



Welcome aboard



SAS Group
Annual Report & Sustainability Report **2005**

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Company information

Reports

All reports are available in English and Swedish and can be ordered from: SAS, SE-195 87 Stockholm, telephone +46 8 797 17 88, fax +46 8 797 51 10. They can also be ordered on the Internet: www.sasgroup.net Direct further questions to SAS Group Investor Relations, Vice President - Head of SAS Group Investor Relations, Sture Stølen, telephone +46 8 797 14 51 or e-mail: investor.relations@sas.se

Group publications

The Code of Conduct, rules and guidelines for business ethics for the SAS Group in Danish, Norwegian, Swedish, English and Spanish and "Civil Aviation in Scandinavia - value and importance" in Danish, Swedish and English are available in printed or digital form at www.sasgroup.net

Financial calendar

■ Annual General Shareholders' Meeting, Apr. 20, 2006
 ■ Interim Report 1 (Jan.-Mar.), May 4, 2006
 ■ Interim Report 2 (Jan.-Jun.), Aug. 9, 2006
 ■ Interim Report 3 (Jan.-Sep.), Nov. 8, 2006
 ■ Year-end Report 2006, Feb. 2007
 ■ Annual Report 2006, March 2007
The SAS Group's monthly traffic data and most recently updated financial calendar are available under Investor Relations at www.sasgroup.net

Annual General Shareholders' Meeting

The SAS Group's Annual General Shareholders' Meeting will be held on April 20 at 3:00 p.m. Venues:
 ■ Copenhagen: Radisson SAS Scandinavia, Hotel, Amager Boulevard 70
 ■ Solna: The SAS Group head office, Frösundaviks Allé 1
 ■ Oslo: Radisson SAS Plaza Hotel, Sonja Henies Plass 3.

The SAS Group

SAS AB is the parent company of the SAS Group, the Nordic region's largest listed airline and travel group, offering air transport, airline related services and hospitality services. Scandinavian Airlines, Spanair and Blue1 are members of the world's largest global airline alliance - Star Alliance™. The Group also includes the airlines Widerøe and airBaltic as well as the partly owned airline Estonian Air. The other business areas are Airline Support Businesses, Airline Related Businesses and Hotels.



The Annual Report 2005 follows the business structure above. As of January 1, 2006, the business area Airline Related Businesses was eliminated, and SAS Business Opportunities was moved to Scandinavian Airlines Businesses. SAS Flight Academy was moved to Airline Support Businesses and SAS Media to Corporate Functions. The new business structure in effect from January 1, 2006, is found on page 93.

The SAS Group in brief (Definitions & concepts, see back flap.)

Summary statement of income, Group			2005	2004 ¹	Key figures, Group			2005	2004
Operating revenue, MSEK			61,887	58,093	Investment, MSEK		1,827	3,865	
EBITDAR, MSEK			6,117	4,468	Average number of employees ¹		32,363	32,481	
EBITDAR margin			9.9%	7.7%	Total number of aircraft		294	297	
EBIT, MSEK			1,373	-792	Number of daily departures, average		1,520	1,450	
EBIT margin			2.2%	-1.4%	Number of destinations		147	146	
CFROI			13%	9%	Carbon dioxide (CO ₂), 000 tonnes		6,182	5,951	
Income before capital gains and nonrecurring items, MSEK			114	-1,701	Nitrogen oxides (NO _x), 000 tonnes		23.2	22.0	
EBT, income after financial items, MSEK			418	-1,833					

¹ Restated result (for description, see the Report by the Board of Directors, page 56).

Earnings and degree of achievement of long-term targets, Group companies, 2005					Key figures, share, SEK			2005	2004
	Negative earnings	Positive earnings	Target achievement ¹	Improvement since 2004	Earnings per share		1.06	-10.70	
Scandinavian Airlines Danmark	●	●	●	✓	Market price at year-end		104.5	60.0	
SAS Braathens	●	●	●	✓	Dividend (proposed for 2005)		0.0	0.0	
Scandinavian Airlines Sverige	●	●	●	✓	Dividend yield, average price		0.0%	0.0%	
Scandinavian Airlines International	●	●	●	✓					
Spanair	●	●	●	✓	Key figures, Group's airline operations				
Widerøe	●	●	●	✓	Number of passengers, 000		34,926	8.0%	
Blue1	●	●	●	✓	Number of passengers, including bonus trips, 000		36,312	6.0%	
airBaltic	●	●	●	✓	RPK, mill.		35,085	6.8%	
SAS Ground Services	●	●	●	✓	ASK, mill.		52,754	2.4%	
SAS Technical Services	●	●	●	✓	Cabin factor, scheduled		66.5%	+2.8 pts. ¹	
SAS Cargo Group	●	●	●	✓	Cabin factor, scheduled, including bonus trips		69.1%	+3.3 pts. ¹	
SAS Flight Academy	●	●	●	✓	Yield, SEK		1.14	1.4%	
Rezidor SAS	●	●	●	✓	Unit cost, SEK		0.74	2.1%	

¹ Degree of achievement of the Group's return requirement over a business cycle.

¹ Change in percentage points (pts.).

Scandinavian Airlines Businesses

Key figures	2005	2004	Sales breakdown	2005
Operating revenue, MSEK	36,695	35,673	Norway	34%
EBITDAR, MSEK	3,427	2,123	Sweden	23%
EBITDAR margin	9.3%	6.0%	Denmark	12%
Earnings, MSEK	-48	-1,464		
CFROI	9%	6%		
Investment, MSEK	323	970		
Number of passengers, mill.	23.8	23.8		
Average no. of employees ¹	8,242	9,254		
Carbon dioxide (CO ₂), 000 t.	4,245	3,747 ²		
Nitrogen oxides (NO _x), 000 t.	16.0	14.1 ²		
Environmental index	72	76		



Share of Group operating revenue: 50.3%

¹ Of which women 53% and men 47%.

² Excluding Braathens.

The business area consists of the airlines Scandinavian Airlines Denmark, SAS Braathens and Scandinavian Airlines Sverige, which operate flights to/from and within Denmark, Norway and Sweden. Scandinavian Airlines International operates the Group's intercontinental flights. The airlines carried approximately 24 million passengers in 2005. The business area coordinates the Group's sales resources in Scandinavia and internationally.

Main markets: Scandinavia, Europe, North America and Asia.

Competitors are airlines that fly to, from and within Scandinavia. Chief rivals are Finnair Group, Air France/KLM, British Airways, Norwegian, Sterling, Ryanair and germanwings.*

Customers: Primarily frequent travelers in the business and leisure segments.

Return requirements: At least 20% CFROI over a business cycle.

Subsidiary & Affiliated Airlines

Key figures	2005	2004	Sales breakdown	2005
Operating revenue, MSEK	14,352	11,858	Spain	58%
EBITDAR, MSEK	1,920	1,455	Norway	17%
EBITDAR margin	13.4%	12.3%	Finland	7%
Earnings, MSEK	279	27		
Investment, MSEK	342	1,017		
Number of passengers, mill.	11.1	8.6		
Average no. of employees ¹	5,903	5,145		
Carbon dioxide (CO ₂), 000 t.	1,928 ²	1,603		
Nitrogen oxides (NO _x), 000 t.	7.1	6.2		
Environmental index, see each company				



Share of Group operating revenue: 19.7%

¹ Of which women 48% and men 52%.

² Incl. airBaltic.

The business area consists of the airlines Spanair, Widerøe, Blue1 and airBaltic, which carried approximately 11 million passengers in 2005. Spanair is Spain's second-largest airline and operates scheduled and charter flights. Widerøe is the Nordic region's leading regional carrier, and Blue1 is Finland's fastest growing airline in domestic and international service. With bases in Riga and Vilnius, airBaltic is growing quickly in the Baltic states. Also included is the strategic affiliated company Estonian Air, which flies to and from Tallinn.

Main markets: Spain, Norway, Finland and the Baltic states.

Competitors are Iberia, Finnair Group, Air Europa, Ryanair, Easyjet, Vueling and network airlines in Europe.*

Customers: The airlines' business models are tailored to their respective markets for frequent travelers in the business and leisure segments.

Return requirement: At least 25% CFROI over a business cycle.

Airline Support Businesses

Key figures	2005	2004	Sales breakdown	2005
Operating revenue, MSEK	14,876	14,213	External operating revenue	36%
EBITDA, MSEK	879	1,077	of which Denmark 25%,	
EBITDA margin	5.9%	7.6%	Sweden 38%, Norway 21%	
Earnings, MSEK	287	507	SAS Group	64%
Investment, MSEK	692	585		
No. of pass. handled, mill.	73.6	72.1		
Flown tonnes, 000	287	278		
Average no. of employees ¹	11,845	11,893		
Unsorted waste, tonnes ²	529	344		
Energy consumption, GWh ²	193	183		



Share of Group operating revenue: 20.4%

¹ Of which women 26% and men 74%.

² Includes Airline Related Businesses and all units owned or managed by SAS Facility Management.

The business area consists of SAS Ground Services (SGS), SAS Technical Services (STS) and SAS Cargo, which all support airline operations. SGS and STS are leaders in their home markets in the areas of ground handling and technical aircraft maintenance. SAS Cargo has a strong presence in the Nordic air freight market.

Main markets: SGS: Scandinavia, STS: The Nordic and Baltic regions, and SAS Cargo: Nordic region, but operations are generally global.

Competitors in ground handling are Penaulle Servisair and Novia.

STS competes with SR Technics group, Iberia and Air France Industries. SAS Cargo competes with British Airways World Cargo, DHL and TNT.*

Customers: SAS Cargo's customers are mostly found outside of the SAS Group. Although SGS's and STS's customers are primarily in the SAS Group, the share of external customers is growing.

Return requirements: SGS's target is an EBITDA margin of at least 8% over a business cycle. STS's target is an ROIC of 12% over a business cycle.** SAS Cargo's financial target is a CFROI of at least 20% over a business cycle.

Airline Related Businesses

Key figures	2005	2004	Sales breakdown	2005
Operating revenue, MSEK	1,582	2,913	External operating revenue	79%
EBITDA, MSEK	157	197	SAS Group	21%
EBITDA margin	9.9%	6.8%		
Earnings, MSEK	56	43		
Investment, MSEK	68	182		
No. of simulator hours	67,156	66,407		
Average no. of employees ¹	599	862		
Unsorted waste, tonnes	-	-		
Energy consumption, GWh	-	-		



Share of Group operating revenue: 2.1%

¹ Of which women 43% and men 57%.

The business area consists of airline related businesses and includes SAS Flight Academy, SAS Business Opportunities and SAS Media. SAS Flight Academy trains pilots and cabin crew from all over the world. SAS Business Opportunities develops ancillary revenues. SAS Media publishes in-flight magazines for Scandinavian Airlines Businesses and Widerøe as well as tourist destination information in various media.

Main markets: Scandinavia, though SAS Flight Academy serves a global clientele.

Competitors are local as well as global players. SAS Flight Academy competes with CAE, Altheon and GECAT.*

Customers: Its customers are private companies, airlines and the public sector.

Return requirements: SAS Flight Academy's financial target is an ROIC of at least 11% over a business cycle. SAS Business Opportunities' and SAS Media's financial target is an EBITDA margin of at least 10%.

Hotels

Key figures	2005	2004	Sales breakdown	2005
Operating revenue, MSEK	5,458	4,552	Norway	30%
EBITDA, MSEK	412	165	Sweden	13%
EBITDA margin	7.5%	3.6%	Denmark	11%
Earnings, MSEK	302	40		
Investment, MSEK	358	521		
Number of rooms sold, 000	6,836	5,964		
Average no. of employees ¹	4,922	4,436		
Unsorted waste, tonnes	12,326	10,505		
Energy consumption/m ² , kWh	260	277		
Water consump./guest night, lit.	450	451		



Share of Group operating revenue: 7.5%

¹ Of which women 52% and men 48%.

The business area consists of Rezidor SAS Hospitality, which operates the Group's hotel business under the brands Radisson SAS, Park Inn, Regent, Country Inn and Missoni. One of the largest hospitality management companies in Europe, Rezidor SAS operates 217 hotels in 48 countries. In 2005 the number of guest nights totaled 6.8 million.

Main markets: The Nordic countries, the Baltic states, the Benelux countries, the U.K., Germany and Ireland, where Rezidor SAS enjoys a strong position.

In the rest of Europe as well as Africa, the Middle East and Asia, its position is growing stronger.

Competitors are Hilton, Marriott, Sheraton, Novotel, Scandic, Choice hotels and others.*

Customers: The Rezidor SAS brands are aimed at business and leisure travelers in the luxury, first class and mid-market segments.

Return requirements: EBITDA margin of 10% over a business cycle.

* See Analysis of competitors, page 13. ** The target is being revised after the sale of 67% of SAS Component.

We offer a wide array of travel and hospitality products.

No complicated rules, easy Internet booking and total freedom of choice. You fly with us on your terms.



Results for the year

The year's operating revenue

MSEK 61,887

- Operating revenue for the full year amounted to MSEK 61,887 (58,093), an increase of 6.5%.
- Operating revenue by business area: Scandinavian Airlines Businesses: MSEK 36,695 (+2.9%). Subsidiary & Affiliated Airlines MSEK 14,352 (+21%). Airline Support Businesses MSEK 14,876 (+4.7%). Airline Related Businesses MSEK 1,582 (-45.7%). Hotels: MSEK 5,458 (+19.9%).

Earnings growth

MSEK 1,815

- Income before depreciation and leasing costs for aircraft (EBITDAR) amounted to MSEK 6,117 (4,468) for the full year.
- Income before capital gains and non-recurring items improved by MSEK 1,815, amounting to MSEK 114 (-1,701).
- Income after financial items amounted to MSEK 418 (-1,833).
- Net income for the period was MSEK 255 (-1,765).
- CFROI for 2005 was 13% (9%).

Earnings per share

SEK 1.06

- For the SAS Group, earnings per share totaled SEK 1.06 (-10.70).
- Equity per share amounted to SEK 69.93 (67.09).

Cabin factor

Record high

- The SAS Group's cabin factor improved by 2.8 percentage points to 66.5% in 2005, the highest cabin factor ever. The number of passengers reached a record high, totaling 34.9 million.
- The yield for the entire Group was SEK 1.14, an improvement of 1.4% owing to compensation for jet fuel.

Turnaround 2005

Fully implemented

- Turnaround 2005 comprising savings of SEK 14.2 billion was completed as planned. Since 2002, the unit cost has fallen by just over 30%, adjusted for currency effects and increased fuel prices. However, despite vigorous measures, further cost savings are needed to guarantee long-term competitiveness in several Group units. The Group has initiated cost-cutting measures equal to SEK 2 billion.

Unit cost, change

-5.4 %

- The total unit cost adjusted for currency effects decreased by 1.7% for Scandinavian Airlines Businesses during the period January-December 2005. Adjusted for increased jet fuel prices, the unit cost decreased by 5.4%.
- The unit cost for Spanair rose by 3.4%, for Widerøe by 5.0% and for Blue1 by 6.1%.

Dividend

Will not be paid

- The Board of Directors proposes to the Annual General Shareholders' Meeting that no dividend be paid to SAS AB's shareholders for the 2005 fiscal year. The reason for this is the impact on the Group of the structural changes the airline industry is undergoing and the fact that the Group's financial position is vital for its further operations in a period of negative earnings.

2006

Growth

- The success of the new business models, along with the implemented cost-cutting measures, means that the SAS Group is entering 2006 in a stronger strategic position. However, achieving a competitive cost level and profitability at Scandinavian Airlines remains a challenge and requires a good working relationship with all employee groups.

Sustainability

Improvement

- Airline operations saw record low fuel consumption per passenger as well as a sharp improvement in the environmental index for most Group airlines.
- In May, the SAS Group Board of Directors adopted a Code of Conduct, which was distributed to all employees.

Important events

First quarter
2005



- Following the tsunami disaster in Asia the SAS Group set up an airlift between Bangkok, Stockholm, Oslo and Copenhagen from December 27, 2004, until January 4, 2005. The Scandinavian governments shared the cost, which amounted to SEK 28 million.
- John S. Dueholm took over responsibility for Scandinavian Airlines Businesses from February 15.
- The SAS Group sold SAS Trading's operations in Poland, Latvia and Estonia to Inflight Service Europe AB.
- The SAS Group intensified its collaboration with U.S.-based Carlson Hotels Worldwide in an agreement under which Carlson Hotels acquired a 25% stake in Rezidor SAS in exchange for improved commercial terms regarding the parties' existing Master Franchise Agreement (MFA).
- Scandinavian Airlines became the first airline in the world to offer wireless Internet on board all intercontinental aircraft.
- Scandinavian Airlines Sverige launched "Nya Inrikesflyget" (a new domestic concept) based on one-way fares and simplified ticket rules.

Second quarter
2005



- SAS AB's Annual General Shareholders' Meeting on April 13, 2005 decided not to issue a dividend for 2004.
- All Board members of SAS AB were re-elected and Timo Peltola was elected as a new member of the Board.

Third quarter
2005



- The Norwegian Competition Authority fined SAS Braathens MNOK 20 for abuse of its dominant position on the Oslo-Haugesund route and announced possible fines of up to MNOK 30 for Oslo-Ålesund for the same reason. SAS Braathens disputed the accusation regarding Oslo-Ålesund and has decided to appeal the decision regarding Oslo-Haugesund. The Norwegian Competition Authority concluded its examination of several other routes without finding conditions that contravene the Competition Act.
- On August 24, Scandinavian Airlines International had a tail strike with an Airbus A340 in Shanghai. The SAS Group takes a serious view of incident and therefore carried out an investigation. A number of measures have been identified to ensure that the incident does not happen again.
- Scandinavian Airlines Businesses and Blue1 introduced a new business model on its routes within Scandinavia and to/from Europe based on one-way fares and dynamic pricing, starting on September 1.
- Spanair was the first Spanish airline to receive IOSA certification (IATA Operational Safety Audit) after meeting all airline operation and safety standards.

Fourth quarter
2005



- On October 1, Håkan Ericson became a new member of Group Management with responsibility for Airline Support Businesses and Airline Related Businesses.
- During an internal routine check-up in November 2005 it was found that elements of planned inspections of engines and engine mounts on Airbus A340s had not been carried out. The reason was inadequate administrative routines, which were changed immediately.

- Widerøe won the tender for 11 out of 16 routes on the Norwegian short runway network.
- The SAS Group sold European Aeronautical Group to Navtech, Inc. for MSEK 162.
- The SAS Group sold Jetpak Group to Polaris Private Equity for MSEK 492.
- The SAS Group sold 67% of SAS Component to Singapore Technologies Engineering. The total value of the transaction amounted to MSEK 2,500.
- It was decided that Blue1 would start services to nine new European destinations from Helsinki from the first quarter of 2006.

After January 1,
2006



- At Spanair, some revenue and expense items were incorrectly booked for the period 2002-2005.
- Pilots at Scandinavian Airlines Danmark went on a wildcat strike that resulted in the cancellation of nearly all flights from Copenhagen for three days. At the same time, an unusually high number of pilots at SAS Braathens called in sick, resulting in canceled flights. The cost of the canceled flights was MSEK 160.
- The Supreme Court of Norway overturned the decision of the Eidsivating Court of Appeal in favor of SAS Ground Services in a lawsuit concerning employee rights in connection with the transfer from Braathens in 2002.
- The SAS Group completes the incorporation and affected pilots were transferred from the SAS Consortium to SAS Danmark and SAS Sverige effective March 1.
- The EU Commission conducted an unannounced inspection of SAS Cargo in Copenhagen on February 14 as part of an extensive investigation of suspected antitrust violations in the airfreight business. A similar investigation by U.S. authorities is also under way.



President's comments

New business models yield record cabin factors

After five years of sweeping changes, the SAS Group is posting positive earnings before capital gains and nonrecurring items. This has been achieved through the biggest process of change in the Group's history, Turnaround 2005, where savings of SEK 14.2 billion had been implemented by year-end. However, despite vigorous measures, further cost savings are needed to ensure long-term competitiveness in several Group units. New cost-cutting activities amounting to SEK 2 billion have been identified so far and implementation is under way.

The changes have been implemented in stages. Immediately after September 2001, the first capacity reduction was carried out, and the first action program initiated. In 2002, when changes in customer travel patterns, primarily among business travelers, had a negative impact on the Group, we continued to adjust and transform the Group's business models. During the second half of 2002, traffic fell further, and overcapacity in the market arose. The need for additional and more sweeping measures became clear at the beginning of 2003.

The SARS epidemic and Iraq War put further pressure on the airlines, while soaring fuel prices increased costs and negatively impacted the airline industry. To ensure competitiveness, the SAS Group initiated, simultaneously with Turnaround 2005, a restructuring of the Group and Group management by establishing subsidiaries in all units. The parallel work on a new Group structure and cost savings laid the groundwork for the SAS Group's adaptation to the market, where proximity to the market, transparency in price comparisons and cost structure are the key elements. 2004 was the year we experienced considerable overcapacity, as a number of new players entered the market. The result was a loss for 2004.

In 2005 the Group implemented new business models and marketing activities, while Turnaround 2005 was concluded as planned. The number of passengers as well as cabin factors were record high for the SAS Group in 2005. Earnings turned positive, improving by SEK 1.8 billion.

Turnaround 2005 in place

During the year Turnaround 2005 was completed and ended according to plan. By the end of 2005/beginning of 2006 structural cost-cutting totaling SEK 14.2 billion had been achieved. All companies in the Group worked determinedly to reduce costs, and thanks to this, all airlines in the SAS Group



are well on the way to becoming competitive in their markets. The changes have laid the foundation for continuing to operate a large airline group based in Scandinavia. The full-year effect on 2005's earnings was SEK 2.9 billion, and in 2006 these measures will yield an earnings impact of SEK 1.7 billion. Turnaround 2005 has lowered the unit cost by over 30% since 2002. However, despite vigorous measures, further cost savings are needed to guarantee long-term competitiveness in several Group units.

The Group's new structure complete

In 2004, the SAS Group introduced a completely new organization, featuring the establishment of subsidiaries for all business units and airlines. The division was done nationally in order to make the most of the market opportunities under the various laws and regulations in the countries and markets where we operate. This way, the SAS Group will further strengthen the national airlines' competitiveness, and personnel groups will be closer to their markets. The only personnel category that was not transferred initially to the new airlines in Sweden and Denmark was the pilots, since we realized that we first had to establish SAS Braathens with its own personnel before introducing the same arrangement in the other airlines in Scandinavian Airlines Busi-

nesses. However, this has caused major problems, including a wildcat strike. However, the transfer of personnel will be carried out as planned effective March 1, 2006.

Adjusting the portfolio of companies

As part of its focus on core activities, the adjustment of the SAS Group's portfolio of companies continued, and in 2005 we sold Jetpak and European Aeronautical Group as well as 67% of SAS Component. The sales enabled the SAS Group to strengthen its financial position by releasing capital. At the same time, with their new owners, the operations are assured growth. The sale of SAS Component to Singapore Technologies is expected to be finalized in the first quarter of 2006 and it has also created opportunities for a strategic partnership between Singapore Technologies and SAS Technical Services (STS).

Commercial activities

In May 2004, a number of new commercial activities were launched, including the establishment of SAS Braathens and new business models in Norway, featuring one-way fares and a new booking platform. These were followed by the launch in March 2005 of a new Swedish domestic concept, "det Nya Inrikesflyget." On September 1, Scandinavian Airlines Businesses introduced a new

business model on its entire European network and within Scandinavia. The new model offers low one-way fares with Internet booking, while the SAS Group retains Business Class and Economy Flex. The business model yields a lower average ticket price. So far, the increase in the cabin factor has well compensated for the lower average fares (yield).

particular had major problems, partly due to logistics problems connected with many new contracts. Like SGS, STS has lowered its price level for Group airlines, and efforts to streamline operations continue.

SAS Cargo had a good year, with heavy demand, not least in Asia. SAS Flight Academy increased its share of external cus-

porting follows Global Reporting Initiative (GRI) guidelines from 2002. They provide the framework for a balanced and reasonable account of the Group's financial, environmental and social performance.

In 2005 the SAS Group published a Code of Conduct, with business ethics rules and guidelines for all employees.

SAS Group's strategic process of change

2000s	2005	Future
<ul style="list-style-type: none"> ▶ Highest costs in Europe (AEA). 	<ul style="list-style-type: none"> ▶ Lower costs than AEA. 	<ul style="list-style-type: none"> ▶ Continued cost adjustments.
<ul style="list-style-type: none"> ▶ Highest fares in Europe. – Numerous ticket rules. ▶ Limited competition/Duopolies. 	<ul style="list-style-type: none"> ▶ Among the lowest fares in Europe. – One-way fares introduced. – Few ticket rules. ▶ Too many entrants in the Scandinavian market. – LCC boom. 	<ul style="list-style-type: none"> ▶ Demand-based pricing. ▶ Value for money: – Business – Transfer – Low fares ▶ Stabilization of the airline market.
<ul style="list-style-type: none"> ▶ Limited accountability. 	<ul style="list-style-type: none"> ▶ Delegated accountability with new Group structure and management model. 	<ul style="list-style-type: none"> ▶ Continued refocusing of portfolio of companies.
<ul style="list-style-type: none"> ▶ Strong position in Scandinavia. ▶ 6th largest European airline group. 	<ul style="list-style-type: none"> ▶ Strong position in entire Baltic region. ▶ 4th largest European airline group. 	<ul style="list-style-type: none"> ▶ Important and profitable European airline group.

“
Our process
of change is
now entering
a new phase”

Group airlines

Even though Scandinavian Airlines Denmark, Scandinavian Airlines Sverige and Scandinavian Airlines International are not posting positive earnings, Scandinavian Airlines Businesses is the business area in the Group that has seen the biggest earnings improvement in 2005. It means that while efforts to save on costs continue, there are opportunities for expansion after a series of difficult years. Scandinavian Airlines International, which operates our long-haul routes, was close to posting positive earnings in 2005. It is our aim to lay the groundwork for higher traffic growth out of Scandinavia and to open new intercontinental routes.

Blue1 continues to expand with new routes, primarily to Southern Europe, with three new MD-90 aircraft. In 2005, Blue1 established itself as a serious competitor in the Finnish market. Spanair raised its production in 2005 and is posting a positive result. Widerøe's earnings are positive, though weaker compared with 2004, due to a strike. airBaltic has a cost level among the lowest in Europe and is securing its position in the Baltic market.

The Group's other companies

Our support companies, STS and SAS Ground Services (SGS) had a year of stiff competition. At STS, SAS Component in

tomers, so that today they represent about 50%. The Group's hotel business, Rezidor SAS, saw improved profitability, and the number of hotels at year-end was 217. Growth in hotel operations, in terms of both number of hotels and occupancy, continues.

Safety issues and sustainable development

Safety has always been the top priority for the Group. In 2005, administrative shortcomings were identified, and the Group launched an all-out effort to ensure the division of responsibility in its ongoing work to achieve a higher level of safety.

The SAS Group is working systematically to strengthen and develop its relations with stakeholders that are crucial to the Group's competitiveness. Good relations are valuable and must be fostered. The Group has developed a decision-making tool for its management groups, SAS Reputation Management (SRM), which clarifies and provides information about stakeholder relations and systematically simulates the effects of, and reactions to, possible decisions.

Ten years ago the SAS Group published its first environmental report. Thanks to these reports, our stakeholders have increasingly come to associate values such as responsibility for sustainable development with SAS Group brands. Sustainability re-

The Group is currently working actively to review all factors that may impact fuel consumption and improve its environmental figures. The Group's environmental index improved in 2005, a trend expected to continue in 2006.

2006

The overall market is expected to grow 3-5% from Scandinavia and more in the Group's growth markets in Finland, the Baltics and Spain. Uncertainty remains in the market, however, due to continued intense competition and high fuel prices. The success of the new business models, along with the implemented cost-cutting measures, means that we are entering 2006 in a stronger strategic position. However, achieving a competitive cost level and profitability at Scandinavian Airlines continues to be a challenge and requires a good working relationship with all employee groups.

Stockholm, March 2006



Jørgen Lindegaard
President and CEO
jorgen.lindegaard@sas.se

Turnaround 2005 fully implemented

Turnaround 2005 was started at the end of 2002 in order to achieve long-term and structurally strong competitiveness for the Group's units. The goal was to reduce the unit cost by 30% for Scandinavian Airlines Businesses. By year-end, structural cost reductions of SEK 14.2 billion had been achieved. Continued efficiency enhancements are necessary to ensure competitiveness. The new measures are described on page 11.

Turnaround 2005 is the largest cost-cutting program ever to be implemented in the history of the SAS Group. The positive earnings impact up until 2005 reached SEK 12.5 billion out of total measures amounting to SEK 14.2 billion. The remaining SEK 1.7 billion will have a positive earnings impact in 2006 when these measures have their full year effect.

A crucial success factor has been that the Board, management and unions have had a strong focus on ensuring the Group's competitiveness.

Unit cost reduced by 30%

Turnaround 2005 has reduced unit costs, above all, in Scandinavian Airlines Businesses. Adjusted for fuel and currency effects, the unit cost has been cut by just over 30% since 2002. Scandinavian Airlines Businesses had one of the highest unit costs in the AEA at the beginning of 2002 and was at the level or somewhat lower than the average

for airlines in the AEA in 2005. All together, more than 1,300 activities have been carried out under the Turnaround 2005 framework covering administration, technical maintenance, ground services and airline operations.

Higher productivity has been an important part of Turnaround 2005. In Scandinavian Airlines Businesses, productivity rose by 20% to 550 block hours for pilots and by 20% to 620 block hours for cabin crew. The goal was 700-750 block hours for cabin crew and pilots, which could not be achieved and will consequently be pursued through cost adjustments in 2006. Scandinavian Airlines Sverige has come the furthest in productivity gains, achieving 700 block hours for cabin crew in 2005.

Reduction of full-time equivalents (FTEs)

By the end of 2005, thanks to productivity improvements, the Group had streamlined operations by approximately 5,500 FTEs, of

which 480 were in groupwide functions, 2,750 in Scandinavian Airlines Businesses, 1,970 in Airlines Support Businesses and 300 in Subsidiary & Affiliated Airlines. The remainder of 500 FTEs has not been achieved and is connected with the productivity of pilots and cabin crew. Owing to growth in hotel operations, Blue1 and Spanair, the number of employees in these companies has risen by 2,300 FTEs.

Impact on employees

Under Turnaround 2005 the SAS Group worked to minimize the negative impact on employees. Before the incorporation of Scandinavian Airlines, voluntary redundancy combined with external career support was used. After incorporation, the individual companies have evaluated different solutions on the basis of what is optimal in regard to the respective company's market. The SAS Group has generally not offered additional benefits in connection with redundancies.

SEK 14.2 billion implemented under Turnaround 2005

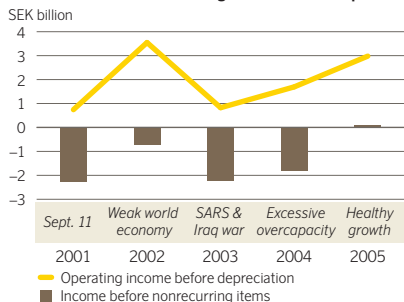


Goal: SEK 14 billion Fully implemented 2005
100% of Turnaround 2005 was implemented at the end of 2005/beginning of 2006.

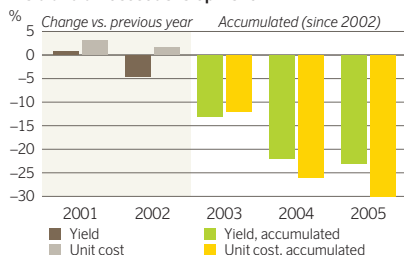
Implemented 2003 SEK 6.8 billion
54% of Turnaround 2005 was implemented at the end of 2003/beginning of 2004.

After four years of losses 2005 brought positive earnings. During the same period the SAS Group reduced costs by SEK 14.2 billion. Since 2002 the unit cost for Scandinavian Airlines Businesses has fallen by more than 30% while at the same time the yield has fallen by approximately 23%.

Income before nonrecurring items SAS Group



Yield and unit cost development



Examples of some of the more than 1,300 activities implemented:

- ▶ Administration shrank by 35%.
- ▶ Revenue Accounting was outsourced to India.
- ▶ Salary freezes for the majority of employees since 2003.
- ▶ Smaller supplements and per diem allowances.
- ▶ Pre-flight inspections (PFI) are done by pilots.
- ▶ Productivity increase for pilots and cabin crew of approximately 20%.
- ▶ Electronic tickets are now used by more than 60% of the Group's customers.
- ▶ Increased aircraft utilization has enabled sales of aircraft without reducing capacity.
- ▶ More efficient material supply, handling and maintenance planning (STS).
- ▶ Optimized human resources planning (STS/SGS).
- ▶ Simpler processes for handling passengers.
- ▶ Simpler production system (point-to-point).
- ▶ Seasonally adjusted production.
- ▶ Simpler and more efficient service on board requiring fewer crew.
- ▶ Streamlining sales channels.
- ▶ Increased Internet sales.
- ▶ Increased share of self-service and Internet check-in.
- ▶ Cutting hotel stays by personnel in half.
- ▶ Reducing IT costs through new agreements, fewer systems and simpler functionality.
- ▶ More flexible administration of EuroBonus.
- ▶ More cost-effective and simpler routines for lounges.
- ▶ Simplifying HR services and improving efficiency via the intranet.

Business concept, vision, objectives & values

The SAS Group is undergoing a strategic change process regarding products and business models. Its aim is to better provide the competitive European market with air travel.



“
The SAS Group's products should be easy to purchase and be perceived as a good value”

Business concept

The SAS Group's primary mission is to serve Europe with air travel.

Vision

The preferred choice.

Objectives

The SAS Group's overall financial objective is to create value for its owners. On this basis, targets within five dimensions have been defined:

- ▶ *Profitability*
 - The total shareholder return is to be at least 14% over a business cycle.
 - This return requirement has been translated into an internal financial target, CFROI, which is to be at least 20% over a business cycle.
- ▶ *Products*
 - The SAS Group's products should be easy to purchase and be perceived as a good value.
 - Travel is to be flexible and tailored to the customer's needs.
- ▶ *Market position*
 - SAS aims to be one of the leading airline groups in Europe.
- ▶ *Financial stability*
 - The SAS Group aims to maintain a level of indebtedness and equity/assets ratio that in the long run enable the Group to be perceived as an attractive borrower.
- ▶ *Flight safety*
 - Each year, flight safety is to be improved in line with the latest technical requirements and standards prevailing and available in the market.

Values

The SAS Group's overarching shared values are the basis of the Group's actions vis-à-vis all stakeholders as well as individuals and groups.

- ▶ *Consideration*
 - We care about our customers and employees and acknowledge our social and environmental responsibilities.
- ▶ *Reliability*
 - Safe, trustworthy and consistent in word and deed.
- ▶ *Value creation*
 - A professional businesslike approach and innovation will create value for our owners.
- ▶ *Openness*
 - Open and honest management focused on clarity for all stakeholder groups.

The SAS Group's strategies & management model

The SAS Group's strategies and management model are designed to take Group companies where we want them to go. The strategic focus areas lead to action plans in the various Group companies.

On the basis of Group-wide strategies, SAS Group companies have developed strategies to ensure targets in line with the requirements set by the SAS Group.

Strategies and focus areas

Commercial strategies

The commercial strategies are to create a product in the market differentiated from our competitors' and ensure the SAS Group's leading market position and strong brands. In addition, the active commitment of employees will strengthen the Group's competitiveness and maintain differentiation in a more standardized market.

Cost improvement

Turnaround 2005 was necessary for the continued survival of the majority of Group airlines.

The Group continuously compares the airlines in the Group. Discrepancies in cost level not related to active strategic choices are subject to new cost-cutting measures. In addition to cost reductions, the SAS Group strives for greater flexibility and a modular cost structure.

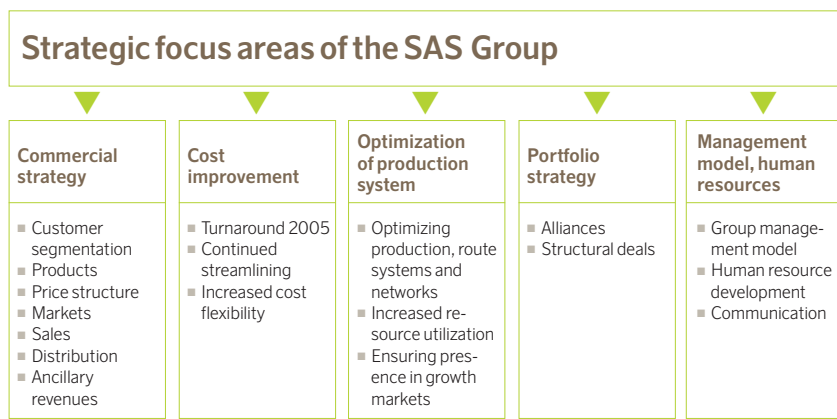
Optimization of production system

Market changes and keener competition for the Group are leading to a focus on optimizing the Group's overall network. The Group aims to reinforce its production system through direct routes from Oslo and Stockholm and developing Copenhagen as an international hub. The SAS Group also aims to secure its presence in growth markets, develop its aircraft fleet and optimize its capacity utilization. To ensure its presence in growth markets, the SAS Group will strengthen its position in the Baltics and Spain. The Group also sees interesting development potential in the Russian portion of the Baltic Sea region.

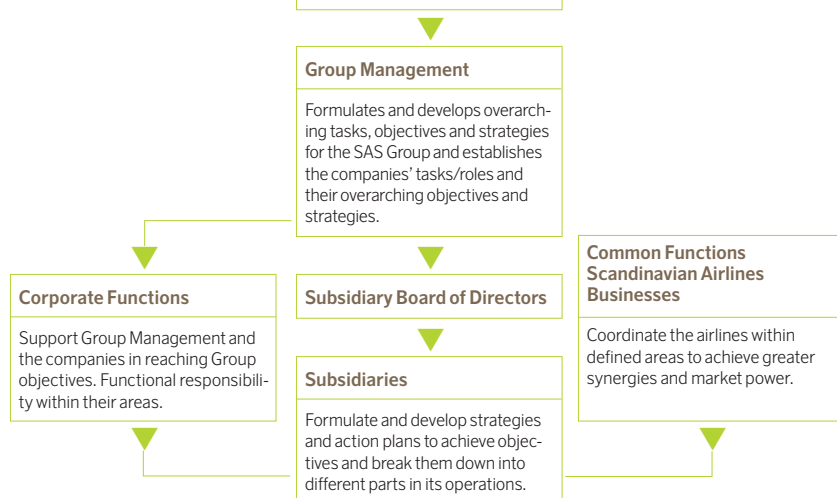
Portfolio strategy

The Group will focus on its core business, i.e., airline operations.

The Group evaluates on an ongoing basis whether the Group is the proper owner of all units or whether the business has better development potential outside the Group. An



The SAS Group management model



example of this is the sale of European Aeronautical Group, Jetpak and 67% of SAS Component. If a company does not create added value for the Group, its position in the portfolio will always be questioned.

Management model, organization and personnel

According to the management model the SAS Group has chosen, the direct management of the subsidiaries in the SAS Group takes place primarily via active board work. Corporate Functions has been set up at the Group level in key functional areas and has functional responsibility vis-à-vis sub-

sidiaries in their respective areas. In Scandinavian Airlines Businesses there are some overarching common functions, in part, a common AOC organization, in part, functions in IT and the commercial area for coordination. These costs are debited as the common functions perform services for the airlines.

A decentralized business structure comprising separate legal entities yields such benefits as increased transparency and greater accountability. This structure also means a more efficient decision-making process, since decisions are made closer to the market.

The SAS Group's management philosophy

The SAS Group's management philosophy underlies its organization and the way it is run:

- The basis of the SAS Group's management philosophy is that accountability promotes efficiency, value-creation and motivation.
- The Group will comprise clearly defined businesses organized as subsidiaries within the Group, with full accountability.
- Each subsidiary is to be competitive in its business/region.
- Intra-group business relations are to be characterized by professionalism and based on commercially sound agreements.

- The Group sets standards for subsidiaries, guiding and coordinating in areas where synergies and coordination needs exist.
- The culture of the SAS Group is to be characterized by our shared values.

Market prices in internal business relations shall primarily be determined by supplier companies being able to show their competitiveness by objectively presenting:

- Implemented benchmarks.
- Tenders for outsourcing all or portions of services.
- Price level for external market.

- Other information about the market and competitors.

Strategies for sustainability

- Sustainable development is achieved through an endeavor for economic growth, meeting environmental standards and social responsibility.
- The Group shall optimize its resource use and systematically choose solutions with a low environmental impact.

Financial strategies are described on page 17.

The SAS Group's brand portfolio

The SAS Group has a portfolio strategy that in brand terms embraces a master brand strategy, complemented by an endorsement strategy.



In the master brand strategy, the SAS brand is the core of the Group's brand portfolio and governs the other brands in the Group with regard to:

- The brand's content and position.
- Corporate identity and design.
- Strategies for market communication.
- Sponsorship.

The endorsement strategy is the link uniting the companies in the Group that do not carry the SAS master brand. This is to make it clear that they belong to the SAS Group. The strategy's visual expression is the phrase "SAS Group Company."

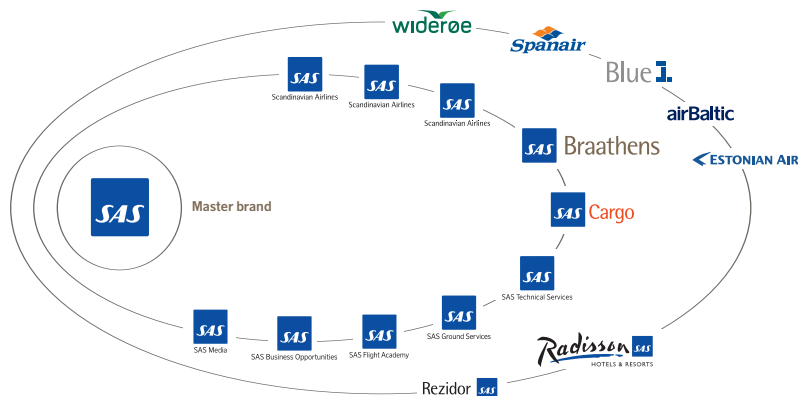
The SAS Group's brand strategies are aimed at supporting the Group's business strategies and thus actively contribute to:

- Meeting set business strategy goals.
- Maximizing the Group's position in the markets it serves.
- Maximizing the economic value of the SAS Group's brand portfolio.

The greater part of 2005 was devoted to implementing brand strategies focusing on the SAS master brand.

Customer surveys show that the ongoing sustainability work the SAS Group engages in serves to strengthen the SAS brand and other brands in the Group.

airBaltic, which got a new look in 2004, exemplifies how SAS design strategy is expressed in aircraft livery. The SAS Group's designs are based on simplicity and functionality, with the aim of visually differentiating it from low-cost carriers. Engines and tailfin in color emphasize the corporate identity.



New business model & greater customer value

The SAS Group is focusing on different solutions for customers with different needs. Above all, customers value a broad range of flight services featuring high accessibility and value-for-money tickets. Air travel is made flexible and comfortable by offering the customer additional products such as fast track security, lounges, reserved seats, etc. Since competition is constantly increasing and customers are having a hard time differentiating between what the various airlines offer, the SAS Group will from now make its product concepts more clearly differentiated by segment.

The SAS Group's new business model

The new business model for the airlines is made up of three parts comprising a common value platform

Commercial concepts	Network/traffic systems	Cost adjustments
<ul style="list-style-type: none"> Fare structure based on demand-based one-way fares. Differentiated basic product. Offerings that stimulate additional sales and upgrading of the basic product. Value for money. Internet booking. 	<ul style="list-style-type: none"> Traffic systems are sized according to local demand and profitable transfer traffic. Dynamic and flexible traffic planning. 	<ul style="list-style-type: none"> Cost levels for the basic products in line with those of the most efficient competitor on the same traffic flows. Future transfer, distribution, in-flight, on-ground, network etc. products must be profitable.

Commercial concepts

Airlines have historically used various types of ticket restrictions (advance purchase, round trip, minimum stay, etc.). Spanair and airBaltic were early birds in introducing an easier set of rules for one-way fares. In 2005, Scandinavian Airlines, Blue1 and Widerøe introduced a new business model with new commercial concepts based on one-way fares. To facilitate its management Scandinavian Airlines has developed a new yield management system. The SAS Group can now manage the profile of each departure, which means that capacity is set aside to meet demand, based on the anticipated cabin factor. This provides a more precise and automated price measuring system, based on one-way fares, which makes it easier for the Group to balance pricing against volume.

The Group's offerings are to be characterized by simplicity in purchasing tickets,

clear prices and high accessibility via the Internet and at travel agencies.

Fare structure - One-way pricing

Since September 2005, the SAS Group has offered one-way fares in different categories to all destinations in Europe. The price system gives customers complete freedom to choose according to what is most important to them: price, time or comfort. Scandinavian Airlines is the first network carrier to switch completely to one-way fares on European routes.

Differentiated basic products

Demand steers prices and it is often cheaper to fly in the middle of the day or on certain days of the week. Group airlines offer a basic product that contains more than that of the low-fare carriers. The SAS Group serves primary airports and takes responsibility for

passengers and baggage during the entire trip regardless of fare. Customers save time using more flexible routines such as Internet check-in, allowing them to go directly to gate.

Additional products and other offerings

The SAS Group supplies additional products and services included in the flight along with services that can easily be added by the passenger. Business Class offers comfort amenities such as even more comfortable or sleeper seats on long flights, hot food on board and lounge access. For many customers, flexible travel featuring simple re-booking, fast track security, and being able to work undisturbed in, for example, the airport lounge, is important.

In the future, modular offerings will be available, enabling the customer to customize products.

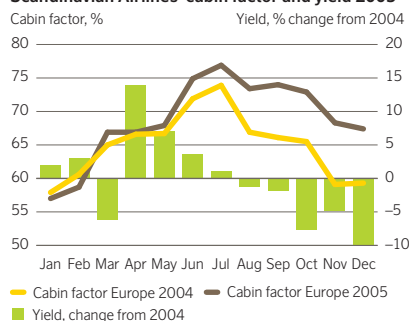
Internet booking

The Internet is the fastest growing sales channel for booking tickets, while the number of paper tickets is shrinking. IATA's goal is for all tickets to be electronic by the end of 2007.

Network/traffic system

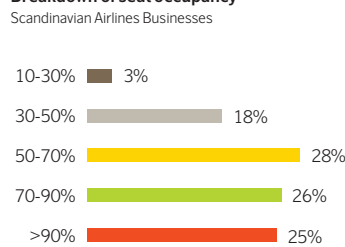
Because of the need to transfer to intercontinental routes, network carriers have set up costly, complex networks that have made it difficult to measure the profitability

Scandinavian Airlines' cabin factor and yield 2005



By introducing new business models Scandinavian Airlines' cabin factor surged in autumn 2005, compensating for lower yield.

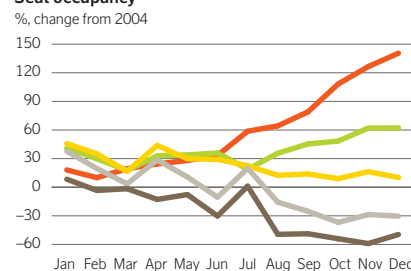
Breakdown of seat occupancy



Categories (share of occupied seats): Very low, Low, Average, High, Very high

Around half of Scandinavian Airlines Businesses flights have a cabin factor between 70 and 100%. Through "Round Trip Management," the goal is for all flights to at least cover their variable costs. After the introduction of the new business model with one-way fares, the share of planes with very high or high occupancy has increased significantly. At the same time, the share of planes with very low or low occupancy has decreased sharply.

Seat occupancy



of different routes. The profitability of network carriers has arisen through subsidies from short-haul routes to long-haul routes, from local traffic to transfer traffic and from Business Class to Economy.

Focused on local traffic in Europe, the players have made it more difficult to sustain profitability in the network model. It is no longer possible for the majority of European network carriers to operate with an integrated model based on cross-subsidies. Each route has to pay for itself. The SAS Group is focusing on adjusting the traffic system according to the local traffic and to passengers from each airline's natural catchment area.

Cost adjustments

The majority of low-fare carriers aim their services at the most price-sensitive customer segment. Many customers value both time and comfort, and everyone expects value-for-money products. The Group's new business model is based on an efficient cost platform with products and services distinguishable from those of the low-fare carriers, enabling a price premium that covers the higher costs.

Consumer focus on price is exerting relentless pressure to lower costs. A lower unit cost level requires higher productivity, requiring more flight hours, lower pay levels, more seats in each aircraft and increased flexibility in the cost structure.

Further cost adjustments

Scandinavian Airlines Businesses has preliminarily identified cost reductions for 2006-2007 amounting to approximately SEK 2 billion. Efforts to identify and assure the quality of further measures continue. The measures include higher productivity for flight staff and streamlining of sales operations, ground services, technical maintenance, distribution and administration. Collective bargaining talks opened in autumn 2005 and will be conducted at the local level for each subsidiary. The new Group structure facilitates the ongoing process toward cost levels in line with the most efficient airlines in the respective market.

Evolution of ticket rules in the airline industry, 1972-2005

In 1972 IATA airlines introduced the APEX ticket, giving leisure travelers the opportunity to travel inexpensively. Despite deregulation of the airline market not too much happened to ticket rules from 1972 to 2003. 2003 ushered in changes in the SAS Group, with Spanair being the first airline in the Group to introduce one-way fares in 2003.

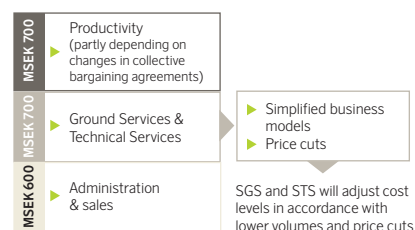
	Type of ticket	Conditions
1972	APEX	21-day advance purchase and minimum stay
2003, March	Next day return possible in Economy	7-21-day advance purchase and minimum stay
2004, October	Economy/Economy Flex	0-7-day advance purchase and 3-day minimum stay
2005, September	One-way pricing in Europe	No advance purchase and no minimum stay

Introduction of one-way pricing in the SAS Group

2003, February	Spanair	Domestic and international
2003, March	airBaltic	Domestic and international
2004, March	Blue1	Domestic and international via website
2004, May	SAS Braathens	Domestic
2005, March	Scandinavian Airlines Sverige	Domestic
2005, September	Scandinavian Airlines Businesses	Intra-Scandinavian and Europe

Further cost adjustments

Scandinavian Airlines Businesses, SEK 2 billion



The SAS Group has identified new cost-cutting measures equal to SEK 2 billion. The measures basically cover streamlining of Ground Services, technical maintenance, administration and higher productivity for flight staff.

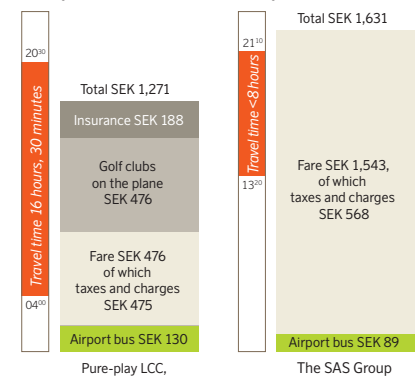
What separates SAS from the LCCs*?

In most cases, the SAS Group's basic product contains considerably more than the products of its competitors. The Group is focused on differentiating its various concepts and increasing the service level for frequent business travelers.

SAS Group airlines	LCCs	Pure-play LCCs
<ul style="list-style-type: none"> Primary airports, short distance to major city. Frequent flights. We take care of you the whole trip. Check in on the Internet and choose your seat yourself. Check-in shortly before departure. No charge for golf clubs, skis, etc. (within set weight limits). Free newspapers (on most flights). Very small portion of revenues are ancillary revenues. Staff are primarily employed and pay tax in their respective home countries. Collective bargaining agreement with unions. Well developed environmental and social responsibility programs, complete reporting. Loyalty program. 	<ul style="list-style-type: none"> Usually primary airports, short distance to major city. Less frequent flights. You handle your own transfer. Can sometimes choose seat (for a fee). Check-in a longer time before departure. Extra charge for golf clubs, skis, etc. No newspaper. A small portion of revenues are ancillary revenues. Staff are primarily employed and pay tax in their respective home countries. Collective bargaining agreement with unions. Some environmental work, certain amount of reporting. No loyalty program. 	<ul style="list-style-type: none"> Secondary airports, approximately 1 hour from major city. Infrequent flights. You handle your own transfer. No seat choice. Check-in long before departure. Extra charge for golf clubs, skis, etc. No newspaper. Up to 30% of revenues are ancillary revenues. Staff are often employed under creative agreements in low-wage or low-tax countries. Usually no collective bargaining agreement with unions. Only statutory environmental work, no open reporting. No loyalty program.

The SAS Group is continuously evaluating the possibility of charging for its additional products. * Low Cost Carrier

Price and travel time comparison, example of Stockholm - Seville trip

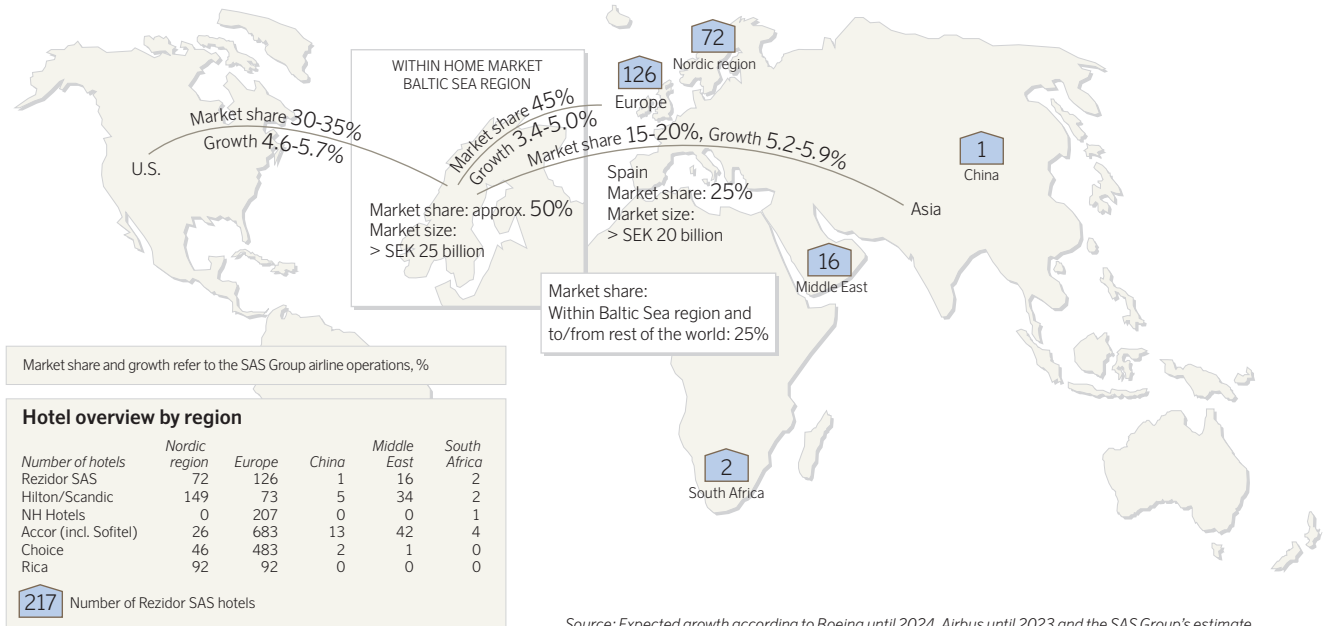


Refers to a person who wanted to travel from Stockholm to Seville on January 16, 2006 to play golf.

- Trip with pure-play LCC begins at 4 a.m. by bus from Stockholm C to Skavsta and ends at 8:30 p.m.
- Trip with the SAS Group starts at 1:20 p.m. by bus from Stockholm C to Arlanda and ends at 9:10 p.m.
- Trip with pure-play LCC is approximately SEK 400 cheaper but 8.5 hours longer.

The SAS Group's markets & growth

The SAS Group's markets primarily consist of mature markets in Scandinavia as well as growth markets such as Russia, Estonia, Latvia and Lithuania. The Group also has opportunities for growth in Finland and Spain.



The Group's strategic growth opportunities

The Baltic Sea region is the SAS Group's primary home market and takes in Scandinavia, Finland, western Russia, the Baltic states, Poland and northern Germany. The region has a population of approximately

100 million. The total value of air travel within, to and from this market is about SEK 100 billion per year and the number of passengers 50-60 million. In 2005 the SAS Group, including Estonian Air, carried 35.6 million passengers within the region.

Although the region consists of mature markets such as Scandinavia, Finland and northern Germany, the SAS Group sees opportunities for growth in parts of this market, chiefly through Blue1 in Finland. There are also growth opportunities in Europe, primarily from Sweden and Norway and on the intercontinental routes.

The market for air travel in the Baltics, western Russia and Poland is growing quickly. The SAS Group is well positioned especially in the Baltic states, showing strong growth with airBaltic and Estonian Air. The prospects for continued rapid growth are excellent; airBaltic and Estonian Air are expected to expand in the coming

years. To and from Poland and Russia the SAS Group aims to grow by increasing the number of flights on existing units and through new partnerships.

The SAS Group is also active in the Spanish market, which is seeing faster growth than average in Europe. Through Spanair the SAS Group can exploit synergies on the heavy traffic flows between the Baltic Sea region and Spain.

The Group's hotel operations are expanding in Germany, the U.K. and Ireland, and the Group sees continued opportunities for growth in the Baltics and Russia.

The SAS Group's home market – the Baltic Sea Region



Baltic Sea region - trips per capita

	Population (mill.)	Trips/capita/year
Sweden	9.0	2.8
Norway	4.6	5.0
Denmark	5.4	3.6
Finland	5.2	2.1
Estonia	1.4	1.0
Latvia	2.3	1.6
Lithuania	3.6	0.6

Policy framework for civil aviation

The deregulated civil aviation market covers the EU/EEA. Outside of the EU/EEA, civil aviation is regulated by bilateral governmental agreements that contain requirements for national majority ownership and control, which are incompatible with the EU's right of free establishment. The bilateral markets that had been reserved for flag carriers are henceforth to be opened up to all airlines in the EU insofar as third countries accept this. This gives EU airlines increased access to the Scandinavian market and gives the SAS Group the same to other EU countries.

SAS Group airlines operate primarily in a

completely deregulated market. However the conditions under which they operate are still highly regulated and there is growing interest in intervention. At both the EU and national levels, there are numerous regulatory initiatives in many areas, such as ticket taxes, environmental charges, airport and airspace infrastructure, safety measures and passenger rights. Many initiatives both drive up costs and hamper efficiency. The Swedish government's proposed additional aviation tax is estimated to reduce domestic traffic by approximately 10-15%, possibly resulting in the disappearance of several destinations from the Swedish route network.

Value chain in the aviation industry

The SAS Group operates in three segments of the aviation industry's value chain: ground services, technical maintenance and network airlines. The airlines in the Group are now putting pressure on segments of the value chain such as airports and distributors. The internal suppliers SGS and STS have to be able to deliver at market prices.

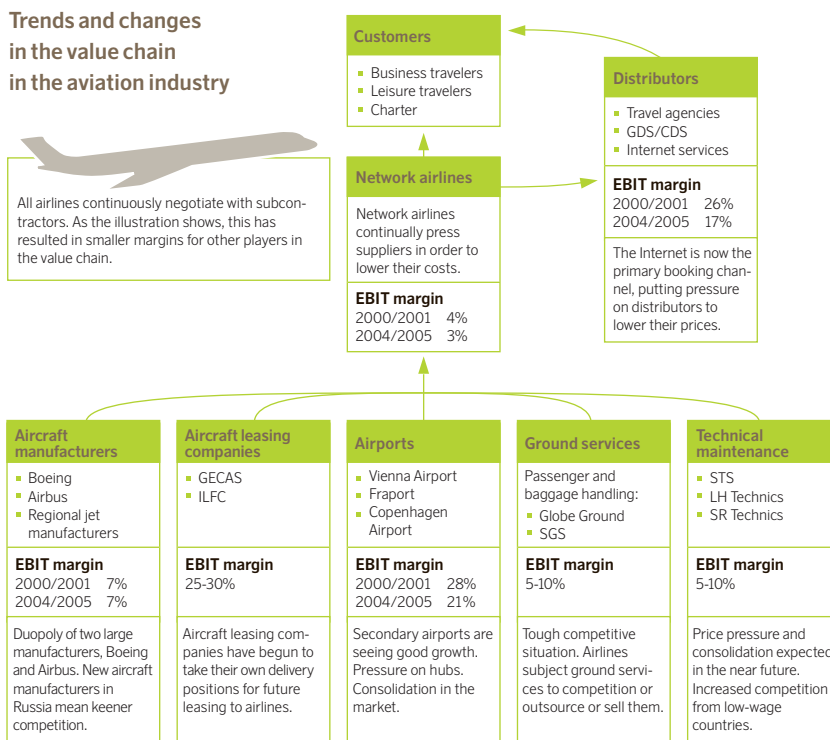
In 2005 Scandinavian Airlines Danmark negotiated with Copenhagen Airport, resulting in somewhat lower charges. Despite this, the airport has big profit margins. In Sweden and Norway, too, charges have fallen in 2005.

In 2005, SAS Group airlines dealt with

Trends and changes in the value chain in the aviation industry



All airlines continuously negotiate with subcontractors. As the illustration shows, this has resulted in smaller margins for other players in the value chain.



the imbalance vis-à-vis distributors through a new agreement with Amadeus, which radically lowered the expenses for the reservation systems. The SAS Group is systematically working to reduce the imbalances in the value chain.

Along with internal efficiency enhancements from Turnaround 2005 and further measures, the Group aims to achieve long-term and sustained value creation.

Analysis of the SAS Group's competitors

Business area	Market	Market share	Market characteristics	Competitor's market share	Comments
Scandinavian Airlines Businesses	Nordic countries	approx. 35-40%	The Nordic market is mature but the market in Poland and the Baltics is booming	Finnair Group <12%	The market share of the SAS Group's airline operations regarding production to, from and within the Baltic Sea region is approximately 25%. In airline related operations comparable data is missing. These operations are highly specialized, which makes the industry difficult to define and market share data is not relevant. SAS Ground Services', SAS Technical Services' and their competitors' market shares vary considerably and stating an overall market share is not relevant.
				Sterling <7%	
Subsidiary & Affiliated Airlines Widerøe, Blue1, Spanair	Baltic Sea region	approx. 5%	Opportunities for growth are good in Finland and Spain	Norwegian <5%	Total number of passengers, million
	Spanish domestic	Spanair 20-25%		Air France/KLM <4%	
Total to/from & within Baltic Sea region	Baltic Sea region	25%	Growth in part	British Airways <3%	Air France/KLM 69.2
					Lufthansa 51.3
Airline Related Businesses SAS Ground Services	Scandinavia	-	Mature	Finnair Group <10%	SAS Group 36.3
				Sterling <5%	British Airways 35.5
SAS Technical Services	Europe	-	Mature	Iberia >40%	Ryanair 33.4
					Easyjet 30.3
SAS Cargo Group	Europe	3%	Mature		Iberia 27.7
	Europe-North America	3%			Finnair Group 7.1
Hotels	Europe	<5%*	Growth		Norwegian 3.3
				Hilton <5%	Sterling 2.7
				Marriott <5%	
				Sofitel <5%	

Competitor	Passengers (million)
Air France/KLM	69.2
Lufthansa	51.3
SAS Group	36.3
British Airways	35.5
Ryanair	33.4
Easyjet	30.3
Iberia	27.7
Finnair Group	7.1
Norwegian	3.3
Sterling	2.7

Competitor	Hotel Rooms (Europe)
Hilton	37,173
Radisson SAS	27,203
Marriott	20,197
Sofitel	16,898

Data for airline operations are based on OAG data. Data for airline related operations are based on available public information and estimates. * The hotel market in Europe has little connection with brands, which is why market share is difficult to estimate.

Alliances

The partnership with Lufthansa, which celebrated its tenth anniversary in 2005, is a key part of the SAS Group's partnership strategy. Even though the market has changed drastically, alliances are still essential in order to offer a global route network, and thus enhance the Group's overall travel product.

Star Alliance and customer benefits

The global economy is increasing the needs of business and leisure travelers for worldwide air transport. Through its members, Star Alliance enables the SAS Group to offer a global route and service network.

By coordinating products, services, airport facilities, production, IT platforms, purchasing, etc., the alliance provides improvements and efficiency enhancements for customers and airlines alike.

Star Alliance will continue to develop new products and services to improve what it offers customers in terms of:

- An extensive global route network.
- Flexible and efficient travel.
- Global status and benefits.

Star Alliance aims to be the world's leading alliance, with innovative products and services for frequent international travelers, new price concepts for global and regional travel and ticketless travel within the alliance.

After TAP Portugal joined in 2005, Star

Alliance comprises 19 members that all together carry 385 million passengers/year to and from 790 destinations in 138 countries. Swiss and South African Airways are joining Star Alliance in early 2006, further enhancing offerings to customers.

Star Alliance has a partnership with three international organizations in the environmental, scientific and cultural sectors. The aim is to act on the slogan "The airline network for Earth" by taking responsibility and contributing to economic, social and environmental sustainability.

Star Alliance's contribution to the SAS Group

Since its founding in 1997, Star Alliance has contributed positively to SAS's earnings, primarily through higher passenger revenue for the SAS Group. Likewise, the SAS Group has provided higher passenger volumes and revenues to the other alliance members. In the period 1997-2005 inter-



line revenues rose an average of 7.5% per year.

Lufthansa, ECA and partners

Since 1995 Lufthansa and Scandinavian Airlines have had a close partnership based on a joint venture on traffic between Scandinavia and Germany. This partnership has helped create an efficient international route system. The agreement had antitrust immunity from the EU until December 31, 2005. In the parties' view, the partnership can continue on certain self-imposed terms. Blue1 and Spanair also cooperate with Lufthansa.

ECA, the European Cooperation Agreement, is a joint venture between Scandinavian Airlines, Lufthansa and the U.K. carrier bmi, whereby the partners combine their route networks between London Heathrow and Manchester and the rest of Europe. The agreement runs until the end of 2007. Keen competition and weak earnings performance have continued to have a negative impact on Scandinavian Airlines' income in the amount of MSEK 415 in 2005.

The SAS Group has initiated discussions for closer collaboration with Swiss and South African Airways. The Group is also continuing to work on a commercial partnership with Air China. In October 2005 Scandinavian Airlines terminated its partnership with Icelandair. Any further cooperation is being closely evaluated.

Star Alliance™ key figures 2005

	Passengers/ year (mill.)	Desti- nations	Coun- tries	Air- craft	Daily de- partures	RPK (bill.)	Yearly oper. rev. (USD bill.)	Empley- ees
Air Canada	29.0	150	36	289	1,334	69.9	6.5	33,000
Air New Zealand	10.7	48	15	89	616	24.4	2.2	10,394
ANA - All Nippon Airways	48.0	71	10	181	922	57.6	9.1	20,530
Asiana Airlines	11.8	54	17	59	257	19.7	1.8	7,068
Austrian	9.4	130	64	100	419	21.3	2.3	7,400
bmi	10.5	38	11	43	227	6.3	1.1	4,079
LOT Polish Airlines	4.0	58	31	54	230	6.8	0.8	3,910
Lufthansa	51.3	177	75	377	1,822	108.2	20.1	92,718
Scandinavian Airlines Businesses	23.8	109	26	191	882	26.5	4.9	8,242
Singapore Airlines	15.3	56	32	96	231	77.6	4.5	14,418
Spanair	6.8	28	7	59	214	6.0	1.2	2,832
TAP	6.5	42	25	40	201	13.6	1.6	5,750
THAI	17.0	74	35	80	284	50.6	3.4	25,463
United Airlines	71.0	201	23	494	3,762	184.3	16.4	58,500
US Airways	52.8	182	26	282	3,554	64.3	6.9	27,848
Varig	12.9	66	20	81	475	28.3	2.5	11,432
<i>Regional members:</i>								
Adria Airways	0.9	17	15	10	51	0.9	0.2	552
Blue1	1.5	14	8	14	90	0.9	0.2	444
Croatia Airlines	1.6	29	16	12	63	1.2	0.2	1,080
<i>Alliances:</i>								
Star Alliance™	384.8	790	138	2,551	15,634	763.1	85.9	335,660
SkyTeam™	343.6	684	133	2,069	15,200	675.5	73.6	298,447
oneworld™	242.6	599	134	1,504	8,100	554.2	57.4	248,179

Sources: Airline Business Magazine, September 2005/the alliance website/airlines' own data

Share of world total - airline alliances in 2005

	RPK	Passengers per year	Yearly oper. revenue
Star Alliance™	21.0%	19.9%	21.4%
SkyTeam™	18.6%	17.7%	18.4%
oneworld™	15.3%	12.5%	14.4%
Total	54.9%	50.1%	54.2%

Sources: Airline Business Magazine, September 2005, or alliance website.

The SAS Group's share of earnings, ECA

	2005	2004	2003	2002
Earnings, MSEK	-415	-134	-244	-418

Quality, safety & business processes

With flight safety as its top priority, the SAS Group is working systematically on flight safety in all parts of its operations.

Safety and quality

Although flight safety in the SAS Group is high, there were incidents during the year that prompted improvement measures. Efforts to improve safety continue. The majority of Group airlines saw strong growth in 2005, putting a particular focus on flight safety issues.

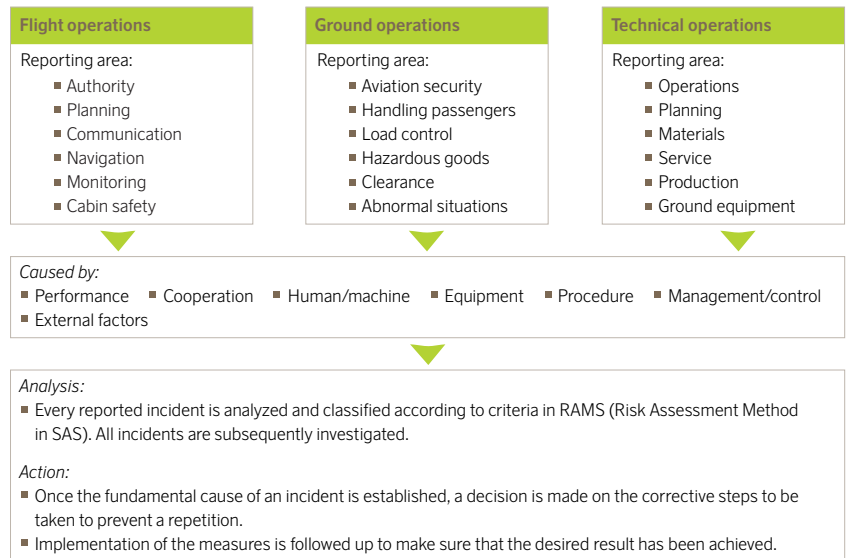
The work to certify more airlines according to IOSA (IATA Operational Safety Audit) continued. Scandinavian Airlines underwent this certification in 2004, and in 2005 Estonian Air, SAS Braathens, Spanair and Widerøe were certified.

Scandinavian Airlines adopted a special action program to reduce the risk in the areas of transporting hazardous cargo, air traffic control, aircraft taxiing during takeoff and landing and pilots' preparations prior to takeoff and landing.

A serious incident occurred with one of Widerøe's aircraft during severe wind conditions while landing in Hammerfest, Norway. No passengers were injured, but the aircraft suffered extensive structural damage.

There was also a serious incident in Shanghai, China, when an Airbus A340 belonging to Scandinavian Airlines took off. Owing to incorrectly entered values in the aircraft's computer, the takeoff speed was too low. This resulted in the aircraft's tail section coming into contact with the runway. No passengers were injured, but the

Flight safety management



aircraft received structural damage to the tail section, requiring extensive repairs.

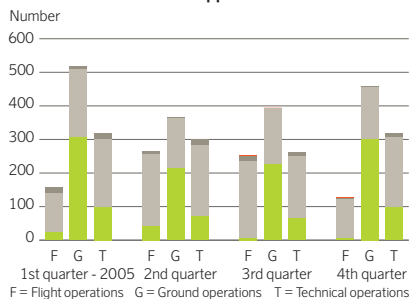
During an internal routine check-up in November 2005 it was discovered that elements of planned inspections of engines and engine mounts on Airbus A340s had not been carried out. The reason was inadequate administrative routines, which were changed immediately. When the inspections were carried out, no faults were found and so flight safety had not been at risk. The SAS Group takes a serious view of the incidents

and therefore carried out an investigation. A number of measures were identified to ensure that the incidents do not happen again.

