A STAR ALLIANCE MEMBER

SAS ANNUAL REPORT
NOVEMBER 2015–OCTOBER 2016

WE ARE TRAVELERS

SAS

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SAS ANNUAL REPORT 2015/2016

SAS's sustainability reporting is integrated in the SAS 2015/2016 Annual Report and, thus the report no longer has a separate sustainability section. A separate sustainability report in line with the Global Reporting Initiative (GRI), with in-depth sustainability reporting, is available at www.sasgroup.net.

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SAS is Scandinavia's leading airline and has an attractive offering to frequent travelers. SAS offered more than 813 flights daily in 2015/2016 and more than 29 million passengers traveled with SAS between 118 destinations in Europe, the US and Asia. Membership in Star Alliance™ provides SAS's customers with access to a far-reaching network and smooth connections. In addition to airline operations, activities at SAS include ground handling services (SAS Ground Handling), technical maintenance (SAS Technical) and air cargo services (SAS Cargo).

SAS AB is the Parent Company of SAS and is listed on the stock exchanges in Stockholm (primary listing), Copenhagen and Oslo. With the exception of SAS Cargo and SAS Ground Handling, which are directly owned by the Parent Company SAS AB, the majority of the operations and assets are directly owned by the SAS Consortium.

In the event of any differences between the English and the Swedish version of the Annual report, the Swedish version shall prevail.

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SAS IN BRIEF

VISION
To make life easier for Scandinavia´s frequent travelers.

OUR DNA
Safety, punctuality and care.

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

THE NUMBER OF FLIGHTS IS EXPECTED TO INCREASE 5% PER YEAR

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LEADING MARKET POSITION IN SCANDINAVIA

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156
AIRCRAFT IN SERVICE

>30%
MARKET SHARE IN SCANDINAVIA

10,710
EMPLOYEES

70 TH
ANNIVERSARY IN 2016

29 MILL.
PASSENGERS DURING THE YEAR

4.7 MILL.
EUROBONUS MEMBERS

WE ARE TRAVELERS

SAS's strategy is to focus on frequent travelers and to be an airline that rewards its customers for their loyalty to us. The most frequent travelers are also the people with the greatest demands on their travel experience and for whom we develop our product and network. This leads to options that benefit all our customers.

SAS IN FIGURES 2015/2016

As expected, SAS reported positive earnings and the trend shows that our improved product offering continues to be met with a positive response from our primary target group. However, despite this positive customer response, profitability is under pressure. This is due to a negative currency trend and lower yield, particularly in the second half of the year, which were not fully compensated by our efficiency enhancement program. These factors combined with potential aircraft funding needs and maturing loans mean that we must raise our targets to enhance efficiency and profitability.

FINANCIAL AND OPERATIONAL

MSEK 939 INCOME BEFORE TAX AND NONRECURRING ITEMS

MSEK 3,663 CASH FLOW FROM OPERATING ACTIVITIES

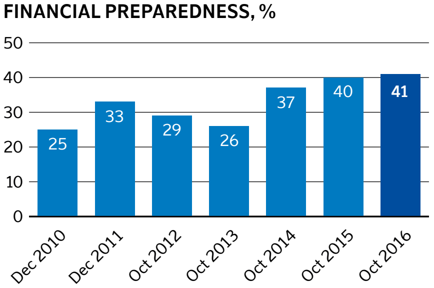
84% PUNCTUALITY WITHIN 15 MINUTES

1 MILL. MORE PASSENGERS

TARGET – FINANCIAL PREPAREDNESS

SAS has a target for financial preparedness, which is to exceed 20% of annual fixed costs.

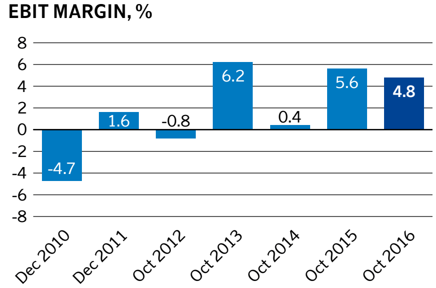
FINANCIAL PREPAREDNESS, %



PROFITABILITY

The EBIT margin amounted to 4.8%. Excluding nonrecurring items, the EBIT margin was 3.5%.

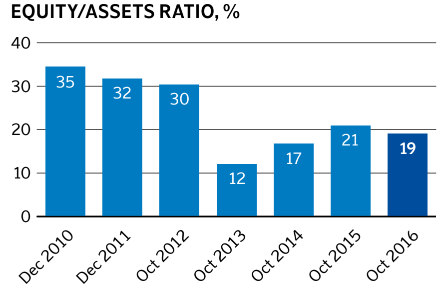
EBIT MARGIN, %



EQUITY/ASSETS RATIO

A lower discount rate negatively impacted pension plans, which led to the equity/assets ratio falling 2 percentage points despite positive earnings

EQUITY/ASSETS RATIO, %



COMMENTS

Positive cash flow contributed to a stable trend in financial preparedness in 2015/2016, despite net investments of SEK 2.6 billion and net repayments and preference share dividends of SEK 0.6 billion.

UNIT COST[1] (CASK)

-11%

Excluding jet fuel, CASK declined 4.1%.

UNIT REVENUE[1] (PASK)

-8%

[1] Currency adjusted.

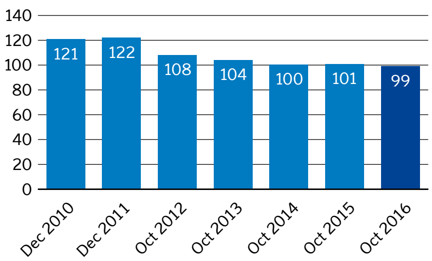
ENVIRONMENT

Environmental vision: SAS intends to be part of the long-term sustainable society and supports IATA's vision of making it possible to fly without greenhouse gas emissions by around 2050.

TARGET – EMISSIONS

A 20% reduction in emissions from flight operations by 2020 compared with 2010.

GRAMS OF CO_2/PASSENGER KILOMETER



COMMENTS

Renewal of the aircraft fleet, ongoing efficiency enhancement efforts and increased long-haul production enabled SAS to reduce its CO_2 emissions per passenger kilometer during the year.

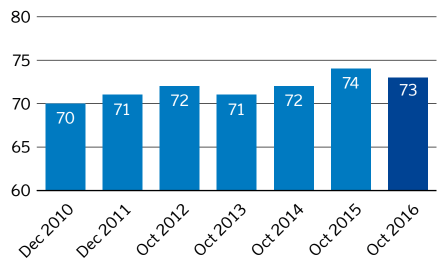
GRAMS OF CO_2/PASSENGER KILOMETER

-1.7%

CUSTOMERS

CUSTOMER SATISFACTION

INDEX



COMMENTS

Customer satisfaction was at a consistent, high level in 2015/2016.

SUPPLIERS

SAS is increasingly procuring external services. About 110 of the subcontractors account for 80% of SAS's procured services. The number of suppliers has fallen thanks to active "Supplier Relations Management" and we have simultaneously been able to expand partnerships with the remaining suppliers.

NUMBER OF SUPPLIERS

-4%

EMPLOYEES

The average number of employees fell during the year by 578 full-time equivalents (FTEs) to 10,710 FTEs. SAS outsourced the line stations in Norway in February 2016. At the same time, 110 pilots and 590 cabin crew were employed.

SICK LEAVE, %

6.2 (7.0)

EMPLOYEE COMMITMENT INDEX

64 (58)

FINANCIAL INSTRUMENTS

SAS has issued several financial instruments that are regularly traded and which enable a diversified investment in SAS.

COMMON SHARE TREND	PREFERENCE SHARE TREND	PREFERENCE SHARE DIVIDEND	CONVERTIBLE BOND TREND	SEK 1.5 BILLION BOND MATURING IN 2017 YIELD OCT 31, 2016
-7%	+10%	SEK 50	+6%	6.6%

For more information about our operational key figures, see page 102.

SIGNIFICANT EVENTS DURING THE YEAR

FINANCIAL

- SAS signed sale and lease-back agreements for 18 Airbus A320neos in January 2017.
- SAS updated its dividend policy for common and preference shares.
- SAS sold Cimber and 11 CRJ900s to CityJet in January 2017.
- Following conversion of SAS's convertible bond loan, the number of common shares issued in SAS AB increased 1,082,551 to 330,082,551.
- SAS paid a preference share dividend of SEK 50 in 2015/2016.

COMMERCIAL

- MSEK 500 upgrade initiated for the cabins in the short and medium-haul fleet, incl. Wi-Fi.
- SAS launched 12 new routes and opened over 60 seasonal routes to leisure destinations.
- New long-haul routes to Boston, Los Angeles and Miami.
- All long-haul aircraft in service were given new cabin interior upgrades.
- A new online and mobile platform was launched in late November 2016.
- Business Class revenue increased 12%.
- The SAS Go Light and SAS Plus Saver service concepts were launched.

Awards

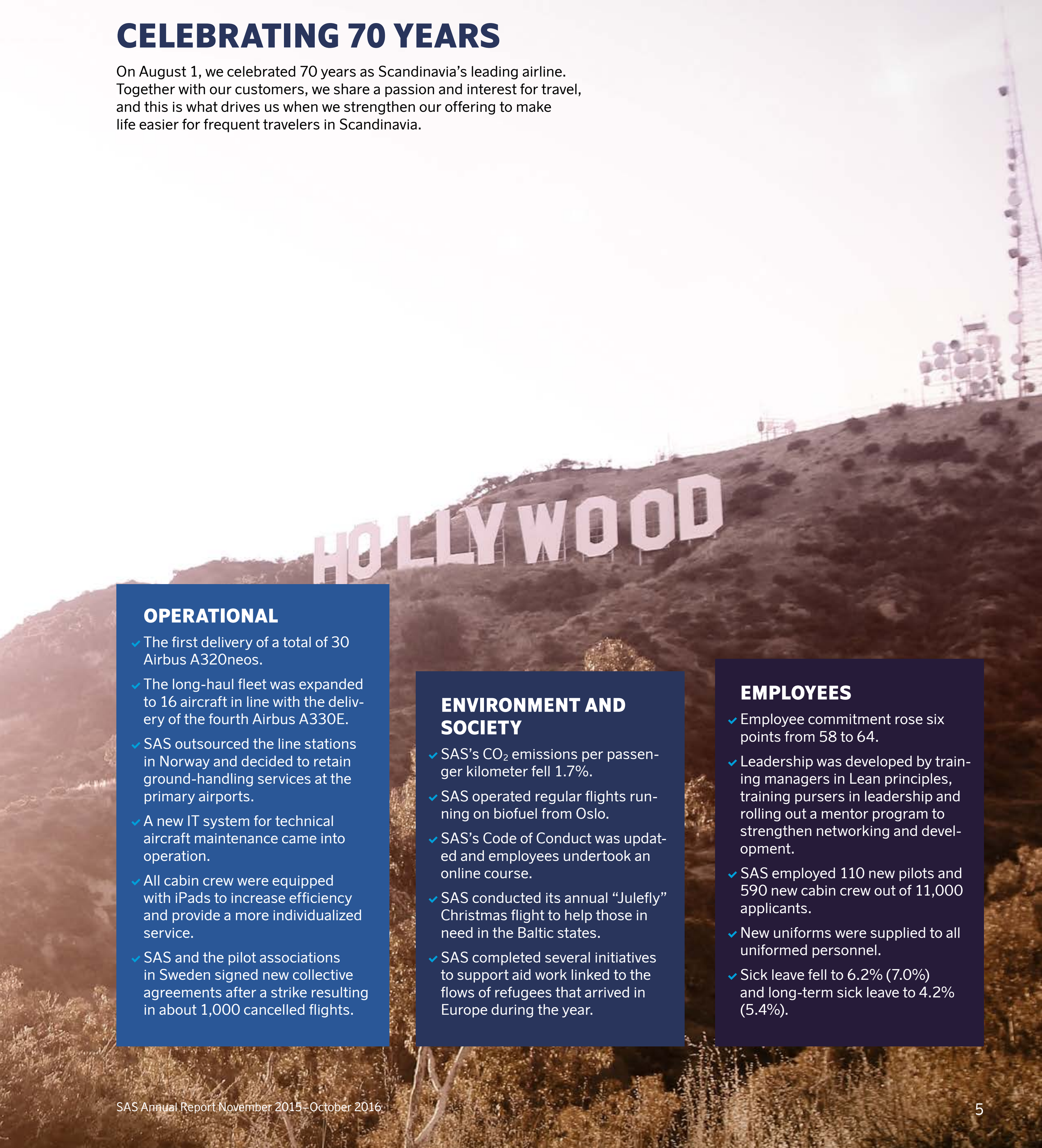
- Winner of this year's award for best customer service in social media in the Swedish Digital Awards.
- For the second year in a row, SAS won the awards for Best Charter Airline, Best Domestic Airline, Best European Airline and Best international airline at the Danish Travel Awards.
- In Sweden, SAS was crowned Best International Airline and Best Domestic Transport at the Business Travel Awards. SAS's new visual identity won the "100-wattaren" prize for Strategic Design.
- The Norwegian Customer Satisfaction Index declared SAS to be the best airline.
- In BearingPoint's survey of "Digital leaders in Sweden", SAS won the mobile services category.

BOS LAX MIA

Three new long-haul destinations to Boston, Los Angeles and Miami.

CELEBRATING 70 YEARS

On August 1, we celebrated 70 years as Scandinavia's leading airline. Together with our customers, we share a passion and interest for travel, and this is what drives us when we strengthen our offering to make life easier for frequent travelers in Scandinavia.



OPERATIONAL

- The first delivery of a total of 30 Airbus A320neos.
- The long-haul fleet was expanded to 16 aircraft in line with the delivery of the fourth Airbus A330E.
- SAS outsourced the line stations in Norway and decided to retain ground-handling services at the primary airports.
- A new IT system for technical aircraft maintenance came into operation.
- All cabin crew were equipped with iPads to increase efficiency and provide a more individualized service.
- SAS and the pilot associations in Sweden signed new collective agreements after a strike resulting in about 1,000 cancelled flights.

ENVIRONMENT AND SOCIETY

- SAS's CO_2 emissions per passenger kilometer fell 1.7%.
- SAS operated regular flights running on biofuel from Oslo.
- SAS's Code of Conduct was updated and employees undertook an online course.
- SAS conducted its annual "Julefly" Christmas flight to help those in need in the Baltic states.
- SAS completed several initiatives to support aid work linked to the flows of refugees that arrived in Europe during the year.

EMPLOYEES

- Employee commitment rose six points from 58 to 64.
- Leadership was developed by training managers in Lean principles, training pursers in leadership and rolling out a mentor program to strengthen networking and development.
- SAS employed 110 new pilots and 590 new cabin crew out of 11,000 applicants.
- New uniforms were supplied to all uniformed personnel.
- Sick leave fell to 6.2% (7.0%) and long-term sick leave to 4.2% (5.4%).

RESULTS IN LINE WITH FORECASTS BUT FURTHER ACTIONS ARE REQUIRED

In line with our forecast, SAS posted positive income before tax and nonrecurring items in 2015/2016. The trend shows that our customer offering is generating a favorable response, but earnings were very negatively affected by currency effects and a lower yield, particularly during the second half of the year. The airline industry is changing fast as demand for air travel increases, particularly in terms of leisure travel where margins are lower and price sensitivity higher. Lower costs and greater competitiveness are required if we are to take advantage of the exciting opportunities for growth in this market. We are therefore raising the target for the efficiency enhancement program by MSEK 700 by 2019 and, in parallel, we are planning new structural measures that will gradually reduce the cost differential to newly established competitors.

SAS's income before tax and nonrecurring items totaled MSEK 939 in 2015/2016. It is pleasing to see that our strategy and focus on frequent travelers is having an effect. During the year, we received a positive response to our product investments, which contributed to 29 million travelers choosing SAS in 2015/2016. However, market conditions deteriorated in autumn 2016, not least due to an unfavorable currency trend that had a negative impact of SEK 1.7 billion on earnings. The yield trend and the airport departure tax introduced in Norway also had a negative impact on earnings.

The deterioration in market conditions, together with maturing borrowings and the aircraft financing need, all underline why we need to maintain a high and ambitious pace of change. Digitalization of the customer offering and our operations will be key to these efforts.

A STRONGER OFFERING

In line with our strategy to focus on frequent travelers, we have targeted our efforts to develop the product by using innovation and increased digitalization to simplify life and strengthen loyalty in this target group.

We have continued during the fiscal year to focus on product investments for our primary target group. Based on this strategy, we completed our investment in long-haul routes in September, using capital efficiently to expand the aircraft fleet from 12 to 16 aircraft, upgrading cabin interiors, opening new lines to Boston, Los Angeles and Miami and increasing the frequencies on existing lines. The investment has been well received, we have more passengers than ever and our customers are more satisfied.

Our next step is to upgrade the cabin interiors on our short and medium-haul fleet, and to install the market's fastest Wi-Fi on all our Airbus A320s and Boeing 737s in Europe. In October 2016, SAS took delivery of its first Airbus A320neo aircraft and will receive a further 12 aircraft over the next fiscal year. In addition to the aircraft being 15–20% more fuel-efficient and significantly quieter, the upgraded cabins enhance the overall travel experience.

Digitalization creates possibilities to improve our offering and enhance efficiency in line with our strategy. Our new website was finally launched at the end of November 2016. The simplified booking flow and the new digital platform mean that we can increasingly tailor offerings moving forward and offer an increasing number of popular supplementary services. All cabin crew were equipped with iPads during the year to enable a more personal level of service while simultaneously simplifying on-board processes and making daily life more efficient for cabin crew. Together with more product improvements achieved through our digital investment, this aims protect our customers' time while simplifying the travel experience.

A cornerstone of our investment in frequent travelers is the EuroBonus program. It has continued to grow and, during the fiscal year, we saw a total of 0.5 million new members join. Perhaps the most pleasing aspect is that we have seen members increasing their travel by 6% during the year, which is more than SAS's other customers and demonstrates increased loyalty. As part of the investment in a new digital platform, we will gradually launch further product improvements in 2017 that aim to make it easier to use EuroBonus points when booking tickets.

DEVELOPED OPERATIONAL PRODUCTION PLATFORM

To increase its competitiveness, SAS has built a production model on a scope that has never previously been seen in Europe. It is based on us operating larger aircraft and on strategic partners managing production with smaller aircraft where demand is lower. The production model has led to us refining our own aircraft fleet while increasing flexibility through our partners and better adapting production to seasonal variations. In 2015/2016, eight CRJ900s successfully entered service, while over the past three years until spring 2017, 25 brand-new aircraft have been phased into service through our partners, corresponding to an investment of about SEK 5 billion. This cost-efficient operation provides annual savings of about SEK 0.5 billion and we have identified further development opportunities.

At the same time, the airline industry continues to change rapidly through external production companies and network airlines, which are starting their own low cost carriers. In parallel, the Scandinavian air travel market and demand for more long-haul routes and European leisure routes is on the rise. With our extensive network, frequent departures and substantial customer base, SAS holds a strong market position in Scandinavia. SAS has a major opportunity to leverage market growth and to start additional long-haul routes as well as accelerate growth in the European leisure route market. The EuroBonus membership base also provides possibilities for broadening the offering, which we have started on a smaller scale with the SAS Dreams concept. However, a lower cost structure and increased competitiveness are required if SAS is to develop these exciting growth

SUCCESSES DURING THE YEAR

- Successful investment in the intercontinental markets.
- Phasing-in of 8 wet-leased CRJ900s.
- Phasing-in of the first A320neos in SAS's aircraft fleet.
- SEK 0.7 billion earnings impact from the efficiency enhancement program
- New digital platform implemented that will enable several improvements for customers in 2017.

opportunities. While our 70-year history has contributed to our strong position, it also means that structures have been built that are no longer competitive. To leverage these market opportunities, we have to address the structural disadvantages that result in SAS having a higher unit cost than newly established competitors.

In 2013–2016, SAS implemented efficiency enhancements with an earnings impact of SEK 4.3 billion, of which the effect in 2015/2016 was SEK 0.7 billion. As a natural response to the changed market conditions, we are now raising our target from SEK 0.8 billion to SEK 1.5 billion in 2017–2019.

However, we need to do even more. We are therefore planning further structural actions aimed at generating a considerable impact. The first step is to establish a new organizational structure to create increased ownership, smaller and faster units, and greater transparency. We will thereby be able to implement further efficiency enhancements, over and above the reduction of 1,000 FTEs in our administration by measures including outsourcing. Secondly, we have initiated a review of our customer offering. Over the past few years, we have implemented substantial and valued customer investments, but we have to ensure that we are offering that which is appreciated most in the continuously changing landscape of customer expectations. To a greater extent, we will therefore have to adapt the product to customer demands, lower distribution costs, streamline the organization and reprioritize resources.

Finally, efficiency must be enhanced for ground handling services, technical maintenance and flight operations. After having outsourced considerable parts of our ground handling services, including line stations in Norway in February, as well as technical maintenance, we will continue digitalization initiatives to optimize resource utilization and planning. Moreover, we need to be more flexible and increase the productivity of flight operations. To leverage the market potential, SAS must have the same conditions as our competitors. Therefore, we are considering shifting the focus in parts of our production by establishing airline operations based outside of Scandinavia.

As a company, we have to create shareholder value to be able to invest in our future and to remain relevant for our customers. Therefore, improving SAS's efficiency is a crucial and existential issue for the company.

FINANCIAL POSITION AND OUTLOOK

Improved profitability and the implementation of structural measures are necessary to develop our business and strengthen our financial position ahead of future investments and maturing loans. In 2015/2016, we worked on the strategically important financing of our A320neo order and now have sale and leaseback agreements in place for 18 aircraft.

We are now starting an exciting year in which I visualize major opportunities for SAS, but it is also a year of many challenges. Uncertainty in the macro environment has increased and, at the same time, exchange rates and jet-fuel prices are volatile. Higher jet-fuel costs and a lower yield will result in significantly lower earnings for the first quarter of 2016/2017 year-on-year, but we still expect to post positive income before tax and nonrecurring items for 2016/2017. The full outlook for 2016/2017 is presented on page 55.

Stockholm, January 31, 2017
Rickard Gustafson
President and CEO

HOW WE CREATE VALUE

RESOURCES WE REQUIRE FOR OUR OPERATIONS

FINANCIAL CAPITAL
MSEK 23,786
invested capital that comes from shareholders, lenders and lessors.

MANUFACTURED CAPITAL
156 AIRCRAFT
with a market value of about SEK 34 bn., a number of properties, vehicles, machines, tools and equipment such as lounges and self-service terminals.

INTANGIBLE CAPITAL
4.7 MILLION MEMBERS
of EuroBonus, over 800 takeoff and landing permits, the strong SAS brand and IT systems.

HUMAN CAPITAL
10,710 EMPLOYEES ON AVERAGE
of which 36% are air crew, 39% ground personnel, 11% technical staff and 14% management personnel with extensive experience and highly developed skills.

SOCIAL AND RELATIONSHIP CAPITAL
29 MILLION PASSENGERS
and relationships with customers, suppliers, partners and decision-makers, as well as SAS's extensive community with 120 million website hits annually and 1.2 million followers on Facebook.

NATURAL CAPITAL
1,309 KTONNES OF JET FUEL
of which 0.1 ktonnes is biofuel for flight operations, other raw materials, energy and food and drink for passengers and personnel.

OUR OPERATIONS

VISION
TO MAKE LIFE EASIER FOR SCANDINAVIA´S FREQUENT TRAVELERS.

OPERATIONS
SAS is Scandinavia's leading airline and has an attractive offering to frequent travelers. We offer smooth and attractively priced flights based on a broad network with frequent departures to, from and within Scandinavia.

In addition to airline operations, we also offer ground handling services and technical aircraft maintenance at primary airports, as well as cargo services.

TO CREATE LONG-TERM SHAREHOLDER VALUE AND ACHIEVE OUR VISION, SAS WORKS TO:
- Develop and invest in our customer offering
- Digitalize to increase efficiency and provide a stronger customer offering
- Create a more efficient production platform
- Improve work processes involving suppliers
- Ensure that we have the right skills

WHAT WE CREATE

263
ROUTES

813
DAILY DEPARTURES

118
DESTINATIONS AND 1,300 VIA STAR ALLIANCE

VALUE FOR STAKEHOLDERS

CUSTOMERS

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

SATISFIED CUSTOMER **73** INDEX

EMPLOYEES

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

EMPLOYEE COMMITMENT **64** INDEX

FINANCIAL BACKERS & SUPPLIERS

- Supplier payments of about SEK 33 bn.
- Interest payments of MSEK 493
- Lease payments of MSEK 2,840

SAS'S CREDIT RATING[1] **B/B2**

SOCIETY

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

~1% OF GDP IN SCANDINAVIA[2]

ENVIRONMENT

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

CO_2 EMISSIONS **4.1** MILL. TONNES

VALUE FOR SHAREHOLDERS

- Net income for the year of MSEK 1,321
- Market capitalization of SEK 8.9 bn.[3]
- MSEK 350 preference share dividend

ROIC **10%**

1) Credit rating: Standard & Poor's B, Moody's B2.
2) Cowi, Inregia, tøi and WSP.
3) Both common and preference shares.

MARKET OVERVIEW AND TRENDS

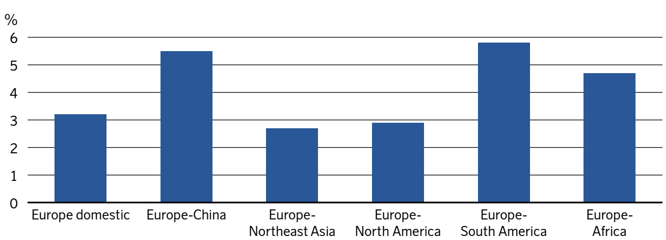
Historically, air travel has doubled every 15 years and annual growth is expected to be around 5% over the next 20 years. However, the airline industry is characterized by fierce competition and price pressure, which places great demands on airline efficiency.

INDUSTRY OVERVIEW

The airline industry is capital and personnel-intensive, with a high proportion of fixed costs. Due to a major proportion of sales being generated near departures, airlines are rapidly affected by changes in demand. The industry is also dependent upon a large number of subcontractors and authorities, thus making it particularly exposed to many different external factors.

Around 3.5 billion flights are made globally each year using commercial airlines. International Air Transport Association (IATA) airlines turn over some USD 700 billion per year, and around one billion flights are made in Europe. The largest individual air travel market measured in passenger kilometers is Asia, followed by Europe and North America.

EXPECTED ANNUAL GROWTH IN GLOBAL TRAFFIC FLOWS, 2015–2035



Source: Boeing, Market outlook 2016-2035

SCANDINAVIA

Revenue from the Scandinavian air travel market is estimated to amount to about SEK 100 billion annually, with approximately 90 billion journeys made. This makes the Scandinavian air travel market, in relation to its population, relatively large compared with the rest of Europe.

This is due to the fact that Scandinavia has a high level of economic prosperity as well as many internationally successful companies. Geographically, the region is characterized by relatively long distances with relatively small towns and difficult and highly mountainous topography, where the land masses are largely surrounded by sea, making other forms of transport time-consuming and inefficient. The relatively small towns also mean there are a limited number of routes that can operate multiple daily departures of jet aircraft with space for 120 passengers or more. There are also over 1,000 traffic flows that would be operated more optimally with smaller aircraft.

The Scandinavian market has grown around 4% per year thus far in the 21st century, despite the occurrence of several external events, such as ash clouds and terrorism that had a negative impact on growth. Growth is greatest on leisure routes to Europe and intercontinental routes. The number of passengers passing through Scandinavian airports increased 5.4% in 2015/2016. The number of seats offered increased 4.7% in the same period.

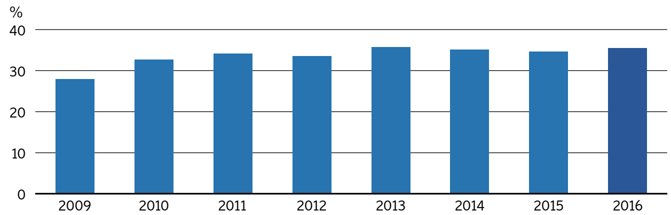
Just after the turn of the century, several low cost carriers

TRENDS THAT AFFECT AIRLINES

TREND	IMPACT ON THE AIRLINE INDUSTRY
Economic growth and increased prosperity	Increased prosperity means air traffic grows more than GDP and is impacted more negatively when economic growth is weaker.
Technical developments and digitalization	Technical developments lead to more efficiency enhancements among airlines as well as the opportunity to develop new products.
Increased leisure travel	Since 2010, leisure travel has grown around 8% while business travel has increased 1–2% in Scandinavia.
Increased product diversification	Increased demand for cheaper air travel and more comfortable flights leads to continued development of market offerings, in the air and online.
Increased environmental and social responsibility	Customers increasingly demand that airlines take responsibility for the environment and act like a good citizen.
Increased global uncertainty	External events that create uncertainty primarily affect the airline industry locally, but larger incidents also have a global impact.

(LCCs) began to expand, which led to an increase in LCCs' share of capacity in Scandinavia. As the traditional network airlines have increased their operational efficiency, LCCs' share of capacity has stabilized. Following a reduction of LCCs' share of capacity in 2014/2015, their share once again increased in early 2015/2016 after the traditional network airlines increased capacity in Scandinavia by just over 3%.

LCCS' SHARE OF CAPACITY IN THE SCANDINAVIAN MARKET[1]



[1)] Refers to the airlines Air Arabia Maroc, Air Berlin, Air Cairo, Blue Air, easyJet, Niki, Norwegian, Pegasus, Ryanair, Wizz Air, WOW Air and Vueling's share of the seats in Scandinavia.

Source: Innovata schedule data

INDUSTRIAL CONDITIONS

The airline industry in Europe has been gradually liberalized since 1990. However, major sections of the value chain are regulated in great detail, for example with regard to safety and air traffic rights. Many rules are set at national levels, which means airlines have to abide by different conditions at times. SAS works to create equal terms in Europe for all airlines.

Airlines are the final link in the value chain and are pressured by suppliers with strong negotiating positions in parallel with fierce competition for every customer. Therefore, airlines have historically found it difficult to create financial value for their shareholders, although several LCCs are now showing that it is possible. The industry's profitability has increased over the past few years following extensive streamlining among network airlines and lower jet-fuel prices.

As a result of this relatively strong growth, the expansion of civil aviation infrastructure has not kept pace with traffic growth. This means occasional capacity shortages in Europe's infrastructure. These shortcomings make it increasingly difficult to obtain the arrival and departure times, known as slots, necessary to expand traffic. This applies particularly to new operators, while existing airlines have their slots guaranteed as long as they are used. Such slots can be of significant value.

TRENDS AND FACTORS THAT AFFECT GROWTH

Increased prosperity, technical development and economic growth are all examples of factors that affect airlines' growth. These factors, along with increased segmentation and attractive pricing, have contributed to air traffic increasing more than economic growth, both globally and in Europe.

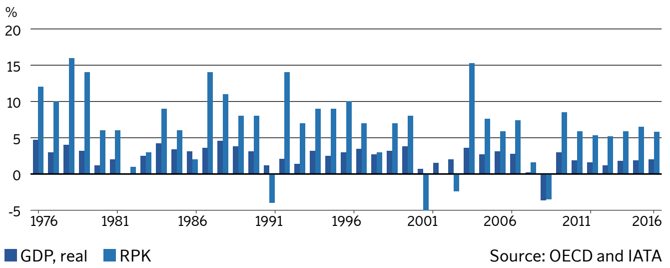
A clear trend during the 2000s was the growth of LCCs with product offerings primarily adapted for leisure travel. Combined with increased prosperity, this trend has contributed to stronger growth in leisure travel than business travel. At the same time, airlines have increasingly differentiated their offerings to different customer segments. The product offering within both the low-price and premium product segments has been developed, particularly on intercontinental routes. The trend is for more extensive diversification of products and services across the entire price spectrum, as well as ever greater emphasis on loyalty programs.

SAS INITIATIVES

- Increase capacity to meet demand and focus on greater flexibility in the production platform.
- Renew the aircraft fleet and invest SEK 0.5 billion in digitalization and Wi-Fi on board to provide better customer service.
- Efficiency enhancement of the operational platform and increased production on leisure routes.
- Upgraded cabins, improved Business Class on long-haul flights and the introduction of SAS Go Light in Europe.
- Structured sustainability initiatives. Investments in quieter, more fuel-efficient aircraft and renewable jet fuel.
- Capacity adjustments to traffic flows when demand changes and maximized cost flexibility.

External events that cause concern affect demand for local air travel, but major incidents can also affect global demand. For example, the attacks in Paris in November 2015 affected general demand for air travel for a limited period. Other terror attacks and political instability in Europe in 2016 affected demand for leisure travel in the local markets and instead contributed to an increase in demand in other markets.

CORRELATION BETWEEN GLOBAL GDP AND TRAFFIC GROWTH, 1976-2016



Source: OECD and IATA

SAS'S MARKET POSITION AND FOCUS

SAS focuses on the Scandinavian market and traffic to, from and within Scandinavia. This is where we are the leading airline when measured by passengers and share of capacity. We offer the most departures from the primary airports in Scandinavia and the widest network. This network is supplemented by the offering from Star Alliance and partners. Our intercontinental network is focused on destinations in the northern hemisphere, where our geographical position offers the greatest competitive advantage. Our principal focus is on customers that begin or end their journeys in Scandinavia. Of our passengers who travel on our intercontinental routes, around 80% begin or end their journeys in Scandinavia.

SAS's focus on Scandinavia is also reflected by the fact that some 70% of our passenger revenue comes from Scandinavia. Norway and Sweden account for the greatest share of SAS's revenue.

Traffic trend in 2015/2016

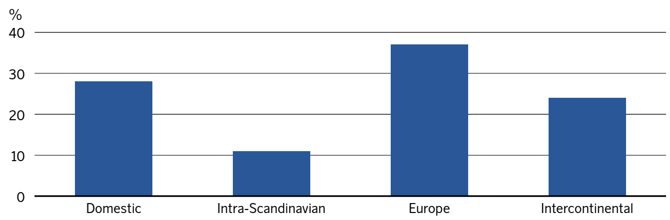
Traffic on SAS's scheduled routes increased 9.6% in 2015/2016. The increase was greatest on our intercontinental routes where we increased capacity by 27.6% as a result of new direct routes to Boston, Los Angeles and Miami as well as higher frequencies on several of our existing routes.

Traffic increased 1.6% in Europe and intra-Scandinavia. Growth was strong on our leisure routes to southern Europe, with an 8% increase in capacity that led to an equivalent increase in traffic.

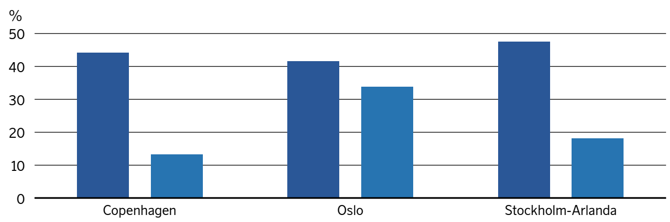
Within Scandinavia we launched our new direct routes between Aarhus and Stockholm and Gothenburg and Umeå, and we increased wet-lease production for smaller traffic flows.

Domestic traffic trended stably and increased 2.6%, and as the sizes of the aircraft were adapted more efficiently to the varying traffic flows, the load factor increased 1.4 percentage points.

GEOGRAPHIC DISTRIBUTION OF SAS PASSENGER REVENUES



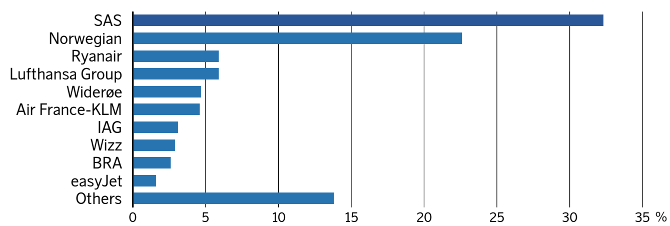
SAS'S SHARE OF DEPARTURES FROM PRIMARY SCANDINAVIAN AIRPORTS



Source: Innovata schedule data

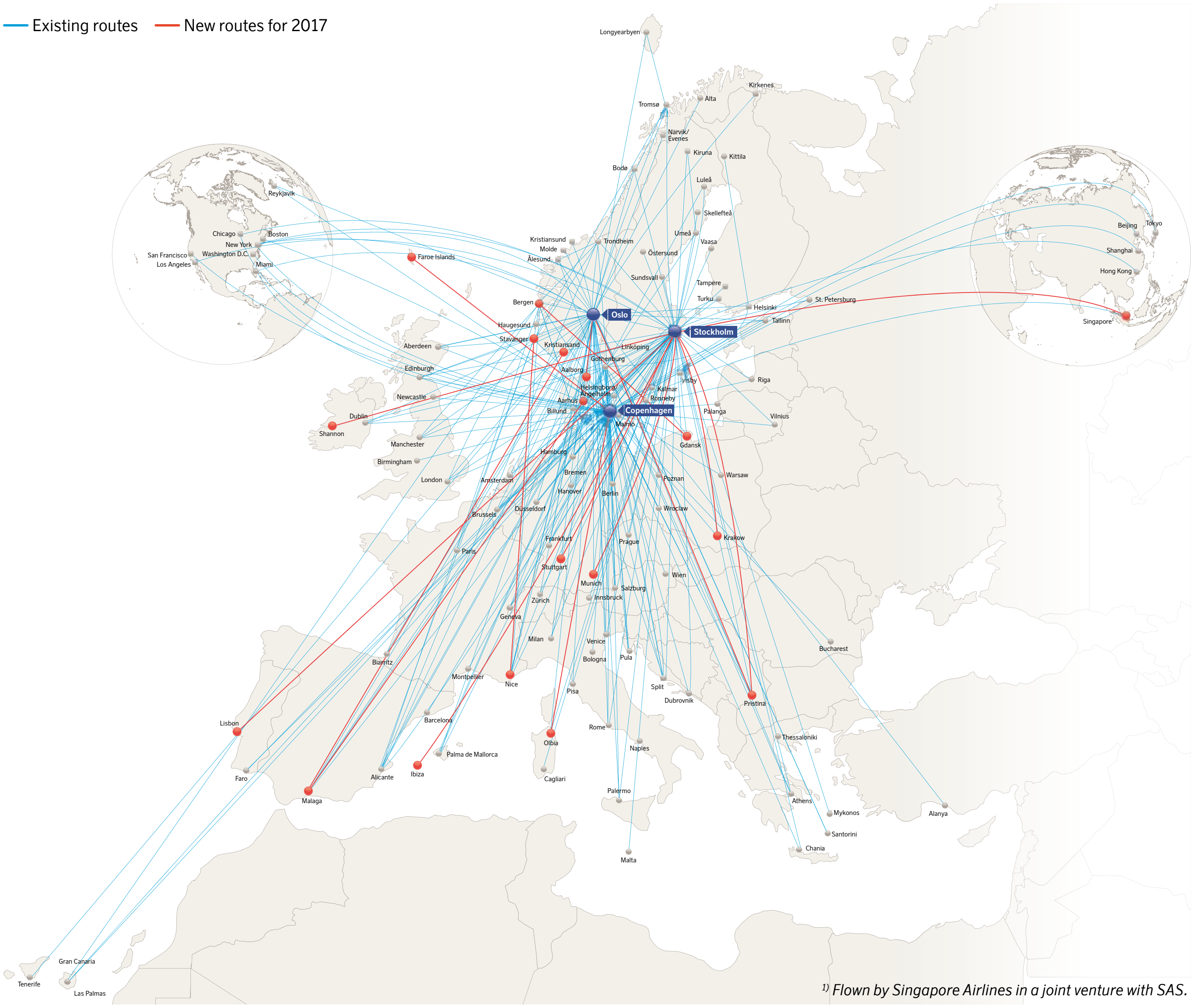
SAS's share Largest competitor

SHARE OF CAPACITY IN SCANDINAVIA 2015/2016



Source: Innovata schedule data

SAS DESTINATIONS AND AIRCRAFT FLEET



[1] *Flown by Singapore Airlines in a joint venture with SAS.*

AIRCRAFT FLEET IN SERVICE, 31 OCTOBER 2016

	Airbus A330/A340	Airbus A319/320/321	Airbus A320neo	Boeing 737-600/700/800	CRJ 900	ATR72
Number of aircraft, total	8/8	4/13/8	1	23/30/29	19	13
Number of seats, max	266/247	141/168/198	174	123/141/181	90	70
Max. takeoff weight, tonnes	242/275	75.5/75.5/89	77	59.9/69.4/79	38.3	23.0
Max. load weight, tonnes	44.5/44.1	16.7/18/23	18	13.2/15.2/19.6	9.6	7.4
Length, meters	63.7	33.8/37.6/44.5	37.6	31.2/33.6/39.5	36.2	27.2
Wingspan, meters	60.3	34.1	35.8	34.3/35.8/35.8	23.4	27.1
Cruising speed, km/h	875	840	840	840	840	490
Range, km	10,400/12,800	3,100/3,900/3,800	4,600	2,400/4,400/4,200	2,100	930
Fuel consumption, l/seat km	0.032/0.039	0.033/0.029/0.029	0.025	0.038/0.032/0.028	0.039	0.027
Engine	RR Trent 772B/ CFM56-5C4	IAE V2524- A5/ IAE V2527-A5/ IAE V2530-A5	CFM Leap 1A	CFM56-7B	GE CF34-8C5A1	PW 127M

THE FIRST CHOICE FOR FREQUENT TRAVELERS

One of SAS's strategic priorities is to be the first choice for frequent travelers. We define frequent travelers as individuals who take five or more return flights per year. These travelers represent around 65–70% of the value of all flights within Scandinavia. Those who fly most often are also the most demanding in terms of the travel experience. By way of digitalization and by focusing on these customers, we can develop our product and our network – which in turn benefits all of our customers.

0.5 MILL.
NEW EUROBONUS MEMBERS IN 2015/2016

>60
SEASONAL ROUTES

1 MILL.
MORE PASSENGERS IN 2015/2016

6%
MORE PASSENGERS IN SAS PLUS IN 2015/2016

THOSE OF US WHO TRAVEL FREQUENTLY:

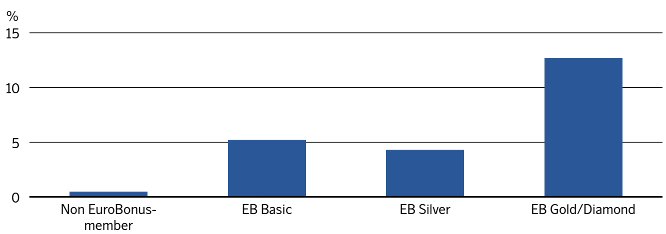
- See ourselves as experienced travelers – traveling is a genuine interest and a part of our lifestyle.
- Like to be on the move – it gives us energy.
- Like to fly, as this means time to ourselves – to relax and reflect on things.
- Are early adopters – test new things before others and keep up-to-date with the latest developments.
- Use the internet and social media to find new travel ideas and inspiration.

THE FIRST CHOICE FOR FREQUENT TRAVELERS

STRONG OFFERING TO SCANDINAVIA'S FREQUENT TRAVELERS

We are strengthening SAS's product and offering by making more seasonal adjustments thanks to our expanded wet-lease production and long-haul offering, a new cabin interior and enhancement of EuroBonus. This has delivered results, with our most frequent travelers traveling more frequently in 2015/2016 than other customers, thereby reinforcing loyalty to SAS.

PASSENGER TRENDS IN 2015/2016 COMPARED WITH THE PREVIOUS YEAR, %



LOYALTY

SAS's EuroBonus program is at the core of creating a closer customer relationship, while simultaneously setting us apart from competitors. We are therefore developing and renewing EuroBonus to make the program even more attractive and relevant. We have been enhancing EuroBonus since 2014, enabling more members to take advantage of the many program benefits, while simultaneously expanding the number of business partners.

Improvements made to the EuroBonus program have been received positively and in 2015/2016, 0.5 million members joined the program, meaning we now have 4.7 million members.

