A STAR ALLIANCE MEMBER

SAS ANNUAL REPORT
FISCAL YEAR 2018
NOVEMBER 2017–OCTOBER 2018

SOMETIMES WE CHANGE THE WORLD

SAS

Contents

SAS ANNUAL REPORT FISCAL YEAR 2018

Sustainability information is integrated into the SAS Annual Report Fiscal Year 2018 (FY 2018). Moreover, a separate Sustainability report in line with the Global Reporting Initiative (GRI), with in-depth sustainability reporting, is available at www.sasgroup.net.

SAS offers the most departures and has an attractive offering for people who travel frequently to, from and within Scandinavia. SAS conducted more than 800 scheduled flights daily in FY 2018, and a total of more than 30 million passengers traveled to SAS' 125 destinations and on charter flights 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, SAS offers 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

Make life easier for Scandinavia's frequent travelers.

WE ARE TRAVELERS

SAS makes life easier for people who travel frequently to, from, and within Scandinavia by offering smooth, attractively priced flights, regardless of the purpose of travel. We continually develop our services to provide all our travelers with a positive travel experience.

SCANDINAVIA'S LEADING AIRLINE

30
MILLION PASSENGERS

125
MILLION KG OF FREIGHT

222
THOUSAND DEPARTURES HANDLED

157
AIRCRAFT IN SERVICE

5.6
MILLION EUROBONUS MEMBERS

AIRLINE OPERATIONS

SAS is Scandinavia's leading airline for smooth flights to, from and within Scandinavia. In FY 2018, a total of more than 30 million travelers flew with SAS. Airline operations are our primary business, carried out by SAS Scandinavia, SAS Ireland and our regional production partners.

CARGO SERVICES

SAS Cargo is the leading provider of air freight solutions to, from and within Scandinavia, focusing on world class quality and customer care. SAS Cargo's services are based on the cargo capacity of SAS' network, supplemented by dedicated truck operations.

GROUND HANDLING SERVICES

SAS Ground Handling is the leading ground handling provider 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 six airports in Scandinavia, for SAS and other airlines.

EUROBONUS

EuroBonus is Scandanavia's largest travel-related loyalty program, and forms the core of SAS efforts to establish a closer relationship with our customers. EuroBonus has 5.6 million members and more than 100 partners, which represents a valuable customer database that sets us apart from the competition.

SAS IN FIGURES

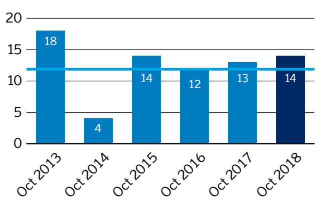
SAS reported positive earnings before tax and nonrecurring items of approximately SEK 2.1 billion, up MSEK 176 year-on-year. A positive trend in demand has led to increased yields and unit revenue. Together with efficiency measures, this has resulted in a significant improvement in profitability. However, the effects of higher jet-fuel costs started to materialize in the fourth quarter.

TARGETS

RETURN ON INVESTED CAPITAL (ROIC)

Our target for is 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 pre-tax cost of capital (WACC) and is also linked to our dividend policy, see page 37.

ROIC, 12-MONTH ROLLING, %



Target, since 2017

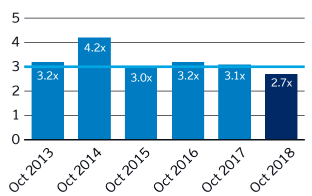
OUTCOME

A positive earnings trend contributed to ROIC improving by one percentage point to 14% during FY 2018, exceeding our target for the fourth consecutive year.

ADJUSTED FINANCIAL NET DEBT/EBITDAR

We have a target for the adjusted financial net debt/EBITDAR ratio to be a multiple of less than three.

ADJUSTED FINANCIAL NET DEBT/EBITDAR



Target, since 2017

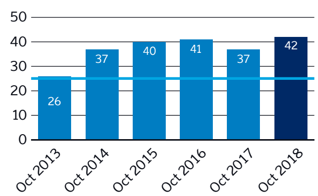
OUTCOME

The adjusted financial net debt/EBITDAR ratio fell during the fiscal year from 3.1x to 2.7x. This was primarily due to a higher EBITDAR. This was counteracted to some extent by increasing capitalized leasing costs as a consequence of new Airbus A320neo aircraft being phased in, which raised adjusted financial net debt.

FINANCIAL PREPAREDNESS

Our target for financial preparedness is for cash, cash equivalents and available credit facilities to exceed 25% of annual fixed costs.

FINANCIAL PREPAREDNESS, %



Target, since 2017

OUTCOME

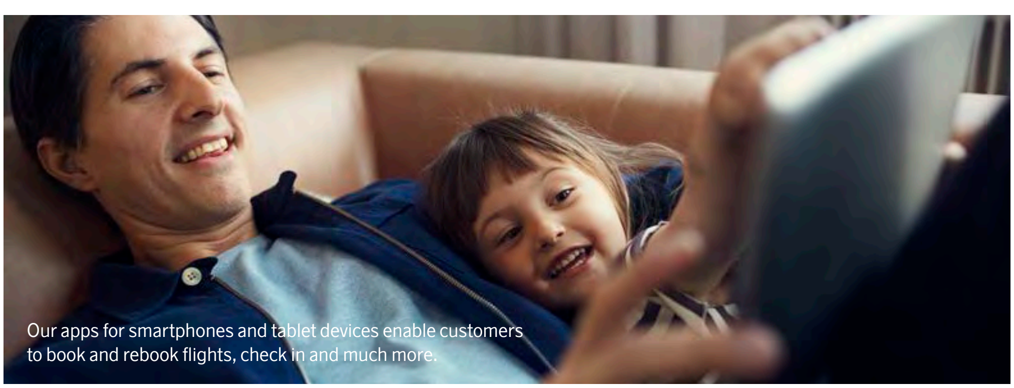
Positive cash flow from operations contributed to improved financial preparedness in FY 2018. The redemtion of preference shares for SEK 2.6 billion in February 2018, was to some extent offset by the SEK 1.3 billion received through the private placement of new common shares in November 2017. As of 31 October 2018, financial preparedness was 42%.

+1.1%
available seat kilometers

MSEK
4,559
Cash flow from operating activities

MSEK
2,127
Income before tax and nonrecurring items

74.4%
Passenger load factor (scheduled traffic)



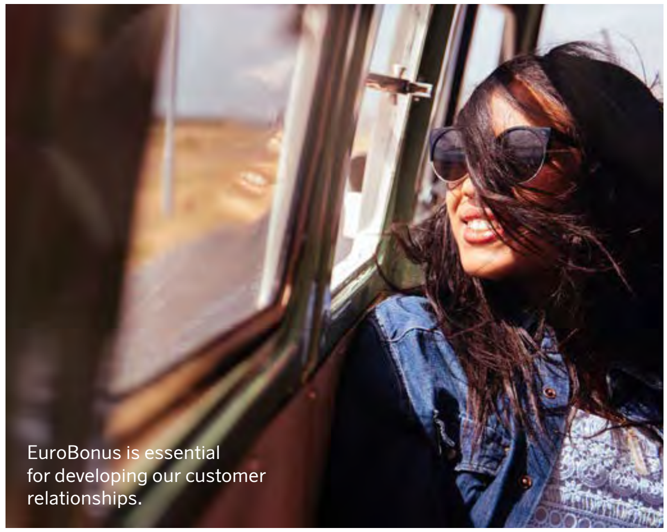
Our apps for smartphones and tablet devices enable customers to book and rebook flights, check in and much more.

CUSTOMERS

Customer satisfaction decreased during the summer following lower punctuality and regularity.

CUSTOMER SATISFACTION INDEX

70 (72)



EuroBonus is essential for developing our customer relationships.

EUROBONUS

EuroBonus is Scandinavia's strongest travel-related loyalty program. As of 31 October 2018 it had 5.6 million members.

SALES OF EUROBONUS POINTS

+3.5%

Approximately 22% reduction in CO_2 emissions per passenger kilometer since 2005.

SUSTAINABILITY

We have set ourselves two ambitious but tangible targets by 2030. The first is to reduce our total carbon emissions by at least 25% compared with 2005, which exceeds the targets set by The International Air Transport Association (IATA). The second is that we will use an amount of renewable jet fuel corresponding to our total domestic traffic.

GRAMS OF CO_2/PASSENGER KILOMETER

95 (96)

CO_2 emissions per passenger kilometer have been reduced approximately 22% since 2005. Renewal of our aircraft fleet and continuous efficiency improvements have contributed to this reduction.

EMPLOYEES

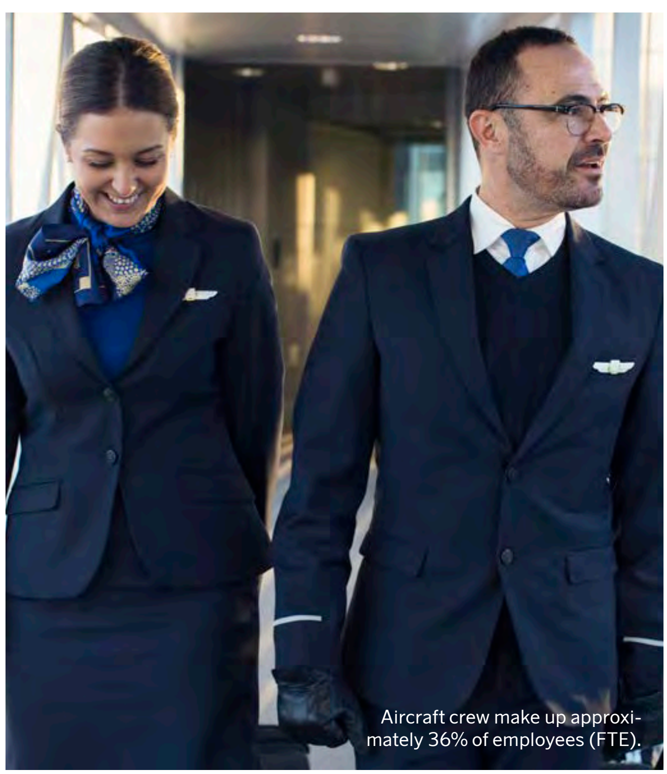
The average number of employees (FTE) declined 1.7% during the year to 10,146 full-time equivalents. The reduction was in part due to improved operational efficiency.

SICK LEAVE, %

6.1 (5.9)

EMPLOYEE COMMITMENT INDEX

55 (57)



Aircraft crew make up approximately 36% of employees (FTE).

FINANCIAL INSTRUMENTS

In November 2017 SAS made a common share private placement of MSEK 1,270. During 2018, SAS redeemed its preference shares for a total of SEK 3.7 billion. Further, a new bond amounting to MSEK 2,250 was issued. Dividends of MSEK 79 were attributed to preferred shareholders.

PREFERENCE SHARE DIVIDEND (SEK)

50

COMMON SHARE PERFORMANCE (FY 2018)

-20%

SIGNIFICANT EVENTS DURING THE YEAR

PRODUCT AND OFFERING

EUROBONUS We now offer online booking of award travel to all destinations within the Star Alliance network.

IMPROVED FACILITIES We have upgraded the lounge, redesigned the fast track and introduced a new service point at Copenhagen Airport.

WIFI ONBOARD Installation of high-speed WiFi on short-haul fleet carried out throughout the year. By the end of the fiscal year, it was installed on 39 aircraft.

NEW CORPORATE OFFERING SAS developed its business offering by launching the SAS For Business program for small and medium-sized enterprises.

PERSONALIZED COMMUNICATION New digital platforms introduced to provide increasingly personalized and GDPR compliant communication with our customers in between journeys.

PRE ORDER MEALS The option to pre-order seat, lounge access and meals was rolled out to SAS Go travelers.

ORGANIZATIONAL

NEW CHAIRMAN At the AGM, Carsten Dilling was elected as Chairman of the Board of SAS.

NEW CFO Torbjørn Wist was appointed Chief Financial Officer (CFO).

SAS GROWTH The business unit SAS Growth was launched to identify and leverage new business opportunities, headed by EVP Strategy & Ventures, Göran Jansson.

OPERATIONAL

FLEET ORDER Order placed for 50 additional Airbus A320neo aircraft.

AIRCRAFT During the year, SAS has brought a further 9 Airbus A320neo aircraft into service.

NEW AIR OPERATOR CERTIFICATE SAS Ireland established and IOSA certification obtained. The first flight from the base in London took place in December 2017, and from the Malaga base in June 2018.

REGIONAL PRODUCTION Four new CRJ900s phased into service by regional production partners.

SAS CARGO maintains the leading position as the world number one in delivering quality, according to the IATA Customer Promise Performance Index.

FINANCIAL

INCOME BEFORE TAX SAS reported its strongest result in many years.

EFFICIENCY The efficiency enhancement program realized financial savings of SEK 723 million in FY 2018.

COMMON SHARE PRIVATE PLACEMENT SAS completed a private placement of common share for approximately MSEK 1,270.

BOND ISSUES SAS issued a new bond amounting to MSEK 2,250.

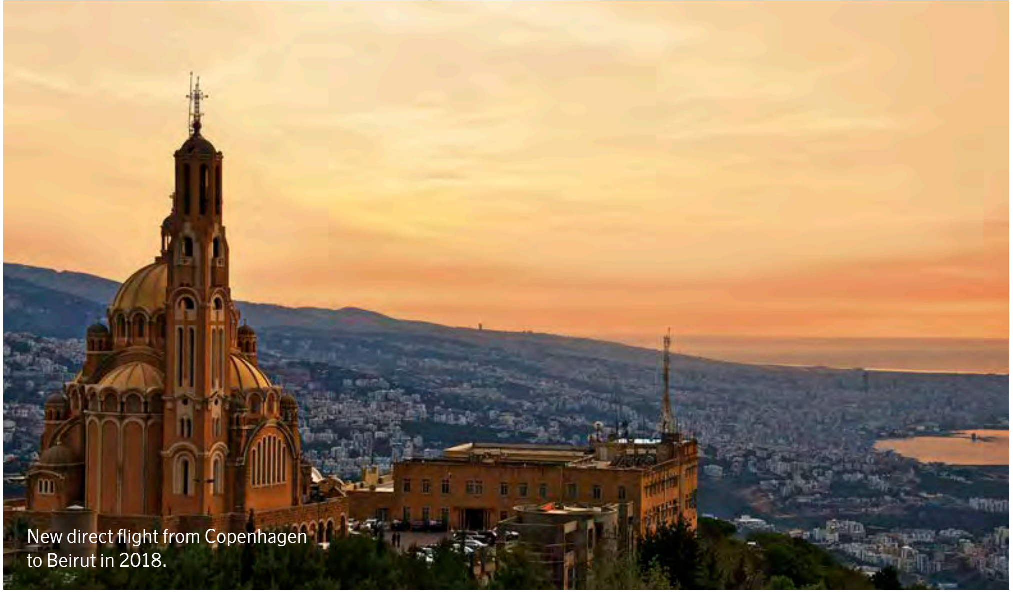
THE NORWEGIAN GOVERNMENT divested its 9.9% shareholding in SAS.

PREFERENCE SHARES SAS redeemed around 4.9 million preference shares for a total redemption cost of MSEK 2,579.

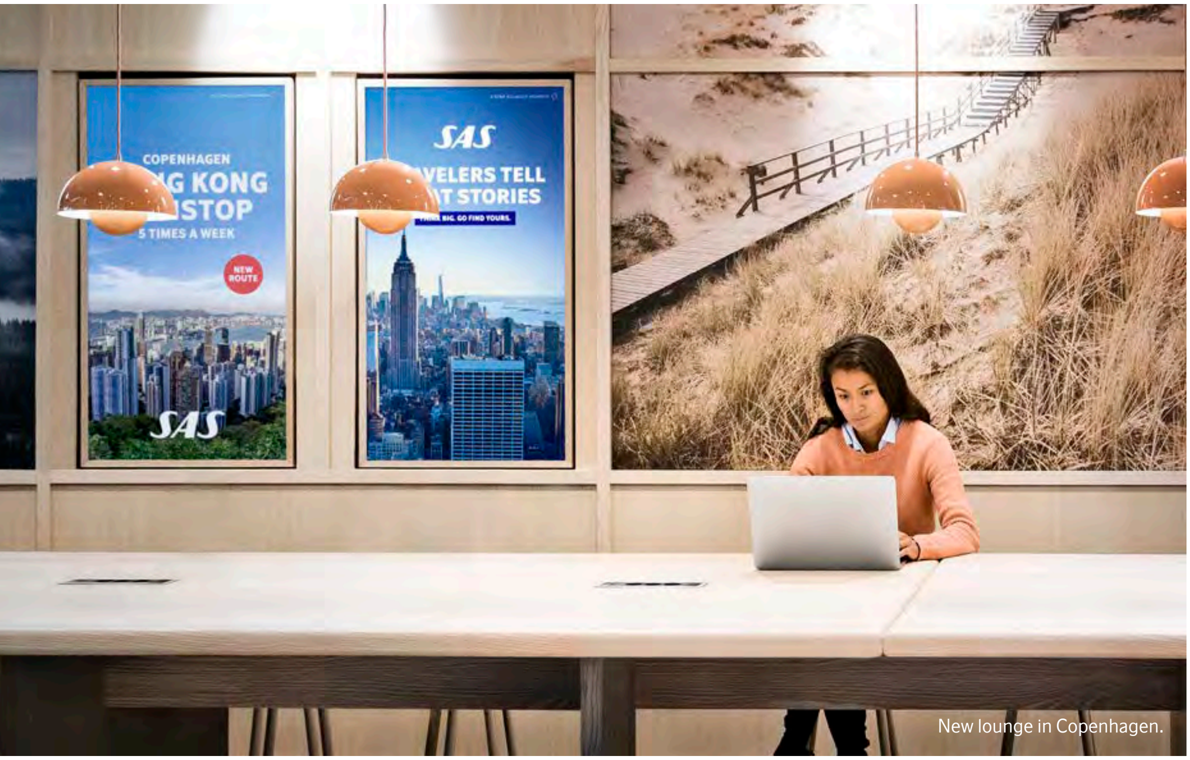
NEW ROUTES

29 new routes and 6 new destinations during 2018:

- Stockholm–Eilat, Verona, Gazipasa, Chambery, Aarhus, Örnsköldsvik
- Copenhagen–Beirut, Toulon, Sarajevo, Lisbon, Genoa, Hong Kong and Tromsø
- Oslo–Thessaloniki, Prague, Genèva and Aarhus
- Aarhus–Nice, Munich, Palma and Split
- Stavanger–Pula
- Bergen–Pula, Hamburg, Tromsø
- Bodø–Alicante
- Trondheim–Kristiansand
- Gothenburg–Berlin
- Tampere–Malaga



New direct flight from Copenhagen to Beirut in 2018.



New lounge in Copenhagen.

AWARDS AND RECOGNITION

SAS received several awards and recognitions during the year. These include:

- SAS Plus was voted the best Premium Economy concept by frequent travelers in the Global Traveler's "Leisure Lifestyle Awards".
- Swedish travelers voted SAS the airline that provides the best service in the annual ServiceScore, and Best Domestic as well as Best Airline in Europe in the Grand Travel Awards.
- SAS was included in the top 20 airlines worldwide by the Condé Nast Traveler magazine Readers' Choice Awards.
- Four out of a possible five stars as rated by travelers in the APEX Awards.
- SAS Cargo was ranked as number one according to the IATA Customer Promise Performance Index.
- Google survey ranked SAS mobile sites as the best among Nordic airlines.
- SAS was voted as number four in "Digital Leaders in Norway", and as number one in the category Passenger transportation. (BearingPoint)

SUSTAINABILITY

CO_2 EMISSIONS per passenger kilometer decreased 1% year-on-year.

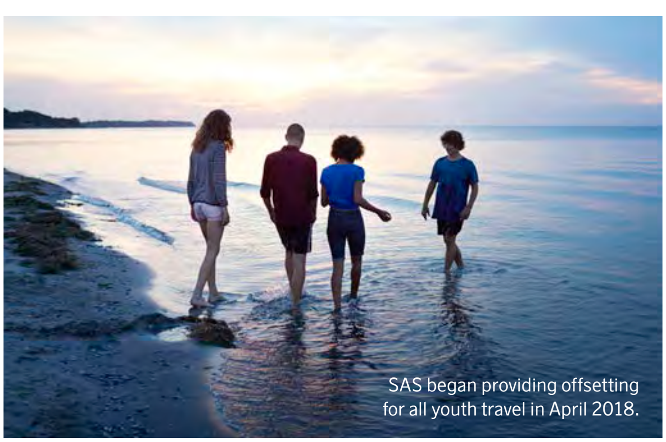
9 BRAND-NEW A320NEOS were introduced, which have 15-18% lower fuel consumption compared with the aircraft they are replacing.

CERTIFICATION SAS maintained its ISO 14001 certification.

BIOFUEL SAS purchased approximately 100 tonnes of biofuel during the fiscal year, and continued to actively promote the commercialization of biofuel for aircraft.

PREEM COOPERATION SAS signed a Letter of intent with Preem to supply 200,000 m3 of renewable jet fuel from 2022, which would meet 10-12% of our total fuel demand.

YOUTH TRAVELER OFFSETTING SAS began providing carbon offsetting for all youth travel in April 2018.


SAS began providing offsetting for all youth travel in April 2018.

"SAS Cargo was ranked as number one according to the IATA Customer Promise Performance Index."

EMPLOYEES

LEADERSHIP *SAS Executive Program 2018* enhanced the leadership skills and strategic business decision-making of 70 of our most senior leaders.

ATTRACTIVE EMPLOYERS SAS was rated among the most attractive employers in Norway – particularly among students.

EMPLOYEE HEALTHCARE ALLOWANCE has been introduced during the year to promote employee health and wellbeing.

TABLET DEVICES for all crew and loading supervisors rolled out.

DIGITAL TOOLS Company-wide roll-out of mobile and cloud based work tools through Office 365.

SICK LEAVE was 6.1% (5.9) and long-term sick leave was 4.0% (3.9).

SUCCESSFUL YEAR DEMONSTRATES SAS' ABILITY TO FACE FUTURE CHALLENGES

SAS CEO and President, Rickard Gustafson, reports on a successful year, the progress that has been made and what challenges lie ahead for the company.

2018 was obviously a good year for SAS. What were the main reasons for this success?

It is very satisfying to report our strongest result in recent years – with a profit for the full year of just over SEK 2 billion before tax. Over 30 million passengers flew with SAS during the year, which demonstrates that our strategy ensures that we can succeed in a highly competitive market.

Our success is the result of a long-term effort to diligently execute our strategic direction and enhance our customer offering. This has involved developing our network to better adopt to seasonality and making significant upgrades, in areas such as aircraft interiors and lounges. We have also improved the productivity and efficiency of our operations, which resulted in cost savings of SEK 723 million during the fiscal year.

In reaching this result, I would also like to thank all our employees for their strong contribution. I am extremely grateful for the fantastic efforts made by our dedicated employees, particularly during the challenging summer period.

What other significant events during the year would you like to highlight?

An important event during the year was our order of 50 new Airbus A320neo aircraft, which will ensure we have a single-type fleet by 2023. This will provide us with an operating model based on the market's most efficient aircraft.

In February 2018, we redeemed a majority of the preference shares for an amount of SEK 2.6 billion. In November 2018 we redeemed the remainder of the preference shares, for an amount of SEK 1.1 billion. This will improve the conditions for our ordinary shareholders to receive a good return on their investment going forward.

Significantly, the Norwegian government sold its remaining shares in SAS during the year, following over 70 years as a major SAS shareholder. I am grateful for their cooperation over the years and would like to clarify that the change in ownership does not in any way alter our strategic focus on Scandinavia in general, and Norway in particular.

The SAS customer offering has focused on winning Scandinavia's frequent travelers. What progress has been made in 2018?

In order to stay relevant to our customers, we need to make sure that our offering exceeds their expectations. This includes where and when we fly, our booking capabilities, as well as our services on the ground and in-flight.

Based on these expectations, we ensured our network meets seasonal customer demands, including 29 new routes during the year. Furthermore, we established a new operating platform – SAS Ireland, with bases in London and Malaga – which complements our existing platforms by giving us the same preconditions as low-cost competitors. This enables us to be more flexible in meeting seasonal demand and to compete on price sensitive routes.

Our EuroBonus loyalty program has been made even more attractive by building in more features that add customer value. This includes enabling members to use their Eurobonus points to book online within the Star Alliance network, and a new feature that allows points to be shared with family and friends. We also introduced opportunities to purchase tickets to concerts and other events, before they are released to the general public, thanks to our new collaboration with Live Nation.

We have increased the number of airports that offer fast track services, and have worked to make existing services faster and more efficient. During the year, we refurbished and enhanced the facilities at our flagship lounge at Copenhagen Airport.

In-flight, we became the first carrier in Europe to launch on-board high-speed WiFi, which has been greatly appreciated by our customers. 39 of our aircraft had high-speed WiFi installed during the year. We expect that our entire short-haul fleet will be upgraded in the coming 18 months.

Last but not least, sustainability and promoting more responsible and environmentally friendly operations are also an integral part of our customer offering.

What progress has SAS made with sustainability during the year?

We have set a new target to reduce our total carbon emissions by 25% by 2030, which goes beyond International Air Transport Association targets. We estimate that around half of these reductions will be achieved through fleet renewal and other improvements, and the rest through the adoption of biofuels. By 2030, we aim to use renewable fuel on an amount of traffic which corresponds to our total domestic traffic.

Our aspiration to create a single-type fleet with fuel-efficient Airbus A320neo aircraft by 2023 is a crucial part of our efforts to reduce emissions. To help facilitate the large-scale development of biofuels, we signed an agreement with Preem to supply 10-12% of our total fuel demand by 2022. Other significant progress includes optimizing the amount of food and beverages loaded onto each flight – to reduce waste, aircraft weight and fuel consumption.

During the year, I joined the Nordic CEOs for a Sustainable Future platform, which will enable us to share knowledge and cooperate with like-minded companies and engage with Nordic Prime Ministers on sustainability topics. We also continue to be a signatory of the United Nations Global Compact, which demonstrates our alignment with universal sustainability principles.

"Sustainability is an integral part of our business, and affects every decision we make."

Rickard Gustafson, President and CEO

What is your message to someone who avoids flying due to the climate impact of aviation?

Aviation enriches society. Without aviation we wouldn't have as many globally successful Scandinavian companies, and I think the world is a better place if people can meet and create more understanding and acceptance of different cultures.

However, the fact remains that all commercial aircraft today have jet engines that create greenhouse gas emissions. We acknowledge this, and we take this seriously by working to move as quickly as possible to a more sustainable future. I think technology will make zero-emission air travel possible in the future. But in the meantime, we are doing everything we can to reduce our emissions – including new aircraft, efficient operations, reducing aircraft weight and investing in biofuel. These are the most tangible things we can do here and now, which ultimately results in step-by-step reductions in our emissions.

However, we feel the industry is moving too slowly to reduce aviation emissions. We want to drive positive change in the industry and this is why we are establishing tougher and more bold objectives. As an example, we have established the biofuel partnership with Preem, and engaged with politicians through the Nordic CEO platform.

Digitalization provides a great opportunity for all business today. What are the implications for SAS?

For our customers, digitalization enhances our services, for example by providing travel information in real time to promote smoother journeys or offering high-speed WiFi onboard. It also offers us the ability to better interact with our customers.

In our operations, digitalization is making a huge difference in promoting efficiency. Technology is increasingly used to enhance our planning capabilities through the greater use of data, and for example in predictive aircraft maintenance.

For our employees, digitalization enables them to do their jobs more effectively. Providing our crew and ground handling staff with mobile devices has enabled greater collaboration, as well as access to real-time information and documentation on cloud-based IT platforms. This enables a more personalized service to our customers. In our development to become more sustainable, digital services such as AI, will provide new possibilities. Digital tools also give our employees opportunities to manage their shifts – to ultimately help them find a better work-life balance.

Despite a strong year financially, what challenges lie ahead and how will you deal with them?

Even though we have had a successful year, the market is constantly changing, and we cannot rest on our laurels. Following increased market capacity this winter, the total capacity is expected to exceed customer demand in 2019. Unpredictable oil and jet fuel prices look set to continue, along with the volatile Swedish krona. Geopolitical uncertainty from Brexit and international trade disputes, may dampen the global economy.

But we have navigated our way through difficult periods before, and we have confidence in our strategy to further develop our customer offering, create an efficient operating model and strengthen the capabilities of our people. Digitalization and sustainability are the two fundamental themes that will continue to underpin all three of our strategic priorities – to help us overcome challenges and create new opportunities.

I would also like to reiterate the importance of our employees in our ability to overcome challenges and succeed in the future. Their customer passion, personal commitment and dedication in everything they do will continue to be the foundation for our success.

THE AIRLINE OPERATING ENVIRONMENT AND INDUSTRY TRENDS

Approximately 100 million journeys were made with air travel to, from and within Scandinavia in fiscal year 2018. This means Scandinavians are among the most frequent travelers in the world.

INDUSTRY OVERVIEW

Around 4 billion flights are made globally each year using commercial airlines, and just over one billion flights are made in Europe. The industry has been characterized by higher-than-GDP growth, but also by intense competition and pricing pressure. It is also capital and labor-intensive, with a majority of fixed costs. This combined with the fact that a large proportion of sales occur close to departures, means that airlines are rapidly affected by changes in demand. In contrast to the North American market where a large consolidation of airlines has taken place over recent years, the European market remains fragmented, which adds to the challenges European Airlines must manage.

EXTERNAL CHALLENGES

The industry's dependence on jet fuel results in sensitivity to the global oil market, as well as a fundamental challenge in relation to sustainability efforts. The global reach of the industry means it is also sensitive to changes in the international political landscape, as these could quickly affect demand and opportunities for air travel between different countries. Recent examples of factors that could have an impact are Brexit and the China-US trade dispute. Airlines are also highly dependent on its supporting infrastructure, such as airports and air traffic control. As an example, recent labor disputes within European air traffic control has resulted in departures being cancelled. As aviation capacity continues to grow, airspace and airport congestion is expected to increase, which will restrict the ability for airlines to optimize scheduling and route networks.

AIR TRAVEL IN SCANDINAVIA

The Scandinavian air travel market is very large in relation to its population, compared with the rest of Europe. This is due to Scandinavia's economic prosperity, numerous internationally successful companies and its geography. The region is characterized by relatively long distances between reasonably small towns, 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, Scandinavia's small population means that there are a limited number of routes that can be operated with multiple daily departures of larger aircraft. To be able to offer a broad network and high frequencies, an airline requires a flexible operating model consisting of aircraft of various sizes, optimized for different types of traffic flow. There is also increasing interest in Scandinavia as a leisure destination for travelers from other parts of the world.

The new aircraft Airbus A320neo reduce CO_2 emissions with 15-18% compared with the generation they replace.

CONTINUED GROWTH IN FISCAL YEAR 2018

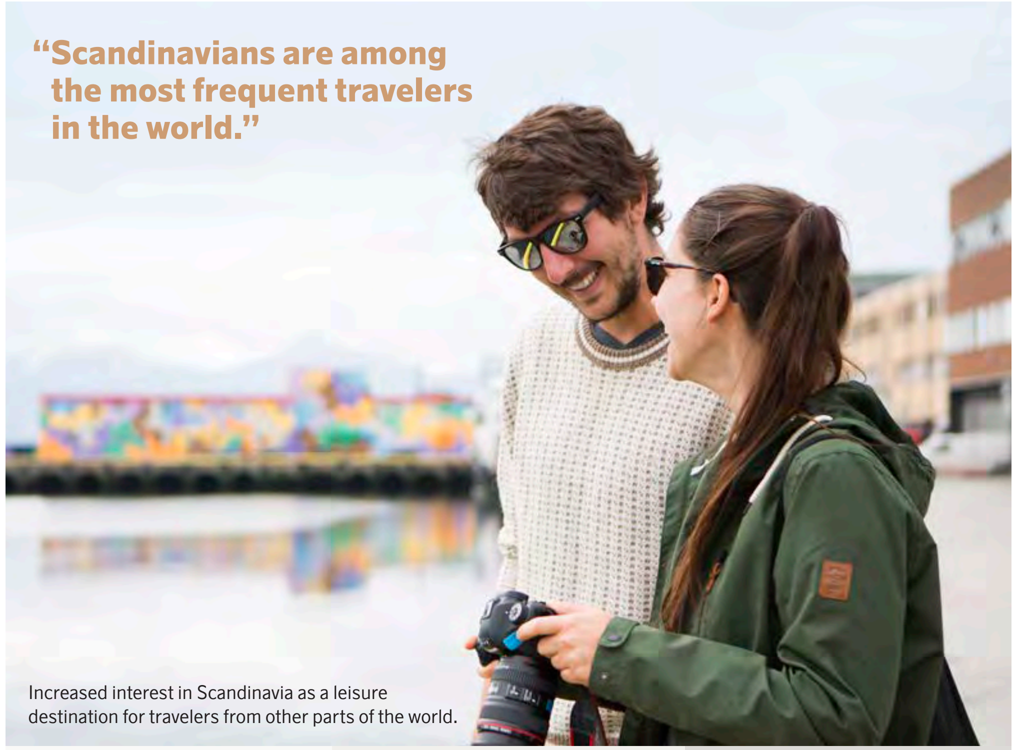
The number of passengers from Scandinavian airports and seat offered continued to increase during the fiscal year.

INCREASE IN THE NUMBER OF PASSENGERS FROM SCANDINAVIAN AIRPORTS

+3.7%

INCREASE IN THE NUMBER OF SEATS OFFERED

+4.5%



Increased interest in Scandinavia as a leisure destination for travelers from other parts of the world.

RESPONDING TO AIRLINE INDUSTRY TRENDS

TREND	IMPACTS ON THE AIRLINE INDUSTRY	SAS RESPONSES
Globalization, economic growth and increased prosperity.	• Higher demand for air travel	• Increased capacity • Higher flexibility in the production model to meet demand
Increased leisure travel	• Requires different route network, additional seasonal adjustments and a simplified product offering	• New destinations and increased product differentiation
Changes in the competitive landscape	• New operating models with flexible employment in lower-cost countries • Pricing pressure	• SAS Ireland • Increased productivity • Efficiency program
Technical development and digitalization	• Increased productivity and new services • Customers demand internet access • Improved distribution possibilities	• New efficient aircraft • Personalization through mobile devices • Onboard WiFi • New (future) price distribution project
Increased environmental and social responsibility	• Customers increasingly demand that airlines take their environmental and social responsibility	• Ambitious sustainability targets • Use of biofuel • Emission reduction

A RESILIENT AND INNOVATIVE BUSINESS

SAS has repeatedly proven its ability to adapt and overcome disruptive challenges faced by the aviation industry. Through innovation, persistence and cooperation, SAS has managed the necessary changes and remains Scandinavia's leading carrier.

THE DEFINING MOMENT

In 2012, SAS was in a difficult situation. Over a number of years, low cost carriers had grown aggressively in the market and the company had significant higher costs than its closest competitors. Defined benefit pension schemes and the bankruptcy of Spanair strained the balance sheet. SAS had to make some difficult decisions in order to overcome the prevailing challenges, including redundancies, efforts to increase productivity, changes to its pension schemes, outsourcing of multiple functions and salary cuts.