Aircraft maintenance

The SAS Group's aircraft maintenance is largely performed by SAS Technical Services. Quality work is performed jointly within the Group and is based on reported incidents, inspections and audits that are analyzed and evaluated according to the system for risk analysis. Maintenance carried

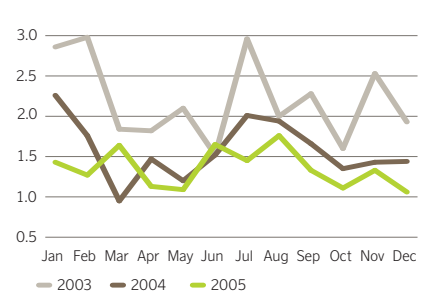
Reported incidents in Scandinavian Airlines Businesses and Airline Support Businesses



Number of reported incidents in 2005	R1	R2	R3	R4	R5
Flight operations	0	4	42	676	79
Ground operations	0	1	16	675	1 046
Technical operations	0	0	54	810	331
Total	0	5	112	2 161	1 456

The SAS Group follows up on and reports incidents in internal risk categories (R1-R5) as above to improve quality and decide on corrective actions. The SAS Group reports to the civil aviation authorities in Scandinavia according to ICAO regulations.

Scandinavian Airlines Businesses Risk index 2005



The risk index is a systematic follow-up model that takes reported incidents into account and weights them according to degree of risk. The objective is to score the lowest possible value.

The SAS Group is organized with different AOCs (Air Operator Certificates)

All airlines in the SAS Group are organized with their own AOC. The exception is the SAS Consortium, which holds a certificate for the operations of Scandinavian Airlines Denmark, Scandinavian Airlines Sverige and Scandinavian Airlines International.



The inspection authorities continually perform extensive inspections and sample tests of the quality of flight operations. An AOC also defines safety standards such as the number of airborne hours and rest periods. The standards vary and may yield differences in competitiveness.

* Denmark's, Norway's and Sweden's civil aviation authorities' cooperation committee, primarily tasked with coordinating national regulations and oversight responsibility regarding the airline operations conducted by the SAS Consortium.

out by other providers takes place under separate contracts that require incident reporting. Maintenance bases affected have to be formally approved by the airlines and the civil aviation authorities. Maintenance is performed according to strict rules and a stringent control system that ensures air-worthy aircraft. There is particular focus on quality control in maintenance work and on the interface between providers of these services and the respective airlines.

In autumn 2005 the regulations for the supervision, certification of aircraft types and maintenance were taken over by the European Aviation Safety Agency (EASA). Scandinavian Airlines is monitored by the Scandinavian Civil Aviation Supervisory Office.

Security

The security situation for the airlines in the SAS Group was stable in 2005. There were no security-related incidents for the SAS Group. Group companies have an excellent collaboration on security issues. Efforts to further harmonize procedures and regulations within the framework of national and international requirements will continue.

Measuring quality

Flight safety

Flight safety is the top priority in the SAS Group, followed by punctuality and other service. Service quality is also measured on the basis of customer perceptions. By monitoring the effectiveness of its quality systems, the company can measure its ability to meet customer expectations regarding safety, reliability and comfortable transportation. By defining and establishing clear and measurable standards the SAS Group

aims to attain the best results in safety and competitiveness.

Production

Quality in production is measured by analyzing punctuality and regularity and continuously following them up against set targets (see each airline concerned).

Dependability & IT security

Airline operations

Operational disruptions in traffic can be defined as anything from delays to canceled flights. Most such disruptions adversely impact customers and impose extra costs on the airline. Reasons for operational disruptions may vary from computer glitches to poor ground and weather conditions, which affect all airlines. Other problems may be accidents, such as a damaged aircraft interrupting traffic at an airport.

The SAS Group and its network as well as its cooperation with Star Alliance™ and other partners enable it to resolve problems quickly, minimizing adverse effects on passengers. After Scandinavian Airlines divided its airline operations into regional companies, the consequences of interruptions could be isolated further. Operational interruptions for intercontinental operations are more difficult to isolate due to the size of the aircraft and higher percentage of transferring passengers.

A canceled flight in Europe is normally dealt with within 2-6 hours, and an intercontinental flight within 12 hours. If an aircraft is damaged and has to be taken out of service for several days, traffic planning is adjusted to minimize any disruptions. These effects cannot normally be insured against.

IT security

To ensure adequate IT security, the SAS Group uses the latest technology. The SAS Group installs an increasing number of business applications to benefit its customers, partners, suppliers, etc. When access to these applications takes place via the Internet, these are protected by Internet firewalls. When access takes place via a communication pathway other than the Internet, they are protected by customer firewalls. The demand and need for employees to work from home and on business trips for access to the internal network are growing. Such access is protected by dialup products with one-time passwords, encrypted communication and personal firewalls on the PC. All solutions are regularly tested by external experts.

In the Group's networks, 2,558,684 computer viruses were detected and rejected in 2005. Operations were not affected by computer viruses in 2005.

As of January 2006 the SAS Group has established backup computer centers for its production platforms in its mainframe environments and vital server environments (Windows and Unix). The backup computer centers can be up and running in 30 minutes in the event of a computer crash.

Approvals & certifications

The long-term goal is for all environmental management systems in the Group to be documented and comply with the international ISO 14001 environmental management standard. Blue1, Spanair and Aero Baleares have IOSA certification from IATA. SAS Technical Services Maintenance Organization and SAS Maintenance Training were approved during the year as EASA Part 145 and 147 organizations, respectively. These units were previously JAA-approved.

Spanair and the Spanish ground handling operator Newco are certified according to the ISO 9001 quality standard. Newco is also certified according to the ISO 14001 environmental standard. SAS Cargo Group is certified according to both ISO 9001 and ISO 14001.

Research & development

Due to the nature of the industry, the SAS Group does not engage in any R&D activities. Nor does the Group capitalize any R&D costs. However, the Group does support R&D in such areas as renewable aviation fuels.



Executive Vice President
and CFO
Gunilla Berg

The capital market & Investor Relations

In 2005 the SAS Group saw a higher level of activity, with the capital market showing keener interest in the Group. Around 100 investor meetings and large number of presentations were held during the year in Scandinavia and abroad.

The SAS Group's share is primarily listed on the Stockholm Stock Exchange and secondarily listed on the exchanges in Copenhagen and Oslo. At the end of 2005 the SAS Group's total market capitalization was MSEK 17,190.

Financial events 2005

- The SAS Group's share rose 74.2% and the number of shares traded climbed by 49%.
- The SAS Group carried out a total of MSEK 1,800 worth of sales, sale and leaseback transactions for aircraft and sale and leaseback of five simulators.
- The SAS Group sold European Aeronautical Group, Jetpak and 67% of SAS Component, providing a positive cash flow of approximately MSEK 2,700 in the latter part of 2005.

Financial objective

The SAS Group's overall financial objective is to create value for its shareholders. The aim is for total shareholder return, i.e., the sum of share price appreciation and dividends, to be at least 14% over a business cycle. This return requirement has been translated into an internal financial target, CFROI.

IR/information policy

The SAS Group has an IR/information policy approved by SAS AB's Board of Directors to ensure the provision of accurate, relevant and timely information to the capital market. Investors and capital market players are to be provided unambiguous information on the company's operations with a focus on increasing shareholder value and how

sustainability-related issues contribute to value creation.

(The policy is available on www.sasgroup.net)

Dividend policy

The SAS Group's annual dividend is determined by taking into account the Group's earnings, financial position, capital requirements and relevant macroeconomic conditions. Over a business cycle the dividend is to be in the region of 30-40% of the Group's income after standard tax. To protect the Group's financial position, no dividend is paid as a rule in the event of a loss. The dividend proposal for 2005 is on page 19.

Financial strategies

Capital market and risk management

- Financial flexibility is maintained through high liquidity, adequate access to funding and an active dialog with the capital market.
- The job of finance operations is to identify, manage and handle the SAS Group's financial risks.
- Since the aircraft fleet is regarded as a financial asset, optimization of fleet financing is achieved by taking operating efficiency requirements, tax effects, financing costs, capital employed, and market value into consideration.

Long-term targets

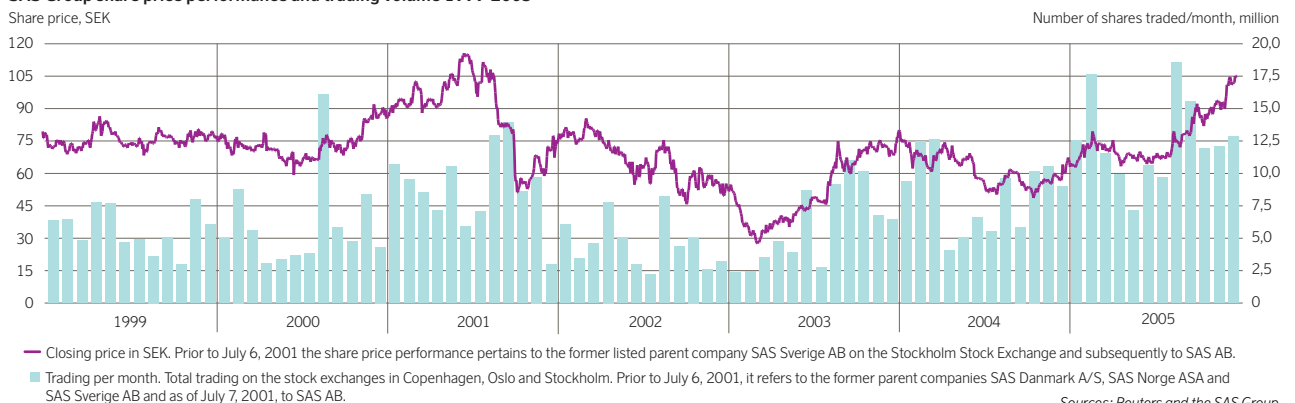
- equity/assets and debt/equity ratios

Equity/assets ratio	> 30%
Financial net debt + 7x Operating leasing / Equity	< 100%
Financial net debt + NPV Operating leasing / Equity	< 100%
Financial net debt/Equity	< 50%



Transparency

SAS Group share price performance and trading volume 1999-2005



Share data

The share price rose 74.2% in 2005. The value of SAS shares traded has risen by 64% since 2001. The trading upturn has stimulated interest in trading the SAS share.

Share price performance in the industry

The market capitalization of an average of airlines in Europe¹ rose rapidly in 2005 after a weak performance in 2004. The uptick was relatively during the first half of 2005, with the total market capitalization of European airlines increasing by 10%, compared with 12% for the SAS Group. Thanks to good traffic performance and less apprehension about rising fuel prices, the price trend was very strong in the second half of the year. For the

year as a whole the market capitalization of European airlines rose 32.2%. The performance of the SAS Group was 42 percentage points higher, rising by 74.2%.

Share liquidity and index

High liquidity in the SAS share is important for attracting major investors. Trading of the SAS share has increased on the three stock exchanges where the SAS share is quoted. On the Stockholm Stock Exchange, where

the SAS Group is primarily listed, trading rose to 57.5 (55.9) million shares. The number of shares traded increased by 119% on the secondary listing in Copenhagen, to 79.0 (36.1) million shares, the highest number ever recorded. In Oslo, the number of shares traded climbed to 13.6 (8.8) million shares. All together, the number of shares traded was the highest ever, rising by 49% compared with 2004, to 150.0 (100.8) million shares. Adjusted for the three Scandi-

¹ Alitalia, Easyjet, British Airways, Finnair, Iberia, Lufthansa and Ryanair

Key data per share, SEK	2005	2004	2003	2002	2001
Market capitalization, mill.	17,190	9,870	11,234	8,329	11,147
No. of shares traded, mill.	150.0	100.8	71.7	55.6	107.5
No. of shares at year-end, mill.	164.5	164.5	164.5	164.5	161.8
Income after tax for the period	1.06	-10.70	-9.63	-1.22	-6.65
Cash flow from the year's operations	9.16	-8.75	-7.09	13.06	-2.19
Dividend	0.00 ¹	0.00	0.00	0.00	0.00
Dividend % of earnings after tax	0%	0%	0%	0%	0%
Book equity	69.93	67.09	78.40	91.91	97.14
Market price at year-end	104.5	60.0	68.0	49.4	68.0
Highest market price during the year	104.5	79.5	75.0	85.0	115.0
Lowest market price during the year	62.5	48.4	27.4	45.5	51.0
Average price	75.6	61.7	51.3	66.2	86.8
Share price/Total equity per share, at year end	142%	88%	85%	53%	70%
Dividend yield, average price	0.0%	0.0%	0.0%	0.0%	0.0%
P/E ratio, average	71	neg	neg	neg	neg
P/CE ratio, average	8	neg	neg	neg	neg

Key figures pertain to the SAS Group and are calculated on 160,018,622 shares for 2001 and 163,747,100 shares for 2002. For other years the figures are based on 164,500,000 shares. The number of outstanding shares is calculated on a weighted average during the year according to the Swedish Financial Accounting Standards Council's recommendations: RR18.

¹ Proposal.

Distribution of shares

Dec. 31, 2005	Number of shareholders	Number of votes	% of share capital	% of all shareholders
1-500	15,450	3,026,012	1.8%	67.7%
501-1 000	3,820	2,900,668	1.8%	16.7%
1 001-10 000	3,152	8,276,884	5.0%	13.8%
10 001-50 000	242	5,209,948	3.2%	1.1%
50 001-100 000	52	3,580,213	2.2%	0.2%
100 001-	105	136,331,403	82.9%	0.5%
Unknown owners *		5,174,872	3.1%	
Total	22,821	164,500,000	100.0%	100.0%

* Shareholders in Denmark not listed by name.

The 15 largest shareholders in the SAS Group*

Dec. 31, 2005	Number of shares	Holding
Swedish government	35,250,000	21.4%
Danish government	23,500,000	14.3%
Norwegian government	23,500,000	14.3%
Knut and Alice Wallenberg Foundation	11,311,161	6.9%
Odin-fonderna	2,767,489	1.7%
State of New Jersey		
Common Pension Fund	2,549,345	1.5%
National Bank of Denmark	2,289,294	1.4%
Handelsbanken funds	1,949,181	1.2%
Robur	1,718,156	1.0%
Livförsäkringsaktiebolaget	1,549,500	0.9%
Nordea funds	1,494,605	0.9%
Första AP-fonden	1,415,547	0.9%
Nordea Bank, managers	1,369,610	0.8%
SEB-funds	1,324,700	0.8%
Norwegian National Insurance Scheme Fund	1,207,787	0.7%
Other shareholders	51,303,625	31.2%
Total	164,500,000	100%

* Under Danish law, disclosure is permitted only when the stake exceeds 5%.

Breakdown of shareholders by stock exchange

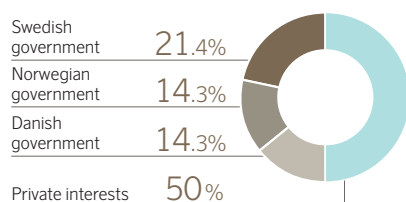
	2005	2004	2003
Copenhagen	17,355	15,514	13,728
Oslo	1,239	1,612	1,831
Stockholm	4,227	5,144	5,230
Total	22,821	22,270	20 789

Trading codes - the share (ISIN code SE0000805574)

	Reuters	Bloomberg
SAS AB, Copenhagen	SAS.CO	SAS DC
SAS AB, Oslo	SASNOK.OL	SAS NO
SAS AB, Stockholm	SAS.ST	SAS SS

Share ownership structure SAS AB

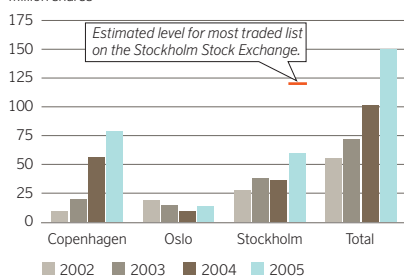
As of December 31, 2005



The SAS Group's largest owner is the Swedish government, with 21.4%. The Norwegian and Danish governments each own 14.3%. Fifty percent is in private hands.

Volume of shares traded on the three exchanges, plus total, 2002-2005

Million shares



Sources: SIX and the SAS Group

Trading of the SAS share increased by 119% in Copenhagen, 3% in Stockholm and 54% in Oslo in 2005.

Share of total trading, in Swedish kronor, of SAS Group shares on the Stockholm Stock Exchange, 2000-2005



Sources: Stockholm Stock Exchange and the SAS Group

The SAS share's share of the trading on the Stockholm Stock Exchange in 2005 was relatively stable despite its sharply higher trading on the Stockholm Stock Exchange.

navian states' 50% participation in the SAS Group, this corresponds to a total turnover of 182% (123%). Of the total trading volume, 38% (55%) was traded on the Stockholm Stock Exchange, 53% (36%) on the Copenhagen Stock Exchange and 9% (9%) on the Oslo Stock Exchange. In 2005, SAS Group share trading amounted to SEK 11.4 (6.4) billion, a 77% increase. This made the SAS Group's share the seventh most traded airline share in Europe, the same level as for 2004. Calculated in USD, trading of the SAS share has risen by 64% since 2001.

Besides the indexes directly linked to the stock exchange listings in Stockholm, Copenhagen and Oslo, the SAS share is included in more than 100 other indexes including the Dow Jones STOXX Index, Morgan Stanley International and S&P/Citigroup-BMI. The Group is also included in some environmental indexes, such as Ethibel and EIRIS, which evaluate the ability of companies to successfully combine business activities with environmental work.

Shareholders

The SAS Group had 22,821 (22,270) shareholders on December 31, 2005. The biggest shareholders are listed on the table on page 18. The total institutional holding is approximately 40% while the portion held by private individuals is approximately 10%. Holdings in Scandinavia total approximately 90% while holdings outside the EEA are below 5%.

Dividend

The Board of Directors proposes that no dividend be paid to SAS AB shareholders for the 2005 fiscal year. The reason for this is the impact on the Group of the structural changes in the airline industry and the fact that protecting the Group's financial position is vital for its continued operation.

The SAS Group's return

By the end of 2005, an investment of SEK 100 made on January 1, 1995 would have grown to SEK 212 including reinvested dividends. This corresponds to an average annual total shareholder return of 7.1%. The return in 2005 was 74.2%.

Investor Relations activities

The SAS Group's ambition is to offer prompt, relevant and timely information on its performance. The Group abides by an IR/information policy adopted by the SAS AB Board of Directors to ensure sound and fair provision of information to the market. The IR policy is posted on www.sasgroup.net under Investor Relations, which also contains up-to-date information on the Group's financial performance, stock market information, financial calendar, traffic statistics, environmental index, company information and other important data. The SAS Group Annual Report 2004 won the Swedish Ministry of Industry, Employment and Communications' 2005 competition for annual reports, Genomlyst 2005.

In conjunction with the presentation of interim reports the SAS Group holds press and telephone conferences and meetings for analysts. The SAS Group also participates in various aviation conferences and organizes a large number of investor gatherings.

Analysts: Quarterly meetings and phone conferences.

Examples of share analysts who monitor the SAS Group

Scandinavian analysts	Contact
ABG Sundal Collier	Lars Heindorff
Carnegie	Lars Topholm
Danske Equities	Philip Christoffer Christensen
DnB Nor Markets	Martin Huseby Karlsen
Enskilda Securities	Jeff Saul
Erik Penser Fondkommission	Mats Hyttinge
First Securities	Hans Erik Jacobsen
Handelsbanken	Ann Bowers
HSH Gudme	Brian Børsting
Jyske Bank	Michael Nielsen
Nordea	Finn Bjarke Petersen
Sydbank	Jacob Pedersen
International analysts	
ABN Amro	Andrew Lobbenberg
Citigroup	Andrew Light
Credit Suisse First Boston	Oliver Neal
Davy Stockbrokers	Stephen Furlong
Dresdner Kleinwort Benson	Mike Powell
Goldman Sachs	Christopher Logan
JP Morgan	Chris Avery
Lazard	Gert Zonneveld
Merrill Lynch	Anthony Bor
Morgan Stanley	Penelope Butcher

Investors: Quarterly meetings in Copenhagen, Oslo, Stockholm and London, biannual meetings in the rest of Europe and the U.S. Participation in industry seminars and conferences.

Brokers and the financial press: Quarterly meetings and annual seminars.

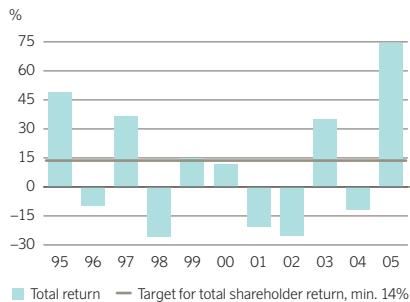
Monitoring of the SAS Group by analysts

The number of analyst reports about the SAS Group in 2005 rose above all in Scandinavia. The majority of international banks monitor the Group. The number of analysts that the Group knows are continually monitoring its performance totaled 22 at year-end, of which 12 are in Scandinavia.

Change in share capital*		Number of new shares	Total number of shares	Par value/share, SEK	Nom. share capital
2001-05	Company registration	50,000	50,000	10	500,000
2001-07	Non-cash issue	155,272,395	155,322,395	10	1,553,223,950
2001-08	Non-cash issue	6,494,001	161,816,396	10	1,618,163,960
2002-05	New issue	2,683,604	164,500,000	10	1,645,000,000

* Before SAS AB was formed in May 2001 the SAS Group was listed through the three companies SAS Danmark A/S, SAS Norge ASA and SAS Sverige AB.

Annual total return on SAS Group share, 1995-2005



▲ Average annual effective return for the period 1995-2005 was 7.1%.

Share price performance of SAS share and a European industry average since January 1, 2005



▲ In Swedish kronor, the SAS Group share price performed 42 percentage points better than an index consisting of the European airlines Alitalia, Easyjet, British Airways, Finnair, Iberia, Lufthansa and Ryanair.

Ten-year financial overview

SAS Group ¹	2005	2004 ²	2003 ²	2002 ²	2001	2000	1999	1998	1997	1996
Statements of income, MSEK										
Operating revenue	61,887	58,093	57,655	64,906	51,433	47,540	43,746	40,946	38,928	35,189
Operating income before depreciation	2,984	1,779	597	3,463	743	3,710	2,731	4,101	4,102	3,668
Depreciation	-2,412	-2,846	-3,046	-2,953	-2,443	-2,192	-2,087	-2,125	-1,880	-1,851
Share of income in affiliated companies	134	157	39	-409	-70	-1	77	-20	88	5
Income from sale of shares in subsidiaries and affiliated companies	480	5	651	817	-24	1,033	283	1	1	-
Income from the sale of aircraft and buildings	187	113	649	-320	1,165	490	726	1,014	83	100
Income after financial items	418	-1,833	-1,699	-543	-1,140	2,829	1,885	2,921	2,314	2,031
Income before capital gains and nonrecurring items	114	-1,701	-2,450	-829	-2,282	1,291	459	1,905	2,215	1,931
Balance sheets, MSEK										
Fixed assets	36,439	38,458	42,768	46,845	42,407	33,422	28,587	26,491	23,003	20,787
Current assets, excluding liquid assets	12,893	10,748	9,441	9,244	8,693	7,024	7,133	5,958	4,833	4,161
Liquid assets	8,684	8,595	9,066	10,721	11,662	8,979	8,495	8,024	9,828	11,074
Total shareholders' equity	12,081	11,044	12,926	15,261	15,807	17,651	16,145	15,359	13,738	12,442
Long-term liabilities	23,608	25,193	25,633	27,096	24,569	14,895	12,418	11,188	13,452	14,296
Current liabilities	22,327	21,564	22,716	24,453	22,386	16,879	15,652	13,926	10,474	9,284
Total assets	58,016	57,801	61,275	66,810	62,762	49,425	44,215	40,473	37,664	36,022
Cash flow statements, MSEK										
Cash flow from the year's operations	1,507	-1,440	-1,167	2,138	-350	3,949	1,483	3,665	3,739	3,564
Investment	-1,827	-3,865	-4,488	-9,919	-11,676	-9,886	-5,845	-6,112	-3,256	-2,651
Sale of fixed assets etc.	2,828	6,853	5,535	6,055	8,382	5,559	6,601	2,360	252	1,066
Cash flow before financing operations	2,508	1,548	-120	-1,726	-3,644	-378	2,239	-87	735	1,979
New issue	-	-	-	197	-	-	-	-	-	644
Dividend	-	-	-	-	-754	-666	-637	-678	-493	-2,204
External financing, net	-2,457	-2,016	-1,480	588	7,081	1,528	-1,131	-1,039	-1,488	-562
Cash flow for the year	51	-468	-1,600	-941	2,683	484	471	-1,804	-1,246	-143
Key figures										
Gross profit margin, %	4.8	3.1	1.0	5.3	1.4	7.8	6.2	10.0	10.5	10.4
Return on capital employed (ROCE), %	5.0	-1.1	0.0	3.5	0.0	10.9	8.7	13.4	11.6	10.7
Return on book equity after tax, %	1.4	-14.9	-11.7	-1.4	-6.3	13.6	9.4	15.5	13.7	13.9
Equity/assets ratio, %	21	19	21	23	25	36	37	38	36	35

¹ Pertains to the SAS Group pro forma 1996-2000. ² Comparative figures for 2004 have been restated according to IFRS. Errors relating to Spanair's accounts have been corrected for 2002-2004. Definitions and concepts, see back flap.

Comments

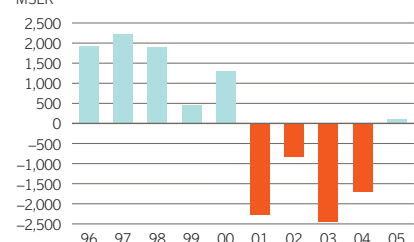
Earnings performance

During the last 10 years it was especially the early 2000s that have been marked by events that negatively impacted the airline industry.

Strong earnings 1996-1997

In 1996 the SAS Group posted lower earn-

Income before capital gains and nonrecurring items MSEK



ings due to higher personnel costs and less favorable contracts for the SAS Group. In 1997 earnings improved in line with traffic development and a higher cabin factor. In 1998 and 1999 earnings were negatively impacted by higher costs, which led to the introduction of a cost-cutting program. Though the economy was good in the Scandinavian markets in 2000, the improved earnings were held in check by higher fuel prices.

September 11, 2001

2001 opened very strongly, but the terrorist attacks of September 11, 2001 precipitated the biggest crisis in the airline industry since the Gulf War in 1990-91. SAS Group earnings improved in 2002, but the market in Europe struggled with slow economic

growth, greater competition and a change in the passenger mix. In response, the SAS Group initiated Turnaround 2005.

Earnings in 2003 were very poor in the wake of external events such as the SARS epidemic and the war in Iraq. Although traffic recovered significantly in 2004, tough competition in Scandinavia exerted heavy pressure on prices, causing the Group to post a loss for 2004 despite huge cost savings.

Performance in 2005

- The continued record-high fuel prices increased costs by SEK 1.7 billion adjusted for higher volume and currency effects.
- Traffic developed well, with the autumn seeing a sizable increase and sharply improved cabin factors.

Ten-year financial overview

SAS Group ¹	2005	2004 ²	2003 ²	2002 ²	2001	2000	1999	1998	1997	1996
Income and capital concepts included in CFROI, MSEK										
Income before depreciation, EBITDA	2 984	1 779	597	3 463	743	3 710	2 731	4 101	4 102	3 666
+ Operating lease costs, aircraft	3 133	2 689	2 935	3 747	2 425	1 898	1 346	1 027	859	872
EBITDAR	6 117	4 468	3 532	7 210	3 168	5 608	4 077	5 128	4 961	4 538
- Operating lease revenue, aircraft	-155	-163	-145	-85	-16	-15	-66	-161	-179	-238
Adjusted EBITDAR	5 962	4 305	3 387	7 125	3 152	5 593	4 011	4 967	4 782	4 300
Adjusted average capital employed³										
+ Total shareholders' equity	12 113	11 823	13 655	14 914	17 105	16 369	15 393	14 549	13 091	12 442
+ Surplus value, aircraft	-161	-674	167	1 318	4 638	5 420	4 911	4 073	3 277	1 930
+ Capitalized leasing costs, net (x7)	18 967	18 130	22 844	21 766	14 818	10 840	7 670	5 383	4 686	3 889
- Equity in affiliated companies	-853	-676	-519	-803	-1 087	-895	-1 126	-1 102	-705	-653
+ Financial net debt	16 119	18 592	19 031	16 905	8 661	4 465	3 720	1 026	255	164
Adjusted capital employed	46 185	47 195	55 178	54 100	44 135	36 199	30 568	23 929	20 604	17 772
Cash Flow Return On Investments CFROI, %	12,9	9,1	6,1	13,2	7,1	15,5	13,1	20,8	23,2	24,2
Other financial data, MSEK										
Financial income	534	357	1 096	1 150	618	518	868	634	674	745
Financial expenses	-1 539	-1 399	-1 684	-2 291	-1 129	-729	-713	-684	-754	-634
Interest-bearing liabilities	26 337	27 280	28 866	29 782	26 124	14 563	11 802	10 277	10 589	11 810
Operating leasing capital	20 846	17 682	19 530	25 634	16 863	13 181	6 960	6 062	4 760	4 438
Net debt	5 865	9 956	11 466	11 574	7 652	794	-107	484	-185	164
Financial net debt	14 228	17 377	18 122	17 872	12 824	4 372	2 336	1 707	345	164
Debt/equity ratio ⁴	1,18	1,57	1,40	1,17	0,81	0,25	0,14	0,11	0,03	0,02
Adjusted financial net debt (NPV)/equity	2,21	2,53	2,18	2,01	1,37	0,45	0,35	0,25	0,13	0,18
Adjusted financial net debt (x7)/equity	2,90	3,17	2,91	2,85	1,89	1,00	0,73	0,58	0,46	0,50
Interest expenses/average gross debt, %	5,2	4,3	6,5	6,9	4,4	5,2	5,4	6,1	6,3	5,7
Interest coverage ratio	1,3	-0,3	0,0	0,7	0,0	5,0	3,6	5,3	4,0	4,2

¹ Pertains to the SAS Group pro forma 1996-2000. ² Comparative figures for 2004 have been restated according to IFRS. Errors relating to Spanair's accounts have been corrected for 2002-2004. ³ Average capital, 1997-2005. ⁴ Calculated on financial net debt. Definitions and concepts, see back flap.

- Effects of Turnaround 2005 measures enabled the SAS Group to post an earnings improvement of SEK 1.8 billion, one of the largest ever posted in the history of the company.
- Income before capital gains and nonrecurring items amounted to MSEK 114.

Return requirement

It is a goal of the SAS Group to give shareholders a competitive return. The goal is to give owners a total shareholder return (the combination of annual share price growth

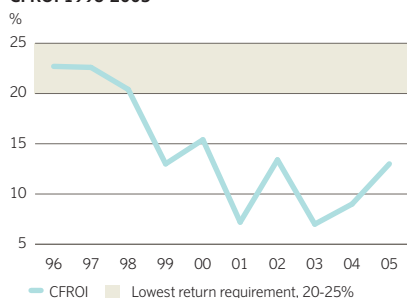
and dividend yield) of 14% calculated as an average over a business cycle. The target is based on the capital asset pricing model (CAPM). Average return since 1995 has been 7.1%.

Terms

CFROI is the SAS Group's primary return term for its airlines. This key ratio is the best way of showing the return the company generates in relation to actual capital input. The return target is market based and is on par with the return requirements of the cap-

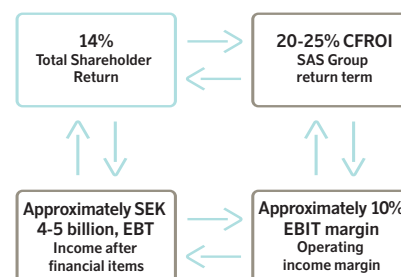
ital market. It reflects the EV/EBITDAR multiple, which is the most important international financial key figure for airlines and is used by the majority of analysts in the airline industry. The capital concept has been adjusted to include the hidden value of the aircraft fleet and capitalized operating lease costs (x7) for the aircraft fleet. The SAS Group's goal is to achieve a market value that at the very least is on par with the industry average and its target is a minimum average CFROI of 20% over a business cycle.

CFROI 1996-2005



The Group's overriding financial target is an average minimum CFROI of 20-25% over a business cycle. In 2005 the CFROI was 13% (9%). CFROI is affected by external environment-related costs, see page 109.

20% CFROI corresponds to an EBIT margin of approximately 10%, income after financial items of SEK 4-5 billion and should produce a total shareholder return of 14%.



Cycles, trends & risks

The airline industry is a growth business since traffic normally expands faster than the economy in general. Because its growth has been disrupted by external events such as war, epidemics and oil crises, profitability has been volatile. As a rule, higher economic activity generates increased travel. (For information on financial risk management see Note 29 on pages 74-75.)

Airline industry cycles

Normally, the airline industry grows somewhat faster than the gross domestic product. Traditionally, traffic (RPK) has risen by approximately 5% per year. Based on the rate of the last 30 years, traffic growth is deemed to have a multiplier of approximately 2.5 times the GDP increase. Since 2001 this correlation has been reversed in the aftermath of the events of September 11, the SARS epidemic and the war in Iraq. 2005 brought a return to a more normal state of affairs.

Capacity and traffic performance in the airline industry

A crucial factor for the industry's profitability is capacity development and expected traffic performance. New aircraft delivered globally in 2005 comprised 5.0% of the world's total aircraft fleet. Estimated at 1.7%, the aircraft taken out of service in 2005 represents a net increase of approximately 600 aircraft, equivalent to a net increase of 3.3%. In 2006 net deliveries will amount to an estimated 3.1% and approximately 3.4% per year in 2007-2010.

The world's two largest aircraft manufacturers, Airbus and Boeing, forecast an annual growth rate of approximately 5.3% and 4.8%, respectively, until 2023/24. The biggest increase is expected to take place in traffic in as well as to and from Asia, particularly China.

The SAS Group's seasonal variations

Profitability for the SAS Group fluctuates sharply during a single year. This is because approximately 60-70% of scheduled travel in Scandinavia is business related, which means the Group's revenues are highly dependent on activity levels in business.

A normal calendar year opens with very low traffic levels and business travel, which means that first quarter earnings are often negative. Volumes increase sharply from March to June. During the spring, however, profitability is negatively impacted by Easter in Scandinavia, when business travel plummets. On the other hand, Easter is a busy time for Spanair owing to increased leisure travel. Summertime is high season for Spanair, but due to the fact that business activities in Scandinavia are at an ebb, overall revenues decline for the SAS Group.

Activity levels in business pick up in the autumn before slowing down once again at the end of the year. In 2005, the SAS Group adjusted its seasonal capacity to a higher degree. For example, capacity during Christmas and New Year's is reduced in line with the anticipated weak demand.

External risks

The airline industry is an international business affected by global external events such as sharp increases in the price of oil, currency

fluctuations, terrorism, war, epidemics, etc. The Group and Group companies identify risks on an ongoing basis and formulate plans to handle them.

SARS

During the SARS epidemic in 2003, the SAS Group's earnings fell by approximately half a billion SEK due to the canceled flights to Asia. Losses were limited thanks to contingency plans for reducing production.

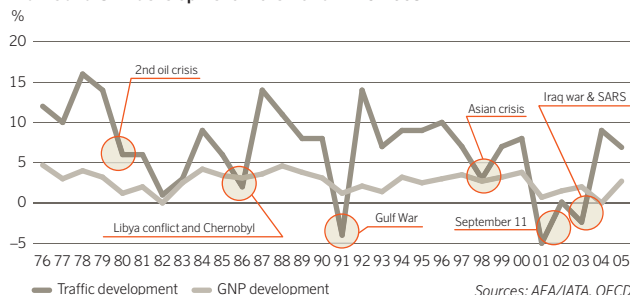
Avian flu

The SAS Group has worked out a flexibility in speedy capacity adjustments to be able to meet any crisis or major outbreak of bird flu among the public. The SAS Group is also in close contact with relevant authorities such as WHO etc. in case there is a major outbreak.

Variability in the cost base

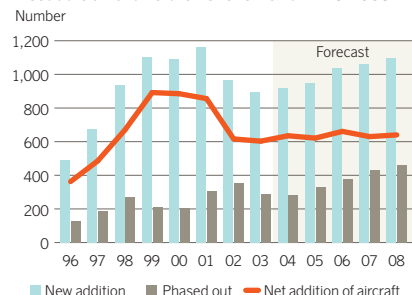
Because variability in the cost base is strategically important for handling external events, the SAS Group has consequently initiated activities to specifically increase variability in the cost base for all companies in the Group. A high degree of flexibility in the cost base is important for being able to quickly change capacity. A higher degree of flexibility is to be ensured by improved crew agreements and aircraft leases, alternative production models (initially, wet lease instead of own

Traffic and GDP development in the world 1976-2005



Based on the rate of the last 30 years, traffic growth is deemed to have a multiplier of approximately 2.5 times GDP. Since 2001 this connection has been weaker and the correlation has been reversed in the aftermath of events such as September 11, the war in Iraq and the SARS epidemic.

Net addition of aircraft – entire world 1996-2008



Since the middle of the 1990s there has been a sharp growth in new-built aircraft in the fleet. Since 2001 new additions have fallen while a large number of aircraft have been phased out. This means that the net addition of aircraft is expected to be stable in the next few years.

expansion), improved planning processes and volume-variable agreements.

Operating risks and geographic exposure

Operating risks are managed by the SAS Group's various units. The Group's airlines focus on reducing operating risk and optimizing production. In 2005, the economy measured by GDP and passenger traffic showed healthy growth. The economy has continued to grow despite record-high oil prices, and the outlook for 2006 is still good in many of the SAS Group's markets. The chart below shows GDP growth in the SAS Group's key markets in 2005 as well as the share of total ticket sales that these markets represent.

GDP growth in the SAS Group's key markets 2005

	GDP growth *	Group's share of sales
Norway	2.4%	31%
Sweden	2.4%	19%
Denmark	3.0%	10%
Spain	3.4%	13%
U.S.	3.6%	5%
Finland	1.3%	3%
Euro countries	1.4%	15%
OECD	2.7%	4%

* OECD Economic Outlook No. 78.

Jet fuel

The SAS Group is exposed to changes regarding the world market price for jet fuel. The Group manages price hedging of jet fuel for all airlines. Fuel costs accounted for approximately 14.0% (10.6%) of the Group's total costs including depreciation.

Jet fuel policy

The SAS Group's policy is to hedge on an ongoing basis 40-60% of the forecast consumption in the coming 12-month period.

The SAS Group's sensitivity analysis

Approximate relationships between the main operational key figures for Scandinavian Airlines Businesses and the SAS Group's financial and environmental result. While the impact on earnings cannot be totaled it illustrates the earnings sensitivity (excl. hedging of currency and fuel) for Scandinavian Airlines Businesses and the Group, respectively, in the current situation.

Airline operations	Scandinavian Airlines Businesses, annual effect	Group total, annual effect	
Passenger traffic	1% change in RPK, MSEK	240	310
Cabin factor	1 percentage point change in cabin factor, MSEK	340	480
Unit revenue (Yield)	1% change in passenger revenue per passenger km, MSEK	300	390
Unit cost	1% change in airline operations' unit cost, MSEK	270	350
Jet fuel	1% change in the price of jet fuel, MSEK	60	80
	1% change in consumption of jet fuel, corresponding to tonnes of CO ₂ , (000)	43	60
Aircraft			
	1 short and medium-haul aircraft out of service, earnings impact per day, MSEK		-0.25
	1 long-haul aircraft out of service, earnings impact per day, MSEK		-1.0
Net currency effect and interest rate sensitivity, MSEK			
Revenues and expenses	1% weakening of SEK against USD		-110
	1% weakening of SEK against NOK		60
	1% weakening of SEK against DKK		-15
	1% weakening of SEK against EUR		40
	1 pt. weakening of average interest rate		60
	1% decrease of financial net debt		0-15
Hotels, MSEK			
	1 EUR change of RevPAR		40
	1 pt. change in hotel occupancy		40

Comments

Airlines operations: A 1% increase in passenger traffic represents MSEK 310 in increased operating revenues for the SAS Group. In general a 1% increase of the cabin factor is also worth more than a 1% weakening of the yield.

Net currency effect and interest rate sensitivity: The SAS Group's largest deficit currency is USD due to aircraft leasing and jet fuel costs. A 1% appreciation of USD would negatively impact the SAS Group's earnings by MSEK 110. However, a USD gain often leads to higher fares so the net effect is very limited.

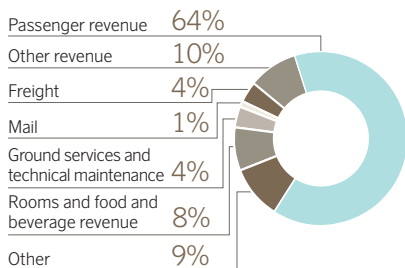
Hotels: Rezidor SAS earnings will improve by MSEK 40 if occupancy rises by 1%.

Jet fuel prices

Jet fuel prices climbed to record highs in 2005, causing the Group's fuel costs to soar by SEK 1.9 billion, to SEK 8.1 billion. In 2005 the SAS Group hedged on average 54% of fuel purchases at an average price of USD 473/MT including premiums. Of its anti-

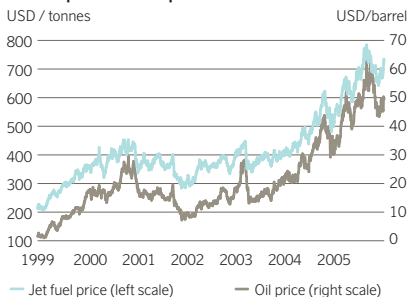
ipated consumption in 2006, the SAS Group has hedged an average of 43% primarily with capped options of approximately USD 640/MT including premiums. The SAS Group's jet fuel costs are expected to total approximately SEK 10 billion in 2006, based on forward prices in February 2006.

SAS Group revenue breakdown 2005



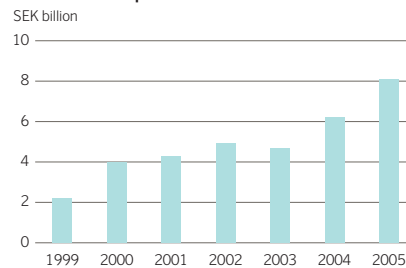
The SAS Group is exposed to passenger traffic and the development of air traffic, which accounts for 64% of the Group's revenues after eliminations. Other important income items are rooms and food and beverage revenue from hotel operations and from cargo transport.

Jet fuel prices vs. the price of oil



The prices of jet fuel and crude oil track each other relatively well, but in the latter part of 2005 jet fuel costs increased more than the price of crude oil due to refinery capacity limitations.

Fuel cost development



In 1999 the Group's jet fuel costs totaled just SEK 2.2 billion. Since then, costs have risen year after year, reaching SEK 8.1 billion in 2005.

Fuel efficiency program

In the spring of 2005 Scandinavian Airlines Businesses introduced a fuel efficiency program. The project involves a systematic review of all factors that can affect fuel consumption and includes maintenance routines as well as regular engine cleaning and fueling procedures. The know-how and attitudes of pilots play a crucial role in the success of this endeavor.

The goal of Scandinavian Airlines Businesses is to save MSEK 250 annually and the intention is to expand the program to cover all SAS Group airlines in 2006.

Currency exposure

Because of its international operations, the SAS Group is exposed to the fluctuations of several currencies. Transaction risk arises during exchange rate changes that affect the amount of commercial revenues and costs, thereby impacting the SAS Group's operating income.

Currency exposure is managed by hedging on an ongoing basis 60-90% of the Group's surplus and deficit currencies based on a 12-month rolling liquidity forecast. The Group has on balance a number of surplus currencies, with deficits mainly in USD and DKK. In 2005 the value of the USD appreci-

ated against the Group's largest surplus currencies: SEK, NOK and EUR. The appreciation of the dollar negatively impacted the SAS Group's operating income despite the fact that the Group hedged 70% of its currency risk during the year.

Overall, exchange rate developments had a positive impact on operating income. The total effect including positive effects from currency hedging amounted to MSEK 274.

The SAS Group's insurance coverage

The SAS Group insures all assets and personnel to reduce the risk of unforeseen events. Assets and operations are to have optimal insurance coverage based on competitive terms in the global insurance market. The SAS Group's airline insurance contracts are of the all risks type and cover the aircraft fleet, with the expanded exception that the airline industry has had to bear regarding damage to aircraft caused by weapons of mass destruction, spare parts and other technical equipment as well as liability exposure associated with airline operation. Insurance costs fell in 2005 by approximately 18% compared with 2004 and amounted to approximately MUSD 45.

Reporting of pension plans

Since 1996 the SAS Group has followed International Accounting Standards, IAS 19, for reporting the Group's defined benefit pension plans. The reporting of the size of the pension commitments is based on set parameters regarding interest, inflation, salary increases etc. Any deviations from estimates are amortized according to the remaining earning period, 15 years in the pension plans.

Overfunding exists in several of the SAS Group's pension plans, which means that as of December 31, 2005, the SAS Group had a positive difference of MSEK 1,100 between funded assets and commitments. (For detailed information see Note 19 on pages 72-73.)

Effective tax

The SAS Group has approximately SEK 10 billion in unutilized loss carryforwards. Of these, deferred tax receivables are stated for approximately SEK 8 billion. This means that the SAS Group will not have tax payable until these loss carryforwards have been utilized, which will affect cash flow positively in future periods.

Credit card losses

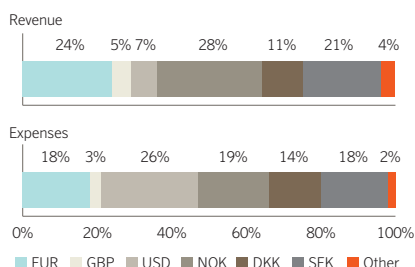
The SAS Group follows the practice in the industry regarding payment by credit card. In 2005 total losses connected with credit card payments amounted to approximately MSEK 1.5 for the SAS Group. This is equivalent to approximately .005% of total sales, or .007% of credit card sales. To further reduce losses relating to credit card purchases, SAS is working continuously to improve security and will introduce further improvements in 2006 for payments via the Internet and call centers.

Estimated currency breakdown, net, of operating income (EBITDA), 2005, MSEK

Surplus currencies		Deficit currencies	
NOK	5,900	USD	11,000
EUR	3,900	DKK	1,600
SEK	2,200		
GBP	1,300		
Other	2,300		

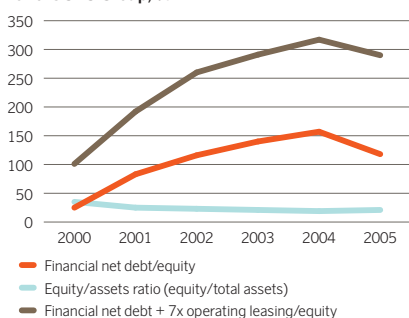
EBITDA amounted to approximately MSEK 3,000.

Currency breakdown in the SAS Group 2005



The SAS Group's main revenue currencies are NOK and EUR. Its largest cost currencies are USD and NOK.

Equity/assets ratio and debt/equity ratio for the SAS Group, %



The SAS Group's most important key figure for financial strength is its debt/equity ratio (with and without leasing) and equity/assets ratio. The SAS Group has improved the key figures since 2003.

SAS Group aircraft insurance costs



After September 11, 2001 the cost of aircraft insurance rose sharply. However, since 2003 insurance costs have been trending downward.

Financing, investment & capital employed

The SAS Group's financial key figures were bolstered in 2005 by a positive cash flow and continued releasing of capital. The Group is in the midst of a period of very low investment.

Financing

Financing is mainly accomplished through syndicated bank loans, bond issues, direct borrowing, debenture loans, and finance and operating leasing. As 2005 opened, MEUR 300 of the rolling credit facility totaling MEUR 400 had been utilized. During the year the utilized amount was drawn down successively and by the end of 2005 MEUR 100 of the facility had been utilized.

From April to December, the SAS Group issued MSEK 925 in new bonds in the Norwegian market. The bonds have a term of five years and mature in 2010.

Under the existing EMTN program, MSEK 1,018 worth of bond issues were renegotiated and extended from 2008 to 2010. Furthermore, MEUR 33 and MSEK 200 were issued with maturity in 2006 and 2010, respectively. Besides that a number of smaller repurchases were made of bond issues maturing in 2008, for a total counter-value of approximately MSEK 144.

In addition to the above-mentioned loan facilities, bank facilities totaling approximately MSEK 2,096 were extended during 2005.

Creditworthiness

The SAS Group shall maintain a level of in-

debtedness that over the long term permits the Group to be viewed as an attractive borrower. The Group has financial targets for equity/assets and debt/equity ratios. The equity/assets ratio improved somewhat in 2005, amounting at year-end to 21%. Financial net debt amounted to MSEK 14,228, a decrease of MSEK 3,139 in one year. At the end of 2005 the SAS Group's lease-adjusted financial net debt (7 x annual leasing costs) relative to shareholders' equity was 290%.

Moody's downgraded the SAS Group in May by one notch. Moody's changed its rating methods in June, which meant that the SAS Group was upgraded to B1 for the company's corporate family rating with an unchanged negative outlook. In 2004 the Japanese rating institute Rating and Investment Information Inc. lowered the Group's creditworthiness from BBB to BB+.

Investment and investment needs

The SAS Group is in the midst of a period of very low investment. At the end of 2005, the SAS Group had firm aircraft orders valued at approximately MUSD 179 (MSEK 1,424). No aircraft were delivered in 2005, although prepayments of MSEK 60 were made. At December 31, 2005, the market value of the

SAS Group's owned and leased aircraft amounted to approximately SEK 44.7 billion.

Long-term CAPEX

Large parts of the SAS Group's fleet have been replaced since 1998. Only six planes are currently on order with aircraft manufacturers. The next major fleet renewal program will cover the MD-80 series, with replacements probably commencing in 2010-2015.

The SAS Group has prepared guidelines concerning the composition of owned and leased aircraft. The current goal is for 75% of the aircraft fleet to be leased and 25% to be owned. The most important criteria are assessing capital costs, residual value risk and the flexibility of the fleet. Consequently, the guidelines will be changed if the Group's creditworthiness, tax position or fleet changes.

Besides investment in aircraft the Group invests approximately MSEK 1,300 per year in spare parts and other operational investments.

Investments in aircraft will be limited up to 2010-2015. Afterwards, the investment pace will step up with the replacement of the MD-80 fleet, but the increase will be of a limited scope as the majority of the investments are expected to be carried out by operating leases for aircraft.

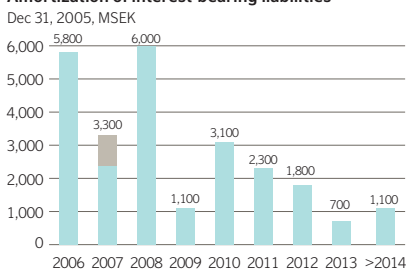
Operating lease commitments

Because the stock market uses a multiple of seven in calculations of relevant key figures, the Group has chosen this method. For the loan market the present value calculation is relevant since it measures actual leasing

Existing committed credit facilities for the SAS Group at December 31, 2005

Facility	Countervalue in MSEK			Expiration of validity period
	Total facility	Utilized facility	Unutilized facility	
Revolving credit facility 400 MEUR	3,772	943	2,829	2007
Bilateral bank facilities	2,096	0	2,096	2006
Other	1,402	1,081	321	2006
Total	7,270	2,024	5,246	

Amortization of interest-bearing liabilities



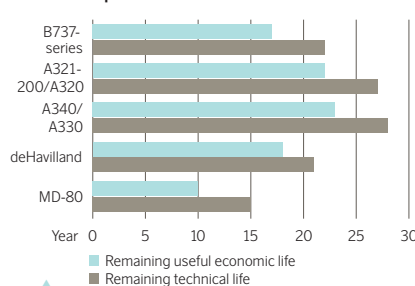
The diagram shows planned amortization of the SAS Group's interest-bearing liabilities. The brown part of the column shows a revolving credit facility equivalent to MSEK 950.

Adjusted financial net debt (x7)/equity



The starting point when calculating the SAS Group's capital employed is the Group's total equity. The surplus value in the aircraft fleet, financial net debt and capitalized leasing costs are added to equity.

Estimated remaining life of SAS Group aircraft fleet



Statistics show that the technical life of aircraft is assumed to be 30 years and the useful economic life is 25 years. The average age of the SAS Group fleet is 9.8 years, roughly equivalent to the European average.

commitments. At the end of 2005 the Group's capitalized leasing cost (x7) was MSEK 21,931 and the present value of the leasing contracts for the SAS Group was MSEK 12,517, equivalent to MUSD 1,573.

Program to release capital

During 2005 the SAS Group sold four Boeing 737s, two McDonnell Douglas MD-80s and one Fokker F28. In addition the Group effected sale and leaseback transactions for two Boeing 737s, two McDonnell Douglas MD-80s, five Fokker F50s and five Full Flight Simulators. This provided a total sales value of MSEK 1,800. Approximately MSEK 5,100 worth of property transactions were closed in 2002 and 2003. Aircraft sales carried out in 2004 amounted to SEK 6.4 billion. The Group also expects to release capital in 2006, mainly via sale and leaseback transactions for aircraft, engines and properties.

In 2005 the SAS Group sold 67% of SAS Component and 100% of Jetpak Group and European Aeronautical Group. The total sales value including inventories amounted to approximately MSEK 3,150. The positive cash flow amounted to approximately MSEK 2,700 in 2005/2006.

Focus on working capital

The SAS Group's working capital follows a seasonal pattern. A higher share of pre-booked and paid airline tickets means that the working capital is normally positive during the second and fourth quarters. During the first and third quarters, business traffic is higher, which means a smaller share of prebooked and paid airline tickets and hotel rooms. The SAS Group works continually to release capital in operations. 2006 will see an even greater focus on this through various programs and activities.

SAS Group's total aircraft fleet, December 2005¹ (For technical information about the aircraft fleet see page 116.)

	Average age	Owned	Leased ²	Total	Leased out	Order
Airbus A330/A340	3.6	5	6	11		
Airbus A321-200	3.8	8	5	13		
Airbus A320/A319	2.7		16	16		4
Boeing 737-series	7.5	22	54	76	5	2
Boeing 717 (MD-95)	5.2		4	4		
Douglas MD-80-series	16.4	24	66	90	5	
Douglas MD-90-series	8.9	8		8	2	
Avro RJ-85/100	4.2		9	9		
Fokker F50	15.8	2	6	8	2	
deHavilland Q-series	8.0	17	37	54		
SAAB 2000	8.6		5	5		
Total	9.9	86	208	294	14	6

Breakdown of the aircraft fleet by airline, Dec. 2005¹

	Average age	Owned	Leased ²	Total	Leased out	Order
Scandinavian Airlines Businesses	9.8	70	121	191	14	6
Spanair	11.0		59	59		
Widerøe	10.4	16	14	30		
Blue1	5.8		14	14		
Total	9.9	86	208	294	14	6

¹ Excluding airBaltic when it was consolidated in August 2005.

² Refers to aircraft under operating leases.

In addition to the above aircraft fleet, the SAS Group has wet lease agreements for three CRJ200s and three Fokker F100s. Beginning February 2006 an Avro RJ-70 will also be wet leased.

Aircraft on firm order (CAPEX) in 2006-2007

SAS Group	Total	2006	2007
CAPEX (MUSD)	179	57	122
Number of aircraft	6	2	4

At the close of 2005 neither Spanair nor Widerøe nor Blue1 had any aircraft on order.

Contracted * operating aircraft leasing 2006-2008

Present value (NPV) at 5.5% for 2005-	MUSD	MSEK
Scandinavian Airlines Businesses		940
Spanair		564
Widerøe & Blue1		69
SAS Group	1,573	12,517

Capitalized leasing costs (x7)	2006	2007	2008	2009
SAS Group, MSEK	22,939	21,364	18,445	15,631
SAS Group, MUSD	2,885	2,686	2,319	1,966

* Only existing contracted aircraft leasing contracts at December 31, 2005.

Weighted average cost of capital (WACC)

The SAS Group's weighted average cost of capital is estimated at approximately 9%. The cost of shareholders' equity is calculated based on an assumed inflation rate of 2%

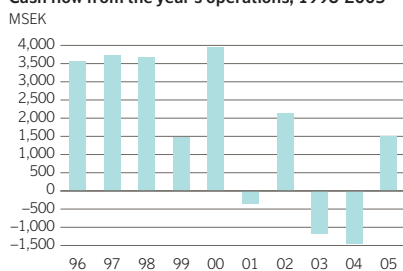
and a market premium of over 5%. The Group's costs for liabilities are assumed to be 5.5% and the leasing cost is based on market interest and depreciation rates.

Total investment and sales, 1996-2005



Investment in the SAS Group's aircraft fleet peaked in 2001-2002. The SAS Group's investment amounted in 2005 to MSEK 1,827 and will be limited until 2010-2015.

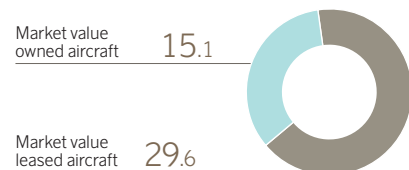
Cash flow from the year's operations, 1996-2005



Cash flow from operating activities improved by MSEK 2,947 in 2005. The improvement was a combination of higher operating income and change in working capital.

Breakdown of the SAS Group's total aircraft fleet

SEK billion, as of December 31, 2005



Total market value of the Group's aircraft fleet amounted to SEK 44.7 billion. Out of the SAS Group's total aircraft fleet at the end of 2005, 208 aircraft (71%) were leased and 29% owned.

Business area

Scandinavian Airlines Businesses



Responsible for the business area
Executive Vice President
John S. Dueholm

Despite stiff competition and pressure on fares, Scandinavian Airlines Businesses showed sharply improved operating income. The high fuel prices have largely been compensated for, and the unit cost adjusted for fuel prices fell 5.4% compared with 2004.

Statement of income, MSEK	2005	2004	2003 ¹
Passenger revenue	29,810	29,480	31,481
Other traffic revenue ²	4,035	3,399	3,470
Other revenue	2,850	2,794	2,875
Operating revenue	36,695	35,673	37,826
Payroll expenses	-7,785	-8,106	-9,467
Selling costs	-616	-882	-976
Jet fuel	-5,731	-4,508	-3,511
Government user fees	-3,843	-4,383	-4,198
Catering costs	-1,068	-1,019	-1,464
Handling costs	-5,441	-5,519	-5,259
Technical aircraft maintenance	-3,942	-4,074	-4,618
Computer and telecommunications costs	-1,726	-1,757	-2,084
Other operating expenses	-3,116	-3,302	-4,011
Operating expenses	-33,268	-33,550	-35,588
Income before depreciation and leasing costs, EBITDAR	3,427	2,123	2,238
Leasing costs, aircraft	-1,928	-1,557	-1,795
Income before depreciation, EBITDA	1,499	566	443
Depreciation	-1,344	-1,553	-1,619
Share of income in affiliated companies	61	62	65
Capital gains	394	162	123
Operating income, EBIT	610	-763	-988
Income from other shares and participations	-	0	5
Net financial items	-658	-701	-702
Income after financial items, EBT	-48	-1,464	-1,685

¹ Pro forma including Braathens and Braathens Technical Services.

² Including ECA with MSEK -415 (-134). See page 14.

Earnings and degree of achievement of long-term targets 2005

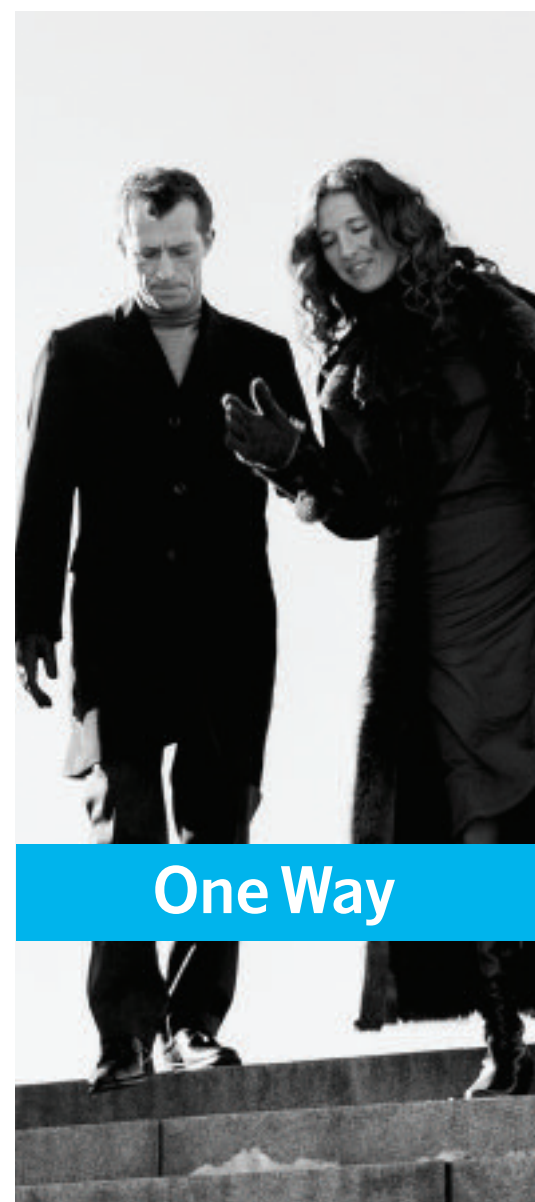
	Negative earnings	Positive earnings	Target achievement ¹	Improvement since 2004
Scandinavian Airlines Danmark	●	●	●	✓
SAS Braathens	●	●	●	✓
Scandinavian Airlines Sverige	●	●	●	✓
Scandinavian Airlines International	●	●	●	✓

¹ Degree of achievement of the Group's return requirement over a business cycle.

Operating revenue rose by 2.9% to MSEK 36,695 (35,673). Passenger revenue was up 1.1%, but shrank 1.2% in currency-adjusted terms. Operating expenses fell, amounting to MSEK 33,268 (33,550). Fuel costs rose by MSEK 1,223 to MSEK 5,731 (4,508). The unit cost fell by 1.7% and by 5.4% adjusted for higher fuel prices.

Payroll expenses fell by 4.0% to MSEK 7,785 (8,106). The average number of employees was 8,242 (9,254). Handling costs fell to MSEK 5,441 (5,519), and costs for technical aircraft maintenance were down MSEK 132 to MSEK 3,942 (4,074).

The ECA partnership between British Midland, Lufthansa and Scandinavian Airlines had a negative impact on earnings of MSEK -415 (-134). The reason is stiff competition and poor earnings performance. EBITDAR improved by MSEK 1,304 and was MSEK 3,427 (2,123). Income before capital gains and nonrecurring items rose by MSEK 1,065 in 2005, amounting to MSEK 383 (-1,448).



Key figures	Scandinavian Airlines Businesses			Scandinavian Airlines Danmark		SAS Braathens		Scandinavian Airlines Sverige		Scandinavian Airlines International	
	2005	2004	2003 ¹	2005	2004	2005	2004	2005	2004	2005	2004
EBITDAR margin	9.3%	6.0%	5.9%	3.3%	-	14.3%	10.4%	4.8%	-	8.4%	-
CFROI	9%	6%	5%	5%	-	16%	13%	7%	-	-	-
Number of destinations	109	100	85	66	61	39	40	45	44	11	11
Average flight distance, scheduled, km	793	795	853	649	662	609	591	721	771	6,822	6,761
Number of aircraft	191 ²	200 ²	208 ²	59	64	56	59	45	47	11	11
Number of daily departures (average)	882	918	897	307	325	344	351	211	222	20	20
Average number of employees	8,242	9,254	11,170	1,628 ⁴	-	2,840	3,048	1,468 ⁴	-	671	-
of which women	53%	-	-	71%	-	54%	61%	72%	-	63%	-
Carbon dioxide (CO ₂), 000 tonnes	4,245	3,747 ³	3,529 ³	1,065	1,153	1,031	-	859	852	1,290	1,263
Nitrogen oxides (NO _x), 000 tonnes	16.2	14.1 ³	14.1 ³	4.0	4.3	3.2	-	2.9	2.6	6.0	5.9
Environmental index	72	76	78	91	100	100	-	95	100	93	94
Regularity	98.4%	98.3%	98.8%	98.3%	-	98.0%	-	99.3%	-	98.6%	-
Punctuality (% within 15 minutes)	84.5%	87.1%	90.2%	80.7%	88%	82.8%	86%	87%	86%	75.2%	73%

¹ Pro forma. ² Including aircraft being leased out. ³ Excluding Braathens. ⁴ Excluding pilots. For other employee key figures, see the Sustainability Report, page 110.

Scandinavian Airlines Businesses



Toward the end of 2004, Scandinavian Airlines was reorganized into three national airlines in Norway, Sweden and Denmark. The Norwegian operation was also integrated with Braathens, forming SAS Braathens. Intercontinental flights have been organized as a division within the Consortium. Scandi-

navian Airlines is a founding member of Star Alliance and also cooperates with several European partners. All together, Scandinavian Airlines Businesses has 191 aircraft and serves 109 destinations. In 2005 the total number of passengers was approximately 24 million within Scandinavia, to/from

Europe, North America and Asia. The business area is the Group's largest, accounting for 50% of the Group's gross operating revenue (operating revenues in 2005 before Group eliminations).

Customers

Scandinavian Airlines Businesses has designed product concepts on a basic service model for business and leisure customers who travel frequently. Beyond this basic service, customers can tailor their own transportation solutions, a model that will be developed further in the future.

Punctuality and regularity

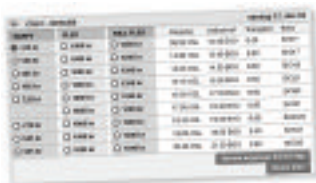
Scandinavian Airlines Businesses' goal is to be Europe's most punctual airline. In 2005 punctuality was 84.5% (87.1%), making Scandinavian Airlines Europe's fourth most punctual airline for departures and ninth most punctual airline for arrivals.

The target for regularity, the percentage of non-canceled flights, is a minimum of 99% in the summer months and 98% in the winter months. In 2005 average regularity of 98.4% (98.3%) was attained.

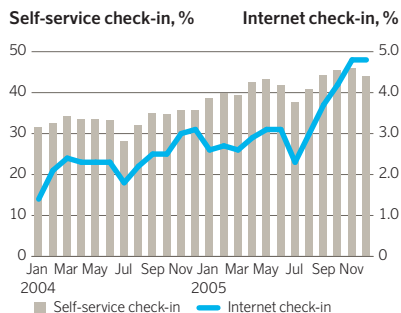
Scandinavian Airlines Businesses - what customers are offered

Domestic Scandinavia	Europe	Intercontinental
<ul style="list-style-type: none"> ▶ One-way fares ▶ Demand-based fares ▶ A single class of service <ul style="list-style-type: none"> ■ Denmark <i>One-way fares starting at DKK 395*</i> ■ Norway <i>One-way fares starting at NOK 420*</i> ■ Sweden <i>"Nya Inrikesflyget", starting at SEK 450*</i> 	<ul style="list-style-type: none"> ▶ One-way fares ▶ Demand-based fares ▶ Three classes of service <ul style="list-style-type: none"> ■ Business <i>Empty middle seat Fast Track Security Food and beverages included Lounge, etc.</i> ■ Economy Flex <i>Fast Track Security Food and beverages included</i> ■ Economy <i>Food and beverages for sale No changes once booked Basic service commitment</i> 	<ul style="list-style-type: none"> ▶ Traditional pricing ▶ Three classes of service ▶ Internet & direct TV in all seats <ul style="list-style-type: none"> ■ Business <i>Flat bed Video on demand Food and beverages included Fast Track Security Lounge, etc.</i> ■ Economy Extra <i>Fast Track Security Extra leg room Food and beverages included</i> ■ Economy <i>Food and beverages included No changes once booked Basic service commitment</i>

*At December 31, 2005.



All fares and ancillary products are available for simple online distribution.



Self-service check-in has grown steadily and was over 40% in December. The percentage of Internet check-in is low, but growing fast.

The Customer Satisfaction Index, CSI, reflects how well Scandinavian Airlines Businesses meets customer expectations. For 2005 the CSI was 66 (68). All airlines had a positive or unchanged performance in 2005, except SAS Braathens, which performed worse due to lower punctuality and regularity during the second half of 2005. The outcome shows that the perception of lounges and product information is improving and the competitiveness on e.g. Swedish domestic routes improved sharply compared with other airlines.

Scandinavian Airlines Businesses, CSI





“
Scandinavian Airlines
Businesses had a
record-high cabin
factor in 2005”

Sustainability

Environmental matters are strategically crucial to Scandinavian Airlines and have since 1996 been measured by and reported in an eco-efficiency index. The goal of improving the index by 24 points by 2005 has been reached, and the trend whereby the index improves by three points continues.

Loyalty programs

In 2005 Scandinavian Airlines Businesses' loyalty program EuroBonus grew by 7.2% to 3.2 million. The number of members in Norway exceeded 1 million for the first time. In 2005 a new agreement was signed with Air One, a major player in the Italian domestic market. Customers are offered the chance to earn EuroBonus points by using the Internet onboard intercontinental routes.

Traffic

To adapt capacity to the market, Scandinavian Airlines Businesses reduced it by 5.2%. The reduction was carried out primarily in the markets in Denmark and Sweden, where overcapacity was highest. Despite this, traffic rose marginally by 2.2%. New business models based on one-way fares

Key figures for EuroBonus	2005	2004	Change
Number of members, (000)	3,244	3,026	7.2%
- in Denmark, (000)	550	508	8.2%
- in Norway, (000)	1,011	964	4.9%
- in Sweden, (000)	783	726	7.8%
- international, (000)	900	828	8.7%
Proportion of Gold members	2.1%	2.0%	+0.1pts.*
Proportion of Silver members	4.9%	5.4%	-0.5pts.**

* Change in percentage points (pts.).

Paramount targets	2005	2004
Customer Satisfaction Index, CSI	66	68
Environmental index	72	76

Punctuality and regularity	Target		2005	2004
	Winter	Summer		
Punctuality				
- within 2 min.	65%	70%	59.3%	62.1%
- within 15 min.	88%	92%	84.5%	87.1%
Regularity	98%	99%	98.4%	98.3%

Market share	2005
Scandinavia-Europe	approximately 40-45%

were introduced, which stimulated traffic and created growth. In the second half of 2005, traffic rose by 2.5%.

The cabin factor rose in 2005 by 3.7 percentage points to 68.9%, a new record for Scandinavian Airlines. This development is due to new business models and careful capacity control.

Traffic, production and yield ¹	2005	2004	Change
Total passenger traffic			
Number of passengers, (000)	23,799	23,780	0.1%
Revenue pass. km, RPK, mill.	26,487	26,443	0.2%
Available seat km, ASK, mill.	38,454	40,574	-5.2%
Cabin factor	68.9%	65.2%	+3.7 pts.
Unit cost, currency adjusted, SEK	0.77	-	-1.7%
Yield, currency adjusted, SEK	1.13	-	-0.3%

Scandinavian Airlines Denmark	2005	2004	Change
Number of passengers, (000)	7,561	7,983	-5.3%
Revenue pass. km, RPK, mill.	5,611	5,850	-4.1%
Available seat km, ASK, mill.	8,939	10,288	-13.1%
Cabin factor	62.8%	56.9%	+5.9 pts.
Unit cost, currency adjusted, SEK	0.97	-	-
Yield, currency adjusted, SEK	1.46	-	-5.6%

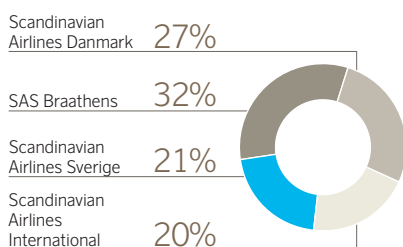
SAS Braathens	2005	2004	Change
Number of passengers, (000)	8,800	8,772	0.3%
Revenue pass. km, RPK, mill.	6,067	5,788	4.8%
Available seat km, ASK, mill.	9,590	9,588	0.0%
Cabin factor	63.3%	60.4%	+2.9 pts.
Unit cost, currency adjusted, SEK	0.89	-	-6.2%
Yield, currency adjusted, SEK	1.60	-	-3.0%

Scandinavian Airlines Sverige	2005	2004	Change
Number of passengers, (000)	5,958	5,548	7.4%
Revenue pass. km, RPK, mill.	4,337	4,410	-1.7%
Available seat km, ASK, mill.	6,845	7,758	-11.8%
Cabin factor	63.4%	56.9%	+6.5 pts.
Unit cost, currency adjusted, SEK	0.85	-	-
Yield, currency adjusted, SEK	1.36	-	+3.9%

Intercontinental traffic	2005	2004	Change
Number of passengers, (000)	1,480	1,477	0.2%
Revenue pass. km, RPK, mill.	10,473	10,393	0.8%
Available seat km, ASK, mill.	13,079	12,941	1.1%
Cabin factor	80.1%	80.3%	-0.2 pts.
Unit cost, currency adjusted, SEK	0.48	-	-
Yield, currency adjusted, SEK	0.54	-	+3.2%

¹ Excluding bonus travelers.