EuroBonus will celebrate 25 years in 2017. We plan to highlight this by making more improvements to the program, which have been made possible by our new digital platform that is under development. This new digital platform enables us to provide a more individualized service to our customers. Thanks to this new platform, we are able to launch a range of improvements that will make it easier to earn and use points as well as make it more rewarding to be a part of EuroBonus. Our loyal members are very important to SAS and we want this to be noted. We will therefore continue to enhance the offering to our members by way of a wider network and greater access to EuroBonus flights, as well as improved offerings through partnerships with credit card companies and other partners.

MOST COMPLETE PRODUCT FOR CORPORATE CUSTOMERS

About 60% of EuroBonus members fly on business, with corporate-agreement customers representing more than one-third of passenger revenue. This makes corporate customers a highly important customer segment among frequent travelers. Out of all the airlines in Scandinavia, SAS offers the most customer-oriented network with the greatest number of options. We have strategic partnerships with our largest corporate customers through which we offer customized solutions. The 20 largest corporate customers increased their share of travel with SAS in 2015/2016, despite challenges in certain industries and sectors.

We offer SMEs the SAS Credits loyalty program, through which companies can cut their travel costs by earning Credits on all travel. In addition to flights, Credits can also be earned through some of our partners on items other than air travel. More and more companies are noticing the advantages of booking their travel with SAS and in 2015/2016, the number of SAS Credits customers increased by over 11,000, which contributed to higher revenue.

DYNAMIC AND CUSTOMER-ORIENTED NETWORK

SAS offers the most complete network with frequent departures and smooth journeys to, from and within Scandinavia. Thanks to the flexibility our aircraft fleet affords us, we are also able to offer more departures while maintaining fuel-efficiency. SAS accounts for 45% of all departures from our primary Scandinavian airports, while the largest competitor accounts for 22%.

As demand from our customers fluctuates considerably depending on the season, we have made more seasonal adjustments to our route network, for example notably increasing our leisure production during the summer. We have also supplemented our own production with wet-lease production. This means that SAS can offer a more customer-oriented, environmentally efficient and attractive network.

NEW PRODUCTS FOR OUR CUSTOMERS

MORE OPTIONS WITH SAS GO LIGHT AND SAS PLUS SAVER

Over the spring and summer of 2016, we increased the range of options for our customers first by launching SAS Go Light, which is a pared-down option adapted to European market trends. SAS Go Light not only provides customers with an expanded range of options, but also strengthens our competitiveness in terms of price comparisons on various search engines. SAS Go Light has been positively received and, from May through to the end of the fiscal year, nearly 1.3 million passengers traveled using this concept.

In June, we introduced SAS Plus Saver on selected routes between Scandinavia and Europe. This includes the same benefits as SAS Plus, with the exception of free cancellation and rebooking. This gives our customers more options to choose the offering

Hong Kong

11,000
more SAS Credits customers than the previous year

BOS, HKG, LAX & MIA
Newly opened intercontinental destinations in 2015–2016

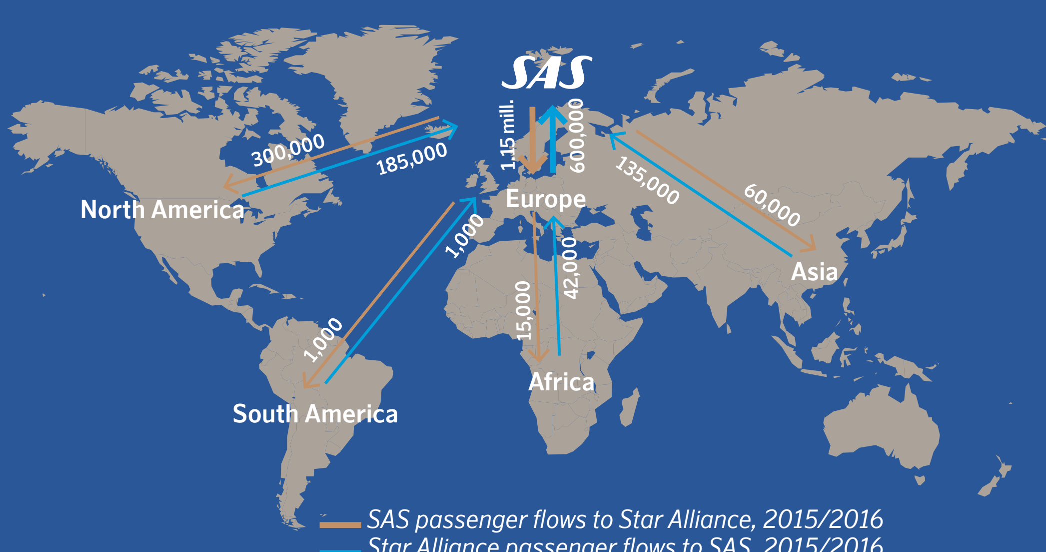
12%
increase revenue in Business Class

0.5 MILL.
more EuroBonus members in 2015/2016

22%
more travelers on our long-haul routes to Asia and the US

STAR ALLIANCE ENHANCES SAS'S GLOBAL NETWORK

Membership in Star Alliance offers our travelers many advantages, for example access to lounges, Fast Track and the opportunity to earn and use points with member companies. In cases where our passengers are impacted by flight irregularities, passengers can reach their destinations by rebooking to the next available Star Alliance flight.



FACTS STAR ALLIANCE

- 27 member companies
- 1,300 destinations
- Service in 190 countries
- Over 1,000 lounges
- Around 18,450 departures each day
- 4,631 aircraft

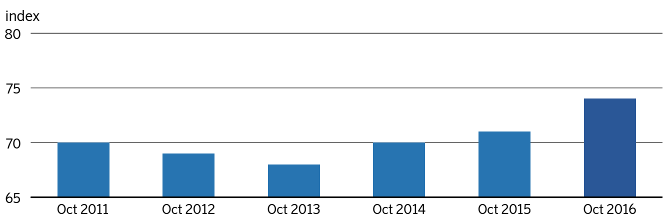
that best matches their needs, and it contributed to travel under SAS Plus increasing by over 20% in the July–October 2016 period compared with the year-earlier period.

EXPANDED LONG-HAUL OFFERING

In 2015 and 2016, through efficient use of capital, we expanded our offering to Asia and the US by increasing the aircraft fleet from 12 to 16 aircraft. We opened new routes to Boston, Hong Kong, Los Angeles and Miami and expanded the frequencies on several of our existing routes. At the same time we upgraded all of our long-haul aircraft with new, modern and more comfortable cabins, Wi-Fi and a new food and drink concept.

This investment has been received very positively and more customers than ever traveled on our intercontinental routes in 2015/2016, while customer satisfaction also rose considerably.

CUSTOMER SATISFACTION ON SAS'S INTERCONTINENTAL ROUTES



In October 2016, we began upgrading the cabins on the short and medium-haul fleet in connection with the delivery of the first totally new A320neo. This aircraft type also reduces CO_2 emissions per passenger kilometer by about 15–20% and cuts noise around airports by half. In 2017, we will begin upgrading the cabin interiors of our Boeing 737s and Airbus A320s, which will include the installation of high-speed Wi-Fi.

SMOOTH TRAVEL EXPERIENCE ON THE GROUND

Customers also value a smooth travel experience on the ground. For this reason, SAS has opened more lounges and Fast Tracks as well as automated check-in services. We now offer SAS Lounges, Fast Track and self-service options for baggage on 75% of the 50 largest passenger routes. SAS is the only airline in Scandinavia to offer this at so many airports.

SAS's lounges are a place where our customers can relax, work and network while traveling. We have SAS lounges at twelve airports in total. Travelers at other airports can visit the lounges of our Star Alliance partners.

NEW DIGITAL PLATFORM

Questions for Mattias Forsberg, Executive Vice President and CIO

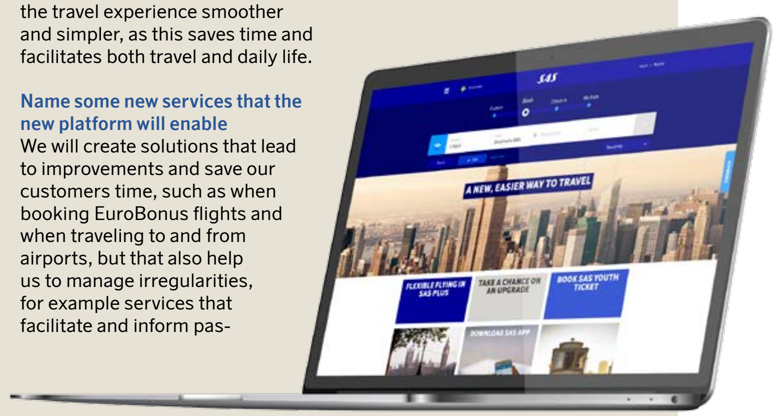
One advantage is that it is responsive and optimized for computers, tablets and mobile phones.

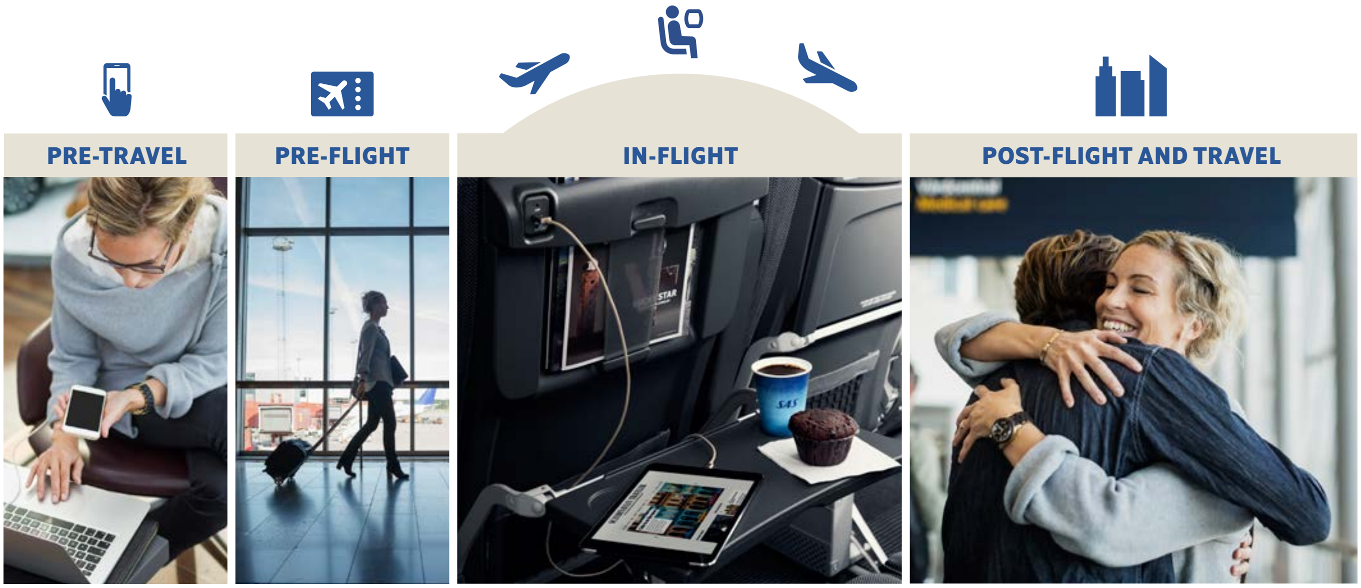
SAS is investing in digital transformation. How will this be evident to customers?
We are investing in the modernization of our entire IT platform to become more efficient and to be able to quickly offer our customers services that facilitate their travel and daily life. The focus is on renewing our digital customer interfaces, such as the new website, and our EuroBonus and check-in services that will be replaced by a new digital platform. This will allow for more individualization, improved on-board customer service, increased internal efficiency and it will enable us to create more relevant and independent offerings.

What are the advantages of the website?
The greatest advantages are that it will be much quicker and simpler to connect to new services and products linked to booking tickets that are in demand among our customers. Another advantage is that it is responsive and optimized for computers, tablets and mobile phones.

When developing new services, what are your priority areas for which the new platform could be used?
We are focusing on developing services that are in demand among frequent travelers and that make the travel experience smoother and simpler, as this saves time and facilitates both travel and daily life.

Name some new services that the new platform will enable
We will create solutions that lead to improvements and save our customers time, such as when booking EuroBonus flights and when traveling to and from airports, but that also help us to manage irregularities, for example services that facilitate and inform passengers when baggage is delayed or simplify the rebooking process when there are traffic delays. Managing irregularities requires major resources but is similarly an area that we consider a high priority, because we know that it is valued highly by our customers and sets SAS apart from competitors.





DIGITALIZATION OF THE TRAVEL CHAIN

SAS is investing some SEK 0.5 billion over four years in a new digital platform to improve, simplify and streamline the overall travel experience of our customers. Every point of contact, right from the point of booking, how customers travel to the airport, the actual travel experience, what customers do at their destination and up until the journey is complete can be digitalized. The new platform also enables us to offer more supplementary services that are in demand. The digital transition should also future-proof SAS's IT system by simplifying and discontinuing systems that are complicated and costly.

PRE-TRAVEL

During the winter of 2016/2017, SAS launched a new website based on the new digital platform. The new site is based on our customers' wishes and has a totally new design, a simplified booking flow and more options to book supplementary services. One of the supplementary services we are considering launching is the option for customers to choose to convert the fuel consumption of their flight from fossil to renewable.

SAS's app is ranked top among all airlines in Europe and highly on a worldwide perspective. The app is also used increasingly by our customers to book tickets, with sales via the app increasing about 40% in 2015/2016. The new digital platform gives us the opportunity to take the next step in developing SAS's app.

PRE-FLIGHT

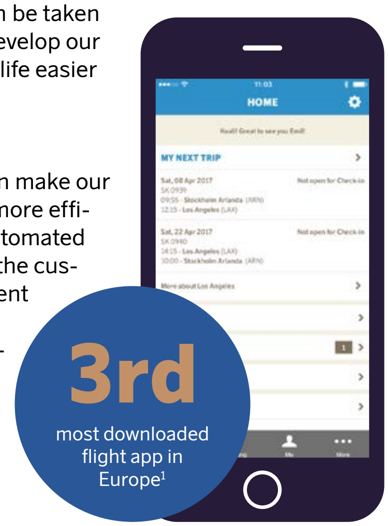
Customers appreciate being able to manage their own check-in before a flight. SAS was the first airline in the world to receive platinum status during IATA's Fast Travel initiative by offering self-service options for 90% of passengers for the most important processes at airports as early as 2013. Over 80% of SAS passengers with baggage in Scandinavia used one of SAS's automated check-in services in 2015/2016. At our development unit, SAS Labs, we are developing an electronic baggage tag that customers can re-use and activate electronically when checking in. This means we can further simplify the check-in process and save our customers time.

IN-FLIGHT

Digitalization means many new possibilities for improving service on board. In the autumn, all cabin crew were equipped with iPad Minis to thereby give our passengers even better and individualized service while also providing an efficient tool. We have also decided to install the market's fastest Wi-Fi as of the second half of 2017 on our short and medium-haul fleet. With speeds of 12MB/second and higher per passenger, time on board can be used more effectively for work or to enjoy streamed TV shows, music or films. By connecting both passengers and staff on board, personal service can be taken to new levels and we can develop our digital solutions that make life easier for our customers.

POST-FLIGHT

Digitalization means we can make our ground handling services more efficient and introduce new automated services that also improve the customer experience in the event of irregularities. It should offer better baggage-tracking options and improved information to customers in connection with delayed baggage, among other benefits.



[1] *App Annie – 8/9 2016*

CREATE AN EFFICIENT OPERATING PLATFORM

The world is changing and competition within the airline industry is increasing, which is placing greater demands on SAS's operations and competitiveness. For this reason, we are enhancing the efficiency and flexibility of our operational platform to provide the conditions for long-term profitability at SAS and to enable SAS to invest in the customer offering and growth. Since 2012, SAS has implemented cost measures with an earnings impact of some SEK 4.3 billion that have considerably enhanced our operational efficiency. Between 2017 and 2019, further efficiency enhancements of SEK 1.5 billion will be implemented and, in parallel, we are planning new structural measures that will gradually reduce the cost differential to newly established competitors.

MSEK
670
IN EARNINGS IMPACT FROM THE COST PROGRAM IN 2015/2016

MSEK
1,500
IN COST MEASURES TO BE IMPLEMENTED FROM 2017 TO 2019

MSEK
500
IN IMPROVED PROFITABILITY FROM WET-LEASE OPERATIONS

15–20%
LOWER FUEL CONSUMPTION PER SEAT KM WITH NEW AIRBUS A320NEOS
Compared with the A320CEO

WE ARE DOING THIS TO IMPROVE THE FLEXIBILITY AND EFFICIENCY OF OUR PRODUCTION PLATFORM

- Standardization and simplification of SAS's production by streamlining the aircraft fleet.
- Increased aircraft utilization and more efficient planning for flight crews.
- Build-up of wet-lease production on regional routes and departures with lower demand.
- Outsourcing of ground handling services outside our three primary airports.
- Digitalization of the travel chain and increased automation.

CREATE AN EFFICIENT OPERATING PLATFORM

WE ARE BUILDING A MORE FLEXIBLE SAS

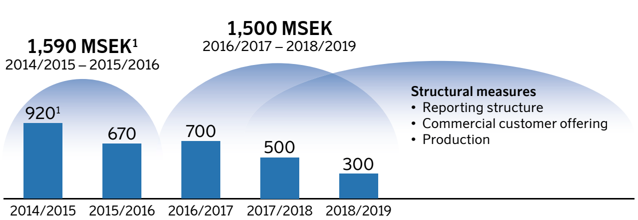
EFFICIENCY ENHANCEMENT OF WORK PROCESSES

SAS has been gradually implementing Lean principles into its work processes since 2010 to improve efficiency and quality in the long term. For example, we have introduced Lean principles to technical maintenance in Oslo, while in 2015/2016 we introduced Lean processes in Copenhagen and are now preparing their introduction in Stockholm. We are also increasingly implementing the Lean work process in administrative functions and other parts of SAS.

SAS EFFICIENCY-ENHANCEMENT MEASURES

SAS works continuously on efficiency enhancements and, from 2013–2016, these entailed savings of about SEK 4.3 billion. The earnings impact in 2015/2016 was SEK 0.7 billion. As part of this need for efficiency, SAS has identified additional opportunities. Therefore, we are now raising our target from SEK 0.8 billion to SEK 1.5 billion in 2017–2019. The actions are measured in gross amounts and encompass the entire organization.

IMPACT ON EARNINGS FROM SAS'S EFFICIENCY-ENHANCEMENT MEASURES, MSEK



Flight operations, government user fees and wet leasing - Within flight operations, we are working on enhancing procedural efficiency and increasing productivity by scheduling flight crew among other measures.

The introduction of iPads for cabin crew means that we can enhance the efficiency of base procedures, give cabin crew better tools and improve the on-board customer experience.

We are investing in the aircraft fleet which, in addition to an improved customer experience, will enhance operational efficiency and reduce climate impact. Since autumn 2015, four Airbus A330Es have entered service and, in October 2016, we took delivery of the first Airbus A320neo of a total of 30 aircraft. SAS's new Airbus A320neo is about 15–20% more fuel-efficient per seat kilometer than our current Airbus A320s. Moreover, we are introducing more fuel-efficient procedures and are renegotiating aviation-related fees. Synergies have been achieved through the sale of Cimber to CityJet that further lower our wet-lease production cost. In total, we have identified efficiency enhancements corresponding to around MSEK 600 in 2017–2019.

Ground handling services - We have decided to retain our own ground handling services at our primary airports and are continuing to strengthen quality and productivity through digitalization of large parts of the operations.

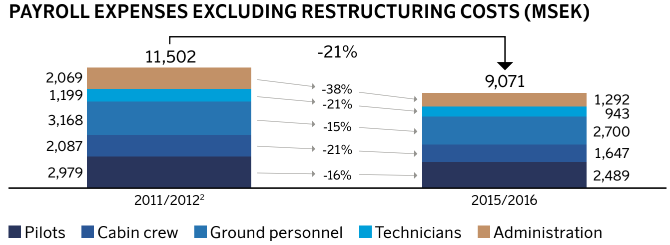
Moreover, we will increase automation and, through new collective agreements, increase flexibility and better adjust staffing to resource needs. Altogether, we are implementing efficiency enhancements of about MSEK 100 in 2017–2019.

Technical maintenance - Within technical maintenance, a new IT system was implemented for technical operations in May 2016, and means that we can substantially simplify and streamline our planning work. Through closer partnerships with our suppliers in 2016–2018, we will simplify and optimize our use of resources, which we expect to result in significant cost savings. In 2015–2016, we implemented Lean as a work process in Oslo and Copenhagen which has resulted in the time an aircraft is out of service due to unplanned maintenance decreasing significantly. The same processes are also being implemented in Stockholm in 2016–2017 and corresponding efficiency enhancements are expected. Altogether, we expect to realize efficiency enhancements of about MSEK 300 in 2017–2019.

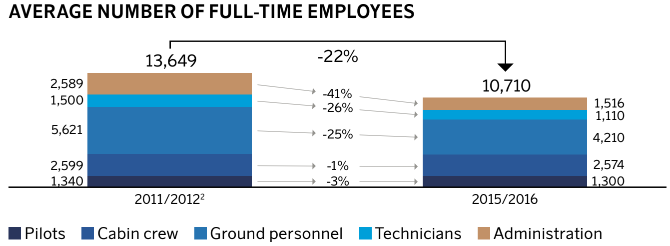
Commercial, administrative and other - Digitalization has enabled further efficiency enhancements and, since 2015, we have reduced the global sales organization by almost 100 FTEs.

In 2017, SAS will have implemented a new digital platform that allows the launch of new services and, at the same time, we will start installing the market's fastest Wi-Fi on the short and medium-haul fleet. We will also continue efforts to lower distribution costs. For example, we are increasing the efficiency of the invoicing process and reducing the number of suppliers. We are also continuing to renegotiate property agreements and to simplify our IT structure. Altogether, we are implementing efficiency enhancements of about MSEK 500 in 2017–2019.

PAYROLL EXPENSES EXCLUDING RESTRUCTURING COSTS (MSEK)



AVERAGE NUMBER OF FULL-TIME EMPLOYEES



[1] Includes SEK 0.3 billion from the 4Excellence NG action plan.
[2] Pertains to the 12-month period, November 2011 to October 2012.

STRUCTURAL CHANGES

The airline industry continues to change rapidly and, in parallel, the Scandinavian air travel market and demand for more long-haul routes and leisure routes to/from Europe is on the rise. With our extensive network, frequent departures and substantial customer base, SAS holds a strong market position in Scandinavia. SAS has a major opportunity to leverage market growth and to start additional long-haul routes as well as accelerate growth in the European leisure route market.

However, a lower cost structure and increased competitiveness are required if SAS is to leverage these exciting growth opportunities. At the same time, our 70-year history has contributed to our strong position, it also means that structures have been built that are no longer competitive. To leverage the market opportunities, we have to address the structural disadvantages that result in SAS having a higher unit cost than newly established competitors.

One of the measures we have implemented is the construction of a production model based on us operating a homogenous aircraft fleet and using strategic partners to manage production with smaller aircraft on those routes and departures with lower demand. This has enabled increased flexibility and streamlined and simplified production. We now have only two aircraft types for traffic in Europe. At the same time, through expanded wet-lease production, we can offer higher frequencies and more destinations.

However, we need to do even more. We are therefore planning further structural actions. The first step is to establish a new organizational structure to create increased ownership, and smaller and faster units. We will thereby increase transparency, which will facilitate the implementation of further efficiency enhancements, over and above the reduction of 1,000 FTEs in our administration by, among other measures, outsourcing outside of Scandinavia. Secondly, we have initiated a review of our customer offering. Over the past few years, we have implemented substantial and appreciated customer investments, but we have to ensure that we are offering that which is appreciated most in the continuously changing landscape of customer expectations. Therefore, we have to adapt the product to the prevailing willingness to pay, lower distribution costs, streamline the organization and reprioritize resources.

Finally, efficiency must be raised for ground handling services, technical maintenance and flight operations. After having outsourced considerable parts of our ground handling services and technical maintenance, we will continue digitalization initiatives to optimize resource utilization and planning. Moreover, we need to be more flexible and increase the productivity of flight operations. To leverage the market potential, we have to create the preconditions to compete on equal terms with our competitors. Therefore, we are considering shifting the focus in parts of our production by establishing airline operations based outside of Scandinavia.

WET LEASING INCREASES SAS'S EFFICIENCY

Questions for Mikael Wångdahl, external production manager

Why is SAS not managing this operation internally?
By allowing companies whose main focus is on such operations to manage them, we can increase the efficiency of our business while also simplifying and increasing the focus on our own production, thus increasing our own efficiency. The wet-lease agreements are more flexible compared to how it would be if we managed this production by ourselves, and they also have lower costs. This gives us a flexibility that can be combined effectively with our own operations and can thus improve SAS's profitability by about SEK 0.5 billion per year.

What is your working relationship with the strategic wet-lease operators?
We have a close relationship and work in a goal-oriented and collaborative manner to ensure the positive customer experience that our passengers expect when they fly with SAS. Close collaboration is the prerequisite for ensuring a long-term, stable partnership.

How long do the agreements last?
The agreements are for 3–6 years. We aim to have regular intervals between the expiry dates of the agreements. This reduces our exposure to an individual supplier, while also giving us the opportunity to adjust capacity if we need to.

How does SAS's wet–lease operation compare to other airlines in Europe?
We are pioneers in Europe. No other airline has built up an equivalent wet–lease operation in Europe. That said, several airlines in the US have extensive wet–lease operations.

How do you ensure stable operations?
We require the suppliers to have equivalent quality and safety standard to SAS's own product. We ensure this through continuous follow-ups. We work closely together at different levels to quickly identify potential problems and to improve quality and deliveries.

No other airline has built up an equivalent wet–lease operation in Europe.

SECURE THE RIGHT CAPABILITIES

SAS's journey of change and increased digitalization raises new demands on SAS's compiled expertise. We therefore endeavor to ensure we have the right skills to develop SAS further to meet future demands and needs. A more efficient production platform has enabled us to expand investment in long-haul routes, which has led to our recruitment of a large number of cabin crew and pilots in 2015/2016.

70 YEARS
OF STRONG EMPLOYEE COMMITMENT

6
PERCENTAGE POINT INCREASE IN THE EMPLOYEE COMMITMENT INDEX[1]

3,000
PILOTS IN OUR CV DATABASE

8,000
APPLICATIONS FOR 590 NEW CABIN CREW POSITIONS

1) The most recent survey was carried out in February 2016

HOW WE CREATE THE RIGHT CONDITIONS FOR OUR EMPLOYEES

- We reinforce employee commitment through frequent surveys and targeted measures to increase employee satisfaction.
- We develop leadership by way of training courses, internal networks and mentor programs.
- We ensure a supply of talent through mentorship, training courses and a focus on internal mobility.
- We create an attractive workplace using improved tools, processes and strong leadership.

SECURE THE RIGHT CAPABILITIES

70 YEARS OF STRONG EMPLOYEE COMMITMENT

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

Over the last few years, SAS has undergone major structural changes to meet increasing competition, which sets new requirements for leadership and competence within SAS. To create the right preconditions for our employees and to attract new talents, we have identified four areas to focus on: strengthen employee commitment, develop leadership, secure talent supply and create an attractive workplace. We apply a targeted approach to all four areas to create a broad view of organizational development needs.

Our employees are the most important precondition when it comes to the future of SAS. Their strong commitment to our customers, to the Scandinavian idea and to developing SAS has been crucial to SAS's historical success and is just as important looking ahead to the future.

STRENGTHEN EMPLOYEE COMMITMENT

SAS conducts regular surveys of employee satisfaction and commitment in the organization. The last survey was carried out in 2016 and shows a positive trend among employees throughout the organization, with employee commitment increasing from 58 to 64. In addition to the employee survey, we introduced a new measurement tool during the year whereby SAS personnel can answer local questions on motivation and working environment via an app. This allows for even more frequent follow-up that will help us to more rapidly initiate measures to increase staff satisfaction and strengthen leadership locally.

Each year we highlight employees and teams through SAS Awards, in accordance with our leadership and employee model whereby we award "SAS Person," "SAS Leader," "SAS Team Achievement" and "SAS Lean Achievement of the Year" and "SAS Safety".

253,000
training hours for pilots and cabin crew during the year

65
leadership index[1]

1) New definition of leadership index.

DEVELOP LEADERSHIP

SAS is strengthening leadership through a number of measures and initiatives: leadership training has been modified, pursers have been trained in leadership and a mentor program has been introduced to strengthen networking and contribute to a culture whereby managers have a structured approach to their involvement in the development of employees. The program is rated highly and SAS Group Management are also involved as mentors.

Another initiative is the Forum 50 network, where key individuals from various parts of operations meet to increase business understanding and to create an open dialog between employees and Group Management in a more relaxed format. We have also worked strategically with a number of managers at SAS with the aim of strengthening communicative leadership, commitment and understanding of SAS's strategy. In 2015, we began work on integrating Lean principles into our operational processes, with 64 managers completing a Lean training course during the year. We are planning a mentor program for first officers as a new element in their training ahead of becoming captains, the aim being to secure the right skills on the flight deck and develop leadership.

SECURE TALENT SUPPLY

Parts of the organization's competence have been mapped in a people review process to manage talent supply and ensure that the company has the right skills in both the short and long term. The annual process has identified talents and resulted in many employees now having new positions or increased responsibility, and SAS as a company having a clearer image of our compiled skills and future needs. In parallel, all senior managers have worked actively to identify one or two internal successors with the aim of securing an efficient succession and promoting internal mobility.

A mentor program has been initiated among pilots for the newly recruited pilots that aims to ensure competence levels and smooth integration into SAS.

We have developed project management concepts and training courses during the year, the aim being to ensure that we work in a uniform way and strengthen our internal project management skills, which are an increasingly important aspect of many areas of working life.

SAS's pilots and cabin crew employees receive regular training sessions: on average, pilots receive two weeks of training per year and cabin crew three days. In total, our pilots and cabin crew underwent 253,000 hours of training in 2015/2016. Every SAS employee also has access to a number of web-based courses, some of which are mandatory.

The restructure of the pilot corps that started in 2014 has, together with our investment in long-haul routes, led to the employment of 110 pilots in 2016 from an interest base of more than 3,000 pilots. This has resulted in a lower average age for employees and a reduction in the average cost. Moreover we recruited about 80 new pilots at Cimber.

Over the year, we have employed 590 cabin crew from 8,000 applicants. The primary reason for the increased need was the investment in long-haul routes.

CREATE AN ATTRACTIVE WORKPLACE

Our latest personnel survey shows increased pride in SAS and that the company has become more attractive as a workplace. For example, one survey conducted in spring 2016 by Universum, which measures Norwegian university students' views regarding workplaces, showed that SAS was the ninth most attractive workplace out of all companies. Our investments in aircraft and cabin upgrades have also resulted in better working conditions for the crew, as have the improvements made to tools and processes.

SAS has also focused on reducing sick leave, which has resulted in the metric now being 6.2% (7.0) and long-term sick leave is now 4.2% (5.4). The reduction has been achieved by identifying problem areas, where we have initiated measures and provided effective rehabilitation.

The extensive investment in digitalization enables us to create an even more attractive workplace: in 2016 all cabin crew were equipped with their own iPad Mini. This tool will facilitate the everyday working lives of our cabin crew, while also contributing to a more individualized service for our customers.

110 new pilots

590 new cabin crew

EMPLOYEES IN FIGURES

	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Average number of employees	10,710	11,288
of whom women, %	39	38
of whom men, %	61	62
Sick leave, %	6.2	7.0
Employee commitment according to index	64	58

SAS's new uniforms introduced in 2016

THE RIGHT CAPABILITIES CREATE SUCCESS

Questions to Carina Malmgren Heander, Executive Vice President and Chief of Staff

What does SAS do to attract and retain the right skills?
We have an extremely strong brand, we work in an attractive sector and have exciting future developments to talk about, which often makes us highly appealing. Retaining skills is very much about developing our employees, offering mentorship and training and encouraging internal mobility.

Which skills does SAS need to strengthen over the coming years?
We have a structured annual process known as People Review, where we identify the skills we need to strengthen. We have identified a significant need within purchasing and supplier and contract management, but also within business control and digital skills.

How do you adapt in a sector that demands change and is highly exposed to competition?
SAS has lived with price pressure and intensifying competition for a long time, so continuously renewing, changing and challenging the status quo is in our DNA. As a manager and employee at SAS, you need to be innovative, challenge current working methods and pinpoint new solutions.

What distinguishes the culture at SAS?
Our culture is distinguished by an incredibly strong commitment and loyalty to SAS and our customers. This can particularly be seen in the case of unforeseen incidents, the desire to step up is fantastic! Our DNA: Safety, Punctuality and Care permeate everything we do. Over the past few years we have worked very consciously on our employee and leadership models, and I see lots of signs that they are beginning to take root in the organization.

"We have a structured annual process known as the People Review, where we identify the skills we need to strengthen.

SAS AS AN INVESTMENT

The airline industry is capital and personnel-intensive and highly exposed to macro-economic impact, thereby making it extremely demanding. A high level of price transparency between the different airlines' offerings contributes to fierce competition. To create shareholder value, SAS thus needs to optimize its utilization of resources and establish a competitive cost level.

1 LEADING MARKET POSITION IN SCANDINAVIA

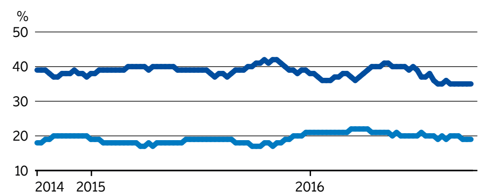
SAS has a strong market position in Scandinavia and offers smooth air connections to, from and within the region. Together with Star Alliance and partners, we are in a position to offer a broad network with frequent departures. This means that SAS is often the first choice for frequent travelers.

No other airline in Scandinavia has such a high level of preference as SAS has among frequent travelers.

2 STRONG BRAND

SAS is one of Scandinavia's strongest and best-known brands, having established relationships with its customers over 70 years. In the Norwegian Customer Satisfaction Index, the SAS brand had the sixth most positive overall impression out of all companies in Norway in 2016. In Sweden, SAS was ranked the strongest brand within the travel category. SAS was also awarded the title of best domestic and long-haul airline in 2016 in both Denmark and Sweden.

PREFERENCES AMONG FREQUENT TRAVELERS IN DENMARK, NORWAY AND SWEDEN

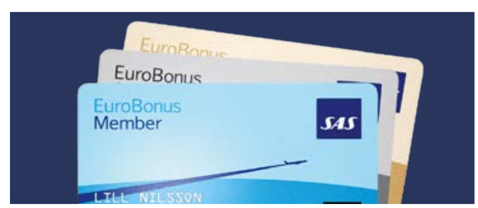


SAS – Scandinavian average
Norwegian – Scandinavian average

Source: Nepa

3 STRONG LOYALTY PROGRAM

SAS's EuroBonus program is one of Scandinavia's most established loyalty programs and is at the core of establishing a closer relationship with our customers. EuroBonus has 4.7 million members and over 100 partners which, thanks to our updated digital platform, represents a valuable customer database and sets us apart from the competition. SAS also offers a program to reinforce loyalty among corporate customers – SAS Credits. In total, corporate-agreement customers account for just more than a third of SAS's passenger revenue.



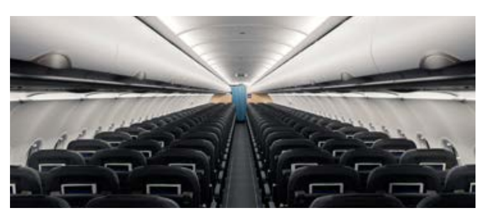
4 WELL-DEFINED STRATEGY

SAS's strategy is to focus on Scandinavia's frequent travelers and to primarily improve the offering to this target group. Based on this approach, we are working intensively on continuing to be the first choice for frequent travelers, creating a more efficient platform and securing the right skills.

THE FIRST CHOICE FOR FREQUENT TRAVELERS | CREATE AN EFFICIENT OPERATING PLATFORM | SECURE THE RIGHT CAPABILITIES

5 FOCUS ON CAPITAL EFFICIENCY

Airlines have become capital-intensive as a result of major investments in aircraft, and this requires efficient capital management. SAS focuses strongly on the capital structure and has implemented a number of transactions and structural changes intended to increase capital efficiency. We have optimized our use of capital by way of increased wet-lease operation, purchases of Airbus A340s on expiring leases and sale and leaseback on A330Es and A320neos. The capital structure surrounding each major investment is carefully assessed.



6 ACTIVE SUSTAINABILITY INITIATIVES

Flights fulfill an important function in Scandinavia's infrastructure. However, given the climate and environmental impacts connected to burning fossil fuels, our main priority in terms of sustainability initiatives is to reduce fossil fuel consumption in our airline operations. Our target is to reduce our CO_2 emissions per passenger kilometer flown by 20% by 2020 compared with 2010. We are also working to enhance our competitiveness and to encourage more customers to choose SAS by offering the opportunity to fly using biofuel.

THE SAS SHARE AND OTHER FINANCIAL INSTRUMENTS

The three strategic priorities for SAS aim to create long-term value for SAS shareholders. In addition to the issued common and preference shares, SAS has also issued other financial instruments such as convertible bond loans, unsecured bond loans and subordinated loans that have different levels of risk exposure and thus offer the chance to diversify an investment in SAS.

SAS has a stock exchange history extending back to 1920, when its Danish parent company Det Danske Luftfartselskab A/S was listed on the Copenhagen Stock Exchange. SAS AB's current common share was listed on Nasdaq Nordic in Stockholm (primary listing), with secondary listings in Copenhagen and Oslo in 2001. SAS AB's preference share was listed on Nasdaq Nordic in Stockholm in March 2014. Following conversion of SAS's convertible bond loan of MSEK 26 in January 2016, the number of common shares issued for SAS AB increased by just over 1 million, meaning SAS AB had 330,082,551 common shares and 7 million preference shares in issue at October 31, 2016.

At October 31, 2016, SAS had one convertible bond loan, issued in 2014, of SEK 1.6 billion The conversion price was SEK 24.0173 on October 31, 2016.

SHARE PERFORMANCE IN 2015/2016

Over the fiscal year, the share price for SAS's common share fell 7.3% to SEK 15.30 while its preference share climbed 10.4% to SEK 553. Over the same period, the Nasdaq Stockholm OMX30 index fell 3.5%. Following a positive share performance at the beginning of the fiscal year linked to lower jet-fuel costs for SAS, the share fell considerably during the spring and early summer of 2016 as the yield pressure on the market increased. The referendum in the UK that led to the decision to exit the EU also caused shares in SAS and the majority of other airlines to fall. Airline shares were also negatively impacted during the autumn by rising jet-fuel prices. The common share also fell when the Swedish and Norwegian governments sold 23 million common shares in October.

Compared with a weighted average of competitors' market capitalizations, the SAS common share saw an 18 percentage point improvement in 2015/2016.

SAS CONVERTIBLE AND BOND LOANS IN 2015/2016

The SAS convertible loan is traded on the Frankfurt stock exchange. The price (in percent of the nominal amount) rose during the fiscal year from 84.9% to 89.6%.

SAS bond loans maturing in 2017 are traded on Nasdaq Nordic in Stockholm. The effective yield at which the bond is traded rose during the fiscal year from 6.4% to 6.6%.

QUESTIONS FROM THE CAPITAL MARKET

Questions for Björn Tibell, Head of Investor Relations

What distinguishes SAS from other airlines?
SAS has a leading market position in Scandinavia, a strong brand, a clear strategy and a high preference rate among frequent travelers, who represent our main target group. Refer to page 28 for more detailed information.

Airlines have found it difficult to create value. Why?
Airlines have a high proportion of fixed costs, and a high proportion of sales recognized close to departures. This means that profitability falls quickly when demand is lower. However, some airlines have created value. SAS has the conditions to increase profitability and create value thanks to its strong market position, clear strategies and further efficiency-enhancement measures.

What are the key indications when following SAS's performance?
SAS publishes the traffic trend each month, which gives an indication of the revenue trend and supplements the traditional quarterly reports and Annual Report. The traffic reports shows how the traffic, yield and unit revenue are trending, thus enabling quick reactions to changes in demand. The cost trend is outlined in the quarterly reports and Annual Report.

You can subscribe to receive SAS's financial communication at www.sasgroup.net.

SAS has been affected by a large number of strikes. What steps are you taking to avoid them?
Over the past four years, SAS has been affected by four strikes involving our own employee groups that resulted in a number of cancelled flights. SAS and other airlines have also occasionally been affected by conflicts between suppliers, and air traffic control and security check services at airports. This occurred a number of times in Europe during 2016.

SAS works with the unions to establish a consensus regarding market trends and challenges faced by the company. However, SAS has limited capacity to influence external strikes.

Does SAS have a higher unit cost than LCCs?
Yes, SAS's unit cost is higher. This is partially due to the fact that we have a different product that is valued by our customers. Since 2012, we have enhanced the efficiency of operations by over SEK 4 billion and are working intensively to further reduce the unit cost while increasing cost-structure flexibility and our production platform. See pages 20-23 for more detailed information.

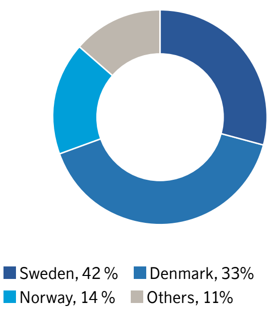
How is SAS affected by the Norwegian and Swedish governments reducing their holdings?
SAS's operations have not been affected by the reduced holdings. SAS does not receive any subsidies and the governments have no direct influence on operational management. The owners' influence is limited to voting rights at shareholders' meetings.

DISTRIBUTION OF SHAREHOLDERS AND CHANGES

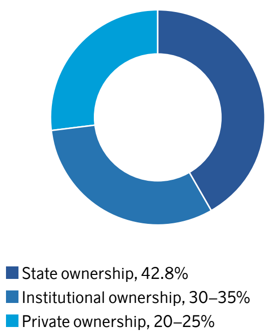
At October 31, 2016, SAS had 57,571 holders of common shares and 7,682 preference shareholders. The number of individual shareholders amounted to 64,394, which is a 9.8% increase compared with the year-earlier period. The Swedish and Norwegian governments reduced their holdings in SAS by 7 percentage points during the year.

Holdings in Scandinavia amounted to about 89%, with Sweden accounting for 42%, Denmark 33% and Norway 14% at October 31, 2016. Of the remaining holdings outside Scandinavia, totaling 11%, the number of holdings outside the EEA area was less than 4%, of which the majority were registered in the US.