NEW STRATEGY FOR PROFITABILITY

A comprehensive plan was launched in 2012 to return to profitability. This included a new commercial strategy together with continuous investments in products and efficiency improvements. The strategy involved:

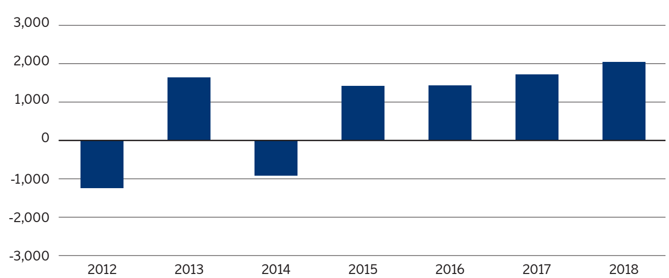
- focusing on frequent travelers making more than five trips a year,
- enhancing our network and enabling seasonal adjustments,
- product investments to improve our customer offering,
- separating and streamlining our operating platforms, and
- efficiency improvements.

MORE RESILIENT TO FUTURE CHALLENGES

Following the positive trajectory in recent years, SAS announced one of its strongest earnings in the company's history in FY 2018. The company's financial situation has gradually improved in recent years, which is also demonstrated by an improved credit rating that has facilitated planned investments in aircraft, digitalization, etc.

The new commercial strategy has successfully focused and optimized the SAS business to better cope with the highly competitive airline industry as well as future unforeseen eventualities. Additionally, the journey to profitability in recent years has made SAS stronger by enhancing its ability to adapt and innovate. This greater resilience will help SAS overcome challenges in the future as the market continues to change.

SAS EARNINGS BEFORE TAX (MSEK)



2014. We are travelers.

2012,
the defining moment.

2012

- The 4Excellence Next Generation program was launched targeting SEK 3 billion in efficiency savings.
- Crucial agreement with unions that enabled SAS to renew its credit facility and continue operating.

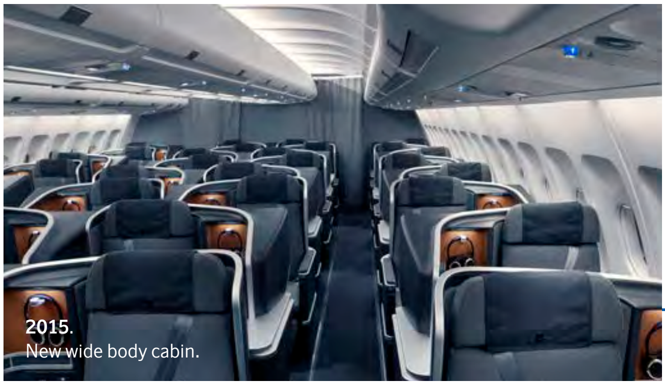
2013

- A new commercial strategy focusing on frequent travelers was launched.
- SAS ordered four Airbus A330E and eight Airbus A350 aircraft.
- SAS started building its regional production platform through agreements with production partners.
- SAS sold 80% of its holding in Widerøe.
- Fleet simplification by phasing out MD-80 aircraft.

2014

- Improved the EuroBonus program to focus on frequent travelers.
- Began implementing SEK 2.1 billion of further efficiency measures until 2017.
- SAS acquired Cimber A/S to operate its 12 CRJ900s, in order to achieve a more focused and flexible production.

“A new commercial strategy focusing on frequent travelers was launched in 2013.”



2015.
New wide body cabin.

2016. Airbus A320neo aircraft introduced.

2015

- Expansion of the long-haul fleet from 12 to 16 aircraft and phase-in of two Airbus A330E aircraft.
- New wide-body cabin introduced.
- Ground handling services at line stations outsourced in Denmark, Norway and Sweden.
- Agreement with production partners for all regional operations.
- Simplification of the SAS fleet by phasing-out Boeing 717 aircraft.
- SAS sold its subsidiary Blue1.

2016

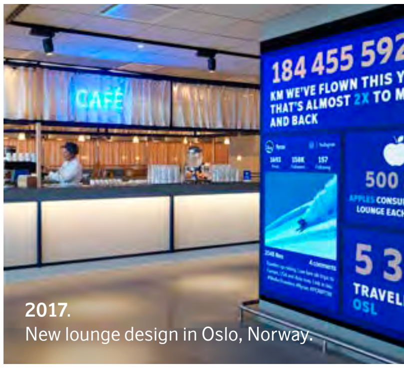
- Upgrade of cabin interiors on all short-haul aircraft.
- 20 new routes including new intercontinental routes to Los Angeles, Boston, and Miami.
- SAS Go Light service concept launched.
- The first Airbus A320neo aircraft brought into use.
- SAS sold the remaining 20% in Widerøe.

2017

- The establishment of SAS Ireland, with bases in London and Malaga.
- International lounges upgraded.
- Additional efficiency measures of SEK 3 billion by 2020 announced.
- SAS sold Cimber, as part of our strategy to use external partners, so-called wet lease, for smaller traffic flows and regional traffic.

2018

- Order of 50 additional Airbus A320neo aircraft to create a single-type fleet by 2023.
- Installation of high-speed WiFi on short-haul fleet.



2017.
New lounge design in Oslo, Norway.

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 our extensive community with 146 million website hits annually and 1.2 million followers on Facebook.

INTANGIBLE CAPITAL

5.6 MILLION MEMBERS

within the EuroBonus program, over 800 daily slot pairs and a strong SAS brand.

HUMAN CAPITAL

10,146 FTES,

with extensive experience and highly developed skills of which 36% are flight crew, 40% ground personnel, 10% technical staff and 14% administrative personnel.

MANUFACTURED CAPITAL

157 AIRCRAFT

with a market value of about SEK 32 billion, and a number of properties, vehicles, machines, tools and equipment, such as lounges and self-service terminals.

FINANCIAL CAPITAL

SEK 26 BILLION

in capital invested by shareholders, lenders and lessors.

NATURAL CAPITAL

1,369 KTONNES OF JET FUEL,

of which 100 tonnes is biofuel for flight operations, as well as other raw materials, energy consumption, and food and drink for passengers and personnel.

OUR BUSINESS MODEL

WHAT WE DO

SAS makes life easier for people who travel frequently to, from, and within Scandinavia by offering smooth flights for business and leisure travel. We offer more destinations and more departures within Scandinavia than any other Nordic airline, which is the core strength of our business model. We have an attractive product with a high degree of freedom of choice. Through our EuroBonus program, we reward our customers for their loyalty.

HOW WE DO IT

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

SAS takes continuous steps to reduce the negative environmental impact of our operations through innovation, smart solutions and major investments in the latest technology without compromising the important role of the aircraft in our society – enabling people to meet and contribute to value creation and positive growth.

WHAT WE CREATE

30 million journeys

288 routes

>800 daily departures

125 million kg of transported goods

125 destinations and 1,300 via Star Alliance

OUTPUT

FOR SHAREHOLDERS

- Net income for the year of MSEK 1,589
- Common share market capitalization of SEK 7.9 billion
- MSEK 79 in preference share dividends

14 ROIC, %

FOR CUSTOMERS

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

70 Customer Satisfaction Index (CSI)

FOR EMPLOYEES

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

55 Employee commitment index

FOR FINANCIAL BACKERS & SUPPLIERS

- Supplier payments of about SEK 37 billion
- Interest expense of MSEK 559
- Lease expense for aircraft of MSEK 3,156

B+/B1 SAS's credit rating[1]

FOR SOCIETY

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

1.6 SEKbn contribution in taxes and duties

FOR ENVIRONMENT

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

1.4% Decrease in total CO_2 emissions

1) Credit rating, Standard & Poor's B+, Moody's B1.

STRATEGIC PRIORITIES FOR A CHANGING MARKET

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

WIN SCANDINAVIA'S FREQUENT TRAVELERS

- Offer customers an attractive network and timetable, according to the season
- Continue to develop our appreciated service concept
- Provide efficient digital solutions along the entire travel chain

CREATE AN EFFICIENT AND SUSTAINABLE OPERATING MODEL

- Build a more flexible operating model through complementary bases outside Scandinavia and regional partners
- Leverage technology to increase efficiency and improve process quality in all parts of production
- Accelerate sustainability efforts

SECURE THE RIGHT CAPABILITIES

- Strengthen employee engagement through greater involvement
- Excelling in leadership through training courses, internal networks and mentor programs
- Developing our competences through succession and career planning, trainee and mentoring programs
- Make SAS as an attractive workplace through focus on individual development, digital tools, wellbeing and employer branding

Global goals for sustainable development

SAS has identified the four UN sustainable development goals that are the most relevant to our operations. Our activities in these areas are briefly described on the following pages. For more comprehensive sustainability information, please read the *SAS Sustainability Report*.

Read more about our strategic priorities on the following pages.

VISION:

TO MAKE LIFE EASIER FOR SCANDINAVIA'S FREQUENT TRAVELERS

WIN SCANDINAVIA’S FREQUENT TRAVELERS

One of our strategic priorities is to win Scandinavia’s frequent travelers. By focusing on frequent travelers that take five or more roundtrip flights each year, we develop our product and our network – which benefits all our customers.

“The most frequent travelers are also the people with the greatest demands on their travel experience.”

Daylight booster zone in SAS lounge in Copenhagen.

FREQUENT TRAVELERS

- See themselves as experienced travelers – traveling and enjoying new experiences is part of their lifestyle.
- Fly for business and leisure purposes – we meet their year-round travel needs.
- Are early adopters that keep up-to-date with the latest trends.
- Want to be in control, acknowledged and taken care of.
- Account for a majority of passenger revenue in Scandinavia.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

UN Sustainable Development Goal 12 works to ensure sustainable consumption and production patterns. SAS promotes the more efficient use of resources throughout the travel chain.

PRE-TRAVEL

PRE-FLIGHT

IN-FLIGHT

POST-FLIGHT

TOGETHER 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. Frequent travelers take trips for business purposes and for leisure. Regardless of the reason for traveling, frequent travelers appreciate our comprehensive network and the reliable smooth travel experiences we offer – as well as our high standard of customer care.

The most frequent travelers are also the people with the greatest demands on their travel experience. This is why SAS continually invests in improving and adapting our offering to ensure it meets and even exceeds customer expectations.

PRE-TRAVEL

Service concepts to suit everyone

To meet frequent traveler expectations for smooth reliable journeys, we have further developed the popular SAS Go Smart and SAS Plus Pro service concepts, as well as the SAS Go Light and SAS Plus Smart options. These service concepts provide customers with a wide range of options, designed to meet their specific needs.

Upgraded digital customer interface

After taking onboard customer feedback we upgraded our website in the fall of 2017, to provide a smoother, easier and more intuitive interface. Customer content is individualized in order to be as relevant as possible, for example with personalized website content offering ancillary products such as in-flight meals when relevant.

Comprehensive network

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

Seasonal route optimization

We have optimized our route network throughout the year to better meet fluctuations in customer demand, including 27 new seasonal summer routes during the year. In 2018, our summer quarterly revenue increased by 7.7% compared with the previous year, which was achieved through increased productivity and the seasonal redeployment of larger aircraft to where demand was greatest. This increased our footprint of the growing leisure market.

PRE-FLIGHT

Improved customer experience

Over 80% of SAS passengers with baggage in Scandinavia now use SAS automated self check-in services – to improve the customer experience. Fast Track services through security also continue to be appreciated and we refurbished the Fast Track lanes in Copenhagen during the year. We continued to make investments in SAS lounges, for example by replicating our popular Oslo barista concept in Copenhagen during the year. Other amenities on offer in our various lounges include gym facilities, innovation hubs and light rooms.

Digitalization makes things easier

Our apps for smartphones and tablet devices enable customers to book and rebook flights, check in, download boarding cards, check their flight status and much more. This saves time and makes life easier for our customers in both pre-travel and pre-flight.

Carbon offsetting options

We have offered carbon offsetting options for our customers since 2005, and the offsetting program today covers almost 4% through investments in third-party renewable energy projects in Asia and Oceania. In FY 2018 we made progress in the following areas:

- *Carbon offsetting for youth travelers* – we began providing carbon offsetting for all youth travel in April 2018. This has resulted in offsetting of 135,000 tonnes of carbon emissions by the end of the fiscal year.
- *Optional carbon offsetting* – we are investigating how to improve the usability of offsetting options by integrating them seamlessly into our online booking flow.

IN-FLIGHT

New high-speed WiFi

A significant development during the year was the launch of high-speed WiFi onboard our Airbus 320s and Boeing 737s. The service has been greatly appreciated by our business and leisure customers alike and enables services such as movie streaming.

New aircraft

We added nine brand-new Airbus A320neo aircraft to our fleet during the fiscal year. The modern interiors of the new aircraft have received very positive customer feedback. Airbus A320neo aircraft are also more fuel efficient than previous aircraft and reduce CO_2 emissions by around 18%. In addition, we upgraded existing aircraft with new cabin interiors during the year.

Punctuality

Our punctuality was 77.7% during 2018 and SAS was the sixth most punctual airline in Europe. Traffic challenges primarily during the summer peak season negatively affected our punctuality.

In-flight menu improvements

We further refined our in-flight menu during the year with new Swedish "fika" options to meet the demands of our Nordic consumers. The option to pre-order meals was rolled out to SAS Go travelers – to further enhance their travel experience and promote sustainability by avoiding unnecessary weight and waste. We also introduced more sustainable sandwich packaging that has halved the amount of packaging while incorporating renewable bio-based plastic.

POST-FLIGHT AND TRAVEL

Development of EuroBonus and our business offering

EuroBonus, Scandinavia's strongest loyalty program within travel and experiences with 5.6 million members, is essential for developing our customer relationships, loyalty and profitability. Our new digital platform has enabled us to launch several new services and features to our EuroBonus members, e.g. point sharing features for friends and families, lifetime gold membership for our most devoted travelers and easy-to-use online booking for award trips with EuroBonus points throughout the entire Star Alliance network. In 2019, we will continue to launch new features and travel services to further improve the value proposition and experience for EuroBonus members, as well as to increase the number of travel partners in the program.

Digitalization allows more personalized communication

New digital platforms introduced during the year enable us to provide increasingly personalized communication with our EuroBonus members in between journeys. This allows us to create relevant offerings that generate value for our customers.

ADDITIONAL SERVICES AND CAPABILITIES

SAS Growth

In 2018, the business unit SAS Growth was established to make us stronger, faster and more innovative with the objective of strengthening our core operations, driving loyalty, capitalizing on untapped potentials within our existing business and creating new revenue streams.

The ambition for Growth is to be our second engine in driving revenue beyond our core business of ticket sales, powered by our extensive ecosystem of partners, data, analytics, engaging customer interaction and entrepreneurship.

SAS for Business program

In June 2018, SAS developed its business offering by launching the SAS For Business program, which is designed to make it easier for small and medium-sized enterprises (SMEs) to book tickets and benefit from discount immediately at the time of purchase. The program follows dialogue with some of our 64,000 SME customers about the kind of program they would prefer.

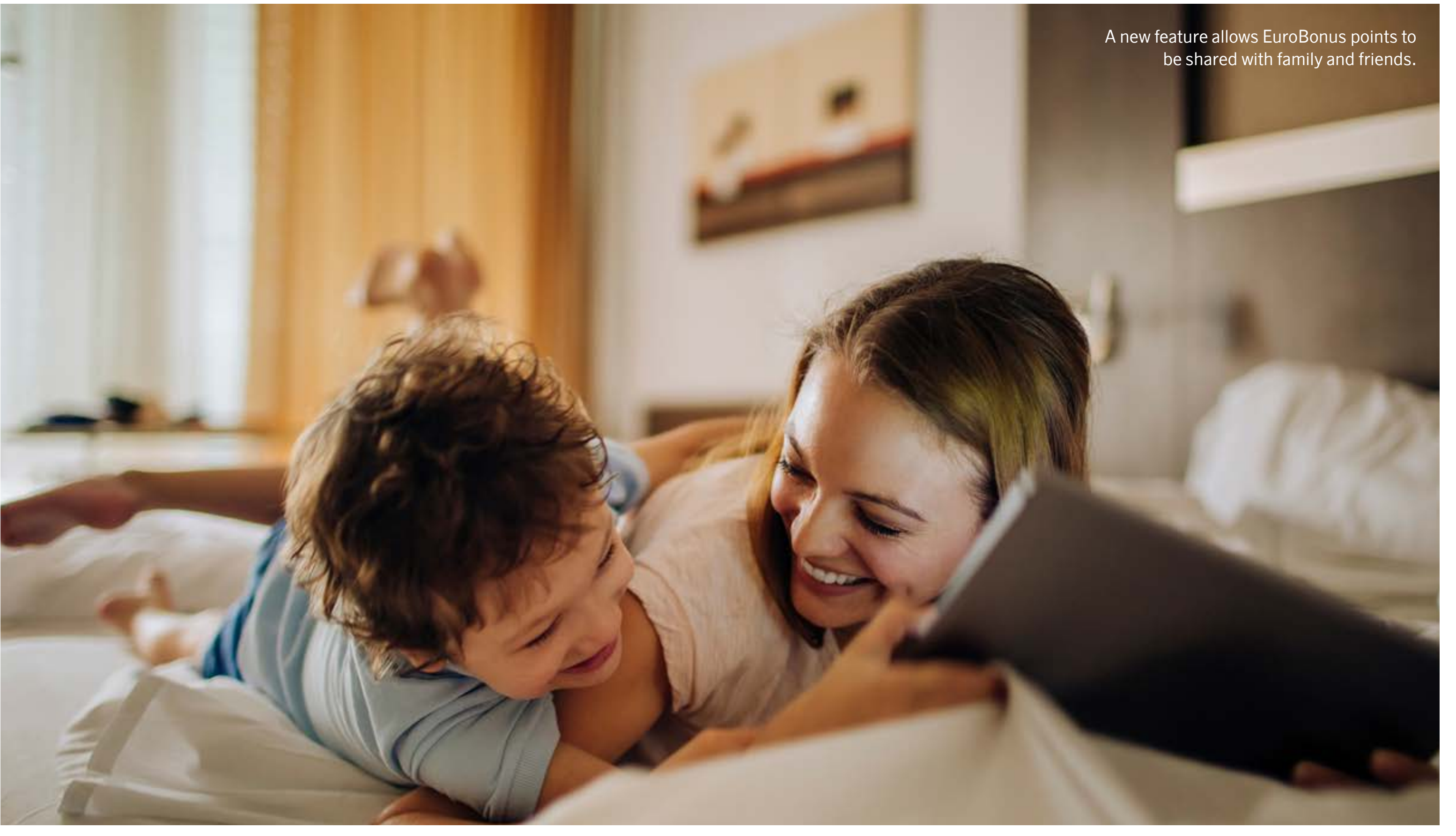
Star Alliance enhances the SAS global network

SAS is a co-founder of Star Alliance, which offers our travelers advantages such as a global network, access to lounges and Fast Track, and the ability to reach their destinations when affected by flight irregularities by rebooking on the next available Star Alliance flight. Members can also earn and more easily use points with member companies. Star Alliance brings together 28 member airlines, offering more than 18,800 daily departures. Their combined fleet of over 4,700 airplanes flies to more than 1,317 destinations in 193 countries worldwide, making it the largest global airline alliance.

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 their points, for example for award travel. Sales of EuroBonus points to partners is recognized under "Other revenue" and the assessed cost is shown as a liability.

New digital platforms provide increasingly personalized communication with our EuroBonus members on, and in between journeys.



A new feature allows EuroBonus points to be shared with family and friends.

ENHANCING CUSTOMER EXPERIENCES THROUGH INNOVATION

SAS has a long history of improving the experiences of our customers through innovation – from being the first airline with a digital ticketing and passenger information system in 1965, to an early pioneer of customer communications via the internet in the 1990s.

Today, we drive innovation throughout the organization, whether in design of our cabins or food boxes, sustainability, in the form of our biofuel cooperation with Preem or stimulating the digital workplace internally with a variety of solutions.

Innovation plays an important role in further enhancing the experiences of our customers and frequent travelers. We are developing innovative digital platforms, services based on Artificial Intelligence (AI) and data analytics, and even stimulate innovation through engagement with partners from outside the airlines sector.

OUR DIGITAL TRANSFORMATION JOURNEY

We embarked on a digital transformation journey in 2014 that has seen us rebuild our digital platform and enable greater mobility for our customers and personnel. Our overall objective is to simplify things for the customer to promote smooth, easy journeys – both in the digital and the physical world. Customer feedback highlights that our digital tools are essential to provide the necessary information to support them during their journeys.

FINE TUNING OUR DIGITAL PLATFORMS

In FY 2018, we worked to better organize and integrate our information platforms. A new set of Application Program Interfaces (APIs) has provided us with new capabilities for partner integration and faster marketing of digital services.

Our website has also undergone a major user interface upgrade during the year to secure usability, responsiveness, performance and accessibility. This has created the foundation for a more lean and agile way of working, as well as a more individualized customer online experience.

SAS LABS

Our SAS Labs unit works to take the customer experience to the next level by testing and developing services based on cutting-edge technology, monitoring digital trends, and functioning as a catalyst for innovation within the tech community.

The SAS Labs "Open innovation" involves working with start-ups and other partners from both within and outside the airline industry to co-develop various services. In particular, it looks at how the latest technology can be used to develop new products and services that simplify the customer journey for our frequent travelers, such as chatbots or how we streamline delayed baggage handling.

MEET OUR CHATBOT TURI

Among the various technologies tested by the SAS Lab, conversational interfaces based on AI and real-time data have become increasingly relevant to our customers. SAS Turi is a chatbot designed to be a digital travel assistant to help travelers throughout their journey.

Turi was released in November 2018 and is available as a free service on Facebook Messenger. Turi notifies when something significant happens to the user's trip, such as gate allocation, flight delays, destination weather forecasts, current security waiting time, as well as where and when baggage will arrive.

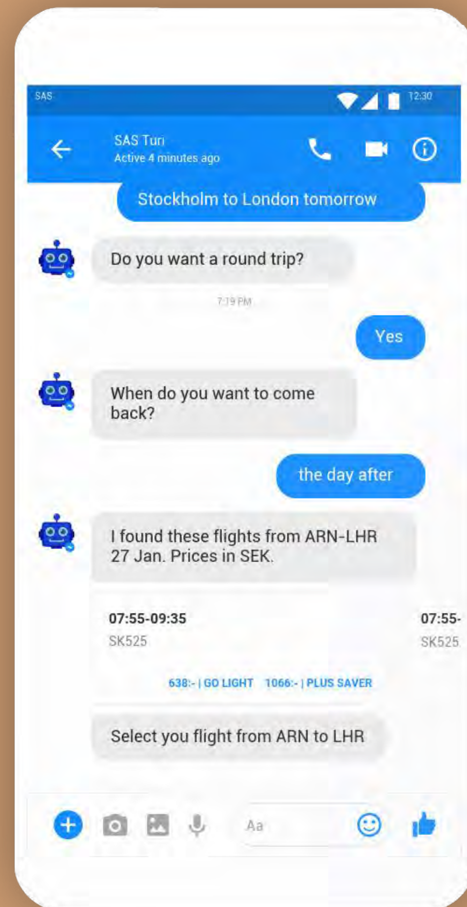
WHO IS TURI?

Turi is a gender-free bot named after former SAS pilot Turi Widerøe, who was the first female commercial pilot for a western airline back in the 1960s. The name Turi is also a part-tribute to Alan Turing, one of the most important pioneers of Artificial Intelligence.

INDIRECTLY IMPROVING CUSTOMER EXPERIENCES THROUGH INNOVATION

We work with a variety of innovative new technologies and solutions to improve our operations, which indirectly deliver customer value. Examples include creating chatbots specifically for our employees to further improve access to real-time information, and making Virtual Reality training tools available to technical maintenance employees to enable them to learn and practice aircraft maintenance procedures.

We have also equipped all flight crews and the majority of our ground operations with mobile tools, which can for example help optimize the planning of our operations and aircraft maintenance. Data analytics is becoming particularly important when our network is affected by unforeseen issues to ensure we operate as efficiently as possible under the circumstances and minimize customer disruption.



Turi is available on Facebook Messenger.

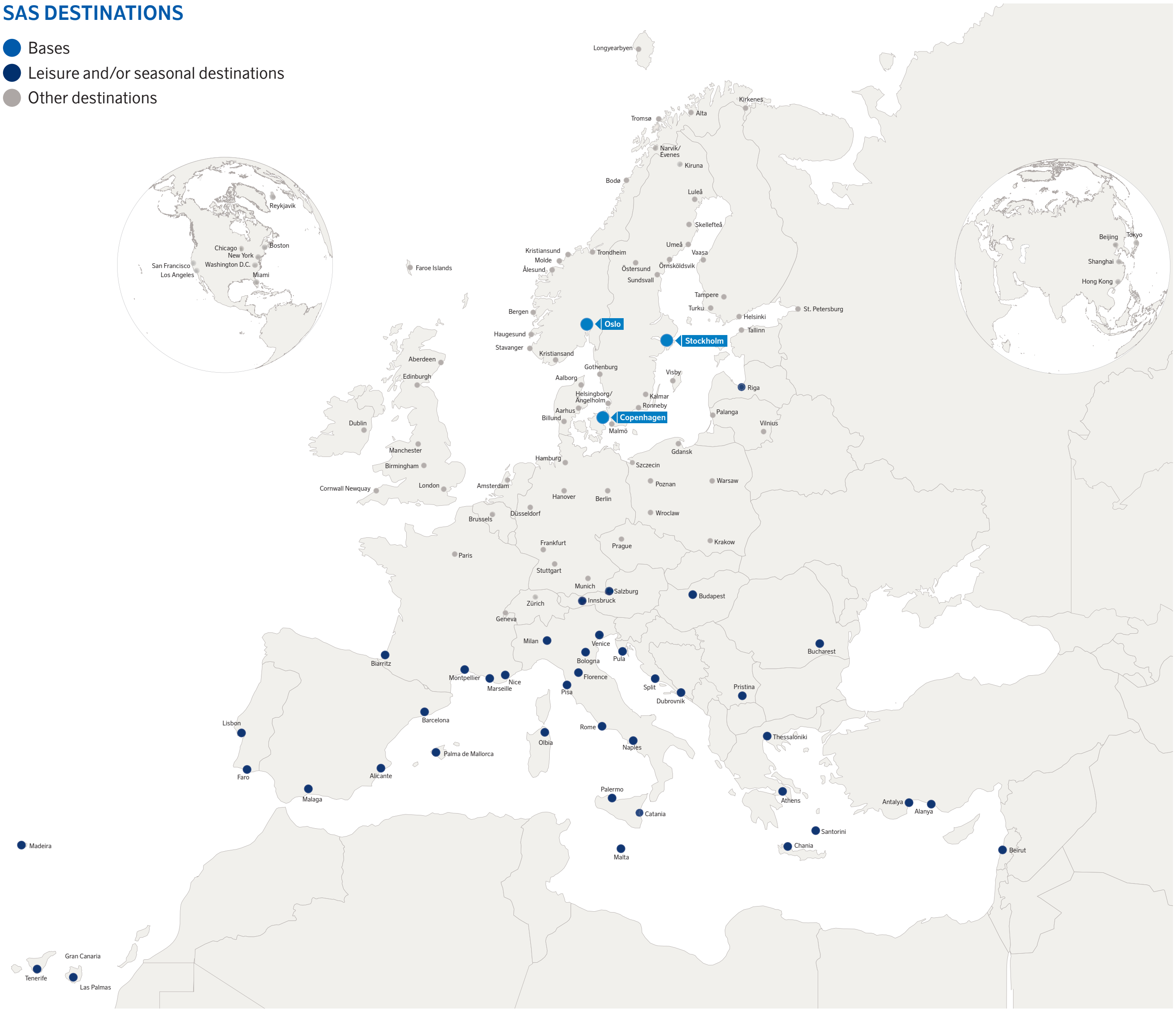
2018 SAS HACKATHON STIMULATES KEY CUSTOMER-INNOVATION THEMES

The first 24-hour SAS Hackathon (HAX2018) was organized by SAS Labs in October 2018. 60 developers, designers and innovators were invited to the SAS head office in Stockholm. During the 24-hour hackaton the teams conceptualized, prototyped and validated their best ideas around the themes 'Making time matter' and 'Connected flights' and rounded off with pitching their concept in front of a jury made up of SAS and partners experts. Among the ideas pitched were a health and wellness related chatbot service that provides support and tips to travelers dealing with the fear of flying, staying hydrated and jet lag. Another solution was a mobile app that would give passengers of a particular flight opportunities to connect with each other while airborne, to for example share a taxi from the airport they will land at. The winners of HAX 2018 were awarded flight tickets and the most promising ideas progressed to an incubation phase with SAS Labs.

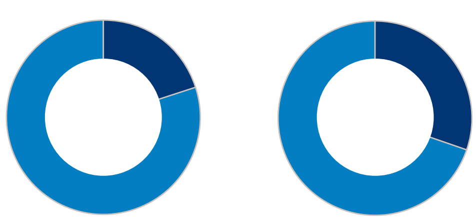
Participants at the 2018 SAS Hackathon.

SAS DESTINATIONS

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



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



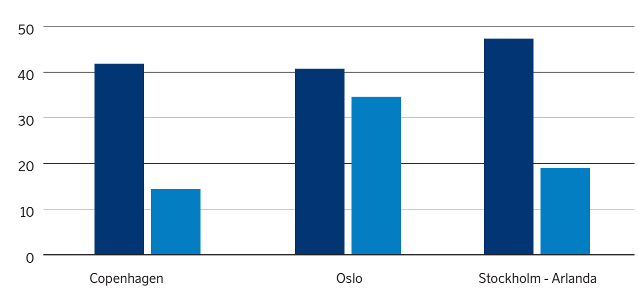
Winter program, 20%　　*Summer program, 30%*

■ Leisure-share of SAS production in Europe and Scandinavia

During the year, SAS adjusts its operation 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 larger 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 its primary airports of Copenhagen, Oslo and Stockholm, and offers more departures than any competitor.

Source: Innovata Schedule Data

CREATE AN EFFICIENT AND SUSTAINABLE OPERATING MODEL

We have significantly altered our operating model in recent years, and in FY 2018 we began to see results in terms of greater earnings – particularly during our peak season over the summer.

"Our new operating model allows greater flexibility to adapt and adjust our network."

The order of 50 new Airbus A320neo aircraft will ensure SAS has a single-type fleet by 2023.

KEY PROGRESS IN FY 2018

- Digitalization has further enhanced operational efficiency.
- Formed the new SAS Ireland production platform with bases in London and Malaga – established in December 2017 and June 2018 respectively.
- Implemented cost measures with a gross earnings impact of SEK 0.7 billion.
- Continued to implement Lean throughout the organization.

8 DECENT WORK AND ECONOMIC GROWTH

UN Sustainable Development Goal 8 promotes sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. SAS provides fair working conditions for all its employees, wet-lease partners and suppliers.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

UN Sustainable Development Goal 12 promotes sustainable consumption and production patterns. The SAS efficiency enhancement program directly relates to using resources more efficiently.

13 CLIMATE ACTION

UN Sustainable Development Goal 13 urges urgent action to combat climate change. SAS works proactively to reduce its greenhouse gas emissions by focusing on reducing emissions from its aircraft operations.

SAS OPERATIONS

Our new operating model allows greater flexibility to adapt and adjust our network to better meet seasonal and customer demand, as well as enhance efficiency and reduce costs.

AIRLINE OPERATIONS

Our operating model now includes three production platforms – SAS Scandinavia, SAS Ireland and Regional Production Partners.

Greater flexibility & competitiveness
Our new operating model provides greater flexibility to better meet seasonal and customer demand – to enhance efficiency and reduce costs (see below). This will for example enable us to increase capacity during the summer season when customer demand peaks. We have also continued to outsource some of our ground handling services to improve the efficiency and flexibility of our network.

Digitalization enhances our customer offering
Greater digitalization supports our ability to manage a more flexible operating model by giving our employees and partners access to real-time information. For example, every crew member now has an ipad that enables us to optimize our services – from flight route planning to baggage handling.

Single-type fleet by 2023
Following an order for 50 new Airbus A320neo aircraft in April 2018, SAS Scandinavia will have a single-type fleet by 2023. This will create an efficient production platform that consists of the market's most efficient short and medium-haul aircraft with 15–18% less fuel use. A single-type fleet will also provide efficiencies in maintenance, training and flexibility with the ability to swap aircraft.

SAS GROUND HANDLING SERVICES

We operate our own ground handling services at our primary airports of Copenhagen, Oslo and Stockholm and continuously work to further increase quality and productivity through increased automation and digitalization. This is an ongoing journey, but the overall aim is to improve customer service through more modern processes for check-in, baggage handling and flight irregularity management.

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

SAS TECHNICAL MAINTENANCE

We perform the ongoing technical maintenance of aircraft for SAS and other airlines at six airports in Scandinavia. Heavier technical maintenance where aircraft are taken out of service for longer periods are outsourced to specialist technical subcontractors.

We made significant progress in introducing Lean during FY 2018, which involves continuous improvements to make our maintenance processes more efficient. In terms of digitalization, our maintenance management information system has also streamlined maintenance by allowing engineers access to real-time data.

SAS CARGO SERVICES

We manage SAS's cargo services, which make use of space primarily on our long haul flights. This is supplemented by ground transportation on shorter distances as well as to and from airports. Through our broad network and frequent departures, we provide high-quality and punctual cargo transport.

In FY 2018, we saw a sharp increase in the amount of cargo freight booked online by customers, which now accounts for over 85% of all bookings. This level of digitalization is unique in the world and ensures much less handling while also making booking easier for customers.

OUR PRODUCTION PLATFORMS

SAS SCANDINAVIA

Production platform with bases in Scandinavia
Our main business representing the largest part of our operations.

SAS IRELAND

New production platform with bases in London and Malaga
Complements SAS Scandinavia by giving us the same preconditions as low-cost competitiors. This enables us to compete on highly competitive routes and in the growing leisure market.

REGIONAL PRODUCTION PARTNERS

Regional traffic flown by business partners under the SAS brand
Enables SAS to offer a larger network, more frequencies and appropriately sized aircraft on each flight.

7
Aircraft in service SAS Ireland

117
Aircraft in service SAS Scandinavia

33
Aircraft in service Regional Production Partners

EFFICIENCY ENHANCEMENT PROGRAM

Our ongoing efficiency enhancement program promotes efficiency within our entire organization and is essential for our continued competitiveness. The overall target is to achieve total efficiency improvements of SEK 3 billion between 2017 and 2020.

The efficiency enhancement program includes over 200 initiatives and realized financial savings of approximately SEK 0.7 billion in FY 2018. This contributed to a 1.1% fall in the currency-adjusted unit cost, excluding jet fuel. Sustainability is often a key consideration in many of the initiatives as more efficient resource use typically results in both environmental and financial savings.

EXAMPLES OF ACTIONS IN THE EFFICIENCY ENHANCEMENT PROGRAM

Fuel saving program
The program includes various operations within SAS and has saved SEK 22 million in FY 2018 by optimizing the use of SAS aircraft in our daily operations. Overall CO_2 emissions per passenger kilometer have reduced by 1.3% since FY 2017 and by 1.7% in absolute terms.

