Scandinavian Airlines System 1982-83

SAS

Scandinavian Airlines System

Scandinavian Airlines System (SAS) is the designated air carrier of Denmark, Norway and Sweden. SAS is a consortium owned 2/7 by Det Danske Luftfartselskab A/S, Denmark, 2/7 by Det Norske Luftfartselskap A/S, Norway, and 3/7 by AB Aerotransport, Sweden. Each is a corporation, the shares of which are owned 50 per cent by private interests and 50 per cent by government. The SAS Group consists of the SAS Consortium and its subsidiaries.

MEMBER OF IATA
QUALITY IN AIR TRANSPORT

Scandinavian Airlines System

Annual Report 1982—83

Contents

Glossary

AVAILABLE TONNE-KILOMETERS

Number of tonnes of capacity available for carriage of passengers, baggage, freight and mail, multiplied by number of kilometers flown*.

REVENUE TONNE-KILOMETERS

Total tonnage of paid traffic carried, multiplied by number of kilometers flown*.

TOTAL LOAD FACTOR

Percentage of total available capacity utilized (passenger, baggage, freight and mail).

AVAILABLE SEAT-KILOMETERS

Total number of seats available for passengers multiplied by number of kilometers flown*.

REVENUE PASSENGER-KILOMETERS

Number of paying passengers carried, multiplied by number of kilometers flown*.

PASSENGER LOAD FACTOR

Percentage of available passenger capacity actually utilized (also called cabin factor).

REVENUE FREIGHT TONNE-KILOMETERS

Tonnage of paid freight carried, multiplied by number of kilometers flown*.

CURRENCY CODES

The following international currency codes are used in this Report:

CHF	Swiss francs
DKK	Danish kroner
FRF	French francs
GBP	Pound sterling
NLG	Dutch guilders
NOK	Norwegian kroner
SEK	Swedish kronor
USD	U.S. Dollars
ZAR	South African rands

*) Kilometers flown are based on IATA Great Circle distances.

Highlights – 1982/83

CONTINUED RESULT IMPROVEMENT

The SAS Group showed a profit before allocations and taxes of 601 MSEK compared to a profit of 448 MSEK in the previous financial year.
The strong result improvement during the financial year was largely ascribed to the airline, which more than doubled its operating profit after financial items. The subsidiaries also recorded an overall result improvement despite the devaluation of the Swedish krona which negatively affected demand in several cases.

THE BUSINESSMAN'S AIRLINE LEADS TO NEW SUCCESSES

SAS's concentration on the business traveler, with EuroClass on European routes and First Business Class on intercontinental services, led to continued gains in the number of full-fare passengers.

INCREASED TRAFFIC IN A PERSISTENTLY SOFT MARKET

Although the overall market did not improve during the year, SAS's traffic development was favorable, especially in Europe. In domestic traffic, SAS has won an ever-greater share of the total transport market from other means of travel.

BETTER CAPACITY UTILIZATION

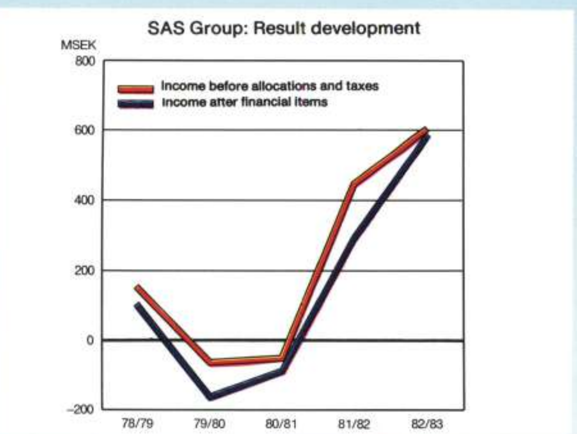
SAS is optimizing its traffic program by eliminating unprofitable flights and transferring capacity to routes with a better traffic base. Service is being improved even on routes with a weak traffic base through cooperation with other airlines.

NEW CORPORATE IDENTITY

A new corporate identity program was introduced to emphasize SAS's transformation into a market-oriented service company with the customer as the primary object of our attention.

NEW APPROACH TO THE AIR CARGO BUSINESS

The development of SAS's cargo operations has in some respects been disappointing. Our cargo strategy has now been re-evaluated and, during the autumn of 1983, a restructured cargo program was launched and is expected to be favorably received in the market.

