SAS Group

Interim Report November 2013 – January 2014

SAS continues to deliver on its restructuring program in a market under continuing pressure

November 2013 – January 2014 *

- Revenue: MSEK 7,871 (9,597)
- SAS' scheduled traffic increased 0.7%
- SAS' passenger revenue adjusted for currency effects and Widerøe decreased 4.9%
- Unit cost (CASK) adjusted for currency and jet-fuel decreased 3.2%
- Income before tax and nonrecurring items: MSEK -1,169 (-745)
- EBIT margin: 1.7% (-5.5%)
- Income before tax: MSEK -146 (-767)
- Net income for the period: MSEK -112 (-588)
- Earnings per share: SEK -0.35 (-1.79)
- Cash flow from operating activities: MSEK -908 (-441)

* Comparative figures for the year-earlier period include Widerøe.

SAS Group has applied the amended standard for pension reporting, IAS 19 – Employee Benefits since November 1, 2013. As part of the implementation of the amended accounting standard, the reported figures for the preceding fiscal year (2012/2013) have been restated to enable comparison with fiscal year 2013/2014. The effects of the restatement of the SAS financial statements for 2012/2013 can be found at www.sasgroup.net, under Investor Relations/Reports and Presentations/Interim reports.

Comments by the President and CEO of SAS:

"As expected, this has been a weak quarter in terms of earnings, with an income before tax of MSEK -146. The first quarter is seasonally the weakest, but this quarter was also marked by overcapacity and lower growth, which put pressure on margins across the entire market.

Although the result is as expected, it is not satisfactory. The market trend shows quite clearly the importance of continuing at a high tempo with our three strategic priorities: to establish an efficient operating platform, to win the battle for Scandinavia´s frequent travelers and to invest in our future.

During the quarter, the unit cost declined a further 3.2% compared with the preceding year. During the quarter, the unit cost declined by a further 3.2% compared with the preceding year. With an increasingly competitive cost base, we can fight for the frequent travelers more effectively. We continue to invest in our offering to the frequent travelers. A significant upgrade of EuroBonus was launched at the beginning of the year, with the biggest changes since the SAS loyalty program was introduced in 1992, including a totally new membership level, called EuroBonus Diamond. We also presented 44 new routes to be launched during the year.

In February 2014, an issue of preference shares strengthened our equity by SEK 3.5 billion partly offsetting the effect of the amended standard for pension reporting. By issuing a new convertible bond, SAS also secured refinancing of the convertible bond that matures in 2015. These transactions are testament to the market's confidence in SAS and proof of the effects already generated by the restructuring program," says Rickard Gustafson, SAS President and CEO.

Income and key ratios

Key ratios (MSEK)	**Nov-Jan 2013-2014**	Nov-Jan 2012-2013
Revenue	**7,871**	9,597
EBIT margin (target >8%)	**1.7%**	-5.5%
Income before tax and nonrecurring items	**-1,169**	-745
Income before tax, EBT	**-146**	-767
Net income for the period	**-112**	-588
Cash flow from operating activities	**-908**	-441

	Pro forma[1]	**Jan 31 2014**	Oct 31 2013	Jan 31 2013
Equity/assets ratio (target >35%)	**20%**	**12%**	12%	-2%
Financial preparedness (target >20% of fixed costs)	**43%**	**20%**	26%	20%
Shareholders' equity per share, SEK		**9.35**	9.76	-1.47

[1] For more information, see financial position on page 3

Comments by the CEO

- Income before tax totaled MSEK -146
- Lower market growth in parallel with increased competition
- SAS' scheduled traffic increased 0.7%
- The unit cost, excluding jet fuel, fell 3.2%
- 44 new routes to be launched in 2014
- EuroBonus – significant upgrade
- SAS was recapitalized by issuing preference shares, a new convertible bond, cancelation of the revolving credit facility and entering into a new credit facility.

As expected, SAS reported a weak quarter in terms of earnings, with an income before tax of MSEK -146. The first quarter is seasonally weakest, but this quarter was also marked by overcapacity and lower growth, which put pressure on margins across the entire market. As communicated in connection with the full-year report for 2012/2013, the earnings were positively impacted by about SEK 1 billion from changed pension terms.

The weak macroeconomic trend in Europe had a negative impact on business travel to and from Europe. With SAS's large share of business travel, we are affected to a greater degree. At the same time, this trend has led to other operators shifting more capacity to the Nordic region, which has intensified the competition for passengers. Despite this, the trend for SAS in the Scandinavian home markets was stable during the quarter in terms of number of passengers, and traffic on the intercontinental routes rose 2.8% year-on-year. However, the yield declined 5.6% during the quarter.

The market trend clearly illustrates the importance of continuing our transition toward lower costs and greater flexibility. Equally clear is the fact that we must continue to invest offensively in our customer offering to meet the increasing competition.

Strategic priorities
To strengthen competitiveness and provide opportunities for long-term sustainable profitability, SAS has three strategic priorities. We must secure an efficient operational platform, win the battle for Scandinavia's frequent travelers and invest in our future.

Establish an efficient production platform
Given the measures already implemented within the framework of the restructuring program, we are now competing from a stronger position and with a much more efficient production platform. During the quarter, the unit cost declined a further 3.2% compared with the preceding year. Payroll expenses, in particular, were a major contributor to the improvement in unit cost.

We are now rolling out a comprehensive Lean Program across the entire organization, aimed at enhancing efficiency at every level. Many of our operational units have already made good progress, and we are now involving all parts of SAS.

Our measures to restore punctuality following the system updates implemented last year have brought results and we are now back where we should be, with world-class punctuality.

Natural choice for frequent travelers
With an increasingly competitive cost base, we can compete more effectively for the frequent travelers. We have already presented 44 new routes for 2014. Focusing on customers who travel frequently and who value easier and more time-efficient travel is a key component of the SAS' strategy, and it is gratifying to note that customer satisfaction increased during the quarter. We will continue to invest in our offering to the frequent travelers. A significant upgrade of EuroBonus was launched in early 2014, with the biggest changes since the SAS loyalty program was introduced in 1992. We are introducing a totally new membership level, EuroBonus Diamond, while several new features will be added to the membership offering for gold and silver levels. Since the launch, an additional 71,000 members have joined the program.