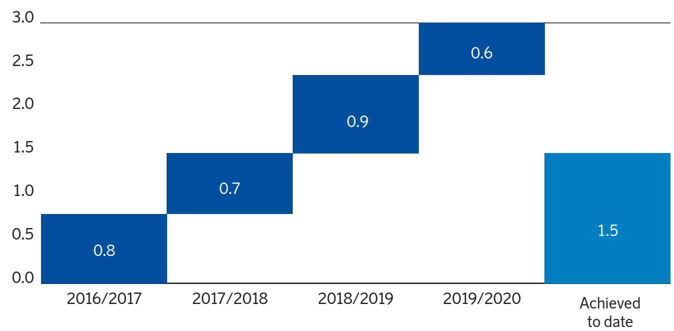
Reducing onboard waste
We have reduced food packaging and improved our processes to recycle onboard waste. Infrastructure at some airports is being developed so that aluminium cans can be recycled, and plastic waste has been significantly reduced by our pre-ordering meal service that optimizes the amount of servings that are provided for each flight. In total SEK 24 million was saved in FY 2018.

Review of ordering aircraft materials
The initiative works to avoid unnecessary or surplus aircraft materials by establishing processes that better evaluate need before ordering new materials. SEK 1 million saving in FY 2018.

Long-haul manning
During the year, agreements were reached with cabin crew unions to ensure more flexibility in adapting to seasonal fluctuations, which provided cost savings of almost SEK 50 million.

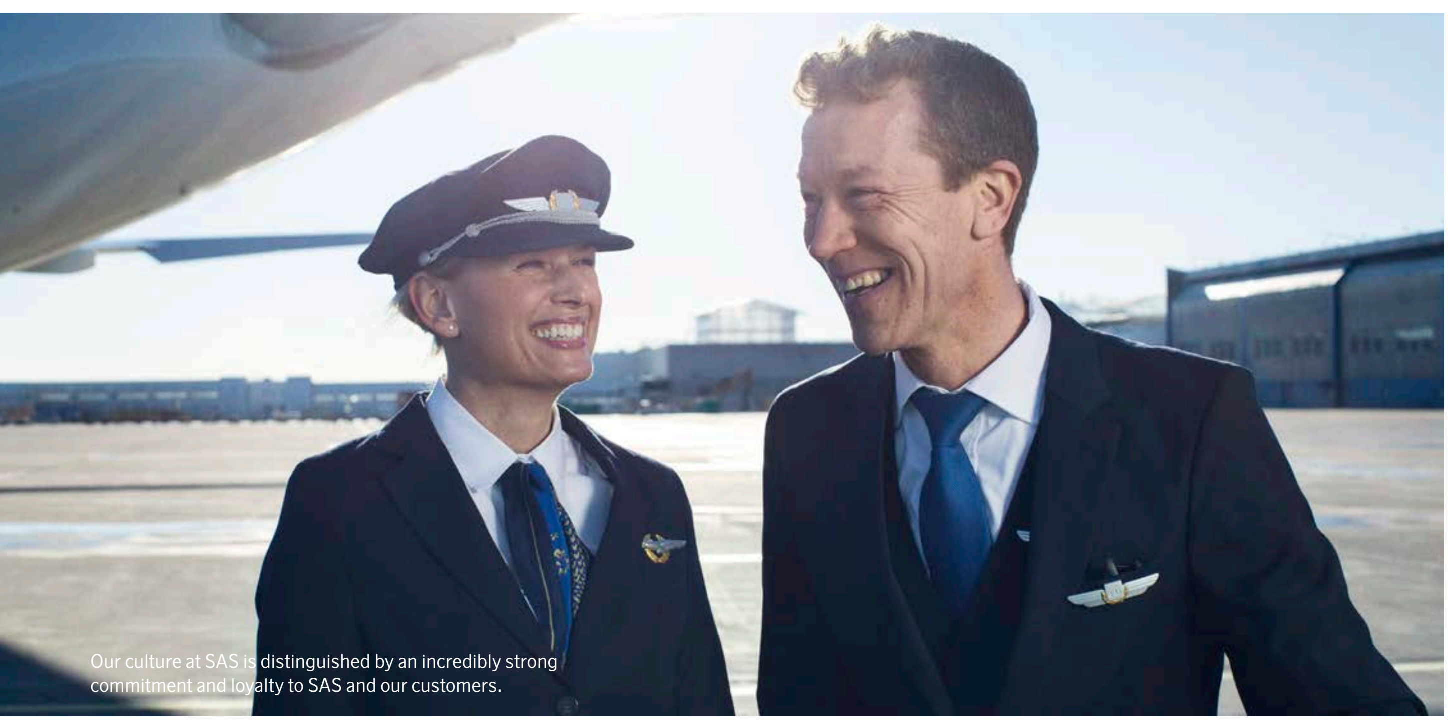
Digitalization of ground handling
Ground handling employees have been provided with tablet devices during the year to increase efficiency in the turnaround process. This gave a SEK 6 million saving in FY 2018.

EARNINGS IMPACT (SEK BILLION)



EFFICIENCY IMPROVEMENTS BEYOND 2020

As our current efficiency enhancement program will be completed in 2020, we have begun planning our next phase of efficiency improvements. Central to these efforts is SAS Scandinavia's objective to create a single-type fleet by 2023. As the new aircraft enter service, we will benefit from reduced fuel use, as well as maintenance and training efficiencies. Further investments in digitalization and Lean will also be important parts of our efficiency improvements going forward.



Our culture at SAS is distinguished by an incredibly strong commitment and loyalty to SAS and our customers.

CLIMATE ACTION FOCUSING ON AIRCRAFT EMISSIONS

In line with our holistic approach to sustainability, we work to reduce emissions throughout our entire operations. However, we focus our efforts on aircraft emissions as they account for over 99%[1] of our total emissions.

Our structured approach to climate action

SAS is one of only a small number of passenger airlines in the world that are fully certified to the ISO 14001 environmental management system. ISO certification is the basis for our Environmental Program to ensure that we work in a structured manner by helping to plan, implement, review and follow up measures to reduce our climate impact.

AMBITIOUS OBJECTIVES

In FY 2018, we set a new target to reduce our total carbon emissions by 25% by 2030 compared with 2005. Around half of these reductions will be achieved through fleet renewal and other improvements, and half through the adoption of biofuels. By 2030, we aim to use 100% biofuel for domestic flights.

At the end of the fiscal year, we have reduced our total emissions by 2.8% compared with 2005, while increasing our production by around 20% (including both passengers and cargo). In the coming years we expect this trend to continue – by further reducing our total emissions, while increasing our production.

FLEET RENEWAL

Fleet renewal is key to reducing our emissions as new aircraft are more fuel efficient and emit lower emissions. In FY 2018, we made progress in the following areas:

- *Actual renewal* – 9 new Airbus 320neos were added to our fleet, which now includes 157 aircraft with an average age of 9.9 years.
- *Planned renewal* – 50 new Airbus 320neos were ordered with delivery 2019 to 2023.
- *Wet-lease renewal* – older CRJ900 regional jets were replaced by new aircraft during the year to ensure wet-lease carriers now have a modern aircraft fleet.

MORE EFFICIENT USE OF AIRCRAFT

We can make emission savings and reduce costs through more efficient aircraft planning, for example by ensuring the size of a particular aircraft is suitable for the required number of passengers and through fuel saving initiatives. We also look at how we can optimize our aircraft in terms of aerodynamics, weight and fuel consumption, which can improve fuel efficiency. In FY 2018 we made progress in the following areas:

- *Fuel saving program* – ongoing work to analyze flight data to enhance flight performance and optimize ground operations.
- *Pre-ordering meals* – our new digital platform allows customers to pre-book meals to ensure we take what we need onboard to avoid unnecessary weight, fuel consumption, cost and food waste.
- *Interior upgrades* – for example we have upgraded aisle mats with significantly lighter weight solutions to save approximately 40 kg on an A320 aircraft.

1) *This figure is based on our flight operations including wet-lease. It does not cover other external services, even though we work to better understand these emissions and cooperate with our partners to reduce emissions.*

Our new Airbus A320neo aircraft reduce fuel consumption considerably.

RENEWABLE JET FUELS

SAS uses as much renewable jet fuel as it can and is involved in a number of projects to increase the supply of renewable fuels. In FY 2018 we made progress in the following areas:

- *Renewable fuel use* – SAS used around 100 tonnes of renewable jet fuel, which is the maximum we can currently source from our supplier Air BP.
- *Preem cooperation* – signed a Letter of intent with Preem to supply 200,000 m^3 (approx. 155,000 tonnes) of renewable jet fuel from 2022, which would meet 10-12% of our total fuel demand.
- *Customer options* – we are evaluating different options for customers to pay to upgrade their fuel to renewable fuel.

WORKING TO OPTIMIZE EUROPEAN AIR TRAFFIC CONTROL

Since the early 2000s, SAS has worked with various stakeholders and made numerous investments to enable and prepare for the introduction of a more efficient European air traffic control system. The process to implement the Single European Sky project is now in the deployment phase, and will revolutionize airspace when fully implemented by optimizing flight paths and significantly reducing emissions.

A ZERO-EMISSION AIRLINE INDUSTRY BY 2050

SAS fully supports the International Air Transport Association (IATA) ambition for commercial aviation without material climate impact by 2050. The IATA and the airline industry have agreed to:

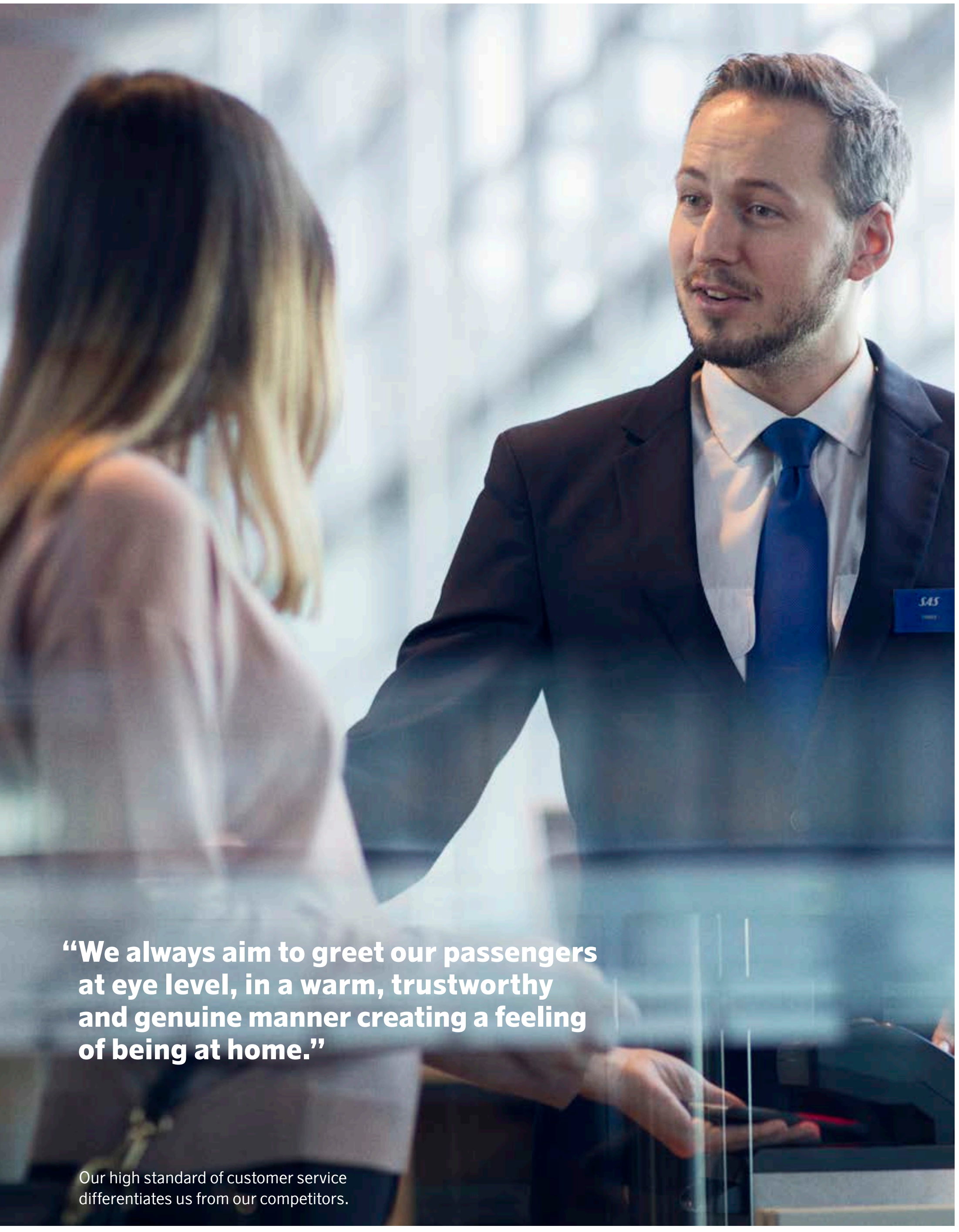
- Improve fuel efficiency by an average of 1.5% annually from 2009 to 2020.
- Achieve carbon-neutral growth from 2020.
- Reduce greenhouse CO_2 emissions by 50% by 2050, compared with 2005.

Source: www.enviro.aero

SAS is committed to reach and exceed the IATA goals and has reduced its CO_2 emissions per passenger kilometer by approximately 22% since 2005.

SECURE THE RIGHT CAPABILITIES

Securing the right capabilities is about ensuring that every employee can make a positive contribution through their competences and experience. Competition in the airline industry in Europe is fierce, and we appreciate that our people differentiate us and determine our success.



“We always aim to greet our passengers at eye level, in a warm, trustworthy and genuine manner creating a feeling of being at home.”

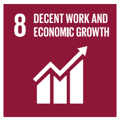
Our high standard of customer service differentiates us from our competitors.

CREATING THE RIGHT CONDITIONS FOR OUR EMPLOYEES

Each of our employees has an important role to play and it is essential that we have the right capabilities throughout our business. We do this by working systematically with four priority areas:

- Strengthening employee engagement
- Excelling in leadership
- Developing our competence
- Making SAS an attractive workplace

UN Sustainable Development Goal 5 promotes gender equality and the empowerment of all women and girls. SAS contributes toward this goal by encouraging gender equality and diversity through its recruitment policy and annual people review.



UN Sustainable Development Goal 8 promotes sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. SAS directly employs 10,146 full time equivalents and aims to provide good working conditions, where employees feel engaged, valued and secure.

A CHANGING ORGANIZATION

SAS has developed into a highly adaptive organization in recent years. This has involved promoting a culture of innovation and rethinking the way we do things, as well as ensuring we have the right capabilities and mindset.

STRENGTHENING EMPLOYEE ENGAGEMENT

Our passengers rate their interaction with SAS personnel highly, and we know our people truly make a difference to our offering. Engaged employees are more committed, satisfied and motivated, which are prerequisites for satisfied customers and better business. Our culture is distinguished by an incredibly strong commitment and loyalty to SAS and our customers.

Initiatives in FY 2018

- *Employee survey* – the new on-line employee survey enabled us to on a regular basis identify what´s important to promote in different departments to increase motivation and employee engagement. The survey was followed up with workshops to deep-dive into the result and focus areas to improve employee engagement
- *"One SAS - a great place to work"* – aims to make SAS an even more attractive workplace with highly motivated and engaged employees. Many initiatives have been launched, and investments made throughout the company, including the introduction of internal ambassadors and competence days within flight operations.
- *Profit sharing among our employees* – our employees are an important part of our success and sharing the financial result is another way of increasing engagement. As a first step, our board of directors approved a one-time award for our employees, to reflect our result in FY 2018.
- *SAS Awards* – the fourth year of the awards showcased SAS role models in the categories of: SAS Person, Leader, Team Achievement, Improvement Initiative of the Year, Team of the Year and Safety. In 2018 a Sustainability category was added.

EXCELLING IN LEADERSHIP

Leadership is essential for our future success as it ensures our managers have the capabilities to make sound strategic decisions and run well-managed teams. The development of our leaders is therefore something that we have focused on during the year through several initiatives.

Initiatives in FY 2018

- *SAS Executive Program 2018* – the program delivered together with Duke Executive Education, enhanced the leadership skills and strategic business decision-making of 70 of our most senior executives in 3x3 day modules in 2018.
- *Networking* – the Forum50 network engages 50 potential leaders each year to develop projects in small teams that are presented to group management.
- *Mentor programs* – eight senior leaders were mentored by members of group management, and our cross-functional Grow mentor program involved 20 participants with the aim of transferring knowledge and developing skills.

DEVELOPING OUR COMPETENCE

Our annual people review process aims to ensure the right competence by systematically reviewing what specific competence we as an organization need to develop to meet our future business requirements.

Initiatives in FY 2018

- *People review process* – this annual review identified the need to strengthen skills in business control, digitalization, automatization, project management, vendor management and contract management.
- *SAS Aircraft Management program* – the internal trainee program provided six participants with a 12-month placement including three months in four different business units: Business Control, Strategic Sourcing, Continuous Airworthiness and Fleet.
- *Pilot mentoring program* – recently employed pilots were mentored by more experienced colleagues to share their skills and experiences.

MAKING SAS AN ATTRACTIVE WORKPLACE

We constantly work to become a better and more attractive employer. To be able to attract the right people requires that we have a strong employer brand which offers the opportunities to grow both professionally and as a person. We operate in a competitive employee market, where most major airlines are recruiting pilots. SAS is regarded as an attractive employer that takes care of both employees and customers. We have actively recruited large numbers of new colleagues in recent years, and during 2018, we attracted 344 new cabin crew and 46 new pilots to meet the growing demand for our services. We promote gender equality, for example through conducting employers' pay surveys, to ensure that men and women have the same salary for the same work. In 2018, SAS was rated among the most attractive employers in Norway – particularly among students.

Initiatives in FY 2018

- *Company-wide roll-out of the Make Work Easier project* – the adoption of Office365, apps, team sites and cloud-based internal social media tools such as Yammer have created new opportunities to network, exchange experiences, share information and interact, with the objective to create more efficient day-to-day operations and strengthen our competence as an organization.
- *Wellbeing* – having succeeded in lowering sick leave to a stable level, we are now working proactively with the health and wellbeing of our employees by promoting fitness opportunities and providing health-related information and tools for self-assessment.
- *Employee healthcare allowance* – has been introduced during the year to promote employee health and wellbeing.

SICK LEAVE

6.1% (5.9%)

EMPLOYEE COMMITMENT INDEX

55 (57)

LOOKING TOWARD 2030

Global megatrends are shaping the airline industry of the future – with the potential to promote efficiency and further enhance customer experience. We take a look at some of these trends and what they might mean for SAS by 2030.

SUSTAINABILITY AND AIR TRANSPORT TECHNOLOGY

Society and our customers are increasingly demanding more sustainable solutions. This trend is expected to continue in the airline industry until 2030 and beyond, with a focus on reducing emissions and more efficient resource use.

People will still need to meet and travel in 2030.

SAS 2030

- Our increasingly fuel-efficient fleet, use of renewable jet fuels and other measures will have reduced our CO_2 emissions by at least 25% – in accordance with our 2030 target.
- Our work to increase biofuel production will have paid off and we will have met our aim of using renewable jet fuels to power all our domestic flights by 2030.
- We continue to offset carbon where emissions cannot be avoided and have simplified carbon offsetting for our customers.
- We are investigating the potential for fully electric or hybrid electric aircraft in terms of where to fly, the kind of infrastructure required and commercial opportunities.
- Fully autonomous electric or hybrid vehicles will transport passengers to and from airports.
- We already use aircraft maintenance inspection drones, but scanning and monitoring technology will be more sophisticated by 2030 – to make servicing more efficient.
- Automatic service trucks and robots in physically demanding roles such as baggage handling will enable personnel to focus on managing the unexpected.

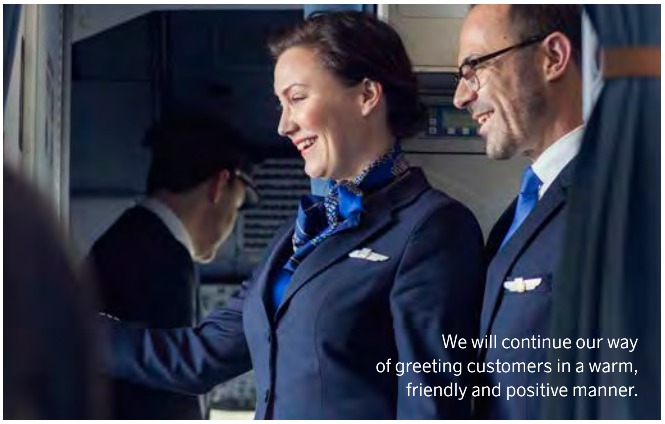
The aviation industry has a key role to play in promoting a more sustainable society.

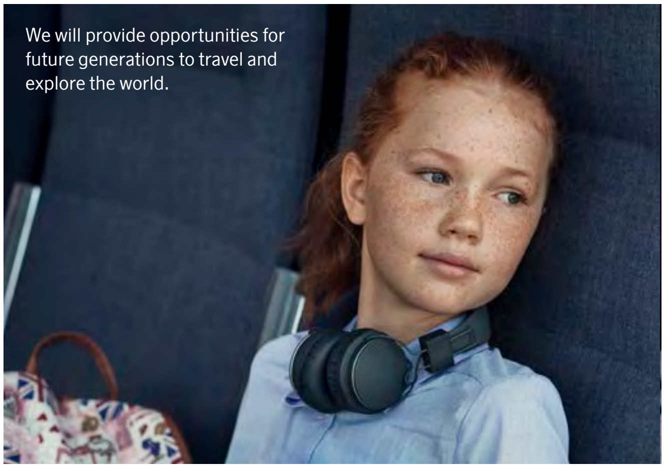
EMPLOYEES

Despite the greater adoption of digitalization, automatization and AI by 2030, personal interactions will continue to be important for our customers and employees.

SAS 2030

- Personal customer contact and a high service level will still be important in the future, where our employees will continue greeting customers at eye level in a warm, friendly and positive manner.
- Employee competence is essential in ensuring SAS is at the forefront of technological development – to ultimately benefit our customer offering.


We will continue our way of greeting customers in a warm, friendly and positive manner.


We will provide opportunities for future generations to travel and explore the world.

DIGITALIZATION

Digital tools will be even more widely used by 2030, which will further empower our employees, streamline our operations and enhance the customer experience.

SAS 2030

- Passengers will have constant and uninterrupted access to high-speed broadband internet regardless of where they are.
- Greater digitalization will provide new sales channels and more opportunities to tailor individual customer offerings.
- Biometrics together with blockchain technology will facilitate and speed up airport security and boarding.

ARTIFICIAL INTELLIGENCE

AI will play a much greater role by 2030 to enable us to more rapidly respond to trends and external influences, and provide an even more individualized customer offering. It will also bring solutions to enhance sustainability and efficiency.

SAS 2030

- AI will transform our capabilities to manage complex data on external influences such as weather forecasting and school holiday dates, to further individualize offerings.
- Advanced analytics and AI will optimize how we plan and manage our operations, reducing fuel consumption.
- AI has the potential to enhance our website chat bots that provide virtual assistance on our online platforms – to make booking online easier and provide instant customer support.


How can you change the world if you haven't seen it?

TRAVELERS

People will still need to meet and travel in 2030. The positive benefits of traveling long distances to meet, see other cultures and have new experiences will continue to be important. How can you change the world if you haven't seen it?

SAS 2030

- We will provide even greater flexibility to better meet seasonal changes in customer demand – with a continued focus on travel to and from Scandinavia.
- Our New Growth Initiative will continue to identify the needs of future travelers to ensure we meet changing customer demand.

SAS AS AN INVESTMENT

The airline industry is capital and labor-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 the 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 comprehensive 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.

SAS Lounge, Olso.

3
STRONG BRAND

SAS is one of Scandinavia's strongest and best-known brands. SAS has several times been ranked as the strongest brand within the travel category in Skandinavia and Europe and in 2018 was included in the top 20 airlines worldwide by the Condé Nast Traveler magazine.

4
STRONG LOYALTY PROGRAM

EuroBonus is Scandinavia's strongest loyalty program within travel and experiences, and forms the core of our efforts to establish a closer relationship with our customers. EuroBonus has around 5.6 million members and more than 100 partners, which represents a valuable customer database and sets us apart from the competition. SAS also offers a program to reinforce loyalty among corporate customers — SAS for Business. Corporate-agreement customers account for just over a third of our passenger revenue.


Engine A320neo.

5
FOCUS ON CAPITAL EFFICIENCY

Airlines are capital-intensive due to major investments in aircraft and engines, and this requires efficient capital management. In 2017, SAS introduced two financial targets that increased 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 the 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 related to fossil-based jet fuels, our main priority in terms of sustainability initiatives is to use our innovation capabilities 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 targets are to reduce our total carbon emissions by 25% by 2030 compared with 2005, and to ensure the amount of biofuels we use are equivalent to our total domestic flight comsumption by 2030.

FINANCIAL INSTRUMENTS AND CAPITAL MARKETS

SAS strives to provide transparent and relevant information to the capital market so that efficient trade can be conducted in our financial instruments. These include the common shares listed on Nasdaq Stockholm with secondary listings in Copenhagen and Oslo, the convertible bond maturing in April 2019 and the bond maturing in November 2022.

RECAPITALIZATION

SAS has loan maturities totaling SEK 3 billion in the next two years, of which SEK 1.6 billion are related to the convertible bond maturing in April 2019.

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 have been used to redeem the preference shares. 70% were redeemed in February and the remaining 30% in November 2018. In November 2017, SAS issued a new unsecured bond of SEK 1.5 billion with a coupon rate of 5.37%. In July 2018, a second tranche of MSEK 750 was issued with a coupon rate of 4.73%.

TREND FOR FINANCIAL INSTRUMENTS FY2018

The common share fell for the first 8 months of the fiscal year, but recovered considerably during the last 4 months. In total, the price per common share decreased 20% to SEK 20.6 during the fiscal year. Over the same period, the Nasdaq Stockholm OMX30 index decreased 8.4%. SAS' preference share increased 0.5% to SEK 551.

The SAS convertible is traded on the Frankfurt stock exchange. The price, in percent of the nominal amount, decreased during the fiscal year from 114.8% to 103.2%.

Interview with Torbjørn Wist, CFO

ACHIEVING OUR FINANCIAL TARGETS

Why did SAS redeem the remainder of its preference shares on 30 November 2018?
The preference share was issued in 2014 at a time when our level of shareholders' equity was much lower. Thanks to our improved earnings in the years following the issue, our shareholders equity has grown substantially. The preference share served us well during a period when we needed to secure our equity position, but the 10% dividend rate, paid from earnings after tax, was not optimal from the perspective of our ordinary shareholders. In accordance with the terms of the preference share, the redemption amount was reduced from 120% to 105% of the subscription price in February 2018, which also made redemption more sensible.

Jet fuel is a large part of SAS' operational expenses. How do you deal with the volatile oil market?
Our hedging strategy allows us to avoid the worst shocks from changes in oil prices, which directly affect the price of jet fuel. In practice, this means that we use financial derivative instruments to secure a part of our future fuel cost and ensure predictability in our cash flows. Our policy states that we shall hedge between 40-80% of our expected fuel consumption in the coming twelve months, and up to 50% of the expected consumption for the subsequent six months. In line with other European full-service carriers, we utilise a combination of swaps and option contracts. Option contracts give us downside protection in the event of rising jet fuel prices, while enabling us to take part in some of the upside in the event of falling jet fuel prices. The premium paid for option contracts can be viewed as an "insurance premium" in the event of rising jet fuel prices.

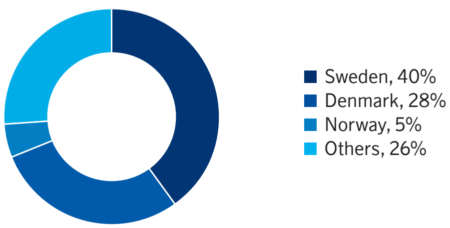
How does the company plan to deal with the large upcoming fleet investments?
SAS is spending a significant amount of money renewing its fleet, which will increase our amount of invested capital considerably. This will require improved earnings to ensure a return over and above the cost of the capital employed. As a consequence, we will continue to work hard to improve revenue and reduce our cost base. Fortunately, the Airbus A320neo is a very attractive aircraft to finance. Our target is to have a mix of leased and owned aircraft. We will use JOLCO financing for the final 10 aircraft of the 2011 Airbus A320 order. The first 15 aircraft from the 2018 order of 50 A320neos will be on operating leases. Financing of the first Airbus A350 aircraft will commence in early 2019.

DISTRIBUTION OF SHAREHOLDERS AND CHANGES

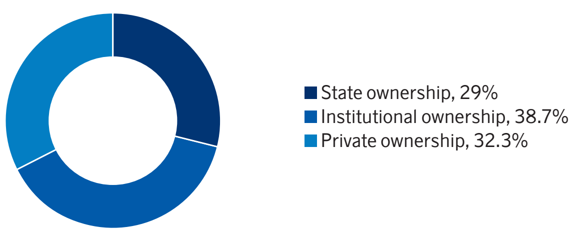
As of October 31, 2018, SAS had 59,347 holders of common shares and 6,147 preference shareholders. The number of individual shareholders totaled 61,259, which is a 4% increase compared with the previous period.

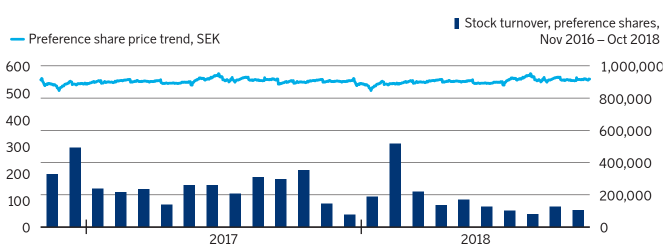
Holdings in Scandinavia totaled about 74%, with Sweden accounting for 40%, Denmark 29% and Norway 5% as of October 31, 2018. Of the remaining holdings outside Scandinavia, totaling 26%, the number of holdings outside the EEA area was around 15%, of which the majority were registered in the US.

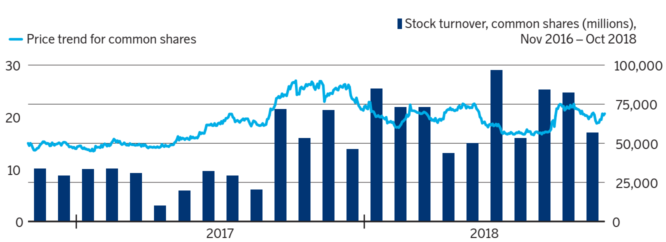
VOTING RIGHTS IN SAS, BY COUNTRY, OCTOBER 31, 2018



BREAKDOWN OF THE SAS SHARE CAPITAL, BY VOTES, OCTOBER 31, 2018







DISTRIBUTION OF SHARES, COMMON AND PREFERENCE SHARES

Oct 31, 2018	No. of common shares	No. of preference shares	Voting rights
The Swedish Government	56,700,000	-	14.8%
The Danish Government	54,475,402	-	14.2%
Knut & Alice Wallenberg Foundation	24,855,960	-	6.5%
BNY Mellon	18,154,017	23,673	4.7%
State Street Bank & Trust	18,152,501	21,829	4.7%
Norges Bank	7,018,292	34,014	1.8%
JPM Chase	6,793,455	55,378	1.8%
Färna Invest AB	6,400,000	-	1.7%
Försäkringsbolaget Avanza Pension	5,737,815	118,653	1.5%
Gerald Engström	5,400,000	-	1.4%
CBNY-DFA-INT SML CAP V	4,439,432	-	1.2%
Ålandsbanken in the owners' stead	4,360,659	6,303	1.1%
Swedbank Försäkring	2,811,446	89,148	0.7%
Banque de Luxembourg	2,707,293	-	0.7%
Brown Brothers Harriman & Co.	2,650,256	2,099	0.7%
Länsförsäkringar Global Hållbar	2,540,007	-	0.7%
CBNY-INT COR EQ POR DFA IN DIM GR I	1,876,825	-	0.5%
Nordnet Pensionsförsäkring AB	1,855,463	47,121	0.5%
Vätterleden AB	1,803,437	-	0.5%
NTC Various Fiduciary Capacity	1,714,298	-	0.4%
Other shareholders	152,135,994	1,703,333	39.8%
Total	**382,582,551**	**2,101,552**	**100.0%**

Source: Euroclear, VP and VPS.

DISTRIBUTION OF SHARES, COMMON AND PREFERENCE SHARES

Oct 31, 2018	No. of share-holders	No. of votes	% of share capital	% of all share-holders
1–1,000	48,270	10,774,305	2.8%	78.8%
1,001–5,000	9,598	22,169,912	5.8%	15.7%
5,001–10,000	1,721	12,695,408	3.3%	2.8%
10,001–100,000	1,458	37,837,214	9.9%	2.4%
100,001–1,000,000	178	49,884,928	13.0%	0.3%
1,000,001–	34	242,949,101	63.5%	0.1%
Unknown shareholders	-	6,481,838	1.7%	0.0%
Total	**61,259**	**382,792,706**	**100.0%**	**100.0%**

Source: Euroclear, VP and VPS.

PREFERENCE SHARES AND COMMON SHARES TRADED PER EXCHANGE

	Value, MSEK		No. of shares, million	
	FY 2018	**FY 2017**	**FY 2018**	**FY 2017**
Common shares				
Stockholm	12,640	4,730	622	252
Copenhagen	2,807	2,433	136	134
Oslo	486	210	24	13
Total common shares	**15,933**	**7,373**	**782**	**399**
Preference shares				
Stockholm	1,094	1,766	2.0	3.3

Source: Nasdaq OMX Nordic.

CHANGE IN SHARE CAPITAL[1]

	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
February 2018	Redemption, preference shares	-4,898,448	384,684,103	20.1	7,732,150,470
November 2018[3]	Redemption, preference shares	-2,101,552	382,582,551	20.1	7,689,909,275

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.
3) Occurred after end of FY 2018

ANNUAL REPORT FISCAL YEAR 2018

REPORT BY THE BOARD OF DIRECTORS

FINANCIAL STATEMENTS

Baden-Württemberg, Germany.

REPORT BY THE BOARD OF DIRECTORS

SUMMARY OF FISCAL YEAR 2018

- Earnings before tax and nonrecurring items: MSEK 2,127 (1,951)
- Revenue for the year: MSEK 44,718 (42,654)
- The total number of passengers rose 0.3% and amounted to 30.1 million.
- Unit revenue (PASK) increased 0.5%[1)]
- Unit cost (CASK) decreased 1.1%[2]
- Earnings before tax was MSEK 2,041 (1,725)
- Net income for the year was MSEK 1,589 (1,149).

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 fiscal year 2018 (1 November 2017–31 October 2018). 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, including ground handling, technical maintenance and cargo, in a Scandinavian and international network.

MARKET PERFORMANCE FISCAL YEAR 2018

In the beginning of fiscal year 2018, market capacity accelerated again following slower growth the preceding year. Measured in the number of seats offered, capacity to, from and within Scandinavia increased 4.5% in fiscal year 2018. The total number of passengers to, from, and within Scandinavia rose 3.8% during the fiscal year.

The number of passengers who traveled on SAS' scheduled routes increased 0.6%, totaling 28.8 million in fiscal year 2018, the highest for a fiscal year. The largest increase was on European routes, where passenger numbers increased around 1.4%. The growth was particularly strong on routes to Southern Europe.