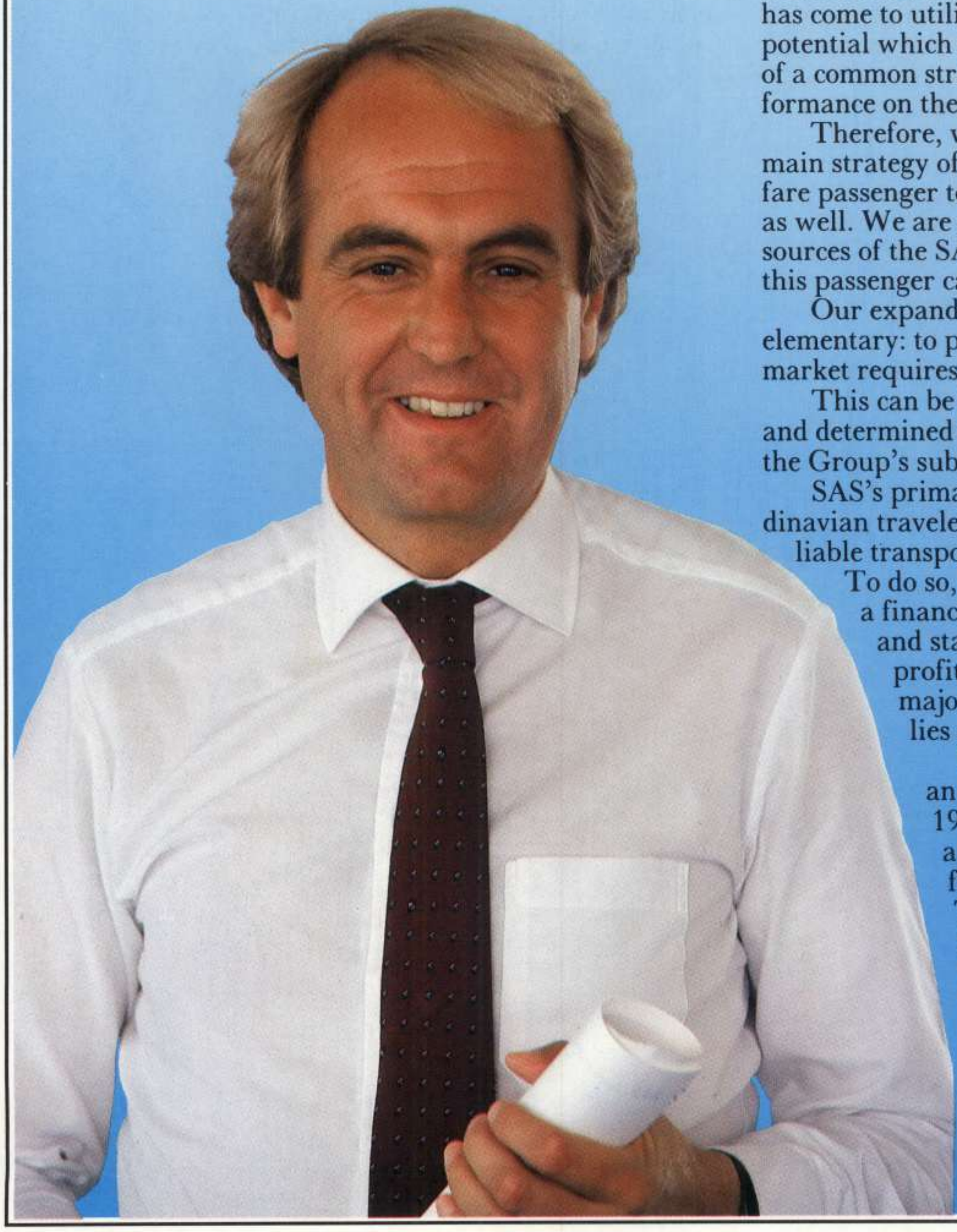


Results Continue to Improve

SAS can now look back on two consecutive successful years.

In 1981/82 we turned a loss into a profit. The continued strong result improvement in 1982/83 shows that we are on the right track. All the same, we have not yet reached the level of profitability we need to realize future financial goals which are primarily to cover investments in our next generation of aircraft. However, I am fully convinced that we will do so.

SAS has succeeded in overcoming the difficulties created by a soft market and increased competition. This is due to a large extent to good teamwork. Everyone in the SAS Group, wherever he or she works, has fought hard to achieve our common goal: a profitable company with development potential.



Our first order of business was to create sustained profitability in our airline operations. We decided to concentrate on frequent travelers—mainly businessmen—who pay the full ticket price. As a result of solid product and service improvements—EuroClass and First Business Class, for example—we have increased our share of full-fare passengers.

Concentrating our resources on essentials and cooperating with other airlines enabled us to limit production and at the same time improve service. Consequently, we have become much more efficient. At the same time, we have through service differentiation been able to offer new, low fares on the tourist market, which have attracted valuable new customers.

Our subsidiaries have also developed their operations with notable success, each within its own business area. Now the time has come to utilize all the dynamics and potential which exist within the framework of a common strategy and concerted performance on the market.

Therefore, we are now expanding our main strategy of serving the frequent full-fare passenger to encompass the subsidiaries as well. We are going to place all the resources of the SAS Group at the disposal of this passenger category.

Our expanded business philosophy is elementary: to provide all the services the market requires, from door to door.

This can be achieved only by a sensible and determined coordination between all of the Group's subsidiaries.

SAS's primary task is to provide Scandinavian travelers with high quality and reliable transport services.

To do so, our operations must rest on a financial foundation that is sound and stable. In addition, the need for profitability is accentuated by the major investment program that lies ahead.

In one sense 1982/83 was an unusual year, the first since 1962 in which SAS did not add a single new aircraft to its fleet. The reason is simple. The new aircraft currently available do not offer our passengers anything extra.

Consequently, we will participate in the design of new aircraft which will better meet the needs of our passengers in terms of safety and comfort and our own demands for reliability and operational economy.

Neither SAS nor our passengers can afford to pay for new technology which yields no advantages or improvements.

Our new fleet will cost billions of kronor. We must strengthen our capital base to create the largest possible degree of flexibility in financing this major investment.

There is only one way: to improve our results even more.

Our current profits cover the costs of the aircraft that are now in operation but, as yet, they leave no margin for new investments.

It is therefore important that our profit continues to grow.

We must not wind up in a situation where we are forced to invest from a weak financial position and on unfavorable terms. We do not want to be burdened by interest expenses for which we cannot compensate except by cutting operational expenses or increasing fares.

Just as important as a good result is that SAS's operating conditions remain stable. Critics of present aviation policies sometimes argue that airlines often enjoy a monopoly which does not benefit the market.

After two years at SAS, I see the situation differently.

SAS does not have a monopoly. It has a right of priority in air transport. This is just as much a responsibility as a right.

This means that we cannot operate air transport at our own discretion.

First, we are part of a large worldwide traffic system. Our task is to utilize our potential in the system sensibly and with foresight so we can ensure that Scandinavia has access to good, reliable air transport in the long term. The course we have chosen is the simplest imaginable: we are guided by the market and its demands.

Second, it is our duty to maintain certain services even if the traffic base is weak. We must also utilize our total traffic capacity to offer the tourist market the type of travel opportunities which, seen in strict profitability terms, would otherwise not be available.

As long as we do this, I believe we are living up to our responsibilities.

"Our only really valuable asset is a satisfied customer." We who work for SAS have repeated this to ourselves at least a thousand times in recent years.

Satisfied passengers are created by competent, helpful SAS personnel. Therefore, it is just as true that our staff is our most important asset. It is our staff who, in their daily work, ensure that customers' expectations are met.

They can do this only if they understand our goals as well as our customers' expectations.

With this background, they will be able to define their own roles in the overall picture. Then, with the help of their own knowledge, experience and personal judgment, every colleague will—without instructions—be able to provide customers with the best available product at any given time.

If we can meet this goal, we will be unbeatable.

There is a story about two stone cutters that amply illustrates what I mean. Both of them were hewing granite clumps into square blocks. Asked what they were doing, the weary-looking one sighed, "I'm cutting this stone into a block." The other answered happily: "I'm helping to build a cathedral."

At SAS, we want every individual to play an important role in building our cathedral.

Sincerely,

JAN CARLZON

President and
Chief Executive Officer

The Board of Directors

TOR MOURSUND, born 1927. Supreme Court Attorney. Chairman of the SAS Board since May 1983, representing the Norwegian Government. Board Chairman of DNL and a member of its board since 1982. President of Christiania Bank & Kreditkasse. Board member of several companies, primarily in the Norwegian banking sector.
Personal deputy: Håkon Kyllingmark.

HALDOR TOPSØE, born 1913. First Vice Chairman of the Board 1982/83. Member of the SAS Board and the Danish Chairman since 1968, representing Danish private interests. Also Chairman of DDL, Haldor Topsøe A/S and Forsøgsanleg Risø. Member of the Boards of Villaco, Philips Industri og Handels, Hafnia-Haand i Haand and Kampmann, Kierulf & Saxild.
Personal deputy: Helge Bech-Bruun.

From left: Jan Carlzon, President and Chief Executive
Curt Nicolin
Tor Moursund
Haldor Topsøe
Bjørn Eidem
Krister Wickman
Inge Johannesson
Frede Ahlgreen Eriksen, Deputy President and Executive Vice President
Bo Ståhle, secretary
Jørgen L. Halck
Ingvar Lilletun
Hans Dall
Helge Lindberg, Executive Vice President

CURT NICOLIN, born 1921. Second Vice Chairman of the Board 1982/83. Member of the SAS Board and the Swedish Chairman since 1973, representing Swedish private interests. Chairman of the Executive Committee of ABA. Chairman of ASEA, the Swedish Employers' Confederation (SAF), ESAB, Fläkt, Stal-Laval Turbin and SILA, and Vice Chairman of Swedish Match. Also member of the Boards of Skandinaviska Enskilda Banken, Incentive, Investor, Providentia, Volvo and Linjeflyg.
Personal deputy: Peter Wallenberg.

