for foreign subsidiaries of MSEK -124, positive effects from hedging reserves of MSEK 147 and actuarial gains on defined-benefit pension plans, net of tax, of MSEK 1,210.

Long-term liabilities decreased MSEK 459. The change included new borrowings and reclassifications to and from current liabilities.

Current liabilities decreased MSEK 772. The change was due to reclassification to and from long-term debt, amortization, lower values on derivatives and normal variations in operating liabilities.

DEVELOPMENT OF SHAREHOLDERS' EQUITY 2016/2017



INTEREST-BEARING LIABILITIES

Interest-bearing liabilities declined MSEK 1,305 compared with October 31, 2016 and amounted to MSEK 8,575 on the closing date. New loans and amortization for the period were MSEK 2,385 and MSEK 3,183 respectively. The change in gross debt from October 31, 2016 included a positive trend in the market value of financial derivatives, which reduced liabilities by MSEK 149. A positive effect from currency revaluations reduced liabilities by MSEK 411. In 2014, SAS issued a convertible bond, which was valued at MSEK 1,521 on the closing date.

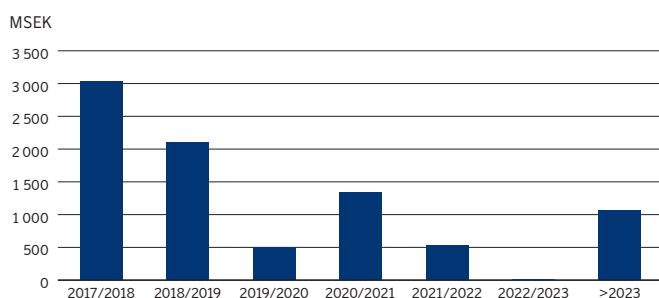
Current interest-bearing liabilities totaled MSEK 3,034 (2,147) of the interest-bearing liabilities and comprised both borrowings that mature within one year of MSEK 2,868 and accrued interest and financial derivatives of MSEK 166. Long-term liabilities totaled MSEK 5,541 (7,733) and consisted of subordinated loans, bonds and other loans.

The average fixed-interest period for gross financial debt is governed by SAS's financial policy and has a target tenor of 2 years. The average fixed-interest period was 2.2 years as of October 2017.

BREAKDOWN OF SAS'S INTEREST-BEARING LIABILITIES, OCTOBER 31, 2017

Liability	Note	MSEK
Subordinated loans	24	1,067
Bonds	25	2,470
Convertible bond	26	1,521
Finance leases	26	1,534
Utilized facilities	26, 27	1,708
Other loans	26	109
Other financial items	29	166
Total		8,575

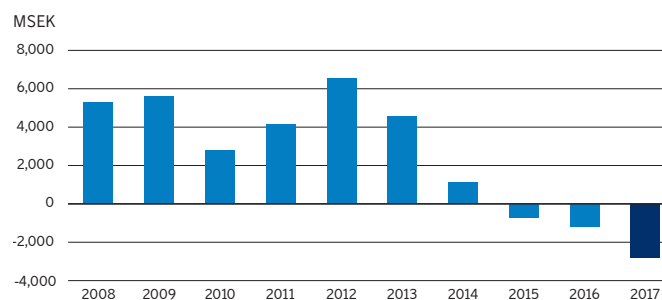
REPAYMENTS OF INTEREST-BEARING LIABILITIES, OCTOBER 31, 2017



FINANCIAL NET DEBT/RECEIVABLES

Net financial receivables increased MSEK 1,633 compared with October 31, 2016 and amounted to MSEK 2,799 on the closing date. The increase was mainly due to positive cash flow from operating activities of MSEK 2,443. However, net financial receivables were negatively impacted by the preference share dividend and pension payments of MSEK 546 on defined-benefit pension plans.

FINANCIAL NET DEBT



GEARING

At October 31, 2017, the equity/assets ratio amounted to 25% (19%). The adjusted debt/equity ratio amounted to 2.28 (3.08). The adjusted financial net debt/EBITDAR ratio was 3.1x (3.2x). The adjusted ratios take capitalized leasing costs into account.

CREDIT RATING

SAS is rated by three credit-rating agencies: Moody's, Standard and Poor's and the Japanese agency, Rating and Investment Information Inc. (R&I). SAS's credit rating was upgraded in 2017.

SAS CREDIT RATING

	Rating	Outlook	Changed
Moody's	B1	Stable	November 2017
Rating and Investment information	B+	Stable	July 2017
Standard & Poor's	B+	Stable	November 2017

FINANCIAL TARGETS AND DIVIDEND POLICY

SAS's overriding goal is to create shareholder value. To reach this goal, SAS pursues three strategic priorities to meet trends and industry developments, to ensure competitiveness and to provide the prerequisites for long-term sustainable profitability.

SAS operates in a capital-intensive sector that requires optimization of the capital structure to create shareholder value. In light of this, and in order to create a clear objective, SAS introduced two new financial targets in 2016/2017 linked to SAS's profitability and gearing. The targets take into account total capital at SAS. At the same time, SAS updated its financial preparedness target.

SAS'S FINANCIAL TARGETS ARE:

- Return on invested capital (ROIC): to exceed 12% measured over a business cycle.
- Adjusted financial net debt/EBITDAR: to be a multiple of less than three (3x).
- Financial preparedness: cash and cash equivalents and available credit facilities must exceed 25% of SAS's annual fixed costs.

The ROIC target corresponds with the capital markets' and SAS's internal assessment of SAS's weighted average cost of capital (WACC). This is also linked to SAS's dividend policy.

The gearing target — the adjusted financial net debt/EBITDAR is a key ratio used by credit rating agencies and banks for assessing creditworthiness and includes the value of leased aircraft. The aim of maintaining a ratio with a multiple of less than three (3x) is aligned with SAS's ambition of improving the financial position and credit rating, and thereby lowering financing costs.

During the fiscal year, SAS also raised the financial preparedness target from 20% to 25% of annual fixed costs. The reason for the above is SAS's increased production on long-haul routes and leisure routes, where the proportion of advance bookings is larger. This leads to an increase in obligations to customers for SAS, which should be reflected in the liquidity reserve.

Considerable uncertainty continues in the macro environment with regard to exchange-rate trends, jet-fuel prices and changes within the European airline industry, with continued intense competition, which means that SAS is not setting a date for reaching these targets. In conjunction with the transition to IFRS 16 from the 2019/2020 fiscal year, SAS will review the targets to ensure their continued relevance.

CALCULATION OF ROIC

	October 2017
MSEK	
EBIT, 12 months	2,187
33% of aircraft leasing costs ¹ , 12 months	1,028
33% of aircraft leasing revenue ¹ , 12 months	-28
Adjusted EBIT	3,187
Average shareholders' equity	6,268
Average financial net debt ²	-1,765
Capitalized leasing costs (×7), average	20,385
Invested capital	24,888
ROIC	12.8%

CALCULATION OF ADJUSTED FINANCIAL NET DEBT/EBITDAR

MSEK	
Average financial net debt ²	-1,765
Capitalized leasing costs (×7), average	20,385
Total	18,620
EBITDAR, 12 months	5,960
Adjusted financial net debt/EBITDAR	3.1x

CALCULATION OF FINANCIAL PREPAREDNESS

MSEK	
Cash and cash equivalents	8,836
Receivables, other financial institutions	-846
Unutilized credit facilities	2,700
Total	10,690
Total operating expenses	39,810
Jet-fuel costs	-6,836
Government user fees	-4,262
Total fixed costs	28,712
Financial preparedness	37%

DIVIDEND POLICY

SAS AB has two share classes listed. Dividends require a resolution by a shareholders' meeting, and that SAS AB has distributable earnings. The Group's earnings, expected performance, financial position, investment requirements and relevant economic conditions should also be taken into account. The dividend policy endeavors to achieve long-term sustainable dividends.

Common shares

Dividends to holders of common shares can be paid from value-creation whereby SAS's return on invested capital exceeds the WACC. The dividend should take into account any restrictions applying to the Group's financial instruments³.

Preference shares

SAS is to pay dividends to holders of preference shares of SEK 50 per year, with a quarterly payment of SEK 12.50 per preference share until the payment date for the preference share dividend immediately following the record date of February 5, 2019, after which the annual preferential right to a dividend increases by an amount corresponding to 1% of the subscription price per preference share and year until the payment date for preference share dividends immediately after the record date of February 5, 2023. Thereafter, the annual preferential right to a preference-share dividend totals an amount corresponding to SEK 50 plus an additional amount equivalent to 5% of the subscription price. In all cases, dividend payments are evenly allocated over the year in the form of quarterly payments.

FINANCING AND CAPITAL MANAGEMENT

FINANCING

SAS can use bank loans, bonds, convertible bonds, subordinated loans, export credits and leasing as sources of financing. New loans raised amounted to MSEK 2,385 (1,093), divided into secured loans of MSEK 2,012 and borrowing of MEUR 40 under the EMTN program.

INVESTED CAPITAL

As a natural consequence of the introduction of SAS's financial targets, which take SAS's total capital into account, the company has increased focus on its capital structure. At October 31, 2017, invested capital totaled MSEK 24,888.

The majority of the invested capital comprised aircraft and engines, which represent the bulk of SAS's invested capital. In connection with aircraft transactions, the financing method is a very important factor that is taken into account together with residual value risks and financing costs.

AIRCRAFT FLEET

SAS has simplified its aircraft fleet considerably over the last few years; today, it has three aircraft types under SAS's own traffic license. The aircraft fleet consists of Boeing 737 NGs, the Airbus A320 family and Airbus A330/A340s. In addition, SAS wet-leases 33 aircraft through strategic business partners.

The aircraft fleet is SAS's largest tangible asset. At October 31, 2017, SAS's aircraft fleet and engines represented 24% of the company's recognized assets.

1) To ensure the aircraft financing form does not affect the outcome of ROIC, a standard 33% of the aircraft leasing costs/revenues are added to the reported operating income (EBIT).

2) At present, SAS has a positive net financial position.

3) At October 31, 2017, SAS has two financial instruments issued that limit dividend rights for holders of SAS common shares. SAS's bond of SEK 1.5 billion that matures in November 2017 stipulates that no dividends may be paid to holders of common shares if SAS's equity/assets ratio is less than 35%. According to the conditions of the preference shares, dividends are not paid to holders of common shares if the preference share capital exceeds 50% of the recognized shareholders' equity. Full dividends must also have been paid to preference shareholders. On November 17, 2017, SAS issued a SEK 1.5 billion unsecured bond. The bond stipulates that dividends to shareholders may not exceed 50% of net income for the year, but does not apply to preference shares or other types of financial products or instruments. No dividend may be distributed by SAS in contravention of the bond terms.

SAS depreciates directly-owned aircraft over 20 years utilizing a residual value of 10%, excluding aircraft engines. Aircraft engines are depreciated over eight years. Maintenance of leased engines is set off on an ongoing basis related to use, whereas maintenance of owned engines is capitalized and depreciated. Passenger aircraft are generally used for 20 to 25 years in commercial passenger traffic but aircraft that are maintained can operate for substantially longer periods. There are still items of value in an aircraft after it has been taken out of service, for example engines and spare parts.

FINANCING OF AIRCRAFT ORDERS

At October 31, 2017, SAS had aircraft orders for 18 Airbus A320neos and eight Airbus A350-900s for delivery up through 2021. In financing aircraft, SAS uses a combination of operating leases and financial leases, as well as secured bank loans and credit facilities. SAS aims to maintain a balance between owned and leased aircraft based on a cost, risk and flexibility perspective. SAS intends to utilize a mix of bank loans and bank facilities to finance owned aircraft. When leasing, which means sale and leaseback agreements, aircraft are sold on delivery and leased back over a period of 5–12 years.

Of the remaining aircraft order for 18 Airbus A320neos, SAS has financed eight aircraft through sale and leaseback. In addition, SAS has begun financing the remaining ten Airbus A320neos and the eight Airbus A350s.

SAS also has five CRJ900s on wet-lease order. Aircraft operated on a wet-lease basis require no direct investment, and instead entail a contractual undertaking, whereby SAS pays a variable cost per production hour over a guaranteed production volume. SAS currently has 33 aircraft on wet-lease contracts. The contracts expire according to the table below.

AIRCRAFT ON FIRM ORDER 2017–2022

	2017/ 2018	2018/ 2019	2019/ 2020	2020/ 2021
Airbus A320neo	11	7		
Airbus A350			3	5

List price per aircraft	MUSD
Airbus A320neo	108
Airbus A350	311

At October 31, 2017, SAS's contracted future purchase commitments for aircraft orders with delivery in the 2017–2021 period totaled MUSD 1,931.

CONTRACTED OPERATIONALLY AND FINANCIALLY LEASED AIRCRAFT INCL. MATURITY PROFILES

	2017/ 2018	2018/ 2019	2019/ 2020	2020/ 2021	2021/ 2022	2022/ 2023>
Maturing operational leases, aircraft	27	18	7	10	3	18
Wet-leased aircraft, maturity	0	1	4	1	12	15
Aircraft leasing commitments, MSEK	2,837	2,497	2,219	1,911	1,646	4,425
Finance leases, aircraft, MSEK	163	169	174	763	53	0

Present value of lease commitments at different discount rates, aircraft

Discount rate	5%	6%	7%
Present value of contracted lease commitments, aircraft, October 31, 2017, MSEK	13,048	12,625	12,224

FINANCING OF PRE-DELIVERY PAYMENTS FOR AIRCRAFT

Airlines make prepayments before delivery. In addition to payment in conjunction with placing the order, pre-delivery payments (PDPs) normally commence when production of the aircraft starts about two years prior to delivery.

SAS has signed a PDP facility pertaining to five Airbus A320neos, which will be delivered in 2017–2018. The loan made available under the facility is to be repaid on delivery of the aircraft to SAS.

With the current financial preparedness, which exceeds the target, SAS has chosen not to conclude any additional PDP financing for SAS's aircraft order.

FLEXIBILITY IN THE AIRCRAFT FLEET

Through a combination of ownership, and operational and wet-leased aircraft, the aim is to have high flexibility regarding the return of aircraft. This is important, as the airline industry is exposed to several macro-economic events that could rapidly have a negative effect on demand. SAS has 45 aircraft on operational lease agreements that could be returned to the owners over the next two years. They represent 28% of SAS's total aircraft fleet.

THE SAS AIRCRAFT FLEET AT OCTOBER 31, 2017

SAS aircraft in service	Age	Owned	Leased	Total	Purchase orders	Lease orders
Airbus A330/A340/A350	12.4	10	6	16	8	
Airbus A319/A320/A321	8.5	9	27	36	18	
Boeing 737NG	14.3	24	49	73		
Total	12.4	43	82	125	26	0

Aircraft in service under a traffic license other than SAS's (SK)	Age	Owned	Wet-leased	Total	On wet lease order
Bombardier CRJ900	2.8		24	24	5
ATR-72	2.6		9	9	
Total	2.7	0	33	33	5

Total SAS in-service aircraft fleet	Age	Owned	Leased	Total	Purchase orders	On wet lease order
Total	10.4	43	115	158	26	5

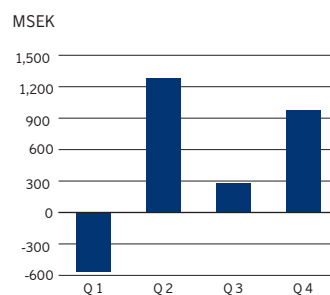
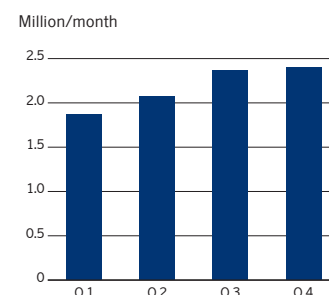
Aircraft to be phased out	Age	Owned	Leased	Total	Leased out	Parked
Bombardier Q400	9.8		1	1	1	
Total	9.8	0	1	1	1	0

SEASONAL EFFECTS AND CASH-FLOW OPTIMIZATION

SAS analyzes balance-sheet items and operating trends to optimize cash flow with the aim of attaining the lowest possible funding cost within the framework of SAS's financial policy. As a result of operating liabilities exceeding current assets, working capital amounted to MSEK -12,263 (-11,274) at October 31, 2017, representing a year-on-year improvement of MSEK 989. This is due primarily to SAS's deferred tax assets during the year having decreased by MSEK 996 as a result of positive earnings and positive trends in pension assets.

Cash flow from operating activities in 2016/2017 amounted to MSEK 2,443 (3,663). The year-on-year deterioration was mainly due to the payment of fines totaling MSEK 672 as a consequence of the European Commission's ruling on several airlines regarding an alleged global air cargo cartel.

Cash flow from operating activities follows clear seasonal trends. Cash flow is strongest in the second and fourth quarters, which coincides with high passenger volumes and a higher proportion of advance bookings. The share of advance bookings is highest in the January to May period ahead of the holiday period and in the September to October period. Since passenger revenue is recognized when SAS or another airline provides the transportation, this means that seasonal variations impact cash flow and earnings differently. Accordingly, earnings are strongest in the third and fourth quarters (May to July and August to October), which is when traffic volumes are highest.

SEASONAL VARIATIONS IN SAS'S CASH FLOW FROM OPERATING ACTIVITIES¹**SEASONAL VARIATIONS IN THE NUMBER OF PASSENGERS TRANSPORTED¹**

¹)Relates to the average from 2010-2017.

LEGAL ISSUES

The European Commission's decision in November 2010 found SAS and many other airlines guilty of alleged participation in a global air cargo cartel in the 1999–2006 period and ordered SAS to pay a fine of MEUR 70.2. SAS appealed the decision in January 2011 and in December 2015, the General Court of the European Court of Justice annulled the European Commission's decision including the MEUR 70.2 fine. The CJEU's ruling entered into force and the MEUR 70.2 fine was repaid to SAS at the beginning of March 2016. The European Commission took a new decision on the same issue in March 2017 and again imposed fines on SAS and many other airlines for alleged participation in a global air cargo cartel in the 1999–2006 period. The fine of MEUR 70.2 was the same as that imposed under the 2010 decision. The fine was recognized as a nonrecurring item by SAS in its Q2 earnings for the 2016/2017 fiscal year. SAS has appealed the European Commission's decision. The appeal process could take several years.

As a consequence of the European Commission's decision in the cargo investigation in November 2010 and the renewal of that decision in March 2017, SAS and other airlines fined by the Commission are involved in various civil lawsuits initiated by cargo customers in countries including the UK, the Netherlands and Norway. SAS contests its responsibility in all of these legal processes. Unfavorable outcomes in these disputes could have a significantly negative financial impact on SAS. Further lawsuits by cargo customers cannot be ruled out. No provisions have been made.

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

A large number of former cabin crew of SAS in Denmark are pursuing a class action against SAS at a Danish court, demanding additional payments from SAS to the Pension Improvements Fund for Cabin Crew (the CAU fund) citing that the CAU fund is a defined-benefit supplementary plan. The City Court of Copenhagen, in a judgment in December 2016, rejected the cabin crew's demand for further payments into the CAU fund by SAS. The cabin crew appealed the judgment in January 2017.

OTHER DISPUTES

In addition to the above, the labor unions are pursuing some 20 claims against SAS in Denmark, Norway and Sweden for smaller amounts, which mainly pertain to interpretation of labor legislation and collective agreements. SAS contests the claims of the labor unions in all of these legal processes.

RISK MANAGEMENT

Risk area	Risk	Risk level	Risk control measures 2016/2017
1 MARKET RISKS	1.1 Macro-economic trend	●	Continual adaptation of SAS's capacity offering and production.
	1.2 Market and competition trends	●	Implementation of SAS's streamlining program and a more flexible production model.
2 EMPLOYEE RISKS	2.1 Right skills	●	People reviews and successor identification.
	2.2 Processes and systems	●	Follow-up of low and high-performing individuals. Documentation of internal processes.
	2.3 Commitment	●	Strengthened leadership and increased internal transparency.
	2.4 Strikes	●	Strengthen the dialogue to increase consensus with the unions. Extension of several collective agreements to 2019/2020.
3 OPERATING RISKS	3.1 Safety activities	●	Continuous internal monitoring and reporting to the Board.
	3.2 Suppliers	●	During 2017, SAS has focused on closer collaboration with strategic suppliers, as well as monitored quality levels and efficiency. The number of suppliers has decreased 19%.
	3.3 Competitive costs and efficiency	●	SAS has a cost differential compared with newly-started competitors. The efficiency enhancement program was doubled during 2016/2017 from SEK 1.5 billion to SEK 3.0 billion, with effect in the 2017–2020 period.
4 SUSTAINABILITY RISKS	4.1 Environmental directives and requirements	●	Structured environmental work certified under ISO 14001 and containing measures for improving climate and environmental performance, and ensured observance of applicable laws and regulations.
	4.2 Anticorruption	●	Implementation of a training program for employee groups at the greatest risk of corruption.
	4.3 Human rights	●	Ongoing requirements updates and monitoring of subcontractors.
5 LEGAL AND POLITICAL	5.1 Political and regulatory risks	●	SAS conducts active dialogues with political systems and industry organizations (IATA) to obtain early information about regulatory changes and to influence decisions. Together with the industry, SAS has informed about the negative consequences of introducing an aviation tax in Sweden.
	5.2 Legal and insurance risks	●	Development of policies and training to ensure compliance with various rules and laws. Continual monitoring of laws and policies. Legal counsel and participation in contract processes for minimizing contractual risk. Securing complete insurance protection of operations and employees.
6 FINANCIAL RISKS	6.1 Liquidity risk and refinancing	●	Follow-up and forecasting financial preparedness. Financing of the remaining 10 Airbus A320neos and eight Airbus A350s has begun. Continuous discussions with banks and financiers aimed at managing maturing borrowings and leases.
	6.2 Jet-fuel price and emission rights	●	Jet-fuel hedging in line with SAS's Financial Policy and monitoring the jet-fuel price trend.
	6.3 Exchange rates	●	Currency hedging in line with SAS's Financial Policy and monitoring the currency market.
	6.4 Interest rates	●	Fixing rates in line with SAS's Financial Policy and monitoring the interest-rate market.
	6.5 Counterparty losses	●	SAS's counterparty risks are managed in line with SAS's Financial Policy.
7 IT	7.1 IT	●	Continual improvement of incidents and problem-handling procedures. Focus in 2017 on reducing IT problems that affect the SAS website, planning system, and management of cyber attacks
8 OTHER EVENTS	8.1 Extraordinary events	●	Increase cost flexibility to reduce costs in the case of reduced demand.
	8.2 Brand and reputation	●	Monitoring information pertaining to SAS.

● Low risk ● Medium risk ● High risk

The underlying objective of risk management is to create the optimal preconditions for growing value for shareholders and other stakeholders. All organizations are exposed to risks and uncertainties, which entail both risks and opportunities. SAS is exposed to a large number of general and more company-specific risks that can impact operations both negatively and positively.

Risk management at SAS is about positioning SAS in relation to, known and unknown, possible events with the aim of minimizing the potential negative effects should an unexpected event occur. Overall risks are monitored and identified centrally and

followed-up through policies that aim to control the risks. Flight safety is always top priority at SAS.

Value is maximized for shareholders and other stakeholders in SAS, when strategies, goals and their strategic priorities are set to ensure an optimal balance is reached in terms of growth, profitability and their related risks, as well as that resources are used efficiently and sustainably. Accordingly, risk management and risk assessment are of fundamental importance for ensuring SAS's long-term sustainable profitability.

1. MARKET RISKS

1.1 MACRO-ECONOMIC TREND

Demand in the airline industry is correlated to trends for economic growth and exports. SAS's primary operations are located in Scandinavia and about 70% of passenger revenue stems from Scandinavia. No single country accounts for more than 30% of SAS's passenger revenue, which limits SAS's exposure to individual countries. As a region, however, demand in Scandinavia is crucial for SAS. Over the past few years, the Scandinavian economies have been more stable than other parts of Europe, which has contributed to a positive trend in the demand for flights. According to the OECD, real GDP is estimated to increase during 2017 by just over 2% in Denmark and Norway, and 3% in Sweden. SAS's exposure to events in individual markets can be partly offset by the flexibility in the company's aircraft fleet through the use of smaller aircraft.

1.2 MARKET AND COMPETITION TRENDS

The airline industry is subject to intense competition from new companies that enter the market and existing airlines that can easily reprioritize capacity to Scandinavia. Changed customer behavior, and increasing numbers of LCCs and existing airlines moving capacity to SAS's home market, may lead to intensifying competition.

After high growth in capacity in the Scandinavian market in 2015/2016, the rate of increase sank during 2016/2017, and measured in number of seats offered, capacity to, from, and within Scandinavia increased 2.3% during 2016/2017.

To meet, and prepare itself in relation to changed competition, SAS is also streamlining its operational platform and differentiating the product offering with the aim of strengthening competitiveness. For further information see pages 14–23.

OPERATIONAL AND FINANCIAL SENSITIVITY ANALYSIS BASED ON OUT-COME FOR 2016/2017

	Operating income, MSEK
Airline operations	
RPK, ±1%	±280
Load factor, ±1%	±360
Passenger revenue per RPK or ASK (yield & PASK), ±1%	±330
Unit cost (CASK), ±1%	±360
Jet-fuel price, ±1%	±68

2. EMPLOYEE RISKS

2.1 RIGHT SKILLS

Both the airline industry as a whole and SAS in particular are undergoing major structural changes, which set new requirements for the organization and its compiled competence. For example, SAS has gone from conducting the majority of operations itself to an increased degree of sourcing and developing services together with business partners where this is relevant. Increasing digitalization is also setting new demands on organization, management, and competence. SAS actively promotes access to the right skills and resources, and utilizes processes and systems to leverage internal resources and to identify any faults.

To ensure efficient succession, the senior managers have identified one or two internal successors for 63% of all positions, which is an increase. With time, the aim is secure succession to 80% with internal successors and to 20% through actively seeking external competence. During the year, a recruitment team was also established to ensure that SAS has dedicated resources, with the relevant

competence, that can best manage SAS's skills needs and simultaneously ensure that our employees develop and are matched to new positions and opportunities.

2.2 PROCESSES AND SYSTEMS

SAS uses systems and processes for efficient personnel management and to support securing skills needs and the succession order. SAS is gradually implementing Lean principles in its processes with clear action plans based on shared targets, which are categorized under SQDEC (Safety, Quality, Delivery, Employees and Cost), and which can be followed up across the entire operations. SAS conducts a yearly analysis of internal skills with the aim of leveraging the greatest talents and making adjustments where improvements are needed. The annual process has identified talents and many employees have over time been given new positions or increased responsibility.

2.3 COMMITMENT

SAS continuously measures employee commitment and motivation. In 2017, SAS introduced a new measurement system for employee commitment, which enables SAS to check employee commitment significantly more frequently. Any problems, can thus be identified earlier and taken care of, and local teams can work on issues and activities that are relevant to them, and directly affect their work situation, in order to strengthen commitment. Average employee commitment totaled 57 in 2017, which is 7 percentage points lower year-on-year. The results vary between employee groups, and the trend in 2017 was primarily negative among flight crew, while other employee groups noted stable or rising commitment. SAS can clearly see how business-strategic decisions affect employees differently, and thus implement the correct improvement measures more quickly.

To strengthen commitment and professionalism, SAS is investing in its employees through internal mentor and development programs such as GROW, Forum 50, Learning Lunch and the SAS Awards, where exceptional performance is rewarded. Internal communication and dialogue with flight crew have been strengthened through managers receiving communicative leadership training. In addition, weekly dialogue meetings at the bases have been introduced.

SAS uses clear targets and employee influence in performance development, which aims to develop employee commitment and future leaders, and to boost SAS's continued attractiveness as an employer.

2.4 STRIKES

Historically, the airline industry has been severely affected by labor market disputes. Through transparent and open dialogue with all labor unions and groups of employees, SAS endeavors to increase understanding of the shared challenges and the need to secure more efficient operations and, thereby, a safe and stimulating work environment.

In connection with negotiations on new collective agreements, the pilot associations in Norway sent a small number of pilots out on strike, and also gave notice of a strike that would affect the bulk of traffic to, from, and within Norway. This resulted in a number of canceled flights in mid-September 2017. SAS operations in 2017 were also affected by unlawful work stoppages in Copenhagen, with limited consequences for traffic and customers.

SAS and other airlines' activities were affected on a number of other occasions by small local labor conflicts in other countries.

3. OPERATING RISKS

3.1 SAFETY ACTIVITIES

SAS's safety work has top priority and is part of the company's DNA. The safety culture at SAS rests on the values, skills and experience of all employees throughout the organization. The safety culture includes actively learning, adapting and modifying individual and organizational behavior to constantly improve operations and reduce exposure to risk. The efforts are managed with the aim of achieving continuous improvements and a shared understanding of the importance of safety to the customers and to SAS. The management of SAS is constantly engaged in safety issues based on a safety policy that is documented, communicated and implemented in SAS's operations.

SAS has a fully implemented and approved Safety Management System (SMS), which is a regulatory requirement. The system was also approved in 2016 by the IATA Operational Safety Audit (IOSA) as part of their audit program.

Flight safety has improved within the industry over many years and statistically is extremely high. Safety efforts have traditionally been based on diligent investigation and analysis of incidents and accidents to ensure these events are not repeated. The efforts have resulted in the industry attaining these high safety levels through implementing lessons learned in regulations, standards and operating procedures.

Modern safety management systems build on these foundations, and active efforts to measure safety and analyze trends to identify safety issues before they arise in the form of an incident or accident. Identification of potential incidents and accidents is a fundamental part of the SMS in SAS's efforts to prevent serious accidents and incidents, and a culture of always prioritizing safety.

The implementation of the SMS provides SAS with the possibility of acting proactively with its safety efforts, prioritizing effectively and ensuring the entire organization promotes passengers', employees' and the company's safety.

Wet lease operators for SAS must be IOSA certified and hold a European traffic license. To ensure safety levels correspond to those levels for SAS's own airline operations, SAS has set the following requirements:

- Prior to contract, the operator's safety efforts are analyzed by the SAS Compliance Monitoring Department;
- Monthly safety summaries and continuous deviation reports are sent regularly to the SAS Safety Office;
- Safety follow-up meetings are held quarterly;
- SAS training pilots conduct inspection flights; and
- Annual audits are carried out by the SAS Compliance Monitoring Department.

SAS only initiates code-share collaboration with other airlines that have IOSA certification or that have completed a comparable audit.

Safety activities and risk levels in 2016/2017

SAS has continuously monitored and measured daily risk levels in flight operations, ground operations, technical maintenance and security in a hierarchical system of objective safety performance indicators.

In 2017, SAS implemented a new tool for monitoring safety levels. This tool has improved the capacity for identifying trends and correlations, which in turn leads to SAS dealing more proactively with safety-related risks.

The trend was stable during 2016/2017, and the number of medium-level events was on a par with preceding years. SAS had no high-level safety events, compared with the two preceding fiscal years.

RISK INDEX

Operations	Low	Medium	High
Flight Operations, %	2.000	0.003	0
Ground Operations, %	1.500	0.005	0
Technical Operations, %	0.500	0.006	0
Security, %	0.260	0	0
Total for 2016/2017 as a % of the No. of flights	4.26	0.0140	0
Total for 2015/2016 as a % of the No. of flights	2.63	0.0109	0.0008

Low: Events that occurred where the remaining safety margin was extremely effective. Normal monitoring is the only action required.

Medium: Events that occurred where the remaining safety margin was limited. Risk evaluation plus appropriate actions were adopted for continued operations.

High: Events that occurred where the safety margins were minimal or ineffective. This group includes more serious events (such as engine failure during takeoff). Such incidents must be investigated immediately to identify whether they are isolated incidents and do not affect continued airline operations.

3.2 SUPPLIERS

Dependence on external suppliers across all operations is increasing in pace with changes in the airline industry and development of the operating model at SAS. This applies equally to operations such as ground handling and wet-leasing, and to administrative functions such as customer service and accounting. SAS conducts continual reviews of its supplier base, identifying the most operation-critical suppliers. In connection with this, work is also being carried out to consolidate the supplier base, which in 2016/2017 contributed to the number of suppliers being reduced by 19%.

SAS has an established steering model that clarifies responsibilities, risks and areas for improvement, as well as how any deviations should be managed. Responsibility for ongoing follow-up of critical suppliers has been centralized and standardized. All suppliers to SAS must meet requirements for sustainability and social responsibility in line with the UN Global Compact. This is checked during procurement.

3.3 COMPETITIVE COSTS AND EFFICIENCY

For profitable long-term operations, SAS must have a competitive cost structure and be highly efficient. SAS therefore implemented major structural cost-reducing measures and realized efficiency enhancements of SEK 5.1 billion between 2013 and 2017. In 2016/2017, SAS doubled its efficiency enhancement program from SEK 1.5 billion to SEK 3.0 billion, with effect during the 2017–2020 period. Once the measures have been implemented, SAS will be a more flexible and productive airline that, moving forward, will continually enhance its operational efficiency. For more information about how SAS works with efficiency, see pages 20–23.

4. SUSTAINABILITY RISKS

SAS has integrated its sustainability work into its management system, which has structured processes for mitigating all risks and possibilities in the field of sustainability.

4.1 ENVIRONMENTAL DIRECTIVES AND REQUIREMENTS

Different laws and regulations impose requirements for reduced environmental and climate impact, including through restrictions on noise levels and greenhouse gas emissions. All laws and regulations in the field of the environment and the climate are handled by SAS's management system which, as regards the environment, is ISO 14001 certified.

SAS works continuously on sustainability issues to ensure compliance with national and international requirements. SAS measures factors such as its eco-efficiency using the key ratio CO2 emissions per passenger kilometer, which fell 2.7% to 96 grams (99) in the fiscal year. The improvement is mainly a result of aircraft fleet renewal, ongoing efficiency efforts and increased production on the intercontinental routes.

4.2 ANTICORRUPTION

During the year, SAS conducted a number of activities to prevent potential risks that may exist. This includes, for example, training programs for prioritized employee groups and control measures aimed at addressing the requirement that all employees observe the SAS Code of Conduct as well as applicable laws.

4.3 HUMAN RIGHTS

SAS is a major purchaser of products and services from a large number of subcontractors. SAS affiliates itself with the UN Global Compact, placing a number of requirements entailing that all subcontractors share SAS's perception and requirements regarding human rights, for example. SAS requires that employees at subcontractors have proper market-based employment terms and the right to organize into unions. SAS prioritizes subcontractors that share the basic principles of the UN Global Compact.

5. LEGAL AND POLITICAL RISKS

5.1 POLITICAL AND REGULATORY RISKS

SAS and the airline industry in general are exposed to various types of political and regulatory decisions that can significantly impact operations and SAS's economy, both positively and negatively.

Swedish aviation tax

In September 2017, the Swedish state proposed that a distance-based tax be introduced on flights within and from Sweden. Despite actively informing of the tax's negative consequences for Sweden and its minimal environmental effect, the tax will be introduced on April 1, 2018. The tax is expected to negatively impact profitability.

Brexit

On March 29, 2017, the UK announced that they would leave the EU under Article 50 of the Lisbon Treaty. This means that new trade agreements will be negotiated between the EU and the UK, in air traffic as well. The current air traffic agreement in the EU was created in 1992, and has been crucial for increased mobility and accessibility for the business sector and citizens in the EU.

SAS is analyzing the legal, financial and commercial effects of a withdrawal, and is collaborating with decision-makers nationally and in the EU. The UK is an important market for SAS, and it is crucial to the entire airline industry that a new air traffic agreement with the same conditions as the current one is in place before the exit in March 2019.

SAS's priority is harmonization of the rules, as well as equitable conditions and fair competition in international air traffic.

SAS closely monitors developments in the political arena and tries, through active dialogue and negotiations with public agencies and organizations, to influence development both individually and through national industry bodies. This work is conducted at SAS by the Public & Regulatory Affairs Department.

5.2 LEGAL RISKS

SAS flies and operates in more than 30 countries, which means that SAS has to comply with a large number of laws and regulations. The breadth of the SAS's operations and the large number of contractual relations mean that SAS is, and may be in the future, involved in legal processes and arbitration procedures as either plaintiff or defendant. SAS may also be exposed to crimes that can have both an economic and material impact. At the end of October 2017, SAS was involved in a number of legal processes, the most important of which are described in more detail on page 41.

SAS's legal division ensures observance of relevant laws and rules, conducts training and establishes internal policies, processes and rules including the SAS Code of Conduct, which establishes what ethical rules and guidelines all employees in SAS are to observe. SAS continuously monitors how changes in regulations and policies impact SAS's procedures and operations. Contractual risks in relation to external parties are minimized through legal counseling and participation. SAS has insurance cover for its operations and personnel to protect the company financially from unforeseen events and risks.