Traffic decreased 2.2% on SAS' intercontinental routes. This was driven by the phase-out of one wet-leased aircraft. Domestic traffic was essentially unchanged (-0.1%). The trend was strongest in Norway.

SAS' charter capacity declined 4.0% in the fiscal year, which resulted in the total number of charter passengers decreasing 6.1% to just under 1.3 million. Volumes were primarily lower in the beginning of the fiscal year.

During the fiscal year, the currency-adjusted yield increased 1.6% and currency-adjusted unit revenue (PASK) rose 0.5% compared with last year. The yield increased during the winter program and was more stable during the second half of the fiscal year. At the same time, SAS' currency-adjusted unit cost excluding jet fuel sank 1.1% year-on-year.

TRAFFIC TRENDS FOR SAS

SAS' scheduled traffic	FY18	FY17	Change
Number of passengers (000)	28,794	28,625	+0.6%
RPK, Revenue Passenger Kilometers (mill)	36,496	36,361	+0.4%
ASK, Available Seat Kilometers (mill)	49,023	48,303	+1.5%
Load factor	74.4%	75.3%	-0.8[1]
Passenger yield (currency-adjusted), SEK	0.93	0.92	+1.6%
Currency-adjusted unit revenue, PASK, SEK	0.70	0.69	+0.5%

	FY18 vs. FY17	
Geographic trends, scheduled traffic	RPK	ASK
Intercontinental	-2.2%	-2.0%
Europe/Intra-Scandinavia	+2.7%	+4.4%
Domestic	-0.1%	+0.9%

SAS' charter traffic	FY18	FY17	Change
Number of passengers (000)	1,289	1,373	-6.1%
RPK, Revenue Passenger Kilometers (mill)	3,450	3,718	-7.2%
ASK, Available Seat Kilometers (mill)	3,758	3,914	-4.0%
Load factor	91.8%	95.0%	-3.2[1]

Total traffic (scheduled and charter traffic) for SAS	FY18	FY17	Change
Number of passengers (000)	30,082	29,998	+0.3%
RPK, Revenue Passenger Kilometers (mill)	39,946	40,078	-0.3%
ASK, Available Seat Kilometers (mill)	52,781	52,217	+1.1%
Load factor	75.7%	76.8%	-1.1[1]
Currency-adjusted unit cost, CASK, excluding aviation fuel	0.57	0.57	-1.1%

1) Figures in percentage points

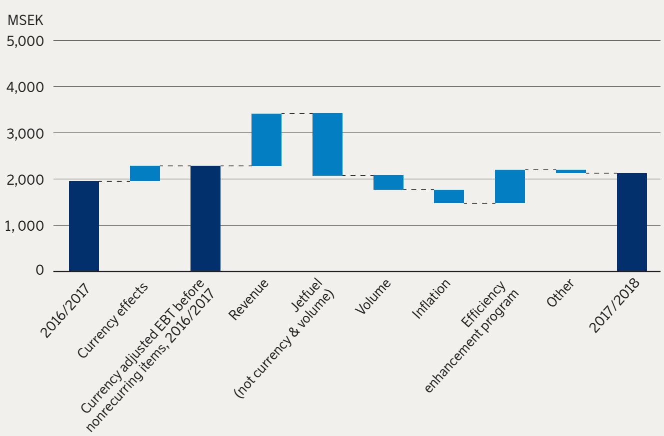
PUNCTUALITY AND REGULARITY

SAS achieved an arrival punctuality rating of 77.7% (83.6) in fiscal year 2018. Punctuality was negatively affected during the winter months by unusually challenging weather until April. Thereafter, punctuality improved. Punctuality was negatively impacted in the summer, primarily by a shortage of personnel and delays due to European air traffic control. Regularity for SAS was 98.0% (98.9%). This regularity was also affected by the very challenging winter conditions, a shortage of personnel, technical problems, delays in European air traffic control and late deliveries of aircraft from Airbus during the summer.

INCOME NOVEMBER 2017 –OCTOBER 2018

SAS reported an EBIT of MSEK 2,521 (2,187) and earnings before tax and nonrecurring items totaled MSEK 2,127 (1,951). EBT amounted to MSEK 2,041 (1,725) and income after tax was MSEK 1,589 (1,149). A weaker SEK impacted revenue positively and costs negatively. In total, the exchange-rate trend over the year had a positive impact of MSEK 371 on EBIT, and after the negative effect on net financial items of MSEK 38, the net positive impact on EBT was MSEK 333.

TREND FOR EARNINGS BEFORE TAX AND NONRECURRING ITEMS, FROM FY17 TO FY18



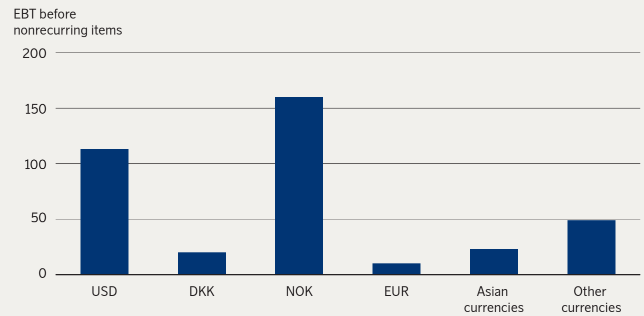
CURRENCY EFFECT BETWEEN YEARS

MSEK	FY18 versus FY17	FY17 versus FY16
Revenue	931	768
Payroll expenses	-208	-233
Other expenses	-348	-538
Translation of working capital	-465	-327
Income from hedging of commercial flows	461	485
Operating income	**371**	**155**
Net financial items	-38	12
Income before tax	**333**	**167**

CURRENCY EFFECTS ON NET INCOME FOR THE PERIOD

MSEK	FY18	FY17
Translation of working capital	-226	239
Income from hedging of commercial flows	286	-175
Operating income	**60**	**64**
Currency effect on the Group's financial net debt	4	42
Income before tax	**64**	**106**

IMPACT OF THE LARGEST CURRENCIES ON REVENUE/ OPERATING EXPENSES, FISCAL YEAR 2018



REVENUE

Revenue totaled MSEK 44,718 (42,654), see Note 2. After adjustment for currency effects, revenue was up MSEK 1,133 year-on-year. Currency-adjusted passenger revenue rose 2.0%. 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 517. A lower load factor had a negative effect of MSEK 361. A year-on-year stronger yield had a positive revenue effect of MSEK 519.

Revenue from charter was MSEK 1,957 (1,964). The currency-adjusted decrease amounted to 3.3%. The main reason for this was lower volumes. Freight and mail revenue totaled MSEK 1,632 (1,470) and the currency-adjusted increase was 8.9%. The growth was driven by positive yield development.

Other traffic revenue amounted to MSEK 2,701 (2,419). The currency-adjusted increase was 9.9% and was mainly attributable to higher traffic revenue from other airlines (interline revenue) and changed assessments relating to unused tickets.

Other operating revenue totaled MSEK 4,351 (4,157). After adjustment for currency effects, other operating revenue rose 3.5%, mainly due to increased sales of EuroBonus points, primarily to credit card partners, and higher revenue from increased provision of handling services to other airlines.

REVENUE BREAKDOWN FISCAL YEAR 2018

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

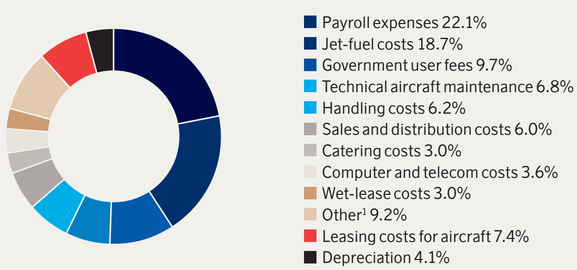
OPERATIONAL AND FINANCIAL EXPENSES

Payroll expenses amounted to MSEK -9,441 (-9,205). After adjustment for currency and nonrecurring items, payroll expenses decreased 1.1% year-on-year.

Other operating expenses amounted to MSEK -28,347 (-27,489). These expenses largely comprised jet fuel, which amounted to MSEK -7,996 (-6,836). Adjusted for currency, jet-fuel costs increased 17.8%. Higher jet-fuel prices generated an MSEK 2,107 negative impact, which was partially offset by hedge effects (including the effect of time value) that had a positive year-on-year impact of MSEK 807, and volumes had an MSEK 110 positive impact on the cost. Technical maintenance costs amounted to MSEK -2,897 (-3,515), down 13.1%. The reduction in technical maintenance costs was mainly due to changed assessments for return requirements and future engine maintenance on leased aircraft. After adjustments for currency, the decrease was 13.7%. Year-on-year, wet-lease costs were up MSEK 128 (currency-adjusted) which was mainly due to higher volumes and the sale of the subsidiary Cimber, which was divested in the first quarter last year resulting in the corresponding production now being wet-leased. Other operating expenses were negatively impacted by operational challenges during the summer peak season. In the corresponding period last year, the European Commission's decision to once again fine SAS and ten other airlines for alleged breaches of air cargo competition rules in the 1999–2006 period had an MSEK -672 impact on other operating expenses.

During the period, implementation of the ongoing efficiency program resulted in cost reductions of about MSEK 723. Leasing costs amounted to MSEK -3,156 (-3,116). Adjusted for currency effects, leasing costs increased 1.7%. Financial revenue and expenses amounted to MSEK -480 (-463), of which net interest expense was MSEK -430 (-451). The new bond issued in November 2017 had a positive year-on-year impact on net interest, since it carries a lower interest rate than the redeemed bond. Net interest was negatively affected by increasing debt through the issue of a new tranche of the existing bond that matures in 2022, the issue of EMTNs for MEUR 35, aircraft financing and a weaker SEK in combination with higher USD interest rates.

COST BREAKDOWN FOR SAS, FISCAL YEAR 2018



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

NONRECURRING ITEMS

Total nonrecurring items amounted to MSEK -86 (-226) during the period. Of nonrecurring items, MSEK 479 (317) pertained to capital gains from aircraft transactions, MSEK -4 (-21) to the sale of the subsidiary Cimber and MSEK -255 (-110) to the restructuring of properties and personnel. Impairment pertaining to aircraft amounted to MSEK -206 and last year's impairment charge of MSEK -208 pertained to the impairment of IT systems. In addition a one-time award of MSEK -100 will be distributed to our employees. In the corresponding period last year, earnings were negatively impacted by a contractual settlement in cargo activities of MSEK -30 and changed assessments for return requirements and future maintenance of landing gear, air frames and APUs for leased aircraft of MSEK -180. Further, earnings in the corresponding period last year were positively impacted by MSEK 678 pertaining to the transfer of two slot pairs at London Heathrow, and negatively by MSEK 672 due to the European Commission's decision to once again fine SAS and ten other airlines for alleged breaches of air cargo competition rules in the 1999–2006 period.

BALANCE SHEET AND FINANCIAL POSITION

ASSETS

Intangible and tangible fixed assets increased MSEK 1,465 during the year. Change for the period included investments of MSEK 6,840, amortization and depreciation of MSEK -1,763, divestments of MSEK -3,575, and other and currency effects of MSEK -37. During the period, SAS purchased one Bombardier Q400, one Airbus A319, one Airbus A340 and seven Boeing 737s that were previously under operating leases. The amount for investments also included delivery payments for nine new Airbus A320neos, of which eight were immediately divested through sale and leaseback agreements. One Airbus 320neo was financed through finance leases, meaning the aircraft is included in the carrying amount for tangible fixed assets. Other aircraft investments comprised capitalized expenditures for engine maintenance, modifications, spare parts and advance payments to Airbus.

Financial fixed assets decreased MSEK 590, mainly due to a decrease in SAS' defined-benefit pension plans.

Current receivables decreased MSEK 231. This decrease was mainly attributable to lower accounts receivable.

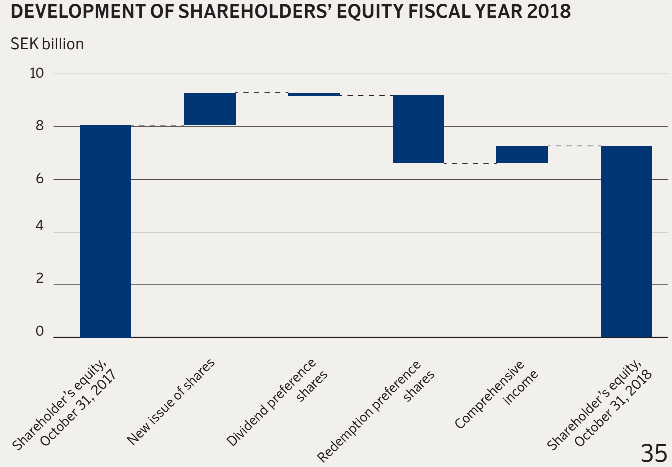
Cash and cash equivalents were MSEK 9,756 (8,836) at 31 October 2018. Unutilized contracted credit facilities amounted to MSEK 2,785 (2,700). Financial preparedness amounted to 42% (37%) of SAS' fixed costs.

SHAREHOLDERS' EQUITY AND LIABILITIES

Shareholders' equity decreased MSEK 790. The change included a private placement of shares, net after transaction costs, of MSEK 1,233, preference-share dividends of MSEK -105, the redemption of preference shares of MSEK -2,579 and comprehensive income of MSEK 661.

Long-term liabilities increased MSEK 2,648 and current liabilities decreased MSEK 214. The increase in liabilities was mainly due to the issue of an unsecured bond that matures in November 2022, aircraft financing and the unearned transportation revenue liability. The increase was partially offset by a decrease in other long-term and current liabilities.

DEVELOPMENT OF SHAREHOLDERS' EQUITY FISCAL YEAR 2018



INTEREST-BEARING LIABILITIES

Interest-bearing liabilities increased MSEK 1,517 compared with 31 October 2017, and amounted to MSEK 10,092 on the closing date. New loans and amortization for the period were MSEK 3,853 and MSEK 2,921 respectively. The change in gross debt since 31 October 2017 included a negative trend in the market value of financial derivatives, which increased liabilities by MSEK 63. Currency revaluations increased liabilities by MSEK 441, and accrued interest and other items increased liabilities by MSEK 81.

In 2014, SAS issued a convertible bond, which was valued at MSEK 1,559 at 31 October 2018.

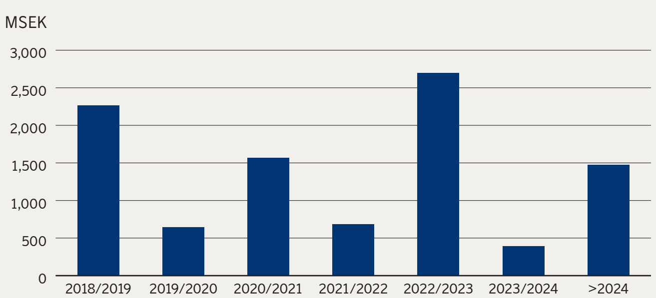
Current interest-bearing liabilities totaled MSEK 2,600 (3,034) of the interest-bearing liabilities and comprised both borrowings that mature within one year of MSEK 2,287 and accrued interest and financial derivatives of MSEK 313. Long-term liabilities totaled MSEK 7,492 (5,541) and consisted of subordinated loans, bonds and other loans.

The average fixed-interest period for gross financial debt is governed by SAS' financial policy and has a target tenor of 2 years. The average fixed-interest period was 2.7 years as of October 2018.

BREAKDOWN OF SAS' INTEREST-BEARING LIABILITIES, 31 OCTOBER 2018

Liability	Note	MSEK
Subordinated loans	24	1,161
Bonds	25	3,040
Convertible bond	26	1,559
Finance leases	26	2,706
Utilized facilities/other loans	26	1,298
Other financial items	29	328
Total		**10,092**

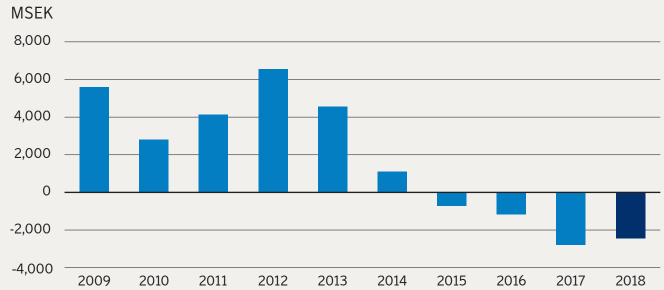
REPAYMENTS OF INTEREST-BEARING LIABILITIES, 31 OCTOBER 2018



FINANCIAL NET DEBT/RECEIVABLES

Net financial receivables decreased MSEK 367 compared with 31 October 2017 and amounted to MSEK 2,432 on the closing date. The decline was primarily due to the redemption of preference shares for MSEK -2,579. The decrease was partially offset by the new issue in November 2017 and positive cash flow from operating activities.

FINANCIAL NET DEBT



GEARING

At 31 October 2018, the equity/assets ratio was 21% (25), down four percentage points from 31 October 2017. The decline was primarily due to the redemption of preference shares for MSEK -2,579 and was partially offset by an increase in total comprehensive income of MSEK 661 and the new issue which, net after transaction costs, increased shareholders' equity by MSEK 1,233.

The adjusted debt/equity ratio amounted to 2.70 (2.28). The adjusted financial net debt/EBITDAR ratio improved to a multiple of 2.7 (3.1). The improvement was attributable to a positive change in EBITDAR. 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' credit rating was upgraded in November 2017, following the equity issue.

SAS CREDIT RATING

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

FINANCIAL TARGETS AND DIVIDEND POLICY

The overriding financial goal for SAS is to create shareholder value. To reach this goal, SAS works with its customer offering, efficiency enhancements and sustainability to provide the prerequisites for long-term sustainable profitability. SAS operates in a capital-intensive industry that requires optimization of the capital structure. For this reason, SAS has three financial targets.

THE SAS 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 (3×).
- Financial preparedness: cash and cash equivalents and available credit facilities must exceed 25% of SAS annual fixed costs.

The ROIC target corresponds with the capital markets' and SAS' internal assessment of SAS' weighted average cost of capital (WACC).This is also linked to SAS' dividend policy for holders of common shares, which stipulates that dividends can first be paid when value is created through SAS' ROIC exceeding its WACC.

Gearing target – 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' ambition of improving the financial position and credit rating, and thereby lowering financing costs.

The financial preparedness target is 25% of annual fixed costs. Normally, this covers SAS' unearned transportation revenue liability and also meets regulatory requirements regarding liquidity.

Considerable uncertainty continues in the macro environment with regard to foreign exchange-rates, jet-fuel prices and changes within the European airline industry, with intensified competition. In conjunction with the transition to IFRS 16 from 2019/2020, under which the lessee recognizes an asset (the right to use an asset) and a financial liability in the balance sheet, SAS will review the targets to ensure their continued relevance.

CALCULATION OF ROIC

MSEK	October 2018
EBIT, 12 months	2,521
33% of aircraft leasing costs, 12 months[1]	1,041
33% of aircraft leasing revenue, 12 months[1]	-3
Adjusted EBIT	**3,559**
Average shareholders' equity	7,377
Average financial net debt[2]	-2,612
Capitalized leasing costs (×7), average	21,546
Invested capital	**26,311**
ROIC	**14%**

CALCULATION OF ADJUSTED FINANCIAL NET DEBT/EBITDAR

MSEK	
Average financial net debt[2]	-2,612
Capitalized leasing costs (×7), average	21,546
Total	**18,934**
EBITDAR, 12 months	6,930
Adjusted financial net debt/EBITDAR	**2.7x**

CALCULATION OF FINANCIAL PREPAREDNESS

MSEK	
Cash and cash equivalents	9,756
Receivables, other financial institutions	-339
Unutilized credit facilities	2,785
Total	**12,202**
Total operating expenses	40,944
Jet-fuel costs	-7,996
Government user fees	-4,159
Total fixed costs	**28,789**
Financial preparedness	**42%**

DIVIDEND POLICY

At 31 October 2018, SAS AB had 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 first be paid from value-creation whereby SAS' return on invested capital exceeds the WACC. The dividend should take into account any restrictions applying to the Group's financial instruments[3].

Preference shares

As long as SAS has outstanding preference shares, SAS is to pay dividends to holders of preference shares in accordance with the terms of the preference shares. After the close of the fiscal year, all preference shares were redeemed as of 5 December 2018.

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 3,853 (2,385), divided into secured loans of MSEK 1,218, bonds of MSEK 2,269 and borrowing of MSEK 366 under the EMTN program.

INVESTED CAPITAL

As a natural consequence of the introduction of SAS' financial targets, which take SAS' total capital into account, the company has increased focus on its capital structure. At 31 October 2018, invested capital totaled MSEK 26,311.

The majority of the invested capital comprised aircraft and engines, which represent the bulk of SAS' 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.

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 31 October 2018, SAS had two financial instruments issued that limit dividend rights for holders of SAS common shares. According to the conditions of the preference shares, dividends could not be paid to holders of common shares if the preference share capital exceeded 50% of the recognized shareholders' equity. Full dividends must also have been paid to preference shareholders. The preference shares were redeemed as of 5 December 2018.
In November 2017, SAS issued a SEK 1.5 billion unsecured bond, which was increased to SEK 2.25 billion in June 2018. The bond stipulates that dividends to shareholders may not exceed 50% of net income for the year, but does not encompass preference shares or other types of financial products or instruments. No dividend may be distributed by SAS in contravention of the bond terms.

AIRCRAFT FLEET

SAS has simplified its aircraft fleet considerably over the last few years; today, it has three aircraft types under SAS' 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. In April 2018, SAS ordered 50 Airbus A320neo aircraft with delivery from spring 2019 through 2023. The order means that for the first time, SAS will have a single-type fleet by 2023 that consists of the market's most efficient short- and medium-haul aircraft in terms of cost and fuel economy.

The aircraft fleet is SAS' largest tangible asset. At 31 October 2018, the SAS aircraft fleet represented 26% of the company's recognized assets.

SAS depreciates directly-owned aircraft over 20 years utilizing a residual value of 10%, excluding aircraft engines. Aircraft engines are depreciated over around eight years. Maintenance of leased aircraft is set off on an ongoing basis related to use, whereas maintenance of owned aircraft 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 31 October 2018, SAS had aircraft orders for 59 Airbus A320neos, one A330-300 and eight Airbus A350-900s for delivery up through 2023. 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. The overall intention is to over time have about half of the fleet on operating leases.

SAS intends to utilize a mix of bank loans, finance leases and bank facilities to finance owned aircraft. When leasing, which is done via sale and leaseback agreements, aircraft are often sold on delivery and leased back over an eight- to 12-year period.

Of the remaining aircraft order for 59 Airbus A320neos, SAS has financed 24 aircraft through operating leases and through JOLCO (Japanese financial lease with purchasing option). In addition, SAS has begun arranging finance for one A330 and the remaining eight Airbus A350s.

AIRCRAFT ON FIRM ORDER 2018–2023

	FY19	FY20	FY21	FY22	FY23
Airbus A320neo	14	10	3	17	15
Airbus A350		4	4		
Airbus A330	1				

At 31 October 2018, SAS' contracted future purchase commitments for aircraft orders with delivery in the 2018–2023 period totaled MUSD 3,290.

CONTRACTED OPERATIONALLY AND FINANCIALLY LEASED AIRCRAFT INCL. MATURITY PROFILES

	FY19	FY20	FY21	FY22	FY23	FY24>
Maturing operational leases, aircraft	15	8	14	5	10	25
Wet-leased aircraft, maturity	2	4	2	11	9	5
Aircraft leasing commitments, MSEK	3,343	3,241	3,050	2,602	2,336	6,870
Finance leases, aircraft, MSEK	255	287	935	166	425	340

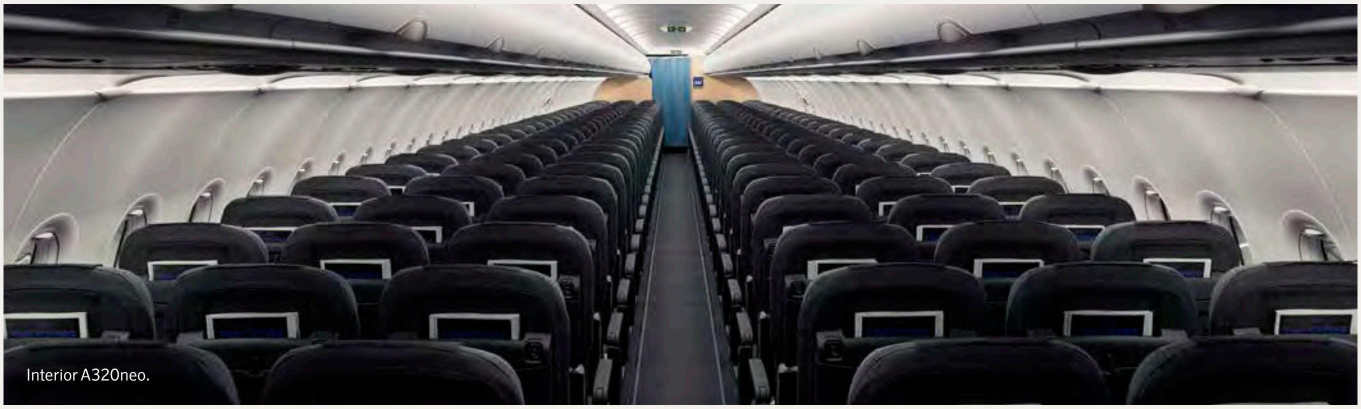
Present value of lease commitments at different discount rates, aircraft			
Discount rate	5%	6%	7%
Present value of contracted lease commitments, aircraft, 31 October 2018, MSEK	17,856	17,249	16,673

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. In fiscal year 2018, these PDPs were financed through cash flow generated by SAS' operations. With the current financial preparedness, which exceeds the target, SAS has chosen not to conclude any additional PDP financing for SAS' 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 23 aircraft on operational lease agreements that could be returned to the owners over the next two years. They represent 15% of SAS' total aircraft fleet.



Interior A320neo.

THE SAS AIRCRAFT FLEET AT 31 OCTOBER 2018

Aircraft in service under SAS' (SK) own traffic license	Age	Owned	Leased	Total	Purchase orders	Lease orders
Airbus A330/A340/A350	13.4	11	5	16	9	
Airbus A319/A320/A321	8.8	11	26	37	44	15
Boeing 737 NG	14.7	25	39	64		
Total	**12.7**	**47**	**70**	**117**	**53**	**15**

Aircraft in service under a traffic license other than SAS' (SK)	Age	Owned	Leased	Total	On lease order
Bombardier CRJ900	1.7		22	22	
Bombardier CRJ1000	2.5		2	2	
ATR-72	3.6		9	9	
Airbus A320neo	0.7		7	7	
Total	**2.0**	**0**	**40**	**40**	**0**

Total SAS in-service aircraft fleet	Age	Owned	Leased	Total	Purchase orders	On lease order
Total	**9.9**	**47**	**110**	**157**	**53**	**15**

Aircraft to be phased out	Age	Owned	Leased	Total	Leased out	Parked
Bombardier Q400	10.8	1		1		1

Aircraft on firm order 2018–2023 at 31 October 2018	FY19	FY20	FY21	FY22	FY23
Airbus A320neo	14	10	3	17	15
Airbus A350		4	4		
Airbus A330	1				

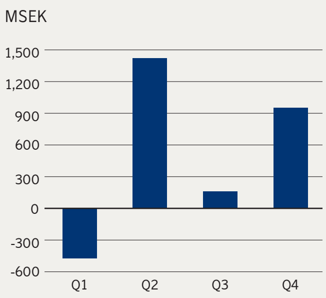
Exterior A320neo.

SEASONAL EFFECTS AND CASH-FLOW OPTIMIZATION

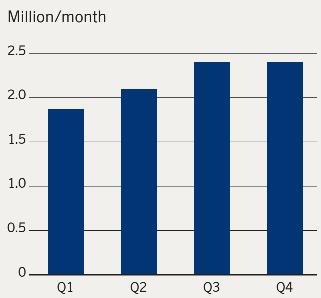
SAS analyzes balance-sheet items and operating trends to optimize cash flow with the aim of attaining the lowest possible funding cost within the framework of SAS' financial policy. As a result of operating liabilities exceeding current assets, working capital amounted to MSEK -13,347 (-12,263) at 31 October 2018, representing a year-on-year improvement of MSEK 1,084.

Cash flow from operating activities in fiscal year 2018 amounted to MSEK 4,559 (2,443). The year-on-year improvement was mainly due to positive earnings and increased sales. 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' CASH FLOW FROM OPERATING ACTIVITIES[1]



SEASONAL VARIATIONS IN THE NUMBER OF PASSENGERS TRANSPORTED[1]



1) Refers to the average for the years 2010–2018

SUSTAINABILITY REPORT

In accordance with Chapter 6, section 11, of the Swedish Annual Accounts Act, SAS has chosen to present the statutory Sustainability Report separately from the Annual Report. The 2017/2018 Sustainability Report is published in conjunction with the Annual Report and is available at www.sasgroup.net.

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 Court of Justice of the European Union (CJEU) 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. 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. In December 2018, SAS entered a settlement regarding the lawsuit in the UK. Further lawsuits by cargo customers cannot be ruled out. 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 and the parties are awaiting the appeal court proceedings.

RISK MANAGEMENT

	Risk area	Risk	Risk level	Risk control measures fiscal year 2018
1	MARKET RISKS	**1.1** Macro-economic trend	Medium risk	Continual adaptation of SAS' capacity offering and production.
		1.2 Market and competition trends	Medium risk	Implementation of SAS' streamlining program and a more flexible production model.
2	EMPLOYEE RISKS	**2.1** Right skills	Low risk	Annual people reviews and successor identification.
		2.2 Processes and systems	Low risk	Follow-up of low and high-performing individuals. Documentation of internal processes.
		2.3 Commitment	Medium risk	Strengthened leadership, skills days, increased internal communication and transparency.
		2.4 Strikes	Medium risk	Strengthen dialogue and relationships to increase consensus with the unions. Prioritized meetings for dialogue and negotiation in 2019 with the aim of securing long-term agreements.
3	OPERATING RISKS	**3.1** Safety activities	Low risk	Continuous internal monitoring and reporting to the Board.
		3.2 Suppliers	Medium risk	During 2018, SAS focused on closer collaboration with strategic suppliers, as well as monitored quality levels and efficiency.
		3.3 Competitive costs and efficiency	High risk	SAS has a cost differential compared with newly-started competitors. In fiscal year 2018, the efficiency enhancement program delivered slightly more than SEK 0.7 billion earnings gains.
4	SUSTAINABILITY RISKS	**4.1** Environmental directives and requirements	Low risk	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	Medium risk	Implementation of a training program for employee groups at the greatest risk of corruption.
		4.3 Human rights	Low risk	Ongoing requirements updates and monitoring of subcontractors.
5	LEGAL AND POLITICAL	**5.1** Political and regulatory risks	High risk	SAS conducts active dialogues with the political systems and industry organizations (IATA) to obtain early information about regulatory changes and to influence decisions. Together with the industry, SAS has promoted air travel's importance for business and society. SAS is analyzing the legal, financial and commercial effects of Brexit, 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 transition period or a new air traffic agreement with the same conditions as the current one is in place before the planned exit in March 2019.
		5.2 Legal and insurance risks	Medium risk	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	Medium risk	Follow-up and forecasting financial preparedness. SAS has issued common shares to a value of SEK 1.3 billion and bonds for a total of SEK 2.3 billion. Continuous discussions with banks and financial backers aimed at managing maturing borrowings and leases.
		6.2 Jet-fuel price and emission rights	Medium risk	Jet-fuel hedging in line with SAS' financial policy and monitoring the jet-fuel price trend.
		6.3 Exchange rates	Medium risk	Currency hedging in line with SAS' financial policy and monitoring the currency market.
		6.4 Interest rates	Low risk	Fixing rates in line with SAS' financial policy and monitoring the interest-rate market.
		6.5 Counterparty losses	Low risk	SAS' counterparty risks are managed in line with SAS' financial policy.
7	IT	**7.1** IT	Medium risk	Continual improvement of incidents and problem-handling procedures. Focus in fiscal year 2018 on reducing IT problems that affect the SAS website, planning system, and management of cyber attacks.
8	OTHER EVENTS	**8.1** Extraordinary events	Medium risk	Increase cost flexibility to reduce costs in the case of reduced demand.
		8.2 Brand and reputation	Medium risk	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' 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' 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' passenger revenue, which limits SAS' 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 2019 by just over 2.0% in Norway, and 1.9% in Denmark and Sweden. SAS' 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 as well as returning expiring aircraft on operating lease agreements.

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' home market, may lead to intensifying competition.

In fiscal year 2018, the competition intensified and the capacity growth accelerated. Measured in the number of seats offered, capacity to, from and within Scandinavia increased 4.5% during fiscal year 2018.

To meet, and prepare itself in relation to changed competition, SAS is also streamlining its production platforms and differentiating the product offering with the aim of strengthening competitiveness. For further information see pages 13–23.

OPERATIONAL AND FINANCIAL SENSITIVITY ANALYSIS BASED ON OUTCOME FOR FISCAL YEAR 2018

Airline operations	Operating income, MSEK
RPK, ±1%	±290
Load factor, ±1%	±390
Passenger revenue per RPK or ASK (yield & PASK), ±1%	±340
Unit cost (CASK), ±1%	±380
Jet-fuel price, ±1%	±88

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 increased the 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 short- and long-term successors for 51% of all positions. With time, the aim is secure succession to 80% with internal successors and to 20% through actively seeking external competence. During fiscal year 2018, SAS introduced the Aircraft Management Program to secure competence and to make the industry attractive for young engineers.

Moreover, we introduced various programs to raise competence, which included Leading Change for leaders and the SAS Executive Program for our senior leaders. Both of these programs will contribute to managing SAS' changing operating environment and to raising competence to secure long-term succession.

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. 2018 was the first fiscal year that a new measurement system for employee commitment was used. Use is steadily increasing and the response rate is rising, which is very positive.

The system enables SAS to check employee commitment on a quarterly basis. Problems can thus be identified earlier and be 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 55 in 2018, which is 2 points lower year-on-year. The results vary between employee groups. The trend in 2018 was primarily negative among aircraft crew, while other employee groups noted stable or rising commitment. SAS can clearly see how business-strategic decisions and operational challenges affect employees differently, and can thus implement the correct improvement measures more quickly.

To strengthen commitment, SAS works with the strategy One SAS – A great place to work, which focuses on reducing distances between different employee groups, building faith in the future, strengthening relations with operational employee groups, becoming a more sustainable employer and ensuring that our leaders have the right preconditions. In conjunction with this, three major projects have been started that focus on Flight Operations, Ground Operations and Maintenance Production. These are centrally coordinated and locally driven.

During 2018, all senior leaders participated in the SAS Executive Program. SAS also organized forums such as Forum 50, Learning Lunch and the SAS Awards, where exceptional performance is rewarded.

SAS uses clear targets and employee influence in performance development, which aims to develop employee commitment and future leaders, and to boost SAS' 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.