Invest in the future
We are introducing extensive changes to the aircraft fleet as part of the Group's investment in the future. Last year, we phased 48 aircraft in and out – the largest modernization in the history of SAS in such a short time. The SAS aircraft fleet now consists solely of "Next Generation" aircraft – with greater comfort and higher fuel efficiency. We have already ordered 30 Airbus A320 NEOs for our short-haul operations, as well as four Airbus A330Es and eight Airbus A350s for our long-haul operations, which will give us an even more modern aircraft fleet going forward.

We are also investing in our employees and are currently strengthening the organization's leadership by introducing a new leadership and employee model that links to our Lean processes.

Future capital structure
During the quarter, we continued to take important steps to strengthen our financial position. In February 2014, an issue of preference shares strengthened our equity by SEK 3.5 billion, which partly offsets the effect of the amended standard for pension reporting and bring our equity/assets ratio back to 20%. We also issued a new convertible bond to secure refinancing of the existing convertible bond that matures in 2015. The major interest in these transactions is testament to the market's confidence in SAS, which was further, confirmed when Moody's upgraded the SAS Group's credit rating.

Outlook
Our forecast for the full-year remains. During the year, the expected impact on earnings from the restructuring program is SEK 1.2 billion, and bookings at the beginning of the second quarter were at the same level year-on-year. Provided that the market conditions, in terms of capacity, jet fuel and exchange rates, do not decline any further and that no unexpected events occur, potential exists to post a positive EBT, excluding the positive effect from the changed pension terms, also in the 2013/2014 fiscal year.

Stockholm, March 14, 2014

Rickard Gustafson
President and CEO

Commentary on earnings

SAS Group has applied the amended standard for pension reporting, IAS 19 – Employee Benefits since November 1, 2013. As part of the implementation of the amended accounting standard, the reported figures for the preceding fiscal year (2012/2013) have been restated to enable comparison with fiscal year 2013/2014. The effects of the restatement of SAS' financial statements for 2012/2013 can be found at www.sasgroup.net, under Investor Relations/Reports and Presentations/Interim reports.

Earnings analysis November 2013 - January 2014

On September 30, 2013, the sale of 80% of the shareholding of Widerøe Flyveselskap AS (Widerøe) was completed, which means that Widerøe's earnings are included in the comparative figures for the corresponding year-on-year period.

The SAS Group's operating income was MSEK 132 (-525) and income before tax and nonrecurring items totaled MSEK -1,169 (-745). Income before tax amounted to MSEK -146 (-767) and income after tax was MSEK -112 (-588).

The exchange-rate trend had a negative impact on revenue of MSEK 268 and on operating income of MSEK 17 compared with the corresponding year-earlier period. Due to SAS' weak financial position in the preceding year, exchange-rate hedging was performed to a lesser extent than normal and, accordingly, exchange-rate exposure has increased during the current quarter.

The Group's revenue amounted to MSEK 7,871 (9,597). Adjusted for currency effects and Widerøe, revenue declined MSEK 644, or 7.6% year-on-year, primarily due to a lower yield and load factor. At SAS, the number of passengers decreased 0.2%, capacity (ASK) rose 3.4% and the load factor declined 1.8 p.p. year-on-year. The currency-adjusted yield declined 5.6% and the currency-adjusted unit revenue (PASK*) declined 8.1% compared with the year-earlier period.

The Group's total operating expenses amounted to MSEK -7,739 (-10,122). Adjusted for currency effects, Widerøe and nonrecurring items, operating expenses declined MSEK 241, or 2.7% year-on-year, primarily due to lower payroll expenses.

Payroll expenses amounted to MSEK -1,446 (-3,160), which included restructuring costs of MSEK 0 (-15) and non-recurring items of MSEK 1,044 (0) pertaining to changed pension terms. Payroll expenses, after adjustment for Widerøe, restructuring costs and non-recurring items, declined 7.9% year-on-year.

Jet-fuel costs amounted to MSEK -1,830 (-2,038). Adjusted for Widerøe and currency effects, costs declined MSEK 65, mainly attributable to hedging effects and lower price.

Other operating expenses, excluding fuel costs, amounted to MSEK -3,616 (-4,081). Adjusted for nonrecurring items, Widerøe and currency effects, other operating expenses decreased 0.3% year-on-year, which was mainly attributable to lower selling costs and government user fees, but higher handling and maintenance costs for engines. The unit cost, adjusted for currency and jet-fuel, was 3.2% lower than the year-earlier period.

The Group's net financial items amounted to MSEK-283 (-243), of which net interest expense accounted for MSEK -204 (-195).

Total nonrecurring items amounted to MSEK 1,023 (-22) and comprised restructuring costs, capital gains/losses and other nonrecurring items. Restructuring costs totaled MSEK 0 (-16), of which MSEK 0 (-15) pertained to payroll expenses and MSEK 0 (-1) to other expenses. Capital losses amounted to MSEK -21 (-7) and pertained to aircraft transactions of MSEK -22 (-7) as well as other capital gains of MSEK 1 (0). Other nonrecurring items amounted to MSEK 1,044 (0), attributable to the positive effect from changed pension terms.

Financial position

At January 31, 2014, the SAS Group's cash and cash equivalents amounted to MSEK 3,343 (1,721). The SAS Group also had unutilized credit facilities amounting to MSEK 1,996 (3,955) at January 31, 2014. Financial preparedness amounted to 20% (20%) of the Group's fixed costs at the end of January 2014.