6. FINANCIAL RISKS

SAS is exposed to various types of financial risks. All risk management is performed centrally pursuant to the financial policy adopted by the Board.

Financial risks pertaining to changes in exchange rates, interest rates and fuel prices, are hedged with derivatives, which aim to counter short-term negative fluctuations and provide scope for adapting operations to long-term changes in levels. Another aim of SAS's hedging strategy is to enable SAS to act quickly when changes in exchange rates, interest rates and fuel prices are advantageous. More information is available in Note 27.

6.1 LIQUIDITY RISK AND REFINANCING

The cash flow from SAS's airline operations follows clear seasonal trends. Since passenger revenue is recognized when SAS or another airline provides the transportation, this means that seasonal variations impact cash flow and earnings differently. SAS also has several different financial instruments issued, as well as 82 aircraft on operating leases and 33 aircraft on wet lease contracts that are continually maturing.

The target is a financial preparedness of at least 25% of fixed costs, which is measured by the proportion of cash and cash equivalents together with unutilized credit facilities in relation to annual fixed costs. SAS prepares a rolling liquidity forecast that is used as a basis to ensure that financial preparedness is maintained and to identify refinancing needs. SAS uses bank loans, bonds, subordinated loans and leasing as sources of funding.

SAS is in continual discussion with banks and financiers regarding refinancing of SAS's loan and leasing maturities. During the fiscal year, financial preparedness trended stably in accordance with the expected seasonal swings, and was positively impacted by cash flow that counteracted investments in aircraft and loan repayments. At October 31, 2017, financial preparedness amounted to 37% (41%).

6.2 JET-FUEL PRICE AND EMISSION RIGHTS

Jet-fuel price

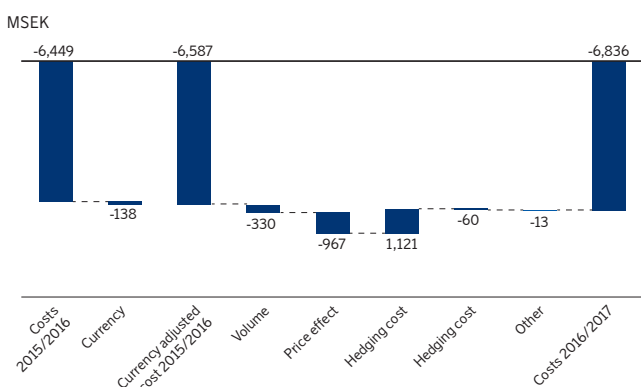
Jet-fuel costs comprise the single largest expense item for SAS and in 2016/2017 amounted to 17% of SAS's operating expenses (including leases, depreciation and amortization). SAS hedges jet-

fuel costs to counter short-term negative fluctuations. SAS's policy for jet-fuel hedging states that jet fuel should be hedged at an interval of 40–80% of anticipated volumes for the coming 12 months. The policy also allows hedging of up to 50% of the anticipated volumes for the period, 12–18 months.

The market price of jet fuel in 2016/2017 was on average 22% higher year-on-year. Jet-fuel prices initially rose from about USD 450/tonne to over USD 500/tonne from December 2016, to then rise to just under USD 600/tonne at the end of the fiscal year. The spot price was volatile, with major changes during the fiscal year. The higher jet-fuel price meant that jet-fuel costs, adjusted for currency effects, increased 3.7% year-on-year. Hedge effects (including the effect of time value) had a positive impact of MSEK 1,061 year-on-year.

The jet-fuel cost in the statement of income does not include the effects from SAS's USD currency hedging. The effects from SAS's currency hedging are recognized under "Other operating expenses," since SAS's currency hedging is performed separately and is not linked specifically to its jet-fuel purchases.

JET-FUEL COST TREND 2016/2017



Ahead of the 2017/2018 fiscal year, SAS has hedged 43% of expected jet-fuel consumption.

HEDGING OF JET FUEL

Hedge level (max price)	Nov 17– Jan 18	Feb 18– Apr 18	May 18– Jul 18	Aug 18– Oct 18
USD 480–500/tonne	69%	69%		
USD 501–550/tonne			33%	

VULNERABILITY MATRIX, JET-FUEL COST NOVEMBER 2017 TO OCTOBER 2018, SEK BILLION¹

Market price	Exchange rate SEK/USD			
	7	8	9	10
USD 400/tonne	4.9	5.6	6.2	6.9
USD 600/tonne	6.2	7.1	8.0	8.9
USD 800/tonne	7.3	8.4	9.4	10.5
USD 1,000/tonne	8.5	9.7	10.9	12.1

Emission rights

SAS is a long-time supporter of the polluter pays principle. However, a prerequisite for this is that it is applied on equal terms and in a manner that does not distort competition. Furthermore, SAS is positive toward requirements for increased energy effi-

ciency, which fit well with the company's environmental targets. In 2016/2017, SAS's emission rights expenses in the European EU-ETS emissions trading scheme totaled MSEK 55 (88). ICAO's global economic instrument, the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), which aims to regulate aviation's carbon emissions from 2021, will be specified over the next few years.

While awaiting CORSIA, the European Commission has decided that EU-ETS should only include intra-Europe flights up until the 2020 calendar year. As yet, SAS is unable to assess the financial consequences of this instrument.

SAS secures emission rights for the expected shortfall to reduce financial exposure. Ahead of 2017/2018, SAS estimates that the cost for emissions rights will be at the same level as in 2016/2017.

6.3 EXCHANGE RATES

Transaction risk arises from exchange-rate changes that impact the size of commercial revenue and costs and thus SAS's operating income. As a consequence of aircraft and jet fuel being priced in USD and of international operations, SAS is considerably exposed to price changes in several currencies. The USD is SAS's greatest deficit currency, and NOK is SAS's greatest surplus currency.

In 2016/2017, Sweden's central bank, the Riksbank, lowered the repo rate to a negative rate, which negatively impacted the value of the SEK against many currencies. After the drastic drop in oil prices in 2016, the Norwegian economy stabilized in 2017, which resulted in the NOK being strengthened. In 2016/2017, the NOK averaged 5% higher against the SEK year-on-year, which positively impacted the net of revenue and costs for SAS by MSEK 202. The US central bank implemented interest-rate rises during the fiscal year. As these were expected, the USD rate was not significantly impacted. After the presidential election of November 2016, the USD initially strengthened in relation to the SEK, but thereafter gradually weakened from mid-December. From July 2017, the USD was weaker than the previous year in relation to the SEK. In all, the USD was approximately 3% stronger year-on-year in relation to the SEK. This had a net negative impact on SAS's revenue and costs of MSEK 252.

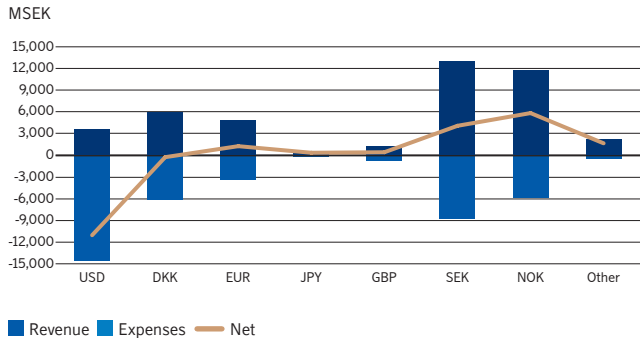
Currency exposure is managed through continuously hedging 40–80% of SAS's surplus and deficit currencies based on a 12-month rolling liquidity forecast.

By hedging the USD and NOK, SAS has postponed the negative effects of the exchange-rate changes. The exchange-rate trend had a net positive impact on SAS's revenue of MSEK 768 in 2016/2017. The change from translation of working capital and currency hedges amounted to MSEK 158 (-1,114). The net effect on SAS's income before tax from the changes in the exchange rates and the effects from hedging were positive, with MSEK 167 (-1,741).

At October 31, 2017, SAS's hedging ratio totaled 54% of its anticipated USD deficit for 2017/2018. In terms of the NOK, 65% of the anticipated surplus for the next 12 months was hedged. Hedging is mainly performed through currency forward contracts to prevent earnings-related revaluation effects pertaining to financial assets and liabilities. SAS's USD denominated loans are hedged against the SEK to reduce currency risk in the loan portfolio.

¹) SAS hedging of flight fuel at October 31, 2017, has been taken into account.

CURRENCY BREAKDOWN SAS 2016/2017



NET EARNINGS EFFECT OF EXCHANGE-RATE CHANGES, 2016/2017

SAS total	MSEK
1% weakening of SEK against USD	-110
1% weakening of SEK against NOK	+60
1% weakening of SEK against DKK	-2
1% weakening of SEK against EUR	+13
1% weakening of SEK against JPY	+4
1% weakening of SEK against GBP	+5

Currency risk for aircraft investments

SAS hedges part of the order value for aircraft it has on order to limit the currency risk. This is conducted through currency forward contracts and by entering into sale and leaseback agreements. When entering into sale and leaseback agreements, any currency forward contracts are terminated. By entering into sale and leaseback agreements for eight of the 18 Airbus A320neos on firm order, SAS has decreased the currency exposure for deliveries until mid-2018. SAS has also currency hedged a small portion of its aircraft order for eight Airbus A350s with delivery from 2019.

6.4 INTEREST RATES

The airline industry is capital-intensive and on the closing date, SAS had MSEK 8,575 in interest-bearing liabilities, which exposes the company to interest-rate changes.

SAS's Financial Policy regulates the proportion between floating and fixed-interest rates with the objective that gross financial debt has a tenor of two years. The average duration for gross financial debt was 2.2 years as of October 2017.

6.5 COUNTERPARTY LOSSES

SAS is exposed to counterparty losses through credits, lease agreements and guarantees to external parties. This exposure is governed by SAS's Financial Policy. No counterparty loss of any significance had any impact on SAS in the fiscal year. Net impairment of accounts receivable and recovered accounts receivable, as well as the impairment of other current receivables, had an earnings impact of MSEK -16 (-12) in 2016/2017.

SAS's Financial Policy regulates how and in what manner SAS should act to reduce the risk of counterparty losses. SAS invests cash and cash equivalents in instruments with good liquidity or short maturity with credit ratings not lower than A3/P1 according to Moody's, or A- according to Standard & Poor's.

7. IT

7.1 IT

SAS is dependent on IT and secure information flows in all parts of its operations, and through transparent processes and continual updates, it secures the confidentiality, correctness, accessibility and traceability of the information. This is also governed by a number of policies and safety solutions. Like numerous other companies, SAS is exposed on a daily basis to various types of attacks; through the establishment of protection mechanisms, however, SAS has managed to prevent any serious negative impact on operations.

SAS is dependent on a large number of subcontractors for IT and IT-related services, and through extensive efforts procedures and IT support have been tailored to secure deliveries from subcontractors.

In 2016, an internal audit was conducted that showed minor deficiencies in controlling access to internal systems. These were fixed in 2017. During the fiscal year, SAS launched a new website that, after debugging problems, had a negative impact on customer satisfaction — the website was thereafter rebuilt based on customer feedback and re-launched in late autumn 2017. The EuroBonus database was successfully transferred to a new IT platform in May 2017, which makes it possible to develop the loyalty program and gradually launch new services. Furthermore, extensive measures have been taken to update internal IT systems that manage and plan flight schedules and personnel, which has yielded noticeable effects in more stable and more reliable planning.

8. OTHER EVENTS

8.1 EXTRAORDINARY EVENTS

Airline companies are impacted by extraordinary events around the world, such as natural disasters, terror attacks, conflicts and epidemics. Despite a number of terrorist attacks in Europe during 2016/2017, the demand for flights was not affected to any great extent.

SAS has a number of contingency plans in place to manage various catastrophes, and strives to increase production platform flexibility and the proportion of variable costs to be able to rapidly realign operations in the case of extraordinary events.

8.2 BRAND AND REPUTATION

In 2016/2017 SAS carried approximately 30 million travelers. Demand for SAS's services could be negatively affected if confidence in SAS and/or the airline industry should decrease.

SAS continuously monitors the confidence trend for SAS and the industry and works strategically to strengthen the SAS brand and reputation. SAS has established media and information policies aimed at ensuring that all information pertaining to SAS is correct and accurate. If inaccurate rumors are spread about SAS or if information is provided incorrectly, SAS endeavors to follow up and correct errors to minimize any negative impact on SAS's general rating and position in the market.

SAS'S CONTRIBUTION TO SUSTAINABLE DEVELOPMENT

For SAS, sustainable development means continual improvements in the areas of climate and the environment, as well as taking charge of social responsibility. Sustainable development also assumes continuously striving for sustainable profitability and financial growth.

SAS has integrated its sustainability work into its management system, which has structured processes for mitigating the risks and addressing the possibilities that may exist in the field of sustainability.

SAS's stakeholders generally place the greatest importance on the transition to a lower climate impact, which is the area generally given the greatest space in SAS's sustainability reporting. This does not mean that other areas of sustainability are not being addressed or prioritised by SAS's management system.

SAS has structured its sustainability work with inspiration or support from the UN Sustainability Goals (SDG), Global Reporting Initiative (GRI) standards and the UN Global Compact.

SAS's vision is to be part of a sustainable society, and supports IATA's vision of making it possible to fly without greenhouse gas emissions by 2050.

Read more about the SAS's sustainability efforts in the separate Sustainability Report in accordance with the Global Reporting Initiative (GRI) on www.sasgroup.net.

ENVIRONMENTAL RESPONSIBILITY

SAS works to reduce greenhouse gas emissions primarily caused by flight operations but also by ground handling services, and to reduce noise emissions. The environmental impact of airline operations mainly consists of emissions of carbon dioxide and nitrogen oxides related to the consumption of fossil-based fuels, as well as noise.

To lessen the impact on the climate and the environment, SAS is working on renewing the aircraft fleet and incorporating biofuel blends. During 2016/2017, SAS phased in 11 brand-new Airbus A320neos which, compared with earlier Airbus A320 aircraft, reduce carbon dioxide emissions per passenger kilometer by about 18%.

Over the past few years, SAS has upgraded the aircraft engines on the majority of Boeing 737 aircraft in its fleet. The new engines are more efficient and reduce climate impact.

During the fiscal year, SAS used around 100 tons of jet fuel based on renewable raw materials. The jet fuel has primarily been dispensed in Bergen and Oslo.

Airline operations use internationally type-approved aircraft according to ICAO certification standards. Environmental approval is an integral part of national registrations of aircraft. The trend is toward a stricter environmental policy framework for the airline industry.

SAS measures its eco-efficiency with a climate index, which tracks trends in airline operations relative to environmental impact. The climate index improved to 88 (91) as of October 31, 2017 compared with the base year 2010. SAS's CO₂ emissions per passenger kilometer decreased to 96 grams (99) during the fiscal year. The target is a 20% reduction in carbon dioxide emissions per passenger kilometer by 2020 compared with 2010. At October 31, 2017, carbon emissions had decreased by just over 12%.

Flight operations depend on the licensed activities conducted by Ground Operations and Technical Operations and on the respective airport owners' licenses for operations and glycol handling, and thresholds for atmospheric emissions and noise. Flight

operations have a dispensation for halon use and submit annual reports to the authorities on consumption including leakages and storage. SAS had no reported use of halon during 2016/2017. During the fiscal year, the authorities did not issue SAS any orders that had a material impact on SAS's activities. In exceptional cases in 2016/2017, aircraft operated by SAS deviated from local approach and takeoff rules.

It is the considered opinion of SAS that none of the incidents had any material environmental consequences. Otherwise, SAS was not involved in any environment-related disputes or complaints and has no known major environment-related liabilities or provisions regarding ground pollution or the like.

CORPORATE SOCIAL RESPONSIBILITY

SAS's social responsibilities include responsibility for employees and for its impact on the surroundings and communities in which it operates. Redundancy issues are managed through negotiations in compliance with national laws and practices. In addition, SAS has its own guidelines that permit the transfer of employees between the national companies or units, which are negotiated by SAS and the personnel labor union organizations.

SAS reports sick leave pursuant to Swedish legislation. In 2016/2017, sick leave at SAS was 5.9% (6.3) and long-term sick leave was 3.8% (4.3). Diversity policy at SAS is based on equal treatment of all employees and job applicants.

Work on equal treatment includes promotion of diversity and equality in all its forms. The distribution of women and men during 2016/2017 was 39% women and 61% men. In SAS's highest management group, it is 29% women and 71% men.

With regard to human resources, SAS plans and conducts regular, planned in-service training of all certified personnel, such as technicians, cabin crew and pilots. This is done to uphold competency standards, such as those required by air operator certificates (AOCs). SAS also has an extensive management training program and a large number of internal training programs for all employees. During the fiscal year, SAS introduced an updated method of measuring employee commitment.

SAS has zero tolerance for any breach of SAS's policies regarding alcohol and drugs, moreover, during the year we started work on upgrading and coordinating our alcohol and drug policy at the Scandinavian level. We also have a zero-tolerance policy towards all forms of harassment, and we work continually to counteract this. This is regulated in our Code of Conduct, and web-based training in the Code is mandatory for all employees.

SAS has a number of activities to prevent the potential risks linked to corruption that may exist. This includes, for example, training programs and activities aimed at addressing the requirement that all employees observe the SAS Code of Conduct as well as applicable laws.

SAS is a major purchaser of products and services from a large number of subcontractors. SAS affiliates itself with the UN Global Compact, placing a number of requirements that all subcontractors share SAS's perception and requirements regarding human rights, for example. SAS requires that employees at its subcontractors have proper market-based employment terms and have the right to organize into unions. SAS distances itself from all subcontractors that do not share the basic principles of the UN Global Compact.

DIVIDENDS, DISPOSITION OF EARNINGS AND OUTLOOK

DIVIDEND

The Board of Directors proposes to the 2018 AGM that no dividends be paid to holders of SAS AB's common shares for the November 1, 2016 to October 31, 2017 fiscal year. This is due to the fact that the Board wishes to prioritize redeeming preference shares starting in February 2018. The Board will thereafter work to redeem the remaining preference shares through profits generated by operations, thereby creating conditions to increase the return on common shares and to reintroduce dividends for the common shares.

Ahead of the 2018 AGM, the Board proposes that dividends on preference shares outstanding be paid quarterly in an amount of SEK 12.50 per preference share and total limited to a maximum of SEK 50 per preference share. The record dates proposed ahead of the next AGM for the quarterly dividends are May 4, August 3, and November 5 in 2018 and February 5 in 2019. Disbursement from Euroclear Sweden AB is estimated to occur on May 9, August 8, and November 8, 2018, and on February 8, 2019.

PROPOSED DISPOSITION OF EARNINGS

The following Parent Company earnings are available for disposition by the AGM:¹

	SEK
Retained earnings	4,885,058,013
Net income for the year	-146,869,919
Unrestricted equity, October 31 2017	4,738,188,094
Redemption payment of SEK 526.53 per redeemed preference share less the quotient value of SEK 20.10	-2,481,507,000
Corresponding provision to the statutory reserve to match the reduction in share capital of SEK 20.10 per redeemed preference share	-98,490,000
Total unrestricted equity following redemption of preference shares	2,158,191,094

The Board of Directors proposes that the earnings be allocated as follows:

	SEK
Dividends to holders of preference shares of SEK 50 per preference share	105,000,000
To be carried forward	2,053,191,094
Total	2,158,191,094

¹) Based on the total number of preference shares, 7,000,000, and a resolution to adopt the Board's decision to redeem not more than 4,900,000 preference shares. As a result of rounding effects from the redemption of preference shares, which is expected to be completed on February 16, 2018, the total number of preference shares outstanding could, and therefore the total sum distributed, be slightly higher at the AGM on April 10, 2018, and on the following record dates for the distribution.

SIGNIFICANT EVENTS AFTER OCTOBER 31, 2017

- SAS completed a private placement of MSEK 1,270. As a result of the new share issue, the conversion price for SAS's convertible bond was changed from SEK 24.0173 to SEK 23.73.

- SAS's credit rating was upgraded by Moody's and Standard & Poor's.
- SAS issued an SEK 1.5 billion unsecured bond with a tenor of five years and a fixed coupon rate of 5.375%.
- Torbjørn Wist was appointed new Chief Financial Officer (CFO) after Göran Jansson, who will have overall responsibility for Group strategy, SAS Growth, the SAS aircraft fleet and Strategic Sourcing. In this new role, Göran Jansson will continue as Deputy President and as a member of SAS Group Management.
- Fritz H. Schur notified his intent to step down as Chairman and as a member of the Board of SAS from the 2018 AGM.
- SAS has decided to redeem a maximum of 4.9 million preference shares with effect on February 9, 2018, for a maximum total redemption cost of around MSEK 2,580.

OUTLOOK FOR 2017/2018

SAS expects the expansion of total market capacity in winter 2017/2018 to accelerate compared with the beginning of 2017. At the same time, SAS will consolidate the capacity growth implemented over the last few years. The planned capacity growth (ASK) for SAS in 2017/2018 is therefore only 1–3 percent year-on-year.

As a consequence of the phasing-in of larger aircraft, a year-on-year decrease in the load factor is expected at the beginning of the fiscal year.

To meet the increase in market capacity, SAS is endeavoring to strengthen competitiveness by efficiency enhancements and greater flexibility in its production platform. In 2017/2018, efficiency measures are expected to generate an earnings impact of about SEK 0.7 billion.

Uncertainty in the macro environment remains considerable with highly volatile exchange rates and jet-fuel prices. SAS has hedged a large share of the expected jet-fuel consumption and net deficit in USD for the next six months. Despite this, rising jet-fuel prices together with a sustained strengthening of the USD could negatively impact the earnings trend.

Following a seasonally weak first six months in 2017/2018, the potential exists for a strong summer in 2018. To sum up, this leads to the following outlook for 2017/2018:

SAS expects to deliver income before tax and nonrecurring items in the interval of SEK 1.5–2.0 billion. The outlook is based on no unexpected events occurring.

THE OUTLOOK IS BASED ON THE FOLLOWING PRE-CONDITIONS AND ASSUMPTIONS AT OCTOBER 31, 2017:

- A planned year-on-year increase of 1–3% in SAS's scheduled capacity growth (ASK) in 2017/2018.
- Continued stable macro trend.
- The introduction of an aviation tax in Sweden.
- Jet-fuel prices averaging 550 USD/tonne.
- Average SEK/USD rate of SEK 8.0.
- Net investments are expected to amount to about SEK 6 billion.

CORPORATE GOVERNANCE REPORT

This Corporate Governance Report for the 2016/2017 fiscal year has been prepared pursuant to the Swedish Annual Accounts Act and the Swedish Corporate Governance Code (the Code) based on the revision of the Code that entered force in December 2016.

PARENT COMPANY

SAS AB, which is the Parent Company for operations at SAS, is a Swedish public limited company headquartered in Stockholm, Sweden. Since July 2001, SAS AB has been listed on Nasdaq Nordic in Stockholm with secondary listings in Copenhagen and Oslo.

DEPARTURES FROM THE CODE

Since the implementation of the Code, SAS has complied with it except in the following instances:

- Meeting deliberations in SAS AB are held primarily in Swedish and meeting materials are available in Swedish. In view of the above, the Board believes that any one of the Scandinavian languages may be freely used at shareholders' meetings in the company in view of the similarity of the three Scandinavian languages.
- The slides in the President's presentation attached to the minutes are written in English, which departs from clause 1.4 of the Code. The President's presentation at meeting deliberations is held in Swedish, but SAS has decided to provide the presentation material in English (available for download from the website) to enable the broader capital market to understand the President's presentations at shareholders' meetings.

IMPORTANT REGULATIONS GOVERNING SAS

External rules:

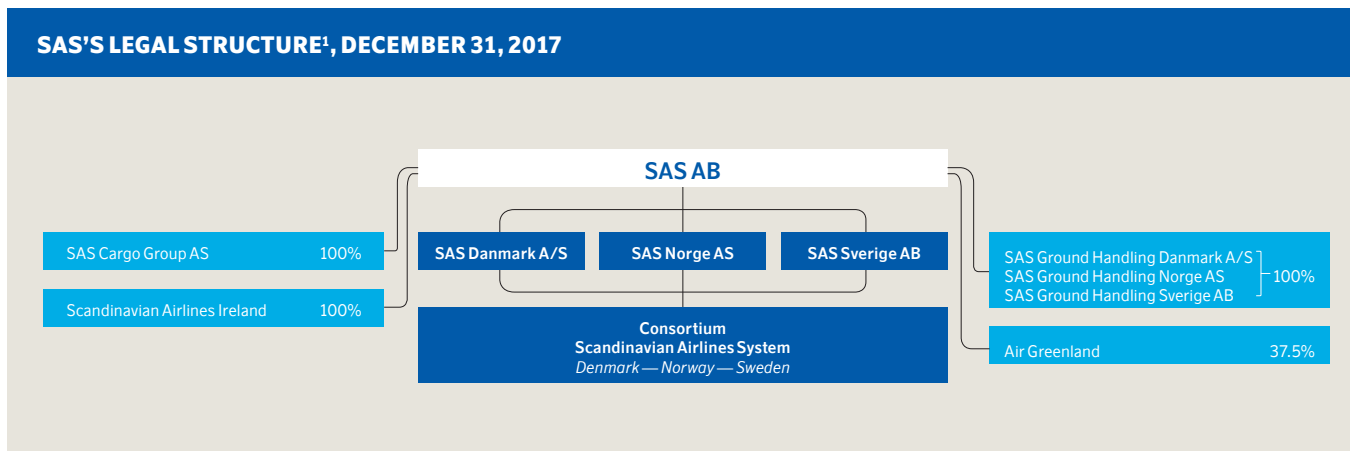
- Swedish legislation, EU regulations and laws set by other countries in which SAS operates
- The Swedish Corporate Governance Code (the Code)
- Nasdaq Nordic in Stockholm and Copenhagen and the Oslo Børs's rule book for issuers
- The Market Abuse Regulation
- The recommendations issued by relevant Swedish and international organizations
 - Flight safety regulations and certifications
 - Accounting rules

Internal rules:

- The Articles of Association¹
- The information policy
- The Board's work plan
- The Board's instructions to the President
- The Code of Conduct¹
- The insider policy

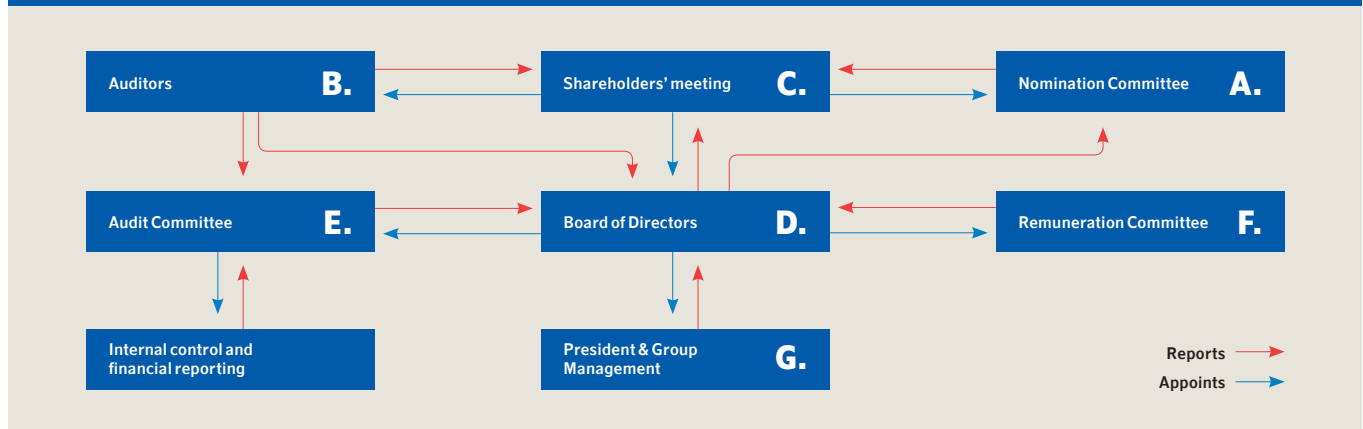
No breaches of the relevant stock exchange rules or of good stock market practices have been reported by Nasdaq's Disciplinary Committee, the Oslo Børs or the Swedish Securities Council during the 2016/2017 fiscal year.

¹) Available for download at www.sasgroup.net



¹) Operating companies.

SAS'S CORPORATE GOVERNANCE STRUCTURE



SAS'S SHAREHOLDERS AND SHARE

SAS maintains ongoing dialogues with capital markets on questions regarding the SAS Group's performance, strategic position and growth possibilities. No major changes were implemented in the corporate governance principles in 2017. During the year, most listed airlines noted significant increases in their share prices. SAS's common share also followed a positive trend and rose 69% over the fiscal year. This occurred in parallel with unit revenue stabilizing and the USD weakening against the SEK.

OWNERSHIP, CONTROL AND SHARE CLASSES

SAS AB has three classes of shares: common shares, preference shares and subordinated shares. At October 31, 2017, there were 330.1 million common shares and 7 million preference shares issued with a quotient value of SEK 20.10. Together, these constituted a total registered share capital of MSEK 6,775.

There are no subordinated shares issued or outstanding. Common shares and subordinated shares entitle the holders to one vote each. Each preference share entitles the holder to one-tenth of a vote.

The maximum number of common shares and subordinated shares that may be issued is limited to a number that corresponds with 100% of the company's share capital. The maximum number of preference shares that may be issued is limited to 10% of the share capital. Common shares and preference shares provide shareholders with the rights set out in the Swedish Companies Act and the Articles of Association.

Subordinated shares provide shareholders the right to participate in and vote at the company's shareholders' meetings. Subordinated shares do not entitle shareholders to dividends or participation in bonus issues. If subordinated shares are redeemed or the company is dissolved and its assets distributed, holders of subordinated shares are treated as holders of common shares and receive an equal share in the company's assets, although not at an amount higher than the quotient value of the subordinated shares index-adjusted from the first date of registration of the subordinated shares until the date of the payment of the redemption amount or the date of the distribution with an interest-rate factor corresponding to STIBOR 90 days plus two percentage points. For more information on subordinated shares, see Note 21. The share price performance of common and preference shares is presented on pages 31–32.

PROTECTION OF SAS'S AIR TRAFFIC RIGHTS IN THE ARTICLES OF ASSOCIATION

For aviation policy reasons, SAS's Articles of Association authorize, in part, the mandatory redemption of common shares by means of a reduction of share capital and, in part, should redemption not be possible or be adjudged adequate, an option to issue subordinated shares for subscription with the support of previously issued warrants.

A precondition for these actions is an assessment by the company's Board that a direct threat exists against the air traffic rights of the company or any of its subsidiaries when the company or its subsidiaries infringe or risk infringing provisions on ownership and control in bilateral aviation agreements or in laws or regulations pertaining to permits for air traffic in the EU/EEA.

Mandatory redemption

If the Board assesses that there is a direct threat to the company's traffic rights, it may decide to mandatorily redeem a sufficient number of common shares not owned by shareholders domiciled in Denmark, Norway or Sweden along with common shares that are controlled, directly or indirectly, by a person or company outside of these three countries, so as to ensure continued Scandinavian ownership and control. Primarily, such mandatory redemption of common shares is performed on shares owned or controlled by a person or company outside the EU/EEA. Prior to redemption, the shareholders are given an opportunity to sell their common shares voluntarily within a prescribed period. Redemptions are made subsequently without refund to the shareholder since the reduction is to be transferred to the company's statutory reserve.

Subordinated shares

Should the Board deem the action of redeeming common shares not possible or inadequate, the Board may propose a shareholders' meeting to decide whether to issue subordinated shares in such number so as to safeguard continued Scandinavian ownership and control. Such a decision must be approved by at least half of the votes cast at the meeting. The subordinated shares thus issued are subscribed for with the support of previously issued warrants, which are currently held by a subsidiary of SAS AB but which the Board of SAS AB has the right to decide to transfer to one or more appropriate legal entities domiciled in Denmark, Norway or Sweden as soon as this is judged necessary for aviation policy reasons. In total, there are 75,000 warrants issued, which provide entitlement to sub-

scription for a total of 150,000,000 subordinated shares. This would increase the company's share capital by a maximum of SEK 3,015,000,000. As soon as the threat no longer exists, the Board shall ensure that the subordinated shares thus issued are redeemed.

Furthermore, for aviation policy reasons, the Articles of Association contain certain suitability and qualification requirements for Board members to ensure that the Board will at all times have the composition it needs to ensure that the company and its subsidiaries are able to retain their air traffic rights. These requirements include citizenship, domicile and knowledge and experience of the social, business and cultural conditions prevailing in the Scandinavian countries.

Beyond these requirements and the regulations contained in the Articles of Association, there are no restrictions or voting rules pertaining to the appointment or removal of Board members.

OWNERSHIP AND CONTROL

On October 31, 2017, SAS AB had a total of 58,865 shareholders. The major shareholders are the three Scandinavian governments, who represent 42.8% of the votes. More information about the share and the ownership structure is available on pages 31–32 in the SAS Annual Report 2016/2017. On November 9, 2017, SAS completed a private placement of 52.5 million common shares. Following the new issue the stake held by the three Scandinavian governments fell to 38.9%.

No restrictions exist in the Articles of Association concerning the voting rights of shareholders at shareholders' meetings and, pursuant to the Swedish Companies Act, shareholders may vote for the entire number of shares they own or represent by proxy. Nor are there any special plans, such as employee-benefit plans or the like, through which company or Group employees own shares with restricted voting rights. SAS AB has no knowledge of any agreements between shareholders that would restrict the capacity of shareholders to vote at a shareholders' meeting or their right to freely transfer such shares.

EFFECTS OF A PUBLIC TAKEOVER BID

SAS is currently party to a number of agreements in which the counterparties are entitled to terminate the agreement, in the event of changes in the majority stake or control of the company.

A. NOMINATION COMMITTEE

The Nomination Committee represents shareholders of SAS and is appointed by the AGM and tasked with preparing the meeting's resolutions on nomination and remuneration issues, as well as matters of procedure for the next nomination committee. An instruction for the Nomination Committee was adopted in conjunction with the 2017 AGM.

The Nomination Committee is tasked with making proposals for the election of the Chairman of the AGM, the number of Board members and Directors' fees, broken down among the Chairman, Vice Chairman, other Board members and any remuneration for work on Board committees, election of Board members and Chairman of the Board, election of the company's auditors, auditors' fees and the Nomination Committee ahead of the next AGM.

NOMINATION COMMITTEE, EIGHT MINUTED MEETINGS (REFERS TO THE PERIOD FEBRUARY 22, 2017 TO JANUARY 18, 2018)

Member	Representative of	Votes, % October 31, 2017
Carl Rosén, Chairman	Swedish Ministry of Finance, for the Swedish government	17.1
Rasmus Lønborg	Danish Ministry of Finance, for the Danish government, until August 2017	
Peder Lundquist	Danish Ministry of Finance, for the Danish government, from August 2017	14.2
Jan Tore Føsum	Norwegian Ministry of Trade, Industry and Fisheries, for the Norwegian government	11.4
Peter Wallenberg Jr	Knut and Alice Wallenberg Foundation	7.5

Issues discussed:

The Nomination Committee evaluated the Board's work, qualifications and composition. Diversity, breadth and the gender balance were also discussed. The Chairman liaises closely with the Committee, and the result of the evaluation of the Board is made available to the Committee.

At least one meeting with the Chairman and Group CEO must be held before the Committee submits its recommendations to the AGM.

The Committee's recommendations are published in the notice calling the AGM, on the company's website, and at the AGM. Committee members received no fees or other remuneration from SAS for their work on the Nomination Committee.

When required for carrying out its assignment, the Committee utilizes recruitment consultants and other outside consultants, with SAS defraying the cost.

B. AUDITORS

The auditors are elected by the AGM and tasked with scrutinizing the company's financial reporting and the administration of the company by the Board and the President. An election was conducted to appoint an auditor at the 2017 AGM, whereby PricewaterhouseCoopers AB (PwC) was reelected for the period until the end of the 2018 AGM. The auditor in charge is Bo Hjalmarsson. In addition to SAS, he has audit engagements for companies that include Ericsson and SAAB.

On two occasions during the 2016/2017 fiscal year, the auditor in charge met with the Board, presenting the program for auditing work and reporting observations from the audit.

The auditor also met with the Audit Committee on five occasions. On one occasion during the fiscal year, the Board met with the company's auditor without the presence of the President or any other representative of the company management.