VOTING RIGHTS IN SAS, BY COUNTRY, OCTOBER 31, 2016



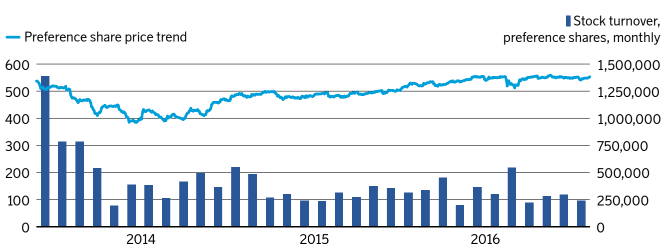
BREAKDOWN OF SAS'S SHARE CAPITAL, BY VOTES, OCTOBER 31, 2016

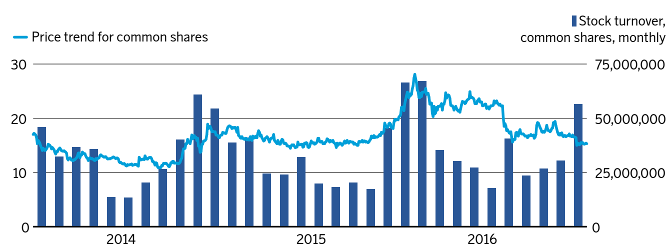


DISTRIBUTION OF SHARES, COMMON AND PREFERENCE SHARES

Oct 31, 2016	No. of common shares	Number of preference shares	Voting rights
The Swedish Government	56,700,000	-	17.1%
The Danish Government	47,000,000	-	14.2%
The Norwegian Government	37,800,000	-	11.4%
Knut and Alice Wallenberg's Foundation	24,855,960	-	7.5%
Försäkringsaktiebolaget Avanza Pension	4,445,020	458,852	1.5%
Unionen	4,150,359	-	1.3%
Vätterleden Aktiebolag	3,301,349	8,000	1.0%
Robur Försäkring	2,600,438	279,730	0.9%
Gerald Engström	2,650,000	-	0.8%
Norges Bank	2,386,489	160,884	0.8%
JP Morgan Bank Luxembourg	1,537,801	20,438	0.5%
Nordnet Pensionsförsäkring AB	1,256,546	184,400	0.4%
Den Danske Bank, Stockholm branch	1,413,838	-	0.4%
DBNY-Dfa-Sml-Cap	1,339,495	-	0.4%
UBS AG London Branch Equities	1,326,220	-	0.4%
Gamla Livförsäkringsaktiebolaget	1,312,679	-	0.4%
JPM Chase	1,200,000	-	0.4%
Euroclear Bank	1,130,222	49,995	0.4%
BP2S FFT/German Resident-AIFM	1,154,284	-	0.3%
The Fourth Swedish National Pension Fund	1,126,738	-	0.3%
Other shareholders	131,395,113	5,837,701	39.6%
Total	**330,082,551**	**7,000,000**	**100%**

Source: Euroclear, VP and VPS.





DISTRIBUTION OF SHARES, COMMON AND PREFERENCE SHARES

Oct 31, 2016	No. of shareholders	No. of votes	% of share capital	% of all shareholders
1–1,000	50,414	11,401,823	3.4%	78.3%
1,001–5,000	10,363	24,271,083	7.3%	16.1%
5,001–10,000	1,927	14,206,652	4.3%	3.0%
10,001–100,000	1,535	37,774,111	11.4%	2.4%
100,001–1,000,000	133	35,564,403	10.8%	0.2%
1,000,001–	22	200,403,668	60.6%	0.0%
Unknown shareholders		7,160,811	2.2%	0.0%
Total	**64,394,**	**330,782,551**	**100.0%**	**100.0%**

Source: Euroclear, VP and VPS.

PREFERENCE SHARES AND COMMON SHARES TRADED PER EXCHANGE

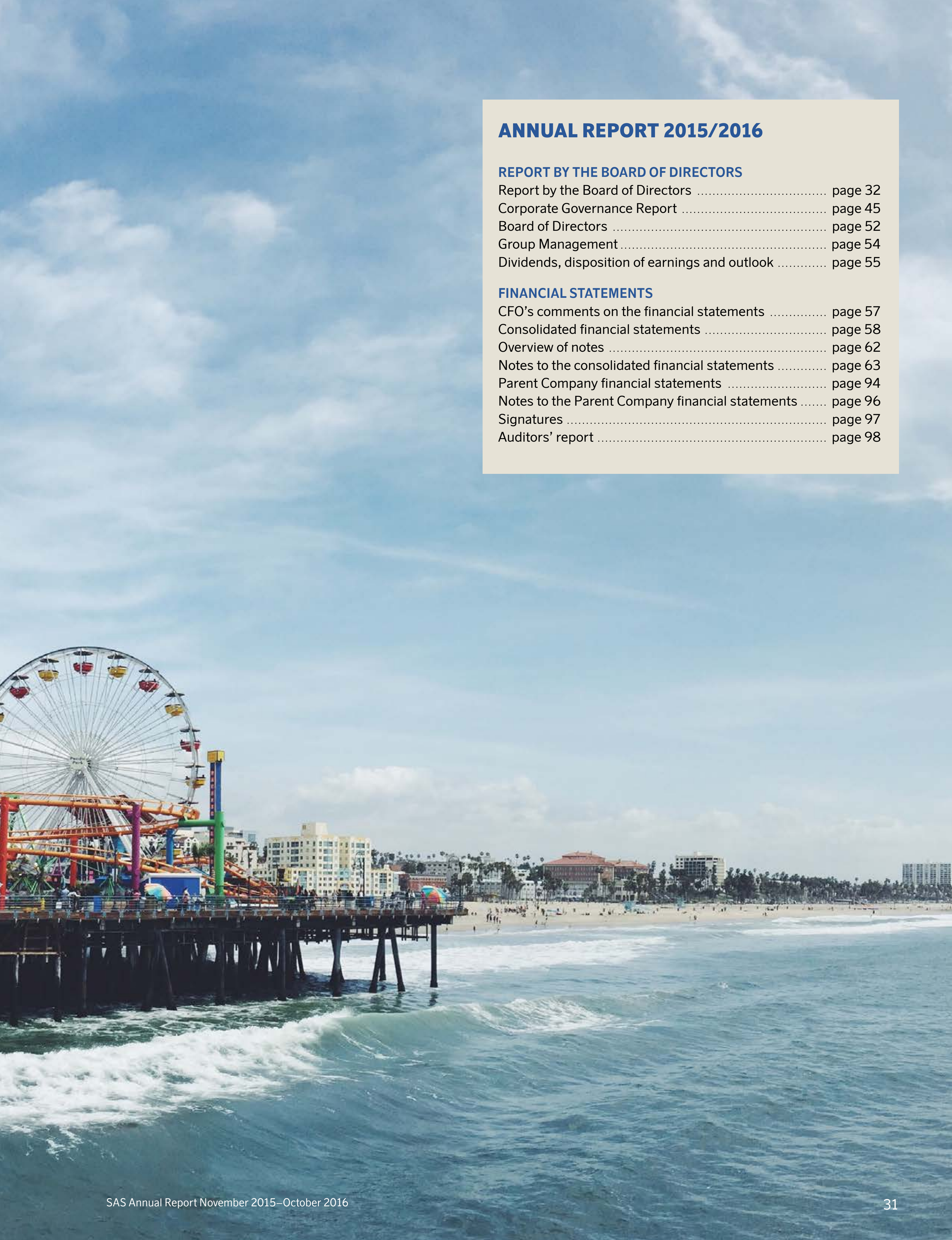
	Value, MSEK		No. of shares, million	
	Nov–Oct 2015–2016	Nov–Oct 2014–2015	Nov–Oct 2015–2016	Nov–Oct 2013–2014
Common shares				
Stockholm	5,983	4,018	294	250
Copenhagen	3,269	2,005	155	125
Oslo	399	272	18	17
Total common shares	**9,651**	**6,295**	**467**	**392**
Preference shares				
Stockholm	2,080	1,996	3.9	3.9

Source: Nasdaq OMX Nordic.

CHANGE IN SHARE CAPITAL[1]

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

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



ANNUAL REPORT 2015/2016

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REPORT BY THE BOARD OF DIRECTORS

SUMMARY OF 2015/2016

- Income before tax and nonrecurring items: MSEK 939 (1,174)
- Revenue for the year: MSEK 39,459 (39,650)
- The total number of passengers rose 3.3% and amounted to 29 million.
- The number of travelers in SAS Plus increased 6.3%
- Unit revenue (PASK) declined 8%[1]
- Unit cost (CASK) decreased 11.1%[1]
- Income before tax was MSEK 1,431 (1,417)
- Net income for the year was MSEK 1,321 (956)

1) Currency adjusted.

The Board of Directors and the President of the Parent Company, SAS AB, hereby submit the annual report for SAS AB and the SAS Group for the 2015/2016 fiscal year (November 2015–October 2016). SAS AB is registered in Stockholm and the address of its head office is Frösundaviks allé 1, Solna, Sweden, and its Corporate Registration Number is 556606-8499. The company conducts airline operations in a Scandinavian and international network.

MARKET PERFORMANCE 2015/2016

Measured in the number of seats offered, capacity to, from and within Scandinavia increased around 4.7% in the 2015/2016 fiscal year. The increase in capacity was highest at 7% during winter 2015/2016 and a more modest figure of about 3% during the summer program. SAS increased the number of seats offered by 2.6%. Lower prices helped boost passenger numbers in Scandinavia by 5.4%.

The number of passengers who traveled on SAS's scheduled routes increased 3% and amounted to 27.7 million in the 2015/2016 fiscal year. The largest increase was on the intercontinental routes, where passenger numbers grew slightly more than 22%. In 2015/2016, SAS strengthened the intercontinental offering by increasing frequencies to existing destinations and adding new routes to Los Angeles, Boston and Miami, and the full-year effect of the new route to Hong Kong by expanding the aircraft fleet. In total, intercontinental capacity increased 27.6%. SAS increased capacity on international routes within Europe and Scandinavia by 2.9%, primarily driven by increased production for leisure routes to/from Southern Europe. Domestic traffic trended stably and rose 2.6%. While the trend was strongest in Sweden, traffic also increased in Norway despite lower demand from the oil industry.

During the fiscal year, the yield decreased 7.7% and unit revenue (PASK) declined 8%. The downturn was attributable to a 7% increase in average flight distances and lower jet-fuel costs that benefited customers in the form of lower air fares. In addition, the capacity increase boosted price pressure in Scandinavia. In parallel, SAS's currency-adjusted unit cost decreased 11.1%

SAS's charter production grew 7.4% in the fiscal year and the total number of charter passengers increased 10.2% to 1.3 million.

1) Percentage points.

TRAFFIC TRENDS FOR SAS

SAS's scheduled traffic	2015/2016	2014/2015	Change
Number of passengers (000)	27,738	26,941	+3.0%
ASK, Available Seat Kilometers (mill)	44,956	40,877	+10.0%
RPK, Revenue Passenger Kilometers (mill)	33,508	30,561	+9.6%
Load factor	74.5%	74.8%	-0.2[1]
Passenger yield (currency-adjusted), SEK	0.91	0.98	-7.7%
Currency-adjusted unit revenue, PASK, SEK	0.68	0.73	-8.0%

	2015/2016 vs. 2014/2015	
Geographic trends, scheduled traffic	RPK	ASK
Intercontinental	+25.2%	+27.6%
Europe/Intra-Scandinavia	+1.6%	+2.9%
Domestic	+2.6%	+0.6%

SAS charter traffic	2015/2016	2014/2015	Change
Number of passengers (000)	1,270	1,153	+10.2%
ASK, Available Seat Kilometers (mill)	3,665	3,411	+7.4%
RPK, Revenue Passenger Kilometers (mill)	3,432	3,219	+6.6%
Load factor	93.6%	94.4%	-0.7[1]

Total traffic (scheduled and charter traffic) for SAS	2015/2016	2014/2015	Change
Number of passengers (000)	29,009	28,094	+3.3%
ASK, Available Seat Kilometers (mill)	48,620	44,288	+9.8%
RPK, Revenue Passenger Kilometers (mill)	36,940	33,780	+9.4%
Load factor	76.0%	76.3%	-0.3[1]

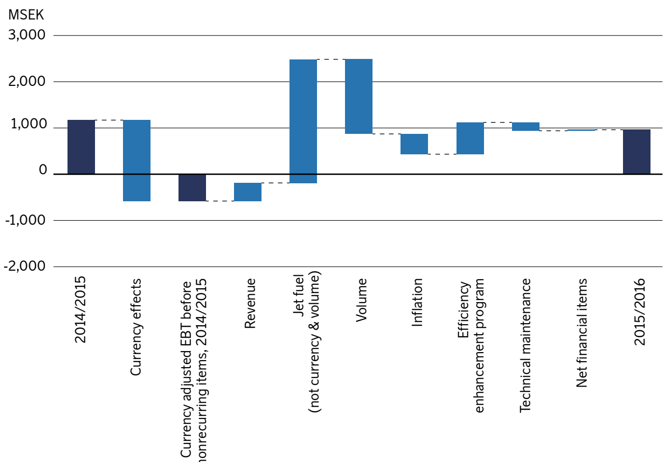
PUNCTUALITY AND REGULARITY

SAS achieved an arrival punctuality rating of 84.3% (87.9) in 2015/2016. Punctuality was negatively impacted at the start of the year by technical irregularities, but improved toward the latter part of the fiscal year. SAS posted regularity of 98.4% (98.7) and was also affected by technical irregularities and a Swedish pilot strike at the start of June that resulted in about 1,000 canceled flights.

INCOME NOVEMBER 2015 –OCTOBER 2016

SAS's operating income was MSEK 1,892 (2,225) and income before tax and nonrecurring items totaled MSEK 939 (1,174). Income before tax amounted to MSEK 1,431 (1,417) and income after tax was MSEK 1,321 (956). The exchange-rate trend had a negative impact on EBIT of MSEK -1,766 or MSEK -1,741 including net financial items.

TREND FOR INCOME BEFORE TAX AND NONRECURRING ITEMS, FROM 2014/2015 TO 2015/2016



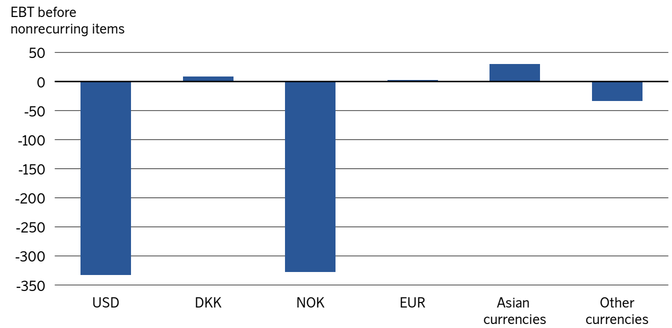
CURRENCY EFFECT BETWEEN YEARS

MSEK	Nov–Oct 2015–2016 vs. 2014–2015	Nov–Oct 2014–2015 vs. 2013–2014
Revenue	-572	963
Payroll expenses	170	-57
Other expenses	-250	-3,252
Translation of working capital	-183	44
Income from hedging of commercial flows	-931	809
Operating income	**-1,766**	**-1,493**
Net financial items	25	-18
Income before tax	**-1,741**	**-1,511**

CURRENCY EFFECTS ON NET INCOME FOR THE YEAR

MSEK	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Translation of working capital	-246	-63
Income from hedging of commercial flows	152	1,083
Operating income	**-94**	**1,020**
Currency effect on the Group's financial net debt	30	5
Income before tax	**-64**	**1,025**

IMPACT OF THE LARGEST CURRENCIES ON REVENUE/ OPERATING EXPENSES, 2015/2016



REVENUE

Revenue for SAS amounted to MSEK 39,459 (39,650). Currency-adjusted passenger revenue increased 1.2%, primarily due to higher traffic. Charter revenue (currency-adjusted) rose 4.7%, which was attributable to higher volumes. Other traffic revenue climbed 12.1% after currency adjustment, primarily due to increased revenue from baggage and pre-booked seating.

OPERATING EXPENSES

Total operating expenses amounted to MSEK -37,567 (-37,425). After adjustment for currency and nonrecurring items, operating expenses decreased 3.5% year-on-year, despite a parallel 10% increase in capacity for SAS. Operating expenses were impacted by nonrecurring items of MSEK +492 (+545). The ongoing restructuring program during the period resulted in efficiency enhancements of about MSEK 670.

Payroll expenses declined MSEK 517 and totaled MSEK -9,105 (-9,622) as a result of the outsourcing of ground handling at line stations in Norway and efficiency efforts. After adjustment for currency effects and nonrecurring items, payroll expenses declined 2.7% year-on-year.

Jet-fuel costs decreased MSEK 1,981 and totaled MSEK -6,449 (-8,430). Adjusted for currency, the cost declined 25.7%, primarily due to lower prices and lower hedging expenses. The falling price of oil had a positive effect of MSEK 1,955, hedge effects (including the effect of time value) had a positive impact of MSEK 798, volume had a negative effect of MSEK -526 and currency had a negative effect of MSEK -257 year-on-year. The external technical maintenance costs, which are included in other operating expenses, amounted to MSEK -3,292 (-2,757). The increase was mainly attributable to expenses on the return of leased aircraft, changed assessments for future engine maintenance and an increase in heavy maintenance. SAS is currently in a period where more aircraft are undergoing heavy maintenance.

Leasing costs amounted to MSEK -2,840 (-2,593). Adjusted for currency effects, leasing costs increased 6.4%. Depreciation totaled MSEK -1,367 (-1,466).

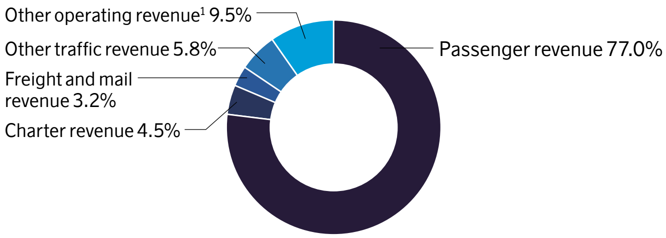
NET FINANCIAL ITEMS AND NONRECURRING ITEMS

Net financial items for SAS amounted to MSEK -462 (-508), of which net interest expense was MSEK -451 (-478). The positive year-on-year change pertaining to net financial items was primarily due to lower current interest expenses attributable to the lower net debt and lower interest rates.

Total nonrecurring items amounted to MSEK 492 (243) and comprised restructuring costs, capital gains/losses, impairment and other nonrecurring items. Restructuring costs totaled MSEK -42 (-177) and primarily pertained to payroll expenses. Impairment losses totaled MSEK -11 (-314). Capital gains amounted to MSEK

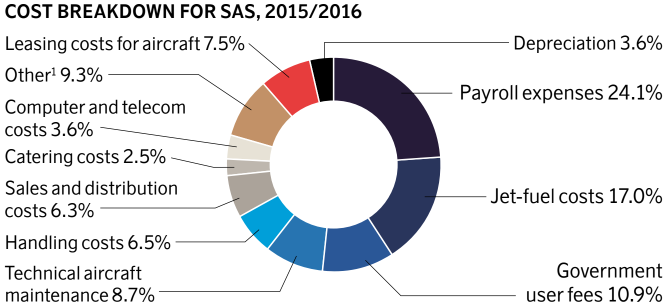
269 (789) and pertained to aircraft transactions of MSEK 235 (97), property transactions of MSEK 30 (2) and the sale of shares in subsidiaries and affiliated companies, and operations totaling MSEK 4 (12). The preceding year also included the sale of slot pairs for MSEK 678. Other nonrecurring items totaled MSEK 276 (-55), of which MSEK -160 was attributable to aircraft-related costs. Moreover, a fiscal-related provision was made for indirect taxes of MSEK -219 and the repayment of fines totaling MSEK 655 from 2010 as a result of the European Commission not appealing the European Court of Justice's ruling on the global air cargo cartel.

REVENUE BREAKDOWN 2015/2016



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

COST BREAKDOWN FOR SAS, 2015/2016



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

CAPITAL MANAGEMENT AND FINANCIAL POSITION

FINANCIAL TARGETS

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

SAS is affected by the economic climate in Europe, the exchange-rate trend, jet-fuel prices and the extensive changes to the European airline industry with intensified competition as a result of increases in market capacity. Given the inherent uncertainty of these external factors, SAS, in line with numerous other airlines, has chosen not to specify targets for profitability or its equity/assets ratio. However, SAS has a target for financial preparedness which is to exceed 20% of annual fixed costs.

DIVIDEND POLICY

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

Common shares

Dividends to holders of common shares can be paid from value-creation whereby SAS's return on invested capital exceeds the average cost of capital. The dividend should take into account any restrictions applying to the Group's financial instruments[1].

Preference shares

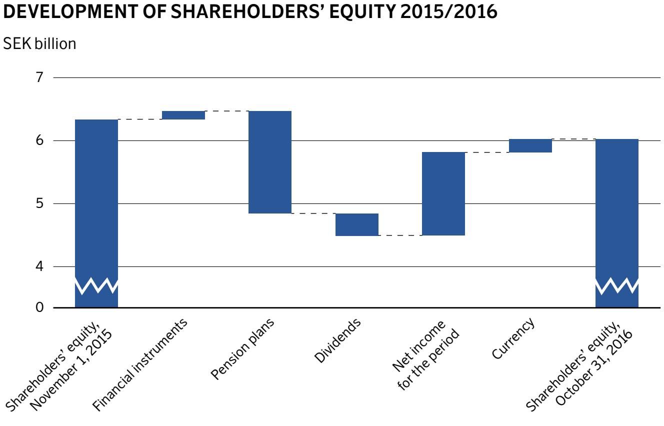
SAS is to pay dividends to holders of preference shares of SEK 50 per year, with a quarterly payment of SEK 12.50 per preference share until the payment date for the preference share dividend immediately following the record date of February 5, 2019, whereafter the annual preferential right to a dividend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

FINANCIAL POSITION

Shareholders' equity

During the fiscal year, SAS's shareholders' equity decreased MSEK 313 to MSEK 6,026. The decline was attributable to revaluations of defined-benefit pension plans due to a lower discount rate that had a negative impact of MSEK -1,627 on shareholders' equity, while cash-flow hedges and exchange-rate differences on the translation of foreign operations had a positive impact of MSEK 319. The other major contributor was the MSEK 350 dividend on preference shares. Finally, net income for the year had a positive impact of MSEK 1,321.

DEVELOPMENT OF SHAREHOLDERS' EQUITY 2015/2016



1) Currently, SAS has two financial instruments issued that limit dividend rights for holders of SAS common shares. SAS's bond of SEK 1.5 billion that matures in November 2017 stipulates that no dividends may be paid to holders of common shares if SAS's equity/assets ratio is less than 35%. According to the conditions of the preference shares, dividends are not paid to holders of common shares if the preference share capital exceeds 50% of the recognized shareholders' equity. Full dividends must also have been paid to preference shareholders.

Interest-bearing liabilities and funding

SAS uses bank loans, bond loans, convertible bond loans, subordinated loans, export credits and leasing as sources of funding. SAS's interest-bearing liabilities increased MSEK 135 year-on-year and totaled MSEK 9,880 on the balance-sheet date. New loans raised amounted to MSEK 1,093 MSEK and comprised secured loans of MSEK 995 as well as borrowing under the EMTN program of MEUR 10. The year-on-year change in gross debt was also attributable to a negative trend in the market value of financial derivatives of MSEK 102 and a negative effect from currency revaluations of MSEK 343. Repayments amounted to MSEK 1,371 under the fiscal year.

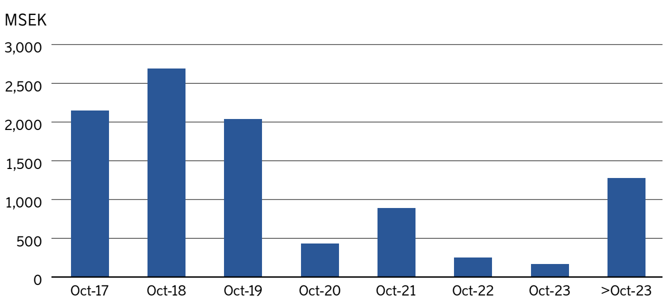
The average duration for gross financial debt is governed by SAS's financial policy and has a target tenor of 2 years. The average fixed-interest period was 2.3 years as of October 2016.

BREAKDOWN OF SAS'S INTEREST-BEARING LIABILITIES, OCTOBER 31, 2016

Debt	Note	
Subordinated loans	24	1,157
Bond loans	25	2,330
Convertible bond loan	26	1,482
Finance leases	26	1,321
Utilized facilities	26, 27	1,821
Other loans	26	1,449[1]
Other financial items	29	320
Total		**9,880**

1) MSEK 1,446 is attributable to Note 26. MSEK 3 is classified as other liabilities not included in the notes.

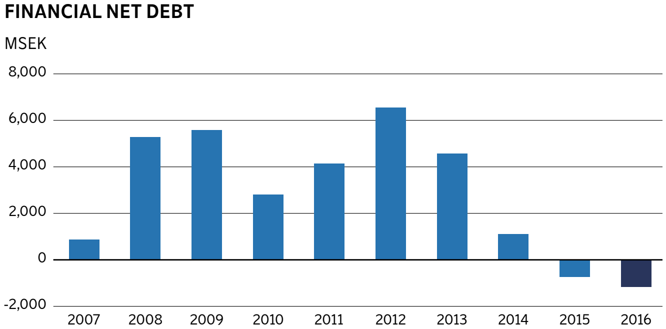
REPAYMENTS OF INTEREST-BEARING LIABILITIES, OCTOBER 31, 2016



Current interest-bearing liabilities were MSEK 2,147 (1,493) at October 31, 2016. Current interest-bearing liabilities comprised borrowings that mature within one year of MSEK 1,827, and accrued interest and financial derivatives of MSEK 320.

During the year, SAS's net financial receivables increased MSEK 440 and amounted to MSEK 1,166 (726) at October 31, 2016. The improvement was primarily due to positive cash flow.

FINANCIAL NET DEBT



Cash and cash equivalents

In addition to cash and cash equivalents of MSEK 8,370, at October 31, 2016, SAS had contracted credit facilities of MSEK 5,388 (4,525), of which MSEK 3,567 (2,712) was unutilized.

During the fiscal year, SAS extended the MEUR 150 credit facility from January 2017 to January 2019. SAS also extended an MUSD 137 credit facility until June 2018. Additionally, MEUR 10 was refinanced in June 2016 under the EMTN program.

CONTRACTED CREDIT FACILITIES, MSEK, OCTOBER 31, 2016

October 31, 2016	Total	Utilized	Unutilized	Maturity
Credit facility, MEUR 150	1,479	-	1,479	Jan. 2019
Credit facility, MUSD 137[1]	1,233	31	1,202	Jun. 2018
Credit facility, MUSD 27[1]	241	241	-	Oct. 2017
Credit facility, MUSD 49[1]	437	437	-	Sep. 2021
Credit facility, MUSD 64[1]	579	579	-	Feb. 2020
Credit facility, MUSD 36[1]	325	325	-	Feb. 2017
Credit facility, MUSD 46[1]	416	209	207	Jun. 2018
Other facilities, MUSD 75[1]	679	-	679	Jan. 2023
Total	**5,388**	**1,821**	**3,567**	

1) Secured against tangible assets.

Credit rating

SAS is rated by three credit-rating agencies: Moody's, Standard and Poor's and the Japanese agency, Rating and Investment Information Inc. (R&I). In summer 2016, Moody's and Standard & Poor's upgraded SAS's credit rating and retained an outlook of stable. R&I changed their outlook from stable to positive in June 2016.

SAS CREDIT RATING

October 31, 2016	Rating	Outlook	Changed
Moody's	B2	Stable	July 2016
Rating and Investment Information	B	Positive	June 2016
Standard & Poor's	B	Stable	July 2016

AIRCRAFT FLEET

Over the last few years, SAS's aircraft fleet has been significantly simplified and, since 2010, has changed from nine to three aircraft models under SAS's own traffic license. The aircraft fleet now comprises Boeing 737 NGs, the Airbus A320 family and Airbus A330/A340s in service under SAS's own traffic license.

The aircraft fleet is SAS's largest tangible asset. At October 31, 2016, the SAS aircraft fleet represented 26% of the company's recognized assets. SAS depreciates directly-owned aircraft over 20 years utilizing a residual value of 10%. Passenger aircraft are generally used for 20 to 25 years in commercial passenger traffic but aircraft that are well maintained can operate for substantially longer periods. However, technical developments mean that newer aircraft are more economical compared with older aircraft. There are still items of value in an aircraft after it has been taken out of service, for example engines and spare parts.

Financing of aircraft orders

In the 2015–2021 period, SAS has entered the next renewal phase for its aircraft fleet in the form of the delivery of four Airbus A330Es, eight Airbus A350-900s and 30 Airbus A320neos. The total order value for these aircraft is about USD 3 billion.

The first four Airbus A330Es were delivered in autumn 2015 and spring 2016, and were financed through a 12-year sale and leaseback agreement with the Chinese firm Bocomm. One Airbus

THE SAS AIRCRAFT FLEET AT OCTOBER 31, 2016

SAS aircraft in service	Age	Owned	Leased	Total	Purchase orders	Lease orders
Airbus A330/A340/A350	11.4	9	7	16	8	-
Airbus A319/A320/A321	11.3	8	18	26	29	-
Boeing 737NG	13.7	20	61	81	-	-
Total	**12.9**	**37**	**86**	**123**	**37**	**0**

Aircraft in service under a traffic license other than SAS's (SK)	Age	Owned	Wet-leased	Total	On wet lease order
Boeing 737	11.0	-	1	1	-
Bombardier CRJ900	4.1	11	8	19	4
ATR-72	1.8	-	13	13	-
Total	**3.4**	**11**	**22**	**33**	**4**

Total SAS in-service aircraft fleet	Age	Owned	Leased	Total	Purchase orders	On wet lease order
Total	**10.9**	**48**	**108**	**156**	**37**	**4**

Aircraft to be phased out	Age	Owned	Leased	Total	Leased out	Parked
Bombardier Q400	8.8	-	1	1	1	-
Bombardier CRJ900	7.7	1	-	1	-	1
Total	**8.3**	**1**	**1**	**2**	**1**	**1**

A320neo was delivered in the 2015/2016 fiscal year. SAS has signed sale and leaseback agreements for 18 Airbus A320neos.

In 2015/2016, eight wet-lease aircraft were phased into service for SAS. SAS has a further four Bombardier CRJ900s on order with delivery in 2017. Aircraft operated on a wet-lease basis entail no direct investment and instead entail a contractual undertaking, whereby SAS pays a variable cost per production hour over a guaranteed production volume. By wet-leasing 25 aircraft over the last three years until spring 2017, SAS has avoided direct investments of about SEK 5 billion.

3.4 years
Average age of wet-leased aircraft

18
Airbus A320neos financed

AIRCRAFT ON FIRM ORDER 2016–2021

	2016/ 2017	2017/ 2018	2018/ 2019	2019/ 2020	2020/ 2021
Airbus A320neo	12	8	8	1	
Airbus A350				3	5

List price of aircraft	MUSD
Airbus A320neo	107
Airbus A350	308

Financing of pre-delivery payments for aircraft

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

In 2014, SAS secured a PDP financing facility that covers part of the PDPs that SAS is paying for eight aircraft from Airbus with delivery from 2015 to 2017. The facility is structured as a revolving credit facility under which SAS can borrow up to a total of MUSD 74 against the PDP. Since the facility will be repaid on delivery of the aircraft, the sum outstanding will not exceed MUSD 49. In January 2016, SAS signed a second PDP facility, for MUSD 46, pertaining to five Airbus A320neos with delivery in 2017–2018. The loan made available under the facility is to be repaid on delivery of the aircraft to SAS.

The current level of financial preparedness substantially exceeds the target, and is assessed by SAS as precluding any further need for PDP financing of SAS's aircraft orders.

Financing of the aircraft fleet

SAS aims to maintain a balance between owned and leased aircraft based on a cost, risk and flexibility perspective. SAS intends to utilize a mix of export credit financing, bank loans and bank facilities to finance directly owned aircraft. When leasing, which is done via sale and leaseback agreements, aircraft are sold on delivery and leased back over a five to 12-year period.

At October 31, 2016, SAS owned 49 aircraft in the aircraft fleet.

CONTRACTED OPERATIONAL AND FINANCIAL LEASES FOR AIRCRAFT INCL. MATURITY PROFILES

	2016/ 2017	2017/ 2018	2018/ 2019	2019/ 2020	2020/ 2021	2021/ 2022>
Maturing operational leases, aircraft	22	21	15	6	10	12
Wet-leased aircraft, maturity	9	2	10	0	0	11
Aircraft leasing commitments, MSEK	2,758	2,331	1,999	1,688	1,362	3,206
Financial leases, aircraft, MSEK	504	73	75	77	282	57
Present value of contracted lease commitments at October 31, 2016, for different discounting factors	**5%**	**6%**	**7%**			
SAS's operational leases for aircraft, MSEK	11,316	10,970	10,640			

SEASONAL EFFECTS AND CASH-FLOW OPTIMIZATION

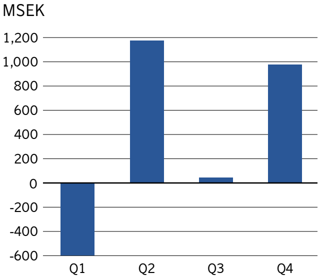
SAS applies a target approach to the analysis of balance-sheet items and operating trends to optimize cash flow with the aim of attaining the lowest possible total funding cost within the framework of SAS's financial policy. As a consequence of operating liabilities exceeding current assets, working capital amounted to MSEK -11,274 MSEK at October 31, 2016, representing a year-on-year improvement of MSEK 700. The unearned transportation revenue liability rose slightly more than MSEK 836 during the year as a result of increased long-haul production and comprised the single largest change.

Cash flow from operating activities in 2015/2016 amounted to MSEK 3,663 (3,036). The year-on-year improvement was mainly due to the repayment of fines of MSEK 655 from 2010 as a result of the European Commission not appealing the European Court of Justice's ruling on the global air cargo cartel.

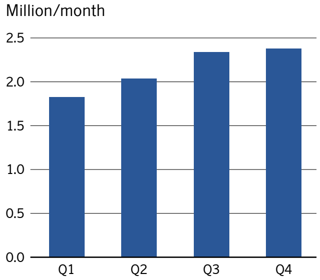
Cash flow from operating activities follows clear seasonal trends. Cash flow is strongest in the second and fourth quarters, which coincides with high passenger volumes and a high proportion of advance bookings. The share of advance bookings is highest in the January to May period ahead of the holiday period and in the September to October period.

Since passenger revenue is recognized when SAS or another airline provides the transportation, this means that seasonal variations impact cash flow and earnings differently. Accordingly, earnings are strongest in the third and fourth quarters (May to July and August to October), which is when traffic volumes are highest.

SEASONAL VARIATIONS IN SAS'S CASH FLOW FROM OPERATING ACTIVITIES[1]



SEASONAL VARIATIONS IN THE NUMBER OF PASSENGERS TRANSPORTED[1]



LEGAL ISSUES

The European Commission's decision in November 2010 found SAS and many other airlines guilty of participating in a global air cargo cartel and ordered SAS to pay a fine of MEUR 70.2. SAS appealed the decision in January 2011 and in December 2015, the General Court of the European Court of Justice annulled the European Commission's decision including the MEUR 70.2 fine. The European Court of Justice's ruling has entered force and the MEUR 70.2 fine was repaid to SAS at the beginning of March 2016, and was recognized as a nonrecurring item in the second quarter of the 2015/2016 fiscal year. The European Commission could make a new decision in relation to this matter. SAS has no insight into and is unable to influence the exact timing of any new decision or its formulation.

As a consequence of the European Commission's decision in the cargo investigation in November 2010, SAS and other airlines fined by the Commission are involved in various civil lawsuits initiated by cargo customers in countries including the UK, the Netherlands, Germany and Norway. In December 2016, SAS entered a settlement regarding the lawsuit in Germany. SAS is currently evaluating the impact any new decision by the European Commission could have on the remaining ongoing actions for damages. SAS contests its responsibility in all of these legal processes. Unfavorable outcomes in these disputes could have a significantly negative financial impact on SAS. Further lawsuits by cargo customers cannot be ruled out and no provisions have been made.

At October 31, 2016, Jetpak Group AB (Jetpak) called for arbitration procedures at the Stockholm Chamber of Commerce with regard to a dispute with SAS pertaining to deliveries of delayed luggage to SAS's passengers and a claim against SAS for about MSEK 16. The parties have differing opinions as to how Jetpak's remuneration should be calculated under the agreement from November 2015. SAS contests Jetpak's claim.

The SAS pilot associations have filed a lawsuit against SAS with the Swedish Labour Court claiming damages for breach of collective agreements. No financial damages were specified in the summons application. The dispute pertains to a large group of pilots employed at the Stockholm base but who worked out of the Copenhagen base, and the calculation and coordination of the rights to Swedish and Danish pension benefits of these pilots on changing bases. SAS contests all claims. In an intermediate judgment, announced on February 3, 2016, the Swedish Labour Court rejected the pilot associations' claim regarding breached collective agreements. The pilot associations withdrew their claim, but requested that the Swedish Labour Court rule that each of the parties carry its own costs. SAS has contested this request. The matter will be heard by the Swedish Labour Court at a main hearing in February 2017.

A group of former Braathens cabin crew have, through the Parat trade union, initiated a legal process against SAS at a general court in Norway with a claim for correction of a work time factor (part-time percentage) in the calculation of pension rights in the occupational pension plan in accordance with the Norwegian Occupational Pensions Act. The summons application contains no specified demand for compensation. SAS contests the claim. SAS won the initial case, however the judgment has been appealed by the counterparty and is expected to be heard in the next instance in 2017. The financial exposure is difficult to quantify, but SAS considers the risk of a negative outcome to be limited and no provisions have been made.

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

OTHER DISPUTES

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

1) Pertains to averages during the years from 2010–2016.

RISK MANAGEMENT

Risk area	Risk	Risk level	Risk control measures 2015/2016
1 Market risks	1.1 Macro-economic trend	Medium risk	Implementation of SAS's streamlining program and a more flexible production model.
	1.2 Market and competition trends	High risk	Follow-up and monitoring of capacity plans in the market, pricing and aircraft orders.
2 Employee risks	2.1 Right skills	Medium risk	People reviews and successor identification.
	2.2 Processes and systems	Medium risk	Follow-up of low and high-performing individuals. Documentation of internal processes.
	2.3 Commitment	Medium risk	Internal networks, such as Forum 50 and continuous information about SAS's performance.
	2.4 Strikes	Medium risk	Strengthen the dialogue to increase consensus with the unions.
3 Operating risks	3.1 Safety activities	Low risk	Continuous reporting to the Board and inclusion in the Board agenda at least once per year (February 2016). IOSA certification completed in spring 2016.
	3.2 Suppliers	Medium risk	A new framework for managing suppliers. Closer collaboration initiated with the 40 largest suppliers. Quality follow-ups of selected suppliers.
	3.3 Competitive costs and efficiency	Medium risk	Implementation of cost-efficiency enhancements of MSEK 670 and developing SAS's production platform to increase flexibility and efficiency.
4 Sustainability risks	4.1 Environmental directives and requirements	Low risk	Retention of certified environmental systems. Actions to improve climate and environmental performance.
5 Legal and political risks	5.1 Political and regulatory risks	Medium risk	SAS conducts active dialogues with the political systems and industry organizations (IATA) to obtain early information about regulatory changes and to influence decisions.
	5.2 Legal and insurance risks	Low risk	The development of policies and courses to secure compliance with various legislation and regulations. At the start of 2016, training was conducted in the SAS Code of Conduct for example.
6 Financial risks	6.1 Liquidity risk and refinancing	Medium risk	Follow-up and forecasting financial preparedness. Delivery financing was agreed for 18 out of 30 Airbus A320neo aircraft in 2016. Continuous discussions with banks and financial backers aimed at managing maturing borrowings and leases.
	6.2 Jet-fuel price and emission rights	High risk	Jet-fuel hedging in line with policy and monitoring the jet-fuel price trend.
	6.3 Exchange rates	High risk	Exchange-rate hedging in line with policy and monitoring the currency market.
	6.4 Interest rates	Low risk	Fixing rates in line with policy and monitoring the interest-rate market.
	6.5 Counterparty losses	Low risk	SAS's counterparty risks are managed in line with SAS's financial policy.
7 IT	7.1 IT	Medium risk	Implementation of procedures for handling incidents and problems. One work team has focused on reducing IT problems that impact SAS's website and booking system, and managing cyber attacks.
8 Other events	8.1 Extraordinary events	Medium risk	Increase cost flexibility to rapidly reduce costs in the case of reduced demand.
	8.2 Brand and reputation	Medium risk	Monitoring information pertaining to SAS. Updating SAS's IR/Information policy.

● Low risk ● Medium risk ● High risk

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

Risk management at SAS is about positioning SAS in relation to, known and unknown, possible events with the aim of minimizing the potential negative effects should an unexpected event occur. Overall risks are monitored and identified centrally and followed-up through policies that aim to control the risks. Flight safety is always top priority at SAS.

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

1. MARKET RISKS

1.1 MACRO-ECONOMIC TREND

Demand in the airline industry is correlated to economic growth and exports. SAS's primary operations are located in Scandinavia and about 70% of passenger revenue stems from Scandinavia. However, no single country accounts for more than 30% of SAS's passenger revenue, which limits SAS's exposure to individual countries. As a region, however, Scandinavia is extremely important in terms of demand for SAS. Over the past few years, the Scandinavian economies have been more stable than other parts of Europe, which has contributed to a positive trend in the demand for flights. In 2016, real GDP is expected to increase 1.0% in Denmark, 0.7% in Norway and 2.8% in Sweden.

SAS's exposure to events in single markets can be partly offset by the flexibility in the company's aircraft fleet through the use of smaller aircraft.

1.2 MARKET AND COMPETITION TRENDS

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

In 2015/2016, the number of seats offered increased about 4.7% in Scandinavia. This led to increased competition and yield pressure. To meet and prepare for changes in competition and capacity, SAS continuously analyzes various scenarios to be able to act quickly in the case of changed competitive conditions. SAS is also streamlining its operational platform and differentiating the product offering with the aim of strengthening competitiveness. See pages 20-23.

OPERATIONAL AND FINANCIAL SENSITIVITY ANALYSIS 2015/2016 BASED ON OUTCOME FOR 2015/2016

Airline operations	Operating income, MSEK
RPK, ±1%	±260
Load factor, ±1%	±360
Passenger revenue per RPK or ASK (yield & PASK), ±1%	±300
Unit cost (CASK), ±1%	±340
Jet-fuel price, ±1%	±65

2. EMPLOYEE RISKS

2.1 RIGHT SKILLS

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

The senior managers have identified one or two internal successors for 59% of all positions to thereby secure an efficient succession and to promote internal movement. With time, the aim is secure succession to 80% with internal successors and to 20% through actively seeking external competence.

2.2 PROCESSES AND SYSTEMS

SAS uses systems and processes for efficient personnel management and to support securing skills needs and the succession order.

SAS has gradually implemented Lean principles in its processes with clear action plans based on shared targets, which are categorized under SQDEC (Safety, Quality, Delivery, Employees and Cost), and which can be followed up across the entire operations.

SAS conducts a yearly analysis of internal skills with the aim of leveraging the greatest talents and making adjustments where improvements are needed. The annual process has identified talents and many employees have over time been given new positions or increased responsibility.

2.3 COMMITMENT

SAS continuously measures employee commitment and motivation. SAS's 2016 employee satisfaction survey showed that motivation — measured in one index — had improved from 58 to 64, which on external benchmarking was on a par for the Nordic transportation industry.

To further strengthen commitment and professionalism, SAS is investing in its employees through an internal mentor and development program, and forums such as Learning lunch and the SAS Awards, where exceptional performance is rewarded. In conjunction with SAS's 70th anniversary, six gatherings were arranged where employees could meet and mix with the management as well as obtain information about SAS's strategies.

SAS works using clear targets and employee influence with the aim of developing employee commitment, future leaders and contributing to SAS continuing to be an attractive employer.

2.4 STRIKES

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

Despite this, in conjunction with negotiations for a new collective agreement in June 2016, the Swedish pilot association called its members out on strike which significantly impacted SAS's operations in Sweden for four days. The conflict resulted in around 1,000 canceled flights and impacted about 100,000 passengers.

SAS's operations were also impacted on a number of other occasions by local labor disputes in Scandinavia, France and Greece. The conflicts also impacted other airlines and had a limited effect on SAS in terms of competition but did result in lower revenue.

Co-operation with the unions

The market trend toward main growth in the leisure travel segment and an increasing price sensitivity with customers poses challenges for profitability in the industry. Given the above, in 2015/2016, SAS discussed with the unions how to improve and make more efficient the forms of cooperation and the procedures for negotiations regarding collective agreements and changes.

3. OPERATING RISKS

3.1 SAFETY ACTIVITIES

SAS's safety work has top priority and is part of the company's DNA. The safety culture at SAS rests on the values, skills and experience of all employees throughout the organization. The safety culture includes actively learning, adapting and modifying individual and organizational behavior to constantly improve operations and reduce exposure to risk. The efforts are managed with the aim of achieving continuous improvements and a shared understanding of the importance of safety to the customers and to SAS. The management of SAS is constantly engaged in safety issues based on a safety policy that is documented, communicated and implemented in SAS's operations. SAS has a fully implemented and approved Safety Management System (SMS), which is a regulatory requirement. The system was also approved in 2016 by the IATA Operational Safety Audit (IOSA) as part of their audit program.