In February 2014, an issue of preference shares strengthened equity by SEK 3.5 billion, which partly offsets the effect of the amended standard regarding pension reporting. The settlement date was February 28. Dividends will be paid quarterly in an amount of SEK 50 per preference share and year, which implies a total annual dividend of MSEK 350. By issuing a new convertible bond loan of SEK 1.6 billion, SAS also secured refinancing of the existing convertible bond that will mature in 2015. In connection with these issues, the credit facility amounting to SEK 1.8 billion on January 31, 2014 was terminated in February. A new credit facility of MEUR 150 was entered into with UBS.

Adjusted for the aforementioned issues, changed credit facilities and issue expenses, pro forma financial preparedness amounted to 43%. Taking into account the refinancing of bonds maturing in June 2014, convertible bonds in April 2015 and dividends pertaining to preference shares, the pro-forma financial preparedness was 25%.

The SAS Group's interest-bearing liabilities declined MSEK 113 compared with October 31, 2013 and amounted to MSEK 11,397 on the closing date. New loans raised during the year amounted to MSEK 79 and repayments amounted to MSEK 253.

At January 31, 2014, the value of the debt and equity share (conversion option and repurchase right) relating to the convertible bond was set at MSEK 1,548 and MSEK 52 respectively. At the date of issue, these amounts were MSEK 1,374 and MSEK 226, respectively. The value of the equity share was included in shareholders' equity, following a deduction for deferred tax.

Financial net debt increased MSEK 1,143 during the year to MSEK 5,710 on the closing date.

At January 31, the equity/assets ratio was 12% (-2%). Adjusted for the aforementioned issues, the equity/assets ratio amounted to 20% after the closing date.

At January 31, 2014, the adjusted equity/assets ratio amounted to 8% (-1%). The adjusted debt/equity ratio amounted to 5.91% (-38.33). The adjusted ratios take into account leasing costs.

For the balance sheet - refer to page 8

* PASK (unit revenue) Passenger revenue/ASK (scheduled)

Cash-flow statement

Cash flow from operations before changes in working capital was MSEK -879 (-361) for the first quarter of the fiscal year.

Non-cash items mainly comprised a nonrecurring item of MSEK -1,044 pertaining to the impact on earnings from changed terms for pension commitments.

Change in working capital was in line with the year-earlier period.

Cash flow from operating activities amounted to MSEK -908 (-441), which is negative in terms of seasonality.

Investments amounted to MSEK 226 (688), of which MSEK 0 (284) pertained to aircraft, MSEK 78 (89) to capitalized expenditures for engine maintenance, MSEK 0 (61) to aircraft modifications, MSEK 0 (79) to spare parts, MSEK 18 (126) to other investments that are largely attributable to ongoing aircraft investments as well as MSEK 96 (0) as an advance payment to Airbus. In addition, MSEK 34 (49) pertained to capitalized system development costs.

Three MD-82s were divested during the period.

Cash flow before financing activities amounted to MSEK -1,177 (-1,054) and financing activities to MSEK -229 (-14).

Cash flow for the period was MSEK-1,406 (-1,068).

Cash and cash equivalents amounted to MSEK 3,343 according to the balance sheet, compared with MSEK 4,751 at October 31, 2013.

For the cash-flow statement - refer to page 9

Seasonal variations

Demand, measured as the number of transported passengers, in SAS' markets is seasonally low from December to February and at its peak from April to June and September to October. However, the share of advance bookings is greatest from January to May, which has a highly positive effect on working capital ahead of the holiday period.

Seasonal fluctuations in demand impact cash flow and earnings differently, since passenger revenue is recognized when customers actually travel, which results in revenue generally increasing during months in which more passengers are transported. Since a substantial share of an airline's costs is fixed, earnings are impacted by fluctuations in revenue levels.

Seasonal variations indicate that the third and fourth quarters (May to July and August to October) are seasonally the strongest quarters in terms of earnings. Cash flow from operating activities is seasonally negative in the third quarter but positive in the fourth quarter.

Financial targets

In conjunction with the launch of the restructuring program in November 2012, SAS decided to set new financial targets. The targets aim to reflect an operation that has cut its fixed costs and improved its profitability and cash flow. Since the fourth quarter of 2012/2013, SAS has assessed the financial targets to be achievable in 2015/2016.

SAS' financial targets are:

Profitability: Operating margin (EBIT) >8%.

Equity/assets ratio: >35%.

Financial preparedness: Cash and cash equivalents and unutilized credit facilities/fixed costs >20%.

Description of events after January 31, 2014

- The AGM resolved that the Board be authorized to make a decision regarding the issue of up to 7 million preference shares and convertibles for a maximum amount of MSEK 2,000.
- SAS implemented a preference share issue. Since interest far exceeded expectations, the offer was increased from 4 million to 7 million preference shares at a subscription price of SEK 500 per preference share, corresponding to SEK 3.5 billion. The settlement date was February 28. Dividends will be payable on a quarterly basis in an amount of SEK 50 per preference share and year, amounting to a total annual dividend of MSEK 350.
- SAS carried out a convertible issue amounting to MSEK 1,600 with annual interest of 3.625%, which falls due for payment every six months at a conversion price of SEK 24.0173, corresponding to a conversion premium of 25%. The value of the equity share (conversion option and repurchase right) was set at MSEK 201 at the date of issue. The value of the equity share was included in shareholders' equity, following a deduction for deferred tax.
- Due to the preference share issue, SAS canceled the revolving credit facility, (the "RCF"), which was entered into in connection with the launch of the 4XNG restructuring program in autumn 2012.
- A new credit facility of MEUR 150 was entered into with UBS.
- The credit-rating agency Moody's upgraded the credit rating for SAS by one notch, from the previous Caa1 rating to B3, with a continued positive outlook.

4Excellence Next Generation

In November 2012, a restructuring program entitled 4Excellence Next Generation (4XNG) was launched with the aim of addressing the decisive structural and financial limitations in SAS' operations.

4XNG focuses on three sub-areas – costs, flexibility and liquidity/equity and the program comprises a number of structural streamlining measures, as well as the divestment of assets to reduce the dependence on credit facilities.

Overall, the aim is to implement cost reductions of about SEK 3 billion in the 2013-2015 period, to reduce the impact on shareholders' equity of changed reporting requirements for pensions by about SEK 3 billion, and to divest assets and implement a funding plan comprising a total of approximately SEK 3 billion.