SAS was not subject to any strike in fiscal year 2018 caused by its own employee groups. However, SAS and other airlines' activities were affected on a number of other occasions by small local labor conflicts in other countries. In 2018, SAS signed two agreements with cabin crew unions in Norway. SAS also modified its agreements with the cabin crew unions in Denmark and Sweden. The agreements will enable SAS to achieve efficiency targets, set in the cost program currently being implemented, relating to these important labor groups.During 2017, SAS agreed three-year collective agreements with the pilot unions in Denmark, Norway and Sweden. The agreements permit termination after two years, which was notified by the unions in June 2018.Negotiations will start in the first quarter of 2019 with the aim of having a new agreement in place by 31 March 2019, when the existing agreement expires.

3. OPERATING RISKS

3.1 SAFETY ACTIVITIES

Safety work at SAS 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' operations.

SAS has a fully implemented and approved Safety Management System (SMS), which is a regulatory requirement. The system was also approved in 2018 by the IATA Operational Safety Audit (IOSA) as part of its 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' efforts to prevent serious accidents and incidents.

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' own airline operations, SAS has set the following requirements:

- Prior to contract, the operator's safety efforts are analyzed;
- Monthly safety summaries and continuous deviation reports are sent regularly to SAS management;
- Safety follow-up meetings are held quarterly;
- SAS training pilots conduct inspection flights and perform observations in simulator training sessions;
- Annual audits are carried out by SAS; and
- Together with our business partners, seminars are conducted that showcase separate areas and share SAS' experience.

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

Safety activities and risk levels in fiscal year 2018

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

In 2017 and 2018, 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 fiscal year 2018, and the number of medium-level events was lower than preceding years. SAS had no high-level safety events, compared with the two preceding fiscal years.

Risk index

Operations	Low	Medium	High
Flight Operations, %	2.500	0.002	0
Ground Operations, %	1.300	0.002	0
Technical Operations, %	0.200	0.002	0
Security, %	0.300	0.000	0
Total for fiscal year 2018 as a % of the No. of flights	**4.37**	**0.007**	**0**
Total for fiscal year 2017 as a % of the No. of flights	**4.26**	**0.014**	**0**

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. 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 SAS' Supplier Code of Conduct. 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 5.8 billion between 2013 and 2018. In fiscal year 2017, SAS implemented measures in its efficiency program of SEK 3.0 billion to be implemented during 2017–2020. During fiscal year 2018, the measures contributed MSEK 723 in cost reductions. Once the measures have been implemented, SAS will be a more flexible and productive airline. However, SAS will continue to implement further efficiency measures beyond 2020 and the aircraft order that will create a single-type fleet by 2023 will provide further opportunities for SAS to 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 climate and environmental 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' management system which, as regards the environment, is ISO 14001:2015 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 1.4% to 95 grams (96) in the fiscal year. The improvement is mainly a result of aircraft fleet renewal and ongoing efficiency efforts.

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 that all subcontractors share SAS' 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 in our domestic and international markets that can significantly impact operations and SAS' economy, both positively and negatively. SAS monitors policy and through active dialogue and negotiations with authorities and organizations, we strive to influence developments, both individually and through national and international trade organizations.

Aviation taxes and infrastructure fees

Sweden and Norway have both introduced excise taxes on air travel. While the taxes are called environmental taxes, they have no connection with emissions or any climate protection measures. The same type of tax is now also being discussed in Denmark. National aviation taxes create a patchwork of cost-driving taxes that negatively impact profitability, increase the complexity of climate agreements at a global level and can affect future investment possibilities for areas including biofuel.

The fee increases linked to airport infrastructure have a negative impact on profitability and cannot be recouped from customers.

Brexit

On 29 March 2017, the UK announced that it 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 transitional period or air traffic agreement with the same conditions as the current one is in place before the exit in March 2019.

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 SAS' 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 2018, SAS was involved in a number of legal processes, the most important of which are described in more detail on page 40.

SAS' 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 procedures and operations at SAS. 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 longer-term changes in levels. Another aim of SAS' 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' 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 77 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. 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' loan and leasing maturities. During the fiscal year, financial preparedness decreased in February 2018 following the redemption of the preference shares. Nevertheless, the financial preparedness trended stably over the year with expected seasonal swings. The ratio was also positively affected by a private placement of MSEK 1,270 and an MSEK 1,500 unsecured bond in November 2017, and through the issue of a second tranche of the bond in June 2018 of MSEK 750. At 31 October 2018, financial preparedness amounted to 42% (37%).

6.2 JET-FUEL PRICE AND EMISSION RIGHTS

Jet-fuel price

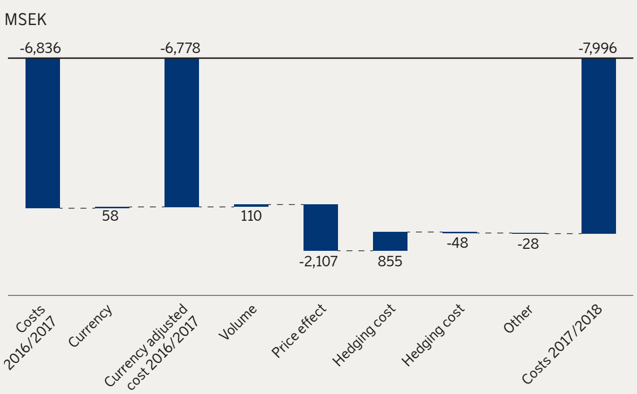
Jet-fuel costs comprise the single largest expense item for SAS and in fiscal year 2018 amounted to around 19% (17) of SAS' operating expenses (including leases, depreciation and amortization). SAS hedges jet-fuel costs to counter short-term negative fluctuations.

SAS' 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, 13–18 months.

The market price of jet fuel in fiscal year 2018 was on average 35% higher year-on-year. Jet-fuel prices increased gradually during the year from about USD 590/tonne to around USD 750/tonne at the end of the fiscal year. The higher jet-fuel price meant that jet-fuel costs, adjusted for currency effects, increased 18% year-on-year. Hedge effects (including the effect of time value) had a positive impact of MSEK 807 year-on-year.

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

JET-FUEL COST TREND FISCAL YEAR 2018



Ahead of fiscal year 2019, SAS has hedged 52% of expected jet-fuel consumption.

HEDGING OF JET FUEL

Hedge level (max price)	Nov 18– Jan 19	Feb 19– Apr 19	May 19– Jul 19	Aug 19– Oct 19
720–740 USD/tonne	92%	82%	–	–
741–770 USD/tonne	–	–	44%	–

VULNERABILITY MATRIX, JET-FUEL COST NOVEMBER 2018 TO OCTOBER 2019, SEK BILLION[1]

	Exchange rate SEK/USD			
Market price	7	8	9	10
USD 500/tonne	6.1	7.0	7.8	8.7
USD 600/tonne	6.8	7.8	8.8	9.7
USD 700/tonne	7.5	8.6	9.7	10.8
USD 800/tonne	8.2	9.3	10.5	11.7

1) SAS hedging of flight fuel at 31 October 2018, has been taken into account.

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 efficiency, which fit well with the company's environmental targets. In fiscal year 2018, SAS' emission rights expenses in the European EU-ETS emissions trading scheme totaled MSEK 110 (55). 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 important for SAS' emission costs going forward. 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 fiscal year 2019, SAS has secured 65% of its emission rights and expects the costs for the emission rights to increase in fiscal year 2019.

6.3 EXCHANGE RATES

Transaction risk arises from exchange-rate changes that impact the size of commercial revenue and costs and thus SAS' 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' greatest deficit currency, and NOK is SAS' greatest surplus currency.

In fiscal year 2018, Sweden's central bank, the Riksbank, maintained a negative repo rate, at the same time as central banks including the Federal Reserve hiked rates. To an increasing degree, this has led to a weakening in the value of the SEK against a number of currencies, including the USD. In all, the SEK was approximately 1% stronger year-on-year in relation to the USD. The reason the SEK has not averaged even lower is due to its low value in the first half of the last fiscal year. This had a net positive effect on SAS' revenue and costs of MSEK 113. Due to the rising jet-fuel prices, the NOK strengthened in 2018. In fiscal year 2018, the NOK averaged 2% higher against the SEK year-on-year, which positively impacted the net of revenue and costs for SAS by MSEK 160.

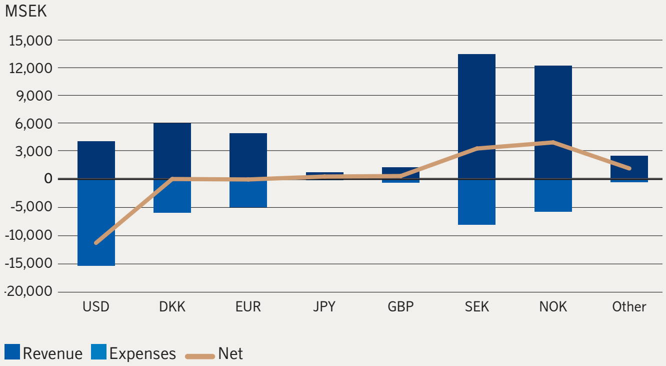
Currency exposure is managed through continuously hedging 40–80% of the SAS' surplus and deficit currencies based on a 12-month rolling liquidity forecast.

By hedging the USD and NOK, SAS has postponed the negative effects of the exchange-rate changes. The exchange-rate trend had a positive impact on SAS' revenue of MSEK 931 in fiscal year 2018. The change from translation of working capital and currency hedges amounted to MSEK -4. The net effect on SAS' income before tax from the changes in the exchange rates and the effects from hedging were positive, with MSEK 333 (167).

At 31 October 2018, SAS' hedging ratio totaled 43% of its anticipated USD deficit for fiscal year 2019. 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' USD denominated loans are hedged against the SEK to reduce currency risk in the loan portfolio.

CURRENCY BREAKDOWN SAS FISCAL YEAR 2018



NET EARNINGS EFFECT OF EXCHANGE-RATE CHANGES, FISCAL YEAR 2018

SAS total	MSEK
1% weakening of SEK against USD	-113
1% weakening of SEK against NOK	65
1% weakening of SEK against DKK	0
1% weakening of SEK against EUR	0
1% weakening of SEK against JPY	3
1% weakening of SEK against GBP	6

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 lease agreements for 24 of the 59 Airbus A320neos on firm order, SAS has decreased the currency exposure for Airbus A320neo deliveries until mid-2023. 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 10,092 (8,575) in interest-bearing liabilities, which exposes the company to interest-rate changes.

Financial policy at SAS regulates the proportion between floating and fixed-interest rates with the objective that gross financial debt has a tenor of two years with a permitted interval of 1–4 years. The average fixed-interst period for gross financial debt was 2.7 (2.2) years as of October 2018.

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' 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 -14 (-16) in fiscal year 2018.

Financial policy at SAS 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 fiscal year 2018, SAS has intensively worked with upgrading its IT-systems to ensure compliance with GDPR, including the management of data within the EuroBonus program. SAS also continued to improve its website and launched the site at 19 new markets. A new service was launched for EuroBonus members enabling them to book award seats with Star Alliance partners. Within the Ground Handling organization, iPads were introduced which will improve efficiency. SAS also launched high-speed WiFi service within Europe on all its Airbus and Boeing aircraft. By 31 October 2018, 39 aircraft had been equipped with this service. Going forward, the WiFi will enable SAS to further improve the service on board to its customers.

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 the last years, the demand for flights have not been 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 fiscal year 2018, SAS carried approximately 30.1 million travelers. Demand for SAS' 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' general rating and position in the market.

DIVIDENDS, DISPOSITION OF EARNINGS AND OUTLOOK

DIVIDEND

The Board of Directors proposes to the 2019 AGM that no dividends be paid to holders of SAS AB's common shares for fiscal year 2018. Among other reasons, this is due to the Board prioritizing the redemption of preference shares for MSEK 3,675 during the 2018 calendar year. In addition, a dividend of MSEK 228 was paid to preference shareholders during the fiscal year. Moreover, the MSEK 1,574 SAS convertible bond falls due and must be repaid on 1 April 2019, unless converted to common shares prior to such date. Altogether, these factors have had a significant impact on the financial position of SAS. The Board has deemed that managing the preference shares and the convertible will help create improved conditions for a sustainable dividend to holders of common shares.

PROPOSED DISPOSITION OF EARNINGS

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

	SEK
Retained earnings	2,231,835,096
Net income for the year	-39,786,082
Unrestricted equity, 31 October 2018	**2,192,049,014**
Redemption payment of SEK 529.17 per redeemed preference share less the quotient value of SEK 20.10	-1,069,837,077
Corresponding provision to the statutory reserve to match the reduction in share capital of SEK 20.10 per redeemed preference share	-42,241,195
Reversal of dividend on redeemed preference shares	26,269,400
Total unrestricted equity following redemption of preference shares	**1,106,240,142**

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

	SEK
To be carried forward	1,106,240,142
Total	**1,106,240,142**

SIGNIFICANT EVENTS AFTER 31 OCTOBER 2018

- SAS decided to redeem all 2.1 million preference shares for a total redemption cost of MSEK 1,112. The record date was on 30 November 2018 and payment of redemption proceeds to preference shareholders took place on 5 December 2018.

OUTLOOK FOR FISCAL YEAR 2019

- Total market capacity growth is expected to surpass demand in fiscal year 2019, increasing the competitive intensity in Scandinavia.
- Higher jet-fuel prices and the continued weakness of the SEK in relation to the USD create headwinds going forward. Any weakness in the NOK in relation to the SEK will further strengthen the headwinds. In line with policy, SAS hedges a significant share of the expected jet-fuel consumption, net deficit in USD and net surplus in NOK.
- SAS will strengthen its competitiveness through investments in the customer offering and operational robustness. The Group will continue to pursue efficiency enhancements, which are expected to generate an earnings impact of around SEK 0.9 billion in fiscal year 2019 (SEK 0.2 billion of measures have been deferred to 2020).
- As a result, SAS expects an increased loss in the first quarter of fiscal year 2019 compared to last year. For the full year, SAS has the following outlook:

SAS expects to deliver a positive result before tax and nonrecurring items in fiscal year 2019. The outlook is based on no unexpected events materializing.

THE OUTLOOK IS BASED ON THE FOLLOWING PRECONDITIONS AND ASSUMPTIONS AT 31 OCTOBER 2018:

- 2–3% scheduled capacity growth (ASK) for SAS in fiscal year 2019
- Volatile, but increasing jet-fuel prices, (see sensitivity matrix, page 45
- Unfavorable development in USD/SEK and NOK/SEK exchange rates
- Expected earnings impact of efficiency enhancement measures of SEK 0.9 billion
- Gross investments are expected to amount to about SEK 7 billion

CHAIRMAN'S COMMENTS

Chairman Carsten Dilling discusses SAS' position today and the challenges that lie ahead.

After four years on the Board of Directors, you became the new chairman of SAS in April 2018. How do you envision the company's future?

SAS is the leading Scandinavian airline and a fascinating company deeply rooted in Scandinavian society. We have dedicated, committed and competent employees, and SAS has demonstrated resilience and a strong ability to adapt to change. This means that despite turbulence in the world, and a constantly changing aviation industry, SAS will adapt and benefit from new opportunities in the future. SAS is driven by a responsible and ambitious management team that has a strong focus on sustainable growth. We want to create profitable growth, but it is also important to keep up with market demands to ensure we maintain our position as the leading Scandinavian airline moving forward.

In June 2018, the Norwegian government sold its shares in SAS. How does this impact the company?

I would like to thank the Norwegian government for their cooperation and support over the years. The three Scandinavian governments have been major shareholders in SAS since 1946. In 2017, the Norwegian government's investment in SAS was reduced to 9.9% and in June 2018, it sold its remaining shares.

Even though the Norwegian government is no longer a shareholder in SAS, I would like to make it clear that this change in ownership does not in any way alter our strategy and focus on Scandinavia, including Norway, which is a very important market for SAS. We remain a Scandinavian airline.

How has SAS performed financially in recent years?

SAS has made significant progress and the company's competitiveness has been strengthened year after year, which has been reflected in improved earnings and a double-digit return on invested capital. The strong demand for our product shows that our customer offering is appreciated and plays an important role in Scandinavia. In parallel, we have enhanced the efficiency and flexibility of our operations with the help of SAS Ireland and our regional partners. In recent years, we have also made major investments in our aircraft fleet. This modernization will continue in the coming years and is crucial for maintaining our competitiveness in the market.

Despite a strong result in 2018, the Board proposes no dividend to ordinary shareholders. Why is this?

Given the significant capital investments and debt maturities that we face in forthcoming years, over the past couple of years, we have clearly stated our intent to prioritize the redemption of our preference shares. Since 2014, the company has paid a significant amount in dividends to preferential shareholders and by redeeming these and addressing the convertible bond maturing in April 2019, we will create better conditions for delivering consistent dividends over time to our ordinary shareholders.

How is SAS tackling sustainability challenges in the aviation industry?

Customer, investor and employee demands on sustainability are important to SAS and our customer offering. For example, during the year we established ambitious goals to reduce the climate impact of our aircraft operations, which is the most significant sustainability challenge in the aviation industry. This includes a 25% reduction in our total CO_2 emissions by 2030. We will meet these targets through the introduction of more efficient aircraft, by using more biofuel and through other efficiencies. Of course, we also continue our long-term focus on our employees to ensure we have the right capabilities, and on promoting business ethics in our own operations and our supply chain. In this way, we will promote an even more responsible business.

CORPORATE GOVERNANCE REPORT

This Corporate Governance Report for fiscal year 2018 has been prepared pursuant to the Swedish Annual Accounts Act and the Swedish Corporate Governance Code (the Code).

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

SAS complies with the Code 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

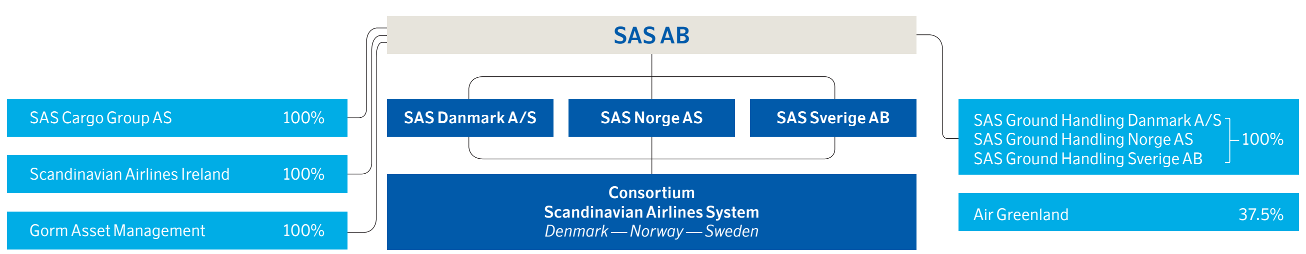
External rules:
- Swedish legislation, EU regulations and laws set by other countries in which SAS operates
- The Swedish Corporate Governance Code (the Code)
- Nasdaq Nordic in Stockholm and Copenhagen and the Oslo Børs's rule book for issuers
- The Market Abuse Regulation
- The recommendations issued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

Internal rules:
- The Articles of Association[1]
- The Information Policy
- The Board's work plan
- The Board's instructions to the President
- The Code of Conduct[1]
- 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 fiscal year 2018.

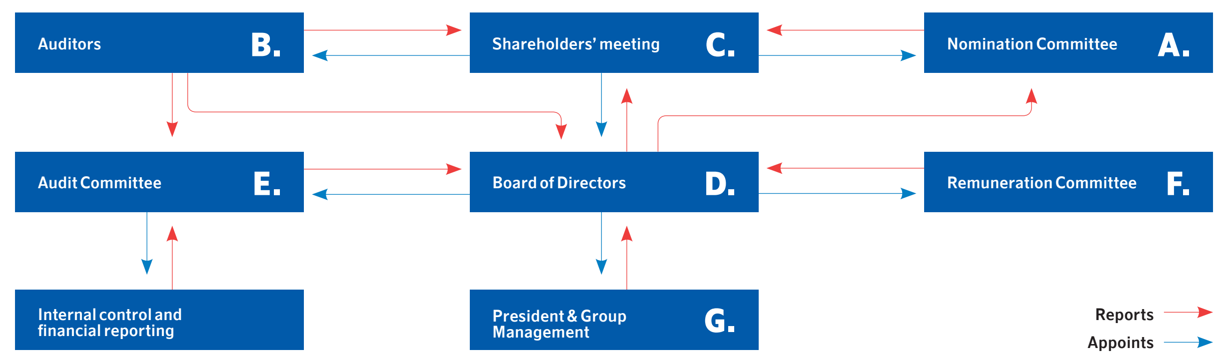
1) Available for download at www.sasgroup.net

SAS' LEGAL STRUCTURE[1], 31 DECEMBER 2018



1) Operating companies.

SAS' CORPORATE GOVERNANCE STRUCTURE



SAS' 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 2018. During the year, most listed airlines noted significant decreases in their share prices. SAS' common share also followed a negative trend and declined 20% over the fiscal year.

OWNERSHIP, CONTROL AND SHARE CLASSES

SAS AB has three classes of shares: common shares, preference shares and subordinated shares. At 31 October 2018, there were 382.6 million common shares and 2.1 million preference shares issued with a quotient value of SEK 20.10. Together, these constituted a total registered share capital of MSEK 7,732. In November 2018, the Board of Directors decided to redeem all preference shares outstanding in December 2018.

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 30–31.

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

For aviation policy reasons, SAS' 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 inadequate, an option to issue subordinated shares for subscription with the support of previously issued warrants.

If traffic rights are threatened SAS can:

- Mandatorily redeem common shares
- Issue subordinated shares

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.

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.

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 subscription 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.

OWNERSHIP AND CONTROL

On 31 October 2018, SAS AB had a total of 61,259 shareholders. The major shareholders are the Swedish and Danish governments, who represent 29% of the votes. More information about the share and the ownership structure is available on pages 30–31 in the SAS Annual Report 2017/2018.

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 2018 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, FOUR MINUTED MEETINGS (REFERS TO THE PERIOD 10 APRIL 2018 TO 29 JANUARY 2019)

Member	Representative of	Votes, % 31 October 2018
Carl Rosén, Chairman	Swedish Ministry of Finance, for the Swedish government	14.8
Peder Lundquist	Danish Ministry of Finance, for the Danish government	14.2
Jacob Wallenberg	Knut and Alice Wallenberg Foundation	6.5
Gerald Engström	Gerald Engström and Färna Invest AB	3.1
Carsten Dilling	Chairman of the Board	–

Issues discussed in the Nomination Committee

Since the AGM 2018, the Nomination Committee has evaluated the Board's work, qualifications and composition. Diversity, breadth and the gender balance have also been discussed. Since the 2018 AGM, the Chairman of the Board has participated on the Committee, and the result of the evaluation of the Board is made available to the Committee.

At least one meeting with the Board and the 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 2018 AGM, whereby Pricewaterhouse-Coopers AB (PwC) was reelected for the period until the end of the 2019 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 fiscal year 2018, 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 fiscal year 2018, see Note 38.

Auditors' fees	MSEK
Auditing services	7
Other statutory assignments	0
Tax consultancy services	0
Other	1
Total	**8**

C. SHAREHOLDERS' MEETING

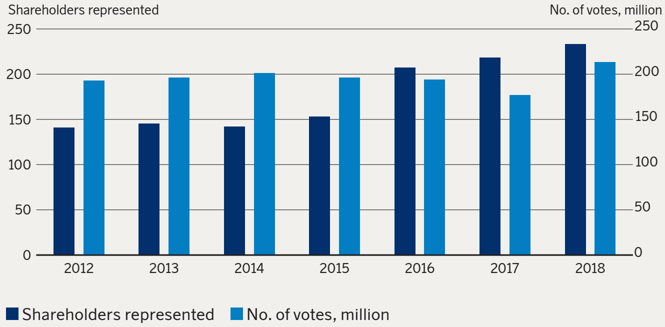
The shareholders' meeting is the highest decision-making body at SAS. At shareholders' meetings of SAS AB, one common share is equal to one vote with no restrictions on the number of votes any one shareholder is entitled to cast at such a meeting. Each preference share entitles the holder to one-tenth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

In fiscal year 2018, the Board convened one extraordinary general meeting on 3 November 2017 and one general shareholders meeting on 10 April 2018.

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 31 October 2018, 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.

NUMBER OF PARTICIPANTS AT AGMS 2012–2018



RESOLUTIONS BY THE AGM ON 10 APRIL 2018

- 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 2018 AGM

Name	Board of Directors	Audit Committee	Remuneration Committee	Total, TSEK
Carsten Dilling	585		75	660
Dag Mejdell	390		25	415
Monica Caneman	295	95		390
Oscar Stege Unger	295	45		340
Lars-Johan Jarnheimer	295	45		340
Liv Fiksdahl	295			295
Sanna Suvanto-Harsaae	295			295
Endre Røros	295			295
Cecilia van der Meulen	295			295
Janne Wegeberg	295			295
Total	**3,335**	**185**	**100**	**3,620**

NOVEMBER 2017–OCTOBER 2018, RECORDED FEES FOR DEPUTY EMPLOYEE REPRESENTATIVES

Name	Period	Total, SEK
Endre Røros	November 2017–January 2018	2,000
Pål Gisle Andersen	November 2017–October 2018	10,000
Stefan Ottosson	November 2017–August 2018	7,000
Joacim Olsson	November 2017–October 2018	12,500
Crista Cere	November 2017–October 2018	10,000
Kim John Christiansen	November 2017–October 2018	10,000
Jan Levi Skogvang	January 2018–October 2018	8,000
Anna-Lisa Kemze	August 2018–October 2018	2,000

2019 AGM

Date and time: 13 March 2019 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: 6 March 2019 for shareholders with shares registered in Denmark and Norway, and 7 March 2019 for shareholders with shares registered in Sweden.

Record date: 7 March 2019

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' 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 fiscal year 2018, the Board comprised eight elected members up until the AGM on 10 April 2018, and seven members thereafter. In addition, the Board consisted of three employee representatives, each with two personal deputies.

The employee representatives are appointed by the SAS 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 the owners of the company are disclosed on pages 58–59.

The average age of members is 55 and three of the seven members elected by the 2018 AGM 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 31 October 2018.

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 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 FISCAL YEAR 2018

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

ATTENDANCE AT BOARD MEETINGS, NOVEMBER 2017–OCTOBER 2018[1]

Name	9/11[1]	11/12	29/1[2]	26/2	5/3[3]	10/4[4]	10/4[4]	22/5[5]	29/5	14-15/6	30/8	30/10
Fritz H. Schur, Chairman (until the start of the AGM on 10 April 2018)	●	●	●	●	●	●	–	–	–	–	–	–
Jacob Wallenberg, Vice Chairman (until the start of the AGM on 10 April 2018)	●	●	●	●	●	●	–	–	–	–	–	–
Dag Mejdell, Vice Chairman	●	●	●	●	●	●	●	●	●	●	●	●
Carsten Dilling, member/Chairman from start of the 2018 AGM	●	●	●	●	●	●	●	●	●	●	●	●
Lars-Johan Jarnheimer, member	●	●	●	●	●	●	●	●	●	●	●	●
Monica Caneman, member	●	●	●	●	●	●	●	●	●	●	●	●
Berit Svendsen, member (until the start of the AGM on 10 April 2018)	●	●	●	●	○	●	–	–	–	–	–	–
Sanna Suvanto-Harsaae, member	●	○	●	●	○	●	●	●	●	●	●	●
Oscar Stege Unger, member (after the AGM on 10 April 2018)	–	–	–	–	–	–	●	●	●	●	●	●
Liv Fiksdahl, member (after the AGM on 10 April 2018)	–	–	–	–	–	–	●	●	○	●	●	●
Janne Wegerberg, employee representative	●	●	●	●	●	●	●	●	●	●	●	●
Cecilia van der Meulen, employee representative	●	●	●	●	●	●	●	●	●	○[6]	●	●
Jens Lippestad, employee representative from 31 December 2017	○[7]	○[7]	–	–	–	–	–	–	–	–	–	–
Endre Røros, employee representative from 1 January 2018	●	●	●	●	●	●	●	●	●	●	●	●

● Present ○ Absent

1) Two minuted extra meetings via telephone.
2) Two minuted meetings
3) Extra meeting
4) Two meetings, of which one was the statutory meeting following the AGM
5) Extra meeting by correspondence
6) Joacim Olsson, Second Deputy, present
7) Endre Røros, First Deputy, present

MAIN ISSUES ADDRESSED AT BOARD MEETINGS

November	December	January	February	March	April	May	June	August	October
9 November Private placement decision. At the second meeting, a decision was taken to authorize the management to issue bonds in SEK.	**11 December** Year-end report for fiscal year 2017 and the proposed appropriation of earnings, the report from the external auditors, the budget for fiscal year 2018 and the outlook for 2019–2020, as well as the SAS Information Policy and GDPR. Furthermore, a possible investment in a new short-haul fleet was discussed. Guidelines were adopted for remuneration of senior executives.	**29 January** Adoption of the 2016/2017 Annual Report and the appropriation of earnings as well as the audit work plan. Review of flight safety and sustainability work. Furthermore, a decision was taken to defer the AGM until 10 April. The second meeting addressed the partial mandatory redemption of preference shares.	**26 February** Adoption of the first interim report for fiscal year 2018.	**5 March** Decision on convening the 2018 AGM. Furthermore, a possible investment in a new short-haul fleet was discussed as was production strategy.	**10 April** A decision was taken to order about 50 Airbus A320 aircraft. The Statutory Board meeting was held at the second Board meeting following the AGM.	**22 May** Decision to examine the possibility of increasing the existing bond issue by up to SEK 1 billion. **29 May** The auditors presented their review of their work and of the interim report for the second quarter of fiscal year 2018.	**14–15 June** Review of SAS' strategy, GDPR and discussion regarding the extension of the consortium agreement. Adoption of the Board's meeting schedule for fiscal year 2018. Decision taken to appoint a new internal auditor and to propose a new external auditor to the AGM.	**30 August** Review of the Board's formal work plan and instructions, SAS financial policy and insider policy, as well as follow-up of risk management, regulatory compliance, internal control and corporate governance. Adoption of SAS' report for the third quarter of 2017/2018	**30 October** Evaluation of the Board's and President's work. Moreover, a decision was taken to authorize the management to divest SAS' holding in Air Greenland.

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 fiscal year 2018, the Board discussed SAS' fleet plan going forward, including the decision to purchase 50 Airbus A320neos. Other items addressed included GDPR, funding plans, sustainability, change of auditors, safety efforts, risk management as well as SAS' 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 2017 and October 2018, the Board held 14 Board meetings, including a statutory meeting and one 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.

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. In fiscal year 2018, a tendering process was conducted for appointing internal and external auditors from fiscal year 2019.

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' accounting unit attend Committee meetings.

THE AUDIT COMMITTEE'S WORK 2017/2018 — FIVE MINUTED MEETINGS

Meeting date	11/12	29/1	23/2	28/5	30/8
Monica Caneman (Chairman)	●	●	●	●	●
Carsten Dilling (until 10 April 2018)	●	●	●	–	–
Lars-Johan Jarnheimer	●	●	●	●	●
Oscar Stege Unger (from 10 April 2018)	–	–	–	●	●

● 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. All members of the Remuneration Committee are independent in relation to SAS and the company management.

REMUNERATION COMMITTEE'S WORK FISCAL YEAR 2018 — SIX MINUTED MEETINGS

Meeting date	20/11	11/12	29/1	15/6	30/8	11/10
Fritz H. Schur (until 10 April 2018, Chairman)	●	●	●	–	–	–
Jacob Wallenberg (until 10 April 2018)	●	●	●	–	–	–
Carsten Dilling (from 10 April 2018, Chairman)	–	–	–	●	●	●
Dag Mejdell	●	●	●	●	●	●

● Present ○ Absent

REMUNERATION POLICIES AND OTHER TERMS OF EMPLOYMENT FOR COMPANY MANAGEMENT AT THE 2018 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. Total remuneration must be market-based and competitive and must be in relation to responsibility and authority.

The 2018 AGM adopted the remuneration policies for senior executives, which were otherwise unchanged in relation to the remuneration policies adopted at the 2017 AGM. 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 defined-contribution and premiums should not exceed 30% of the fixed annual salary.

The notice period for the CEO and other company management is six months in the event the employee resigns and 12 months in the event the termination of employment is by the company. In the event notice is given by the company, and in cetain specific cases, by the employee, severance pay is payable in an amount corresponding to a maximum of one year's fixed salary less any remuneration received from new employment or assignments. The Board can depart from the policy in individual cases if particular reasons exist.

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.

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.

The detailed guidelines are available on the company's website www.sasgroup.net under Corporate governance, 2018 AGM. For detailed information about remuneration and benefits for the Board, President and senior executives in fiscal year 2018, see Note 3.

The guidelines proposed to the AGM on 13 March 2019 are unchanged in relation to the guidelines proposed to the 2018 AGM with the exception of the addition proposing that by separate agreement, over and above fixed salary, senior executives may receive variable salary corresponding to 20% of fixed salary on reaching the decided performance targets and that their fixed salaries are frozen until the salary review year 2021.

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.

In fiscal year 2018, Group Management comprised seven members, including the President, until March 2018, when Torbjørn Wist joined the Group Management as Executive Vice President & CFO. At the end of fiscal year 2018, the Group management comprised eight members. 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' 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' 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 fiscal year 2018, 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 the SAS 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' internal audit carried out a total of five audits during the fiscal year pertaining to:

- Information security
- The procurement policy
- Customer satisfaction in terms of external wet lease production
- The efficiency enhancement program
- GDPR

INFORMATION AND COMMUNICATION

SAS aims for information and communication paths pertaining to the internal control of financial reporting to be known and appropriate. All policies and guidelines in the financial areas are on the intranet, under the SAS Group Financial Guide. SAS' 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' 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 the SAS 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.

Söder Mälarstrand, Stockholm, Sweden

BOARD OF DIRECTORS

The Board is responsible for the organization and administration of SAS, 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 2018 AGM adopted the Nomination Committee's recommendation for reelection of Carsten Dilling, Monica Caneman, Lars-Johan Jarnheimer, Dag Mejdell and Sanna Suvanto-Harsaae and the election of new members Liv Fiksdahl and Oscar Stege Unger. Carsten Dilling was elected 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 and that Fritz H. Schur, Berit Svendsen and Jacob Wallenberg had declined re-election, the Nomination Committee was of the opinion that continuity on the rest of the Board was of particular importance.

With its experience of SAS and previous action programs, the Nomination Committee deemed the Board to be particularly suited to provide the company's management the necessary support in the ongoing change process. With Carsten Dilling as new Chairman, SAS is gaining clear industrial leadership while his previous four years as a regular Board member ensures in-depth knowledge of the company.

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.

CARSTEN DILLING
BORN 1962

Chairman of the Board of SAS AB since 2018. Member of the Board of SAS AB since 2014.
Directorships: Chairman of NNIT A/S and Icotera A/S, vice chairman of Højgaard Holding A/S and Board member of Terma A/S and MTH Group 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: 35,222.
Shareholding of related parties: 0.

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

DAG MEJDELL
BORN 1957

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.
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 Euroclear Sverige AB and of the Nasdaq AB Listing Committee.
Education: MBA, Stockholm School of Economics.
Earlier directorships/positions: Chairman of Allenex AB, Arion Bank hf, Big Ba AB, Bravida Holding AB, EDT AS, the Fourth Swedish Pension Fund, Frösunda LSS AB, Interverbum AB and Viva Media Group AB. Board member of Akademikliniken AB, Citymail Group AB, Comhem AB EDB Business Partner ASA, Intermail A/S, Lindorff Group AB, My Safety AB, Nets 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.
Shareholding of related parties: 0.