PwC submits an auditors' report for SAS AB, the Group and an overwhelming majority of the subsidiaries. Over the past year, in addition to its auditing work, PwC has performed advisory services for SAS Group companies in auditing-related areas as outlined in the table below. For more information about the auditors' fees in 2016/2017, see Note 37.

Auditors' fees	MSEK
Auditing services	7
Other statutory assignments	0
Tax consultancy services	1
Other	1
Total	9

C. SHAREHOLDERS' MEETING

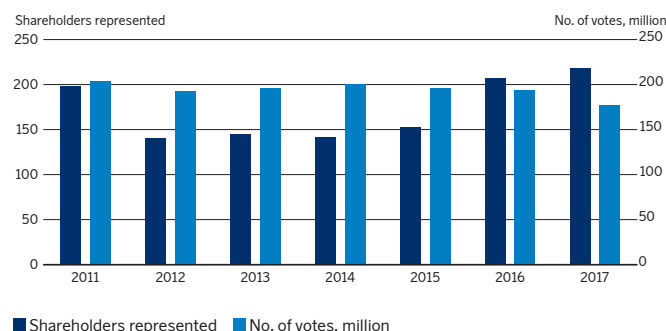
The shareholders' meeting is the highest decision-making body at SAS. At shareholders' meetings of SAS AB, one common share is equal to one vote with no restrictions on the number of votes any one shareholder is entitled to cast at such a meeting. Each preference share entitles the holder to one-tenth of a vote.

The shareholders' meeting may be held in Stockholm, Solna or in Sigtuna. Notice convening the AGM is issued no earlier than six and no later than four weeks prior to the meeting. Notice is published in daily newspapers and in Post- och Inrikes Tidningar in Sweden, and announced in press releases as well as published on the company's website. SAS also e-mails notices to shareholders who have requested this service via Shareholder Service on the company website: www.sasgroup.net.

The Articles of Association contain no special provisions regarding the election and discharge of Board members or regarding changes to the Articles of Association. As per October 31, 2017, no authority has been provided by the shareholders' meeting to the Board empowering the Board to issue new common and/or preference shares or to buy back treasury shares. However, on October 6, 2017, the Board called an extraordinary shareholders' meeting for November 3, 2017, to authorize a private placement of up to 66 million common shares. The extraordinary shareholders' meeting on November 3 resolved to authorize the Board, with deviation from the preferential rights of shareholders, to on one or more occasions and up until the next AGM, decide on the new issue of no more than

66 million common shares corresponding to almost 20 percent of the number of common shares outstanding. On November 9, 2017, SAS completed a private placement of 52.5 million common shares.

NUMBER OF PARTICIPANTS AT AGMS 2011–2017



RESOLUTIONS BY THE AGM ON FEBRUARY 22, 2017

- Adoption of statement of income and balance sheet.
- Appropriation of profit or loss in accordance with the adopted balance sheet.
- Discharge from liability for Board members and President.
- Appointment of Board members, Chairman of the Board, auditors and Nomination Committee.
- Guidelines for remuneration of senior executives.

DIRECTORS' FEES DECIDED AT THE 2017 AGM

Name	Board of Directors	Audit Committee	Remuneration Committee	Total, TSEK
Fritz H. Schur	410		49	459
Jacob Wallenberg	242		17	259
Dag Mejdell	242		17	259
Monica Caneman	207	66		273
Carsten Dilling	207	31		238
Lars-Johan Jarnheimer	207	31		238
Berit Svendsen	207			207
Sanna Suvanto-Harsaae	207			207
Jens Lippestad	207			207
Cecilia van der Meulen	207 ¹			207
Janne Wegeberg	207			207
Total	2,550	128	83	2,761

1) Shared with Sven Cahier who acted as employee representative on the Board until February 22, 2017.

NOVEMBER 2016–OCTOBER 2017, RECORDED FEES FOR DEPUTY EMPLOYEE REPRESENTATIVES

Name	Period	Total, SEK
Tor Kjöstel Lie	November 2016–March 2017	4,000
Elin Rise	November 2016–March 2017	4,000
Endre Røros	April 2017–October 2017	6,000
Pål Gisle Andersen	April 2017–October 2017	6,000
Erik Bohlin	November 2016–March 2017	4,000
Eva Dahlberg	November 2016–March 2017	4,000
Stefan Ottosson	March 2017–October 2017	9,500
Joacim Olsson	March 2017–October 2017	7,000
Christa Cere	March 2017–October 2017	7,000
Kim John Christiansen	November 2016–October 2017	10,000

2018 AGM

Date and time: April 10, 2018 at 3:00 p.m. at the head office of SAS, Frösundaviks allé 1, Solna, Sweden

Notice: To be published four to six weeks ahead of the AGM

Attending the AGM: Procedures for notifying attendance are set out in the notice

Deadline for notification of attendance: April 3, 2018 for shareholders with shares registered in Denmark and Norway, and April 4, 2018 for shareholders with shares registered in Sweden.

Record date: April 4, 2018

D. BOARD OF DIRECTORS

The Board's work is governed by the Swedish Companies Act, the Articles of Association, the Code and the formal work plan adopted by the Board each year. The Board is ultimately responsible for SAS's operations. This also includes risk management, regulatory compliance and internal control at SAS.

The Board members are elected by the AGM for the period until the next AGM has been held. The Articles of Association stipulate that the Board of Directors should consist of six to eight members elected by the shareholders' meeting. During the year, the Board comprised eight duly elected members, no deputies and three employee representatives, each with two personal deputies.

The employee representatives are appointed by the SAS Group's employee groups in Denmark, Norway and Sweden in line with governing legislation and special agreements. Deputies attend Board meetings only in the absence of an ordinary member. Except for employee representatives, no Board member is employed by SAS AB or any other company in the SAS Group. The elected Board members are appointed for the period until the end of the next AGM. No regulation exists that limits the period of time a Board member can serve in that capacity. The experience of the Board members and their independence in relation to the owners of the company are disclosed on pages 58–59.

The average age of members is 59 and three of the eight members elected by the shareholders' meeting are women. All members elected by the shareholders' meeting are regarded by the Nomination Committee as being independent of the company and company management. Moreover, all Board members are deemed to be independent in relation to major shareholders at October 31, 2017.

SAS AB meets the requirements of the Code regarding Board independence vis-à-vis the company, company management and the company's major shareholders. The Nomination Committee applies Rule 4.1 of the Code as its Diversity Policy and believes that the Code's requirements for diversity, breadth and an even gender balance improved in accordance with the Committee's ambition of achieving an equal gender balance on the Board of Directors.

To streamline and enhance the work of the Board, there are two committees:

- The Remuneration Committee
- The Audit Committee

The members of these Committees are appointed by the Board. The main duty of the committees is to prepare issues for decision by the Board. These committees do not imply any delegation of the Board's legal responsibilities. Reports to the Board on issues discussed at committee meetings are either in writing or given verbally at the following Board meeting.

The work on each committee follows written instructions and a formal work plan stipulated by the Board. The General Counsel of SAS serves as the secretary to the Audit Committee. Minutes of Committee meetings are provided to all Board members. Remuneration for work on Board committees is determined by the AGM.

THE BOARD'S WORK 2016/2017

The Board's work follows a yearly agenda with regular business items as well as special topics. The formal work plan regulates the division of the Board's work between the Board and its committees and among the Board, its Chairman and the President. Working closely with the President, the Chairman of the Board monitors the company's performance, plans Board meetings, takes responsibility for ensuring that the other members of the Board always receive high-quality information about the Group's finances and performance, and ensures that the Board evaluates its work and that of the President each year.

The formal work plan also contains provisions for meeting the Board's needs for information and financial reporting on an ongoing basis as well as instructions for the President and the company's Board committees. This process is evaluated each year, including the work of the Board. Evaluation of the Board is carried out by way of an annual survey that is compiled and then discussed by the Board.

In 2016/2017, as part of the strategic planning, the Board discussed SAS's efficiency enhancement program, the establishment of bases for flight operations outside of Scandinavia, funding plans, financial targets, the aircraft fleet, and kept itself regularly updated on safety efforts as well as SAS's risk management and earnings performance.

The Board appoints from among its own members the members of the Board's two committees: the Remuneration Committee and the Audit Committee.

Between November 2016 and October 2017, the Board held 13 scheduled Board meetings, including a statutory meeting and two by correspondence.

The President and other senior executives in the company attended Board meetings to make presentations and the company's General Counsel served as the Board's secretary.

ATTENDANCE AT BOARD MEETINGS, NOVEMBER 2016–OCTOBER 2017¹

Name	Dec 12	Jan 31	Feb 22 ²	Mar 7	Apr 5 ³	Jul 19–20	Sep 4	Sep 19 ³	Oct 5 ³	Oct 30
Fritz H. Schur, Chairman	●	●	●	●	●	●	●	●	●	●
Jacob Wallenberg, Vice Chairman	●	●	●	●	●	●	●	●	●	●
Dag Mejdell, Second Vice Chairman	●	●	●	●	●	●	●	○	●	●
Carsten Dilling, member	●	●	●	●	●	●	●	●	●	●
Lars-Johan Jarnheimer, member	●	●	●	●	●	●	●	●	●	●
Monica Caneman, member	●	●	●	●	●	●	●	●	●	●
Berit Svendsen, member	●	●	●	●	●	●	●	●	●	●
Sanna Suvanto-Harsaae, member	●	●	●	○	●	●	●	●	●	●
Janne Wegeberg, employee representative	●	●	●	●	●	●	●	●	●	●
Sven Cahier, employee representative ⁶	●	●	●	-	-	-	-	-	-	-
Cecilia van der Meulen, employee representative ⁶	-	-	-	●	●	●	●	●	○ ⁴	●
Jens Lippestad, employee representative ⁷	●	●	●	●	●	●	●	●	●	●

● Present ○ Absent

1) The Board also held two meetings by correspondence on January 17 and April 5, 2017.

2) Two meetings of which one was the statutory meeting following the AGM.

3) Extra meeting via telephone.

4) Stefan Ottoson, First Deputy, present.

5) Two minuted meetings of which one was by correspondence.

6) Sven Cahier was replaced in February 2017 by Cecilia van der Meulen

7) Replaced by Endre Røros as of January 2018.

MAIN ISSUES ADDRESSED AT BOARD MEETINGS

December	January	February	March	April	June	September	October
<p>December 12 Year-end report for 2015/2016 and the proposed disposition of earnings, the report from the external auditors, and the outlook for 2018–2019 as well as the Insider Policy/Information Policy. Other matters addressed, included the need to strengthen SAS's profitability and the next step in SAS's work with change as part of SAS's strategic plan. Evaluation of the Board's and President's work.</p>	<p>January 17 Remuneration to senior executives and a decision on notification of the 2017 AGM. January 31 Adoption of the 2015/2016 Annual Report and the work plan for the audit. The Board also discussed the next step in SAS's work with change and decided to establish production bases outside of Scandinavia.</p>	<p>February 22 Adoption of the meeting schedule for 2017/2018, and a review of flight safety and sustainability work, and an update regarding SAS's strategic plan. Moreover, the Board authorized the management to divest two slot pairs at London Heathrow. The Statutory Board meeting was held at the second Board meeting following the AGM.</p>	<p>March 7 Adoption of the report for the first quarter of 2016/2017</p>	<p>April 5 Review of the work with change at SAS and measure to enhance efficiency at SAS's core operations in Scandinavia. The second Board meeting (held by correspondence) authorized an issue within the EMTN program.</p>	<p>June 19–20 Review of SAS's strategy, work with change, financial policy and financing plan. The auditors presented their review of their work and of the interim report for the second quarter of 2016/2017. Status of collective agreement negotiations.</p>	<p>September 4 Review of the Board's formal work plan and instructions, SAS's financial policy, follow-up of risk management, regulatory compliance, internal control, corporate governance and adoption of SAS's interim report for the third quarter of 2016/2017. September 19 Review and discussion of material pertaining to a possible private placement.</p>	<p>October 5 The Board decided to call an extraordinary shareholders' meeting to resolve on a private placement. October 30 Evaluation of the Board's and President's work, and review of the budget for 2017/2018.</p>

E. AUDIT COMMITTEE

AREA OF RESPONSIBILITY

The Audit Committee monitors the company's financial reporting as well as the effectiveness of its internal control, internal audit and risk management. The Committee keeps itself informed about the audit. The Audit Committee is responsible for preparing the Board's quality assurance work regarding financial reporting. The Committee performs quality assurance through the discussion of critical auditing issues and the financial statements that the company submits. Issues discussed by the Committee include internal control, compliance, uncertainty in reported values, events after the closing date, changes in estimates and assessments, financial and legal risks, suspected irregularities, and other matters affecting the company's financial reporting.

The company's external auditors attend all meetings of the Committee. Without otherwise impacting the responsibilities and obligations of the Board, the Committee is tasked with scrutinizing and monitoring the impartiality and independence of the auditor including paying particular attention to any non-audit-related assignments provided to the company by the auditor as well as assisting in the preparation of proposals regarding the election of auditors and auditors' fees for resolution at AGMs.

APPOINTMENT OF MEMBERS

The Board appoints members of the Audit Committee. All members of the Audit Committee are independent in relation to SAS, the company management and the shareholders in line with the Code. Besides the Committee Secretary and the external auditor, the SAS Group CFO and one employee representative and, as required, representatives from SAS's accounting unit attend Committee meetings.

THE AUDIT COMMITTEE'S WORK 2016/2017
— FIVE MINUTED MEETINGS

Meeting date:	Dec 12	Jan 31	Mar 7	Jun 19	Sep 4
Monica Caneman (Chairman)	●	●	●	●	●
Carsten Dilling	○	●	●	●	●
Lars-Johan Jarnheimer	●	●	●	●	●

● Present ○ Absent

F. REMUNERATION COMMITTEE

AREA OF RESPONSIBILITY

The Remuneration Committee prepares issues for the Board's decision vis-à-vis remuneration policies, remuneration and other employment terms for senior executives with a view to ensuring the company's access to executives with the requisite skills at a cost appropriate to the company. The Committee prepares proposals for policies for remuneration and other employment terms for resolution at the AGM.

APPOINTMENT OF MEMBERS

The Board appoints members of the Remuneration Committee. The Code specifies that members of the Remuneration Committee must be independent of the company and company management. Fritz H. Schur, Jacob Wallenberg and Dag Mejdell are independent in relation to the company and company management.

REMUNERATION COMMITTEE'S WORK 2016/2017
— TWO MINUTED MEETINGS

Meeting date:	Dec 22	May 23
Fritz H. Schur (Chairman)	●	●
Jacob Wallenberg	●	●
Dag Mejdell	●	●

● Present ○ Absent

REMUNERATION POLICIES AND OTHER TERMS OF EMPLOYMENT FOR COMPANY MANAGEMENT AT THE 2017 AGM

The Remuneration Committee prepares remuneration policies applicable to the Group Management, which are subsequently addressed by the Board, which presents the motion to the AGM for resolution. Remuneration policies for company management are to be formulated and presented by the Remuneration Committee to the Board, which submits the proposal to the AGM for adoption. Total remuneration must be market-based and competitive and must be in relation to responsibility and authority.

Remuneration consists of fixed salary, other benefits and pension. The fixed salary is to reflect the position's requirements pertaining to skills, responsibility, complexity and the manner in which it contributes to achieving the business objectives. The fixed salary is to also reflect the senior executive's performance and can therefore be both individual and differentiated. Other benefits, including company car and health insurance, must be market-based and only constitute a limited part of the total remuneration.

Pension benefits are to be defined-contribution, with premiums not exceeding 30% of the fixed annual salary.

Agreements concluded previously with some senior executives that contain partially deviating conditions governing pensions, notice periods and severance pay will be respected until they cease or are renegotiated.

The Board deems that particular circumstances existed for deviation from the remuneration policies and has decided to allow variable remuneration to the member of Group Management responsible for Commercial.

Remuneration of the President is to be decided within the framework of policies approved by the Board of SAS AB and after preparation and recommendation by the Remuneration Committee established by the Board. Remuneration of other members of Group Management is to be decided by the President within the framework of approved remuneration policies after consultation with the Remuneration Committee.

The 2016/2017 AGM adopted the remuneration policies for senior executives. The remuneration policies for 2016/2017 were updated to state that pension benefits should not exceed a maximum of 30% of fixed annual salary as compared with previously being capped at a ceiling of 30%.

The Board deems sufficient reason exists to set aside the policy of a maximum pension premium of 30% for the CEO Rickard Gustafson, since current benchmarking of CEO salaries in Sweden motivate a pension premium of 40% and total compensation to Rickard Gustafson in the form of annual salary and pension benefits can thereby be considered to be on a par with market rates.

Pursuant to the resolution of the AGM, no variable remuneration is payable to senior executives, except for the Executive Vice President Commercial, and no share-related incentive programs exist at SAS. In conjunction with the changes in Group Management on July 1, 2017 and the dissolution of the Commercial business area; no member of the Group Management has a variable remuneration model.

The detailed guidelines are available on the company's website www.sasgroup.net under Corporate governance, 2017 AGM. For detailed information about remuneration and benefits for the Board, President and senior executives in 2016/2017, see Note 3.

The guidelines to be proposed to the AGM on April 10, 2018 will be available in good time ahead of the 2018 AGM.

G. PRESIDENT AND GROUP MANAGEMENT

The Board appoints the President of SAS AB, who is also Group CEO. The Board has delegated responsibility for the day-to-day administration of SAS to the President. Each year, an instruction defining the division of duties between the Board and the President is determined by the Board who also evaluate the work performed by the President. The Board's instructions to the President contain detailed rules governing the President's authority and obligations.

The President liaises, works closely, and has regular meetings with the Chairman to discuss the operations and performance of SAS, and to plan Board meetings. To enable the Board to monitor the financial position of SAS on an ongoing basis, the President makes monthly reports to the Board.

Group Management comprised seven members, including the President, for 2016/2017. During the fiscal year, Annelie Nässén joined the Group Management as Executive Vice President for

Sales & Marketing and Eivind Roald stepped down. The composition and functions of the Group Management are shown on page 60.

Group Management is not a corporate body in the sense of Swedish limited company law and as a collegial management body has no legal liability vis-à-vis the Board and shareholders. Only the President reports to the Board. Group Management normally holds minuted meetings every week. These meetings are chaired by the President, who reaches decisions after consulting with the other members of Group Management.

The main business areas of SAS that are not themselves a separate legal entity are led by Group Management through representatives for the respective business area.

Group Management's management and control of operations are based on guidelines and policies regarding financial management and follow-up, communication issues, human resources, legal issues, brands, business ethics and environmental matters.

INTERNAL CONTROL — FINANCIAL REPORTING

SAS applies COSO, the internationally recognized framework for internal control, to describe and evaluate the Group's control structure.

Internal control of financial reporting is a process involving the Board of Directors, company management and employees, and is designed to provide reasonable assurance regarding the reliability of external reporting. The Board is ultimately responsible for internal control. Five areas that jointly form the basis of a sound control structure are described below.

CONTROL ENVIRONMENT

The control environment comprises the basis for internal control and includes the culture in which SAS communicates and acts. The Group's ambition is that its values — reliability, openness, care and value-creation — will permeate the organization and the internal control environment.

All actions, internal as well as external, are to reflect these basic values. The SAS Group's Code of Conduct describes the desired approach in various situations, including a structure for reporting deviations from the desired approach. Information concerning governance of the Group is available for all employees on the Group's intranet. These documents describe SAS's control philosophy, control model and entities as well as the companies' roles and responsibilities, owner requirements, overall monitoring, internal business relationships and the allocation of tasks.

RISK ASSESSMENT

Each year, company management produces a risk assessment that encompasses all operations and is based on the targets of those operations. The risk assessment is presented to the Audit Committee and reviewed continuously throughout the year.

With regard to financial reporting, an assessment of significant risks in relation to major balance sheet and income items is carried out annually. This assessment grades the risks concerning financial reporting, and critical areas are identified.

Furthermore, SAS's internal audit carries out an annual risk assessment that forms the basis of future years' audit plans. Both the risk assessment and the audit plan are presented to company management and the Audit Committee.

CONTROL ACTIVITIES

Control activities are carried out at different levels within SAS to manage risks and ensure the reliability of financial reporting. During the 2016/2017 fiscal year, SAS continued efforts to define important control activities, or key controls, in relation to significant risks concerning financial reporting. These key controls have been compiled and described in relation to each process as part of SAS's internal control framework. Processes covered by the framework include the management process, accounting process, revenue process, purchasing process, payroll process, asset management process and controls related to IT. The framework is subject to an annual review based on the updated risk assessment concerning risks related to financial reporting. SAS's internal audit carried out a total of five audits during the fiscal year pertaining to:

- Delegation of financial authority
- Framework for internal control
- Technical maintenance agreements
- SAS's capacity to meet new regulatory requirements covering the administration of personal data
- Governance documents and pricing for SAS Cargo

INFORMATION AND COMMUNICATION

SAS's aim is that the information and communication paths pertaining to the internal control of financial reporting are known and appropriate. All policies and guidelines in the financial areas are on the intranet, under SAS Group Financial Guide. SAS's accounting policies as well as any changes are always communicated by direct dispatch and at regular meetings with those responsible for financial matters in the entities and subsidiaries.

All entities and subsidiaries submit a monthly report on their activities, including their financial status and performance. To ensure that the external information is correct and complete, an IR/Information policy has been adopted by the SAS Board. SAS's published external reports are based on reporting from all legal entities in accordance with a standardized reporting procedure.

Regularly reported financial information includes the annual report, interim reports, monthly traffic reports, press releases, presentations and telephone conferences focused on financial analysts and investors, and meetings with the capital markets in Sweden and abroad. The above information is also available on SAS's website www.sasgroup.net.

MONITORING

Internal audits at SAS have been outsourced. The audits carried out by internal audit are based on an annual internal audit plan and are mainly focused on operational risk areas. However, the internal audit plan also covers processes that impact financial reporting and the risk of irregularities, improper favoritism of another party at the company's expense, and the risk of loss or embezzlement. The annual internal audit plan is approved by the Audit Committee and the SAS Group's Board.

Monitoring and continuous evaluation of compliance with policies and guidelines as well as monitoring reported deficiencies are conducted regularly. In connection with monitoring action plans for noted deficiencies in control activities and their control targets, these measures are tested as is their compliance. Recommendations from the external and internal audits and the status of ongoing measures are compiled and presented to Group Management and the Audit Committee. Financial reporting is discussed at each Board meeting and at meetings of the Audit Committee.

BOARD OF DIRECTORS

The Board is responsible for the organization and administration of the Group, for ensuring proper control of its accounting and other financial circumstances as well as for appointing and removing the President. All members elected by the shareholders' meeting are independent of the company and company management.

The 2017 AGM adopted the Nomination Committee's recommendation for reelection of Fritz H. Schur, Monica Caneman, Carsten Dilling, Lars-Johan Jarnheimer, Dag Mejdell, Sanna Svanto-Harsaae, Berit Svendsen and Jacob Wallenberg. Fritz H. Schur was reelected Chairman of the Board.

The composition of the Board is based on the fact that SAS operates in a market subject to significant pressure for change and

intense competition as well as growth. Given these conditions, the Nomination Committee is of the opinion that Board continuity is of particular importance. With its experience of SAS and previous action programs related to the qualified Board work, the Nomination Committee deemed the Board to be particularly suited to provide the company's management the necessary support in the ongoing change process.

The Nomination Committee's opinion was that the Code's requirements for diversity, breadth and an even gender balance increased through the Nomination Committee's proposal.

No share convertibles or options have been issued to the Board of SAS AB.



**CHAIRMAN
FRITZ H. SCHUR, BORN 1951**

Chairman of the Board of SAS AB since April 2008. Member of the Board of SAS AB since 2001.

Directorships: Chairman of the companies in the Fritz Schur Group and C.P. Dyvig & Co A/S. Vice Chairman of Brd. Klee A/S.

Education: B.Sc. Economics and Business Administration.

Earlier directorships/positions: Chairman of Det Danske Klasselotteri A/S, F. Uhrenholt Holding A/S, SN Holding A/S, CVI A/S, PostNord AB and Post Danmark A/S, Chairman of DONG Energy A/S and Vice Chairman of Interbank A/S. Board member of De Post NV/La Poste SA, Belgium, WEPA Industrieholding SE and others.

Shareholding: 40,000 common shares and 2,888 preference shares through a legal entity.

Shareholding of related parties: 0.

Independent of the company, the company management and the company's major shareholders.



**FIRST VICE CHAIRMAN
JACOB WALLENBERG, BORN 1956**

Vice Chairman of the Board of SAS AB since 2001.

Directorships: Chairman of Investor AB. Vice Chairman of ABB Ltd, FAM AB, Patricia Industries and Telefonaktiebolaget LM Ericsson, and Board member of the Stockholm School of Economics and the Knut and Alice Wallenberg Foundation.

Education: B.Sc. Economics and MBA Wharton School, University of Pennsylvania.

Earlier directorships/positions: Chairman of SEB. Vice Chairman of Stockholms Handelskammare Service AB, Electrolux AB and Atlas Copco, as well as Board member of the Coca-Cola Company, Stora, WM-data and the Confederation of Swedish Enterprise. President and CEO of SEB, Deputy President and CFO of Investor AB.

Shareholding: 10,000 common shares.

Shareholding of related parties: 0.

Independent of the company, the company management and the company's major shareholders.



**SECOND VICE CHAIRMAN
DAG MEJDELL, BORN 1957**

Second Vice Chairman of the Board of SAS AB since 2008.

Directorships: Chairman of Norsk Hydro ASA, Sparebank 1 SR Bank ASA, NSB AS, International Post Corporation and Telecomputing.

Education: MBA, Norwegian School of Economics and Business Administration.

Earlier directorships/positions: President and CEO of Dyno Nobel ASA and CEO of Posten Norge AS. Chairman of Arbeidsgiverforeningen Spekter, Svenska Handelsbanken, Region Norway and Vice Chairman of Evry ASA. Board member of DYWIDAG System International GmbH. Industrial advisor IK investment Partners.

Shareholding: 4,214 common shares.

Shareholding of related parties: 0.

Independent of the company, the company management and the company's major shareholders.



**MONICA CANEMAN,
BORN 1954**

Member of the Board of SAS AB since 2010.

Directorships: Chairman of Bravida Holding AB. Board member of Comhem AB and Nets AB.

Education: MBA, Stockholm School of Economics.

Earlier directorships/positions: Chairman of Allenex AB, Arion Bank hf, Big Ba AB, EDT AS, the Fourth Swedish Pension Fund, Frösunda LSS AB, Intervorbium AB and Viva Media Group AB. Board member of Akademikliniken AB, Citymail Group AB, EDB Business Partner ASA, Intermail A/S, Lindorff Group AB, My Safety AB, Nordisk Energiförvaltning ASA, Nya Livförsäkrings AB, Nocom AB, Resco AB, Schibsted ASA, SEB Trygg Liv, Svenska Dagbladet AB and XponCard Group AB.

Shareholding: 4,000 common shares.

Shareholding of related parties: 0.

Independent of the company, the company management and the company's major shareholders.

Auditors: PricewaterhouseCoopers AB (PwC)

Auditor in charge: Bo Hjalmarsson. Authorized Public Accountant. Elected in 2013.

Other major engagements: Ericsson and SAAB.

Board secretary: Marie Wohlfahrt, General Counsel.



**CARSTEN DILLING,
BORN 1962**

Member of the Board of SAS AB since 2014.

Directorships: Chairman of NNIT A/S and Icotera A/S, and Board member of Terma A/S.

Education: B.Sc. and M.Sc. in Economics and Business Administration, Copenhagen Business School.

Earlier directorships/positions: Board member of Get AS, Traen A/S (Chairman), Gatetrade A/S, Columbus IT Partner A/S, Confederation of Danish Industry (DI) and Industrial Employers in Copenhagen (IAK) and a number of Board assignments for the TDC Group. Previously President and CEO of TDC A/S.

Shareholding: 0.

Shareholding of related parties: 0.

Independent of the company, the company management and the company's major shareholders.



**LARS-JOHAN JARNHEIMER,
BORN 1960**

Member of the Board of SAS AB since 2013.

Directorships: Chairman of Qliro-Group, Arvid Nordqvist HAB and Ingka Holding B.V (IKEA's parent company). Board member of Egmont International Holding AS, Wonderboo AB and Elite Hotels.

Education: B.Sc. in Business Administration and Economics, Lund and Växjö universities.

Earlier directorships/positions: Chairman of BRIS and Eniro AB. Board member of MTG Modern Times Group AB, Millicom International Cellular S.A, Invik and Apoteket AB. President and CEO of Tele2.

Shareholding: 10,000 common shares, 2,520 preference shares.

Shareholding of related parties: 0.

Independent of the company, the company management and the company's major shareholders.



**BERIT SVENDSEN,
BORN 1963**

Member of the Board of SAS AB since 2016.

Directorships: DNB ASA.

Education: M.Sc. in Electronic Systems Design, Norwegian University of Science and Technology (NTNU), M.Sc. in Technology Management, NTNU/NHH and Massachusetts Institute of Technology, Sloan School of Management, Boston, USA.

Earlier directorships/positions: Chairman of Data Respons ASA. Board member of Bisnode AB, EMGS and Ekornes ASA. Member of the European Commission's advisory group for ICT issues.

Shareholding: 0.

Shareholding of related parties: 0.

Independent of the company, the company management and the company's major shareholders.



**SANNA SUVANTO-HARSAAE,
BORN 1966**

Member of the Board of SAS AB since 2013.

Directorships: Chairman of Altia Oyj, Babysam A/S, Best VPG Holding A/S, BeConcept Holding A/S, Sunset Boulevard A/S, TCM Group A/S, Workz A/S, BoConcept AS and Footway AB. Vice Chairman of Paulig Oj. Board member of Broman group Oyj, CEPOS and Upplands Motor AB.

Education: M.Sc. in Business and Economics, Lund University.

Earlier directorships/positions: Chairman of Health and Fitness Nordic AB and BTX AS. Board member of Jepak AB, Duni AB, Candyking AB, CCS AB, Clas Ohlson AB and Symrise AG.

Shareholding: 0.

Shareholding of related parties: 0.

Independent of the company, the company management and the company's major shareholders.



**EMPLOYEE REPRESENTATIVE
ENDRE RØROS, BORN 1972**

Employed at Scandinavian Airlines in Norway. Member of the Board of SAS AB since January 2018.

Shareholding: 0.

Shareholding of related parties: 0.

DEPUTIES:

Pål Gisle Andersen, First Deputy.
Shareholding: 0.

Jan Levi Skogvang, Second Deputy.
Shareholding: 0.

Jens Lippestad was an employee representative until January 2018, when he was replaced by Endre Røros



**EMPLOYEE REPRESENTATIVE
CECILIA VAN DER MEULEN,
BORN 1955**

Employed at Scandinavian Airlines in Sweden. Member of the Board of SAS AB since 2017.

Shareholding: 0.

Shareholding of related parties: 0.

DEPUTIES:

Stefan Ottosson, First Deputy.
Shareholding: 0.

Joacim Olsson, Second Deputy.
Shareholding: 0.



**EMPLOYEE REPRESENTATIVE
JANNE WEGEBERG, BORN 1951**

Employed at Scandinavian Airlines in Denmark. Member of the Board of SAS AB since 2016.

Shareholding: 0.

Shareholding of related parties: 0.

DEPUTIES:

Christa Cere, First Deputy.

Shareholding: 0.

Kim John Christiansen, Second Deputy.
Shareholding: 0.

GROUP MANAGEMENT

Group Management is responsible for the company's business management, financial reporting, acquisitions/divestments, financing and communication, and other corporate matters. The members of the Group Management are appointed by the President in consultation with the Board of Directors. Only the President reports to the

Board, although the other members of Group Management report to the President. Group Management's responsibilities are divided among its members with regard to managing the company's business affairs, and minuted meetings are normally held every week.



RICKARD GUSTAFSON
BORN 1964

President and CEO.
Member of SAS Group Management since February 1, 2011.
Previously: Various executive positions at GE Capital, both in Europe and the US, and President of Codan/Trygg-Hansa from 2006–2011.
External directorships: Chairman of Aleris and Board member of FAM AB.
Education: M.Sc. Industrial Economics.
Shareholding: 40,000 common shares.
Shareholding of related parties: 5 common shares.
Rickard Gustafson and related parties have no significant shareholdings or part ownership in companies with which SAS conducts major business.



GÖRAN JANSSON
BORN 1958

CFO and Deputy President.
Member of SAS Group Management since March 1, 2011.
Previously: CFO and Deputy CEO of Assa Abloy.
External directorships: Board member of SPP.
Education: Graduate in Business Administration from Stockholm University.
Shareholding: 1,330 preference shares.
Shareholding of related parties: 0.



MATTIAS FORSBERG
BORN 1972

Executive Vice President and CIO.
Member of SAS Group Management since January 1, 2016.
Previously: CIO at Systembolaget 2011–2015 and previously CIO at B&B Tools and strategy/management consultant at Accenture, including experience of Swedish and international assignments.
External directorships: Member of Skandia's Council of Delegates.
Education: MSc in Engineering Physics and Business and Economics from Uppsala University.
Shareholding: 0.
Shareholding of related parties: 0.



CARINA MALMGREN HEANDER
BORN 1959

Executive Vice President and Chief of Staff.
Member of SAS Group Management since January 1, 2015.
Previously: Several leading positions in HR and operations at Electrolux, Sandvik and ABB.
External directorships: Chairman of Svenska Flygbranschen AB. Board member of Projektengagemang AB and Scandinavian Track Group AB.
Education: MBA, Linköping University.
Shareholding: 0.
Shareholding of related parties: 0.



ANNELIE NÄSSÉN
BORN 1968

Executive Vice President Sales & Marketing.
Member of SAS Group Management since July 1, 2017.
Previously: Most recently, VP Global Sales & Revenue Management and has previously held a number of leading positions at SAS's commercial units and Travel Retail.
External directorships: None.
Education: Bachelor of Management/BI Norwegian Business School Oslo, DIHM Marketing Management/IHM Business School.
Shareholding: 933 common shares.
Shareholding of related parties: 0.



LARS SANDAHL SØRENSEN
BORN 1963

Executive Vice President, Chief Operating Officer and Accountable Manager.
Member of SAS Group Management since May 1, 2015.
Previously: An international background from senior executive roles in ISS World (Group CCO), SAS Group (Group CCO & CEO of SAS International), Visit Denmark (CEO) and the Confederation of Danish Industry. Partner at AIMS International and an advisor to European large cap active ownership funds.
External directorships: NKT Holding A/S, the Danish Industry Foundation, the Board of Management and Business Policy Committee at the Confederation of Danish Industry, Industrial Employers in Copenhagen (IAK) and Sport Event Denmark.
Education: Economics & management from Kansai Gaidai University & St. Cloud University and Stanford University.
Shareholding: 0.
Shareholding of related parties: 0.



KARL SANDLUND
BORN 1977

Executive Vice President Commercial.
Member of SAS Group Management since February 1, 2014.
Previously: Most recently, Executive Vice President & Chief Strategy Officer and previously worked in various management positions for SAS. Karl Sandlund worked for McKinsey before joining SAS in 2004.
External directorships: None.
Education: M.Sc. in Industrial Engineering and Management from Linköping University.
Shareholding: 2,000 common shares, 130 preference shares.
Shareholding of related parties: 0.

COMMENTS ON SAS'S EARNINGS AND FINANCIAL STATEMENTS

Following an expected seasonally weak start to the fiscal year, a strong summer contributed to a significant year-on-year lift in earnings for SAS in 2016/2017. ROIC exceeded the cost of capital, which means we created shareholder value. A pleasing result!

COMMENTS ON EARNINGS

Income before tax and nonrecurring items for 2016/2017 was MSEK 1,951 (939). Above all else, I would like to showcase the following factors that have lifted earnings:

Revenue increased MSEK 3,195 during the year, mainly due to the positive response to SAS's increased and more customer-oriented capacity, and the stabilization of unit revenue over the year. This contributed to passenger revenue increasing by MSEK 2,273. Higher volumes also boosted charter revenue by MSEK 173 and cargo revenue rose MSEK 217. Finally, ancillary services and sales of EuroBonus points trended favorably and contributed slightly more than MSEK 400 in increased revenue.

Efficiency measures contributed MSEK 785 during the fiscal year and thus offset higher contractual costs that annually raise costs for SAS by SEK 0.4 to 0.5 billion. Efficiency improvements contributed to a year-on-year 3.6% decrease in the currency-adjusted unit cost, excluding jet fuel.