BJØRN EIDEM, born 1942. Supreme Court Attorney. Member of the SAS Board since May 1983, representing Norwegian private interests. Member of the Board of DNL since 1982. Senior Vice President of Fred.Olsen & Co. Chairman of Akergruppen and Norges Handels- og Sjøfartstidende.
Personal deputy: Halvdan Bjørum.

JØRGEN L HALCK, born 1929. Member of the SAS Board since 1977, representing the Danish Government. Permanent Under Secretary, Ministry of Public Works. Board Chairman of Statsbroen Store Baelt, Vice Chairman of the Jylland Telephone Company, and Board member of DDL, the Copenhagen Telephone Company and the Copenhagen Harbor Board.
Personal deputy: Otto Mørch.

KRISTER WICKMAN, born 1924. Member of the SAS Board since 1974, representing the Swedish Government. Also Chairman of the Board of ABA. Managing Director of the National Swedish Pension Insurance Fund. Has served as Minister of Industry, Foreign Minister and Governor of the Bank of Sweden. Chairman of the Association of Swedish Authors and Board member of AGA.
Personal deputy: Bengt Dennis.

Employee Representatives

INGVAR LILLETUN, born 1938, Norway. Employed in the Oslo ticket and reservations office. Member of the SAS Board since 1979.
Deputies: Sigmunn Syversen and Per Heimdal.

HANS DALL, born 1933, Denmark. Employed in the personnel department. Member of the SAS Board since 1982.
Deputies: Niels Erik Hansen and Viktor Brasen.

INGE JOHANNESSON, born 1937, Sweden. Employed in the Group finance department. Member of the SAS Board since 1979.
Deputies: Sten Eklund and Rune Löfdahl.

The Assembly of Representatives

MOGENS PAGH, *Chairman*
NORMANN ANDERSEN
HELGE BECH-BRUUN
KARL BREDAHL
COUNT FLEMMING AF ROSENBORG
JØRGEN L HALCK
POVL HJELT
GUSTAV HOLMBERG
OTTO MØRCH
HALDOR TOPSØE

Employee Representatives
HANS DALL
NIELS ERIK HANSEN
VICTOR BRASEN

Deputies
MOGENS E CHRISTIANSEN
BENT LUND

NILS J ASTRUP, *Second Vice Chairman*
HALDVAN BJØRUM
RAGNAR CHRISTIANSEN
BJØRN EIDEM
HÅKON KYLLINGMARK
TORSTEIN LJØSTAD
TOR MOURSUND
FRED. OLSEN
OLE RØMER SANDBERG JR
ARNLJOT STRØMME SVENDSEN
NIELS WERRING JR

Deputies
HELGA GITMARK
EINAR HØVDING
JOHAN FR ODFJELL
HERMOD SKÅNLAND

Employee Representatives
INGVAR LILLETUN
SIGMUNN SYVERSEN
PER HEIMDAL

Deputies
ASBJØRN HINDRUM
EILAR NILSSON

PER A NORLIN, *First Vice Chairman*
BÖRJE ANDERSSON
CHRISTER ANDERSSON
ROLF CLARKSON
TRYGGVE HOLM
KURT HUGOSSON
NILS HÖRJEL
BO AX:SON JOHNSON
CURT NICOLIN
MONICA SUNDSTRÖM
BJÖRN SVEDBERG
JAN WALLANDER
PETER WALLENBERG
KRISTER WICKMAN

Deputies
GUNNAR ERICSSON
GÖSTA GUNNARSSON
BO RYDIN
ERIK SUNDBLAD
JÖRGEN ULLENHAG
BERTIL ZACHRISSON

Employee Represenatives
INGE JOHANNESSON
STEN EKLUND
RUNE LÖFDAHL

Deputies
GÖSTA SJÖSTRÖM
HEINO TIILIKKA

Auditors

ARNE BRENDSTRUP
STIG-ERIK SCHAUMBURG-MÜLLER

BERNHARD LYNGSTAD
TOR STORHAUG

STEN NACKSTAD
SÖREN WIKSTRÖM

Group Management

JAN CARLZON
President and Chief Executive Officer

FREDE AHLGREEN ERIKSEN
Deputy President and Executive Vice President

NILS G MOLANDER
Executive Vice President
Finance, Planning and Control

HELGE LINDBERG
Executive Vice President

JAN LAPIDOTH
Vice President
Business Strategy and
Corporate Development

Report by the Board and the President

RESULT AND PROPOSED PROFIT APPROPRIATION

The SAS Group recorded consolidated income of 601 million Swedish kronor (MSEK) before allocations and taxes for the financial year October 1, 1982–September 30, 1983. In the 1981/82 financial year, the group reported income of 448 MSEK.

The SAS Group's consolidated income is derived after eliminating internal dividends, amortization on Group goodwill, etc, amounting to 32 MSEK (9 in 1981/82).

The airline, which is operated by the SAS Consortium, recorded income before allocations and taxes of 462 MSEK (336). No provision in the Consortium's accounts is made for corporate taxes in Denmark, Norway and Sweden. These taxes are paid by the three parent companies in their respective countries. The Consortium's income is shared by the owners, AB Aerotransport (ABA) in Sweden, Det Danske Luftfartselskab A/S (DDL) in Denmark and Det Norske Luftfartselskap A/S (DNL) in Norway, according to their ownership in the Consortium. ABA owns 3/7; DDL, 2/7; and DNL, 2/7. The Consortium's income includes dividends of 22 MSEK (7) from the subsidiaries.

Besides the airline, the SAS Group includes subsidiaries which operate hotels, flight kitchens, restaurants, inclusive tour and travel agencies, and other transport-related companies.

The subsidiaries' total income before allocations and taxes was 171 MSEK (121). Their allocations amounted to —64 MSEK (—31). Of the subsidiaries' total net income after taxes and minority interests, 67 MSEK, it is proposed to pay 21 MSEK to the SAS Consortium in 1983/84.

The Board and the President propose to the SAS Assembly of Representatives that 210 MSEK of the Consortium's income be paid to the parent companies.

The Board and President also propose that the remaining 252 MSEK be retained by the Consortium and added to its capital. The SAS Consortium's capital will thereafter be 1,111 MSEK.

Operating income is expected to continue to rise in 1983/84. Substantial extraordinary revenues will also be recorded.

GENERAL REVIEW

International airlines have shown poor profitability for several years. The combined losses of IATA members in 1982 were 1.8 billion U.S dollars. Losses are expected in 1983, as well.

SAS is able to report a significant result improvement for the second consecutive year. Operating income, after financial items, doubled over the previous year. In particular, the result of the airline has improved.