Streamlining measures and status of the restructuring program:

New collective agreements with salary and employment terms at market rates

New agreements were signed in November 2012 that pave the way for significant enhancements in planning and scheduling efficiency. Productivity enhancements and the possibility of wet-lease production allowed by the new collective agreements have created the opportunity to increase production and expand the network in a cost-efficient manner. The new employment terms were fully implemented in the spring of 2013 and resulted in a productivity increase that in January 2014 was 5% higher than the preceding year on a twelve-month rolling basis. In total, savings generated by the new agreements are expected to amount to about MSEK 700 and reach their full effect by the 2013/2014 fiscal year.

New pension terms

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. These measures reduced pension commitments by about SEK 12.9 billion. In addition, the change in terms gave rise to an improvement in earnings of about SEK 1 billion during the first quarter of 2013/2014. At October 31, 2013, pension commitments amounted to SEK 28.5 billion and at January 31, 2014 to SEK 15.6 billion. After realignment of the pensions, the remaining pension plans in Sweden (the Alecta plan and Euroben) reported a surplus of about SEK 5 billion. Annual operational cost savings generated by the new pension terms are expected to amount to about MSEK 500 and reach their full effect from the 2013/2014 fiscal year.

Centralization and enhancement of administration efficiency

The actions entail a reduction in and centralization of administration to Stockholm. In total, the number of employees will be reduced by about 1,000 full-time equivalents and the main part of this reduction was implemented in the 2012/2013 fiscal year. The process is proceeding according to plan and about 75% of these cutbacks had been implemented by January 31, 2014. Following full implementation, the annual reduction in costs will amount to about MSEK 750.

IT restructuring

The aim of the IT restructure is to halve SAS' IT expenses by 2016 through standardization, fewer systems and applications, and outsourcing. A five-year agreement was signed with Tata Consultancy Services (TCS) for operational, administrative and development services. In addition, SAS signed an agreement to outsource SAS revenue management systems. Together, these measures have a combined increase in cost-efficiency of MSEK 550. Efforts to simplify, consolidate and standardize the IT environment, such as transitioning from the previous IT partner to TCS are largely progressing according to plan. A new internal organization for management and control of IT operations has been established.

Commercial & Sales

The SAS sales organization is undergoing restructuring and centralization. In addition, network efficiency is being enhanced through better utilization of existing resources, including aircraft utilization and supplemented with wet-lease operations with smaller aircraft. New commercial concepts with simplified logistics have also been introduced. During the second quarter of 2012/2013, an agreement was signed with Sykes to expand the collaboration, thus allowing Sykes to manage more parts of the call-center operation, which affected some 420 employees. The transition progressed according to plan and was completed during the first quarter of 2013/2014. Savings in Commercial & Sales will amount to a total of about MSEK 500.

In total, the 4XNG plan is expected to deliver a planned earnings effect before tax of approximately SEK 3 billion.

Outsourcing

The outsourcing of Ground Handling is a long-term strategic measure aimed at achieving higher flexibility in the cost structure and reducing the level of dependency on external revenue in parallel with providing enhanced conditions for Ground Handling's operations to grow. In March 2013, a letter of intent was signed with Swissport regarding the outsourcing of operations. In preparation for divestment, the Ground Handling operation was incorporated and 10% of the shares were sold to Swissport in the fourth quarter of 2012/2013 as a first stage. The parties have agreed to pause negotiations until Swissport has concluded the integration of Servisair.

Risks and uncertainties

SAS works strategically to refine and improve its risk management. Risk management includes identifying both new risks and known risks, such as changes in oil prices or exchange rates. SAS monitors general risks centrally, while portions of risk management are conducted in the operations and include identification, action plans and policies. For further information about risk management in SAS, refer to the most recently published annual report.

Currency and fuel hedging

SAS' financial policy is to handle changes in jet-fuel costs primarily through the hedging of jet fuel, price adjustments and yield management.

The policy for jet-fuel hedging states that fuel should be hedged at an interval of 40-80% of anticipated volumes for the coming 12 months. At January 31, 2014, the hedging ratio was 45% for the coming 12 months. The market value of the hedges (excluding time value) was marginally positive at the end of first quarter. Hedging is performed using options and swaps, with strong emphasis on the next two quarters in 2013/2014. Under current plans for available flight capacity, the cost of fuel during forthcoming fiscal years is expected to be in line with the table below, taking into account different prices and USD rates.

For foreign currencies, the policy is to hedge 40-80%. At January 31, 2014, SAS had hedged 46% of its anticipated USD deficit for the next 12 months. SAS has covered its USD deficit using a combination of forward contracts and options. In terms of NOK, which is SAS' largest surplus currency, 74% of the anticipated surplus for the next 12 months was hedged.

Hedging of jet fuel

	Feb-Apr 2014	May-July 2014	Aug-Oct 2014	Nov-Jan 2014-2015
Hedging of jet fuel	89%	70%	20%	0%

Vulnerability matrix, jet-fuel cost November 2013 to October 2014, SEK billion*

	Exchange rate SEK/USD			
Market price	**5.00**	**6.00**	**7.00**	**8.00**
USD 600/tonne	5.6	6.4	7.1	7.9
USD 800/tonne	6.3	7.2	8.1	9.0
USD 1,000/tonne	7.0	8.0	9.1	10.1
USD 1,200/tonne	7.5	8.6	9.8	10.9
USD 1,400/tonne	8.0	9.2	10.4	11.6

The SAS Group's current hedging contracts for jet fuel at January 31, 2014 were taken into account.

Legal issues

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 in Europe (the UK, the Netherlands and Norway). SAS, which appealed the European Commission's decision, contests its responsibility in all of these legal processes. Further lawsuits by cargo customers cannot be ruled out and no provisions have been made.

In June 2013, the European Commission and the EFTA Surveillance Authority decided to initiate a detailed investigation of whether or not the three State shareholders' participation in the renewal of SAS' revolving credit facility (RCF) in November/December 2012 comprised a government subsidy.