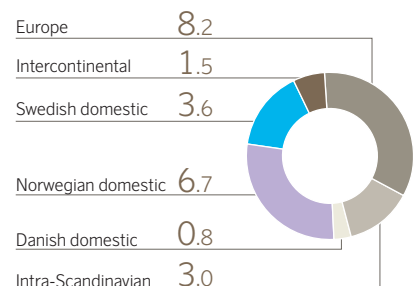
Breakdown of business area operating revenue



In 2005 SAS Braathens had the biggest share of the business area's operating revenue. Scandinavian Airlines Denmark's operating revenue was somewhat lower. Scandinavian Airlines Sverige and Scandinavian Airlines International were at about the same level.

The largest percentage of passengers is carried on short and medium haul routes in Europe. Scandinavian Airlines carried a record number of passengers on its intercontinental routes in 2005.

Traffic breakdown 2005, million passengers



Scandinavian Airlines Danmark



Founded as an independent limited company in October 2004, Scandinavian Airlines Danmark is responsible for the SAS Group's traffic to, from and via Copenhagen and for developing Copenhagen as the SAS Group's main hub.

In 2005 Scandinavian Airlines Danmark carried 7.6 million passengers (7.9 including charter) to 66 destinations. Almost half were transfer passengers. The airline has 1,628 employees and 59 aircraft of the types MD-80, Airbus A321 and deHavilland Q400. Two MD-80s are leased to Spanair.

Important events in 2005

- A new business model featuring one-way fares was introduced on all routes in September.
- Voted "Best European Airline" by customers and the travel industry in Denmark.
- A new commercial unit "SAS Surprise" was launched to raise the cabin factor by selling tickets with unique offers.
- Negotiations with Copenhagen Airport on passenger and security fees for 2006-2008 concluded with somewhat lower charges.

Targets

The financial target is a CFROI of at least 20% over a business cycle.



The environmental target is an improvement in the index of three points per year.

Strategic focus

Scandinavian Airlines Danmark aims to be the customer's first choice for travel to/from or via Copenhagen. To improve competitiveness, a three-point plan was launched in 2005 based on:

- An attractive commercial concept based on the "One Way" price model.
- A dynamic traffic program to achieve profitability on all routes.
- A cost level on par with the most efficient airlines, which means that costs are to be cut by 20%.

Traffic and earnings performance

In 2005, Scandinavian Airlines Danmark saw stiff competition in all markets and in all customer segments. Overcapacity at Copen-

hagen Airport rose during the year as a whole, despite capacity reductions by some players at the end of 2005. In autumn 2005 new routes were launched to London City, Nuremberg, Arvidsjaur and Luxembourg.

Capacity was reduced by 13.1% as the result of redeployments within the business area, with traffic falling during the year by 4.1%. The introduction of one-way fares in September had a sharply positive impact on traffic performance. The combination of these measures led to a record high cabin factor, which was up 5.9 percentage points to 62.8%.

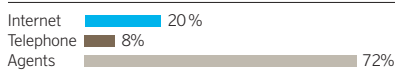
Operating revenue in 2005 amounted to MSEK 10,263. During the year Scandinavian Airlines Danmark implemented the Turnaround 2005 cost measures as planned, improving its productivity. Income after financial items was MSEK -615.

Market outlook

Positive market performance is expected in the coming years. The growth is anticipated from a higher share of the local market, while the market for transfer traffic stabilizes. The overcapacity in the European market is expected to shrink, but the pressure on the yield is expected to continue.

In the period January to June 2006, Scandinavian Airlines Danmark will further adapt its traffic program, reducing its fleet by four aircraft as of July 2006.

Booking channels 2005



Key figures

	2005	2004
SAS Group's holding	100%	100%
Market share of Danish domestic and international market	50%	55%
Block hours, aircraft, hours/day	7.3	8.1
Block hours, pilots, hours/year	533	-
Block hours, cabin crew, hours/year	616	-
Unit cost, SEK/ASK	0.97	-
Unit cost, local currency DKK/ASK	0.78	-
Average number of employees (71% women in 2005)	1,628 ¹	-

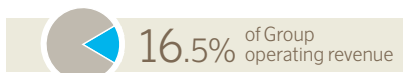
¹ Excluding pilots (employed by the SAS Consortium).

Statement of income, MSEK

	2005
Passenger revenue	8,443
Other revenue	1,820
Operating revenue	10,263
Total operating expenses	-9,924
EBITDAR	339
Leasing costs	-956
EBITDA	-617
Depreciation	-1
EBIT	-618
Net financial items	3
Income after financial items, EBT	-615



SAS Braathens



SAS Braathens was founded in 2004 by the merger of Scandinavian Airlines in Norway and Braathens. Its establishment has brought about better resource utilization and realization of synergies. SAS Braathens is the market leader in domestic routes in Norway and a significant operator in terms of business destinations in Europe and leisure destinations in southern Europe. SAS Braathens carried a total of 8.8 million passengers in 2005. The company has 2,839 employees and serves 39 destinations with its single-aircraft fleet of 50 Boeing 737s. In addition SAS Braathens has six Fokker F-50s.

Important events in 2005

- A new business model with one-way fares was introduced on the European routes.

- SAS Braathens formally established its own Air Operator Certificate (AOC).
- SAS Braathens was fined for violating competition laws on the Oslo-Haugesund route and was notified of impending fines on the Oslo-Ålesund route. SAS Braathens has contested the findings.
- SAS Braathens announced that 11 new international services would be opened in 2006.
- SAS Braathens was named "Travel Marketing Leader of the Year," "Best Domestic Airline" and "Best Place to Work" in the travel industry.

Targets

The financial target is a CFROI of at least 20% over a business cycle.

The environmental target is a 1.5 point per year improvement in the index.

Strategic focus

SAS Braathens' operations are to be based on an LCC model. The airline shall offer a comprehensive network via its own or partners' routes with the opportunity to buy through tickets with interline check-in. Low fares, simplicity and flexibility are fundamental concepts in serving customers.

Traffic and earnings performance

Overall traffic in the Norwegian market increased by 5.2% and SAS Braathens' market

share dipped somewhat compared with 2004. SAS Braathens' traffic on Norwegian domestic routes rose 1.4% during the year. Traffic on the European routes was up 13.4% and the number of passengers by 11.9% thanks to improved capacity utilization. The overall cabin factor improved by 2.9 percentage points to 63.3%. The biggest growth was in the leisure travel segment.

Operating revenue amounted to MSEK 12,258 in 2005, an increase of 7%. Operating expenses climbed by MSEK 275 to MSEK -10,506 (-10,231). In local currency, operating expenses decreased by 3% and the unit cost by 6.2%. Income before capital gains and nonrecurring items improved by MSEK 625 to MSEK 629 (4).

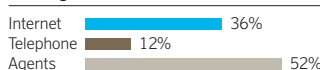
While Turnaround 2005 brought cost reductions, productivity will undergo further improvement.

Market outlook

The domestic market grew 4.0% in 2005. Compared to before, growth was slower due to price increases driven by higher jet fuel prices.

With purchasing power improving, the underlying growth in the market is expected to continue. Pressure on fares is expected to remain a factor in the face of keen competition and newly opened routes. SAS Braathens anticipates an annual market growth rate of 3-4% for the next few years.

Booking channels 2005



Key figures

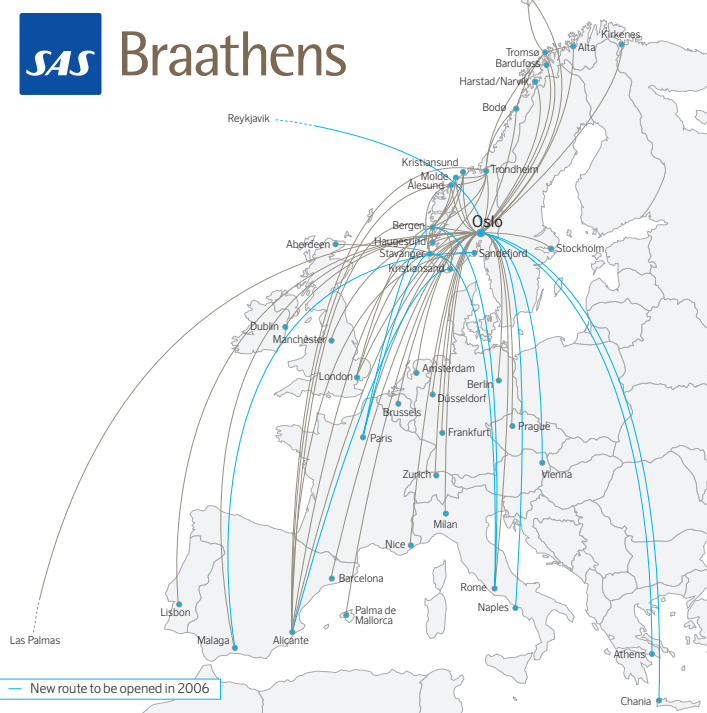
	2005	2004 ¹
SAS Group's holding	100%	100%
Share of Norwegian domestic market, approximately	65%	67%
Share of Norwegian international market, approximately	41%	44%
Block hours, aircraft, hours/day	8.2	7.9
Block hours, pilots, hours/year	582	564
Block hours, cabin crew, hours/year	592	535
Unit cost, SEK/ASK	0.89	0.91
Unit cost, local currency NOK/ASK	0.77	0.84
Average number of employees (54% women in 2005)	2,839	2,965

Statement of income, MSEK

	2005	2004 ¹
Passenger revenue	9,733	9,012
Other revenue	2,525	2,406
Operating revenue	12,258	11,418
Total operating expenses	-10,506	-10,231
EBITDAR	1,752	1,187
Leasing costs	-1,087	-1,133
EBITDA	665	54
Depreciation	-44	-108
Capital gain	268 ²	-69
EBIT	889	-123
Net financial items	8	-39
Income after financial items, EBT	897	-162
EBT before nonrecurring items	629	4

¹ Pro forma.

² Pertains to internal capital gain from the sale of Braathens AS to the SAS Consortium prior to the implementation of the merger.



Scandinavian Airlines Sverige



Formed as a wholly owned subsidiary in October 2004, Scandinavian Airlines Sverige is the SAS Group airline in Sweden, responsible for coordinating the SAS Group's and its partners' sales activities in Sweden. Scandinavian Airlines Sverige has 1,468 employees. Sweden's leading airline, in 2005 it carried 6.0 million passengers to 45 destinations in Sweden, Scandinavia and Europe. Its fleet of 45 comprises MD-80, Boeing 737 and deHavilland Q400 aircraft.

Important events in 2005

- "Nya Inrikesflyget", a concept launched in March, makes it less expensive and easier to fly domestically in Sweden.
- A new business model with one-way fares was introduced on all routes in September.
- Scandinavian Airlines Sverige signed a framework agreement on all 53 routes in the government's purchase of air travel.
- Following a joint overhaul, Scandinavian Airlines Sverige signed a long-term agreement with SAS Ground Services for station services.
- In 2005 new price concepts were introduced that made it possible to streamline operations through simplified work methods and a new sales model.
- The environmental index improved by five points.

Targets

The financial target is a CFROI of at least 20% over a business cycle.

The environmental target is a three-point per year improvement in the index.

Strategic focus

Scandinavian Airlines Sverige will:

- Secure its position as the leading airline for travel within, to and from Sweden.
- Endeavor to be perceived in Sweden as "the people's airline" and focus on those who travel often.
- Offer flexible and uncomplicated one-way concepts on domestic and European routes, combined with the benefits of a low cost carrier and business class service.

Traffic and earnings performance

Scandinavian Airlines Sverige's passenger volume rose in 2005 by 7.4%, but traffic, RPK, shrank 1.7% due to shorter flights. Performance was positively impacted by the introduction of the new business model being marketed as "Nya Inrikesflyget" and "Nya Europaflyget", new concepts for domestic and European routes, respectively. The cabin factor rose substantially in 2005 by 6.5 percentage points to 63.4%. On Swedish domestic routes the cabin factor was up 7.3 percentage points to 65.2%.

The yield rose by 3.9% over the previous year.

Operating revenue in 2005 was MSEK 7,777. During the year Scandinavian Airlines



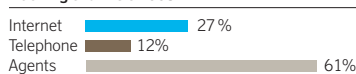
Sverige implemented the Turnaround 2005 cost measures as planned, improving its productivity. Income before capital gains and nonrecurring items amounted to MSEK -338.

Market outlook

Market expansion in step with GDP growth is anticipated in Sweden. The overcapacity in Swedish domestic traffic is expected to continue, resulting in sustained pressure on fares. No player in domestic service earned money in 2005. Stiff competition is still expected on the European routes. Although customers consider frequency, flexibility, simplicity and the total cost of travel, they are steered more by company travel policies.

The proposed additional aviation tax is expected to reduce domestic traffic by approximately 10-15%.

Booking channels 2005



Key figures

	2005	2004
SAS Group's holding	100%	100%
Market share of Swedish domestic market, approx.	55%	60%
Market share of Swedish international market, approx.	40%	40%
Block hours, aircraft, hours/day	7.2	7.9
Block hours, pilots, hours/year	544	-
Block hours, cabin crew, hours/year	700	-
Unit cost, SEK/ASK	0.85	-
Average number of employees (72% women in 2005)	1,468 ¹	-

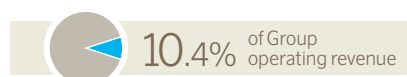
¹ Excluding pilots (employed by the SAS Consortium).

Statement of income, MSEK

	2005
Passenger revenue	5,982
Other revenue	1,795
Operating revenue	7,777
Total operating expenses	-7,405
EBITDAR	372
Leasing costs	-736
EBITDA	-364
Depreciation	-6
EBIT	-370
Net financial items	-27
Income after financial items, EBT	-397
EBT before nonrecurring items	-338



Scandinavian Airlines International



A business unit in the SAS Consortium, Scandinavian Airlines International comprises two main operations:

- Intercontinental routes to the U.S. and Asia.
- Sales operations in Europe, Asia and North America.

Scandinavian Airlines International has 671 employees and carried 1.5 million passengers in 2005 on its intercontinental routes. The aircraft fleet consists of seven Airbus A340-300s and four Airbus A330-300s. In 2005 there were nine destinations outside Scandinavia: New York, Chicago, Washington and Seattle in the U.S. and Bangkok, Singapore, Beijing, Shanghai and Tokyo in Asia. Sales operations consist of sales regions in Asia/Pacific, the U.S. and Europe that are responsible in their respective markets for the Group's airlines and partners. Within the regions there are a total of 45 sales districts.

Important events in 2005

- Scandinavian Airlines International became the first airline in the world to offer Internet on board its entire aircraft fleet.
- A decision was made to install new sleeper seats and video on demand to improve comfort in Business Class.
- As part of its focus on China and related customer service considerations, the decision was made to recruit Chinese cabin crew.

- At year-end, Scandinavian Airlines International could offer four direct-broadcast TV channels in cooperation with Connexion by Boeing.

Targets

The financial target is a CFROI of at least 20% over a business cycle.

The environmental target is a 1.5 point per year improvement in the index.

Strategic focus

Scandinavian Airlines International will be the business customer's first choice for air travel between Northern Europe and the U.S./Asia. Its focus will be on nonstop-traffic with Copenhagen and Stockholm as hubs. Scandinavian Airlines International will:

- Offer service in three different classes to destinations that meet the needs of travelers.
- Have Europe's best intercontinental business travel service.

Traffic and earnings performance

Competition in the airline's market increased substantially in 2005. Despite this, Scandinavian Airlines International's traffic in 2005 increased by 0.8% compared with 2004 and Asian traffic climbed by 16%. Traffic to North America fell 8% due to a reduction of capacity. Total cabin factor during the year averaged 80.1%, about the same as 2004.

The yield increased during the year by



3.2% owing to the improved mix between Business and Economy and fuel surcharges.

Operating revenue amounted to MSEK 7,736, of which passenger revenue accounted for MSEK 5,675. Income after financial items amounted to MSEK (-43).

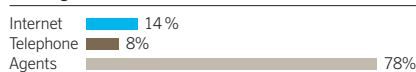
Market outlook

The Baltic Sea region, with Copenhagen's and Stockholm's geographical locations, will enable Scandinavian Airlines International to successfully operate intercontinental service between Northern Europe and Asia/North America.

Intercontinental traffic is expected to grow by 5-7% between Scandinavia and North America, somewhat more between Scandinavia and Asia and even more between the Baltic Sea region and North America/Asia.

Competition is expected to increase sharply, particularly for North America.

Booking channels 2005



Key figures

	2005	2004
SAS Group's holding	100%	100%
Market share from Scandinavia to the U.S.	30-35%	35-40%
Market share from Scandinavia to Asia	15-20%	15-20%
Block hours, aircraft, hours/day	16.3	16.1
Block hours, pilots, hours/year	593	-
Block hours, cabin crew ¹ , hours/year	-	-
Unit cost, SEK/ASK	0.48	-
Average number of employees (63% women in 2005)	671	-

¹ Hired in from other airlines within Scandinavian Airlines Businesses.

Statement of income, MSEK

	2005
Passenger revenue	5,675
Other revenue	2,061
Operating revenue	7,736
Total operating expenses	-7,089
EBITDAR	647
Leasing costs	-713
EBITDA	-66
Depreciation	-8
Capital gain	5
EBIT	-69
Net financial items	26
Income after financial items, EBT	-43



Operational key figures - Scandinavian Airlines Businesses and SAS Cargo Group

Until June 1, 2001, the operations of the SAS Cargo Group were integrated in Scandinavian Airlines. To make the operational key figures comparable over the 10-year period, they are presented consolidated.

Traffic/Production	2005	2004 ¹	2003	2002	2001	2000	1999	1998	1997	1996
Passenger traffic-related key figures										
Number of cities served, scheduled	109	100	85	86	94	92	97	101	102	104
Number of flights, scheduled	321,988	335,925	254,939	295,190	334,039	343,482	343,611	334,693	320,410	309,636
Kilometers flown, scheduled (000)	255,387	266,836	213,640	230,031	265,102	263,434	261,055	251,911	244,329	235.7
Total airborne hours, scheduled (000)	390.4	407.1	324.0	356.1	412.1	417.4	417.2	403.6	390.4	375.5
Number of passengers carried, total (000) ²	27,207	26,750	21,594	24,462	23,243	23,395	22,225	21,699	20,797	19,828
Available seat kilometers, total (mill.) ²	42,488	43,080	33,916	34,626	35,931	34,132	33,288	31,766	31,333	30,646
Available seat kilometers, scheduled (mill.) ²	38,454	40,574	33,333	34,096	35,521	33,782	33,205	31,704	31,333	30,646
Revenue passenger kilometers, total (mill.) ²	31,004	29,649	23,473	24,751	23,295	22,922	21,243	20,883	20,339	19,487
Revenue passenger kilometers, scheduled (mill.) ²	26,487	26,443	21,901	23,212	22,956	22,647	21,160	20,821	20,339	19,487
Cabin factor, total (%) ²	73.0	68.8	69.2	71.5	64.8	67.2	63.8	65.7	64.9	63.6
Revenue passenger kilometers/employee, scheduled (000)	1,588.1	1,435.6	1,064.0	1,060.9	1,022.9	952.6	906.4	994.1	1,023.6	1,025.9
Average passenger distance, total (km)	1,140	1,108	1,087	1,012	1,002	980	956	962	978	990
Weight-related key figures										
Available tonne kilometers, ATK, total (mill. tonne km)	5,688.3	5,800.5	4,855.3	4,783.6	4,846.3	4,621.5	4,621.3	4,501.0	4,346.0	4,130.8
Available tonne kilometers, scheduled (mill. tonne km)	4,898.1	5,101.8	4,342.5	4,384.6	4,798.3	4,584.3	4,560.9	4,459.0	4,290.6	4,092.6
Available tonne kilometers, other (mill. tonne km)	790.3	698.8	512.7	399.0	48.0	37.2	60.4	42.1	55.4	38.7
Revenue tonne kilometers, RTK, scheduled (mill. tonne km)	4,052.8	3,637.4	3,215.3	3,326.3	3,034.0	3,016.7	2,834.5	2,680.0	2,571.5	2,392.2
Passengers and excess baggage (mill. tonne km)	3,072.2	2,868.9	2,330.0	2,456.1	2,263.9	2,204.2	2,041.9	1,877.1	1,827.7	1,754.6
Freight (mill. tonne km)	917.2	710.7	837.5	823.5	717.6	758.3	741.4	755.7	693.7	590.4
Mail (mill. tonne km)	63.4	57.8	47.8	46.7	52.5	54.1	51.2	47.2	50.1	48.2
Total load factor, scheduled (%)	71.2	62.7	66.2	69.5	62.6	65.3	61.3	59.5	59.2	58.5
Revenue tonne kilometers/employee, total (000)	207.6	176.1	145.9	147.7	135.2	126.9	121.4	127.6	129.4	119.6
Traffic revenue/Revenue tonne kilometers (SEK)	8.35	9.04	9.65	11.00	11.96	11.63	11.42	11.90	11.94	11.77
Key figures for costs and efficiency										
Airline operating expenses/Available tonne km, total (SEK)	6.64	6.45	7.25	9.05	9.36	8.51	7.89	7.68	7.77	-
Jet fuel price (USD/MT)	564	434	314	268	295	311	199	218	248	258
Revenue-related key figures										
Passenger revenue/Revenue pass. km, scheduled, yield (SEK)	1.13	1.11	1.20	1.42	1.49	1.47	1.34	1.36	1.34	1.31
RASK, Pass. revenue/Available seat km, scheduled, (SEK)	0.78	0.73	0.79	0.97	0.96	0.99	0.85	0.89	0.87	0.83
Quality-related key figures										
Punctuality (% within 15 minutes)	84.5	87.1	90.2	88.2	85.1	88.0	83.5	82.7	88.0	87.8
Regularity (%)	98.4	98.3	98.8	98.5	97.5	98.3	97.8	98.1	99.0	98.7
Total loss	0	0	0	0	1	0	0	0	0	0
Delayed baggage, %	1.0	1.1	1.0	0.7	0.6	0.6	0.8	-	-	-
Damaged baggage, %	0.16	0.16	0.17	0.16	0.09	0.07	0.10	-	-	-
Share of lost customer calls in telephone sales, %	11.1	11.4	13.9	15.6	13.0	30	22	23	10	-
Environmental key figures										
CO ₂ , gram/Revenue passenger kilometers	143	154	158	159	176	179	192	196	194	193
Environmental index	72	76 ³	78	78	87	88	88	96	97	100

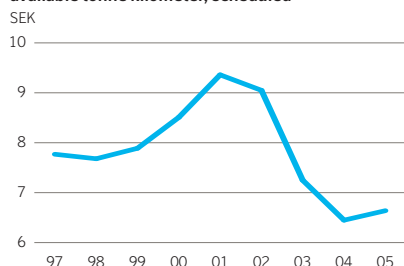
¹ Including Braathens, excluding BTS.

² Total production, which includes scheduled traffic, charter, ad hoc flights and so-called bonus trips, etc. This means that the figures deviate from the traffic statistics of the respective airlines.

³ Goal 2004: 76.

Definitions and concepts, see back flap

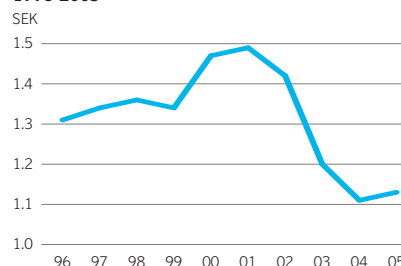
Airline operating expenses/ available tonne kilometer, scheduled



Airline operating expenses increased sharply from 1997 to 2001. As a result of Turnaround 2005, airline operating expenses have been gradually reduced despite a near doubling of fuel prices during the same period.

The yield performance from 1996 to 2000 has been relatively stable. The highest yield was noted in 2001 but during 2005 the yield had fallen by 24% since peaking in 2001.

Yield performance, 1996-2005



Business area

Subsidiary & Affiliated Airlines



Responsible for the business area
Deputy CEO Gunnar Reitan

Spanair underwent major changes in 2005, with an increase in domestic passenger volume. Blue1 saw ample growth in its domestic market, delivering sharply improved earnings. Widerøe's earnings were in line with the return requirement. airBaltic has a strong market position and is expanding with good profitability.

Statement of income, MSEK	2005	2004 ¹	2003 ²
Passenger revenue (scheduled)	9,536	7,470	7,013
Charter revenue	2,758	2,736	2,639
Freight revenue	127	118	95
Other traffic revenue	352	280	244
Other revenue	1,579	1,254	1,011
Operating revenue	14,352	11,858	11,002
Payroll expenses	-3,007	-2,485	-2,398
Selling costs	-375	-350	-489
Jet fuel	-2,400	-1,746	-1,245
Government user fees	-1,905	-1,696	-1,554
Catering costs	-634	-721	-721
Handling costs	-950	-786	-782
Technical aircraft maintenance	-1,057	-818	-957
Computer and telecommunications costs	-263	-258	-445
Other operating expenses	-1,841	-1,543	-1,236
Operating expenses	-12,432	-10,403	-9,827
Income before depreciation and leasing costs, EBITDAR	1,920	1,455	1,175
Leasing costs, aircraft	-1,247	-1,132	-1,140
Income before depreciation, EBITDA	673	323	35
Depreciation	-312	-309	-368
Share of income in affiliated companies	39	70	-5
Capital gains	15	53	107
Operating income, EBIT	415	137	-231
Income from other shares and participations	-	0	-30
Net financial items	-136	-110	-93
Income after financial items	279	27	-354

¹ In Oct. 2004 Braathens was integrated into Scandinavian Airlines Businesses and is not included in the 2004 statement of income and adjusted for restated income at Spanair. ² Pro forma excluding Braathens and adjusted for restated income at Spanair.

Earnings and degree of achievement of long-term targets 2005

	Negative earnings	Positive earnings	Target achievement ¹	Improvement since 2004
Spanair	●	●	●	✓
Widerøe	●	●	●	✓
Blue1	●	●	●	✓
airBaltic	●	●	●	✓

¹ Degree of achievement of the Group's return requirement over a business cycle.

The business area comprises the airlines Spanair, Widerøe's Flyveselskap and Blue1 as well as strategic holdings in Estonian Air and airBaltic. Also included are the affiliated companies air Greenland, Skyways and British Midland as well as the ground handling operator Newco. The airlines in the business area carried 11.2 million passengers, an increase of 30% over 2004. Revenues amounted to MSEK 14,352 (11,858), an increase of 21%. All business area units posted higher operating revenue. Operating expenses rose 19.5% to MSEK 12,432 (10,403), owing to higher volumes and fuel prices. EBITDAR improved by 32% to MSEK 1,920 (1,455). Income after financial items was MSEK 279 (27). Income before capital gains and nonrecurring items amounted to MSEK 264 (-15).



Flexibility

Key figures	Total Subsidiary & Affiliated Airlines			Spanair			Widerøe			Blue1			airBaltic			Not consolidated Estonian Air		
	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004	2003
EBITDAR margin	13.4%	12.3%	10.7%	15.3%	15.8%	11.6%	11.8%	13.9%	13.8%	12.2%	4.4%	8.3%	9.0%	13.1%	22.8%	15.4%	16.0%	22.8%
CFROI	-	-	-	13%	12%	12%	22%	21%	17%	22%	6%	8%	20%	19%	29%	18%	15%	26%
Number of destinations	101	73	82	28	25	25	42	42	41	14	14	12	36	26	16	14	17	13
Average flight distance, scheduled, km	-	-	-	851	873	834	222	225	225	557	632	627	909	791	617	1,258	1,015	1,181
Number of aircraft	103 ²	97 ²	84 ²	59	53	51	30	30	29	14	14	14	16	14	9	5	5	4
Number of daily departures (average)	638	532	480	214	177	168	270	271	252	90	84	60	64	44	28	11	21	20
Average number of employees	5,903	5,145	7,032	2,832	2,631	2,535	1,331	1,277	1,291	444	366	290	626	413	291	380	347	309
of which women	48%	46%	45%	48%	44%	45%	37%	37%	37%	49%	53%	36%	55%	52%	-	54%	-	-
Carbon dioxide (CO ₂), 000 tonnes	1,928	1,603	1,486	1,405	1,275	1,240	129	129	121	199	199	125	195	120	50	124	105	78
Nitrogen oxides (NO _x), 000 tonnes	7.10	6.19	5.56	5.63	5.36	4.98	0.33	0.33	0.32	0.51	0.50	0.26	0.67	0.32	0.15	0.45	0.29	0.25
Environmental index	-	-	-	100	99	100	95	93	95	61	73	75	72	82	100	88	86	100

¹ Includes airBaltic. ² Excluding airBaltic when it was consolidated in August 2005. For other employee key figures, see page 110.

Subsidiary & Affiliated Airlines



Formed in 2002, the business area comprises the airlines Spanair, Widerøe, Blue1 and the partly owned airlines airBaltic and Estonian Air.

Spanair is Spain's second largest airline, providing scheduled and charter service within and to/from Spain. Widerøe operates regional air service in Norway and secondary international routes. Blue1 provides air service within and to/from Finland and is Finland's fastest-growing airline. Operating from its hub in Riga as well as from Vilnius, airBaltic is the leading airline in the Baltics. Both Spanair and Blue1 are members of Star Alliance™. The affiliated company Estonian Air operates from its Tallinn hub.

All together, the consolidated airlines in the business area flew 103 aircraft to 101 destinations with an average of 638 daily departures in 2005. The business area also includes the affiliated companies Air Greenland, British Midland (bmi) and Skyways, as well as Newco Airport Services, which provides passenger and ramp service at Spanish airports.

Customers

The airlines in the business area offer travel

to both the leisure and business segments, with business models tailored to their particular markets. Spanair also has well developed charter services.

Punctuality and regularity

The airlines are working actively to meet punctuality and regularity targets set on the basis of their market assumptions. In 2005 Spanair's punctuality declined, primarily in May and June, due to logistics problems with spare parts. In January, Spanair was Europe's most on-time airline in terms of arrivals. Spanair has a punctuality guarantee on domestic routes that compensates Avant Class passengers with a free ticket in the event of a delay of more than 15 minutes caused by Spanair.

Blue1 is Finland's most punctual airline, with 91.4% of its aircraft departing within 15 of schedule and 98.4% of its scheduled flights operating.

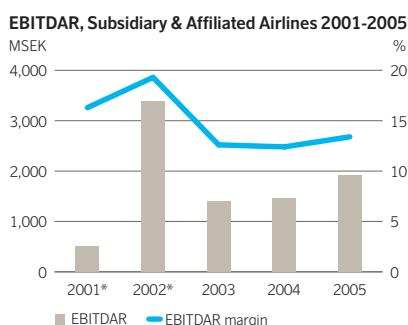
Sustainability

Subsidiary & Affiliated Airlines work continually on their goal of improving environmental performance. In 2005 eco-efficiency improved considerably for Blue1 and airBaltic.

Key figures, loyalty programs	2005	2004	Change
Spain (Spanair Plus)	558,205	448,674	24.4%
Finland (EuroBonus)	191,780	165,495	15.9%
Estonia (EuroBonus)	23,086	20,019	15.3%
Latvia (EuroBonus)	8,510	7,037	20.9%
Lithuania (EuroBonus)	18,164	15,706	22.0%
Total number of members	799,745	656,931	21.7%
Regularity	2005	2004	
Spanair	99.1%	99.3%	
Widerøe	95.3%	95.1%	
Blue1	98.4%	98.3%	
airBaltic	99.2%	99.8%	
Punctuality within 2 minutes	2005	2004	
Spanair, within 5 minutes	59.6%	65.9%	
Widerøe	65.1%	64.8%	
Blue1	72.7%	71.3%	
airBaltic	74.3%	82.7%	
Punctuality within 15 minutes	2005	2004	
Spanair	78.7%	84.0%	
Widerøe	85.8%	85.3%	
Blue1	91.4%	90.0%	
airBaltic	87.9%	93.5%	

Loyalty programs

Blue1, Widerøe, airBaltic and Estonian Air are linked to the SAS Group's loyalty program, EuroBonus. Spanair has its own loyalty program, Spanair Plus, which was developed for the Spanish market and offers frequent flyers extra benefits. Spanair Plus is a quick and easy way to earn points, and just like EuroBonus, it can be used on the Star Alliance network.

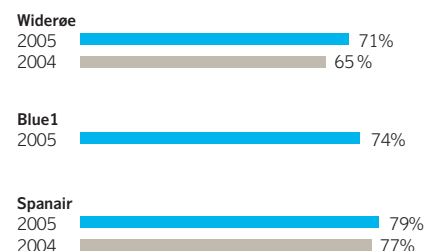


* Includes Braathens

The business area's EBITDAR was up in 2005 by MSEK 465, after improvements primarily for Blue1 and Spanair. EBITDAR margin was 13.4% (12.3%).

The airlines in Subsidiary & Affiliated Airlines follow up on and analyze customer satisfaction on the basis of their particular markets. The results for 2005 show that Spanair and Widerøe saw improved customer satisfaction. Comparable figures for Blue1 are not available.

Customer satisfaction*



* Not comparable between the airlines.



“
All of the business
area's airlines
are profitable and
show improved
eco-efficiency”

Traffic & capacity	2005	2004	Change
Total passenger traffic			
Number of passengers, (000)	11,127	8,567	29.9%
Revenue pass. km, RPK, mill.	8,598	6,395	34.4%
Available seat km, ASK, mill.	14,300	10,958	30.5%
Cabin factor	60.1%	58.4%	+1.8 pts.
Spanair			
Number of passengers, (000)	6,850	5,644	21.4%
Revenue pass. km, RPK, mill.	5,974	5,106	17.0%
Available seat km, ASK, mill.	9,731	8,461	15.0%
Cabin factor	61.4%	60.3%	+1.1 pts.
Unit cost, currency adjusted, SEK	0.59	-	3.4%
Yield, currency adjusted, SEK	0.93	-	4.2%
Widerøe			
Number of passengers, (000)	1,784	1,784	0.0%
Revenue pass. km, RPK, mill.	554	558	-0.7%
Available seat km, ASK, mill.	1,042	1,045	-0.3%
Cabin factor	53.2%	53.4%	-0.2 pts.
Unit cost, currency adjusted, SEK	2.34	-	5.0%
Yield, currency adjusted, SEK	3.32	-	2.0%
Blue1			
Number of passengers, (000)	1,456	1,139	27.8%
Revenue pass. km, RPK, mill.	908	731	24.2%
Available seat km, ASK, mill.	1,476	1,452	1.7%
Cabin factor	61.5%	50.4%	+11.1 pts.
Unit cost, currency adjusted, SEK	0.97	-	6.1%
Yield, currency adjusted, SEK	1.69	-	0.0%
airBaltic*			
Number of passengers, (000)	1,038	589	76.1%
Revenue pass. km, RPK, mill.	1,161	566	105.3%
Available seat km, ASK, mill.	2,050	1,101	86.2%
Cabin factor	56.6%	51.4%	+5.3 pts.
Unit cost, currency adjusted, SEK	0.49	-	-19.6%
Yield, currency adjusted, SEK	0.87	-	-16.7%

* airBaltic was not consolidated in the business area in 2004.

Traffic

In 2005 the airlines in the business area carried more passengers than ever. The number of passengers totaled 11.1 million, 29.9% more than in 2004. airBaltic saw the biggest increase, 76.1%. Passenger volume at Blue1 and Spanair rose 27.8% and 21.4%, respectively, thanks to a successful effort in Finnish and Spanish domestic traffic, respectively.

Traffic, RPK, for the business area was up 34.4% in 2005, accounting for 25% of the Group's traffic. The cabin factor improved by 1.8 percentage points to 60.4%.

Spanair's traffic rose by 17.0% during the year. Spanair borrowed a total of seven aircraft from Scandinavian Airlines, primarily during high season. Two new destinations and six new routes opened in 2005, and capacity grew by 15%. The cabin factor improved to 61.4% (60.3%).

Affiliated company (not incl. in total passenger traffic)

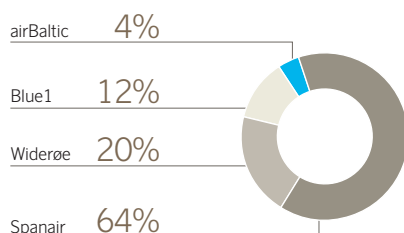
Estonian Air	2005	2004	Change
Number of passengers, (000)	643	540	19.0%
Revenue pass. km, RPK, mill.	833	628	32.7%
Available seat km, ASK, mill.	1,285	1,020	25.9%
Cabin factor	64.9%	61.6%	+3.3 pts.

Widerøe's passenger volume remained unchanged at 1.8 million. Capacity was reduced by 0.3%. Traffic fell by 0.7%, due to lower volumes on the international routes. Norwegian domestic traffic was up 2.5%. The total cabin factor was 0.2 percentage points lower and was 53.2% (53.4%).

Blue1's passenger volume rose sharply to 1.5 million, thanks to newly opened domestic routes in Finland and routes from western Finland to Scandinavia performing well. Traffic was up 24.2% and capacity rose 1.7%, resulting in a big advance in the cabin factor of 11.1 percentage points to 61.5% (50.4%).

airBaltic's traffic rose by 105.3% on passenger volume of 1.0 million. This rise is due to the phasing-in of Boeing 737s, new routes from Riga and good traffic development at the new base in Vilnius. Capacity grew by 86.2%, and the cabin factor improved by 5.3 percentage points to 56.6% (51.4%).

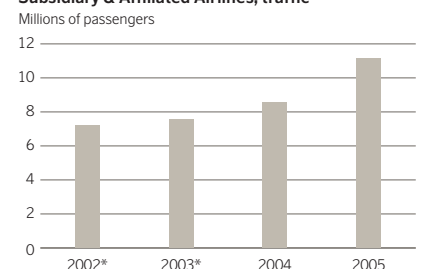
Breakdown of business area operating revenue



Business area operating revenue rose in 2005 by 21%. Spanair accounts for 64% of the operating revenue in Subsidiary & Affiliated Airlines. The robustly growing airBaltic was consolidated in 2005.

In 2005, passenger volume was up 29.9%. Since 2002 the number of passengers increased by 3.9 million, a rise of 54%.

Subsidiary & Affiliated Airlines, traffic



* Excluding Braathens.

Spanair



Spanair was founded in 1986 by the SAS Group and the Spanish company Teinver and is 95% owned by the SAS Group. With 2,832 employees and approximately 214 daily scheduled and charter flights to 28 destinations in eight countries, Spanair is Spain's second-largest airline. The airline carried 6.8 million passengers and 2.3 million charter passengers in 2005. Spanair also includes the tour operator Club de Vacaciones and the sales unit Fuerza de Ventas.

Since 2003 Spanair has been a member of Star Alliance and offers a competitive full-service product based on a low-cost structure. Spanair has a substantial charter business serving Scandinavia, the U.K., Ireland and Italy.

Spanair's business model is based on freedom of choice in terms of fare, flexibility and service, creating strong growth in the business segment. Low fares and a focus on direct sales have strengthened its position in the low-cost market. Spanair also offers a punctuality guarantee.

Important events in 2005

- Spanair expanded its network by two destinations, six routes and eleven aircraft.
- New alliances with airBaltic and TAP Portugal.
- Spanair is first Spanish airline to be IOSA-certified.



- Due to errors discovered in Spanair's accounts, the statements of income for 2002-2004 have been restated.
- Lars Nygaard appointed new CEO of Spanair.
- In November the Spanair Plus loyalty program passed 500,000 members.

Targets

The financial target is a CFROI of at least 25% over a business cycle.

The environmental target is an improvement in the index of one point per year.

Strategic focus

Spanair has four strategic focus areas:

- **Growth:** Develop its network and attain a bigger market share and better economies of scale.
- **Professionalism:** Spanair aims for the highest standards for quality, productivity and cost control.

- **Innovation:** Products and services are to be developed according to customer needs, price demands and positioning of the brand.
- **Flexibility:** Efficient and transparent management culture tailored to changes in business climate.

Traffic and earnings performance

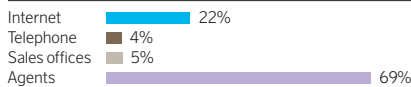
Spanair's earnings were positive for the first time since Spanair was consolidated in the Group in 2002. Spanair's traffic grew sharply in 2005, rising 17% owing to new routes, more frequent flights and new destinations. The cabin factor rose by 1.1 percentage points to 61.4% (60.3%) despite capacity growth of 15.0%.

Owing to higher volumes, operating revenue rose in 2005 by 15.6%, to MSEK 9,215 (7,969). Income after financial items improved by MSEK 99 and was MSEK 47 (-52).

Market outlook

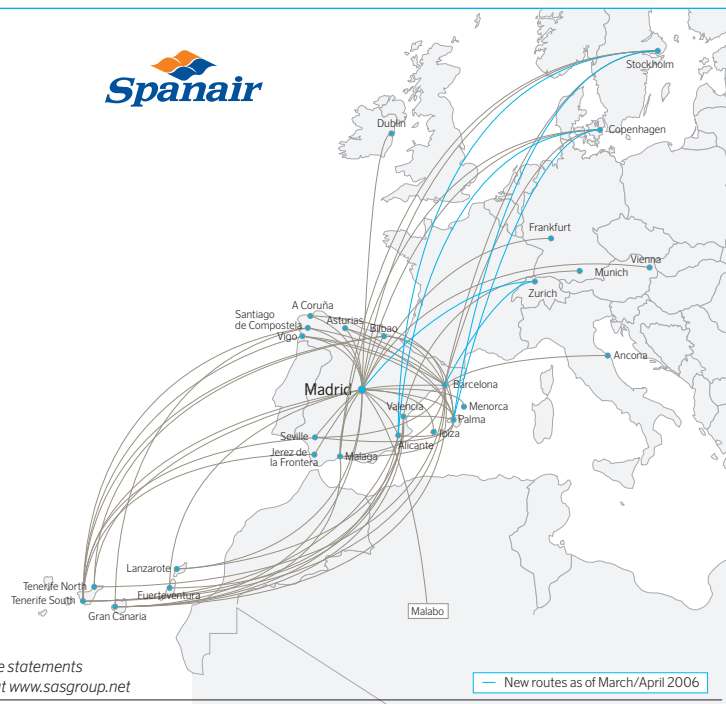
Spanair believes it can exploit opportunities to grow faster than the market average, thereby strengthening its position as Spain's second-largest airline. High-speed trains will mean more competition. Lower airfares will continue to create new demand. Increased capacity in Madrid and Barcelona will afford opportunities for faster growth, but this increase will be limited in 2006 due to the delay in allocating slots.

Booking channels 2005

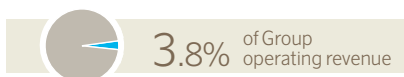


Key figures	2005	2004 ¹	2003 ¹
SAS Group's holding	95%	95%	74%
CFROI	13%	12%	12%
Market share of the home market	20%	15-20%	15-20%
Block hours, aircraft, hours/day	8.1	8.6	8.3
Block hours, pilots, hours/year	650	620	550
Block hours, cabin crew, hours/year	795	790	760
Unit cost, SEK/ASK	0.59	0.56	0.68
Unit cost, local currency EUR/ASK	0.064	0.062	0.068
Average no. of employees (of which women 48%)	2,832	2,631	2,535
Statement of income, MSEK			
Passenger revenue (scheduled)	5,797	4,726	4,467
Charter revenue	2,745	2,733	2,637
Other traffic revenue	340	252	220
Other revenue	333	258	205
Operating revenue	9,215	7,969	7,529
Total operating expenses	-7,809	-6,828	-6,653
EBITDAR	1,406	1,141	876
EBITDA	264	93	-217
EBIT	155	14	-213
Income after financial items	47	-52	-274

¹ In 2005, errors were discovered in Spanair's accounts, resulting in a restatement of the statements of income for 2002, 2003 and 2004. An itemized statement of income may be found at www.sasgroup.net



Widerøe



The Nordic region's largest regional airline, Widerøe Flyveselskap AS has operated for 73 years. Widerøe has a single-aircraft fleet of 30 turboprop aircraft that undertake around 100,000 flights per year to 35 airports in Norway and seven outside of Norway. It carried 1.8 million passengers in 2005.

With 1,331 employees, the airline has been a wholly owned subsidiary of the SAS Group since 1998. Widerøe's main office is in Bodø, and the airline has bases in Torp, Tromsø, Bergen, Stavanger and Gardermoen.

Widerøe's operations are divided as follows:

- *Commercial flights* in Norway and to and from abroad. The bulk of its business (68% of RPK) consists of regular commercial flights and is growing.
- *Flights in the Norwegian short runway network.* Air service contracted with the Norwegian government represents 32% of Widerøe's operations. Widerøe currently has a market share in the short runway network of approximately 87%.

Important events in 2005

- Widerøe won the bid for 11 out of 16 contracted routes on the Norwegian short runway network.
- Widerøe opened a cabin and technical base in Tromsø and closed down its base in Hammerfest.

- For three weeks in autumn 2005 Widerøe was forced to cancel 387 flights before an agreement could be reached with technical personnel.

Targets

The financial target is a CFROI of at least 25% over a business cycle.

The environmental target is a 1.5 point per year improvement in the index.

Strategic focus

Widerøe will:

- Continue to develop its role as the SAS Group's regional airline in and to and from Norway.
- Be a network airline with a low-cost profile.
- Concentrate operations on point-to-point traffic outside the major hubs and maintain its strong position in the Norwegian short runway network.

Traffic and earnings performance

The competition for traffic to and from Norway intensified toward the end of 2005. Compared with 2004, Widerøe's traffic, RPK, shrank by 0.7% in 2005. The number of passengers carried in Norwegian domestic traffic rose by 0.9%, due in part to Widerøe's introduction of one-way fares in 2005.

In 2005, operating revenue rose by 13.1% to MSEK 2,831. Costs increased by MSEK 344 and the unit cost in local currency by 5.0%, negatively impacted by less favorable agreements with personnel and higher jet fuel prices. Income after financial



items for 2005 amounted to MSEK 77, down MSEK 7.

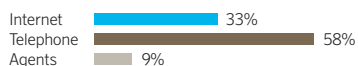
A "go-slow action" impacted earnings in the fourth quarter in the amount of MSEK 35.

Market outlook

Widerøe serves mature markets, with traffic in them forecast to grow by about 3% in the next few years. Widerøe is expected to retain its market share of domestic traffic moving forward. Prices are expected to stabilize at current levels, but the yield is expected to fall due to a greater share of leisure travelers and customer price sensitivity.

Widerøe intends to open new routes to and from Norway, by expanding capacity by around 7% through better utilization of the existing fleet.

Booking channels 2005

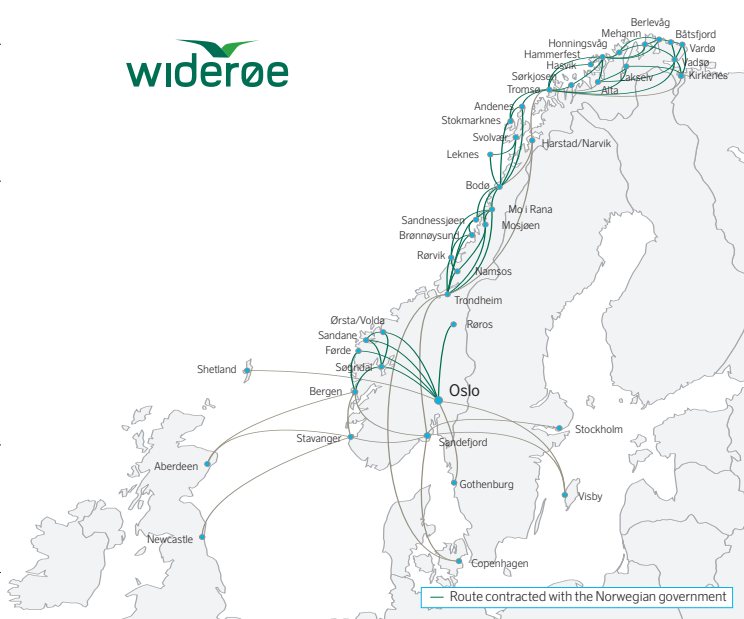


Key figures

	2005	2004	2003
SAS Group's holding	100%	100%	99,6%
CFROI	22%	21%	17%
Market share of the home market	14%	15%	14%
Block hours, aircraft, hours/day	6.7	6.7	6.4
Block hours, pilots, hours/year	478	530	480
Block hours, cabin crew, hours/year	436	490	460
Unit cost, SEK/ASK	2.34	2.09	2.30
Unit cost, local currency NOK/ASK	2.02	1.92	2.00
Average no. of employees (of which women 37%)	1,331	1,277	1,291

Statement of income, MSEK

	2005	2004	2003
Passenger revenue (scheduled)	1,736	1,532	1,633
Other revenue	1,095	970	844
Operating revenue	2,831	2,502	2,477
EBITDAR	334	349	343
EBITDA	242	255	254
EBIT	106	115	96
Income after financial items	77	84	77



Blue1



A Finnish wholly owned subsidiary since 1998, Blue1 flies to 14 destinations. The airline has 444 employees and provides the SAS Group's air service to/from and within Finland, operating 120 flights a day.

Blue1 cooperates with Scandinavian Airlines on all routes and has been a member of

Star Alliance since October 2004. Blue1 carried 1.5 million passengers in 2005. The fleet numbers 14 aircraft, nine of which are jets. Blue1 also has Line Maintenance in Helsinki and at Arlanda in Sweden.

Important events in 2005

- The expansion of Finnish domestic service continued with routes from Helsinki to Vaasa and to Rovaniemi.
- Blue1 was the first Finnish airline to introduce one-way fares on all routes.
- Sales via Blue1's website rose sharply.
- Blue1 decided to open nine new routes from Helsinki to European destinations beginning in March 2006.

Targets

The financial target is a CFROI of at least 25% over a business cycle.

The environmental target is a six point per year improvement in the index.

Strategic focus

Blue1 will introduce a business concept called "Smart Travel" which is based on:

- A basic product at central airports and a network that makes transfers possible.
- Supplementary services that provide good value.
- A greater percentage of passengers that book on the Internet.
- Complete ticketless travel services.
- Demand-based one-way fares.
- Increased capacity and new destinations in Finnish domestic and international service.

Blue1 will continue to focus on its selection of flights, aircraft fleet and other products and services to attain a full range of travel products for the Nordic air traveler.

Traffic and earnings performance

Blue1's traffic, RPK, rose in 2005 by 24.2% over the previous year.

The number of passengers rose by 27.8% compared with the year before. The increase in capacity, ASK, was 1.7%, which meant that the cabin factor for Finnish domestic traffic improved sharply to 66.0% and for international traffic to 60.5%.

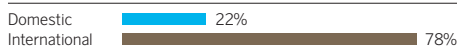
Owing to the higher volume, passenger revenue rose by MSEK 310 to MSEK 1,523 (1 213). Income after financial items amounted to MSEK 62 (-111). Earnings improved compared with the previous year for each quarter, due to the sharp rise in passenger volume and improved cabin factor.

Market outlook

Blue1 enjoys a strong position in the Finnish market. The one-hour time difference with Scandinavia enables Blue1 to utilize its aircraft more efficiently for traffic to Scandinavia and Europe.

Blue1 currently has 12% of the Finnish domestic market. The Finnish airline market has fewer players than other segments of the Nordic and European markets. The assessment is that there is growth potential in the Finnish domestic market and on direct routes to and from Europe. Blue1 will grow in these segments, increasing its capacity by a total of 70% in 2006.

Passenger breakdown, 2005



Key figures	2005	2004	2003
SAS Group's holding	100%	100%	100%
CFROI	22%	6%	8%
Market share of the home market, approximately	12%	10%	10%
Block hours, aircraft, hours/day	8.0	7.8	7.1
Block hours, pilots, hours/year	693	690	590
Block hours, cabin crew, hours/year	696	750	650
Unit cost, SEK/ASK	0.97	0.90	1.00
Unit cost, local currency EUR/ASK	0.11	0.10	0.11
Average no. of employees (of which women 49%)	444	366	290

Statement of income, MSEK	2005	2004	2003
Passenger revenue (scheduled)	1,523	1,213	913
Other revenue	181	93	35
Operating revenue	1,704	1,306	948
EBITDAR	208	58	79
EBITDA	73	-81	-59
EBIT	60	-92	-70
Income after financial items	62	-111	-80

Blue1



airBaltic



Founded in 1995, airBaltic is owned by the Latvian government (52.6%), the SAS Group (47.2%) and Transaero (0.2%). Through a convertible loan the SAS Group can increase its holding in airBaltic to a majority stake. airBaltic was consolidated in the SAS Group as of August 2005.

With 626 employees, airBaltic carried one million passengers in 2005. airBaltic flies nonstop from Riga to 20 destinations in Scandinavia, the Baltic states and Eastern and Central Europe. From Vilnius airBaltic flies to ten destinations in Scandinavia, the Baltics and Central Europe. The aircraft fleet comprises seven Boeing 737-500s and nine Fokker 50s. airBaltic participates in SAS's EuroBonus program.

Important events in 2005

- New routes opened from Riga to Barcelona, Istanbul, Paris, Munich, Odessa and Dnepropetrovsk.
- The first domestic flight to Liepaja opened ahead of the summer season.
- airBaltic passed 1 million passengers on an annual basis.
- airBaltic opened sales offices in Berlin, Moscow and Warsaw.
- airBaltic celebrated 10 years in October 2005.
- A subsidiary, airBaltic East, was founded to serve eastern markets.

Financial target

The financial target is a CFROI of at least 25% over a business cycle.

Strategic focus

airBaltic's business model is based on point-to-point and transfer traffic. airBaltic will continue to strengthen its leading position in the Baltic market for flights to Western Europe, Scandinavia and the East. With the airline industry's best cost position, airBaltic aims to continue to grow profitably. airBaltic is securing the SAS Group's strategic position in the Baltic region. Simple and direct access to airBaltic's products will be ensured by:

- Strengthening nonstop and transfer traffic to Scandinavia, Finland and Western Europe in cooperation with SAS Group airlines.
- Developing Riga as a regional hub for traffic between east and west in Europe.

- Developing alliances with airlines in the East.
- Establishing bases outside its home markets.

Traffic and earnings performance

Passenger volume rose substantially in 2005 compared with 2004. In Riga the increase was 45.3% and in Vilnius 273%. Total growth in passenger volume was 76.1%. The rise is due to new routes and the phasing-in of Boeing 737s with greater capacity.

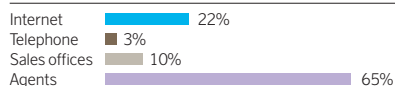
Operating revenue rose in 2005 by 71%, to MSEK 1,211 (708). Costs for pilot retraining for Boeing 737s were charged to income. Earnings also suffered from the stiff competition to and from Riga. Income after financial items was MSEK -19 (-11).

Market outlook

The Baltic states' accession to the EU has resulted in network and point-to-point airlines in the EU increasing flights to the Baltic states, which is expected to continue. The yield to/from the Baltic states is expected to fall due to an increased focus on fares. In the coming years, passenger volumes are expected to increase by 20-25% at Riga and Vilnius airports.

airBaltic's growth is expected to be higher than the market in the coming years. In 2006 seven new routes from Riga and one from Vilnius are expected to open. airBaltic will then have the third-largest route network to Russia, Ukraine and Belarus in 2006.

Booking channels 2005



Key figures

	2005	2004	2003
SAS Group's holding	47.2%	47.2%	47.2%
CFROI	20%	19%	29%
Market share of Riga Airport, approximately	40%	50%	55%
Block hours, aircraft, hours/day	8.7	7.3	7.7
Block hours, pilots, hours/year	786	740	790
Block hours, cabin crew, hours/year	751	780	740
Unit cost, SEK/ASK	0.49	0.63	1.01
Unit cost, local currency LVL/ASK	0.037	0.046	0.071
Average no. of employees (of which women 55%)	626	413	291

Statement of income, MSEK

	2005	2004	2003
Passenger revenue (scheduled)	1,084	605	428
Other revenue	127	103	42
Operating revenue	1,211	708	470
EBITDAR	110	93	107
EBITDA	4	23	60
EBIT	-5	18	48
Income after financial items	-19	-11	16

airBaltic



Affiliated companies

Estonian Air

Formed in 1991, Estonian Air is owned by the SAS Group (49%), the Estonian government (34%) and AS Cresco (17%). Estonian Air has 380 employees and carried 0.6 million passengers in 2005, including charter. The airline has a single-aircraft fleet of five Boeing 737-500s, operating in both scheduled and charter service. From its Tallinn hub, Estonian Air serves 14 destinations in Europe in both point-to-point and transfer traffic. The airline flies to primary airports, and approximately 25% of travelers are transfer passengers. Its business model is founded on demand-based one-way fares. Estonian Air has two subsidiaries: Amade-us Estonian and Estonian Aviation Fuelling Services.



Important events in 2005

- New routes opened to Manchester and Milan.
- Estonian Air increased its capacity in the growing charter segment.
- A new flexible service concept on board was introduced.

Financial target

The financial target is a CFROI of at least 25% over a business cycle.

Strategic focus

Estonian Air aims to be the first choice for travel to and from Estonia. Estonian Air will develop its network in existing markets and profitably grow in new markets by:

- Achieving a highly flexible fleet that can quickly take advantage of business opportunities.

- Strengthening its position through direct sales channels and a higher percentage of Internet bookings.
- Increasing the share of ancillary revenues (additional products and services).
- Strengthening the brand in the home market.
- Growing in new markets and increasing brand awareness in destinations outside of Tallinn.

Traffic and earnings performance

Competition grew in 2005, especially from low-fare carriers, and Estonian Air focused on improving efficiency and resource utilization to retain its position as Estonia's leading airline. Traffic increased in 2005 by 32.7%, and the number of passengers rose by 19.0% compared with 2004. Charter traffic rose by over 150% on an annual basis, fueled by ample growth in the Estonian economy.

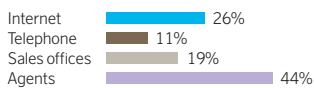
With the increased traffic, operating revenue rose by 22.8% to MSEK 678. Despite record high jet fuel prices and keener competition, income after financial items improved by MSEK 22 to MSEK 39 (17).

Market outlook

Growth in Estonia is stable, its economy competitive and its laws harmonized with the EU. Estonian Air expects that competition will intensify. At the same time, the rapid growth of air traffic is expected to continue owing to Estonia's accession to the EU and its growing popularity as a tourist destination. The biggest growth is expected from increased tourism from Italy, Spain and France, but also from the fast-growing economies of Eastern Europe.

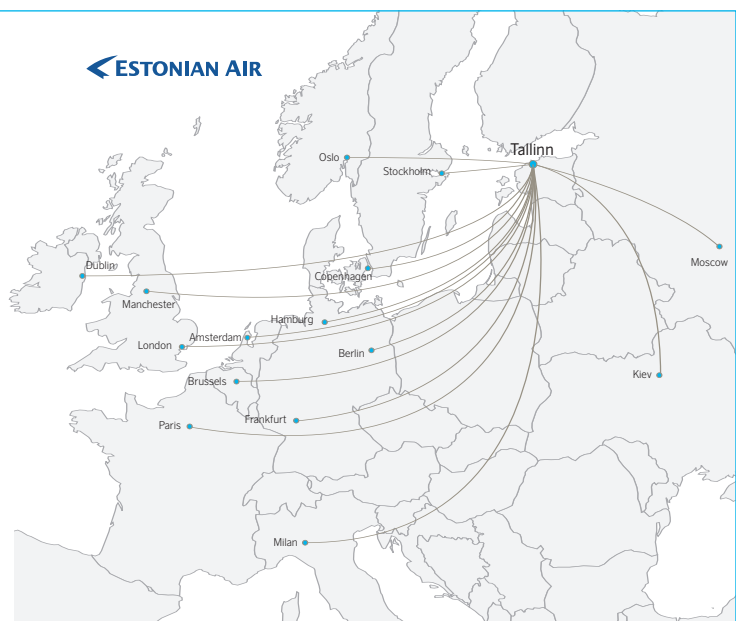
Estonian Air is working to achieve a lower unit cost and offer products that satisfy customer needs and meet market trends.

Booking channels 2005



Key figures	2005	2004	2003
SAS Group's holding	49%	49%	49%
CFROI	18%	15%	26%
Market share at Tallinn Airport, approximately	45%	55%	57%
Block hours, aircraft, hours/day	10.2	9.1	8.5
Block hours, pilots, hours/year	708	680	600
Block hours, cabin crew, hours/year	721	740	750
Unit cost, SEK/ASK	0.47	0.50	0.52
Unit cost, local currency EEK/ASK	0.79	0.86	0.90
Average no. of employees (of which women 54%)	380	347	309

Statement of income, MSEK	2005	2004	2003
Passenger revenue (scheduled)	662	522	431
Other revenue	16	30	86
Operating revenue	678	552	516
EBITDAR	105	88	118
EBITDA	101	26	51
EBIT	29	10	33
Income after financial items	39	17	47



Business area

Airline Support Businesses



Responsible for the business area
Executive Vice President
Håkan Ericson

The business area's earnings weakened in 2005, chiefly due to lower volumes for SAS Technical Services and price pressure on SAS Ground Services. SAS Cargo Group's profitability showed an improvement. SAS Technical Services and SAS Ground Services are continuing their efforts to ensure their competitiveness.

Statement of income, MSEK	2005	2004	2003
Operating revenue	14,876	14,213	13,850
Payroll expenses	-6,569	-6,204	-6,108
Handling costs	-1,356	-1,158	-1,057
Technical aircraft maintenance	-1,805	-1,695	-1,752
Computer and telecommunications costs	-583	-603	-724
Other operating expenses	-3,684	-3,476	-3,601
Operating expenses	-13,997	-13,136	-13,242
Income before depreciation, EBITDA	879	1,077	608
Depreciation	-367	-491	-451
Share of income in affiliated companies	-23	0	-
Capital gains	-72	5	-
Operating income, EBIT	417	591	157
Net financial items	-130	-84	-90
Income after financial items	287	507	67

Earnings and degree of achievement of long-term targets 2005

	Negative earnings	Positive earnings	Target achievement ¹	Improvement since 2004
SAS Ground Services	●	●	●	●
SAS Technical Services	●	●	●	●
SAS Cargo Group	●	●	●	✓

¹ Degree of achievement of the Group's return requirement over a business cycle.

Airline Support Businesses' activities comprise SAS Ground Services (SGS), SAS Technical Services (STS) and SAS Cargo Group. SGS is a full-service provider in ground handling and airport-related services. STS provides technical maintenance aircraft and engines to airlines in and outside the SAS Group.

Competition intensified for the units in this business area in 2005. During the second half of 2005, profitability was lower for SGS, due to stiffer competition, while STS operated at low capacity and had logistics problems at SAS Component, negatively impacting STS's earnings.

Operating revenue for the business area rose in 2005 by 4.7% to MSEK 14,876 (14,213), owing to higher volumes primarily in the first half of the year. Income after financial items decreased by MSEK 220 to MSEK 287 (507).

In 2006, SAS Technical Services and SAS Ground Services will feel the impact of lower prices, changes in product orders and lower business volume equal to MSEK 500-700, adversely affecting earnings in 2006.



Safety

Key figures	Total Airline Support Businesses			SAS Ground Services			SAS Technical Services			SAS Cargo Group		
	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004	2003
Operating revenue, MSEK	14,876	14,213	13,850	6,185	6,212	5,588	5,520	5,302	5,445	3,308	2,833	2,954
of which external operating revenue	35.7%	32.6%	31.4%	17.3%	16.9%	14.6%	19.6%	18.8%	12.6%	95.6%	96.0%	95.6%
EBITDA margin	5.9%	7.6%	4.4%	6%	6.8%	-0.3%	5%	11.3%	7.6%	6%	2.7%	4.0%
Income after financial items, EBT	287	507	67	97	279	-156	110	230	75	63	14	51
Average number of employees	11,845	11,893	11,691	6,952	6,962	6,820	3,564	3,594	3,586	1,328	1,266	1,255
of which women	26%	27%	-	37%	36%	38%	8%	7%	-	18%	18%	18%
Unsorted waste, tonnes*	529	344	550	-	-	-	-	-	-	-	-	-
Energy consumption, GWh*	193	183	200	-	-	-	-	-	-	-	-	-
Ground environmental index*	72	87	82	-	-	-	-	-	-	-	-	-

* The environmental numbers are total figures that include Airline Related Businesses, Airline Support Businesses and all units owned or managed by SAS Facility Management (buildings and land). For other employee key figures, see the Sustainability Report, page 110.

SAS Ground Services



SAS Ground Services, SGS, is the largest full-service supplier of ground handling in the Nordic countries. Incorporated on October 1, 2004, SGS consists of a holding company and eight subsidiaries. SGS also has its own operations in Finland, France, Italy, Poland, Russia, Switzerland, the U.K., Austria, Thailand and the U.S. It is represented at approximately 160 airports and has an average of 6,952 employees in 40 countries. SGS offers everything from ground handling of passengers, baggage and aircraft at the ramp to efficient solutions such as automated check-in and boarding and centralized departure control. The company has 72 contracted customers and serviced a total of 141 airlines during the year. During the year SGS handled 73.6 million travelers, more than 500,000 departures and 396,000 tonnes of freight and mail.

SGS also includes SAS Ground Equipment, which owns, leases and maintains ramp as well as radio communications equipment.

Important events 2005

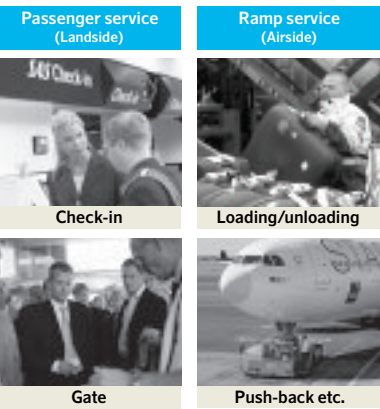
- SGS began its international expansion with new customers in Finland, the U.K., Thailand and the U.S.
- SGS began testing eco-friendly deicing of aircraft with infrared heat in Oslo.

Objectives

The financial target is an EBITDA margin of at least 8% over a business cycle. SGS is to be competitive in every part of its operations and contribute actively to the efficiency, simplification and quality of the airlines' activities at airports.

SGS operations at airports

Its activities can be divided into passenger service and ramp service. Ramp service entails aircraft arrival and departure work such as baggage and freight handling, towage, deicing, etc.



Strategic focus

As an independent full-service supplier, SGS is to engage in competitive business by:

- Offering good value services to all airlines on the basis of an efficient production platform.
- Offering customers additional services based on their needs.
- Combining in-house produced services with services from subcontractors.

Earnings performance

SGS's operating revenue was down 0.4%, from MSEK 6,212 to MSEK 6,185 due to lower prices and the loss of some contracts not entirely compensated for by SGS's international expansion. Cost-cutting efforts continue and during the year the unit cost fell by 14.4%.

Income before nonrecurring items decreased by MSEK 51 to MSEK 228 (279). Restructuring costs of MSEK 131 mainly related to SGS in Denmark were charged to earnings.

Market outlook

Activity levels in the airline industry are crucial for growth in the ground handling market. In 2005, the volumes of SGS's largest customers declined measured by the number of departures. At the same time, the demand for simplified products is growing. Competition and pressure on prices in the ground handling sector are expected to intensify, which may lead to consolidation in the market. Efforts to ensure full competitiveness at SGS continue and 2006 is expected to be a weaker year than 2005. The most changes are expected at SGS in Denmark.

Quality objectives

SGS works systematically on quality. Safety, punctuality and service are continuously tracked. Its safety target is zero incidents. Punctuality and service are measured, among other things, by the percentage of delays caused by ground handling, waiting time for check-in and waiting time for baggage. The standard for these varies depending on the agreements made in the respective countries.

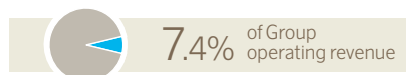
Sustainability objectives

SGS's goal is to exceed current environment-related government standards, laws and regulations wherever it conducts business. For the working environment, SGS has set targets that are measured and followed up in regard to sick leave, work-related injuries, how the management is viewed by employees, and job satisfaction.

Key figures	2005	2004	2003
SAS Group's holding	100%	100%	100%
EBITDA margin	3.6%	6.8%	-0.3%
Average number of employees (37% women in 2005)	6,952	6,962	6,820
Number of contract customers	72	70	70
Number of stations with own personnel	57	61	57
Number of flights handled	506,257	512,299	485,997
Number of passengers handled (million departures and arrivals)	73.6	72.1	68.3
Delivered punctuality (% within 15 minutes)	98.7	98.2	98.9
Baggage quality (reports per 10,000 passengers)	88	80	77
Statement of income, MSEK	2005	2004	2003
Operating revenue	6,185	6,212	5,588
of which external operating revenue	17.3%	16.9%	14.6%
Operating expenses	-5,960	-5,792	-5,605
Operating income before depreciation, EBITDA	225	420	-17
EBIT	110	273	-162
Income after financial items	97	279	-156
EBT before nonrecurring items	228	279	-156



SAS Technical Services



SAS Technical Services (STS) is a leading Nordic provider of full-service maintenance, repair and overhaul (MRO) of aircraft. In addition, STS offers customized maintenance services. STS was incorporated in 2004. It is headquartered at Stockholm-Arlanda Airport. Approximately 80% of operating revenue comes from units in the SAS Group.

In 2005, STS organizations became fully EASA-certified. STS also holds FAR-145 certification.

The operation comprises the business units Line Maintenance, Airframe Maintenance, which includes base and heavy maintenance, Engine Management, Engineering Services and Maintenance Training and collaboration with the affiliated company SAS Component. STS focuses on maintenance of Airbus aircraft, MD-80/90s and Boeing 737s.

Important events in 2005

- 67% of SAS Component was sold to Singapore Technologies Engineering.
- By adapting technical maintenance to the market, Airframe Maintenance was streamlined by approximately 110 FTEs.
- STS signed new full-service agreements with Hello AG, Alexandair and Nordic Regional.

Objectives

The financial target is an ROIC of at least 12% over a business cycle. This target will be revised after the sale of SAS Component.

STS aims to be among the best in the industry regarding profitability, quality and safety and have a competitive cost level.

Categories of Maintenance, Repair and Overhaul (MRO)

Line maintenance		Approx. 80 line stations worldwide, for example: Copenhagen, Oslo, Stockholm, Gothenburg, Bergen, St. Petersburg and New York.
Airbus Boeing Douglas Fokker etc.		STS provides technical support to aircraft operators. At all line stations personnel are available for troubleshooting and minor repairs. If needed, personnel can be flown to other sites for urgent repairs or inspections. At about 15 line stations planned as well as weekly maintenance is performed.
Airframe maintenance	Base maintenance	Stockholm, Copenhagen, Oslo, Stavanger, Tallinn
	Airbus Boeing Douglas	Thorough maintenance performed according to specific routines approved by the authorities, aircraft manufacturers and aircraft operators. In addition, cabin refurbishment and aircraft repainting are also carried out.
	Heavy maintenance	Oslo, Stavanger
	Boeing Douglas	Detailed going-over of the aircraft. Includes non-destructive testing x-rays of structural details to find any defects in the material.

Quality objective

STS's primary goal is the highest possible level of safety. In the market STS shall be known for high delivery reliability, top-flight competence and short turnaround times.

Sustainability work

STS is in an ongoing dialog with aircraft and component manufacturers to get them to use "greener" products.

Strategic focus

SAS Technical Services shall:

- Grow in the external market with full-service agreements for selected types of aircraft
- Continue to streamline operations to ensure future competitiveness
- Establish partnerships to strengthen its market presence and achieve economies of scale.

Earnings performance

Operating revenue for 2005 totaled MSEK 5,520 (5,302), up 4% compared with 2004. External revenues rose to MSEK 1,084. EBITDA was MSEK 509, down MSEK 90.

The main reason is lower operating income at SAS Component. A capital loss of MSEK 72 on the sale of SAS Component and restructuring costs of MSEK 30 were charged to earnings. Income before non-recurring items was MSEK 212 (230).