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

LIV FIKSDAHL
BORN 1965

Member of the Board of SAS AB since 2018.
Directorship/position: None
Education: Finance and management at Trondheim Business School.
Earlier directorships/positions: Head of IT and Operations at DnB, and other previous leading positions in DnB. Chairman of the Board of the industry organization Banking and Payment in Finance Norway. Vice Chairman of the Norwegian Savings Banks Association. Board member of BankAxept and Doorstep.
Shareholding: 0.
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.

LARS-JOHAN JARNHEIMER
BORN 1960

Member of the Board of SAS AB since 2013.
Directorships: Chairman of Arvid Nordqvist HAB, Egmont International Holding AS, and Ingka Holding B.V (IKEA's parent company). Board member of Wonderboo AB and Elite Hotels.
Education: B.Sc. in Business Administration and Economics, Lund and Växjö universities.
Earlier directorships/positions: Chairman of Qliro Group, 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.
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, BoConcept AS, TCM Group AS, Babysam AS, Nordic Pet Care Group AS, Workz AS och Footway AB. Vice Chairman of Paulig Oyj. Board member of CEPOS and Broman Group Oyj.
Education: M.Sc. in Business and Economics, Lund University.
Earlier directorships/positions: Chairman of i Health and Fitness Nordic AB, Sunset Boulevard AS and BTX AS. Board member of Jetpak AB, Duni AB, Candyking AB, Upplands Motor AB, CCS AB, Clas Ohlson AB and Symrise AG.
Shareholding: 2,100.
Shareholding of related parties: 0.

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

OSCAR STEGE UNGER
BORN 1975

Member of the Board of SAS AB since 2018.
Directorship/position: Director of Wallenberg Foundation AB
Education: Master of Science in Business Administration and Bachelor of Science in Economics at Stockholm University.
Earlier directorships/positions: Head of Investor Relations, and thereafter Head of Communications, at Investor AB.
Shareholding: 5,000.
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.

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:
Lisa Kemze, 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 while 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 1 February 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.
Shareholding of related parties: 5.

Rickard Gustafson and related parties have no significant shareholdings or part ownership in companies with which SAS conducts major business.

GÖRAN JANSSON
BORN 1958

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

TORBJØRN WIST,
BORN 1968

Executive Vice President and CFO
Member of SAS Group Management since 1 March 2018.
Previously: Group Treasurer at Telenor ASA and multiple financial leadership positions at Salomon Brothers, Merrill Lynch and Greenhill & Co.
External directorships: None.
Education: Business degree from Richard Ivey School of Business at the University of Western Ontario in London, Canada.
Shareholding: 0.
Shareholding of related parties: 0.

MATTIAS FORSBERG,
BORN 1972

Executive Vice President and CIO.
Member of SAS Group Management since 1 January 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 a BSc in Economics at 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 1 January 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 Global Sales & Marketing.
Member of SAS Group Management since 1 July 2017.
Previously: VP Global Sales & Revenue Management and has previously held a number of leading positions at SAS' 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.
Shareholding of related parties: 0.

LARS SANDAHL SØRENSEN,
BORN 1963

Deputy President and COO.
Member of SAS Group Management since 1 May 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. A 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 degrees 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 1 February 2014.
Previously: 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.
Shareholding of related parties: 0.

COMMENTS ON SAS' EARNINGS AND FINANCIAL STATEMENTS

Increased revenue and greater efficiency resulted in the best earnings for SAS in many years. However, higher jet-fuel prices and costs linked to traffic disruptions held down earnings in the latter part of the year. SAS generated an ROIC that exceeded the cost of capital for the fourth consecutive year. This means that SAS was able to redeem its preference shares, which paves the way for future dividends to holders of common shares.

COMMENTS ON EARNINGS

Income before tax and nonrecurring items for fiscal year 2018 was MSEK 2,127 (1,951). This was a slight improvement on our forecast at the start of the fiscal year and despite jet-fuel costs that were significantly higher year-on-year. The main earnings drivers in fiscal year 2018 were the following:

Revenue increased MSEK 2,064 during the year. This was driven by positive unit revenue development due to increased traffic and passenger numbers in response to SAS' more customer-oriented capacity. Freight revenue increased MSEK 162 and EuroBonus-linked revenue increased MSEK 215.

Operating expenses excluding nonrecurring items increased MSEK 1,731 year-on-year. Jet-fuel costs increased MSEK 1,160. Costs linked to traffic disruptions increased MSEK 480.

Efficiency measures contributed MSEK 723 during the fiscal year and thus offset higher contractual prices. Efficiency improvements contributed to a year-on-year 1.1% decrease in the currency-adjusted unit cost, excluding jet fuel. Positive currency effects of MSEK 333 also impacted earnings in the fiscal year. The exchange-rate trend had a positive impact on revenue of MSEK 931, mainly due to a stronger NOK. However, operating expenses were negatively impacted by MSEK -574, partly due to the stronger NOK, and also due to a stronger USD in the latter part of the fiscal year. More information about currency effects and SAS' hedging strategy is available on pages 45–46.

FINANCIAL POSITION

I am pleased to report that we continued to strengthen our financial position over the past fiscal year. Shareholders' equity only decreased MSEK 790 despite redemption of preference shares for almost SEK 2.6 billion. Financial preparedness was healthy and closed the year at 42%, despite the above preference share redemption and investments of SEK 6.8 billion. Of these investments, SEK 5.2 billion related to aircraft and were mainly financed through sale and leaseback arrangements.

SAS successfully completed a private placement of MSEK 1,270 in early November 2017. This improved our possibilities for lowering financing costs. The first step was taken in November 2017, when we issued a new, SEK 1.5 billion unsecured bond with a coupon rate of 5.37%. In June a second tranche of the bond was issued for MSEK 750 at a coupon rate of 4.73%. At the end of the fiscal year, the remainder of the preference shares were redeemed for a total of MSEK 1,103. Altogether, this means that if preference share dividends are included, our average financing cost will decrease significantly in the future.

MOVING FORWARD

Our long-term goal is to ensure that over a business cycle, we create value for shareholders; and this year's net income shows we are on the right path. Our shareholders and the capital markets have shown considerable confidence in us, which we intend to manage to the best of our ability.

Even if this year's net income has strengthened us, much remains to be done. Our ongoing renewal of the aircraft fleet increases total capital, which in its turn raises the profitability requirement. Our continued implementation of our efficiency program and the broadening of our revenue base, through measures including raising EuroBonus-related revenue, is decisive for raising profitability.

As regards the company's funding. the MSEK 1,574 convertible bond falls due in April 2019, with the prerequisite that no conversion takes place prior to that time. We are working on an optimal solution to the above.

It has been an exciting first year at the company. The operations are multifaceted and complex, with hardworking people. It is obvious that the industry is in the midst of change, but SAS is well positioned to continue to play a key role in Scandinavian aviation.

Thank you for your interest and support during the year.

Torbjørn Wist,
CFO

28 January 2019

CONSOLIDATED STATEMENT OF INCOME INCLUDING STATEMENT OF OTHER COMPREHENSIVE INCOME

MSEK	Note	FY18	FY17
Revenue	2	44,718	42,654
Payroll expenses	3	-9,441	-9,205
Other operating expenses	4	-28,347	-27,489
Leasing costs for aircraft		-3,156	-3,116
Depreciation, amortization and impairment	5	-1,763	-1,635
Share of income in affiliated companies	6	35	4
Income from the sale of shares in subsidiaries, affiliated companies and operations		-4	-21
Income from the sale of aircraft, buildings and slot pairs	7	479	995
EBIT		**2,521**	**2,187**
Income from other securities holdings	8	0	1
Financial revenue	9	129	148
Financial expenses	9	-609	-611
EBT		**2,041**	**1,725**
Tax	10	-452	-576
Net income for the year		**1,589**	**1,149**
Other comprehensive income			
Items that may later be reversed to net income:			
Exchange-rate differences in translation of foreign operations		147	-124
Cash-flow hedges – hedging reserve, net after tax of 45 (-41)		-160	147
Items that will not be reversed to net income:			
Revaluations of defined-benefit pension plans, net after tax of 291 (-408)		-915	1,210
Total other comprehensive income, net after tax		**-928**	**1,233**
Total comprehensive income		**661**	**2,382**
Net income for the year attributable to:			
Parent Company shareholders		1,589	1,149
Non-controlling interests		0	0
Earnings per common share (SEK)[1]	41	3.70	2.42
Earnings per common share after dilution (SEK)[1]	41	3.25	2.13

1) 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 382,582,551 (330,082,551) 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 66,329,543 shares.

Earnings before tax and nonrecurring items, MSEK	FY18	FY17
EBT	2,041	1,725
Impairment[1]	206	208
Restructuring costs[2]	255	110
Capital gains/losses[3]	-475	-974
Other nonrecurring items[4]	100	882
Earnings before tax and nonrecurring items	**2,127**	**1,951**

1) Impairment pertains to aircraft, MSEK 206 (0), and IT systems, MSEK 0 (208).

2) Restructuring costs were charged to earnings as payroll expenses of MSEK 105 (74) and property costs of MSEK 150 (36).

3) Capital gains and losses include aircraft sales amounting to MSEK 479 (317), the sale of two slot pairs at London Heathrow for MSEK 0 (678) and the sale of subsidiaries MSEK -4 (-21).

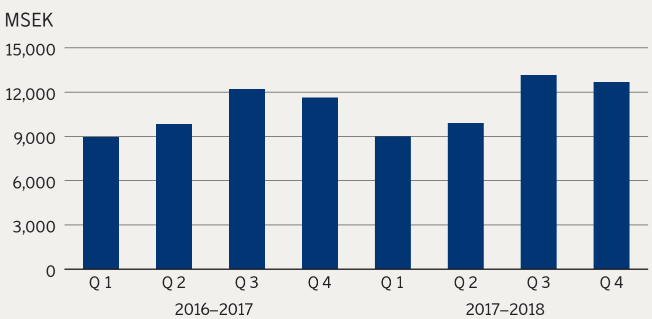
4) Other nonrecurring items included a provision of MSEK 100 (0) to be distributed to our employees as a bonus and costs related to aircraft of MSEK 0 (180) as well as a negative earnings impact of MSEK 672 in fiscal year 2017 relating to fines (MEUR 70.2) for breaches of air cargo competition rules. These items also included an expense of MSEK 0 (30) pertaining to a contractual settlement regarding cargo activities.

STATEMENT OF INCOME EXCLUDING OTHER COMPREHENSIVE INCOME — QUARTERLY BREAKDOWN

MSEK	FY17					FY18				
	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	8,957	9,843	12,210	11,644	42,654	8,978	9,916	13,146	12,678	44,718
Payroll expenses	-2,421	-2,302	-2,293	-2,189	-9,205	-2,268	-2,355	-2,385	-2,433	-9,441
Other operating expenses	-6,105	-7,188	-6,778	-7,418	-27,489	-5,859	-6,846	-7,461	-8,181	-28,347
Leasing costs for aircraft	-733	-801	-808	-774	-3,116	-760	-765	-814	-817	-3,156
Depreciation, amortization and impairment	-327	-388	-343	-577	-1,635	-353	-374	-404	-632	-1,763
Share of income in affiliated companies	-11	3	-4	16	4	-9	-8	29	23	35
Income from the sale of shares in subsidiaries, affiliated companies and operations	-21	0	0	0	-21	-4	0	0	0	-4
Income from the sale of aircraft, buildings and slot pairs	84	723	110	78	995	104	47	26	302	479
EBIT	**-577**	**-110**	**2,094**	**780**	**2,187**	**-171**	**-385**	**2,137**	**940**	**2,521**
Income from other securities holdings	0	1	0	0	1	0	0	0	0	0
Financial revenue	41	43	29	35	148	34	30	34	31	129
Financial expenses	-161	-142	-150	-158	-611	-136	-144	-167	-162	-609
EBT	**-697**	**-208**	**1,973**	**657**	**1,725**	**-273**	**-499**	**2,004**	**809**	**2,041**
Tax	141	-112	-438	-167	-576	34	141	-458	-169	-452
Net income for the period	**-556**	**-320**	**1,535**	**490**	**1,149**	**-239**	**-358**	**1,546**	**640**	**1,589**
Attributable to:										
Parent Company shareholders	-556	-320	1,535	490	1,149	-239	-358	1,546	640	1,589
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	31 Oct 2018	31 Oct 2017
Fixed assets			
Intangible assets	11	1,498	1,581
Tangible fixed assets	12		
Land and buildings		500	549
Aircraft		8,767	7,900
Spare engines and spare parts		92	57
Workshop and aircraft servicing equipment		73	88
Other equipment and vehicles		102	95
Investment in progress		48	16
Prepayments relating to tangible fixed assets	13	2,658	1,987
		12,240	**10,692**
Financial fixed assets	14		
Equity in affiliated companies	6	417	374
Other holdings of securities		3	3
Pension funds, net	15	4,025	4,871
Deferred tax assets	10	174	219
Other long-term receivables		2,770	2,512
		7,389	**7,979**
Total fixed assets		**21,127**	**20,252**
Current assets			
Expendable spare parts and inventories	16	401	321
		401	**321**
Current receivables	17		
Accounts receivable		1,219	1,363
Receivables from affiliated companies	18	1	2
Other receivables		866	931
Prepaid expenses and accrued income	19	829	850
		2,915	**3,146**
Cash and cash equivalents			
Short-term investments	20	4,232	5,932
Cash and bank balances		5,524	2,904
		9,756	**8,836**
Total current assets		**13,072**	**12,303**
TOTAL ASSETS		**34,199**	**32,555**

SHAREHOLDERS' EQUITY AND LIABILITIES, MSEK	Note	31 Oct 2018	31 Oct 2017
Shareholders' equity			
Share capital	21	7,732	6,776
Other contributed capital		327	327
Reserves	22	1,261	1,274
Retained earnings		-2,052	-319
Total shareholders' equity attributable to Parent Company shareholders		**7,268**	**8,058**
Non-controlling interests		0	0
Total shareholders' equity		**7,268**	**8,058**
Long-term liabilities	23		
Subordinated loans	24	1,161	1,067
Bonds	25	3,040	386
Other loans	26	3,291	4,088
Deferred tax liability	10	359	361
Other provisions	28	4,044	3,461
Other liabilities		116	0
		12,011	**9,363**
Current liabilities			
Current portion of long-term loans		2,272	2,868
Short-term loans	29	328	166
Prepayments from customers		13	11
Accounts payable		1,675	1,448
Tax liabilities		32	32
Unearned transportation revenue		5,681	5,064
Current portion of other provisions	28	1,028	1,499
Other liabilities		582	712
Accrued expenses and prepaid income	30	3,309	3,334
		14,920	**15,134**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**34,199**	**32,555**
Shareholders' equity per common share (SEK)[1]		16.11	13.28

1) Shareholders' equity attributable to Parent Company shareholders excluding total preference share capital in relation to the 382,582,551 (330,082,551) common shares outstanding.

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, 1 November 2016	**6,776**	**327**	**1,325**	**-74**	**-2,328**	**6,026**	**–**	**6,026**
Preference share dividend					-350	-350	–	-350
Comprehensive income, November–October			147	-124	2,359	2,382	–	2,382
Closing balance, 31 October 2017	**6,776**	**327**	**1,472**	**-198**	**-319**	**8,058**	**–**	**8,058**
New issue	1,055				178	1,233	–	1,233
Preference share dividend					-105	-105	–	-105
Redemption of preference shares	-99				-2,480	-2,579	–	-2,579
Comprehensive income November–October			-160	147	674	661	–	661
Closing balance, 31 October 2018	**7,732**	**327**	**1,312**	**-51**	**-2,052**	**7,268**	**–**	**7,268**

1) Number of shares in SAS AB: 382,582,551 (330,082,551) common shares with a quotient value of SEK 20.10 and 2,101,552 (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 fiscal year 2017.

CONSOLIDATED CASH-FLOW STATEMENT

MSEK	Note	FY18	FY17
OPERATING ACTIVITIES			
EBT		2,041	1,725
Depreciation, amortization and impairment		1,763	1,635
Income from sale of aircraft, buildings and shares		-475	-974
Adjustment for other non-cash items, etc.	34	228	341
Tax paid		-45	-26
Cash flow from operations before change in working capital		**3,512**	**2,701**
Change in:			
Expendable spare parts and inventories		-79	-9
Operating receivables		267	-11
Operating liabilities		859	-238
Cash flow from change in working capital		**1,047**	**-258**
Cash flow from operating activities		**4,559**	**2,443**
INVESTING ACTIVITIES			
Aircraft		-5,236	-5,730
Spare parts		-38	-97
Buildings, equipment and investment in progress		-107	-113
Shares and participations, intangible assets, etc.		-11	-73
Prepayments for aircraft		-1,448	-1,302
Total investments		**-6,840**	**-7,315**
Sale of subsidiaries	35	-3	-24
Sale of aircraft, spare engines and buildings		–	1,313
Income from sale and leaseback of aircraft		4,068	5,224
Sale of fixed assets, etc.		96	715
Cash flow from investing activities		**-2,679**	**-87**
FINANCING ACTIVITIES	36		
New issue		1,223	–
Redemption of preference shares		-2,579	–
Dividend on preference shares		-228	-350
Proceeds from borrowings		3,853	2,385
Repayment of borrowings		-2,921	-3,183
Defined-benefit pension payments		-283	-546
Payments of deposits and blocked bank funds		-224	-291
Repayments of deposits and blocked bank funds		211	166
Other financing activities		-15	-68
Cash flow from financing activities		**-963**	**-1,887**
Cash flow for the year		**917**	**469**
Translation difference in cash and cash equivalents		3	-3
Cash and cash equivalents at beginning of the year		8,836	8,370
Cash and cash equivalents at year end	37	**9,756**	**8,836**
Cash flow from operating activities per common share (SEK)		11.92	7.40

COMMENTS ON THE CASH-FLOW STATEMENT

Cash flow from operating activities before changes in working capital amounted to MSEK 3,512 (2,701). 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 1,047 (-258). It was primarily operating liabilities and unearned transportation revenue liability in particular that increased during the year.

Aircraft acquisitions during the year amounted to MSEK 4,010, which comprised delivery payments for nine new Airbus A320neos, of which eight were immediately divested through sale and leaseback agreements, and the acquisition of seven Boeing 737s, one Airbus A319, one Airbus A340 and one Bombardier Q400 that were previously under operating leases. Moreover, aircraft investments included MSEK 1,009 in capitalized expenditure for aircraft maintenance and MSEK 217 for aircraft modifications.

Over the year, sale and leaseback arrangements were concluded for eight Airbus A320neos acquired during the year, as well as for six Boeing 737s.

An MSEK 1,500 bond issue was redeemed on maturity in November in parallel with the issue of a new bond for a corresponding amount but with improved terms and a maturity date in November 2022. The new bond was increased in June through the issue of a further tranche of MSEK 750.

In all, the SAS Group's cash and cash equivalents increased during the fiscal year by MSEK 920 (466), whereupon cash and cash equivalents amounted to MSEK 9,756 (8,836).

EXPLANATION OF NOTES

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 1 November 2017. 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 FISCAL YEAR 2018

No material amendments occurred in IFRS in fiscal year 2018 that affected the Group. IAS 7 — Statement of Cash Flows has been amended in terms of disclosures pertaining to changes in liabilities arising from financing activities, refer to Note 36.

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	
			31 Oct 2018	31 Oct 2017	FY18	FY17
Denmark	DKK	100	139.43	130.74	136.52	129.28
Norway	NOK	100	108.97	102.28	105.65	104.54
U.S.	USD		9.16	8.36	8.55	8.69
U.K.	GBP		11.68	11.04	11.51	11.03
Switzerland	CHF	100	912.42	839.07	877.19	879.31
Japan	JPY	100	8.10	7.39	7.74	7.78
EMU countries	EUR		10.40	9.73	10.17	9.62

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 12 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 commitment 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' 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 aircraft 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 must be shown as a separate 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 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' 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 based on the local market situation and expected future trends. This means that 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 K2018 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.

During the year, the discount rate was unchanged in Sweden and Denmark but rose in Norway, the UK and the US. The total impact of changed discount rates entailed a positive impact on other comprehensive income of SEK 0.2 billion. During the year, SAS raised its assumed rate of inflation for Sweden from 1.6% to 1.9%, which resulted in a negative impact on other comprehensive income of SEK 0.7 billion. The return on plan assets was below the discount rate, which entailed a negative impact on other comprehensive income of SEK 0.1 billion. Moreover, a negative item of SEK 0.2 billion was recognized under the experience gains/losses item as a result of full index adjustment.

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 3.0 billion impact on the obligation and a one percentage point change in the inflation assumption has an impact of about SEK 2.9 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).

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 1 November 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 1 November 2018.

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 1 January 2018 and SAS will implement it for the fiscal year starting 1 November 2018.

IFRS 16 — Leases provides a single lessee accounting model. The standard replaces IAS 18 — Leases. The standard enters force on 1 January 2019, and was adopted by the EU in November 2017. SAS will apply the standard for the fiscal year starting 1 November 2019.

The table on page 72 illustrates the estimated impact of the implementation of IFRS 9 and IFRS 15 on equity and other balance sheet items at the transition date of 1 November 2018.

IFRS 15 will be applied using the modified retrospective approach. This means that the opening balances at 1 November 2018 will be adjusted to reflect the impact of IFRS 15, but the previous periods will not be restated. IFRS 9 will be applied from 1 November 2018. The hedge accounting guidance is applied prospectively apart from the accounting guidance relating to changes in the time value of options that is applied retrospectively, meaning comparative periods will be recalculated and the opening balances per 1 November 2017 will be adjusted. All other changes following IFRS 9 will be applied retrospectively but without adjustment of comparative periods. This means that the opening balances at 1 November 2018 will be adjusted to reflect the impact of IFRS 9 but the previous periods will not be restated.

MSEK	Reported 31 October 2018	Adjustments IFRS 9	Adjustments IFRS 15	Adjusted balance 1 November 2018
Accounts receivable	1,219	-14		1,205
Total shareholders' equity	7,268	-11	-16	7,241
Unearned transportation revenue	5,681		+21	5,702
Deferred tax assets	174	+3	+5	182

IFRS 9 — FINANCIAL INSTRUMENTS

IFRS 9 — Financial Instruments replaces IAS 39 — Financial Instruments: Recognition and Measurement. The new guidance in IFRS 9 primarily pertains to three areas: classification and measurement, impairment and hedge accounting. SAS will apply IFRS 9 retrospectively on the effective date, 1 November 2018, and will not restate comparative information, with exception for guidance relating to changes in time value of options where comparative periods will be recalculated and the opening balances per 1 November 2017 will be adjusted. The impact from transition to IFRS 9 reduces equity by MSEK 11, net of tax. The new principles and impacted areas are described below.

Classification and measurement

Financial assets are initially measured at fair value and subsequently measured and classified at amortized cost, fair value through other comprehensive income (FVTOCI) or fair value through profit and loss (FVTPL). The classification of financial assets depends on the characteristics of the asset and the business model in which it is held. Derivatives are measured at fair value. The contractual terms for SAS' other financial assets give rise to payments that are solely payments of principal and of interest on the principal amount outstanding, and the financial asset is held in a business model aimed at holding financial assets to collect contractual cash flows. Following this classification, all assets except for derivatives are measured at amortized cost. Subsequently, on a continuous basis, the assets are measured at amortized cost using the effective-interest method reduced with impairment provisions- The following table illustrates the impact on the classification:

Financial assets	Previous classification (IAS 39)	New classification (IFRS 9)	Explanation
Other long-term receivables / Accounts receivable / Other receivables	Loan receivables and accounts receivable	Amortized cost	Managed in a business model with the aim of holding until maturity. Payments are solely payments of principal and interest on the principal amount outstanding.
Derivatives	Hedging instruments, derivatives	FVOCI	The effective portion of the change in the fair-value hedge is recognized in other comprehensive income.
Derivatives	Held for trading	FVTPL	Fair value through profit or loss, no change.
Short-term investments	Held for trading/Loan receivables and accounts receivable	Amortized cost	Managed in a business model with the aim of holding until maturity. Payments are solely payments of principal and interest on the principal amount outstanding.
Cash and bank balances	Loan receivables and accounts receivable	Amortized cost	Managed in a business model with the aim of holding until maturity. Payments are solely payments of principal and interest on the principal amount outstanding.
Other liabilities	Other liabilities	Amortized cost	

Impairment

Financial assets measured at amortized cost are assessed for impairment based on expected credit losses (ECLs). Provisions for accounts receivable are always based on lifetime ECLs. If there is no expectation of collection, the full asset value is written off. Losses and write offs are posted as expenses in the income statement. Following the new impairment model, the provision for expected losses in accounts receivable increase by MSEK 14. SAS' other financial assets are not subject to further impairment provisions at the date of transition.

Financial liabilities

SAS' classification and measurement of financial liabilities are not impacted by IFRS 9. This means that the financial liabilities initially will continue to be measured at fair value and subsequently at amortized cost using the effective-interest method. New guidance in IFRS 9 relating to modified financial liabilities does not have an impact on SAS financial liabilities at the date of transition.

Hedge accounting

SAS will apply the hedge accounting guidelines in IFRS 9. The changes for SAS relate to the measurement of effectiveness and the time value of options designated in a hedging relationship. For measurement of effectiveness, the previous requirement that a hedge should be in the 80–125% range is replaced by an overall assessment of whether or not the hedging relationship is effective. For options designated in a hedging relationship, there is new guidance relating to changes in the fair value of the time value if only the intrinsic value is designated in the hedging relationship. The initial time value is treated as a cost for the hedging strategy and changes in the time value are recognized in other comprehensive income, not in profit and loss as in IAS 39. On a continuous basis going forward, less volatility is expected in earnings. The hedge accounting guidance relating to changes in time value of an option will be applied retrospectively and comparative periods will be recalculated. The estimated transition impact relates to reclassifications within equity at 1 November 2017 of MSEK 25, and an increase in earnings in the comparative period 1 November 2017 to 31 October 2018 by MSEK 9 affecting the hedging reserve in equity.

IFRS 15 — REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 — Revenue from Contracts with Customers replaces IAS 18 — Revenue and IAS 11 — Construction Contracts. IFRS 15 establishes a new principle-based model of recognizing revenue from customer contracts. It introduces a five-step model that requires revenue to be recognized when control over goods and services are transferred to the customer. SAS will apply the modified retrospective approach, meaning that the opening balances at 1 November 2018, will be adjusted but the previous periods will not be restated. The impact from transition to IFRS 15 is estimated to reduce equity by MSEK 16, net of tax, which is considered to be non-significant in the Group's consolidated financial statements.

Under the current accounting standards SAS recognizes passenger and charter revenue when the transportation is performed, mail and freight revenue when the transportation is completed and other revenue when the goods are delivered or the service performed. All customer contacts have been analyzed using the five-step model. The performance obligations identified are fulfilled at a point in time, corresponding to the same point in time as revenue is recognized today. Since the transaction price for these services also is unchanged, and allocated to the identified performance obligations, there will be no significant change in revenue recognition following IFRS 15.

The only change identified relates to rebooking fees that, under IAS 18, have been recognized as income when the rebooking takes place. In the new guidance this fee is a contract modification that is recognized when the ticket is used. This means that revenue will be recorded later than at present. At the date of transition unearned transportation revenue is estimated to increase with MSEK 21, with a corresponding reduction of equity with MSEK 16, net of tax.

As mentioned in the Financial statements for the year ending October 2017, the allocation of loyalty points in the EuroBonus program is to be based on the points' stand-alone selling price compared with the total performance obligation, i.e. the air transport and the loyalty points earned. During the year it has been concluded that the new guidance in IFRS 15 will not have any impact on SAS' current accounting treatment of the EuroBonus loyalty program.

IFRS 16 — LEASES

IFRS 16, Leases, replaces IAS 17 — Leases, and 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 SAS Group continued to analyze the effects of IFRS 16 on the financial statements. The standard is expected to have a material impact on SAS' financial reporting, since the Group has significant leasing commitments for, inter alia, aircraft, premises and ground equipment. At the end of fiscal year 2018, the nominal value of the Group's leases outstanding was around SEK 27,4 billion. See Note 33. The standard enters force on 1 January 2019 and was adopted by the EU in November 2017. SAS will apply the standard for the fiscal year starting 1 November 2019.

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

	FY18	FY17
Traffic revenue:		
Passenger revenue	34,077	32,644
Charter	1,957	1,964
Freight and mail	1,632	1,470
Other traffic revenue	2,701	2,419
Other operating revenue:		
In-flight sales	261	269
Ground handling services	1,183	1,028
Technical maintenance	211	314
Terminal and forwarding services	361	354
Sales commissions and charges	618	569
Other operating revenue	1,717	1,623
Total	**44,718**	**42,654**

NOTE 3 PAYROLL EXPENSES

AVERAGE NUMBER OF EMPLOYEES

In fiscal year 2018, the average number of employees in the SAS Group was 10,146 (10,324). A breakdown of the average number of employees by country is provided in the table below.

The average number of employees totaled 3,357 (3,486) in Denmark, 2,711 (2,801) in Norway, and 3,816 (3,789) in Sweden.

	FY18		FY17	
	Men	**Women**	**Men**	**Women**
Denmark	2,286	1,071	2,356	1,130
Norway	1,676	1,035	1,644	1,157
Sweden	2,259	1,557	2,244	1,545
Other countries	116	146	94	154
Total	**6,337**	**3,809**	**6,338**	**3,986**
Total men and women	**10,146**		**10,324**	

GENDER BREAKDOWN OF SENIOR EXECUTIVES IN THE GROUP

	31 Oct 2018		31 Oct 2017	
	Closing-date total	**of which, men**	**Closing-date total**	**of which, men**
Board members	**37**	**65%**	**34**	**68%**
President and other senior executives	38	76%	31	71%

SALARIES, REMUNERATION AND SOCIAL SECURITY EXPENSES

The SAS Group's total payroll expenses amounted to MSEK 8,907 (8,635), of which social security expenses comprised MSEK 1,244 (1,302) and pensions MSEK 783 (835).

Salaries, remuneration and social security expenses included restructuring costs of MSEK 105 (74).

	FY18		FY17	
	Salaries & other remuneration	**Soc. sec. exp. (of which pension cost)[1]**	**Salaries & other remuneration**	**Soc. sec. exp. (of which pension cost)[1]**
SAS AB	22	14 (7)	20	15 (8)
SAS Consortium	4,465	1,491 (584)	4,287	1,639 (648)
Other subsidiaries	2,393	522 (192)	2,191	483 (179)
SAS Group, total	**6,880**	**2,027 (783)**	**6,498**	**2,137 (835)**

1) The pension cost for all CEOs and other senior executives of SAS Group companies amounted to MSEK 15 (14).

A breakdown of the salaries and other remuneration of Board members, CEOs, other senior executives and other employees is provided in the table below.

	FY18		FY17	
	Board, CEO & senior executives (of which variable salary)	**Other employees**	**Board, CEO & senior executives (of which variable salary)**	**Other employees**
SAS AB	20 (–)	2	19 (–)	1
SAS Consortium	22 (–)	4,444	33 (2)	4,254
Ground handling operations	12 (–)	2,267	16 (–)	2,086
SAS Cargo	10 (–)	81	8 (–)	76
Other subsidiaries	8 (–)	14	1 (–)	4
SAS Group, total	**72 (–)**	**6,808**	**77 (2)**	**6,421**

Pension costs	**FY18**	**FY17**
Defined-benefit pension plans	-90	-7
Defined-contribution pension plans	873	842
Total	**783**	**835**

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 10 April 2018, fees were set for the remuneration of Board members and for work on Board committees as follows:

Board Chairman	TSEK 585
Board First Vice Chairman	TSEK 390
Other Board members (8)	TSEK 295 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 95
Other members of Audit Committee (2)	TSEK 45
Chairman of Remuneration Committee	TSEK 75
Other members of Remuneration Committee (1)	TSEK 25

With the exception of the employee representatives and their deputies, no Board member was employed by the SAS Group in fiscal year 2018. 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 fiscal year 2018 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.

The Board can depart from the guidelines if, in an 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 was revised in 2018, after being unchanged since 2016, and amounts to TSEK 11,232.
- 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 fiscal year 2018, the SAS Group had two deputy presidents, Göran Jansson (CFO) and from 1 July 2018, Lars Sandahl Sørensen (COO).

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. The annual salary was revised in 2018, after being unchanged since 2016, and amounts to TSEK 4,800.
- A defined-contribution pension plan where 29.8% of salary is paid into a chosen insurance plan. The retirement age is 65.
- 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.

Lars Sandahl Sørensen 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 was revised in 2018 and amounts to TDKK 4,450.
- A defined-contribution pension plan where 30% of salary is paid into a chosen insurance plan. The retirement age is 65.
- Other benefits include company car, travel benefits, health insurance and group life insurance.
- The notice period is six months in the event that Lars Sandahl Sørensen 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 six 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. 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 presidents.

OTHER

Other typical managerial contracts in the SAS Group are based on the five cornerstones outlined under the "Policies" heading above.

In fiscal year 2018, total remuneration comprised fixed salary, other benefits and pension.

Some 30 managers have participated in an annual incentive system for 2018.

Moreover, a variable remuneration model was introduced for management and employees in the sales organization in 2013. The variable salary component is based on outcomes in relation to predetermined individual sales targets that are set in a target contract and is capped at two months' salary.

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.

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 six minuted meetings in fiscal year 2018.

REMUNERATION AND BENEFITS PAID TO THE PRESIDENT AND OTHER SENIOR EXECUTIVES IN 2017–2018 (NOV–OCT), TSEK

Name	Fixed base salary[1]	Other benefits[3]	Total of fixed salary and other benefits	Pension premium[5]
Rickard Gustafson	11,346	140	11,486	4,662
Lars Sandahl Sørensen[4]	2,031	53	2,084	608
Göran Jansson	4,868	267	5,135	1,408
Other[2]	20,664	168	20,832	5,332

1) Includes holiday compensation.
2) Four members for the full fiscal year and two members for eight months.
3) Other benefits include company car, travel benefits, health insurance and group life insurance.
4) Appointed Deputy President in July 2018. The remuneration pertains to a period of four months.
5) Includes health insurance

NOTE 4 OTHER OPERATING EXPENSES

	FY18	FY17
Sales and distribution costs	2,583	2,417
Jet fuel	7,996	6,836
Government user fees	4,159	4,262
Catering costs	1,263	1,075
Handling costs	2,663	2,704
Technical aircraft maintenance	2,897	3,515
Computer and telecommunication costs	1,554	1,569
Wet-lease costs	1,283	1,123
Other	3,949	3,988
Total	**28,347**	**27,489**

NOTE 5 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

	FY18	FY17
Intangible assets	136	372
Buildings and fittings	67	59
Aircraft	1,513	1,157
Spare engines and spare parts	3	4
Workshop and aircraft servicing equipment	18	16
Other equipment and vehicles	26	27
Total	**1,763**	**1,635**

NOTE 6 SHARE OF INCOME AND EQUITY IN AFFILIATED COMPANIES

Share of income in affiliated companies:	FY18	FY17
Air Greenland A/S[1]	30	-4
Malmö Flygfraktterminal AB	5	8
Other	0	0
Total	**35**	**4**
Total revenue of affiliated companies	2,081	1,894
Income after tax in affiliated companies	80	12

1) The share of income includes adjustment of last year's income figure by MSEK 2 (-1).