The SAS pilot associations filed a lawsuit against SAS with the Swedish Labor Court claiming damages for breach of collective agreements. This comprises a claim for declaratory judgment and no financial damages are 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 has contested all claims. Irrespective of the outcome of the dispute, the assessment of SAS is that the dispute will not have any material negative financial impact on SAS.

A group of former Braathens cabin employees 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 writ contains no specified demand for remuneration. SAS believes that the correct method of calculation was used and disputes all of the claims. Quite regardless of the outcome of the dispute, SAS makes the assessment that it will have essentially no negative financial impact for SAS.

Full-year 2013/2014

Market conditions remain challenging with overcapacity in several of SAS' markets, for which reason the yield and PASK (passenger revenue/scheduled ASK) are expected to continue to decline in 2013/2014. The restructuring program is gradually increasing SAS' competitiveness. In the 2013/2014 fiscal year, the earnings impact from the restructuring program is expected to amount to SEK 1.2 billion. Provided that market conditions, in terms of capacity, jet fuel and exchange rates, do not decline any further and that no unexpected events occur, potential exists to post a positive EBT, excluding the positive effect from the amendments to pension reporting, also in the 2013/2014 fiscal year.

SAS Group

Statement of income including statement of other comprehensive income

(MSEK)	Nov-Jan 2013-2014	Nov-Jan 2012-2013
Revenue	7,871	9,597
Payroll expenses[1]	-1,446	-3,160
Other operating expenses[2]	-5,446	-6,119
Leasing costs for aircraft [3]	-485	-397
Depreciation and impairment	-329	-426
Share of income in affiliated companies	-12	-13
Income from sale of shares in subsidiaries, affiliated companies and operations	1	0
Income from the sale of aircraft and buildings	-22	-7
Operating income	**132**	**-525**
Income from other securities holdings	5	1
Financial revenue	25	8
Financial expenses	-308	-251
Income before tax	**-146**	**-767**
Tax	34	179
Net income for the period	**-112**	**-588**
Other comprehensive income		
Items that may be reversed to net income for the period later:		
Exchange-rate differences in translation of foreign operations	-104	5
Cash-flow hedges	186	-61
Tax attributable to components pertaining to other comprehensive income	-41	16
Items that will not be reversed to net income for the period:		
Revaluations of defined-benefit pension plans	-60	34
Total other comprehensive income for the year, net after tax	**-19**	**-6**
Total comprehensive income	**-131**	**-594**
Net income for the period attributable to:		
Parent Company shareholders	-115	-588
Non-controlling interests	3	0
Earnings per share (SEK)[4]	-0.35	-1.79

1 Includes restructuring costs of MSEK - (15).
2 Includes restructuring costs of MSEK - (1).
3 Includes restructuring costs of MSEK - (-).
4 Earnings per share is based on 329,000,000 (329,000,000) shares outstanding.

The SAS Group has no option or share programs. The convertible bond loan of MSEK 1,600 covering 34,408,602 shares has no dilution effect, as the interest rate per common share that can be obtained on conversion exceeds earnings per share before dilution effect.

Income before tax and nonrecurring items

(MSEK)	Nov-Jan 2013-2014	Nov-Jan 2012-2013
Income before tax	-146	-767
Restructuring costs	0	16
Capital gains/losses	21	6
Other nonrecurring items [1]	-1,044	0
Income before tax and nonrecurring items	**-1,169**	**-745**

1 Includes a positive impact on earnings of MSEK 1,044 due to defined-benefit pension plans largely being replaced by defined-contribution pension plans during the first quarter of 2013/2014.

Condensed balance sheet

(MSEK)	Jan 31 2014	Oct 31 2013	Jan 31 2013
Intangible assets	1,783	1,802	1,961
Tangible fixed assets	9,513	9,677	13,561
Financial fixed assets	8,154	7,121	2,853
Total fixed assets	**19,450**	**18,600**	**18,375**
Other current assets	400	361	599
Current receivables	3,099	3,101	3,329
Cash and cash equivalents [3]	3,343	4,751	1,721
Total current assets	**6,842**	**8,213**	**5,649**
Total assets	**26,292**	**26,813**	**24,024**
Shareholders' equity [1]	3,095	3,226	-482
Long-term liabilities	10,240	10,173	11,107
Current liabilities	12,957	13,414	13,399
Total shareholders' equity and liabilities	**26,292**	**26,813**	**24,024**
Shareholders' equity per share[2]	9.35	9.76	-1.47
Interest-bearing assets	10,063	10,371	3,214
Interest-bearing liabilities	11,397	11,510	10,854

1 Including non-controlling interests.
2 Calculated on 329,000,000 shares outstanding.
The SAS Group has not carried out any buyback programs.
3 At January 31, 2014, including receivables from other financial institutions, MSEK 990 (348).

Specification of financial net debt January 31, 2014

	According to balance sheet	Of which, financial net debt
Financial fixed assets	8,154	2,001
Current receivables	3,099	343
Cash and cash equivalents	3,343	3,343
Long-term liabilities	10,240	8,775
Current liabilities	12,957	2,622
Financial net debt		5,710

Condensed changes in shareholders' equity

(MSEK)	Share capital [1]	Other contributed capital [2]	Hedge Reserves	Translation reserve	Retained earnings[3]	Total shareholders' equity attributable to Parent Company shareholders	Non-controlling interests	Total shareholders' capital
Opening shareholders' equity in accordance with approved balance sheet, November 1, 2012	6,613	337	-12	29	4,189	11,156	-	11,156
Effect of new accounting policy					-11,044	-11,044	-	-11,044
Opening balance shareholders' equity adjusted in accordance with new policy, November 1, 2012	6,613	337	-12	29	-6,855	112	-	112
Comprehensive income, November – January			-45	5	-554	-594	-	-594
Closing balance, January 31, 2013	6,613	337	-57	34	-7,409	-482	-	-482
Change in holdings in subsidiaries						-	15	15
Comprehensive income, February – October			22	-229	3,899	3,692	1	3,693
Closing balance, October 31, 2013	6,613	337	-35	-195	-3,510	3,210	16	3,226
Comprehensive income, November-January			145	-104	-175	-134	3	-131
Closing balance, January 31, 2014	**6,613**	**337**	**110**	**-299**	**-3,685**	**3,076**	**19**	**3,095**

1 Number of shares in SAS AB: 329,000,000, with a quotient value of 20.1.
2 The amount comprises share premium reserves and the equity share of convertible loans.
3 No dividends were paid for 2012 and 2012/13.