Market outlook

The technical maintenance market is marked by stiff competition, overcapacity and price pressure. Opportunities to grow are opening up as many airlines globally consider contracting out technical maintenance. One key customer segment is newly established airlines. In 2006 STS will continue to bolster its position in full-service MRO externally as well as for units in the SAS Group.

During 2005, STS, in cooperation with Scandinavian Airlines Businesses, implemented cost savings of about MSEK 170. This effort will continue in 2006.

STS expects continued pressure on volumes and prices, and so 2006 is expected to be a weaker year.



Key figures	2005	2004	2003
SAS Group's holding	100%	100%	100%
ROIC	5.0%	7.0%	5.5%
Average number of employees (8% women in 2005)	3,564	3,594	3,586
Number of customers	130	160	120
Statement of income, MSEK			
Operating revenue	5,520	5,302	5,445
of which external operating revenue	19.6%	18.8%	12.6%
Operating expenses	-5,011	-4,703	5,029
Operating income before depreciation, EBITDA	509	599	416
EBIT	210	300	153
Income after financial items	110	230	75
EBT before nonrecurring items	212	230	74

SAS Cargo Group



Owned 100% by the SAS Group, SAS Cargo has 1,328 employees. SAS Cargo was founded as an independent company on June 1, 2001. Its core business is the transport of freight to/from, via and within the Baltic Sea region. SAS Cargo is the market leader in the region and offers prompt and reliable transport solutions. Approximately 70% of SAS Cargo's freight capacity exists within SAS Group airlines. Other capacity is offered through cooperation with partners. SAS Cargo is a member of the WOW cargo alliance together with Lufthansa Cargo, Japan Airlines Cargo and Singapore Airlines Cargo.

Important events in 2005

- SAS Cargo acquired all of Sterling's and Maersk Air's freight capacity.
- SAS Cargo started the sales agent Cubic Air Cargo.
- Together with Singapore Airlines Cargo and Emirates Sky Cargo, SAS Cargo started carrying freight between Scandinavia, Chicago and Hong Kong.
- SAS Cargo began the process of incorporating freight handling in Norway and Denmark.

Objectives

SAS Cargo's paramount goal is to retain and develop a strong position in the market by continuing to profitably expand its network

capacity, products and new areas of operations.

The financial target is a CFROI of at least 20% over a business cycle.

Quality objectives

SAS Cargo Group's quality goal is "Arrived As Agreed." SAS Cargo will transport goods to the agreed destination, by the agreed time and without damage.

SAS Cargo Group is certified according to ISO 9001:2000, and ISO 14001 at the terminals. The goal for 2006 is to obtain ISO 14001 certification for SAS Cargo's entire operation.

Sustainability objectives

SAS Cargo Group's work on sustainability covers environmental performance, working conditions, ethical, social responsibility and quality goals. SAS Cargo is working step-by-step to ensure that customers, suppliers and society as a whole view, from a sustainability viewpoint, SAS Cargo as a leading distributor of freight.

Strategic focus

SAS Cargo's main strategy is to offer attractive transport solutions to, from and within the Baltic Sea region based on:

- Freight capacity in the SAS Group's own network.
- Contracted cargo flights to and from strategically important destinations in Asia, the Baltic states and the U.S.

- The WOW alliance, which ensures SAS Cargo access to an extensive global network.

Earnings performance

SAS Cargo's operating revenue rose during 2005 by MSEK 475 to MSEK 3,308. The yield fell by 5% due to the overall decline in the market in Scandinavia and heightened competition. Growth in the other markets has been satisfactory despite the weakness in the Scandinavian market from overcapacity. Income after financial items improved by MSEK 49 to MSEK 63 (14). SAS Cargo's contribution to the SAS Group amounted to MSEK 1,104 (936).

Market outlook

SAS Cargo is exploring alternative business models and partnerships with other operators in Scandinavia with the aim of increasing efficiency and focusing on core operations. Freight handling in Sweden has been incorporated as Spirit Air Cargo Handling and the incorporation process commenced in 2005 in Denmark and Norway.

Safety, economy, and quality will ensure SAS Cargo's position as an attractive and long-term partner.

To add freight capacity in strategically important markets in Asia and the U.S., SAS Cargo signed an agreement with Singapore Airlines Cargo, Emirates Sky Cargo, Korean Air Cargo and Lufthansa Cargo.

Key figures	2005	2004	2003
SAS Group's holding	100%	100%	100%
CFROI	17%	16%	16%
Average number of employees (18% women in 2005)	1,328	1,266	1,255
Flown tonnes	286,788	278,298	288,860
Tonne km (million)	1,039	986	1,012
Cargo yield/tonne km	1.92	2.03	2.15
Statement of income, MSEK	2005	2004	2003
Operating revenue	3,308	2,833	2,954
of which traffic revenue	2,054	1,928	2,187
of which external operating revenue	95.6%	96.0%	95.6%
Operating expenses	-3,176	-2,757	-2,835
Operating income before depreciation, EBITDA	132	76	119
EBIT	83	35	77
Income after financial items	63	14	51
EBT before nonrecurring items	67	14	51
Freight and mail, total, tonne km (000)	2005	2004	Change
Intercontinental	638,801	618,761	3.2%
Europe	27,927	27,256	2.5%
Intra-Scandinavian	5,460	5,699	-4.2%
Total international	672,188	651,716	3.1%
Denmark	32	37	-13.5%
Norway	12,583	18,797	-33.1%
Sweden	338	383	-11.7%
Total domestic	12,954	19,217	-32.6%
All Cargo	354,101	315,373	12.3%
Total	1,039,243	986,306	5.4%



Business area

Airline Related Businesses



Responsible for the business area
Executive Vice President
Håkan Ericson

SAS Flight Academy had somewhat lower earnings than the previous year. The SAS Group is focusing on higher ancillary revenues. Here SAS Business Opportunities plays a key role. SAS Media is the Group's media house. Jetpak Group and European Aeronautical Group were sold in 2005. As of January 1, 2006, the remaining operations have been moved and the business area eliminated.

Statement of income, MSEK	2005	2004 ¹	2003 ²
Operating revenue	1,582	2,913	4,776
Payroll expenses	-350	-447	-1,342
Handling costs	-171	-194	-230
Costs of goods sold, incl. concession charges	-184	-1,431	-1,327
Computer and telecommunications costs	-50	-55	-647
Other operating expenses	-670	-589	-902
Operating expenses	-1,425	-2,716	-4,448
Income before depreciation, EBITDA	157	197	328
Depreciation	-122	-142	-259
Share of income in affiliated companies	-1	0	-17
Capital gains	36	1	0
Operating income, EBIT	70	56	52
Income from other shares and participations	0	0	0
Net financial items	-14	-13	-19
Income after financial items	56	43	33

¹ Operating revenue from SAS Trading included in the amount of MSEK 1,634.

² Including Scandinavian IT Group.

Earnings and degree of achievement of long-term targets 2005

	Negative earnings	Positive earnings	Target achievement ¹	Improvement since 2004
SAS Flight Academy	●	●	●	✓
SAS Business Opportunities	●	●	●	
SAS Media	●	●	●	

¹ Degree of achievement of the Group's return requirement over a business cycle.

In 2005, Airline Related Businesses comprised SAS Flight Academy, Jetpak Group, European Aeronautical Group, SAS Business Opportunities and SAS Media.

SAS Flight Academy is a leading training center for pilots, cabin crew, aircraft technicians and ship's officers. Jetpak Group offers door-to-door express parcel deliveries. The business area also includes the media house SAS Media and SAS Business Opportunities, which will contribute to increased profitability for Group companies by generating ancillary revenue. In November the SAS Group finalized the sale of European Aeronautical Group. In December Jetpak Group was sold.

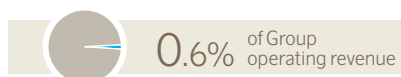
The business area's operating revenue in 2005 amounted to MSEK 1,582 (2,913). The reduction is primarily due to the closure of SAS Trading. Due to lower volumes, EBITDA fell, amounting to MSEK 157 (197). Income after financial items was MSEK 56 (43).



Key figures	Total Airline Related Businesses			SAS Flight Academy			Jetpak Group ¹			European Aeronautical Group ¹			SAS Business Opportunities			SAS Media		
	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004 ³	2003	2005	2004	2003
Operating revenue, MSEK	1,582	2,913	4,776	447	515	496	481	459	448	164	194	197	228	149	-	80	79	54
of which external operating revenue	78.9%	84.2%	52.2%	48.8%	41.2%	35.9%	98.8%	99.6%	99.6%	62.8%	64.6%	62.9%	99.1%	100%	-	48.2%	42.5%	74.9%
EBITDA margin	9.9%	6.8%	6.9%	27.1%	25.8%	23.0%	11.0%	8.3%	7.4%	-	-	-	5.3%	-	-	0%	3.8%	0%
Income after financial items, EBT, MSEK	56	43	33	75	46	16	29	18	22	11	19	-10	12	26	-	-2	3	-1
Average number of employees of which women	599	862	2,107	163	156	166	162	177	180	157	156	154	25	24	-	45	42	39
Unsorted waste, tonnes ²	529	344	550	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Energy consumption, GWh ²	193	183	200	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ground environmental index ²	72	87	82	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

¹ Sold in 2005. ² The environmental numbers are aggregates that include Airline Related Businesses, Airline Support Businesses and all units owned or managed by SAS Facility Management (buildings and land). ³ Refers to the period October 1 to December 31, 2004. For other employee key figures, see the Sustainability Report, page 110.

SAS Flight Academy



SAS Flight Academy is a wholly owned subsidiary in the SAS Group and one of the world's leading training centers for pilots and cabin crew. The business was started in 1946 as part of Scandinavian Airlines and currently has 163 employees.

The market primarily comprises aircraft and helicopter operators and owners and manufacturers of aircraft/helicopters.

SAS Flight Academy has a wide selection of custom training programs for training pilots and cabin crew. With about 150 airlines and military organizations from around the world as customers, SAS Flight Academy contributes to the transfer of technology and skills to countries in Asia and Eastern Europe. Training takes place around the clock in 16 flight simulators, at equipment for cabin training and through interactive learning at various PC stations.

Headquartered at Arlanda Airport, the Academy also operates at Copenhagen Airport and Oslo Airport Gardermoen.

Important events in 2005

- SAS Flight Academy decided to establish a flight school in Riga, Latvia, for pilot and cabin training.
- A decision was reached on the sale and leaseback of simulators with Hewlett-Packard.

Objectives and targets

ROIC is to be 13% over a business cycle.

More than 50% of its revenues is to come from customers outside the Group and grow 5 percentage points more than the market.

Quality objectives

SAS Flight Academy's quality system, which conforms with the international JAR FCL and JAR STD certifications as well as ISO 9001:2000 standards, offers opportunities to control operations and handle disruptions that arise.

A process-oriented organization focused on quality work and internal quality audits yield synergies in the form of operations



security, customer-related improvement measures and conformance with government requirements.

Sustainability objectives

SAS Flight Academy shall work continuously on developing human resources and the working environment. This is to be achieved by:

- Human resource development.
- Management development.
- Work climate studies with associated action plans.
- Active environmental work.

Strategic focus

SAS Flight Academy shall:

- Be the main supplier of training to airlines in the SAS Group,
- From its base in the Baltic Sea region (Scandinavia, the Baltic states, Poland and Finland), expand by profitably developing training activities outside the SAS Group.

Earnings performance

SAS Flight Academy's operating revenue for 2005 amounted to MSEK 447, down MSEK 68 from 2004. The lower operating revenue

is due primarily to lower volumes for the SAS Group.

Revenues from customers outside the SAS Group increased by 5% compared with 2004. Operating expenses fell more than revenue owing to effective cost control and an improved operating margin compared with the previous year.

Income after financial items amounted to MSEK 75 (46). Earnings include a capital gain of MSEK 34 from the sale of five simulators.

Income before capital gains and non-recurring items fell by MSEK 5, amounting to MSEK 41 (46).

Market outlook

Competition is expected to intensify in the coming years, despite a stabilization of the price of simulator time. Increasing numbers of airlines are hiring ready-trained pilots. The trend is for pilots to finance their own training, which increases price pressures. There is also a risk of a shortage of instructors.

Demands for cost-effective training are expected to grow, impacting the demand for new training equipment and flexible teaching with the aid of the Internet.

Key figures	2005	2004	2003	Statement of income, MSEK	2005	2004	2003
SAS Group's holding	100%	100%	100%	Operating revenue	447	515	496
ROIC	11%	8%	4%	of which external operating revenue	48.8%	41.2%	35.9%
Number of simulator hours	67,156	66,407	54,829	Operating expenses	-326	-382	-382
Average number of employees (30% women in 2005)	163	156	166	Operating income before depreciation, EBITDA	121	133	114
				EBIT	79	46	21
				Income after financial items	75	46	16

SAS Business Opportunities

SAS Business Opportunities, SBO, was founded in 2004 and is a wholly owned subsidiary. With 25 employees, SBO's purpose is to contribute to higher profitability for the Group's airlines by creating ancillary revenues.

Its activities consist of six areas: SAS Mobile Portal - services via mobile phones, SAS Web Shop - online shopping, SAS Flightshop - sales of goods on board, SAS Marketing Partnerships - media sales on board and in lounges, SAS Travel Related Partnerships - Internet booking of hotel rooms and rental cars, and SAS Licensing - granting use of the SAS trademark.

SBO pays a license fee to airlines in Scandinavian Airlines Businesses to sell goods and media on board and to use the SAS Internet and trademark. The fees amounted to MSEK 30 in 2005.

Important events 2005

- The business areas SAS Mobile Portal and SAS Web Shop were set up in October.

- SAS Braathens' on board sales business was bought in May.

Financial target

Its financial target, after licenses have been paid, is an EBITDA margin of at least 10% over a business cycle.

Strategic focus

To create profitability, SBO will work on innovations and marketing based on an entrepreneurial mindset.

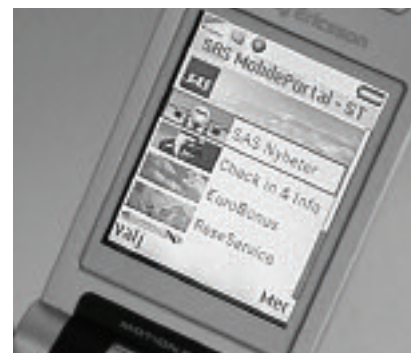
Earnings performance

SBO's operating revenue in 2005 amounted to MSEK 228 (149). Growth has been especially brisk in the SAS Flightshop and SAS Travel Related Partnerships areas. Operations posted a profit of MSEK 12 after financial items.

Market outlook

Ancillary revenues are important and are expected to be a growing area for airlines.

Marketing and sales channels such as the Internet and mobile services will also grow. Both SAS Web Shop and SAS Mobile Portal are expected to achieve good profitability along with SAS Travel Related Partnerships.



” We create new business opportunities together with you ”

Key figures

	2005	2004*
SAS Group's holding	100%	100%
EBITDA margin	5.3%	17,4%
Average number of employees (84% women in 2005)	25	24

Statement of income, MSEK

	2005	2004*
Operating revenue	228	149
of which external operating revenue	99.1%	100%
Operating expenses	-216	123
Operating income before depreciation, EBITDA	12	26
EBIT	10	26
Income after financial items	12	26

* Pro forma.

SAS Media

A wholly owned subsidiary of the SAS Group, SAS Media has 45 employees. Its activities are in publishing, media sales, advertisement production and design. The company publishes in-flight magazines for Scandinavian Airlines Businesses, SAS Braathens and Widerøe. The magazines are financed by advertising sales.

SAS Media's publishing of travel destination information in various media has been very well received. SAS Media has also published the book *SAS Crew Guide*.

Important events in 2005

- A company was formed together with the publisher TTG Sverige, to publish a lifestyle magazine for EuroBonus and other contract publishing.
- Publication of a totally new in-flight magazine for SAS Braathens began at the start of the year.

Financial target

The financial target is an EBITDA margin of at least 10% over a business cycle.

Earnings and market performance

Operating revenue was up MSEK 1 to MSEK 80, and the business posted negative income after financial items of MSEK -2 (MSEK 3). Contracts in advertising production and design performed positively with an increase in collaboration with customers, but also resulted in lower volumes as certain products or services were discontinued. SAS Media has retained its position as a complete media house for the Group's units. The media market in the sector in which the company operates performed weakly in 2005, with growing competition.

Key figures

	2005	2004	2003
SAS Group's holding	100%	100%	100%
EBITDA margin	0%	3.8%	0%
Average number of employees (53% women in 2005)	45	42	39

Statement of income, MSEK

	2005	2004	2003
Operating revenue	80	79	54
of which external operating revenue	48.5%	42.5%	74.9%
Operating expenses	-80	-76	-54
Operating income before depreciation, EBITDA	0	3	0
EBIT	-2	3	-1
Income after financial items	-2	3	-1

European Aeronautical Group - sold in November 2005

With operations in Scandinavia and the U.K., European Aeronautical Group (EAG) produces advanced aeronautical documentations and systems for the aviation industry. Its product line includes aeronautical and flight navigation documentation and flight and route planning for various systems.

EAG sold to Navtech, Inc.

On November 22, 2005, the SAS Group finalized the sale of its holding in European EAG to Canada-based Navtech, Inc.

The shares were sold for a total price of MSEK 162 as well as a further approximately MSEK 30 that is based on future earnings. The capital gain for the SAS Group was approximately MSEK 50, and the positive effect on cash flow and net debt was at the same level, excluding future cash receipts.

Important events in 2005

- A new production tool, Automap, was launched.
- 48 new customer agreements signed during the year.

Earnings performance

Operating revenue during January to October was MSEK 164. Income after financial items amounted to MSEK 12 during the period.

Key figures	2005	2004	2003	Statement of income, MSEK	2005*	2004	2003
SAS Group's holding	0%	100%	100%	Operating revenue	164	194	197
EBIT margin	7.3%*	9.8%	-3.0%	of which external operating revenue	62.8%	64.6%	63.2%
Average number of employees (30% women in 2005)	157*	156	160	Operating expenses	-142	-162	-164
				EBIT	12	19	-6
				Income after financial items	11	19	-10

* Refers only to January-October 2005.

Jetpak Group - sold in December 2005

Jetpak Group offers same-day express door-to-door deliveries, with a focus on shipments in and to/from the Nordic countries. Services include local ground transportation and integrated air services.

The bulk of the business is operated by franchise holders or agents. With 162 employees, Jetpak is found at more than 150 locations in the Nordic countries and has around 700 ground transportation vehicles.

Jetpak sold to Polaris Private Equity

In December the SAS Group finalized the sale of Jetpak Group to the Danish company Polaris Private Equity. The sale price was MSEK 490, and the positive effect on cash flow and net debt was at the same level. The capital gain for the SAS Group was approximately MSEK 410.

The sale of Jetpak Group is part of the SAS Group's refocusing and capital release program.

Important events in 2005

- After a restructuring of the business between SAS Cargo and Jetpak, responsibility for LOGI was transferred to Jetpak. Agreements were signed with SAAB/GM and about 10 other LOGI customers were taken over.
- Launch of Jetpak in Finland through agreement with EXEL.
- Jetpak has refined a new business system (Jena), which accounted for continued growth in JetLogistik.
- Rebranding of a franchise chain in Sweden means that Jetpak is found in over 60 locations.

Earnings performance

Jetpak's operating revenue grew during the year as a whole by 4.7% to MSEK 481. Competition in Jetpak's markets intensified in 2005, yet Jetpak succeeded in signing agreements with several new customers. Operating income before depreciation, EBITDA, improved by 39% and amounted to MSEK 53 (38). Income after financial items was MSEK 29 (18).

Key figures	2005	2004	2003	Statement of income, MSEK	2005	2004	2003
SAS Group's holding	0%	100%	100%	Operating revenue	481	459	448
EBITDA margin	11.0%	8.3%	7.4%	of which external operating revenue	98.8%	99.6%	99.6%
Average number of employees (44% women in 2005)	162	177	178	Operating expenses	-428	-421	-415
				Operating income before depreciation, EBITDA	53	38	33
				EBIT	33	19	24
				Income after financial items	29	18 ¹	22

¹ Negatively impacted by restructuring costs of MSEK 3.

Business area

Hotels



Responsible for the business area
Deputy CEO Gunnar Reitan
www.rezidorsas.com

In June, Carlson Hotels Worldwide acquired 25% of Reizidor SAS Hospitality in exchange for improved commercial terms. An 11% improvement in RevPAR was the main reason for the area's higher earnings. The number of hotels increased by 16%, to 217 hotels.

Statement of income, MSEK	2005	2004	2003
Rooms revenue	2,988	2,431	1,768
Food and beverage revenue	1,708	1,430	1,169
Other revenue	762	691	621
Operating revenue	5,458	4,552	3,558
Operating expenses	-1,710	-1,494	-1,271
Payroll expenses	-1,926	-1,664	-1,468
Rental expenses, property insurance and property tax	-1,468	-1,257	-944
Operating income before depreciation	354	137	-125
Depreciation	-179	-163	-138
Share of income in affiliated companies	58	28	19
Capital gains	63	53	4
Operating income, EBIT	296	55	-240
Income from other shares and participations	0	0	15
Financial items	6	-15	-28
Income after financial items	302	40	-253
Income before nonrecurring items	239	4	-245

Earnings and degree of achievement of long-term targets 2005

	Negative earnings	Positive earnings	Target achievement ¹	Improvement since 2004
Reizidor SAS	●	●	●	✓

¹ Degree of achievement of the Group's return requirement over a business cycle.

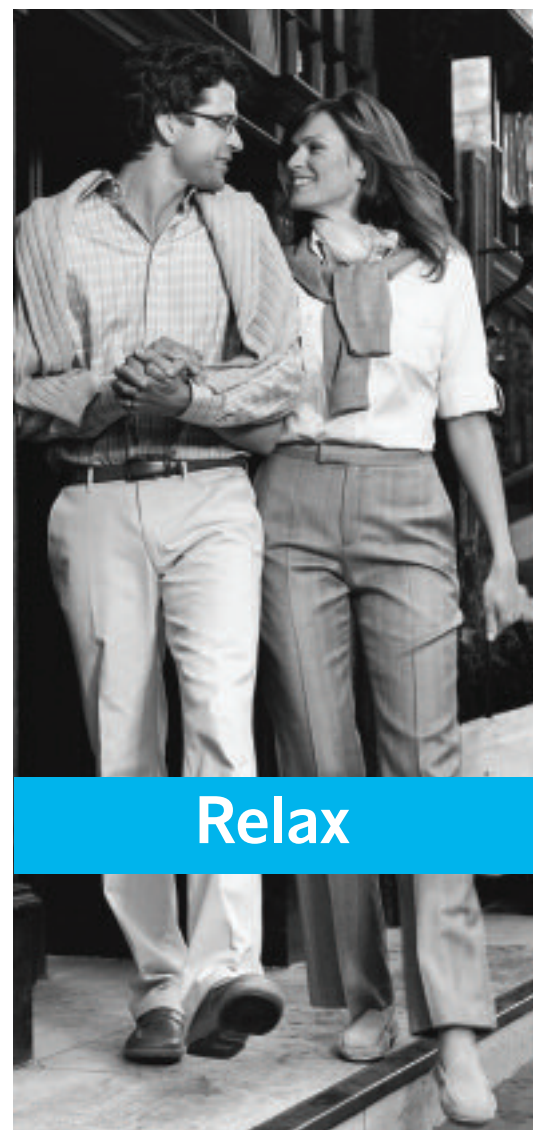
Revenues for the full year amounted to MSEK 5,458 (4,552), an increase of 19.9%. The increase is mainly attributable to new hotels, MSEK 602. Comparable units also show an increase of MSEK 304. Hotels that left the chain and exchange rate differences netted zero.

Revenue per available room (RevPAR) continued to increase in the European hotel market throughout 2005. For comparable units in Reizidor SAS, RevPAR was 11% higher than 2004.

EBITDA including share of income in affiliated companies came to MSEK 412 (165) in 2005 and MSEK 179 (118) in the fourth quarter. The earnings improvement compared with 2004 was mainly driven by comparable units improving their EBITDA.

Radisson SAS Hotel London Stansted Airport was sold in the fourth quarter, providing a capital gain of MSEK 58. Reizidor SAS signed a long-term leasing contract for continued operation of the hotel.

Financial items include the effect of valuing, at market value, financial fixed assets in the amount of MSEK 62. Income after financial items, EBT, amounted to MSEK 302 (40) for the full year.



Relax

Key figures, MSEK	2005	2004	2003	Operational key figures	2005	2004	2003
EBITDA	412	165	-106	Operating income incl. franchise, MSEK	13,715	11,381	10,283
EBITDA margin	7.7%	3.6%	-3.0%	Gross profit margin ¹	33.4%	30.6%	30.0%
EBITDA growth	240%	256%	-148%	Total no. of hotels in operation	217	190	162
Investment	358	521	576	Countries of operation ²	49	47	42
Capital employed	1,498	1,727	1,512	RevPAR, SEK ¹	622	557	538
SAS Group's holding	75%	100%	100%	Occupancy ¹	67.3%	64.6%	62%
Average no. of employees (52% women in 2005)	4,922	4,436	3,474	Number of rooms available ¹	10,158	9,232	8,260
				Number of rooms sold (000) ¹	6,836	5,964	5,121
				Unsorted waste, tonnes	12,326	10,505	10,002
				Energy consumption, per m ² , kWh	260	277	276
				Water consumption per guest night, liters	450	451	473
				Job satisfaction	84.5	81.1	81.4

For other employee key figures, see the Sustainability Report, page 110.

Customer satisfaction

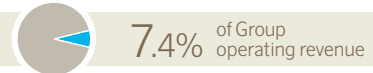
2001	86.0%	The number of satisfied customers has risen by 6 percentage points since 2001.
2002	87.1%	
2003	91.0%	
2004	90.0%	
2005	92.0%	

¹ Hotels operated as owned, leased or on management contracts.

² Hotels operated as owned, leased, or on management/franchise contracts and hotels under development.



“Our loyal customers are rewarded with Gold Points Plus”



The operation opened its first hotel in 1960. Radisson SAS is the company's first-class brand. The SAS Group owns 75% of Rezidor SAS. At the end of 2005, the company had 217 hotels in operation and 46 hotels under development. In 1994, the hotel operation signed its first Master Franchise Agreement with Carlson Hotels Worldwide for the Radisson SAS brand, followed by a similar deal for the Park Inn, Regent and Country Inn brands. The company also has an agreement with the Italian fashion house Missoni to develop a lifestyle hotel brand.

Organization



Important events

- Carlson Hotels Worldwide acquired 25% of Rezidor SAS Hospitality.
- An agreement was signed with the Italian fashion house Missoni to establish a lifestyle hotel brand.
- Rezidor SAS opened 37 new hotels in 2005.
- A franchise hotel in Jordan was the target of a terrorist attack in November.

Targets

The financial target is an EBITDA margin of at least 10% and EBITDA growth of at least 15% over a business cycle. Through sustained and profitable growth, the company's goal is to operate 700 hotels by the year 2012.

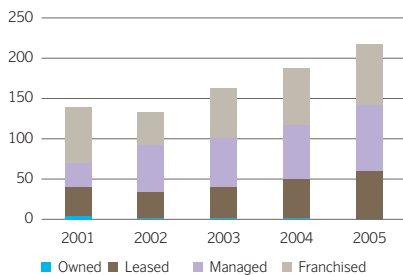
Strategic focus

Rezidor SAS will:

- Develop and operate a portfolio of well-defined brands offering the best possible solution for property owners and customers.
- Be a socially conscious company that is profitable, trusting, ambitious, innovative, open and a leader in market changes.

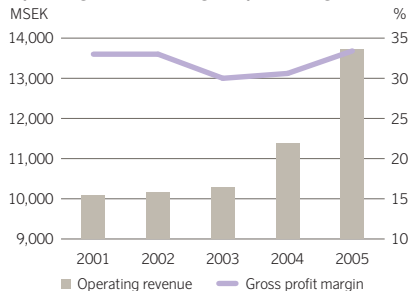
New Master Franchise Agreement. In 2005, Carlson Hotels Worldwide acquired 25% of Rezidor SAS. The agreement includes an extension of Master Franchise rights for Rezidor SAS until 2052. The license fees for the rights will be reduced, improving development opportunities for future growth.

Change in the number of hotels in operation, 2001-2005



At the end of 2005 the number of hotels in operation totaled 217, with 46 hotels under development. The enlargement of the EU provides the greatest opportunities for continued positive developments in Eastern Europe, the Baltic states and Russia.

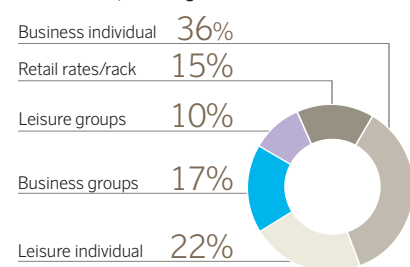
Operating revenue¹ and gross profit margin²



¹ Incl. hotels operated on a management basis and hotels with franchise agreements. ² Incl. hotels operated on a management basis.

The growth in the number of hotels, improved RevPAR and higher occupancy pushed revenues to 20.5%. The gross profit margin rose substantially, to 33.4%.

Clientele mix, room nights



Growth is the most rapid in the leisure segment, which is expected to increase the most in the years to come.

- Hire people with a “Yes I Can” attitude and develop the talents of professional employees to increase customer satisfaction.

Expansion strategy

Rezidor SAS's program of continued growth is strategically important for achieving optimal brand recognition and geographic coverage. Its expansion will take place primarily through the Radisson SAS, Park Inn and Missoni brands via joint ventures in growth markets and franchise agreements in smaller markets.

Number of hotels grow

At year end, Rezidor SAS operated 217 (190) hotels, of which 37 (29) opened during the year while seven hotels were closed. All told, 16 Radisson SAS hotels were opened in strategic destinations such as Frankfurt, Kiev and Paris. The Park Inn brand continued to grow and Park Inn took over seven Holiday Inns in Germany, nine Queens Moat House hotels in the U.K. and opened Park Inn Hyde Park in London.

Loyalty programs

Rezidor SAS's most important loyalty programs are SAS EuroBonus and Gold Points Plus. Owned by Carlson Hotels Worldwide, the latter has more than three million members and came in third in the Freddy Awards, based on the rankings of frequent travelers.

Quality targets

The customer satisfaction index increased in 2005 to 92.0 (90.0) and the job satisfaction index was 84.5 (81.1). In a Quality Performance Review, which measures achievement of overall quality and brand promises, Radisson SAS and Park Inn hotels scored 84 out of 100, compared with the goal of 85.

Responsible Business

Energy consumption decreased 6% in 2005. Since 2002, 10,000 employees have participated in Responsible Business training. In September 2005, the company organized 133 (106) hotel activities during the Hotels Environment Action Month. Fundraisers were carried out in cooperation with Save the Children to benefit victims of the tsunami disaster and the earthquake in Pakistan.

The goal of Responsible Business is to continue improving the environmental performance of the hotels and ensuring compliance with local and international ethical and human rights standards.

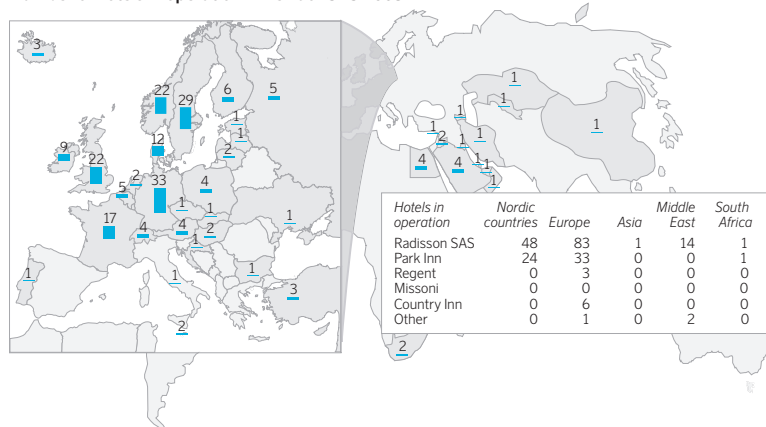
Earnings performance

Revenues for the full year amounted to MSEK 5,458 (4,552), an increase of 19.9%. Revenue per available room (RevPAR) for comparable units in Europe increased during the year by 11%. Adjusted EBITDA, including participations in affiliated companies, rose 150% to MSEK 412 (165). Income before capital gains and nonrecurring items improved by MSEK 236 to MSEK 235 (4).

Market outlook

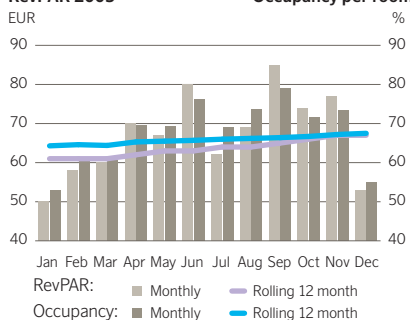
The improved RevPAR trend is expected to continue in 2006. The enlargement of the EU and growth in India and China are providing continuously expanding opportunities. Consolidation in the hotel industry is expected to lead to acquisitions of small and medium-sized hospitality companies

Number of hotels in operation in Rezidor SAS 2005



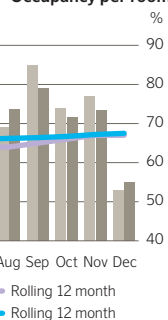
	147 first-class hotels. Individual care of each guest.
	58 mid-market hotels. An unconventional alternative with an uncomplicated, value-for-money product.
	3 luxury hotels. Inspired by Tao in the Far East, the Regent has set the standard for service in the luxury class.
	Lifestyle hotels. Hotels in city centers for design and style-conscious travelers. To be launched in 2007.
	6 mid-market hotels. Homey atmosphere with high comfort and good value.

RevPAR 2005



Both occupancy and RevPAR improved in 2005. A return to the RevPAR levels of early 2000 is expected in 2006-2007.

Occupancy per room



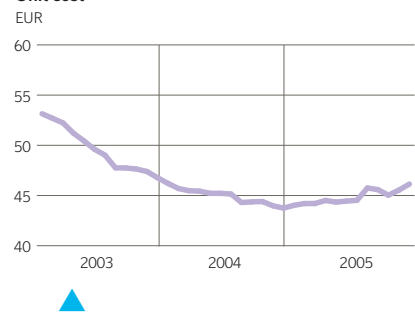
Number of hotels, Rezidor SAS Hospitality

	2005	2004	2003	2002	2001
Owned	0	1	1	1	4
Leased	60	49	39	33	36
Managed	81	66	61	58	29
Franchised	76	72	61	41	70
Total	217	190	162	133	139

Breakdown of Rezidor SAS Hospitality hotels

	2005	2004	2003	2002	2001
Radisson SAS	147	138	126	119	139
Park Inn	58	40	23	0	0
Regent	3	3	1	2	0
Missoni	0	0	0	0	0
Country Inn	6	6	12	12	0
Other	3	3	-	-	-

Unit cost



The unit cost is measured as the operating cost divided by the number of available rooms. The cost has fallen following the implementation of Turnaround 2005 measures.

Financial report

Report by the Board of Directors

Corporate identity number: 556606-8499

The Board of Directors and the President of SAS AB hereby submit the annual report for SAS AB and the SAS Group for the 2005 financial year.

Market performance

Air traffic increased gradually during the year. From August to December, the SAS Group's traffic growth was higher than for the total airline industry in Europe.

Overcapacity in certain markets was still high during the year, prompting adjustments that contributed, on the whole, to a higher cabin factor for all Group airlines.

In all, traffic measured in revenue passenger kilometers (RPK) rose 6.8% for the SAS Group in 2005. The world economy is expanding, with growth especially strong in the U.S. and China. Several of the markets in Europe where the SAS Group is represented are expected to see high growth in coming years.

Change in the Group structure

As of January 1, 2005, the Group's Shared Services was incorporated as a subsidiary of SAS AB. The SAS Group's partnership with Carlson Hotels Worldwide was deepened after Carlson Hotels acquired 25% of the shares of Rezidor SAS Hospitality through a new issue of MEUR 55 in exchange for improved commercial terms in the partners' Master Franchise Agreement. The transaction was carried out on June 30, 2005, and increased the Group's total shareholders' equity by MSEK 519.

The SAS Group's shareholding in airBaltic is 47.2%. In addition, there is a convertible loan that means that SAS has the right from 2005 to convert this to shares at an agreed price that will increase the shareholding by approximately a further 7%. The decision regarding conversion was made in 2005 and the conversion was registered with the Latvian authorities. On this basis, airBaltic was consolidated as a subsidiary as of August 2005.

The operations of SAS Trading were sold in the second quarter. The Group's shareholdings in European Aeronautical Group and Jetpak Group were sold in the fourth quarter. In addition, 67% of the shareholding in SAS

Component was sold to Singapore Technologies Engineering. The SAS Group reports the remaining 33% holding as an affiliated company. The total price paid for all of the operations sold amounted to MSEK 1,563 and the capital gain came to MSEK 383.

European Cooperation Agreement (ECA)

The European Cooperation Agreement is a collaboration between Scandinavian Airlines, Lufthansa and British Midland International, which began in January 2000. Scandinavian Airlines' share of any losses is 45%. The agreement was approved by the European Commission for a period of eight years until December 31, 2007.

With the aim of creating a competitive intra-European traffic system, the ECA combines the three airlines' route networks within the EEA (European Economic Area) to, from and via London Heathrow and Manchester airports.

Due to continued pressure on the yield and competition from low-fare carriers, ECA negatively impacted earnings by a significant amount in 2005 as well, amounting to MSEK -415 (-134).

Financial risk management

The SAS Group is exposed to various types of financial risk. All risk management is handled centrally and in accordance with the finance policy set by the Board. The SAS Group uses derivative instruments as part of its risk management to limit its currency and interest rate exposure. See Note 29.

Work of the Board of Directors

The Board of Directors of SAS AB consists of 10 members, of whom seven are elected by the Annual General Shareholders' Meeting. The three other members plus six deputies are elected by the employee organizations in Denmark, Norway and Sweden.

The Board's work is governed by the

Swedish Companies Act, the Articles of Association, the Swedish Code of Corporate Governance and the formal work plan adopted by the Board each year, which regulates the division of the Board's work between the Board and its committees and among the Board, its Chairman and the President. This process is evaluated each year. The Board appoints from among its own members the members of the two board committees, the remuneration committee and the audit committee. The Board's work follows a yearly agenda with regular business items as well as special topics.

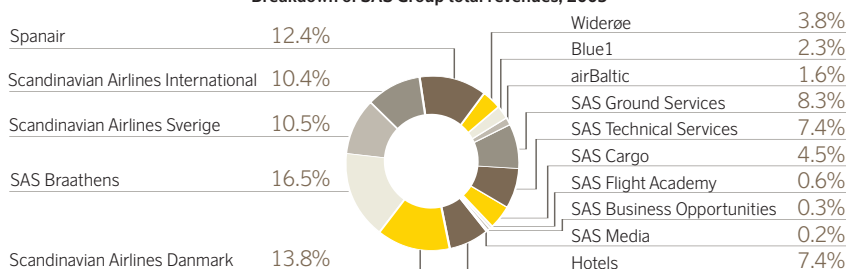
At the Annual General Shareholders' Meeting held on April 13, 2005, all of the Board members were reelected and the Board was enlarged by one member, Timo Peltola. The composition of the Board of Directors in 2005 appears on page 90.

At the statutory meeting of the Board, Egil Myklebust was elected Chairman and Jacob Wallenberg Vice Chairman. Working closely with the President, the Chairman is to follow the company's performance, plan Board meetings and see to it that the other members of the Board always receive high-quality information about the Group's finances and performance and that the Board evaluates its work and that of the President each year.

In 2005 the Board held 11 meetings. In addition, a couple of per capsulam meetings were held. At these meetings the Board discussed the regular business items presented at the respective meetings, such as business and market conditions, financial reporting and follow-up, the company's financial position and investments. Additionally, at various meetings the Board discussed matters involving flight safety work, internal control, the work of the Board, the year-end report, interim reports, strategy and the business plan and the budget.

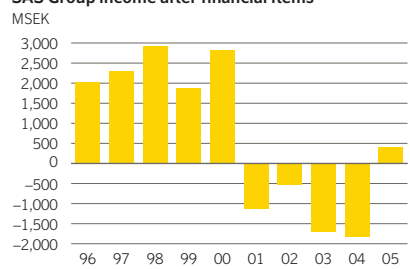
Special topics discussed by the Board during the year include the SAS Group's earnings improvement program (Turnaround 2005),

Breakdown of SAS Group total revenues, 2005



Airlines account for approximately 70% of the Group's operating revenue. The operating revenue of Airline Support Businesses including SAS Cargo Group is equivalent to approximately 20% of the Group's operating revenue.

SAS Group income after financial items



The Group's earnings including nonrecurring item such as restructuring costs and capital gain.

the launching of new products and service concepts, releasing capital and other financial issues and corporate governance issues.

On three occasions during the year, the company's auditor met with the Board, presenting the program for auditing work, reporting observations from the audit of the annual report, the examination of the interim accounts as of September 30 and an evaluation of internal control.

The main duty of the Board's two committees is to prepare business for the Board's decision. Each committee meeting is reported on at the Board meeting immediately following. The committees comprise three members elected by the General Shareholders' Meeting.

In 2005 the audit committee held seven recorded meetings, examining the scope and performance of the auditing work, the financial reporting and internal control along with new accounting rules.

During the year the Board's remuneration committee discussed and drafted a Board resolution on the President's target contract, his fulfillment of this contract and discussed general matters involving guidelines and policies for compensation and incentive programs for company management and senior executives. Proposals regarding salaries, pension and other compensation for the President and Group Management were also discussed. During the year the committee held three recorded meetings in addition to a number of informal contacts.

According to the Articles of Association of SAS AB, the election of a nomination committee shall take place at the Annual General Shareholders' Meeting. The task of the nomination committee is to nominate candidates for election to the Board and prepare a proposal for Directors' fees for the Annual General Shareholders' Meeting's approval. The current members of the nomination committee were elected at the Annual General Shareholders' Meeting on April 13, 2005.

For a more detailed description of the work of the Board, its committees, and the nomination committee see the SAS Group's corporate governance report on pages 85-91.

Safety work

Although flight safety in the SAS Group is high, there were incidents during the year that prompted measures. Efforts to improve safety continue.

The work to certify more airlines according to IOSA (IATA Operational Safety Audit) continued. Scandinavian Airlines underwent this certification in 2004, and in 2005 Estonian Air, SAS Braathens, Spanair and Widerøe were certified.

A serious incident occurred with one of Widerøe's aircraft during severe wind conditions while landing in Hammerfest, Norway.

There was also a serious incident in Shanghai, when an Airbus A340 belonging to Scandinavian Airlines took off. Owing to incorrectly entered values in the aircraft's computer, the takeoff speed was too low. This resulted in the aircraft's tail section coming into contact with the runway.

During an internal routine check-up in November 2005 it was found that certain elements of planned inspections of engines and engine mounts on Airbus A340s had not been carried out. When the inspections were carried out, no faults were found so flight safety had not been threatened. The SAS Group takes a serious view of the incidents and has therefore carried out an investigation. A number of measures were identified to ensure that the incidents do not recur.

In autumn 2005 the regulations for the supervision, certification of aircraft types and maintenance were taken over by the European Aviation Safety Agency (EASA). Scandinavian Airlines is monitored by the Scandinavian Civil Aviation Supervisory Office (STK).

Other airlines in the SAS Group are supervised where they are based. The SAS Group is currently putting in place common regulations with the same high quality standards for all Group airlines.

The SAS Group's contribution sustainable development

The SAS Group has an overarching "Sustainability Policy," which, taking the Group's requirement regarding long-term financial performance into account, guides its efforts to reduce its environmental impact and contribute to social progress. Sustaining and developing the skills of its employees is an inherent part of this.

As an important indication of this responsibility and to clarify and summarize the SAS Group's values and policies, the Board adopted in 2005 a Code of Conduct, "Business ethics – rules and guidelines for the SAS Group," which has been distributed to all employees.

Since 1996 the SAS Group has measured its

eco-efficiency using an environmental index. Since then the target for its chief operation, Scandinavian Airlines Businesses, was a three point annual improvement in the environmental index by 2004. This target was reached, as the index for 2004 was 76. For 2005 the comparable index was 72. Starting with 2005, each company sets its own index target.

The environmental index is the most important environmental management parameter for most of the operations. The fact that an increasing number of Group companies have created environmental indexes enhances the opportunities for steering and following up the Group's environmental work.

A fuel saving program was initiated in 2005. Initially covering Scandinavian Airlines Businesses, the program reduced CO₂ emissions by more 40,000 tonnes during the year. Several of the Group's other subsidiaries commenced implementation of the program.

Corporate social responsibility

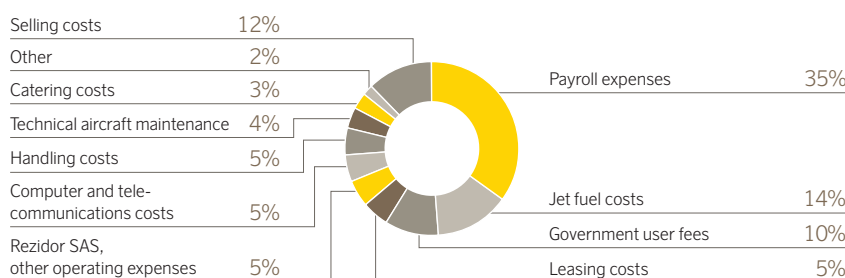
SAS Group subsidiaries report sick leave and occupational injuries pursuant to national legislation. Efforts to reduce sick leave have priority, and there are special projects to get those on long-term sick leave back to work.

In 2005, the average sick leave in the SAS Group rose slightly to 6.8, from 6.6% the year before. The number of occupational injuries with subsequent absence has fallen from 903 to 762 within the entire SAS Group. A work fatality occurred at Oslo Airport in December 2005. The accident is being investigated by the affected authorities and by the SAS Group's internal investigation group.

Adopted in January 2004, the SAS Group's diversity policy contains among other things a commitment to promote gender equality. For example, through projects to increase the percentage of women managers, at least 40% of the candidates called in for interviews must be women. Targets and equal opportunity plans are to be drawn up by each subsidiary.

With regard to human resources, the airlines plan and conduct regular in-service training of all certified personnel such as technicians, cabin crew and pilots. This is done to uphold the competency standards required by air operating certificates (AOCs). The total training cost for the SAS Group amounts to approximately MSEK 250 per year.

SAS Group cost structure, 2005, MSEK



Payroll expenses account for 35% of the cost base. Due to the surge in the price of crude oil, the price of jet fuel is its second largest expense item. Government user fees comprise 10% of costs and amounted to SEK 5.7 billion.

Environmental responsibility

Of the SAS Group's total environmental impact, flight operations account for 90%, with the consumption of nonrenewable fuels and emissions of carbon dioxide, nitrogen oxides and noise accounting for its biggest environmental impact. Globally, airline emissions mainly affect the climate. The local and regional environmental impact consists mainly of noise during take-off and landing, as well as of acidification and eutrophication of soil and water. The greatest potential for environmental improvements lies in continuous renewal of the aircraft fleet, which means always choosing the best commercially available technology. Environmental aspects are a key element in the SAS Group's choice of new aircraft and engines.

The most significant environmental impact of cabin, ground and hotel operations is caused by energy and water consumption and by generation of waste. Cabin operations refers to everything involving onboard service.

Commercial aviation uses aircraft internationally type-approved according to ICAO certification standards. Environmental approval is an integral part of national registration of aircraft. Environmentally based national and/or local permits, rules and regulations provide a framework for aircraft use. The trend is toward stricter environmental framework conditions for the airline industry. The SAS Group is not aware, however, of any changes to these conditions that during the coming fiscal year could have significant operational or financial consequences for its business. Yet there is a risk that in coming years tightened emissions and noise standards may affect the Group's traffic to certain airports. This may prevent the Group from utilizing its aircraft fleet in the most flexible way possible and/or lead to higher emission-based landing fees.

The Swedish government plans to introduce an environment-related passenger tax in 2006. If this happens, it is estimated that domestic air traffic in Sweden will decrease by approximately 10-15%. The SAS Group actively supports the EU Commission's proposal to include aviation in the European emission trading system. This alternative is judged as not impacting traffic, even though it involves costs for purchasing emissions rights.

Of the SAS Group's operations, parts of ground operations at Stockholm, Oslo, Copenhagen and Stavanger airports are covered by permits pursuant to national environmental laws. The permit in Stockholm covers maintenance bases and regulates emissions to air, chemicals and waste management and sets target and monthly mean values for effluent from the purification plant. SAS Technical Services (STS) submits an annual environmental report to Sigtuna Municipality. The permit at Oslo Airport covers water from a purification plant connected to hangars and maintenance bases. STS submits an annual environmental report to Ullensaker Municipality and to the County Governor of Akershus. At Copenhagen Airport there are maintenance bases and

hangars requiring environmental permits, which primarily concern the use of chemicals in maintenance work and purification plants. Here too an annual report is to be submitted to the local environmental agencies. Braathens Technical Services (BTS) at Stavanger Airport has an environmental permit for a purification plant and submits an annual environmental report to the County Governor of Rogaland. Following incorporation, BTS properties have been transferred to SAS Facility Management, SFM. All environmental permits for operations conducted on the properties that SFM manages have been transferred to SFM. However, the terms of the licenses remain unchanged.

In general, the SAS Group's airline operations are totally dependent on SGS's and STS's licensed maintenance base and hangar operations and on the respective airport owners' concessions for operations and glycol handling and thresholds for atmospheric emissions and noise.

The SAS Group has no permit requirements for airline operations in Finland, the Baltic states and Spain or for any Rezidor SAS Hospitality hotel, beyond local permits for waste management.

The SAS Group has obtained all the necessary licenses and permits for its operations in Scandinavia, none of which come up for renewal during the coming fiscal year. During the year the SAS Group did not receive any injunctions from the issuing authorities.

In 2005, aircraft from the SAS Group's airlines sometimes deviated from local approach and takeoff rules, which prompted a dialog with local authorities. Fines were imposed in a few cases.

None of these incidents had any significant financial or environmental consequences.

The Group was not involved in any environment-related disputes or complaints and has no known major environment-related debts.

In other parts of the annual and sustainability report there are more complete descriptions of the SAS Group's efforts to contribute to sustainable development.

Reporting according to IFRS

(International Financial Reporting Standards)

With effect from January 1, 2005, the SAS Group prepares its consolidated accounts according to International Financial Reporting Standards (IFRS), in accordance with the current EU directive.

The date for the transition to IFRS was set at January 1, 2004, since IFRS requires re-statement of a comparative year. The SAS Group has therefore published financial information according to IFRS for 2004 and 2005 in all financial reports prepared according to IFRS during 2005.

A complete disclosure and reconciliation of the differences between Swedish reporting principles and IFRS is presented in Note 46.

Dividend 2005

The Board of Directors proposes that no divi-

dend be issued to SAS AB's shareholders for the 2005 fiscal year. This is motivated by the fact that the Group is affected by the restructuring taking place in the airline industry and that securing the financial position is important for the Group's continuing operations. See page 84.

Significant events after the balance sheet date

At Spanair, some income and expense items have been identified as having been incorrectly booked for the period 2002-2004. Consequently, the statements of income and balance sheets have been restated (see also Note 1).

The pilots at Scandinavian Airlines Denmark went on a wildcat strike that resulted in the cancellation of nearly all flights from Copenhagen for three days.

The Supreme Court of Norway overturned the decision of the Eidsivating Court of Appeal that found for SAS Ground Services in a lawsuit concerning employee rights in connection with the transfer from Braathens in 2002.

The EU Commission carried out an unannounced inspection at SAS Cargo in Copenhagen on February 14 as part of an extensive investigation of suspected antitrust violations in the airfreight business. A similar investigation by U.S. authorities is under way.

Full year 2006

A continued positive development of the Group's markets is expected in 2006 with stable passenger growth of 2-3% within Scandinavia and 4-5% to/from Europe. Competition is expected to remain intense, however, in the SAS Group's markets.

Scandinavian Airlines' new business models have strengthened competitiveness with improved cabin factors but weaker yield. In the first half of 2006, further improvements in the business model and product concept will be implemented. For SGS and STS, continued price pressure and partly reduced volumes are expected during 2006.

High growth is expected in Finland, the Baltic countries and Spain and the Group is well positioned with Blue1, airBaltic and Spanair, which have a cost base on a par with the most effective players.

Turnaround 2005 was completed as planned and the SAS Group will continue to gain positive earnings effects from the program in 2006.

Despite powerful measures, additional cost-cutting measures need to be implemented in order to ensure long-term competitiveness in several of the Group's units. New measures for Scandinavian Airlines Business and the support units corresponding to SEK 2 billion have been identified so far and implementation is under way. This, combined with continued success in the market, creates conditions for improved earnings in the future. Uncertainty remains in the market, however, due to continued intense competition and high jet fuel prices.

The SAS Group's statement of income

MSEK	Note	2005	2004
Operating revenue	2	61,887	58,093
Payroll expenses	3	-20,467	-19,585
Other operating expenses	4	-35,303	-34,040
Leasing costs for aircraft		-3,133	-2,689
Depreciation	5	-2,412	-2,846
Share of income in affiliated companies	6	134	157
Income from the sale of shares in subsidiaries and affiliated companies		480	5
Income from the sale of aircraft and buildings	7	187	113
Operating income		1,373	-792
Income from other shares and participations	8	50	1
Interest income and similar income items	9	534	357
Interest expenses and similar income items	10	-1,539	-1,399
Income after financial items		418	-1,833
Tax	11	-163	68
Net income for the period		255	-1,765
Attributable to:			
Parent Company shareholders		174	-1,760
Minority interests		81	-5
Earnings per share (SEK)¹		1.06	-10.70

¹ Earnings per share is calculated on 164,500,000 outstanding shares (IAS33). Since the SAS Group has no options, convertibles or share programs, dilution does not occur.

Comments on the statement of income

The net effect of exchange-rate fluctuations between the period January-December 2004 and 2005 was MSEK 274. The effect is MSEK 1,443 on operating revenue, MSEK -1,200 on operating expenses and MSEK 31 on net financial items.

The SAS Group's operating revenue amounted to MSEK 61,887 (58,093), an increase of MSEK 3,794 or 6.5%. Adjusted for currency effects, the increase was MSEK 2,351 or 4.0%. Passenger traffic (RPK) increased by 6.8% for the Group. In Scandinavian Airlines Businesses traffic increased by 0.2% compared with 2004 and the currency-adjusted yield decreased by 0.3% compared with the same period in 2004.

For the entire Group, restructuring costs attributable to Turnaround 2005 and locally commenced cost-cutting programs, which were charged against net income for the year, amounted to MSEK 413 (223). Of this, MSEK 393 (188) was the expense for idle notice periods. The remaining MSEK 20 (35) went for expenses for unused leased premises and other expenses for eliminating redundancies.

Payroll expenses increased by MSEK 882 or 4.5% and amounted to MSEK 20,467 (19,585). Adjusted for currency effects and restructuring costs of MSEK 393 (188), payroll expenses were MSEK 152 or 0.8% higher than in the previous year. The increase is mainly due

to higher volumes in hotel operations and consolidation of airBaltic. Payroll expenses for Scandinavian Airlines Businesses decreased by 4%.

The Group's other operating expenses increased by MSEK 1,263 or 3.7% to MSEK 35,303. Adjusted for currency effects and restructuring costs, expenses increased by MSEK 619 or 1.8%, mainly due to increased fuel costs. The Group's cost for jet fuel amounted to MSEK 8,123 (6,252). Adjusted for negative currency effects due to a stronger USD, fuel costs increased by MSEK 1,792. The market price (spot price) during the period was on average 42% higher than in 2004.

Operating income before depreciation and leasing costs, EBITDAR, amounted to MSEK 6,117 (4,468).

Leasing costs amounted to MSEK 3,133 (2,689), an increase of MSEK 444. Depreciation was MSEK 2,412 (2,846), a decrease of MSEK 434. The lower depreciation is mainly due to sale and leaseback of aircraft which led to increased leasing costs. In total, leasing costs and depreciation taking currency effects into account were at the same level as in the previous year.

Share of income in affiliated companies amounted to MSEK 134 (157). The change between 2004 and 2005 is partly due to lower earnings in Air Greenland but also to a posi-

tive earnings trend in Estonian Air and British Midland.

Income before capital gains and nonrecurring items amounted to MSEK 114 (-1,701), an increase of MSEK 1,815.

Income from the sale of shares in subsidiaries and affiliated companies, MSEK 480 (5), includes the sale of European Aeronautical Group, MSEK 49, Jetpak, MSEK 404 and SAS Component, MSEK -72.

The operations in SAS Trading were sold at a price corresponding to book values.

An additional purchase price of MSEK 39 was received for the sale of Scandinavian IT Group. In addition, Radisson SAS Hotel London Stansted Airport was sold, providing a capital gain of MSEK 58. The affiliated companies Flygtaxi Sverige AB and Polygon Group Ltd. were sold the previous year.

The Group's income from the sale of aircraft and buildings during the year was MSEK 187 (113). This includes the sale of two McDonnell Douglas MD-80s, one Fokker F28 and four Boeing 737s as well as sale and leaseback of two Boeing 737s, two McDonnell Douglas MD-80s, five Fokker F50s and flight simulators. All aircraft sold through sale and leaseback transactions are leased back on operating leasing contracts. In addition, hotel properties were sold, providing a capital gain of MSEK 5.

All the SAS Group's participations in France

Telecom (originally SITA Foundation) were sold in June for MSEK 49, a capital gain of MSEK 48.

Operating income was negatively impacted by MSEK -415 (-134) relating to the ECA joint-venture agreement but positively impacted by MSEK 200 from the reversal of Danish VAT. Both of these items make comparison difficult. In Denmark, domestic mass transit services are exempt from VAT, which means that all incoming VAT attributable to domestic production has to be expensed. However, for international transit services, incoming VAT is fully deductible. Domestic transits/transfers that take place in connection with an international transit/transfer also count as international transits/transfers.

In the suit filed by the Danish airline Cimber, the European Court of Justice handed down a

ruling in September 2004 regarding the interpretation of the Sixth Council Directive on the harmonization of the laws of the Member States relating to turnover taxes. The ruling determined that goods and services supplied to aircraft operating on domestic routes are exempt from VAT when they are used by airlines that chiefly operate international routes. It was thus established that Danish VAT legislation is in violation of the EU directive in this particular case. Supported by the ECJ ruling, the Vestre Landsret (Western Regional Court) in Denmark ruled in November 2005 to award Cimber a refund of the VAT on such purchases, equivalent to two-thirds of the requested amount. The Danish government has appealed the Danish ruling.

In accordance with the principles of the

Vestre Landsret's ruling, SAS's 2005 accounts recognize as income MSEK 200 plus MSEK 40 in interest pertaining to the claim on the Danish tax authorities for the years 1996-2005.

The Group's net financial items amounted to MSEK -1,005 (-1,042). Net interest was MSEK -952 (-897) MSEK, an increase of MSEK 55 mainly due to higher market interest rates and borrowing costs. The currency effect was MSEK -22 (-53). Other net financial expenses amounted to MSEK -31 (-92), which includes the effect of market valuation of financial fixed assets, in the amount of MSEK 62.

Income after financial items was MSEK 418 (-1,833).

Of the Group's tax, MSEK 52 (180) comprised change in deferred tax.

Currency effects on the SAS Group's income

Operating revenue as well as operating expenses and financial items are affected significantly by exchange rate fluctuations. Only approximately 21% of operating revenue and 18% of operating expenses are in Swedish kronor.

The aggregate effect of changed exchange rates on the SAS Group's operating income for 2005 compared with 2004 was MSEK 243 (527). This is mainly due to the significant weakening of the Swedish krona during the year. The currency effect can mainly be attributed to the stronger Norwegian krone and U.S. dollar. The difference between the years in the effect of exchange rate differences on the financial net debt was MSEK 31 (-371).

Comparing 2005 with 2004, the total currency effect on income after financial items was therefore MSEK 274 (156).

Change, MSEK	2004/05	2003/04
Operating revenue	1,443	-1,378
Payroll expenses	-525	432
Other expenses	-663	1,584
Translation of working capital	-311	104
Income from hedging of commercial flows	299	-215
Operating income	243	527
Net financial items	31	-371
Income after financial items	274	156

Currency effects on net income for the year, MSEK	2005	2004
Translation of working capital	-190	121
Income from hedging of commercial flows	197	-102
Operating income	7	19
Currency effect on the Group's financial net debt	-22	-53
Income after financial items	-15	-34

Summary statement of income

Quarterly breakdown, MSEK	2003					2004					2005				
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Full year Jan-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Full year Jan-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Full year Jan-Dec
Operating revenue	13,685	15,275	14,895	13,800	57,655	12,572	15,148	15,428	14,945	58,093	13,016	16,017	16,567	16,287	61,887
Payroll expenses	-5,742	-5,565	-5,166	-5,458	-21,931	-4,889	-5,069	-4,665	-4,962	-19,585	-4,974	-5,138	-4,949	-5,406	-20,467
Other operating expenses	-8,399	-8,159	-8,050	-7,584	-32,192	-7,706	-8,565	-8,988	-8,781	-34,040	-7,820	-8,643	-9,464	-9,376	-35,303
Leasing costs for aircraft	-832	-719	-729	-655	-2,935	-639	-678	-705	-667	-2,689	-686	-766	-843	-838	-3,133
Depreciation	-753	-780	-773	-740	-3,046	-727	-702	-699	-718	-2,846	-626	-607	-596	-583	-2,412
Share of income in affiliated companies	25	27	4	-17	39	69	36	24	28	157	20	45	59	10	134
Income from the sale of shares in subsidiaries and affiliated companies	0	0	0	651	651	0	3	0	2	5	0	-2	35	447	480
Income from the sale of aircraft and buildings	50	136	559	-96	649	48	63	-32	34	113	22	43	-7	129	187
Operating income	-1,966	215	740	-99	-1,110	-1,272	236	363	-119	-792	-1,048	949	802	670	1,373
Income from other shares and participations	-17	8	0	8	-1	0	0	1	0	1	0	48	0	2	50
Net financial items	49	-193	-234	-210	-588	-283	-207	-276	-276	-1,042	-242	-407	-257	-99	-1,005
Income after financial items	-1,934	30	506	-301	-1,699	-1,555	29	88	-395	-1,833	-1,290	590	545	573	418
Tax	174	-1	196	-364	5	166	103	31	-232	68	319	-91	-16	-375	-163
Net income for the period	-1,760	29	702	-665	-1,694	-1,389	132	119	-627	-1,765	-971	499	529	198	255
<i>Attributable to:</i>															
Parent Company shareholders	-1,642	24	656	-622	-1,584	-1,374	127	98	-611	-1,760	-964	495	499	144	174
Minority interests	-118	5	46	-43	-110	-15	5	21	-16	-5	-7	4	30	54	81

The SAS Group's balance sheet

ASSETS				SHAREHOLDERS' EQUITY AND LIABILITIES			
MSEK	Note	2005	2004	MSEK	Note	2005	2004
Fixed assets				Shareholders' equity			
Intangible assets	12	3,862	3,246	Share capital		1,645	1,645
Tangible fixed assets				Other contributed capital		658	658
Land and buildings	13	1,257	1,807	Hedging and translation reserves	24	918	457
Aircraft		14,681	16,837	Retained earnings		8,283	8,276
Spare engines and spare parts		1,526	3,128	Total shareholders' equity attributable to Parent Company owners		11,504	11,036
Workshop and aircraft-servicing equipment		210	218	Minority interests		577	8
Other equipment and vehicles		1,213	1,565	Total shareholders' equity		12,081	11,044
Construction in progress		148	204	Long-term liabilities			
Prepayments for tangible fixed assets	14	422	359	Debtenture loans	25		
		19,457	24,118	Bond issues	26	771	742
Financial fixed assets				Other loans	27	7,355	6,176
Equity in affiliated companies	15			Pensions and similar commitments	28	11,039	14,042
Long-term receivables from affiliated companies	16	1,214	691	Deferred tax liability		56	42
Shares and participations	17	228	229	Other provisions	11	3,617	3,194
Shares and participations	18	214	126	Other liabilities	30	697	854
Pension funds, net	19	8,363	7,421			73	143
Deferred tax receivable	11	1,524	1,394			23,608	25,193
Other long-term receivables		1,577	1,233	Current liabilities			
		13,120	11,094	Current portion of long-term loans		3,183	800
Total fixed assets		36,439	38,458	Short-term loans	31	3,828	5,479
Current assets				Prepayments from customers		123	137
Expendable spare parts and inventories	20	1,038	1,265	Accounts payable		4,358	4,579
Prepayments to suppliers		27	24	Liabilities to affiliated companies	32	183	7
		1,065	1,289	Tax payable		99	70
Current receivables				Unearned transportation revenue	33	3,038	2,981
Accounts receivable		4,568	4,574	Current portion of other provisions	30	273	166
Receivables from affiliated companies	21	1,620	104	Other liabilities		1,916	1,912
Other receivables		3,892	2,735	Accrued expenses and prepaid income	34	5,326	5,433
Prepaid expenses and accrued income	22	1,748	2,046			22,327	21,564
		11,828	9,459	TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		58,016	57,801
Short-term investments				Book equity per share (SEK) ¹		69.93	67.09
Cash and bank balances	23	7,265	7,349	Memorandum items			
		1,419	1,246	Pledged assets	35	981	1 036
Total current assets		21,577	19,343	Contingent liabilities	36	243	271
TOTAL ASSETS		58,016	57,801	Leasing commitments	37		

¹ Calculated on 164,500,000 shares.

Comments on the balance sheet

Assets

The SAS Group's total assets increased marginally in 2005, from MSEK 57,801 to MSEK 58,016.

The MSEK 616 increase in intangible assets mainly derives from the partnership agreement with Carlson Hotels, MSEK 519, development costs primarily in the IT area, MSEK 97, and reclassification of goodwill concerning airBaltic, MSEK 63. Depreciation was MSEK 160 while exchange differences etc. were positive, with MSEK 77.

The book value of aircraft decreased by MSEK 2,156. The change comprises an increase owing to investment in one deHavilland Q100 and ongoing modifications totaling MSEK 469. Deductible items are depreciation for the year of MSEK 1,398 and the residual value of sold aircraft, etc., MSEK 1,227.

Long-term prepayments to suppliers of flight equipment increased during the year by MSEK 63. For deliveries, MSEK 25 was utilized. Prepayments of MSEK 18 were made for future deliveries and MSEK 9 was reclassified

from long-term receivables. Capitalized financial expenses amounted to MSEK 9, and translation differences due to a stronger USD increased the value by MSEK 52.

Equity in affiliated companies increased by MSEK 523 to MSEK 1,214. The share of income for the year was MSEK 134. The SAS Group sold its majority stake in SAS Component and consequently reports its 33% holding as an affiliated company. Share of equity at the time of the sale was MSEK 470. The consolidation of airBaltic has reduced equity

shares by MSEK 37. Investments in affiliated companies amounted to MSEK 29 while the MSEK 92 stake in ZAO St. Petersburg was sold during the year. In addition, equity shares increased by a net amount of MSEK 19 from positive currency effects with deduction for dividends received.

For all defined benefit pension plans, the pension commitments are calculated and all funded assets are taken into account. At December 31, 2005, book net pension funds totaled MSEK 8,363 (7,421) (see also Note 19).

At year-end, short-term liquid assets totaled MSEK 8,684 (8,595), or 15.0% (14.9%) of total assets.

Shareholders' equity

Shareholders' equity including minority interests increased by MSEK 1,037 to MSEK 12,081 (11,044). The opening balance for the year has been adjusted by MSEK 1,468 for

IAS 39. The new issue in Rezidor SAS to Carlson Hotels increased shareholders's equity by MSEK 519. The change in value of cash flow hedges amounted to MSEK -1,004 and the impact of the consolidation of airBaltic was MSEK -34. In addition to the net income for the period, the remaining change comprised change in translation differences in foreign subsidiaries and affiliated companies. At year-end the equity/assets ratio was 21% (19%), and the return on book equity was 1% (-15%).

Liabilities

MSEK 26,337 (27,280) of total liabilities was interest bearing.

At December 31, 2005, the interest-bearing net debt amounted to MSEK 5,865 (9,956). The SAS Group's average net debt during the year was MSEK 8,236 (11,392).

Financial net debt excluding net pension funds amounted to MSEK 14,228 (17,377).

The debt/equity ratio calculated on the financial net debt at December 31, 2005, was 1.18 (1.57).

Provision for marginal costs associated with the provision of free travel in exchange for redeemed points in the Group's various loyalty programs amounted to MSEK 606 (740) at December 31, 2005.

Total capital employed amounted to MSEK 38,418 (38,324) at year-end. Average capital employed during the year was MSEK 39,225 (40 421). Return on capital employed was 5% (-1%).

Changes in equity

MSEK	Share capital ¹	Other contributed capital ²	Hedge and translation reserves ³	Retained earnings ⁴	Total equity attributed to Parent Company owners	Minority interests	Total equity
Closing balance, December 31, 2003	1,645	658	558	10,273	13,134	112	13,246
Restatement according to Note 1				-237	-237	-83	-320
Opening balance, January 1, 2004	1,645	658	558	10,036	12,897	29	12,926
Acquisitions						-17	-17
Translation differences relating to foreign operations			-101		-101	1	-100
Revenue and expenses for the period taken directly to equity			-101		-101	-16	-117
Net income for the period				-1,760	-1 760	-5	-1,765
Total revenue and expenses for the period			-101	-1,760	-1 861	-21	-1,882
Closing balance, December 31, 2004	1,645	658	457	8,276	11,036	8	11,044
Adjustment for IAS 39			1,635	-167	1,468		1,468
Opening balance, January 1, 2005	1,645	658	2,092	8,109	12,504	8	12,512
New issue Rezidor SAS						519	519
Consolidation of affiliated company						-34	-34
Income from cash flow hedges			-909		-909		-909
Translation differences relating to foreign operations			-170		-170	3	-167
Revenue and expenses for the period taken directly to equity			-1,079		-1,079	488	-591
Cash flow hedges:							
Taken to income			-95		-95		-95
Net income for the period				174	174	81	255
Total revenue and expenses for the period			-1,174	174	-1,000	569	-431
Closing balance, December 31, 2005	1,645	658	918	8,283	11,504	577	12,081

¹ The share capital in SAS AB is divided into 164,500,000 shares with a nominal value of SEK 10 per share in both the opening and closing balance.

² The entire amount consists of share premium reserves.

³ See Note 24.

⁴ No dividend was paid in 2004 and 2005.

The SAS Group's cash flow statement

MSEK	Note	2005	2004
THE YEAR'S OPERATIONS			
Income after financial items		418	-1,833
Depreciation		2,412	2,846
Income from the sale of aircraft, buildings and shares		-717	-118
Adjustment for items not included in cash flow, etc.	38	-355	-201
Paid tax		16	-18
Cash flow from the year's operations before changes in working capital		1,774	676
Change in:			
Expendable spare parts and inventories		-166	11
Operating receivables		33	-2,240
Operating liabilities		-134	113
Cash flow from changes in working capital		-267	-2,116
Cash flow from the year's operations		1,507	-1,440
INVESTMENT ACTIVITIES			
Aircraft		-410	-1,632
Spare parts		-435	-466
Buildings, equipment and other facilities		-791	-1,066
Shares and participations, intangible assets, etc.		-173	-57
Prepayments for flight equipment		-18	-30
Acquisition of subsidiaries	39	-	-614
Total investment		-1,827	-3,865
Sale of subsidiaries	40	622	-
Sale of aircraft, buildings and shares		2,046	6,661
Sale of other fixed assets, etc.		160	192
Cash flow from investment activities		1,001	2,988
FINANCING ACTIVITIES			
Change in long-term loans		-482	-1 055
Change in short-term loans		-117	-500
Change in interest-bearing receivables and liabilities		-1,827	-459
Change in minority interest		-31	-2
Cash flow from financing activities		-2,457	-2,016
Cash flow for the year		51	-468
Translation difference in liquid assets		38	-3
Liquid assets, January 1	41	8,595	9,066
Liquid assets, December 31	41	8,684	8,595

Comments on the cash flow statement

The SAS Group's cash flow from the year's operations before changes in working capital amounted to MSEK 1,774 (676). Working capital increased by MSEK 267 (2,116), primarily owing to somewhat increased current assets and lower operating liabilities, which resulted in cash flow from the year's operations of MSEK 1,507 (-1,440).

Total investment including prepayments to aircraft suppliers amounted to MSEK 1,827 (3,865). Aircraft investments in 2005 were limited to just two deHavilland Q400s and one deHavilland Q100.