Behind the success of the airline is a deliberate market orientation and concentration on service and punctuality to induce business travelers and other full-fare customers to fly SAS in preference over other airlines.

SAS has strengthened its position in the market by attracting more satisfied customers.

In September 1983, SAS had been the most punctual airline on European routes for 16 months in a row.

SAS's concentration on business travelers, with EuroClass on European routes and First Business Class on intercontinental routes, led to a continued growth in the number of full-fare passengers. During the year, the number of EuroClass passengers rose another five percent.

Through special low-fare offers, SAS has also won more passengers in the tourist market.

The additional passengers were carried at an unchanged level of production, which means that the utilization of resources was improved. The cabin factor increased 1.9 percentage points to 65.5 percent.

The continued consolidation of the traffic program included discontinuation of flights for which there was an insufficent market. At the same time, more non-stop flights were added where the market demanded.

The result was also positively influenced by measures implemented in 1981/82 to limit administrative resources and costs. These measures have now reached their full effect. More aircraft were leased out, further contributing to the result improvement.

The efforts to increase airline service also meant an increased volume of business and improved results for flight kitchens. The hotel business showed a favorable profit development.

The Board places great emphasis on continued measures for the further improvement of business results, necessary to secure future investments and to ensure the continued development of SAS. Against the background of the positive result development that has been reported, the Board is convinced that SAS will meet this challenge. The Board wishes to thank all SAS employees for their excellent and fruitful contributions during the past financial year.

THE SAS GROUP

The three parent companies in Denmark, Norway and Sweden together operate the SAS Consortium, which in turn owns a number of subsidiaries. For administrative and accounting purposes, these businesses are consolidated in the SAS Group.

The SAS Group is divided into separate business areas, with the airline as the largest. The airline is operated by the SAS Consortium. SAS also operates hotels, flight kitchens, restaurants, inclusive tour and travel agencies, etc, through some 20 subsidiaries.

The SAS Group's operating revenue for the

1982/83 finanical year was 15,972 MSEK (12,807) and income before allocations and taxes was MSEK 601 (448). Operating revenues and incomes by business areas are shown in the accompanying table to the right.

THE AIRLINE

The Market. The international scheduled air transport market remained weak during the year. There was an increased demand, to be sure, to several major destinations in the U.S. and the Far East, but competition sharpened at the same time. Overall passenger traffic on the European market, which provides half of SAS's passenger revenue, declined 1.4 percent.

SAS's deliberate effort to become The Businessman's Airline through market-oriented products such as EuroClass and First Business Class has been successful.

The cargo market was marked by weak demand during the year

Traffic and Production. SAS's total production, measured in seat-kilometers, was unchanged from the previous year. At the same time, SAS passenger traffic increased by three percent.

The utilization of aircraft capacity was thereby improved over the previous year, with the systemwide cabin factor rising 1.9 points to an average of 65.5 percent. SAS's overall passenger traffic in Europe rose six percent at an unchanged level of production even though the European market remained weak. Domestic traffic developed very favorably, increasing seven percent in Norway and 15 percent in Sweden.

The number of passengers grew in both the full-fare and low-price sectors. A total of 9.2 million passengers flew with SAS during the year, an increase of four percent.

SAS's cargo traffic and production decreased by three percent and seven percent, respectively. The freight load factor rose 2.3 points to 56.1 percent as a result of the improved ratio between traffic and production.

Revenue and income by business area

	Revenue		Income before allocations and taxes	
	1982/83	1981/82	**1982/83**	1981/82
Airline[1]	**12,600**	10,221[6]	**462**	336
Catering/restaurants[2]	**1,681**	1,229	**82**	52
Leisure[3]	**1,311**	1,154	**41**	41
Hotels[4]	**732**	511	**31**	8
Other[5]	**456**	342	**17**	20
Internal Group adjustments	**- 808**	-650	**-32**	-9
Group	**15,972**	12,807	**601**	448

[1] The SAS Consortium
[2] Flight kitchens, restaurants and other divisions of SAS Catering
[3] Vingresor and Scandinavian Air Tour Production
[4] The Hotels Division and the Arctic Hotel
[5] Nyman & Schultz, Dansk Rejsebureau and Olson & Wright
[6] Incl. Danair etc, (219 MSEK)

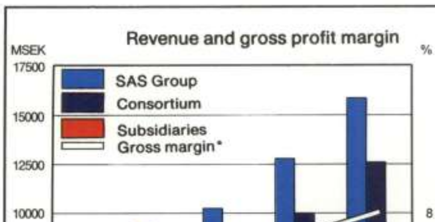
Traffic Program. During the year, the concentration of the traffic program continued through eliminating flights and routes with unsatisfactory market bases and profitability. The freed resources were used, among other things, to increase the number of non-stop flights.

A non-stop service was opened between Stockholm and New York.

Capacity on non-stop flights between Copenhagen and Bangkok was increased.

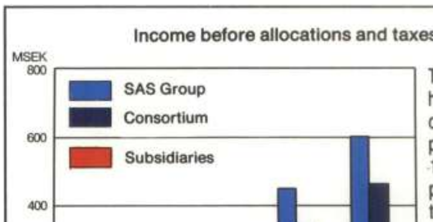
After negotiations with Japan and the Soviet Union, the Trans-Siberian route to Tokyo was reopened. The service to Argentina that was discontinued in 1982 was replaced by a connection to Chile.

The most important innovations in Europe during the year were the introduction of non-



During the last five years, the airline has accounted for nearly 80 percent of the SAS Group's total revenue. The strong increase in revenue in recent years is largely the result of devaluations of the Swedish krona.

* SAS Group's income before depreciation in relation to revenue



The Consortium has shown considerable result improvement since 1981/82. In the past two years, the Consortium has accounted for fully 75 percent of the SAS Group's total income before allocations and taxes.

TOTAL PRODUCTION AND TRAFFIC

Scheduled Services	AVAILABLE TONNE-KMS Mill.	Change %	% Share	REVENUE TONNE-KMS Mill.	Change %	% Share	OVERALL LOAD FACTOR Percentage %	Change
NORTH & SOUTH ATLANTIC	873	—14	38	608	—2	42	69.7	8.3
ASIA, AFRICA AND MIDDLE EAST	496	9	21	306	1	21	61.8	—4.8
EUROPE	619	— 2	27	322	4	23	52.0	2.8
DOMESTIC	323	9	14	195	7	14	60.3	—1.5
TOTAL NETWORK	2 311	— 4	100	1 431	1	100	61.9	2.7

stop flights between Stockholm and Zürich, Gothenburg and Amsterdam, Gothenburg and Paris, and Oslo and Paris. A new direct link was added between Oslo and Aberdeen.

On certain routes within Scandinavia, a smaller type of aircraft, the Fokker F-27, was introduced as a replacement and complement to the DC-9. This enabled SAS to increase the number of flights between southern and central Sweden and Copenhagen.

Airline Operating Revenue and Result. Operating revenue of the airline, the SAS Consortium, during 1982/83 totaled 12,600 MSEK (10,002), an increase of 26 percent compared to the previous year.