Financial key ratios

	Jan 31 2014	Oct 31 2013	Jan 31 2013
CFROI, 12-month rolling	33%	31%	16%
Financial preparedness (target >20% of fixed costs)	20%	26%	20%
Equity/assets ratio (target >35%)	12%	12%	-2%
Adjusted equity/assets ratio	8%	8%	-1%
Financial net debt, MSEK	5,710	4,567	7,760
Debt/equity ratio	1.84	1.42	-16.10
Adjusted debt/equity ratio (target <1.00)	5.91	5.13	-38.33
Interest-coverage ratio	3.1	2.6	-0.1

Condensed cash-flow statement

(MSEK)	Nov-Jan 2013-2014	Nov-Jan 2012-2013
Income before tax	-146	-767
Depreciation and impairment	329	426
Income from sale of aircraft, buildings and shares	21	6
Adjustment for other items not included in the cash flow, etc.	-1,084	-26
Tax paid	1	0
Cash flow from operations before change in working capital	**-879**	**-361**
Change in working capital	-29	-80
Cash flow from operating activities	**-908**	**-441**
Investments including advance payments to aircraft manufacturers	-226	-688
Sales of subsidiaries and operations	0	60
Sales of fixed assets, etc.	-43	15
Cash flow before financing activities	**-1,177**	**-1,054**
External financing, net	-229	-14
Cash flow for the period	**-1,406**	**-1,068**
Translation difference in cash and cash equivalents	-2	0
Change in cash and cash equivalents according to the balance sheet	**-1,408**	**-1,068**

Fair value and carrying amount of financial assets and liabilities

	Jan 31, 2014		Oct 31, 2013	
(MSEK)	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Financial assets at fair value	224	224	137	137
Financial assets held for trading	2,125	2,125	3,662	3,662
Other assets	2,087	2,087	2,015	2,015
Cash and bank balances	1,251	1,251	1,129	1,129
Total	**5,687**	**5,687**	**6,943**	**6,943**
Financial liabilities				
Financial liabilities at fair value	57	57	141	141
Financial liabilities held for trading	54	54	21	21
Financial liabilities at amortized cost	11,286	10,939	11,348	11,105
Total	**11,397**	**11,050**	**11,510**	**11,267**

Fair value is generally determined by using 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 available market inputs.

The Group's financial assets and liabilities are measured at fair value as stated below:

Level 1: Financial instruments for which fair value is based on observable (unadjusted) quoted prices in active markets for identical assets or liabilities. 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 valuation models that utilize other 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).

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.

Fair value hierarchy

	Jan 31, 2014			Oct 31, 2013		
(MSEK)	Level 1	Level 2	Total	Level 1	Level 2	Total
Financial assets						
Financial assets at fair value	-	224	224	-	137	137
Financial assets held for trading	2,092	33	2,125	3,270	392	3,662
Total	**2,092**	**257**	**2,349**	**3,270**	**529**	**3,799**
Financial liabilities						
Financial liabilities at fair value	-	57	57	-	141	141
Financial liabilities held for trading	-	54	54	-	21	21
Total	**0**	**111**	**111**	**0**	**162**	**162**

Parent Company SAS AB

Income before tax for the period amounted to MSEK -25 (-144).

The number of shareholders in SAS AB amounted to 60,242 at January 31, 2014. At November 1, 2013, personnel from SAS AB were transferred to the SAS Consortium The average number of employees in SAS AB amounted to 7 (38).

Condensed statement of income

(MSEK)	**Nov-Jan 2013-2014**	Nov-Jan 2012-2013
Revenue	0	3
Payroll expenses	-10	-19
Other operating expenses	-14	-34
Operating income before depreciation	**-24**	**-50**
Depreciation	0	0
Operating income	**-24**	**-50**
Income from participations in Group companies	1	-80
Income from other securities holdings	5	0
Net financial items	-7	-14
Income before tax	**-25**	**-144**
Tax	4	17
Net income for the period	**-21**	**-127**
Net income for the period attributable to: Parent Company shareholders	-21	-127

Net income for the period also corresponds with total comprehensive income.

Condensed balance sheet

(MSEK)	**Jan 31 2014**	Oct 31 2013	Jan 31 2013
Financial fixed assets	5,967	5,984	6,366
Other current assets	7,063	7,099	6,403
Cash and cash equivalents	0	1	0
Total assets	13,030	13,084	12,769
Shareholders' equity	9,454	9,475	10,504
Long-term liabilities	3,471	3,478	2,031
Current liabilities	105	131	234
Total shareholders' equity and liabilities	13,030	13,084	12,769

Changes in shareholders' equity

(MSEK)	**Share Capital**	**Restricted reserves**	**Unre-stricted equity**	**Total equity**
Opening balance, Nov 1, 2013	6,613	473	2,389	9,475
Reclassification		-167	167	-
Net income for the period			-21	-21
Shareholders' equity, Jan 31, 2014	6,613	306	2,535	9,454

Notes

Note 1 – Accounting policies and financial statements

This interim report for the SAS Group was prepared in accordance with IAS 34 Interim Financial Reporting and the Swedish Annual Accounts Act. The interim report for the Parent Company was prepared in accordance with the Swedish Annual Accounts Act and RFR 2.