European Aeronautical Group, Jetpak, 67% of SAS Component, Radisson SAS Hotel London Stansted Airport and operations in SAS

Trading were sold during the year. The total purchase price for sold subsidiaries amounted to MSEK 1,643. With respect to liquid assets in the companies sold, selling costs and unpaid purchase price impacted the Group's liquid assets by MSEK 622.

Sales of aircraft, buildings and shares generated MSEK 2,046 (6,661), of which proceeds from the sale of aircraft amounted to MSEK 1,822 (6,400). The sale and leaseback of two Boeing 737s, two McDonnell Douglas MD-80s, five Fokker F50s, two deHavilland Q400s and five aircraft simulators was carried out during the year, and four Boeing 737s, two McDonnell Douglas MD-80s and one Fokker F28 were sold. The sale of properties generated

MSEK 64 (256), while shares and participations were sold for MSEK 160 (5).

Long and short-term loans fell all together by MSEK 599, which mainly comprised a net of amortization of approximately MSEK 3,100 and new borrowing. Interest-bearing receivables increased due to the fact that in December 2005 SAS had a short-term loan receivable on the sold SAS Component amounting to MSEK 1,048, which will be adjusted in 2006, but also due to higher pension funds.

Overall, the SAS Group's liquid assets increased by MSEK 89.

Accounting and valuation policies

The SAS Group

General

The consolidated accounts have been prepared in accordance with the EU-approved International Financial Reporting Standards (IFRS) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC) as of December 31, 2005. The transition date for reporting according to IFRS is January 1, 2004, which means that the comparable figures for 2004 have been restated according to the new principles. Furthermore, the Group also applies Swedish Financial Accounting Standards Council recommendation RR30, "Supplementary Accounting Rules for Groups," which specifies the additions to IFRS information that are required according to the provisions of the Annual Accounts Act.

The Parent Company's functional currency is the Swedish krona, which is also the reporting currency for the Group and for the Parent Company. Unless otherwise stated, all amounts in the financial reports are given in millions of Swedish kronor (MSEK).

In the annual accounts, items have been valued at acquisition value except when it concerns measurement of certain financial assets that may be sold and financial assets and liabilities (including derivative instruments) measured at fair value via the balance sheet.

In reference to the Group's current assets and current liabilities, the Group's operation cycle coincides with 12 months.

Beginning January 1, 2005, SAS applies IAS 39, Financial Instruments: Recognition and Measurement. IAS 39 has been applied prospectively, i.e., the comparative year 2004 has not been restated. IAS 39 has entailed a change of accounting policies. The effects of the change are stated in Note 46 and are presented in the Group's equity account on page 60.

The Parent Company's accounting policies are the same as for the Group with the exception of the imperative rules contained in Swedish Financial Accounting Standards Council recommendation RR32:05 Accounting for Legal Entities. The accounting policies for the Parent Company are stated under the heading "Parent Company accounting policies."

Below are described the more material accounting policies that have been applied. Unless otherwise stated, these policies have been applied consistently for the year presented.

Estimates and assessments

The preparation of financial statements and application of accounting policies are often based on the management's assessments or on estimates and assumptions deemed as reasonable. Below is an overall description of the accounting policies affected by such estimates or assumptions that are expected to have the biggest impact on the SAS Group's reported earnings and financial position.

In reporting intangible assets and tangible fixed assets, an assessment is made of the useful economic life and a test is performed at least once a year to determine whether impairment exists.

Deferred tax is taken up as temporary differences between stated and taxable income and for deferred tax receivables attributable to unutilized loss carryforwards. The valuation of loss carryforwards and ability to utilize unutilized loss carryforwards is based on estimates of future taxable income (see Note 11).

Reporting of costs for defined benefit pensions are based on actuarial estimates derived from assumptions about the discount rate, expected return on managed assets, future pay increases and inflation.

Provisions are made when any probable and quantifiable risk of loss attributable to disputes is judged to exist.

Consolidated accounts

The SAS Group's accounts comprise the Parent Company SAS AB and all companies in which SAS directly or indirectly owns more than 50% of the voting rights or otherwise has a controlling influence.

Revenues and expenses in companies acquired or sold during the year are included in the SAS Group's statement of income only with the values relating to the ownership period.

Holdings in affiliated companies where the SAS Group's ownership is at least 20% and no more than 50% or where the SAS Group has significant influence are reported according to the equity method.

Principles of consolidation

The consolidated financial statements are prepared according to the purchase method whereby subsidiaries' assets and liabilities are reported at fair value according to a prepared acquisition analysis. If the acquisition value of shares in subsidiaries exceeds the calculated fair value of the company's net assets according to the acquisition analysis, the difference is reported as consolidated goodwill. Accordingly, the SAS Group's balance sheet includes equity in acquired companies only to the extent that this has arisen after the date of acquisition.

SAS AB's acquisition of SAS Danmark A/S, SAS Norge AS and SAS Sverige AB in 2001 is consolidated according to the principle for companies under joint control. The inclusion of these three companies in the consolidated accounts is therefore carried out through a consolidation of all assets and liabilities at the value at which they are stated in the respective unit.

Minority interests in non-wholly owned subsidiaries are calculated on the basis of the subsidiaries' accounts and stated in the consolidated balance sheet as a separate item in shareholders' equity.

The minority share of the net income for the period is stated in connection with the statement of income.

All intra-Group receivables and liabilities, intra-Group sales and intra-Group profits are eliminated entirely.

The book value of shares in affiliated companies is reported in accordance with the equity method. This means that the SAS Group's share of the affiliated company's equity comprises its share of the company's shareholders' equity, taking into account deferred tax according to the tax rates in the countries concerned and any consolidated surplus or deficit values.

The Group's share of the net income for the period in the affiliated company is stated in the SAS Group's statement of income as share of income. Any write-downs of equity are also reported as share of income from affiliated companies.

Intra-Group profits are eliminated based on the Group's participation in the affiliated company.

Translation of financial statements of foreign subsidiaries

All of the SAS Group's subsidiaries are classified as independent. The financial statements of foreign subsidiaries are translated into Swedish kronor using the current method. This entails all subsidiaries' assets and liabilities being translated at the closing rate, while all income statement items are translated at the average rate of exchange for the year. Translation differences are posted directly to the SAS Group's shareholders' equity.

Hedging of net investments in foreign operations

The SAS Group hedges to a certain extent investments in foreign net assets including goodwill. Hedging is accomplished through both foreign currency loans and forward contracts, which are measured at the closing rate. Like exchange differences in translating net assets, the effective portion of exchange differences on hedging transactions is posted directly to shareholders' equity. The ineffective portion of changes in value is immediately recognized in the statement of income.

Receivables and liabilities in foreign currency

Current and long-term receivables and liabilities in currencies other than the reporting currency (SEK) are stated in the balance sheet translated at closing rates. Both realized and unrealized exchange rate gains and losses on receivables and liabilities are reported in the statement of income. In those cases where the debt in foreign currency meets the requirement for hedge accounting and makes up part of a cash flow hedge or hedge of net investment, the change in value is recognized in shareholders' equity.

Financial instruments

Financial instruments are stated at amortized cost or fair value depending on their initial categorization under IAS 39. Foreign currency was translated to SEK at the quoted rate on the closing date.

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

When determining fair value for short-term investments, derivative instruments and borrowings, official market quotes on the closing date are used. In those cases where there are none, the measurement is done using generally accepted methods such as discounting future cash flows at the quoted market rate for the respective maturity.

Liquid assets

Cash and bank balances consist of cash on hand in a financial institution and are stated at their nominal amount. Short-term investments are categorized as financial assets held for trading and are measured at

Exchange rates

			Closing rate		Average rate	
			2005	2004	2005	2004
Denmark	DKK	100	126.40	121.15	124,55	122.67
Norway	NOK	100	117.60	108.80	115,92	109.04
U.S.	USD		7.95	6.61	7,47	7.35
U.K.	GBP		13.73	12.71	13,57	13.46
Switzerland	CHF	100	605.80	582.70	599,51	591.15
Japan	JPY	100	6.78	6.38	6,78	6.80
EMU countries	EUR		9.43	9.01	9,28	9.13

fair value via the statement of income. The investments have a maximum maturity of three months and can easily be transformed to cash at a known amount and are only subject to an insignificant risk of change in value. Short-term investments are reported as of the settlement date.

Accounts receivable

Accounts receivable are categorized as "Loans and receivables," which means measurement at amortized cost. Because the expected term of an account receivable is short, the value is stated at the nominal amount without discounting, which corresponds with fair value. Uncertain accounts receivable are assessed individually and any impairment losses are stated in operating expenses.

Long-term receivables

Long-term receivables, i.e., receivables with a term longer than one year, are categorized as financial assets held to maturity and measured at amortized cost. For long-term receivables, a fair value corresponding with the book value is assessed.

Shares and participations

Shares and participations are categorized as financial assets measured at fair value in the statement of income. In measuring fair value the changes in value are stated in net financial items. Because it has not been possible to determine a reliable market value for the holding in Aeroexchange Ltd., Dallas, it has been measured at acquisition value.

Accounts payable

Accounts payable are categorized as "Other liabilities," which means recognition at amortized cost. Because the expected term of accounts payable is short, the value is stated at the nominal amount without discounting, which corresponds with fair value.

Short-term borrowings

Short-term borrowings comprise the short-term portion of interest-bearing long-term borrowings, i.e., the portion of the loans that is amortized in the coming fiscal year, as well as other current interest-bearing liabilities with a term shorter than one year. These liabilities are measured at amortized cost and reported on the settlement date.

Long-term borrowings

Long-term borrowings, i.e., liabilities with a term longer than one year, consist of interest-bearing liabilities to banks and credit institutions as well as bond issues. The liabilities are stated in the balance sheet at amortized cost as of the settlement date.

Derivatives

All derivatives are stated at fair value in the balance sheet and the stating of changes in value in the statement of income depends on whether or not the derivative meets the requirement for hedge accounting. SAS applies hedge accounting according to the methods for cash flow hedging, fair value hedging and hedging of net investments in foreign operations. The accounting policies for derivatives used in hedging transactions match those used for the underlying hedged position.

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

For hedge-accounted derivatives reported according to the cash flow hedge method, the effective portion of changes in value is recognized in shareholders' equity pending the recognition of the hedged item in the statement of income. The ineffective por-

tion of changes in value is recognized immediately in the statement of income. The SAS Group applies cash flow hedging to currency derivatives used to hedge forecast commercial flows and future sales of aircraft. The SAS Group also applies cash flow hedging to interest rate derivatives that change its interest rate exposure from variable to fixed rate and for fuel derivatives that hedge future purchases of fuel.

For hedge-accounted derivatives reported according to the fair value hedge method, the change in the value of the derivative instrument and the change in the value of the hedged item are netted in the statement of income. The SAS Group applies fair value hedging to interest rate derivatives that change its interest rate exposure from fixed to variable rate.

For derivatives not subject to hedge accounting, all changes in value are recognized in the statement of income. Derivatives that do not correspond with the accounting policies used for the underlying hedged position and do not meet the IAS 39 requirements are not subject to hedge accounting.

Expendable spare parts and inventories

Expendable spare parts and inventories are stated at the lower of acquisition value or net selling price. Acquisition value is calculated by application of the first in first out (FIFO) method. Some spare parts related to aircraft are valued according to the lower of cost or market value principle collectively with the aircraft concerned. Appropriate deduction is made for obsolescence.

Intangible assets

Intangible assets comprise goodwill, capitalized costs for systems development and other intangible assets. The Group is not engaged in any research and development (R&D) activity.

Intangible assets are stated in the balance sheet when:

- an identifiable, non-monetary asset exists
- it is probable that the future financial advantages that can be attributable to the asset will accrue to the company and
- the acquisition value of the asset can be calculated in a reliable manner.

Goodwill is recorded in the balance sheet as an intangible asset at acquisition cost less accumulated impairment losses. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of net identifiable assets of the acquired subsidiary at the date of acquisition. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is assigned to smallest possible cash-generating unit.

Goodwill is assessed as having an indeterminable useful economic life. Goodwill is allocated to the smallest possible cash-generating unit 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 during the year.

Should an acquisition cause the fair value of acquired assets, liabilities and contingent liabilities to exceed the acquisition value, the excess is recognized immediately as revenue in the statement of income.

Development costs that do not meet the criteria specified above are expensed in the period they arise. Costs for systems development are reported as an asset provided that they meet the criteria specified above. Capitalized development costs are amortized on a straight-line basis over the estimated useful economic life of the asset. The maximum useful economic life is five years. Amortization of capitalized development costs is included in the

item depreciation in the statement of income.

Other intangible assets with a limited useful economic life are amortized over their useful economic life. Depreciation of other tangible fixed assets is included in the depreciation item in the statement of income.

Tangible fixed assets

Tangible fixed assets are reported at historic cost less accumulated depreciation and any write-downs. Depreciation is straight-line over the estimated useful economic life of the assets beginning when the asset is ready to be put to use. For aircraft a number of essential components have been identified. The useful life of the various components has been determined and all components apart from engine components have the same useful life. In accordance with official requirements, aircraft engines must be maintained and significant engine components changed after a specific number of takeoffs and landings and flight hours. This maintenance occurs on average every eighth year depending on type of aircraft. Completed maintenance is capitalized and depreciated over a relevant period for each aircraft type.

Interest expenses on prepayments for aircraft not yet delivered are capitalized. If a decision is made to postpone deliveries of aircraft for which prepayments have been made, capitalization of interest expenses ceases. On commissioning of aircraft, depreciation of the capitalized interest expenses begins, in accordance with the main principle for aircraft.

Costs for routine aircraft maintenance as well as repair costs are expensed as incurred. Extensive modifications and improvements to fixed assets are capitalized and written off together with the asset to which the work is related over its remaining useful economic life. Investments in own and leased premises are amortized over their estimated useful economic 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 sales value and book value. The gain or loss that arises is reported in the statement of income.

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

Asset class	Depreciation
Aircraft	20*
Reserve engines and spare parts	20*
Engine components (average)	8
Workshop and aircraft servicing equipment	5
Other equipment and vehicles	3-5
Buildings	5-50

* Estimated residual value after a useful economic life of 20 years is 10%. Through 1998 the estimated useful economic life was 15 years with an estimated residual value of 10%.

Leasing - Finance and Operating

As a lessee, SAS has entered into finance and operating leasing contracts. Leasing contracts where SAS in principle takes over all the risks and benefits of the asset are reported as finance leasing contracts. At the beginning of the leasing period, finance leasing contracts are reported at fair value. Assets held under finance leases are taken up in the balance sheet as a fixed asset and future commitment to the lessor as a liability. Assessment of leased assets' useful economic life corresponds to the principles SAS applies to acquired assets.

Leasing agreements where in principle all risks and benefits remain with the lessor are reported as operating lease contracts. The leasing cost for operating lease contracts is expensed on an ongoing basis during the contract period.

Sale and leaseback agreements are classified according to the above-mentioned principles for finan-

cial and operating leasing.

For aircraft leased under operating leases, the contracts state that when the aircraft is returned, it must be in a certain specified condition. To meet this commitment, SAS carries out maintenance of these aircraft, both regularly and at the expiration of the leasing period. Costs are expensed as incurred.

Impairment losses

At least once a year tests are performed to look for the existence of impairment in intangible assets including goodwill with an indeterminable useful economic life. At each balance sheet date (quarterly), a review is conducted to look for any indication that the company's tangible assets are impaired and if this is the case, an assessment is done of the recoverable amount of the individual assets (or the cash-generating unit to which they belong) to determine whether impairment exists.

The recoverable amount is defined as the higher of an asset's fair value less selling costs and value in use (VIU). The best indicator of an asset's sales value is the price in a binding arm's length sale agreement adjusted for costs directly attributable to the sale of the asset. A market price is applied in the absence of such an agreement. A best estimate is used unless a binding agreement or a market price is available.

Regarding the Group's aircraft fleet, a recoverable amount is calculated each quarter for the portion of the aircraft fleet owned by the Group. The principle for calculating this recoverable amount is that the present value of the current market leasing revenue for each aircraft is calculated, assuming that the aircraft generates market leasing revenue until it reaches an age of 25 years. The present value of these future leasing revenues is the value defined as the recoverable amount for the owned portion of the aircraft fleet.

With respect to spare equipment and spare parts for aircraft, the recoverable amount is preferably calculated by estimating the fair value at the end of each reporting period.

In calculating value in use, the estimated cash flow is discounted to a present value by applying a risk-adjusted discount rate to the asset's expected future pre-tax cash flow. The cash flow projection is 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. The cash flow projections are based on the most recent financial budget/prognosis and three-year business plan that management has approved. Projections beyond three years have been done by extrapolating using a steady or declining growth rate. The projections are based on the asset's current use and condition and exclude any future capital expenditure that will improve or enhance the asset in excess of its originally assessed standard of performance.

If the recoverable amount for the asset (or the cash-generating unit) is estimated to be lower than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to the recoverable amount. Recognition of impairment in a cash-generating unit to which goodwill has been allocated is done first to this goodwill and then to other assets on a pro-rata basis.

At each balance sheet date, a review is conducted to look for indications that the grounds for earlier impairment write-downs of assets other than goodwill no longer exist or have improved. If such indications exist, the recoverable amount is calculated. Earlier impairment losses are reversed if changes have taken place in the assumptions used to calculate the recoverable amount since the last impairment loss. If that is the case 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 loss had not taken place.

Financial fixed assets

Financial fixed assets include equity in affiliated companies. Participations in affiliated companies are reported in the consolidated accounts by applying the equity method. Additional information on treatment of affiliated companies is provided in the section on principles for consolidated accounts and consolidation.

Provisions and contingent liabilities

Provisions are reported when SAS 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.

Provisions for restructuring costs are made when the decision is made and announced. These costs arise primarily for employees idled under notice.

Remuneration of employees

Pensions:

The SAS Group's pension commitments are mainly secured through various pension plans. These vary considerably due to different legislation and agreements on occupational pension systems in the individual countries.

For pension plans where the employer has accepted responsibility for defined contribution solutions, the obligation to employees ceases when the contractual premiums have been paid.

For other pension plans where defined benefit pensions have been agreed, the commitments do not cease until the contractual pensions have been paid. The SAS Group calculates its pension commitments for the defined benefit pension plans. Calculations of commitments are based on estimated future final salary. An estimate of funded assets is made at the same time.

Pension costs for the year comprise the present value of pension earnings for the year, plus interest on the obligation at the beginning of the year, less return on funded assets. Amortization of deviations from estimates and plan amendments is added to this total for certain pension plans. Plan amendments and deviations between anticipated and actual results for estimated pension commitments and funded assets are amortized over the average remaining working lives of the employees participating in the pension plan. Cumulative actuarial deviations from estimates of up to 10% of the greater of pension obligations and pension assets are included in the so-called corridor and are not amortized. When the cumulated actuarial deviations from estimates exceeds this 10% limit, the excess amount is amortized over a 15-year period, which corresponds to the average remaining employment period. The Parent Company reports current pension premiums as costs.

Termination pay:

Remuneration in the event of termination is payable when an employee's position is terminated before normal pensionable age or when an employee voluntarily resigns from a position in exchange for such remuneration. The Group reports severance pay when it is demonstrably obligated either to terminate the employee according to a detailed formal plan without the possibility of him or her being called back, or to pay remuneration for termination resulting from an offer made to encourage the employee to voluntarily resign.

Variable salary and earnings-based salary:

Variable salary and earnings-based salary paid to senior executives are reported in Note 3 on pages 66-67. The cost of variable salary and earnings-based salary is expensed annually and is reserved in the consolidated balance sheet.

Revenue recognition

Passenger revenue: Ticket sales are reported as traffic revenue when the air transport has been carried out.

The value of tickets sold and still valid but not used by the balance sheet date is reported as unearned transportation revenue. This item is reduced either when SAS or another airline completes the transport or when the passenger requests a refund. A portion of unearned transportation revenue covers tickets sold that are expected to remain unutilized. An estimate of unutilized tickets' expected share of the unearned transportation liability is produced annually. This reserve is reported as revenue the following year in accordance with established principles.

Freight revenue: SAS Cargo's transport services are recognized as revenue when the air transport is completed.

Other revenue: Sales of hotel accommodation and conferences are recognized as revenue when completed. Sales of goods and other services are recognized as revenue when the goods are delivered or the service carried out.

Loyalty program

The SAS Group makes ongoing provisions as points are earned for the variable marginal costs associated with the provision of free travel in exchange for the redemption of the points earned by members.

Borrowing costs

Borrowing costs that arise in operations are expensed in the period in which they are incurred. Borrowing costs for prepayments attributable to aircraft not yet delivered are described in the section "Tangible fixed assets."

Taxes

Actual tax for the period is based on earnings for the period, adjusted for non-tax deductible costs and revenues not liable to tax. The actual tax is calculated on the basis of tax rates applying on the closing date.

Deferred tax is reported according to the balance sheet method whereby temporary differences, differences between the reported and fiscal value of assets or liabilities, result in a deferred tax receivable or deferred tax liability. A deferred tax liability is reported for all temporary differences liable to tax, while a deferred tax receivable is reported 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.

A deferred tax liability is reported 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 calculated based on the tax rates that are expected to apply in the period the tax is realized.

Deferred tax is reported in the statement of income. Deferred tax receivables and deferred tax liabilities are reported net if the items pertain to the same tax authority.

Segment reporting

Information is provided for business areas and geographical markets. This information is based on the SAS Group's accounting policies and the Group's internal reporting to company management.

The primary segment comprises the SAS Group's five business areas (Scandinavian Airlines Businesses, Subsidiary & Affiliated Airlines, Airline Support Businesses, Airline Related Businesses and Hotels), corporate functions and Group eliminations. All operations, whether they be corporations or business units, are to have a businesslike relationship with customers and suppliers within the Group.

The Group's statement of income is shown by business area for operating income, EBIT. Other items are not broken down by business area.

Business area assets comprise all assets used directly in the business area's operations. Equity shares in affiliated companies, however, are presented separately. Business area liabilities and provisions comprise all commitments that are directly attributable to the business area's operations.

The secondary segment comprises the SAS Group's geographical markets, and revenues are

broken down by the geographical markets where operations are conducted.

Traffic revenue from domestic service 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
- the geographical location where the service is performed, for example, training in flight simulators or hotel stays.

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

Parent Company accounting policies

The Parent Company has prepared its annual accounts according to the Annual Accounts Act and Swedish Financial Accounting Standards Council recommendation RR32:05 "Accounting for Legal Entities" and applicable statements from the Council's "Akutgruppen." Under RR32:05, the Parent Company, in preparing the accounts for the legal entity, shall apply all EU-approved IFRS and statements in so far as this is possible within the framework of the Annual Accounts Act and Tryggandelagen (the Swedish law on safeguarding pension commitments) and with respect to the connection between accounting and taxation. The recommendation states which exceptions and additions are to be made from IFRS. The differences between the Group's and the Parent Company's accounting policies are listed below:

Pensions: Current pension premiums are stated as costs.

Shares in subsidiaries and affiliated companies: Stated at acquisition value.

Hedging of net investments in foreign operations: Translation differences relating to currency hedging are stated in the statement of income.

Notes/supplemental information

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

Note 1 - Restatement of previous years

The SAS Group has applied International Financial Reporting Standards (IFRS) since January 1, 2005. Comparative figures for 2004 have been restated according to IFRS. Through 2004 the Group applied the Swedish Financial Accounting Standards Council's recommendations (RR). See also Note 46.

Errors have been identified in Spanair's accounts mainly relating to the period 2002-2004, which means that some expense and income items have been booked incorrectly.

According to the new IFRS rules such errors must be corrected retrospectively.

Deviations for 2002-2004 amount to a total of MSEK 333 and have been corrected through restatement of earnings and consolidated equity for previous years.

Errors relating to 2005 have also occurred which have been corrected in the fourth quarter with MSEK 80.

	2002	2003	2004	Total
Operating revenue	-38	-99	20	-117
Payroll expenses	-5	-4	-	-9
Other operating expenses	-41	-126	-31	-198
Operating income	-84	-229	-11	-324
Net financial items	-9	-	-	-9
Net income for the period	-93	-229	-11	-333
Adjustment earnings per share (SEK)	-0.57	-1.39	-0.07	-2.02

Note 2 - Operating revenue

	2005	2004
Traffic revenue:		
Passenger revenue	39,346	36,950
Freight	2,190	2,043
Mail	390	389
Other traffic revenue	6,047	5,417
Other operating revenue:		
Sales of goods	481	1,829
Rooms revenue	2,950	2,340
Food and beverage revenue	2,022	1,564
Ground services	1,255	1,210
Distribution systems services	323	272
Technical maintenance	1,047	792
Flight simulator training	213	219
Terminal and forwarding services	1,023	835
Sales commissions and fees	907	931
Other operating revenue	3,693	3,302
	61,887	58,093

Note 3 - Payroll expenses

Average number of employees

In 2005, the average number of employees in the SAS Group was 32,363 (32,481). A breakdown of the average number of employees by country is provided in the table below.

The average number of employees in Denmark came to 7,095 (7,413), in Norway 9,218 (9,616) and in Sweden 6,873 (7,602).

	2005		2004	
	Men	Women	Men	Women
Denmark	4,668	2,427	4,781	2,632
Norway	5,539	3,679	5,721	3,895
Sweden	4,081	2,792	4,447	3,155
U.K.	820	808	528	579
Germany	502	541	416	442
France	192	222	175	220
Finland	349	339	306	343
Belgium	197	110	166	100
Spain	1,859	1,934	1,791	1,737
Estonia	99	84	101	64
Latvia	98	113	6	12
U.S.	93	161	100	160
Other countries	269	387	273	331
Total	18,766	13,597	18,811	13,670
Total men and women	32,363		32,481	

Gender breakdown among senior executives in the Group

	2005		2004	
	Total on closing date	Of which men	Total on closing date	Of which men
Board members	142	82%	135	90%
President and other senior executives	141	81%	156	83%

Salaries, remuneration and social security expenses

The SAS Group's total payroll expenses amounted to MSEK 19,715 (18,837), of which social security expenses comprised MSEK 2,700 (2,528) and pensions MSEK 1,900 (1,802).

Note 3, cont.

	2005			2004		
	Salaries & other remuneration	Soc. security (of which pension costs)	(of which)	Salaries & other remuneration	Soc. security (of which pension costs)	(of which)
SAS AB	164	100	(47)	143	79	(34)
SAS Consortium	2,023	873	(413)	7,302	2,364	(1,119)
Other subsidiaries	12,928	3,627	(1,440)	7,062	1,887	(649)
SAS Group total	15,115	4,600	(1,900)*	14,507	4,330	(1,802)*

*The pension cost for all CEOs of SAS Group companies amounted to MSEK 18 (11).

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

	2005		2004	
	Board, CEOs and EVPs (of which variable salary)	Other employees	Board, CEOs and EVPs (of which variable salary)	Other employees
SAS AB	12 (2)	153	12 (2)	131
SAS Consortium	– (–)	2,017	– (–)	7,302
SAS Scandinavian Airlines Danmark*	4 (1)	843	1 (–)	188
SAS Scandinavian Airlines Sverige*	3 (0)	539	1 (–)	145
SAS Braathens	4 (0)	2,076	4 (1)	972
SAS Ground Services Group*	2 (0)	2,803	0 (0)	675
SAS Technical Services Group*	2 (0)	1,734	0 (0)	417
Blue1	4 (–)	185	1 (–)	141
Widerøe's Flyveselskap	2 (0)	880	2 (–)	751
Spanair	4 (2)	947	3 (1)	840
Rezidor SAS Hospitality	8 (1)	1,439	9 (–)	1,240
SAS Cargo Group	2 (0)	606	4 (2)	575
Other subsidiaries	17 (2)	829	24 (2)	1,069
SAS Group total	64 (8)	15,051	61 (8)	14,446

*Operations started October 1, 2004.

Sick leave in the Parent Company SAS AB

	2005	2004
Total sick leave	1.5%	1.3%
of which long-term sick leave >59 days	41.9%	67.5%
Sick leave for women	1.2%	1.9%
Sick leave for men	1.7%	0.9%
Sick leave employees <30 years	0.4%	0.0%
Sick leave employees 30-49 years	1.6%	1.8%
Sick leave employees >49 years	1.4%	0.9%

The total sick leave is stated as a percentage of the employees' total working hours. The data only applies to employees in Sweden.

Pension costs

	2005	2004
Defined benefit pension plans	720	862
Defined contribution pension plans	1,180	940
Total	1,900	1,802

Remuneration and fringe benefits of senior executives

Principles

The fees and other compensation paid to Board members of SAS AB shall be determined by the Annual General Shareholders' Meeting.

The SAS Group's overarching remuneration policy is aimed at offering the compensation required to recruit and retain sufficiently competent senior executives and other employees and inspire them to remain committed to doing their best for the SAS Group.

The SAS Group's overall compensation model for managers and employees is based on the following four cornerstones:

- Salary setting shall be individual and differentiated.
- Salary setting shall be national and adapted to the market.
- Salary setting shall be an important management tool in reaching the organization's goals.
- Salary setting shall motivate professional and personal advancement.

The SAS Group applies a compensation model for senior executives, certain other managers and specialists which means that salaries shall be performance-based. This ensures that the market salary for the position will be achieved only if the individual performance meets the preagreed targets. For the employees covered by the model, the division of salary into a fixed and a performance-based variable portion shall be in proportion to the position's responsibilities and authority. A specific target-based variable salary is an important management tool and is aimed at ensuring that the priorities of senior executives are consistent with the Group's overall goals and strategies.

The compensation model consists of two components: Personal salary (A) and earnings-based salary (B).

A. Personal salary is set on the basis of the position's International Position Evaluation System (IPE) ranking, the market salary that the position requires and the competencies and performance the person in question has demonstrated, and consists of two components:

- An annual fixed salary component amounting to 68-85.6% of the personal salary (62.5% for the President and members of Group Management).
- A performance-based variable salary component, the maximum payment of which is 14.4-32% (37.5% for the President and members of Group Management) of the personal fixed annual salary and is based on set and achieved personal targets.

The outcome of the variable salary component is based on achievement of the targets contracted between the employee and his or her superior, which are to contain qualitative as well as quantitative targets and refer to both business-specific and personal targets, with special emphasis on financial targets. On the recommendations of the compensation committee the Board sets the President's targets, degree of target achievement and the size of the variable salary component. The President annually sets the target criteria for people who report directly to him and decides in consultation with the compensation committee payment of the variable salary components.

Payment of the variable salary component takes place after the full-year earnings of the SAS Group have been determined.

B. An earnings-based salary depending on the earnings of the SAS Group is set in addition to the personal salary. The full earnings-based salary may be paid only if the Group achieves its budgeted earnings (EBT before gains) provided the earnings are positive. An earnings-based salary is never paid if earnings are negative. The earnings-based salary can amount to 3.6-8.0% (12.5% for the President) of the basis annual salary or part thereof.

Besides the Board, senior executives refers to the five people who together with the President form the SAS Group's corporate Group Management.

Board of Directors

The Annual General Shareholders' Meeting of SAS AB held on April 13, 2005 set the fee for the Chairman of the Board at SEK 495,000, the Vice Chairman at SEK 360,000 and for the five other members elected by the Shareholders' Meeting at SEK 270,000. The amount of the fees is unchanged compared with 2004. Within the authority of the Shareholders' Meeting, it was also resolved to set the total remuneration of the employee-elected Board members and deputies at SEK 1,215,000, of which the remuneration paid to each of the three regular employee representatives is SEK 270,000 and SEK 67,500 to each of the six employee deputies. These fees are also unchanged compared with 2004.

The members and deputies of the Board of SAS AB were thus paid a total of SEK 3,420,000 in 2005.

With the exception of the employee representatives and their deputies, no member of the Board was employed by the SAS Group in 2005. No Board member not employed by the SAS Group received any remuneration or benefit from any company in the SAS Group beyond customary travel benefits and the fee received for board work. No compensation was paid for work on Board committees in 2005.

Note 3, cont.

President and CEO

Maximum possible performance-based personal variable salary component is 37.5% of the personal fixed annual salary and maximum earnings-based salary is 12.5% of the fixed annual salary. The target criteria for the variable salary portion are set annually by the Board on the recommendation of the remuneration committee. The criteria cover budget and earnings targets as well as organizational and business targets that are accorded different weights.

The variable salary portion is paid annually in arrears following the Board's approval of the annual accounts for the SAS Group for the financial year in question and according to the achievement of targets determined by the Board. Since the SAS Group posted marginally positive earnings for 2005 an earnings-based salary in the amount of SEK 319,000 will be paid. The variable salary portion and earnings-based salary are not pensionable.

The President's fixed annual salary for 2005 amounted to SEK 6,390,000, the same as for 2004. Fixed and variable salary are listed in the table below.

Year	Fixed annual salary	Variable salary	Earnings-based salary
2004	SEK 6,390,000	SEK 1,550,000	0
2005	SEK 6,390,000	SEK 2,237,000 ¹	SEK 319,000 ¹

¹ The variable and earnings-based salary for 2005 amounted to 40% of the fixed annual salary for 2005. The main reason for the increase of the variable salary and earnings-based salary from 2004 to 2005 is that 50% of these salaries for both 2004 and 2005 depended on the SAS Group posting a profit. Other benefits in 2005 amount to SEK 70,000 and refer to health insurance, car loan and fuel allowance.

The President's retirement age is 65. Retirement pension, which is lifelong, is a defined benefit pension plan. Earnings are on a straight-line basis up to retirement age. With fully earned entitlement (at least 180 months of employment from entry into the plan) the pension amounts to 70% of pensionable salary up to 30 basic amounts (currently SEK 1,182,000) and of 35% of pensionable salary in excess of that amount. Provided the President remains in office until retirement age, 65, the service period factor will amount to 0.8333 (i.e., 83.33% of fully earned entitlement). In addition to retirement pension the President's pension benefits also include disability benefit up to ordinary retirement age and a survivor annuity not to exceed 10 years.

Expressed in 2005 terms, the maximum pension from 65 years is SEK 2,243,000/year, approx. 34.4% of the fixed annual salary. The pension is not coordinated with previously earned pension rights. In 2005 the cost of the President's pension benefits amounted to SEK 1,937,000 (calculated according to IAS 19), approx. 29.7% of the fixed pensionable salary.

The notice period is six months in the event the President resigns and 12 months if the termination of employment is by SAS AB. Severance pay is payable to the President in the event employment is terminated by SAS AB for reasons other than material breach of contract, gross neglect of duty or criminal acts against the SAS Group. The amount corresponds to 18 months of salary. Should new employment be obtained within 30 months after termination by SAS AB the awarded severance pay shall be reduced by the remuneration received from the new position, though, however by a maximum of 50% of the severance pay. No severance pay is paid if the President resigns of his own accord.

Other senior executives

Salary and the value of benefits paid in 2005 to other senior executives, who include Group Management members Gunilla Berg, John S. Dueholm, Håkan Ericson (starting October 1, 2005), Gunnar Reitan and Bernhard Rikardsen, totaled SEK 18,606,000 of which fixed salary amounted to SEK 13,430,000 and variable salary for 2004 amounted to SEK 5,176,000, but was paid in 2005.

Variable salary for 2005 has not been determined yet. A small earnings-based salary will be paid for fiscal year 2005 since the SAS Group's earnings were marginally positive.

Retirement age of senior executives is 60 years. Pension benefits for this group are partly defined benefit (three persons) and partly defined contribution (two persons). The defined benefit pension plan means that earnings are on a straight-line basis until retirement age. With fully earned entitlement, the pension level amounts to 70% of pensionable salary up to 30 basic amounts (currently SEK 1,182,000/NOK 1,821,000) and 35% of pensionable variable salary in excess of that amount. Pensionable salary refers to the annual fixed salary with the addition of the average of the performance-based variable salary and earnings-based salary paid in the last three years. Under the defined contribution pension plan a fixed percentage of the fixed annual salary is paid into the plan. In the one case 20% is paid and in the other 21.5%. The difference in the percentage rates is due to different individual assumptions upon entry into the

pension system. SAS's total pension cost for 2005 in the category other senior executives amounted to SEK 5,835,000, of which SEK 2,900,000 refers to defined benefit pension plans and SEK 2,935,000 refers to defined contribution pension plans. The pension benefit provides a vested benefit.

Severance pay for other senior executives is set according to basically the same principles as for the President, with, however the following differences:

- I severance pay is not paid if the senior executive is offered another position in the SAS Group and the position has the same classification level as the previous position,
- II the severance pay amounts to the equivalent of two fixed annual salaries,
- III the reconciliation against income from another appointment or assignment totals a maximum of one annual salary,
- IV severance pay may also be paid if the senior executive resigns if his or her responsibilities or authority are materially changed through ownership or organizational changes.

The notice period is 12 months (in one case six months) in the event of termination of employment by SAS AB and six months if the employee resigns.

Share price-related remuneration

Because the SAS Group does not have a share price-related incentive program, no such benefits were allotted to any senior executives in the SAS Group.

Other

Other typical managers' contracts in the SAS Group are based on the principles outlined under the above heading "Principles" with the difference that the total variable portion of the personal salary for this group (including financial income targets) varies, with 100% target achievement, between 14.4-27.2% of the basic annual salary. Earnings-based salary for 2005 has yet to be determined but cannot amount to more than 3.6-6.8% of the individual earnings-based salary framework.

Other senior executives at SAS are entitled to a pension at age 60 and earn on a straight-line basis up to retirement age. With fully earned entitlement, the pension level for a Swedish employee in SAS's senior management amounts to 70% of pensionable salary up to 30 basic amounts (SEK 1,182,000) and 35% of pensionable salary in excess of that amount. Pensionable salary refers to annual fixed basic salary with the addition of the average of the performance-based variable salary and earnings-based salary paid in the last three years. Alternatively, a defined contribution pension plan is provided. The same basic pension systems structure applies to Danish and Norwegian senior SAS Group executives, adjusted to Danish and Norwegian conditions, respectively.

Severance pay is paid according to the same principles as for the category other senior executives.

The President and other senior executives are normally not entitled to fees for directorships in the SAS Group or in companies in which the SAS Group has ownership interests or is in partnership with. In cases where a board fee is nevertheless paid, the fee is not linked to employment in the SAS Group and is therefore paid in that instance directly by the company involved to the board representative.

Over and above salaries and remuneration described above, no transactions with related parties have occurred.

Discussion and decision-making process

The issue of the Board's fees is discussed by the nomination committee, which consists of representatives elected at the Annual General Shareholders' Meeting. Proposals concerning Board fees are presented to the Shareholders' Meeting by the nomination committee.

The primary task of the Board-created compensation committee is to prepare for the decision of the Board proposals pertaining to the President's salary and other employment terms and to lay down the main principles and general conditions applying to setting of salaries and other remuneration and employment terms (including variable salary, pension and severance pay policy) for the Group Management and other senior executives in the SAS Group.

During the year the compensation committee discussed the short and long-term compensation and incentive system and submitted recommendations to the Board concerning overarching principles for remuneration policies in the SAS Group, including, among other things, principles and levels for variable salary, and also submitted recommendations regarding the President's target contract and variable remuneration. The Board has discussed the remuneration committee's recommendations and made decisions accordingly. Remuneration of other senior executives was decided by the President after consultation with the remuneration committee. The remuneration committee held three minuted meetings plus a number of informal discussions.

Note 4 - Other operating expenses

	2005	2004
Selling costs	997	1,233
Jet fuel	8,123	6,252
Government user fees	5,787	6,139
Catering costs	1,821	1,783
Handling costs	2,859	2,539
Technical aircraft maintenance	2,407	2,233
Computer and telecommunications costs	2,999	2,985
Cost of sold goods, incl. concession fees	184	1,431
SAS Trading, other operating expenses	37	89
Rezidor SAS, other operating expenses	3,092	2,727
Other	6,997	6,629
Total	35,303	34,040

Note 5 - Depreciation

	2005	2004
Goodwill	-	10
Other intangible assets	160	300
Aircraft	1,398	1,547
Spare engines and spare parts	202	299
Workshop and aircraft servicing equipment	106	111
Other equipment and vehicles	357	396
Buildings and fittings	189	183
Total	2,412	2,846

Note 6 - Share of income in affiliated companies

	2005	2004
British Midland PLC ¹	33	27
Skyways Holding AB	-16	-15
Air Greenland A/S ²	28	56
airBaltic Corporation A/S ³	-28	-5
AS Estonian Air ⁴	24	6
SAS Component Group A/S ⁵	-23	-
Commercial Aviation Leasing Ltd	21	23
Reversal of intra-group profit for Commercial Aviation Leasing Ltd.	40	40
Polygon Group Ltd ⁶	-	-3
Casino Copenhagen K/S	20	20
ZAO St. Petersburg	31	4
TBB Leisure Luxury Hotels ⁷	-7	4
SAS Royal Hotel Beijing	11	-
Other	0	0
Total	134	157

¹ The share of income includes adjustment of last year's income figure by MSEK 6 (27).

² The share of income includes adjustment of last year's income figure by MSEK 7 (15).

³ The share of income refers to January-July 2005 and includes correction regarding last year's income figure by MSEK -9 (-). airBaltic has been reported as a subsidiary since August 2005.

⁴ The share of income includes adjustment of last year's income figure by MSEK 3 (4).

⁵ SAS Component Group A/S was included as an affiliated company in the SAS Group starting December 2005.

⁶ Polygon Group Ltd was sold in December 2004.

⁷ The share of income includes adjustment of last year's income figure by MSEK -12 (-).

In some cases, the SAS Group's share of income in affiliated companies is based on preliminary financial statements from the companies.

Note 7 - Income from the sale of aircraft and buildings

	2005	2004
Airbus A320	-	47
Airbus A340	-	-86
Boeing 737	137	145
Boeing 767	-	18
Douglas MD-80	-22	-21
Fokker F28	-2	-1
Fokker F50	7	-
deHavilland Q400	-	-43
Flight simulators	34	-
Hotel properties	5	53
Other properties	28	1
Total	187	113

Note 8 - Income from other shares and participations

	2005	2004
Capital gains from the sale of shares and participations	50	-
Dividend	-	1
Total	50	1

Note 9 - Interest income and similar income items

	2005	2004
Interest income	456	336
Other financial income	78	21
Total	534	357

Interest income includes MSEK 138 (94) for forward premiums for currency derivatives.

Note 10 - Interest expenses and similar income items

	2005	2004
Interest expenses	1,408	1,233
Exchange rate differences, net	22	53
Other financial expenses	109	113
Total	1,539	1,399

Interest expenses include MSEK 172 (150) for forward premiums for currency derivatives.

Note 11 - Tax

The following components are included in the Group's tax expense:

	2005	2004
Actual tax	-111	-66
Deferred tax	-52	134
Total	-163	68

Actual 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.

The tax expense for the financial year can be reconciled against income before tax as follows:

	2005	2005 (%)	2004	2004 (%)
Income after financial items	418		-1,833	
Tax according to weighted tax rate in Denmark, Norway and Sweden	-117	-28.0	524	-28.6
Tax effect of non-deductible costs	-39	-9.3	-51	2.8
Tax effect of revenues not liable to tax	166	39.7	101	-5.5
Tax attributable to previous year	22	5.3	36	-2.0
Tax effect of loss carryforward	-236	-56.5	-50	2.7
Tax effect of changed tax rate	41	9.8	-	-
Tax effect of changes in Group structure	-	-	-492	26.8
Tax expense/income and effective tax rate for the fiscal year	-163	-39.0	68	-3.7

Deferred tax liability/tax receivable

	2005	2004
Deferred tax liability	3,617	3,194
Deferred tax receivable	-1,524	-1,394
Deferred tax liability, net	2,093	1,800

Note 11, cont.

The tables below show the Group's most significant deferred tax liabilities and tax receivables according to category and how these liabilities and receivables changed.

	2005	2004
Deferred tax liability in the balance sheet:		
Fixed assets	2,485	2,368
Provisions	-68	-6
Tax allocation reserve	3	92
Other temporary differences	1,927	1,140
Fiscal loss carryforward	-730	-400
Total	3,617	3,194
Deferred tax receivable in the balance sheet:		
Fiscal loss carryforward	1,623	1,729
Fixed assets	-56	-33
Provisions/receivables	-56	30
Other temporary differences	13	-332
Total	1,524	1,394
Reconciliation of deferred tax liability, net:		
Opening balance	1,800	1,860
Change in opening balance, IAS 39	571	-
Adjustment for the year IAS 39	-390	-
Net tax liability in sold company	-3	-
Change according to statement of income	52	-134
Exchange differences etc.	63	74
Deferred tax liability, net, at year-end	2,093	1,800

On the closing date the Group had unutilized loss carryforwards amounting to a total of MSEK 9,842 (7,886). Based on these loss carryforwards, the Group reports a deferred tax receivable of MSEK 2,353 (2,129). Deferred tax receivables are reported to the extent it is probable that there are factors indicating that taxable profits will be created before the right to utilize loss carryforwards is lost. The assessment of the respective group company's future profit performance is based on earnings reported in recent years as well as improved profitability prospects. A change in the assessment of the possibilities for utilizing loss carryforwards has been made for Spanair, which has meant that the previously stated deferred tax receivable has been written down by MSEK 236. The stated tax receivables refer primarily to Spanair, Blue1, SAS AB and the Group's operations in Norway. For the loss carryforward amounting to MSEK 2,168 (850), no deferred tax receivable is reported due to uncertainty as regards future profit earnings. Of the loss carryforwards, MSEK 5,250 has a due date in 2020 or earlier. There are no due dates for the remaining loss carryforwards.

No provision has been made for deferred tax on temporary differences related to non-distributed profits in subsidiaries and affiliated companies, since these profits will not be distributed within the foreseeable future; alternatively a distribution can be made without the profits being subject to tax.

Taxes taken directly to equity regarding cash flow hedges reported according to IAS 39, amounted to MSEK 181 (-).

Note 12 - Intangible fixed assets

	Goodwill		Other assets		Total Intangible assets	
	2005	2004	2005	2004	2005	2004
Opening acquisition value	3,311	2,665	1,536	1,461	4,847	4,126
Investments	23	654	98	48	121	702
Sales/disposals	-	-	-23	-44	-23	-44
Sales of companies ¹	-112	-	-195	-	-307	-
Reclassifications	-184	-	563 ²	73	379	73
Exchange rate differences	179	-8	18	-2	197	-10
Closing accumulated acquisition value	3,217	3,311	1,997	1,536	5,214	4,847
Opening depreciation	-515	-507	-1,073	-796	-1,588	-1,303
Depreciation for the year	-	-10	-160	-300	-160	-310
Sales/disposals	-	-	10	43	10	43
Sales of companies ¹	51	-	101	-	152	-
Reclassifications	246	-	14	-21	260	-21
Exchange rate differences	-17	2	-9	1	-26	3
Closing accumulated depreciation	-235	-515	-1,117	-1,073	-1,352	-1,588
Opening write-down	-	-	-13	-13	-13	-13
Sales/disposals	-	-	13	-	13	-
Closing write-down	-	-	-	-13	-	-13
Closing planned residual value	2,982	2,796	880	450	3,862	3,246

¹ European Aeronautical Group, Jetpak, Radisson SAS Hotel London Stansted Airport and operations in SAS Trading were sold during the year.

² Of this amount MSEK 519 constitutes franchise rights in Rezidor SAS, which were acquired in connection with a new issue.

	Goodwill		Goodwill		
	2005	2004	2005	2004	
The SAS Group is not engaged in activities relating to research and development (R&D).			Spanair	1,676	1,601
			Braathens	749	693
			Widerøe	154	143
			Newco	108	103
Breakdown of planned residual value:			Goodwill in Hotels business area	141	117
			airBaltic	63	-
			European Aeronautical Group	-	48
			Air Maintenance Estonia	25	24
			Club de Vacaciones	21	20
			Aerolineas de Baleares	16	15
			Blue1	14	14
			SAS Cargo	15	12
			Other	-	6
Goodwill	2,982	2,796	Total goodwill	2,982	2,796
Franchise rights Rezidor SAS	519	-			
Capitalized system development costs	219	350			
Development projects	60	64			
Other	82	36			
Total residual value	3,862	3,246			

Note 12, cont.

Testing for impairment of intangible assets

Estimating the value of the Group's goodwill items and other intangible assets with an undeterminable useful economic life was done on the basis of the respective cash generating unit's value in use. The estimates are based on the cash flows in the respective unit's budget and business plans covering three years.

For the period beyond the business plan, an annual operating revenue growth of 2-4% and retained operating margins have been assumed, which corresponds with the long-term growth in the units' markets and corresponds with previous experience and external sources of information.

The present value of projected cash flows has been calculated with a discount rate of 14-18% (before tax) depending on business sector and country.

Important underlying parameters in business plans are unit revenue, volume

performance, fuel prices and continued cost savings. The company management assesses that reasonably possible changes in each of these assumptions should not have such major effects so as to reduce the recoverable amount to a value lower than the carrying amount.

To support the impairment tests performed on goodwill in the Group, an overarching analysis has been done of the sensitivity in the variables used in the model. If a weakening of any of the major assumptions included in business plans or the annual operating revenue growth and operating margins beyond the plan period or a rise of the discount rate that individually are reasonably plausible show that a healthy margin still exists between recoverable amount and carrying amount, it is judged that there is no need to recognize impairment of goodwill and other intangible assets with an undeterminable useful economic life.

Note 13 - Tangible fixed assets

	Buildings & land		Aircraft ¹		Spare engines & spare parts		Workshop & aircraft servicing equipment		Other equipment & vehicles		Construction in progress		Prepayment fixed assets		Total tangible fixed assets	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Opening acquisition value	3,377	2,728	24,942	30,865	4,728	4,660	1,321	1,386	5,273	5,460	204	285	359	748	40,204	46,132
Investment	69	265	410	1,632	435	466	170	65	326	299	226	437	18	30	1,654	3,194
Capitalized interest ²	-	-	-	-	-	-	-	-	-	-	-	-	9	10	9	10
Sales/disposals	-32	-356	-2,480	-8,178	-261	-491	-70	-129	-685	-606	-	-	-	-	-3,528	-9,760
Sales of companies ³	-612	-	-	-	-2,678	-	-212	-	-217	-	-	-	-	-	-3,719	-
Reclassifications	96	749	153	619	-28	112	108	-	22	124	-276	-515	-16	-412	59	677
Exchange rate differences	148	-9	132	4	110	-19	52	-1	160	-4	-6	-3	52	-17	648	-49
Closing accumulated acquisition value	3,046	3,377	23,157	24,942	2,306	4,728	1,369	1,321	4,879	5,273	148	204	422	359	35,327	40,204
Opening depreciation	-1,555	-1,455	-8,105	-8,455	-1,600	-1,509	-1,103	-1,116	-3,697	-3,865	-	-	-	-	-16,060	-16,400
Depreciation for the year	-189	-183	-1,398	-1,547	-202	-299	-106	-111	-357	-396	-	-	-	-	-2,252	-2,536
Sales/disposals	28	146	1,123	1,914	145	317	61	124	357	563	-	-	-	-	1,714	3,064
Sales of companies ³	48	-	-	-	846	-	168	-	94	-	-	-	-	-	1,156	-
Reclassifications	-58	-62	-16	-10	20	-116	-100	-	52	-	-	-	-	-	-102	-188
Exchange rate differences	-63	-1	-80	-7	11	7	-79	-	-115	1	-	-	-	-	-326	-
Closing accumulated depreciation	-1,789	-1,555	-8,476	-8,105	-780	-1,600	-1,159	-1,103	-3,666	-3,697	-	-	-	-	-15,870	-16,060
Opening write-down	-15	-15	-	-	-	-	-	-	-11	-11	-	-	-	-	-26	-26
Reclassifications	15	-	-	-	-	-	-	-	11	-	-	-	-	-	26	-
Exchange rate differences	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Closing write-down	-	-15	-	-	-	-	-	-	-	-11	-	-	-	-	-	-26
Closing planned residual value	1,257	1,807	14,681	16,837	1,526	3,128	210	218	1,213	1,565	148	204	422	359	19,457	24,118

¹ The insured value of aircraft at December 31, 2005 amounted to MSEK 64,062. This includes the insured value of leased (operating leases) aircraft in the amount of MSEK 44,311.

² Capitalizing of interest was done at an average interest rate of 2.0% (2.0%).

³ European Aeronautical Group, Jetpak, 67% of SAS Component, Radisson SAS Hotel London Stansted Airport and operations in SAS Trading were sold during the year.

At the beginning of 2005, six Douglas MD-90s, ten Boeing 737s, eight Airbus A321s and five Airbus A340/340s were acquired, formally through finance lease contracts, with original terms of 9-10 years. No changes took place during the year.

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

The 29 (29) finance-leased aircraft are recognized in the balance sheet in the amount of MSEK 10,188 (10,698). In addition to these, owned aircraft include 8 (10) aircraft valued at MSEK 1,355 (1,927) placed in financing structures wholly owned by SAS together with appurtenant indebtedness of MSEK 1,050 (1,183), which are to be viewed as finance-leased.

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

	2005	2004
Owned	4,493	6,139
Finance leased	10,188	10,698
Book value	14,681	16,837

Finance leasing

The SAS Group has finance lease contracts for aircraft with remaining terms of up to nine years. It also has finance lease contracts for machinery and 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 an adjustable rate of interest they are included in minimum lease payments according to the current rate at the start of the agreement. Future changes of the interest rate are included in the contingent rent. Total lease payments amounted to MSEK 690 (598). Contingent rent has impacted the lease payments for the year by MSEK 90 (-20).

As of the closing date, the total amount of future leasing revenue for non-cancellable agreements pertaining to re-leased aircraft amounts to MSEK 228 (0).

Book values of finance lease assets amounted on the closing date to:

	Aircraft		Machinery & equipment	
	2005	2004	2005	2004
Acquisition value	12,601	12,547	99	89
Less accumulated depreciation	-2,413	-1,849	-34	-30
Book value of finance lease assets	10,188	10,698	65	59

Future minimum lease payments and their present value for finance leasing contracts applying on closing date.

	2005		2004	
	Future minimum lease pmts.	Present value of future minimum lease pmts.	Future minimum lease pmts.	Present value of future minimum lease pmts.
Due date:				
Within one year	1,632	1,605	863	848
1-5 years	3,777	3,273	3,586	3,264
Over 5 years	4,145	3,053	4,186	3,090
Total	9,554	7,931	8,635	7,202

Operating leasing

SAS Group leases out owned assets with book values that on the closing date amounted to:

	Aircraft		Machinery & equipment	
	2005	2004	2005	2004
Acquisition value	976	1,388	-	18
Less accumulated depreciation	-690	-665	-	-18
Book value of assets leased out on operating leases	286	723	-	0

Note 13, cont.

Depreciation for the year pertaining to aircraft leased out on operating leases was MSEK 51 (66).

Leasing revenues for the year did not contain any contingent rent.

Future leasing revenues for operating lease contracts on the closing date:

	2005	2004
Within one year	204	174
1-5 years	971	477
Total	1,175	651

Contractual purchase commitments

On the closing date the Group had the following commitments relating to future acquisition of tangible fixed assets.

	2006	2007
Aircraft	453	970
Other purchase commitments	37	
Total	490	970

On the basis of external valuations, the SAS Group is of the opinion that the contractual future acquisitions are in line with the expected market value.

Tax value

Buildings:	2005	2004
Sverigehuset, part of Arlanda 2:1	33	33
Flight Academy, part of Arlanda 2:1	134	134
Night Stop, part of Arlanda 2:1	9	9
Total	176	176

Note 14 - Prepayments relating to tangible fixed assets

	2005	2004
Airbus	304	245
Boeing	118	96
Other	-	18
Total	422	359

Note 15 - Financial fixed assets

	Equity in affiliated companies		Long-term receivables from affiliated companies		Shares & participations		Pension funds, net		Other long-term receivables		Total financial fixed assets	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Opening acquisition value	691	604	229	247	311	312	7,421	6,656	2,717	2,711	11,369	10,530
Contributions	29	9	-	-	23	1	830	758	376	132	1,258	900
Share of income	134	157	-	-	-	-	-	-	-	-	134	157
Sales	-92	-1	-	-	-	-	-	-	-	-	-92	-1
Sales of companies ¹	-	-	-	-	-1	-	-59	-	-7	-	-67	-
Amortization	-	-	-7	-7	-	-	-	-	-98	-147	-105	-154
Dividend	-29	-26	-	-	-	-	-	-	-	-	-29	-26
Reclassifications	413	-20	-	-	-	-	-	-	13	64	426	44
Exchange rate differences	68	-32	6	-11	11	-2	171	7	194	-43	450	-81
Closing accumulated acquisition value	1,214	691	228	229	344	311	8,363	7,421	3,195	2,717	13,344	11,369
Opening depreciation	-	-	-	-	-	-	-	-	-	-	-	-
Appreciation for the year	-	-	-	-	63	-	-	-	-	-	63	-
Closing accumulated appreciation	-	-	-	-	63	-	-	-	-	-	63	-
Opening write-down	-	-	-	-	-185	-187	-	-	-90	-91	-275	-278
Exchange rate differences	-	-	-	-	-8	2	-	-	-4	1	-12	3
Closing write-down	-	-	-	-	-193	-185	-	-	-94	-90	-287	-275
Closing residual value	1,214	691	228	229	214	126	8,363	7,421	3,101	2,627	13,120	11,094

¹ European Aeronautical Group, Jetpak, 67% of SAS Component Group and operations in SAS Trading were sold during the year.

Note 16 - Share of equity in affiliated companies

	Corporate ID no.	Domicile	Share of equity, %	Share of equity	
				2005	2004
British Midland PLC	2107441	Derby, UK	20.0	192	161
Skyways Holding AB	556021-5872	Stockholm, Sweden	25.0	71	75
Air Greenland A/S	30672	Nuuk, Greenland	37.5	150	129
airBaltic Corporation A/S ¹	324575	Riga, Latvia	-	-	62
AS Estonian Air	10076042	Tallinn, Estland	49.0	239	189
SAS Component Group A/S	28501048	Copenhagen, Denmark	33.0	445	-
Commercial Aviation Leasing Ltd	IE6328550R	Dublin, Ireland	49.0	211	160
Elimination of intra-group profit for Commercial Aviation Leasing Ltd				-159	-198
Casino Copenhagen K/S	15751274	Copenhagen, Denmark	50.0	30	38
TTB Leisure Luxury Hotels	99088707	Cape Town, South Africa	50.0	4	13
ZAO St. Petersburg ²	76679	St. Petersburg, Russia	-	-	51
Rezidor SAS Hotels & Resorts Middle East W.L.L.	51995	Bahrain	50.0	8	-
SAS Royal Hotel Beijing Co Ltd	47	Beijing, China	50.0	11	-
Other				12	11
Total				1,214	691

¹ airBaltic Corporation A/S was included as a subsidiary in the SAS Group beginning August 2005. ² The hotel in St. Petersburg was sold during the year.

Participations in affiliated companies are reported by the owner company through application of the equity method. Consolidated shareholders' equity on the closing date, December 31, 2005, amounted to MSEK 11,504. If participations in affiliated companies had been reported according to the acquisition cost method, consolidated shareholders' equity would have amounted to MSEK 11,449.

Equity in affiliated companies includes acquired surplus value of MSEK 36 (34) in British Midland PLC, MSEK 64(64) in Skyways Holding AB, and MSEK 150 (129) in AS Estonian Air.

Note 17 - Long-term receivables from affiliated companies

	2005	2004
airBaltic Corporation A/S	–	33
Commercial Aviation Leasing Ltd	228	196
Total	228	229

Note 18 - Shares and participations

	Number of shares/ participations	%	Par value 1,000s	MSEK Book value
Doricus Enterprise Ltd, Limassol	2,040,000	16.0	EUR 2,040	54
Aeroexchange Ltd, Dallas	50,000	9.4	USD 5,000	50
RBS Hotellis AS, Tallinn	570	14.1	EEK 570	46
Feri Otelcilik Ve Turizm AS, Istanbul	270,000	10.0	USD 2,700	21
First Hotels Co K.S.C.C., Safat	7,292,500	1.82	KWD 729	20
Al Quseir Hotel Company, Al Quseir City	6,000	20.0	EGP 6,000	16
Other				7
Total shares and participations				214

Note 19 - Pension funds, net

	2005	2004
Pension funds, net, overfunded plans	9,910	8,914
Pension funds, net, underfunded plans	-1,547	-1,493
Total	8,363	7,421

Most pension plans in Scandinavia are defined benefit. The majority are placed with insurance companies. The group pension plans for salaried employees in Sweden and for employees in Norway are secured through defined benefit pension plans with insurance companies. In Sweden, pension plans are mainly placed with Alecta and in Norway with Vital. Employees in Denmark have mostly defined contribution solutions.

Most SAS employees in Sweden are covered by ITP pension reinsured by Alecta (the Alecta plan). The Alecta plan is a multi-employer pension plan and has been classified by the Swedish Financial Accounting Standards Council as a defined benefit pension plan. SAS has signed a special and specific agreement with Alecta whereby Alecta has undertaken to supply all basic data concerning employees (pay, age etc.), which supports SAS accounting according to IAS 19. Alecta has specifically certified that the information regarding the basic data is correct and reliable. The agreement with Alecta also means that SAS received written confirmation that the surplus in the Alecta plan will benefit SAS in the form of either indirect or direct premium reductions or through cash refunds. Based on the information SAS receives, SAS reports its proportional share of the Alecta plan's commitments, managed assets and costs in accordance with IAS 19 rules regarding defined benefit pension plans. With this support SAS can apply the main rule in IAS 19 regarding defined benefit pension plans that cover many employers.

The normal retirement age for non-flight personnel mainly follows the respective country's rules regarding general retirement. The normal retirement age for SAS flight personnel is 60. According to agreements with SAS pilots in Denmark, Norway and Sweden, and with cabin crew in Sweden and Norway, voluntary early retirement with pension is allowed from the age of 55 at the earliest. SAS has also undertaken to pay a pension up to normal retirement age, 60, to pilots who have lost their licenses. The retirement age for cabin crew employed in Sweden is insured at 65, but once they reach the age of 50 the retirement age is reduced to 60. The estimated present value of all these obligations is included in SAS's calculated total pension commitment.

In calculating pension commitments, the year's pension earnings and returns, locally set parameters are applied in the respective countries on the basis of the local market situation and expected future trend. The following long-term economic assumptions represent a weighted average for the SAS Group:

	2005	2004	2003
Discount rate	5.2%	6.2%	6.2%
Long-term rate of return	7.4%	7.4%	7.4%
Inflation	1.7%	2.2%	2.2%
Future salary adjustments	2.6%	3.1%	3.1%
Future adjustments of current pensions	1.7%	2.2%	2.2%

The following interest parameters are used for the largest pension plans in Sweden and Norway:

Discount rate	5.0% (6.0%) in Sweden and 5.5% (6.5%) in Norway
Long-term rate of return	7.5% (7.5%) in Sweden and 7.5% (7.5%) in Norway

According to IAS 19 the discount rate is determined by reference to the market yields on corporate bonds at the balance sheet date. Other financial assumptions are based on anticipated developments during the term of the commitments.

The discount rate is determined on the balance sheet date with reference to corporate bonds and with regard to relevant spread whose term is compatible with the term of the commitments. The long-term return shall correspond to a long-term expectation of return on funded assets based on the pension institutes' investments in shares and interest-bearing securities. For Sweden and Norway, 7.5% is deemed to be a realistic expectation of long-term return. For Denmark, 7% is deemed reasonable against the background of a somewhat more conservative investment strategy. The inflation assumption is 1.5% in Sweden and Denmark and 2% in Norway. Future salary adjustment has been set at one percentage point above the inflation assumption for the purpose of including a real salary increase in calculations of pension commitments.

The amortization period for deviations from estimates exceeding the higher of 10% of commitments or funded assets is 15 years, which corresponds to average remaining employment period.

A noticeable reduction in funded assets occurred during 2002, particularly in the insurance companies where Swedish and Norwegian pension plans are placed. The reason for this is the performance of the capital markets in Scandinavia and the rest of the world. In 1999 an allocation of MSEK 3,063 was identified for the SAS Group in the form of so-called client company pension funds in Alecta in Sweden. As of December 31, 2005, MSEK 663 had not been utilized.

Defined benefit pension plans	2005	2004
Pension earned during the year	-844	-1,042
Interest on pension provisions	-1,489	-1,398
Expected return on funded assets for the year	1,914	1,810
Amortization of deviations from estimates and plan amendments for the year	-301	-232
Impact on income for the year, net, pertaining to defined benefit pension plans	-720	-862

The above cost is reported in its entirety as a payroll expense.

Overfunding exists in several of SAS's pension plans. This means the return on funded assets for the year will exceed the cost of pension benefits earned.

In the financial statements the commitments of the SAS Group are included as specified in the table below. Plan amendments are amortized over the average remaining working lives of employees covered by the plan and deviations from estimates are amortized over fifteen years when they exceed 10% of the greater of pension obligations or pension assets.

Status at year-end	2005	2004
Funded assets	26,734	24,656
Pension commitments	-25,702	-22,656
Difference between funded assets and commitments	1,032	2,000
Unrecognized deviations from estimates and plan amendments ¹	7,331	5,421
Book assets	8,363	7,421

¹ Of which deviations from estimates MSEK 7,268 (5,121).

In some pension plans in years past the real return rate has been lower than the Group's estimated long-term return of 7.4%, which is reflected in the item, unrecognized deviations from estimates. The actual return on managed assets in 2004 was 9.1% and 9.7% in 2003. While the final calculation for 2005 is not yet ready, the return is expected to be approximately 11%.

The difference between funded assets/commitments and net book assets is shown below:

	Funded assets	Commit- ments (PBO)	Difference funded assets/ commitments	Pensions funds, net
Pension plans in Sweden	11,997	8,670	3,327	5,228
Pension plans in Norway	10,435	11,862	-1,427	2,395
Pension plans in other countries	4,302	5,170	-868	740
Total	26,734	25,702	1,032	8,363

Note 19, cont.

Pension funds include unfunded plans funded via operating income and underfunded plans in the amount of MSEK 375 in Sweden, MSEK 1,172 in Norway and MSEK 31 in other countries.

Pension funds, net, including pension commitments, assets under management and unrecognized plan amendments and deviations from estimates for the defined benefit pension plans performed as follows:

	2005	2004
Opening balance	7,421	6,656
Impact on income for the year	-720	-862
Paid-in premiums	1,737	1,830
Utilization of company funds in Alecta	-371	-243
Pension funds in sold operations	-59	-
Change in deviations from estimates	184	33
Currency effect	171	7
Closing balance	8,363	7,421

Of total pension commitments of MSEK 25,702 (22,656), MSEK 23,109 (20,697) was funded and MSEK 2,593 (1,959) unfunded.

Note 20 - Expendable spare parts and inventories

	2005	2004
Expendable spare parts, flight equipment	745	868
Expendable spare parts, other	112	144
Inventories	181	253
Total	1,038	1,265
Valued at acquisition cost	1,031	1,265
Valued at net selling price	7	-
Total	1,038	1,265

Note 21 - Current receivables from affiliated companies

	2005	2004
SAS Component Group A/S	1,480	-
Commercial Aviation Leasing Ltd	114	83
Skyways Holding AB	16	-
airBaltic Corporation A/S	-	16
Other companies	10	5
Total	1,620	104

Note 22 - Prepaid expenses and accrued income

	2005	2004
Prepaid expenses	811	881
Accrued income	937	1,165
Total	1,748	2,046

Note 23 - Short-term investments

	Book value 2005	Book value 2004	Fair value 2004
Treasury bills	2,342	3,127	3,128
Housing bonds	1,996	1,738	1,738
Deposits	2,733	2,295	2,295
Commercial paper	0	33	33
Blocked deposits in tax deduction account in Norway	194	156	156
Total	7,265	7,349	7,350

In connection with the transition to accounting in conformance with IAS 39, book value of short-term investments corresponds with the fair value. Fair value is the amount that should have been received for outstanding short-term investments if sold on the closing date.

Note 24 - Hedging and translation reserves

	Hedging reserves	Translation-reserves	Total
Opening balance, January 1, 2004		558	558
Translation differences relating to foreign operations		-180	-180
Income from currency hedging of investments in foreign operations		79	79
Closing balance, December 31, 2004		457	457
Adjustment for IAS 39	1,635		1,635
Opening balance, January 1, 2005	1,635	457	2,092
Translation differences relating to foreign operations		353	353
Cash flow hedges:			
Income from cash flow hedges	-909		-909
Taken to income	-95		-95
Income from currency hedging of investments in foreign operations		-523 *	-523
Closing balance, December 31, 2005	631	287	918

* A corresponding positive effect is reported in translation differences regarding foreign operations.

Note 25 - Maturity of long-term liabilities

	2005	2004
Long-term liabilities that fall due more than five years after the closing date.		
Debenture loans	771	742
Other loans	4,839	4,388
Other liabilities	12	12
Total	5,622	5,142

Note 26 - Subordinated debenture loan

A subordinated debenture loan of 200 million Swiss francs was issued during the 1985/86 fiscal year. There is no set maturity date for this loan. SAS has an exclusive right to call in this loan every fifth year. The interest rate is fixed for 10-year periods and amounts to 3.625% per annum from 1996. In January 2006 the rate for the coming 10-year period was set at 2.375%. In previous years SAS repurchased MCHF 72.8 worth of the bonds, after which the balance of the loan is MCHF 127.2. The loan is listed and on the closing date the fair value amounted to MCHF 52.1 (52.2), equivalent to MSEK 315.6 (309.9).

Note 27 - Bond issues

SAS's bond issues amounted to MSEK 7,355 (6,176). Specification of individual loans:

Original issued amount	Interest rate	Maturity	Outstanding debt in MSEK	Loans after currency swap
MJPY 1,000.0	1.000%	2001/2007	68	MEUR 9.3
MJPY 1,000.0	1.120%	2001/2007	68	MEUR 9.3
MJPY 5,500.0	1.305%	2001/2008	373	MEUR 53.5
MCZK 750.0 **	2.630% *	2001/2008	164	
MEUR 500.0 **	6.000%	2001/2008	4,646	*** MEUR 427 + MUSD 63
MEUR 108.0	7.088% *	2003/2010	919	
MEUR 33.0	3.776% *	2005/2006	311	
MSEK 200.0	5.452% *	2005/2010	200	
MNOK 454.0	5.710% *	2005/2010	528	
MNOK 265.5	7.000%	2005/2010	312	
MNOK 50.0	7.000%	2005/2010	57	
MNOK 17.0	7.000%	2005/2010	20	
Total			7,666	
Less amortization 2006			-311	
Total			7,355	

* Interest rate on the closing date. The loan has a floating interest rate set every three months.

** In 2005 repurchases of bond issues that mature in 2008 were made in the nominal amounts of MCZK 263.7 and MEUR 6.25.

*** The loan is listed and on the closing date the fair value amounted to MEUR 505.2 (488.2), equivalent to MSEK 4,763.8 (4,397.2).

Note 27, cont.

Outstanding debt in SEK corresponds with amortized cost. Previously issued loans in the nominal amount of MEUR 108 were renegotiated and extended from maturation in 2008 to 2010. In April, MEUR 33 maturing in October 2006 will be reported as the current portion of long-term loans. Furthermore, MSEK 200 and MNOK 786.5 maturing in 2010 will be issued.

To manage the currency exposure the loans have to some extent been switched to other currencies as shown above. The value of currency swap transactions is included in book value under other loans, see Note 28. The interest rate exposure is managed by entering into interest-rate swap contracts to adjust the fixed-interest term.

Note 28 - Other loans

	Book value 2005	Fair value 2005	Book value 2004	Fair value 2004
Finance leasing	7,508	7,779	7,971	7,222
Other loans, swap transactions	6,403	6,444	6,871	6,497
Total before amortization	13,911	14,223	14,842	13,719
Less amortization in 2006 and 2005	-2,872	-3,213	-800	-997
Total other loans	11,039	11,010	14,042	12,722

Maturity profile of other loans:

	2006	2007	2008	2009	2010	2011>	Total
Finance leases	1,165	590	614	655	699	3,785	7,508
Other loans	1,707	2,570	198	476	398	1,054	6,403
Total	2,872	3,160	812	1,131	1,097	4,839	13,911

In connection with the transition to IAS 39, the currency effect of cash flow-hedged loans was recognized in equity in the amount of MSEK 549 as of December 31, 2005. The previous year's currency effect is included in the loans' book value in the amount of MSEK 1,449.

Note 29 - Financial risk management and financial derivatives

The SAS Group is exposed to various types of financial risk. All risk management is handled centrally and in accordance with the finance policy set by the Board. The SAS Group uses derivative instruments as part of its risk management to limit its currency and interest rate exposure.