Operating expenses, excluding depreciation, rose by 25 percent to 11,584 MSEK (9,277)

Since SAS has sizable revenue and expenses in currencies other than the Swedish krona, the 16 percent devaluation of the krona in October 1982 accounted for a significant part of the reported revenue and expense increases.

Payroll costs were the largest operating expense. Wages and salaries as well as compulsory social fees rose by 26 percent in 1982/83 to 3,558 MSEK (2,831). About half of the increase was caused by developments in foreign exchange rates.

Average fuel prices, in cents per gallon, declined 11 percent in 1982/83 compared to the previous financial year. However, SAS's total fuel costs rose 13 percent to 2,199 MSEK (1,941) because of the sharp rise of the U.S dollar exchange rate.

During the year, SAS's fees to authorities, in the form of passenger, landing and navigation charges, increased 26 percent to 967 MSEK (769).

The 1982/83 result was charged with costs of 68 MSEK for the new corporate identity project, with new aircraft decor and interiors, new uniforms, etc.

Together with a number of other airlines, SAS was sued on September 22, 1983, by the liquidator of Laker Airways for alleged violations of United States anti-trust laws. The Board does not consider it necessary to create a reserve for expenses for this litigation, which is expected to be lengthy.

Depreciation amounted to 399 MSEK

PASSENGER, FREIGHT AND MAIL TRAFFIC

Scheduled Services (Mill.)	PASSENGERS Pass-Kms	Change %	CABIN FACTOR %	Percentage Change	FREIGHT Tonne-Kms	Change %	MAIL Tonne-Kms	Percentage Change
NORTH & SOUTH ATLANTIC	3 968	1	72.4	4.5	232.5	— 7	15.0	— 6
ASIA, AFRICA AND MIDDLE EAST	2 007	— 4	61.8	— 2.5	108.9	9	14.4	3
EUROPE	3 148	6	59.8	3.2	41.0	—10	11.8	— 1
DOMESTIC								
Denmark	394	— 3	66.3	— 1.9	2.5	—14	2.7	— 2
Norway	872	7	63.8	— 0.3	6.5	18	4.4	— 2
Sweden	770	15	71.3	1.6	2.5	21	3.0	11
Total Domestic	2 036	7	67.0	0.1	11.5	10	10.1	1
TOTAL NETWORK	11 159	3	65.5	1.9	393.9	— 3	51.3	— 1

(409). Depreciation of aircraft decreased by 13 MSEK to 200 MSEK. As of the end of 1982/83, an additional five aircraft had been depreciated to their residual value, which is 10 percent of the purchase price.

Expenses for aircraft leased by SAS during 1982/83 were reported as 113 MSEK (111).

Operating income after depreciation was 618 MSEK (316), an improvement of 302 MSEK compared to 1981/82.

The devaluation of the Swedish krona, along with the continuing rise in foreign exchange rates, mainly for the U.S. dollar, led to substantial unrealized currency losses on long-term liabilities. The portion of the losses charged against 1982/83 results, plus the year's portion of currency losses deferred during the previous year, represented a total expense of 305 MSEK (123). Deferred unrealized currency losses amounted to 512 MSEK (338) as of September 30, 1983. Exchange rate differences on net monetary holdings in currencies other than Swedish kronor had a positive, 97 MSEK (–12), effect on the result.

As a result of high liquidity and lower interest expenses on loans, the financial net improved over the previous financial year. Dividends from subsidiaries are included in net financial items in an amount of 22 MSEK (7). Altogether, financial items constituted a net expense of 157 MSEK (124).

The Consortium's income after financial items was 461 MSEK (193).

The Consortium's result from the sale of equipment and from extraordinary items was 11 MSEK (60) and –10 MSEK (83), respectively. There were no items in 1982/83 corresponding to the income from the 1981/82 sale of a Boeing 747 (53 MSEK) and a pension bonus from Denmark (96 MSEK).

The Consortium's income before allocations and taxes was 462 MSEK (336).

The Fleet. SAS had 86 aircraft in its fleet in 1982/83.

The aircraft which could not be profitably utilized in SAS production were regarded as surplus resources. Despite a considerable surplus of aircraft in the world, SAS succeeded in leasing out part of its excess capacity during 1982/83.

The leases included, among others, a Boeing 747 to Avianca, two Boeing 747s to Nigeria Airways and two DC-8s to Arista. One DC-8 has been leased, with a purchase option, to Aero Peru. In addition, there were short-term leases of Boeing 747s and DC-8s for flights by Moslem pilgrims making the Hadj in 1982 and 1983. Also, Scanair used a Boeing 747 during the first half of 1982/83, as well as two Airbuses, all in addition to three DC-8s on long-term leases.

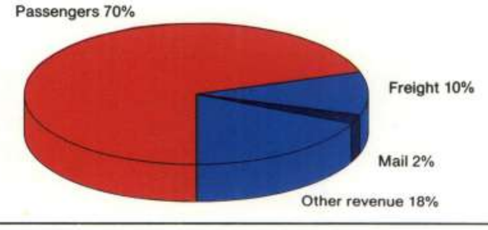
Leasing activites contributed 98 MSEK (58) after covering direct expenses. In addition, leasing provided for a more efficient utilization of SAS's resources.

To increase their potential use and to facilitate their sale, SAS' Airbuses have been converted to fly longer-range routes. A total of 86 MSEK was invested in these modifications.

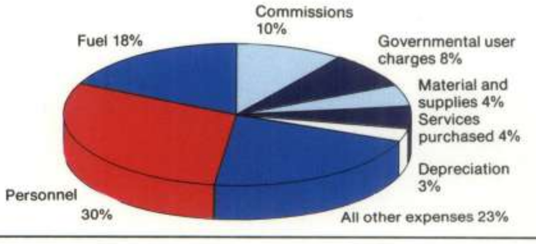
A program to modify the engines of the DC-9 aircraft was begun in 1982/83. As a result, fuel consumption is expected to be reduced by around five percent.

On November 27, 1983, a 747 owned by SAS was lost on approach to Madrid Airport. The aircraft was on lease to Avianca, the Columbian airline, which bore full operational responsibility. On December 18, 1983, an SAS-owned Airbus was lost on approach to Kuala Lumpur Airport. The aircraft was on a short-term lease to Malaysian Airline System which was fully responsible for its operation. The value of both aircraft was covered by insurance.

SAS Consortium: Operating revenue, 1982/83
Total: 12,600 MSEK



SAS Consortium: Operating expenses, 1982/83
Total: 11,983 MSEK, including depreciation



THE FLEET[1]	
Aircraft type	Number
Boeing 747	6[2] 3 of which leased by SAS
Douglas DC-10-30	5
Airbus A300 B4	4[3]
Douglas DC-8-63	5[4]
Douglas DC-8-62	6[5]
Douglas DC-9-41	49
Douglas DC-9-33	2
Douglas DC-9-21	9
	86

[1] As of September 30, 1983.
[2] Three passenger and three combined passenger cargo versions; one leased to Avianca and two leased to Nigeria Airways.
[3] Two loaned to Scanair.
[4] Three leased to Scanair.
[5] One leased to Aero Peru and two leased to Arista.