It might appear to be contradictory that total operating expenses increased for SAS despite the implementation of the above efficiency measures. I would therefore like to highlight that the efficiency measures are measured on a gross basis, and before the increase in costs due to the 7.4% capacity increase in 2016/2017.

Positive currency effects of MSEK 167 also impacted earnings in the fiscal year. The exchange-rate trend had a positive impact on revenue of MSEK 768, mainly due to a stronger NOK. However, operating expenses were negatively impacted by MSEK -613, mainly due to a stronger USD at the start of the fiscal year. More information about currency effects and SAS's hedging strategy is available on pages 46–47.

IMPROVED FINANCIAL POSITION

As I wrote in the 2015/2016 Annual Report, it was critical for us to continue working with the efficiency measures in 2016/2017 to strengthen SAS's financial position and profitability, and to thereby reduce long-term financing costs for SAS. I am pleased to report that we delivered in line with that need over the past fiscal year. Over the fiscal year, shareholders' equity at SAS increased slightly more than 30% to almost SEK 8.1 billion. Financial preparedness was stable and closed the year at 37%, despite our investments of SEK 7.3 billion and net loan repayments and preference share dividends of just over SEK 1.1 billion. Aircraft investments were primarily financed by sale and leaseback arrangements, and a positive operational cash flow has financed loan repayments.

As a result of SAS's positive trend, at the start of November 2017, we were able to successfully conduct an MSEK 1,270 private placement. In addition to the confidence shown in SAS by the capital markets, which we will do our utmost to safeguard, the capital injection entails a further boost in our ability to lower financing costs in the long term.

The first step in lowering financing costs was taken in November, when we issued a new unsecured bond with a coupon rate of 5.375%.

Compared with the bond repaid in November, this entails an annual reduction in interest expense of more than MSEK 55 for SAS moving forward. Moreover, we plan to redeem part of the preference share capital in February 2018. Altogether, my assessment is that our financing costs, if preference share dividends are included, will decrease from slightly more than SEK 0.8 billion in 2016/2017 to slightly more than SEK 0.5 billion in 2017/2018.

CONTINUED CHANGE

Through their response to SAS's issue of shares and bonds, the capital markets and shareholders have demonstrated considerable confidence in SAS as well as increased expectations of a return. We will do our utmost to meet this confidence and to work with a long-term approach to creating shareholder value over a business cycle.

Even if it is pleasing to report that we have created shareholder value in 2016/2017, profitability requirements will rise moving forward to enable us to continue creating value. This is mainly due to SAS investing in the renewal of the aircraft fleet, which will increase tied-up capital. A successful implementation of our efficiency measures together with broadening the revenue base, as described earlier in this report, will therefore be decisive for us to continue creating value. I look forward to working on these focus areas and, at the same time, would like to welcome Torbjørn Wist in his role as SAS's new CFO from March 2018.

Thank you for your interest in SAS and its operations, and your support during the year.

Göran Jansson
CFO and Deputy President.

January 29, 2018



CONSOLIDATED STATEMENT OF INCOME INCLUDING STATEMENT OF OTHER COMPREHENSIVE INCOME

MSEK	Note	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Revenue	2	42,654	39,459
Payroll expenses ¹	3	-9,205	-9,105
Other operating expenses ²	4	-27,489	-24,552
Leasing costs for aircraft		-3,116	-2,840
Depreciation, amortization and impairment ³	5	-1,635	-1,367
Share of income in affiliated companies	6	4	39
Income from the sale of shares in subsidiaries, affiliated companies and operations		-21	-7
Income from the sale of aircraft, buildings and slot pairs	7	995	265
Operating income		2,187	1,892
Income from other securities holdings	8	1	1
Financial revenue	9	148	91
Financial expenses	9	-611	-553
Income before tax		1,725	1,431
Tax	10	-576	-110
Net income for the year		1,149	1,321
Other comprehensive income			
Items that may later be reversed to net income:			
Exchange-rate differences in translation of foreign operations		-124	212
Cash-flow hedges – hedging reserve, net after tax of -41 (-30)		147	107
Items that will not be reversed to net income:			
Remeasurements of defined-benefit pension plans, net after tax, of -408 (575)		1,210	-1,627
Total other comprehensive income, net after tax		1,233	-1,308
Total comprehensive income		2,382	13
<i>Net income for the year attributable to:</i>			
Parent Company shareholders		1,149	1,321
Non-controlling interests		0	0
Earnings per common share (SEK) ⁴	41	2.42	2.94
Earnings per common share after dilution (SEK) ⁴	41	2.13	2.57

1) Includes restructuring costs of MSEK 74 (34).

2) Includes restructuring costs and other nonrecurring items of MSEK 918 (-323).

3) Includes other nonrecurring items of MSEK 208 (55).

4) Earnings per common share are calculated as net income for the period attributable to Parent Company shareholders less preference-share dividends in relation to an average of 330,082,551 (329,902,126) common shares outstanding.

The SAS Group has no option or share programs. Convertible bonds only have a dilution effect if conversion of the loans to common shares would result in lower earnings per share. At the balance-sheet date, there was one convertible bond of MSEK 1,574, comprising 65,536,095 shares.

Income before tax and nonrecurring items, MSEK	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Income before tax	1,725	1,431
Impairment ¹	208	11
Restructuring costs ²	110	42
Capital gains/losses ³	-974	-269
Other nonrecurring items ⁴	882	-276
Income before tax and nonrecurring items	1,951	939

1) Impairment pertains to IT systems, MSEK 208 (0), and goodwill, MSEK 0 (11).

2) Restructuring costs were charged to earnings as payroll expenses of MSEK 74 (34), property costs of MSEK 36 (0) and other expenses of MSEK 0 (8).

3) Capital gains/losses encompass the sale of subsidiaries for a loss of MSEK 21 (gain: 4), aircraft sales for a gain of MSEK 317 (235), property sales for a gain of MSEK 0 (30) and the sale of two slot pairs at London Heathrow for a gain of MSEK 678 (0).

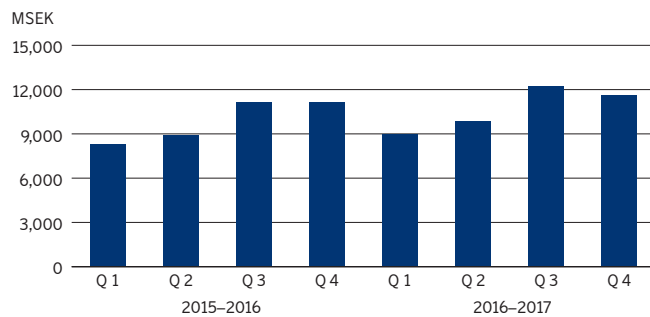
4) Other nonrecurring items include a negative earnings impact of MSEK 672 in the second quarter of 2016/2017 and a positive earnings impact of MSEK 655 in the second quarter of 2015/2016 relating to fines (MEUR 70.2) for breaches of air cargo competition rules. Moreover, costs are also included that related to aircraft of MSEK 180 (160), a provision related to indirect taxes of MSEK 0 (219) and a contractual settlement in cargo activities of MSEK 30 (0).

STATEMENT OF INCOME EXCLUDING OTHER COMPREHENSIVE INCOME — QUARTERLY BREAKDOWN

MSEK	2015–2016					2016–2017				
	Q1	Q2	Q3	Q4	Full-year	Q1	Q2	Q3	Q4	Full-year
	Nov–Jan	Feb–Apr	May–Jul	Aug–Oct	Nov–Oct	Nov–Jan	Feb–Apr	May–Jul	Aug–Oct	Nov–Oct
Revenue	8,275	8,916	11,133	11,135	39,459	8,957	9,843	12,210	11,644	42,654
Payroll expenses	-2,334	-2,311	-2,275	-2,185	-9,105	-2,421	-2,302	-2,293	-2,189	-9,205
Other operating expenses	-5,169	-5,429	-6,684	-7,270	-24,552	-6,105	-7,188	-6,778	-7,418	-27,489
Leasing costs for aircraft	-700	-706	-737	-697	-2,840	-733	-801	-808	-774	-3,116
Depreciation, amortization and impairment	-341	-312	-337	-377	-1,367	-327	-388	-343	-577	-1,635
Share of income in affiliated companies	-12	-2	25	28	39	-11	3	-4	16	4
Income from the sale of shares in subsidiaries, affiliated companies and operations	0	4	0	-11	-7	-21	0	0	0	-21
Income from the sale of aircraft, buildings and slot pairs	95	80	33	57	265	84	723	110	78	995
Operating income	-186	240	1,158	680	1,892	-577	-110	2,094	780	2,187
Income from other securities holdings	1	0	0	0	1	0	1	0	0	1
Financial revenue	22	32	20	17	91	41	43	29	35	148
Financial expenses	-146	-145	-142	-120	-553	-161	-142	-150	-158	-611
Income before tax	-309	127	1,036	577	1,431	-697	-208	1,973	657	1,725
Tax	63	44	-231	14	-110	141	-112	-438	-167	-576
Net income for the period	-246	171	805	591	1,321	-556	-320	1,535	490	1,149
<i>Attributable to:</i>										
Parent Company shareholders	-246	171	805	591	1,321	-556	-320	1,535	490	1,149
Non-controlling interests	0	0	0	0	0	0	0	0	0	0

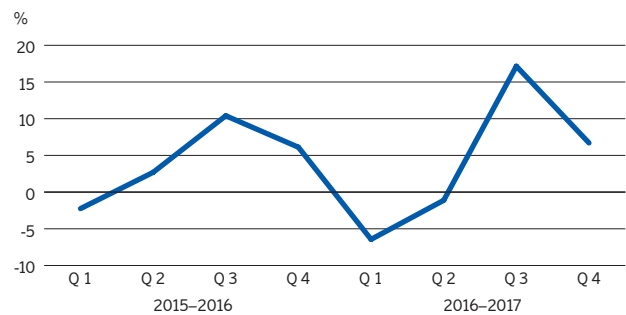
REVENUE

(Per quarter, according to the November–October fiscal year)



EBIT MARGIN

(Per quarter, according to the November–October fiscal year)



CONSOLIDATED BALANCE SHEET

ASSETS, MSEK	Note	Oct 31, 2017	Oct 31, 2016	SHAREHOLDERS' EQUITY AND LIABILITIES, MSEK	Note	Oct 31, 2017	Oct 31, 2016
Fixed assets				Shareholders' equity			
Intangible assets	11	1,581	1,923	Share capital	21	6,776	6,776
Tangible fixed assets	12			Other contributed capital		327	327
Land and buildings		549	527	Reserves	22	1,274	1,251
Aircraft		7,900	8,254	Retained earnings		-319	-2,328
Spare engines and spare parts		57	48	Total shareholders' equity attributable to Parent Company shareholders		8,058	6,026
Workshop and aircraft servicing equipment		88	93	Non-controlling interests		0	0
Other equipment and vehicles		95	105	Total shareholders' equity		8,058	6,026
Investment in progress		16	33				
Prepayments relating to tangible fixed assets	13	1,987	2,135	Long-term liabilities	23		
		10,692	11,195	Subordinated loans	24	1,067	1,157
Financial fixed assets	14			Bonds	25	386	2,183
Equity in affiliated companies	6	374	398	Other loans	26	4,088	4,390
Other holdings of securities		3	3	Deferred tax liability	10	361	0
Pension funds, net	15	4,871	2,615	Other provisions	28	3,461	2,089
Deferred tax assets	10	219	854	Other liabilities		0	3
Other long-term receivables		2,512	2,331			9,363	9,822
		7,979	6,201	Current liabilities			
Total fixed assets		20,252	19,319	Current portion of long-term loans		2,868	1,827
				Short-term loans	29	166	320
Current assets				Prepayments from customers		11	0
Expendable spare parts and inventories	16	321	312	Accounts payable		1,448	1,755
		321	312	Tax liabilities		32	21
Current receivables	17			Unearned transportation revenue		5,064	5,318
Accounts receivable		1,363	1,406	Current portion of other provisions	28	1,499	457
Receivables from affiliated companies	18	2	1	Other liabilities		712	872
Other receivables		931	1,193	Accrued expenses and prepaid income	30	3,334	5,336
Prepaid expenses and accrued income	19	850	1,153			15,134	15,906
		3,146	3,753	TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		32,555	31,754
Cash and cash equivalents				Shareholders' equity per common share (SEK) ¹		13.28	7.12
Short-term investments	20	5,932	6,067				
Cash and bank balances		2,904	2,303				
		8,836	8,370				
Total current assets		12,303	12,435				
TOTAL ASSETS		32,555	31,754				

1) Shareholders' equity attributable to Parent Company shareholders excluding total preference share capital in relation to the 330,082,551 (330,082,551) common shares outstanding.
2) Other provisions includes SAS's undertakings pertaining to aircraft under operating leases. Last year these undertakings were classified as an accrued expense. The comparative figures have not been restated.

Information about the Group's pledged assets, contingent liabilities and leasing commitments is given in notes 31, 32 and 33.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

MSEK	Share capital ¹	Other contributed capital ²	Hedging reserves	Translation reserve	Retained earnings ³	Total shareholders' equity attributable to Parent Company shareholders	Non-controlling interests	Total shareholders' equity
Opening shareholders' equity in accordance with approved balance sheet, November 1, 2015	6,754	327	1,218	-286	-1,674	6,339	0	6,339
Conversion of convertible bond	22				2	24		24
Preference share dividend					-350	-350		-350
Comprehensive income, November–October			107	212	-306	13		13
Closing balance, October 31, 2016	6,776	327	1,325	-74	-2,328	6,026	0	6,026
Preference share dividend					-350	-350		-350
Comprehensive income, November–October			147	-124	2,359	2,382		2,382
Closing balance, October 31, 2017	6,776	327	1,472	-198	-319	8,058	0	8,058

1) Number of shares in SAS AB: 330,082,551 (330,082,551) common shares with a quotient value of SEK 20.10 and 7,000,000 preference shares with a quotient value of SEK 20.10.

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

3) No dividends were paid on common shares for 2015/2016.

CONSOLIDATED CASH-FLOW STATEMENT

MSEK	Note	Nov–Oct 2016–2017	Nov–Oct 2015–2016
OPERATING ACTIVITIES			
Income before tax		1,725	1,431
Depreciation, amortization and impairment		1,635	1,367
Income from sale of aircraft, buildings and shares		-974	-269
Adjustment for other non-cash items, etc.	34	341	277
Tax paid		-26	0
Cash flow from operations before change in working capital		2,701	2,806
<i>Change in:</i>			
Expendable spare parts and inventories		-9	33
Operating receivables		-11	-544
Operating liabilities		-238	1,368
Cash flow from change in working capital		-258	857
Cash flow from operating activities		2,443	3,663
INVESTING ACTIVITIES			
Aircraft		-5,730	-4,391
Spare parts		-97	-25
Buildings, equipment and investment in progress		-113	-338
Shares and participations, intangible assets, etc.		-73	-174
Prepayments for flight equipment		-1,302	-1,032
Total investments		-7,315	-5,960
Sale of subsidiaries	35	-24	-2
Sale of aircraft, spare engines and buildings		1,313	568
Income from sale and leaseback of aircraft		5,224	2,656
Sale of fixed assets, etc.		715	123
Cash flow from investing activities		-87	-2,615
FINANCING ACTIVITIES			
Proceeds from borrowings		2,385	1,093
Repayment of borrowings		-3,183	-1,371
Dividend on preference shares		-350	-350
Defined-benefit pension payments		-546	-379
Payments of deposits and blocked bank funds		-291	-256
Repayments of deposits and blocked bank funds		166	87
Closed aircraft hedges		-	129
Other financing activities		-68	167
Cash flow from financing activities		-1,887	-880
Cash flow for the year		469	168
Translation difference in cash and cash equivalents		-3	4
Cash and cash equivalents at beginning of the year		8,370	8,198
Cash and cash equivalents at year-end	36	8,836	8,370
Cash flow from operating activities per common share (SEK)		7.40	11.10

COMMENTS ON THE CASH-FLOW STATEMENT

Cash flow from operating activities, before changes in working capital, amounted to MSEK 2,701 (2,806).

Adjustment for other non-cash items, etc., primarily pertained to provisions for restructuring costs and other nonrecurring items.

The change in working capital amounted to MSEK -258 (857). It was primarily operating liabilities that decreased during the year.

Aircraft acquisitions during the year amounted to MSEK 4,293, which comprised delivery payments for 11 new Airbus A320neos that were immediately divested on the basis of sale and leaseback agreements and the acquisition of eight Boeing 737s, one Airbus A340 and one Airbus A319 that were previously under operating leases. Moreover, aircraft investments included MSEK 1,371 in capitalized expenditures for engine maintenance and MSEK 66 for aircraft modifications.

The subsidiary Cimber A/S was divested at the start of the year.

Aircraft sales comprised 12 CRJ900s. Moreover, sale and leaseback arrangements were made for the 11 Airbus A320neos and one spare engine acquired during the year as well as four Boeing 737s.

The sale of fixed assets, etc. included MSEK 678 which was received for the slot pairs at London Heathrow that were sold by SAS in March.

In all, the SAS Group's cash and cash equivalents increased during the fiscal year by MSEK 466 (172), whereupon cash and cash equivalents amounted to MSEK 8,836 (8,370).

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PARENT COMPANY		
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NOTE 5	Other holdings of securities	100
NOTE 6	Convertible loans	100
NOTE 7	Bonds	100
NOTE 8	Contingent liabilities	100
NOTE 9	Auditors' fees	100

NOTES TO THE FINANCIAL STATEMENTS

Expressed in millions of Swedish kronor (MSEK) unless otherwise stated.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

GENERAL

SAS AB (the "Company") and its subsidiaries (collectively referred to as the "Group") provide transportation services.

The core business of the Group is operating passenger flights on an extensive Nordic and international route network. The Group's three main operational hubs in Copenhagen, Oslo and Stockholm form the backbone of its flight network. In addition to passenger flights, the Group provides air cargo and other aviation services at selected airports in the Group's route network.

SAS AB is a Swedish public limited company registered in Stockholm and the address of its head office is Frösundaviks allé 1, Solna, Stockholm. SAS AB is the Parent Company of the SAS Group.

The consolidated financial statements for SAS AB have been prepared in accordance with the Annual Accounts Act, recommendation RFR 1 — *Supplementary Accounting Rules for Corporate Groups*, and the EU-approved International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) that apply for fiscal years starting November 1, 2016. These standards have been consistently applied to all periods presented in the consolidated financial statements. The financial statements have been prepared on a cost basis, except for the remeasurement of financial assets and liabilities. The principal accounting policies adopted are set out below.

ACCOUNTING ESTIMATES AND ASSUMPTIONS IN THE FINANCIAL STATEMENTS

The preparation of financial statements in accordance with IFRS requires management to perform estimates and assumptions that influence the application of the accounting policies and the carrying amounts of assets, liabilities, revenue and expenses. Actual outcomes may differ from these estimates and assumptions.

The estimates and assumptions are regularly reviewed. Changes in estimates are recognized in the period in which the change is made if the change affects only that period, or in the period in which the change is made and future periods if the change affects both the current and future periods. For more information, see "Critical accounting estimates and key sources of estimation uncertainty" in this note.

NEW AND AMENDED STANDARDS AND INTERPRETATIONS APPLICABLE FOR THE 2016/2017 FISCAL YEAR

The following new and amended standards apply for the Group's accounting for 2016/2017:

- Amendments to IAS 1 *Disclosure initiatives*
- Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciations and Amortization*
- Annual Improvements to IFRS 2012–2014 Cycle

The above standards are not assessed as having any material effect on the consolidated financial statements.

NEW AND AMENDED STANDARDS AND INTERPRETATIONS THAT HAVE NOT ENTERED FORCE AND HAVE NOT BEEN ADOPTED EARLY BY THE GROUP

The following new and amended standards and interpretations have been issued and are mandatory for the accounting of the Group for fiscal years beginning on or after November 1, 2018. SAS has not early adopted any of the new standards.

IFRS 9 — *Financial Instruments* replaces IAS 39 — *Financial Instruments: Recognition and Measurement*. The Group intends to apply the new standard for the fiscal year starting November 1, 2018. The standard has been adopted by the EU. The amendments to IFRS 9 primarily pertain to three separate areas: classification and measurement, impairment and hedging.

Under IFRS 9, financial assets can be measured using three different methods: fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVTOCI) and at amortized cost. Assets are classified to the different measurement categories based on the company's business model and the characteristics of the contractual terms applying to cash flows. Essentially the same rules as under IAS 39 apply for financial liabilities. Minor changes apply to liabilities identified at fair value. This provides that the portion of change in fair value attributable to changes in the credit risk be recognized in other comprehensive income instead of profit or loss if so doing does not give rise to accounting mismatch. SAS is currently assessing the effect on the financial reporting of the changes in measurement and classification.

The standard introduces a new model for impairment that is based on expected credit losses (compared with incurred credit loss events under IAS 39). The impairment model in IFRS 9 entails a three-stage model based on changes in the credit risk of the financial assets. The first stage means the company must recognize a provision for expected credit losses (ECL) over the forthcoming 12 months. In stage two, a provision must be made for lifetime ECL. A provision is recognized where there has been a significant increase in credit risk, in other words, where the credit risk on the balance-sheet date is higher than the credit risk on initial recognition. Stage three means that a loss event has occurred and impairment is measured in the same manner as in stage two, that is, at an amount equivalent to lifetime ECL. The rules include a simplified approach for accounts receivable and leasing receivables, which entails that companies can, instead of assessing whether the credit risk has increased since initial recognition, directly recognize a provision corresponding to lifetime ECL, in other words, apply stage two directly. SAS is evaluating the effects of the new impairment rules on the financial reporting.

Hedge accounting under IFRS 9 encompasses a number of changes. The hedge effectiveness requirement that a hedge should be in the 80–125% range is replaced by an overall assessment of whether or not the hedge relationship is effective. The rules also introduce a new accounting for the time value of an option, where the initial time value is treated as a cost for the hedging strategy and where changes in the time value are recognized in other comprehensive income and not in profit or loss. The changes in the time value of options are expected to have a not immaterial effect on SAS's financial reporting. SAS will continue to evaluate and quantify the effect of the changes over the forthcoming fiscal year.

IFRS 15 — *Revenue from contracts with customers* governs how income recognition is performed. IFRS 15 replaces IAS 18 — *Revenue* and IAS 11 — *Construction Contracts*. The standard enters into force on January 1, 2018 and SAS intends to implement it for the fiscal year starting November 1, 2018. IFRS 15 is based on the principle that revenue will be recognized when an agreed obligation for goods or services is transferred to the customer, in other words, when the customer has obtained control over the goods or services. This principle replaces the previous principle that revenue is recognized when the risks and rewards of ownership have been transferred to the buyer. The standard introduces a five-step model to be applied to all contracts. During the year, SAS continued work on analyzing the effects of IFRS 15 on the financial statements.

Currently, one change resulting from IFRS 15 is assessed as applying to the proportion of the ticket price that will be allocated to loyalty points. Under the new standard, the allocation of loyalty points must be based on the points' proportion compared with the total performance obligation, that is the ticket and the points, irrespective of the selling price. SAS is currently in the process of quantifying the effect.

With regard to sales of ancillary services, SAS expects a change linked to rebooking fees. At present, rebooking fees are recognized as income when the rebooking takes place. Under IFRS 15, this is considered to be part of the performance obligation that is discharged when the air ticket is used. Accordingly, under IFRS 15, revenue recognition will occur later than at present. SAS is currently in the process of examining the effect. Otherwise, SAS's assessment is that under the current circumstances the standard will not have any material effects on the financial reporting.

IFRS 16 — *Leasing* provides a single lessee accounting model. The standard replaces the current classification as either operating leases or finance leases and introduces a model, whereby the lessee recognizes an asset (the right to use an asset) and a financial liability in the balance sheet. The leasing cost is replaced in the income statement by a cost for the depreciation of the leased asset and an interest expense for the financial liability. During the year, the Group continued work on analyzing the effects of IFRS 16 on the financial statements. The standard is expected to have a material impact on SAS's financial reporting, since the Group has significant leasing commitments for, inter alia, aircraft and premises. At the end of the 2016/2017 fiscal year, the nominal value of the Group's leases outstanding was around SEK 22 billion. See Note 33. The standard enters force on January 1, 2019, and was adopted by the EU in November 2017.

No other IFRS or IFRIC interpretations that have not yet come into effect are expected to have any material impact on the Group.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Parent Company and the entities over which controlling influence is exercised by the Group. The Group controls a company when it is exposed to, or has rights to, variable returns from its participation in the company and is able to affect those returns through its influence over the company.

Entities in which the Group has an ownership interest of at least 20% and no more than 50%, or where the Group has significant influence by other means but cannot exercise controlling influence, are affiliated companies. Affiliated companies are accounted for using the equity method.

The earnings of subsidiaries acquired during the year are included in the Group's earnings from the effective date of control. The separate net assets, both tangible and intangible, of newly acquired subsidiaries are consolidated into the financial statements on the basis of the fair value to the Group as at the effective date of control. The earnings of subsidiaries disposed of during the fiscal year are included in the Group's earnings up to the effective date of disposal.

Non-controlling interests in the net assets of consolidated subsidiaries are recognized in the consolidated balance sheet as a separate component of equity. The Group's earnings and components in other comprehensive income are attributable to the Parent Company's owners and to the non-controlling interests' owners, even if this generates a negative value for the non-controlling interest. All intra-Group transactions, balance-sheet items, revenue and expenses are eliminated on consolidation.

BUSINESS COMBINATIONS

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the acquisition date when controlling influence is achieved) of the assets transferred, liabilities incurred or assumed, and equity shares issued by the Group in exchange for control of the acquiree. Acquisition-related expenses are recognized in profit or loss when they are incurred. The cost also includes fair value at the acquisition date for the assets or liabilities that arise from any agreement governing a contingent consideration. Contingent considerations are classified either as equity or as financial liabilities. Amounts classified as financial liabilities are remeasured each period at fair value, and any remeasurement gains or losses are recognized in profit or loss.

The acquiree's identifiable assets, liabilities and contingent liabilities that qualify for recognition under IFRS 3 — *Business Combinations* are recognized at fair value on the acquisition date.

In business combinations where the sum of the cost, any non-controlling interests and fair value at the acquisition date for previously held equity exceeds fair value at the acquisition date for identifiable acquired net assets, the difference is recognized as goodwill in the balance sheet. If the difference is negative, this is recognized directly in profit or loss as a gain from a bargain purchase, following a review of the difference.

Non-controlling interests

Changes in the Parent Company's share in a subsidiary that do not lead to a loss of controlling influence are recognized as equity transactions (in other words, as transactions with the Group's owner). Any difference between the sum by which the non-controlling interests has been adjusted and the fair value of the consideration paid or received is recognized directly in equity and distributed to the Parent Company's owners.

Loss of controlling influence

When the Parent Company loses controlling influence of a subsidiary, the divestment gain or loss is calculated as the difference between:

- the sum of the fair value for the consideration received and the fair value of any remaining holdings, and
- the previously recognized values of the subsidiary's assets (including goodwill) and liabilities as well as any non-controlling interest.

INVESTMENTS IN AFFILIATED COMPANIES

Affiliated companies comprise all companies where the Group exercises significant but not controlling influence, which generally applies for shareholdings representing 20–50% of the votes. Affiliated companies are accounted for using the equity method.

The earnings of affiliated companies are accounted for based upon the Group's proportional ownership of the earnings of these affiliates. Any losses arising from affiliated companies are recorded in the consolidated financial statements until the investment in such affiliated companies is impaired to zero. Thereafter, losses are only accounted for to the extent that the Group is committed to providing financial support to such affiliated companies.

The carrying amount of investments in affiliated companies represents the cost of each investment, including goodwill, the share of retained earnings following acquisition and any other changes in equity. The carrying amount of investments in affiliated companies is reviewed on a regular basis and if any decline in value has occurred, it is impaired in the period in which this occurred.

Profits and losses from transactions with affiliated companies are eliminated in proportion to the Group's interest in these affiliated companies.

DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

When the Group intends to dispose of, or classify as "held for sale," a business component that represents a separate major line of business or geographical area of operations, it classifies the component as discontinued. Net income from discontinued operations is recognized separately in profit or loss, separate from the other results of the Group, and the accounting for the comparative period is shown to present the discontinued operations separately from the continuing operations.

Assets held for sale are measured at the lower of carrying amount and fair value less selling costs. Fixed assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met when a decision has been made by the management and Board to dispose of the business, an active sales process has commenced, and the asset is available for immediate sale in its present condition, and it is highly probable that the sale will take place within one year.

SEGMENT REPORTING

The Group's operations are reported as one operating segment, which is consistent with the internal reporting to the Chief Operating Decision Maker (CODM), which is defined as SAS Group Management.

Geographic information about revenue from external customers and assets

Traffic revenue from domestic services in Denmark, Norway and Sweden is allocated to Domestic. Traffic between the three countries is allocated to Intra-Scandinavian. Other traffic revenues are allocated to the geographical area where the destination is located. Other revenues are allocated to a geographical area based on the customer's geographical location relating, for example, to goods exported to a customer in another country or, alternatively, the geographical location where the service is performed.

Assets broken down by geographic area do not include the Group's aircraft or prepayments for tangible fixed assets. Since aircraft are utilized in a flexible manner across the route network, there is no justifiable basis for allocating aircraft.

FOREIGN CURRENCY TRANSLATION

The individual financial statements of the entities in the Group are measured in the functional currency of the entities, i.e., the currency of the primary economic environment in which they operate.

Transactions in currencies other than the entity's functional currency (foreign currencies) are remeasured at the exchange rates prevailing on the transaction dates. At each closing date, monetary assets and liabilities denominated in foreign currencies are retranslated at the closing-date exchange rates. Non-monetary items carried at fair value denominated in foreign currencies are translated at the rates prevailing at the date fair value was determined. Non-monetary items that are measured in terms of cost in a foreign currency are not translated.

Exchange differences arising from translation are recognized as a gain or loss in the period in which they arise, except for exchange differences on transactions entered into to hedge net investments in foreign subsidiaries and exchange differences relating to monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur and, which form part of the net investment in a foreign operation. These differences are recognized in other comprehensive income.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at the closing-date exchange rates. Revenue and expense items are translated at the average exchange rates for the period, provided that exchange rates do not fluctuate substantially in the period. In the latter case, the exchange rate on the transaction date is applied. Any translation differences are recognized in other comprehensive income.

The exchange rates applied in the translation of the financial statements for consolidation purposes are as follows:

EXCHANGE RATES

			Closing rate		Average rate	
			Oct 31, 2017	Oct 31, 2016	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Denmark	DKK	100	130.74	132.56	129.28	125.44
Norway	NOK	100	102.28	109.09	104.54	99.92
U.S.	USD		8.36	9.00	8.69	8.45
U.K.	GBP		11.04	10.96	11.03	11.95
Switzerland	CHF	100	839.07	909.85	879.31	855.72
Japan	JPY	100	7.39	8.57	7.78	7.61
EMU countries	EUR		9.73	9.86	9.62	9.35

FINANCIAL INSTRUMENTS

Financial instruments are recognized in the consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument and are then measured at amortized cost or fair value depending on their initial classification according to IAS 39.

Amortized cost is calculated using the effective-interest method, where any premiums or discounts and directly attributable expenses and revenue are capitalized over the contract period using the effective interest rate. The effective interest rate is the rate that yields the instrument's cost when calculating the present value of future cash flows.

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

FINANCIAL ASSETS

Financial assets are divided into the following categories: *available-for-sale*, *financial assets remeasured at fair value in profit or loss*, *loan receivables and accounts receivable* and *investments held to maturity*. The categorization depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loan receivables and accounts receivable

Receivables in affiliated companies are categorized as loan receivables and accounts receivable, and are measured at amortized cost.

Accounts receivable are categorized as loan receivables and accounts receivable. Since the term of accounts receivable is expected to be 13 days, the value of each receivable is carried at its nominal amount with no discount, which is deemed to be a good estimate of fair value. Accounts receivable are assessed individually for impairment and all impairment losses are recognized in profit or loss as other operating expenses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits and liquid investments with maturities of three months or less that are readily convertible to known cash amounts and are subject to an insignificant risk of changes in value. The short-term investments and cash and bank balances items in the consolidated balance sheet comprise the Group's cash and cash equivalents. Deposits and blocked funds are categorized as loans and accounts receivable, and other investments are categorized as financial assets held for trading.

FINANCIAL LIABILITIES AND EQUITY

Financial liabilities and equity instruments are categorized according to their contractual provisions.

An equity instrument is any contract that represents a residual interest in the assets of the Group after deducting its liabilities. The proceeds from equity instruments issued by the Group are recognized less direct issue costs.

Financial liabilities represent contractual obligations and are recorded when the Group becomes contractually liable.

Accounts payable

Accounts payable are categorized as other liabilities. Since the terms of accounts payable are expected to be short, the liabilities are carried at nominal amounts with no discounts, this is deemed to be a good approximation of the fair value of the accounts payable.

Borrowings

Long-term borrowings, i.e., liabilities with a tenor longer than one year, consist of interest-bearing liabilities to banks and credit institutions as well as bond issues. Short-term borrowings comprise the current portion of interest-bearing long-term borrowings, i.e., the portion of the loans that is to be amortized in the coming fiscal

year, as well as other current interest-bearing liabilities with a remaining tenor of less than one year.

All borrowings are categorized as other liabilities and initially recorded at fair value less direct transaction costs. Thereafter, borrowings are measured at amortized cost using the effective-interest method, with the exception of any long-term borrowings which are recognized as fair-value hedges. The hedged risk related to long-term borrowings designated as fair-value hedges is measured at fair value.

COMPOUND FINANCIAL INSTRUMENTS

The components in a compound financial instrument (convertible bond) issued by SAS are classified separately as financial liabilities and equity instruments respectively in line with the contract terms and definitions of a financial liability and an equity instrument. The conversion option, which will be regulated by the exchange of a specific cash amount for a defined number of the company's own shares, is an equity instrument.

At the issue date, the debt component's fair value is determined by discounting at the current market interest rate for an equivalent debt with no conversion option. This amount is recognized as a debt and then measured at amortized cost until the debt is extinguished on conversion or reaching its maturity date.

The conversion option is classified as an equity instrument and its value is determined by deduction of the debt component from the compound financial instrument's fair value. This value is reported as equity and is not subsequently revalued. No profit or loss is reported on conversion or when the conversion option expires.

Transaction costs directly attributable to the issue of the compound financial instrument are allocated proportionately to the debt or equity component based on the initial distribution of funds received. Transaction costs attributable to the equity component are recognized directly in equity. Transaction costs attributable to the debt component are included in the debt's carrying amount and allocated over the term of the liability using the effective-interest method.

DERIVATIVE FINANCIAL INSTRUMENTS

The Group holds various financial instruments to manage its exposure to foreign currency, interest-rate and fuel risks.

All derivatives are measured at fair value and recognized either as assets or liabilities depending on whether the fair value of the instrument is positive or negative.

The accounting for changes in fair value depends on whether or not the derivative has been designated and qualifies as an accounting hedge and on the type of hedge. If a derivative is designated as a hedging instrument in a fair-value hedge, the changes in the fair value of the derivative and the hedged item are recognized in profit or loss in the line of the consolidated income statement relating to the hedged item. If a derivative is designated as a hedging instrument in a cash-flow hedge or a net investment hedge, the effective portion of changes in the fair value of derivative financial instruments is recognized in other comprehensive income and accrued in the hedging reserve in equity. The ineffective portion of cash-flow hedges is recognized directly in the Group's profit or loss. Amounts recognized in equity are reversed in the Group's profit or loss in the periods when the hedged item is recognized in the Group's profit or loss. For a derivative not designated as a hedging instrument, the gain or loss is recognized in profit or loss in the period when the change arose.

In order for hedge accounting to be applied, its effectiveness has to be demonstrated at inception and on an ongoing basis during the hedge period. A requirement for the hedging of forecast cash flows is that it is highly probable that the forecast event will occur.

TANGIBLE FIXED ASSETS

Tangible fixed assets are recognized at cost less accumulated depreciation and any impairment. These assets are depreciated to their estimated residual values on a straight-line basis over their estimated useful lives. As the components of aircraft have varying useful lives, the Group has separated the components for depreciation purposes. Costs for routine aircraft maintenance as well as repair costs are expensed as incurred. Extensive modifications, including the obligatory major overhauls of engines, and improvements to fixed assets are capitalized and depreciated together with the asset to which the work is related over its remaining useful life. Investments in own and leased premises are amortized over their estimated useful lives, but not over a period exceeding the remaining leasing period for leased premises.

Income from the sale or disposal of a tangible fixed asset is calculated as the difference between the net realizable value and the carrying amount. The gain or loss that arises is recognized in profit or loss.