Currency risks

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 rate fluctuations. To manage the transaction risk the SAS Group is exposed to, the projected commercial currency flows are hedged with the help of currency derivatives and future aircraft sales are hedged by currency derivatives and loans in USD. According to the financial policy, the hedge level shall be between 60-90% of a 12-month rolling liquidity forecast and the hedge level for future aircraft sales shall according to the policy amount to 40-60% of the book value of the aircraft fleet.

Translation risk arises during conversion of balance sheet items in foreign currencies due to changes in exchange rates. To limit translation risk the policy is to keep the financial net debt mainly in the accounting currency of the respective company. Furthermore, the SAS Group hedged foreign subsidiaries' equity through borrowing and derivatives.

Interest rate risks

The SAS Group is exposed to interest rate risk when the market value of the financial net debt (interest-bearing assets and liabilities) is affected by movements in the yield curve (market interest rates at different maturities). To manage the interest rate risk, interest rate derivatives are used to change the fixed-interest term of the underlying financial net debt. The goal of current policy is for the average fixed interest term of the financial net debt to correspond to 3.5 years. The average fixed-interest term during the year was approximately 3.2 (3.2) years. At the end of 2005 the fixed-interest term was 3.3 (3.0) years. A sensitivity analysis as of December 31, 2005 shows that a change of the market interest rates by 1% would impact the SAS Group's interest payments by approximately MSEK 30 (50) in the next calendar year. The calculation includes outstanding interest rate derivatives.

Interest rate exposure

	2006	2007	2008	2009	2010	>2010	Total
Interest-bearing assets	11,343	0	53	366	43	88	11,893
Interest-bearing liabilities	-20,000	0	-4,646	0	-389	-771	-25,806
Interest rate derivatives	5,863	-2,256	2,740	-611	-1,534	-4,202	0
Total	-2,794	-2,256	-1,853	-245	-1,880	-4,885	-13,913

Accrued interest is not included in calculating the above interest rate exposure regarding the financial net debt. The interest rate exposure of MSEK -2,794 for 2006 has a floating interest rate. Starting in 2007, everything will be fixed rate.

Credit risks

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 his contractual obligations. The financial policy prescribes that transactions may be signed only with counterparties with high creditworthiness, defined as category A3/P-1 or better according to Moody's.

Limits are set for each counterparty and are continually revised. To further reduce counterparty risks, ISDA agreements (netting agreements) are signed with most counterparties. Approximately 66% of the credit-related exposure is geographically concentrated in the Nordic countries. The breakdown of the remaining credit exposure is 23% in the rest of Europe and 11% in the rest of the world. The maximum credit exposure for derivative instruments is matched by book value, see the table below under the heading financial derivatives. For short-term investments the size of the credit risk is the nominal amount and is distributed as follows:

Rating (Moody's)	Book value MSEK
Aaa/P-1	2,342
Aa1/P-1	1,527
Aa2/P-1	30
Aa3/P-1	2,765
A1/P-1	0
A2/P-1	601
A3/P-1	0
Total	7,265

Concerning 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 intragroup information on payment history supplemented with credit and business information from external sources.

Liquidity and borrowing risks

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.

To guarantee good payment preparedness, financial preparedness shall be equivalent to 20-25% of the SAS Group's annual operating revenue. Financial preparedness refers to liquid assets and unutilized contracted credit facilities. The SAS Group's liquid assets shall be kept in instruments with good liquidity or a short maturity.

Contracted credit facilities

Facility	Total facility	Utilized facility	Unutilized facility	Expiration of validity period
Revolving credit facility				
400 MEUR	3,772	943	2,829	2007
Bilateral bank facilities	2,096	0	2,096	2006
Other	1,402	1,081	321	2006
Total	7,270	2,024	5,246	

To manage borrowing risk the objective is for the SAS Group's maturity profile to be divided evenly over time so that a maximum of 25% of the interest-bearing gross liabilities fall due over the coming 12 months. As of December 31, 2005, the Group's interest-bearing liabilities amounted to MSEK 26,337 (27,280). 8.9% (14.5%) of the interest-bearing liabilities are associated with financial key figures such as cash flow, debt/equity and liquidity ratios. The average term of the interest-bearing gross debt amounted to approximately 2.7 (3.1) years at year-end.

Note 29, cont.

Financial derivatives

Different types of currency derivatives such as forward currency 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 FRA (forward rate agreements), futures, interest-rate swap contracts and currency interest swap contracts.

At December 31, 2005, the fair value of the SAS Group's outstanding derivative instruments totaled MSEK 451 (314), broken down according to the table below.

Outstanding derivative instruments, December 31, 2005

	2005			2004		
	Out-standing volume	Fair value		Out-standing volume	Fair value	
		Assets	Liabilities	Net		
Currency derivatives	39,878	545	-232	313	42,577	403
Interest rate derivatives	23,439	62	-299	-237	17,047	-280
Fuel derivatives	4,104	365	10	375	2,773	191
Total	67,421	972	-521	451	62,397	314

As of December 31, 2005, fair value concords with book value. The fair value is the amount received or paid if outstanding financial instruments are sold on the closing date. Of the assets' total book value of MSEK 972, MSEK 61 consists of other long-term receivables, MSEK 272 of prepaid expenses and accrued income and the remaining MSEK 639 of other receivables. Of the liabilities' total book value of MSEK 521, all of the derivatives are short-term loans. Of the book value of the above derivatives, MSEK 708 refers to cash flow hedges, MSEK 26 to fair value hedges, MSEK -39 to hedging of net investment and MSEK -244 to derivatives that are not hedge accounted. Outstanding volume means the derivative contracts' nominal amount expressed in absolute terms.

Hedge-accounted derivatives, cash flow hedge

Investment in aircraft

Investment in aircraft represents hedging transactions since it is the payment flow in foreign currency in the event of a future sale that is hedged according to the cash flow method. The loans and the forward currency contracts included in hedging relationships are translated at the relevant closing rate and the change that is calculated as effective is booked against equity. As of December 31, 2005, the accumulated currency effect on cash-flow hedged loans and derivatives relating to future aircraft sales was recognized in shareholders' equity in the amount of MSEK 447.

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 recorded in equity until it is recycled to the statement of income as a cost/revenue. The accumulated currency effect of these cash flow-hedged currency derivatives was recorded in equity in the amount of MSEK 119 as of December 31, 2005.

Interest rate derivatives

At the beginning of 2005 only some of the interest-rate swap contracts entered into qualified for hedge accounting according to the cash flow hedge method.

When the SAS Group borrows at floating interest rates and changes its interest rate exposure by entering into interest-rate swap agreements 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 recorded in equity. The accounting policies for the interest rate derivatives used for hedging transactions are matched with those of the individual loans. In connection with the transition to IAS, the accumulated effect of these cash flow-hedged interest rate derivatives was recorded in equity in the amount of MSEK 44 as of December 31, 2005.

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 projected fuel need. In connection with the transition to IAS, the accumulated effect of these cash flow-hedged fuel derivatives was recorded in equity in the amount of MSEK 74 as of December 31, 2005.

All together, MSEK 684 relating to cash flow hedges was recorded in equity as of December 31, 2005 and is expected to affect the statement of income in the following years:

	2006	2007	2008	2009	2010	>2010	Total
Aircraft	154	74	85	295	31	-18	621
Commercial flows	165	-	-	-	-	-	165
Interest rate derivatives	-	-	-	1	-	60	61
Fuel derivatives	103	-	-	-	-	-	103
Deferred tax	-118	-21	-24	-83	-9	-11	-266
Effect on shareholders' equity	304	53	61	213	22	31	684

Hedge-accounted derivatives, fair value hedge

At the beginning of 2005 only some of the interest-rate swap contracts entered into qualified for hedge accounting according to the fair value hedge method. In cases where the SAS Group borrows at fixed interest rates and changes its interest rate exposure by entering into interest-rate swap agreements 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 accounting policies for the interest rate derivatives used for hedging transactions are matched with those of the individual loans.

Hedge-accounted derivatives, hedging of net investments in foreign operations

To hedge net investments in foreign operations, SAS has entered into currency derivative agreements and loans in corresponding currency. When hedge accounting is applied, the effective portion of the change in value of the hedge instrument is recorded in equity. The currencies where hedging of net investments takes place are DKK, EUR and NOK.

Derivatives not subject to hedge accounting

The value of other currency derivatives not subject to hedge accounting is translated on a current basis at fair value in the statement of income. Nor are interest rate derivatives that cannot be linked to specific borrowing subject to hedge accounting and are translated currently at their fair value.

Note 30 - Other provisions

	Restructuring		Loyalty program		Other provisions		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
Opening balance, January 1, 2005	193	569	740	825	87	171	1,020	1,565
Provisions	413	223	248	262	9	27	670	512
Utilized provisions	-324	-599	-383	-347	-32	-111	-739	-1,057
Currency effects	8	-	1	-	10	-	19	-
Closing balance, December 31, 2005	290	193	606	740	74	87	970	1,020
Breakdown in balance sheet:	2005	2004						
Long-term liabilities	697	854						
Current liabilities	273	166						
	970	1,020						

Other provisions include provisions for leasing costs relating to unused premises and maintenance costs for leased aircraft according to the leasing contract.

Note 31 - Short-term loans

	Book value 2005	Fair value 2005	Book value 2004	Fair value 2004
Revolving credit facilities, utilized portion	306	306	330	330
Issued commercial paper	1,924	1,920	1,404	1,410
Bank loans	294	294	2,128	2,159
Overdraft facilities, utilized portion	361	361	358	358
Accrued interest	422	422	*	*
Forward currency contracts	232	232	465	468
Forward currency contracts, hedge accounted	-	-	794	-
Derivative debt	289	289	-	-
Total	3,828	3,824	5,479	4,725

* In 2004, accrued interest of MSEK 328 on respective loans was stated.

Derivative debts refers to the fair value of primarily interest rate derivatives. In accordance with IAS 39, last year's hedge-accounted forward currency contracts of MSEK 794 were recorded in equity in the amount of MSEK 70 as of December 31, 2005.

Note 32 - Current liabilities to affiliated company

	2005	2004
SAS Component	176	-
Other companies	7	7
Total	183	7

Note 33 - Unearned transportation revenue (net)

Unearned transportation revenue consists of tickets sold and still valid but unused, see Accounting and valuation policies, page 64 - Revenue recognition.

The estimated reserve in the unearned transportation revenue liability on December 31, 2005, amounted to MSEK 305 (305).

Note 34 - Accrued expenses and prepaid income

	2005	2004
Vacation pay liability	1,847	1,698
Other accrued payroll expenses	534	468
Selling costs	267	308
Technical aircraft maintenance	62	325
Other accrued expenses	2,121	2,230
Prepaid income	495	404
Total	5,326	5,433

Note 35 - Assets pledged

	2005	2004
Related to long-term liabilities to credit institutions:		
Real estate mortgages	124	114
Aircraft mortgages	732	681
Company mortgages	19	20
Other mortgages	3	3
Shares in subsidiaries	0	0
Related to deposits:		
Blocked bank accounts	103	218
Total	981	1,036

Outstanding liability at December 31, 2005 relating to aircraft mortgages was MSEK 271.

The item Shares in subsidiaries includes the book value of SAS's shares in SAS's wholly owned financing structures for aircraft. For additional information in this regard, please refer to Note 13.

Note 36 - Contingent liabilities

	2005	2004
Swap transactions	186	208
Contingent liabilities, other	57	63
Total	243	271

Contingent liabilities include a gross amount of MSEK 186 (208) attributable to swap transactions. SAS enters into currency and interest rate contracts on an ongoing basis. The values shown here relate to loans after swap transactions whose book value on the closing date was lower than the value of the original loan and the accrued interest receivable on currency and interest rate contracts.

Under the management agreements for 48 hotels, Rezidor SAS Hospitality A/S guarantees a minimum annual cash flow until 2006-2029. For several of the agreements, the guarantee is limited to a maximum sum over the contract period, and in certain cases also to a maximum amount per annum. Guarantee payments made in 2005 came to MSEK 61.

The SAS Group is involved in disputes, some of which will be settled in court. Provisions are made in cases where a probable and quantifiable risk of loss is judged to exist.

Note 37 - Leasing commitments

The different business areas in the SAS Group have entered into the following leasing commitments, with specification of the total annual rent for:

	2006	2007	2008	2009	2010	2011>
Aircraft	3,277	3,052	2,635	2,233	1,617	4,173
Hotel properties	1,454	1,501	1,465	1,521	1,543	20,205
Other properties	852	805	785	774	746	5,270
Machinery and equipment	103	78	68	59	53	217
Total	5,686	5,436	4,953	4,587	3,959	29,865

Leasing contracts with an annual rental cost in excess of MSEK 0.5 are included. Total lease costs in 2005 amounted to MSEK 5,700 (4,890), of which MSEK 559 (214) pertains to contingent rent. Contingent rent varies according to different factors such as operating revenue, the consumer price index and short-term market interest rates. In 2005 payments received for assets subleased to a third party amounted to MSEK 81 (31). The value of future fixed payments for these assets subleased to a third party is MSEK 379 (15).

The above table includes the following major items:

The sale and leaseback agreement involving 30 MD-80 aircraft concluded together with GECAS in December 1999 is expected to yield an annual leasing cost of approximately MSEK 274. The agreement runs through December 2009.

SAS sold airport-related properties in December 2001. These were acquired by Nordisk Renting and GE Capital Real Estate for a purchase price of MSEK 3,020. At the same time, SAS leased back all the buildings for 20 years via operating leases and has an option, under certain terms, to buy back all or parts of the property portfolio after 10 years. The rent amounts to MSEK 166 in 2006.

In September and December 2003 properties in Copenhagen and Stockholm were sold. They were acquired by Keops and Nordisk Renting for a purchase price of MSEK 2,122. The properties are being leased back by SAS via operating leases for 10-20 years. The rent amounts to MSEK 163 in 2006.

Note 38 - Adjustment for items not included in cash flow, etc.

	2005	2004
Share of income in affiliated companies	-134	-157
Dividends from affiliated companies	29	26
Write-ups and write-downs	-63	24
Capitalized interest on prepayments to aircraft manufacturers	-9	-10
Earnings impact from measuring financial derivatives according to IAS 39	-85	-
Other	-93	-84
Total	-355	-201

Note 39 - Acquisition of subsidiaries

No subsidiaries were acquired in 2005. In 2004, 21% of the shares in Spanair and Aerolineas de Baleares were acquired. According to the acquisition analyses the value of the acquired assets and liabilities was as follows:

	2005	2004
Tangible fixed assets	–	–
Current assets	–	–
Current receivables	–	–
Liquid assets	–	–
Minority interests	–	80
Provisions	–	–
Long-term liabilities	–	–
Current liabilities	–	–
Total	–	80
Goodwill	–	588
Purchase price	–	668
Prepayment in 2003 pertaining to acquisition of shares in Spanair	–	–54
Liquid assets in acquired companies	–	–
Effect on the Group's liquid assets	–	614

Note 40 - Sale of subsidiaries

In 2005, European Aeronautical Group, Jetpak, 67% of SAS Component, Radisson SAS Hotel London Stansted Airport and operations in SAS Trading were sold during the year. No subsidiaries were sold in 2004.

The value of the sold assets and liabilities was the following:

	2005	2004
Intangible assets	155	–
Tangible fixed assets	2,563	–
Financial fixed assets	–416	–
Current assets	417	–
Current receivables	–422	–
Liquid assets	39	–
Long-term liabilities	–548	–
Current liabilities	–731	–
Total	1,057	–
Capital gain excl. sales costs	586	–
Purchase price paid	1,643	–
Unpaid purchase price	–877	–
Selling costs	–105	–
Liquid assets in sold companies	–39	–
Effect on the Group's liquid assets	622	–

Specification of discontinued operations

	2005	Discontinued operations	Remain. operations
Operating revenue	61,887	998	60,889
Payroll expenses	–20,467	–367	–20,100
Other operating expenses	–35,303	–553	–34,750
Leasing costs for aircraft	–3,133	–	–3,133
Depreciation	–2,412	–62	–2,350
Share of income in affiliates	134	–	134
Income from the sale of shares in subsidiaries and affiliates	480	–	480
Income from the sale of aircraft and buildings	187	–	187
Operating income	1,373	16	1,357
Income from other shares and participations	50	–	50
Net financial items	–1,005	–38	–967
Income after financial items	418	–22	440
Tax	–163	–13	–150
Net income for the period	255	–35	290

IFRS 5 is not applied because the income items in discontinued operations are insignificant in relation to the SAS Group as a whole. The above report is therefore supplementary information.

Note 41 - Liquid assets

	2005	2004
Short-term investments	7,265	7,349
Cash and bank balances	1,419	1,246
Liquid assets at year-end	8,684	8,595

Disclosure of interest paid:

During the year, interest received amounted to MSEK 331 (322), of which MSEK 105 (104) pertains to forward premiums for currency derivatives. During the year, interest paid amounted to MSEK 1,406 (1,267), of which MSEK 132 (218) pertains to forward premiums for currency derivatives.

Note 42 - Auditors' fees

An audit engagement refers to the examination of annual accounts and accounting records and the administration of the Board of Directors and the President. Such services also include other duties incumbent on the company's auditors as well as advice or other assistance prompted by observations made while performing the audit or carrying out such duties. All other work is classified as other services.

The following remuneration was paid to audit firms for audit services and other services:

	2005	2004
Deloitte		
Audit services	29	16
Other services	17	13
Total Deloitte	46	29
Other audit firms		
Audit services	0	2
Total	46	31

Note 43 - Transactions with affiliated companies

Revenues from sales to affiliated companies amounted to MSEK 159 (317). Costs of purchases from affiliated companies was MSEK 463 (294).

Note 44 - Segment reporting

Income by business area

STATEMENT OF INCOME	Scandinavian Airlines Businesses		Subsidiary & Affiliated Airlines		Airline Support Businesses		Airline Related Businesses		Hotels		Groupwide & eliminations		SAS Group	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
External sales	35,352	34,344	14,188	11,780	5,316	4,634	1,248	2,452	5,368	4,452	415	431	61,887	58,093
Sales between business segments	1,343	1,329	164	78	9,560	9,579	334	461	90	100	-11,491	-11,547	0	0
Total operating revenue	36,695	35,673	14,352	11,858	14,876	14,213	1,582	2,913	5,458	4,552	-11,076	-11,116	61,887	58,093
Payroll expenses	-7,785	-8,106	-3,007	-2,485	-6,569	-6,204	-350	-447	-1,926	-1,664	-830	-679	-20,467	-19,585
Other expenses	-25,483	-25,444	-9,425	-7,918	-7,428	-6,932	-1,075	-2,269	-3,178	-2,751	11,286	11,274	-35,303	-34,040
Operating income before depreciation and leasing costs, EBITDAR per business segment	3,427	2,123	1,920	1,455	879	1,077	157	197	354	137	-620	-521	6,117	4,468
Leasing costs for aircraft	-1,928	-1,557	-1,247	-1,132	0	0	0	0	0	0	42	0	-3,133	-2,689
Operating income before depreciation, EBITDA per business segment	1,499	566	673	323	879	1,077	157	197	354	137	-578	-521	2,984	1,779
Depreciation	-1,344	-1,553	-312	-309	-367	-491	-122	-142	-179	-163	-88	-188	-2,412	-2,846
Share of income in affiliated companies	61	62	39	70	-23	0	-1	0	58	28	0	-3	134	157
Capital gains	394	162	15	53	-72	5	36	1	63	53	231	-156	667	118
EBIT per business segment	610	-763	415	137	417	591	70	56	296	55	-435	-868	1,373	-792
Unallocated income items														
Income from other shares and participations													50	1
Net financial items													-1,005	-1,042
Tax													-163	68
Next income for the period													255	-1,765
OTHER DISCLOSURES														
Assets	25,054	30,839	9,701	8,596	9,797	9,872	1,187	1,689	4,224	2,857	6,839	3,257	56,802	57,110
Equity shares	53	-38	651	618	453	8	-1	0	55	101	3	2	1,214	691
Total assets	25,107	30,801	10,352	9,214	10,250	9,880	1,186	1,689	4,279	2,958	6,842	3,259	58,016	57,801
Total liabilities	10,892	22,979	7,053	5,693	7,444	7,459	1,033	1,033	1,913	2,344	17,600	6,945	45,935	46,757
Investments for the year	323	970	342	1,017	692	585	68	182	358	521	44	590	1,827	3,865

Geographic breakdown

	Domestic		Intra-Scandinavian		Europe		Intercontinental		Total					
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004				
Passenger revenue	12,240	12,779	3,360	2,946	18,072	15,836	5,674	5,389	39,346	36,950				
Freight and mail revenue	760	782	72	55	315	279	1,433	1,316	2,580	2,432				
Charter revenue	26	106	0	0	4,246	3,658	9	8	4,281	3,772				
Other traffic revenue	246	376	67	19	1,202	985	251	265	1,766	1,645				
Total traffic revenue	12,817	14,043	3,499	3,020	23,976	20,738	7,368	6,978	47,973	44,779				
	Denmark		Norway		Sweden		Europe		Other		Not broken down		Total	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Other operating revenue	1,912	1,789	3,915	4,801	2,859	3,121	4,255	3,105	973	478	0	0	13,914	13,294
OTHER DISCLOSURES														
Assets ¹	5,157	3,556	4,654	6,180	11,533	3,317	7,076	5,853	133	51	7,407	19,886	35,960	38,843
Investments for the year ¹	489	1,122	3,078	2,646	1,566	1,340	296	1,367	2	8	-1,551	-2,735	3,870	3,748

¹ Aircraft and spare parts are not broken down, see Accounting and valuation policies page 62. For a description of the operations of the various segments please refer to the inside front cover.

Note 45 - Subsidiaries in the SAS Group

	Domicile	Corporate ID no.	No. of owned shares	Holding	Book value MSEK	Share of equity
<i>Owned by SAS AB:</i>						
SAS Sverige AB	Stockholm	556042-5414	70,500,000	100	737.1	4,177.8
SAS Norge AS	Bærum	811176702	47,000,000	100	628.7	2,867.2
SAS Danmark A/S	Copenhagen	56994912	47,000,000	100	570.5	3,890.1
Rezidor SAS Hospitality Group AB	Stockholm	556674-0964	72,000	75	1,532.6	1,775.0
Widerøe's Flyveselskap AS	Bodø	917330557	364,196	100	1,440.4	516.6
SAS Technical Services AB	Stockholm	556137-6764	940,000	100	940.0	967.9
Spanair Holding *	Palma de Mallorca	B83180851	2,872,671	90	627.8	-342.4
Spanair S.A. *	Palma de Mallorca	EA07225154	5,449,901	49 (95)	772.0	
SAS Flight Academy Holding AB	Stockholm	556397-3378	20,000	100	660.9	95.4
SAS Ground Services AB	Stockholm	556063-8255	610,000	100	673.7	747.2
Nordair A/S	Tårnby	24176711	10,000	100	526.0	345.3
Linjeflyg AB	Stockholm	556062-8454	2,000,000	100	237.0	212.4
airBaltic Corporation A/S	Riga	40003245752	105,942	47.2	123.0	-16.2
Blue1 AB	Vantaa	409.619	150	100	72.0	189.8
Newco Airport Services S.A.	Madrid	A-82086646	55,000	54.5	61.5	22.6
SAS Trading AB	Stockholm	556406-9390	50,200	100	55.2	3.3
SAS Facility Management Sweden AB	Stockholm	556663-7004	45,000	100	45.0	48.5
Aerolineas de Baleares	Palma de Mallorca	A07988728	44,994	95	44.0	50.6
SAS Human Resources Sweden AB	Stockholm	556664-1485	30,000	100	30.0	18.4
SAS Revenue Information Services A/S	Tårnby	28098766	13,200	100	16.0	29.5
SAS Accounting Services Sweden AB	Stockholm	556664-1493	16,000	100	16.0	12.0
SAS Business Opportunities AB	Stockholm	556657-7358	8,000	100	13.9	26.2
Fuerza de Ventas S.A.	Madrid	A82580093	600	96	1.2	8.1
					9,824.5	15,645.3
<i>Owned by SAS Danmark A/S, SAS Norge AS, SAS Sverige AB:</i>						
SAS Consortium	Solna	902001-7720	-	100	16,453.4	16,453.4
SAS Commuter Consortium	Tårnby	13273073	-	100	518.2	518.2
					16,971.6	16,971.6
<i>Owned by SAS Consortium:</i>						
SAS Braathens AS	Bærum	962308449	100,100	100	3,851.3	3,123.5
SAS Scandinavian Airlines Danmark A/S	Tårnby	10156858	1,290,500	100	1,569.8	1,027.1
SAS Scandinavian Airlines Sverige AB	Stockholm	556235-5908	710,000	100	1,010.0	679.2
SAS Investments A/S	Copenhagen	25578104	300,000	100	488.3	399.4
Linjeflyg Leasing HB	Stockholm	916644-1080	-	79	259.9	293.0
Cherrydean Ltd	Dublin	310983	12,633,198	100	113.2	99.2
SAS Media Partner AB	Stockholm	556175-9183	5,000	100	12.3	4.8
SAS Investments Denmark A/S	Tårnby	427110814	9,000	100	11.3	46.4
SAS Ejendom A/S	Tårnby	105.786	20,000	100	11.0	39.1
SAS Capital B.V.	Rotterdam	167071	501	100	7.7	56.1
Other					2.2	11.5
					7,337.0	5,779.3
<i>Owned by Nordair A/S:</i>						
SAS Cargo Group A/S	Tårnby	25736443	200,500	100	253.4	295.7
<i>Owned by SAS Investments Denmark A/S:</i>						
RampSnake A/S	Copenhagen	24202941	10,500	100	31.9	2.2

* Spanair Holding owns 51% of the shares in Spanair S.A. The SAS Group's holding is thus 49% direct and 46% indirect or 95% in all.

Note 46 - Reporting according to IFRS (International Financial Reporting Standards)

Reconciliation balance sheet January 1, 2004 and December 31, 2004

	January 1 2004	IFRS effects	January 1 2004 according to IFRS	December 31 2004	IFRS effects	December 31 according to IFRS
Intangible assets	2,810		2,810	3,095	151	3,246
Tangible fixed assets	29,706		29,706	24,166	-48	24,118
Financial fixed assets	10,252		10,252	11,074	20	11,094
Total fixed assets	42,768		42,768	38,335	123	38,458
Current assets	1,286		1,286	1,289		1,289
Current receivables	8,155		8,155	9,459		9,459
Cash, bank and short-term investments	9,066		9,066	8,595		8,595
Total current assets	18,507		18,507	19,343		19,343
Total assets	61,275		61,275	57,678	123	57,801
Shareholders' equity	12,897	29	12,926	10,914	130	11,044
Minority interests	29	-29		8	-8	-
Provisions	4,888		4,888	4,255	1	4,256
Long-term liabilities	20,855		20,855	21,103		21,103
Current liabilities	22,606		22,606	21,398		21,398
Total shareholders' equity and liabilities	61,275		61,275	57,678	123	57,801

Reconciliation statement of income January-December 2004

	January-December 2004	IFRS effects	January-December 2004 accord. IFRS
Operating revenue	58,093		58,093
Payroll expenses	-19,585		-19,585
Other operating expenses	-34,136	96	-34,040
Leasing costs for aircraft	-2,689		-2,689
Depreciation	-2,853	7	-2,846
Share of income in affiliates	137	20	157
Income from the sale of shares in subsidiaries and affiliated companies	5		5
Income from the sale of aircraft and buildings	113		113
Operating income	-915	123	-792
Income from other shares and participations	1		1
Net financial items	-1,042		-1,042
Income after financial items	-1,956	123	-1,833
Tax	69	-1	68
Minority interests	5	-5	-
Net income for the period	-1,882	117	-1,765
<i>Attributable to:</i>			
Parent Company shareholders			-1,760
Minority interests			-5

Reconciliation balance sheet December 31, 2004 and January 1, 2005

	December 31, 2004 according to IFRS	IFRS effects IAS39	January 1, 2005 according to IFRS
Intangible assets	3,246		3,246
Tangible fixed assets	24,118		24,118
Financial fixed assets	11,094	-64	11,030
Total fixed assets	38,458	-64	38,394
Current assets	1,289		1,289
Current receivables	9,459	205	9,664
Cash, bank and short-term investments	8,595	1	8,596
Total current assets	19,343	206	19,549
Total assets	57,801	142	57,943
Shareholders' equity	11,044	1,468	12,512
Provisions	4,256	571	4,827
Long-term liabilities	21,103	-1,581	19,522
Current liabilities	21,398	-316	21,082
Total shareholders' equity and liabilities	57,801	142	57,943

Note 46, cont.

Reconciliation consolidated shareholders' equity

		Note
Equity January 1, 2004, according to Swedish accounting principles	12,897	
Effects of change of accounting principles according to IFRS		
Minority interests	c	29
Equity according to IFRS January 1, 2004	12,926	
Equity December 31, 2004, according to Swedish accounting principles	10,914	
Effects of change of accounting principles according to IFRS		
Goodwill amortization	a	171
Depreciation engines	b	-48
Deferred tax on IFRS effects	e	-1
Minority interests	c	8
Total IFRS effects		130
Equity according to IFRS December 31, 2004	11,044	
Fair value of short-term investments	d	1
Fair value of financial derivative instruments	d	-348
Amortized cost of financial borrowings	d	116
Fair value hedge	d	0
Cash flow hedge, commercial flows	d	22
Cash flow hedge, aircraft	d	2,248
Deferred tax on IFRS effects	e	-571
Total IFRS effects		1,468
Equity according to IFRS January 1, 2005	12,512	

The transition to IFRS has not had any impact on the SAS Group's cash flow statement.

Explanatory notes:

a. Amortization of goodwill

According to IFRS 3, Business Combinations, goodwill should not be amortized but should instead be subject to an impairment test. The SAS Group's intangible assets mainly comprise goodwill. Since IFRS 3 is applied prospectively from the transition date, goodwill amortization for 2004 will be reversed according to IFRS. In accordance with the transitional rules, SAS has performed impairment tests at January 1, 2004, and at December 31, 2004. These tests showed that no impairment losses exist.

b. Tangible fixed assets

Reporting of tangible fixed assets according to IAS 16 Property, Plant and Equipment will also in the future be done at historical cost including accumulated depreciation and write-downs and with regular testing for impairment. As regards the aircraft fleet, a number of essential components have been identified. The

useful life of the different components has been determined whereby it was found that all components, with the exception of aircraft engines, have the same useful life, i.e. 20 years. In accordance with official requirements, engines must be maintained and significant engine parts changed after a specific number of take-offs and landings and flight hours. This maintenance occurs on average every eighth year depending on type of aircraft. Completed maintenance is capitalized and depreciated over a relevant period for each aircraft type. Application of component depreciation relating to aircraft engines affects the Group's earnings and equity for 2004 by MSEK -48 in increased depreciation. In addition, MSEK 96 is restated from maintenance costs to depreciation.

c. Minority interests

According to IAS 1, Presentation of Financial Statements, minority interests are a separate component in equity in the balance sheet. In the statement of income they are included as part of net income for the period with an amount attributable to shareholders and minority owners respectively specified under net income.

d. IAS 39, Financial instruments: Recognition and Measurement

The SAS Group applies IAS 39 with effect from January 1, 2005 and utilizes the exemptions allowed in IFRS 1 not to restate comparative figures/information regarding 2004. Consequently, recognition and measurement of financial instruments, hedging of cash flow and fair value hedges and application of hedge accounting prior to January 1, 2005 have been carried out in accordance with generally accepted accounting principles in Sweden.

The general principles for measurement of financial instruments according to IAS 39 are that financial assets and all derivative instruments should be measured at fair value while financial liabilities are measured at amortized cost. All financial instruments, including derivative instruments, will be recognized in the balance sheet.

An initial classification of each financial instrument establishes the accounting principle for measurement for changes in value of the instrument in the accounts. In cases where loans and derivative instruments are intended to hedge future cash flows, hedge accounting may be applied. One essential criterion for being able to apply hedge accounting is that the hedging relationship is expected to be effective both at inception and during the hedging period. The changes in value of the hedging instrument affect either equity (cash flow hedges) or income (fair value hedges). The hedging transaction will be recognized as income in the same period as the hedge position is closed.

e. Deferred tax on IFRS changes

Some of the above IFRS changes mean that a difference arises between tax base and book value. Deferred taxes are reported on these differences.

Note 47 - Approval of financial reports

The Board of Directors and President approved these annual accounts on March 7, 2006, for publication and they will be submitted for adoption by the Annual General Shareholders' Meeting on April 20, 2006.

Parent Company, SAS AB

SAS AB (publ), corporate identity no. 556606-8499, is a stock corporation registered in Sweden. The company's registered office is in Stockholm. SAS AB's share is listed on the Stockholm Stock Exchange A List. The company's major shareholders are presented on page 18.

SAS AB is the parent company of the SAS Group, whose main activity is to engage in air transport, airline-related services and hotel operations. The company's operations are described in the annual report on pages 27 to 53.

Statement of income

MSEK	Note	2005	2004
Operating revenue		155	173
Payroll expenses	1	-278	-232
Other external costs		-253	-251
Operating income before depreciation		-376	-310
Depreciation		-1	-1
Income from the sale of shares in subsidiaries		-392	1,337
Dividends from subsidiaries		3,035	70
Operating income		2,266	1,096
Interest income and similar income items		1	7
Interest expenses and similar income items		-231	-247
Exchange rate differences		-183	43
Income after financial items		1,853	899
Tax	2	214	138
Net income for the period		2,067	1,037

Cash flow statement

MSEK	2005	2004
The year's operations		
Income after financial items	1,853	899
Depreciation	1	1
Adjustment for items not included in the cash flow	392	-1,336
Cash flow from the year's operations before changes in working capital	2,246	-436
<i>Change in:</i>		
Operating receivables	-91	-77
Operating liabilities	32	37
Cash flow from changes in working capital	-59	-40
Cash flow from the year's operations	2,187	-476
Investment activities		
Equipment	-5	0
Shares and participations	-1,716	-2,298
Sale of shares	53	2,508
Cash flow from investment activities	-1,668	210
Financing activities		
Change in long-term loans	-894	139
Change in interest-bearing liabilities	17	11
Group contribution received, net	359	116
Cash flow from financing activities	-518	266
Cash flow for the year	1	0
Liquid assets, January 1	0	0
Liquid assets at year-end	1	0

Balance sheet

ASSETS, MSEK	Note	2005	2004
Fixed assets			
<i>Tangible fixed assets</i>			
Equipment	3	5	1
<i>Financial fixed assets</i>			
Long-term receivables from Group companies		464	459
Shares in subsidiaries	4	9,825	8,443
Shares in affiliated companies	5	188	299
Deferred tax receivable		238	163
Total fixed assets		10,720	9,365
Current assets			
<i>Current receivables</i>			
Accounts receivable		4	5
Receivables from Group companies		581	287
Other receivables		28	104
Prepaid expenses and accrued income		8	0
Cash and bank balances		621	396
Total current assets		622	396
TOTAL ASSETS		11,342	9,761

SHAREHOLDERS' EQUITY AND LIABILITIES, MSEK	Note	2005	2004
Shareholders' equity			
Restricted equity			
Share capital, 164,500,000 shares par value SEK 10		1,645	1,645
Share premium reserve			170
Statutory reserve		306	32
Unrestricted equity			
Profit brought forward		1,866	573
Net income for the period		2,067	1,037
Total shareholders' equity		5,884	3,457
Long-term liabilities			
Long-term liabilities to Group companies		5,273	6,167
Pensions and similar commitments		15	-
Other liabilities		0	-
		5,288	6,167
Current liabilities			
Liabilities to Group companies		38	39
Other liabilities		73	52
Accrued expenses and prepaid income		59	46
		170	137
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		11,342	9,761
Memorandum items			
Assets pledged		None	None
Contingent liabilities	6	328	260

Change in shareholders' equity

MSEK	Share capital	Restricted reserves	Unrestricted equity	Total equity
Opening balance, January 1, 2004	1,645	180	479	2,304
Transfer between unrestricted and restricted equity		22	-22	
Group contribution received			161	161
Tax effect of group contribution			-45	-45
Net income for the period			1,037	1,037
Shareholders' equity, December 31, 2004	1,645	202	1,610	3,457
Transfer between unrestricted and restricted equity		104	-104	
Group contribution received			499	499
Tax effect of group contribution			-139	-139
Net income for the period			2,067	2,067
Shareholders' equity, December 31, 2005	1,645	306	3,933	5,884

Note 1 - No. of empl., salaries, other remuneration and soc. security exp.

Average number of employees 177 (162) persons.

	2005		2004	
	Men	Women	Men	Women
Denmark	10	4	10	5
Norway	8	8	9	7
Sweden	85	62	79	52
	103	74	98	64

For salaries, remuneration, social security expenses and sick leave see SAS Group Note 3 – Payroll expenses, page 65.

Note 3 - Equipment

	2005	2004
Opening acquisition value	12	12
Acquisition value for the period	5	0
Closing accumulated acquisition value	17	12
Opening depreciation	-11	-11
Depreciation for the period	-1	-0
Closing accumulated depreciation	-12	-11
Book value	5	1

Note 2 - Tax

	2005	2004
Deferred tax	214	138
	214	138

Note 4 - Shares in subsidiaries

See SAS Group Note 45 – Subsidiaries in the SAS Group, page 79.

Note 5 - Shares in affiliated companies

	Domicile Corporate	ID no.	No. of shares owned	Holding	Book value
AS Estonian Air	Tallinn	10076042	44,100+266 pref.	49%	188
					188

Note 6 - Contingent liabilities

	2005	2004
Other contingent liabilities benefiting:		
Blue1	184	139
Widerøe's Flyveselskap	142	121
SAS Trading AB	2	-
	328	260

Effective December 31, 2003, SAS AB has pledged to guarantee as its own liability the SAS Consortium's current and future interest-bearing obligations, leasing commitments and other financial obligations (irrevocable undertaking).

Note 7 - Fees to audit firms

Fees paid to Deloitte amounted to MSEK 11 (1) for audit services and MSEK 8 (4) for other services.

Proposed disposition of earnings

and adoption of the statements of income and balance sheets

The SAS Group

The Board proposes that the Annual General Shareholders' Meeting adopt the statement of income and balance sheet and the consolidated statement of income and balance sheet for the year 2005.

SAS AB	MSEK
Retained earnings	1,507
Group contribution received, net	359
Net income for the period	2,067
Total unrestricted equity	3,933

The Board of Directors proposes that no dividend be paid and that MSEK 3,933 be carried forward to new account.

The Board of Directors and President give their assurance that, to their knowledge, the annual accounts have been prepared in accordance with generally accepted accounting principles for stock market companies, the information submitted is consistent in all material respects with actual circumstances and nothing of material importance has been omitted that could affect the view of the company created by the annual accounts.

Stockholm, March 7th, 2006

Egil Myklebust
Chairman

Jacob Wallenberg
Vice Chairman

Berit Kjøll

Timo Peltola

Fritz H. Schur

Anitra Steen

Lars Rebien Sørensen

Ulla Grøntvedt

Olav H. Lie

Verner Lundtoft Jensen

Jørgen Lindegaard
President and CEO

Our auditors' report was submitted on March 7th, 2006.

Deloitte AB

Peter Gustafsson
Authorized Public Accountant

Auditors' Report

To the Annual General Shareholders' Meeting of SAS AB

Corporate Identity Number 556606-8499

We have audited the annual accounts on pages 54-84, the consolidated accounts, the accounting records and the administration of the Board of Directors and the President of SAS AB for the fiscal year 2005. These accounts and the administration of the company and the application of the Annual Accounts Act when preparing the annual accounts and the application of International Financial Reporting Standards as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the annual accounts, consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain assurance with high but not absolute certainty that the annual accounts and consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President and significant estimates made by the Board of Directors and the President when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the Company in order to be able to determine the liability, if any, to the Company of any board member or the President. We also examined whether any board member or the President has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the Company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and the Annual Accounts Act and give a true and fair view of the Group's financial position and results of operations. The Report by the Board of Directors is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the Annual General Shareholders' Meeting that the statements of income and balance sheets of the Parent Company and the Group be adopted, that the profit in the Parent Company be dealt with in accordance with the proposal in the Report by the Board of Directors and that the members of the Board of Directors and the President be discharged from liability for the fiscal year.

Stockholm, March 7th, 2006

Deloitte AB

Peter Gustafsson
Authorized Public Accountant

Corporate governance

The SAS Group considers that well-functioning corporate governance principles are essential for assuring shareholders and other stakeholders that the SAS Group's activities will be characterized by reliability, effective control, transparency and a high level of business ethics.

Corporate Governance Report

Corporate governance in the SAS Group is based on Swedish legislation, primarily the Swedish Companies Act, the Swedish Code of Corporate Governance and the listing agreement with the Stockholm Stock Exchange as well as other applicable rules and recommendations issued by relevant organizations.

The SAS Group follows developments in the area of corporate governance, adapting its principles for corporate governance to create value for shareholders and other stakeholders through the adequate dissemination of information to shareholders, real shareholder influence and effective management and Board work.

Swedish Code of Corporate Governance

The Swedish Code of Corporate Governance (the "Code") was introduced on December 16, 2004. Pursuant to the Stockholm Stock Exchange listing requirements, listed companies on the A List and larger companies on the O List must apply the Code as of July 1, 2005.

SAS AB, whose shares are listed on the Stockholm Stock Exchange A List, is thus covered by the requirement to apply the Code. In 2005, SAS gradually implemented the provisions of the Code that had not previously been applied by SAS within the framework of the company's current corporate governance principles.

The Code prescribes that a special report on corporate governance issues be added

to the company's annual report, stating that the Code is being applied by the company and clearly describing how the company applied the Code during the most recent fiscal year. In the report the company shall state which rules in the Code it departed from and clearly account for each departure.

This report, which has been prepared in accordance with the provisions of the Code, constitutes the SAS Group's corporate governance report for the 2005 fiscal year. The report has not been examined by the company's auditors.

Application of the Code

The SAS Group applies the Code. During the year SAS followed the Code apart from the following instances :

- Clause 3.7.2 of the Code states that the board is to report how that part of internal control dealing with financial reporting is organized and how well it functioned during the most recent fiscal year. In this area the Board has decided for 2005 to follow the Code only in part, by issuing an internal control report that does not contain a statement on how well internal control functioned. The reason for the Board's decision is the ongoing work in the company to formalize these processes and the part of internal control dealing with financial reporting so that next year it can give the Board better data for making a formal statement on how well internal control

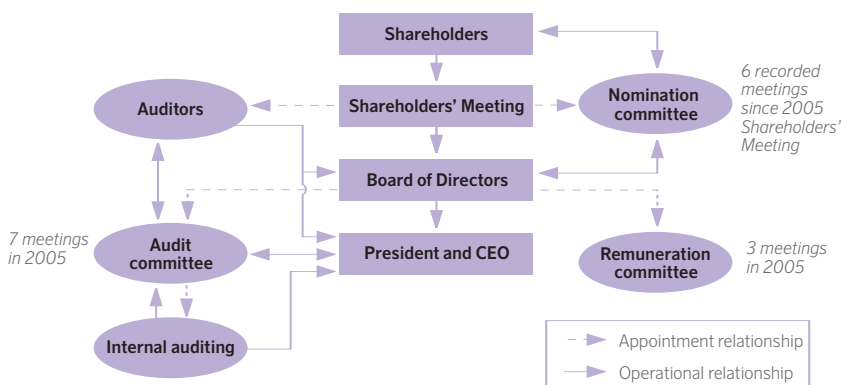


Governance

Corporate governance

Responsibility and decision-making process

The SAS Group has 22,821 shareholders. The biggest shareholders are the three Scandinavian governments. The largest private shareholder are the Knut and Alice Wallenberg Foundation, Odin-fonderna and the State of New Jersey Common Pension Fund.



functioned. The Board's position in this regard is supported by the statements from the Council for Swedish Corporate Governance, which deems it adequate if companies restrict their internal control report for 2005 to a description of how their internal control is organized without making any statement on how well it functioned.

The report issued by the board on the part of internal control dealing with financial reporting shall, pursuant to the Code, be examined by SAS's auditors. Such an examination has not taken place. The reason is that the company's auditors, supported by a statement by FAR, did not regard it as consistent with generally accepted accounting principles and professional ethics to perform such an examination regarding the 2005 fiscal year, since the requisite criteria for carrying out such an investigation are lacking.

- Pursuant to the Code, the shareholders' meeting shall be held in Swedish and the materials presented shall be in Swedish. Meeting deliberations are held primarily in Swedish, but contributions and speeches are regularly made at the meeting in Norwegian and Danish. Also some material presented at the Shareholders' Meeting of SAS AB is in Danish and Norwegian. Pursuant to provisions of the Articles of Association for SAS AB, the language of the Shareholders' Meeting shall be Swedish, Danish or Norwegian, and, if the Board so decides, even another language. The reason for this provision of the articles of association is the SAS Group's strong Scandinavian character with the largest number of shareholders in Denmark and Norway, a management and Board comprising persons from all three Scandinavian countries and a system for remote attendance of the Shareholders' Meeting from Copenhagen and Oslo. In view of this and since the experience from the current arrangement is overwhelmingly positive, in the Board's view any one of the Scandinavian languages may be freely used at company Shareholders' Meetings. Bearing in mind the Scandinavian languages' great similarity, the Board has not seen any reason for simultaneous interpreting.

Shareholders' meeting

Pursuant to the Companies Act, the shareholders' meeting is the company's supreme decision-making body. At the shareholders' meeting shareholders exercise their voting rights. At the Shareholders' Meeting of SAS AB, one share is equal to one vote.

All shareholders who are recorded in the share register and have given notice of their attendance have a right to attend the meeting and vote their total holding of shares.

The Annual General Shareholders' Meeting shall be held within six months from the end of the fiscal year. The meeting, usually held in April, decides on, among other things, the adoption of the company's annual accounts, the application of the company's profit or coverage of its loss and discharging the members of the Board and the President from liability. The Annual General Shareholders' Meeting also elects Board members, members of the company's nomination committee and auditors and decides on directors' and audit fees.

The Shareholders' Meeting is held in Stockholm, where the Board is domiciled, or in Solna, where company headquarters are located. According to a provision in the company's articles of association, shareholders can also attend the Shareholders' Meeting from locations in Copenhagen and Oslo via remote audio-video hookup. Shareholders attending the Shareholders' Meeting from Copenhagen and Oslo have the same rights, including voting rights, as shareholders attending in Stockholm. Notices of the Shareholders' Meeting are always published in a number of daily newspapers in Denmark, Norway and Sweden and are announced in press releases and published on the company's website. The company sends notices to those shareholders whose addresses are known to it. Decisions made at the Shareholders' Meeting are published immediately after the meeting in a press release. The minutes of the Shareholders' Meeting are published on the company's website.

In 2005 the Shareholders' Meeting was held in April 13, 2005.

Nomination committee

According to the Articles of Association of SAS AB, the election of a nomination committee shall take place at the Annual General Shareholders' Meeting. The nomination committee is to reflect the shareholder composition in the company and has the aim of helping to elect a Board of Directors that is suitable and representative of the shareholders and in other respects lay a proper foundation for the Annual General Shareholders' Meeting's discussion and decisions on various issues that the meeting decides that the nomination committee is to prepare for each year.

The 2005 Shareholders' Meeting decided to elect as members of the nominating committee for the period up until the 2006

Annual General Shareholders' Meeting Jacob Heinsen, Danish Ministry of Finance; Rune Selmar, Norwegian National Insurance Scheme Fund; Palle Olsen, Pen-Sam Liv Forsikringsselskab; Pia Rudengren, Knut and Alice Wallenberg Foundation; Reier Sjøberg, Norwegian Ministry of Trade and Industry; Jarl Ulvin, Odin Forvaltning, and Eva Halvarsson, Swedish Ministry of Industry, Employment and Communications. The Shareholders' Meeting's decisions also covered rules on the nomination committee's work methods and procedure for appointing replacements for members who resign before the 2006 Annual General Shareholders' Meeting. Eva Halvarsson was elected chairman of the nomination committee.

In autumn 2005 the following changes took place in the composition of the nomination committee:

- Pia Rudengren was replaced by Mathias Pedersen, Knut and Alice Wallenberg Foundation,
- Rune Selmar was replaced by Lars Tronsgaard, National Insurance Scheme Fund,
- Eva Halvarsson was replaced by Jonas Iversen, Swedish Ministry of Industry, Employment and Communications, who was also elected nomination committee chairman.

Information on the nomination committee's original composition and subsequent changes was publicized in press releases and on the company website.

The nomination committee is to make recommendations as specified below to be decided at the 2006 Annual General Shareholders' Meeting:

- Chairman of the Annual General Shareholders' Meeting
- Number of Board members
- Board members and Chairman
- Directors' fees, divided among the Chairman, Vice Chairman, other members and any remuneration for work on Board committees
- Audit fee
- Nomination committee for 2007 Annual General Shareholders' Meeting

As a part of nominating work the nomination committee evaluates the Board's work, qualifications and composition. The Chairman has attended some of the nomination committee's meetings and at them reported the result of the Board's own evaluation of its work. Up until the end of February, the nomination committee has held six recorded meetings since it was elected at the Shareholders' Meeting on April 13, 2005.

The nomination committee's recommendations will be published in the notice of the Annual General Shareholders' Meet-

ing and on the company website and be presented and commented on at the 2006 Annual General Shareholders' Meeting.

Members did not receive any fees or other remuneration for their work on the nomination committee.

Board of Directors

At the 2005 Annual General Shareholders' Meeting, seven Board members were elected. The Board also comprises three members, each with two personal deputies elected by the SAS Group's employee groups in Denmark, Norway and Sweden according to a special agreement. 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 members and composition of the Board appear on page 90.

As page 90 makes clear, SAS AB meets the standards that the Stockholm Stock Exchange Listing Requirements and Code set regarding the Board's independence vis-à-vis the company, company management and the company's major shareholders.

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. In addition to issues like the number of Board meetings, the times and content of Board dispatches, recording minutes, secrecy, etc., the work plan describes the division of the work of the Board between the Board and its committees and among the Board, its Chairman and the President. The work plan also contains provisions for meeting the Board's needs for information and financial reporting on an ongoing basis and instructions for the President and the company's Board committees.

According to the Board's formal work plan the Chairman, in close collaboration with the President, is to monitor the company's performance, plan and chair Board

meetings, be responsible for the Board evaluating its work each year, scrutinize his own work routines and see to it that the Board always receives the information necessary to do its work effectively. The Chairman represents the company in ownership matters.

Among the duties of the Board of Directors are setting the overarching objectives and strategies of the SAS Group, adopting a budget and business plan, discussing and approving the year-end and interim reports, setting important policies and regulations, following economic developments, ensuring the quality of financial reporting and internal control and deciding on investments and major changes in the organization and activities of the SAS Group.

In 2005 the Board had 11 meetings, including the statutory meeting. In addition, one meeting was held per capsulam (by correspondence). The attendance of Board members at Board meetings in 2005 appears in the table below.

The work of the Board during the year followed a yearly agenda with permanent items for information and deciding on as well as special topics. Each meeting followed an approved agenda, and proposed agendas and support documentation were sent to the Board prior to each Board meeting. The President and other senior executives also attended Board meetings to make presentations, and the General Counsel of the SAS Group served as the Board's secretary.

At these meetings the Board discussed the regular business items presented at the respective meetings, such as business and market conditions, financial reporting and follow-up, the company's financial position and investments. The Board also discussed sustainability-related material of material importance and the quarterly changes in sick leave. The Board studied the annual Sustainability Report. Additionally, at various meetings the Board discussed matters and topics involving flight safety work, internal control,

evaluation of Board work, the year-end report, interim reports, strategy and the business plan and the budget. During the year the Board paid visits to one the Group's larger subsidiaries and also heard detailed presentations of the operations of three of the four airlines in Scandinavian Airlines Businesses.

Special topics discussed by the Board in 2005 included the SAS Group's earnings improvement program (Turnaround 2005), the ongoing cost-reduction and efficiency-improvement work, the transaction with Carlson Group regarding the ownership and partnership in Rezidor SAS Hospitality, the issuance of business ethics rules and guidelines for the SAS Group, the commercial ventures in the form of Nya Inrikesflyget in Sweden and a new product for Europe, the sale of the subsidiaries SAS Component, Jetpak and European Aeronautical Group and the implementation of the Swedish Code of Corporate Governance and new rules on insider trading.

The Chairman and other Board members are remunerated for Board work in accordance with decisions made at the Shareholders' Meeting, see page 66.

Board committees

As part of streamlining and enhancing the work of the Board on certain issues there are two committees. The Board appoints a remuneration committee and an audit committee from among its own members. The main duty of the committees is to prepare business for the Board's decision. These committees, whose work is thus of a preparatory in nature, imply no delegation of the legal liability of the Board or its members. Reports to the Board on issues discussed at the committees' meetings is either in writing or given orally at the following Board meeting. The work of each committee follows written instructions and a work plan stipulated by the Board. The General Counsel of the SAS Group's serves as the secretary to the committees. Minutes of committee meetings are

Board members' attendance at Board meetings in 2005

	Feb 9	Mar 8	Apr 13	Apr 13*	May 2	Jun 16-17	Aug 16	Oct 13	Nov 7	Nov 14-15	Dec 15
Egil Myklebust	■	■	■	■	■	■	■	■	■	■	■
Jacob Wallenberg	■	■	■	■	■	■	■	■	■	■	■
Berit Kjell	■	■	■	■	■	■	■	■	■	■	■
Timo Peltola (from Apr 13)	-	-	-	-	■	■	■	■	■	■	■
Fritz H. Schur	■	■	■	■	■	■	■	■	■	■	■
Anitra Steen	■	■	■	■	■	■	■	■	■	■	■
Lars Rebien Sørensen	■	■	■	■	■	■	■	■	■	■	■
Verner L. Jensen (from Apr 13)	-	-	-	-	■	■	■	■	■	■	■
Ulla Grøntvedt	■	■	■	■	■	■	■	■	■	■	■
Olov H. Lie (from Nov 14-15)	-	-	-	-	-	-	-	-	-	-	■
Nicolas E. Fischer (to Apr 13)	■	■	■	■	-	-	-	-	-	-	-
John Lyng (to Nov 7)	■	■	■	■	■	■	■	■	■	-	-

■ Present ■ Absent * Statutory Board meeting

provided to all Board members.

No remuneration was paid for work on Board committees in 2005.

Remuneration committee

In 2005 the Board's remuneration committee consisted of Egil Myklebust (committee chairman), Jacob Wallenberg and Fritz H. Schur. Its main task was to make recommendations for Board approval regarding the terms of the President's salary, employment and pension and deal with issues related to the SAS Group's overall remuneration policies for senior executives. In 2005 the committee had three recorded meetings and a number of informal contacts.

The members of the committee attended all the meetings. All members are independent of the company, company management and major shareholders.

In 2005 the committee made recommendations to the Board on the President's salary and other terms of employment and overall remuneration policies and other terms for other members of Group Management. The committee also evaluated and prepared for decision the target contract for the President, the President's fulfillment of his target contract and discussed general issues regarding guidelines and remuneration policies and incentive programs for senior executives at SAS, including issues regarding a possible introduction of a long-term incentive program.

Prior to the 2006 Annual General Shareholders' Meeting, the committee will prepare the recommendation for remuneration policies and other terms of employment for company management that pursuant to the Code the Board shall present to the Annual General Shareholders' Meeting for approval.

Audit committee

In autumn 2003 the Board decided to set up an audit committee, which began its work in 2004. The members of the committee in 2005 were Egil Myklebust (committee chairman), Anitra Steen and Lars R. Sørensen.

The committee's chief task is to support the Board in monitoring and assessing the internal and external auditing process, be responsible for preparing the Board's work on quality assuring the company's financial reporting, meet regularly with the company's auditor, study and evaluate reports from the external auditors and assess whether the routines for internal control, internal auditing and reporting are tailored to the needs of the SAS Group. The committee shall also scrutinize the auditors' independence vis-à-vis the company, including the extent of the auditors' non-audit-related en-

agements for the company. A further task of the committee is to evaluate the efforts of the auditors and inform the nomination committee of the result and in other respects assist the nomination committee by drafting recommendations for the election of auditors and fees for their efforts.

In 2005 the committee had seven recorded meetings. Myklebust and Steen attended all of them, while Sørensen attended five. Besides the committee secretary, the SAS Group CEO and CFO, the company's auditors and, depending on the nature of the business, the head of internal auditing attend meetings of the committee.

The requirements of the Code regarding the number of members of the audit committee who are to be independent of the company, company management or major shareholders' are met.

In addition to the yearly recurring business regarding quality assurance of financial reporting, detailed review of the year-end report and interim report as of September 30, in 2005 the committee discussed business dealing with the accounting of the Swedish ITP pensions placed with Alecta, the accounting at Spanair, the work and function of internal auditing, special focus areas for auditing work, risk analyses and internal control.

Auditors

Elected by the Annual General Shareholders' Meeting, the auditors are tasked with scrutinizing the company's financial reporting and management of the company by the Board and the President. Pursuant to the Swedish Companies Act, the term for auditors in Swedish limited companies is four years.

At the 2001 Annual General Shareholders' Meeting the registered auditing firm Deloitte AB was elected auditor until the 2005 Annual General Shareholders' Meeting. Deloitte is part of Deloitte Touche Tohmatsu, a global accounting and consulting firm. There was an election of an auditor at the 2005 Annual General Shareholders' Meeting, when Deloitte AB, with Peter Gustafsson as principal auditor, was reelected for the period until the end of the 2009 Annual General Shareholders' Meeting. Peter Gustafsson has headed audit services for Deloitte since 2003. Besides SAS AB, he has audit engagements with SAAB Automobile, Teleca, Technology Nexus, Akademiska Hus and the Ports of Stockholm and Gothenburg. Peter Gustafsson was previously an auditor at Elanders, Connex Transport, Song Networks and other companies.

In accordance with the company's internal rules, the auditor met with the Board on three occasions in 2005, presenting the program for his auditing work, at which he reported his

observations from auditing the annual report, examining the interim report as of September 30 and assessing the company's internal control. The auditor attended all meetings of the audit committee during the year. According to the Board's work plan, the Board shall meet with the company's auditor at least once a year without the President or anyone else from company management present.

In the past three years, in addition to its auditing work, Deloitte performed advising services for companies in the SAS Group in areas connected with auditing, such as tax consulting, transition to reporting according to IFRS and issues relating to the incorporation of units during 2004, for a total invoiced amount of MSEK 38, of which MSEK 16 pertains to 2005.

The auditor receives a fee for his work in accordance with a decision of the Annual General Shareholders' Meeting.

President and Group Management

The Board appoints the President and CEO, who pursuant to the Company Act and the Board's work plan and instructions to the President is responsible for the day-to-day management of company and Group operations. The five members of Group Management as well as the heads of certain corporate functions report to the President.

In its instructions to the President the Board has laid down detailed rules for the President's authority and obligations. Within the framework of the current work plan and instructions to the President, which regulate inter alia the relationship between the President and the Board, Group Management is responsible for business control, financial reporting, acquisitions and disposals of companies and major collaborations, financing, capital structure, risk management and communication with financial markets and other matters of a Group-wide nature.

The President and CEO is Jørgen Lindgaard. A more detailed presentation of the President's background, experience, positions and shareholdings appears on page 91.

The President works closely and exchanges information with the Chairman and also meets regularly with the Chairman to plan Board meetings. The President keeps the Chairman and the rest of the Board continually apprised of the company's and Group's operations and performance. To enable the Board to monitor the Group's financial position on an ongoing basis, the President makes monthly reports to the Board. In addition to the President, Group Management currently comprises five members, named by the President in consultation with

the Board. The composition of Group Management appears on page 91 of the Annual Report.

Group Management is not a corporate body within the meaning of Swedish limited company law and as a collegial management body has no legal liability vis-à-vis the Board and shareholders. Group Management has recorded meetings every week. These meetings are chaired by the President, who reaches decisions after consulting with the other members of Group Management. Group Management's management and control of the Group's subsidiaries and major business units are primarily tied to active work on the boards of the respective subsidiaries and business units. For the Group's business units that are not separate legal entities, internal boards have been established that in all essentials function like the boards of directors of Group subsidiaries. The boards are often composed of representatives of Group Management and Corporate Functions, with the responsible member of Group Management as chairman. In certain larger subsidiaries and business units there are also external board members and representatives of the employees.

Remuneration policies and other terms of employment for company management

For 2005 the following overall policies stipulated by the Board for remuneration and other terms of employment were applied.

Remuneration shall consist of a personal salary, divided into a base salary and variable salary and an earnings-based salary as well as pension and other benefits. Both the variable and earnings-based portions are limited to a maximum percentage of the base salary. Depending on the position, the

maximum variable compensation is 26% - 50%. The amount of the variable salary is linked to the meeting of specific targets, which may be quantitative or qualitative as well as relate to company-specific or personal goals. The earnings-based salary depends on the SAS Group's earnings before capital gains. A full earnings-based salary may be paid if the budgeted result is attained, assuming it is positive. An earnings-based salary is never paid if earnings are negative. Neither the President nor other senior executives in the Group received any fees for engagements on the boards of the Group's subsidiaries, business units and affiliated companies.

In the SAS Group there are no share or share-price-related incentive programs for the Board or company management.

The Board sets the President's remuneration and other terms of employment on the recommendation of the remuneration committee. The President decides on remuneration and other terms of employment for members of Group Management in accordance with the overarching guidelines set by the Board. The President sets the targets for variable remuneration for members of Group Management and other senior executives who report to him.

In other respects the SAS Group applies the so-called "grandfather" principle in setting salaries and other benefits. This principle means that the manager above an employee's immediate manager must always be informed of and approve that employee's compensation.

For information on the Group's remuneration policies and overarching principles as well as the compensation and benefits to the Board, President and senior executives, see Note 3 on pages 65-67.

Financial reporting

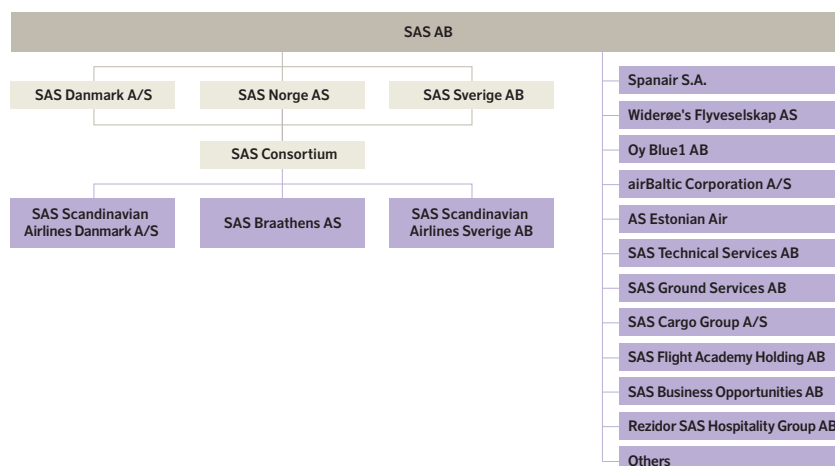
According to Clause 5.1.3 of the Code, in the corporate governance report, the company shall disclose information about the manner in which the Board assures the quality of the financial reporting and communicates with the company's auditor.

The audit committee is responsible for preparing the Board's work in quality assuring financial reporting. This quality assurance takes place whereby the committee discusses critical auditing issues and the financial reports that the company submits. Among the issues the committee discusses are those regarding internal control, compliance with rules, specifically identified focus areas, uncertainty in reported values, events after the closing date, changes in estimates and assessments, financial and legal risks, suspected and verified irregularities and other matters affecting the company's financial reporting. The company's external auditor attends all meetings of the audit committee.

The Board scrutinizes and approves the company's year-end report and interim reports.

To quality assure the Board's work on financial reporting and ensure the Board's access to and oversight and follow-up of auditing work, the Board meets the company's principal auditor on at least three occasions a year. At the Board meeting in February the auditor reports his observations from his auditing of the annual accounts. In May the auditor presents and the Board discusses the program for risk analysis work and focus of examination for the year in question. After the "hard close" as of September 30, the auditor reports to the Board in November his observations from the examination and his analysis of critical processes and risks.

Legal structure 2006



In the period 2001-2004, the SAS Group harmonized its legal structure with the Group's business structure.

The most important changes were:

- February 2004: a number of subsidiaries were transferred from the SAS Consortium to SAS AB.
 - July 2004: SAS Braathens was founded as a subsidiary of the SAS Consortium.
 - October 2004: SAS Ground Services and SAS Technical Services were incorporated.
- SAS Scandinavian Airlines Sverige AB and SAS Scandinavian Airlines Danmark A/S were newly founded as subsidiaries.
- The SAS Consortium is the SAS Group's entity for financing and aircraft leasing. SAS Danmark A/S, SAS Norge AS and SAS Sverige AB are taxable entities for the SAS Consortium's results.

The SAS Consortium also holds all the traffic rights for Scandinavian Airlines Businesses.

The SAS Group's intercontinental airline business is operated by the SAS Consortium.

Board & auditors

Among the duties of the Board are setting the overarching objectives and strategies of the SAS Group, adopting a budget and business plan, discussing and approving the year-end and interim reports and deciding on investments and major changes in the SAS Group.



Fritz H. Schur

Verner Lundtoft Jensen

Lars Rebie Sørensen

Timo Peltola

Anitra Steen

Ulla Grøntvedt

Jacob Wallenberg

Olav H. Lie

Berit Kjöll

Egil Myklebust

Chairman

Egil Myklebust, born 1942

Chairman of the Board of SAS AB since 2001.

Directorships: University of Oslo, Sandvik AB, Vetco International Ltd.

Education: Cand. jur. degree

Shareholding: 3,000

Vice Chairman

Jacob Wallenberg, born 1956

Vice Chairman of the Board of SAS AB since 2001.

Chairman of Investor AB.

Directorships: Vice Chairman of Atlas Copco and SEB, Skandinaviska Enskilda Banken. Member of the Board of ABB Ltd, the Knut and Alice Wallenberg Foundation, W Capital Management and the Nobel Foundation.

Education: MBA, Wharton School, University of Pennsylvania.

Shareholding: 5,000

Regular Members

Berit Kjöll, born 1955

Member of the Board of SAS AB since 2001.

Division Director, Telenor ASA.

Directorships: DnB NOR ASA, TusenFryd ASA.

Education: College degree in Tourism, Oppland Regional College. Markedsøkonom degree, Norwegian School of Marketing, Oslo. AMP, Insead.

Shareholding: 1,600

Timo Peltola, born 1946

Member of the Board of SAS AB since 2005.

Directorships: Chairman of Neste Oil, Pension Insurance Company Ilmarinen (Supervisory Board). Vice Chairman of Nordea and Member of the Board of TeliaSonera, Finnish Fair Corporation, CVC Capital Partners Advisory Board, AW Energy Oy.

Education: MBA, Turku School of Economics and Business Administration. Studied at IMI Geneva. Honorary doctorate in economics, Swedish School of Economics and Business Administration in Helsinki and Turku School of Economics and Business Administration.

Shareholding: 0

Fritz H. Schur, born 1951

Member of the Board of SAS AB since 2001.

Chairman of the companies in the Fritz Schur Group.

Directorships: Chairman of Post Danmark A/S, DONG A/S and F. Uhrenholt Holding A/S. Vice Chairman of Brd Klee A/S. Member of the Board of CIC A/S and DE POST NV/LAPOSTE SA, Belgium.

Education: Handelshøjskolens Afgangseksamen (HA) business degree.

Shareholding: 20,000

Anitra Steen, born 1949

Member of the Board of SAS AB since 2001.

President of Systembolaget AB.

Directorships: Member of the Board of Södersjukhuset AB, Almega and Kungsträdgården Park & Evenemang AB.

Education: Cand.phil. degree with a concentration in the behavioral and social sciences, Uppsala University.

Shareholding: 0

Lars Rebie Sørensen, born 1954

Member of the Board of SAS AB since 2001.

President of Novo Nordisk A/S.

Directorships: ZymoGenetics Incorporated and Bertelsmann AG.

Education: M.Sc. in forestry, Royal Veterinary and Agricultural University, Denmark, and B.Sc. in international economics, Copenhagen Business School.

Shareholding: 0

All Shareholders' Meeting-elected members of the Board are independent in relation to the company and company management. All members of the Board are independent in relation to major shareholders with the exception of Anitra Steen owing to her position in wholly Swedish-government owned Systembolaget AB.

Share convertibles and options

The SAS Group has not issued any share convertibles or options.

Employee representatives

Ulla Grøntvedt, born 1948

Employed at SAS Ground Services.

Member of the Board of SAS AB since 2001.

Shareholding: 300

Deputies:

Sven-Erik Olsson, first deputy.

Shareholding: 0

Pär-Anders Gustafsson, second deputy

Shareholding: 0

Olav H. Lie, born 1963

Employed at SAS Ground Services Norway.

Member of the Board of SAS AB since 2005.

Shareholding: 0

Deputies:

John Lyng, first deputy.

Shareholding: 0

Asbjørn Wikestad, second deputy.

Shareholding: 0

Verner Lundtoft Jensen, born 1955

Employed at SAS Scandinavian Airlines Denmark.

Member of the Board of SAS Danmark A/S since 2005.

Shareholding: 866 (close relation)

Deputies:

Nicolas E. Fischer, first deputy.

Shareholding: 0

Carsten Bardrup Nielsen, second deputy.

Shareholding: 0

Auditors:

Deloitte AB

Principal auditor:

Peter Gustafsson

Authorized Public Accountant

Corporate Secretary:

Mats Lönnkvist

General Counsel, SAS Group

Group Management

The President and CEO is in charge of the day-to-day management of the Group. In addition to the President, SAS Group Management comprises five members named by the President in consultation with the Board. Members of Group Management have divided among themselves the responsibilities for the Group's business management.



Jørgen Lindegaard, born 1948

President and CEO

Assumed his post as head of the SAS Group on May 8, 2001. With a background in telecommunications, since 1975 he has held a number of senior executive positions, including those of CEO of Fyns Telefon A/S, Københavns Telefon A/S and Director of TeleDanmark. He joined GN Store Nord A/S in 1996 and became its President and CEO in 1997.

Member of the Board of FIH Erhvervsbank A/S and of Telenor ASA.

Education: Civilingeniør degree, Technical University of Denmark.

Shareholding: 42,500

Gunnar Reitan, born 1954

Deputy CEO

Member of the SAS Management Team from September 1993 to May 8, 2001, and subsequently member of SAS Group Management. Responsible for the business areas *Subsidiary & Affiliated Airlines and Hotels* and for the *Corporate Function Alliances & Corporate Partnerships*. Chief Financial Officer until September 16, 2002. Joined SAS in 1988 in Oslo as Director of SAS Station Services. Later Vice President, Finance and Administration for SAS in Norway. Deputy CEO since 1993.

Experience in banking, industry and transportation. Member of the Board of Vital Forsikring ASA and Leif Høegh & Co Ltd.

Education: Degree from Trondheim College of Economics and Business Administration.

Shareholding: 1,000

Gunilla Berg, born 1960

Executive Vice President and Chief Financial Officer

Member of SAS Group Management since September 16, 2002, and responsible for Corporate Functions covering business control, finance and asset management, investor relations, purchasing and IT. Previously Vice President and Chief Financial Officer of Kooperativa Förbundet. Experience from various executive positions in banking and industry.

Member of the Board of Alfa Laval AB and L E Lundbergforetagen AB.

Education: Civilekonom degree, Stockholm School of Economics.

Shareholding: 1,000

John S. Dueholm, born 1951

Executive Vice President

Member of SAS Group Management since September 1, 2002. Responsible for the business area *Scandinavian Airlines Businesses*. Previously responsible for the business areas *Airline Support Businesses* and *Airline Related Businesses*, CEO of SAS Data and Senior Vice President of SAS Technical Division 1996-1998. Senior Vice President of Group4Falck 1998-2002.

Member of the Board of Kilroy A/S and Lindorff A/S. Education: Cand. merc. degree in Business Administration.

Shareholding: 0

Håkan Ericson, born 1962

Executive Vice President

Member of SAS Group Management since October 1, 2005 and responsible for the business area *Airline Support Businesses*, i.e., SAS Technical Services, SAS Ground Services, SAS Cargo, SAS Flight Academy, SAS Media. Previously Managing Director DHL, Freight Europe and European Networks, Deputy CEO of ASG AB and experience from various executive positions in the logistics industry.

Education: Civilekonom degree, Stockholm University

Shareholding: 1,000

Bernhard Rikardsen, born 1956

Executive Vice President

Member of the SAS Management Team from November 1993 until May 8, 2001, and subsequently member of SAS Group Management. Responsible for *Corporate Administration & Support*, which covers *Corporate Communications and Public Affairs*, *Corporate Human Resources* and *Group Shared Services*. Responsible for the SAS Group's *Emergency Response Organization*. Joined the SAS human resources department in Norway in 1981. Personnel Director at SAS in Norway 1990-1993.