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

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

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

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

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

Safety activities and risk levels in 2015/2016

SAS was recertified by IOSA in 2016. SAS only initiates code-share collaboration with other airlines that have IOSA certification or that have submitted to a comparable audit. Events in its operating environment mean that SAS conducts diligent assessments of how terrorist attacks and threats could impact SAS's production.

SAS continuously monitors and measures daily risk levels in flight operations, ground operations, technical maintenance and security in a hierarchical system of objective safety performance indicators. During the fiscal year, the trend was stable and the number of medium risk events was on a par with preceding years. Two (two) events occurred at the high risk level in flight and ground operations. The events related to one aircraft that taxied onto an active runway and the detection of undeclared goods. Moreover, one workplace accident occurred in conjunction with technical maintenance on a CRJ900, where one employee was seriously hurt. SAS has implemented measures to minimize the risk of corresponding incidents occurring in the future.

RISK INDEX

Operations	Low	Medium	High
Flight Operations, %	1.28	0.0017	0.0004
Ground Operations, %	0.80	0.0044	0.0004
Technical Operations, %	0.36	0.0044	-
Security, %	0.19	0.0004	-
Total for 2015/2016 as a % of the No. of flights	**2.63**	**0.0109**	**0.0008**
Total for 2014/2015 as a % of the No. of flights	**1.97**	**0.0146**	**0.0008**

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

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

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

3.2 SUPPLIERS

Dependence on external suppliers across all operations is increasing in pace with changes in the airline industry and development of the operating model at SAS. This applies equally to operations, such as ground handling and wet-leasing, and to administrative functions, such as customer service and accounting. During the year, SAS has reviewed its supplier base and identified the most critical suppliers. A steering model has been established for these, which in collaboration with the actual suppliers, clarifies responsibility, risks and areas for improvement, as well as how any deviations should be managed. Responsibility for ongoing follow-up of critical suppliers has been centralized and standardized. All SAS suppliers must meet requirements for sustainability and social responsibility in line with the UN Global Compact. This is checked during procurement and verified on an ongoing basis through spot checks.

3.3 COMPETITIVE COSTS AND EFFICIENCY

For profitable long-term operations, SAS must have a competitive cost structure and be highly efficient. Therefore, SAS has already implemented major structural cost-reducing measures and is currently working on further structural measures as well as efficiency initiatives amounting to SEK 1.5 billion over the 2017–2019 period. For more information about how SAS works with efficiency, see page s 20-23.

4. SUSTAINABILITY RISKS

4.1 ENVIRONMENTAL DIRECTIVES AND REQUIREMENTS

Laws and regulations as well as public opinion set requirements for reduced environmental and climate impact, through items including restrictions on noise levels and greenhouse gas emissions. Among other things, sustainability efforts at SAS support the aim of contributing to a reduction in environmental impact and SAS's environmental vision is to be part of a long-term sustainable society and supports IATA's vision of making it possible to fly without greenhouse gas emissions by 2050.

Risk management:
SAS works continuously on sustainability issues to ensure compliance with national and international requirements. SAS measures its eco-efficiency with a climate index, which tracks trends in airline operations relative to environmental impact. SAS CO_2 emissions per passenger kilometer decreased 1.7% to 99.2 grams (100.9) during the fiscal year, mainly due to expanded long-haul production and more efficient aircraft.

5. LEGAL AND POLITICAL RISKS

5.1 POLITICAL AND REGULATORY RISKS

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

In June 2016, the Norwegian state introduced an airport departure tax for flights in, to and from Norway. The tax undermined revenue for SAS and was mostly absorbed by SAS.

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

5.2 LEGAL AND INSURANCE RISKS

SAS flies and operates in more than 30 countries, which means that SAS has to comply with a large number of laws and regulations. The breadth of the SAS Group's operations and the large number of contractual relations mean that SAS is, and may be in the future, involved in legal processes and arbitration procedures as either plaintiff or defendant. SAS may also be exposed to crimes that can have both an economic and material impact. At the end of October 2016, SAS was involved in a number of legal processes, the most important of which are described in more detail on page 37.

Risk management:
SAS manages and secures compliance and legal risks through various kinds of internal policies and rules, including the SAS Code of Conduct, which sets the ethical rules and guidelines that all employees at SAS must comply with. In 2016, employees at SAS underwent training in SAS's Code of Conduct. Contractual risk is managed with the aim of minimizing contractual issues and risks. SAS also continuously monitors how changes in regulations and policies impact SAS's procedures and operations. SAS has insurance cover for its operations and personnel to protect the company financially from unforeseen events.

6. FINANCIAL RISKS

SAS is exposed to various types of financial risks. All risk management is performed centrally pursuant to the financial policy adopted by the Board. Financial risks pertaining to changes in exchange rates, interest rates and fuel prices, are hedged with derivatives, which aim to counter short-term negative fluctuations and provide scope for adapting operations to long-term changes in levels.

Another aim of SAS's hedging strategy is to enable SAS to act quickly when changes in exchange rates, interest rates and fuel prices are advantageous. More information is available in Note 27.

6.1 LIQUIDITY RISK AND REFINANCING

The cash flow from SAS's airline operations follows clear seasonal trends. Since passenger revenue is recognized when SAS or another airline provides the transportation, this means that seasonal variations impact cash flow and earnings differently. SAS also has a number of different financial instruments in issue and 86 aircraft under operating leases that are continuously maturing.

Risk management:
The target is a financial preparedness of at least 20% of fixed costs, which is measured by the proportion of cash and cash equivalents together with unutilized credit facilities in relation to annual fixed costs. SAS prepares a rolling liquidity forecast that is used as a basis to ensure that financial preparedness is maintained and to identify refinancing needs. SAS uses bank loans, bond loans, subordinated loans and leasing as sources of funding. SAS maintains continuous discussions with banks and financial backers aimed at refinancing SAS's maturing borrowings and leases.

During the fiscal year, financial preparedness trended stably and was positively impacted by cash flow and compensated for investments in aircraft and loan repayments. In October 2016, the financial preparedness amounted to 41% (40%).

6.2 JET-FUEL PRICE AND TRADING IN EMISSION RIGHTS

Jet-fuel price

Jet-fuel costs comprise the second largest expense item for SAS and in 2015/2016 amounted to 17% of SAS's operating expenses (including leases, depreciation and amortization). SAS hedges jet-fuel costs to counter short-term negative fluctuations.

Risk management:
SAS's policy for jet-fuel hedging states that jet fuel should be hedged at an interval of 40–80% of anticipated volumes for the coming 12 months. The policy also allows hedging of up to 50% of the anticipated volumes for the period 12 to 18 months.

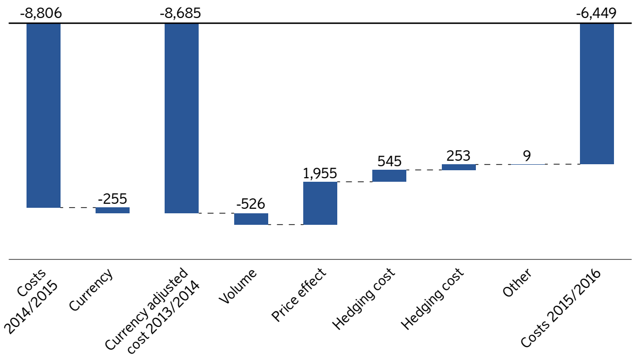
Market prices for jet fuel fell sharply during the 2015/2016 fiscal year and averaged 27% lower than the preceding fiscal year. The jet-fuel price initially fell from about USD 450/tonne to USD 243/tonne in January 2016, to then gradually rise to USD 470/tonne at the end of the fiscal year.

In 2015/2016, SAS's jet-fuel costs decreased 23% year-on-year. In addition to lower jet-fuel prices, the large decrease in costs was also due to lower hedging costs than last year.

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

JET-FUEL COST TREND 2015/2016

MSEK



SAS has hedged 45% of the remaining jet-fuel consumption for the 2016/2017 fiscal year.

HEDGING OF JET FUEL

Hedge level (max price)	Nov 16– Jan 17	Feb 17– Apr 17	May 17– Jul 17	Aug 17– Oct 17
USD 400–500/tonne	59%	48%	52%	21%

VULNERABILITY MATRIX, JET-FUEL COST NOVEMBER 2016 TO OCTOBER 2017, SEK BILLION[1]

	Exchange rate SEK/USD				
Market price	6.00	7.00	8.00	9.00	10.00
USD 300/tonne	3.5	4.1	4.6	5.2	5.8
USD 400/tonne	4.1	4.8	5.5	6.2	6.9
USD 500/tonne	4.7	5.5	6.3	7.0	7.8
USD 600/tonne	5.2	6.0	6.9	7.7	8.6

Emission rights

SAS is a long-time supporter of the polluter pays principle. However, a prerequisite for this is that it is applied on equal terms and in a manner that does not distort competition. Furthermore, SAS is positive toward requirements for increased energy efficiency, which fit well with the company's environmental targets. In 2015/2016, SAS's emission rights expenses totaled MSEK 88 (90). ICAO's recently decided global economic instrument the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), which aims to regulate aviation's carbon emissions from 2021, will be specified over the next few years. As yet, SAS is unable to assess the financial consequences of this instrument.

Risk management:
SAS secured emission rights for the expected shortfall to reduce financial exposure. In 2012, the European Commission decided that EU ETS emission trading scheme should only include intra-Europe flights until the 2016 calendar year. The aim was to await the establishment of a global system under the ICAO. A global system has now been decided (CORSIA). The European Commission is expected to decide whether or not EU-ETS will continue to only encompass intra-Europe flights at the start of 2017. SAS expects the previously announced free allocation (for intra-Europe flights and for all flights in, to or from EU) will continue to apply. SAS expects costs for 2016/2017 to be on a par with 2015/2016.

1) SAS's current hedging contracts for jet fuel at October 31, 2016 have been taken into account.

6.3 EXCHANGE RATES

Transaction risk arises from exchange-rate changes that impact the size of commercial revenue and costs and thus SAS's operating income. As a consequence of its international operations, SAS is significantly exposed to price changes in several currencies, not least the USD. In 2015/2016, Sweden's central bank, the Riksbank, lowered the repo rate to a negative rate, which negatively impacted the value of the SEK against many currencies. In parallel, the Norwegian economy was affected by lower oil prices, which resulted in the NOK being weak until autumn 2016. SAS's largest surplus currency is the NOK and, accordingly, a weakening in the NOK has a negative impact on SAS's revenue recognized in SEK. In 2015/2016, the NOK weakened by a year-on-year average of slightly more than 6% against the SEK, which negatively impacted the net of revenue and costs for SAS by MSEK 327. The national referendum in June 2016 that resulted in the UK having to leave the EU resulted in a downturn in the value of the GBP. The GBP is a surplus currency for SAS and, therefore, the weakness of the GBP had a negative impact on revenue. The US central bank implemented an interest-rate rise during the fiscal year. As this was expected, the USD rate was not significantly impacted. However, the USD/SEK exchange rate increased immediately following the UK referendum to leave the EU and the USD was about 3% stronger year-on-year during the fiscal year. The USD is SAS's largest deficit currency and, therefore, a stronger USD has resulted in significantly higher costs for SAS, mainly for jet fuel and leasing.

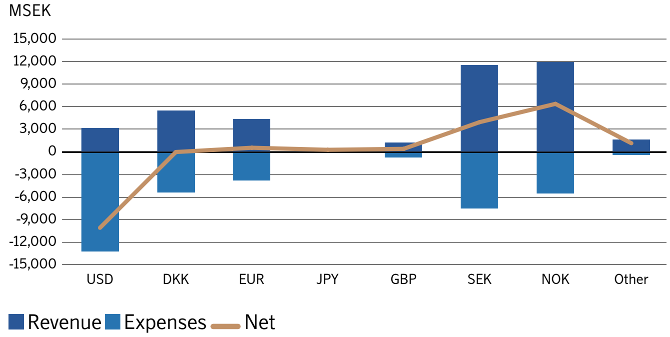
Risk management:
Currency exposure is managed through continuously hedging 40–80% of SAS's surplus and deficit currencies based on a 12-month rolling liquidity forecast.

By hedging the USD and NOK, SAS has mitigated the negative effects of the exchange-rate changes. The exchange-rate trend had a net negative impact on revenue for SAS of MSEK -572. The translation of working capital and currency hedges amounted to MSEK -1,114 (853), mainly due to the positive effect of currency hedges declining from MSEK 1,083 to MSEK 152. The net effect of the changes in exchange rates and the effects of implemented hedges on SAS's EBT was MSEK -1,741.

At October 31, 2016, SAS hedged 53% of its anticipated USD deficit for 2016/2017. In terms of the NOK, 66% of the anticipated surplus for the next 12 months was hedged. Hedging is mainly performed through currency forward contracts to prevent earnings-related revaluation effects pertaining to financial assets and liabilities. SAS's USD denominated loans are hedged against the SEK to reduce currency risk in the loan portfolio.

CURRENCY BREAKDOWN SAS 2015/2016

MSEK



NET EARNINGS EFFECT OF EXCHANGE-RATE CHANGES 2015/2016

SAS total	MSEK
1% weakening of SEK against USD	-110
1% weakening of SEK against NOK	+65
1% weakening of SEK against DKK	+0
1% weakening of SEK against EUR	+6
1% weakening of SEK against JPY	+3
1% weakening of SEK against GBP	+5

Currency risk for aircraft investments

Risk management:
SAS hedges part of the order value for aircraft it has on order to limit the currency risk. This is conducted through currency forward contracts and by entering into sale and leaseback agreements. In 2016 and at the start of 2017, SAS contracted sale and leaseback agreements for 18 Airbus A320neos. SAS thereby reduced its currency exposure for all deliveries until 2018 and, accordingly, has no currency exposure on 60% of all A320neos on order. SAS has also currency hedged a small proportion of its aircraft order for eight Airbus A350s with delivery from 2019.

6.4 INTEREST RATES

The airline industry is capital-intensive and SAS has MSEK 9,880 in interest-bearing liabilities, which exposes SAS to interest-rate changes.

Risk management:
Financial policy at SAS regulates the proportion between floating and fixed-interest rates with the objective that gross financial debt has a tenor of 2 years. The average duration for gross financial debt was 2.3 years as of October 2016.

6.5 COUNTERPARTY LOSSES

SAS is exposed to counterparty losses through credits, lease agreements and guarantees to external parties. This exposure is governed by SAS's financial policy. No counterparty loss of any significance had any impact on SAS in the fiscal year. Net impairment of accounts receivable and recovered accounts receivable as well as the impairment of other current receivables had an earnings impact of MSEK -12 (-46) in 2015/2016.

Risk management:
Financial policy at SAS regulates how and in what manner SAS should act to reduce the risk of counterparty losses. SAS invests cash and cash equivalents in instruments with good liquidity or short maturity with credit ratings not lower than A3/P1 according to Moody's, or A/A1 according to Standard & Poor's.

7. IT

7.1 IT

SAS is dependent on IT for its financial transactions and operating activities. SAS secures information confidentiality, accuracy, availability and traceability through clear processes and continuous updates. This is also governed by a number of policies and safety solutions. Like numerous other companies, SAS is exposed to various types of attacks on a daily basis. However, through the establishment of protection mechanisms, SAS has managed to prevent any serious negative impact on operations.

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

Internal audits were carried out during 2015/2016 to ensure that safety efforts, in terms of preventing computer hacking, improve. The audits found that SAS's preventative efforts, control environment and crisis management functioned well.

8. OTHER EVENTS

8.1 EXTRAORDINARY EVENTS

Airline companies are impacted by extraordinary events around the world, such as natural disasters, terror attacks, conflicts and epidemics.

Operations at SAS were indirectly impacted by terrorist attacks in Europe in the 2015/2016 fiscal year that temporarily reduced general demand. Operations were also more directly impacted by the closure of Brussels airport to commercial traffic for a limited period.

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

8.2 BRAND AND REPUTATION

In 2015/2016 SAS carried slightly more than 29 million travelers. Demand for SAS's services could be negatively affected if confidence in SAS and/or the airline industry should decrease.

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

SAS'S CONTRIBUTION TO SUSTAINABLE DEVELOPMENT

Sustainability activities at SAS support its aim, based on the requirement regarding long-term financial performance, of reducing environmental impact and furthering social progress.

ENVIRONMENTAL RESPONSIBILITY

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

To lessen the environmental impact, SAS is working on renewing the aircraft fleet and the incorporation of biofuel blends. In 2015/2016, SAS phased in two Airbus A330Es which, compared with the Airbus A340, reduce emissions from jet fuel per passenger kilometer by about 15%. SAS also phased in one Airbus A320neo which, compared with the Airbus A320 and Boeing 737-800, reduces jet-fuel emissions per seat kilometer by 15-20%.

Over the past few years, SAS has upgraded the aircraft engines on the majority of the Boeing 737 aircraft in its own fleet. The new engines are more efficient and reduce emissions of carbon dioxide by around 1-3%.

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

SAS measures its eco-efficiency with a climate index, which tracks trends in airline operations relative to environmental impact. The climate index improved to 91 as of October 31, 2016 compared with the base year 2010. SAS's CO2 emissions per passenger kilometer decreased to 99 grams (101) during the fiscal year. The target is a 20% reduction in carbon dioxide emissions per passenger kilometer by 2020 compared with 2010. At October 31, 2016, carbon emissions had decreased by 9.6%.

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

Flight operations have a dispensation for halon use and submit annual reports to the authorities on consumption including leakages and storage. SAS had no reported use of halon in 2015/2016.

During the fiscal year, the authorities did not issue SAS any orders that had a material impact on SAS's activities.

In exceptional cases in 2015/2016, aircraft operated by SAS deviated from local approach and takeoff rules. It is the considered opinion of SAS that none of the incidents had any material environmental consequences. Otherwise, SAS was not involved in any environment-related disputes or complaints and has no known major environment-related liabilities or provisions for ground pollution or the like.

CORPORATE SOCIAL RESPONSIBILITY

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

SAS reports sick leave pursuant to Swedish legislation. In 2015/2016, sick leave at SAS was 6.2% (7.0) and long-term sick leave was 4.2% (5.4%). Diversity policy at SAS is based on equal treatment of all employees and job applicants. Work on equal treatment includes promotion of diversity and equality in all its forms. The number of women in relation to men was 39% women and 61% men during 2015/2016.

With regard to human resources, SAS plans and conducts regular in-service training of all certified personnel such as technicians, cabin crew and pilots. This is done to uphold competency standards, such as those required by air operator certificates (AOCs). SAS also has an extensive management training program and a large number of internal training programs for all employees. The employee survey, PULS, was carried out in early 2016 and generally showed a positive trend with greater employee commitment and increased confidence in the management.

CORPORATE GOVERNANCE REPORT

This Corporate Governance Report for the 2015/2016 fiscal year has been prepared pursuant to the Swedish Annual Accounts Act and the Swedish Corporate Governance Code (the Code) based on the revision of the Code issued in November 2015.

PARENT COMPANY

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

DEPARTURES FROM THE CODE

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

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

IMPORTANT REGULATIONS GOVERNING SAS

External rules:

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

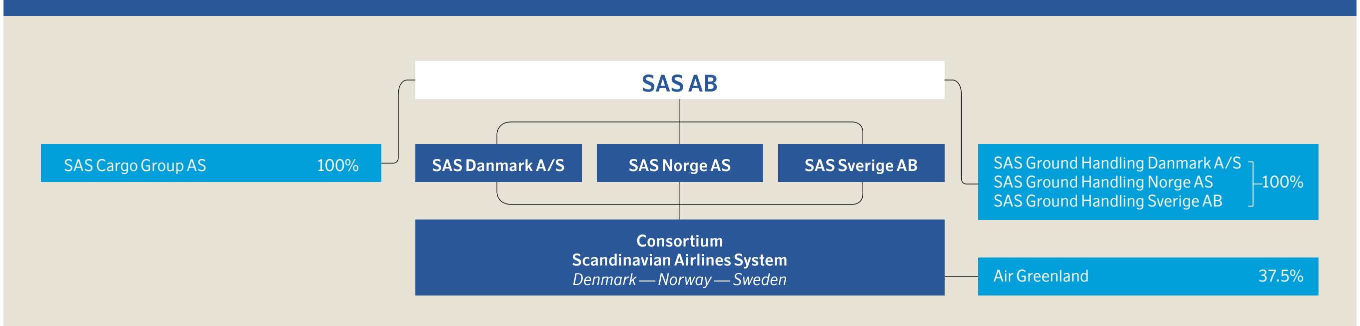
Internal rules:

- The Articles of Association[1]
- Information/IR policy
- The Board's work plan
- The Board's instructions to the President
- Code of Conduct[1]

No breaches of the relevant stock exchange rules or of good stock market practices have been reported by Nasdaq's Disciplinary Committee, the Oslo Børs or the Swedish Securities Council during the 2015/2016 fiscal year.

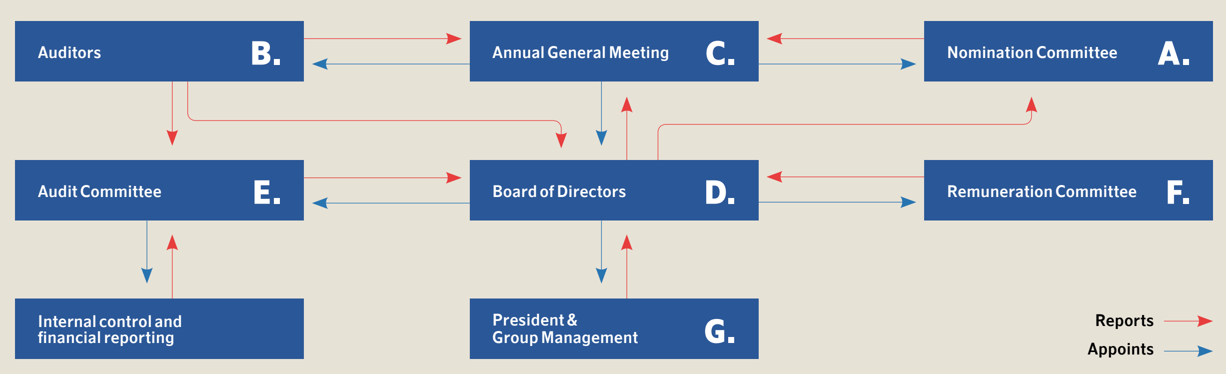
[1)] *Available for download at www.sasgroup.net*

SAS GROUP'S LEGAL STRUCTURE[1], JANUARY 31, 2017



[1)] *Operating companies.*

SAS CORPORATE GOVERNANCE STRUCTURE



OWNERSHIP, CONTROL AND SHARE CLASSES

SAS AB has three classes of shares: common shares, preference shares and subordinated shares. At October 31, 2016, there were 330.1 million common shares and 7 million preference shares issued with a quotient value of SEK 20.10. Together, these constituted a total registered share capital of MSEK 6,775. There are no subordinated shares issued or outstanding. Common shares and subordinated shares entitle the holders to one vote each. Each preference share entitles the holder to one-tenth of a vote.

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

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

The share price performance of common and preference shares is presented on pages 29-30.

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

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

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

Mandatory redemption

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

Subordinated shares

Should the Board deem the action of redeeming common shares not possible or inadequate, the Board may propose a shareholders' meeting to decide whether to issue subordinated shares in such number so as to safeguard continued Scandinavian ownership and control. Such a decision must be approved by at least half of the votes cast at the meeting. The subordinated shares thus issued are subscribed for with the support of previously issued warrants, which are currently held by a subsidiary of SAS AB but which the Board of SAS AB has the right to decide to transfer to one or more appropriate legal entities domiciled in Denmark, Norway or Sweden as soon as this is judged necessary for aviation policy reasons. In total, there are 75,000 warrants issued, which provide entitlement to subscription of a total of 150,000,000 subordinated shares. This would increase the company's share capital by a maximum of SEK 3,015,000,000. As soon as the threat no longer exists, the Board shall ensure that the subordinated shares thus issued are redeemed.

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

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

OWNERSHIP AND CONTROL

On October 31, 2016, SAS AB had a total of 64,394 shareholders. The major shareholders are the three Scandinavian governments, who represent 42.8% of the votes. More information about the share and the ownership structure is available on pages 29-30 in the SAS Annual Report 2015/2016.

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

EFFECTS OF A PUBLIC TAKEOVER BID

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

A. NOMINATION COMMITTEE

The Nomination Committee represents shareholders of SAS and is appointed by the AGM and tasked with preparing the meeting's resolutions on nomination and remuneration issues, as well as matters of procedure for the next nomination committee. An instruction for the Nomination Committee was adopted in conjunction with the 2016 AGM.

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

NOMINATION COMMITTEE, SIX MINUTED MEETINGS (REFERS TO THE PERIOD MARCH 8, 2016 TO JANUARY 15, 2017)

Member	Representative of	Votes, % October 31, 2016
Magnus Skåninger, Chairman	Swedish Ministry of Finance , for the Swedish government	17.1
Rasmus Lønborg	Danish Ministry of Finance, for the Danish government	14.2
Jan Tore Føsund	Norwegian Ministry of Trade, Industry and Fisheries, for the Norwegian government	11.4
Peter Wallenberg Jr	Knut and Alice Wallenberg's Foundation	7.5

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

At least one meeting with the Chairman and Group CEO must be held before the Committee submits its recommendations to the AGM. The Committee's recommendations are published in the notice convening the AGM, on the company's website, and at the AGM. Committee members received no fees or other remuneration from SAS for their work on the Nomination Committee.

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

B. AUDITORS

Auditors are elected by the AGM and tasked with scrutinizing the company's financial reporting and the administration of the company by the Board and the President. An election was conducted to appoint an auditor at the 2016 AGM, whereby PricewaterhouseCoopers AB (PwC) was reelected for the period until the end of the 2017 AGM. The auditor in charge is Bo Hjalmarsson. In addition to SAS AB, he has audit engagements for companies that include Ericsson, SAAB and Teracom.

On two occasions during the 2015/2016 fiscal year, the auditor in charge met with the Board, presenting the program for auditing work and reporting observations from the audit. The audit also met with the Audit Committee on five occasions. On one occasion during the fiscal year, the Board met with the company's auditor without the presence of the President or any other representative of the company management.

PwC submits an audit report for SAS AB, the Group, and an overwhelming majority of the subsidiaries. Over the past year, in addition to its auditing work, PwC has performed advisory services for SAS Group companies in auditing-related areas as outlined in the table below. For more information about the auditors' fees in 2015/2016, see Note 38.

Auditors' fees	MSEK
Auditing services	7
Auditing-related advisory services	1
Tax consultancy services	1
Other services	0
Total	**9**

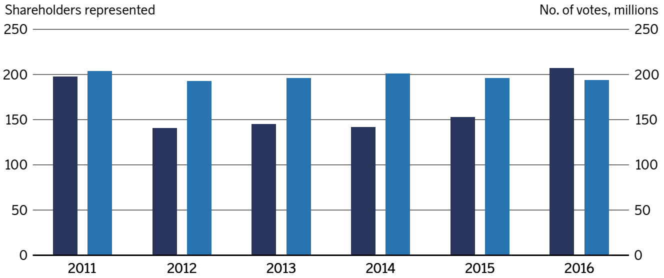
C. SHAREHOLDERS' MEETING

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

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

The Articles of Association contain no special provisions regarding the election and discharge of Board members or regarding changes to the Articles of Association. Currently, no authority has been provided by the shareholders' meeting to the Board empowering the Board to issue new common and/or preference shares or to buy back treasury shares.

NUMBER OF PARTICIPANTS IN AGMS 2011-2016



2016 AGM

Decisions taken by AGM 2016
- Adoption of statement of income and balance sheet.
- Appropriation of profit or loss in accordance with the adopted balance sheet.
- Discharge from liability for Board members and President.
- Appointment of Board members, Chairman of the Board, auditors and Nomination Committee.
- Guidelines for remuneration of senior executives.

BOARD FEES DECIDED AT THE 2016 ANNUAL GENERAL SHAREHOLDERS' MEETING

Name	Board of Directors	Audit Committee	Remuneration Committee	Total, TSEK	Remuneration from SAS in addition to Board fees, TSEK[1]
Fritz H. Schur	410		49	459	
Jacob Wallenberg	242		17	259	
Dag Mejdell	242		17	259	
Monica Caneman	207	66		273	
Carsten Dilling	207	31		238	
Lars-Johan Jarnheimer	207	31		238	
Berit Svendsen	207			207	
Sanna Suvanto-Harsaae	207			207	
Jens Lippestad	207			207	885
Sven Cahier	207			207	618
Janne Wegeberg	207[2]			207	974
Total	**2,550**	**128**	**83**	**2,761**	**2,477**

1) Pertains to the period between November 2015 and October 2016 and excludes social security expenses.
2) Shared with Bo Nielsen who acted as employee representative on the Board until September 2016.

OUTCOME NOVEMBER 2015–OCTOBER 2016, RECORDED FEES FOR DEPUTY EMPLOYEE REPRESENTATIVES

Name	Period	Total, SEK
Kim Kalsås-Carlsen	November 2015–July 2016	7,000
Tor Kjøstel Lie	July 2016–October 2016	3,000
Elin Rise	November 2015–October 2016	10,000
Erik Bohlin	November 2015–October 2016	10,000
Janne Wegeberg	November 2015–September 2016	7,000
Eva Dahlberg	November 2015–October 2016	10,000
Jean-Pierre Schomburg	November 2015–October 2016	10,000

WELCOME TO THE 2017 AGM

Date and time: February 22, 2017 at 3:00 p.m. at the head office of SAS, Frösundaviks allé 1, Solna, Sweden

Notice: Published on January 18, 2017

Attending the AGM: Consult the notice available on SAS's website, www.sasgroup.net

Deadline for notification of attendance: February 15, 2017 for shareholders with shares registered in Denmark and Norway and February 16 for shareholders with shares registered in Sweden.

Record date: February 16, 2017

D. BOARD OF DIRECTORS

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

The Board members are elected by the AGM for the period until the next AGM has been held. The Articles of Association stipulate that the Board of Directors should consist of six to eight members elected by the shareholders' meeting. During the year, the Board comprised eight duly elected members, no deputies and three employee representatives, each with two personal deputies. The employee representatives are appointed by the SAS Group's employee groups in Denmark, Norway and Sweden in line with governing legislation and special agreements. Deputies attend Board meetings only in the absence of an ordinary member. Except for employee representatives, no Board member is employed by SAS AB or any other company in the SAS Group.

The elected Board members are appointed for the period until the end of the next AGM. No regulation exists that limits the period of time a Board member can serve as a member of the Board. The experience of the Board members and their independence in relation the owners of the company are disclosed on pages 52-53.

The average age of members is 59 and three of the eight members elected by the shareholders' meeting are women. All members elected by the shareholders' meeting are regarded by the Nomination Committee as being independent of the company and company management. Moreover, all Board members are deemed independent in relation to major shareholders at October 31. In conjunction with the 2016 AGM, owing to his previous employment, Dag Mejdell was not regarded as independent in relation to the Norwegian government. The other Board members are deemed to be independent of the company's major shareholders. SAS AB meets the requirements of the Code regarding Board independence vis-à-vis the company, company management and the company's major shareholders. Furthermore, the Nomination Committee believes that the Code's requirements for diversity, breadth and an even gender balance improved in 2016 in accordance with the Committee's ambition of achieving an equal gender balance on the Board of Directors.

To streamline and enhance the work of the Board, there are two committees:
- The Remuneration Committee
- The Audit Committee

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

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

The Board's work 2015/2016

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

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

In 2015/2016 the Board also adopted the SAS Code of Conduct that defines how SAS and its employees should conduct themselves in public. The Board also reviewed the extent to which employees had undertaken training regarding the SAS Code of Conduct.

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

Between November 2015 and October 2016, the Board held 14 scheduled Board meetings, including a statutory meeting and two meetings held by correspondence. The President and other senior executives in the company attended Board meetings to make presentations and the company's General Counsel served as the Board's secretary.

ATTENDANCE AT BOARD MEETINGS, NOVEMBER 2015–OCTOBER 2016[1]

Name	Dec 15	Jan 28[3]	Feb 11	Mar 7	Mar 8[2]	Apr 19	May 18[3]	Jun 8-9	Sep 7	Oct 5[3]	Oct 26
Fritz H. Schur, Chairman	●	●	●	●	●	●	●	●	●	●	●
Jacob Wallenberg, Vice Chairman	●	●	●	●	●	●	●	●	●	●	●
Dag Mejdell, Second Vice Chairman	●	●	●	○	●	●	●	●	●	●	○
Monica Caneman, member	●	●	●	●	●	●	●	●	●	○	●
Carsten Dilling, member	●	○	●	●	●	●	○	●	●	●	●
Lars-Johan Jarnheimer, member	●	●	●	●	●	●	○	●	●	●	●
Birger Magnus, member	●	○	●	●	○	–	–	–	–	–	–
Berit Svendsen, member	–	–	–	–	–	●	●	●	●	●	●
Sanna Suvanto-Harsaae, member	○	●	●	●	●	●	○	●	●	●	●
Jens Lippestad, employee representative	●	●	●	●	●	●	●	○[4]	●	●	●
Bo Nielsen, employee representative	●	●	●	○	●	●	●	●	–	–	–
Sven Cahier, employee representative	●	●	●	●	●	●	●	●	●	●	●
Janne Wegeberg, employee representative	–	–	–	–	–	–	–	–	●	●	●

● Present ○ Absent

1) The Board also held two meetings per capsulam on February 1 and June 14, 2016.
2) Three meetings of which one was the statutory meeting following the AGM.
3) Extra meeting via telephone.
4) Tor Kjøstel Lie, First Deputy, present.
5) Two minuted meetings.

MAIN ISSUES ADDRESSED AT BOARD MEETINGS

December	January	February	March	April	May	June	September	October
Dec 15 Year-end report for 2014/2015 and the proposed disposition of earnings, the report from the external auditors, and adoption of the proposed budget for 2015/2016 along with SAS's IR/Information Policy.	**Jan 28** Address of remuneration issues.	**Feb 11** Adoption of the 2014/2015 Annual Report, the dividend policy and the work plan for the audit, review of flight safety and sustainability work and the notice of the 2016 AGM.	**Mar 7** Adoption of the report for the first quarter of 2015/2016 **Mar 8** Review of PULS, diversity and equality issues and sick leave. Statutory Board meeting following the AGM.	**Apr 19** Meeting and work plan for 2015/2016, status of collective agreement negotiations with cabin crew and pilots' labor unions, and review of earnings performance.	**May 18** Status of negotiations with pilots' labor unions.	**Jun 8-9** Review of SAS's strategy. Decision not to outsource ground handling services at the primary airports, auditors' review report and adoption of the report for the second quarter 2015/2016.	**Sep 7** Review of the Board's formal work plan and instructions, follow-up of risk management, regulatory compliance, internal control, corporate governance and adoption of the report for the third quarter of 2015/2016.	**Oct 5** Decision to proceed with negotiations concerning sale of Cimber. **Oct 26** Evaluation of the Board's and President's work and review of the budget for 2016/2017.

E. AUDIT COMMITTEE

AREA OF RESPONSIBILITY

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

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

APPOINTMENT OF MEMBERS:

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

THE AUDIT COMMITTEE'S WORK 2015/2016 – FIVE MINUTED MEETINGS

Meeting date:	Dec 15	Feb 11	Mar 7	Jun 7	Sep 7
Monica Caneman (Chairman)	●	●	●	●	●
Lars-Johan Jarnheimer	●	●	●	●	●
Carsten Dilling	-	-	-	●	●
Birger Magnus	●	●	○	-	-

● Present ○ Absent

F. REMUNERATION COMMITTEE

AREA OF RESPONSIBILITY

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

APPOINTMENT OF MEMBERS

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

REMUNERATION COMMITTEE'S WORK 2015/2016 – THREE MINUTED MEETINGS

Meeting date:	Dec 15	Sep 6	Sep 7
Fritz H. Schur (Chairman)	●	●	●
Jacob Wallenberg	●	●	●
Dag Mejdell	●	●	●

● Present ○ Absent

REMUNERATION POLICIES AND OTHER TERMS OF EMPLOYMENT FOR COMPANY MANAGEMENT AT THE 2015/2016 AGM

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

Remuneration consists of fixed salary, other benefits and pension. The fixed salary is to reflect the position's requirements pertaining to skills, responsibility, complexity and the manner in which it contributes to achieving the business objectives. The fixed salary is to also reflect the senior executive's performance and can therefore be both individual and differentiated. Other benefits, including company car and health insurance, must be market-based and only constitute a limited part of the total remuneration. Pension benefits are to be defined-contribution, with premiums not exceeding 30% of the fixed annual salary. Agreements concluded previously with some senior executives that contain partially deviating conditions governing pensions, notice periods and severance pay will be respected until they cease or are renegotiated. The Board deems that particular circumstances exist for deviation from the remuneration policies and, accordingly, decided to allow variable remuneration to the member of Group Management responsible for Commercial.

Remuneration of the President is to be decided within the framework of policies approved by the Board of SAS AB and after preparation and recommendation by the Remuneration Committee established by the Board. Remuneration of other members of Group Management is to be decided by the President within the framework of approved remuneration policies after consultation with the Remuneration Committee. The 2015/2016 AGM adopted the remuneration policies for senior executives. The remuneration policies for 2015/2016 remained unchanged compared with those that applied in 2014/2015. Pursuant to the resolution of the AGM, no variable remuneration is payable to senior executives, except for the Executive Vice President Commercial, and no share-related incentive programs exist at SAS.

The detailed guidelines are available on the company's website www.sasgroup.net under Corporate governance, 2016 AGM. For detailed information about remuneration and benefits for the Board, President and senior executives in 2015/2016 see Note 3 on page 71.

The substance of the guidelines to be proposed to the AGM on February 22, 2017 is unchanged in relation to the remuneration policies adopted at the 2016 AGM.

G. PRESIDENT AND GROUP MANAGEMENT

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

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

Group Management comprised seven members, including the President, for the majority of 2015/2016. Mattias Forsberg took up his position in Group Management during the fiscal year. The composition and functions of the Group Management are shown on page 54.

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

The main business areas of SAS that are not themselves a separate legal entity are led by Group Management through representatives for the respective business area. Group Management's management and control of operations are based on guidelines and policies regarding financial management and follow-up, communication issues, human resources, legal issues, brands, business ethics and environmental matters.

INTERNAL CONTROL – FINANCIAL REPORTING

SAS applies COSO, the internationally recognized framework for internal control, to describe and evaluate the Group's control structure. Internal control of financial reporting is a process involving the Board of Directors, company management and employees, and is designed to provide reasonable assurance regarding the reliability of external reporting. The Board is ultimately responsible for internal control. Five areas that jointly form the basis of a sound control structure are described below.

CONTROL ENVIRONMENT

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

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

RISK ASSESSMENT

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

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

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

CONTROL ACTIVITIES

Control activities are carried out at different levels within SAS to manage risks and ensure the reliability of financial reporting. During the 2015/2016 fiscal year, SAS completed efforts to define important control activities, or key controls, in relation to significant risks concerning financial reporting. These key controls have been compiled and described in relation to each process as part of SAS's internal control framework. Processes covered by the framework include the management process, accounting process, revenue process, purchasing process, payroll process, asset management process and controls related to IT. The framework will be subject to an annual review based on the updated risk assessment concerning risks related to financial reporting.

SAS's internal audit carried out five audits in total during the year pertaining to:
• Corporate governance
• The internal control framework
• The management of wet-lease agreements
• User administration related to IT
• The payroll process

INFORMATION AND COMMUNICATION

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

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

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

MONITORING

Until May 2013, internal audit was an internal function within the Group. However, as of autumn 2013 internal audit has been managed externally. The audits carried out by internal audit are based on an annual internal audit plan and are mainly focused on operational risk areas. However, the internal audit plan also covers processes that impact financial reporting and the risk of irregularities, improper favoritism of another party at the company's expense, and the risk of loss or embezzlement. The annual internal audit plan is approved by the Audit Committee and the SAS Group's Board.

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

BOARD OF DIRECTORS

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

The 2016 AGM adopted the Nomination Committee's recommendation for reelection of Fritz H. Schur, Monica Caneman, Carsten Dilling, Lars-Johan Jarnheimer, Dag Mejdell, Sanna Suvanto-Harsaae and Jacob Wallenberg, and the election of new member Berit Svendsen. Fritz H. Schur was reelected Chairman of the Board.

The composition of the Board is based on the fact that SAS operates in a market subject to significant pressure for change and intense competition. Against this background, the Nomination Committee felt that continuity within the Board was highly important while also identifying a need for further operational experience in the area of digitization. With its experience of SAS and previous action programs related to the qualified Board work, the Nomination Committee deemed the Board to be particularly suited to provide the company's management the necessary support in the ongoing change process.

The Nomination Committee's opinion was that the Code's requirements for diversity, breadth and an even gender balance increased through the Nomination Committee's proposal. No share convertibles or options have been issued to the Board of SAS AB.

CHAIRMAN
FRITZ H. SCHUR, BORN 1951

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

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

Education: B.Sc. Economics and Business Administration.

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

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

Shareholding of related parties: 0.

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

FIRST VICE CHAIRMAN
JACOB WALLENBERG, BORN 1956

Vice Chairman of the Board of SAS AB since 2001.

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

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

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

Shareholding: 10,000 common shares.

Shareholding of related parties: 0.

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

SECOND VICE CHAIRMAN
DAG MEJDELL, BORN 1957

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

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

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

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

Shareholding: 4,214 common shares.

Shareholding of related parties: 0.

Independent of the company and the company management, and independent of the company's major shareholders from the latter part of the 2015/2016 fiscal year.

MONICA CANEMAN,
BORN 1954

Member of the Board of SAS AB since 2010.

Directorships: Chairman of Arion bank hf, Bravida Holding AB and Big Bag AB. Board member of Comhem AB, Intermail A/S and Nets AB.

Education: MBA, Stockholm School of Economics.

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

Shareholding: 4,000 common shares.

Shareholding of related parties: 0.

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

Auditors: PricewaterhouseCoopers AB (PwC)

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

Other major engagements: Ericsson, SAAB and Teracom.

Board secretary: Marie Wohlfahrt, General Counsel.

CARSTEN DILLING, BORN 1962

Member of the Board of SAS AB since 2014.

Directorships: Vice Chairman of NNIT A/S.

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

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

Shareholding: 0.

Shareholding of related parties: 0.

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

LARS-JOHAN JARNHEIMER, BORN 1960

Member of the Board of SAS AB since 2013.

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

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

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

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

Shareholding of related parties: 0.

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

BERIT SVENDSEN, BORN 1963

Member of the Board of SAS AB since 2016.

Directorships: DNB ASA and Bisnode AB.

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

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

Shareholding: 0.

Shareholding of related parties: 0.

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

SANNA SUVANTO-HARSAAE, BORN 1966

Member of the Board of SAS AB since 2013.

Directorships: Chairman of Babysam AS, Sunset Boulevard AS, TCM AS, Bext VPG AS, Workz AS, Altia OYj, BoConcept AS and Footway AB. Board member of Paulig Oy, Broman group OYj, Clas Ohlson AB and Upplands Motor AB.

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

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

Shareholding: 0.

Shareholding of related parties: 0.

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

EMPLOYEE REPRESENTATIVE JENS LIPPESTAD, BORN 1960

Employed at Scandinavian Airlines in Norway. Member of the Board of SAS AB since 2014.

Shareholding: 15,000 common shares.

Shareholding of related parties: 0.

DEPUTIES:
Tor Kjøstel Lie, First Deputy.
Shareholding: 0.

Elin Rise, Second Deputy.
Shareholding: 0.

EMPLOYEE REPRESENTATIVE SVEN CAHIER, BORN 1951

Employed at Scandinavian Airlines in Sweden. Member of the Board of SAS AB since 2014.