Depreciation is based on the following estimated periods of useful life:

Asset class	Depreciation
Aircraft	20 years ¹
Spare equipment and spare parts	20 years ¹
Engine components (average)	8 years
Workshop and aircraft servicing equipment	5–10 years
Other equipment and vehicles	3–5 years
Buildings	5–50 years

1) Estimated residual value after a useful life of 20 years is 10%.

LEASING

SAS has entered into finance and operating leases. Leasing contracts where the terms of the lease transfer substantially all the risks and benefits of the asset to SAS are recognized as finance leases. All other lease contracts are classified as operating leases.

The Group as lessee

Finance leases — At the beginning of the leasing period, finance leases are recognized at the lower of the fair value of the lease's asset and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet under other loans. Lease payments are apportioned between financial expenses and reduction of the lease obligation so that a constant rate of interest is recognized on the remaining balance of the liability. The useful life of the asset corresponds to the Group's policy for owned assets.

Sale and leaseback agreements are classified according to the above-mentioned principles for finance and operating leases. Gains on the sale and leaseback of property and equipment that gave rise to finance leases are deferred and allocated over the lease term. If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is implemented at fair value, the Group recognizes any profit or loss immediately.

Operating leases — Fees payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also distributed on a straight-line basis over the lease term.

SAS's production model, which is based on smaller flows and regional traffic being flown by business partners, wet leases aircraft capacity from external operators. The lease agreements are classified as operating leases and the costs are allocated between leasing costs for aircraft, for the actual aircraft capacity, and other operating expenses for wet-lease costs.

The Group as lessor

Finance leases — Finance lease receivables are stated in the balance sheet at the net investment amount of the lease, which is calculated based upon the minimum lease payments and any residual value discounted at the interest rate implicit in the lease. Finance lease income is allocated to different accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Operating leases — Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

INTANGIBLE ASSETS

Intangible assets comprise goodwill and capitalized expenses for systems development. The Group is not engaged in any research and development (R&D) activity. Intangible assets are recognized in the balance sheet when:

- an identifiable, non-monetary asset exists,
- it is probable that the future financial advantages that can be attributed to the asset will accrue to the company, and
- the cost of the asset can be calculated in a reliable manner.

Goodwill is recognized in the balance sheet as an intangible asset at cost less accumulated impairment losses. Goodwill represents the excess value over the fair value of the Group's share of identifiable acquired net assets at the acquisition date, of the cost of an acquisition, any non-controlling interests and fair value at the acquisition date.

Gains or losses on the disposal of an entity include the remaining carrying amount of goodwill relating to the entity sold.

Goodwill is assessed as having an indefinite useful life. Goodwill is allocated to the smallest possible cash-generating unit (CGU) and the carrying amount is tested at least once a year for any impairment. However, testing for impairment takes place more frequently if there are indications that a loss in value has occurred. A discounted cash-flow analysis is carried out based on the cash flows of the CGU and comparing the carrying value of assets of the CGU with their recoverable amount. These cash flows are discounted at rates that the Group estimates to be

the risk-affected weighted average cost of capital (WACC) for the particular businesses. Any impairment is recognized immediately in profit or loss.

Development costs that do not meet the criteria specified above, regarding when intangible assets are recognized in the balance sheet, are expensed in the period they arise. Costs for systems development are recognized as an asset provided that they meet the criteria specified above. Capitalized development costs are amortized on a straight-line basis over the expected useful life of the asset, which amounts to between three and 15 years. Amortization of capitalized IT system costs is included in the depreciation/amortization item in the statement of income.

EMISSION RIGHTS

Any emission rights received from the respective countries' government agencies, without the need for payment of any consideration, are recognized at their nominal amounts, which in practice means that the intangible asset and the prepaid income are valued at zero. Any emission rights purchased for own uses are recognized as intangible assets under current assets at cost after impairment. A provision is recognized in the balance sheet commensurate to the extent that emission rights used correspond to emission rights held. This provision is measured at the cost of the emission rights held. The provision is measured at the current market price with a corresponding cost in the statement of income commensurate to the extent emission rights used exceed the amount of emission rights held.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS WITH DETERMINABLE USEFUL LIVES

The Group continuously evaluates whether any indications exist of a need for impairment of any tangible and intangible assets with determinable useful lives to identify any potential need for impairment. If any such indication is identified, the recoverable amount of the asset is calculated (or as part of the CGU to which it belongs) to determine the extent of any impairment loss. The recoverable amount is defined as the higher of an asset's fair value less selling costs and the value in use (VIU). If the estimated recoverable amount of the asset (or the CGU) is lower than its carrying amount, the carrying amount of the asset (or the CGU) is impaired. The recoverable amount is determined based on the type of asset.

At each balance-sheet date, a review is conducted to assess for indications that any earlier impairment losses no longer exist or have improved. When such indications exist, the recoverable amount is recalculated and the carrying amount is increased to the lower of the recoverable amount and the carrying amount that the asset would have had if the previous impairment had not taken place.

EXPENDABLE SPARE PARTS AND INVENTORIES

Expendable spare parts and inventories are carried at the lower of cost or net realizable value. Cost is calculated using the weighted average cost.

PROVISIONS AND CONTINGENT LIABILITIES

Provisions are reported when the Group identifies legal or informal commitments as a result of historic events, where the outcome is probable, and where the financial resources required to settle these commitments can be estimated with reasonable certainty.

A restructuring obligation is considered to have arisen and a provision for the obligation is recognized when the Group has adopted a detailed and formal restructuring plan. The plan must have been communicated to affected parties and have been commenced or publicly announced.

REMUNERATION OF EMPLOYEES

Pensions

The Group has various pension plans for its employees. These vary considerably due to different legislation and agreements on occupational pension systems in the individual countries. Previously, most personnel pension plans in Scandinavia were defined-benefit plans. In November 2012, new collective agreements were signed with flight crew. Among other things, the new agreements mean that the defined-benefit pension plans were, largely, replaced with defined-contribution pension plans effective as of the first quarter of 2013/2014.

For pension plans where the employer has accepted responsibility for a defined contribution, the obligation to employees ceases when the contractual premiums have been paid. Where defined-benefit pensions have been agreed, the commitments do not cease until the contractual pensions have been paid. The liability or asset recognized in the balance sheet for defined-benefit pension plans is the current value of the defined-benefit obligation at the end of the reporting period after deduction of the fair value of plan assets. The defined-benefit plan obligation is calculated each year by independent actuaries using the projected unit credit method. Pension costs for the year comprise the present value of the current service cost plus net interest, which is calculated using the discount rate used to measure the net defined-benefit pension liability or pension assets. All deviations in estimates are immediately recognized in other comprehensive income.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes severance pay when such an obligation exists according to employment contracts or for termination as a result of an offer made to encourage voluntary redundancy.

REVENUE RECOGNITION**Passenger revenue**

Sales of passenger tickets are recorded as a short-term unearned transportation revenue liability in the consolidated balance sheet. Passenger revenue is recognized when SAS or another airline provides the transportation. Additionally, tickets that have not been utilized by passengers and which have expired are recognized as revenue. The Group estimates unutilized tickets each period on the basis of historical utilization levels for unutilized tickets over the past two or three-year period, and recognizes revenue and reduces the short-term unearned transportation revenue liability based on that estimate.

The Group periodically evaluates the estimated short-term unearned transportation revenue liability and records any resulting adjustments in its financial statements in the period in which the evaluations are completed. These adjustments relate primarily to refunds, exchanges, transactions with other airlines and other items for which final settlement occurs in periods subsequent to the sale of the related tickets at amounts other than the original sales price.

Charter revenue

SAS has charter flight agreements with certain customers. Charter revenue, similar to passenger revenue, is recognized when transportation has been provided.

Mail and freight revenue

The Group provides cargo services on both passenger planes and commercial cargo flights. This revenue is recognized when the air transportation is completed.

Interest income

Interest income is recognized in line with the effective-interest method. Interest income primarily comprises interest income from bank accounts, receivables and interest-bearing securities.

Other revenue

Sales of goods and other services are recognized as revenue when the goods are delivered or the service performed.

LOYALTY PROGRAM

The Group operates a frequent flyer program, EuroBonus, through which customers can earn bonus points by flying with SAS and/or other Star Alliance companies or from purchases made from commercial partners such as car rental companies and credit card companies.

Under IFRIC 13, the allocation of loyalty points is viewed as a separate identifiable transaction when purchasing airline tickets. The portion of the ticket price allocated to loyalty points is measured at fair value and not recognized as revenue until the period in which the obligation is met.

BORROWING EXPENSES

Borrowing expenses that arise in operations are expensed in the period in which they are incurred. Borrowing expenses on aircraft pre-delivery payments (PDPs) are capitalized as part of the process of obtaining qualified production resources. If a decision is made to sell and lease back an asset, capitalization of interest expense ceases. Amortization of capitalized borrowing expenses commences when aircraft are put into service, as per the main principle for aircraft.

TAXES

Current tax for the period is based on net income for the period, adjusted for non-tax-deductible costs and non-taxable income. The current tax is calculated on the basis of tax rates applying on the closing date.

Deferred tax is recognized according to the balance sheet method whereby temporary differences, differences between the recognized and fiscal value of assets or liabilities, result in a deferred tax asset or deferred tax liability. Deferred tax liabilities are recognized for all temporary differences liable to tax, while deferred tax assets are recognized to the extent it is probable that a taxable surplus will be created against which the deductible temporary difference can be utilized or before the right to utilize the loss carryforward is lost.

Deferred tax liabilities are recognized for all taxable temporary differences attributable to investments in subsidiaries and affiliated companies except in cases where the Group can control the timing of reversal of the temporary differences, and it is probable that such reversal will not take place in the foreseeable future.

Deferred tax is estimated on the basis of the tax rates and fiscal regulations that have been decided or announced as of the closing date. Deferred tax is expensed,

except when it relates to items charged or credited in other comprehensive income or directly in equity, in which case the deferred tax is also dealt with in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are recognized net if the items pertain to the same tax authority.

CRITICAL ACCOUNTING ESTIMATES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements and application of accounting policies are often based on management's assessments, or on estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. These estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in estimates are recognized in the period in which the change is made if the change affects only that period, or in the period in which the change is made and future periods if the change affects both the current and future periods.

Below is an overall description of the accounting policies affected by such estimates or assumptions that are expected to have the most substantial impact on the Group's reported earnings and financial position. For information about the carrying amount on the closing date, see the balance sheet with accompanying notes.

Estimated useful lives of tangible fixed assets

The Group Management periodically reviews the appropriateness of the useful lives of its tangible fixed assets. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group, historic information on similar assets and industry trends.

Any changes in the useful life of property and equipment are recognized prospectively in profit or loss.

Impairment of assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. In making the impairment assessment, assets that do not generate independent cash flows are allocated to an appropriate CGU.

Management is required to make certain assumptions in estimating the value of the assets, including the timing and value of cash flows to be generated from the assets. The cash-flow projections are based on reasonable assumptions that represent management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset and are based on the most recent financial plan that management has approved. Due to its subjective nature, these estimates will likely differ from future actual results of operations and cash flows, and any such difference may result in impairment in future periods.

Pensions

Pension assumptions are an important element in the actuarial methods used to measure pension commitments and value assets, and can significantly affect the recognized pension obligation, pension assets and the annual pension cost. The most critical assumptions are the discount rate, inflation and expected salary adjustments.

The measurement to be applied under IAS 19 when measuring defined-benefit plans is known as the projected unit credit method. This method requires several assumptions (actuarial parameters) for calculating the present value of the defined-benefit obligation. Actuarial assumptions comprise both demographic and financial assumptions. Since assumptions must be neutral and mutually compatible, they should be neither imprudent nor overly conservative. They should reflect the economic relationships between factors such as inflation, rates of salary increase, the return on plan assets and discount rates. This means that they should be realistic, based on known financial relations and reflect SAS's best assessment of the factors that will determine the ultimate cost of providing post-employment benefits, that is pension costs.

In calculating pension obligations, the current service cost and return on plan assets, locally set parameters are applied in the respective countries on the basis of the local market situation and expected future trends. This means that the parameters are based on market expectations at the end of the reporting period regarding the time period in which the obligation will be settled.

The discount rate has been determined on the basis of market yields on high-quality corporate bonds (mortgage bonds). The tenor of the bonds reflects the estimated timing and size of pension payments (duration) as well as the currencies these payments are expected to be made in.

Other financial assumptions are based on anticipated developments during the term of the obligation. The assessment of future salary adjustments corresponds to the assumed rate of inflation in the respective countries and life expectancies are set under DUS14 for Sweden and K2013 for Norway, refer to Note 15 for additional information.

The interest expense on the obligation and the expected return on plan assets are reported as "net interest," which is calculated using the discount rate. SAS classifies this net interest as a payroll expense and recognizes the net interest expense in profit or loss.

Deviations can arise if the discount rate changes (a lower discount rate increases the present value of the pension liability and the annual pension cost), or if actual inflation levels, salary adjustments and life expectancies deviate from the Group's assumptions. Any change in these assumptions could potentially result in a significant change to the pension assets, obligations and pension costs in future periods.

The discount rate changed during the year and, in Sweden, rose from 2.1% to 2.2%. The total impact of changed discount rates entailed a positive impact on other comprehensive income of SEK 0.5 billion. The return on plan assets exceeded the discount rate, which entailed a positive impact on other comprehensive income of SEK 0.9 billion. Moreover, a negative item of SEK 0.1 billion was recognized under the experience gains/losses item.

Sensitivity to changes in individual parameters can be estimated as follows: A one percentage point change in the discount rate of interest has approximately a SEK 2.9 billion impact on the obligation and a one percentage point change in the inflation assumption has an impact of about SEK 2.7 billion.

Deferred taxes

The Group recognizes deferred tax assets at each balance-sheet date to the extent that it is probable that they will be utilized in future periods. This determination is based on estimates of future profitability. A change in these estimates could result in a decrease in deferred tax assets in future periods for assets that are currently recognized in the consolidated balance sheet. In estimating levels of future profitability, historical results of operations in recent years are considered and, if necessary, the implementation of prudent and feasible tax planning strategies to generate future profitability are considered. If future profitability is less than the amount that has been assumed in determining the deferred tax asset, then a decrease in deferred tax assets will be required, with a corresponding charge in profit or loss, except in cases where it is related to items recognized directly in equity. If future profitability exceeds the level that has been assumed in calculating the deferred tax asset, an additional deferred tax asset can be recognized, with a corresponding credit in profit or loss, except to the extent that the deferred tax arises from a business combination.

A change in these estimates could also result in the impairment of deferred tax assets in future periods for assets that are currently recognized in the balance sheet.

Undertakings pertaining to aircraft under operating leases

SAS makes ongoing provisions related to use for undertakings arising in connection with aircraft under operating leases. The undertakings primarily pertain to engines, but also include landing gear, air frames and APUs. The financial impact is complex to assess as it depends on a large number of factors. Since provisions are made on an ongoing basis for larger mandatory overhauls of engines, landing gear, air frames and APUs, the risk of a return having a material impact on the Group's earnings is reduced.

Restructuring costs

SAS has previously implemented restructuring measures, and may again need to in the future. These require the company to make key assessments of costs for severance pay and other measures to reduce the workforce or to terminate rental or lease contracts. Future earnings could be impacted should actual outcomes differ from these assessments.

Litigations

The Group is involved in litigations and other claims in the ordinary course of its business activities. Management judgment is required in determining the likelihood of the outcome. The actual effects of the outcome could differ from the management's estimate, which would impact the Group's earnings (see also, the Report by the Board of Directors: Legal issues).

PARENT COMPANY'S ACCOUNTING POLICIES

The Parent Company has prepared its financial statements according to the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 *Accounting for Legal Entities* as well as applicable statements from the Swedish Financial Reporting Board. Under RFR 2, the Parent Company, in preparing the annual financial statements for the legal entity, applies all EU-approved IFRSs and statements insofar as this is possible within the framework of the Swedish Annual Accounts Act and the Swedish Pension Obligations Vesting Act and with respect to the connection between accounting and taxation. The recommendations specify which exceptions and additions are to be made from and to IFRS.

THE DIFFERENCES BETWEEN THE GROUP'S AND THE PARENT COMPANY'S ACCOUNTING POLICIES ARE LISTED BELOW:

Pensions: Current pension premiums are recognized as an expense.

Shares in subsidiaries and affiliated companies: Recognized at cost. Acquisition-related expenses for subsidiaries that are expensed in the consolidated financial statements, are included as part of the cost for holdings in subsidiaries.

Other shares and participations: Recognized at cost.

NOTE 2 REVENUE

	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Traffic revenue:		
Passenger revenue	32,644	30,371
Charter	1,964	1,791
Freight and mail	1,470	1,253
Other traffic revenue	2,419	2,293
Other operating revenue:		
In-flight sales	269	252
Ground handling services	1,028	1,041
Technical maintenance	314	152
Terminal and forwarding services	354	351
Sales commissions and charges	569	556
Other operating revenue	1,623	1,399
Total	42,654	39,459

NOTE 3 PAYROLL EXPENSES

AVERAGE NUMBER OF EMPLOYEES

In 2016/2017, the average number of employees in the SAS Group was 10,324 (10,710). A breakdown of the average number of employees by country is provided in the table below. The average number of employees totaled 3,486 (3,733) in Denmark, 2,801 (3,038) in Norway, and 3,789 (3,693) in Sweden.

	Nov–Oct 2016–2017		Nov–Oct 2015–2016	
	Men	Women	Men	Women
Denmark	2,356	1,130	2,468	1,265
Norway	1,644	1,157	1,803	1,235
Sweden	2,244	1,545	2,184	1,509
Other countries	94	154	89	157
Total	6,338	3,986	6,544	4,166
Total men and women	10,324		10,710	

GENDER BREAKDOWN OF SENIOR EXECUTIVES IN THE GROUP

	Oct 31, 2017		Oct 31, 2016	
	Closing-date total	of which, men	Closing-date total	of which, men
Board members	34	68%	44	84%
President and other senior executives	31	71%	29	79%

SALARIES, REMUNERATION AND SOCIAL SECURITY EXPENSES

The SAS Group's total payroll expenses amounted to MSEK 8,635 (8,638), of which social security expenses comprised MSEK 1,302 (1,265) and pensions MSEK 835 (807).

Salaries, remuneration and social security expenses included restructuring costs of MSEK 74 (34).

	Nov–Oct 2016–2017		Nov–Oct 2015–2016	
	Salaries & other remuneration	Soc. sec. exp. (of which pension cost) ¹	Salaries & other remuneration	Soc. sec. exp. (of which pension cost) ¹
SAS AB	20	15 (8)	23	12 (5)
SAS Consortium	4,287	1,639 (648)	4,083	1,540 (596)
Other subsidiaries	2,191	483 (179)	2,460	520 (206)
SAS Group, total	6,498	2,137 (835)	6,566	2,072 (807)

1) The pension cost for all CEOs and other senior executives of SAS Group companies amounted to MSEK 14 (13).

A breakdown of the salaries and other remuneration of Board members, CEOs, other senior executives and other employees is provided in the table below.

	Nov–Oct 2016–2017		Nov–Oct 2015–2016	
	Board, CEO & senior executives (of which variable salary)	Other employees	Board, CEO & senior executives (of which variable salary)	Other employees
SAS AB	19 (-)	1	18 (-)	5
SAS Consortium	33 (2)	4,254	20 (1)	4,063
Ground handling operations	16 (-)	2,086	15 (-)	2,192
SAS Cargo	8 (-)	76	8 (-)	75
Other subsidiaries	1 (-)	4	2 (-)	168
SAS Group, total	77 (2)	6,421	63 (1)	6,503

	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Pension costs		
Defined-benefit pension plans	-7	-102
Defined-contribution pension plans	842	909
Total	835	807

REMUNERATION AND BENEFITS PAID TO THE BOARD, PRESIDENT AND OTHER SENIOR EXECUTIVES

The fees and other remuneration paid to Board members of SAS AB are determined by the Annual General Shareholders' Meeting (AGM), which also approves the policies applied for the remuneration of senior executives.

BOARD OF DIRECTORS

At the AGM of SAS AB on February 22, 2017, fees were set for the remuneration of Board members and for work on Board committees as follows:

Board Chairman	TSEK 410
Board First Vice Chairman	TSEK 242
Board Second Vice Chairman	TSEK 242
Other Board members (8)	TSEK 207 per member
Deputy employee representatives (6)	TSEK 1 study fee/Board meeting TSEK 3.5 fee/Board meeting on participation
Chairman of Audit Committee	TSEK 66
Other members of Audit Committee (2)	TSEK 31
Chairman of Remuneration Committee	TSEK 49
Other members of Remuneration Committee (2)	TSEK 17

With the exception of the employee representatives and their deputies, no Board member was employed by the SAS Group in the 2016/2017 fiscal year. No Board member not employed by the SAS Group received any remuneration or benefit from any SAS Group companies beyond customary airline-industry travel benefits and the fees received for board and committee duties.

POLICIES

The following remuneration policies adopted by the AGM have been applied in the 2016/2017 fiscal year in regard to senior executives in the SAS Group. In this connection, senior executives refers to the President and the other members of the SAS Group Management.

The total remuneration to senior executives must be market-based and competitive as well as reflect the level of responsibility and authority. Remuneration consists of fixed salary, other benefits and pension. Agreements concluded previously with some senior executives that contain partially deviating conditions governing pensions and termination will be respected until they cease or are renegotiated. The Board can depart from the guidelines if, in a individual case, particular reasons exist for so doing.

The SAS Group's overall remuneration model is based on the following five cornerstones:

- Salary setting is individual and differentiated
- Salary setting is national and adapted to the market
- Salary setting is an important management tool in reaching the organization's targets
- Salary setting motivates professional and personal advancement.
- Pension benefits are defined-contribution and premiums should not exceed 30% of the fixed annual salary.

PRESIDENT AND CEO

President and CEO Rickard Gustafson has the following remuneration components in his employment contract:

- An annual salary, which is subject to salary review in January of each year. The annual salary has not been revised since January 1, 2016 and amounts to TSEK 10,800.
- A defined-contribution pension plan where 40% of the fixed salary is paid as premiums to an agreed pension insurance. The retirement age is 65. The remuneration policies adopted by the AGM permit the Board to deviate from the guidelines on an individual basis if particular reasons exist for so doing. In this case, the Board deems sufficient reason exists to set aside the policy of a maximum pension premium of 30%, since current benchmarking of CEO salaries in Sweden motivate a pension premium of 40% and total compensation to the CEO Rickard Gustafson in the form of annual salary and pension benefits can thereby be considered to be on a par with market rates.
- Other benefits include company car, travel benefits, health insurance and group life insurance.
- The notice period is six months in the event the President resigns and 12 months if employment is terminated by SAS AB. Severance pay for the President in the event employment is terminated by SAS AB for reasons other than material breach of contract, gross neglect of his duties as President or criminal acts against the SAS Group is payable in an amount equivalent to 12 months' salary. Should new employment be obtained within 12 months of employment ending, the severance pay awarded is reduced by an amount corresponding to the remuneration received from the new position.

DEPUTY PRESIDENT

During the 2016/2017 fiscal year, the SAS Group had one deputy president, Göran Jansson (CFO). Göran Jansson has the following remuneration components in his employment contract:

- An annual salary, which is subject to salary review in January of each year. In the 2016/2017 fiscal year, the annual salary was unchanged at TSEK 4,500.
- A defined-contribution pension plan where 29.8% of salary is paid into a chosen insurance plan. The retirement age is 60.
- Other benefits include company car, travel benefits, health insurance and group life insurance.
- The notice period is six months in the event that Göran Jansson resigns and 12 months if employment is terminated by SAS AB. Severance pay is payable to the deputy president in the event employment is terminated by SAS AB for reasons other than material breach of contract, gross neglect of the deputy president's duties or criminal acts against the SAS Group in an amount equivalent to 12 months' salary, with offsetting against income from any other appointment or engagement. Severance pay is also payable on the resignation of a senior executive when the responsibilities or authorities of the senior executive are materially changed through organizational changes. However, severance pay in the above case is not payable if the senior executive is offered another relevant position in the SAS Group.

OTHER SENIOR EXECUTIVES

The remaining current members of Group Management have defined-contribution pension plans where a pension provision of up to 30% of fixed base salary is made. The retirement age is 65 for all of the current members of the Group Management, except for the Deputy President. The notice period for all other members of Group Management is 12 months in the event employment is terminated by SAS AB and six months in the event the employee resigns.

Severance pay for these senior executives is set according to the same policies as for the current deputy president.

The Board determined to introduce a variable remuneration model for one member of Group Management who stepped down on July 1, 2017. For this

remuneration model, a target salary of 100% applied, which comprised a fixed base salary of 73% and a variable salary of 27%. The variable salary portion was based on the outcome in relation to preset targets and was set in a target contract. The remuneration policies adopted by the AGM permit the Board to deviate from the guidelines on an individual basis if particular reasons exist for so doing. The Board is of the opinion that particular reasons do exist for deviation from the policies regarding no variable remuneration to Group Management, since (i) the model was introduced in parallel with a substantial reduction in the members of the Group Management's annual salary and (ii) since the variable salary applied to the member of Group Management who was responsible for Commercial, which was a functional area where variable salary was an established market standard. In conjunction with the changes in Group Management on July 1, 2017 and the dissolution of the Commercial business area, no member of the Group Management has a variable remuneration model.

OTHER

Other typical managerial contracts in the SAS Group are based on the five cornerstones outlined under the "Policies" heading above.

In 2016/2017, total remuneration comprised fixed salary, other benefits and pension. However, a variable remuneration model was introduced for management and employees in the sales organization in 2013. The remuneration model comprises a target salary, comprising a fixed base salary corresponding to 60–80% of the target salary and a variable salary corresponding to 20–40% of the target salary. The variable salary component is based on outcomes in relation to predetermined individual sales targets that are set in a target contract.

DISCUSSION AND DECISION-MAKING PROCESS

The issue of the Directors' fees is discussed by the Nomination Committee, which consists of representatives elected at the AGM. The Nomination Committee presents its proposal concerning Directors' fees to the shareholders' meeting for resolution.

The primary task of the Board-created Remuneration Committee is to prepare, for the decision of the Board, proposals pertaining to the President's salary and other employment terms, and to prepare and propose the main policies and general conditions applying to the setting of salaries and other remuneration and employment terms (including, where applicable, variable salary, pension and severance pay policy) for senior executives and other management in the SAS Group. The Board presents the proposals regarding policies for remuneration and other employment terms for the Group Management to the AGM for resolution.

During the year, the Remuneration Committee discussed and presented recommendations to the Board regarding general guidelines for remuneration policies in the SAS Group, including policies and levels for the discontinued variable salary based on the Group's earnings. The Board discussed the Remuneration Committee's recommendations and made decisions accordingly. Remuneration of other senior executives than the President was decided by the President after consultation with the Remuneration Committee and in line with the policies approved by the shareholders' meeting.

The Remuneration Committee held two minuted meetings in the 2016/2017 fiscal year in addition to a number of informal discussions.

REMUNERATION AND BENEFITS PAID TO THE PRESIDENT AND OTHER SENIOR EXECUTIVES IN 2016–2017 (NOV–OCT), TSEK

Name	Total of fixed salary and other benefits				
	Fixed base salary ¹	Other benefits ³	and other benefits	Pension premium	Other ⁴
Rickard Gustafson	11,038	183	11,221	4,316	
Göran Jansson	4,689	262	4,951	1,363	
Other ²	23,028	373	23,401	5,113	9,406

1) Includes holiday compensation.

2) Four members for the full fiscal year, one member for eight months and one member for four months. Fixed salary includes variable salary of MSEK 2.5 for one senior executive.

3) Other benefits include company car, travel benefits, health insurance and group life insurance.

4) Pertains to severance pay and remuneration during the notice period.

NOTE 4 OTHER OPERATING EXPENSES

	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Sales and distribution costs	2,417	2,372
Jet fuel	6,836	6,449
Government user fees	4,262	4,106
Catering costs	1,075	948
Handling costs	2,704	2,477
Technical aircraft maintenance	3,515	3,292
Computer and telecommunication costs	1,569	1,382
Wet-lease costs	1,123	737
Other	3,988	2,789
Total	27,489	24,552

NOTE 5 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Intangible assets	372	145
Buildings and fittings	59	55
Aircraft	1,157	1,123
Spare engines and spare parts	4	2
Workshop and aircraft servicing equipment	16	17
Other equipment and vehicles	27	25
Total	1,635	1,367

NOTE 6 SHARE OF INCOME AND EQUITY IN AFFILIATED COMPANIES

	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Share of income in affiliated companies:		
Air Greenland A/S ¹	-4	34
Malmö Flygfraktterminal AB	8	5
Other	0	0
Total	4	39
Total revenue of affiliated companies	1,894	1,617
Income after tax in affiliated companies	12	102

1) The share of income includes adjustment of last year's income figure by MSEK -1 (0).

Air Greenland is a Greenlandic company that operates air traffic within, to and from Greenland. Malmö Flygfraktterminal AB operates air cargo services in Malmö, Sweden. These two affiliated companies are closely linked to flight operations and shares in income are recognized in EBIT.

Note 6 continued

Equity in affiliated companies:	Corporate registration number	Domicile	Share of equity %	Share of equity	
				Oct 31, 2017	Oct 31, 2016
Air Greenland A/S	30672	Nuuk, Greenland	37.5	355	381
Malmö Flygfraktterminal AB	556061-7051	Malmö, Sweden	40.0	15	12
Other				4	5
Total				374	398
Total assets in affiliated companies				1,836	2,132
Total liabilities in affiliated companies				-840	-1,072
Shareholders' equity in affiliated companies				996	1,060

NOTE 7 INCOME FROM THE SALE OF AIRCRAFT, BUILDINGS AND SLOT PAIRS

	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Airbus A320/321	327	29
Airbus A330	-	55
Boeing 717	-	24
Boeing 737	138	-
Bombardier CRJ900	-138	-
MD-90	-	127
Spare engines	-10	-
Properties	-	30
Slot pairs	678	-
Total	995	265

NOTE 8 INCOME FROM OTHER SECURITIES HOLDINGS

	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Dividend	1	1
Total	1	1

NOTE 9 NET FINANCIAL ITEMS

	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Financial revenue		
Interest income on financial assets not measured at fair value	33	24
Interest income on financial assets measured at fair value	112	75
Other financial revenue	-	-
<i>Net profit/loss on financial instruments categorized as:</i>		
Held for trading, interest income	3	-8
Total	148	91
Financial expenses		
Interest expense on financial liabilities not measured at fair value	-480	-493
Interest expense on financial liabilities measured at fair value	-119	-45
Other financial expenses	-54	-42
Exchange-rate differences, net	42	30
<i>Net profit/loss on financial instruments categorized as:</i>		
Held for trading, interest expense	0	1
Other liabilities, interest expense	-	-4
<i>Hedge accounting</i>		
Fair-value hedges		
- of which change in fair value of hedging instrument	-	-
- of which change in fair value of hedged item	-	-
Ineffective portion of cash-flow hedge	-	-
Ineffective portion of net investment hedge in foreign operations	-	-
Total	-611	-553
Total net financial items	-463	-462

NOTE 10 TAX

The following components are included in the Group's tax.

	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Current tax	-29	-
Deferred tax	-547	-110
Total tax recognized in net income for the year	-576	-110
Tax recognized in other comprehensive income	-449	545
Total tax recognized in other comprehensive income	-449	545

Current tax is calculated based on the tax rate in each country. Deferred tax is calculated at the tax rate expected to apply when the tax is realized.

Tax for the fiscal year can be reconciled against income before tax as follows:

	Nov–Oct 2016–2017	Nov–Oct (%) 2016– 2017	Nov–Oct 2015–2016	Nov–Oct (%) 2015–2016
Income before tax	1,725		1,431	
Tax according to rate in Sweden	-380	-22.0	-315	-22.0
Tax effect of non-tax-deductible costs	-211	-12.2	-19	-1.3
Tax effect of non-taxable income	6	0.3	311	21.7
Tax effect of different tax rates	17	1.0	-3	-0.2
Other	-8	-0.5	-84	-5.9
Tax and effective tax rate for the fiscal year	-576	-33.4	-110	-7.7

The tables below show the Group's most significant deferred tax liabilities and tax assets according to category and how these liabilities and assets changed.

	Oct 31, 2017	Oct 31, 2016
Deferred tax liability in the balance sheet:		
Cash-flow hedges	400	372
Fixed assets	1,551	1,516
Pensions	480	528
Other temporary differences	487	119
Netting of deferred tax assets/liabilities	-2,557	-2,535
Total	361	0

	Oct 31, 2017	Oct 31, 2016
Deferred tax assets in the balance sheet:		
Tax loss carryforwards	2,105	2,376
Fixed assets	1	113
Pensions	164	294
Other temporary differences	506	606
Netting of deferred tax assets/liabilities	-2,557	-2,535
Total	219	854

	Oct 31, 2017	Oct 31, 2016
Reconciliation of deferred tax assets, net:		
Opening balance	854	375
Change in cash-flow hedging	-41	-30
Change according to statement of income	-547	-110
Change in defined-benefit pension plans	-408	575
Exchange-rate differences, etc.	0	44
Deferred tax assets, net, at October 31	-142	854

On the closing date the Group had unutilized loss carryforwards of about MSEK 9,500 (10,700). Based on these loss carryforwards, the Group recognized a deferred tax asset of MSEK 2,105 (2,376). Deferred tax assets are recognized to the extent that there are factors indicating that taxable profits will be created. The assessment of the respective Group companies' future profit performance is based on earnings reported in recent years as well as improved profitability prospects. Of recognized loss carryforwards totaling MSEK 2,105, MSEK 575 pertains to operations in Denmark, MSEK 345 to Norway and MSEK 1,185 to Sweden. With regard to Sweden, further potential deferred tax assets exist attributable to Swedish pensions but, as the assessment is ongoing, the amount cannot be quantified. For loss carryforwards amounting to MSEK 96 (90), no deferred tax asset is recognized due to uncertainty as regards future profit earnings. There are no expiration dates for the loss carryforwards.

Deferred tax liabilities mainly pertain to fixed assets, where fiscal values are lower than accounting values. In the future, a temporary difference pertaining to a fixed asset will change when the carrying amount and fiscal value matches or, alternatively, when the fixed asset is divested and a higher taxable gain arises. Pensions also give rise to deferred tax liabilities, since accounting and fiscal values are treated differently. SAS has chosen to recognize deferred tax net in the balance sheet as we believe that there is a legal right to offset at the same time as there is a strong legal connection between the deferred tax assets and deferred tax liabilities.

No provision has been made for deferred tax on temporary differences relating to non-distributed profits in subsidiaries and affiliated companies since these profits will not be distributed within the foreseeable future, or alternatively a distribution can be made without the profits being subject to tax.

NOTE 11 INTANGIBLE ASSETS

	Goodwill		IT systems		Total intangible assets	
	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016
Opening cost	803	751	2,103	1,923	2,906	2,674
Investments	-	-	73	174	73	174
Sales/disposals	-	-	-369	-9	-369	-9
Sale of companies ¹	-14	-18	-	-46	-14	-64
Reclassifications	-	-	-	61	-	61
Exchange-rate differences	-48	70	-	-	-48	70
Closing accumulated cost	741	803	1,807	2,103	2,548	2,906
Opening amortization	-98	-94	-874	-768	-972	-862
Amortization and impairment for the year ²	-	-1	-372	-144	-372	-145
Sales/disposals	-	-	369	9	369	9
Sale of companies ¹	3	4	-	45	3	49
Reclassifications	-	-	-	-16	-	-16
Exchange-rate differences	5	-7	-	-	5	-7
Closing accumulated amortization	-90	-98	-877	-874	-967	-972
Opening impairment	-11	-14	-	-	-11	-14
Impairment losses ³	-	-11	-	-	-	-11
Sale of companies ¹	11	14	-	-	11	14
Closing impairment	0	-11	-	-	0	-11
Carrying amount	651	694	930	1,229	1,581	1,923

1) The subsidiary Cimber A/S was divested during the year. Last year the subsidiary Blue1 Oy was divested.

2) The amortization and impairment for the year included an MSEK 208 impairment of the IT systems.

3) Last year, impairment pertained to the subsidiary Cimber A/S and was expensed in the income statement as a loss from shares in subsidiaries and affiliated companies.

The SAS Group is not engaged in activities relating to research and development (R&D).