THE SAS SUBSIDIARIES

SAS business outside the Consortium accounted for total operating revenue of 4,180 MSEK (3,455). Internal sales to the airline rose 28 percent to 675 MSEK (527).

The subsidiaries' combined income before allocations and taxes totaled 171 MSEK (121).

SAS Catering & Hotels. Revenues for SAS Catering & Hotels totaled 2,339 MSEK (1,565), an increase of 49 percent. A significant part of the revenue increase can be attributed to newly-consolidated units. Income before allocations and taxes improved to 103 MSEK (55).

Flight kitchen operations developed favorably, largely due to increased demand from SAS airline business and because of the improvements in the quality of food and drink that SAS has introduced. Deliveries to other airlines also increased during 1982/83.

Among the most important milestones in 1982/83 were the signing of a management agreement to operate a hotel in Vienna, the former palace that is protected as a cultural monument; a contract for catering and other services in the Tyra oil field in the Danish sector of the North Sea, the start of Kuwait Airways' flight kitchen in Kuwait, contracts to run airport restaurants in Manchester and Dublin, and a joint-venture agreement with Thai International for catering activities in the Far East.

As a part of SAS's acquisition of Westin's shares in SAS's Hotel Scandinavia in Oslo and Hotel Scandinavia in Copenhagen, the Hotel Division took over the operation of both hotels. These two hotels were responsible for a significant part of the improved result compared to the previous year. For hotels in northern Norway, the market continues to be weak.

Vingresor. Sweden's largest inclusive-tour operator, attained a market share of 31 percent in Sweden. The company has in previous years built up considerable business in Norway and presently has a market share of 26 percent.

Vingresor's revenue was 1,145 MSEK (1,069), an increase of seven percent over the previous financial year. Income before allocations and taxes improved to 41 MSEK (38). The devaluation of the Swedish krona meant that the Swedish charter market decreased significantly. However, thanks to the positive development in Norway, Vingresor could maintain about the same number of travelers as in 1981/82. The profit level was sustained by continued product development and marketing initiatives.

Nyman & Schultz Resebyråer. In 1982/83, Nyman & Schultz specialized in business travel and related services for Swedish business and industry. Around 90 percent of gross revenue, which was 1,205 MSEK (1,039), was from this customer group. The devaluation of the Swedish krona led to a decreased demand for business travel during the first six months of the financial year. Income before allocations and taxes declined slightly, to 7 MSEK (8).

Olson & Wright is one of Sweden's largest freight forwarding agencies, specializing in international transport. In 1982, Nordsped in Norway was acquired, giving Olson & Wright a strong position on the Norwegian market.

Olson & Wright has three business areas: air cargo, shipping and ground transportation. During 1982/83, a moderate increase was recorded in Sweden's export trade, which had a favorable effect on the freight forwarding market. The immediate effect of the devaluation of the Swedish krona was a rise in costs, which could not entirely be compensated by price increases.

Olson & Wright's gross revenue was 1,337 MSEK (1,096), 22 percent more than in the previous year. Nordsped accounted for 88 MSEK of the increase. After deducting customs duties, value-added tax on imports, and forwarding expenses, operating revenue was 161 MSEK compared to 96 MSEK in 1981/82. Income before allocations and taxes was 9 MSEK (11). The decline in income was due to lower interest revenue as a result of changed payment schedules for value-added taxes on imports.

PERSONNEL AND PAYROLL EXPENSES

The SAS Group had 26,657 employees during 1982/83 (24,770), of which 17,101 (16,376) were employed by the Consortium. Of the 1,887 increase in personnel, 862 related to newly-acquired subsidiary businesses.

The increase in the number of employees in the Consortium reflects, among other factors, measures to increase the level of service in the airline. Effective 1982/83, mail-handling employees in Copenhagen are counted in the Consortium. A change in the method of calculating the average annual number of employees resulted in an increase of around 300 persons.

The Group's total payroll expense, including social fees, was 4,691 MSEK (3,701).

PROFITABILITY AND EQUITY RATIO

The pre-tax return on total capital employed, excluding non-interest bearing operating debt, by the SAS Group was 24 percent (17). The return on adjusted equity, after 50 percent standard taxes, was 18 percent (17). The equity ratio as of September 30, 1983, taking into account 50 percent deferred tax liability on untaxed reserves, was 20 percent (19).

The equity ratio rose by 0.7 percentage points to over 24 percent. For the Consortium, the equity ratio amounted to 26 percent (26).

When judging profit levels, the return on capital employed and on equity, and the equity ratio, it must be kept in mind that the airline is in a phase of consolidation with relatively low investments.

INVESTMENTS

The SAS Group's investments in equipment during 1982/83 totaled 478 MSEK (381). Of this, the airline accounted for 342 MSEK (258).

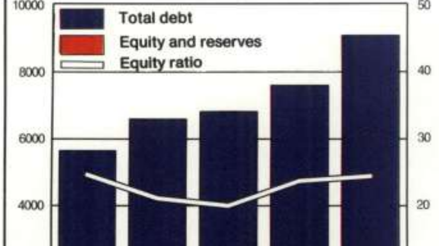
The airline's investments consisted mainly of modifications of Airbus aircraft, for 86 MSEK, purchase of spare parts, for 53 MSEK, and purchase of computer hardware for 41 MSEK.

Net investments in the hotel business during 1982/83 totaled 70 MSEK and consisted largely of investments in fixed assets in the Hotel Scandinavia in Oslo and the Hotel Scandinavia in Copenhagen. These hotels are now owned by the SAS Consortium 100 percent and 97 percent, respectively.

The SAS Group's return on average capital employed*, before taxes, has in nominal terms increased strongly since 81/82. In 82/83 the return increased to 24 percent (17).

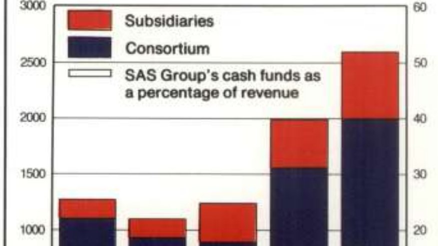
* Profit after financial income in relation to average total capital less interest-free operating liabilities.

The airline is currently in a period of consolidation as a result of which the SAS Group's investments in fixed assets are at a relatively low level. During the past two years, investments in fixed assets have been lower than the SAS Group's depreciation according to plan.



The increase in the equity to assets ratio to 24 percent during 82/83 means that the ratio has now been restored to the same level as on September 30, 1979.

*Equity plus reserves and minority interests as a percentage of the balance sheet total.



At the present time, the SAS Group's cash funds are equivalent to two months' revenue. The increase in liquidity is due partly to the effect of changes in currency exchange rates.