A number of amendments of standards, new interpretations and new standards took effect for fiscal years beginning November 1, 2013, of which IAS 19 Employee Benefits (Amended) has affected the preparation of this financial report with retrospective application. IFRS 13 has also impacted the preparation of this financial report with additional information about financial assets and liabilities. Other amendments, new interpretations and new standards are not deemed relevant to the preparation of this financial report, which means that the SAS Group has continued to apply the same accounting policies as in its 2012/2013 Annual Report, with the exception of the amended IAS 19.

IAS 19 Employee Benefits (Amended) means that it is no longer permitted to defer recognition of certain deviations in estimates (the "corridor" approach has now been eliminated) and all estimates are to be immediately recognized in other comprehensive income. Pursuant to the amended standard, accumulated unrecognized deviations "Unrecognized actuarial gains and losses and plan amendments" will be recognized in their entirety in shareholders' equity, which had a negative impact of about SEK 7.8 billion on the Group's shareholders' equity. The Parent Company SAS AB's recognized shareholders' equity was not affected by this amendment. Furthermore, interest expense and expected return on plan assets are replaced with a "net interest," which is calculated using the discount rate used to measure the net defined-benefit pension liability or pension assets. SAS classifies this net interest expense as a payroll expense and recognizes the net interest expense in operating income.

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, which reduced pension commitments by about SEK 12.9 billion. In addition, the change in terms gave rise to an improvement in earnings of about SEK 1 billion.

At October 31, 2013, pension commitments amounted to SEK 28.5 billion and at January 31, 2014 to SEK 15.6 billion.

Note 2 - Quarterly breakdown

Statement of income

(MSEK)	Nov-Jan 2012-2013	Feb-Apr 2013	May-July 2013	Aug-Oct 2013	FULL-YEAR Nov-Oct 2012-2013	Nov-Jan 2013-2014
Revenue	9,597	9,933	11,593	11,059	42,182	7,871
Payroll expenses	-3,160	-2,599	-2,887	-2,661	-11,307	-1,446
Other operating expenses	-6,119	-6,260	-6,379	-6,684	-25,442	-5,446
Leasing costs for aircraft	-397	-423	-480	-486	-1,786	-485
Depreciation and impairment	-426	-418	-426	-388	-1,658	-329
Share of income in affiliated companies	-13	0	19	19	25	-12
Income from sale of shares in subsidiaries, affiliated companies and operations	0	-302	0	1,002	700	1
Income from the sale of aircraft and buildings	-7	-40	-39	-32	-118	-22
Operating income	**-525**	**-109**	**1,401**	**1,829**	**2,596**	**132**
Income from other securities holdings	1	0	0	0	1	5
Financial revenue	8	13	11	18	50	25
Financial expenses	-251	-233	-236	-279	-999	-308
Income before tax	**-767**	**-329**	**1,176**	**1,568**	**1,648**	**-146**
Tax	179	-76	-290	-103	-290	34
Net income for the period	**-588**	**-405**	**886**	**1,465**	**1,358**	**-112**
Attributable to:						
Parent Company shareholders	-588	-405	886	1,464	1,357	-115
Non-controlling interests	0	0	0	1	1	3

Earnings-related key ratios and average number of employees

(MSEK)	Nov-Jan 2013-2014	Nov-Jan 2012-2013	Feb-Apr 2013	May-July 2013	Aug-Oct 2013
Revenue	7,871	9,597	9,933	11,593	11,059
EBITDAR	979	318	1,074	2,327	1,714
EBITDAR margin	12.4%	3.3%	10.8%	20.1%	15.5%
EBIT	132	-525	-109	1,401	1,829
EBIT margin	1.7%	-5.5%	-1.1%	12.1%	16.5%
Income before tax and nonrecurring items	-1,169	-745	34	1,029	601
Income before tax	-146	-767	-329	1,176	1,568
Net income for the period	-112	-588	-405	886	1,465
Earnings per share (SEK)	-0.35	-1.79	-1.23	2.69	4.45
Cash flow before financing activities	-1,177	-1,054	1,712	8	129
Average number of employees (FTE)	12,290	14,354	14,078	14,432	13,643

The Board of Directors and President hereby assure that this interim report provides a true and fair overview of the performance of the Parent Company's and the Group's operations, financial position and earnings, and describes the significant risks and uncertainty factors to which the Parent Company and the companies included in the Group are exposed.

Stockholm, March 14, 2014

Fritz H. Schur
Chairman of the Board

Jacob Wallenberg
First Vice Chairman

Dag Mejdell
Second Vice Chairman

Monica Caneman
Board member

Lars-Johan Jarnheimer
Board member

Birger Magnus
Board member

Sanna Suvanto-Harsaae
Board member

Carsten Dilling
Board member

Jens Lippestad
Board member

Sven Cahier
Board member

Bo Nielsen
Board member

Rickard Gustafson
President and CEO

This interim report is unaudited.

Traffic data information

The traffic data information on this page and other parts of this report pertains solely to Scandinavian Airlines (SAS) and the production company Blue1's traffic. Widerøe was sold on September 30, 2013, but is not included in any comparative figures. The traffic data information thus shows the traffic trend for the SAS Group's current organization compared with the preceding year.

SAS' scheduled passenger traffic, yield, PASK and unit cost

	Nov-Jan 2013-2014	Nov-Jan 2012-2013	Year-on-year change
Number of passengers (000)	5,426	5,436	-0.2%
RPK, Revenue Passenger Kilometers (mill)	5,686	5,649	+0.7%
ASK, Available Seat Kilometers (mill)	8,580	8,295	+3.4%
Load factor	66.3%	68.1%	-1.8 p.p.
Passenger yield (currency-adjusted)	1.01	1.07	-5.6%
Unit revenue, PASK (currency-adjusted)	0.67	0.73	-8.1%
Total unit cost (CASK), (currency-adjusted)	0.83	0.87	-3.9% 1)

1) Excluding jet-fuel costs, the total unit cost declined 3.2%

SAS' total traffic (scheduled and charter traffic)

	Nov-Jan 2013-2014	Nov-Jan 2012-2013	Year-on-year change
Number of passengers (000)	5,609	5,631	-0.4%
RPK, Revenue Passenger Kilometers (mill)	6,335	6,345	-0.2%
ASK, Available Seat Kilometers (mill)	9,290	9,037	2.8%
Load factor	68.2%	70.2%	-2.0 p.p.