Shareholding: 418 common shares.

Shareholding of related parties: 0.

DEPUTIES:
Erik Bohlin, First Deputy.
Shareholding: 0.

Eva Dahlberg, Second Deputy.
Shareholding: 0.

EMPLOYEE REPRESENTATIVE JANNE WEGEBERG, BORN 1951

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

Shareholding: 0 shares.

Shareholding of related parties: 0.

DEPUTIES:
Jean Pierre Shomburg, First Deputy.
Shareholding: 0.

Kim John Christiansen, Second Deputy.
Shareholding: 0.

GROUP MANAGEMENT

Group Management is responsible for the Group's business management, financial reporting, acquisitions/divestments, financing and communication, and other corporate matters. The members of the Group Management are appointed by the President in consultation with the Board of Directors. Only the President reports to the Board, the other members of Group Management report to the President. Group Management's responsibilities are divided among its members with regard to managing the company's business affairs, and minuted meetings are normally held every week.

RICKARD GUSTAFSON BORN 1964

President and CEO

Member of SAS Group Management since February 1, 2011.

Previously: Various executive positions at GE Capital, both in Europe and the US, and President of Codan/Trygg-Hansa from 2006–2011.

External directorships: Chairman of Aleris and Board member of FAM AB.

Education: M.Sc. Industrial Economics.

Shareholding: 40,000 common shares.

Shareholding of related parties: 5 common shares.

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

GÖRAN JANSSON, BORN 1958

CFO and Deputy President.

Member of SAS Group Management since 2011.

Previously: CFO and Deputy CEO of Assa Abloy.

External directorships: Board member of SPP.

Education: Graduate in Business Administration from Stockholm University.

Shareholding: 1,330 preference shares.

Shareholding of related parties: 0.

MATTIAS FORSBERG, BORN 1972

Executive Vice President and CIO.

Member of SAS Group Management since January 1, 2016.

Previously: CIO at Systembolaget 2011-2015 and previously CIO at B&B Tools and strategy/management consultant at Accenture, including experience of Swedish and international assignments.

External directorships: Member of Skandia's Council of Delegates.

Education: MSc in Engineering Physics and Business and Economics from Uppsala University.

Shareholding: 0.

Shareholding of related parties: 0.

CARINA MALMGREN HEANDER, BORN 1959

Executive Vice President and Chief of Staff.

Member of SAS Group Management since January 1, 2015.

Previously: Several leading positions in HR and operations at Electrolux, Sandvik and ABB.

External directorships: Chairman of Svenska Flygbranschen AB. Board member of Svedbergs AB and Scandinavian Track Group AB.

Education: MBA, Linköping University.

Shareholding: 0.

Shareholding of related parties: 0.

EIVIND ROALD, BORN 1966

Executive Vice President and Chief Commercial Officer.

Member of SAS Group Management since April 1, 2012.

Previously: Eivind Roald joined SAS from Hewlett Packard in Norway, where he was President for seven years. He also has 16 years' experience from such companies as Accenture and Willi Railo Consulting, where he focused on the restructuring of sales and marketing functions.

External directorships: Crayon Group AS.

Education: Bachelor's degree from the Norwegian Business School (BI).

Shareholding: 0.

Shareholding of related parties: 84,000 common shares.

LARS SANDAHL SØRENSEN, BORN 1963

Executive Vice President, Chief Operating Officer and Accountable Manager.

Member of SAS Group Management since May 1, 2015.

Previously: Lars Sandahl Sørensen has an international background from senior executive roles in ISS World (Group CCO), SAS Group (Group CCO & CEO of SAS International), Visit Denmark (CEO) and the Confederation of Danish Industry. Recently he has also been a partner in AIMS International and advisor to European large cap Active ownership funds.

External directorships: NKT Holding A/S, The Danish Industry Foundation, the Board of Management and Business Policy Committee at the Confederation of Danish Industry, Industrial Employers in Copenhagen (IAK) and Sport Event Denmark.

Education: Economics & Management from Kansai Gaidai University & St. Cloud University and Stanford University.

Shareholding: 0.

Shareholding of related parties: 0.

KARL SANDLUND, BORN 1977

Executive Vice President and Chief Strategy Officer.

Member of SAS Group Management since February 1, 2014.

Previously: Karl Sandlund comes from a position as Vice President Network & Partners and previously worked in management roles with strategic assignments for SAS. Karl Sandlund worked for McKinsey before joining SAS in 2004.

External directorships: None.

Education: M.Sc. in Industrial Engineering and Management from Linköping University.

Shareholding: 2,000 common shares, 130 preference shares.

Shareholding of related parties: 0.

DIVIDENDS, DISPOSITION OF EARNINGS AND OUTLOOK

DIVIDEND

The Board of Directors proposes to the 2017 AGM that no dividends be paid to holders of SAS AB's common shares for the November 1, 2015 to October 31, 2016 fiscal year. This is motivated by SAS's return on invested capital in 2015/2016 not exceeding the average capital cost under the dividend policy. Moreover, the Board has taken into consideration SAS's financial position, maturing borrowings and future investment needs for renewal of the aircraft fleet.

The Board proposes that dividends on preference shares outstanding be paid quarterly in an amount of SEK 12.50 per preference share and limited to a maximum of SEK 50 per preference share. The record dates proposed ahead of the next AGM for the quarterly dividends are May 5, August 4, and November 3 in 2017 and February 5 in 2018. Payment through Euroclear Sweden AB is expected to be carried out on May 10, August 9, and November 8 in 2017 and February 8 in 2018.

PROPOSED DISPOSITION OF EARNINGS

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

	SEK
Retained earnings	5,371,822,236
Net income for the year	-136,764,223
Total unrestricted equity	**5,235,058,013**

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

	SEK
Dividends to holders of preference shares of SEK 50 per preference share	350,000,000
To be carried forward	4,885,058,013
Total	**5,235,058,013**

SIGNIFICANT EVENTS AFTER OCTOBER 31, 2016

- SAS signed agreements for the financing of 18 Airbus A320neos through sale and leaseback.
- SAS contracted the financing of two Boeing 737s and four Airbus A319s until 2018 through a MUSD 75 credit facility.
- SAS contracted the sale of Cimber as well as 11 CRJ900s to CityJet.

OUTLOOK FOR 2016/2017

Capacity will increase in Scandinavia in 2016/2017, but is expected to grow slightly more slowly than in the last fiscal year. The competition and yield pressure is expected to continue to present a challenge. At the same time, jet-fuel costs and current market prices will increase in 2016/2017. To tackle this trend, SAS will increase the production platform's efficiency and flexibility, and enhance organizational efficiency.

Uncertainty in the macro environment is considerable, exchange rates and jet-fuel prices are volatile, and national airport departure taxes are being considered. Higher jet-fuel costs and a lower yield will result in significantly lower earnings for the first quarter of 2016/2017 compared with the year earlier. To sum up, this means the following outlook for 2016/2017:

Despite market uncertainty and a weak start to the fiscal year, SAS expects to be able to deliver a positive income before tax and nonrecurring items for the 2016/2017 fiscal year. The outlook is based on no unexpected events occurring.

THE OUTLOOK IS BASED ON THE FOLLOWING PRECONDITIONS AND ASSUMPTIONS AT OCTOBER 31, 2016:

- SAS's capacity growth (ASK) in 2016/2017 will be lower year-on-year and amount to 6–8%. Growth will be greatest on the intercontinental and European leisure routes. The number of flights is expected to increase by about 2%.
- A lower PASK in 2016/2017 compared with 2015/2016 as a result of longer average flight distances and continued underlying yield pressure.
- A lower unit cost through intense focus on efficiency measures, which in 2016/2017 are expected to generate effects of about SEK 0.7 billion.
- Net investments are expected to amount to about SEK 1 billion in 2016/2017.

FACTS
AIRBUS A320NEO

- 15–20% lower fuel consumption compared with the current A320 (A320ceo)
- Noise reduction of 50%
- Number of seats — 174
- Fuel consumption 0.025 liters per seat/km

COMMENTS ON SAS'S EARNINGS AND FINANCIAL STATEMENTS

Despite positive earnings our profitability is not sufficient. Given the financing need for aircraft and maturing loans, we must strengthen profitability, inter alia, to reduce our high financing costs and create shareholder value.

COMMENTS ON EARNINGS

SAS posted positive income before tax and nonrecurring items of MSEK 939 (1,174) for 2015/2016. During the fiscal year, earnings were primarily impacted by:

Lower jet-fuel costs — In autumn 2014, the jet-fuel price fell significantly. Like other airlines, SAS hedges future jet-fuel consumption, which meant that it was not until the last six months of 2015 before SAS was able to take advantage of the lower jet-fuel price on a wider scale. Accordingly, the full effect of lower jet-fuel prices was first realized by SAS in the 2015/2016 fiscal year. As a result of SAS increasing capacity and the rising jet-fuel prices, jet-fuel costs rose again in the last quarter of 2015/2016. More information about SAS's hedging is available on page 42.

Lower unit and passenger revenue — SAS's currency-adjusted unit revenue (PASK) declined 8% and was mainly attributable to two factors. Firstly, SAS increased capacity on the intercontinental routes, which by their structure have a lower unit revenue. Secondly, competition intensified, which resulted in airlines sharing the lower jet-fuel costs with customers in the form of lower prices.

Higher technical maintenance costs — Technical maintenance costs rose MSEK 535 in 2015/2016. The increase was mainly attributable to expenses on the return of leased aircraft, changed assessments for future engine maintenance and an increase in heavy maintenance. SAS is currently in a period where more aircraft are undergoing heavy maintenance, which means rising costs for technical maintenance since this is conducted by external partners. Our assessment is that technical maintenance costs will also remain at this higher level in 2017.

Negative currency effects — SAS's EBT was adversely impacted by currency effects of MSEK 1,741. The exchange-rate trend had a negative impact on revenue of MSEK -572, mainly due to a weaker NOK and GBP. The negative effect on operating expenses and working capital was MSEK -1,194. This was mainly due to smaller positive effects from SAS's currency hedging than last year as a consequence of the long-term strengthening of the USD. More information about currency effects in 2015/2016 and SAS's hedging strategy is available on pages 42-43.

A more detailed review of our revenue, operating expenses and nonrecurring items can be found on pages 33-34 of the Report by the Board of Directors.

FINANCIAL POSITION AND CASH FLOW

SAS strives continuously to minimize the cost of capital and to strengthen our financial position in the long term. As part of optimizing the capital structure, our directly owned fleet increased with eight previously leased aircraft that we acquired, which reduced our total cost. Our long-haul venture is another good example of how we strive to optimize invested capital. Instead of investing in brand new aircraft, we leased four Airbus A340s that we then upgraded to create a passenger experience on a par with a brand new aircraft. We thereby limited the investment need for each aircraft at around 90% compared with the list price for an equivalent aircraft. This has also reduced the level of risk for our long-haul venture. During the fiscal year, we also worked with securing financing for the order for 30 Airbus A320neos and we now have sale and leaseback agreements for 18 aircraft.

SAS's financial position has strengthened over the past few years, but despite positive earnings, shareholders' equity decreased by MSEK 313 to MSEK 6,026 in 2015/2016. The decrease was mainly due to revaluations of defined-benefit pension plans amounting to MSEK 1,627. Accordingly, the equity/assets ratio dropped two percentage points to 19% during the year.

Cash flow from operating activities amounted to MSEK 3,663. Cash flow was positively impacted by the repayment of fines of MSEK 655 from the European Commission. Net investments totaled MSEK 2,615. This meant that SAS's free cash flow before financing activities was MSEK 1,048. Cash and cash equivalents amounted to MSEK 8,370 at October 31, 2016. Financial preparedness was 41%, far exceeding the target of 20%. SAS improved its competitiveness and its stable financial preparedness contributed to Moody's and Standard & Poor's upgrading SAS's credit rating in summer 2016.

Even if we have a favorable financial preparedness, our financial position is not satisfactory, which means SAS's financing costs are too high. This is confirmed by SAS's continued low credit rating.

CONTINUED CHANGE

Given our lack of sufficient profitability and future financing needs, it is crucial that we continue to work intensively in 2016/2017 with structural and ongoing efficiency measures. This will enable us to strengthen SAS's financial position and profitability and, thereby reduce long-term financing costs for SAS.

Thank you for choosing SAS and for your interest in our operations.

Göran Jansson
CFO and Deputy President.

January 31, 2017

CONSOLIDATED STATEMENT OF INCOME INCLUDING STATEMENT OF OTHER COMPREHENSIVE INCOME

MSEK	Note	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Revenue	2	39,459	39,650
Payroll expenses[1]	3	-9,105	-9,622
Other operating expenses[2]	4	-24,552	-24,558
Leasing costs for aircraft		-2,840	-2,593
Depreciation, amortization and impairment[3]	5	-1,367	-1,466
Share of income in affiliated companies	6	39	37
Income from the sale of shares in subsidiaries, affiliated companies and operations		-7	0
Income from the sale of aircraft, buildings and slot pairs	7	265	777
Operating income		**1,892**	**2,225**
Income from other securities holdings	8	1	-300
Financial revenue	9	91	124
Financial expenses	9	-553	-632
Income before tax		**1,431**	**1,417**
Tax	10	-110	-461
Net income for the year		**1,321**	**956**
Other comprehensive income			
Items that may later be reversed to net income:			
Exchange-rate differences in translation of foreign operations		212	-177
Cash-flow hedges – hedging reserve, net after tax of -30 (-262)		107	928
Items that will not be reversed to net income:			
Revaluations of defined-benefit pension plans, net after tax of 575 (-40)		-1,627	75
Total other comprehensive income, net after tax		**-1,308**	**826**
Total comprehensive income		**13**	**1,782**
Net income for the year attributable to:			
Parent Company shareholders		1,321	956
Non-controlling interests		0	0
Earnings per common share (SEK)[4]	42	2.94	1.84
Earnings per common share after dilution (SEK)[4]	42	2.57	1.65

1) Includes restructuring costs and other nonrecurring items of MSEK 34 (130).
2) Includes restructuring costs and other nonrecurring items of MSEK -323 (102).
3) Includes restructuring costs and other nonrecurring items of MSEK 55 (0).
4) Earnings per common share are calculated as net income for the period attributable to Parent Company shareholders less preference-share dividends in relation to an average of 329,902,126 (329,000,000) common shares outstanding.

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

Income before tax and nonrecurring items, MSEK	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Income before tax	1,431	1,417
Impairment[1]	11	314
Restructuring costs	42	177
Capital gains/losses	-269	-789
Other nonrecurring items[2]	-276	55
Income before tax and nonrecurring items	**939**	**1,174**

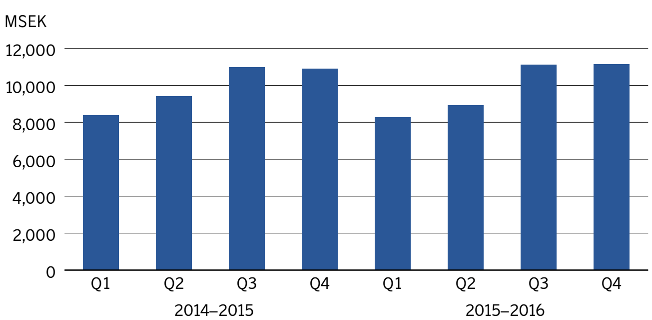
1) Includes impairment of shares in Widerøe of MSEK -270 in the fourth quarter of 2014/2015.
2) Includes a positive earnings impact of MSEK 655 due to the repayment of fines in the second quarter of 2015/2016 relating to the annulled judgment pertaining to the global air cargo cartel.

STATEMENT OF INCOME EXCLUDING OTHER COMPREHENSIVE INCOME — QUARTERLY BREAKDOWN

MSEK	2014–2015					2015–2016				
	Q1	Q2	Q3	Q4	Full-year	Q1	Q2	Q3	Q4	Full-year
	Nov–Jan	Feb–Apr	May–Jul	Aug–Oct	Nov–Oct	Nov–Jan	Feb–Apr	May–Jul	Aug–Oct	Nov–Oct
Revenue	8,371	9,403	10,973	10,903	39,650	8,275	8,916	11,133	11,135	39,459
Payroll expenses	-2,478	-2,439	-2,386	-2,319	-9,622	-2,334	-2,311	-2,275	-2,185	-9,105
Other operating expenses	-5,668	-6,135	-6,503	-6,252	-24,558	-5,169	-5,429	-6,684	-7,270	-24,552
Leasing costs for aircraft	-601	-662	-659	-671	-2,593	-700	-706	-737	-697	-2,840
Depreciation, amortization and impairment	-282	-405	-343	-436	-1,466	-341	-312	-337	-377	-1,367
Share of income in affiliated companies	-10	-2	25	24	37	-12	-2	25	28	39
Income from the sale of shares in subsidiaries, affiliated companies and operations	11	0	0	-11	0	0	4	0	-11	-7
Income from the sale of aircraft, buildings and slot pairs	0	698	35	44	777	95	80	33	57	265
Operating income	**-657**	**458**	**1,142**	**1,282**	**2,225**	**-186**	**240**	**1,158**	**680**	**1,892**
Income from other securities holdings	3	0	0	-303	-300	1	0	0	0	1
Financial revenue	22	41	30	31	124	22	32	20	17	91
Financial expenses	-204	-144	-141	-143	-632	-146	-145	-142	-120	-553
Income before tax	**-836**	**355**	**1,031**	**867**	**1,417**	**-309**	**127**	**1,036**	**577**	**1,431**
Tax	196	-76	-231	-350	-461	63	44	-231	14	-110
Net income for the period	**-640**	**279**	**800**	**517**	**956**	**-246**	**171**	**805**	**591**	**1,321**
Attributable to:										
Parent Company shareholders	-638	278	799	517	956	-246	171	805	591	1,321
Non-controlling interests	-2	1	1	0	0	0	0	0	0	0

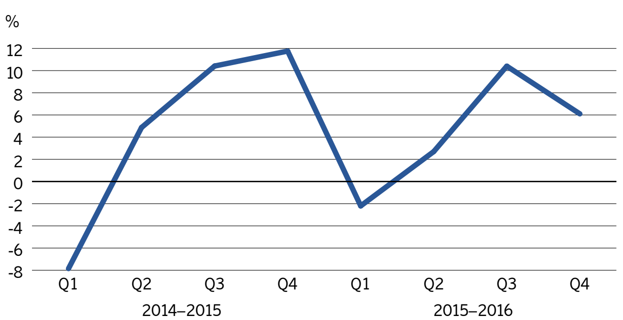
REVENUE

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



EBIT MARGIN

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



CONSOLIDATED BALANCE SHEET

ASSETS, MSEK	Note	Oct 31, 2016	Oct 31, 2015
Fixed assets			
Intangible assets	11	1,923	1,798
Tangible fixed assets	12		
Land and buildings		527	560
Aircraft		8,254	7,095
Spare engines and spare parts		48	31
Workshop and aircraft servicing equipment		93	101
Other equipment and vehicles		105	137
Investment in progress		33	190
Prepayments relating to tangible fixed assets	13	2,135	1,482
		11,195	**9,596**
Financial fixed assets	14		
Equity in affiliated companies	6	398	421
Other holdings of securities		3	3
Pension funds, net	15	2,615	4,368
Deferred tax asset	10	854	375
Other long-term receivables		2,331	1,951
		6,201	**7,118**
Total fixed assets		**19,319**	**18,512**
Current assets			
Expendable spare parts and inventories	16	312	345
		312	**345**
Current receivables	17		
Accounts receivable		1,406	1,249
Receivables from affiliated companies	18	1	2
Other receivables		1,193	867
Prepaid expenses and accrued income	19	1,153	1,093
		3,753	**3,211**
Cash and cash equivalents			
Short-term investments	20	6,067	5,151
Cash and bank balances		2,303	3,047
		8,370	**8,198**
Total current assets		**12,435**	**11,754**
TOTAL ASSETS		**31,754**	**30,266**

SHAREHOLDERS' EQUITY AND LIABILITIES, MSEK	Note	Oct 31, 2016	Oct 31, 2015
Shareholders' equity			
Share capital	21	6,776	6,754
Other contributed capital		327	327
Reserves	22	1,251	932
Retained earnings		-2,328	-1,674
Total shareholders' equity attributable to Parent Company shareholders		**6,026**	**6,339**
Non-controlling interests		0	0
Total shareholders' equity		**6,026**	**6,339**
Long-term liabilities	23		
Subordinated loans	24	1,157	1,104
Bond loans	25	2,183	2,184
Other loans	26	4,390	4,807
Other provisions	28	2,089	1,992
Other liabilities		3	188
		9,822	**10,275**
Current liabilities			
Current portion of long-term loans		1,827	1,264
Short-term loans	29	320	229
Prepayments from customers		0	22
Accounts payable		1,755	1,528
Tax liabilities		21	0
Unearned transportation revenue		5,318	4,482
Current portion of other provisions	28	457	479
Other liabilities		872	964
Accrued expenses and prepaid income	30	5,336	4,684
		15,906	**13,652**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**31,754**	**30,266**
Shareholders' equity per common share (SEK)[1]		7.12	8.10

1) Shareholders' equity attributable to Parent Company shareholders excluding total preference share capital in relation to the 330,082,551 (329,000,000) common shares outstanding. During the year, the number of common shares increased 1,082,551 through the conversion of the convertible loan.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

MSEK	Share capital[1]	Other contributed capital[2]	Hedging reserves	Translation reserve	Retained earnings[3]	Total shareholders' equity attributable to Parent Company shareholders	Non-controlling interests	Total shareholders' equity
Opening shareholders' equity in accordance with approved balance sheet, November 1, 2014	**6,754**	**494**	**290**	**-109**	**-2,549**	**4,880**	**27**	**4,907**
Preference share dividend					-350	-350		-350
Other contributed capital		-167			167	0		0
Non-controlling interests					27	27	-27	0
Comprehensive income, November–October			928	-177	1,031	1,782		1,782
Closing balance, October 31, 2015	**6,754**	**327**	**1,218**	**-286**	**-1,674**	**6,339**	**0**	**6,339**
Preference share dividend					-350	-350		-350
Conversion of convertible bond loan	22				2	24		24
Comprehensive income, November–October			107	212	-306	13		13
Closing balance, October 31, 2016	**6,776**	**327**	**1,325**	**-74**	**-2,328**	**6,026**	**0**	**6,026**

1) Number of shares in SAS AB: 330,082,551 (329,000,000) common shares with a quotient value of SEK 20.10 and 7,000,000 preference shares with a quotient value of SEK 20.10.
2) The amount comprises share premium reserves and the equity share of convertible loans.
3) No dividends were paid on common shares for 2014/15.

CONSOLIDATED CASH-FLOW STATEMENT

MSEK	Note	Nov–Oct 2015–2016	Nov–Oct 2014–2015
OPERATING ACTIVITIES			
Income before tax		1,431	1,417
Depreciation, amortization and impairment		1,367	1,466
Income from sale of aircraft, buildings and shares		-269	-789
Adjustment for other items not included in the cash flow, etc.	34	277	539
Tax paid		0	1
Cash flow from operations before change in working capital		**2,806**	**2,634**
Change in:			
Expendable spare parts and inventories		33	1
Operating receivables		-544	-41
Operating liabilities		1,368	442
Cash flow from change in working capital		**857**	**402**
Cash flow from operating activities		**3,663**	**3,036**
INVESTING ACTIVITIES			
Aircraft		-4,391	-2,739
Spare parts		-25	-15
Buildings, equipment and investment in progress		-338	-326
Shares and participations, intangible assets, etc.		-174	-168
Prepayments for flight equipment		-1,032	-998
Acquisition of subsidiaries	35	-	-60
Total investments		**-5,960**	**-4,306**
Sale of subsidiaries and operations	36	-2	10
Sale of aircraft, spare engines and buildings		568	453
Income from sale and leaseback of aircraft		2,656	2,112
Sale of other fixed assets, etc.		123	618
Cash flow from investing activities		**-2,615**	**-1,113**
FINANCING ACTIVITIES			
Proceeds from borrowings		1,093	489
Repayment of borrowings		-1,371	-2,304
Dividend on preference shares		-350	-350
Change in interest-bearing receivables and liabilities		-252	1,028
Cash flow from financing activities		**-880**	**-1,137**
Cash flow for the year		**168**	**786**
Translation difference in cash and cash equivalents		4	-5
Cash and cash equivalents at beginning of the year		8,198	7,417
Cash and cash equivalents at year-end	37	**8,370**	**8,198**

COMMENTS ON THE CASH-FLOW STATEMENT

Cash flow from operating activities, before changes in working capital, amounted to MSEK 2,806 (2,634) for the full year. Non-cash items mainly comprised provisions for restructuring costs and other nonrecurring items.

Change in working capital totaled MSEK 857 (402), representing a year-on-year improvement of about MSEK 450. Operating receivables and operating liabilities increased when compared with last year. The increase on the liabilities side was mainly due to a larger unearned transportation revenue liability and higher accrued expenses.

Aircraft acquisitions during the year totaled MSEK 3,462 and comprised five Boeing 737s, three Airbus A321s, two Airbus A340s and two Airbus A319s that were previously under operating leases as well as two new Airbus A330Es and one new Airbus A320neo that were immediately divested through sale and leaseback agreements. Moreover, aircraft investments included MSEK 854 in capitalized expenditures for engine maintenance and MSEK 75 for aircraft modifications.

The subsidiary Blue1 Oy was divested at the start of the year.

Aircraft sales comprised three Boeing 717s and eight MD-90s. In addition, the two Airbus A330Es, one Airbus A320neo and three Airbus A321s acquired during the year were sold and leased back.

The sale of other fixed assets, etc., included MSEK 105 as final payment for the slot pairs at London Heathrow that were sold by SAS last year.

Cash flow from changes in interest-bearing receivables and liabilities was mainly attributable to the realization of financial derivatives, which generated substantial positive cash flows in the preceding year.

In all, the SAS Group's cash and cash equivalents increased during the fiscal year by MSEK 172 (781), whereupon cash and cash equivalents amounted to MSEK 8,370 (8,198).

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NOTES TO THE FINANCIAL STATEMENTS

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

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

GENERAL

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

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

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

The consolidated financial statements for SAS AB have been prepared in accordance with the Annual Accounts Act, recommendation *RFR 1 — Supplementary Accounting Rules for Corporate Groups*, and the EU-approved International Financial Reporting Standards (IFRS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) that apply for fiscal years starting November 1, 2015. These standards have been consistently applied to all periods presented in the consolidated financial statements. The financial statements have been prepared on a cost basis, except for the remeasurement of financial assets and liabilities. The principal accounting policies adopted are set out below.

ACCOUNTING ESTIMATES AND ASSUMPTIONS IN THE FINANCIAL STATEMENTS

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

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

NEW AND AMENDED STANDARDS AND INTERPRETATIONS APPLICABLE FOR THE 2015/2016 FISCAL YEAR

The following new and amended standards and interpretations and are mandatory for the Group's accounting for 2015/2016:

IFRIC 21 — Levies a new interpretation providing guidance on when to recognize a liability for a levy imposed on entities by government agencies in accordance with laws and regulations. The interpretation does not include income taxes, fines or other penalties. The liability is to be recognized when the entity has an obligation to pay the levy as a consequence of an event that triggers the payment of a levy. The interpretation has not had any material effect on the consolidated financial statements.

IAS 19 — Employee Benefits has been updated with regard to the accounting for contributions by employees to defined-benefit plans and provides guidance on the recognition of such fees. The update has not had any material effect on the consolidated financial statements.

Annual improvements to IFRSs 2010–2012 Cycle, the annual improvements of IFRS standards contain limited updates of several standards. The improvements have not had any material effect on the consolidated financial statements.

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

The following new and amended standards and interpretations have been issued and are mandatory for the accounting of the Group for fiscal years beginning on or after November 1, 2016, but have not been adopted early:

IFRS 9 — Financial Instruments replaces the parts of IAS 39 relating to the classification and measurement of financial instruments. IFRS 9 provides that financial assets be classified in three categories: those measured at amortized cost, those measured at fair value through other comprehensive income (FVTOCI) and those measured at fair value through profit or loss (FVTPL). Classification is established at initial recognition based on the company's business model and the characteristics of the contractual terms applying to cash flows. No material changes are implied for financial liabilities compared with IAS 39. Minor changes apply to liabilities identified at fair value. This provides that the portion of change in fair value attributable to changes in the credit risk be recognized in other comprehensive income instead of profit or loss if so doing does not give rise to accounting mismatch.

The new hedge accounting rules under IFRS 9 enable entities to better reflect the risk management strategies applied by the entities. Overall, it will be easier to qualify for hedge accounting. IFRS 9 also introduces a new approach for calculating a credit-loss reserve, which is based on expected credit losses.

During the year, the Group started work on analyzing the effects of IFRS 9. Initial analysis finds that the standard is not expected to materially impact the financial statements. The Group intends to apply the new standard, at the latest, for the fiscal year starting November 1, 2018. The standard was approved by the EU in November 2016.

IFRS 15 — Revenue from contracts with customers governs how income recognition is performed. The standard replaces IAS 18 – Revenue and IAS 11 – Construction Contracts. It is based on the principle that revenue will be recognized when an agreed obligation for goods or services is transferred to the customer, in other words, when the customer has obtained control over the goods or services. This principle replaces the previous principle that revenue is recognized when the risks and benefits of ownership have been transferred to the buyer. The standard introduces a five-step model to be applied to all contracts. During the year, the Group started work on analyzing the effects of IFRS 15 on the financial statements. The full effect has not yet been evaluated. The standard enters force on January 1, 2018, and was approved by the EU in November 2016.

IFRS 16 — Leasing provides a single lessee accounting model. The standard replaces the current classification as either operating leases or finance leases and introduces a model, whereby the lessee recognizes an asset (the right to use an asset) and a financial liability in the balance sheet. The leasing cost is replaced in the income statement by a cost for the depreciation of the leased asset and an interest expense for the financial liability. During the year, the Group started work on analyzing the effects of IFRS 16 on the financial statements. The standard is expected to have a material impact, since the Group has significant leasing commitments for, inter alia, aircraft and premises. At the end of the 2015/2016 fiscal year, the nominal value of the Group's leases outstanding was about SEK 20 billion. See Note 33. The standard enters force on January 1, 2019, but has yet to be adopted by the EU.

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

PRINCIPLES OF CONSOLIDATION

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

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

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

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

BUSINESS COMBINATIONS

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

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

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

Non-controlling interests

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

Loss of controlling influence

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

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

INVESTMENTS IN AFFILIATED COMPANIES

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

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

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

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

DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

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

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

SEGMENT REPORTING

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

Geographic information about revenue from external customers and assets

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

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

FOREIGN CURRENCY TRANSLATION

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

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

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

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

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

EXCHANGE RATES

			Closing rate		Average rate	
			Oct 31, 2016	Oct 31, 2015	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Denmark	DKK	100	132.56	125.61	125.44	125.36
Norway	NOK	100	109.09	99.27	99.92	106.11
U.S.	USD		9.00	8.52	8.45	8.20
U.K.	GBP		10.96	13.06	11.95	12.64
Switzerland	CHF	100	909.85	862.01	855.72	857.79
Japan	JPY	100	8.57	7.05	7.61	6.84
EMU countries	EUR		9.86	9.37	9.35	9.35

FINANCIAL INSTRUMENTS

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

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

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

FINANCIAL ASSETS

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

Loan receivables and accounts receivable

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

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

Cash and cash equivalents

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

FINANCIAL LIABILITIES AND EQUITY

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

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

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

Accounts payable

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

Borrowings

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

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

COMPOUND FINANCIAL INSTRUMENTS

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

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

TANGIBLE FIXED ASSETS

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

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

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

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

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

LEASING

SAS has entered into finance and operating leases. Leasing contracts where the terms of the lease transfer substantially all the risks and benefits of the asset to SAS are recognized as finance leases. All other lease contracts are classified as operating leases.

The Group as lessee

Finance leases — At the beginning of the leasing period, finance leases are recognized at the lower of the fair value of the lease's asset and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet under other loans. Lease payments are apportioned between financial expenses and reduction of the lease obligation so that a constant rate of interest is recognized on the remaining balance of the liability. The useful life of the asset corresponds to the Group's policy for owned assets.

Gains on the sale and leaseback of property and equipment that gave rise to finance leases are deferred and allocated over the lease term.

Sale and leaseback agreements are classified according to the above-mentioned principles for finance and operating leases.

Operating leases — Fees payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also distributed on a straight-line basis over the lease term.

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is implemented at fair value, the Group recognizes any profit or loss immediately.

The Group as lessor

Finance leases — Finance lease receivables are stated in the balance sheet at the net investment amount of the lease, which is calculated based upon the minimum lease payments and any residual value discounted at the interest rate implicit in the lease. Finance lease income is allocated to different accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Operating leases — Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

INTANGIBLE ASSETS

Intangible assets comprise goodwill and capitalized expenses for systems development. The Group is not engaged in any research and development (R&D) activity.

Intangible assets are recognized in the balance sheet when:

- an identifiable, non-monetary asset exists,
- it is probable that the future financial advantages that can be attributed to the asset will accrue to the company, and
- the cost of the asset can be calculated in a reliable manner.

Goodwill is recognized in the balance sheet as an intangible asset at cost less accumulated impairment losses. Goodwill represents the excess value over the fair value of the Group's share of identifiable acquired net assets at the acquisition date, of the cost of an acquisition, any non-controlling interests and fair value at the acquisition date.

Gains or losses on the disposal of an entity include the remaining carrying amount of goodwill relating to the entity sold.

Goodwill is assessed as having an indefinite useful life. Goodwill is allocated to the smallest possible cash-generating unit (CGU) and the carrying amount is tested at least once a year for any impairment. However, testing for impairment takes place more frequently if there are indications that a loss in value has occurred. A discounted cash-flow analysis is carried out based on the cash flows of the CGU and comparing the carrying value of assets of the CGU with their recoverable amount. These cash flows are discounted at rates that the Group estimates to be the risk-affected average cost of capital for the particular businesses. Any impairment is recognized immediately in profit or loss.

Development costs that do not meet the criteria specified above, regarding when intangible assets are recognized in the balance sheet, are expensed in the period they arise. Costs for systems development are recognized as an asset provided that they meet the criteria specified above. Capitalized development costs are amortized on a straight-line basis over the expected useful life of the asset, which amounts to between three and 15 years. Amortization of capitalized development costs is included in the depreciation/amortization item in the statement of income.

EMISSION RIGHTS

Any emission rights received from the respective countries' government agencies, without the need for payment of any consideration, are recognized at their nominal amounts, which in practice means that the intangible asset and the prepaid income are valued at zero. Any emission rights purchased for own uses are recognized as intangible assets under current assets at cost after impairment. A provision is recognized in the balance sheet commensurate to the extent that emission rights used correspond to emission rights held. This provision is measured at the cost of the emission rights held. The provision is measured at the current market price with a corresponding cost in the statement of income commensurate to the extent the emission rights used exceed the amount of emission rights held.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS WITH DETERMINABLE USEFUL LIVES

The Group continuously evaluates whether any indications exist of a need for impairment of any tangible and intangible assets with determinable useful lives to identify any potential need for impairment. If any such indication is identified, the recoverable amount of the asset is calculated (or as part of the CGU to which it belongs) to determine the extent of any impairment loss. The recoverable amount is defined as the higher of an asset's fair value less selling costs and the value in use (VIU). If the estimated recoverable amount of the asset (or the CGU) is lower than its carrying amount, the carrying amount of the asset (or the CGU) is impaired. The recoverable amount is determined based on the type of asset.

At each balance-sheet date, a review is conducted to assess for indications that any earlier impairment losses no longer exist or have improved. When such indications exist, the recoverable amount is recalculated and the carrying amount is increased to the lower of the recoverable amount and the carrying amount that the asset would have had if the previous impairment had not taken place.

EXPENDABLE SPARE PARTS AND INVENTORIES

Expendable spare parts and inventories are carried at the lower of cost or net realizable value. Cost is calculated using the weighted average cost.

PROVISIONS AND CONTINGENT LIABILITIES

Provisions are reported when the Group identifies legal or informal commitments as a result of historic events, where the outcome is probable, and where the financial resources required to settle these commitments can be estimated with reasonable certainty.

A restructuring obligation is considered to have arisen and a provision for the obligation is recognized when the Group has adopted a detailed and formal restructuring plan. The plan must have been communicated to affected parties and have been commenced or publicly announced.

REMUNERATION OF EMPLOYEES

Pensions

The Group has various pension plans for its employees. These vary considerably due to different legislation and agreements on occupational pension systems in the individual countries. Previously, most personnel pension plans in Scandinavia were defined-benefit plans. In November 2012, new collective agreements were signed with flight crew. Among other things, the new agreements mean that the defined-benefit pension plans were, largely, replaced with defined-contribution pension plans effective as of the first quarter of 2013/2014.

For pension plans where the employer has accepted responsibility for a defined-contribution, the obligation to employees ceases when the contractual premiums have been paid. Where defined-benefit pensions have been agreed, the commitments do not cease until the contractual pensions have been paid. The liability or asset recognized in the balance sheet for defined-benefit pension plans is the current value of the defined-benefit obligation at the end of the reporting period after deduction of the fair value of plan assets. The defined-benefit plan obligation is calculated each year by independent actuaries using the projected unit credit method.

Pension costs for the year comprise the present value of the current service cost plus net interest, which is calculated using the discount rate used to measure the net defined-benefit pension liability or pension assets. All deviations in estimates are recognized immediately in other comprehensive income.

Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes severance pay when such an obligation exists according to employment contracts or for termination as a result of an offer made to encourage voluntary redundancy.

REVENUE RECOGNITION

Passenger revenue

Sales of passenger tickets are recorded as a short-term unearned transportation revenue liability in the consolidated balance sheet. Passenger revenue is recognized when SAS or another airline provides the transportation. Additionally, tickets that have not been utilized by passengers and which have expired are recognized as revenue. The Group estimates unutilized tickets each period on the basis of historical utilization levels for unutilized tickets over the past two or three-year period, and recognizes revenue and reduces the short-term unearned transportation revenue liability based on that estimate.

The Group periodically evaluates the estimated short-term unearned transportation revenue liability and records any resulting adjustments in its financial statements in the period in which the evaluations are completed. These adjustments relate primarily to refunds, exchanges, transactions with other airlines and other items for which final settlement occurs in periods subsequent to the sale of the related tickets at amounts other than the original sales price.

Charter revenue

The Group operates aircraft on a charter basis for flights that take place outside normal schedules through a hiring arrangement with particular customers. Charter revenue, similar to passenger revenue, is recognized when transportation has been provided.

Mail and freight revenue

The Group provides cargo services on both passenger planes and commercial cargo flights. This revenue is recognized when the air transportation is completed.

Interest income

Interest income is recognized in line with the effective-interest method. Interest income primarily comprises interest income from bank accounts, receivables and interest-bearing securities.

Other revenue

Sales of goods and other services are recognized as revenue when the goods are delivered or the service performed.

LOYALTY PROGRAM

The Group operates a frequent flyer program, EuroBonus, through which customers can earn bonus points by flying with SAS and/or other Star Alliance companies or from purchases made from commercial partners such as car rental companies and credit card companies.

Under IFRIC 13, the allocation of loyalty points must be shown as a separate transaction when purchasing airline tickets. The portion of the ticket price allocated to loyalty points is measured at fair value and not recognized as revenue until the period in which the obligation is fulfilled.

BORROWING EXPENSES

Borrowing expenses that arise in operations are expensed in the period in which they are incurred. Borrowing expenses on aircraft pre-delivery payments (PDPs) capitalized as part of the process of obtaining qualified production resources. If a decision is made to sell and lease back an asset, capitalization of interest expense ceases. Amortization of capitalized borrowing expenses commences when aircraft are put into service, in accordance with the main principle for aircraft.

TAXES

Current tax for the period is based on net income for the period, adjusted for non-tax-deductible costs and revenue not liable to tax. The current tax is calculated on the basis of tax rates applying on the closing date.

Deferred tax is recognized according to the balance sheet method whereby temporary differences, differences between the recognized and fiscal value of assets or liabilities, result in a deferred tax asset or deferred tax liability. Deferred tax liabilities are recognized for all temporary differences liable to tax, while deferred tax assets are recognized to the extent it is probable that a taxable surplus will be created against which the deductible temporary difference can be utilized or before the right to utilize the loss carryforward is lost.

Deferred tax liabilities are recognized for all taxable temporary differences attributable to investments in subsidiaries and affiliated companies except in cases where the Group can control the timing of reversal of the temporary differences, and it is probable that such reversal will not take place in the foreseeable future.

Deferred tax is estimated on the basis of the tax rates and fiscal regulations that have been decided or announced as of the closing date. Deferred tax is expensed, except when it relates to items charged or credited in other comprehensive income or directly in equity, in which case the deferred tax is also dealt with in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are recognized net if the items pertain to the same tax authority.

CRITICAL ACCOUNTING ESTIMATES AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements and application of accounting policies are often based on management's assessments or on estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

These estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in estimates are recognized in the period in which the change is made if the change affects only that period, or in the period in which the change is made and future periods if the change affects both the current and future periods.

Below is an overall description of the accounting policies affected by such estimates or assumptions that are expected to have the most substantial impact on the Group's reported earnings and financial position. For information about the carrying amount on the closing date, see the balance sheet with accompanying notes.

Estimated useful lives of tangible fixed assets

The Group Management periodically reviews the appropriateness of the useful lives of its tangible fixed assets. The review is based on the current condition of the assets, the estimated period during which they will continue to bring economic benefit to the Group, historic information on similar assets and industry trends.

Any changes in the useful life of property and equipment are recognized prospectively in profit or loss.

Impairment of assets

The Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets are impaired. In making the impairment assessment, assets that do not generate independent cash flows are allocated to an appropriate CGU.

Management is required to make certain assumptions in estimating the value of the assets, including the timing and value of cash flows to be generated from the assets. The cash-flow projections are based on reasonable assumptions that represent management's best estimate of the set of economic conditions that will exist over the remaining useful life of the asset and are based on the most recent financial plan that management has approved. Due to its subjective nature, these estimates will likely differ from future actual results of operations and cash flows and any such difference may result in impairment in future periods.

Pensions

Pension assumptions are an important element in the actuarial methods used to measure pension commitments and value assets, and significantly affect the recognized pension obligation, pension assets and the annual pension cost. The most critical assumptions are the discount rate, inflation and expected salary adjustments.

The measurement to be applied under IAS 19 when measuring defined-benefit plans is known as the projected unit credit method. This method requires several assumptions (actuarial parameters) for calculating the present value of the defined-benefit obligation. Actuarial assumptions comprise both demographic and financial assumptions. Since assumptions must be neutral and mutually compatible, they should be neither imprudent nor overly conservative. They should reflect the economic relationships between factors such as inflation, rates of salary increase, the return on plan assets and discount rates. This means that they should be realistic, based on known financial relations and reflect SAS's best assessment of the factors that will determine the ultimate cost of providing post-employment benefits, that is pension costs.

In calculating pension obligations, the current service cost and return on plan assets, locally set parameters are applied in the respective countries on the basis of the local market situation and expected future trends. This means that the parameters are based on market expectations at the end of the reporting period regarding the time period in which the obligation will be settled.

The discount rate has been determined on the basis of market yields on high-quality corporate bonds (mortgage bonds). The tenor of the bonds reflects the estimated timing and size of pension payments (duration) as well as the currencies these payments are expected to be made in.

Other financial assumptions are based on anticipated developments during the term of the obligation. The assessment of future salary adjustments corresponds to the assumed rate of inflation in the respective countries and life expectancies are set under DUS14 for Sweden and K2013 for Norway, refer to Note 15 for additional information.

As a consequence of the amended IAS 19, the interest expense on the obligation and the expected return on plan assets have been replaced with a "net interest expense," which is calculated using the discount rate. SAS classifies this net interest expense as a payroll expense and recognizes the net interest expense in profit or loss.