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.

				Share of equity	
Equity in affiliated companies:	**Corporate registration number**	**Domicile**	**Share of equity %**	**31 Oct 2018**	**31 Oct 2017**
Air Greenland A/S	30672	Nuuk, Greenland	37.5	401	355
Malmö Flygfraktterminal AB	556061-7051	Malmö, Sweden	40.0	13	15
Other				3	4
Total				**417**	**374**
Total assets in affiliated companies				1,953	1,836
Total liabilities in affiliated companies				-841	-840
Shareholders' equity in affiliated companies				**1,112**	**996**

NOTE 7 INCOME FROM THE SALE OF AIRCRAFT, BUILDINGS AND SLOT PAIRS

	FY18	FY17
Airbus A320	202	327
Boeing 737	277	138
Bombardier CRJ900	–	-138
Spare engines	–	-10
Slot pairs	–	678
Total	**479**	**995**

NOTE 8 INCOME FROM OTHER SECURITIES HOLDINGS

	FY18	FY17
Dividend	0	1
Total	**0**	**1**

NOTE 9 NET FINANCIAL ITEMS

Financial revenue	FY18	FY17
Interest income on financial assets not measured at fair value	45	33
Interest income on financial assets measured at fair value	87	112
Other financial revenue	–	–
Net profit/loss on financial instruments categorized as:		
Held for trading, interest income	-3	3
Total	**129**	**148**
Financial expenses		
Interest expense on financial liabilities not measured at fair value	-416	-480
Interest expense on financial liabilities measured at fair value	-143	-119
Other financial expenses	-54	-54
Exchange-rate differences, net	4	42
Net profit/loss on financial instruments categorized as:		
Held for trading, interest expense	0	0
Other liabilities, interest expense	0	–
Hedge accounting		
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	**-609**	**-611**
Total net financial items	**-480**	**-463**

NOTE 10 TAX

The following components are included in the Group's tax.

	FY18	FY17
Current tax	-32	-29
Deferred tax	-420	-547
Total tax recognized in net income for the year	**-452**	**-576**
Tax recognized in other comprehensive income	336	-449
Total tax recognized in other comprehensive income	**336**	**-449**

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:

	FY18	FY18 (%)	FY17	FY17 (%)
EBT	2,041		1,725	
Tax according to rate in Sweden	-449	-22.0	-380	-22.0
Tax effect of non-tax-deductible costs	-29	-1.4	-211	-12.2
Tax effect of non-taxable income	51	2.5	6	0.3
Tax effect of different tax rates	-41	-2.0	17	1.0
Other	16	0.8	-8	-0.5
Tax and effective tax rate for the fiscal year	**-452**	**-22.1**	**-576**	**-33.4**

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.

Deferred tax liability in the balance sheet:	31 Oct 2018	31 Oct 2017
Cash-flow hedges	362	400
Fixed assets	1,368	1,551
Pensions	285	480
Other temporary differences	429	487
Netting of deferred tax assets/liabilities	-2,085	-2,557
Total	**359**	**361**

Deferred tax assets in the balance sheet:	31 Oct 2018	31 Oct 2017
Tax loss carryforwards	1,590	2,105
Fixed assets	4	1
Pensions	181	164
Other temporary differences	484	506
Netting of deferred tax assets/liabilities	-2,085	-2,557
Total	**174**	**219**

Reconciliation of deferred tax, net:	31 Oct 2018	31 Oct 2017
Opening balance	-142	854
Change in cash-flow hedging	45	-41
Change according to statement of income	-452	-576
Change in defined-benefit pension plans	291	-408
Exchange-rate differences, etc.	73	29
Deferred tax, net, at 31 October	**-185**	**-142**

On the closing date the Group had unutilized loss carryforwards of about MSEK 7,400 (9,500). Based on these loss carryforwards, the Group recognized a deferred tax asset of MSEK 1,590 (2,105). 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 1,590, MSEK 547 pertains to operations in Denmark, MSEK 53 to Norway and MSEK 975 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 49 (96), 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 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 system		Total intangible assets	
	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017
Opening cost	741	803	1,807	2,103	2,548	2,906
Investments	–	–	11	73	11	73
Sales/disposals	–	–	-17	-369	-17	-369
Sale of companies[1]	–	-14	–	–	–	-14
Reclassifications	–	–	3	–	3	–
Exchange-rate differences	47	-48	–	–	47	-48
Closing accumulated cost	**788**	**741**	**1,804**	**1,807**	**2,592**	**2,548**
Opening amortization	-90	-98	-877	-874	-967	-972
Amortization and impairment for the year[2]	–	–	-136	-372	-136	-372
Sales/disposals	–	–	17	369	16	369
Sale of companies[1]	–	3	–	–	–	3
Reclassifications	–	–	-3	–	-3	–
Exchange-rate differences	-4	5	–	–	-4	5
Closing accumulated amortization	**-94**	**-90**	**-999**	**-877**	**-1,094**	**-967**
Opening impairment	–	-11	–	–	–	-11
Sale of companies[1]	–	11	–	–	–	11
Closing impairment	**–**	**–**	**–**	**–**	**–**	**–**
Carrying amount	**694**	**651**	**805**	**930**	**1,498**	**1,581**

1) The subsidiary Cimber A/S was divested during fiscal year 2017.
2) The amortization and impairment for the year included an MSEK 0 (208) impairment of the IT system.

The SAS Group is not engaged in activities relating to research and development (R&D).

Goodwill:	31 Oct 2018	31 Oct 2017
SAS Scandinavian Airlines Norway	694	651
Total goodwill	**694**	**651**

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 +1.0% and a cost trend of -0.6% 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 fiscal year 2017. The discount rate has been estimated based on a weighted capital cost of 11.1% (11.8) before tax, and of 8.7% (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 2018.

NOTE 12 TANGIBLE FIXED ASSETS

	Buildings and land		Aircraft[1, 2]		Spare engines & spare parts		Workshop & servicing equipment, aircraft	
	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017
Opening cost	1,182	1,233	17,729	18,610	128	137	390	401
Investments	3	–	5,236	5,730	38	97	8	16
Capitalized interest[3]	–	–	–	–	–	–	–	–
Sales/disposals	-51	-121	-4,413	-7,812	–	-165	-40	-28
Sale of companies[4]	–	-6	–	–	–	–	–	–
Reclassifications	28	87	708	1,201	–	59	2	2
Exchange-rate differences	21	-11	-14	–	–	–	–	-1
Closing accumulated cost	**1,183**	**1,182**	**19,246**	**17,729**	**166**	**128**	**360**	**390**
Opening depreciation	-633	-706	-9,829	-10,356	-71	-89	-302	-308
Depreciation and impairment for the year	-67	-59	-1,513	-1,157	-3	-4	-18	-16
Sales/disposals	34	120	863	1,674	–	22	34	23
Sale of companies[4]	–	2	–	–	–	–	–	–
Reclassifications	–	2	–	10	–	–	-1	-2
Exchange-rate differences	-17	8	–	–	–	–	–	1
Closing accumulated depreciation	**-683**	**-633**	**-10,479**	**-9,829**	**-74**	**-71**	**-287**	**-302**
Carrying amount	**500**	**549**	**8,767**	**7,900**	**92**	**57**	**73**	**88**

	Other equipment & vehicles		Investment in progress		Prepayment relating to tangible fixed assets		Total tangible assets	
	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017
Opening cost	450	563	16	33	1,987	2,135	21,882	23,112
Investments	36	28	60	69	1,448	1,302	6,829	7,242
Capitalized interest[3]	–	–	–	–	–	–	–	–
Sales/disposals	-42	-134	–	–	–	–	-4,546	-8,260
Sale of companies[4]	–	-1	–	–	–	–	–	-7
Reclassifications	-1	-3	-28	-86	-971	-1,309	-262	-49
Exchange-rate differences	5	-3	–	–	194	-141	206	-156
Closing accumulated cost	**448**	**450**	**48**	**16**	**2,658**	**1,987**	**24,109**	**21,882**
Opening depreciation	-355	-458	–	–	–	–	-11,190	-11,917
Depreciation and impairment for the year	-26	-27	–	–	–	–	-1,627	-1,263
Sales/disposals	40	126	–	–	–	–	971	1,965
Sale of companies[4]	–	1	–	–	–	–	–	3
Reclassifications	–	–	–	–	–	–	-1	10
Exchange-rate differences	-5	3	–	–	–	–	-22	12
Closing accumulated depreciation	**-346**	**-355**	**–**	**–**	**–**	**–**	**-11,869**	**-11,190**
Carrying amount	**102**	**95**	**48**	**16**	**2,658**	**1,987**	**12,240**	**10,692**

1) The insured value of aircraft at 31 October 2018 amounted to MSEK 39,748. This includes the insured value of leased (operating leases) aircraft in the amount of MSEK 28,663.
2) Modifications of aircraft under operating leases are included in planned residual value in the amount of MSEK 126 (171).
3) Interest has not been capitalized.
4) The subsidiary Cimber A/S was divested during fiscal year 2017.

At the beginning of fiscal year 2018, there were ten Boeing 737s that were financed through finance leases, with original terms of six years. During the year, a further three Boeing 737s were financed through new finance leases, all of which extend for a period of six years and nine months. Moreover, one new Airbus A320neo was acquired through a formal 12-year financial lease. Under all of the financial leases, SAS has purchase options that apply during the terms of the leases.

With regard to finance-leased aircraft, the terms of the leases (particularly pertaining to SAS' purchase options during the contract period and the economic risk SAS has regarding the value of the aircraft) are such that the agreements, from SAS' point of view, are comparable to a purchase.

The 14 (10) finance-leased aircraft are recognized in the balance sheet in the amount of MSEK 2,422 (1,502). In addition to these, owned aircraft include 14 (17) aircraft with a carrying amount of MSEK 2,654 (3,435) placed in financing structures wholly owned by SAS together with appurtenant indebtedness of MSEK 820 (1,001), which are to be viewed as finance leased.

The SAS Group's aircraft holdings can be specified as follows:

	31 Oct 2018	31 Oct 2017
Owned	6,345	6,398
Finance leased	2,422	1,502
Carrying amount	**8,767**	**7,900**

Note 12 continued

FINANCE LEASES

The SAS Group has finance leases for aircraft with remaining terms of up to nine years. In addition, finance leases exist with regard to buildings with remaining terms of just over three years, and aircraft vehicles and service equipment with remaining terms of up to five 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 316 (656). Contingent rent impacted lease payments for the year by MSEK -7 (-14). 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	
	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017
Cost	4,967	3,750	472	452
Less accumulated depreciation	-2,545	-2,248	-118	-89
Carrying amount of finance-leased assets	**2,422**	**1,502**	**354**	**363**

Future minimum lease payments and their present value for finance leases applicable on the closing date.

	31 Oct 2018		31 Oct 2017	
Due date:	Future minimum lease payments	Present value of future minimum lease payments	Future minimum lease payments	Present value of future minimum lease payments
< one year	454	446	263	262
1–5 years	2,290	2,135	1,494	1,438
> 5 years	386	299	17	12
Total	**3,130**	**2,880**	**1,774**	**1,712**

OPERATING LEASES

During the year, the SAS Group did not lease out any of its owned aircraft or other assets.

Last year, owned aircraft were leased out against total leasing revenue of MSEK 70, and were thereafter divested.

At the balance-sheet date, there were no owned 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 31 October 2018, contracted orders amounted to 44 Airbus A320neo aircraft, one Airbus A330-300 and eight Airbus A350-900s with delivery between 2019 and 2023 amounting to a total future purchase commitment, including spares, of MUSD 3,290. At the closing date, other purchase commitments totaled MSEK 2 (2). SAS has also entered into contracts for 15 A320neos that will be under operating leases.

NOTE 13 PREPAYMENTS RELATING TO TANGIBLE FIXED ASSETS

	31 Oct 2018	31 Oct 2017
Airbus	2,458	1,987
Other	200	–
Total	**2,658**	**1,987**

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	
	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017
Opening cost	374	398	73	73	4,871	2,615	2,731	3,185	8,049	6,271
Contributions	–	–	–	–	373	553	303	879	676	1,432
Share of income in affiliated companies	35	4	–	–		–	–	–	35	4
Sale of companies[1]	–	–	–	–		–	–	-10	–	-10
Amortization	–	–	–	–		–	-326	-1,166	-326	-1,166
Dividend	-13	-23	–	–		–	–	–	-13	-23
Reclassifications	–	–	–	–	-1,192	1,643	-40	3	-1,232	1,646
Exchange-rate differences	21	-5	–	–	-27	60	276	-160	270	-105
Closing accumulated cost	**417**	**374**	**73**	**73**	**4,025**	**4,871**	**2,944**	**2,731**	**7,459**	**8,049**
Opening impairment	–	–	-70	-70	–	–	–	–	-70	-70
Impairment	–	–	–	–	–	–	–	–	–	–
Reclassifications	–	–	–	–	–	–	–	–	–	–
Closing accumulated impairment	**–**	**–**	**-70**	**-70**	**–**	**–**	**–**	**–**	**-70**	**-70**
Carrying amount	**417**	**374**	**3**	**3**	**4,025**	**4,871**	**2,944**	**2,731**	**7,389**	**7,979**

1) The subsidiary Cimber A/S was divested during fiscal year 2017.
2) The carrying amount includes blocked bank funds of MSEK 1,969 (1,798) and deferred tax assets of MSEK 174 (219).

NOTE 15 POST-EMPLOYMENT BENEFITS

The table below outlines where the Group's post-employment benefits are included in the financial statements.

Pension funds in the balance sheet	31 Oct 2018	31 Oct 2017
Present value of funded obligations	-17,255	-16,774
Fair value of plan assets	21,855	22,345
Surplus in funded plans	**4,600**	**5,571**
Present value of unfunded obligations	-575	-700
Surplus in defined-benefit pension plans (net pension funds)	**4,025**	**4,871**

Recognized in profit or loss pertaining to[1]	FY18	FY17
Defined-benefit pension plans	90	7
Defined-contribution pension plans	-873	-842
	-783	**-835**
Remeasurements of defined-benefit pension plans[2]	-915	1,210

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 aircraft 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 aircraft 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 vested pension rights. Expected fees in fiscal year 2019 for defined-benefit pension plans under the Alecta plan are expected to amount to about MSEK 70. 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 175%. If Alecta's collective consolidation level falls below 125% or exceeds 175%, 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 or the insured parties if the collective consolidation level exceeds 175%. 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 159% (158). 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, cover for future pension indexing or 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 31 October 2018, the remaining pension plans in Sweden reported a surplus of just over SEK 3.5 billion and, accordingly, special payroll tax was recognized for the surplus. At 31 October 2018, special payroll tax totaled about SEK 0.8 billion (1.1).

Defined-benefit pension plans	FY18	FY17
Current service cost	-75	-99
Past service cost and gains and losses on settlements	56	44
Interest expense on pension obligations	-390	-382
Interest income on plan assets	468	428
Other expenses	–	-5
Payroll tax	31	21
Total impact recognized in profit and loss for defined-benefit pension plans	**90**	**7**

The above earnings effect is recognized in its entirety as payroll expenses.

Changes in the present value of defined-benefit plan obligations	31 Oct 2018	31 Oct 2017
Opening balance, pension obligations	17,474	18,674
Current service cost	75	99
Settlements	-242	-278
Interest expense	390	382
Reclassification	17	-25
Pensions paid out	-867	-854
Exchange-rate differences	140	-91
	16,987	**17,907**
Remeasurements:		
– Gain/loss (-/+) from change in demographic assumptions	31	-16
– Gain/loss (-/+) from change in financial assumptions	589	-470
– Experience gains/losses (-/+)	223	53
Closing balance, pension obligations, 31 October	**17,830**	**17,474**

Change in fair value of plan assets	31 Oct 2018	31 Oct 2017
Opening balance, plan assets	22,345	21,289
Settlements	-186	-234
Interest income	468	428
Contributions/premiums paid	128	546
Other expenses/revenue	31	-5
Reclassification	31	–
Pensions paid out	-712	-854
Exchange-rate differences	113	-31
	22,218	**21,139**
Remeasurements:		
– Special payroll tax	-263	284
– Exchange-rate differences	–	–
– Return on plan assets (excluding amounts included in interest income)	-100	922
Closing balance, plan assets, 31 October	**21,855**	**22,345**

Change in pension funds (net)	31 Oct 2018	31 Oct 2017
Opening balance, pension funds (net)	**4,871**	**2,615**
Total recognized in profit and loss	90	7
Reclassification	14	25
Remeasurements	-943	1,355
Contributions/premiums paid	283	546
Special payroll tax	-263	263
Exchange-rate differences	-27	60
Closing balance, pension funds (net), 31 October	**4,025**	**4,871**

Note 15 continued

Breakdown of the defined-benefit plan obligations and composition of plan assets by country	31 Oct 2018					31 Oct 2017				
	Sweden	Norway	Denmark	Other	Total	Sweden	Norway	Denmark	Other	Total
Present value of obligation	-15,614	-702	-228	-1,286	-17,830	-14,923	-980	-245	-1,326	-17,474
Fair value of plan assets	19,930	304	206	1,415	21,855	20,403	434	215	1,293	22,345
Pension funds (net)	**4,316**	**-398**	**-22**	**129**	**4,025**	**5,480**	**-546**	**-30**	**-33**	**4,871**

Remeasurements — analysis of amounts recognized under other comprehensive income	FY18	FY17
– Gain/loss (+/-) from change in demographic assumptions	-31	16
– Gain/loss (+/-) from change in financial assumptions	-589	470
– Experience gains/losses (+/-)	-223	-53
– Special payroll tax	-263	263
– Return on plan assets (excluding amounts included in interest income)	-100	922
Total remeasurements	**-1,206**	**1,618**

During the year, the discount rate was unchanged in Sweden and Denmark but rose in Norway, the UK and the US. The total impact of changed discount rates entailed a positive impact on other comprehensive income of SEK 0.2 billion. During the year, SAS raised its assumed rate of inflation for Sweden from 1.6% to 1.9%, which resulted in a negative impact on other comprehensive income of SEK 0.7 billion. The return on plan assets was below the discount rate, which entailed a negative impact on other comprehensive income of SEK 0.1 billion. Moreover, a negative item of SEK 0.2 billion was recognized under the experience gains/losses item as a result of full index adjustment.

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' 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 K2018 (K2013) for Norway.

	31 Oct 2018					31 Oct 2017				
The key actuarial assumptions were as follows:	Sweden	Norway	Denmark	Other	Total	Sweden	Norway	Denmark	Other	Total
Discount rate	2.20%	2.85%	0.70%	3.46%	2.30%	2.20%	2.10%	0.70%	2.90%	2.23%
Inflation	1.90%	1.50%[1]	1.75%	3.4%[2]	1.89%	1.60%	1.50%[1]	1.75%	3.4%[2]	1.60%
Salary growth rate	2.00%	1.75%	1.75%	–	1.99%	2.00%	1.75%	1.75%	–	1.98%
Pension growth rate	1.90%	0.95%	1.75%	3.3%[2]	1.96%	1.60%	1.50%	1.75%	3.3%[2]	1.70%

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
Fiscal year 2018	14.6	10.7	6.3	16.8
Fiscal year 2017	14.6	7.9	7.0	16.6

Note 15 continued

Plan assets are comprised as follows[1]:	31 Oct 2018 Total	%	31 Oct 2017 Total	%
Alecta (Sweden):				
Equities, of which 44% was invested in Swedish equities	3,808	41	3,985	43
Interest-bearing securities, of which 50% was invested in Swedish interest-bearing instruments	4,645	50	4,634	50
Properties	836	9	649	7
	9,289	**100**	**9,268**	**100**
Euroben (Sweden):				
Equities, of which 30% was invested in Swedish equities	2,835	29	2,810	28
Interest-bearing securities	6,060	62	6,121	61
Properties	880	9	695	7
Other	–	–	408	4
	9,775	**100**	**10,034**	**100**
Danica (Denmark):				
Equities	35	17	32	15
Interest-bearing securities	146	70	155	72
Properties	27	13	28	13
	208	**100**	**215**	**100**
DnB (Norway):				
Equities	37	12	43	10
Interest-bearing securities	237	78	346	80
Properties	28	9	41	9
Other	2	1	4	1
	304	**100**	**434**	**100**
Other countries:				
Equities	359	26	329	25
Interest-bearing securities	684	48	495	37
Other	372	26	507	38
	1,415	**100**	**1,331**	**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 respectively. Only an insignificant share of the plan assets is invested in SAS shares.

Membership statistics at 31 October 2018	Active employees	Taken early retirement	Deferred pensioners	Pensioners
The Alecta plan	2,031	–	3,176	3,585
Euroben	48	–	513	991
Other plans in Sweden (unfunded)	–	–	–	73
DnB	–	196	–	429
Danica	14	–	–	14
Other	23	–	454	562
Total	2,116	196	4,143	5,654

The effect on/sensitivity of the defined-benefit obligation to changes in the key assumptions, MSEK:	Sweden	Norway	Denmark	Other	Total
Discount rate, -1%	-2,678	-95	-17	-207	-2,997
Inflation, +1%[1]	- 2,827	-40	-2	-43	-2,912
Salary, +1%	-230	–	–	–	-230

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

	31 Oct 2018	31 Oct 2017
Expendable spare parts, flight equipment	331	279
Expendable spare parts, other	35	16
Inventories	35	26
Total	**401**	**321**
Measured at cost	401	321
Measured at net realizable value	–	–
Total	**401**	**321**

NOTE 17 CURRENT RECEIVABLES

Net impairment of accounts receivable and recovered accounts receivable as well as impairment of other current receivables totaled MSEK 14 (16) and was charged to income.

Age analysis of non-impaired accounts receivable	31 Oct 2018	31 Oct 2017
Accounts receivable not yet due	1,138	1,334
Due < 31 days	24	13
Due 31–90 days	39	5
Due 91–180 days	9	3
Due > 180 days	9	8
Total	**1,219**	**1,363**

Provision for doubtful accounts receivable	31 Oct 2018	31 Oct 2017
Opening provision	9	9
Provision for expected losses	11	11
Reversed provisions	-1	-2
Actual losses	-4	-9
Closing provision	**15**	**9**

NOTE 18 CURRENT RECEIVABLES FROM AFFILIATED COMPANIES

	31 Oct 2018	31 Oct 2017
Air Greenland A/S	1	2
Total	**1**	**2**

NOTE 19 PREPAID EXPENSES AND ACCRUED INCOME

	31 Oct 2018	31 Oct 2017
Prepaid expenses	431	403
Accrued income	398	447
Total	**829**	**850**

NOTE 20 SHORT-TERM INVESTMENTS

	31 Oct 2018	31 Oct 2017
Treasury bills	287	284
Deposits	980	3,121
Commercial paper	2,842	2,411
Tax deduction account in Norway	123	116
Total	**4,232**	**5,932**

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 339 (846).

NOTE 21 SHARE CAPITAL

SHARE CAPITAL

The company has three classes of shares: common shares, preference shares and subordinated shares.

As of 31 October 2018, a total of 382,582,551 common shares and 2,101,552 preference shares were issued and outstanding, which together constituted a registered share capital of SEK 7,732,150,470. During fiscal year 2016, a conversion was made of SAS' convertible bond to 1,082,551 common shares. In fiscal year 2017, SAS completed a private placement of 52,500,000 common shares. The 382,582,551 common shares have a quotient value of SEK 20.10 per share. During fiscal year 2014, an issue of 7,000,000 preference shares was made, each with a quotient value of SEK 20.10. SAS redeemed 4,898,448 preference shares in fiscal year 2018. The 2,101,552 preference shares outstanding have a quotient value of SEK 20.10 per share. After the close of the fiscal year, all preference shares were redeemed as of 5 December 2018.

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 as of 31 October 2018. SAS' 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' 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 instruments[1].

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 5 February 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 5 February 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. After the close of the fiscal year, all preference shares were redeemed as of 5 December 2018.

NOTE 22 RESERVES

Translation reserve	2018	2017
Opening translation reserve	-198	-74
Translation differences for the year	147	-124
Closing translation reserve, 31 October	**-51**	**-198**
Hedging reserve		
Opening hedging reserve	1,472	1,325
Cash-flow hedges:		
– Recognized directly in other comprehensive income	1,237	395
– Change in statement of income	-1,442	-207
– Tax attributed to year's change in hedging reserve	45	-41
Closing hedging reserve, 31 October	**1,312**	**1,472**
Total reserves		
Opening reserves	1,274	1,251
Change in reserves for the year:		
– Translation reserve	147	-124
– Hedging reserve	-160	147
Closing reserves, 31 October	**1,261**	**1,274**

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.

	31 Oct 2018	31 Oct 2017
Subordinated loans	1,161	1,067
Bonds	360	–
Other loans	341	15
Total	**1,862**	**1,082**

NOTE 24 SUBORDINATED LOANS

A subordinated loan of MCHF 200 was issued during fiscal year 1986. 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.

1) At 31 October 2018, SAS had two financial instruments issued that limit dividend rights for holders of SAS common shares. According to the conditions of the preference shares, dividends could not be paid to holders of common shares if the preference share capital exceeded 50% of the recognized shareholders' equity. Full dividends must also have been paid to preference shareholders. The preference shares were redeemed as of 5 December 2018. In November 2017, SAS issued a SEK 1.5 billion unsecured bond, which was increased to SEK 2.25 billion in June 2018. 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.

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 1,161 (1,067).

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 36 (31), with a countervalue of MSEK 331 (328). 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. SAS an MSEK 1,500 bond in November 2017 and issued a further tranche of MSEK 750 MSEK in June 2018. On the closing date, the SAS Group's issued bonds amounted to MSEK 3,040 (2,470). A specification of individual bond loans is provided below:

				31 Oct 2018		31 Oct 2017	
Original amount issued	**Coupon rate**	**Term**	**Debt outstanding, currency**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
MEUR 25.0		2011/17	–	–	–	243	243
MEUR 30.0	4.4%[1]	2017/22	MEUR 29.7	309	331	289	296
MEUR 10.0	3.6%[1]	2016/21	MEUR 10	104	109	97	98
MEUR 35.0	3.6%[1]	2018/23	MEUR 34.6	360	394	–	–
MSEK 1,500.0		2013/17	–	–	–	1,500	1,503
MSEK 2,250.0	5.2%	2017/22	MSEK 2,267.1	2,267	2,202	–	–
MEUR 35.0		2013/18	–	–	–	341	358
Total				**3,040**	**3,036**	**2,470**	**2,498**
Less amortization FY19 and FY18				–	–	-2,084	-2,103
Total				**3,040**	**3,036**	**386**	**395**

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

	31 Oct 2018		31 Oct 2017	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Finance leases	2,706	2,832	1,534	1,601
Convertible bond	1,559	1,582	1,521	1,823
Other loans	1,298	1,317	1,817	1,881
Total before amortization	**5,563**	**5,731**	**4,872**	**5,305**
Less amortization FY19 and FY18	-2,272	-2,383	-784	-859
Total other loans	**3,291**	**3,348**	**4,088**	**4,446**

Maturity profile of other loans	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**2023>**	**Total**
Finance leases	324	371	1,018	205	447	341	2,706
Convertible bond	1,559	–	–	–	–	–	1,559
Other loans	389	255	450	184	20	–	1,298
Total	**2,272**	**626**	**1,468**	**389**	**467**	**341**	**5,563**

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, 31 October 2017, 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 4.115% for finance leases, 3.625% for convertible bonds and 3.978% 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 31 October 2018, the Group signed an agreement on derivatives covering approximately 52% of the Group's forecast jet-fuel requirement for November 2018–October 2019. In November 2017–October 2018, jet-fuel-related costs accounted for 18.7% of the Group's operating expenses, compared with 16.5% in November 2016–October 2017.

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 31 October 2018, the Group had signed agreements for derivatives covering approximately 49% of the Group's forecast commercial currency exposure for November 2018–October 2019.

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 with a permitted interval of 1–4 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 31 October 2018, the average fixed-interest term was 2.7 (2.2) 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 2018–October 2019 period is affected by around MSEK 17 (22) 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 -17 (-22). The estimate also includes interest-rate derivatives.

SENSITIVITY ANALYSIS, REVALUATION EFFECT ON CLOSING DATE

			31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017
Market risk	**Change**	**Currency**	**Earnings impact**	**Earnings impact**	**Equity impact**	**Equity impact**
Fuel price	+/- 10%		-15/-78	-16/12	405/-217	267/-242
Currency risk, SEK	+/- 10%	CNY	2/-2	1/-1	23/-23	22/-22
Currency risk, SEK	+/- 10%	DKK	-4/4	-11/11	0/0	-18/18
Currency risk, SEK	+/- 10%	EUR	-1/1	-3/3	-7/7	0/0
Currency risk, SEK	+/- 10%	JPY	1/-1	0/0	34/-34	22/-22
Currency risk, SEK	+/- 10%	NOK	14/-14	5/-5	290/-290	242/-242
Currency risk, SEK	+/- 10%	USD	-52/52	-54/113	-119/357	-238/468
Currency risk, SEK	+/- 10%	OTHER	0/0	-1/1	37/-37	20/-20
Market interest rates	+/- 1%		–	–	46/-46	–

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 interest-rate derivatives such as Forward Rate Agreements (FRAs), futures, interest-rate swap contracts and currency interest-rate swap contracts. As 31 October 2018, the fair value of the SAS Group's outstanding derivative instruments totaled MSEK 476 (467), broken down according to the table below.

	31 Oct 2018	31 Oct 2018 Fair value			31 Oct 2017	
	Outstanding volume	Assets	Liabilities	Net	Outstanding volume	Fair value, net
Currency derivatives	18,176	189	-159	30	13,926	72
Interest-rate derivatives	2,960	112	–	112	–	–
Fuel derivatives	6,226	345	-11	334	3,243	395
Total	**27,362**	**646**	**-170**	**476**	**17,169**	**467**

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.

	31 Oct 2018	31 Oct 2017
Other long-term receivables	80	–
Other receivables	566	574
Total derivative assets	**646**	**574**
Current liabilities	-170	-107
Total derivative liabilities	**-170**	**-107**
Derivative assets/liabilities net at end of the period	**476**	**467**
Allocation of derivatives according to the following:		
Cash-flow hedges	495	499
Fair-value hedges	–	–
Net investment hedges	–	–
Derivatives not designated as hedges for accounting purposes	-19	-32
Derivative assets/liabilities *net at end of the period*	**476**	**467**

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.

	31 Oct 2018			31 Oct 2017		
	Financial assets	Financial liabilities	Total	Financial assets	Financial liabilities	Total
Gross amount	646	-170	476	574	-107	467
Amount offset	–	–	–	–	–	–
Recognized in the balance sheet	**646**	**-170**	**476**	**574**	**-107**	**462**
Amounts covered by netting agreements	-552	165	-387	-498	51	-447
Net amount after netting agreements	**94**	**-5**	**89**	**76**	**-56**	**15**

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 31 October 2018, 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 998 (1,091).

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 31 October 2018, the accumulated currency effect of these cash-flow-hedged currency derivatives was recognized in equity in the amount of MSEK 52 (97).

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 31 October 2018, the accumulated effect on these cash-flow-hedged interest derivatives was recognized in equity in the amount of MSEK 88 (–).

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 31 October 2018, the accumulated effect on these cash-flow-hedged fuel derivatives was recognized in equity in the amount of MSEK 174 (284). The time value is remeasured on an ongoing basis at fair value through profit or loss.

All together, MSEK 1,682 (1,472) relating to cash-flow hedges was recognized in equity at 31 October 2018, and is expected to affect the statement of income in the following years as follows:

Note 27 continued

	FY19	FY20	FY21	FY22	FY23	FY24>	Total
Aircraft	201	207	216	102	100	454	1,280
Commercial flows	67	–	–	–	–	–	67
Interest-rate derivatives	32	75	5	–	–	–	112
Fuel derivatives	223	–	–	–	–	–	223
Deferred tax	-115	-62	-49	-22	-22	-100	-370
Effect on equity	**408**	**220**	**172**	**80**	**78**	**354**	**1,312**

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 31 October 2018, 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 2018, 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, 31 October, SAS had secured 100% of the need for emission rights for 2018 and 50% of the expected need for 2019. At the balance-sheet date, SAS had an accrued emission rights liability of MSEK 96 on the balance sheet and purchased emission rights assets of MSEK 10. During the November 2017 to October 2018 period, SAS expensed emission rights to a value of MSEK 110.

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 1% in the rest of Europe and 13% 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:

	Carrying amount	
Rating (Moody's)	**31 Oct 2018**	**31 Oct 2017**
Aaa/P-1	287	735
Aa1/P-1	651	410
Aa2/P-1	–	1,062
Aa3/P-1	5,401	4,642
A1/P-1	2,126	1,211
A2/P-1	843	2
A3/P-1	448	774
Total	**9,756**	**8,836**

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 31 October 2018, financial preparedness amounted to MSEK 12,202 (10,613), with cash and cash equivalents amounting to MSEK 9,417 (7,913) and unutilized credit facilities totaling MSEK 2,785 (2,700) or 42% (37%) 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' 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 31 October 2018, the Group's interest-bearing liabilities amounted to MSEK 10,092 (8,575); 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 2.9 years (1.7) 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	2,770	of which interest-bearing	2,180
Accounts receivable	1,219	of which interest-bearing	–
Receivables from affiliated companies	1	of which interest-bearing	–
Other receivables	866	of which interest-bearing	588
Short-term investments	4,232		4,232
Cash and bank balances	5,524		5,524
Subordinated loans	-1,161		-1,161
Bonds	-3,040		-3,040
Other loans	-3,291		-3,291
Other long-term liabilities	-116	of which interest-bearing	–
Current portion of long-term loans	-2,272		-2,272
Short-term loans	-328		-328
Accounts payable	-1,675	of which interest-bearing	–
Other liabilities	-582	of which interest-bearing	–
Net financial receivables			**2,432**

Note 27 continued

LIQUIDITY RISK

31 Oct 2018	Up to 3 months	4–12 months	1–5 years	Over 5 years
Financial liabilities				
Subordinated loans	7	–	29	1,182
Bonds	123	6	3,202	367
Finance leases	131	296	2,083	387
Convertible bond	–	1,603	–	–
Other loans	68	125	1,250	–
Other long-term liabilities	–	–	116	–
Short-term loans	–	–	–	–
– Fuel derivatives	–	–	–	–
– Currency derivatives	78	22	–	–
Other liabilities	55	527	–	–
Accounts payable	1,675	–	–	–
Total	**2,137**	**2,579**	**6,680**	**1,936**
Currency derivatives, gross[1]	14,804	3,372	–	–
Financial assets				
Other holdings of securities	–	–	3	–
Other long-term receivables	113	100	2,007	417
– Interest-rate derivatives	–	–	75	5
Accounts receivable	1,201	18	–	–
Receivables from affiliated companies	–	1	–	–
Other receivables	4	18	278	–
– Fuel derivatives	176	48	–	–
– Currency derivatives	104	67	–	–
– Interest-rate derivatives	7	25	–	–
Short-term investments	4,232	–	–	–
Cash and bank balances	5,524	–	–	–
Total	**11,361**	**277**	**2,363**	**422**
Net	**9,224**	**-2,302**	**-4,317**	**-1,514**

31 Oct 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	–
Convertible bond	–	57	1,603	–
Other loans	115	596	1,457	15
Short-term loans	–	–	–	–
– Fuel derivatives	–	4	–	–
– Currency derivatives	89	14	–	–
Other liabilities	624	88	–	–
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**

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 31 October 2018.