Education: Bachelor of Business Administration from BI Norwegian School of Management, Oslo.

Shareholding: 0

Share convertibles and options

The SAS Group has not issued any share convertibles or options.

The Board of Directors' report

The Board of Directors' report on internal control regarding financial reporting for the 2005 fiscal year

As of 2005, companies listed on the Stockholm Stock Exchange that follow the Swedish Code of Corporate Governance must submit a report on how its internal control – the part dealing with financial reporting – is organized and how well it functioned during the year. The aim of this report is to give shareholders and other stakeholders a better view and understanding and how internal control regarding financial reporting at SAS is organized.

This report has been prepared in accordance with the Swedish Code of Corporate Governance and guidelines compiled by FAR and the Confederation of Swedish Enterprise and is therefore limited to internal control regarding financial reporting. In accordance with the statement from the Council for Swedish Corporate Governance on a transitional solution for 2005, this internal control report is restricted to a description of how the internal control is organized and makes no statement on how well it functioned. This report is not a part of the formal Annual Report and has not been examined by the company's auditors.

SAS Group applies COSO, the internationally most recognized and adopted framework for internal control to describe and evaluate the SAS Group's control structure. Internal control regarding financial reporting is a process that involves the Board, company management and personnel and is designed to provide assurance of reliability in external reporting. The organization of the Group-wide control environment is described in detail in the SAS Group corporate governance report.

Internal control regarding financial reporting is described below in five areas that jointly form the basis of a sound control structure.

Control environment

The control environment forms the basis of internal control. The control environment includes the culture that SAS communicates and operates from in a number of areas. The aim of the SAS Group is for values such as reliability and openness as well as consideration and value creation to permeate the organization. It is important for all actions, internal as well as external, shall reflect these basic values. In 2005 a Code of Conduct was distributed to all employees, which describes well the desired attitudes in various situations.

During the past years, the SAS Group has changed its organizational and legal structure to better harmonize it with its business structure and to achieve greater clarification of responsibility and authority, amid a process of greater decentralization. The management of the SAS Group has been described in a management document, which outlines management philosophy, management model, roles and responsibilities of subsidiary boards, shareholder requirements, overarching follow-up and intra-Group business relations. This document has been communicated and distributed to all management teams in subsidiaries and other senior executives. For the SAS Group's Board as well as for each subsidiary there are instructions for the Board and CEO that clearly set out responsibilities and authority.

In addition, there are policies in all key areas, at a Group level as well as at the subsidiary level, which

define responsibilities and authority and guidelines for courses of action. All policies are available on The SAS Group intranet, which also makes updating easier.

Risk analysis

Together with the external audit, company management performs an annual risk assessment in the spring regarding financial reporting. The risk analysis has identified a number of critical processes such as the revenue process, purchasing process, payroll handling process, financial statement process and IT. The analysis of risks in various major balance sheet and income items is graded. Moreover, since a few years ago, company management has identified another critical area, common to all subsidiaries, where an analysis of internal control is to be done, a "self-assessment." The internal control examination covers the areas control environment, authorization for payment, purchasing routines/investment, contract handling, payroll handling, cost control, the revenue process and follow-up routines. The risk analysis is reviewed with the audit committee and the SAS Group's Board.

Moreover, the internal audit performs an ongoing overarching risk analysis of the SAS Group's internal audit function, which results in an annual audit plan, which in turn is revised if the risk analysis is changed. The audits performed by the internal audit are primarily aimed at operational auditing, but also focus on processes that impact financial reporting and risks of irregularities, improper favoritism of another party at company expense and the risks of losses or embezzlement. The audit plan is reviewed with the audit committee and the SAS Group's Board.

Control activities

The aim of the SAS Group is to establish adequate activities to manage the risks affecting internal control regarding financial reporting. This also includes control activities that prevent irregularities.

Control activities cover *inter alia* internal control in each Group company. The analysis is done by the management of all subsidiaries through a "self-assessment" regarding internal control. This is also examined by the external auditors, who do an independent analysis of the status and potential for improvement. When analyses are not approved, where the judgment of the external auditors prevails, plans of action shall be prepared and implemented, which is followed up by the Group's internal audit.

In addition to this, each year two areas for in-depth study are focused on in the critical processes identified. This is carried out in most of the subsidiaries in the Group. In previous years the revenue process, payroll process and IT-inspections were studied in depth. For 2005 the financial statement process was

examined. All of these examinations result in a number of recommendations aimed at improving further the quality of internal control.

The audits conducted by the internal audit conducts always result in recommendations that are graded on the basis of a risk perspective. During the year, the internal audit focused *inter alia* on the internal control in the Baltic subsidiaries and affiliated companies, as well as Spanair, SAS Cargo and SAS Component.

In 2006 a new control activity is starting involving in-depth reviews of selected subsidiaries' accounting and application of the SAS Group's accounting policies. These in-depth reviews will be done from the Group's central accounting unit. The choice of companies will be based on a risk analysis.

Information and communication

The SAS Group's ambition is for information and communication paths regarding internal control for financial reporting to be appropriate and known in the Group. Policies and guidelines regarding the financial process are communicated to all parties in the Group affected through direct distribution via electronic mail, but also via the intranet, where all policies and guidelines in the financial areas are collected in the "SAS financial guide."

The SAS Group published external reports based on reporting from all legal entities in accordance with a standardized reporting routine. The SAS Group's accounting policies as well as any changes are always communicated by direct dispatch and at regular meetings with those responsible for financial matters in all subsidiaries. Moreover, every month all subsidiaries submit a report on their activities, including their financial status and performance, to the board and affected corporate functions.

To ensure that the provision of external information is correct and complete, there is an information policy regarding disclosures to the stock exchange as well as an Investor Relations policy that have been laid down by the SAS Group's Board. These policies state what, in what manner and how information is to be dealt with.

Follow-up

Follow-up and continuous assessment of compliance with policies and guidelines as well as the follow-up of reported deficiencies are done regularly.

Recommendations from the external and internal audits and the status of measures are compiled in a clear manner and presented to company management and the audit committee. Every year the external and internal audits perform follow-up audits until all recommended measures are implemented.

Stockholm, March 7th, 2006

Egil Myklebust
Chairman

Jacob Wallenberg
Vice Chairman

Berit Kjøl

Timo Peltola

Fritz H. Schur

Anitra Steen

Lars Rebien Sørensen

Ulla Grøntvedt

Olav H. Lie

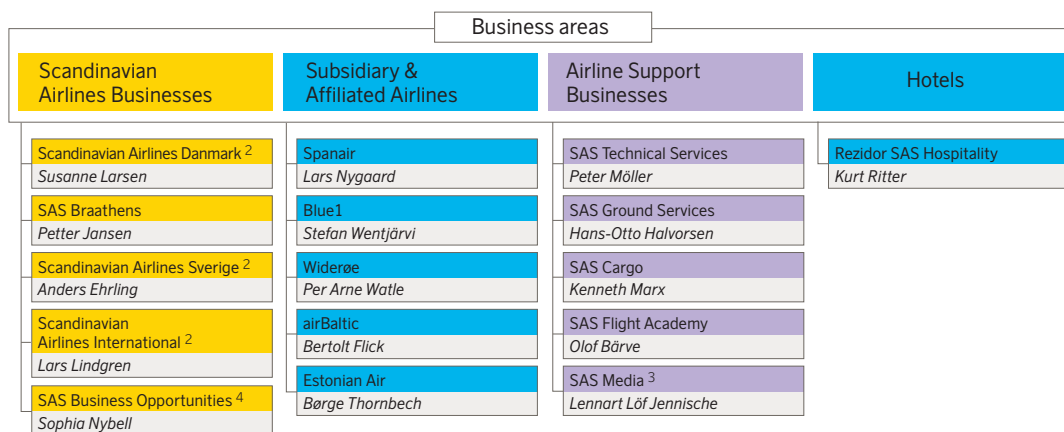
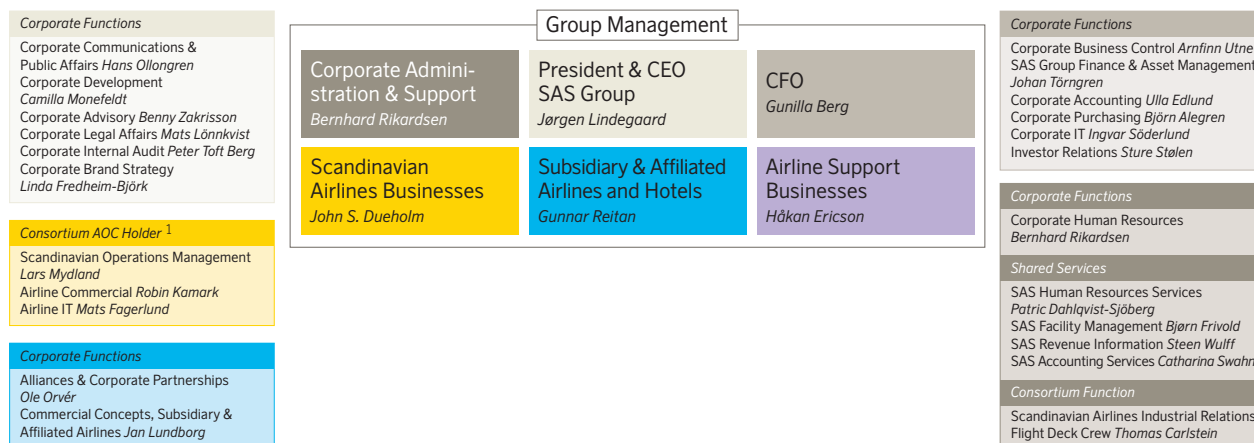
Verner Lundtoft Jensen

Jørgen Lindegaard
President and CEO

Organization & business structure 2006

Since 2002 the SAS Group has worked to harmonize its organization, business structure and legal structure.

Organization and senior executives



¹ The role Accountable Manager reports to the CEO.
² Common Air Operator Certificate (AOC).
³ Reports under Group-wide functions.
⁴ Reports in the business area Scandinavian Airlines Businesses.

Reporting of shareholdings in SAS AB among senior executives and their immediate families:
 Jens Witttrup Willumsen, Deputy CEO, Scandinavian Airlines Danmark, 3,274 shares.
 Sture Stølen, Vice President Head of Investor Relations, 1,800 shares.
 Steen Wulff, Head of Revenue Accounting, 1,137 shares.
 Kenneth Marx, CEO SAS Cargo, 1,150 shares.
 Shareholdings of Group Management reported on page 91.

Business structure As of January 1, 2006



A new business structure comprising four business areas was introduced on January 1, 2006. As of that date, the business area Airline Related Businesses has been eliminated. SAS Flight Academy transferred to Airline Support Businesses. SAS Media is reported in Group-wide functions and SAS Business Opportunities is reported in Scandinavian Airlines Businesses.

Chairman's comments

We've now turned the tide

Implementing major changes in a short time is always both challenging and complex. 2005 was a tough year for the SAS Group in a market beset by overcapacity and record-high fuel prices. Crucial for the Group was to achieve positive earnings for 2005 after four years in a row of losses. The fact that we nevertheless succeed was very good news, and Turnaround 2005 was the most important reason for getting there.

However, a positive result for the SAS Group is just a step in the right direction. Intense negotiations are now in progress with union representatives to ensure that cost savings of an additional SEK 2 billion are carried out. The Board stands firmly behind management regarding these new cost-saving measures and the incorporation of business units. It is imperative that the incorporation be completed. Although these measures will impact Group employees, they are necessary for further improving its earnings, ensuring its growth and ability to invest and meeting shareholders' return requirements. Competition is here to stay, and no personnel category can be sheltered in a market with many players and heavy pressure on fares.

Share performance

I am pleased to note that the SAS share performed strongly in 2005. Total market capitalization rose by 74%. This is proof that the market values the work done by SAS Group management, which also includes the implementation of Turnaround 2005. Besides a positive rising share price in 2005, the liquidity performed positively as well, posting a total increase of 119%. Nevertheless, the liquidity of the share in Norway is still weak.

Shareholder control

As I reported last year, an audit committee and a new internal audit were established to ensure internal control regarding auditing, financial systems and other critical internal processes. In view of the errors in Spanair's accounts, the Board of the SAS Group has initiated a review of routines to ascertain how the erroneous reporting arose and how the Group can ensure that similar incidents do not happen again.

The compensation committee works to guarantee that the SAS Group has market pay and compensation models for senior executives and transparency regarding the systems' structure and outcomes.

On July 1, the Swedish Code of Corporate Governance was made a requirement for all large companies on the Stockholm Stock Exchange. For that reason, in 2005, the SAS Group gradually implemented the provisions



sions of the Code that had previously not been applied. In accordance with the Code, the Group has prepared a separate corporate governance report, found on pages 85-91.

Safety issues

Safety always has top priority in all Group airlines.

During the year, a number of incidents relating to flight safety were noted. The Board regards two of them, the incident in Shanghai and the omitted routine checks of Airbus A340s, as serious. Like Det Skandinaviske Tilsynskontor, the Board of the SAS Group's has begun a review of routines to ensure that these incidents do not happen again. The SAS Group is also putting in place common regulations with the same quality standards for all Group airlines.

Focus on sustainability

The SAS Group has continued its work to ensure that it is focusing on sustainability issues.

Owing to its size, impact on society and type of operation, the SAS Group is closely scrutinized and is often in the news. The impacts of disruptions in production are felt in far more businesses than our own, raising a good number of questions. In such situations it is also vital to have common guidelines for the Group's employees and the attitudes expected of the individual in dealing with customers, colleagues, shareholders, government agencies and the world at large. During the year the SAS Group published a Code of Conduct, describing business ethics rules and guidelines for all employees



in the Group.

Environmental work continued with full force in 2005, and I am pleased that the SAS Group succeeded in reducing its environmental impact. It is essential for the Group that new and future environmental charges be handled in a competition-neutral way. Thus, the SAS Group supports the proposal for trade in emission rights, but opposes special national charges of the type planned to be introduced in Sweden.

The future

Even though it had some setbacks in 2005, this was the year the SAS guaranteed its survival. Now it is up to management and all employees to do their part. If this responsibility is not taken fully, there are players lined up to enter our market. On the other hand, a competitive company has good opportunities for expansion.

I am convinced that the Group is being led on the right path and that it is becoming more competitive. No category of personnel can be permitted to stop us as we take the next step toward becoming a more profitable airline group. We hope that the market will stabilize so that profitability in the future is possible for the industry as a whole, and, in a tough business, we will obviously do our share.

Stockholm, March 2006
Egil Myklebust
Chairman of the Board, SAS AB

Sustainability Report



Responsible in Group Management for sustainability issues
Executive Vice President
Bernhard Rikardsen

It has been ten years since the SAS Group – as one of the pioneers – published its first environmental report. At the same time, environmental issues were identified, and then sustainability issues, as strategically vital to the Group's continued development.

The SAS Group's sustainable development work has received favorable attention, evinced among other things by the awards and nominations that the environmental and sustainability reports have won over the years.

It has long gone without saying in the SAS Group that economy and ecology go hand in hand and that one is impossible without the other. And so sustainability work is also viewed as a way to contribute to the Group's bottom line.

Key to this is resource efficiency, and many of the efforts given priority in 2005 involved utilizing production capacity better in SAS Group companies. One example of this is the fuel savings program, where each tonne of fuel saved not only results in lower costs but also reduces CO₂ emissions by 3.15 tonnes.

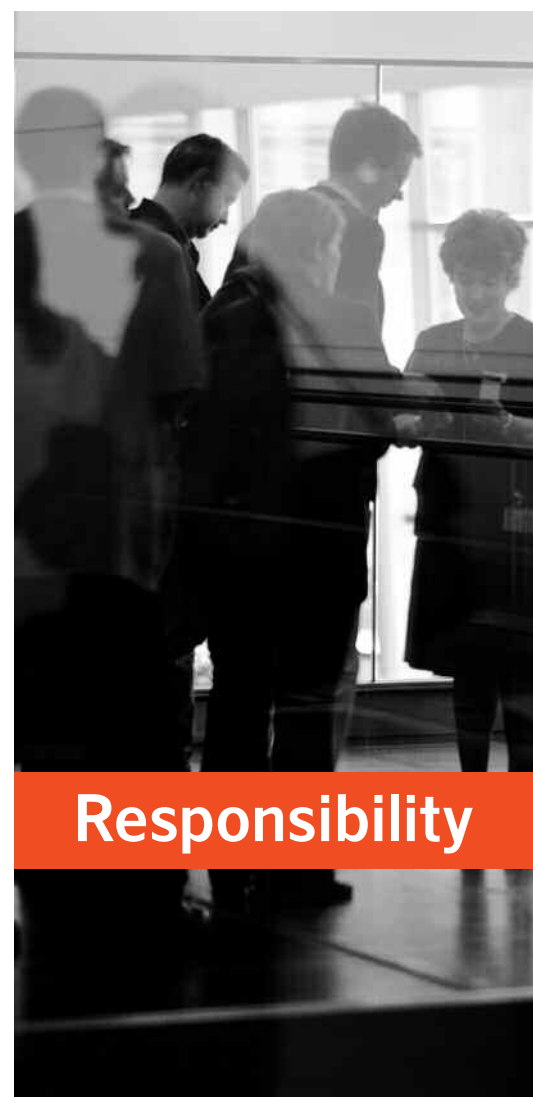
During the year Turnaround 2005 and the incorporation of SAS Group units were completed. Among other things, clear areas of responsibility were set for each subsidiary, with business targets and return requirements. Reporting for 2005 is therefore on a more stable foundation than for 2004.

Performance and important events

- The SAS Group is showing a positive result after five years of sweeping changes.
- In 2005 the SAS Group's eco-efficiency improved sharply. In airline operations the cabin factor rose and fuel consumption per passenger was at a record low.

The environmental index for most Group companies improved substantially.

- An extensive program to save jet fuel began in June 2005. It is expected to yield annual savings of approximately MSEK 250 and cut CO₂ emissions by 160,000 tonnes.
- In May 2005, the SAS Group's Board of Directors adopted a Code of Conduct.
- The SAS Group and the Association of European Airlines have been pushing the issue of aviation's participation in the EU system of emission trading.
- To reduce glycol use, SAS Ground Services have initiated testing of aircraft deicing with infrared light at Oslo Airport.
- The ground handling company Newco's environmental management system received ISO 14001 certification in 2005.
- The SAS Group Annual Report & Sustainability Report 2004 was chosen as a winner of the Swedish Ministry of Industry, Employment and Communications competition Genomlyst2005. It was also voted the best sustainability report and best non-financial report by FAR, the Danish newspaper Børsen and FSR, and nominated to the European competition ESRA.



Responsibility

Sustainability KPIs	2005	2004	2003
Operating revenue, MSEK	61,887	58,093	57,754
Income after financial items	418	-1,833	-1,470
CFROI, %	13	9	7
Average number of employees	32,363	32,481	34,544
of which men/women, %	58/42	58/42	58/42
Sick leave, %	6.8	6.6	-
Carbon dioxide (CO ₂) emissions, 1,000 tonnes	6,182	5,951	5,597
Nitrogen oxide (NO _x) emissions, 1,000 tonnes	23.2	22.0	21.3
Kg carbon dioxide (CO ₂)/RPK ¹	0,143	0,154	0,158
Total fuel consumption, 1,000 tonnes	1,963	1,889	1,777
Water consumption, 1,000 m ³	3,442	3,073	3,041
Energy consumption, ground, GWh	707	686	700
Unsorted waste, 1,000 tonnes	13.1	11.2	10.8
External environment-related charges, MSEK	565	489	456
Number of passengers, 1,000	39,173	35,646	34,468

¹ Scandinavian Airlines Businesses only

Independent review

The expressed aim of the SAS Group is, if possible, to have all sustainability information examined by an independent party. This year the Group's auditors have reviewed all material sustainability information in the financial and sustainability report. The statement of limited review appears on page 115.

Sustainability information

For further information and views on the SAS Group's sustainability work, contact Environmental Director Niels Eirik Nertun: niels-eirik.nertun@sas.no

The SAS Group Annual Report & Sustainability Report 2004 was published in March 2005.

Responsibility for sustainable development

By being a major employer and contractor, by maintaining crucial societal infrastructure and by generating returns for its shareholders, the SAS Group has a considerable impact on society. At the same time, airline operations have an adverse environmental impact, primarily through emissions of greenhouse gases and noise near airports.

The SAS Group has defined its sustainable development work as a simultaneous focus on financial growth, environmental improvements and social accountability. On the basis of the demands of the world around us and the Group's core values – consideration, reliability, value creation and openness – long-term growth for shareholders is to be achieved. This undertaking requires integrating social and environmental responsibility into business activities.

Corporate social responsibility

For the SAS Group, corporate social responsibility is taking responsibility for employees as well as for the stakeholders and communities affected by the Group's operations.

As an employer, the SAS Group can help provide its employees with a long-term high standard of living and quality of life. The best possible physical and psychological working environment is essential, as are opportunities for employees to develop, both in their professional roles and as people.

The SAS Group's success is based on nurturing and developing its employees' skills and commitment. The Group also affects a number of subcontractors, thereby contributing to economic and social welfare in the countries and societies where its businesses operate.

In its involvement in social issues and by joining the UN Global Compact, the SAS Group has pledged itself in all its activities to

defend human rights and to combat corruption and all forms of forced labor and discrimination. The Global Compact's principles in their entirety can be found at www.unglobalcompact.org

Environmental responsibility

The SAS Group's environmental impact chiefly comprises noise and the consumption of non-renewable fuels. Fuel combustion causes a rise in atmospheric carbon dioxide (CO₂), which contributes to global climate change. Airline operations account for about 90% of the Group's total environmental impact.

The SAS Group works actively to reduce the environmental impact of its own operations. In various national and international contexts the SAS Group acts to influence the environmental framework for aviation and to develop and disseminate "green" technology.

Financial responsibility

The SAS Group is primarily charged with creating long-term growth for its shareholders. It is in this perspective that work on sustainability issues must be viewed. Efforts to economize on resources lead to a lower environmental impact and lower costs. All in all, sustainability work helps to improve competitiveness and increase shareholder value.

The SAS Group also helps to create added value for individuals as well as com-

panies and society at large by facilitating people's travel and lodging while away from home and by furnishing the transportation of goods.

Platform for the SAS Group's sustainability work

The SAS Group's four core values cover all operations in the Group and form the basis for all work on sustainability issues. On the basis of these core values, the SAS Group has set overarching policies that along with a number of strategies govern its sustainability work, see illustration on page 97. The work is aimed at fostering and enhancing the skills of employees, contributing to social progress and reducing environmental impacts. At the same time, shareholder value is to rise in both the short and long terms.

Below is a compilation of the most important policies governing the SAS Group's sustainability work.

Sustainability Policy and implementation strategy

■ *To contribute to sustainable development, SAS Group employees must, in their day-to-day work, take the Group's environmental and societal impact into account as well as its financial performance.*

For the SAS Group, sustainable development means a simultaneous focus on financial growth, environmental improvements and social responsibility. The

About the SAS Group Sustainability Report 2005

The SAS Group Sustainability Report describes the most essential environmental and societal aspects affecting its operations. It reports what is felt, after an ongoing dialog, to be of interest to its main target groups: shareholders, policymakers, financial analysts, authorities, employees, customers and suppliers.

New in the Sustainability Report for 2005 is an attempt to develop the account of the SAS Group's corporate social responsibility and its ongoing effort to engage in a dialog with stakeholders. As a result of demands from stakeholders and others, the report has been adapted to the Global Reporting Initiative's (GRI) 2002 Sustainability Reporting Guidelines. The purpose of the report is, along with the Annual Report, to help users assess and understand the SAS Group's operations.

Reporting principles

The sustainability report has been prepared in accordance with the SAS Accounting Principles for Sustain-

ability Reporting for 2005. The presentation and disclosures are partly based on Deloitte's (Sweden) Checklist for preparation and evaluation of voluntary reporting of environmental, ethical and social information. The SAS Group has also taken GRI 2002 Sustainability Reporting Guidelines into account.

The SAS Group Sustainability Report also covers all essential principles of the UN Global Compact.

The SAS Group is constantly refining its environmental and social indicators, which the report reflects. Here the aim is to link these indicators with the Group's financial performance.

■ The sustainability report consists of sustainability information provided in the SAS Group Annual Report & Sustainability Report 2005 and reporting principles and Global Reporting Initiative (GRI) cross-references on the SAS website (www.sasgroup.net under the heading "Sustainability").

■ For financially related information in the Sustainability Report, we are aiming for the same reporting principles as in the financial part of the Annual Report. In cases where other principles are applied, this is commented on in the SAS Group's reporting principles for sustainability reporting.

■ Uniform environmental and social indicators are aimed for Group-wide. Aside from primarily national discrepancies regarding social data without material importance for the information reported, all operations in the Group were able to report in accordance with these definitions for 2005.

■ SAS Group Management approved the sustainability report in February 2006. The SAS Group Board of Directors submitted the annual report on March 7, 2006, and was informed of the sustainability report at the same time. SAS Group Management is responsible for organizing and integrating sustainability work with the operations of the Group.

Group's task, based on its core values, is to create long-term growth in shareholder value. This requires integrating environmental and social responsibility into business activities. Sustaining and developing the skills and dedication of employees is essential for the achievement of the Group's goals.

To ensure that the SAS Group's sustainability policy permeates the entire organization at all levels, each company is to develop relevant objectives and strategies in line with this policy.

Eco-political vision

■ The SAS Group's environmental policy vision is for all four transportation sectors – road, rail, sea and air – to pay for investment and for their infrastructure, other costs to society (such as accidents) and their environmental impact according to the polluter pays principle. They are then to compete in a transportation system where competition is not distorted by favoring some modes over others.

Environmental policy

■ The SAS Group will contribute to sustainable development by minimizing its environmental impact and optimizing its resource use.

The Group's environmental objectives are based on the principle of constant improvement and on each subsidiary setting specific targets for its operations – often in consultation with its particular board. For instance, all companies have eco-efficiency targets.



assumes the equal worth of all persons. All employees and applicants are to be treated in a correct and objective manner, where being qualified for the job and observing the SAS Group's safety standards are of paramount importance. All employees and applicants also have a right to be treated according to objective and formal principles and not according to what may be perceived, rightly or not, as characteristic of the gender or category he or she belongs to. All employees are responsible for workplace conduct and actions in line with the values expressed by this policy.

Business relations

For the airline industry, with a tradition of close collaboration with competitors, anti-trust issues are in focus. The SAS Group has therefore developed a legal policy with a special section on competition law and adopted a program to ensure compliance, the "SAS Competition Law Compliance Program." This program was developed further in 2005, and in 2006 training for managers will be introduced. The legal policy also contains strict prohibitions against paying or accepting bribes or improper perquisites.

To summarize and clarify the Group's stated values, policies and other regulations, the SAS Group Board of Directors issued a Code of Conduct in May 2005. It contains rules and guidelines for business ethics for the SAS Group's relations with the world around it. The code in its entirety, as well as all sustainability policies and the environmental strategy, can be read at www.sasgroup.net

Environmental strategy

An environmental strategy is linked to the environmental policy. Among other things, it mandates that all companies and units establish environmental management systems based on the principle of constant improvement. The strategy also requires an environmental dialog with suppliers, the use of the best commercially available technology and an open and honest dialog with other stakeholders about the Group's environmental work.

Sustainability-related requirements for suppliers have been formulated in the SAS Group's purchasing policy.

Diversity policy

■ In all external recruitment, internal recruitment, promotions, human resources development and other interaction between companies and employees, the SAS Group

Our world – our stakeholders

Besides the goal of creating long-term growth for its shareholders, the SAS Group's sustainable development efforts are driven by expectations and demands of key stakeholders and others. The SAS Group tries to meet these expectations and demands through systematic efforts, stakeholder dialog and business intelligence.

Government policies and the costs of jet fuel, energy, water and waste management all impact profitability in the airline industry. The entire industry is highly sensitive to competition as well as the business cycle. Hotels are also affected by supply and demand in local markets.

Environmental policies

The airline industry is primarily regulated by international agreements made within the framework of UN International Civil Aviation Organization (ICAO). These include standards and norms for noise and emissions of hydrocarbons, carbon monoxide and nitrogen oxides (NO_x) from engines. In addition,

there are various national and local rules.

For example, about 40 airports in Europe and the U.S. have introduced noise restrictions of various kinds. These are noise charges as well as takeoff and landing restrictions.

Airline operations are subject to the environmental policies set by each airport. These normally involve noise, rules for using

deicing fluids, limits on releases into the soil and water, or in the case of Stockholm-Arlanda Airport, a ceiling for atmospheric emissions of carbon dioxide (CO₂) and NO_x.

The emission ceiling is unrelated to production but specified in absolute terms. Arlanda is now approaching the ceiling for CO₂ emissions. The Swedish Civil Aviation Authority (SCAA), which holds the airport's environmental permit, applied in December 2004 for a reexamination of the permit with the Environmental Court, which is expected to rule in late spring 2006.

The environmental permit for Copenhagen Airport lowers the noise limit for night traffic from 85 to 80dB(A). As total traffic is increasing, in a few years, Copenhagen Airport may reach the ceiling for the highest permitted noise contour. This is a key reason that the Group is now considering measures to lower the noise levels of its MD-80s.

In general, the trend is toward increased use of environment-related charge systems and operational limits. The twofold purpose is to reduce local environmental problems and give airlines an incentive to use aircraft with the best available technology from an environmental standpoint.

Ground and hotel operations are affected by national and local environmental, working environment and safety legislation. Hotel operations primarily have local environmental regulations to follow, and, to a lesser degree, direct legislation.

The climate issue

As the climate issue has heated up, there have been a number of initiatives nationally and in the EU to reduce the effects of a feared change in the Earth's climate. These primarily involve various ways to reduce emissions of the greenhouse gas CO₂, the transportation and travel industry's most important environmental impact.

Although aviation's share of global CO₂ emissions is only 3%, the focus is on aviation, owing to the explosive growth predicted. The forecasts and judgments made by the UN International Panel on Climate Change (IPCC) and ICAO indicate that global air traffic will grow an average of 5% per year until 2020.

Thanks to technological advances and efficiency improvements, the rise in CO₂ emissions can be limited to an average of 3% per year. CO₂ emissions account for about 50% of aviation's total impact on climate, while water vapor, NO_x and particu-

lates are assumed to account for the rest.

According to the Kyoto Protocol to the UN Framework Convention on Climate Change, all industrialized countries must reduce their emissions by 5%, compared with 1990-levels, between 2008 and 2012. The EU has gone a bit further, committing itself to reducing the community's total CO₂ emissions 8% by 2010.

To achieve this there are various proposals and prepared directives: one requires all EU countries to increase their share of renewable energy from 6% to 12% by 2010 and another contains rules to reduce the energy use of buildings 22% by 2020. The latter directly affects hotel operations and property management in the SAS Group, which already meets requirements for documenting and following up on energy use.

Trade in emission rights

At the beginning of 2005, the EU, as well as Norway, initiated a trial period for trading in CO₂ emission rights. The trading schemes cover only fixed installations until 2008.

In recent years the SAS Group – on its own and via the Association of European Airlines (AEA) – has actively sought to have aviation included in both the European and Norwegian emission trading schemes. The European Commission is also preparing to let aviation also being included in the trading scheme as of 2008.

The motive for the SAS Group as well as the AEA to seek to participate in emission trading is that it is regarded to be the most cost-effective way – particularly compared to taxes and charges – to cut global CO₂ emissions. This view is shared by ICAO's environmental committee CAEP, which analyzed the issue.

An open system of emission trading would result in civil aviation, by purchasing emission rights, paying for emission reductions being made by those who are able to do it on commercially reasonable terms. Civil aviation wishes to take its environmental responsibility on the same terms as other industries in the EU quota trading scheme.

Although estimating the costs of the SAS Group's participation in emission trading is difficult, it may be said in general that a tax scheme would drive up costs considerably more than emission trading.

A key reason for the SAS Group's efforts to join the trading scheme is that it follows the polluter pays principle.



Tax on air travel

According to an ICAO policy from the 1950s, jet fuel for international civil aviation is tax free, which policymakers and governments in Europe view with dissatisfaction. Through its member countries, the European Commission has therefore worked actively within the ICAO to facilitate the imposition of a global carbon tax on jet fuel.

Norway is the only country in Europe with a carbon tax on jet fuel. This applies solely to domestic aviation. Denmark has a passenger tax, but it will be phased out in 2006 and 2007. Sweden had a carbon tax on jet fuel that was repealed upon EU accession, but plans to reintroduce an environmental tax on airline tickets as of June 2006, to generate a total of SEK 1.4 billion per year in added tax revenue. Per ticket the tax is supposed to be between about SEK 100 and SEK 500, depending on ticket price and journey length.

However, several key consultation bodies, including the Swedish Energy Agency, the Swedish Competition Authority and the Swedish Association of Local Authorities and Regions take a very dim view of the proposal. The Energy Agency warned that the system of charges may lead to higher CO₂ emissions, and the Competition Authority pointed out that the proposal also risks distorting competition. Several consultation bodies point out that the environmental impact will likely be greater if civil aviation can be included in the EU emission trading scheme.

According to SCAA calculations, the proposed ticket tax may reduce travel by about 4%. The SAS Group estimates that impact on domestic air travel may be 10–15%.

Alternative jet fuel – an eventual solution

One way to cut CO₂ emissions from an existing aircraft fleet might be to use jet fuel produced from renewable raw materials instead of petroleum.



”The SAS Group is pushing the issue of emission trading as the most cost-effective way to lower CO₂ emissions.”



There are several interesting projects under way in the world to develop Biojet A1 fuel. Together with the government and Volvo Aero, the SAS Group has supported the Swedish company Oroboros, which has produced synthetic jet fuel from biomass. Although judged to be within the technical criteria for jet fuel, it has not yet been certified for use in aircraft engines.

Recently, even solutions like aircraft with electric engines driven by fuel cells have begun to be discussed with greater seriousness. The major aircraft manufacturers believe that test flights of electric aircraft may be conducted in about 15 years.

Congestion problems in Europe

According to the European Civil Aviation Conference (ECAC) and Eurocontrol, the growth of air travel – a forecast increase in air traffic of around 5% annually to 2020 – risks being limited by capacity problems at European airports, congested airspace and a lack of air traffic coordination.

To remedy these problems an effort was launched in the EU to replace the current national air traffic control (ATC) systems with a coordinated European ATC system, Single European Sky.

AEA estimates suggest that a coordinated European ATC system can, at current air traffic levels, yield fuel savings of about 12% through shorter flight paths, less congestion and shorter holding times in the air. Also, busy airports can be utilized more efficiently, reducing delays and improving safety because pilots and air traffic controllers are under less pressure on the job than they are today.

Business ethics and responsible globalization

The recent corporate scandals have created distrust towards large segments of the business world. Society has reacted with legisla-

tion, such as the Sarbanes-Oxley Act in the U.S. In Sweden, a new code of corporate governance has been introduced, which is also being included in the rules of the Stockholm Stock Exchange. Similar requirements apply to listed companies in Denmark.

Companies, including the SAS Group, have responded by introducing codes of ethics that clarify the company's behavior, values and principles of business ethics.

The rapid globalization of the economy and business prompted calls for companies to take greater social responsibility. Besides assuming responsibility for their own employees, this involves acting responsibly in the local community and contributing to greater economic development in all parts of the world. The talk is now of responsible globalization.

As a global transportation company and partner in the world's largest airline alliance, Star Alliance™, the SAS Group impacts its destinations with traffic, cargo and passengers and through purchasing. Rezidor SAS, which operates hotels in about 40 different countries, affects its surroundings in the same way.

By joining the Global Compact, the SAS Group has committed itself to ensuring that this impact leads to a better life for people and a reduced environmental impact. For Rezidor SAS, with operations in the Middle East, Eastern Europe and China, where views about human rights and environmental and working environment issues do not always agree with the Global Compact, the challenge is extra great.

Openness – transparency

A number of stakeholders show a clear and growing demand for the SAS Group to openly report targets and performance in the area of sustainable development. These demands are made by business customers, shareholders and investors. The SAS Group's goods,

services and behavior are expected to maintain a high level with regard to ethics, corporate social responsibility and environmental performance. Consequently, the SAS Group sets the same requirements for its suppliers for contracts and purchases.

The SAS Group notes a keener interest from investment funds, banks and the growing sector of socially responsible investment management, i.e., environmental and ethical funds.

For example, the SAS Group is among the companies approved as an ethically and environmentally acceptable investment by the Swedish investment management company Robur. There is an ongoing dialog with other ethical advisers primarily to pension funds.

Pressure for openness and sustainability information also comes from policymakers and governments. Recently, requirements were introduced into Swedish and Danish legislation – in accordance with an EU directive – for companies to provide information about environmental and social issues in annual reports.

In addition, openness in member companies is essential if a voluntary agreement on the Global Compact is to retain its credibility. Member companies are required to report the steps they are taking to fulfill the principles of the Global Compact. The SAS Group reports on these efforts in an annual report – Communication on Progress – published on the Global Compact's website.

Assistance in calculating emissions

Many large customers demand reports of environmental impacts of aircraft in order to calculate their own impact or that of their freight carriers. Customers and other stakeholders want data on suppliers' environmental impact and possible improvement measures. To assist them, the SAS Group's airlines have devised an emission calculator for personal transportation and SAS Cargo one for air freight. They are available on the Internet:

www.sasgroup.net

www.sascargo.com

Sustainable development work

In May 2005, the Board of Directors of the SAS Group adopted *Code of Conduct – Business ethics rules and guidelines for the SAS Group*. The code is based in the SAS Group's overarching and shared values – consideration, reliability, value creation and openness – which underlie relations with all stakeholders, individuals as well as groups.

Organization and management of sustainability work

The SAS Group's operational sustainability work is based on its Sustainability Policy, as well as the Group's commitment to fulfill the principles of the UN Global Compact. The sustainability and environmental policies, as well as targets and key performance indicators associated with them, were most recently reviewed by SAS Group Management in February 2006.

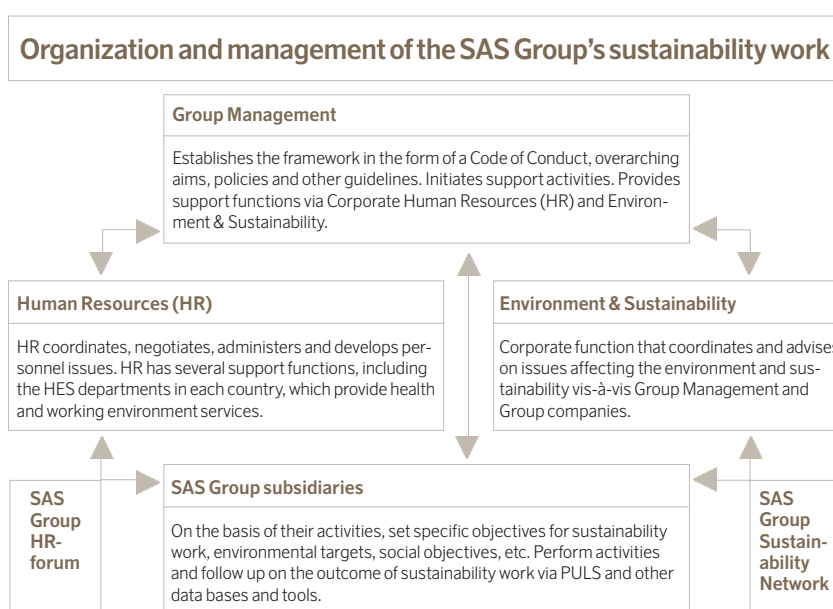
The final responsibility for sustainability issues rests with Group Management, while the heads of business areas and subsidiaries have operational responsibility.

The SAS Group's subsidiaries each set relevant targets and prepare action plans for their ongoing sustainability work. The subsidiaries report each year in writing to Group Management on their specific work on these issues.

The SAS Group has a central, coordinating and advisory department for the environment and sustainable development. It is part of Corporate Communications & Public Affairs (CC&PA), the management of which the Group's Environmental Director is a part. The head of CC&PA monitors environmental and other sustainability-related issues on behalf of Group Management.

Sustainability work is coordinated through the SAS Group Sustainability Network, comprising the coordinators for sustainability work from all companies and units. They report to the management of their respective company or unit.

Issues directly affecting employees are dealt with by the HR Forum, made up of the personnel directors of the Group's companies and units. They, too, report to their respective managements. Employee issues



are coordinated by Corporate Human Resources, under which come management development, health, company health services, pay and compensation issues and issues affecting sick leave.

A substantial portion of sustainability involves the Group's working environment efforts. This is carried out within each company, which is responsible for ensuring a proper working environment. This work is carried out in cooperation with elected safety representatives, labor-management joint safety committees and through follow-ups within the framework of systematic working environment efforts.

While other companies often choose to purchase company health services from outside, the SAS Group has chosen to retain

this function internally. This provides unique knowledge about the conditions of the SAS Group's various employee groups.

Besides medical staff, the company health services – or health, environment and safety (HES) departments – employ therapists, stress and rehabilitation specialists and ergonomic engineers.

HES departments have also developed special services, such as providing support by phone to those on sick leave and stress management programs. Human Resources also plays an advisory role in improving the Group's working environment.

Handling sustainability-related data

Environmental data are reported twice a year, while data concerning employee sick leave

Code of Conduct

The SAS Group's Code of Conduct, covering all employees in the Group, contains guidelines for relations with coworkers, customers, government agencies, suppliers and other stakeholders and groups. It contains rules on corporate security, theft, waste, bribes and kickbacks; on responsible business practices regarding the environment and society; on shareholder influence and transparency in the governance of the SAS Group; on attitudes toward financial reporting, insider trading, business ethics, communication with employees and the outside world and on conflicts of interest.

A key portion of the Code of Conduct deals with how infringements of the Code are to be handled. The Code

makes clear that all employees are to report anything that is or may be perceived as a violation of laws or the Code of Conduct. This should be done first to one's immediate supervisor, or if he or she is involved or cannot or will not act, to the highest supervisor responsible or to the Executive Vice President, Corporate Administration & Support.

In the latter case, SAS Group employees can report on a special form on the Group intranet. It is expressly stated that reports will be treated confidentially and no employee will be discriminated against or punished for reporting actual or suspected infringements.

This "whistleblower function" is essential for the Code of Conduct's credibility. It has also been common

for managers of ethical investment funds to demand such a function.

The Code of Conduct was sent to all Group employees in summer 2005. Since then, 10–15 reports have been received. All were investigated according to the regulations, but no case led to any sanctions.

The Code of Conduct summarizes and clarifies already existing policies and commitments in the Group. The entire Code of Conduct is available at www.sasgroup.net



and injuries are reported quarterly. In addition, the companies and units are to report at least once a year on what has been done to develop the Group's sustainability work.

Although the heads of the respective companies and units are responsible for reporting, in practice this is done by the coordinators in the SAS Group Sustainability Network. The data are compiled by the Group's central and advisory department for environment and sustainable development and reported to Group Management.

Cooperation

The SAS Group is able to free personnel for various UN efforts, such as setting up and running civil aviation activities in developing countries or in acute crisis situations.

The SAS Group has agreements with the Norwegian and Swedish governments to furnish air ambulances in the event of disasters. The Group and the Swedish Civil Aviation Authority collaborate on a project involving two hospital-equipped 737s with qualified staff.

Scandinavian Airlines Businesses, Spanair and Blue1 are engaged in an international co-

operation with leading organizations in science, culture and the environment. This takes place within the framework of Star Alliance™ and involves cooperation with UNESCO, the United Nations Educational, Scientific and Cultural Organization, Ramsar, the international wetlands convention, and IUCN, an umbrella organization of over 1,000 environmental agencies and organizations in 140 countries. The SAS Group takes an active part in a long series of partnerships to develop and disseminate "greener" technologies. See page 107.

Ten years on the front line – with our reports leading the charge

"What distinguishes the SAS Group from many others with regard to reporting work on sustainability issues is that we began in a different way than most others. We began with the feeling that our environmental work and data were better than what our stakeholders imagined and what our image suggested. We therefore decided to start reporting it. Once we started to report data,

it made sense to develop policies, targets and an organization for the ongoing effort. And so the actual reporting of environmental as well as sustainability data has always spearheaded the SAS Group's work on sustainability-related matters.

We quickly saw that ecology and economy are two sides of the same coin and have therefore developed methods for reporting

how environmental and other sustainability work impacts the SAS Group's bottom line.

Our reports have also been characterized by unusual candor – candor that even touched on problems and shortcomings. We have also been influenced by the internal and external comments we have received on the content of the reports. They have, along with the fact that we had external auditors examine our reports early on, helped our reports constantly evolve and be perceived as credible."

Niels Eirik Nertun, Environmental Director



1995
Structuring the environmental report on the same model as the financial report was an unusual touch, which has since made the integration of the reports easier.
▶ Best Environmental Report in Norway and Sweden.



1999
All Chapter 2 aircraft – those with poorer environmental performance – are phased out of the fleet. Environmental index fully developed.
▶ Best in category in Norway and Sweden.



2003
The SAS Group's first integrated Annual Report and Sustainability Report.
▶ Best Annual and Sustainability Report in Sweden (FAR). Nominated as best European Sustainability Report (ESRA).



1996
MD-90s were delivered and DC-9s hushkitted. The property department introduced an environmental management system and targets for its environmental work.
▶ Best in category in Norway and Sweden. Best Environmental Report in Denmark.



2000
First mention of the goal of doing an integrated sustainability report.
▶ Best environmental report in Norway and Denmark. Shared an award in Sweden. Best European environmental report (ESRA).



2004
Scandinavian Airlines reaches its long-term objective of improving the environmental index by three points per year between 1996 and 2005.

▶ Best Annual and Sustainability Report in Sweden (FAR) and Denmark (Børsen and FSR).

Nominated as the best European Sustainability Report (ESRA).

Best Annual and Sustainability Report in the Swedish Ministry of Industry, Employment and Communications competition Genomlyst2005.



1997
SAS's environmental index was refined, and for the first time, cabin and ground indexes are reported separately. The first environmental report to be examined by external auditors.
▶ Best in category in Norway. Best Environmental Report in Sweden.



2001
The complete environmental report was published as a dynamic pdf on the website, while a summary is included in the annual report.
▶ Best Annual and Sustainability Report in Sweden.



1998
The first Boeing 737s with DAC-engines delivered. Scandinavian Airlines environmental logo introduced.
▶ Best in category in Norway and Sweden.



2002
The SAS Group Sustainability Policy is adopted. For the first time, the environmental report covers the entire SAS Group.
▶ Best Annual and Sustainability Report in Sweden (FAR). Nominated as best European Sustainability Report (ESRA).

Dialog – a question of trust

For the SAS Group, as for other companies operating in the global arena, it is becoming increasingly important to gain the acceptance and trust of the world around us. To succeed requires candor about its own operations and also readiness to understand how stakeholders view the company's activities. To systematize its relations with the most important stakeholders, the SAS Group developed the tool SAS Reputation Management (SRM) in 2005.

Dialog = two-way communication

Traditionally, ongoing discussions of its operations with stakeholders, such as policymakers, government agencies, environmental organizations and the public are part of day-to-day operations in the SAS Group.

The term "stakeholder dialog" has become a slogan whose connotation can vary considerably. In the SAS Group the term is used only when there are at least two parties communicating.

The stakeholder dialogs that the Group and its subsidiaries engage in vary in character, depending on the subject area and the party or player affected. Even so, it always involves a mutual exchange of views. For the SAS Group, stakeholder dialogs serve to identify and define the Group's highest priority sustainability issues. No stakeholder is denied a dialog with the SAS Group.

Customers

For the SAS Group, the customer dialog has always been an obvious part of developing new products and services; for instance, an intensive customer dialog preceded the launch of Scandinavian Airlines' new business model featuring one-way tickets on European routes. For views on the Group's environmental and social responsibility there are established structures in the form of customer surveys. The evolution of the SAS Group's sustainability reporting has been influenced by the views of stakeholders.

Government agencies

The SAS Group has a long-standing dialog with the civil aviation authorities in the Nordic countries and also participates in a number of international arenas where environmental issues for civil aviation are discussed, such as ICAO, IATA and AEA. In the Nordic region there is a special working group for environmental issues in civil aviation, N-ALM, in which SAS Group airlines participate.

In general, many of the dialogs the SAS Group engages in in Scandinavia are a result of national legislation and long-standing practice. These include, for instance, contacts with local civil aviation and environmental agencies and airport owners. In addition, Scandinavian Ground Services, (SGS) has close contacts with the authorities primarily regarding working environment issues and sick leave.

Contract customers

SAS Group airlines are in close contact with around 800 contract customers. Environmental impact issues, for example, were key to the discussions leading to the major agreements the SAS Group signed with Volvo in November 2005. Several Group companies have also initiated special major customer dialogs, where environmental, quality and corporate social responsibility issues top the agenda. The SAS Group's fuel savings program launched in 2005 is partly connected with ongoing stakeholder dialogs in which contract customers participate. This is especially true of the dialog on reducing the environmental impact of transportation engaged in with Tetra Pak, Maersk Line, Arla, Schenker and WWF.

Major customer dialogs serve to strengthen ties with key major customers. At SAS Cargo, for example, customer dialogs on its sustainability work have induced several major customers from the U.S. to make SAS Cargo a preferred supplier.

Shareholders and investors

The SAS Group's sustainability work is being increasingly discussed with representatives of ethical and environmental funds. These include Storebrand, Robur, Första AP-fonden and Sjunde AP-fonden, which arrive at an opinion on the SAS Group's sustainability work through questionnaires and interviews. There is also a dialog with Sjunde AP-fonden's adviser GES Investment Services. In addition, Rezidor SAS has detailed discussions about its sustainability efforts with investment funds and banks when planning investment in new hotels.



Students and researchers

Many college students and researchers contact the SAS Group when writing papers and theses. By finding out what are currently the hot topics, contact with students is a valuable part of business intelligence. Some of the projects are done on the initiative of the SAS Group, others on that of the students. For example, in 2005 a doctoral thesis on the impetus for environmental work at Scandinavian Airlines was presented. The SAS Group is supporting a doctoral candidate with a project to evaluate Scandinavian companies' cooperation with the UN Development Program (UNDP).

Partnerships and networks

The SAS Group's numerous partnerships focus on enhancing its sustainability work and networks where participants share their experiences in this area. Along with other Nordic corporate members of the Global Compact, the SAS Group is part of a network, Global Compact Nordic, in order to draw on each others' experiences.

The SAS Group is also part of CSR Sweden, a company-run network primarily tasked with making corporate social responsibility and social involvement a natural part of a company's day-to-day work. A key aspect of the network is for companies to inspire one another to describe sustainability-related activities in their financial reports. Rezidor SAS is an active member of the sustainability network International Tourism Partnership (ITP). Group Management also participates in Baltic Development Forum.

New tool for enhancing dialog and improving decisions

In 2005, the SAS Group took further steps to systematize, strengthen and enhance its relations with primary external stakeholders, i.e., customers, policymakers, financial analysts/investors and the public. It is they who help to set the terms for the SAS Group's competitiveness and operating framework. Thus, they have direct impact on its profitability and market capitalization. Consequently, relations with these groups are vital and constitute a considerable asset that should be managed well.

The stakeholders' relationship with, and perception of, the SAS Group's activities are primarily determined by the decisions made by Group Management. That is why the SAS Group has developed the management tool SRM, intended to systematically judge how various stakeholders may react to a given decision. Based on in-depth interviews, SRM is a tool for continuously maintaining and improving relations with key stakeholders through targeted measures. The tool is meant to be used by all managers in the Group, since their work is to have a clear focus on stakeholders and the surrounding world as part of improving the business's profitability.

Examples of the SAS Group's ongoing discussions with stakeholders

Key stakeholder category	Forms of dialog/involvement
▶ Employees	PULS, performance assessment interviews, interactive meetings with all employees.
▶ Prospective employees	Discussions in connection with frequent lectures at universities and colleges.
▶ Students and researchers	The Group's sustainability work is often the subject of investigation. Writers of papers and theses interact closely with Group staff concerned.
▶ Contract customers	Discussions on collaborative projects to reduce the environmental impact of transportation and in connection with major customer requests for reporting business ethics, social and environmental aims.
▶ Customers	Customer views are captured in many different ways, such as through the Customer Satisfaction Index, SRM, surveys, comments on the business to the in-flight magazine <i>Scanorama</i> , etc.
▶ Shareholders/investors	Through surveys and discussions; SAS Group's sustainability work is evaluated by ethical funds, banks and investment funds.
▶ Financial analysts	Regular contact with analysts when sustainability and business ethics issues are addressed.
▶ Authorities	Regular meetings with Scandinavian civil aviation authorities and a dialog with environmental agencies and labor inspection authorities.
▶ Suppliers	At meetings the SAS Group's sustainability work is discussed and contracts ensure that suppliers comply with the principles of the Global Compact.
▶ Partners	Dialog on sustainability issues with partners in Star Alliance, among others.
▶ Neighbors/local communities	SRM is used to find out the views of the public. Ongoing discussions with airport owners primarily in the subsidiaries' home countries.
	Involvement in projects for sustainable business development in the municipalities surrounding its "home airports." Rezidor SAS hotels have recurring projects focusing on corporate social responsibility.
▶ Humanitarian organizations	Regular meetings and discussions with organizations like Bellona, Friends of the Earth, World Wildlife Fund and Save the Children.
▶ Mass media	There is great media interest in the SAS Group, which is open to discussions and interviews with representatives of all mass media.
▶ International organizations	Sustainability issues are vital to many of the international organizations of which the SAS Group is an active member, e.g. Global Compact Nordic Network, the ICAO environmental committee CAEP, Association of European Airlines (AEA), the IATA environmental committee, ITP etc.

Social responsibility

The SAS Group's social responsibility includes relations with its employees and the community. Corporate social responsibility (CSR) means different things depending on time and place. In the SAS Group, the various subsidiaries give priority to issues on the basis of the activities which the particular company engages in. Restructuring and continued staffing reductions characterized 2005. During the year, there were specific initiatives to reduce sick leave.

Turnaround 2005 was completed during the year. At the same time, stiffer competition and rising fuel prices indicate that additional measures will still be necessary to reduce costs and increase productivity and revenues. This has meant continued pressure on the Group's employees. The launch of several new and more flexible products in a short time has placed heavy demands on employee's adaptability, innovation and understanding of the SAS Group's competitive situation.

In all, the number of employees was reduced by about 4% in 2005, see page 6.

Some subsidiaries, including Blue1, Spanair and Rezidor SAS expanded their activities in 2005 and increased their workforces. In addition, as of 2005, airBaltic's employees are counted as part of the Group's total workforce.

Continued restructuring

Following the restructuring of the SAS Group, concluded in 2005, each company sets its own priorities and makes its own judgments on necessary measures. It means, for example, that redundancy processes appeared differently in 2005, depending on the particular company's financial and staffing situation.

Accidents and incidents

In 2005, a workplace accident occurred at Oslo Airport Gardermoen, when an STS employee died from a fall from a ladder. The company reported the accident to the Labour Inspection Authority and the police, which is investigating the accident. Once the police investigation is concluded, the SAS Group internal working group will investigate the accident.

The terror bombing of the Radisson SAS hotel in Amman resulted in 30 deaths among the guests and one among the hotel staff. Although the hotel is a franchise hotel, i.e., neither owned nor operated by Rezidor SAS, Rezidor SAS placed its crisis organization at the disposal of the affected hotel.

Sick leave

Work to reduce sick leave, especially long-term sick leave, intensified in 2005. The issue was given priority by SAS Group Management, which has added a corporate



function with responsibility for working environment and sick leave issues.

A new working environment policy that more clearly underscores management responsibility for the working environment began to be drafted in 2005. At the same time, an effort to analyze absence figures and take specific actions to reduce sick leave was initiated. For instance best practices for rapid rehabilitation and preventive efforts were identified, where Norwegian experiences with More Inclusive Workplaces may be used by companies in other countries.

Each subsidiary has chosen its own way to attack the problem. Some of them that traditionally have the most sick leave – SGS and SAS Cargo – have worked long on the issues and set specific targets to reduce illness figures. These companies, all together representing just under 30% of Group employees, benefit from a number of tools that the Group HES organization offers. For example, some of them utilize a service whereby a nurse from the HES department telephones already on the first day the person who called in sick. The person on sick leave receives advice that can lead to a speedier recovery. In addition, those at risk of ending up on long-term sick leave can be caught at an early stage.

Equality

The SAS Group's diversity policy also contains a commitment to gender equality. In accordance with this policy and Swedish legis-

lation, equality plans are drawn up in each company. A Group decision was additionally made for least 40% of all candidates called in for interviews for new management positions to be women.

Employee surveys

PULS (Employee Surveys on Life at SAS) employee surveys were conducted in November 2005, when the new PULS was used for the first time that was specially developed to fit in with the new Group structure. Only ten questions are common to all companies, while the others are company-specific. All companies except Rezidor SAS participated, which has its own survey.

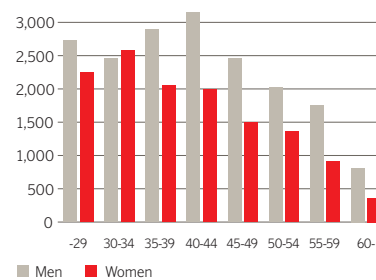
PULS addresses issues including management, employee knowledge, morale and authorizations and how cooperation, organization and efficiency are working. The response rate rose by about 6 percentage points (from 62% to 68%) since 2003, when the last big survey was conducted.

The preliminary conclusions are that two-thirds of the employees are motivated and satisfied with working conditions, despite a hectic job and competitive situation. Employees also perceive that their jobs are important and that they have become more cost-conscious.

However, it is also clear that employees view Group companies and managers as

Age and gender breakdown in the SAS Group in 2005

Average age, 40.7 (41.1*) years



* 2004 excluding Hotels and Widerøe

The age breakdown varies considerably among Group companies. While 74% of Blue1 employees are under 40, 34% of Scandinavian Airlines Sverige employees are in that age group. A whopping 92% of Newco employees are under 40, while the figure for SGS is 46%.

having done a poor job presenting and implementing results from previous surveys. Managers also need to be better at setting goals and communicating and carrying them out.

Executive and human resource development

Many Group companies implemented local executive development programs in 2005, involving 500 executives. These programs touched on leadership development, communicative knowledge, culture-building and coaching/mentoring.

In addition, more than 1,100 employees participated in various development programs, the largest of which involved creating a common culture for 800 employees of SAS Braathens.

Ordinary skills-enhancement courses were held for pilots, cabin crew, technicians, station staff and sales staff, etc., in the Group's airlines and supply companies.

A new trainee program began in 2005 for 10 participants, four women and six men aged 26–30. Unlike earlier programs, this time, external trainees were recruited directly from universities and colleges.

Cooperation with labor organizations

Since the incorporation of business units, cooperation with labor organization is primarily a matter for subsidiaries. This is ex-

pected eventually to result in better quality and accountability for all parties in that all discussions and any negotiations relate to day-to-day operations.

Elected employee representatives from the three Scandinavian countries sit on the SAS Group Board of Directors.

The SAS Group is generally convinced that its cooperation with unions is a *sine qua non* for increasing efficiency in the Group. This view is supported by internal material showing a downward trend since 1992 in the number of conflicts.

Rezidor SAS has European Works Council, where at annual meetings the management is to brief employee representatives about the company's finances, performance, future ventures and other paramount issues and discuss these with them.

Like all companies operating in Saudi Arabia, Rezidor SAS faces the problem that unions are prohibited by law. It is thus impossible to encourage workers to organize. However, the hotels carry on discussions about working conditions with the employees concerned.

Conflicts and disputes

For 14 days in October, Norwegian aircraft technicians at Widerøe's Flyveselskap carried out a "go-slow action" during pay negotiations.

The Supreme Court of Norway ruled in

the SGS case concerning the 325 previous Braathens employees who were not given employment at SAS Ground Services when the corresponding activity at Braathens was shut down after the merger of the companies. Although two lower courts found for the SAS Group in its handling of the matter, the Supreme Court overturned this decision, setting a legal precedent.

The ruling has prompted mixed reactions and means that current employees of SGS may be forced to leave, that the form of employment may be changed, and that financial compensation may be paid to those who may have suffered financial harm during this period.

There were major problems with canceled flights and delays in January 2006, when Danish pilots went on a wildcat strike owing to dissatisfaction that their positions are being transferred to the new subsidiaries – which the other groups have accepted. At the same time, a large number of Norwegian pilots called in sick.

In February 2006, the competition authorities carried out a globally coordinated action against a score of freight companies, including SAS Cargo. The aim was to investigate suspected collusion on fuel surcharges.

Sponsorships and charities

The SAS Group's extensive sponsorship of various cultural and sporting events is way to

The SAS Group's contribution to sustainable social progress

One of the SAS Group's core values is consideration. This means that the Group and its employees are expected to care about customers and coworkers and to take general social and environmental responsibilities.

Besides responsibility for the environment and for its employees, the SAS Group's corporate social responsibility involves contributing to social progress wherever it operates and in areas where the Group is competent, as well as being a respected actor in society.

For the SAS Group's part, this means, for instance, operating key infrastructure in the form of air routes that are vital to individuals and business in the regions where the Group operates. This applies especially to Sweden and Norway, which are both elongated and sparsely populated. The SAS Group's activities are particularly crucial for local labor markets in rural regions in Scandinavia.

Research and development (R&D)

The SAS Group contributes in many ways to the emergence of a more sustainable society. One way is the Group's commitment to and support for the development of "greener" technologies, such as bio-based jet fuel, deicing with triazol-free fluids or with the aid of infrared light, etc. See pages 98 and 113.

The SAS Group engages in – and partly pays for – technological development benefiting the entire industry. This also applies to the work of the SAS Group and its airlines on international efforts to draw up environmental standards for civil aviation.

Also through its activities in its subsidiaries SAS

Flight Academy, which trains pilots, SAS Technical Academy, which trains personnel for technical aircraft maintenance, the SAS Group helps to spread know-how to countries in the Third World. A vital element of pilot training is optimizing flight procedures so that aircraft are utilized eco-efficiently.

The SAS Group contributes to R&D through a board position in Øresund Environment Academy. Representatives of SAS corporate functions for the environment and sustainable development are part of a steering group at the Bodø Graduate School of Business focusing on environmental economics, and a reference group for the environmental science program at Linköping University. In both instance, SAS Group employees participate as lecturers.

Contribution to the economy

Airline operations are powerful engines of job creation. So concludes the report "Civil Aviation in Scandinavia – value and importance," published in 2003 and compiled for the SAS Group by the consultancies COWI, TØI and Inregia, from Denmark, Norway and Sweden, respectively. According to the report, each employee of the SAS Group's airline operations generates 1.63 jobs in

other industries. This means that the SAS Group's airline operations directly and indirectly employ between 45,000 and 50,000 persons in the three Scandinavian countries. These persons contribute approximately SEK 10 billion in taxes to the Danish, Norwegian and Swedish treasuries each year. In addition, the SAS Group pays corporate tax.

According to the report above, the SAS Group's operating revenue is 0.6% of Swedish, 0.7% of Danish and 1.1% of Norwegian GDP.

Likewise, the SAS Group's other companies have a direct and indirect economic impact on the societies where they operate.

For example, Rezidor SAS hotels have a combined payroll of just over 22,000. In addition, the hotel businesses employ a large number of persons in related business such as restaurants and laundries. According to data from ITP, the tourism industry generates about 1.5 additional jobs in other industries. This means that Rezidor SAS directly and indirectly employs over 33,000 persons worldwide. The hospitality and tourism industry are also a key labor market for young people. Half of the employees in the business are under 25.

Example of the SAS Group's contribution to the economy¹

Country	Number of jobs	Incomes, MSEK ²	Social security taxes, MSEK ²
Denmark	7,100	3,850	500
Norway	9,220	5,060	890
Sweden	6,870	3,620	790
Other	9,180	2,580	520

¹Based on the average number of employees ²See Reporting principles for sustainability reporting, www.sasgroup.net.

strengthen its brands. There are also a number of environmental and charity sponsorships. These include the annually recurring support (MSEK 6.2) for Save the Children, the Norwegian Sophie Prize for sustainable development and a fund run jointly with Coca-Cola that supports Nordic environmental projects.

In addition, SAS Group subsidiaries have their own sponsorships. For example, through UNESCO, Rezidor SAS supports world cultural heritage in countries where its hotel business operates.

The SAS Group's employees have their own charity projects, such as the program U-assist, which has existed for a couple of decades. In the program, employees each month voluntarily give up part of their salaries to help people in developing countries to a better life and uninterrupted schooling.

At the beginning of 2005 SAS Group employees took the initiative to collect money for Save the Children, to benefit those affected by the tsunami. The collection raised approximately MSEK 3, which was matched by the company.

Alcohol, gambling and adult films

Aspects of the operations of several of the Group's companies are not accepted by all groups in society. These include liquor and tobacco sales, the airlines' and hotels' serving of alcohol, the casino business in some of Rezidor SAS's hotels, as well as access to pornographic movies in hotel rooms. The SAS Group's position is to offer to adults only such things that are legally and culturally accepted, and the rest is a matter of individual choice and responsibility.

The SAS Group's sustainability work*	Airline operations										Airline Support Businesses/Airline Related Businesses								Hotels Rezidor SAS
	Corporate Funct.	Scandinavian Airlines Airlines Denmark	SAS Breathens	Scandinavian Airlines Airlines Sverige	Scandinavian Airlines Airlines International	Spanair	Widerøe	Blue1	airBaltic	SAS Technical Services	SAS Ground Services	SAS Cargo Group	SAS Flight Academy	Jetpaik Group	European Aeronautical Group	SAS Media Newco			
Has the Group Code of Conduct been discussed by the management team?	5	5	3	5	4	5	5	5	1	1	5	4	4	3	5	3	4	5	
Has the company/business area been involved in community projects?	5	4	5	5	3	5	5	4	5	3	4	5	1	5	1	1	5	5	
Have there been environmental, social or ethical standards and dialogs for choosing suppliers and/or products?	4	3	5	5	4	4	3	4	4	3	3	4	1	4	3	5	4	4	
Are there environmental, social or ethical standards in supplier contracts?	4	4	4	4	4	4	4	4	2	3	3	4	1	4	4	5	1	4	
Is the SAS Group's sustainability policy integrated into supplier contracts and agreements?	4	4	4	4	4	4	4	3	2	3	4	4	1	4	3	3	1	4	
Are there stakeholder dialogs on social, ethical and environmental issues? Cooperation with schools, universities, institutions, etc., or research activities?	4	4	3	5	3	5	5	3	3	3	4	4	4	4	1	3	4	5	
Is there an internal plan for training/human resource development?	4	5	4	4	5	4	5	5	4	5	5	5	5	5	5	3	4	4	
Have executives and other employees received training in sustainability issues (environmental, social, ethical)?	3	3	4	4	2	3	5	4	3	3	3	5	3	4	1	4	4	5	
Are there established forms of cooperation with unions and employee representatives?	5	5	5	5	5	5	5	5	4	5	5	5	5	5	5	5	5	4	
Are there policies and rules for dealing with redundancy?	5	5	5	5	5	3	5	4	4	5	5	5	5	5	3	5	5	4	
Are there systems to improve the working environment?	4	5	5	4	5	4	5	5	4	5	4	5	5	5	1	5	5	4	
Is the Global Compact being implemented and its ten principles being complied with?	5	3	5	5	4	5	4	4	4	1	3	5	5	5	5	3	4	4	
Are there community sponsorships?	5	4	5	5	4	5	3	5	4	1	3	5	1	1	1	1	1	5	
Have there been disputes (including wildcat actions) or grievances relating to social or ethical matters?	No	Yes	Yes	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	
Have there been any material deviations from policies and/or rules regarding work on ethical issues and social responsibility?	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	No	

● Same as 2004.
 ● Improvement compared with 2004.
 5 Same as 2004.
 ● Deterioration compared with 2004.
 5 2005 only.
 1 = No 2 = Initiated 3 = Partly 4 = Well on the way 5 = Yes

The matrix above shows how far the various subsidiaries have come in meeting sustainability goals and honoring the SAS Group's commitments to the Global Compact's principles. Shown here are relative measurements determined by a process of self-assessments in each company and discussions with the corporate function Environment & Sustainability. Since the SAS Group's sustainability work is based on continuous improvement, a 5 in 2005 can become a 4 the following year because the ambition level is raised. More information on each subsidiary on pages 110–115.

Environmental responsibility

The SAS Group's environmental impact varies considerably with business area. Generally the Group's biggest environmental impact is the consumption of nonrenewable energy, primarily fossil fuels. Their combustion increases atmospheric CO₂ levels, which contributes to global climate change. Noise is a local environmental nuisance that is drawing increasing attention.

The SAS Group's airline operations represent around 90% of its total environmental impact, which is primarily from the combustion of jet fuel. Besides the addition of CO₂, aircraft engines' emissions of water vapor and nitrogen oxides (NO_x), which affects the atmosphere's ozone content and produces contrails, may also have an impact on the climate. CO₂ emissions account for about 50% of aviation's total impact on climate, while water vapor, NO_x and particulates are assumed to account for the rest.

The combustion of jet fuel also emits NO_x, which can locally affect air quality and regionally cause acidification and eutrophication of soil and water. Noise from takeoffs and landings create local environmental impacts.

The environmental impact of hotels and other activities primarily consists of energy and water consumption, material and chemical use and waste generation. Among other activities are a number of units that primarily comprise office activities as well as companies and units of a more technical nature. These include SAS Technical Services (STS) and SAS Ground Services (SGS), whose environmental impact also consists of chemical use and generating hazardous waste.

Environmental index

The SAS Group measures its eco-efficiency with an environmental index, which is also used as a tool for managing and following up the Group's environmental performance. Gradually developed since 1995 by Scandinavian Airlines, the environmental index currently reports each operation's environ-



mental impact relative to production. Most Group companies work with an environmental index, planning and setting targets and controlling and reporting the environmental performance of their operations using the key performance indicators on which the index is based.

Environmental management system

Following the SAS Group's overarching objectives and strategies, each company or unit develops environmental targets based on the requirement for constant and relative improvements in environmental performance. The long-term goal is for all environmental management systems in the Group to be documented and in line with the international ISO 14001 environmental management standard. The question of certifying the systems will be decided by the company or unit in question on the basis of business strategy.

Of subsidiaries, it is SAS Cargo and the ground handling company Newco that have

ISO 14001-certified environmental management systems.

Environmental permits

A detailed description of the SAS Group's licenses and environmental permits for its operations is given in the Report by the Board of Directors on page 56.

Airline operations have no separate licenses or environmental permits for operation, but depend on permits that airport owners have, such as glycol handling, runway deicing and threshold values for noise and emissions. An environmental approval is part of the procedure for aircraft certification performed in the three Scandinavian countries. Airline operations have a dispensation for halon use and submit annual reports to the authorities on use and storage. The reason for this dispensation is that there is no sufficiently safe alternative to halons as an extinguishant for aircraft engine and cabin fires.

The SAS Group's sustainability work*	Airline operations									Airline Support Businesses/Airline Related Businesses									Hotels
	Corporate Funct.	Scandinavian Airlines Denmark	SAS Braathens	Scandinavian Airlines Sverige	Scandinavian Airlines International	Spanair	Widerøe	Blue1	airBaltic	SAS Technical Services	SAS Ground Services	SAS Cargo Group	SAS Flight Academy	Jetpak Group	European Aeronautical Group	SAS Media	Newco	Reizidor SAS	
Environm. standards for choosing suppliers	4	3	4	4	3	4	3	3	2	3	4	5	3	4	4	5	4	4	
Environm. standards for choosing products	4	3	4	4	3	4	3	3	2	2	3	5	3	4	4	5	4	4	
Environmental management system	4	2	4	3	1	3	3	4	2	3	3	5	1	4	2	4	5	5	
Environmental policy/targets	5	4	5	4	3	4	4	3	1	2	3	5	2	5	1	4	5	5	

● Same as 2004.
 ● Improvement compared with 2004.
 5 Same as 2004.
 ● Deterioration compared with 2004.

● 2005 only.
 1 = No
 2 = Initiated
 3 = Partly
 4 = Well on the way
 5 = Yes

* Explanation of matrix, page 105.

Through the company SAS Oil AB, the SAS Group is a minority owner of a number of smaller companies that handle jet fuel. The SAS Group is satisfied that these companies have the necessary permits, contingency plans and insurance. SAS Oil is a purchasing company for jet fuel for most of the Group's airlines.