Deviations can arise if the discount rate changes (a lower discount rate increases the present value of the pension liability and the annual pension cost), or if actual inflation levels, salary adjustments and life expectancies deviate from the Group's assumptions. Any change in these assumptions could potentially result in a significant change to the pension assets, obligations and pension costs in future periods.

The discount rate changed during the year and, in Sweden, decreased from 3.25% to 2.10%. The total impact of changed discount rates entailed a negative impact on other comprehensive income of SEK 2.4 billion. The return on plan assets exceeded the discount rate, which entailed a positive impact on other comprehensive income of SEK 0.2 billion. Moreover, a positive item of SEK 0.3 billion was recognized under the item experience gains/losses.

Sensitivity to changes in individual parameters can be estimated as follows: A one percentage point change in the discount rate of interest has approximately a SEK 3.3 billion impact on the obligation and a one percentage point change in the inflation assumption has an impact of about SEK 2.8 billion.

Deferred taxes

The Group recognizes deferred tax assets at each balance-sheet date to the extent that it is probable that they will be utilized in future periods. This determination is based on estimates of future profitability. A change in these estimates could result in a decrease in deferred tax assets in future periods for assets that are currently recognized in the consolidated balance sheet. In estimating levels of future profitability, historical results of operations in recent years are considered and, if necessary, the implementation of prudent and feasible tax planning strategies to generate future profitability are considered. If future profitability is less than the amount that has been assumed in determining the deferred tax asset, then a decrease in deferred tax assets will be required, with a corresponding charge in profit or loss, except in cases where it is related to items recognized directly in equity. If future profitability exceeds the level that has been assumed in calculating the deferred tax asset, an additional deferred tax asset can be recognized, with a corresponding credit in profit or loss, except to the extent that the deferred tax arises from a business combination.

A change in these estimates could also result in the impairment of deferred tax assets in future periods for assets that are currently recognized in the balance sheet.

Undertakings when returning aircraft under operating leases

The Group makes provisions for undertakings arising in conjunction with returning aircraft under operating leases. The financial impact on return is complex to assess as it depends on a large number of factors. Larger mandatory engine overhauls are expensed on an ongoing basis, which reduces the risk of a return having a material impact on the Group's earnings.

Litigations

The Group is involved in litigations and other claims in the ordinary course of its business activities. Management judgment is required in determining the likelihood of the outcome. The actual effects of the outcome could differ from the management's estimate, which would impact the Group's earnings (see also, the Report by the Board of Directors: Legal issues).

PARENT COMPANY'S ACCOUNTING POLICIES

The Parent Company has prepared its financial statements according to the Swedish Annual Accounts Act and the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities as well as applicable statements from the Swedish Financial Reporting Board. Under RFR 2, the Parent Company, in preparing the annual financial statements for the legal entity, applies all EU-approved IFRSs and statements insofar as this is possible within the framework of the Swedish Annual Accounts Act and the Swedish Pension Obligations Vesting Act and with respect to the connection between accounting and taxation. The recommendations specify which exceptions and additions are to be made from and to IFRS.

THE DIFFERENCES BETWEEN THE GROUP'S AND THE PARENT COMPANY'S ACCOUNTING POLICIES ARE LISTED BELOW:

Pensions: Current pension premiums are recognized as an expense.
Shares in subsidiaries and affiliated companies: Recognized at cost. Acquisition-related expenses for subsidiaries that are charged in the consolidated financial statements, are included as part of the cost for holdings in subsidiaries.
Other shares and participations: Recognized at cost.
Hedging of net investments in foreign operations: Translation differences relating to currency hedging are recognized in the statement of income.

NOTE 2 REVENUE

	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Traffic revenue:		
Passenger revenue	30,371	30,496
Charter	1,791	1,742
Freight and mail	1,253	1,265
Other traffic revenue	2,293	2,066
Other operating revenue:		
In-flight sales	252	253
Ground handling services	1,041	1,294
Technical maintenance	152	163
Terminal and forwarding services	351	370
Sales commissions and charges	556	548
Other operating revenue	1,399	1,453
Total	**39,459**	**39,650**

NOTE 3 PAYROLL EXPENSES

AVERAGE NUMBER OF EMPLOYEES

In 2015/2016, the average number of employees in the SAS Group was 10,710 (11,288). A breakdown of the average number of employees by country is provided in the table below. The average number of employees totaled 3,733 (3,811) in Denmark, 3,038 (3,606) in Norway, and 3,693 (3,430) in Sweden.

	Nov–Oct 2015–2016		Nov–Oct 2014–2015	
	Men	**Women**	**Men**	**Women**
Denmark	2,468	1,265	2,529	1,282
Norway	1,803	1,235	2,253	1,353
Sweden	2,184	1,509	2,052	1,378
Finland	4	2	68	91
Other countries	85	155	124	158
Total	**6,544**	**4,166**	**7,026**	**4,262**
Total men and women	**10,710**		**11,288**	

GENDER BREAKDOWN OF SENIOR EXECUTIVES IN THE GROUP

	2016		2015	
	Closing-date total	**of which, men**	**Closing-date total**	**of which, men**
Board members	**44**	**84%**	**48**	**88%**
President and other senior executives	29	79%	30	73%

SALARIES, REMUNERATION AND SOCIAL SECURITY EXPENSES

The SAS Group's total payroll expenses amounted to MSEK 8,638 (9,130), of which social security expenses comprised MSEK 1,265 (1,282) and pensions MSEK 807 (876).

Salaries, remuneration and social security expenses included restructuring costs of MSEK 34 (177).

	Nov–Oct 2015–2016		Nov–Oct 2014–2015	
	Salaries & other remuneration	**Soc. sec. exp. (of which pension cost)[1]**	**Salaries & other remuneration**	**Soc. sec. exp. (of which pension cost)[1]**
SAS AB	23	12 (5)	19	14 (5)
SAS Consortium	4,083	1,540 (596)	4,169	1,548 (604)
Other subsidiaries	2,460	520 (206)	2,786	594 (267)
SAS Group, total	**6,566**	**2,072 (807)**	**6,974**	**2,156 (876)**

1) The pension cost for all CEOs and other senior executives of SAS Group companies amounted to MSEK 13 (9).

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

	Nov–Oct 2015–2016		Nov–Oct 2014–2015	
	Board, CEO & senior executives (of which variable salary)	**Other employees**	**Board, CEO & senior executives (of which variable salary)**	**Other employees**
SAS AB	18 (-)	5	15 (-)	4
SAS Consortium	20 (1)	4,063	28 (3)	4,141
Ground handling operations	15 (-)	2,192	14 (-)	2,420
Blue1	-	-	- (-)	127
SAS Cargo	8 (-)	75	7 (-)	82
Other subsidiaries	2 (-)	168	1 (-)	135
SAS Group, total	**63 (1)**	**6,503**	**65 (3)**	**6,909**

Pension costs	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Defined-benefit pension plans	-102	73
Defined-contribution pension plans	909	803
Total	**807**	**876**

REMUNERATION AND BENEFITS PAID TO THE BOARD, PRESIDENT AND OTHER SENIOR EXECUTIVES

The fees and other remuneration paid to Board members of SAS AB are determined by the Annual General Shareholders' Meeting (AGM), which also approves the policies applied for the remuneration of senior executives.

BOARD OF DIRECTORS

At the AGM of SAS AB on March 8, 2016, fees were set for the remuneration of Board members and for work on Board committees as follows:

Board Chairman	TSEK 410
Board First Vice Chairman	TSEK 242
Board Second Vice Chairman	TSEK 242
Other Board members (8)	TSEK 207 per member
Deputy employee representatives (6)	TSEK 1 study fee/Board meeting
	TSEK 3.5 fee/Board meeting on participation
Chairman of Audit Committee	TSEK 66
Other members of Audit Committee (2)	TSEK 31
Chairman of Remuneration Committee	TSEK 49
Other members of Remuneration Committee (2)	TSEK 17

With the exception of the employee representatives and their deputies, no Board member was employed by the SAS Group in the 2015/2016 fiscal year. No Board member not employed by the SAS Group received any remuneration or benefit from any SAS Group companies beyond customary airline-industry travel benefits and the fees received for board and committee duties.

POLICIES

The following remuneration policies, adopted by the AGM have been applied in the 2015/2016 fiscal year in regard to senior executives in the SAS Group. In this connection, senior executives refers to the President and the other members of the SAS Group Management.

The total remuneration to senior executives must be market-based and competitive as well as reflect the level of responsibility and authority. Remuneration consists of fixed salary, other benefits and pension. Agreements concluded previously with some senior executives that contain partially deviating conditions governing pensions and termination will be respected until they cease or are renegotiated.

The Board can depart from the guidelines if, in a individual case, particular reasons exist for so doing.

Note 3 continued

The SAS Group's overall remuneration model is based on the following five cornerstones:

- Salary setting is individual and differentiated
- Salary setting is national and adapted to the market
- Salary setting is an important management tool in reaching the organization's targets
- Salary setting motivates professional and personal advancement.
- Pension benefits are defined-contribution with premiums not exceeding 30% of the fixed annual salary.

PRESIDENT AND CEO

President and CEO Rickard Gustafson has the following remuneration components in his employment contract:

- An annual salary, which is subject to salary review in January of each year. Annual salary was revised on January 1, 2016 and now amounts to TSEK 10,800.
- A defined-contribution pension plan where 40% of the fixed salary is paid as premiums to an agreed pension insurance. The retirement age is 62.

The remuneration policies adopted by the AGM permit the Board to deviate from the guidelines on an individual basis if particular reasons exist for so doing. In this case, the Board deems sufficient reason exists to set aside the policy of a maximum pension premium of 30%, since current benchmarking of CEO salaries in Sweden motivate a pension premium of 40% and total compensation to the CEO Rickard Gustafson in the form of annual salary and pension benefits can thereby be considered to be on a par with market rates.

- Other benefits include company car, travel benefits, health insurance and group life insurance.
- The notice period is six months in the event the President resigns and 12 months if employment is terminated by SAS AB. Severance pay for the President in the event employment is terminated by SAS AB for reasons other than material breach of contract, gross neglect of his duties as President or criminal acts against the SAS Group is payable in an amount equivalent to 12 months' salary. Should new employment be obtained within 12 months of employment ending, the severance pay awarded is reduced by an amount corresponding to the remuneration received from the new position.

DEPUTY PRESIDENT

During the 2015/2016 fiscal year, the SAS Group had one deputy president, Göran Jansson (CFO). Göran Jansson has the following remuneration components in his employment contract:

- An annual salary, which is subject to salary review in January of each year. In the 2015/2016 fiscal year, the annual salary was unchanged at TSEK 4,500.
- A defined-contribution pension plan where 29.8% of salary is paid into a chosen insurance plan. The retirement age is 60.
- Other benefits include company car, travel benefits, health insurance and group life insurance.
- The notice period is six months in the event that Göran Jansson resigns and 12 months if employment is terminated by SAS AB. Severance pay is payable to the deputy president in the event employment is terminated by SAS AB for reasons other than material breach of contract, gross neglect of the deputy president's duties or criminal acts against the SAS Group in an amount equivalent to 12 months' salary, with offsetting against income from any other appointment or engagement. Severance pay is also payable on the resignation of a senior executive when the responsibilities or authorities of the senior executive are materially changed through organizational changes. However, severance pay in the above case is not payable if the senior executive is offered another relevant position in the SAS Group.

OTHER SENIOR EXECUTIVES

The remaining current members of Group Management have defined-contribution pension plans where a pension provision of 15–30% of fixed base salary is made. The retirement age for three of the members is 65, for one of the members 60 and for one of the members 67. The notice period for all other members of Group Management is 12 months in the event employment is terminated by SAS AB and six months in the event the employee resigns.

Severance pay for these senior executives is set according to the same policies as for the current deputy president.

The Board determined to introduce a variable remuneration model for one member of Group Management. For this remuneration model, a target salary of 100% applies, which comprises a fixed base salary of 73% and a variable salary of 27%. The variable salary portion is based on the outcome in relation to preset targets and is set in a target contract. The remuneration policies adopted by the AGM permit the Board to deviate from the guidelines on an individual basis if particular reasons exist for so doing. The Board is of the opinion that particular reasons do exist for deviation from the policies regarding no variable remuneration to Group Management, since (i) the model was introduced in parallel with a substantial reduction in the members of the Group Management's annual salary and (ii) since the variable salary applies to the member of Group Management who is responsible for Commercial, which is a functional area where variable salary is an established market standard.

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

In 2016, total remuneration comprised fixed salary, other benefits and pension. However, a variable remuneration model was introduced for management and employees in the sales organization in 2013. The remuneration model comprises a target salary, comprising a fixed base salary corresponding to 60–80% of the target salary and a variable salary corresponding to 20–40% of the target salary. The variable salary component is based on outcomes in relation to predetermined individual sales targets that are contracted annually in a target contract.

DISCUSSION AND DECISION-MAKING PROCESS

The issue of the Directors' fees is discussed by the Nomination Committee, which consists of representatives elected at the AGM. The Nomination Committee presents its proposal concerning Directors' fees to the Shareholders' Meeting for resolution.

The primary task of the Board-created Remuneration Committee is to prepare, for the decision of the Board, proposals pertaining to the President's salary and other employment terms, and to prepare and propose the main policies and general conditions applying to the setting of salaries and other remuneration and employment terms (including, where applicable, variable salary, pension and severance pay policy) for senior executives and other management in the SAS Group. The Board presents the proposals regarding policies for remuneration and other employment terms for the Group Management to the AGM for resolution.

During the year, the Remuneration Committee discussed and presented recommendations to the Board regarding general guidelines for remuneration policies in the SAS Group, including policies and levels for the discontinued variable salary based on the Group's earnings. The Board discussed the Remuneration Committee's recommendations and made decisions accordingly. Remuneration of other senior executives than the President was decided by the President after consultation with the Remuneration Committee and in line with the policies approved by the Shareholders' Meeting.

The Remuneration Committee held three minuted meetings in the 2015/2016 fiscal year in addition to a number of informal discussions.

REMUNERATION AND BENEFITS PAID TO THE PRESIDENT AND OTHER SENIOR EXECUTIVES IN 2015–2016 (NOV–OCT), TSEK

Name	Fixed base salary[1]	Other benefits[3]	Total of fixed salary and other benefits	Pension premium
Rickard Gustafson	10,561	196	10,757	4,019
Göran Jansson	4,689	105	4,794	1,363
Övriga[2]	20,581	378	20,959	4,392

1) Includes holiday compensation.
2) Four members for the full fiscal year and one member for ten months. Fixed salary includes variable salary of MSEK 0.7 for one senior executive.
3) Other benefits include company car, travel benefits, health insurance and group life insurance.

NOTE 4 OTHER OPERATING EXPENSES

	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Sales and distribution costs	2,372	2,518
Jet fuel	6,449	8,430
Government user fees	4,106	4,087
Catering costs	948	836
Handling costs	2,477	1,998
Technical aircraft maintenance	3,292	2,757
Computer and telecommunication costs	1,382	1,159
Other	3,526	2,773
Total	**24,552**	**24,558**

NOTE 5 DEPRECIATION, AMORTIZATION AND IMPAIRMENT

	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Intangible assets	145	207
Buildings and fittings	55	37
Aircraft	1,123	1,129
Spare engines and spare parts	2	40
Workshop and aircraft servicing equipment	17	16
Other equipment and vehicles	25	37
Total	**1,367**	**1,466**

NOTE 6 SHARE OF INCOME AND EQUITY IN AFFILIATED COMPANIES

Share of income in affiliated companies:	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Air Greenland A/S[1]	34	30
Malmö Flygfraktterminal AB	5	7
Other	0	0
Total	**39**	**37**
Total revenue in affiliated companies	1,617	1,788
Income after tax in affiliated companies	102	94

1) The share of income includes adjustment of last year's income figure by MSEK 0 (1).

				Share of equity	
Equity in affiliated companies:	Corporate registration number	Domicile	Share of equity %	Oct 31, 2016	Oct 31, 2015
Air Greenland A/S	30672	Nuuk, Greenland	37.5	381	404
Malmö Flygfraktterminal AB	556061-7051	Malmö, Sweden	40.0	12	13
Other				5	4
Total				**398**	**421**
Total assets in affiliated companies				2,132	2,038
Total liabilities in affiliated companies				-1,072	-914
Shareholders' equity in affiliated companies				**1,060**	**1,124**

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

	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Airbus A320/321	29	-
Airbus A330	55	46
Boeing 717	24	36
Boeing 737	-	14
MD-90	127	-
Spare engines	-	1
Properties	30	2
Slot pairs	-	678
Total	**265**	**777**

NOTE 8 INCOME FROM OTHER SECURITIES HOLDINGS

	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Capital gain from the sale of shares and participations	-	1
Impairment of shares	-	-270
Impairment of receivables	-	-33
Dividend	1	2
Total	**1**	**-300**

NOTE 9 NET FINANCIAL ITEMS

Financial revenue	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Interest income on financial assets not measured at fair value	24	14
Interest income on financial assets measured at fair value	75	103
Other financial income	0	0
Net profit/loss on financial instruments categorized as:		
Held for trading, interest income	-8	7
Total	**91**	**124**
Financial expenses		
Interest expense on financial liabilities not measured at fair value	-493	-554
Interest expense on financial liabilities measured at fair value	-45	-46
Other financial expenses	-42	-35
Exchange-rate differences, net	30	5
Net profit/loss on financial instruments categorized as:		
Held for trading, interest expense	1	-1
Other liabilities, interest expense	-4	-1
Hedge accounting		
Fair value hedge		
- of which change in fair value of hedging instrument	-	-21
- of which change in fair value of hedged item	-	21
Ineffective portion of cash-flow hedge	-	-
Ineffective portion of net investment hedge in foreign operations	-	-
Total	**-553**	**-632**
Total net financial items	**-462**	**-508**

NOTE 10 TAX

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

	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Current tax	-	-
Deferred tax	-110	-461
Total tax recognized in net income for the year	**-110**	**-461**
Tax recognized in other comprehensive income	545	-302
Total tax recognized in other comprehensive income	**545**	**-302**

Current tax is calculated based on the tax rate in each country. Deferred tax is calculated at the tax rate expected to apply when the tax is realized.

Tax for the fiscal year can be reconciled against income before tax as follows:

	Nov–Oct 2015–2016	Nov–Oct (%) 2015–2016	Nov–Oct 2014–2015	Nov–Oct (%) 2014–2015
Income before tax	1,431		1,417	
Tax according to rate in Sweden	-315	-22.0	-312	-22.0
Tax effect of non-tax-deductible costs	-19	-1.3	-96	-6.8
Tax effect of non-taxable income	311	21.7	61	4.3
Tax effect of remeasurement of deferred tax	-3	-0.2	-129	-9.1
Other	-84	-5.9	15	1.1
Tax and effective tax rate for the fiscal year	**-110**	**-7.7**	**-461**	**-32.5**

Deferred tax liability/tax asset:	Oct 31, 2016	Oct 31, 2015
Deferred tax liability	-2,535	-2,563
Deferred tax asset	3,389	2,938
Deferred tax asset, net	**854**	**375**

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.

Deferred tax liability in the balance sheet:	Oct 31, 2016	Oct 31, 2015
Cash-flow hedges	372	316
Fixed assets	1,516	1,407
Pensions	528	675
Other temporary differences	119	165
Netting of deferred tax assets/liabilities	-2,535	-2,563
Total	**0**	**0**

Deferred tax assets in the balance sheet:	Oct 31, 2016	Oct 31, 2015
Tax loss carryforwards	2,376	2,314
Fixed assets	113	117
Pensions	294	117
Other temporary differences	606	390
Netting of deferred tax assets/liabilities	-2,535	-2,563
Total	**854**	**375**

Reconciliation of deferred tax assets, net:	Oct 31, 2016	Oct 31, 2015
Opening balance	375	1,111
Change for the year for cash-flow hedges	-30	-262
Change according to statement of income	-110	-461
Change in defined-benefit pension plans	575	-40
Exchange-rate differences, etc.	44	27
Deferred tax assets, net, at October 31	**854**	**375**

On the closing date the Group had unutilized loss carryforwards of about MSEK 10,700 (10,300). Based on these loss carryforwards, the Group recognized a deferred tax asset of MSEK 2,376 (2,314). Deferred tax assets are recognized to the extent that there are factors indicating that taxable profits will be created. The assessment of the respective Group companies' future profit performance is based on earnings reported in recent years as well as improved profitability prospects. Of recognized loss carryforwards totaling MSEK 2,376, MSEK 651 pertains to operations in Denmark, MSEK 360 to Norway and MSEK 1,365 to Sweden. With regard

Note 10 continued

to Sweden, further potential deferred tax assets exist attributable to Swedish pensions but, as the assessment is ongoing, the amount cannot be quantified. For loss carryforwards amounting to MSEK 90 (108), no deferred tax asset is recognized due to uncertainty as regards future profit earnings. There are no expiration dates for the loss carryforwards.

No provision has been made for deferred tax on temporary differences relating to non-distributed profits in subsidiaries and affiliated companies since these profits will not be distributed within the foreseeable future, or alternatively a distribution can be made without the profits being subject to tax.

NOTE 11 INTANGIBLE ASSETS

	Goodwill		Other assets[1]		Total intangible assets	
	Oct 31, 2016	Oct 31, 2015	Oct 31, 2016	Oct 31, 2015	Oct 31, 2016	Oct 31, 2015
Opening cost	751	810	1,923	2,565	2,674	3,375
Investments	-	10	174	168	174	178
Sales/disposals	-	-	-9	-811	-9	-811
Business combinations	-	3	-	-	-	3
Sale of companies[2]	-18	-	-46	-	-64	-
Reclassifications	-	-	61	-	61	-
Exchange-rate differences	70	-72	-	1	70	-71
Closing accumulated cost	**803**	**751**	**2,103**	**1,923**	**2,906**	**2,674**
Opening amortization	-94	-99	-768	-1,371	-862	-1,470
Amortization for the year	-1	-	-144	-207	-145	-207
Sales/disposals	-	-	9	811	9	811
Business combinations	-	-2	-	-	-	-2
Sale of companies[2]	4	-	45	-	49	-
Reclassifications	-	-	-16	-	-16	-
Exchange-rate differences	-7	7	-	-1	-7	6
Closing accumulated amortization	**-98**	**-94**	**-874**	**-768**	**-972**	**-862**
Opening impairment	-14	-	-	-	-14	-
Impairment losses[3]	-11	-14	-	-	-11	-14
Sale of companies[2]	14	-	-	-	14	-
Closing impairment	**-11**	**-14**	**-**	**-**	**-11**	**-14**
Carrying amount	**694**	**643**	**1,229**	**1,155**	**1,923**	**1,798**

1) Refers to capitalized system development costs.
2) The subsidiary Blue1 Oy was divested during the year.
3) Impairment was expensed in the income statement as a loss from shares in subsidiaries and affiliated companies. For this year, impairment pertained to the subsidiary Cimber A/S. The preceding year's impairment charge pertained to the subsidiary Blue1 Oy.

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

Goodwill:	Oct 31, 2016	Oct 31, 2015
SAS Scandinavian Airlines Norway	694	632
Cimber	-	11
Total goodwill	**694**	**643**

TESTING FOR IMPAIRMENT OF INTANGIBLE ASSETS

The value of the Group's intangible assets has been estimated through comparison with the recoverable amount, which is based on the Group's cash-generating value in use based on five-years' cash flow in the Group's business plan. A growth rate of +0.7% and a cost trend of -1.4% have been adopted for the period beyond the plan period.

The projected cash flows are based on assumptions regarding volume trends, unit revenue, operating margins and discount rates, which have been established by the management based on historical experience and market data. The policies applied in the above assessment are unchanged from the assessment in 2014/2015. The discount rate has been estimated based on a weighted capital cost after tax of between 9.2% (9.1). To support the impairment tests performed on goodwill in the Group, a comprehensive analysis was performed of the sensitivity in the variables used in the model. A weakening of any of the significant assumptions included in the business plans or a weakening of the annual growth rate in revenue and operating margins beyond the plan period, or an increase in the discount rate that, individually, is reasonably probable, shows that a healthy margin still exists between the recoverable amount and carrying amount. Management therefore determined that there was no additional need for impairment of goodwill and other intangible assets at the close of October 2016. The valuation is based on the assumption that the structural measures set out in the Report by the Board of Directors on page 40 are implemented.

NOTE 12 TANGIBLE FIXED ASSETS

	Buildings and land		Aircraft[1,2]		Spare engines & spare parts		Workshop & aircraft servicing equipment	
	Oct 31, 2016	Oct 31, 2015	Oct 31, 2016	Oct 31, 2015	Oct 31, 2016	Oct 31, 2015	Oct 31, 2016	Oct 31, 2015
Opening cost	1,266	1,002	18,909	18,658	138	305	452	676
Investments	21	30	4,869	2,738	25	16	23	29
Capitalized interest[3]	-	-	-	-	-	-	-	-
Sales/disposals	-113	-95	-6,033	-2,950	-26	-52	-65	-252
Business combinations[4]	-	70	-	-	-	-	-	-
Sale of companies[5]	-	-	-	-	-	-	-10	-
Reclassifications	29	283	865	463	-	-131	-3	-
Exchange-rate differences	30	-24	-	-	-	-	4	-1
Closing accumulated cost	**1,233**	**1,266**	**18,610**	**18,909**	**137**	**138**	**401**	**452**
Opening depreciation	-706	-759	-11,814	-11,123	-107	-229	-351	-591
Depreciation and impairment for the year	-55	-37	-1,123	-1,129	-2	-40	-17	-16
Sales/disposals	78	85	2,581	438	20	45	50	255
Business combinations[4]	-	-11	-	-	-	-	-	-
Sale of companies[5]	-	-	-	-	-	-	10	-
Reclassifications	-	1	-	-	-	117	3	-
Exchange-rate differences	-23	15	-	-	-	-	-3	1
Closing accumulated depreciation	**-706**	**-706**	**-10,356**	**-11,814**	**-89**	**-107**	**-308**	**-351**
Carrying amount	**527**	**560**	**8,254**	**7,095**	**48**	**31**	**93**	**101**

	Other equipment & vehicles		Investment in progress		Prepayments relating to tangible fixed assets		Total tangible assets	
	Oct 31, 2016	Oct 31, 2015	Oct 31, 2016	Oct 31, 2015	Oct 31, 2016	Oct 31, 2015	Oct 31, 2016	Oct 31, 2015
Opening cost	650	868	190	71	1,482	763	23,087	22,343
Investments	46	54	248	213	1,032	998	6,264	4,078
Capitalized interest[3]	-	-	-	-	-	-	-	-
Sales/disposals	-45	-273	-	-	-	-	-6,282	-3,622
Business combinations[4]	-	1	-	-	-	-	-	71
Sale of companies[5]	-29	-	-	-	-	-	-39	-
Reclassifications	-66	-	-405	-94	-484	-466	-64	55
Exchange-rate differences	7	-	-	-	105	187	146	162
Closing accumulated cost	**563**	**650**	**33**	**190**	**2,135**	**1,482**	**23,112**	**23,087**
Opening depreciation	-513	-740	-	-	-	-	-13,491	-13,442
Depreciation and impairment for the year	-26	-37	-	-	-	-	-1,223	-1,259
Sales/disposals	43	265	-	-	-	-	2,772	1,088
Business combinations[4]	-	-1	-	-	-	-	-	-12
Sale of companies[5]	29	-	-	-	-	-	39	-
Reclassifications	16	-	-	-	-	-	19	118
Exchange-rate differences	-7	-	-	-	-	-	-33	16
Closing accumulated depreciation	**-458**	**-513**	**-**	**-**	**-**	**-**	**-11,917**	**-13,491**
Carrying amount	**105**	**137**	**33**	**190**	**2,135**	**1,482**	**11,195**	**9,596**

1) The insured value of aircraft at October 31, 2016 amounted to MSEK 36,778. This includes the insured value of leased (operating leases) aircraft in the amount of MSEK 27,061.
2) Modifications of aircraft under operating leases are included in planned residual value in the amount of MSEK 248 (277).
3) Interest has not been capitalized.
4) Last year, Cimber A/S was acquired as was Flesland Cargo ANS and Flesland Hangar ANS.
5) The subsidiary Blue1 Oy was divested during the year.

At the beginning of the 2015/2016 fiscal year, seven Boeing 737s had been formally acquired through finance leases, with original terms of ten years. During the year, a further three Boeing 737s were acquired through finance leases, all of which extend for a period of six years.

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

The 10 (7) finance-leased aircraft are recognized in the balance sheet in the amount of MSEK 1,628 (968). In addition to these, owned aircraft include 19 (19) aircraft with a book value of MSEK 3,712 (3,573) placed in financing structures wholly owned by SAS together with appurtenant indebtedness of MSEK 1,288 (1,507), which are to be viewed as finance leased.

Note 12 continued

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

	Oct 31, 2016	Oct 31, 2015
Owned	6,626	6,127
Finance leased	1,628	968
Carrying amount	**8,254**	**7,095**

FINANCE LEASES

The SAS Group has finance leases for aircraft with remaining terms of up to six years. In addition, finance leases exist with regard to buildings with remaining terms of around five years, and vehicles and service equipment for aircraft with remaining terms of up to seven years.

Lease payments consist in part of minimum lease payments and in part of contingent rent. In those cases where the lease payments are based on a floating interest rate, they are included in minimum lease payments at the current rate at the start of the agreement. Future changes of the interest rate are included in the contingent rent. Total lease payments amounted to MSEK 232 (276). Contingent rent impacted lease payments for the year by MSEK -25 (-32). At the closing date, there was no leasing of finance-leased assets to third parties. On the closing date, carrying amounts of finance-leased assets amounted to:

	Aircraft		Property, plant and equipment	
	Oct 31, 2016	**Oct 31, 2015**	**Oct 31, 2016**	**Oct 31, 2015**
Cost	3,257	2,335	462	453
Less accumulated depreciation	-1,629	-1,367	-65	-37
Carrying amount of finance-leased assets	**1,628**	**968**	**397**	**416**

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

	Oct 31, 2016		Oct 31, 2015	
Due date:	**Future minimum lease payments**	**Present value of future minimum lease payments**	**Future minimum lease payments**	**Present value of future minimum lease payments**
< one year	593	590	209	207
1–5 years	804	777	684	659
> 5 years	151	136	106	90
Total	**1,548**	**1,503**	**999**	**956**

OPERATING LEASES

SAS Group leases out owned assets with carrying amounts that on the closing date amounted to:

	Aircraft	
	Oct 31, 2016	**Oct 31, 2015**
Cost	-	2,422
Less accumulated depreciation	-	-2,147
Carrying amount of assets leased out on operating leases	**-**	**275**

Depreciation for the year pertaining to assets leased out on operating leases was MSEK 43 (129). Leasing revenues for the year of MSEK 3 (88) did not contain any contingent rent.

Future leasing revenues for operating leases on the closing date:

	Oct 31, 2016	Oct 31, 2015
< one year	-	17
1–5 years	-	17
> 5 years	-	-
Total	**-**	**34**

CONTRACTUAL PURCHASE COMMITMENTS

The Group had the following commitments relating to future acquisition of tangible fixed assets. At October 31, 2016, contracted orders amounted to 29 Airbus A320neo aircraft and eight Airbus A350-900s with delivery between 2016 and 2021 amounting to a total future purchase commitment, including spares, of MUSD 2,551. At the closing date, other purchase commitments totaled MSEK 2 (9).

NOTE 13 PREPAYMENTS RELATING TO TANGIBLE FIXED ASSETS

	Oct 31, 2016	Oct 31, 2015
Airbus	2,135	1,482
Total	**2,135**	**1,482**

NOTE 14 FINANCIAL FIXED ASSETS

	Equity in affiliated companies		Other holdings of securities		Pension funds, net		Other long-term receivables[3]		Total financial fixed assets	
	Oct 31, 2016	**Oct 31, 2015**	**Oct 31, 2016**	**Oct 31, 2015**	**Oct 31, 2016**	**Oct 31, 2015**	**Oct 31, 2016**	**Oct 31, 2015**	**Oct 31, 2016**	**Oct 31, 2015**
Opening cost	421	395	572	572	4,368	3,778	2,330	3,043	7,691	7,788
Contributions	-	-	-	-	481	549	969	762	1,450	1,311
Share of income in affiliated companies	39	37	-	-	-	-	-	-	39	37
Business combinations[1]	-	-	-	-	-	-	-	8	-	8
Sale of companies[2]	-	-	-270	-	-	-	-1	-	-271	-
Amortization	-	-	-	-	-	-	-328	-1,574	-328	-1,574
Dividend	-80	-15	-	-	-	-	-	-	-80	-15
Reclassifications	-	-	-229	-	-2,207	-	-8	-	-2,444	-
Exchange-rate differences	18	4	-	-	-27	41	223	91	214	136
Closing accumulated cost	**398**	**421**	**73**	**572**	**2,615**	**4,368**	**3,185**	**2,330**	**6,271**	**7,691**
Opening impairment	-	-	-569	-299	-	-	-4	-4	-573	-303
Impairment losses	-	-	270	-270	-	-	-	-	270	-270
Reclassifications	-	-	229	-	-	-	4	-	233	-
Closing accumulated impairment	**-**	**-**	**-70**	**-569**	**-**	**-**	**0**	**-4**	**-70**	**-573**
Carrying amount	**398**	**421**	**3**	**3**	**2,615**	**4,368**	**3,185**	**2,326**	**6,201**	**7,118**

1) Last year, Cimber A/S was acquired. 2) The subsidiary Blue1 Oy and the holding in Widerøes Flyveselskap AS were divested during the year. 3) The carrying amount includes blocked bank funds of MSEK 1,799 (1,540) and deferred tax assets of MSEK 854 (375).

NOTE 15 POST-EMPLOYMENT BENEFITS

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

Pension funds in the balance sheet	Oct 31, 2016	Oct 31, 2015
Present value of funded obligations	-17,792	-16,477
Fair value of plan assets	21,289	21,762
Surplus in funded plans	**3,497**	**5,285**
Present value of unfunded obligations	-882	-917
Surplus in defined-benefit pension plans (net pension funds)	**2,615**	**4,368**

Recognized in profit or loss pertaining to[1]	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Defined-benefit pension plans	102	-73
Defined-contribution pension plans	-909	-803
	-807	**-876**
Remeasurements of defined-benefit pension plans[2]	-1,627	75

1) Expenses recognized in profit or loss include the current service cost, past service cost, net interest expense and gains and losses on settlements.
2) Recognized under other comprehensive income, net after tax.

DEFINED-BENEFIT PENSION PLANS

Previously, most personnel pension plans in Scandinavia were defined-benefit plans. In November 2012, new collective agreements were signed with flight crew in Scandinavia. Among other things, the new agreements mean that the defined-benefit pension plans were, largely, replaced with defined-contribution pension plans effective as of the first quarter of 2013/2014. Defined-contribution pension plans are currently in place for the majority of personnel in Denmark and Norway and in Sweden for flight crew, younger salaried employees and personnel covered by the SAF-LO collective agreement. The majority of the remaining defined-benefit pension plans are secured through insurance companies in the respective countries. In Sweden, pension plans are mainly placed with Alecta and Euroben, in Denmark with Danica and in Norway with DnB. A substantial portion of SAS employees in Sweden are covered by an ITP pension reinsured by Alecta (the Alecta plan). Premiums for defined-benefit retirement pensions are individual and depend, inter alia, on the insured party's age, salary and previously earned pension rights. Expected fees in the next fiscal year (2016/2017) for pension insurances under the Alecta plan are expected to amount to about MSEK 60. The collective consolidation level comprises the market value of Alecta's assets as a percentage of insurance undertakings estimated pursuant to Alecta's actuarial assumptions, which do not comply with IAS 19. Collective consolidation, in the form of a collective consolidation level, is normally permitted to range between 125% and 155%. If Alecta's collective consolidation level falls below 125% or exceeds 155%, actions must be taken to create conditions enabling the consolidation level to revert to the normal interval. Alecta's surplus can be allocated to the policy holders and/or the insured parties if the collective consolidation level exceeds 155%. However, Alecta applies reductions in premiums to avoid an excessive surplus arising. At the end of the fiscal year, Alecta's surplus in the form of the consolidated collective consolidation level was 142% (148%). According to a statement by the Swedish Financial Reporting Board, UFR 10, this constitutes a multi-employer defined-benefit plan and enterprises covered by a multi-employer pension plan classified as defined-benefit must account for their proportional share of the plan's obligations, plan assets and costs in the same way as for any other defined-benefit plan. SAS is provided with information that enables SAS to report its proportional share of the Alecta plan's commitments, plan assets and costs in accordance with IAS 19 rules regarding defined-benefit pension plans.

IAS 19 — Employee Benefits means that all deviations in estimates are to be immediately recognized in other comprehensive income. Furthermore, the discount rate on the defined-benefit plan obligation or pension asset is calculated net, and this net interest expense is recognized by SAS as a payroll expense in profit or loss. SAS reports special payroll tax in line with the rules in IAS 19, which means that those actuarial assumptions made in the calculation of defined-benefit pension plans must also include taxes payable on pension benefits.

As per October 31, 2016, the remaining pension plans in Sweden reported a surplus of about SEK 3 billion, which may benefit SAS in the form of future reductions in premiums and, accordingly, special payroll tax was recognized for the surplus. At October 31, 2016, special payroll tax totaled about SEK 0.8 billion (1.1).

Defined-benefit pension plans	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Current service cost	-109	-193
Past service cost and gains and losses on settlements	44	52
Interest expense on pension obligations	-545	-525
Interest income on plan assets	670	593
Payroll tax	42	-
Total impact recognized in profit and loss for defined-benefit pension plans	**102**	**-73**

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

Changes in the present value of defined-benefit plan obligations	Oct 31, 2016	Oct 31, 2015
Opening balance, pension obligations	17,394	18,368
Current service cost	109	193
Past service cost and gains and losses on settlements	-	-
Settlements	-265	-207
Interest expense	545	525
Pensions paid out	-1,159	-1,557
Exchange-rate differences	-26	7
	16,598	**17,329**
Remeasurements:		
– Gain/loss (-/+) from change in demographic assumptions	-60	514
– Gain/loss (-/+) from change in financial assumptions	2,452	-754
– Experience gains/losses (-/+)	-316	305
Closing balance, pension obligations, October 31	**18,674**	**17,394**

Change in fair value of plan assets	Oct 31, 2016	Oct 31, 2015
Opening balance, plan assets	21,762	22,146
Settlements	-221	-155
Interest income	670	593
Contributions/premiums paid	379	497
Pensions paid out	-1,159	-1,557
Exchange-rate differences	-57	48
	21,374	**21,572**
Remeasurements:		
– Special payroll tax	-279	20
– Exchange-rate differences	4	-
– Return on plan assets (excluding amounts included in interest income)	190	170
Closing balance, plan assets, October 31	**21,289**	**21,762**

Change in pension funds, net	Oct 31, 2016	Oct 31, 2015
Opening balance, pension funds (net)	**4,368**	**3,778**
Total recognized in profit and loss	102	-73
Remeasurements	- 1,886	107
Contributions/premiums paid	379	497
Special payroll tax	-321	18
Exchange-rate differences	-27	41
Closing balance, pension funds (net), October 31	**2,615**	**4,368**

Note 15 continued

Breakdown of the defined-benefit plan obligations and composition of plan assets by country			Oct 31, 2016					Oct 31, 2015		
	Sweden	**Norway**	**Denmark**	**Other**	**Total**	**Sweden**	**Norway**	**Denmark**	**Other**	**Total**
Present value of obligation	-15,322	-1,485	-378	-1,489	-18,674	-14,016	-1,437	-604	-1,337	-17,394
Fair value of plan assets	19,313	588	320	1,068	21,289	19,351	759	555	1,097	21,762
Pension funds, net	**3,991**	**-897**	**-58**	**-421**	**2,615**	**5,335**	**-678**	**-49**	**-240**	**4,368**

Remeasurements — analysis of amounts recognized under other comprehensive income	**Nov–Oct 2015–2016**	**Nov–Oct 2014–2015**
– Gain/loss (+/-) from change in demographic assumptions	60	-514
– Gain/loss (+/-) from change in financial assumptions	-2,452	754
– Experience gains/losses (+/-)	316	-305
– Special payroll tax	-321	2
– Exchange-rate differences	-	-
– Return on plan assets (excluding amounts included in interest income)	190	170
Total remeasurements	**-2,207**	**107**

The discount rate changed during the year and, in Sweden, decreased from 3.25% to 2.10%. The total impact of changed discount rates entailed a negative impact on other comprehensive income of SEK 2.4 billion. The return on plan assets exceeded the discount rate, which entailed a positive impact on other comprehensive income of SEK 0.2 billion. Moreover, a positive item of SEK 0.3 billion was recognized under the item experience gains/losses.

ACTUARIAL ASSUMPTIONS

The measurement to be applied under IAS 19 when measuring defined-benefit plans is known as the projected unit credit method. This method requires several assumptions (actuarial parameters) for calculating the present value of the defined-benefit obligation. Actuarial assumptions comprise both demographic and financial assumptions. Since assumptions must be neutral and mutually compatible, they should be neither imprudent nor overly conservative. They should reflect the economic relationships between factors such as inflation, rates of salary increase, the return on plan assets and discount rates. This means that they should be realistic, based on known financial relations and reflect SAS's best assessment of the factors that will determine the ultimate cost of providing post-employment benefits, that is pension costs.

In calculating pension obligations, the current service cost and return on plan assets, locally set parameters are applied in the respective countries on the basis of the local market situation and expected future trends. This means that the parameters are based on market expectations at the end of the reporting period regarding the time period in which the obligation will be settled.

The discount rate has been determined on the basis of market yields on high-quality corporate bonds (mortgage bonds). The tenor of the bonds reflects the estimated timing and size of pension payments (duration) as well as the currencies these payments are expected to be made in.

Other financial assumptions are based on anticipated developments during the term of the obligation. The assessment of future salary adjustments corresponds to the assumed rate of inflation in the respective countries and life expectancies are set under DUS14 (DUS14) for Sweden and K2013 (K2013) for Norway.

			Oct 31, 2016					Oct 31, 2015		
The key actuarial assumptions were as follows:	**Sweden**	**Norway**	**Denmark**	**Other**	**Total**	**Sweden**	**Norway**	**Denmark**	**Other**	**Total**
Discount rate	2.10%	2.10%	0.25%	2.53%	2.10%	3.25%	2.70%	1.50%	3.75%	2.99%
Inflation	1.60%	1.50%	1.75%	1.94%	1.66%	2.00%	0.50%	1.75%	2.50%	1.86%
Salary growth rate	2.00%	1.75%	1.75%	-	1.97%	2.00%	1.75%	1.75%	0.00%	1.96%
Pension growth rate	1.60%	1.50%	1.75%	1.94%	1.66%	2.00%	0.50%	1.75%	2.50%	1.86%

The average duration of defined-benefit pension plans was as follows:	**Sweden**	**Norway**	**Denmark**	**Other**
2015/2016 fiscal year	15.1	10.1	3.7	15.9
2014/2015 fiscal year	14.5	8.1	6.7	12.0

Note 15 continued

	Oct 31, 2016		Oct 31, 2015	
Plan assets are comprised as follows[1]:	**Total**	**%**	**Total**	**%**
Alecta (Sweden):				
Equities, of which 42% was invested in Swedish equities	3,408	39	3,548	41
Interest-bearing securities, of which 48% was invested in Swedish interest-bearing instruments.	4,537	53	4,414	51
Properties	728	8	692	8
	8,673	**100**	**8,654**	**100**
Euroben (Sweden):				
Equities, of which 34% was invested in Swedish equities	2,738	28	2,496	26
Interest-bearing securities	5,769	59	6,433	67
Properties	489	5	-	-
Other	782	8	672	7
	9,778	**100**	**9,601**	**100**
Danica (Denmark):				
Equities	35	11	61	11
Interest-bearing securities	240	75	405	73
Properties	45	14	89	16
	320	**100**	**555**	**100**
DnB (Norway):				
Equities	56	10	99	13
Interest-bearing securities	490	83	530	70
Properties	38	6	103	13
Other	4	1	27	4
	588	**100**	**759**	**100**
Other countries:				
Equities	514	46	474	43
Interest-bearing securities	593	53	617	56
Other	6	1	6	1
	1,113	**100**	**1,097**	**100**

1) The plan assets in the Swedish pension plans exclude special payroll tax, which is not included in the plan assets managed by Alecta and Euroben. Only an insignificant share of the plan assets is invested in SAS shares.