				31 Oct 2018	31 Oct 2017
Facility	**Maturity**	**Total facility**	**Utilized facility**	**Unutilized facility**	**Unutilized facility**
Credit facility, MEUR 150	2021	1,561	–	1,561	1,459
Credit facility, MUSD 137	2020	1,256	32	1,224	1,116
Credit facility, MUSD 26	2020	239	239	–	–
Credit facility, MUSD 34	2021	309	309	–	–
Credit facility, MUSD 26	2020	240	240	–	–
Credit facility, MUSD 57	2023	521	521	–	125
Total		**4,125**	**1,341**	**2,785**	**2,700**

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.

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

	31 Oct 2018		31 Oct 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial assets at fair value	636	636	551	551
Financial assets held for trading	3,641	3,641	5,741	5,741
Other assets	10,057	10,049	6,448	6,551
Total	**14,334**	**14,326**	**12,740**	**12,843**
Financial liabilities				
Financial liabilities at fair value	141	141	52	52
Financial liabilities held for trading	29	29	55	55
Financial liabilities at amortized cost	11,675	10,977	10,091	9,813
Total	**11,845**	**11,147**	**10,198**	**9,920**

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	31 Oct 2018			31 Oct 2017		
	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	–	80	–	–	–	–
Other receivables						
– Fuel derivatives	–	345	–	–	399	–
– Currency derivatives	–	189	–	–	175	–
– Interest-rate derivatives	–	32	–	–	–	–
Short-term investments	287	2,841	–	400	2,411	–
Cash and bank balances	–	500	–	2,904	–	–
Total	**287**	**3,990**	**–**	**3,304**	**2,988**	**–**
LIABILITIES						
Other loans						
– Interest-rate derivatives	–	–	–	–	–	–
Short-term loans						
– Fuel derivatives	–	11	–	–	4	–
– Currency derivatives	–	159	–	–	103	–
– Interest-rate derivatives	–	–	–	–	–	–
Total	**–**	**170**	**–**	**–**	**107**	**–**

Note 27 continued

CATEGORIZATION OF FINANCIAL ASSETS AND LIABILITIES

31 Oct 2018	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]
	Fair value	*Amortized cost*	*Fair value*	*Amortized cost*	*Fair value*			
ASSETS								
Other holdings of securities	–	–	3	–	–	–	3	3
Other long-term receivables	–	2,690	–	–	–	–	2,690	2,690
– Interest-rate derivatives	–	–	–	–	80	–	80	80
Accounts receivable	–	1,219	–	–	–	–	1,219	1,210
Receivables from affiliated companies	–	–	–	–	–	1	1	1
Other receivables	–	20	–	–	–	280	300	300
– Fuel derivatives	–	–	–	–	345	–	345	345
– Currency derivatives	10	–	–	–	179	–	189	189
– Interest-rate derivatives	–	–	–	–	32	–	32	32
Short-term investments	3,128	1,104	–	–	–	–	4,232	4,232
Cash and bank balances	500	5,024	–	–	–	–	5,524	5,524
Total	**3,638**	**10,057**	**3**	–	**636**	**281**	**14,615**	**14,606**
LIABILITIES								
Subordinated loans	–	–	–	1,161	–	–	1,161	337
Bonds	–	–	–	–	–	–	3,040	3,036
Other loans	–	–	–	3,291	–	–	3,291	3,348
– Interest-rate derivatives	–	–	–	–	–	–	–	–
Other liabilities	–	–	–	46	–	536	582	582
Current portion of long-term loans	–	–	–	2,272	–	–	2,272	2,383
Short-term loans	–	–	–	158	–	–	158	151
– Fuel derivatives	–	–	–	–	11	–	11	11
– Currency derivatives	29	–	–	–	130	–	159	159
– Interest-rate derivatives	–	–	–	–	–	–	–	–
Accounts payable	–	–	–	1,675	–	–	1,675	1,675
Total	**29**	–	–	**11,643**	**141**	**536**	**12,349**	**11,682**

31 Oct 2017	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]
	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	–	–	–	–	–	–	–	–
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	–	–	–	–	–	–	–	–
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**	–	**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	–	–	–	–	–	–	–	–
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	–	–	–	–	–	–	–	–
Accounts payable	–	–	–	1,448	–	–	1,448	1,448
Total	**55**	–	–	**10,091**	**52**	**537**	**10,735**	**10,456**

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	
	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017
Opening balance	431	598	1,776	1,719	2,524	–	229	229	4,960	2,546
Reclassifications	–	–	–	–	–	2,238	–	–	–	2,238
New provisions	255	110	855	1,168	1,327	1,717	1	1	2,438	2,996
Utilized provisions	-214	-272	-723	-1,111	-1,591	-1,274	0	0	-2,528	-2,657
Currency effect	1	-5	–	–	199	-157	2	-1	202	-163
Closing balance	**473**	**431**	**1,908**	**1,776**	**2,459**	**2,524**	**232**	**229**	**5,072**	**4,960**

Breakdown in balance sheet:	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017
Long-term liabilities	228	236	1,908	1,776	1,895	1,439	13	10	4,044	3,461
Current liabilities	245	195	–	–	564	1,085	219	219	1,028	1,499
	473	**431**	**1,908**	**1,776**	**2,459**	**2,524**	**232**	**229**	**5,072**	**4,960**

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 property costs.

The long-term portion of the restructuring reserve will be fully utilized within five 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 related to aircraft under operating leases. The undertakings primarily pertain to engines, but also include landing gear, air frames and APUs. The long-term portion pertains primarily to a large number of undertakings with an average duration of just under four years. The longest undertaking extends for just less than 12 years.

NOTE 29 SHORT-TERM LOANS

	31 Oct 2018	31 Oct 2017
Accrued interest	158	59
Derivatives	170	107
Total	**328**	**166**

NOTE 30 ACCRUED EXPENSES AND PREPAID INCOME

	31 Oct 2018	31 Oct 2017
Vacation pay liability	1,071	1,016
Other accrued payroll expenses	272	280
Selling costs	270	443
Fuel costs	317	219
Government user fees	271	282
Leasing costs	189	234
Handling costs	255	279
Computer and telecommunication costs	150	161
Other accrued expenses	473	404
Prepaid income	41	16
Total	**3,309**	**3,334**

NOTE 31 PLEDGED ASSETS

	31 Oct 2018	31 Oct 2017
Related to liabilities:		
Aircraft mortgages	4,197	4,647
Related to deposits:		
Deposits and blocked bank funds	2,894	3,246
Total	**7,092**	**7,893**

At 31 October 2018, the liability outstanding related to aircraft mortgages was MSEK 1,341 (1,436).

NOTE 32 CONTINGENT LIABILITIES

	31 Oct 2018	31 Oct 2017
Guarantees related to:		
Emission rights	257	47
Other	14	16
Total	**271**	**63**

In conjunction with the sale of two slot pairs at London Heathrow in fiscal year 2017, 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 40.

NOTE 33 LEASING COMMITMENTS

The SAS Group has entered into the following leasing commitments, with specification of the total annual rent for:

	FY19	FY20	FY21	FY22	FY23	FY24>
Aircraft	3,343	3,241	3,050	2,602	2,336	6,870
Properties	586	499	489	459	467	1,860
Machinery and equipment	344	315	292	291	250	91
Total	**4,273**	**4,055**	**3,831**	**3,352**	**3,053**	**8,821**

Leases with an annual rental cost in excess of MSEK 0.5 are included. Total lease costs in fiscal year 2018 amounted to MSEK 4,687 (4,143), of which a positive effect of MSEK 7 (28) 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 fiscal year 2018, assets were subleased to third parties for a total of MSEK 106 (159). The value of future fixed payments for these assets amounted to MSEK 196 (217).

At the end of fiscal year 2018, the SAS Group aircraft fleet totaled 157 aircraft, of which 110 were leased. After the end of the fiscal year, operating leases were signed for five additional aircraft.Since these agreements were signed after the end of the fiscal year, they are not included in the above leasing commitments.

NOTE 34 ADJUSTMENT FOR OTHER NON-CASH ITEMS, ETC.

	FY18	FY17
Share of income in affiliated companies	-35	-4
Dividends from affiliated companies	13	23
Earnings impact from measuring financial instruments according to IAS 39	-31	62
Revaluations of pension commitments	-90	–
Provisions	355	257
Other	16	3
Total	**228**	**341**

NOTE 35 SALE OF SUBSIDIARIES

The transaction, whereby the subsidiary Cimber A/S was divested in fiscal year 2017, was completed in fiscal year 2018.

The value of the sold assets and liabilities was as follows:

	FY18	FY17
Fixed assets	–	14
Current assets	–	5
Cash and cash equivalents	–	29
Long-term liabilities	–	–
Current liabilities	–	-24
Total	–	**24**
Capital gain/loss excluding selling costs	–	-19
Purchase price	–	**5**
Selling costs	-3	–
Cash and cash equivalents in divested companies	–	-29
Impact on the Group's cash and cash equivalents	**-3**	**-24**

NOTE 36 LIABILITIES IN FINANCING ACTIVITIES

	31 Oct 2017	Proceeds from borrowings	Repayment of borrowings	Exchange-rate differences	Accrued	Derivatives	Reclassification to short-term	31 Oct 2018
Subordinated loans	1,067	–	–	94	–	–	–	1,161
Bonds	386	2,635	–	32	-13	–	–	3,040
Other loans	4,088	1,218	–	265	-8	–	-2,272	3,291
Current portion of long-term loans	2,868	–	-2 921	50	3	–	2,272	2,272
Short-term loans	166	–	–	–	99	63	–	328
Total	**8,575**	**3,853**	**-2,921**	**441**	**81**	**63**	**0**	**10,092**

NOTE 37 CASH AND CASH EQUIVALENTS

	31 Oct 2018	31 Oct 2017
Short-term investments	4,232	5,932
Cash and bank balances	5,524	2,904
Cash and cash equivalents at year end	**9,756**	**8,836**

Disclosure of interest paid:

During the year, interest received amounted to MSEK 120 (153), of which MSEK 84 (127) pertains to forward premiums for currency derivatives. During the year, interest paid amounted to MSEK 499 (582), of which MSEK 133 (117) refers to forward premiums for currency derivatives.

NOTE 38 AUDITORS' FEES

The following remuneration was paid to auditing firms for auditing services.

	FY18	FY17
Auditing services		
PwC	7	7
Other statutory assignments		
PwC	0	0
Tax consultancy services		
PwC	0	1
Other		
PwC	1	1
Total	**8**	**9**

PwC Sweden: Fees totalled MSEK 4.7 for auditing services, MSEK 0.0 for other statutory assignments, MSEK 0.1 for tax and MSEK 0.7 for other.

NOTE 39 TRANSACTIONS WITH AFFILIATED COMPANIES

Revenue from sales to affiliated companies amounted to MSEK 12 (16).

Cost of purchases from affiliated companies was MSEK 42 (47).

NOTE 40 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	
	FY18	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18	FY17
Passenger revenue	8,550	8,935	3,519	3,383	13,293	12,218	8,715	8,108	34,077	32,644
Freight and mail revenue	4	4	8	14	64	91	1,556	1,361	1,632	1,470
Charter revenue	0	0	0	0	1,957	1,964	0	0	1,957	1,964
Other traffic revenue	704	661	275	251	1,039	906	683	601	2,701	2,419
Total traffic revenue	**9,258**	**9,600**	**3,802**	**3,648**	**16,353**	**15,179**	**10,954**	**10,070**	**40,367**	**38,497**

	Denmark		Norway		Sweden		Europe		Other countries		Total	
	FY18	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18	FY17	FY18	FY17
Other operating revenue	**697**	**735**	**1,153**	**1,056**	**865**	**924**	**982**	**863**	**654**	**579**	**4,351**	**4,157**

In fiscal year 2018 and fiscal year 2017, 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 2,658 (1,987), 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	
	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017	31 Oct 2018	31 Oct 2017
Fixed assets	**893**	**848**	**299**	**310**	**3,950**	**3,930**	**362**	**187**	**11,424**	**9,887**	**16,928**	**15,162**

NOTE 41 SUBSIDIARIES IN THE SAS GROUP

	Domicile	Corp. Reg. No.	Total owned shares	Holding	31 Oct 2018 Carrying amount	31 Oct 2017 Carrying amount
Owned by SAS AB:						
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	3,970
SAS Individual Holdings AB	Stockholm	556063-8255	610,000	100	595	595
Linjeflyg AB	Sigtuna	556062-8454	2,000,000	100	237	237
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	19
Gorm Asset Management Ltd	Dublin	592913	1	100	0	0
Other					1	2
					9,940	**9,941**
Owned by SAS Consortium:						
SAS Capital B.V.	Rotterdam	167071	501	100	–	8
Other					2	2
					2	**10**
Owned by SAS Individual Holdings AB:						
Red 1 A/S	Copenhagen	24202941	500	100	1	1
					1	**1**
Owned by Gorm Asset Management Ltd:						
Gorm Dark Blue Ltd	Dublin	593238	1	100	0	0
Gorm Deep Blue Ltd	Dublin	593239	1	100	0	0
Gorm Sky Blue Ltd	Dublin	593240	1	100	0	0
Gorm Light Blue Ltd	Dublin	617208	1	100	0	–
Gorm Warm Red Ltd	Dublin	627405	1	100	0	–
Gorm Ocean Blue Ltd	Dublin	627406	1	100	0	–

NOTE 42 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. In November 2017, the number of common shares increased 52,500,000 as a result of the private placement. As a result of the private placement, the conversion price was changed and the number of potential common shares increased by 793,448 shares.

	FY18	FY17
Net income for the year, attributable to Parent Company shareholders	1,589	1,149
Less preference-share dividend	-174	-350
Net income for the year, attributable to Parent Company shareholders, before dilution	**1,415**	**799**
Reversal of interest expense (convertible bond)	45	45
Net income for the year, attributable to Parent Company shareholders, after dilution	**1,460**	**844**
Weighted average number of common shares during the year, before dilution	**382,582,551**	**330,082,551**
Effect of potential common shares outstanding	66,329,543	65,536,095
Weighted average number of common shares during the year, after dilution	**448,912,094**	**395,618,646**
Earnings per common share before dilution (SEK)	3.70	2.42
Earnings per common share after dilution (SEK)	3.25	2.13

NOTE 43 RELATED-PARTY TRANSACTIONS

No significant related-party transactions took place in fiscal year 2018 or in fiscal year 2017 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 44 SIGNIFICANT EVENTS AFTER THE CLOSING DATE

SAS decided to redeem all 2.1 million preference shares for a total redemption cost of MSEK 1,112.The record date was on 30 November 2018 and the payment of redemption proceeds to preferred shareholders took place on 5 December 2018.

SAS AB, PARENT COMPANY, INCLUDING NOTES

STATEMENT OF INCOME

MSEK	Note	FY18	FY17
Revenue		56	92
Payroll expenses	1	-32	-34
Other operating expenses		-32	-73
EBIT		**-8**	**-15**
Income from participations in Group companies	2	0	-122
Income from other securities holdings	2	0	1
Interest income and similar income items		212	211
Interest expenses and similar income items		-230	-246
Income before appropriations and taxes		**-26**	**-171**
Appropriations		0	18
Tax	3	-14	6
Net income for the year		**-40**	**-147**

The Parent Company recognizes no items in other comprehensive income for fiscal year 2018 and fiscal year 2017, respectively. Accordingly, net income for the year for the Parent Company corresponds to comprehensive income.

A private placement of 52,500,000 common shares was conducted in November 2017 and, in February 2018, 4,898,448 preference shares were redeemed. During the previous year, an impairment charge of MSEK 125 was recognized against shares in subsidiaries.

BALANCE SHEET

ASSETS, MSEK	Note	31 Oct 2018	31 Oct 2017
Fixed assets			
Financial fixed assets			
Participations in subsidiaries	4	9,940	9,941
Other holdings of securities	5	2	2
Deferred tax assets	3	701	714
Receivables from Group companies		4,000	4,000
Other long-term receivables		0	4
Total fixed assets		**14,643**	**14,661**
Current assets			
Current receivables			
Receivables from Group companies		132	462
Prepaid expenses and accrued income		2	1
		134	**463**
Cash and bank balances		2	2
Total current assets		**136**	**465**
TOTAL ASSETS		**14,779**	**15,126**

SHAREHOLDERS' EQUITY AND LIABILITIES, MSEK	Note	31 Oct 2018	31 Oct 2017
Shareholders' equity			
Restricted equity			
Share capital		7,732	6,776
Statutory reserve		405	306
Unrestricted equity			
Retained earnings		2,232	4,885
Net income for the year		-40	-147
Total equity		**10,329**	**11,820**
Long-term liabilities			
Convertible loans	6	0	1,521
Bonds	7	2,243	0
Deferred tax liability	3	10	19
Total long-term liabilities		**2,253**	**1,540**
Current liabilities			
Current portion of long-term loans	6	1,559	1,500
Liabilities to Group companies		444	17
Accounts payable		3	6
Other liabilities		172	221
Accrued expenses and prepaid income		19	22
Total current liabilities		**2,197**	**1,766**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**14,779**	**15,126**

Information regarding the Parent Company's contingent liabilities is available in Note 8.

CHANGES IN SHAREHOLDERS' EQUITY

MSEK	Share capital	Restricted reserves	Unrestricted equity	Total share-holders' equity
Shareholders' equity, 31 October 2016	**6,776**	**306**	**5,235**	**12,317**
Preference share dividend			-350	-350
Net income for the year			-147	-147
Shareholders' equity, 31 October 2017	**6,776**	**306**	**4,738**	**11,820**
New issue	1,055		215	1,270
Issue costs			-37	-37
Redemption of preference shares	-99	99	-2,579	-2,579
Preference share dividend			-105	-105
Net income for the year			-40	-40
Shareholders' equity, 31 October 2018	**7,732**	**405**	**2,192**	**10,329**

Number of shares: 382,582,551 (330,082,551) common shares with a quotient value of SEK 20.10 (20.10) and 2,101,552 (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	FY18	FY17
OPERATING ACTIVITIES		
Income before appropriations and tax	-26	-171
Loss on liquidation of subsidiary	0	-3
Impairment of shares	–	125
Cash flow from operations before change in working capital	**-26**	**-49**
Change in:		
Operating receivables	52	-52
Operating liabilities	-34	33
Cash flow from change in working capital	**18**	**-19**
Cash flow from operating activities	**-8**	**-68**
INVESTING ACTIVITIES		
Investment in subsidiaries	–	-20
Liquidation of subsidiaries	1	10
Cash flow from investing activities	**1**	**-10**
FINANCING ACTIVITIES		
New issue	1,223	–
Redemption of preference shares	-2,579	–
Dividend on preference shares	-228	-350
Group contributions received	18	–
Bond redemption	-1,500	–
New bond	2,269	–
Change in short-term investments	263	383
Change in interest-bearing receivables	–	8
Change in interest-bearing liabilities	541	39
Cash flow from financing activities	**7**	**80**
Cash flow for the year	**0**	**2**
Cash and cash equivalents at beginning of the year	2	0
Cash and cash equivalents at year end	**2**	**2**

Disclosure of interest paid:

During the year, interest received amounted to MSEK 212 (215). During the year, interest paid amounted to MSEK 137 (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.

	FY18		FY17	
	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 73–75.

NOTE 2 INCOME FROM FINANCIAL ITEMS

	FY18	FY17
Dividend	0	1
Loss on liquidation of subsidiary	0	3
Impairment of shares	0	-125
Total	**0**	**-121**

NOTE 3 TAX

	FY18	FY17
Current tax	–	–
Deferred tax	-14	6
Total tax	**-14**	**6**
Deferred tax assets/liabilities		
Opening balance	695	689
Tax effect on items in equity	10	0
Deferred tax	-14	6
Closing balance tax assets/liabilities	**691**	**695**

NOTE 4 PARTICIPATIONS IN SUBSIDIARIES

See SAS Group Note 41 — Subsidiaries in the SAS Group, page 97.

NOTE 5 OTHER HOLDINGS OF SECURITIES

	31 Oct 2018	31 Oct 2017
Incorporate Cell Company	2	2
Total	**2**	**2**

NOTE 6 CONVERTIBLE LOANS

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 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 23.73 (24.0173). 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

	31 Oct 2018	31 Oct 2017
Issued MSEK 2,250 (1,500)	2,243	1,500
Total	**2,243**	**1,500**

A bond of MSEK 1,500 with maturity in 2022 was issued in November 2017 and carries a coupon rate of 5.375%. In the same month, the bond issued in 2013 was redeemed. In June 2018, the new bond issue was increased through issuing an additional tranche of MSEK 750.

The bond is classified under 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 31 December 2003 until it terminates on 30 September 2020.

SAS AB has also provided undertakings for each of the subsidiaries: Gorm Asset Management Ltd; Gorm Dark Blue Ltd; Gorm Deep Blue Ltd; Gorm Light Blue Ltd; Gorm Ocean Blue Ltd; and Gorm Sky Blue Ltd, which include completion guarantees for all contractual obligations with external lessors of aircraft. All the subsidiaries are based in Ireland and act as the counterparties in certain agreements with external lessors of aircraft.

NOTE 9 AUDITORS' FEES

	FY18	FY17
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.

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, 28 January 2019

Carsten Dilling
Chairman of the Board

Dag Mejdell Vice Chairman	**Monica Caneman** Board member	**Lars-Johan Jarnheimer** Board member
Oscar Stege Unger Board member	**Liv Fiksdahl** 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 28 January 2019. 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 13 March 2019.

Our auditors' report was submitted on 28 January 2019

PricewaterhouseCoopers AB

Bo Hjalmarsson Authorized Public Accountant *Auditor in Charge*	**Eva Medbrant** Authorized Public Accountant

AUDITOR'S REPORT

To the meeting of shareholders in SAS AB, Corporate Identity 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 year1 November 2017 – 31 October 2018 with the exception of the Corporate Governance Report on pages 48–60 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 32–105.

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 2018 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 2018 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. Our opinions in this report does not include the Corporate Governance Report on pages 48–60 of the printed version of this document. 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.

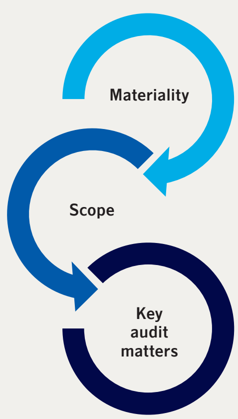
Our opinions in this report on the annual accounts and the consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for 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



- 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 different 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	HOW OUR AUDIT ADDRESSED THE 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 21,442 as at 31 October 2018 (see Note 33). In addition, SAS has during 2018 placed an order for 51 new aircraft which will be delivered during the period 2019-2023 together with the remaining 17 aircrafts from the previous Aribus order. The list price for these aircraft amounts to a total of approximately MUSD 3,290 (see Note 12) excluding 15 aricrafts for wich financing has been secrured. Company management deem that the remaining financing will be secured via a combination of leasing agreements, loan financing and cash flow from operating activities.	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 1–31 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 Managing Director

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.

Auditor's 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 2017 31 October 2018 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 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 Managing Director

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.

Auditor's 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 auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 48–60 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 10 April 2018 and has been the company's auditors since 20 March 2013.

Stockholm, 28 January 2019

PricewaterhouseCoopers AB

Bo Hjalmarsson Authorised Public Accountant Auditor in Charge	Eva Medbrant Authorised Public Accountant

OPERATIONAL KEY FIGURES

Passenger traffic-related key figures	FY18	FY17	FY16	FY15	FY14	FY13	Jan–Oct 2012	2011	2010	2009
Number of destinations served, scheduled	125	123	118	119	125	150	136	128	127	134
Number of flights, scheduled	291,908	298,100	297,481	293,898	294,679	402,460	338,870	396,134	367,817	380,470
Number of passengers, total, (000)[1]	30,082	30,065	29,449	28,884	29,408	30,436	25,916	28,990	27,096	26,967
Number of passengers, scheduled (000)	28,794	28,625	27,738	26,941	27,061	28,057	23,979	27,206	25,228	24,898
Available seat km, total (million)[1]	52,781	52,217	48,620	44,289	45,158	44,629	36,126	40,953	38,851	39,934
Available seat km, scheduled (million)	49,023	48,303	44,956	40,877	40,971	40,583	32,813	37,003	34,660	35,571
Revenue passenger km, total (million)[1]	39,946	40,078	36,940	33,781	34,714	33,451	27,702	30,668	29,391	29,025
Revenue passenger km, scheduled (million)	36,496	36,360	33,508	30,561	30,686	29,650	24,746	27,174	25,711	25,228
Load factor, total (%)[1]	75.7	76.8	76.0	76.3	76.9	75.0	76.7	74.9	75.6	72.7
Average passenger distance, total (km)	1,328	1,333	1,252	1,170	1,180	1,099	1,069	1,058	1,085	1,076
Weight-related key figures										
Available tonne km, ATK, total (mill. tonne km)	6,859	6,746	6,179	5,553	5,617	5,527	4,475	5,089	4,835	5,052
Available tonne km, scheduled (mill. tonne km)	6,372	6,251	5,741	5,132	5,119	5,042	4,098	4,604	4,318	4,463
Available tonne km, other (mill. tonne km)	487	495	437	421	498	485	377	485	517	589
Revenue tonne km, RTK, total (mill. tonne km)	4,808	4,819	4,404	3,989	4,067	3,930	3,201	3,555	3,448	3,327
Passengers and excess baggage (mill. tonne km)	3,964	3,976	3,666	3,354	3,446	3,308	2,733	3,018	2,897	2,863
Total load factor, total (%)	70.1	71.4	71.3	71.8	72.4	71.1	71.5	69.9	71.3	65.9
Traffic revenue/revenue tonne km (SEK)	8.40	7.99	8.11	8.92	8.34	9.53	9.94	10.23	10.42	11.34
Key figures for costs and efficiency										
Unit cost	0.72	0.69	0.70	0.79	0.75	0.80	0.81	0.86	0.95	1.02
Jet-fuel price paid incl. hedging, average (USD/tonne)	675	566	583	757	978	1,093	1,116	970	773	831
Revenue-related key figures										
Passenger revenue/revenue passenger km, scheduled, yield (SEK)	0.93	0.90	0.91	1.00	0.94	1.07	1.09	1.12	1.16	1.30
Passenger revenue/available seat km, scheduled, (SEK)	0.70	0.68	0.68	0.75	0.70	0.78	0.82	0.82	0.86	0.92
Environmental key figures										
CO_2, gram/passenger km[2]	95	96	99	101	100	104	118	122	121	127
Climate index[3] (Environmental index[4])	87	88	91	92	92	94	98	100	90	94
Key figures for Scandinavian Airlines										
Market share, to, from and within Scandinavia, (%)	32	31	31	32	33	32	33	33	34	36
Yield, currency-adjusted change, (%)	1.6	-2.9	-7.7	4.0	-7.4	-0.4	-1.0	-2.0	-7.4	-5.2
PASK, currency-adjusted change, (%)[5]	0.5	-1.9	-8.0	3.8	-5.8	-3.2	1.1	-1.3	-0.2	-7.3
Total unit cost, change, (%)	2.2	-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	961	951	903	866	865	861	844	847	823	816
No. of daily departures, scheduled, annual average	800	817	813	805	807	791	773	683	667	707
Number of aircraft in service[6]	157	158	156	151	156	151	156	157	159	172
Aircraft, block hours/day	9.6	9.6	9.3	8.8	9.0	8.7	8.2	8.1	7.5	8.0
Pilots, FTEs	1,273	1,345	1,300	1,228	1,396	1,413	1,328	1,304	1,297	1,609
Pilots, block hours/year	687	686	681	688	685	665	659	650	630	550
Pilots, payroll expenses, MSEK[7]	2,580	2,435	2,489	2,370	2,459	2,584	2,979	2,826	–	–
Cabin crew, FTEs	2,522	2,635	2,574	2,325	2,564	2,607	2,613	2,528	2,442	2,835
Cabin crew, block hours	771	777	759	762	762	721	674	660	640	616
Cabin crew, payroll expenses, MSEK[7]	1,767	1,613	1,647	1,546	1,587	1,769	2,087	2,076	–	–
Regularity, %	98.0	98.9	98.4	98.7	99.0	98.8	99.0	98.5	96.6	99.3
Punctuality (%) within 15 min.	77.7	83.6	83.9	87.9	88.4	86.2	89.4	88.9	86.9	90.1
Customer satisfaction, CSI	70	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 fiscal year 2013 onward.

3) The base year became the full-year 2011 in conjunction with 4Excellence. The result for the January–October 2012 period comprises November 2011–October 2012.

4) Refers to Scandinavian Airlines.

5) Refers to RASK prior to fiscal year 2014.

6) Including wet leases.

7) Excluding restructuring costs.

Definitions & concepts, see page 108.

TEN-YEAR FINANCIAL OVERVIEW

Statements of income, MSEK	2018	2017	2016	2015	2014	2013	2012[1]	2011	2010	2009
Revenue	44,718	42,654	39,459	39,650	38,006	42,182	35,986	41,412	41,070	44,918
Operating income before amortization and depreciation	3,774	2,844	2,962	2,877	1,576	3,647	955	3,019	246	-1,311
Depreciation, amortization and impairment	-1,763	-1,635	-1,367	-1,446	-1,443	-1,658	-1,426	-2,413	-1,885	-1,845
Share of income in affiliated companies	35	4	39	37	30	25	32	28	12	-258
Income from the sale of shares in subsidiaries and affiliated companies	-4	-21	-7	–	6	700	400	–	-73	429
Income from the sale of aircraft, buildings and slot pairs	479	995	265	777	-16	-118	-247	12	-239	-97
Financial revenue	129	148	91	124	102	50	96	224	174	304
Financial expenses	-609	-611	-553	-632	-1,130	-999	-1,055	-1,030	-1,041	-645
Earnings before tax, EBT	2,041	1,725	1,431	1,417	-918	1,648	-1,245	-1,629	-3,069	-3,423
Earnings before tax and nonrecurring items	2,127	1,951	939	1,174	-697	919	23	94	-444	-2,247
Balance sheets, MSEK										
Fixed assets	21,127	20,252	19,319	18,512	18,291	18,600	29,692	29,883	30,591	29,636
Current assets, excluding cash and cash equivalents	3,316	3,467	4,065	3,556	3,617	3,462	4,273	5,494	6,191	8,670
Cash and cash equivalents	9,756	8,836	8,370	8,198	7,417	4,751	2,789	3,808	5,043	4,189
Shareholders' equity	7,268	8,058	6,026	6,339	4,907	3,226	11,156	12,433	14,438	11,389
Long-term liabilities	12,011	9,363	9,822	10,275	10,384	10,173	12,111	13,889	13,932	13,069
Current liabilities	14,920	15,134	15,906	13,652	14,034	13,414	13,487	12,863	13,455	18,037
Total assets	34,199	32,555	31,754	30,266	29,325	26,813	36,754	39,185	41,825	42,495
Cash-flow statements, MSEK										
Cash flow from operating activities	4,559	2,443	3,663	3,036	1,096	1,028	2,562	-482	-155	-3,414
Investments	-6,840	-7,315	-5,960	-4,306	-2,113	-1,877	-2,595	-2,041	-2,493	-4,661
Sale of fixed assets, etc.	4,161	7,228	3,345	3,193	1,632	1,644	1,976	517	697	2,050
Cash flow before financing activities	1,880	2,356	1,048	1,923	615	795	1,943	-2,006	-1,951	-6,025
New issue	1,223	–	–	–	3,500	–	–	–	4,678	5,808
Redemption of preference shares	-2,579									
Dividend	-228	-350	-350	-350	-175	–	–	–	–	–
External financing, net	621	-1,537	-530	-787	-1,275	1,171	-2,961	763	-1,859	-1,524
Cash flow for the year	917	469	168	786	2,665	1,966	-1,018	-1,243	868	-1,741
Key and alternative performance measures[2]										
EBIT margin, %	5.6	5.1	4.8	5.6	0.4	6.2	-0.8	1.6	-4.7	-6.9
Return on shareholders' equity, %	22	18	24	18	-15	457	-25	-12	-17	-27
Return on invested capital, %	14	13	12	14	4	18	-1	4	-5	-6
Adjusted financial net debt/EBITDAR	2.7x	3.1x	3.2x	3.0x	4.2x	3.2x	6.5x	3.0x	8.0x	31.4x
Financial preparedness, %	42	37	41	40	37	26	31	33	34	23
Equity/assets ratio, %	21	25	19	21	17	12	30	32	35	27
Adjusted equity/assets ratio, %	13	15	12	13	11	8	24	26	28	21
Financial net debt, MSEK	-2,432	-2,799	-1,166	-726	1,102	4,567	6,549	7,017	2,862	6,504
Debt/equity ratio	-0.33	-0.35	-0.19	-0.11	0.22	1.42	0.59	0.56	0.2	0.57
Adjusted debt/equity ratio	2.70	2.28	3.08	2.65	3.14	5.13	1.54	1.33	0.89	1.7
Interest expense/average gross debt, %	6.4	6.6	5.4	5.6	7.4	7.6	8.1	7.3	6.9	5.6
Interest-coverage ratio	4.4	3.8	3.6	3.2	0.2	2.6	-1.6	-0.6	-1.9	-4.4

1) As a consequence of the Group's fiscal year changing to 1 November–31 October, fiscal year 2012 was shortened to the period 1 January–31 October. 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' earnings and performance. In the APMs based on capitalized leasing costs (×7), SAS' 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, capitalized leasing costs (×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' 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 (×7) in relation to equity.

Adjusted equity/assets ratio The net of equity in relation to total assets plus capitalized leasing costs (×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 (×7) The net annual operating lease costs for aircraft multiplied by seven.

Carbon dioxide (CO_2) A colorless gas that is formed in the combustion of all fossil fuels. The airline industry's CO_2 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 almost 300 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' 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 for 2,101,552 preference shares at 105% of the subscription price of SEK 500, amounting to MSEK 1,103.

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 (×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.

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.

Sale and leaseback Sale of an asset (aircraft, building, etc.) that is then leased back.

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 2019

ATTENDING THE AGM

The AGM of SAS will be held on March 13, 2019 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 January 23, 2019.

SENDING OF THE NOTICE AND NOTIFICATION OF ATTENDANCE

- The notice is scheduled to be published on February 6, 2019.
- Deadline for notification of attendance: March 6, 2019 in Denmark and Norway, and March 7 2019 in Sweden.

ADMISSION CARDS TO THE AGM WILL BE SENT ON

March 7–8, 2019

ANNUAL GENERAL SHAREHOLDERS MEETING

March 13, 2019, 3:00 PM

FINANCIAL CALENDAR 2019

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.

27 February 2019	Q1 Interim Report November 2018–January 2019
13 March 2019	Annual General Shareholders' Meeting 2019
28 May 2019	Q2 Interim Report February 2019–April 2019
27 August 2019	Q3 Interim Report May 2019–July 2019
5 December 2019	Year-end report November 2018–October 2019
January/February 2020	Annual Report and Sustainability Report, fiscal year 2019

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

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