PERSONNEL

	SAS CONSORTIUM								SUBSIDIARIES		SAS GROUP	
	Flight Deck		Cabin		Other Personnel		Total					
	82/83	81/82	**82/83**	81/82	**82/83**	81/82	**82/83**	81/82	**82/83**	81/82	**82/83**	81/82
DENMARK	**363**	366	**766**	742	**4 847**	4 672	**5 976**	5 780	**1 714**	1 411	**7 690**	7 191
NORWAY	**330**	346	**591**	577	**2 614**	2 395	**3 535**	3 318	**2 568**	2 216	**6 103**	5 534
SWEDEN	**490**	512	**771**	737	**4 193**	4 002	**5 454**	5 251	**2 601**	2 495	**8 055**	7 746
ABROAD	**–**	–	**22**	20	**2 114**	2 007	**2 136**	2 027	**2 673**	2 272	**4 809**	4 299
TOTAL	**1 183**	1 224	**2 150**	2 076	**13 768**	13 076	**17 101**	16 376	**9 556**	8 394	**26 657**	24 770

The above figures represent the average number of employees during the year.

FINANCING AND LIQUIDITY

The SAS Group's liquidity is satisfactory. Liquid funds, including short-term investments, totaled 2,595 MSEK on Sept. 30, 1983 (1,990), with the Consortium holding 1,993 MSEK (1,554).

Funds generated internally, after deduction of 175 MSEK in payments to the parent companies, totaled 1,060 MSEK.

As a result of the SAS Group's expansion and growing sales, accounts receivable and other current assets, excluding liquid funds, increased by 500 MSEK. This increase was mainly financed by short-term liabilities. Partly as a result of increased air traffic liabilities, resulting from tickets sold but as yet unused, liquid funds rose by nearly 200 MSEK.

After 1982/83 investments, the SAS Group's financing surplus was about MSEK 700.

1982/83 debt repayment totaled 420 MSEK, of which the greater part was U.S. dollar loans in the Consortium. New borrowing during 1982/83 totaled 146 MSEK, mainly by SAS Catering & Hotels.

Copenhagen, Oslo and Stockholm, December 19, 1983.

HALDOR TOPSØE	TOR MOURSUND	CURT NICOLIN
JØRGEN L HALCK	BJØRN EIDEM	KRISTER WICKMAN
HANS DALL	INGVAR LILLETUN	INGE JOHANNESSON

JAN CARLZON
President and Chief Executive Officer

The following statements of income, balance sheets, statements of changes in financial position and notes to the financial statements are integral parts of the Annual Report.

SAS Group Consolidated Statement of Income

October 1 – September 30

MSEK		1982/83	1981/82
Traffic revenue	Note 1	**10 463.1**	8 585.9
Other operating revenue	Note 2	**5 509.4**	4 221.1
OPERATING REVENUE		**15 972.5**	12 807.0
OPERATING EXPENSE	Note 3	**14 695.7**	11 895.6
OPERATING INCOME BEFORE DEPRECIATION		**1 276.8**	911.4
DEPRECIATION	Note 4	**483.1**	473.7
OPERATING INCOME AFTER DEPRECIATION		**793.7**	437.7
Dividend income		**1.1**	0.8
Other financial income	Note 6	**315.5**	285.4
Financial expense	Note 7	**–526.9**	–431.9
INCOME AFTER FINANCIAL ITEMS		**583.4**	292.0
Gain on sale and retirement of equipment, etc. (net)	Note 8	**18.0**	68.6
Extraordinary income	Note 9	**14.0**	100.2
Extraordinary expense	Note 10	**–14.4**	–12.8
INCOME BEFORE ALLOCATIONS AND TAXES	Note 11	**601.0**	448.0
Allocations in the subsidiaries (net)	Note 12	**–64.0**	–30.7
Income before taxes		**537.0**	417.3
Taxes paid by subsidiaries	Note 13	**–39.0**	–35.6
Minority interest		**–1.5**	–3.1
Income before taxes relating to the Consortium (payable by its parent companies in Denmark, Norway and Sweden) but after taxes payable by subsidiaries		**496.5**	378.6

SAS Group Consolidated Balance Sheet

ASSETS, MSEK		Sept. 30 1983	Sept. 30 1982
CURRENT ASSETS			
Cash and bank balances including temporary cash investments	Note 14	**2 595.2**	1 989.6
Bills receivable		**1.8**	1.9
Due from parent companies		**97.3**	46.0
Accounts receivable	Note 15	**1 739.2**	1 309.8
Prepaid expense and accrued income		**365.7**	322.1
Tax refund receivable		**2.8**	0.2
Other accounts receivable		**327.7**	258.4
Expendable spare parts and inventory	Note 16	**271.4**	212.6
Prepayments to suppliers		**27.3**	31.4
Total current assets		**5 428.4**	4 172.0
RESTRICTED ACCOUNTS	Note 17	**6.6**	4.2
FIXED ASSETS			
Stocks and participations	Note 18	**75.7**	63.2
Bonds and other securities		**14.5**	17.3
Long-term accounts receivable, parent companies		**3.7**	3.1
Long-term accounts receivable, others		**64.5**	57.3
Goodwill	Note 19	**12.3**	15.9
Capitalized development costs		**5.3**	0.5
Long-term prepayments to suppliers		**2.9**	2.6
Discount on debenture loans	Note 7	**3.5**	4.9
Other assets	Note 20		
Construction in progress		**20.6**	30.4
Aircraft		**1 714.1**	1 806.6
Spare engines and spare parts		**298.7**	317.8
Workshop and aircraft servicing equipment		**52.2**	59.0
Other equipment and vehicles		**493.9**	431.8
Buildings and improvements		**800.1**	546.1
Land and improvements		**85.0**	65.2
Total fixed assets		**3 647.0**	3 421.7
TOTAL ASSETS		**9 082.0**	7 597.9
ASSETS PLEDGED	Note 30		
Mortgages on real estate		**581.0**	320.8
Sundry pledges		**154.3**	128.7
Total assets pledged		**735.3**	449.5

LIABILITIES AND EQUITY		Sept. 30 1983	Sept. 30 1982
CURRENT LIABILITIES			
Accounts payable		**937.8**	774.4
Taxes payable		**50.6**	30.4
Accrued expense and prepaid income		**1 417.4**	1 122.2
Current portion of long-term debt		**444.7**	358.6
Other current liabilities		**497.7**	325.9
Unearned transportation revenue (net)	Note 21	**1 009.7**	849.7
Prepayments from customers		**193.6**	171.3
Total current liabilities		**4 551.5**	3 632.5
LONG TERM DEBT			
Debenture loans	Note 22	**469.8**	428.6
Mortgage loans	Note 23	**420.9**	240.6
Other loans	Note 24	**1 681.9**	1 620.9
Other long term debt	Note 25	**195.6**	158.0
Provision for pension liabilities	Note 26	**43.1**	37.8
Deferred currency losses	Note 27	**—511.9**	—338.4
Total long term debt		**2 299.4**	2 147.5
RESERVES	Note 28		
Inventory reserve		**39.7**	39.1
Depreciation reserve		**535.1**	502.2
Accumulated supplementary depreciation		**83.7**	54.3
Currency adjustment account		**4.2**	24.8
General investment reserve		**36.4**	11.2
Regional investment reserve, Norway		**5.7**	18.1
Profit equalization reserve		**44.9**	34.5
Other reserves		**22.7**	2.9
Total reserves		**772.4**	687.1
Minority interests		**13.9**	17.1
EQUITY	Note 29		
Capital			
ABA (3/7)		**368.4**	299.3
DDL (2/7)		**245.6**	199.6
DNL (2/7)		**245.6**	199.6
Total capital		**859.6**	698.5
Legal reserve		**28.0**	22.4
Revaluation reserve		**22.7**	20.8
Retained earnings		**38.0**	— 6.6
Net income for the year		**496.5**	378.6
Total equity		**1 444.8**	1 113.7
TOTAL LIABILITIES AND EQUITY		**9 082.0**	7 597.9
CONTINGENT LIABILITIES			
Guaranties and other contingent liabilities		**89.1**	124.7
Pension commitments		**62.9**	60.0
Total contingent liabilities		**152.0**	184.7