Membership statistics at October 31, 2016	**Active employees**	**Taken early retirement**	**Deferred pensioners**	**Pensioners**
The Alecta plan	2,239	-	3,269	3,375
Euroben	107	-	640	1,022
Other plans in Sweden (unfunded)	-	-		218
DnB	4	419		515
Danica	25	-		-
Total	2,375	419	3,909	5,130

The effect on/sensitivity of the defined-benefit obligation to changes in the key assumptions is:	**Sweden**	**Norway**	**Denmark**	**Other**	**Total**
Discount rate, -1%	-2,723	-256	-32	-268	-3,279
Inflation, +1%	-2,673	-17	-9	-59	-2,758

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant.

NOTE 16 EXPENDABLE SPARE PARTS AND INVENTORIES

	Oct 31, 2016	Oct 31, 2015
Expendable spare parts, flight equipment	262	281
Expendable spare parts, other	21	31
Inventories	29	33
Total	**312**	**345**
Measured at cost	311	341
Measured at net realizable value	1	4
Total	**312**	**345**

NOTE 17 CURRENT RECEIVABLES

Net impairment of accounts receivable and recovered accounts receivable as well as impairment of other current receivables totaled MSEK 12 (46) and was charged to income.

Age analysis of non-impaired accounts receivable	Oct 31, 2016	Oct 31, 2015
Accounts receivable not yet due	1,323	1,193
Due < 31 days	45	46
Due 31–90 days	28	6
Due 91–180 days	8	1
Due > 180 days	2	3
Total	**1,406**	**1,249**

Provision for doubtful accounts receivable	Oct 31, 2016	Oct 31, 2015
Opening provision	10	13
Provision for expected losses	7	2
Reversed provisions	-3	-1
Actual losses	-5	-4
Closing provision	**9**	**10**

NOTE 18 CURRENT RECEIVABLES FROM AFFILIATED COMPANIES

	Oct 31, 2016	Oct 31, 2015
Air Greenland A/S	1	2
Total	**1**	**2**

NOTE 19 PREPAID EXPENSES AND ACCRUED INCOME

	Oct 31, 2016	Oct 31, 2015
Prepaid expenses	706	732
Accrued income	447	361
Total	**1,153**	**1,093**

NOTE 20 SHORT-TERM INVESTMENTS

	Oct 31, 2016	Oct 31, 2015
Treasury bills	252	250
Deposits	2,714	1,696
Commercial paper	2,982	3,079
Tax deduction account in Norway	119	126
Total	**6,067**	**5,151**

The carrying amount of short-term investments corresponds with the fair value. Fair value is the amount that should have been received for short-term investments outstanding if sold on the closing date. Deposits and the tax deduction account are categorized as loans and receivables. Other financial instruments are classified as held for trading.

All investments have a term of no more than three months. The item, deposits, includes receivables from other financial institutes of MSEK 1,356 (1,163).

NOTE 21 SHARE CAPITAL

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

As of October 31, 2016, a total of 330,082,551 common shares and 7,000,000 preference shares were issued and outstanding, which together constituted a registered share capital of SEK 6,775,359,275. During the 2015/2016 fiscal year, a conversion was made of SAS's convertible bond loan to 1,082,551 common shares. During the 2013/2014 fiscal year, an issue of 7,000,000 preference shares was made, each with a quotient value of SEK 20.10. The 330,082,551 common shares have a quotient value of SEK 20.10 per share. There are no subordinated shares issued or outstanding. Common shares and subordinated shares entitle the holders to one vote each. Each preference share entitles the holder to one-tenth of a vote.

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

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

To ensure that the ownership circumstances of the company comply with the requirements stipulated in bilateral aviation agreements or in laws or regulations pertaining to the state of air traffic in the EEA, the Board is entitled, pursuant to the Articles of Association, to make a decision on mandatory redemption of shares held by shareholders outside of Scandinavia without refund to affected shareholders. Should the redemption of such shares not be possible, the Board is entitled (subsequent to resolution by the shareholders' meeting) to assign warrants with subscription rights for subordinated shares to Scandinavian shareholders to dilute the non-Scandinavian shareholding to the requisite level to ensure compliance with the aforementioned regulations.

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

Common shares

Dividends to holders of common shares can be paid from value-creation whereby SAS's return on invested capital exceeds the average cost of capital.
The dividend should take into account any restrictions applying to the Group's financial instruments[1].

Preference shares

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

1) Currently, SAS has two financial instruments issued that limit dividend rights for holders of SAS common shares. SAS's bond of SEK 1.5 billion that matures in November 2017 stipulates that no dividends may be paid to holders of common shares if SAS's equity/assets ratio is less than 35%. According to the conditions of the preference shares, dividends are not paid to holders of common shares if the preference share capital exceeds 50% of the recognized shareholders' equity. Full dividends must also have been paid to preference shareholders.

NOTE 22 RESERVES

Translation reserve	**2016**	**2015**
Opening translation reserve	-286	-109
Translation differences for the year	212	-177
Closing translation reserve, October 31	**-74**	**-286**
Hedging reserve		
Opening hedging reserve	1,218	290
Cash-flow hedges:		
– Recognized directly in other comprehensive income	50	1,020
– Change in statement of income	87	170
– Tax attributed to year's change in hedging reserve	-30	-262
Closing hedging reserve, October 31	**1,325**	**1,218**
Total reserves		
Opening reserves	932	181
Change in reserves for the year:		
– Translation reserve	212	-177
– Hedging reserve	107	928
Closing reserves, October 31	**1,251**	**932**

TRANSLATION RESERVE
The translation reserve includes all exchange-rate differences arising in conjunction with the translation of financial statements from foreign operations that have prepared their financial statements in a currency other than Swedish kronor.

HEDGING RESERVE
The hedging reserve includes the effective part of the cumulative net change in fair value on a cash-flow instrument attributable to hedging transactions that have not yet incurred.

NOTE 23 LONG-TERM LIABILITIES

Long-term liabilities that fall due more than five years after the closing date.

	Oct 31, 2016	**Oct 31, 2015**
Subordinated loans	1,157	1,104
Bond loans	-	-
Other loans	538	893
Total	**1,695**	**1,997**

NOTE 24 SUBORDINATED LOANS

A subordinated loan of MCHF 200 was issued during the 1985/1986 fiscal year. There is no set maturity date for this loan. The interest rate is fixed for ten–year periods and amounts to 0.625% from January 2016. SAS has an exclusive right to call this loan every fifth year. When the loan is canceled in connection with an interest-rate reset, SAS is entitled to repay the loan at 100% of its nominal value. If it is canceled five years after an interest-rate reset, the loan must be repaid at 102.5% of nominal value.

In previous years, SAS repurchased MCHF 73 of the bonds, after which the balance of the loan is MCHF 127 (127), with a countervalue of MSEK 1,157 (1,096).

The loan is listed on the Basel Stock Exchange, Geneva Stock Exchange and Swiss Exchange. On the closing date, its total market value (including credit risk) amounted to MCHF 36 (39), with a countervalue of MSEK 325 (332). Fair value has been set entirely by the use of official price quotes.

NOTE 25 BOND LOANS

In May 2001, a MEUR 1,000 European Medium-Term Note program was established. The EMTN program makes it possible for the Group to issue bonds with fixed or floating interest rates in any currency. On the closing date, the SAS Group's issued bonds amounted to MSEK 2,330 (2,744). A specification of individual bond loans is provided below:

				Oct 31, 2016		Oct 31, 2015	
Original amount issued	**Coupon rate**	**Term**	**Debt outstanding, currency**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
MEUR 60.0		2010/16	-	-	-	560	562
MEUR 40.0	5.2%[1]	2011/17	MEUR 39.5	390	394	363	375
MEUR 10.0	7.2%[1]	2016/21	MEUR 9.9	99	99	-	-
MSEK 1,500.0	9.0%	2013/17	MSEK 1,496.7	1,497	1,512	1,493	1,585
MEUR 35.0	8.7%	2013/18	MEUR 35.0	345	394	328	328
Total				**2,330**	**2,399**	**2,744**	**2,850**
Less amortization 2016/2017 and 2015/2016				-147	-148	-560	-562
Total				**2,183**	**2,251**	**2,184**	**2,288**

1) Coupon rate on closing date. The loan has a floating interest rate.

The debt outstanding in currency and the carrying amount in MSEK agrees with amortized cost. The Group has entered into currency derivatives agreements for some of these bonds for the purpose of limiting currency risk. The fair value has been established in part by the use of official price quotes, and partly by discounting cash flows at quoted interest rates.

NOTE 26 OTHER LOANS

	Oct 31, 2016		Oct 31, 2015	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Finance leases	1,321	1,350	837	837
Convertible bond	1,482	1,414	1,466	1,358
Other loans	3,267	3,426	3,208	3,213
Total before amortization	**6,070**	**6,190**	**5,511**	**5,408**
Less amortization 2016/2017 and 2015/2016	-1,680	-1,760	-704	-702
Total other loans	**4,390**	**4,430**	**4,807**	**4,706**

Maturity profile of other loans	**2016/2017**	**2017/2018**	**2018/2019**	**2019/2020**	**2020/2021**	**2021>**	**Total**
Finance leases	543	115	122	129	339	73	1,321
Convertible bond	-	-	1,482	-	-	-	1,482
Other loans	1,137	485	431	299	450	465	3,267
Total	**1,680**	**600**	**2,035**	**428**	**789**	**538**	**6,070**

Other loans, finance leases and convertibles are classified as other liabilities, with recognition at amortized cost.

In 2014, a convertible bond was issued for MSEK 1,600 with a term of five years. At the date of issue, the value of the debt portion was MSEK 1,399 and that of the equity share (conversion option and repurchase right) was MSEK 201. The loan conversion price is SEK 24.0173 and is convertible on demand. In other loans, some borrowing is included within the framework of various revolving credit facilities (see Note 27 for further information). The interest rate of these loans is readjusted to the current interbank rate based on the currency of the loan plus a margin. The average interest rate on the closing date amounted to 3.36% for finance leases, 3.625% for convertible bonds and 3.63% for other loans.

The fair value of the convertible bond has been established through the use of official price quotes. For other loans and finance leases, fair value is determined by discounting on the basis of yield curves on the closing date.

NOTE 27 FINANCIAL RISK MANAGEMENT AND FINANCIAL DERIVATIVES

The SAS Group is exposed to various types of financial risks. All risk management is handled centrally and in accordance with the policies set by the Board. The SAS Group uses derivative instruments as part of its financial risk management to limit its fuel, currency and interest-rate exposure.

FUEL PRICE RISK

The SAS Group is exposed to changes in jet-fuel prices. Exposure is handled by continuously hedging 40–80% of the forecast fuel consumption for the coming 12 months. The main financial derivatives used for hedging jet fuel are options and swaps. On October 31, 2016, the Group signed an agreement on derivatives covering approximately 46% of the Group's forecast jet-fuel requirement for November 2016–October 2017. In November 2015–October 2016, jet-fuel-related costs accounted for 17.0% of the Group's operating expenses, compared with 22.0% in November 2014–October 2015.

CURRENCY RISK

The SAS Group has currency exposure to both transaction risk and translation risk.

Transaction risk arises when flows in foreign currencies are exposed to currency fluctuations. To manage the transaction risk to which the SAS Group is exposed, the projected commercial currency flows are hedged using currency derivatives. According to the financial policy, the hedge level must be 40–80% of a 12-month rolling liquidity forecast. Future contracted aircraft purchases denominated in USD can be hedged by up to 80% of the contracted amount. Additionally, future aircraft sales can be hedged with currency derivatives and loans in USD in an amount up to 80% of the carrying amounts of the aircraft fleet. On October 31, 2016, the Group had signed agreements for derivatives covering approximately 59% of the Group's forecast commercial currency exposure for November 2016–October 2017.

Translation risk arises during conversion of balance-sheet items in foreign currencies due to currency fluctuations. To limit translation risk, the policy is to keep the financial net debt mainly in the presentation currency of the respective subsidiary.

INTEREST-RATE RISK

The SAS Group is exposed to interest-rate risk when the market value of the financial net debt (interest-bearing assets and liabilities) is affected by movements in the yield curve (market interest rates at different maturities). Group borrowing includes loans at both fixed and floating interest rates. To manage the interest-rate risk, interest-rate derivatives are used to change the fixed-interest term of the underlying gross financial debt. The target of current policy is for the average fixed-interest term of the gross financial debt to correspond to 2 years. In addition, the development of the gross financial debt for the forthcoming 12 months and contracted future aircraft purchases is taken into consideration. As of October 31, 2016, the average fixed-interest term was 2.3 (1.4) years.

SENSITIVITY ANALYSIS, REVALUATION EFFECT ON CLOSING DATE

The sensitivity analysis concerning fuel price shows the immediate revaluation effect of a 10% parallel shift in the price curve for fuel derivatives.

The sensitivity analysis concerning currency shows the immediate revaluation effect on the closing date for cash-flow hedges, accounts receivable and accounts payable of a 10% strengthening or weakening of the Swedish krona against all currencies the SAS Group is exposed to. Beyond the above effect on equity, a 10% change in currency will impact equity by MSEK 0 (0) through changes in value for hedges of net investments. A corresponding change in value arises for net investments in foreign operations. The net effect of the above changes in value has no impact on equity.

The sensitivity analysis for market interest rates shows the immediate revaluation effect on the closing date for interest-rate derivatives, fair-value hedges and short-term investments with a 1% parallel shift in the yield curve. Beyond the revaluation effect, the SAS Group's net interest for the November 2016–October 2017 period is affected by around MSEK 50 (45) if short-term market rates rise by 1 percentage point. However, if short-term market rates fall by 1 percentage point the corresponding negative effect on net interest is MSEK -50 (-45). The estimate also includes interest-rate derivatives.

SENSITIVITY ANALYSIS, REVALUATION EFFECT ON CLOSING DATE

		Oct 31, 2016	Oct 31, 2015	Oct 31, 2016	Oct 31, 2015
Market risk	**Change**	**Earnings impact**	**Earnings impact**	**Equity impact**	**Equity impact**
Fuel price	+10%	-33	-	392	101
Fuel price	-10%	-5	-	-268	-144
Currency risk	+10%	75	15	123	192
Currency risk	-10%	-75	-15	-123	-192
Market interest rates	+1%	-4	-2	-	0
Market interest rates	-1%	4	2	-	0

FINANCIAL DERIVATIVES

Different types of currency derivatives, such as currency forward contracts, currency swap contracts and currency options, are used to manage currency exposure. Furthermore, interest-rate exposure is managed by different types of interest-rate derivatives such as Forward Rate Agreements (FRAs), futures, interest-rate swap contracts and currency interest-rate swap contracts.

As of October 31, 2016, the fair value of the SAS Group's outstanding derivative instruments totaled MSEK 462 (359), broken down according to the table below.

	Oct 31, 2016	Oct 31, 2016 Fair value			Oct 31, 2015	
	Outstanding volume	**Assets**	**Liabilities**	**Net**	**Outstanding volume**	**Fair value, net**
Currency derivatives	16,456	441	-256	185	28,553	393
Interest-rate derivatives	-	-	-	-	1,200	32
Fuel derivatives	2,922	277	-	277	5,862	-66
Total	**19,378**	**718**	**-256**	**462**	**35,615**	**359**

Note 27 continued

As of October 31, 2016, fair value is consistent with carrying amounts.
The fair value is the amount received or paid if outstanding financial instruments are sold on the closing date. Derivatives not subject to hedge accounting are classified as financial instruments held for trading.
Outstanding volume means the nominal amount of derivative contracts expressed in absolute terms.

The total carrying amount for the Group's derivative financial instruments is presented in the balance-sheet items in the table to the right.

OFFSETTING OF FINANCIAL DERIVATIVES

To reduce counterparty risks for bank receivables related to derivatives, SAS has entered into netting agreements, under ISDA agreements, signed with most of its counterparties.

The information in the following table includes financial assets and liabilities that are subject to enforceable master netting arrangements and similar agreements that cover financial instruments.

	Oct 31, 2016	Oct 31, 2015
Other long-term receivables	-	8
Other receivables	718	506
Total derivative assets	**718**	**514**
Current liabilities	-256	-155
Total derivative liabilities	**-256**	**-155**
Derivative assets/liabilities net at end of the period	**462**	**359**
Allocation of derivatives according to the following:		
Cash-flow hedges	429	277
Fair-value hedges	-	31
Net investment hedges	-	-
Derivatives not designated as hedges for accounting purposes	33	51
Derivative assets/liabilities *net at end of the period*	**462**	**359**

	Oct 31, 2016			Oct 31, 2015		
	Financial assets	Financial liabilities	Total	Financial assets	Financial liabilities	Total
Gross amount	718	-256	462	514	-155	359
Amount offset	0	0	0	0	0	0
Recognized in the balance sheet	**718**	**-256**	**462**	**514**	**-155**	**359**
Amounts covered by netting agreements	-524	253	-271	-121	23	-98
Net amount after netting agreements	**194**	**-3**	**191**	**393**	**-132**	**261**

HEDGE-ACCOUNTED DERIVATIVES, CASH-FLOW HEDGE

Hedging of aircraft

The hedging of future contracted aircraft purchases/sales represents hedging transactions since it is the payment flow in foreign currency during a future purchase/sale that is hedged according to the cash-flow method. The loans and the currency forward contracts included in hedging relationships are translated at the relevant closing rate and the change that is calculated as effective is recognized in other comprehensive income. As of October 31, 2016, the accumulated currency effect on cash-flow hedged loans and derivatives relating to future aircraft purchases and sales was recognized in equity in the amount of MSEK 1,108 (1,121).

Commercial flows

Currency derivatives are used to manage the transaction risk relating to projected commercial flows. These currency derivatives represent hedging transactions according to the cash-flow method and their accounting policies are matched with those of the underlying liquidity projection. Provided that the effectiveness of the hedges can be demonstrated, the accumulated change in market value of each hedging transaction is recognized in equity until it is recycled to the statement of income as a cost/revenue. As of October 31, 2016, the accumulated currency effect of these cash flow-hedged currency derivatives was recognized in equity in the amount of MSEK 63 (130).

Interest-rate derivatives

When the SAS Group borrows at floating interest rates and changes its interest-rate exposure by entering into interest-rate swap contracts whereby floating interest is received and fixed interest is paid, the hedging relationship is classified as a cash-flow hedge. When hedge accounting is applied, the effective portion of the change in value of the hedge instrument is recognized in other comprehensive income. The terms of the interest-rate derivatives used for hedging transactions are matched with those of the individual loans. On the closing date, October 31, 2016, there were no interest-rate derivatives outstanding MSEK 0 (0).

Fuel derivatives

Fuel derivatives are used to manage the price risk relating to jet fuel. These derivatives represent hedging transactions according to the cash-flow method and their accounting policies are matched with those of the underlying forecast jet-fuel requirement. As of October 31, 2016, the accumulated effect on these cash flow-hedged fuel derivatives was recognized in equity in the amount of MSEK 154 (-33). The time value is remeasured on an ongoing basis at fair value through profit or loss.

All together, MSEK 1,325 (1,218) relating to cash-flow hedges was recognized in equity at October 31, 2016, and is expected to affect the statement of income in the following years as follows:

	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022>	Total
Aircraft	26	64	83	109	131	1,008	1,421
Commercial flows	81	-	-	-	-	-	81
Interest-rate derivatives	-	-	-	-	-	-	-
Fuel derivatives	197	-	-	-	-	-	197
Deferred tax	-67	-14	-18	-24	-29	-222	-374
Effect on equity	**237**	**50**	**65**	**85**	**102**	**786**	**1,325**

Note 27 continued

HEDGE-ACCOUNTED DERIVATIVES, FAIR-VALUE HEDGE

In cases where the SAS Group borrows at fixed interest rates and changes its interest-rate exposure by entering interest-rate swap contracts, whereby fixed interest is received and floating interest is paid, the hedging relationship is classified as a fair-value hedge. When hedge accounting is applied, changes in value attributable to the hedge instrument are recorded in net interest, where the effects are counteracted because the underlying hedged position (interest portion of the loan) is also measured at fair value and recorded in net interest. The terms of the interest-rate derivatives used for hedging transactions are matched with those of the individual loans. As of October 31, 2016, there are no fair-value hedges.

DERIVATIVES NOT SUBJECT TO HEDGE ACCOUNTING

Other derivatives not subject to hedge accounting are remeasured on an ongoing basis and recognized at fair value through profit or loss. Nor are interest-rate derivatives that cannot be linked to specific borrowing subject to hedge accounting and are remeasured on an ongoing basis at their fair value through profit or loss.

EMISSION RIGHTS

In 2016, SAS received about 51% of the emission rights free of charge and had to procure the remaining on the open market. As of October 31, SAS had secured 100% of the need for emission rights for 2016 and 30% of the expected need for 2017. During the November 2015 to October 2016 period, SAS expensed emission rights to a value of MSEK 100.

CREDIT RISK

The Group's financial transactions give rise to exposure to credit risk vis-à-vis the financial counterparties. Credit risk or counterparty risk pertains to the risk of loss if a counterparty does not fulfill its contractual obligations. The financial policy prescribes that transactions may only be entered into with counterparties with high creditworthiness, defined as category A3/P-1 or better according to Moody's or alternatively A-/A-1 according to Standard & Poor's.

Limits are set for each counterparty and are continuously revised. To further reduce counterparty risks, ISDA agreements (netting agreements) are signed with most counterparties. 83% of the credit-related exposure is geographically concentrated in the Nordic countries. The breakdown of the remaining credit exposure is 17% in the rest of Europe and 0% in the rest of the world. The maximum credit exposure for derivative instruments is matched by carrying amounts/fair values, see the above table under the heading Financial derivatives. For cash and cash equivalents, the size of the credit risk is the carrying amount and is distributed as follows:

	Carrying amount	
Rating (Moody's)	**Oct 31, 2016**	**Oct 31, 2015**
Aaa/P-1	252	250
Aa1/P-1	1,051	1,723
Aa2/P-1	550	300
Aa3/P-1	5,455	2,225
A1/P-1	498	2,044
A2/P-1	129	1,031
A3/P-1	435	625
Total	**8,370**	**8,198**

In relation to the SAS Group's accounts receivable, the credit risk is spread over a large number of customers including private individuals and companies in various industries. Credit information is required for credit sales with the aim of minimizing the risk of bad debt losses and is based on intra-Group information on payment history supplemented with credit and business information from external sources.

The maximum credit risk for the SAS Group accords with the carrying amounts of financial assets according to the categorization table.

LIQUIDITY AND BORROWING RISK

Liquidity and borrowing risks refer to the risk that sufficient liquidity is not available when required, and that refinancing of matured loans will be costly or problematic.

The target is for financial preparedness to amount to a minimum of 20% of the SAS Group's fixed costs. The financial preparedness equals cash and cash equivalents plus total unutilized credit facilities. As of October 31, 2016, financial preparedness amounted to MSEK 10,581 (9,747), with cash and cash equivalents amounting to MSEK 7,014 (7,037) and unutilized credit facilities totaling MSEK 3,567 (2,712) or 41% (40) of the Group's fixed costs. The SAS Group's cash and cash equivalents are held in instruments with good liquidity or short maturity with a credit rating of no lower than A3/P-1 according to Moody's or A-/A-1 according to Standard & Poor's.

The following tables show remaining contractual terms for SAS's financial liabilities and assets excluding operations for sale. The figures shown are contractual undiscounted cash flows. The tables show the contracted date when SAS is liable to pay or receive, and includes both interest and nominal amount. Future interest flows at variable rates are estimated using the current interest rate on the closing date, which means the amounts may differ.

As of October 31, 2016, the Group's interest-bearing liabilities amounted to MSEK 9,880 (9,745); 0% (0) of the interest-bearing liabilities have financial key ratio covenants for cash flow, debt/equity and liquidity. The term of the interest-bearing gross debt amounted to approximately 2.1 years (2.7) at year-end, excluding the subordinated loan of MCHF 127 which runs without stipulated maturity.

FINANCIAL NET DEBT

MSEK	Balance sheet		Financial net debt
Other long-term receivables	2,331	of which, interest-bearing:	1,931
Short-term receivables, affiliated companies	1	of which, interest-bearing:	0
Other short-term receivables	1,193	of which, interest-bearing:	745
Short-term investments	6,067		6,067
Cash and bank	2,303		2,303
Subordinated debenture loan	-1,157		-1,157
Bond issues	-2,183		-2,183
Other loans	-4,390		-4,390
Other long-term liabilities	-3		-3
Current portion of long-term loans	-1,827		-1,827
Short-term loans	-320		-320
Net debt			**1,166**

Note 27 continued

LIQUIDITY RISK

Oct 31, 2016	Up to 3 months	4–12 months	1–5 years	Over 5 years
Financial liabilities				
Subordinated loans	-	7	29	1,193[2]
Bond loans	55	370	2,146	-
Finance leases	477	88	717	74
Convertibles	-	29	1,688	-
Other loans	534	707	1,752	584
Other liabilities	1	2	-	-
Short-term loans	-	-	-	-
Fuel derivatives	141	115	-	-
Currency derivatives	-	-	-	-
Interest-rate derivatives	-	-	-	-
Accounts payable	1,755	-	-	-
Total	**2,963**	**1,318**	**6,332**	**1,851**
Currency derivatives, gross[1]	10,935	5,521	-	-
Financial assets				
Other long-term receivables	19	125	1,586	601
Accounts receivable	1,396	10	-	-
Other receivables	-	4	470	-
Short-term investments	5,164	-	-	-
Cash and Bank	3,055	-	-	-
Fuel derivatives	71	206	-	-
Currency derivatives	302	140	-	-
Interest-rate derivatives	-	-	-	-
Total	**10,006**	**485**	**2,056**	**601**
Net	**7,043**	**-833**	**-4,276**	**-1,250**

Oct 31, 2015	Up to 3 months	4–12 months	1–5 years	Over 5 years
Financial liabilities				
Subordinated loans	5	-	15	1,135[2]
Bond loans	6	715	2,442	-
Finance leases	90	115	630	71
Convertibles	-	58	1,803	-
Other loans	133	506	2,033	878
Other liabilities	4	12	185	-
Short-term loans	67	7	-	-
Fuel derivatives	2	114	-	-
Currency derivatives	54	9	-	-
Interest-rate derivatives	-24	-	-	-
Accounts payable	1,528	-	-	-
Total	**1,865**	**1,536**	**7,108**	**2,084**
Currency derivatives, gross[1]	22,771	5,782	-	-
Financial assets				
Other long-term receivables	1	3	1,955	-
Accounts receivable	1,249	-	-	-
Other receivables	-	-	314	-
Short-term investments	5,164	-	-	-
Cash and bank balances	3,055	-	-	-
Fuel derivatives	50	-	-	-
Currency derivatives	323	133	-	-
Interest-rate derivatives	8	-	-	-
Total	**9,850**	**136**	**2,269**	**0**
Net	**7,985**	**-1,400**	**-4,839**	**-2,084**

1) Currency derivatives have, essentially, corresponding positive cash flows.
2) Subordinated loan with no maturity date.

Note 27 continued

CONTRACTED CREDIT FACILITIES

The Group has entered into various credit facilities in order to provide additional funding if needed. The following table provides details for these credit facilities as of October 31, 2016.

				Oct 31, 2016	Oct 31, 2015
Facility	**Maturity**	**Total facility**	**Utilized facility**	**Unutilized facility**	**Unutilized facility**
Credit facility, MEUR 150	2019	1,479	-	1,479	1,405
Credit facility, MUSD 137	2018	1,233	31	1,202	1,138
Credit facility, MUSD 27	2017	241	241	-	-
Credit facility, MUSD 64	2020	579	579	-	-
Credit facility, MUSD 49	2021	437	437	-	-
Credit facility, MUSD 36	2017	325	325	-	154
Credit facility, MUSD 46	2018	416	209	207	-
Credit facility, MUSD 75	2023	679	-	679	15
Total		**5,388**	**1,821**	**3,567**	**2,712**

MEASUREMENT AT FAIR VALUE

Under IFRS 7, disclosures pertaining to financial instruments measured at fair value in the balance sheet are to be provided if the method for establishing fair value utilizes a fair value hierarchy consisting of three levels. The levels reflect the extent to which fair value is based on observable market data or own assumptions. Below is a description of the different levels for determining fair value.

Level 1

Financial instruments for which fair value is based on observable (unadjusted) quoted prices in active markets for identical assets and liabilities. A market is considered active if quoted prices from an exchange, bank, pricing service (such as Thomson Reuters) or supervisory body are readily and regularly available and those prices represent actual and regularly occurring arm's length market transactions.

This category includes mainly treasury bills and standardized derivatives where the quoted price is used in the valuation. Cash and bank balances are also categorized as level 1.

Level 2

Financial instruments for which fair value is based on models that utilize observable data for the asset or liability other than the quoted prices included within level 1, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Examples of observable data in level 2 is data that can serve as a basis for assessing prices, such as market interest rates and yield curves.

This category includes mainly certificates and non-standard derivative instruments (interest-rate, currency and fuel swaps as well as currency and fuel options) not traded in an active market and the fair value is determined using valuation techniques based essentially on observable market data.

Level 3

Financial instruments for which fair value is based on valuation models, whereby significant input is based on unobservable data.

The SAS Group currently has no financial assets and liabilities where the valuation is essentially based on unobservable data.

DETERMINATION OF FAIR VALUE — VALUATION TECHNIQUES

Other holdings of securities

The balance-sheet item "Other holdings of securities" MSEK 3 (3) comprises shareholdings that are not affiliated companies or subsidiaries.

The entire balance-sheet item is measured at cost because its fair value cannot be reliably measured as a justifiable expense. For this reason, the balance-sheet item "Other holdings of securities" is not included in the adjacent table "Financial assets and liabilities measured at fair value."

Interest-rate derivatives

Interest-rate swaps: The fair value of interest-rate swaps is determined by discounting estimated future cash flows. Discounting takes place on the basis of yield curves based in turn on market rates prevailing at the closing date.

Futures: Standardized futures contracts with daily settlement. Fair value is thus determined by daily "market to market" valuation.

Forward Rate Agreement, (FRA): The fair value of OTC FRAs is determined by discounting estimated future cash flows. Discounting takes place on the basis of yield curves based in turn on market rates prevailing at the closing date. Standardized FRAs with cash settlement are measured at fair value using quoted bid and ask rates at year-end for an FRA with a corresponding term to maturity.

Currency derivatives

Currency swaps: The fair value of currency swaps is determined by discounting estimated future cash flows in each currency and interest rate. Discounting is based on yield curves on the closing date. Translation of the currency component is based on exchange rates prevailing at the closing date.

Currency options: The fair value of options is determined by application of the Black and Scholes valuation model, a recognized and accepted valuation model in financial markets. The model is based primarily on observable data such as spot price, exercise price, term to maturity, interest rate, volatility, etc.

Fuel derivatives

Fuel options: The fair value of fuel options is determined by application of the Black and Scholes valuation model. The model is based primarily on observable data such as the fuel swap curve, exercise price, term to maturity, interest rate, volatility, etc.

Fuel swaps: The fair value of fuel swaps is determined according to the fuel swap curve at the closing date.

Short-term investments

Short-term investments classified as held for trading comprise treasury bills, mortgage bonds and commercial paper with a maximum remaining term to maturity of three months. Fair value is determined by discounting on the basis of yield curves on the closing date.

Cash and bank balances

Cash and bank balances comprise cash on hand and demand deposits at banks and corresponding financial institutions. Carrying amounts correspond to fair value.

Note 27 continued

FAIR VALUES AND CARRYING AMOUNTS OF FINANCIAL ASSETS AND LIABILITIES

	Oct 31, 2016		Oct 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial assets at fair value	651	651	444	444
Financial assets held for trading	5,801	5,801	6,629	6,629
Other assets	4,594	4,594	3,398	3,398
Total	**11,046**	**11,046**	**10,471**	**10,471**
Financial liabilities				
Financial liabilities at fair value	222	222	136	136
Financial liabilities held for trading	34	34	19	19
Financial liabilities at amortized cost	9,624	8,975	9,590	8,820
Total	**9,880**	**9,231**	**9,745**	**8,975**

FINANCIAL ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

	Oct 31, 2016			Oct 31, 2015		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
ASSETS						
Other long-term receivables						
– Interest-rate derivatives	-	-	-	-	8	-
Other receivables						
– Fuel derivatives	-	277	-	-	50	-
– Currency derivatives	-	441	-	-	456	-
– Interest-rate derivatives	-	-	-	-	-	-
Short-term investments	449	2,981	-	433	3,079	-
Cash and bank balances	2,303	-	-	3,047	-	-
Total	**2,752**	**3,699**	**0**	**3,480**	**3,593**	**0**
LIABILITIES						
Other loans						
– Interest-rate derivatives	-	-	-	-	-	-
Short-term loans						
– Fuel derivatives	-	-	-	-	116	-
– Currency derivatives	-	256	-	-	63	-
– Interest-rate derivatives	-	-	-	-	-24	-
Total	**0**	**256**	**0**	**0**	**155**	**0**

Note 27 continued

CATEGORIZATION OF FINANCIAL ASSETS AND LIABILITIES

	Held for trading	Loans and receivables	Financial assets available for sale	Other liabilities	Hedging instruments, derivatives	Non-financial items	Total carrying amount	Total fair value[1]
Oct 31, 2016	*Fair value*	*Amortized cost*	*Fair value*	*Amortized cost*	*Fair value*			
ASSETS								
Other holdings of securities	-	-	3	-	-	-	3	3
Other long-term receivables	-	1,931	-	-	-	400	2,331	2,331
– Interest-rate derivatives	-	-	-	-	-	-	0	0
Accounts receivable	-	1,406	-	-	-	-	1,406	1,406
Receivables from affiliated companies	-	-	-	-	-	1	1	1
Other receivables	-	26	-	-	-	448	474	474
– Fuel derivatives	-	-	-	-	277	-	277	277
– Currency derivatives	68	-	-	-	374	-	442	442
– Interest-rate derivatives	-	-	-	-	-	-	0	0
Short-term investments	3,430	2,637	-	-	-	-	6,067	6,067
Cash and bank balances	2,303	-	-	-	-	-	2,303	2,303
Total	**5,801**	**6,000**	**3**	**0**	**651**	**849**	**13,304**	**13,304**
LIABILITIES								
Subordinated loans	-	-	-	1,157	-	-	1,157	319
Bond loans	-	-	-	2,183	-	-	2,183	2,251
Other loans	-	-	-	3	-	-	3	3
– Interest-rate derivatives	-	-	-	-	-	-	0	0
Other liabilities	-	-	-	4,390	-	-	4,390	4,430
Current portion of long-term loans	-	-	-	1,827	-	-	1,827	1,908
Short-term loans	-	-	-	64	-	-	64	64
– Fuel derivatives	-	-	-	-	-	-	0	0
– Currency derivatives	34	-	-	-	222	-	256	256
– Interest-rate derivatives	-	-	-	-	-	-	0	0
Accounts payable	-	-	-	1,755	-	-	1,755	1,755
Total	**34**	**0**	**0**	**11,379**	**222**	**0**	**11,635**	**10,986**

	Held for trading	Loans and receivables	Financial assets available for sale	Other liabilities	Hedging instruments, derivatives	Non-financial items	Total carrying amount	Total fair value[1]
Oct 31, 2015	*Fair value*	*Amortized cost*	*Fair value*	*Amortized cost*	*Fair value*			
ASSETS								
Other holdings of securities	-	-	3	-	-	-	3	3
Other long-term receivables	-	1,710	-	-	-	233	1,943	1,943
– Interest-rate derivatives	-	-	-	-	8	-	8	8
Accounts receivable	-	1,249	-	-	-	-	1,249	1,249
Receivables from affiliated companies	-	-	-	-	-	2	2	2
Other receivables	-	47	-	-	-	314	361	361
– Fuel derivatives	-	-	-	-	50	-	50	50
– Currency derivatives	70	-	-	-	386	-	456	456
– Interest-rate derivatives	-	-	-	-	-	-	0	0
Short-term investments	3,512	1,639	-	-	-	-	5,151	5,151
Cash and bank balances	3,047	-	-	-	-	-	3,047	3,047
Total	**6,629**	**4,645**	**3**	**0**	**444**	**549**	**12,270**	**12,270**
LIABILITIES								
Subordinated loans	-	-	-	1,104	-	-	1,104	332
Bond loans	-	-	-	2,184	-	-	2,184	2,288
Other loans	-	-	-	4,807	-	-	4,807	4,706
– Interest-rate derivatives	-	-	-	-	-	-	0	0
Other liabilities	-	-	-	157	-	31	188	188
Current portion of long-term loans	-	-	-	1,264	-	-	1,264	1,264
Short-term loans	-	-	-	74	-	-	74	74
– Fuel derivatives	-	-	-	-	116	-	116	116
– Currency derivatives	19	-	-	-	44	-	63	63
– Interest-rate derivatives	-	-	-	-	-24	-	-24	-24
Accounts payable	-	-	-	1,528	-	-	1,528	1,528
Total	**19**	**0**	**0**	**11,118**	**136**	**31**	**11,304**	**10,535**

1) Fair value of short-term investments and subordinated loans has been set entirely by the use of official price quotes. Fair value of other financial assets and liabilities has been set in part by the use of official price quotes, such as discounting of future cash flows at quoted interest rates.

NOTE 28 OTHER PROVISIONS

	Restructuring		Loyalty program		Other provisions		Total	
	Oct 31, 2016	Oct 31, 2015	Oct 31, 2016	Oct 31, 2015	Oct 31, 2016	Oct 31, 2015	Oct 31, 2016	Oct 31, 2015
Opening balance	899	1,329	1,562	1,462	10	6	2,471	2,797
New provisions	42	177	1,097	990	221	5	1,360	1,172
Utilized provisions	-350	-607	-940	-890	-3	-2	-1,293	-1,499
Reclassifications	-2	-	-	-	1	-	-1	-
Currency effect	9	0	-	-	0	1	9	1
Closing balance	**598**	**899**	**1,719**	**1,562**	**229**	**10**	**2,546**	**2,471**

Breakdown in balance sheet:	Oct 31, 2016	Oct 31, 2015	Oct 31, 2016	Oct 31, 2015	Oct 31, 2016	Oct 31, 2015	Oct 31, 2016	Oct 31, 2015
Long-term liabilities	360	420	1,719	1,562	10	10	2,089	1,992
Current liabilities	238	479	-	-	219	-	457	479
	598	**899**	**1,719**	**1,562**	**229**	**10**	**2,546**	**2,471**

RESTRUCTURING

SAS presented extensive cost cutting and efficiency measures in conjunction with the fourth quarter interim report for 2013/2014. These measures entail radical changes and simplification of operations, which will realize a substantial reduction in unit cost. The provision in October 2014 comprised, primarily, costs directly attributable to the restructuring program, and still comprises a significant portion of the outgoing provisions.

In addition to restructuring provisions for personnel, the reserve also comprises provisions for leasing costs relating to unutilized premises.

LOYALTY PROGRAM

Through membership in the Group's loyalty program, EuroBonus, customers can earn bonus points by flying with SAS and/or other Star Alliance airlines as well as from purchases made from other business partners, such as car rental and credit card companies.

The allocation of loyalty points is viewed as a separate identifiable transaction when purchasing airline tickets. The portion of the ticket price allocated to loyalty points is measured at fair value and not recognized as revenue until the period in which the obligation is met.

The amount for utilized provisions includes a revaluation of the EuroBonus points liability. During recent years, previous estimates of fair value per point category have been adjusted downwards driven by continued price reductions, changes in EuroBonus rules and withdrawal patterns.

NOTE 29 SHORT-TERM LOANS

	Oct 31, 2016	Oct 31, 2015
Accrued interest	64	74
Derivatives	256	155
Total	**320**	**229**

NOTE 30 ACCRUED EXPENSES AND PREPAID INCOME

	Oct 31, 2016	Oct 31, 2015
Vacation pay liability	1,127	1,089
Other accrued payroll expenses	191	167
Selling costs	390	417
Fuel costs	217	186
Government user fees	296	325
Handling costs	181	165
Provision for maintenance of leased engines	2,238	1,364
Other accrued expenses	666	927
Prepaid income	30	44
Total	**5,336**	**4,684**

NOTE 31 PLEDGED ASSETS

	Oct 31, 2016	Oct 31, 2015
Related to liabilities:		
Aircraft mortgages	5,022	4,986
Related to deposits:		
Deposits and blocked bank funds	3,564	2,948
Total	**8,586**	**7,934**

At October 31, 2016, the liability outstanding related to aircraft mortgages was MSEK 2,598 (2,900).

NOTE 32 CONTINGENT LIABILITIES

	Oct 31, 2016	Oct 31, 2015
Guarantees related to:		
Emission rights	64	38
Other	17	15
Total	**81**	**53**

The Group is involved in various claims and legal proceedings arising in the ordinary course of business. These claims relate to, but are not limited to, its business practices, employment matters, and tax matters. Provisions have been recognized for such matters in accordance with probable and quantifiable loss risks. On the basis of information currently available, those issues not requiring any provisions will not have any material adverse effect on the Group's earnings, nor will they be recognized as contingent liabilities. However, litigation is inherently unpredictable and, even though the provisions were assessed as adequate and/or that the Group has valid defenses in these matters, unfavorable results could occur. This could have a material adverse effect on the Group's earnings in future accounting periods. For more information see the Report by the Board of Directors on page 37.

NOTE 33 LEASING COMMITMENTS

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

	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022>
Aircraft	2,758	2,331	1,999	1,688	1,362	3,206
Properties	585	552	546	511	498	2,242
Machinery and equipment	282	263	233	218	201	220
Total	**3,625**	**3,146**	**2,778**	**2,417**	**2,061**	**5,668**

Leases with an annual rental cost in excess of MSEK 0.5 are included. Total lease costs in the 2015/2016 fiscal year amounted to MSEK 3,858 (3,735), of which a positive effect of MSEK 0 (31) pertained to changes in contingent rents compared with the original terms of agreements. Contingent rents vary according to different factors such as revenue, the consumer price index and short-term market interest rates.

In addition to these leasing commitments, other undertakings exist in conjunction with returning aircraft under operating leases. The financial impact on return depends on a large number of factors that are complex to assess and, accordingly, have not been included as a commitment in this note.

In the 2015/2016 fiscal year, assets were subleased to third parties for a total of MSEK 174 (165). The value of future fixed payments for these assets amounted to MSEK 338 (349).

At the end of the 2015/2016 fiscal year, the SAS Group aircraft fleet totaled 156 aircraft, of which 108 were leased.

NOTE 34 ADJUSTMENT FOR OTHER ITEMS NOT INCLUDED IN THE CASH FLOW, ETC.

	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Share of income in affiliated companies	-39	-37
Dividends from affiliated companies	80	15
Earnings impact from measuring financial instruments according to IAS 39	-117	170
Impairment losses	11	314
Provisions	355	177
Adjustment of pension agreements	-	-47
Other	-13	-53
Total	**277**	**539**

NOTE 35 ACQUISITION OF SUBSIDIARIES

No new subsidiaries were acquired in the 2015/2016 fiscal year.

In the 2014/2015 fiscal year, Cimber A/S was acquired as was Flesland Cargo ANS and Flesland Hangar ANS comprising airport properties in Norway.

According to the acquisition analyses performed, the value of the assets and liabilities acquired was as follows:

	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Fixed assets	-	68
Current assets	-	28
Cash and cash equivalents	-	8
Long-term liabilities	-	-4
Current liabilities	-	-44
Total	-	**56**
Option payments	-	1
Goodwill	-	11
Purchase price	-	**68**
Cash and cash equivalents in acquired companies	-	-8
Impact on the Group's cash and cash equivalents	-	**60**

NOTE 36 SALE OF SUBSIDIARIES AND OPERATIONS

The subsidiary Blue1 Oy was divested during the 2015/2016 fiscal year.