	Oct 31, 2017	Oct 31, 2016
Goodwill:		
SAS Scandinavian Airlines Norway	651	694
Total goodwill	651	694

TESTING FOR IMPAIRMENT OF INTANGIBLE ASSETS

The value of the Group's intangible assets has been estimated through comparison with the recoverable amount, which is based on the Group's cash-generating value in use based on five-years' cash flow in the Group's business plan. A growth rate of +1.5% and a cost trend of -0.3% have been adopted for the period beyond the plan period.

The projected cash flows are based on assumptions regarding volume trends, unit revenue, operating margins and discount rates, which have been established by the management based on historical experience and market data. The policies applied in the above assessment are unchanged from the assessment in 2015/2016. The discount rate has been estimated based on a weighted capital cost of 11.8% (11.8) before tax, and of 9.2% (9.2) after tax. To support the impairment tests performed on goodwill in the Group, a comprehensive analysis was performed of the sensitivity in the variables used in the model. A weakening of any of the significant assumptions included in the business plans or a weakening of the annual growth rate in revenue and operating margins beyond the plan period, or an increase in the discount rate that, individually, is reasonably probable, shows that a healthy margin still exists between the recoverable amount and carrying amount. Management therefore determined that there was no additional need for impairment of goodwill and other intangible assets at the close of October 2017.

NOTE 12 TANGIBLE FIXED ASSETS

	Buildings and land		Aircraft ^{1,2}		Spare engines & spare parts		Workshop & servicing equipment, aircraft	
	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016
Opening cost	1,233	1,266	18,610	18,909	137	138	401	452
Investments	-	21	5,730	4,869	97	25	16	23
Capitalized interest ³	-	-	-	-	-	-	-	-
Sales/disposals	-121	-113	-7,812	-6,033	-165	-26	-28	-65
Sale of companies ⁴	-6	-	-	-	-	-	-	-10
Reclassifications	87	29	1,201	865	59	-	2	-3
Exchange-rate differences	-11	30	-	-	-	-	-1	4
Closing accumulated cost	1,182	1,233	17,729	18,610	128	137	390	401
Opening depreciation	-706	-706	-10,356	-11,814	-89	-107	-308	-351
Depreciation and impairment for the year	-59	-55	-1,157	-1,123	-4	-2	-16	-17
Sales/disposals	120	78	1,674	2,581	22	20	23	50
Sale of companies ⁴	2	-	-	-	-	-	-	10
Reclassifications	2	-	10	-	-	-	-2	3
Exchange-rate differences	8	-23	-	-	-	-	1	-3
Closing accumulated depreciation	-633	-706	-9,829	-10,356	-71	-89	-302	-308
Carrying amount	549	527	7,900	8,254	57	48	88	93

	Other equipment & vehicles		Investment in progress		Prepayment relating to tangible fixed assets		Total tangible assets	
	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016
Opening cost	563	650	33	190	2,135	1,482	23,112	23,087
Investments	28	46	69	248	1,302	1,032	7,242	6,264
Capitalized interest ³	-	-	-	-	-	-	-	-
Sales/disposals	-134	-45	-	-	-	-	-8,260	-6,282
Sale of companies ⁴	-1	-29	-	-	-	-	-7	-39
Reclassifications	-3	-66	-86	-405	-1,309	-484	-49	-64
Exchange-rate differences	-3	7	-	-	-141	105	-156	146
Closing accumulated cost	450	563	16	33	1,987	2,135	21,882	23,112
Opening depreciation	-458	-513	-	-	-	-	-11,917	-13,491
Depreciation and impairment for the year	-27	-26	-	-	-	-	-1,263	-1,223
Sales/disposals	126	43	-	-	-	-	1,965	2,772
Sale of companies ⁴	1	29	-	-	-	-	3	39
Reclassifications	-	16	-	-	-	-	10	19
Exchange-rate differences	3	-7	-	-	-	-	12	-33
Closing accumulated depreciation	-355	-458	-	-	-	-	-11,190	-11,917
Carrying amount	95	105	16	33	1,987	2,135	10,692	11,195

1) The insured value of aircraft at October 31, 2017 amounted to MSEK 31,608. This includes the insured value of leased (operating leases) aircraft in the amount of MSEK 22,581.

2) Modifications of aircraft under operating leases are included in planned residual value in the amount of MSEK 171 (248).

3) Interest has not been capitalized.

4) The subsidiary Cimber A/S was divested during the year. Last year the subsidiary Blue1 Oy was divested.

At the beginning of the 2016/2017 fiscal year, there were ten Boeing 737s that had been formally acquired through finance leases, with original terms of between six and ten years. During the year, seven of the above Boeing 737s were refinanced through new finance leases, all of which extend for a period of six years with purchase options during the lease period.

With regard to finance-leased aircraft, the terms of the leases (particularly pertaining to SAS's purchase options during the contract period and at the expiration of the lease, as well as the economic risk SAS has regarding the value of the aircraft) are such that the agreements, from SAS's point of view, are comparable to a purchase.

The ten (ten) finance-leased aircraft are recognized in the balance sheet in the amount of MSEK 1,502 (1,628). In addition to these, owned aircraft include 17 (19) aircraft valued at MSEK 3,435 (3,712) placed in financing structures wholly owned by SAS together with appurtenant indebtedness of MSEK 1,001 (1,288), which are to be viewed as finance leased.

The SAS Group's aircraft holdings can be specified as follows:

	Oct 31, 2017	Oct 31, 2016
Owned	6,398	6,626
Finance leased	1,502	1,628
Carrying amount	7,900	8,254

Note 12 continued

FINANCE LEASES

The SAS Group has finance leases for aircraft with remaining terms of slightly longer than five years. In addition, finance leases exist with regard to buildings with remaining terms of just over four years, and aircraft vehicles and service equipment with remaining terms of up to seven years.

Lease payments consist in part of minimum lease payments and in part of contingent rent. In those cases where the lease payments are based on a floating interest rate, they are included in minimum lease payments at the current rate at the start of the agreement. Future changes in the interest rate are included in the contingent rent. Total lease payments amounted to MSEK 656 (232). Contingent rent impacted lease payments for the year by MSEK -14 (-25). At the closing date, there was no leasing of finance-leased assets to third parties. On the closing date, carrying amounts of finance-leased assets amounted to:

	Aircraft		Property, plant and equipment	
	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016
Cost	3,750	3,257	452	462
Less accumulated depreciation	-2,248	-1,629	-89	-65
Carrying amount of finance-leased assets	1,502	1,628	363	397

Future minimum lease payments and their present value for finance leases applicable on the closing date.

	Oct 31, 2017		Oct 31, 2016	
	Future minimum lease payments	Present value of future minimum lease payments	Future minimum lease payments	Present value of future minimum lease payments
Due date:				
< one year	263	262	593	590
1–5 years	1,494	1,438	804	777
> 5 years	17	12	151	136
Total	1,774	1,712	1,548	1,503

OPERATING LEASES

During the year, the SAS Group leased out own aircraft against total leasing revenue of MSEK 70(3). The aircraft were thereafter divested.

At the balance-sheet date, there were no aircraft or other assets being leased out.

CONTRACTUAL PURCHASE COMMITMENTS

The Group had the following commitments relating to future acquisition of tangible fixed assets. At October 31, 2017, contracted orders amounted to 18 Airbus A320neo aircraft and eight Airbus A350-900s with delivery between 2017 and 2021 amounting to a total future purchase commitment, including spares, of MUSD 1,931. At the closing date, other purchase commitments totaled MSEK 2 (2).

NOTE 13 PREPAYMENTS RELATING TO TANGIBLE FIXED ASSETS

	Oct 31, 2017	Oct 31, 2016
Airbus	1,987	2,135
Total	1,987	2,135

NOTE 14 FINANCIAL FIXED ASSETS

	Equity in affiliated companies		Other holdings of securities		Net pension funds		Deferred tax and other long-term receivables ²		Total financial fixed assets	
	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016
Opening cost	398	421	73	572	2,615	4,368	3,185	2,330	6,271	7,691
Contributions	-	-	-	-	553	481	879	969	1,432	1,450
Share of income in affiliated companies	4	39	-	-	-	-	-	-	4	39
Sale of companies ¹	-	-	-	-270	-	-	-10	-1	-10	-271
Amortization	-	-	-	-	-	-	-1,166	-328	-1,166	-328
Dividend	-23	-80	-	-	-	-	-	-	-23	-80
Reclassifications	-	-	-	-229	1,643	-2,207	3	-8	1,646	-2,444
Exchange-rate differences	-5	18	-	-	60	-27	-160	223	-105	214
Closing accumulated cost	374	398	73	73	4,871	2,615	2,731	3,185	8,049	6,271
Opening impairment	-	-	-70	-569	-	-	-	-4	-70	-573
Impairment	-	-	-	270	-	-	-	-	-	270
Reclassifications	-	-	-	229	-	-	-	4	-	233
Closing accumulated impairment	-	-	-70	-70	-	-	-	0	-70	-70
Carrying amount	374	398	3	3	4,871	2,615	2,731	3,185	7,979	6,201

1) The subsidiary Cimber A/S was divested during the year. Last year the subsidiary Blue1 Oy was divested as was the holding in Widerøes Flyveselskap AS.

2) The carrying amount includes blocked bank funds of MSEK 1,798 (1,799) and deferred tax assets of MSEK 219 (854).

NOTE 15 POST-EMPLOYMENT BENEFITS

The table below outlines where the Group's post-employment benefits are included in the financial statements.

	Oct 31, 2017	Oct 31, 2016
Pension funds in the balance sheet		
Present value of funded obligations	-16,774	-17,792
Fair value of plan assets	22,345	21,289
Surplus in funded plans	5,571	3,497
Present value of unfunded obligations	-700	-882
Surplus in defined-benefit pension plans (net pension funds)	4,871	2,615

Recognized in profit or loss pertaining to ¹	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Defined-benefit pension plans	7	102
Defined-contribution pension plans	-842	-909
	-835	-807
Remeasurements of defined-benefit pension plans ²	1,210	-1,627

1) Expenses recognized in profit or loss include the current service cost, past service cost, net interest expense and gains and losses on settlements.

2) Recognized under other comprehensive income, net after tax.

DEFINED-BENEFIT PENSION PLANS

Previously, most personnel pension plans in Scandinavia were defined-benefit plans. In November 2012, new collective agreements were signed with flight crew in Scandinavia. Among other things, the new agreements mean that the defined-benefit pension plans were, largely, replaced with defined-contribution pension plans effective as of the first quarter of 2013/2014. Defined-contribution pension plans are currently in place for the majority of personnel in Denmark and Norway and in Sweden for flight crew, younger salaried employees and personnel covered by the SAF-LO collective agreement. The majority of the remaining defined-benefit pension plans are secured through insurance companies in the respective countries. In Sweden, pension plans are mainly placed with Alecta and Euroben, in Denmark with Danica and in Norway with DNB. A substantial portion of SAS employees in Sweden continue to be covered by an ITP pension reinsured by Alecta (the Alecta plan). Premiums for defined-benefit retirement pensions are individual and depend, inter alia, on the insured party's age, salary and previously earned pension rights. Expected fees in the next fiscal year (2017/2018) for defined-benefit pension plans under the Alecta plan are expected to amount to about MSEK 53. The collective consolidation level comprises the market value of Alecta's assets as a percentage of insurance undertakings estimated pursuant to Alecta's actuarial assumptions, which do not comply with IAS 19. Collective consolidation, in the form of a collective consolidation level, is normally permitted to range between 125% and 155%. If Alecta's collective consolidation level falls below 125% or exceeds 155%, actions must be taken to create conditions enabling the consolidation level to revert to the normal interval. Alecta's surplus can be allocated to the policy holders and/or the insured parties if the collective consolidation level exceeds 155%. However, Alecta applies reductions in premiums to avoid an excessive surplus arising. At the end of the fiscal year, Alecta's surplus in the form of the consolidated collective consolidation level was 158% (142). According to a statement by the Swedish Financial Reporting Board, UFR 10, this constitutes a multi-employer defined-benefit plan and enterprises covered by a multi-employer pension plan classified as defined-benefit must account for their proportional share of the plan's obligations, plan assets and costs in the same way as for any other defined-benefit plan. SAS is provided with information that enables SAS to report its proportional allocated share of the Alecta plan's commitments, plan assets and costs in accordance with IAS 19 rules regarding defined-benefit pension plans. SAS therefore reports net defined-benefit assets since the future economic benefits are available to SAS in the form of future reductions in premiums, settlement of future pension index adjustments or even a cash refund.

IAS 19—*Employee Benefits* entails that all deviations in estimates are to be immediately recognized in other comprehensive income. Furthermore, the discount rate on the defined-benefit plan obligation or pension asset is calculated net, and this net interest expense is recognized by SAS as a payroll expense in profit or loss. SAS reports special payroll tax in line with the rules in IAS 19, which means that those actuarial assumptions made in the calculation of defined-benefit pension plans must also include taxes payable on pension benefits.

As per October 31, 2017, the remaining pension plans in Sweden reported a surplus of just over SEK 4 billion and, accordingly, special payroll tax was recognized for the surplus. At October 31, 2017, special payroll tax totaled about SEK 1.1 billion (0.8).

Defined-benefit pension plans	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Current service cost	-99	-109
Past service cost and gains and losses on settlements	44	44
Interest expense on pension obligations	-382	-545
Interest income on plan assets	428	670
Other expenses	-5	-
Payroll tax	21	42
Total impact recognized in profit and loss for defined-benefit pension plans	7	102

The above earnings effect is recognized in its entirety as payroll expenses.

Changes in the present value of defined-benefit plan obligations	Oct 31, 2017	Oct 31, 2016
Opening balance, pension obligations	18,674	17,394
Current service cost	99	109
Settlements	-278	-265
Interest expense	382	545
Reclassification	-25	-
Pensions paid out	-854	-1,159
Exchange-rate differences	-91	-26
	17,907	16,598
Remeasurements:		
– Gain/loss (-/+) from change in demographic assumptions	-16	-60
– Gain/loss (-/+) from change in financial assumptions	-470	2,452
– Experience gains/losses (-/+)	53	-316
Closing balance, pension obligations, October 31	17,474	18,674

Change in fair value of plan assets	Oct 31, 2017	Oct 31, 2016
Opening balance, plan assets	21,289	21,762
Settlements	-234	-221
Interest income	428	670
Contributions/premiums paid	546	379
Other expenses	-5	-
Pensions paid out	-854	-1,159
Exchange-rate differences	-31	-57
	21,139	21,374
Remeasurements:		
– Special payroll tax	284	-279
– Exchange-rate differences	-	4
– Return on plan assets (excluding amounts included in interest income)	922	190
Closing balance, plan assets, October 31	22,345	21,289

Change in pension funds, net	Oct 31, 2017	Oct 31, 2016
Opening balance, pension funds (net)	2,615	4,368
Total recognized in profit and loss	7	102
Reclassification	25	-
Remeasurements	1,355	-1,886
Contributions/premiums paid	546	379
Special payroll tax	263	-321
Exchange-rate differences	60	-27
Closing balance, pension funds (net), October 31	4,871	2,615

Note 15 continued

Breakdown of the defined-benefit plan obligations and composition of plan assets by country	Oct 31, 2017					Oct 31, 2016				
	Sweden	Norway	Denmark	Other	Total	Sweden	Norway	Denmark	Other	Total
Present value of obligation	-14,923	-980	-245	-1,326	-17,474	-15,322	-1,485	-378	-1,489	-18,674
Fair value of plan assets	20,403	434	215	1,293	22,345	19,313	588	320	1,068	21,289
Net pension funds	5,480	-546	-30	-33	4,871	3,991	-897	-58	-421	2,615

Remeasurements — analysis of amounts recognized under other comprehensive income	Nov–Oct 2016–2017	Nov–Oct 2015–2016
– Gain/loss (+/-) from change in demographic assumptions	16	60
– Gain/loss (+/-) from change in financial assumptions	470	-2,452
– Experience gains/losses (+/-)	-53	316
– Special payroll tax	263	-321
– Return on plan assets (excluding amounts included in interest income)	922	190
Total remeasurements	1,618	-2,207

The discount rate changed during the year and, in Sweden, rose from 2.10% to 2.20%. The total impact of changed discount rates entailed a positive impact on other comprehensive income of SEK 0.5 billion. The return on plan assets exceeded the discount rate, which entailed a positive impact on other comprehensive income of SEK 0.9 billion. Moreover, a negative item of SEK 0.1 billion was recognized under the experience gains/losses item.

ACTUARIAL ASSUMPTIONS

The measurement to be applied under IAS 19 when measuring defined-benefit plans is known as the projected unit credit method. This method requires several assumptions (actuarial parameters) for calculating the present value of the defined-benefit obligation. Actuarial assumptions comprise both demographic and financial assumptions. Since assumptions must be neutral and mutually compatible, they should be neither imprudent nor overly conservative. They should reflect the economic relationships between factors such as inflation, rates of salary increase, the return on plan assets and discount rates. This means that they should be realistic, based on known financial relations and reflect SAS's best assessment of the factors that will determine the ultimate cost of providing post-employment benefits, that is pension costs.

In calculating pension obligations, the current service cost and return on plan assets, locally set parameters are applied in the respective countries on the basis of the local market situation and expected future trends. This means that the parameters are based on market expectations at the end of the reporting period regarding the time period in which the obligation will be settled.

The discount rate has been determined on the basis of market yields on high-quality corporate bonds (mortgage bonds). The tenor of the bonds reflects the estimated timing and size of pension payments (duration) as well as the currencies these payments are expected to be made in.

Other financial assumptions are based on anticipated developments during the term of the obligation. The assessment of future salary adjustments corresponds to the assumed rate of inflation in the respective countries and life expectancies are set under DUS14 (DUS14) for Sweden and K2013 (K2013) for Norway.

The key actuarial assumptions were as follows:	Oct 31, 2017					Oct 31, 2016				
	Sweden	Norway	Denmark	Other	Total	Sweden	Norway	Denmark	Other	Total
Discount rate	2.20%	2.10%	0.70%	2.90%	2.23%	2.10%	2.10%	0.25%	2.53%	2.10%
Inflation	1.60%	1.50% ¹⁾	1.75%	3.4% ²⁾	1.60%	1.60%	1.50%	1.75%	1.94%	1.66%
Salary growth rate	2.00%	1.75%	1.75%	-	1.98%	2.00%	1.75%	1.75%	-	1.97%
Pension growth rate	1.60%	1.50%	1.75%	3.3% ²⁾	1.70%	1.60%	1.50%	1.75%	1.94%	1.66%

1) Pertains solely to unfunded plans.

2) Pertains solely to UK plans.

The average duration of defined-benefit pension plans was as follows:	Sweden	Norway	Denmark	Other
2016/2017 fiscal year	14.6	7.9	7.0	16.6
2015/2016 fiscal year	15.1	10.1	3.7	15.9

Note 15 continued

	Oct 31, 2017		Oct 31, 2016	
	Total	%	Total	%
Plan assets are comprised as follows¹:				
Alecta (Sweden):				
Equities, of which 44% was invested in Swedish equities	3,985	43	3,408	39
Interest-bearing securities, of which 49% was invested in Swedish interest-bearing instruments.	4,634	50	4,537	53
Properties	649	7	728	8
	9,268	100	8,673	100
Euroben (Sweden):				
Equities, of which 32% was invested in Swedish equities	2,810	28	2,738	28
Interest-bearing securities	6,121	61	5,769	59
Properties	695	7	489	5
Other	408	4	782	8
	10,034	100	9,778	100
Danica (Denmark):				
Equities	32	15	35	11
Interest-bearing securities	155	72	240	75
Properties	28	13	45	14
	215	100	320	100
DnB (Norway):				
Equities	43	10	56	10
Interest-bearing securities	346	80	490	83
Properties	41	9	38	6
Other	4	1	4	1
	434	100	588	100
Other countries:				
Equities	329	25	514	46
Interest-bearing securities	495	37	593	53
Other	507	38	6	1
	1,331	100	1,113	100

1) The plan assets in the Swedish pension plans exclude special payroll tax, which is not included in the plan assets managed by Alecta and Euroben. Only an insignificant share of the plan assets is invested in SAS shares.

Membership statistics at October 31, 2017	Active employees	Taken early retirement	Deferred pensioners	Pensioners
The Alecta plan	2,069	-	3,262	3,483
Euroben	58	-	535	975
Other plans in Sweden (unfunded)	-	-	-	133
DnB	2	317	-	507
Danica	16	-	-	18
Total	2,145	317	3,797	5,116

The effect on/sensitivity of the defined-benefit obligation to changes in the key assumptions, MSEK:	Sweden	Norway	Denmark	Other	Total
Discount rate, -1%	-2,549	-124	-19	-228	-2,920
Inflation, +1% ¹	-2,659	-10	-4	-24	-2,697
Salary, +1%	-25	-2	0	0	-27

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant.

1) Corresponds with sensitivity in terms of pension increases.

NOTE 16 EXPENDABLE SPARE PARTS AND INVENTORIES

	Oct 31, 2017	Oct 31, 2016
Expendable spare parts, flight equipment	279	262
Expendable spare parts, other	16	21
Inventories	26	29
Total	321	312
Measured at cost	321	311
Measured at net realizable value	-	1
Total	321	312

NOTE 17 CURRENT RECEIVABLES

Net impairment of accounts receivable and recovered accounts receivable as well as impairment of other current receivables totaled MSEK 16 (12) and was charged to income.

	Oct 31, 2017	Oct 31, 2016
Age analysis of non-impaired accounts receivable		
Accounts receivable not yet due	1,334	1,323
Due < 31 days	13	45
Due 31–90 days	5	28
Due 91–180 days	3	8
Due > 180 days	8	2
Total	1,363	1,406
Provision for doubtful accounts receivable		
Opening provision	9	10
Provision for expected losses	11	7
Reversed provisions	-2	-3
Actual losses	-9	-5
Closing provision	9	9

NOTE 18 CURRENT RECEIVABLES FROM AFFILIATED COMPANIES

	Oct 31, 2017	Oct 31, 2016
Air Greenland A/S	2	1
Total	2	1

NOTE 19 PREPAID EXPENSES AND ACCRUED INCOME

	Oct 31, 2017	Oct 31, 2016
Prepaid expenses	403	706
Accrued income	447	447
Total	850	1,153

NOTE 20 SHORT-TERM INVESTMENTS

	Oct 31, 2017	Oct 31, 2016
Treasury bills	284	252
Deposits	3,121	2,714
Commercial paper	2,411	2,982
Tax deduction account in Norway	116	119
Total	5,932	6,067

The carrying amount of short-term investments corresponds with the fair value. Fair value is the amount that should have been received for short-term investments outstanding if sold on the closing date. Deposits and the tax deduction account are categorized as loan receivables and accounts receivable. Other financial instruments are classified as held for trading.

All investments have a term of no more than three months. The item deposits includes receivables from other financial institutes of MSEK 846 (1,356).

NOTE 21 SHARE CAPITAL**SHARE CAPITAL**

The company has three classes of shares: common shares, preference shares and subordinated shares.

As of October 31, 2017, a total of 330,082,551 common shares and 7,000,000 preference shares were issued and outstanding, which together constituted a registered share capital of SEK 6,775,359,275. During the 2015/2016 fiscal year, a conversion was made of SAS's convertible bond to 1,082,551 common shares. During the 2013/2014 fiscal year, an issue of 7,000,000 preference shares was made, each with a quotient value of SEK 20.10. The 330,082,551 common shares have a quotient value of SEK 20.10 per share. After the end of the fiscal year, on November 9, 2017, SAS completed a private placement of 52.5 million common shares. Following the new issue, the total number of common shares was 382,082,551. Together with the preference shares, the registered share capital amounted to SEK 7,830,609,275.

There are no subordinated shares issued or outstanding. Common shares and subordinated shares entitle the holders to one vote each. Each preference share entitles the holder to one-tenth of a vote.

The maximum number of common shares and subordinated shares that may be issued is limited to a number that corresponds with 100% of the company's share capital. The maximum number of preference shares that may be issued is limited to 10% of the share capital. Common shares and preference shares provide shareholders with the rights set out in the Swedish Companies Act and the Articles of Association.

Subordinated shares provide shareholders the right to participate in and vote at the company's shareholders' meetings. Subordinated shares do not entitle shareholders to dividends or participation in bonus issues. If subordinated shares are redeemed or the company is dissolved and its assets distributed, holders of subordinated shares are treated as holders of common shares and receive an equal share in the company's assets, although not at an amount higher than the quotient value of the subordinated shares index-adjusted from the first date of registration of the subordinated shares until the date of the payment of the redemption amount or the date of the distribution with an interest-rate factor corresponding to STIBOR 90 days plus two percentage points.

To ensure that the ownership circumstances of the company comply with the requirements stipulated in bilateral aviation agreements or in laws or regulations pertaining to the state of air traffic in the EEA, the Board is entitled, pursuant to the Articles of Association, to make a decision on mandatory redemption of shares held by shareholders outside of Scandinavia without refund to affected shareholders. Should the redemption of such shares not be possible, the Board is entitled (subsequent to resolution by the shareholders' meeting) to assign warrants with subscription rights for subordinated shares to Scandinavian shareholders to dilute the non-Scandinavian shareholding to the requisite level to ensure compliance with the aforementioned regulations.

DIVIDEND POLICY

SAS AB has two share classes listed. SAS's overriding goal is to create shareholder value. Dividends require a resolution by a shareholders' meeting, and that SAS AB has distributable earnings. The Group's earnings, expected performance, financial position, investment requirements and relevant economic conditions should also be taken into account. The dividend policy endeavors to achieve long-term sustainable dividends.

Common shares

Dividends to holders of common shares can be paid from value-creation whereby SAS's return on invested capital exceeds the weighted average cost of capital. The dividend should take into account any restrictions applying to the Group's financial instruments¹.

Preference shares

SAS is to pay dividends to holders of preference shares of SEK 50 per year, with a quarterly payment of SEK 12.50 per preference share until the payment date for the preference share dividend immediately following the record date of February 5, 2019, whereafter the annual preferential right to a dividend increases by an amount corresponding to 1% of the subscription price per preference share and year until the payment date for preference share dividends immediately after the record date of February 5, 2023. Thereafter, the annual preferential right to a preference share dividend totals an amount corresponding to SEK 50 plus an additional amount equivalent to 5% of the subscription price. In all cases, dividend payments are evenly allocated over the year in the form of quarterly payments.

1) At October 31, 2017, SAS has two financial instruments issued that limit dividend rights for holders of SAS common shares. SAS's bond of SEK 1.5 billion that matures in November 2017 stipulates that no dividends may be paid to holders of common shares if SAS's equity/assets ratio is less than 35%. According to the conditions of the preference shares, dividends are not paid to holders of common shares if the preference share capital exceeds 50% of the recognized shareholders' equity. Full dividends must also have been paid to preference shareholders. On November 17, 2017, SAS issued a SEK 1.5 billion unsecured bond. The bond stipulates that dividends to shareholders may not exceed 50% of net income for the year, but does not apply to preference shares or other types of financial products or instruments. No dividend may be distributed by SAS in contravention of the bond terms.

NOTE 22 RESERVES

	2017	2016
Translation reserve		
Opening translation reserve	-74	-286
Translation differences for the year	-124	212
Closing translation reserve, October 31	-198	-74
Hedging reserve		
Opening hedging reserve	1,325	1,218
Cash-flow hedges:		
– Recognized directly in other comprehensive income	395	50
– Change in statement of income	-207	87
– Tax attributed to year's change in hedging reserve	-41	-30
Closing hedging reserve, October 31	1,472	1,325
Total reserves		
Opening reserves	1,251	932
Change in reserves for the year:		
– Translation reserve	-124	212
– Hedging reserve	147	107
Closing reserves, October 31	1,274	1,251

TRANSLATION RESERVE

The translation reserve includes all exchange-rate differences arising in conjunction with the translation of financial statements from foreign operations that have prepared their financial statements in a currency other than Swedish kronor.

HEDGING RESERVE

The hedging reserve includes the effective part of the cumulative net change in fair value on a cash-flow instrument attributable to hedging transactions that have not yet incurred.

NOTE 23 LONG-TERM LIABILITIES

Long-term liabilities that fall due more than five years after the closing date.

	Oct 31, 2017	Oct 31, 2016
Subordinated loans	1,067	1,157
Bonds	-	-
Other loans	15	538
Total	1,082	1,695

NOTE 24 SUBORDINATED LOANS

A subordinated loan of MCHF 200 was issued during the 1985/1986 fiscal year. There is no set maturity date for this loan. The interest rate is fixed for ten-year periods and amounts to 0.625% from January 2016. SAS has an exclusive right to cancel this loan every fifth year. When the loan is canceled in connection with an interest-rate reset, SAS is entitled to repay the loan at 100% of its nominal value. If it is canceled five years after an interest-rate reset, the loan must be repaid at 102.5% of the nominal value.

In previous years, SAS repurchased MCHF 73 of the bonds, after which the balance of the loan is MCHF 127 (127), with a countervalue of MSEK 1,067 (1,157).

The bond is listed on the Basel Stock Exchange, Geneva Stock Exchange and Swiss Exchange. On the closing date, its total market value (including credit risk) amounted to MCHF 31 (36), with a countervalue of MSEK 328 (325). Fair value has established entirely by the use of official price quotes.

NOTE 25 BONDS

In May 2001, a MEUR 1,000 European Medium-Term Note program was established. The EMTN program makes it possible for the Group to issue bonds with fixed or floating interest rates in any currency. On the closing date, the SAS Group's

issued bonds amounted to MSEK 2,470 (2,330). A specification of individual bonds is provided below:

	Coupon rate	Term	Debt out-standing, currency	Oct 31, 2017		Oct 31, 2016	
				Carrying amount	Fair value	Carrying amount	Fair value
Original amount issued							
MEUR 25.0		2011/17	MEUR 24.7	243	243	390	394
MEUR 30.0	5.5% ¹	2017/22	MEUR 29.7	289	296	-	-
MEUR 10.0	5.8% ¹	2016/21	MEUR 10	97	98	99	99
MSEK 1,500.0	9.0%	2013/17	MSEK 1,499.9	1,500	1,503	1,497	1,512
MEUR 35.0	8.7%	2013/18	MEUR 35.0	341	358	345	394
Total				2,470	2,498	2,330	2,399
Less amortization 2017/2018 and 2016/2017				-2,084	-2,103	-147	-148
Total				386	395	2,183	2,251

1) Coupon rate on closing date. The loan has a floating interest rate.

The debt outstanding in currency and the carrying amount in MSEK agrees with amortized cost. The Group has entered into currency derivatives agreements for some of these bonds for the purpose of limiting currency risk. The fair value has been established in part by the use of official price quotes, and partly by discounting cash flows at quoted interest rates.

NOTE 26 OTHER LOANS

	Oct 31, 2017		Oct 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Finance leases	1,534	1,601	1,321	1,350
Convertible bond	1,521	1,823	1,482	1,414
Other loans	1,817	1,881	3,267	3,426
Total before amortization	4,872	5,305	6,070	6,190
Less amortization 2017/2018 and 2016/2017	-784	-859	-1,680	-1,760
Total other loans	4,088	4,446	4,390	4,430

Maturity profile of other loans	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022>	Total
Finance leases	205	215	225	820	69	-	1,534
Convertible bond	-	1,521	-	-	-	-	1,521
Other loans	579	360	271	418	174	15	1,817
Total	784	2,096	496	1,238	243	15	4,872

Other loans, finance leases and convertibles are classified as other liabilities, with recognition at amortized cost.

In 2014, a convertible bond was issued for MSEK 1,600 with a term of five years. At the date of issue, the value of the debt portion was MSEK 1,399 and that of the equity share (conversion option and repurchase right) was MSEK 201. At the balance-sheet date, the bond's conversion price was SEK 24.0173. As a result of the private placement in November 2017, the conversion price was changed to SEK 23.73. The loan is convertible on demand by the holder. In other loans, some borrowing is included within the framework of various revolving credit facilities (see Note 27 for further information). The interest rate of these loans is readjusted to the current interbank rate based on the currency of the loan plus a margin. The average interest rate on the closing date amounted to 4.097% for finance leases, 3.625% for convertible bonds and 3.895% for other loans.

The fair value of the convertible bond has been established through the use of official price quotes. For other loans and finance leases, fair value is determined by discounting on the basis of yield curves on the closing date.

NOTE 27 FINANCIAL RISK MANAGEMENT AND FINANCIAL DERIVATIVES

The SAS Group is exposed to various types of financial risks. All risk management is handled centrally and in accordance with the policies set by the Board. The SAS Group uses derivative instruments as part of its financial risk management to limit its fuel, currency and interest-rate exposure.

FUEL PRICE RISK

The SAS Group is exposed to changes in jet-fuel prices. Exposure is handled by continuously hedging 40–80% of the forecast fuel consumption for the coming 12 months. The main financial derivatives used for hedging jet fuel are options and swaps. On October 31, 2017, the Group signed an agreement on derivatives covering approximately 41% of the Group's forecast jet-fuel requirement for November 2017–October 2018. In November 2016–October 2017, jet-fuel-related costs accounted for 16.5% of the Group's operating expenses, compared with 17.0% in November 2015–October 2016.

CURRENCY RISK

The SAS Group has currency exposure to both transaction risk and translation risk.

Transaction risk arises when flows in foreign currencies are exposed to currency fluctuations. To manage the transaction risk to which the SAS Group is exposed, the projected commercial currency flows are hedged using currency derivatives. According to the financial policy, the hedge level must be 40–80% of a 12-month rolling liquidity forecast. Future contracted aircraft purchases denominated in USD can be hedged by up to 80% of the contracted amount. Additionally, future aircraft sales can be hedged with currency derivatives and loans in USD in an amount up to 80% of the carrying amounts of the aircraft fleet. On October 31, 2017, the Group had signed agreements for derivatives covering approximately 54% of the Group's forecast commercial currency exposure for November 2017–October 2018.

Translation risk arises during conversion of balance-sheet items in foreign currencies due to currency fluctuations. To limit translation risk, the policy is to keep the net financial debt mainly in the presentation currency of the respective subsidiary.

INTEREST-RATE RISK

The SAS Group is exposed to interest-rate risk when the market value of the net financial debt (interest-bearing assets and liabilities) is affected by movements in the yield curve (market interest rates at different maturities). Group borrowing includes loans at both fixed and floating interest rates. To manage the interest-rate risk, interest-rate derivatives are used to change the fixed-interest term of the underlying gross financial debt. The target of current policy is for the average fixed-interest term of the gross financial debt to correspond to 2 years. In addition, the development of the gross financial debt for the forthcoming 12 months and contracted future aircraft purchases is taken into consideration. At October 31, 2017, the average fixed-interest term was 2.2 (2.3) years.

SENSITIVITY ANALYSIS, REVALUATION EFFECT ON CLOSING DATE

The sensitivity analysis concerning fuel price shows the immediate revaluation effect of a 10% parallel shift in the price curve for fuel derivatives.

The sensitivity analysis concerning currency shows the immediate revaluation effect on the closing date for cash-flow hedges, accounts receivable and accounts payable of a 10% strengthening or weakening of the Swedish krona against all currencies the SAS Group is exposed to. Beyond the above effect on equity, a 10% change in currency will impact equity by MSEK 0 (0) through changes in value for hedges of net investments. A corresponding change in value arises for net investments in foreign operations. The net effect of the above changes in value has no impact on equity.

The sensitivity analysis for market interest rates shows the immediate revaluation effect on the closing date for interest-rate derivatives, fair-value hedges and short-term investments with a 1% parallel shift in the yield curve. Beyond the revaluation effect, the SAS Group's net interest for the November 2017–October 2018 period is affected by around MSEK 22 (50) if short-term market rates rise by 1 percentage point. However, if short-term market rates fall by 1 percentage point the corresponding negative effect on net interest is MSEK -22 (-50). The estimate also includes interest-rate derivatives.

SENSITIVITY ANALYSIS, REVALUATION EFFECT ON CLOSING DATE

			Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016
Market risk	Change	Currency	Earnings impact	Earnings impact	Equity impact	Equity impact
Fuel price	+/- 10%		-16/12	-33/-5	267/-242	392/-268
Currency risk, SEK	+/- 10%	CNY	1/-1	0/0	22/-22	0/0
Currency risk, SEK	+/- 10%	DKK	-11/11	-17/17	-18/18	-40/40
Currency risk, SEK	+/- 10%	EUR	-3/3	3/-3	0/0	60/-60
Currency risk, SEK	+/- 10%	JPY	0/0	2/-2	22/-22	30/-30
Currency risk, SEK	+/- 10%	NOK	5/-5	31/-31	242/-242	263/-263
Currency risk, SEK	+/- 10%	USD	-54/113	-97/97	-238/468	-462/462
Currency risk, SEK	+/- 10%	OTHER	-1/1	3/-3	20/-20	26/-26
Market interest rates	+/- 1%		-	-4/4	-	-

Note 27 continued

FINANCIAL DERIVATIVES

Different types of currency derivatives, such as currency forward contracts, currency swap contracts and currency options, are used to manage currency exposure. Furthermore, interest-rate exposure is managed by different types of inter-

est-rate derivatives such as Forward Rate Agreements (FRAs), futures, interest-rate swap contracts and currency interest-rate swap contracts.