SAS' scheduled traffic trend by route sector

	Nov-Jan 2013-2014 vs. Nov-Jan 2012-2013	
	Traffic (RPK)	**Capacity (ASK)**
Intercontinental	2.8%	5.1%
Europe/Intra-Scandinavia	-0.8%	2.5%
Domestic	0.0%	3.1%

SAS' scheduled destinations and frequencies

	Nov-Jan 2013-2014	Nov-Jan 2012-2013	Year-on-year change
Number of destinations	100	105	-4.8%
Number of daily departures	719	723	-0.5%
No. of departures per destination/day	7.2	6.9	+4.5%

Aircraft fleet

SAS Group's aircraft fleet, January 31, 2014*

	Age	Owned	Leased	Total	In service	Parked	On purchase order	On lease order
Airbus A330/A340/350	11.7	5	6	11	11	0	12	1
Airbus A319/A320/A321	9.0	6	19	25	25	0	30	1
Boeing 737 NG	11.7	17	65	82	82	0	0	7
Boeing 737 Classic	0.0	0	6	6	0	6	0	0
Boeing 717	13.4	4	5	9	9	0	0	0
McDonnell Douglas MD 80 series	0.0	9	0	9	0	9	0	0
Bombardier CRJ900	4.7	12	0	12	12	0	0	0
Total	**10.9**	**53**	**101**	**154**	**139**	**15**	**42**	**9**

Leased out	Age	Owned	Leased	Total	In service
Douglas MD-90-series	17.0	8	0	8	8
Bombardier Q400	6.1	0	1	1	1
Avro RJ-85	12.2	0	1	1	1
Total	**15.4**	**8**	**2**	**10**	**10**

* In addition, the following aircraft are wet-leased: four CRJ200s, four ATRs and four Saab2000s.

Main

Airbus A330/340-300

Airbus A319/A320/A321

Boeing 737-600/700/800

Regional

Bombardier CRJ900

Boeing 717

For further information on each model of aircraft, refer to www.sasgroup.net

Important events

Events after January 31, 2014

- The AGM resolved that the Board be authorized to make a decision regarding the issue of up to 7 million preference shares and convertibles for a maximum amount of MSEK 2,000.
- SAS carried out a preference share issue. Since interest far exceeded expectation, the offer was increased from 4 million to 7 million preference shares at a subscription price of SEK 500 per preference share, corresponding to SEK 3.5 billion. The settlement date was February 28. Dividends will be paid quarterly in an amount of SEK 50 per preference share and year, which implies a total annual dividend of MSEK 350.
- SAS carried out a convertible issue amounting to MSEK 1,600 with annual interest of 3.625%, which falls due for payment every six months at a conversion price of SEK 24.0173, corresponding to a conversion premium of 25%. The value of the equity share (conversion option and repurchase right) was set at MSEK 201 at the date of issue. The value of the equity share was included in shareholders' equity, following a deduction for deferred tax.
- Due to the preference share issue, SAS canceled the revolving credit facility, (the "RCF"), which was entered into in connection with the launch of the 4XNG restructuring program in autumn 2012.
- A new credit facility of MEUR 150 was entered into with UBS.
- The credit-rating agency Moody's upgraded the credit rating for SAS by one notch, from the previous Caa1 rating to B3, with a continued positive outlook.

First quarter 2013/2014

- SAS announced the launch of 44 new routes in 2014
- SAS AB was informed that Danmarks Nationalbank had sold all of its shares in SAS AB, which is why the bank's representative in the SAS Group's Nomination Committee, in accordance with the instructions for the Nomination Committee's work adopted by the AGM, stepped down from his position.
- In November, the SAS Group's balance sheet and statement of income was affected as follows by the implementation of new pension terms, the reversal of deferred tax liabilities related to pensions, the accounting for special employer's contributions as part of the Alecta and Euroben plans, and the implementation of the revised IAS 19. The above will negatively impact the Group's shareholders' equity in an amount of about SEK 6,8 billion:
  - ✓ Pension commitments were reduced by about SEK 12.9 billion
  - ✓ Plan assets were reduced by about SEK 10.7 billion
  - ✓ Remaining actuarial gains and losses of about SEK 10.3 billion were recognized in shareholders' equity
  - ✓ Deferred tax liabilities were reduced by about SEK 1.2 billion
  - ✓ An improvement in the statement of income (payroll expenses) of about SEK 1 billion.
- The Board proposed that the AGM authorize the Board to make a decision regarding the issue of up to 7 million preference shares and convertibles for a maximum amount of MSEK 2,000.

Financial calendar

Interim report 2, 2014 (February-April)	June 18, 2014
Interim report 3, 2014 (May-July)	September 10, 2014
Interim report 4, 2014 (August-October)	December 18, 2014
Annual Report 2013/2014	January 19, 2015
Annual General Shareholders' Meeting 2015	February 19, 2015
Interim report 1, 2015 (November-January)	March 5, 2015
Interim report 2, 2015 (February-April)	June 18, 2015
Interim report 3, 2015 (May-July)	September 8, 2015
Interim report 4, 2015 (August-October)	December 16, 2015

All reports are available in English and Swedish and can be ordered over the Internet at: www.sasgroup.net or from: investor.relations@sas.se

The SAS Group's monthly traffic data information is normally issued on the fifth business day of the following month. A complete financial calendar can be found at: www.sasgroup.net

For definitions, refer to the Annual Report, or www.sasgroup.net, under Investor Relations / Reports and Presentations.

Press/Investor Relations

Telephone conference	10:00 a.m., March 14, 2014

SAS discloses this information pursuant to the Swedish Securities Market Act and/or the Swedish Financial Instruments Trading Act. The information was provided for publication on March 14, at 8:00 a.m.