In the 2014/2015 fiscal year, Blue Travel Services and call center operations within the SAS Consortium were divested.

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

	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Fixed assets	2	0
Current assets	17	0
Cash and cash equivalents	11	4
Long-term liabilities	-	-
Current liabilities	-25	-1
Total	**5**	**3**
Capital gain excluding selling costs	4	11
Purchase price	**9**	**14**
Cash and cash equivalents in divested companies	-11	-4
Impact on the Group's cash and cash equivalents	**-2**	**10**

NOTE 37 CASH AND CASH EQUIVALENTS

	Oct 31, 2016	Oct 31, 2015
Short-term investments	6,067	5,151
Cash and bank balances	2,303	3,047
Cash and cash equivalents at year-end	**8,370**	**8,198**

Disclosure of interest paid:

During the year, interest received amounted to MSEK 102 (106), of which MSEK 81 (78) pertains to forward premiums for currency derivatives. During the year, interest paid amounted to MSEK 514 (516), of which MSEK 52 (63) pertains to forward premiums for currency derivatives.

NOTE 38 AUDITORS' FEES

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

	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Auditing services		
PwC	7	7
Audit activities other than audit assignment		
PwC	1	1
Tax consultancy services		
PwC	1	1
Other services		
PwC	-	-
Total	**9**	**9**

NOTE 39 TRANSACTIONS WITH AFFILIATED COMPANIES

Revenue from sales to affiliated companies amounted to MSEK 8 (13).

Cost of purchases from affiliated companies was MSEK 49 (40).

NOTE 40 SEGMENT REPORTING

The Group's airline operations and other appurtenant operations are reported as one operating segment. The Chief Operating Decision Maker (CODM), which is defined at SAS as the SAS Group Management, has strategic responsibility for allocating resources, primarily in terms of aircraft capacity to the various route sectors, and prepares decision data ahead of strategic Board decisions. Traffic and other revenue is allocated geographically as follows.

GEOGRAPHICAL BREAKDOWN

	Domestic		Intra-Scandinavian		Europe		Intercontinental		Total	
	Nov–Oct 2015–2016	Nov–Oct 2014–2015	Nov–Oct 2015–2016	Nov–Oct 2014–2015	Nov–Oct 2015–2016	Nov–Oct 2014–2015	Nov–Oct 2015–2016	Nov–Oct 2014–2015	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Passenger revenue	8,568	9,113	3,300	3,509	11,159	11,412	7,344	6,462	30,371	30,496
Freight and mail revenue	5	7	8	17	64	93	1,176	1,148	1,253	1,265
Charter revenue	0	0	0	0	1,791	1,742	0	0	1,791	1,742
Other traffic revenue	647	620	249	237	842	770	555	439	2,293	2,066
Total traffic revenue	**9,220**	**9,740**	**3,557**	**3,763**	**13,856**	**14,017**	**9,075**	**8,049**	**35,708**	**35,569**

	Denmark		Norway		Sweden		Europe		Other countries		Total	
	Nov–Oct 2015–2016	Nov–Oct 2014–2015	Nov–Oct 2015–2016	Nov–Oct 2014–2015	Nov–Oct 2015–2016	Nov–Oct 2014–2015	Nov–Oct 2015–2016	Nov–Oct 2014–2015	Nov–Oct 2015–2016	Nov–Oct 2014–2015	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Other operating revenue	**680**	**705**	**1,075**	**1,423**	**740**	**756**	**748**	**696**	**508**	**501**	**3,751**	**4,081**

In 2015/2016 and 2014/2015, there was no single customer who accounted for more than 10% of Group revenue.

The Group's assets and liabilities are mainly located in Scandinavia. Total fixed assets, including prepayments for tangible fixed assets, which do not comprise financial instruments, deferred tax assets or assets pertaining to post-employment benefits are allocated geographically as follows. Aircraft are utilized in a flexible manner across the route network, and are not allocated.

	Denmark		Norway		Sweden		Other countries		Not allocated		Total	
	Oct 31, 2016	Oct 31, 2015	Oct 31, 2016	Oct 31, 2015	Oct 31, 2016	Oct 31, 2015	Oct 31, 2016	Oct 31, 2015	Oct 31, 2016	Oct 31, 2015	Oct 31, 2016	Oct 31, 2015
Assets	**882**	**928**	**294**	**312**	**3,939**	**3,662**	**2,481**	**1,772**	**8,254**	**7,095**	**15,850**	**13,769**

NOTE 41 SUBSIDIARIES IN THE SAS GROUP

	Domicile	Corp. reg. number	Total owned shares	Holding	Oct 31, 2016 Carrying amount	Oct 31, 2015 Carrying amount
Owned by SAS AB:						
SAS Sverige AB	Sigtuna	556042-5414	70,500,000	100	1,937	1,937
SAS Norge AS	Bærum	811176702	47,000,000	100	3,028	3,028
SAS Danmark A/S	Copenhagen	56994912	47,000,000	100	3,971	3,971
SAS Individual Holdings AB	Stockholm	556063-8255	610,000	100	721	721
Linjeflyg AB	Sigtuna	556062-8454	2,000,000	100	237	237
OY Nordair Ab	Vantaa	525.232	150	100	6	6
SAS Cargo Group A/S	Tårnby	25736443	200,500	100	0	0
SAS Ground Handling Denmark A/S	Tårnby	32339026	55,000	100	37	37
SAS Ground Handling Norway AS	Oslo	912056228	5,000	100	52	52
SAS Ground Handling Sweden AB	Stockholm	556934-7924	445,000	100	64	64
Other					0	0
					10,053	**10,053**
Owned by SAS Consortium:						
SAS Scandinavian Airlines Sverige AB	Sigtuna	556235-5908	710,000	100	-	810
SAS Capital B.V.	Rotterdam	167071	501	100	8	8
Other					2	2
					10	**820**
Owned by SAS Sverige AB:						
SAS Tech AB	Stockholm	556137-6764	940,000	100	-	2,271
Spirit Air Cargo Handling Sweden AB	Stockholm	556658-5682	1,000	100	9	-
Owned by SAS Individual Holdings AB:						
RED1 A/S	Copenhagen	24202941	500	100	19	1
Spirit Air Cargo Handling Group AB	Stockholm	556690-7076	11,000	100	58	58
					77	**59**
Owned by RED1 A/S:						
Cimber A/S	Tårnby	34576890	600,000	100	-	13

NOTE 42 EARNINGS PER SHARE

The calculation of earnings per share before and after dilution is based on the following earnings and number of common shares. In 2014, a convertible bond was issued, which gave rise to a potential dilution effect, see Note 26.

	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Net income for the year, attributable to Parent Company shareholders	1,321	956
Less preference-share dividend	-350	-350
Net income for the year, attributable to Parent Company shareholders, before dilution	**971**	**606**
Reversal of interest expense (convertible bond loan)	45	45
Net income for the year, attributable to Parent Company shareholders, after dilution	**1,016**	**651**
Weighted average number of common shares		
November 1	329,000,000	329,000,000
Conversion to shares (convertible bond loan)	902,126	-
Weighted average number of common shares during the year, before dilution	**329,902,126**	**329,000,000**
Effect of potential common shares outstanding	65,716,520	66,618,646
Weighted average number of common shares during the year, after dilution	**395,618,646**	**395,618,646**
Earnings per common share before dilution (SEK)	2.94	1.84
Earnings per common share after dilution (SEK)	2.57	1.65

NOTE 43 RELATED-PARTY TRANSACTIONS

No significant related-party transactions took place in the 2015/2016 fiscal year or in the 2014/2015 fiscal year except those between Group companies, where transactions are conducted subject to market terms and conditions.

No significant transactions occurred with related parties aside from the above and the information in Note 3 regarding the remuneration of senior executives.

NOTE 44 SIGNIFICANT EVENTS AFTER THE CLOSING DATE

- SAS signed agreements for the financing of 18 Airbus A320neos through sale and leaseback.
- SAS contracted the financing of two Boeing 737s and four Airbus A319s until 2018 through a MUSD 75 credit facility.
- SAS contracted the sale of Cimber as well as 11 CRJ900s to CityJet.

SAS AB, PARENT COMPANY

STATEMENT OF INCOME

MSEK	Note	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Revenue		10	0
Payroll expenses	1	-33	-30
Other operating expenses		-111	-19
Operating income		**-134**	**-49**
Share of income in Group companies	2	0	864
Income from other securities holdings	2	1	-268
Interest income and similar income items		211	286
Interest expenses and similar income items		-247	-368
Exchange-rate differences		0	-3
Income before appropriations and taxes		**-169**	**462**
Appropriations		0	31
Tax	3	33	5
Net income for the year		**-136**	**498**

The Parent Company recognizes no items in other comprehensive income for 2015/2016 and 2014/2015, respectively. Accordingly, net income for the year for the Parent Company corresponds to comprehensive income.

As part of steps to strengthen the SAS Consortium's equity, SAS AB paid a shareholders' contribution in April 2015 of a total of SEK 7 billion to the Consortium's parent companies: SAS Danmark A/S, SAS Norge AS and SAS Sverige AB. Thereafter, the SAS Consortium's parent companies paid capital contributions totaling SEK 12 billion to the SAS Consortium.

The valuation of SAS AB's shareholding is based on the assumption that the structural measures set out in the Report by the Board of Directors on page 40 are implemented.

An expense of MSEK 63 pertaining to a guarantee commitment was charged to net income for the year.

BALANCE SHEET

ASSETS, MSEK	Note	Oct 31, 2016	Oct 31, 2015
Fixed assets			
Financial fixed assets			
Shares in subsidiaries	4	10,053	10,053
Other holdings of securities	5	2	2
Deferred tax assets	3	716	692
Receivables from Group companies		4,004	4,004
Other long-term receivables		15	77
Total fixed assets		**14,790**	**14,828**
Current assets			
Current receivables			
Accounts receivable		0	0
Receivables from Group companies		766	1,169
Other receivables		3	5
Prepaid expenses and accrued income		0	0
		769	**1,174**
Cash and bank balances		0	1
Total current assets		**769**	**1,175**
TOTAL ASSETS		**15,559**	**16,003**

SHAREHOLDERS' EQUITY AND LIABILITIES, MSEK	Note	Oct 31, 2016	Oct 31, 2015
Shareholders' equity			
Restricted equity			
Share capital		6,776	6,754
Statutory reserve		306	306
Unrestricted equity			
Retained earnings		5,371	5,221
Net income for the year		-136	498
Total shareholders' equity		**12,317**	**12,779**
Long-term liabilities			
Convertible loan	6	1,482	1,466
Bond loan	7	1,497	1,494
Long-term liabilities to Group companies		4	7
Deferred tax liability	3	27	36
Other liabilities		0	0
Total long-term liabilities		**3,010**	**3,003**
Current liabilities			
Current portion of long-term loans	6	0	0
Liabilities to Group companies		0	10
Accounts payable		4	2
Other liabilities		210	198
Accrued expenses and prepaid income		18	11
Total current liabilities		**232**	**221**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**15,559**	**16,003**

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

CHANGE IN SHAREHOLDERS' EQUITY

MSEK	Share capital	Restricted reserves	Unrestricted equity	Total equity
Shareholders' equity, October 31, 2014	**6,754**	**306**	**5,571**	**12,631**
Preference share dividend			-350	-350
Net income for the year			498	498
Shareholders' equity October 31, 2015	**6,754**	**306**	**5,719**	**12,779**
Conversion of convertible bond loan	22		2	24
Preference share dividend			-350	-350
Net income for the year			-136	-136
Shareholders' equity October 31, 2016	**6,776**	**306**	**5,235**	**12,317**

Number of shares: 330,082,551 (329,000,000) common shares with a quotient value of SEK 20.10 (20.10) and 7,000,000 (7,000,000) preference shares with a quotient value of SEK 20.10. Each common share entitles the holder to one vote and all common shares own equal rights to participation in the company's assets and profits. Each preference share entitles the holder to one-tenth of a vote. During the year, the number of common shares increased 1,082,551 through the conversion of convertible loans.

CASH-FLOW STATEMENT

MSEK	Nov–Oct 2015–2016	Nov–Oct 2014–2015
OPERATING ACTIVITIES		
Income before appropriations and tax	-169	462
Income from the sale of shares	-	-1,121
Impairment of shares	-	370
Impairment of receivables	-	157
Adjustment for other items not included in the cash flow	-83	33
Cash flow from operating activities before changes in working capital	**-252**	**-99**
Change in:		
Operating receivables	5	15
Operating liabilities	14	-40
Cash flow from changes in working capital	**19**	**-25**
Cash flow from operating activities	**-233**	**-124**
INVESTING ACTIVITIES		
Investment in subsidiaries	-	-7,000
Disposal of subsidiaries	-	2,271
Cash flow from investing activities	-	**-4,729**
FINANCING ACTIVITIES		
Proceeds from borrowings	-	-
Repayment of borrowings	-	-1,600
Dividend on preference shares	-350	-350
Group contributions received	31	82
Change in short-term investments	377	10,913
Change in interest-bearing receivables and liabilities	174	-4,192
Cash flow from financing activities	**232**	**4,853**
Cash flow for the year	**-1**	**0**
Cash and cash equivalents at beginning of the year	1	1
Cash and cash equivalents at year-end	**0**	**1**

Disclosure of interest paid:

During the year, interest received amounted to MSEK 211 (155). During the year, interest paid amounted to MSEK 235 (323).

NOTE 1 NO. OF EMPLOYEES, SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY EXPENSES

The average number of employees amounted to 4 (5), all of whom were employed in Sweden.

	Nov–Oct 2015–2016		Nov–Oct 2014–2015	
	Men	Women	Men	Women
Sweden	2	2	2	3
Total men and women	**4**		**5**	

For salaries, remuneration and social security expenses as well as remuneration and benefits paid to Board members, the President and other senior executives of SAS AB, see SAS Group Note 3, Payroll expenses, pages 70–71.

NOTE 2 INCOME FROM FINANCIAL ITEMS

	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Dividend	1	2
Capital gain from the sale of shares and participations	0	1,121
Impairment of shares	0	-370
Impairment of receivables	0	-157
Total	**1**	**596**

NOTE 3 TAX

	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Current tax	-	-
Deferred taxes	33	5
Total tax	**33**	**5**
Deferred tax assets/liabilities		
Opening balance	656	651
Tax effect on items in equity	0	0
Deferred tax	33	5
Closing balance tax assets/liabilities	**689**	**656**

NOTE 4 PARTICIPATIONS IN SUBSIDIARIES

See SAS Group Note 41 — Subsidiaries in the SAS Group, page 93.

NOTE 5 OTHER HOLDINGS OF SECURITIES

	Oct 31, 2016	Oct 31, 2015
Incorporate Cell Company	2	2
Total	**2**	**2**

NOTE 6 CONVERTIBLE LOAN

In 2014, a convertible bond was issued for MSEK 1,600 maturing in five years. At the date of issue, the value of the debt and equity share was determined as MSEK 1,399 and MSEK 201, respectively. The loan conversion price is SEK 24.0173. It is convertible on demand and carries an interest rate of 3.625%.

The loan is classified as other liabilities, with recognition at amortized cost.

NOTE 7 BOND LOAN

	Oct 31, 2016	Oct 31, 2015
Issued MSEK 1,500	1,497	1,494
Total	**1,497**	**1,494**

A bond loan with maturity in 2017 was issued in 2013. The loan carries interest of 9% and is classified as other liabilities, with recognition at amortized cost.

NOTE 8 CONTINGENT LIABILITIES

SAS AB has provided an irrevocable undertaking to assume liability, as for its own debt, for the SAS Consortium's contractual interest-bearing obligations, leasing commitments and other financial obligations with some reservations in terms of subordinations and with the proviso that the obligations were entered into from the date the irrevocable undertaking entered force on December 31, 2003 until it terminates on September 30, 2020.

NOTE 9 AUDITORS' FEES

	Nov–Oct 2015–2016	Nov–Oct 2014–2015
Auditing services		
PwC	6	6
Audit activities other than audit assignment		
PwC	-	-
Tax consultancy services	-	-
Total	**6**	**6**

Auditor's fees are invoiced to the Parent Company which, in turn, invoices the subsidiaries for their respective costs.

SIGNATURES

The Board of Directors and the President hereby give their assurance that this Annual Report has been prepared pursuant to the Swedish Annual Accounts Act and RFR 2, *Accounting for Legal Entities*, and provides a true and fair view of the company's financial position and earnings and that the Report by the Board of Directors provides a true and fair overview of the company's operations, financial position and earnings, and describes the significant risks and uncertainty factors to which the company is exposed.

The Board of Directors and President hereby give their assurance that the consolidated financial statements have been prepared pursuant to the International Financial Reporting Standards (IFRS) as adopted by the EU, and provide a true and fair view of the Group's financial position and earnings, and that the Report by the Board of Directors for the Group provides a true and fair overview of the performance of the Group's operations, financial position and earnings, and describes the significant risks and uncertainty factors to which the companies in the Group are exposed.

Stockholm, January 31, 2017

Fritz H. Schur
Chairman of the Board

Jacob Wallenberg
First Vice Chairman

Dag Mejdell
Second Vice Chairman

Monica Caneman
Board member

Carsten Dilling
Board member

Lars-Johan Jarnheimer
Board member

Berit Svendsen
Board member

Sanna Suvanto-Harsaae
Board member

Jens Lippestad
Board member

Sven Cahier
Board member

Janne Wegerberg
Board member

Rickard Gustafson
President and CEO

As stated above, the annual accounts and consolidated financial statements were approved for issuance by the Board of Directors on January 31, 2017. The consolidated statement of income and balance sheet and the Parent Company's statement of income and balance sheet will be subject to adoption by the Annual General Shareholders' Meeting on February 22, 2017.

Our auditors' report was submitted on January 31, 2017

PricewaterhouseCoopers AB

Bo Hjalmarsson
Authorized Public Accountant
Principal Auditor

Eva Medbrant
Authorized Public Accountant.

AUDITORS' REPORT

To the annual meeting of shareholders in SAS AB, Corporate Registration Number 556606-8499

REPORT ON THE ANNUAL ACCOUNTS AND CONSOLIDATED ACCOUNTS

Opinions

We have audited the annual accounts and consolidated accounts of SAS AB for the November 1, 2015–October 31, 2016 fiscal year, with the exception of the Corporate Governance Report on pages 45–54 of the printed version of this document. The company's annual accounts and consolidated accounts are included in the printed version of this document on pages 31-97.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of Parent Company as of October 31, 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the Group as of October 31, 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The Report by the Board of Directors is consistent with the other parts of the annual accounts and consolidated accounts.

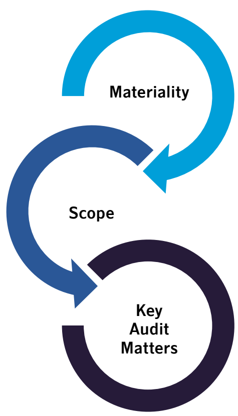
We therefore, recommend that the general meeting of shareholders adopts the income statement and balance sheet for the Parent Company and the Group.

Basis for opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditors' responsibility section. We are independent of the Parent Company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

OUR AUDIT APPROACH – OVERVIEW



- Overall materiality level: MSEK 270, which is equivalent to 0.7% of total revenues.

- The scope of our audit is based on our understanding of the risk areas in SAS, the significance of these risks and how they are handled and controlled within the company. Consequently, the greatest weight is assigned to those risk areas deemed to be most important, and where the risk of material misstatement is the most significant. In this assessment, consideration has also been given as to whether the preparation of the accounts has been dependent on management's estimates or subjective judgements.

- Strategic program and financing.

Audit scope

SAS operates in an industry characterized by major competition and strong price pressure, which implies that the requirement of effectivity improvements needs to be balanced against the demands for a high level of safety. The industry is also characterized by major investments in the form of aircraft and other infrastructure. For many years, SAS has reported an insufficient level of profitability, which has led to major restructuring programs but also to the need for new capital. Even if SAS is, currently, in a satisfactory financial position, the industry, and thereby also SAS, is sensitive to macroeconomic conditions where, primarily, oil prices and exchange-rate developments for the USD and NOK are important parameters. SAS has initiated a renewal phase as regards its aircraft fleet with the aim of increasing fuel efficiency and simplifying the ongoing maintenance of the fleet through the use of fewer types of aircraft. As discussed below in the Key audit matters section, the renewal of the aircraft fleet gives rise to financing requirements.

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole (see table below). These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Group materiality level	MSEK 270
How we determined this level	0.7 percent of revenues
Motivation behind the determination of the materiality level	We have chosen revenues to serve as the starting point in determining the materiality level as income in SAS fluctuates between years and is, relatively speaking, low.

We agreed with Audit Committee that we would report identified errors in excess of MSEK 15, as well as errors less than this amount but which we deemed should be reported for qualitative reasons.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were most significant in our audit of the annual accounts and consolidated accounts of the actual period. These matters were addressed in our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Restructuring program and financing For a considerable time, SAS has worked with increasing the proportion of variable costs and with implementing a number of different restructuring programs to ensure flexibility of capacity and profitable future operations. A successful implementation of these programs is significant both to the valuation of various assets items and to also ensuring access to financing for the aircraft fleet. The current aircraft fleet is comprised of both leased and owned aircraft. Total leasing commitments, which are not reported as a liability in the balance sheet, were equivalent to MSEK 13,344 as at October 31, 2016 (see Note 33). In addition, SAS has placed an order for 37 new aircraft which will be delivered during the 2016–2021 period. The list price of the ordered aircraft amounts to a total of approximately MUSD 2,551 (see Note 12). To date, SAS has secured financing for 18 of these purchase orders. Company management deems that the remaining financing will be secured via a combination of leasing agreements, loan financing and cash flow from operating activities.	In executing our audit, we have obtained an understanding of the manner in which macroeconomic developments can come to impact SAS and how the Board of Directors and company management work to obtain information to serve as documentation in decision-making processes, and how they monitor to ensure that the measures determined to be undertaken are implemented in the manner intended. In our audit we have also studied the company management's liquidity plans, alternative financing possibilities and sensitivity analyses regarding access to financing and currency and interest-rate developments. Based on our audit, we have concluded that SAS currently has realistic possibilities to fulfil its commitments in the form of actual borrowing, as well as regards leasing commitments and commitments for future aircraft purchases. We are also of the opinion that the annual accounts of SAS provide a satisfactory degree of disclosure regarding the company's challenges and risks in relation to its continued financing activities.

Other information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and the consolidated accounts, which can be found on pages 1–30 and 102–105 of the printed version of this document.The Board of Directors and the President are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If, based on the work performed concerning this information, we conclude that the other information contains a material misstatement, we would be obliged to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the President

The Board of Directors and the President are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the President are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the President are responsible for the assessment of the company's and the Group's ability to continue as a going concern. When applicable, they provide disclosures regarding circumstances that could affect the capacity to continue as a going concern and to be able to apply the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the President intend to liquidate the company, cease operations, or have no realistic alternative but to do so.

Without prejudice to the Board of Director's responsibilities and tasks in general, the Audit Committee of the Board of Directors shall, among other things, oversee the company's financial reporting process.

Auditors' responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to submit an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement in the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the President.
- conclude on the appropriateness of the Board of Directors' and the President's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we have identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and which therefore comprise the key audit matters. We describe these matters in the auditors' report unless laws or regulations preclude disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in the auditors' report because the adverse consequences of doing so could reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the President of SAS AB (publ) for the November 1, 2015–October 31, 2016 fiscal year and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the 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.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditors' responsibility section. We are independent of the Parent Company and the Group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the President

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. The proposal of a dividend includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the Group's type of operations, size and risks place on the size of the Parent Company's and the Group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the Group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The President shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and include taking the necessary measures to ensure the company's accounting is conducted in compliance with legislation and the proper and appropriate management of financial assets.

Auditors' responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the President in any material respect:

- has undertaken any action or been guilty of any omission which could give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on my (our) professional judgment with their starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions taken, decision data, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditors' examination of the corporate governance report

The Board of Directors is responsible for the Corporate Governance Report on pages 45–54 of the printed version of this document having been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance report is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance report. This means that our examination of the corporate governance report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance report has been prepared. Disclosures in accordance with Chapter 6, Section 6, the second paragraph, points 2-6 of the Annual Accounts Act and Chapter 7, Section 31, the second paragraph of the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

PricewaterhouseCoopers AB, SE-113 97 Stockholm, was elected auditor of SAS AB by the annual meeting of shareholders on March 8, 2016 and has been the company's auditors since March 20, 2013.

Stockholm, January 31, 2017

PricewaterhouseCoopers AB

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

OPERATIONAL KEY FIGURES

Passenger traffic-related key figures	Nov–Oct 2015–2016	Nov–Oct 2014–2015	Nov–Oct 2013–2014	Nov–Oct 2012–2013	Jan–Oct 2012	2011	2010	2009	2008	2007
Number of destinations served, scheduled	118	119	125	150	136	128	127	134	157	158
Number of flights, scheduled	297,481	293,898	294,679	402,460	338,870	396,134	367,817	380,470	427,201	423,807
Number of passengers, total, (000)[1]	29,449	28,884	29,408	30,436	25,916	28,990	27,096	26,967	30,936	31,381
Number of passengers, scheduled (000)	27,738	26,941	27,061	28,057	23,979	27,206	25,228	24,898	29,000	29,164
Available seat km, total (million)[1]	48,620	44,289	45,158	44,629	36,126	40,953	38,851	39,934	45,764	44,433
Available seat km, scheduled (million)	44,956	40,877	40,971	40,583	32,813	37,003	34,660	35,571	41,993	40,019
Revenue passenger km, total (million)[1]	36,940	33,781	34,714	33,451	27,702	30,668	29,391	29,025	33,097	33,082
Revenue passenger km, scheduled (million)	33,508	30,561	30,686	29,650	24,746	27,174	25,711	25,228	29,916	29,365
Load factor, total (%)[1]	76.0	76.3	76.9	75.0	76.7	74.9	75.6	72.7	72.3	74.5
Average passenger distance, total (km)	1,252	1,170	1,180	1,099	1,069	1,058	1,085	1,076	1,070	1,054
Weight-related key figures										
Available tonne km, ATK, total (mill. tonne km)	6,179	5,553	5,617	5,527	4,475	5,089	4,835	5,052	5,991	5,812
Available tonne km, scheduled (mill. tonne km)	5,741	5,132	5,119	5,042	4,098	4,604	4,318	4,463	5,291	4,987
Available tonne km, other (mill. tonne km)	437	421	498	485	377	485	517	589	700	827
Revenue tonne km, RTK, total (mill. tonne km)	4,404	3,989	4,067	3,930	3,201	3,555	3,448	3,327	4,136	4,210
Passengers and excess baggage (mill. tonne km)	3,666	3,354	3,446	3,308	2,733	3,018	2,897	2,863	3,268	3,265
Total load factor, scheduled (%)	71.3	71.8	72.4	71.1	71.5	69.9	71.3	65.9	69.0	72.4
Traffic revenue/revenue tonne km (SEK)	8.11	8.92	8.34	9.53	9.94	10.23	10.42	11.34	10.12	9.72
Key figures for costs and efficiency										
Unit cost[2]	0.70	0.79	0.75	0.80	0.81	0.86	0.95	1.02	0.96	0.87
Jet-fuel price paid incl. hedging, average (USD/tonne)	583	757	978	1,093	1,116	970	773	831	1,120	786
Revenue-related key figures										
Passenger revenue/revenue passenger km, scheduled, yield (SEK)	0.91	1.00	0.94	1.07	1.09	1.12	1.16	1.30	1.27	1.25
Passenger revenue/available seat km, scheduled, (SEK)	0.68	0.75	0.70	0.78	0.82	0.82	0.86	0.92	0.91	0.92
Environmental key figures										
CO_2, gram/passenger km[3]	99	101	100	104	118	122	121	127	131	130
Climate index[4] (Environmental index[5])	91	92	92	94	98	100	90	94	98	96
Key figures for Scandinavian Airlines										
Market share, to, from and within Scandinavia	31	32	33	32	33	33	34	36		
Yield, currency-adjusted change, (%)	-7.7	4.0	-7.4	-0.4	-1.0	-2.0	-7.4	-5.2		
PASK, currency-adjusted change, (%)[6]	-8.0	3.8	-5.8	-3.2	1.1	-1.3	-0.2	-7.3		
Total unit cost, change, (%)	-11.1	-3.8	-2.2	-6.0	-0.1	2.0	-7.8	-8.1		
Average flight distance, per flight, scheduled, km	903	866	865	861	844	847	823	816		
No. of daily departures, scheduled, annual average	813	805	807	791	773	683	667	707		
Number of aircraft in service[7]	156	151	156	151	156	157	159	172		
Aircraft, block hours/day	9.3	8.8	9.0	8.7	8.2	8.1	7.5	8.0		
Pilots, FTEs	1,300	1,228	1,396	1,413	1,328	1,304	1,297	1,609		
Pilots, block hours/year	681	688	685	665	659	650	630	550		
Pilots, payroll expenses, MSEK	2,489	2,370	2,459	2,584	2,979	2,826	-	-		
Cabin crew, FTEs	2,574	2,325	2,564	2,607	2,613	2,528	2,442	2,835		
Cabin crew, block hours	759	762	762	721	674	660	640	616		
Cabin crew, payroll expenses, MSEK[8]	1,647	1,546	1,587	1,769	2,087	2,076	-	-		
Regularity, %	98.4	98.7	99.0	98.8	99.0	98.5	96.6	99.3		
Punctuality (%) within 15 min.	83.9	87.9	88.4	86.2	89.4	88.9	86.9	90.1		
Customer satisfaction, CSI	73	74	72	71	72	72	70	68		

1) Total production includes scheduled traffic, charter, ad hoc flights and EuroBonus flights, etc. This means that the figures deviate from the published traffic statistics.

2) Only includes aircraft depreciation for 2007.

3) Carbon dioxide emissions per passenger kilometer comprising all passengers on board all flights (scheduled, charter, etc.). Method adjusted from 2012/2103.

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

5) Refers to Scandinavian Airlines.

6) Refers to RASK prior to the 2013/2014 fiscal year.

7) Including wet leases.

8) Excluding restructuring costs.

Definitions & concepts, see page 104.

TEN-YEAR FINANCIAL OVERVIEW

Statements of income, MSEK	2016	2015	2014	2013	2012[1]	2011	2010	2009	2008	2007
Revenue	39,459	39,650	38,006	42,182	35,986	41,412	41,070	44,918	52,870	50,598
Operating income before depreciation	2,962	2,877	1,576	3,647	955	3,019	246	-1,311	997	2,677
Depreciation, amortization and impairment	-1,367	-1,446	-1,443	-1,658	-1,426	-2,413	-1,885	-1,845	-1,550	-1,457
Share of income in affiliated companies	39	37	30	25	32	28	12	-258	-147	32
Income from the sale of shares in subsidiaries and affiliated companies	-7	-	6	700	400	-	-73	429	-	-
Income from the sale of aircraft, buildings and slot pairs	265	777	-16	-118	-247	12	-239	-97	4	41
Financial revenue	91	124	102	50	96	224	174	304	660	787
Financial expenses	-553	-632	-1,130	-999	-1,055	-1,030	-1,041	-645	-933	-1,041
Income before tax, EBT	1,431	1,417	-918	1,648	-1,245	-1,629	-3,069	-3,423	-969	1,044
Income before tax and nonrecurring items	939	1,174	-697	919	23	94	-444	-2,247	-1,947	824
Balance sheets, MSEK										
Fixed assets	19,319	18,512	18,291	18,600	29,692	29,883	30,591	29,636	26,840	26,663
Current assets, excluding cash and cash equivalents	4,065	3,556	3,617	3,462	4,273	5,494	6,191	8,670	10,741	13,216
Cash and cash equivalents	8,370	8,198	7,417	4,751	2,789	3,808	5,043	4,189	5,783	8,891
Shareholders' equity	6,026	6,339	4,907	3,226	11,156	12,433	14,438	11,389	7,312	17,149
Long-term liabilities	9,822	10,275	10,384	10,173	12,111	13,889	13,932	13,069	19,160	11,274
Current liabilities	15,906	13,652	14,034	13,414	13,487	12,863	13,455	18,037	16,892	20,347
Total assets	31,754	30,266	29,325	26,813	36,754	39,185	41,825	42,495	43,364	48,770
Cash-flow statements, MSEK										
Cash flow from operating activities	3,663	3,036	1,096	1,028	2,562	-482	-155	-3,414	-2,651	2,866
Investments	-5,960	-4,306	-2,113	-1,877	-2,595	-2,041	-2,493	-4,661	-4,448	-2,908
Sale of fixed assets, etc.	3,345	3,193	1,632	1,644	1,976	517	697	2,050	1,535	2,695
Cash flow before financing activities	1,048	1,923	615	795	1,943	-2,006	-1,951	-6,025	-5,564	2,653
New issue	-	-	3,500	-	-	-	4,678	5,808	-	-
Dividend	-350	-350	-175	-	-	-	-	-	-	-
External financing, net	-530	-787	-1,275	1,171	-2,961	763	-1,859	-1,524	2,480	-4,492
Cash flow for the year	168	786	2,665	1,966	-1,018	-1,243	868	-1,741	-3,084	-1,839
Key and alternative performance measures[2]										
EBIT margin, %	4.8	5.6	0.4	6.2	-0.8	1.6	-4.7	-6.9	-1.3	2.6
Return on shareholders' equity after tax, %	24	18	-15	457	-25	-12	-17	-27	-48	4
Return on invested capital, %	10	12	3	18	-1	4	-5	-6	1	6
Financial preparedness, %	41	40	37	26	31	33	34	23	23	42
Equity/assets ratio, %	19	21	17	12	30	32	35	27	17	35
Adjusted equity/assets ratio, %	12	13	11	8	24	26	28	21	13	27
Debt/equity ratio	-0.19	-0.11	0.22	1.42	0.59	0.56	0.20	0.57	1.22	0.07
Adjusted debt/equity ratio	3.08	2.65	3.14	5.13	1.54	1.33	0.89	1.70	3.08	0.92
Interest expenses/average gross debt, %	5.4	5.6	7.4	7.6	8.1	7.3	6.9	5.6	7.6	7.8
Interest-coverage ratio	3.6	3.2	0.2	2.6	-1.6	-0.6	-1.9	-4.4	-5.3	1.8
Average shareholders' equity	5,434	5,234	5,068	298	12,153	14,087	13,045	11,014	13,224	16,687
Interest-bearing liabilities	9,880	9,745	10,805	11,510	10,887	13,338	11,897	14,660	16,117	12,042
Financial net debt	-1,166	-726	1,102	4,567	6,549	7,017	2,862	6,504	8,912	1,231
Average financial net debt	-439	459	2,641	6,301	6,448	3,957	4,403	5,662	3,163	2,447
Capitalized leasing costs, net	19,754	17,535	14,287	11,970	10,654	9,527	10,318	15,554	21,182	23,086
Average capitalized leasing costs, net	18,791	16,105	13,017	11,219	9,827	9,706	11,984	19,502	22,016	23,191

1) As a consequence of the Group's fiscal year changing to November 1–October 31, the 2012 fiscal year was shortened to the period January 1–October 31. Yield-based key figures are calculated based on income-statement items for a 12-month period.

2) The returns are calculated using averages of the qualifying periods' balance-sheet items. The return on invested capital, adjusted equity/assets ratio and adjusted debt/equity ratio are calculated using net capitalized leasing costs, whereby operational leasing commitments for aircraft were taken into consideration.

Definitions & concepts, see page 104.

DEFINITIONS & CONCEPTS

SAS uses various key figures, including alternative performance measures (APM), for internal analysis purposes and for external communication of the operations' results, performance and financial position.

The key figures support stakeholders in their assessment of SAS's earnings and performance. In the APMs based on capitalized leasing costs (x7), SAS's level of debt is raised to a level that would correspond to a situation where aircraft under operating leases would instead be owned or under finance leases. In the airline industry, capitalized leasing costs (x7) is an established method for estimating unrecognized liabilities pertaining to operating leases for aircraft.

The aim of the APMs is to illustrate the performance measures tailored to operations that, in addition to the other key figures, enable various stakeholders to more accurately assess and value SAS's historical, current and future performance and positions.

Adjusted debt/equity ratio The net of financial net debt plus capitalized leasing costs (×7) in relation to equity.

Adjusted equity/assets ratio The net of equity in relation to total assets plus capitalized leasing costs (x7).

AEA The Association of European Airlines. An association of the major European airlines.

Affiliated company Company where the SAS Group's holding amounts to at least 20% and at the most 50%.

AOC (Air Operator Certificate) Permits for flight operations.

ASK, Available Seat Kilometers The total number of seats available for passengers multiplied by the number of kilometers which they are flown.

ATK, Available tonne kilometers The total number of tonnes of capacity available for the transportation of passengers, freight and mail multiplied by the number of kilometers which this capacity is flown.

Available seat kilometers See ASK.

Available tonne kilometers See ATK.

Block hours Refers to the time from when the aircraft leaves the departure gate until it arrives at the destination gate.

CAGR Compound annual growth rate.

Capital employed Total capital according to the balance sheet less non-interest-bearing liabilities.

Capitalized leasing costs (×7) The net annual operating lease costs for aircraft multiplied by seven.

Carbon dioxide (CO_2) A colorless gas that is formed in the combustion of all fossil fuels. The airline industry's CO2 emissions are being reduced based on a changeover to more fuel-efficient aircraft.

CASK See unit cost.

Code share When one or more airlines' flight number is stated in the timetable for a flight, while only one of the airlines operates the flight.

Debt/equity ratio Financial net debt in relation to equity.

Earnings per common share (EPS) Net income for the period attributable to Parent Company shareholders less preference-share dividends in relation to the average number of common shares outstanding.

EBIT Operating income.

EBIT margin EBIT divided by revenue.

EBITDA Operating income before tax, net financial items, income from the sale of fixed assets, share of income in affiliated companies, and depreciation and amortization.

EBITDA margin EBITDA divided by revenue.

EBITDAR Operating income before tax, net financial items, income from the sale of fixed assets, share of income in affiliated companies, depreciation and amortization, and leasing costs for aircraft.

EBITDAR margin EBITDAR divided by revenue.

EBT Income before tax.

EEA European Economic Area.

Equity/assets ratio Book equity in relation to total assets.

Equity method Shares in affiliated companies are taken up at the SAS Group's share of equity, taking acquired surplus and deficit values into account.

Finance leases Based on a leasing contract where the risks and rewards of ownership of the asset essentially remain with the lessee. The asset is reported as a fixed asset in the balance sheet because the lessee has an obligation to purchase the asset at the end of the lease. The commitment to pay future leasing charges is entered as a liability.

Financial net debt Interest-bearing liabilities less interest-bearing assets excluding net pension funds.

Financial preparedness Cash and cash equivalents, excluding receivables from other financial institutions, plus unutilized credit facilities in relation to fixed costs. In this ratio, fixed costs are defined as payroll and other operating expenses, except jet-fuel costs and government user fees, as well as leasing costs for aircraft.

FTE Full Time Equivalent.

IATA International Air Transport Association. A global association of more than 200 airlines.

ICAO International Civil Aviation Organization. The United Nations' specialized agency for international civil aviation.

Interest-coverage ratio Operating income plus financial income in relation to financial expenses.

Interline revenue Ticket settlement between airlines.

LCC Low Cost Carrier.

Load factor RPK divided by ASK. Describes the capacity utilization of available seats.

Market capitalization Share price multiplied by the number of shares outstanding.

NPV Net present value. Used to calculate capitalized future costs of operating leases for aircraft, for example.

Operating leases Based on a leasing contract in which the risks and rewards of ownership remain with the lessor and is equivalent to renting. The leasing charges are expensed on a current basis in the statement of income.

PASK (unit revenue) Passenger revenue/ASK (scheduled).

Preference share capital Preference share capital, corresponding to the redemption price after the 2018 AGM for 7,000,000 preference shares at 105% of the subscription price of SEK 500, amounting to MSEK 3,675.

RASK Total traffic revenue/Total ASK (scheduled+charter).

Regularity The percentage of flights completed in relation to flights scheduled.

Return on Invested Capital (ROIC) EBIT plus the standard interest portion corresponding to 33% of net operating leasing costs minus dividends to shareholders in relation to average shareholders' equity, net financial debt and net capitalized leasing costs (x7).

Return on shareholders' equity after tax Net income for the period attributable to shareholders in the Parent Company in relation to average equity excluding non-controlling interests.

Revenue passenger kilometers (RPK) See RPK.

Revenue tonne kilometers (RTK) See RTK.

RPK, Revenue passenger kilometers Number of paying passengers multiplied by the distance they are flown in kilometers.

RTK, Revenue tonne kilometers The number of tonnes of paid traffic (passengers, freight and mail) multiplied by the distance this traffic is flown in kilometers.

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

Shareholders' equity per common share Shareholders' equity attributable to Parent Company shareholders less preference share capital in relation to the total number of common shares outstanding on the balance-sheet date.

Total load factor RTK divided by ATK.

Unit cost (CASK) Total operating expenses for airline operations including aircraft leasing and total depreciation adjusted for currency and restructuring costs less non-traffic-related revenue per total ASK (scheduled and charter).

Unit revenue See PASK

WACC Weighted average cost of capital includes the average cost of liabilities, equity and operating leases for aircraft. The sources of funds are calculated and weighted in accordance with the current market value of equity and liabilities and the capitalized present value of operating lease costs for aircraft.

Wet lease agreement Leasing in of aircraft including crew.

Working capital The total of non-interest-bearing current assets and non-interest-bearing financial fixed assets excluding equity in affiliated companies and other securities holdings less non-interest-bearing liabilities.

Yield Passenger revenue in relation to RPK (scheduled).

ANNUAL GENERAL SHAREHOLDERS' MEETING 2017

ATTENDING THE AGM

The AGM of SAS will be held on February 22, 2017 at 3:00 p.m. in Solna:
The head office of SAS, Frösundaviks allé 1.

Shareholders who wish to attend the AGM must notify the company in advance. Details of the registration procedure are published in the notice calling the AGM.

PROPOSALS OR QUESTIONS FOR INCLUSION IN THE NOTICE OF THE AGM

Shareholders who wish to address a specific question or include a proposal in the notice convening the AGM may do so in good time ahead of the notice. The deadline for proposals is stated in good time in line with the provisions of the Code, on the SAS website.

ITEMS IN THE NOTICE

The deadline for receiving business to be included in the notice was January 4, 2017.

SENDING OF THE NOTICE AND NOTIFICATION OF ATTENDANCE

- The notice was published on January 18, 2017.
- Deadline for notification of attendance: February 15, 2017 in Denmark and Norway, and February 16, 2017 in Sweden.

RECORD DATE

February 16, 2017

ADMISSION CARDS TO THE AGM WILL BE SENT ON

February 15–16, 2017

ANNUAL GENERAL SHAREHOLDERS MEETING

February 22, 2017 at 3:00 p.m.

FINANCIAL CALENDAR 2017

Monthly traffic data is generally issued on the fifth working day of every month. The detailed financial calendar is available at www.sasgroup.net under Investor Relations.

February 22, 2017	Annual General Shareholders' Meeting 2017
March 8, 2017	Q1 Interim Report November 2016–January 2017
June 21, 2017	Q2 Interim Report February 2017–April 2017
September 5, 2017	Q3 Interim Report May 2017–July 2017
December 12, 2017	Year-end report November 2016–October 2017
January/February 2018	Annual Report and Sustainability Report 2016/2017

For more information, please refer to www.sasgroup.net

DISTRIBUTION POLICY

All reports are available in English and Swedish and can be downloaded at www.sasgroup.net

The SAS Group's printed Annual Report is distributed only to shareholders who have requested it and can also be ordered via e-mail: investor.relations@sas.se

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Any questions about the report can be addressed to Björn Tibell, Investor Relations, +46 70 997 1437 or alternatively to investor.relations@sas.se.

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