As of October 31, 2017, the fair value of the SAS Group's outstanding derivative instruments totaled MSEK 467 (462), broken down according to the table below.

	Oct 31, 2017 Fair value				Oct 31, 2016	
	Outstanding volume	Assets	Liabilities	Net	Outstanding volume	Fair value, net
Currency derivatives	13,926	175	-103	72	16,456	185
Interest-rate derivatives	-	-	-	-	-	-
Fuel derivatives	3,243	399	-4	395	2,922	277
Total	17,169	574	-107	467	19,378	462

As of the balance-sheet date, fair value is consistent with carrying amounts.

The fair value is the amount received or paid if outstanding financial instruments are sold on the closing date. Derivatives not subject to hedge accounting are classified as financial instruments held for trading. Outstanding volume means the nominal amount of derivative contracts expressed in absolute terms.

The total carrying amount for the Group's derivative financial instruments is presented in the balance-sheet items in the table to the right.

OFFSETTING OF FINANCIAL DERIVATIVES

To reduce counterparty risks for bank receivables related to derivatives, SAS has entered into netting agreements, under ISDA agreements, signed with most of its counterparties.

The information in the following table includes financial assets and liabilities that are subject to enforceable master netting arrangements and similar agreements that cover financial instruments.

	Oct 31, 2017	Oct 31, 2016
Other long-term receivables	-	-
Other receivables	574	718
Total derivative assets	574	718
Current liabilities	-107	-256
Total derivative liabilities	-107	-256
<i>Derivative assets/liabilities net at end of the period</i>	467	462
Allocation of derivatives according to the following:		
Cash-flow hedges	499	429
Fair-value hedges	-	-
Net investment hedges	-	-
Derivatives not designated as hedges for accounting purposes	-32	33
Derivative assets/liabilities net at end of the period	467	462

	Oct 31, 2017			Oct 31, 2016		
	Financial assets	Financial liabilities	Total	Financial assets	Financial liabilities	Total
Gross amount	574	-107	467	718	-256	462
Amount offset	-	-	-	-	-	-
Recognized in the balance sheet	574	-107	462	718	-256	462
Amounts covered by netting agreements	-498	51	-447	-524	253	-271
Net amount after netting agreements	76	-56	15	194	-3	191

HEDGE-ACCOUNTED DERIVATIVES, CASH-FLOW HEDGE*Hedging of aircraft*

The hedging of future contracted aircraft purchases/sales represents hedging transactions since it is the payment flow in foreign currency during a future purchase/sale that is hedged using the cash-flow method. The loans and the currency forward contracts included in hedging relationships are translated at the relevant closing rate and the change that is calculated as effective is recognized in other comprehensive income. As of October 31, 2017, the accumulated currency effect on cash-flow-hedged loans and derivatives relating to future aircraft purchases and sales was recognized in equity in the amount of MSEK 1,091 (1,108).

Commercial flows

Currency derivatives are used to manage the transaction risk relating to projected commercial flows. These currency derivatives represent hedging transactions according to the cash-flow method and their accounting policies are matched with those of the underlying liquidity projection. Provided that the effectiveness of the hedges can be demonstrated, the accumulated change in market value of each hedging transaction is recognized in equity until it is recycled to the statement of income as a cost/revenue. As of October 31, 2017, the accumulated currency effect of these cash-flow-hedged currency derivatives was recognized in equity in the amount of MSEK 97 (63).

Interest-rate derivatives

When the SAS Group borrows at floating interest rates and changes its interest-rate exposure by entering into interest-rate swap contracts, whereby floating interest is received and fixed interest is paid, the hedging relationship is classified as a cash-flow hedge. When hedge accounting is applied, the effective portion of the change in value of the hedge instrument is recognized in other comprehensive income. The terms of the interest-rate derivatives used for hedging transactions are matched with those of the individual loans. On the closing date, October 31, 2017, there were no interest-rate derivatives outstanding.

Fuel derivatives

Fuel derivatives are used to manage the price risk relating to jet fuel. These derivatives represent hedging transactions according to the cash-flow method and their accounting policies are matched with those of the underlying forecast jet-fuel requirement. As of October 31, 2017, the accumulated effect on these cash-flow-hedged fuel derivatives was recognized in equity in the amount of MSEK 284 (154). The time value is remeasured on an ongoing basis at fair value through profit or loss.

All together, MSEK 1,472 (1,325) relating to cash-flow hedges was recognized in equity at October 31, 2017, and is expected to affect the statement of income in the following years as follows:

Note 27 continued

	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023>	Total
Aircraft	64	83	113	137	142	860	1,399
Commercial flows	124	-	-	-	-	-	124
Interest-rate derivatives	-	-	-	-	-	-	-
Fuel derivatives	364	-	-	-	-	-	364
Deferred tax	-121	-18	-25	-30	-31	-189	-374
Effect on equity	431	65	88	107	111	671	1,472

HEDGE-ACCOUNTED DERIVATIVES, FAIR-VALUE HEDGE

In cases where the SAS Group borrows at fixed interest rates and changes its interest-rate exposure by entering interest-rate swap contracts, whereby fixed interest is received and floating interest is paid, the hedging relationship is classified as a fair-value hedge. When hedge accounting is applied, changes in value attributable to the hedge instrument are recorded in net interest, where the effects are counteracted because the underlying hedged position (interest portion of the loan) is also measured at fair value and recorded in net interest. The terms of the interest-rate derivatives used for hedging transactions are matched with those of the individual loans. As of October 31, 2017, there are no fair-value hedges.

DERIVATIVES NOT SUBJECT TO HEDGE ACCOUNTING

Other derivatives not subject to hedge accounting are remeasured on an ongoing basis and recognized at fair value through profit or loss. Nor are interest-rate derivatives that cannot be linked to specific borrowing subject to hedge accounting and are remeasured on an ongoing basis at their fair value through profit or loss.

EMISSION RIGHTS

In 2017, SAS received about 51% of the emission rights free of charge and had to procure the remainder on the open market. At the balance-sheet date, October 31, SAS had secured 100% of the need for emission rights for 2017 and 29% of the expected need for 2018. At the balance-sheet date, SAS had an accrued emission rights liability of MSEK 43 on the balance sheet and purchased emission rights assets of MSEK 28. During the November 2016 to October 2017 period, SAS expensed emission rights to a value of MSEK 55.

CREDIT RISK

The Group's financial transactions give rise to exposure to credit risk vis-à-vis the financial counterparties. Credit risk or counterparty risk pertains to the risk of loss if a counterparty does not fulfill its contractual obligations. The financial policy prescribes that transactions may only be entered into with counterparties with high creditworthiness, defined as category A3/P-1 or better according to Moody's or alternatively A-/A-1 according to Standard & Poor's.

Limits are set for each counterparty and are continuously revised. To further reduce counterparty risks, ISDA agreements (netting agreements) are signed with most counterparties. 83% of the credit-related exposure is geographically concentrated in the Nordic countries. The breakdown of the remaining credit exposure is 17% in the rest of Europe and 0% in the rest of the world. The maximum credit exposure for derivative instruments is matched by carrying amounts/fair values, see the above table under the heading Financial derivatives. For cash and cash equivalents, the size of the credit risk is the carrying amount and is distributed as follows:

Rating (Moody's)	Carrying amount	
	Oct 31, 2017	Oct 31, 2016
Aaa/P-1	735	252
Aa1/P-1	410	1,051
Aa2/P-1	1,062	550
Aa3/P-1	4,642	5,455
A1/P-1	1,211	498
A2/P-1	2	129
A3/P-1	774	435
Total	8,836	8,370

In relation to the SAS Group's accounts receivable, the credit risk is spread over a large number of customers including private individuals and companies in various industries. Credit information is required for credit sales with the aim of minimizing the risk of bad debt losses and is based on intra-Group information on payment history supplemented with credit and business information from external sources.

The maximum credit risk for the SAS Group accords with the carrying amounts

of financial assets according to the categorization table.

LIQUIDITY AND BORROWING RISK

Liquidity and borrowing risks refer to the risk that sufficient liquidity is not available when required, and that refinancing of matured loans will be costly or problematic.

The target is for financial preparedness to amount to a minimum of 25% of the SAS Group's fixed costs. The financial preparedness equals cash and cash equivalents plus total unutilized credit facilities. As of October 31, 2017, financial preparedness amounted to MSEK 10,613 (10,581), with cash and cash equivalents amounting to MSEK 7,913 (7,014) and unutilized credit facilities totaling MSEK 2,700 (3,567) or 37% (41) of the Group's fixed costs. The SAS Group's cash and cash equivalents are held in instruments with good liquidity or short maturity with a credit rating of no lower than A3/P-1 according to Moody's or A-/A-1 according to Standard & Poor's.

The following tables show remaining contractual terms for SAS's financial liabilities and assets excluding operations for sale. The figures shown are contractual undiscounted cash flows. The tables show the contracted date when SAS is liable to pay or receive, and includes both interest and nominal amounts. Future interest flows at variable rates are estimated using the current interest rate on the closing date, which means the amounts may differ.

As of October 31, 2017, the Group's interest-bearing liabilities amounted to MSEK 8,575 (9,880); 0% (0) of the interest-bearing liabilities have financial key ratio covenants for cash flow, debt/equity and liquidity. The term of the interest-bearing gross debt amounted to approximately 1.7 years (2.1) at year-end, excluding the subordinated loan of MCHF 127 which runs without stipulated maturity.

FINANCIAL NET DEBT/RECEIVABLES

MSEK	Balance sheet		Net financial debt
Other holdings of securities	3	of which interest-bearing	-
Other long-term receivables	2,512	of which interest-bearing	1 933
Accounts receivable	1,363	of which interest-bearing	-
Receivables from affiliated companies	2	of which interest-bearing	-
Other receivables	931	of which interest-bearing	605
Short-term investments	5,932		5,932
Cash and bank balances	2,904		2,904
Subordinated loans	-1,067		-1,067
Bonds	-386		-386
Other loans	-4,088		-4,088
Current portion of long-term loans	-2,868		-2,868
Short-term loans	-166		-166
Accounts payable	-1,488	of which interest-bearing	-
Other liabilities	-712	of which interest-bearing	-
Net financial receivables			2,799

Note 27 continued

LIQUIDITY RISK

Oct 31, 2017	Up to 3 months	4–12 months	1–5 years	Over 5 years
Financial liabilities				
Subordinated loans	7	-	27	1,094 ²
Bonds	1,786	357	410	-
Finance leases	66	195	1,514	-
Convertibles	-	57	1,603	-
Other loans	115	596	1,457	15
Other liabilities	624	88	-	-
Short-term loans	-	-	-	-
- Fuel derivatives	-	4	-	-
- Currency derivatives	89	14	-	-
- Interest-rate derivatives	-	-	-	-
Accounts payable	1,448	-	-	-
Total	4,135	1,311	5,011	1,109
Currency derivatives, gross ¹	9,268	4,657	-	-
Financial assets				
Other holdings of securities	-	-	3	-
Other long-term receivables	48	85	1,396	983
Accounts receivable	1,334	29	-	-
Receivables from affiliated companies	-	2	-	-
Other receivables	50	4	326	-
- Fuel derivatives	134	265	-	-
- Currency derivatives	115	37	-	-
Short-term investments	5,940	-	-	-
Cash and bank balances	2,904	-	-	-
Total	10,525	422	1,725	983
Net	6,390	-889	-3,286	-126
Oct 31, 2016				
Up to 3 months	4–12 months	1–5 years	Over 5 years	
Financial liabilities				
Subordinated loans	-	7	29	1,193 ²
Bonds	55	370	2,146	-
Finance leases	477	88	717	74
Convertibles	-	29	1,688	-
Other loans	534	707	1,752	584
Other liabilities	1	2	-	-
Short-term loans	-	-	-	-
- Fuel derivatives	141	115	-	-
- Currency derivatives	-	-	-	-
- Interest-rate derivatives	-	-	-	-
Accounts payable	1,755	-	-	-
Total	2,963	1,318	6,332	1,851
Currency derivatives, gross ¹	10,935	5,521	-	-
Financial assets				
Other long-term receivables	19	125	1,586	601
Accounts receivable	1,396	10	-	-
Other receivables	-	4	470	-
- Fuel derivatives	71	206	-	-
- Currency derivatives	302	140	-	-
Short-term investments	5,164	-	-	-
Cash and bank balances	3,055	-	-	-
Total	10,006	485	2,056	601
Net	7,043	-833	-4,276	-1,250

1) Currency derivatives have, essentially, corresponding positive cash flows.

2) Subordinated loan with no maturity date.

Note 27 continued

CONTRACTED CREDIT FACILITIES

The Group has entered into various credit facilities in order to provide additional funding if needed. The schedule below provides details of the credit facilities on October 31, 2017.

Facility	Maturity	Total facility	Utilized facility	Oct 31,	Oct 31,
				2017	2016
				Unutilized facility	Unutilized facility
Credit facility, MEUR 150	2019	1,459	-	1,459	1,479
Credit facility, MUSD 137	2020	1,145	29	1,116	1,202
Credit facility, MUSD 33	2020	278	278	-	-
Credit facility, MUSD 37	2021	311	311	-	-
Credit facility, MUSD 46	2020	383	383	-	-
Credit facility, MUSD 27	2018	228	228	-	207
Credit facility, MUSD 72	2023	604	479	125	679
Total		4,408	1,708	2,700	3,567

MEASUREMENT AT FAIR VALUE

Under IFRS 7, disclosures pertaining to financial instruments measured at fair value in the balance sheet are to be provided if the method for establishing fair value utilizes a fair value hierarchy consisting of three levels. The levels reflect the extent to which fair value is based on observable market data or own assumptions. Below is a description of the different levels for determining fair value.

Level 1

Financial instruments for which fair value is based on observable (unadjusted) quoted prices in active markets for identical assets and liabilities. A market is considered active if quoted prices from an exchange, bank, pricing service (such as Thomson Reuters) or supervisory body are readily and regularly available and those prices represent actual and regularly occurring arm's length market transactions.

This category includes mainly treasury bills and standardized derivatives where the quoted price is used in the valuation. Cash and bank balances are also categorized as level 1.

Level 2

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

Examples of observable data in level 2 is data that can serve as a basis for assessing prices, such as market interest rates and yield curves.

This category includes mainly certificates and non-standard derivative instruments (interest-rate, currency and fuel swaps as well as currency and fuel options) not traded in an active market and the fair value is determined using valuation techniques based essentially on observable market data.

Level 3

Financial instruments for which fair value is based on valuation models, whereby significant input is based on unobservable data.

The SAS Group currently has no financial assets and liabilities where the valuation is essentially based on unobservable data.

DETERMINATION OF FAIR VALUE — VALUATION TECHNIQUES**Other holdings of securities**

The balance-sheet item "Other holdings of securities" MSEK 3 (3) comprises shareholdings that are not affiliated companies or subsidiaries.

The entire balance-sheet item is measured at cost because its fair value cannot be reliably measured as a justifiable expense. For this reason, the balance-sheet item "Other holdings of securities" is not included in the adjacent table "Financial assets and liabilities measured at fair value."

Interest-rate derivatives

Interest-rate swaps: The fair value of interest-rate swaps is determined by discounting estimated future cash flows. Discounting takes place on the basis of yield curves based in turn on market rates prevailing at the closing date.

Futures: Standardized futures contracts with daily settlement. Fair value is thus determined by daily "market to market" valuation.

Forward Rate Agreement, (FRA): The fair value of OTC FRAs is determined by discounting estimated future cash flows. Discounting takes place on the basis of yield curves based in turn on market rates prevailing at the closing date. Standardized FRAs with cash settlement are measured at fair value using quoted bid and ask rates at year-end for an FRA with a corresponding term to maturity.

Currency derivatives

Currency swaps: The fair value of currency swaps is determined by discounting estimated future cash flows in each currency and interest rate. Discounting is based on yield curves on the closing date. Translation of the currency component is based on exchange rates prevailing at the closing date.

Currency options: The fair value of options is determined by application of the Black and Scholes valuation model, a recognized and accepted valuation model in financial markets. The model is based primarily on observable data such as spot price, exercise price, term to maturity, interest rate, volatility, etc.

Fuel derivatives

Fuel options: The fair value of fuel options is determined by application of the Black and Scholes valuation model. The model is based primarily on observable data such as the fuel swap curve, exercise price, term to maturity, interest rate, volatility, etc.

Fuel swaps: The fair value of fuel swaps is determined according to the fuel swap curve at the closing date.

Short-term investments

Short-term investments classified as held for trading comprise treasury bills, mortgage bonds and commercial paper with a maximum remaining term to maturity of three months. Fair value is determined by discounting on the basis of yield curves on the closing date.

Cash and bank balances

Cash and bank balances comprise cash on hand and demand deposits at banks and corresponding financial institutions. Carrying amounts correspond to fair value.

Note 27 continued

FAIR VALUES AND CARRYING AMOUNTS OF FINANCIAL ASSETS AND LIABILITIES

	Oct 31, 2017		Oct 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial assets at fair value	551	551	651	651
Financial assets held for trading	5,741	5,741	5,804	5,804
Other assets	6,448	6,551	6,000	6,000
Total	12,740	12,843	12,455	12,455
Financial liabilities				
Financial liabilities at fair value	52	52	222	222
Financial liabilities held for trading	55	55	34	34
Financial liabilities at amortized cost	10,091	9,813	11,554	10,905
Total	10,198	9,920	11,810	11,161

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	Oct 31, 2017			Oct 31, 2016		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS						
Other holdings of securities	-	3	-	-	3	-
Other long-term receivables						
– Interest-rate derivatives	-	-	-	-	-	-
Other receivables						
– Fuel derivatives	-	399	-	-	277	-
– Currency derivatives	-	175	-	-	442	-
– Interest-rate derivatives	-	-	-	-	-	-
Short-term investments	400	2,411	-	449	2,981	-
Cash and bank balances	2,904	-	-	2,303	-	-
Total	3,304	2,988	-	2,752	3,703	0
LIABILITIES						
Other loans						
– Interest-rate derivatives	-	-	-	-	-	-
Short-term loans						
– Fuel derivatives	-	4	-	-	-	-
– Currency derivatives	-	103	-	-	256	-
– Interest-rate derivatives	-	-	-	-	-	-
Total	0	107	0	0	256	0

Note 27 continued

CATEGORIZATION OF FINANCIAL ASSETS AND LIABILITIES

	Held for trading	Loans and receivables	Financial assets available for sale	Other liabilities	Hedging instruments, derivatives	Non-financial items	Total carrying amount	Total fair value ¹
Oct 31, 2017	Fair value	Amortized cost	Fair value	Amortized cost	Fair value			
ASSETS								
Other holdings of securities	-	-	3	-	-	-	3	3
Other long-term receivables	-	1,933	-	-	-	579	2,512	2,467
– Interest-rate derivatives	-	-	-	-	-	-	0	0
Accounts receivable	-	1,363	-	-	-	-	1,363	1,363
Receivables from affiliated companies	-	-	-	-	-	2	2	2
Other receivables	-	31	-	-	-	326	357	357
– Fuel derivatives	-	-	-	-	399	-	399	399
– Currency derivatives	23	-	-	-	152	-	175	175
– Interest-rate derivatives	-	-	-	-	-	-	0	0
Short-term investments	2,811	3,121	-	-	-	-	5,932	6,034
Cash and bank balances	2,904	-	-	-	-	-	2,904	2,904
Total	5,738	6,448	3	0	551	907	13,647	13,704
LIABILITIES								
Subordinated loans	-	-	-	1,067	-	-	1,067	328
Bonds	-	-	-	386	-	-	386	394
Other loans	-	-	-	4,088	-	-	4,088	4,446
– Interest-rate derivatives	-	-	-	-	-	-	0	0
Other liabilities	-	-	-	175	-	537	712	712
Current portion of long-term loans	-	-	-	2,868	-	-	2,868	2,962
Short-term loans	-	-	-	59	-	-	59	59
– Fuel derivatives	-	-	-	-	4	-	4	4
– Currency derivatives	55	-	-	-	48	-	103	103
– Interest-rate derivatives	-	-	-	-	-	-	0	0
Accounts payable	-	-	-	1,448	-	-	1,448	1,448
Total	55	0	0	10,091	52	537	10,735	10,456
Oct 31, 2016								
	Fair value	Amortized cost	Fair value	Amortized cost	Fair value			
ASSETS								
Other holdings of securities	-	-	3	-	-	-	3	3
Other long-term receivables	-	1,931	-	-	-	400	2,331	2,331
– Interest-rate derivatives	-	-	-	-	-	-	0	0
Accounts receivable	-	1,406	-	-	-	-	1,406	1,406
Receivables from affiliated companies	-	-	-	-	-	1	1	1
Other receivables	-	26	-	-	-	448	474	474
– Fuel derivatives	-	-	-	-	277	-	277	277
– Currency derivatives	68	-	-	-	374	-	442	442
– Interest-rate derivatives	-	-	-	-	-	-	0	0
Short-term investments	3,430	2,637	-	-	-	-	6,067	6,067
Cash and bank balances	2,303	-	-	-	-	-	2,303	2,303
Total	5,801	6,000	3	0	651	849	13,304	13,304
LIABILITIES								
Subordinated loans	-	-	-	1,157	-	-	1,157	319
Bonds	-	-	-	2,183	-	-	2,183	2,251
Other loans	-	-	-	4,390	-	-	4,390	4,430
– Interest-rate derivatives	-	-	-	-	-	-	0	0
Other liabilities	-	-	-	3	-	-	3	3
Current portion of long-term loans	-	-	-	1,827	-	-	1,827	1,908
Short-term loans	-	-	-	64	-	-	64	64
– Fuel derivatives	-	-	-	-	-	-	0	0
– Currency derivatives	34	-	-	-	222	-	256	256
– Interest-rate derivatives	-	-	-	-	-	-	0	0
Accounts payable	-	-	-	1,755	-	-	1,755	1,755
Total	34	0	0	11,379	222	0	11,635	10,986

1) The fair values of short-term investments and subordinated loans have been set entirely by the use of official price quotes. The fair values of other financial assets and liabilities have been set in part by the use of official price quotes, such as discounting of future cash flows at quoted interest rates.

NOTE 28 OTHER PROVISIONS

	Restructuring		Loyalty program		Undertakings pertaining to aircraft under operating leases		Other provisions		Total	
	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016
Opening balance	598	899	1,719	1,562	-	-	229	10	2,546	2,471
Reclassifications	-	-2	-	-	2,238	-	-	1	2,238	-1
New provisions	110	42	1,168	1,097	1,717	-	1	221	2,996	1,360
Utilized provisions	-272	-350	-1,111	-940	-1,274	-	0	-3	-2,657	-1,293
Currency effect	-5	9	-	-	-157	-	-1	0	-163	9
Closing balance	431	598	1,776	1,719	2,524	-	229	229	4,960	2,546

Breakdown in balance sheet:	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016
Long-term liabilities	236	360	1,776	1,719	1,439	-	10	10	3,461	2,089
Current liabilities	195	238	-	-	1,085	-	219	219	1,499	457
	431	598	1,776	1,719	2,524	-	229	229	4,960	2,546

RESTRUCTURING

The restructuring provisions are attributable to the cost cutting and efficiency measures initiated in the last few years. These measures entail radical changes and simplification of operations, and will generate a reduction in unit cost.

In addition to restructuring provisions for personnel, the reserve also comprises provisions for leasing costs relating to unutilized premises.

The long-term portion of the restructuring reserve will to all intents and purposes be fully utilized within two to three years.

The provision for restructuring costs includes no reversed unutilized amounts.

LOYALTY PROGRAM

Through membership in the Group's loyalty program, EuroBonus, customers can earn bonus points by flying with SAS and/or other Star Alliance companies as well as from purchases made from other business partners, such as car rental and credit card companies.

The allocation of loyalty points is viewed as a separate identifiable transaction when purchasing airline tickets. The portion of the ticket price allocated to loyalty points is measured at fair value and not recognized as revenue until the period in which the obligation is met.

The amount for utilized provisions includes a revaluation of the EuroBonus points liability. During recent years, previous estimates of fair value per point category have been adjusted downwards driven by continued price reductions, changes in EuroBonus rules and withdrawal patterns.

EuroBonus points earned are valid for five years.

UNDERTAKINGS PERTAINING TO AIRCRAFT UNDER OPERATING LEASES

SAS makes ongoing provisions for undertakings in connection with aircraft under operating leases. The undertakings primarily pertain to engines, but also include landing gear, air frames and APUs. Last year, SAS classified the undertakings as an accrued expense, refer to Note 30, which means that the opening balance can be found under the line item reclassifications in the above table.

NOTE 29 SHORT-TERM LOANS

	Oct 31, 2017	Oct 31, 2016
Accrued interest	59	64
Derivatives	107	256
Total	166	320

NOTE 30 ACCRUED EXPENSES AND PREPAID INCOME

	Oct 31, 2017	Oct 31, 2016
Vacation pay liability	1,016	1,127
Other accrued payroll expenses	280	191
Selling costs	443	390
Fuel costs	219	217
Government user fees	282	296
Leasing costs	234	69
Handling costs	279	181
Provision for maintenance of leased engines	0	2,238
Other accrued expenses	565	597
Prepaid income	16	30
Total	3,334	5,336

Last year, the provision for maintenance of leased engines included SAS's future undertakings for leased engines. This year, this undertaking has been classified as a provision. See Note 28.

NOTE 31 PLEDGED ASSETS

	Oct 31, 2017	Oct 31, 2016
<i>Related to liabilities:</i>		
Aircraft mortgages	4,647	5,022
<i>Related to deposits:</i>		
Deposits and blocked bank funds	3,246	3,564
Total	7,893	8,586

At October 31, 2017, the liability outstanding related to aircraft mortgages was MSEK 1,436 (2,598).

NOTE 32 CONTINGENT LIABILITIES

	Oct 31, 2017	Oct 31, 2016
<i>Guarantees related to:</i>		
Emission rights	47	64
Other	16	17
Total	63	81

In conjunction with the sale of two slot pairs at London Heathrow in the 2016/2017 fiscal year, SAS entered into an agreement to continue to use these two slot pairs for a period of up to three years. If SAS does not fulfil this undertaking, it could be subject to a penalty payment.

The Group is involved in various claims and legal proceedings arising in the ordinary course of business. These claims relate to, but are not limited to, the Group's business practices, employment matters, and tax matters. Provisions have been recognized for such matters in accordance with probable and quantifiable loss risks. On the basis of information currently available, those issues not requiring any provisions will not have any material adverse effect on the Group's earnings, nor will they be recognized as contingent liabilities. However, litigation is inherently unpredictable and, even though the provisions were assessed as adequate and/or that the Group has valid defenses in these matters, unfavorable results could occur. This could have a material adverse effect on the Group's earnings in future accounting periods. For more information see the Report by the Board of Directors on page 41.

NOTE 33 LEASING COMMITMENTS

The SAS Group has entered into the following leasing commitments, with specification of the total annual rent for:

	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023>
Aircraft	2,837	2,497	2,219	1,911	1,646	4,425
Properties	607	565	520	462	448	2,024
Machinery and equipment	296	266	245	228	221	291
Total	3,740	3,328	2,984	2,601	2,315	6,740

Leases with an annual rental cost in excess of MSEK 0.5 are included. Total lease costs in the 2016/2017 fiscal year amounted to MSEK 4,143 (3,858), of which a positive effect of MSEK 28 (0) pertained to changes in contingent rents compared with the original terms of agreements. Contingent rents vary according to different factors such as revenue, the consumer price index and short-term market interest rates.

In addition to these leasing commitments, other undertakings exist in conjunction with returning aircraft under operating leases.

The financial impact on return depends on a large number of factors that are complex to assess and, accordingly, have not been included as commitments in this note.

In the 2016/2017 fiscal year, assets were subleased to third parties for a total of MSEK 159 (174). The value of future fixed payments for these assets amounted to MSEK 217 (338).

At the end of the 2016/2017 fiscal year, the SAS Group aircraft fleet totaled 158 aircraft, of which 115 were leased.

NOTE 34 ADJUSTMENT FOR OTHER NON-CASH ITEMS, ETC.

	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Share of income in affiliated companies	-4	-39
Dividends from affiliated companies	23	80
Earnings impact from measuring financial instruments according to IAS 39	62	-117
Impairment losses	-	11
Provisions	257	355
Other	3	-13
Total	341	277

NOTE 35 SALE OF SUBSIDIARIES

The subsidiary Cimber A/S was divested during the 2016/2017 fiscal year.

The subsidiary Blue1 Oy was divested during the 2015/2016 fiscal year.

The value of the sold assets and liabilities was as follows:

	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Fixed assets	14	2
Current assets	5	17
Cash and cash equivalents	29	11
Long-term liabilities	-	-
Current liabilities	-24	-25
Total	24	5
Capital gain/loss excluding selling costs	-19	4
Purchase price	5	9
Cash and cash equivalents in divested companies	-29	-11
Impact on the Group's cash and cash equivalents	-24	-2

NOTE 36 CASH AND CASH EQUIVALENTS

	Oct 31, 2017	Oct 31, 2016
Short-term investments	5,932	6,067
Cash and bank balances	2,904	2,303
Cash and cash equivalents at year-end	8,836	8,370

Disclosure of interest paid:

During the year, interest received amounted to MSEK 153 (102), of which MSEK 127 (81) pertains to forward premiums for currency derivatives. During the year, interest paid amounted to MSEK 582 (514), of which MSEK 117 (52) pertains to forward premiums for currency derivatives.

NOTE 38 TRANSACTIONS WITH AFFILIATED COMPANIES

Revenue from sales to affiliated companies amounted to MSEK 16 (8).
Cost of purchases from affiliated companies was MSEK 47 (49).

NOTE 37 AUDITORS' FEES

The following remuneration was paid to auditing firms for auditing services.

	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Auditing services		
PwC	7	7
Other statutory assignments		
PwC	0	0
Tax consultancy services		
PwC	1	1
Other		
PwC	1	1
Total	9	9

For auditing services, MSEK 4.7 pertains to PwC Sweden, of other statutory assignments, MSEK 0.1 pertains to PwC Sweden, of tax consultancy services, MSEK 0.1 pertains to PwC Sweden and of other assignments, MSEK 0.8 pertains to PwC Sweden.

NOTE 39 SEGMENT REPORTING

The Group's airline operations and other appurtenant operations are reported as one operating segment. The Chief Operating Decision Maker (CODM), which is defined at SAS as the SAS Group Management, has strategic responsibility for allocating resources, primarily in terms of aircraft capacity to the various route sectors, and prepares decision data ahead of strategic Board decisions. Traffic and other revenue is allocated geographically as follows.

GEOGRAPHICAL BREAKDOWN

	Domestic		Intra-Scandinavian		Europe		Intercontinental		Total	
	Nov–Oct 2016–2017	Nov–Oct 2015–2016	Nov–Oct 2016–2017	Nov–Oct 2015–2016	Nov–Oct 2016–2017	Nov–Oct 2015–2016	Nov–Oct 2016–2017	Nov–Oct 2015–2016	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Passenger revenue	8,935	8,568	3,383	3,300	12,218	11,159	8,108	7,344	32,644	30,371
Freight and mail revenue	4	5	14	8	91	64	1,361	1,176	1,470	1,253
Charter revenue	0	0	0	0	1,964	1,791	0	0	1,964	1,791
Other traffic revenue	661	647	251	249	906	842	601	555	2,419	2,293
Total traffic revenue	9,600	9,220	3,648	3,557	15,179	13,856	10,070	9,075	38,497	35,708

	Denmark		Norway		Sweden		Europe		Other countries		Total	
	Nov–Oct 2016– 2017	Nov–Oct 2015– 2016	Nov–Oct 2016– 2017	Nov–Oct 2015– 2016	Nov–Oct 2016– 2017	Nov–Oct 2015– 2016	Nov–Oct 2016– 2017	Nov–Oct 2015– 2016	Nov–Oct 2016– 2017	Nov–Oct 2015– 2016	Nov–Oct 2016– 2017	Nov–Oct 2015– 2016
Other operating revenue	735	680	1,056	1,075	924	740	863	748	579	508	4,157	3,751

In 2016/2017 and 2015/2016, there was no single customer who accounted for more than 10% of Group revenue.

The Group's assets and liabilities are mainly located in Scandinavia. Total fixed assets, including prepayments for tangible fixed assets, which do not comprise financial instruments, deferred tax assets or assets pertaining to post-employment benefits are allocated geographically as follows. The group, Not allocated, includes prepayments to Airbus for future aircraft deliveries amounting to MSEK 1,987 (2,135), refer to Note 13. Aircraft are utilized in a flexible manner across the route network, and are not allocated.

	Denmark		Norway		Sweden		Other countries		Not allocated		Total	
	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016	Oct 31, 2017	Oct 31, 2016
Fixed assets	848	882	310	294	3,930	3,939	187	346	9,887	10,389	15,162	15,850

NOTE 40 SUBSIDIARIES IN THE SAS GROUP

					Oct 31, 2017	Oct 31, 2016
	Domicile	Corp. Reg. No.	Total owned shares	Holding	Carrying amount	Carrying amount
<i>Owned by SAS AB:</i>						
SAS Sverige AB	Sigtuna	556042-5414	70,500,000	100	1,937	1,937
SAS Norge AS	Bærum	811176702	47,000,000	100	3,028	3,028
SAS Danmark A/S	Copenhagen	56994912	47,000,000	100	3,970	3,971
SAS Individual Holdings AB	Stockholm	556063-8255	610,000	100	595	721
Linjeflyg AB	Sigtuna	556062-8454	2,000,000	100	237	237
OY Nordair Ab	Vantaa	525.232	150	100	-	6
SAS Cargo Group A/S	Tårnby	25736443	200,500	100	0	0
SAS Ground Handling Denmark A/S	Tårnby	32339026	55,000	100	37	37
SAS Ground Handling Norway AS	Oslo	912056228	5,000	100	52	52
SAS Ground Handling Sweden AB	Stockholm	556934-7924	445,000	100	64	64
Scandinavian Airlines Ireland Ltd	Dublin	601918	2,000,000	100	19	-
Gorm Asset Management Ltd	Dublin	592913	1	100	0	-
Gorm Dark Blue Ltd	Dublin	593238	1	100	0	-
Gorm Deep Blue Ltd	Dublin	593239	1	100	0	-
Gorm Sky Blue Ltd	Dublin	593240	1	100	0	-
Other					2	0
					9,941	10,053
<i>Owned by SAS Consortium:</i>						
SAS Capital B.V.	Rotterdam	167071	501	100	8	8
Other					2	2
					10	10
<i>Owned by SAS Sverige AB:</i>						
Spirit Air Cargo Handling Sweden AB	Stockholm	556658-5682	1,000	100	-	9
<i>Owned by SAS Individual Holdings AB:</i>						
Red 1 A/S	Copenhagen	24202941	500	100	1	19
Spirit Air Cargo Handling Group AB	Stockholm	556690-7076	11,000	100	-	58
					1	77
<i>Owned by Red 1 A/S:</i>						
Cimber A/S	Tårnby	34576890	600,000	100	-	0

NOTE 41 EARNINGS PER SHARE

The calculation of earnings per share before and after dilution is based on the following earnings and number of common shares. In 2014, a convertible bond was issued, which gave rise to a potential dilution effect, see Note 26. Last fiscal year, the number of common shares increased by 1,082,551, which corresponded with a weighted average of 902,126 shares as a result of the conversion.

	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Net income for the year, attributable to Parent Company shareholders	1,149	1,321
Less preference-share dividend	-350	-350
Net income for the year, attributable to Parent Company shareholders, before dilution	799	971
Reversal of interest expense (convertible bond)	45	45
Net income for the year, attributable to Parent Company shareholders, after dilution	844	1,016
Weighted average number of common shares during the year, before dilution	330,082,551	329,902,126
Effect of potential common shares outstanding	65,536,095	65,716,520
Weighted average number of common shares during the year, after dilution	395,618,646	395,618,646
Earnings per common share before dilution (SEK)	2.42	2.94
Earnings per common share after dilution (SEK)	2.13	2.57

NOTE 42 RELATED-PARTY TRANSACTIONS

No significant related-party transactions took place in the 2016/2017 fiscal year or in the 2015/2016 fiscal year except those between Group companies, where transactions are conducted subject to market terms and conditions.