Infringements, incidents and disputes

In 2005 a case of fuel jettisoning occurred. In August a serious incident at Shanghai airport resulted in one of Scandinavian Airlines International's Airbus 340s being forced to jettison approximately 60 tonnes of jet fuel over the sea, and then land at the airport again. The aircraft remained in Shanghai for a long time, with the resultant costs and loss of revenue. The incident is the subject of an internal investigation (see also page 15).

Moreover, in 2005 aircraft from SAS Group airlines sometimes deviated from local approach and takeoff rules, with discussions with the authorities and even fines as a result. This problem is expected to be less of an issue since it was decided to equip MD-80 aircraft with new GPS systems. These will make it possible to more exactly follow approach and takeoff paths.

Environment-related events and activities

- The SAS Group introduced an extensive fuel saving program in 2005. See page 108.
- An EU ban on the use of the flame retardant pentaBDE entered into force on January 1, 2005. However, civilian aircraft – which have emergency slides treated with pentaBDE – have a dispensation until March 21, 2006. Meanwhile, alternative flame retardants have been developed.
- In 2006, tightened certification requirements will be introduced for noise – ICAO Chapter 4. This will be required for the approval of new aircraft. Currently, except for its MD-80s, most of the SAS Group's aircraft meet Chapter 4 standards.
- In January 2005, the noise limit for night traffic at Copenhagen Airport was lowered to 80 dB(A). A considerable share of the SAS Group's MD-80 aircraft use Copenhagen Airport, which has meant that the new noise limits initially presented infringement problems. However, the problems have abated considerably thanks to a number of measures, such as changes in procedure, with reduced engine power after takeoff, small adjustments in timetables and swapping certain aircraft.
- In 2005 the SAS Group also considered

various technical solutions to reduce the noise levels of its MD-80 aircraft. One of the more intriguing alternatives involved replacing the engines, but since one of the parties involved withdrew from the project, it is currently on hold.

- There is an ongoing project to modify the MD-80 so that it satisfies Chapter 4 standards.

Changes in the aircraft fleet

Owing to overcapacity and financial considerations, the SAS Group decided earlier to sell its eight MD-90s, which are among the least noisy in the fleet. Three of the MD-90s will be taken over by Blue1 in 2006, and three will be leased out.

The SAS Group's remaining MD-90s will also be leased out externally or be used by one of the other Group airlines.

Cooperation and technology development

The SAS Group's airlines are active participants in a number of national and international forums where environmental issues linked to civil aviation are discussed. These include ICAO, the airline organizations IATA and AEA and the Nordic working group for environmental issues in civil aviation N-ALM.

A representative of the SAS Group corporate function "Fleet Development," which monitors the environmental performance of the Group's aircraft fleet, has several key international assignments. He chairs one of IATA's newly formed environmental committees and is also part of the SAS Group Sustainability Network, among other posts.

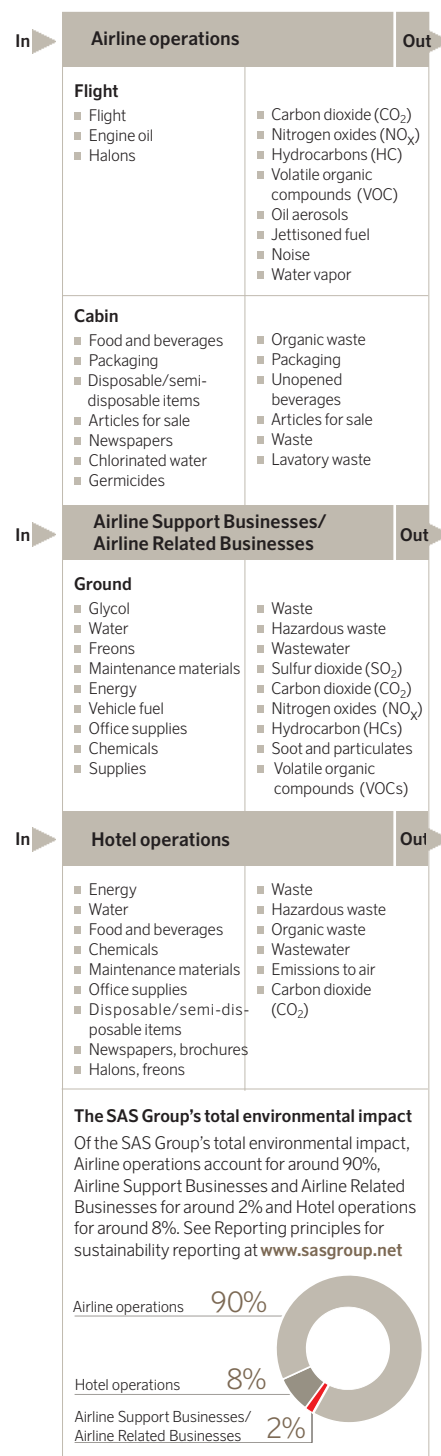
Via AEA the SAS Group participates in the big European R&D project ACARE (Advisory Council for Aeronautics Research in Europe). ACARE comprises representatives of the EU countries, European Commission, researchers, the aviation industry, airport owners and aviation industry bodies. The goal of the project is by 2020 to find solutions to cut fuel consumption and CO₂ emissions in half. Noise levels are to be cut in half as well, i.e., a reduction of 10dB. NO_x emissions are to be cut by 80%.

Rezidor SAS is helping to spread "green" technology by applying its own technical standards when opening new hotels around the world. These standards contain several requirements to use best available technology (BAT) as well as energy- and resource-efficient solutions. These solutions mean that the highest technical standards are used in the hotels Rezidor SAS operates.

Rezidor SAS has also participated in an

industry-wide standard for requirements for hotel construction: "Sustainable Construction Guidelines." This effort was within the framework of ITP – an environmental collaboration in the international hotel industry that Rezidor SAS has chaired since 2004.

The SAS Group's property company SAS Facility Management has similar standards for eco-friendly buildings.



Financial responsibility

For the SAS Group, persistent economic profitability is closely connected to environmental improvements and the ability to take social responsibility. In many ways, its work on sustainability issues serves to increase the value and competitiveness of the SAS Group, such as utilizing resources more efficiently and minimizing risk.

Well thought-out and proactive sustainability work also reduces the risk of being surprised by new, more stringent demands from the market and/or the authorities. The risk of infringements of environmental regulations, for example, which in turn can lead to bad press and direct costs in the form of fines and damages, is also reduced.

Long-term sustainable profitability and growth for the SAS Group requires that its operations are able to meet the demands set by customers and society for the services provided. These include environmental standards and requirements for social accountability and ethical behavior. The SAS Group's sustainability work has proved important to customers, which is reflected in customer surveys and other dialog.

Financial aspects of corporate social responsibility

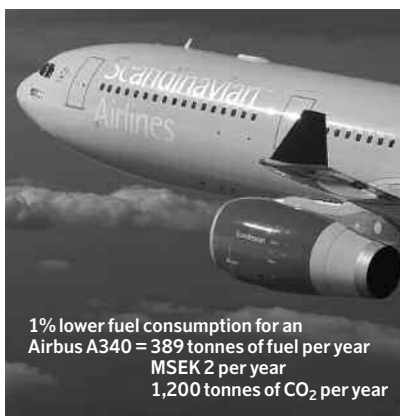
One key purpose of corporate social responsibility work is to maintain and improve relations with employees. Here value creation primarily lies in contributing to its employees' competence in their work roles, personal development and well-being.

Human resource development

Various kinds of training activities are vital for maintaining and improving employee skills. The SAS Group's total expenses for training in 2005 were about MSEK 250. More than half was for costs for maintaining necessary certificates for pilots, technicians and cabin crew.

Payroll expenses

The SAS Group's attractiveness as an employer is an aspect of social accountability, and relative pay is one way to measure this



attractiveness. As part of recent years' pay reviews, the SAS had comparisons done with similar companies and industries in the Scandinavian and Northern European market. The most recent comparison showed that ground staff in Sweden and Norway, with few exceptions, had market pay, while those in Denmark are paid more. Pilots and cabin crew in the three Scandinavian countries have better pay and pension terms than in the other Scandinavian airlines.

Costs of sick leave and accidents

Sick leave is affected by a number of factors such as illness and accidents as well as physically and mentally stressful working environments. Various methods to prevent short and long-term sick leave are currently being evaluated.

Besides raising costs for the company, excessive sick leave can make it less attractive as an employer for current as well as potential employees.

To reduce sick leave, Group Management has decided that costs for sick leave are to

be followed up quarterly and evaluated. This reporting will be done as of January 2006.

Reported sick leave costs will include the direct costs in salaries and wages paid for nonproductive time, i.e., illness. Costs not to be included are those that are attributable to temporary replacements.

Financial aspects of environmental responsibility

The SAS Group's environmental work has several overriding purposes: besides ensuring that the Group operates in line with environmental laws and regulations, it is intended to reduce the Group's environmental impact and make resource use more efficient. Environmental work thus serves to strengthen the Group's finances and brands, see image index below.

Environment-related revenues and cost reductions

In the SAS Group's operations greater cost-efficiency is strongly tied to lower environmental impact. For instance, aircraft engine CO₂ emissions are directly correlated with the aircraft's fuel consumption. Thus, the SAS Group's bottom-line concern for keeping aircraft fuel consumption down coincides with its aim of reducing CO₂ emissions. The same applies to all other activities that, beside environmental reasons, have strong financial incentives to reduce consumption of energy and other resources. The diagram on the following page shows, among other things, how the share of fuel costs has risen since 2003.

Charges for infrastructure

Civil aviation is unique in that it defrays the costs of the entire infrastructure it uses, i.e., airports and air traffic control. For 2005, for the first time the SAS Group has been able to compile these costs for all SAS Group airlines, totaling MSEK 8,955, of which MSEK 5,305 constitutes the Group's own costs. The remainder comprised taxes and charges that the airlines administer. Corresponding costs for Scandinavian Airlines Businesses globally were MSEK 6,601 (5,461), of which MSEK 3,651 (3,111) accounted for its own costs. Separate infrastructure costs are equal to 10.4% of the operating revenue of SAS Group airlines.

Successful program for saving fuel

This past year the SAS Group's costs for jet fuel rose by SEK 1.9 billion. From having comprised about 8% of the Group's total cost, it climbed to around 14% in 2003. There are no indications that the price of jet fuel will fall in the foreseeable future.

This is part of the background for the special fuel saving program in operation since the beginning of 2005. In its first year, the program, initially run within Scandinavian Airlines Businesses, led to a saving of jet fuel worth about MSEK 70. In environmental terms, this means more than 40,000 tonnes of CO₂.

These savings were achieved using exclusively operational methods; that is, no new investment or other major changes were required, but primarily measures like regular engine cleaning or fuel-efficient flying. To

manage the latter, besides pilot awareness, certain practical assumptions are required, e.g., getting under way on time. Takeoff delays can make fuel-efficient flying impossible, since pilots need to increase speed in order to land on schedule.

Thanks to information and educational efforts, the fuel savings for the four airlines in Scandinavian Airlines Businesses will be approximately MSEK 250, in 2006, equivalent to a saving of 50,000 tonnes of fuel. In turn this means a saving for the environment in the form of 160,000 tonnes of CO₂ per year.

The experiences from the fuel saving program will be applied to the Group's other airlines. See the example in the illustration above.

Security costs

In the wake of the terrorist acts in 2001, the EU has laid down new security requirements for the airline industry. The airlines themselves have to pay for measures on the ground required by governments to beef up security of passengers and staff.

The SAS Group's security costs for 2005 amounted to MSEK 1,050. More than half is attributable to Scandinavian Airlines Businesses. Comparable security measures for rail and ferry traffic are generally financed by the government through taxes.

External environment-related charges

The SAS Group considers taxes and environmental charges to be an inefficient means of regulating the airline industry. This is because the investment in aircraft and engines is high. The equipment is used for such long periods, that it is impossible to make short-term changes when governments or airports introduce environmental charges. A number of ICAO and EU studies confirm the inefficiency of environmental taxes as a regulatory instrument.

The SAS Group's external environmental charges comprise environmental charges, environment-related charges and environment-related taxes. In 2005 they came to MSEK 525 (488).

Environmental charges exist to cover the costs of special environmental measures such as noise measurement and noise insulation of properties near airports. Environmental charges are linked to the aircraft's environmental characteristics and are included in the landing fee. The SAS Group's environmental charges for 2005 were MSEK 37.2 (32.8). The change is primarily due to increased noise charges.

Environment-related investment (MSEK)	1998	1999	2000	2001	2002	2003	2004	2005
Airline operations	40	65	95	20	11.7	–	–	22.2
Ground operations	72	27	15	20.1	–	8.4	14.3	0.2
Hotel operations	–	–	–	–	–	–	–	26.3
Total	112	92	110	40.1	11.7	8.4	14.3	48.7
Share of SAS Group's total investment in %	1.8	1.5	1.1	0.3	0.1	0.2	0.4	2.7

In the late 1990s and early 2000s, the SAS Group invested in 48 new Boeing 737s with DAC engines, which have especially low NO_x emissions. An environmental added cost of around MSEK 250 has subsequently been partly recouped in the form of lower landing fees. However the engines have resulted in certain added costs for operation and maintenance.

Environment-related charges, too, are often linked to the aircraft's environmental characteristics and are included in the landing fee. These charges have been created as an incentive to operate aircraft that are "greener" than others'. Operators with "greener" aircraft than their competitors would then be able to lower their costs. The SAS Group's environment-related charges for 2005 were MSEK 28.0 (30.1). Because of its high proportion of Boeing 737s with relatively low NO_x emissions, Scandinavian Airlines has lower environmental charges at Swedish airports.

The SAS Group paid MSEK 500 (425) in environment-related taxes in 2005. The difference over the previous year is due to higher passenger taxes in Denmark of MSEK 27 and an increase in environment-related passenger taxes outside Scandinavia of MSEK 14 and an increase of MSEK 32 of the carbon tax on fuel in Norway. The Danish environmental tax will be phased out in 2006 and 2007. Sweden previously had a carbon tax on jet fuel, but this was repealed in connection with EU accession. As of June 2006, an environmental tax on airline tickets is planned, totaling SEK 1.4 billion per year in added tax revenue.

Other environment-related costs

The SAS Group's other environment-related costs concern expenses for waste manage-

ment, purification plants, depreciation on environmental investments, etc., as well as the cost of the environmental organization. For 2005 these costs came to MSEK 2005 62.8 (57.2).

The SAS Group has no significant known environment-related debts or contingent liabilities.

Environment-related investment

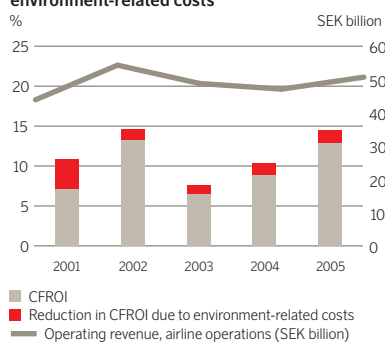
For an airline, the most effective measure to improve environmental performance is to renew the aircraft fleet, investing in aircraft with fuel-efficient engines with low noise and NO_x emissions. This renewal is ongoing in the SAS Group.

In recent years, airport owners and local environmental agencies have become increasingly strict regarding noise.

The year's investment in airline operations totaled MSEK 22.2. MSEK 20 of this is for investment in GPS equipment for the Group's MD-80 fleet to enable the aircraft to follow the stringent takeoff and approach paths, thus avoiding complaints and fines.

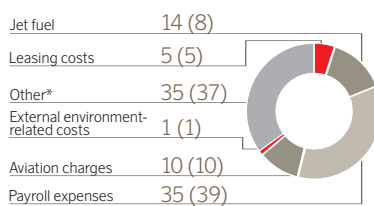
Investment in hotel operations in 2005 came to MSEK 26.3 and comprises investment in energy saving and energy conversions.

Impact on CFROI of external environment-related costs



The SAS Group's overarching earnings target CFROI is negatively impacted by external environment-related costs. These are specified in detail in the text above.

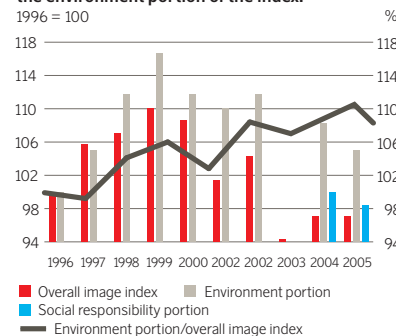
Breakdown of costs in percent 2005 (2003)



* For example, computers and telecommunication, sales costs and technical aircraft maintenance.

While payroll expenses are the biggest single item, jet fuel represents a surging share of the SAS Group's costs. The figure shows the changes over two years.

Changes in the overall image index and the environment portion of the index.



Sustainability work has always contributed positively to Scandinavian Airlines' image. In 2005 this contribution was somewhat smaller.

Results for the year

With a few exceptions, the results for 2005 consistently show substantial improvements and efficiency gains in financial as well as social and environmental areas. For instance, eco-efficiency at most airlines was up sharply thanks to a higher cabin factor and a conscious commitment to the fuel saving program.

During the year, Turnaround 2005 and the incorporation of business units in SAS Group were concluded. Among other things, this has enabled subsidiaries to work in a more decentralized way on their most significant environmental and sustainability issues. The reporting of data for 2005 is on a firmer basis than before.

With regard to the results for the year, eco-efficiency improved sharply. Airline operations saw a higher cabin factor and record-low fuel consumption per passenger. Most of the Group's companies also showed a sharply improved environmental index.

Average sick leave rose somewhat to 6.8% (6.6%).

The number of occupational injuries with subsequent absence fell sharply within the entire SAS Group to 764 (903).



Scandinavian Airlines Businesses

For Scandinavian Airlines Businesses, 2005 was a record year environmentally. From a very good 2004, eco-efficiency improved further. The total cabin factor was 70.1% (66.1%) – the highest ever, which means that fuel consumption per passenger kilometer was at a record low as well: 0.045 (0.049) kg/RPK.

The previous goal of improving the environmental index by three points per year was also reached in 2005, if the results from the now four independent constituents of Scandinavian Airlines are put together.

Since these airlines have a common supplier of catering and ground services, the cabin and ground indexes are reported jointly for the four airlines. The cabin index continued to deteriorate 88 (79), due to the introduction of a simpler meal concept in Economy. Fewer meals are served, but the catering supplier was unable to adapt its production capacity in time, which means resource use per meal is rising sharply. Other environmental consequences are smaller volumes of waste and a reduction in aircraft weight, which in turn cuts fuel consumption.

At the same time, the ground index improved, primarily owing to the energy saving measures by SAS Facility Management.

Important events

- Following discussions and evaluation, the SAS Group share was approved for investment at Sweden's largest asset manager, Robur's ethical and environment-related funds.
- After evaluating the SAS Group's sustainability work, Storebrand Kapitalforvaltning voted the SAS Group "Best in Class."
- There were discussions in 2005 with Sjunde AP-fonden's adviser GES Investment

Services on the SAS Group's special program for compliance with competition law.

- Första AP-fonden also asked questions in connection with the sale of SAS Components to Singapore Technologies.
- Employees of SAS Cargo as well as station personnel and flight dispatchers served as volunteer aid workers following the earthquake in Pakistan. Dispatchers also participated in rescue operations in Aceh province in Indonesia after the tsunami disaster.

SAS Group's sick leave and accident statistics ¹	Corporate and shared functions	Airline operations									Airline Support Businesses/Airline Related Businesses								Hotels
		Scandinavian Airlines ²	Scandinavian Airlines Danmark	SAS Braathens	Scandinavian Airlines Sverige	Spanair	Widerøe	Blue1	airBaltic	SAS Technical Services	SAS Ground Services	SAS Cargo Group	SAS Flight Academy	Jetpak Group	European Aeronautical Group	SAS Media	Newco	Rezidor SAS ³	
Total number of employees ⁴	938	1,809	1,880	3,663	2,051	3,343	1,471	532	690	3,782	7,357	1,485	177	162	87	46	1,235	525	
of which women, %	56	18	69	60	75	37	36	52	54	9	37	20	34	38	39	52	66	61	
Total sick leave, %	3.5	3.9	7.4	8.6	7.9	6.7	6.1	7.2	4.4	4.7	8.9	5.6	2.0	4.0	2.9	2.5	4.5	7.2	
Long-term sick leave (more than 59 days), %	3.2 ⁵	1.9 ⁵	–	–	5.3	4.9	–	1.1	0.6	2.3 ⁵	5.2 ⁵	4.3 ⁵	0.9 ⁵	2.0	1.2	1.1	2.7	3.0	
Sick leave for women, %	6.3 ⁵	4.9 ⁵	–	–	8.6	4.3	–	4.7	2.4	3.9 ⁵	8.4 ⁵	4.0 ⁵	3.2 ⁵	6.0	5.0	1.5	3.7	10.3	
Sick leave for men, %	2.6 ⁵	2.9 ⁵	–	–	5.7	2.4	–	2.4	4.7	3.6 ⁵	6.7 ⁵	6.8 ⁵	0.8 ⁵	3.0	1.6	3.7	0.9	4.5	
Sick leave, employees under 30, %	3.1 ⁵	0.5 ⁵	–	–	7.4	3.4	–	1.6	5.4	2.5 ⁵	6.9 ⁵	4.1 ⁵	0.5 ⁵	1.0	1.0	0	1.2	3.6	
Sick leave, employees aged 30-49, %	2.7 ⁵	3.6 ⁵	–	–	8.8	3.0	–	5.0	2.5	2.8 ⁵	7.7 ⁵	5.1 ⁵	1.6 ⁵	5.0	2.9	3.0	3.1	7.2	
Sick leave, employees aged 50 and over, %	6.4 ⁵	2.7 ⁵	–	–	6.9	2.5	–	0.6	1.1	5.4 ⁵	12.6 ⁵	8.1 ⁵	1.5 ⁵	4.0	3.7	0.8	0.2	7.5	
Total no. of occup. injuries causing more than 1 day's sick leave	0	0	34	29	7	281	10	1	1	27	298	29	0	0	0	0	47	0	
H-value ⁶	0	0	11.7	5.7	2.2	46.7	3.9	1.5	0.7	4.5	24.3	11.7	0	0	0	0	26.3	0	

¹ Figures may deviate from the financial report. See Reporting principles for sustainability reporting, www.sasgroup.net. ² Pilots and operational ground personnel employed by SAS Consortium. ³ Persons employed in Sweden only. ⁴ Average number of employees in 2005. ⁵ Covers persons employed by legal entity in Sweden only: Corporate Functions=536 persons; Scandinavian Airlines = 1,148; STS = 1,062; SGS = 2,316; SCG = 344; Jetpak = 134. ⁶ Number of occupational injuries relative to number of working hours.

Scandinavian Airlines Denmark

The environmental result for 2005 was sharply improved. The cabin factor was 65% (58.2%), and fuel consumption fell to 0.052 (0.058) kg/RPK. All told, this means an improvement in the environmental index of nine points from 100 to 91. Scandinavian Airlines Denmark accounts for 22% of the Group's passenger volume and its target is an average improvement in the index of three points per year.

The airline received complaints from neighbors and the authorities regarding noise problems related to MD-80s. These problems have even led to two infringements of takeoff rules being reported to the police. The case is closed and resulted in fines for Scandinavian Airlines Denmark.

In 2005, Scandinavian Airlines Denmark decided to replace two MD-80s with two Airbus A319s.

During the year, Scandinavian Airlines Denmark gave priority to measures to reduce the noise problems with its MD-80s at Copenhagen Airport. Among other things, this has meant reducing speeds after takeoff and avoiding takeoffs after 11:00 p.m.

SAS Braathens

The merged SAS Braathens – the SAS Group's largest airline – had a higher cabin factor that what the airlines had separately the year before, 65.0% (58.2% and 64.8%, respectively). SAS Braathens' fuel consumption was 0.046 (0.058 and 0.048, respectively) kg/RPK.

SAS Braathens has set its base year for the environmental index at 2005. The target is an average 1.5 point improvement in the index per year.

Although Scandinavian Airlines in Norway and Braathens merged in October 2004, it did not get a common air operating certificate (AOC) until April. At the same time, the pilots were transferred to the new airline.

A major restructuring process took up the entire year. Merging two vibrant corporate cultures is never easy. A certain amount of friction arose between the SAS and Braathens cultures.

Like the other airlines operating at Oslo Airport, SAS Braathens was hit by the problem of whereby large numbers of air traffic controllers at Avinor, the Norwegian ATC and airport operator, called in sick. Moreover, SAS Braathens pilots also had high sick leave figures in January 2006. All told, this affected the airlines customers to such an extent

KPIs Scandinavian Airlines Businesses

	Scand. Airlines Denmark		SAS Braathens	Scand. Airlines Sverige		Scandinavian Airlines International		
	2005	2004		2005	2005	2004	2005	2004
RPK, mill. ¹	6,471	6,292	7,158	5,666	5,092	10,482	10,398	9,708
ASK, mill. ¹	9,947	10,819	11,013	8,448	8,623	13,095	12,959	12,634
Cabin factor, % ¹	65.0	58.2	65.0	67.1	59.1	80.0	80.2	76.8
Fuel consumption, kg/RPK	0.052	0.058	0.046	0.048	0.053	0.039	0.039	0.041
CO ₂ emissions, 1,000 tonnes	1,065	1,153	1,031	859	852	1,290	1,263	1,239
NO _x emissions, 1,000 tonnes	3.98	4.32	3.20	2.85	2.57	5.99	5.94	5.73
Noise impact, km ² /85dB(A) at takeoff ²	2.70	2.55	1.64	2.51	2.35	4.13	4.15	4.43
Environmental index ³	91	100	100	95	100	93	94	98

¹ Includes scheduled traffic, charter, ad-hoc flights and bonus trips, etc., which means that the figures may deviate from traffic figures from airline concerned, where only scheduled traffic is reported. ² Weighted noise contour by number of takeoffs per day by respective aircraft type in the traffic system. ³ Environmental index = flight index, i.e., excluding ground and cabin.

that SAS Braathens' CEO felt obliged to write an open letter of apology to customers.

SAS Braathens was fined in summer 2005 by the Norwegian Competition Authority and ordered to pay MNOK 20 for alleged underpricing and abuse of dominance on the Haugesund – Oslo route. For the same reason, the Competition Authority announced possible fines of MNOK 30 for the Ålesund – Oslo route. SAS Braathens denies the accusations and has appealed the first case.

Along with the conflict with pilots and the negative outcome of the SGS case at the Norwegian Supreme Court, the Competition Authority's accusations have lowered employee morale. The initiative to create a new common culture for SAS Braathens could not be implemented as planned. For that reason, further efforts to bolster a new corporate identity will be needed in the coming years.

SAS Braathens is involved in a number of community activities. Among other things it sponsors non-elite sports and engages in cultural and humanitarian activities on the local and regional levels.

More information about sustainability work

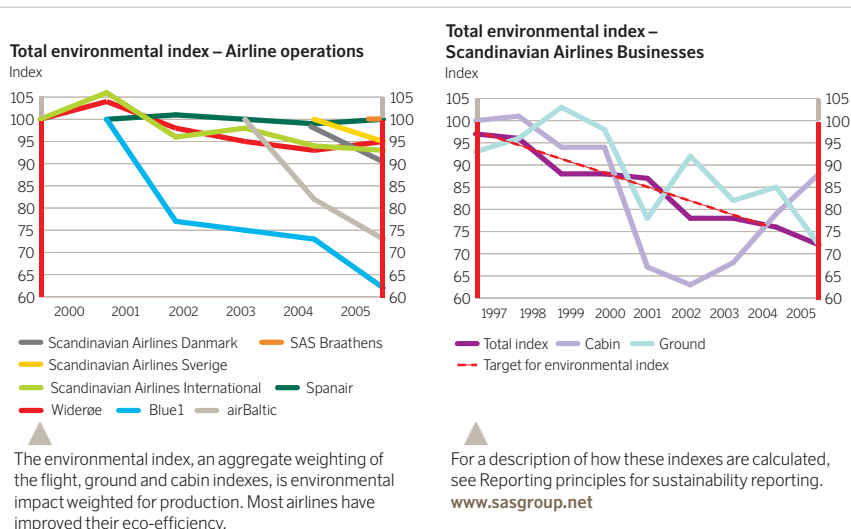
is available in SAS Braathens HES and Environmental Report at www.sasbraathens.no.

Scandinavian Airlines Sverige

Scandinavian Airlines Sverige, which accounts for 18% of the Group's total passenger volume, posted a sharply improved result for 2005. The cabin factor rose to 67.1% (59.1%), and fuel consumption fell from 0.053 to 0.048 kg/RPK. The environmental index improved by 5 points to 95. The target is an average improvement of three points per year.

In 2005 Scandinavian Airlines Sverige improved its operational efficiency by creating shorter flight paths, more efficient ground stops and traffic planning that improved capacity utilization.

Scandinavian Airlines Sverige works closely with the various airports, especially Arlanda, to identify opportunities to minimize the airport's environmental impact. One project, "Green Approach" will test approach procedures that may have a smaller environmental impact.



In May 2005 the final report was submitted on a mercury leak from cargo in one of the airline's aircraft. The report was submitted to the Sigtuna Municipality environmental health authority, the body concerned, which has closed the case.

The airline is working actively on various projects to reduce both long-term and short-term sick leave. Specific targets to reduce sick leave have been set. A process has been initiated to follow up those on long-term sick leave and get them back to work once they have been rehabilitated.

Those frequently on short-term sick leave are followed up with "health dialogs" aimed at catching the problem at an early stage, and where possible, take action to prevent future long-term sick leave.

All managers have received training to minimize long-term sick leave. There is an ongoing joint project with Uppsala University called "Reducing Sick Leave".

In 2005 a plan was prepared to involve all employees in environmental and sustainability thinking. This will be implemented in stages in 2006.

Scandinavian Airlines International

The cabin factor remained largely unchanged at 80.0% (80.2%), as did fuel consumption, 0.039 (0.039) kg/RPK. Even so, the environmental index improved slightly to 93 (94), due to higher freight utilization. The target is a 1.5 point improvement in the index per year.

To provide better service to customers in the growing Chinese market, 35 persons with a Chinese background were hired as new cabin crew. They will work on the routes between Copenhagen and Beijing and Shanghai, respectively, and are locally employed in China. After an initial disagreement with the Danish cabin union, the parties agreed and a contract was signed.

The airline had an incident in Shanghai, described in detail on pages 15 and 107.

Subsidiary & Affiliated Airlines

Spanair

Spanair, the SAS Group's second-largest airline, accounts for 23% of the Group's total passenger volume.

Although Spanair's cabin factor posted a tiny improvement 70.0% (69.1%), fuel consumption rose somewhat to 0.042 (0.041) kg/RPK. This led to a one-point deterioration in the environmental index to 100 (99). The target is an average improvement in the index of one point per year.

Spanair has decided to work during 2006 on the fuel-saving program described on page 108.

In 2005 Spanair received about a hundred complaints for exceeding noise levels and noise due to divergence from approach and takeoff paths.

During 2005 Spanair expanded its focus on flights between Spain and Scandinavia and will continue this effort in 2006 by adding new routes.

The sharp rise in sick leave to 6.7 (3.3)% in 2005 is primarily due to a change in reporting routines.

In 2005 Spanair began a partnership with Intermón-Oxfam – an international organization working for economic justice and to fight poverty. In addition, Spanair was involved in a score of major sponsorship and partnership projects with the common theme of the rights of children.

Spanair also cooperates with colleges and universities.

Widerøe's Flyveselskap

Accounting for 5% of the Group's passenger volume, Widerøe saw a deterioration in its cabin factor from 53.3% to 51.9% and somewhat higher fuel consumption, 0.074 (0.073) kg/RPK.

Widerøe's environmental index deteriorated by two points to 95 (93), also attributable to higher consumption of glycol and higher fuel consumption for ground vehicles. A smaller portion of the deterioration is due to a change in production with shorter flights and fewer passengers.

Widerøe's target is an average 1.5 improvement in the environmental index per year.

A large portion of Widerøe's route network is contracted with the Norwegian government. This means that Widerøe's ability to rationalize by discontinuing flights with very few passengers is limited.

Widerøe has been in talks with Sandefjord Airport after neighbor complaints regarding noise from engine tests conducted after the airport's closing hours.

Sick leave fell to 6.1% (7.4%) in 2005. A special training program for 100 managers was carried out during the year. The program included corporate social responsibility, focusing especially on sick leave.

Blue1

For Blue1, 2005 was a record year. The cabin factor surged from 50.2% to 61.1%, and fuel consumption fell to 0.070 (0.087) kg/RPK, improving the environmental index by a whopping 12 points from 73 to 61.

In the last five years, Blue1, which represents 4% of total passenger volume, has improved its environmental index by an average of eight points a year. Its target is an average improvement in the index of six points per year.

Blue1 has extensive expansion plans, increasing its fleet by three MD-90s. They will go into regular service in March 2006 to nine new destinations in Europe, which will see daily connections from Helsinki.

Blue1 participates actively in the European Regions Airline Association's environmental working group. Environmental and other sustainability issues are always

KPIs Subsidiary and Affiliated Airlines ¹

	Spanair			Widerøe			Blue1			airBaltic		
	2005	2004	2003	2005	2004	2003	2005	2004	2003	2005	2004	2003
RPK, mill. ²	10,672	9,930	9,324	547	555	502	906	731	411	1,161	568	211
ASK, mill. ²	15,246	14,370	13,288	1,055	1,040	961	1,482	1,456	920	2,050	1,106	351
Cabin factor, % ²	70.0	69.1	70.2	51.9	53.3	52.3	61.1	50.2	44.7	56.6	51.4	60.1
Fuel consumption, kg/RPK	0.042	0.041	0.042	0.075	0.073	0.076	0.070	0.087	0.097	0.053	0.067	0.075
CO ₂ emissions, 1,000 tonnes	1,405	1,275	1,240	129	129	121	199	199	125	195	120	50
NO _x emissions, 1,000 tonnes	5.63	5.36 ⁵	4.98	0.33	0.33	0.32	0.51	0.50	0.26	0.67	0.32	0.15
Noise impact, km ² /85dB(A) at takeoff ³	4.22	4.27	4.47	0.33	0.33	0.34	1.65	1.60	1.22	1.11	1.08	0.95
Environmental index ⁴	100	99 ⁵	100	95	93	95	61	73	75	72	82	100

¹ For definitions, see Reporting principles for sustainability reporting, www.sasgroup.net ² May include scheduled traffic, charter, ad-hoc flights and bonus trips, etc., which means that the figures may deviate from traffic figures from airline concerned, where only scheduled traffic is reported. ³ Weighted noise contour by number of takeoffs per day by respective aircraft type in the traffic system. ⁴ Environmental index is an aggregate weighting of flight, ground and cabin indexes. ⁵ Corrected.

stressed at company presentations.

In 2005 the airline's sick leave doubled to 7.2 (3.6)% – an increase largely attributable to adapting the reporting to Swedish legislation.

Blue1 has extensive outreach activities, including cooperation with educational institutions, the authorities and major customers. Blue1 is also involved in various cultural, environmental and sporting activities.

airBaltic

airBaltic, which is 47% owned by the SAS Group, is based in Riga, Latvia. In 2005 the cabin factor rose to 56.6 (51.3)% and fuel consumption fell to 0.053 (0.067) kg/RPK, improving the environmental index by 10 points to 72 (82).

airBaltic's production data for 2005 is being consolidated with SAS Group data for the first time. airBaltic accounts for 3% of the Group's total passenger volume.

Estonian Air

Based in Tallinn, Estonia, Estonian Air is 49% owned by the SAS Group. The airline accounts for 3% of the Group's total passenger volume. The cabin factor rose to 64.7% (61.5%) and fuel consumption was down 11% to 0.047 (0.053) kg/RPK. Nevertheless, the environmental index deteriorated by two points to 88 (86), due to a poorer cabin and ground result. Estonian Air's production data is not consolidated with the Group's data.



Airline Support Businesses

SAS Ground Services (SGS)

Providing passenger and ramp service on the ground, SGS is the SAS Group's biggest company in terms of number of employees. SGS operates at 160 airports in 40 countries and is the biggest operator in the three Scandinavian countries.

SGS's greatest environmental impact consists of deicing aircraft with glycol, waste generation and traffic from vehicular transportation at airports. SGS also operates a bus service between Oslo and Gardermoen. For this purpose, SGS owns 14 buses and three minibuses and one automobile. In 2005 the 14 buses were replaced by new Scania buses, which have the best commercially available environmental performance.

In 2005 SGS was the first European ground operator to initiate testing of aircraft deicing

KPIs Airline Support Businesses/ Airline Related Businesses	2005	2004	2003
Energy consumption, GWh ¹	193	183	200
Water consumption, 1,000 m ³ ¹	162	162	167
Unsorted waste, tonnes ¹	529	344	550
Hazardous waste, tonnes ¹	576	655	459
Fuel consumption, vehicles, 1,000 liters	3,923	3,876	3,553
Glycol consumption, m ³	3,954	4,081	3,149
Total number of employees	14,331	–	–

¹ Data for SAS Facility Management, which expanded its floor space by 130,000 m².

using infrared light. The tests are being done together with the company Radiant and Oslo Lufthavn AS. The aircraft taxi through a specially-built hangar, where infrared light ensures that snow and ice disappear. The aim of the test is to reduce the use of glycol.

Besides deicing, SGS employees are responsible for baggage handling, passenger service and cleaning and have a demanding working environment both mentally and physically. Sick leave remained unchanged at 8.9%.

In recent years, SGS has focused on reducing long-term sick leave, which is why it has had a joint rehabilitation project in the Scandinavian countries. In it, the positive experience from the Norwegian More Inclusive Workplace scheme has provided a model for getting people on sick leave back to work faster. This includes manager training, quick attention, health surveys to identify risk groups, phoning already the first day those who call in sick, etc.

Newco Airport Services

Newco provides passenger and ramp services at 20 Spanish airports. Its biggest customers are Spanair and the SAS Group's other airlines with Spanish destinations. In 2005 an increase was noted in the volume of hazardous waste – which is delivered to approved waste management firms – but a clear improvement in the volume of separated waste. The amount of electronic waste delivered was 820 kg.

SAS Facility Management (SFM)

SAS Facility Management is a subsidiary of the SAS Group, responsible for managing all owned and leased buildings in Scandinavia. Most of the buildings are leased, and according to contract, SFM has total operating responsibility for them, including environmental responsibility.

Some of the operations in these buildings require permits or licenses. It is the performers of the activity, primarily STS and SGS, that hold the permits or licenses, but SFM has the responsibility for facility requirements being met (More about permits and licenses on page 56). SFM negotiates with electricity and energy suppliers, purchases waste management services and specifies appropriate environmental requirements for its suppliers.

For 2005 an increase in the volume of waste was noted. This is primarily due to SFM's takeover of 130,000 m² of building space from Braathens in Stavanger and Oslo. These buildings were converted from oil heat to gas or bio-based district heating.

The energy saving campaign SFM has had since 2002 has led to a reduction in energy use of 18%, which means a savings of MSEK 16 per year.

In 2005 SFM had a partnership with the Norwegian organization Fair Recycling, which in turn cooperates with UNESCO. The partnership involves SFM seeing to it that all scrap computers in premises managed by SFM can be collected by Fair Recycling. In 2005, 82 computers were collected. Of these, 59 could be refurbished and 24 were sent to Eritrea.



In 2005, Newco's environmental management system was certified according to ISO 14001. This system is integrated into the quality management system, which in turn is ISO 9001-certified.

Newco cooperates with organizations of the disabled to facilitate the entry of the functionally disabled into the job market.

SAS Technical Services (STS)

STS, which provides technical maintenance of aircraft and engines, has its primary operations in Scandinavia. The airlines in Scandinavian Airlines Businesses are its biggest customers. STS also includes the former Braathens Technical Services and Estonian Technical Services, which were situated at Stavanger and Tallinn airports, respectively. STS accounts for most of the operations in the Group requiring an environmental permit. STS is also responsible for the largest use of chemicals and generates the most hazardous waste, which is collected by approved waste management firms.

In 2005 STS was certified according to the European Aviation Safety Agency (EASA) standards.

In December 2005 part of STS – SAS Components – was sold to Singapore Technologies. As part of the deal, the SAS Group's management and Board received assurances that the new company will operate in line with the SAS Group's values. Following the deal, the SAS Group became a minority shareholder in a company owned together with Singapore Technologies. The SAS Group signed a long-term contract to purchase services from the jointly-owned company.

Following talks with the county governor of Akershus, in spring 2005, STS did a risk analysis regarding the environment relating to its operations at Oslo Airport.

The earlier problems with unlawful releases of cadmium at Arlanda were dealt with, by

giving the staff of the internal purification plant special training, among other measures.

STS has a dispensation from the environmental authorities to use 100 kg of methylene chloride per year for paint removal.

There were discussions with Scandinavian Airlines on a new method for cleaning aircraft engines that will also reduce their fuel consumption. See page 108 regarding the fuel saving program.

STS has a well-developed partnership with schools regarding training and internships for employing aircraft technicians and mechanics. During 2005 STS had 51 apprentices in Norway and Denmark and 15 trainees in Sweden.

SAS Cargo Group

SAS Cargo conducts air freight operations mainly at Scandinavian Airlines, Braathens, Blue1 and other partners. SAS Cargo provides surface shipping. Surface transportation is primarily provided by an external shipper, Kim Johansen International Transport A/S, which also reports the environmental impact of surface shipments. Emission data from air freight is reported for the respective Group company.

SAS Cargo engages in an active, regular dialog with, above all, its major customers in which environmental and quality issues are permanently on the agenda.

Terminal operations at SAS Cargo Group are environmentally and quality certified according to ISO 14001 and ISO 9001, and are therefore subject to regular environmental and quality audits. The Group decided to develop and certify its environmental management and quality systems so that certification applies to all of SAS Cargo's operations.

In 2004 SAS Cargo had campaigns – including a contest – to involve all employees in efforts to achieve environmental improvements.

SAS Cargo worked actively on two fronts to reduce both short-term and long-term

sick leave. For instance, the company initiated a special health project and training for all managers to prevent long-term sick leave. Parts of SAS Cargo also have the company health service phone already the first day those who call in sick. Sick leave fell to 5.6 (6.9)% in 2005.

More information is available in SAS Cargo's environmental report, which can be read at www.sascargo.com.

Airline Related Businesses

SAS Flight Academy (SFA)

SAS Flight Academy conducts pilot and cabin crew training for airlines worldwide, including the SAS Group's airlines. In this way, SFA is engaged in the transfer of know-how to countries in Asia and Eastern Europe in particular. A key element of pilot training is knowledge of how to optimize flight procedures to utilize the aircraft eco-efficiently – made even more relevant by the fuel saving program.

Jetpak Group

Jetpak, which markets surface and air courier services, is working to introduce an environmental management system according to ISO 14001. The goal is to certify the system in 2006. Sold in 2005, Jetpak has been owned since the beginning of 2006 by the Danish investment firm Polaris Private Equity.

European Aeronautical Group (EAG)

EAG produces route manuals for airlines. Its biggest environmental impact is paper consumption, which will fall, however, in step with the use of EAG's electronic route manuals also reducing the weight onboard aircraft. EAG was sold in 2005 to the Canadian company Navtech.

SAS Media

SAS Media operates in publishing, media sales, advertisement production and design within the SAS Group. SAS Media's biggest environmental impact is via subcontractors like printing plants and courier companies. The company has a well-developed management system for sustainability issues, and a high level of awareness among employees about these issues. The in-flight magazine *Scanorama* is printed on FSC paper, i.e., paper certified by the Forest Stewardship Council.

Hotels

Rezidor SAS opened 37 new hotels in 2005, and had a total of 217 hotels on a lease, management or franchise basis in 48 countries.

Energy use fell by 6%, exceeding the target set for 2005, which was set at 5%. CO₂ emissions also fell, as a consequence of several hotels cutting their oil use along with general efficiency improvements in energy use. Environmental investment of MSEK 26.3 was made at the hotels to improve their energy efficiency and waste management and lower water consumption. Some hotels reported that they still have fire extinguishers that contain halons. These are being phased out in accordance with national legislation.

More and more hotels are preparing action plans based on the Rezidor SAS Responsible Business program. In 2005 94% of hotels had action plans for their Responsible Business activities.

The total number of employees, including hotels under franchise, rose and was at year-end 22,800 (18,600). More than 10,000 employees of Radisson SAS have taken courses in environmental and social/

KPIs Rezidor SAS Hospitality			
	2005	2004	2003
Water consumption per guest night, liters	450	451	473
Energy consumption per m ² , kWh	260	277	276
CO ₂ emissions, 1,000 tonnes	5,99	6,90	6,86
Renewable energy sources (elec.), %	19	23	23
Unsorted waste per guest night, kg	1.86	1.84	1.85
Environmental investment, MSEK	26.3	-	-
External environment-related costs, MSEK	11	-	-

Data collected from the 106 hotels under the Radisson SAS brand operating under lease or management contracts.

ethical issues since the start of 2002. In 2005, 15 Park Inn hotels had Responsible Business training for their employees as well.

The employee survey "Climate Analysis" was conducted at 140 hotels in 39 countries. The survey asked about perceptions of working conditions, career opportunities and management, among other topics. In 2005 the survey focused more on commitment and loyalty than previously. The loyalty index was 74%, which is high compared with the industry average of 65.5%. The index for the entire employee survey climbed from 81.1 in 2004 to 84.5 for 2005 (out of 100 possible points). The response rate was 87%.

In all, 28 hotels in the chain have some form of environmental certification issued by third party. In Norway these are the pan-

Nordic Swan eco-label (five hotels in all) and the Environmental Lighthouse, in Denmark The Green Key and in Finland the Green Hotel certificate. Hotels in several other countries have received local third-party environmental certificates, such as in the U.K. and Iceland.

In 2005 a database was set up of environment- and working-environment-related legislation in Scandinavia, which will be expanded to cover the countries where most hotels operate. The database was complemented during the year with data on human rights and prevention of legionella.

The Responsible Business program urges the hotels to get involved locally to contribute to sustainable development. This involves activities connected with "Hotel Environment Action Month", but also socially-related activities during the year. As an example, in September 2005, 133 hotels had local activities with a social focus.

In 2005 91% of all hotels performed at least one social activity, which all told collected MSEK 6.5 million for various humanitarian projects. In addition, SEK 750,000 was collected for Save the Children's aid efforts for the victims of the major natural disasters that occurred in 2005.

Statement of limited review

To the readers of the SAS Group's sustainability report for the financial year 2005

We have performed a limited review of the sustainability information disclosed in the SAS Group's sustainability report for the financial year 2005. The sustainability report consists of sustainability information provided in the SAS Group Annual Report & Sustainability Report 2005 and reporting principles and Global Reporting Initiative (GRI) cross-references on the SAS website (www.sasgroup.net under the heading "Sustainability").

Our engagement has consisted of performing a limited review of quantitative and qualitative sustainability information in the sustainability report. The purpose of our limited review is to express whether we have found any indications that the sustainability information in the sustainability report has not, in all material aspects, been prepared in accordance with the criteria stated below. The limited review has been performed in accordance with FAR's draft standard on independent limited reviews of voluntary separate sustainability reports.

SAS Group Management approved the sustainability report in February 2006. The SAS Group Board of Directors submitted the annual report on March 7, 2006, and was informed of the sustainability report at the same time. SAS Group Management is responsible

for organizing and integrating sustainability work with the operations of the Group as well as for the Sustainability Report. Our task is to express an opinion on the sustainability information in the sustainability report based on our limited review.

The sustainability report has been prepared on the basis of the SAS Group's reporting principles for sustainability reporting (www.sasgroup.net) as well as applicable portions of "2002 Sustainability Reporting Guidelines" published by GRI. These form the criteria used to evaluate our limited review.

The scope of our limited procedures included the following activities:

- Discussions with management to obtain information on material incidents and activities during the period to which the sustainability report pertains and on the sustainability related operational risks, and disclosures thereof.
- Review of information of the scope and limitations of the content of the sustainability report.
- Review, scrutiny and application of the Group's principles for reporting of sustainability information.
- Limited review of the Group's systems and routines for registration, accounting and reporting of environmental data.

- Interviews and visits to a number of units in order to ensure that material conditions are disclosed in the sustainability report and that sustainability data is reported on an in all material aspects standardized format and in accordance with the accounting principles.

- Review of the documentation, performed on a test basis, on which the information in the environmental report is based.

- Review of the disclosures of external environment-related costs, other environment-related costs and environment-related investment.

- Review of compliance with laws, permits and conditions.

- Examination of whether the contents of the Sustainability Report, pages 95-115, contradict the information in the rest of SAS Group's 2005 annual report.

Based on our limited review procedures, nothing has come to our attention that causes us to believe that SAS Group's sustainability information disclosed in the sustainability report for the financial year of 2005 has not, in all material aspects, been prepared in accordance with the above stated criteria.

Stockholm, March 7, 2006

Svante Forsberg
Authorized Public Accountant

Deloitte AB

Elisabeth Werneman
Authorized Public Accountant

Aircraft fleet & route network (as of January 1, 2006)


The SAS Group's overall fleet comprises 294 aircraft, of which 208 are leased and 86 owned. The total value of the owned fleet is SEK 15.1 billion. To order an off-print of this page, send an e-mail to: investor.relations@sas.se


Scandinavian Airlines Sverige


Key figures

Destinations	45
domestic	14
European	31
Daily departures	211
Passengers (000)	5,958
Average number of cabin crew	850*
Average number of pilots	460
Revenue passenger kilometers (RPK), mill.	4,337
Available seat kilometers (ASK), mill.	6,845

* Of which around 360 are hired out to Scandinavian Airlines International/Intercont.

21 Boeing 737-600/800s
(11 owned, 10 leased) 


16 MD-81/82/s
(1 owned, 15 leased) 


8 deHavilland Q400s
(8 leased) 

Blue1

Key figures

Destinations	14
Daily departures	90
Passengers (000)	1,456


9 Avro RJ 85/100s
(9 leaseade) 

5 SAAB 2000s
(5 leaseade) 

Widerøe

Key figures

Destinations	42
Daily departures	270
Passengers (000)	1,784


30 deHavilland Q 100/300/400s
(16 owned, 14 leased) 


SAS Braathens

Key figures

Destinations	39
domestic	17
European	22
Daily departures	344
Passengers (000)	8,800
Average number of cabin crew	1,186*
Average number of pilots	594
Revenue passenger kilometers (RPK), mill.	6,067
Available seat kilometers (ASK), mill.	9,590

* Of which around 230 are hired out to Scandinavian Airlines International/Intercont.


50 Boeing 737-400/500/600/700/800s
(11 owned, 39 leased) 

6 Fokker F50s
(6 leased) 

Estonian Air

Key figures

Destinations	14
Daily departures	11
Passengers (000)	643


5 Boeing 737-500s
(5 leased) 


Scandinavian Airlines Danmark


Key figures

Destinations	66
domestic	3
European	50
Daily departures	304
Passengers (000)	7,561
Average number of cabin crew	1,146*
Average number of pilots	571
Revenue passenger kilometers (RPK), mill.	5,611
Available seat kilometers (ASK), mill.	8,939

* Of which 317 are hired out to Scandinavian Airlines International/Intercont.

8 Airbus A321-200s
(8 owned) 


35 MD-81/82/87s
(18 owned, 17 leased) 


16 deHavilland Q400s
(1 owned, 15 leased) 


Spanair

Key figures

Destinations	28
domestic	20
European	8
Daily departures	214
Passengers (000)	6,850
Charter passengers (000)	2,338
Average number of cabin crew	883
Average number of pilots	516
Revenue passenger kilometers (RPK), mill.	5,974
Available seat kilometers (ASK), mill.	9,731

21 Airbus A320/A321s
(21 leased) 

34 MD-81/82/83/87s
(34 leased) 


4 Boeing 717-200s
(4 leased) 


Scandinavian Airlines International/Intercont.

Key figures

Destinations	11
Daily departures	20
Passengers (000)	1,480
Average number of cabin crew	_*
Average number of pilots	313
Revenue passenger kilometers (RPK), mill.	10,473
Available seat kilometers (ASK), mill.	13,079

* Hired in from other companies in Scandinavian Airlines Businesses.


7 Airbus A340-300s
(2 owned, 5 leased) 


4 Airbus A330-300s
(3 owned, 1 leased) 

airBaltic

Key figures

Destinations	36
Daily departures	64
Passengers (000)	1,038

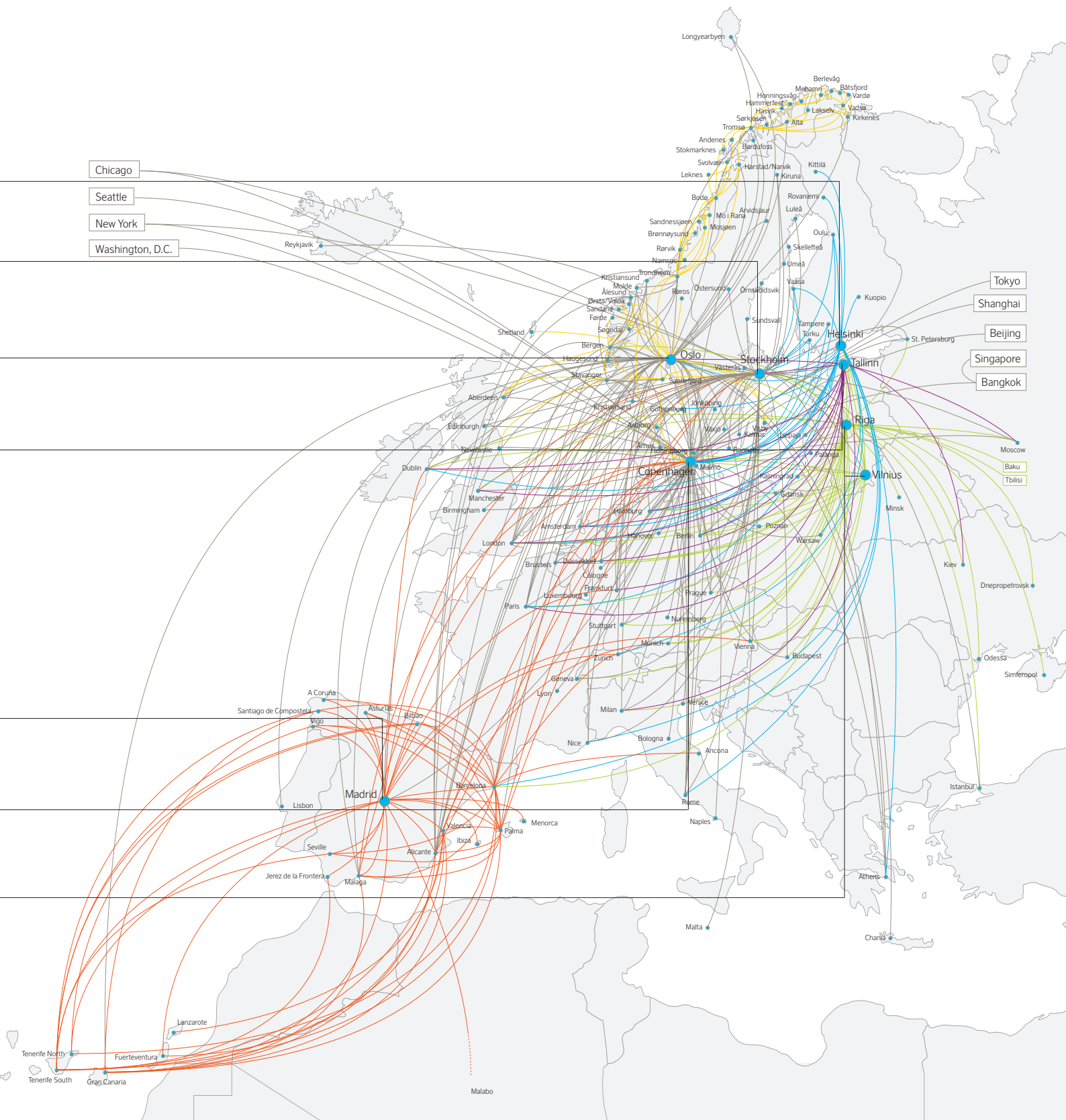
7 Boeing 737-500s
(7 leased) 

9 Fokker 50s
(9 leased) 

Scandinavian Airlines Scandinavian Airlines has three Bombardier CRJ200s on a wet lease contract.

SAS Braathens

	Airbus A340-300	Airbus A330-300	Airbus A321-200	Boeing 737-600	Boeing 737-800	Boeing MD-81/82	Boeing MD-87	deHavilland Q400	Boeing 737-400	Boeing 737-500	Boeing 737-600	Boeing 737-700	Boeing 737-800
Number of aircraft, Group total	7	4	8	16	5	8/28	15	24	4	13	10	15	8
Number of seats, max.	261	261	184	123	179	150	125	72	150	120	116	134	179
Max. takeoff weight, tonnes	275.0	233.0	89.0	59.9	79.0	63.5/67.8	63.5	29.3	68.0	60.6	59.9	69.6	75.1
Max. load, ton	44.0	44.0	21.5	13.0	19.0	14.6/17.1	14.8	7.5	13.5	13.5	13.0	15.0	19.0
Length, meters	63.7	63.7	44.5	31.2	39.5	45.1	39.8	32.8	36.4	31.0	31.2	33.6	39.5
Wingspan, meters	60.3	60.3	34.1	34.3	34.3	32.9	32.9	28.4	28.9	28.9	34.3	34.3	34.3
Cruising speed, km/h	875	875	850	825	825	825	825	660	825	825	825	825	825
Range, km	12,800	9,700	3,000	1,900-2,900	3,700	1,600/2,700	3,500	2,000	3,150	3,150	1,900-2,900	2,200	3,700
Fuel consumption, l/seat kilometer	0.039	0.035	0.031	0.044	0.034	0.043	0.048	0.039	0.043	0.047	0.044	0.042	0.034
Engine	CFMI CFM56-5C4	RR Trent 772B	IAE V2530-A5	CFMI CFM56-7B	CFMI CFM56-7B	P&W JT8D 217C/219	P&W PW150A	GE CF34-3B1	CFMI CFM56-3C	CFMI CFM56-3	CFMI CFM56-7B	CFMI CFM56-7B	CFMI CFM56-7B



Blue1				airBaltic		Estonian Air	Spanair <i>Spanair also has three Fokker F-100s on a wet lease contract.</i>						Widerøe		
Fokker F50	Avro RJ100	Avro RJ85	Saab 2000	Boeing 737-500	Fokker F50	Boeing 737-500	Airbus A321-200	Airbus A320-200	Boeing MD-82	Boeing MD-83	Boeing MD-87	Boeing 717-200	deHavilland Q400	deHavilland Q300	deHavilland Q100
6	2	7	5	7	9	5	5	16	10	19	5	4	3	10	17
50	99	84	47	120	52	113	212	156/180	150	150/170	109	115	76	50	39
20.8	46.0	42.2	23.0	57.0	20.8	52.4	93.0	77.0	66.7	72.6	63.5	51.7	29.3	19.5	15.6
4.9	9.5	8.1	5.5	13.5	4.9	13.5	19.2	16.0	25.0	25.0	14.8	12.5	8.7	5.9	3.6
25.3	31.0	28.6	27.3	31.0	25.3	31.0	44.5	37.6	45.1	45.1	39.8	37.8	32.8	25.7	22.3
29.0	26.3	26.3	24.8	28.9	29.0	28.9	34.1	34.1	32.9	32.9	32.8	28.5	28.4	27.4	25.9
520	750	750	685.7	825	520	825	840	840	811	811	811	825	667	528	496
1,400	2,200	2,300	1,800	3,150	1,400	3,150	3,800	3,500	3,798	4,635	4,395	2,800	1,990	1,690	1,280
0.038	0.032	0.038	0.040	0.043	0.038	0.043	0.029	0.028	0.030	0.031	0.048	0.030	0.040	0.037	0.038
P&W PW125B	Honeywell LF507-1F	Honeywell LF507-1F	RR Allison AE2100A	CFMI CFM56-3	P&W PW125B	CFMI CFM56-3	IAE V2533-A5	IAE V2527-A5	P&W JT8D 219	P&W JT8D-219	P&W JT8D-217	RR BR 715A1-30	P&W PW150A	P&W PW123	P&W PW121

Definitions & concepts

A

AEA • The Association of European Airlines.

Affiliated company • Companies where the SAS Group's holding amounts to at least 20% and at the most 50% or where the SAS Group has a controlling interest.

AOC • Air Operator Certificate.

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.

AV • Asset value (market adjusted capital employed). Book shareholders' equity, plus minority interests, plus surplus value in the aircraft fleet, plus 7 times the net annual cost of operating leases for aircraft, plus financial net debt, minus share of equity in affiliated companies. Can also be expressed as the book value of total assets, plus surplus value in the aircraft fleet, plus 7 times the net annual cost of operating leases for aircraft, minus share of equity in affiliated companies, minus noninterest-bearing liabilities and interest-bearing assets, excluding net pension funds.

Available seat kilometers • See ASK.

Available tonne kilometers • See ATK.

B

Block hours • Refers to the time the aircraft leaves the departure gate until it arrives at the destination gate.

Book equity • Total shareholders' capital attributable to Parent Company shareholders excluding minority interests.

Breakeven load factor • The load factor that makes traffic revenue equal to operating expenses.

C

Cabin factor, passengers • Relation between RPK and ASK expressed as a percentage. Describes the capacity utilization of available seats. Also called occupancy rate.

CAEP • Committee on Aviation Environmental Protection. Specialist group within the ICAO.

CAPEX (Capital Expenditure) • Future payments for aircraft on firm order.

Capital employed • Total capital according to the balance sheet minus noninterest-bearing liabilities.

Capital employed, market adjusted • See AV.

Capitalized leasing costs (x7) • The annual cost of operating leases for aircraft multiplied by seven.

Carbon dioxide (CO₂) • A colorless gas formed during combustion. Carbon dioxide is a greenhouse gas.

CFROI • Adjusted EBITDAR in relation to AV.

CO₂ • See Carbon dioxide.

Code-share • When two or more airlines state their flight number in the timetable for one and the same flight, while only one of the airlines operates the flight.

C

CSI, Customer Satisfaction Index • Measures how customers perceive SAS's services. Surveys are conducted every six months.

D

Debt/equity ratio • Financial net debt in relation to shareholders' equity and minority interests.

Dividend yield, average price • Dividend as a percentage of the average share price during the year.

Dow Jones Sustainability Indexes, DJSI • Global indexes tracking the financial performance of the leading sustainability-driven companies worldwide.

E

Earnings per share (EPS) • Income after tax divided by the total number of shares.

EASA • European Aviation Security Agency

EBIT (including capital gains) • Operating income.

EBITDA margin • EBITDA divided by operating revenue.

EBITDA, Operating income before depreciation

• Operating income before net financial items, tax, depreciation, share of income in affiliated companies and income from the sale of fixed assets.

EBITDAR margin • EBITDAR divided by operating revenue.

EBITDAR, Operating income before depreciation and leasing costs • Operating income before net financial items, tax, depreciation, share of income in affiliated companies, income from the sale of fixed assets and leasing costs for aircraft.

EBT • Income before tax.

ECAC, European Civil Aviation Conference • Forum for cooperation between and coordination of European national authorities on civil aviation matters.

EEA • European Economic Area

EURIS • Ethical Investment Research Services. Independent analysis organization providing information about the social, environmental and ethical performance of companies.

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.

Equity per share • Book equity divided by the total number of shares.

Equity/assets ratio • Book equity plus minority interests in relation to total assets.

EV, Enterprise value • Average market capitalization (market value of shareholders' equity) plus average net debt during the year and 7 times the net annual cost of operating leases for aircraft.

EVA, Equity value added • Return over and above the company's weighted average cost of capital (WACC) times market-adjusted capital.

F

Finance leasing • Based on a leasing contract where the risks and rewards of ownership of the asset are transferred to the lessee. The asset is reported as a fixed asset in the balance sheet and the commitment to pay future leasing charges is entered as a liability.

Production: The SAS Group and Wildecø.

Form: Wildecø.

Photographs: SAS Image bank, Hans Norman, Johan Olsson, Ina agency (p. 29)

Translations: ComText-Apropos AS, Oslo, Norway.

Printing: Jernstrøm Offset.

Environmentally friendly papers: Galerie One Silk and Silverblade Silk.



In March 2006 Blue1 will phase in three MD-90s that will begin serving nine new destinations originating from Helsinki.



Definitions & concepts *continuation*

F **Financial net debt** • Interest-bearing liabilities minus interest-bearing assets excluding net pension funds.

Financial net debt, market adjusted (x 7) • Financial net debt plus capitalized leasing costs (x 7).

Financial net debt, market adjusted, NPV • Financial net debt plus present value of leasing costs for aircraft, NPV.

G **Global Compact** • Challenge issued by UN Secretary-General Kofi Annan to business leaders to live up to 10 principles in the areas of human rights, labor and the environment.

Gross profit margin • Operating income before depreciation in relation to operating revenue.

I **IATA, International Air Transport Association** • A global association of more than 200 airlines.

ICAO, International Civil Aviation Organization • The United Nations' specialized agency for international civil aviation.

Income after financial items • Income before tax. Interest coverage ratio • Operating income plus financial income in relation to financial expenses.

Interest coverage ratio • Operating income plus financial income in relation to financial expenses.

Interline revenues • Ticket settlement between airlines.

IPCC, Intergovernmental Panel on Climate Change • Scientific panel appointed by the United Nations Environmental Program, UNEP, and the World Meteorological Association, WMO, to assess what is happening to the global climate and the impact of climatic disturbances.

IRR, Internal Rate of Return • Discount rate where the present value of a project's cash flow, from investment to sales, is equal to zero.

J **JAA** • Joint Aviation Authorities

M **Market capitalization at year-end** • Share price multiplied by the number of outstanding shares.

N **Net debt** • Interest-bearing liabilities minus interest-bearing assets.

Net profit margin • Income after financial items in relation to operating revenue.

Nitrogen oxides (NOx) • Formed from all combustion - in aircraft engines because the high temperature and pressure cause atmospheric nitrogen and oxygen to react.

Non revenue passengers • Passengers traveling on bonus, charter or ad hoc flights.

NOx • See Nitrogen oxides.

NPV, Net present value • Used to calculate capitalized future costs of operating leases for aircraft.

O **Operating leasing** • Based on a leasing contract in which the risk 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.

P **P/CE ratio** • Average share price divided by cash flow per share after paid tax.

P/E ratio • Average share price divided by earnings per share after standard tax.

P **PULS** • The Swedish acronym for SAS's employee surveys. The annual survey measures how SAS's employees perceive their working environment.

R **RASK** • Passenger revenue/ASK.

Regularity • The percentage of flights completed in relation to flights schedules, excluding flights canceled for commercial reasons.

Return on book equity after tax • Income after tax in relation to average book shareholders' equity.

Return on capital employed • Operating income plus financial income in relation to average capital employed. Capital employed refers to total capital according to the balance sheet minus noninterest-bearing liabilities.

Revenue passenger kilometers (RPK) • See RPK.

Revenue tonne kilometers (RTK) • See RTK.

RevPAR, Revenue per available room • Revenue per available hotel room.

ROCE • See Return on capital employed.

ROIC • Return on invested capital.

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.

Runway incursion • Any occurrence in the airport runway environment involving an aircraft, vehicle, person, or object on the ground that creates a collision hazard.

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

S **Total load factor** • The relation between RTK and ATK expressed as a percentage. The proportion of total available capacity sold and flown.

T **Total return** • The sum of change in share price and dividends.

TSR, Total shareholder return • Average total return.

U **Unit cost, operational** • Airline operations' total operating expenses minus non-traffic related revenue per ASK.

Unit cost, total • Airline operations' total operating expenses including the capacity cost of aircraft minus non-traffic related revenue per ASK.

Unit revenue (yield) • Passenger revenue per RPK.

W **WACC, Weighted average cost of capital** • Average cost of liabilities, shareholders' equity and operating leases for aircraft. The sources of funds are calculated and weighted in accordance with the current market value of shareholders' equity and liabilities and the capitalized present value of operating lease costs for aircraft.

Wet lease agreement • Leasing in of aircraft including crew.

Y **Yield** • See Unit revenue.





SAS 60 years in the skies



SAS was formed from Det Danske Luftfartselskab A/S (DDL), Det Norske Luftfartselskab A/S (DNL) and Svensk Interkontinental Lufttrafik AB (SILA).

The first intercontinental flight went from Stockholm to New York in 1946.

1918 Det Danske Luftfartselskab A/S (DDL), SAS's Danish parent company, founded.
1920 DDL listed on the Copenhagen Stock Exchange.
1924 AB Aerotransport (ABA), SAS's Swedish parent company, founded.
1927 Det Norske Luftfartselskab A/S (DNL), SAS's Norwegian parent company, founded.
1946 SAS formed by Det Danske Luftfartselskab A/S (DDL), Det Norske Luftfartselskab A/S (DNL) and Svensk Interkontinental Lufttrafik AB (SILA). The first intercontinental flight Stockholm - New York.
1951 The SAS Consortium formed by DDL, DNL and ABA.
1954 SAS, the world's first airline to fly the Copenhagen - Los Angeles polar route in scheduled service.



1955 SILA (which owned 50% of ABA) quoted on the "Stockbrokers' List" in Sweden.
1956 Scandinavian Airlines' first flight to Moscow (Vnukovo).
1957 SAS, the first airline to offer "round the world service over the North Pole." North Pole shortcut, Copenhagen-Anchorage-Tokyo.
1959 SAS entered the jet age. The first jet aircraft, the Caravelle, in service.
1960 SAS opened its first hotel, SAS Royal Hotel Copenhagen.
1965 SAS was first to introduce an electronic reservation system.
1967 DNL listed on the Oslo Stock Exchange.
1971 SAS put its first Boeing 747 jumbo jet into service.
1980 SAS open its first hotel outside of Scandinavia, the SAS Kuwait Hotel. SILA is listed on the Stockholm Stock Exchange.

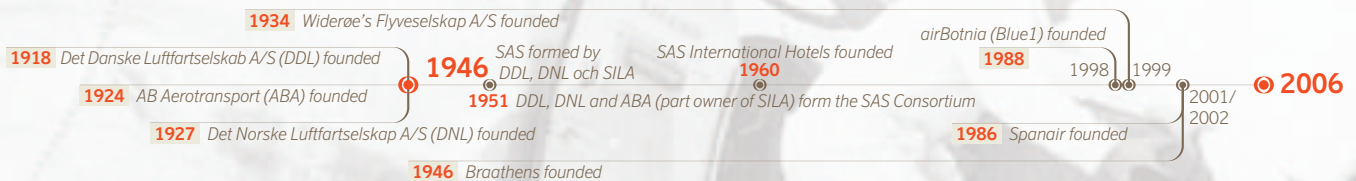


1981 SAS EuroClass introduced on all European routes.
1982 SAS was the most punctual airline in Europe for the first time.
1984 SAS received Air Transport World's distinction "Airline of the Year" for 1983.
1986 Spanair founded.
1989 SAS International Hotels acquired 40% of Intercontinental Hotels Group.
1994 Focus on airline operations in the SAS Group - sale of a number of subsidiaries.
1995 SAS published its first environmental report.
1996 SAS celebrated its 50th anniversary. Harmonization and name change of SAS parent companies to SAS Danmark A/S, SAS Norge ASA and SAS Sverige AB.
1997 SAS one of the founders of Star Alliance™.
1998 Blue1 (previously Air Botnia) became a wholly owned subsidiary of the SAS Group.



1999 The SAS Group became a majority owner of Widerøe.
2001 A single SAS share established. Braathens acquired by the SAS Group in December. The SAS Group became a majority owner of Spanair.
2002 Rezidor SAS Hospitality signed a master franchise agreement with Carlson Hotels Worldwide.
2003 Acquisition of 49% of the shares in Estonian Air.
2004 Incorporation of Scandinavian Airlines Denmark, SAS Braathens, Scandinavian Airlines Sverige out of the SAS Consortium. The units SAS Ground Services and SAS Technical Services were also incorporated.
2005 Scandinavian Airlines introduced a new business model with one-way fares in Europe, domestic and intra-Scandinavia.

Evolution of the SAS Group



Presidents

1946-1948 Per A. Norlin • 1949-1951 Per M. Backe • 1951-1954 Per A. Norlin • 1955-1957 Henning Throne-Holst • 1958-1961 Åke Rusck • 1961-1962 Curt Nicolin • 1962-1969 Karl Nilsson • 1969-1978 Knut Hagrup • 1978-1981 Carl-Olov Munkberg • 1981-1993 Jan Carlzon • 1993-1994 Jan Reinås • 1994-2001 Jan Stenberg • 2001- Jørgen Lindegaard

sasgroup.net