No significant transactions occurred with related parties aside from the above and the information in Note 3 regarding the remuneration of senior executives.

NOTE 43 SIGNIFICANT EVENTS AFTER THE CLOSING DATE

- SAS completed a private placement of MSEK 1,270. As a result of the new share issue, the conversion price for SAS's convertible bond was changed from SEK 24.0173 to SEK 23.73.
- SAS's credit rating was upgraded by Moody's and Standard & Poor's.
- SAS issued an SEK 1.5 billion unsecured bond with a tenor of five years and a fixed coupon rate of 5.375%.
- Torbjørn Wist was appointed new Chief Financial Officer (CFO) after Göran Jansson, who will have overall responsibility for Group strategy, SAS Growth, the SAS aircraft fleet and Strategic Sourcing. In this new role, Göran Jansson will continue as Deputy President and as a member of SAS Group Management.
- Fritz H. Schur notified his intent to step down as Chairman and as a member of the Board of SAS from the 2018 AGM.
- SAS has decided to redeem a maximum of 4.9 million preference shares on February 9, 2018, for a maximum total redemption cost of around MSEK 2,580.

SAS AB, PARENT COMPANY, INCLUDING NOTES

STATEMENT OF INCOME

MSEK	Note	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Revenue		92	10
Payroll expenses	1	-34	-33
Other operating expenses		-73	-111
Operating income		-15	-134
Share of income of Group companies	2	-122	0
Income from other securities holdings	2	1	1
Interest income and similar income items		211	211
Interest expenses and similar income items		-246	-247
Exchange-rate differences		0	0
Income before appropriations and taxes		-171	-169
Appropriations		18	0
Tax	3	6	33
Net income for the year		-147	-136

During the year, an impairment charge of MSEK 125 was recognized against shares in subsidiaries. An expense of MSEK 63 pertaining to a guarantee commitment was charged to earnings in the preceding year.

The Parent Company recognizes no items in other comprehensive income for 2016/2017 and 2015/2016, respectively. Accordingly, net income for the year for the Parent Company corresponds to comprehensive income.

BALANCE SHEET

ASSETS, MSEK	Note	Oct 31, 2017	Oct 31, 2016
Fixed assets			
<i>Financial fixed assets</i>			
Shares in subsidiaries	4	9,941	10,053
Other holdings of securities	5	2	2
Deferred tax assets	3	714	716
Receivables from Group companies		4,000	4,004
Other long-term receivables		4	15
Total fixed assets		14,661	14,790
Current assets			
<i>Current receivables</i>			
Accounts receivable		0	0
Receivables from Group companies		462	766
Other receivables		0	3
Prepaid expenses and accrued income		1	0
		463	769
Cash and bank balances		2	0
Total current assets		465	769
TOTAL ASSETS		15,126	15,559

SHAREHOLDERS' EQUITY AND LIABILITIES, MSEK	Note	Oct 31, 2017	Oct 31, 2016
Shareholders' equity			
Restricted equity			
Share capital		6,776	6,776
Statutory reserve		306	306
Unrestricted equity			
Retained earnings		4,885	5,371
Net income for the year		-147	-136
Total equity		11,820	12,317
Long-term liabilities			
Convertible loan	6	1,521	1,482
Bond loan	7	0	1,497
Long-term liabilities to Group companies		0	4
Deferred tax liability	3	19	27
Other liabilities		0	0
Total long-term liabilities		1,540	3,010
Current liabilities			
Current portion of long-term loans	7	1,500	0
Liabilities to Group companies		17	0
Accounts payable		6	4
Other liabilities		221	210
Accrued expenses and prepaid income		22	18
Total current liabilities		1,766	232
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		15,126	15,559

Information regarding the Parent Company's contingent liabilities is available in Note 8.

CHANGE IN SHAREHOLDERS' EQUITY

MSEK	Share capital	Restricted reserves	Unrestricted equity	Total equity
Shareholders' equity October 31, 2015	6,754	306	5,719	12,779
Conversion of convertible bond loan	22		2	24
Preference share dividend			-350	-350
Net income for the year			-136	-136
Shareholders' equity October 31 2016	6,776	306	5,235	12,317
Preference share dividend			-350	-350
Net income for the year			-147	-147
Shareholders' equity October 31 2017	6,776	306	4,738	11,820

Number of shares: 330,082,551 (330,082,551) common shares with a quotient value of SEK 20.10 (20.10) and 7,000,000 (7,000,000) preference shares with a quotient value of SEK 20.10. Each common share entitles the holder to one vote and all common shares own equal rights to participation in the company's assets and profits. Each preference share entitles the holder to one-tenth of a vote.

CASH-FLOW STATEMENT

MSEK	Nov–Oct 2016–2017	Nov–Oct 2015–2016
OPERATING ACTIVITIES		
Income before appropriations and tax	-171	-169
Loss on liquidation of subsidiary	-3	-
Impairment of shares	125	-
Adjustment for other non-cash items	-	-83
Cash flow from operations before change in working capital	-49	-252
<i>Change in:</i>		
Operating receivables	-52	5
Operating liabilities	33	14
Cash flow from change in working capital	-19	19
Cash flow from operating activities	-68	-233
INVESTING ACTIVITIES		
Investment in subsidiaries	-20	-
Liquidation of subsidiaries	10	-
Cash flow from investing activities	-10	-
FINANCING ACTIVITIES		
Dividend on preference shares	-350	-350
Group contributions received	-	31
Change in short-term investments	383	377
Change in interest-bearing receivables	8	168
Change in interest-bearing liabilities	39	6
Cash flow from financing activities	80	232
Cash flow for the year	2	-1
Cash and cash equivalents at beginning of the year	0	1
Cash and cash equivalents at year-end	2	0

Disclosure of interest paid:

During the year, interest received amounted to MSEK 215 (211). During the year, interest paid amounted to MSEK 235 (235).

NOTE 1 NO. OF EMPLOYEES, SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY EXPENSES

The average number of employees amounted to 4 (4), all of whom were employed in Sweden.

	Nov–Oct 2016–2017		Nov–Oct 2015–2016	
	Men	Women	Men	Women
Sweden	2	2	2	2
Total men and women	4		4	

For salaries, remuneration and social security expenses as well as remuneration and benefits paid to Board members, the President and other senior executives of SAS AB, see SAS Group Note 3, Payroll expenses, pages 72-74.

NOTE 2 INCOME FROM FINANCIAL ITEMS

	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Dividend	1	1
Loss on liquidation of subsidiary	3	0
Impairment of shares	-125	0
Total	-121	1

NOTE 3 TAX

	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Current tax	-	-
Deferred tax	6	33
Total tax	6	33
Deferred tax assets/liabilities		
Opening balance	689	656
Deferred tax	6	33
Closing balance tax assets/liabilities	695	689

NOTE 4 PARTICIPATIONS IN SUBSIDIARIES

See SAS Group Note 40 — Subsidiaries in the SAS Group, page 96.

NOTE 5 OTHER HOLDINGS OF SECURITIES

	Oct 31, 2017	Oct 31, 2016
Incorporate Cell Company	2	2
Total	2	2

NOTE 6 CONVERTIBLE LOAN

In 2014, a convertible bond was issued for MSEK 1,600 maturing in five years. At the date of issue, the value of the debt and equity share was determined as MSEK 1,399 and MSEK 201, respectively. At the balance-sheet date, the bond's conversion price was SEK 24.0173. As a result of the private placement in November 2017, the conversion price was changed to SEK 23.73. The loan is convertible on demand by the holder and carries an interest rate of 3.625%.

The loan is classified as other liabilities, with recognition at amortized cost.

NOTE 7 BOND LOAN

	Oct 31, 2017	Oct 31, 2016
Issued MSEK 1,500	1,500	1,497
Total	1,500	1,497

A bond loan with maturity in 2017 was issued in 2013. The loan carries interest of 9% and is classified as other liabilities, with recognition at amortized cost.

NOTE 8 CONTINGENT LIABILITIES

SAS AB has provided an irrevocable undertaking to assume liability, as for its own debt, for the SAS Consortium's contractual interest-bearing obligations, leasing commitments and other financial obligations with some reservations in terms of subordinations and with the proviso that the obligations were entered into from the date the irrevocable undertaking entered force on December 31, 2003 until it terminates on September 30, 2020.

SAS AB has also provided undertakings for each of the subsidiaries: Gorm Dark Blue Ltd; Gorm Deep Blue Ltd; and Gorm Sky Blue Ltd, which include completion guarantees for all contractual obligations with external lessors of aircraft. The subsidiaries are based in Ireland and act as the counterparties in certain agreements with external lessors of aircraft.

NOTE 9 AUDITORS' FEES

	Nov–Oct 2016–2017	Nov–Oct 2015–2016
Auditing services		
PwC	6	6
Other statutory assignments		
PwC	0	0
Tax consultancy services		
PwC	0	0
Other		
PwC	0	0
Total	6	6

Auditors' fees are invoiced to the Parent Company which, in turn, invoices the Group subsidiaries for their respective costs.

Of audit assignments, MSEK 4 pertains to PwC Sweden and of other statutory assignments, MSEK 0.1 pertains to PwC Sweden.

SIGNATURES

The Board of Directors and the President hereby give their assurance that this Annual Report has been prepared pursuant to the Swedish Annual Accounts Act and RFR 2, *Accounting for Legal Entities*, and provides a true and fair view of the company's financial position and earnings and that the Report by the Board of Directors provides a true and fair overview of the company's operations, financial position and earnings, and describes the significant risks and uncertainty factors to which the company is exposed.

The Board of Directors and President hereby give their assurance that the consolidated financial statements have been prepared pursuant to the International Financial Reporting Standards (IFRS) as adopted by the EU, and provide a true and fair view of the Group's financial position and earnings, and that the Report by the Board of Directors for the Group provides a true and fair overview of the performance of the Group's operations, financial position and earnings, and describes the significant risks and uncertainty factors to which the companies in the Group are exposed.

Stockholm, January 29, 2018

Fritz H. Schur
Chairman of the Board

Jacob Wallenberg
First Vice Chairman

Dag Mejdell
Second Vice Chairman

Monica Caneman
Board member

Carsten Dilling
Board member

Lars-Johan Jarnheimer
Board member

Berit Svendsen
Board member

Sanna Suvanto-Harsaae
Board member

Endre Røros
Board member

Cecilia van der Meulen
Board member

Janne Wegerberg
Board member

Rickard Gustafson
President and CEO

As stated above, the annual accounts and consolidated financial statements were approved for issuance by the Board of Directors on January 29, 2018. The consolidated statement of income and balance sheet and the Parent Company's statement of income and balance sheet will be subject to adoption by the Annual General Shareholders' Meeting on April 10, 2018.

Our auditors' report was submitted on January 29, 2018

PricewaterhouseCoopers AB

Bo Hjalmarsson
Authorized Public Accountant
Auditor in charge

Eva Medbrant
Authorized Public Accountant

AUDITORS' REPORT

To the annual meeting of the shareholders of SAS AB, Corporate Registration Number 556606-8499

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of SAS AB (publ) for the financial year 1 November 2016 – 31 October 2017 with the exception of the Corporate Governance Report on pages 50-60 of the printed version of this document. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 33-105.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 October 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 October 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore, recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

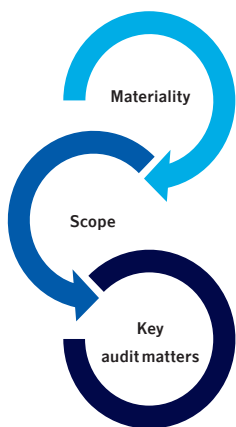
Our opinions in this report on the annual accounts and the consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for our opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1. have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

OUR AUDIT APPROACH — OVERVIEW



- Overall materiality level: MSEK 270, which is equivalent to 0.6% of total revenues.
- The scope of our audit is based on our understanding of the risk areas in SAS, the significance of these risks and how they are handled and controlled within the company. Consequently, the greatest weight is assigned those risk areas deemed to be most important, and where the risk of material misstatement is the most significant. In this assessment consideration has also been given as to whether the preparation of the accounts has been dependent on management's estimates or subjective judgements.
- Strategic program and financing.

Audit scope

SAS operates in an industry characterised by major competition and a strong price pressure which implies that the requirement of effectivity improvements needs to be balanced against the demands for a high level of security. The industry is also characterized by major investments in the form of aircraft and other infrastructure. During many years, SAS has reported an insufficient level of profitability, which has led to major restructuring programs but also to the requirement of new capital. Even if SAS is, currently, in a satisfactory financial position, the industry, and thereby also SAS, is sensitive to macro-economic conditions where, primarily, oil prices and exchange rate developments for the USD and Norwegian krona are important parameters. SAS is in a renewal phase as regards its aircraft fleet with the purpose of increasing fuel effectivity and simplifying the ongoing maintenance of the fleet through the use of fewer dif-

ferent types of aircraft. As discussed below in Key Audit Matters, the renewal of the aircraft fleet gives rise to financing requirements.

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole (see table below). These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Group materiality level	MSEK 270
How we determined this level	0.6 percent of revenues
Motivation behind the determination of the materiality level	We have chosen revenues to serve as the starting point in determining the materiality level as income in SAS fluctuates between years and is, relatively speaking, low.

We agreed with Audit Committee that we would report identified errors in excess of MSEK 15, as well as errors less than this amount but which we deemed should be reported for qualitative reasons.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were most significant in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

KEY AUDIT MATTER**Restructuring program and financing**

During a long period of time, SAS has worked with increasing the portion of variable costs and with implementing a number of various restructuring programs to ensure flexibility of capacity and profitable future operations. A successful implementation of these programs is significant both to the valuation of various assets items and to also ensuring access to financing for the aircraft fleet. The current aircraft fleet is comprised of both leased and owned aircraft. Total lease obligations, which are not reported as debt in the balance sheet, were equivalent to MSEK 15,535 as at 31 October 2017 (see Note 33). In addition, SAS has placed an order for 26 new aircraft which will be delivered during the period 2017-2021. The list price for these aircraft amounts to a total of approximately MUSD 1,931 (see Note 12). As at today's date, SAS has secured financing for 8 of these purchase orders. Company management deem that the remaining financing will be secured via a combination of leasing agreements, loan financing and cash flow from operating activities.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

In executing our audit, we have obtained an understanding of the manner in which macro-economic developments can come to impact SAS and how the Board of Directors and company management work to obtain information to serve as documentation in decision making processes, and how they monitor to ensure that the measures determined to be undertaken are implemented in the manner intended. In our audit we have also studied the company management's liquidity plans, alternative financing possibilities and sensitivity analyses regarding access to financing and currency and interest rate developments.

Based on our audit, we have concluded that SAS currently has realistic possibilities to fulfil its commitments in the form of actual borrowing, as well as regards leasing commitments and commitments for future aircraft purchases. We are also of the opinion that the annual accounts of SAS provide a satisfactory degree of disclosure regarding the company's challenges and risks in relation to its continued financing activities.

Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts which can be found on pages 1-32 and 106-109 of the printed version of this document. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the President

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee of the Board of Directors shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditors' responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for my (our) opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of SAS AB (publ) for the financial year 1 November 2016 – 31 October 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for our opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the President

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditors' responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on my (our) professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined The Board of Director's Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditors' examination of the corporate governance report

The Board of Directors is responsible for that the corporate governance statement on pages 50-60 of the printed version of this document has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 *The auditor's examination of the corporate governance statement*. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

PricewaterhouseCoopers AB, 113 97 Stockholm, was appointed auditor of SAS AB by the general meeting of shareholders on 22 February 2017 and has been the company's auditors since 20 March 2013.

Stockholm, 29 January 2018

PricewaterhouseCoopers AB

Bo Hjalmarsson
Authorized Public Accountant
Auditor in charge

Eva Medbrant
Authorized Public Accountant

OPERATIONAL KEY FIGURES

	Nov–Oct 2016–2017	Nov–Oct 2015–2016	Nov–Oct 2014–2015	Nov–Oct 2013–2014	Nov–Oct 2012–2013	Jan–Oct 2012	2011	2010	2009	2008
Passenger-traffic-related key figures										
Number of destinations served, scheduled	123	118	119	125	150	136	128	127	134	157
Number of flights, scheduled	298,100	297,481	293,898	294,679	402,460	338,870	396,134	367,817	380,470	427,201
Number of passengers, total, (000) ¹	30,065	29,449	28,884	29,408	30,436	25,916	28,990	27,096	26,967	30,936
Number of passengers, scheduled (000)	28,625	27,738	26,941	27,061	28,057	23,979	27,206	25,228	24,898	29,000
Available seat km, total (million) ¹	52,217	48,620	44,289	45,158	44,629	36,126	40,953	38,851	39,934	45,764
Available seat km, scheduled (million)	48,303	44,956	40,877	40,971	40,583	32,813	37,003	34,660	35,571	41,993
Revenue passenger km, total (million) ¹	40,078	36,940	33,781	34,714	33,451	27,702	30,668	29,391	29,025	33,097
Revenue passenger km, scheduled (million)	36,360	33,508	30,561	30,686	29,650	24,746	27,174	25,711	25,228	29,916
Load factor, total (%) ¹	76.8	76.0	76.3	76.9	75.0	76.7	74.9	75.6	72.7	72.3
Average passenger distance, total (km)	1,333	1,252	1,170	1,180	1,099	1,069	1,058	1,085	1,076	1,070
Weight-related key figures										
Available tonne km, ATK, total (mill. tonne km)	6,746	6,179	5,553	5,617	5,527	4,475	5,089	4,835	5,052	5,991
Available tonne km, scheduled (mill. tonne km)	6,251	5,741	5,132	5,119	5,042	4,098	4,604	4,318	4,463	5,291
Available tonne km, other (mill. tonne km)	495	437	421	498	485	377	485	517	589	700
Revenue tonne km, RTK, total (mill. tonne km)	4,819	4,404	3,989	4,067	3,930	3,201	3,555	3,448	3,327	4,136
Passengers and excess baggage (mill. tonne km)	3,976	3,666	3,354	3,446	3,308	2,733	3,018	2,897	2,863	3,268
Total load factor, scheduled (%)	71.4	71.3	71.8	72.4	71.1	71.5	69.9	71.3	65.9	69.0
Traffic revenue/revenue tonne km (SEK)	7.99	8.11	8.92	8.34	9.53	9.94	10.23	10.42	11.34	10.12
Key figures for costs and efficiency										
Unit cost	0.69	0.70	0.79	0.75	0.80	0.81	0.86	0.95	1.02	0.96
Jet-fuel price paid incl. hedging, average (USD/tonne)	566	583	757	978	1,093	1,116	970	773	831	1,120
Revenue-related key figures										
Passenger revenue/revenue passenger km, scheduled, yield (SEK)	0.90	0.91	1.00	0.94	1.07	1.09	1.12	1.16	1.30	1.27
Passenger revenue/available seat km, scheduled, (SEK)	0.68	0.68	0.75	0.70	0.78	0.82	0.82	0.86	0.92	0.91
Environmental key figures										
CO ₂ , gram/passenger km ²	96	99	101	100	104	118	122	121	127	131
Climate index ³ (Environmental index ⁴)	88	91	92	92	94	98	100	90	94	98
Key figures for Scandinavian Airlines										
Market share, to, from and within Scandinavia, (%)	31	31	32	33	32	33	33	34	36	
Yield, currency-adjusted change, (%)	-2.9	-7.7	4.0	-7.4	-0.4	-1.0	-2.0	-7.4	-5.2	
PASK, currency-adjusted change, (%) ⁵	-1.9	-8.0	3.8	-5.8	-3.2	1.1	-1.3	-0.2	-7.3	
Total unit cost, change, (%)	-3.5	-11.1	-3.8	-2.2	-6.0	-0.1	2.0	-7.8	-8.1	
Average flight distance, per flight, scheduled, km	951	903	866	865	861	844	847	823	816	
No. of daily departures, scheduled, annual average	817	813	805	807	791	773	683	667	707	
Number of aircraft in service ⁶	158	156	151	156	151	156	157	159	172	
Aircraft, block hours/day	9.6	9.3	8.8	9.0	8.7	8.2	8.1	7.5	8.0	
Pilots, FTEs	1,345	1,300	1,228	1,396	1,413	1,328	1,304	1,297	1,609	
Pilots, block hours/year	686	681	688	685	665	659	650	630	550	
Pilots, payroll expenses, MSEK ⁷	2,435	2,489	2,370	2,459	2,584	2,979	2,826	-	-	
Cabin crew, FTEs	2,635	2,574	2,325	2,564	2,607	2,613	2,528	2,442	2,835	
Cabin crew, block hours	777	759	762	762	721	674	660	640	616	
Cabin crew, payroll expenses, MSEK ⁷	1,613	1,647	1,546	1,587	1,769	2,087	2,076	-	-	
Regularity, %	98.9	98.4	98.7	99.0	98.8	99.0	98.5	96.6	99.3	
Punctuality (%) within 15 min.	83.6	83.9	87.9	88.4	86.2	89.4	88.9	86.9	90.1	
Customer satisfaction, CSI	72	73	74	72	71	72	72	70	68	

1) Total production includes scheduled traffic, charter, ad hoc flights and EuroBonus flights, etc. This means that the figures deviate from the published traffic statistics.

2) Carbon dioxide emissions per passenger kilometer comprising all passengers on board all flights (scheduled, charter, etc.). The method has been adjusted from 2012/2013 onward.

3) The base year became the full-year 2011 in conjunction with 4 Excellence. The result for the January–October 2012 period comprises November 2011–October 2012.

4) Refers to Scandinavian Airlines.

5) Refers to RASK prior to the 2013/2014 fiscal year.

6) Including wet leases.

7) Excluding restructuring costs

Definitions & concepts, see page 108.

TEN-YEAR FINANCIAL OVERVIEW

Statements of income, MSEK	2017	2016	2015	2014	2013	2012 ¹	2011	2010	2009	2008
Revenue	42,654	39,459	39,650	38,006	42,182	35,986	41,412	41,070	44,918	52,870
Operating income before amortization and depreciation	2,844	2,962	2,877	1,576	3,647	955	3,019	246	-1,311	997
Depreciation, amortization and impairment	-1,635	-1,367	-1,446	-1,443	-1,658	-1,426	-2,413	-1,885	-1,845	-1,550
Share of income in affiliated companies	4	39	37	30	25	32	28	12	-258	-147
Income from the sale of shares in subsidiaries and affiliated companies	-21	-7	-	6	700	400	-	-73	429	-
Income from the sale of aircraft, buildings and slot pairs	995	265	777	-16	-118	-247	12	-239	-97	4
Financial revenue	148	91	124	102	50	96	224	174	304	660
Financial expenses	-611	-553	-632	-1,130	-999	-1,055	-1,030	-1,041	-645	-933
Income before tax, EBT	1,725	1,431	1,417	-918	1,648	-1,245	-1,629	-3,069	-3,423	-969
Income before tax and nonrecurring items	1,951	939	1,174	-697	919	23	94	-444	-2,247	-1,947
Balance sheets, MSEK										
Fixed assets	20,252	19,319	18,512	18,291	18,600	29,692	29,883	30,591	29,636	26,840
Current assets, excluding cash and cash equivalents	3,467	4,065	3,556	3,617	3,462	4,273	5,494	6,191	8,670	10,741
Cash and cash equivalents	8,836	8,370	8,198	7,417	4,751	2,789	3,808	5,043	4,189	5,783
Shareholders' equity	8,058	6,026	6,339	4,907	3,226	11,156	12,433	14,438	11,389	7,312
Long-term liabilities	10,204	9,822	10,275	10,384	10,173	12,111	13,889	13,932	13,069	19,160
Current liabilities	14,293	15,906	13,652	14,034	13,414	13,487	12,863	13,455	18,037	16,892
Total assets	32,555	31,754	30,266	29,325	26,813	36,754	39,185	41,825	42,495	43,364
Cash-flow statements, MSEK										
Cash flow from operating activities	2,443	3,663	3,036	1,096	1,028	2,562	-482	-155	-3,414	-2,651
Investments	-7,315	-5,960	-4,306	-2,113	-1,877	-2,595	-2,041	-2,493	-4,661	-4,448
Sale of fixed assets, etc.	7,228	3,345	3,193	1,632	1,644	1,976	517	697	2,050	1,535
Cash flow before financing activities	2,356	1,048	1,923	615	795	1,943	-2,006	-1,951	-6,025	-5,564
New issue	-	-	-	3,500	-	-	-	4,678	5,808	-
Dividend	-350	-350	-350	-175	-	-	-	-	-	-
External financing, net	-1,537	-530	-787	-1,275	1,171	-2,961	763	-1,859	-1,524	2,480
Cash flow for the year	469	168	786	2,665	1,966	-1,018	-1,243	868	-1,741	-3,084
Key and alternative performance measures²										
EBIT margin, %	5.1	4.8	5.6	0.4	6.2	-0.8	1.6	-4.7	-6.9	-1.3
Return on shareholders' equity, %	18	24	18	-15	457	-25	-12	-17	-27	-48
Return on invested capital, %	13	12	14	4	18	-1	4	-5	-6	1
Adjusted financial net debt/EBITDAR	3.1x	3.2x	3.0x	4.2x	3.2x	6.5x	3.0x	8.0x	31.4x	12.9x
Financial preparedness, %	37	41	40	37	26	31	33	34	23	23
Equity/assets ratio, %	25	19	21	17	12	30	32	35	27	17
Adjusted equity/assets ratio, %	15	12	13	11	8	24	26	28	21	13
Financial net debt, MSEK	-2,799	-1,166	-726	1,102	4,567	6,549	7,017	2,862	6,504	8,912
Debt/equity ratio	-0.35	-0.19	-0.11	0.22	1.42	0.59	0.56	0.2	0.57	1.22
Adjusted debt/equity ratio	2.28	3.08	2.65	3.14	5.13	1.54	1.33	0.89	1.7	3.08
Interest expense/average gross debt, %	6.6	5.4	5.6	7.4	7.6	8.1	7.3	6.9	5.6	7.6
Interest-coverage ratio	3.8	3.6	3.2	0.2	2.6	-1.6	-0.6	-1.9	-4.4	-5.3

1) As a consequence of the Group's fiscal year changing to November 1–October 31, the 2012 fiscal year was shortened to the period January 1–October 31. Yield-based key figures are calculated based on income-statement items for a 12-month period.

2) SAS calculates various Alternative Performance Measures (APMs) that complement the metrics defined in the applicable rules for financial reporting. The APMs facilitate comparison between different periods and are used for internal analysis of the business's performance, development and financial position, and are therefore deemed to provide valuable information to external stakeholders, such as investors, analysts, rating agencies and others. For definitions, refer to the Definitions & concepts section. A list of the APMs deemed of sufficient material importance to specify is available at www.sasgroup.net under Investor Relations.

The APMs are calculated using averages of the qualifying periods' balance-sheet items. The return on invested capital, adjusted equity/assets ratio and adjusted debt/equity ratio are calculated using net capitalized leasing costs, whereby operational leasing commitments for aircraft were taken into consideration.

Definitions and concepts on page 108.

DEFINITIONS & CONCEPTS

SAS uses various key figures, including alternative performance measures (APMs), for internal analysis purposes and for external communication of the operations' results, performance and financial position.

The key figures support stakeholders in their assessment of SAS's earnings and performance. In the APMs based on capitalized leasing costs ($\times 7$), SAS's level of debt is raised to a level that would correspond to a situation where aircraft under operating leases would instead be owned or under finance leases. In the airline industry, capi-

talized leasing costs ($\times 7$) is an established method for estimating unrecognized liabilities pertaining to operating leases for aircraft.

The aim of the APMs is to illustrate the performance measures tailored to operations that, in addition to the other key figures, enable various stakeholders to more accurately assess and value SAS's historical, current and future performance and positions. A list of the APMs deemed of sufficient material importance to specify is available at www.sasgroup.net under Investor Relations.

Adjusted debt/equity ratio The net of financial net debt plus capitalized leasing costs ($\times 7$) in relation to equity.

Adjusted equity/assets ratio The net of equity in relation to total assets plus capitalized leasing costs ($\times 7$).

Adjusted financial net debt/EBITDAR The sum of average net financial debt and average LTM net capitalized leasing costs in relation to EBITDAR.

AEA The Association of European Airlines. An association of the major European airlines.

Affiliated company Company where the SAS Group's holding amounts to at least 20% and at the most 50%.

AOC (Air Operator Certificate) Permits for flight operations.

ASK, Available Seat Kilometers The total number of seats available for passengers multiplied by the number of kilometers which they are flown.

ATK, Available tonne kilometers The total number of tonnes of capacity available for the transportation of passengers, freight and mail multiplied by the number of kilometers which this capacity is flown.

Available seat kilometers See ASK.

Available tonne kilometers See ATK.

Block hours Refers to the time from when the aircraft leaves the departure gate until it arrives at the destination gate.

CAGR Compound annual growth rate.

Capital employed Total capital according to the balance sheet less non-interest-bearing liabilities.

Capitalized leasing costs ($\times 7$) The net annual operating lease costs for aircraft multiplied by seven.

Carbon dioxide (CO₂) A colorless gas that is formed in the combustion of all fossil fuels. The airline industry's CO₂ emissions are being reduced based on a changeover to more fuel-efficient aircraft.

Cash flow from operating activities per common share Cash flow from operating activities in relation to the average number of common shares outstanding.

CASK See unit cost.

Code share When one or more airlines' flight number is stated in the timetable for a flight, while only one of the airlines operates the flight.

Debt/equity ratio Financial net debt in relation to equity.

Earnings per common share (EPS) Net income for the period attributable to Parent Company shareholders less preference-share dividends in relation to the average number of common shares outstanding.

EBIT Operating income.

EBIT margin EBIT divided by revenue.

EBITDA Operating income before tax, net financial items, income from the sale of fixed assets, share of income in affiliated companies, and depreciation and amortization.

EBITDA margin EBITDA divided by revenue.

EBITDAR Operating income before tax, net financial items, income from the sale of fixed assets, share of income in affiliated companies, depreciation and amortization, and leasing costs for aircraft.

EBITDAR margin EBITDAR divided by revenue.

EBT Income before tax.

EEA European Economic Area.

Equity/assets ratio Equity in relation to total assets.

Equity method Shares in affiliated companies are taken up at the SAS Group's share of equity, taking acquired surplus and deficit values into account.

Finance leases Based on a leasing contract where the risks and rewards of ownership of the asset essentially remain with the lessee. The asset is reported as a fixed asset in the balance sheet because the lessee has an obligation to purchase the asset at the end of the lease. The commitment to pay future leasing charges is entered as a liability.

Financial net debt Interest-bearing liabilities less interest-bearing assets excluding net pension funds.

Financial preparedness Cash and cash equivalents, excluding receivables from other financial institutions, plus unutilized credit facilities in relation to fixed costs. In this ratio, fixed costs are defined as payroll and other operating expenses, except jet-fuel costs and government user fees, as well as leasing costs for aircraft.

FTE Full Time Equivalent.

IATA International Air Transport Association. A global association of more than 200 airlines.

ICAO International Civil Aviation Organization. The United Nations' specialized agency for international civil aviation.

Interest-coverage ratio Operating income plus financial revenue in relation to financial expenses.

Interline revenue Ticket settlement between airlines.

LCC Low Cost Carrier.

Load factor RPK divided by ASK. Describes the capacity utilization of available seats.

Market capitalization Share price multiplied by the number of shares outstanding.

Nonrecurring item Nonrecurring items are identified to facilitate comparison of SAS's underlying results in different periods. These items consist of impairment, restructuring costs, capital gains/losses, and other nonrecurring items. They arise as a consequence of specific events, and are items that both management and external assessors take note of when analyzing SAS. By reporting earnings excluding nonrecurring items, the underlying results are shown, which facilitates comparability between different periods.

NPV Net present value. Used to calculate capitalized future costs of operating leases for aircraft, for example.

Operating leases Based on a leasing contract in which the risks and rewards of ownership remain with the lessor and is equivalent to renting. The leasing charges are expensed on a current basis in the statement of income.

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

Preference share capital Preference share capital, corresponding to the redemption price after the 2018 AGM for 7,000,000 preference shares at 105% of the subscription price of SEK 500, amounting to MSEK 3,675.

RASK Total traffic revenue/Total ASK (scheduled+charter).

Regularity The percentage of flights completed in relation to flights scheduled.

Return on Invested Capital (ROIC) EBIT plus the standard interest portion corresponding to 33% of net operating leasing costs in relation to average shareholders' equity, net financial debt and net capitalized leasing costs ($\times 7$).

Return on shareholders' equity Net income for the period attributable to shareholders in the Parent Company in relation to average equity excluding non-controlling interests.

Revenue passenger kilometers (RPK) See RPK.

Revenue tonne kilometers (RTK) See RTK.

RPK, Revenue passenger kilometers Number of paying passengers multiplied by the distance they are flown in kilometers.

RTK, Revenue tonne kilometers The number of tonnes of paid traffic (passengers, freight and mail) multiplied by the distance this traffic is flown in kilometers.

Sale and leaseback Sale of an asset (aircraft, building, etc.) that is then leased back.

Shareholders' equity per common share Shareholders' equity attributable to Parent Company shareholders less preference share capital in relation to the total number of common shares outstanding on the balance-sheet date.

Total load factor RTK divided by ATK.

Unit cost, CASK Total payroll expenses, other operating expenses, leasing costs for aircraft and depreciation adjusted for currency and nonrecurring items, less other operating revenue per ASK (scheduled and charter).

Unit revenue See PASK

WACC Weighted average cost of capital includes the average cost of liabilities, equity and operating leases for aircraft. The sources of funds are calculated and weighted in accordance with the current market value of equity and liabilities and the capitalized present value of operating lease costs for aircraft.

Wet lease agreement Leasing in of aircraft including crew.

Working capital The total of non-interest-bearing current assets and non-interest-bearing financial fixed assets excluding equity in affiliated companies and other securities holdings less non-interest-bearing liabilities.

Yield Passenger revenue in relation to RPK (scheduled).

ANNUAL GENERAL SHAREHOLDERS' MEETING 2018

ATTENDING THE AGM

The AGM of SAS will be held on April 10, 2018 at 3:00 p.m. in Solna: The head office of SAS, Frösundaviks allé 1.

Shareholders who wish to attend the AGM must notify the company in advance. Details of the registration procedure are published in the notice calling the AGM.

PROPOSALS OR QUESTIONS FOR INCLUSION IN THE NOTICE OF THE AGM

Shareholders who wish to address a specific question or include a proposal in the notice calling the AGM may do so in good time ahead of the notice. The deadline for proposals is stated in good time in line with the provisions of the Code, on the SAS website.

ITEMS IN THE NOTICE

The deadline for receiving business to be included in the notice is February 20, 2018.

SENDING OF THE NOTICE AND NOTIFICATION OF ATTENDANCE

- The notice is scheduled to be published March 7, 2018.
- Deadline for notification of attendance: April 3, 2018 in Denmark and Norway, and April 4, 2018 in Sweden.

RECORD DATE

April 4, 2018

ADMISSION CARDS TO THE AGM WILL BE SENT ON

April 4–5, 2018

ANNUAL GENERAL SHAREHOLDERS MEETING

April 10, 2018, 3:00 p.m.

FINANCIAL CALENDAR 2018

Monthly traffic data is generally issued on the fifth working day of every month. The detailed financial calendar is available at www.sasgroup.net under Investor Relations.

February 27, 2018	Q1 Interim Report November 2017–January 2018
April 10, 2018	Annual General Shareholders' Meeting 2018
May 30, 2018	Q2 Interim Report February 2018–April 2018
August 31, 2018	Q3 Interim Report May 2018–July 2018
December 4, 2018	Year-end report November 2017–October 2018
January/February 2019	Annual Report and Sustainability Report 2017/2018

For more information, please refer to www.sasgroup.net.

DISTRIBUTION POLICY

All reports are available in English and Swedish and can be downloaded at www.sasgroup.net.

The SAS Group's printed Annual Report is distributed only to shareholders who have requested it and can also be ordered via e-mail: investor.relations@sas.se

This information is information that SAS AB is obliged to disclose pursuant to the EU Market Abuse Regulation and the Securities Market Act.

The information was submitted through the agency of the contact person set out below for publication on January 30, 2018 at 8:00 a.m. CET.

Any questions about the report can be addressed to Björn Tibell, Investor Relations, +46 70 997 1437 or alternatively to investor.relations@sas.se.