SAS Consortium Statement of Income

October 1 – September 30

MSEK		1982/83	1981/82
Traffic revenue	Note 1	**10 463.1**	8 442.3
Other operating revenue	Note 2	**2 137.3**	1 559.7
OPERATING REVENUE		**12 600.4**	10 002.0
OPERATING EXPENSE	Note 3	**11 583.7**	9 277.2
OPERATING INCOME BEFORE DEPRECIATION		**1 016.7**	724.8
DEPRECIATION	Note 4	**398.8**	408.6
OPERATING INCOME AFTER DEPRECIATION		**617.9**	316.2
Dividend income from subsidiaries	Note 5	**21.6**	7.4
Other dividend income		**1.0**	0.7
Other financial income	Note 6	**247.3**	229.8
Financial expense	Note 7	**—426.9**	—361.4
INCOME AFTER FINANCIAL ITEMS		**460.9**	192.7
Gain on sale and retirement of equipment, etc. (net)	Note 8	**11.2**	59.8
Extraordinary income	Note 9	**–**	95.8
Extraordinary expense	Note 10	**— 10.3**	— 12.3
INCOME BEFORE ALLOCATIONS AND TAXES[1]	Note 11	**461.8**	336.0

[1] Allocations and taxes are payable by the parent companies of the SAS Consortium.

SAS Consortium Balance Sheet

ASSETS, MSEK		Sept. 30 1983	Sept. 30 1982
CURRENT ASSETS			
Cash and bank balances including temporary cash investments	Note 14	**1 992.8**	1 553.9
Bills receivable		**0.0**	0.0
Due from subsidiaries		**121.3**	89.7
Due from parent companies		**97.3**	46.0
Accounts receivable	Note 15	**1 310.5**	981.8
Prepaid expense and accrued income		**285.8**	265.4
Other accounts receivable		**284.7**	208.0
Expendable spare parts and inventory	Note 16	**184.3**	144.6
Prepayments to suppliers		**8.1**	10.5
Total current assets		**4 284.8**	3 299.9
FIXED ASSETS			
Stocks and participations in subsidiaries	Note 18	**229.5**	132.4
Other stocks and participations	Note 18	**68.5**	59.1
Bonds and other securities		**9.3**	8.4
Long-term accounts receivable, subsidiaries		**5.1**	4.3
Long-term accounts receivable, parent companies		**3.7**	3.1
Long-term accounts receivable, others		**42.2**	33.4
Long-term prepayments to suppliers		**2.6**	2.6
Discount on debenture loans	Note 7	**3.5**	4.9
Other assets	Note 20		
Construction in progress		**0.9**	25.7
Aircraft		**1 714.1**	1 806.6
Spare engines and spare parts		**298.7**	317.8
Workshop and aircraft servicing equipment		**52.2**	59.0
Other equipment and vehicles		**274.7**	268.6
Buildings and improvements		**169.5**	131.8
Land and improvements		**8.4**	8.3
Total fixed assets		**2 882.9**	2 866.0
TOTAL ASSETS		**7 167.7**	6 165.9

ASSETS PLEDGED			
Mortgages on real estate		**17.7**	16.0
Sundry pledges		**15.6**	9.0
Total assets pledged		**33.3**	25.0

LIABILITIES AND EQUITY		Sept. 30 1983	Sept. 30 1982
CURRENT LIABILITIES			
Accounts payable, subsidiaries		**53.7**	30.6
Accounts payable, suppliers		**651.3**	491.6
Accrued expense and prepaid income		**1 190.5**	947.7
Current portion of long-term debt		**395.0**	333.7
Other current liabilities		**319.5**	187.6
Unearned transportation revenue (net)	Note 21	**1 009.7**	849.6
Prepayments from customers		**15.7**	20.6
Total current liabilities		**3 635.4**	2 861.4
LONG TERM DEBT			
Loans from subsidiaries		**0.5**	0.2
Debenture loans	Note 22	**469.8**	428.6
Mortgage loans	Note 23	**15.7**	14.5
Other loans	Note 24	**1 497.5**	1 470.0
Other long term debt	Note 25	**169.7**	141.5
Deferred currency losses	Note 27	**—511.9**	—338.4
Total long term debt		**1 641.3**	1 716.4
RESERVES	Note 28		
Inventory reserve		**32.6**	32.6
Depreciation reserve		**535.1**	502.2
Currency adjustment account		**1.9**	18.8
Total reserves		**569.6**	553.6
EQUITY	Note 29		
Capital			
ABA (3/7)		**368.4**	299.3
DDL (2/7)		**245.6**	199.6
DNL (2/7)		**245.6**	199.6
Total capital		**859.6**	698.5
Net income for the year		**461.8**	336.0
Total equity		**1 321.4**	1 034.5
TOTAL LIABILITIES AND EQUITY		**7 167.7**	6 165.9
CONTINGENT LIABILITIES	Note 30		
Guaranties and other contingent liabilities for			
subsidiaries		**316.9**	163.4
others		**62.4**	94.4
Pension commitments		**62.9**	60.0
Total contingent liabilities		**442.2**	317.8

Furthermore, the Consortium has assumed lease obligations in connection with an 18-year lease of a Boeing 747-Combi in February, 1981, a similar lease of a Boeing 747B in October, 1981, and a five-year lease of a Boeing 747B in January 1982. The Consortium also has certain liabilities in connection with ticket sales according to pay-later plans.

Statements of Changes in Financial Position

MSEK		SAS GROUP Consolidated 1982/83	SAS GROUP Consolidated 1981/82	SAS CONSORTIUM 1982/83	SAS CONSORTIUM 1981/82
SOURCES OF FUNDS					
Income before allocations and taxes		**601.0**	448.0	**461.8**	336.0
Depreciation		**483.1**	473.7	**398.8**	408.6
Adjustment of unearned transportation revenue liabilities	Note 21	**—77.6**	0.0	**—77.6**	0.0
Book value of assets sold and retired		**37.4**	56.2	**29.6**	48.7
Deferred income from sale of one 747B leased back		**—10.1**	49.6	**—10.1**	49.6
Currency differences arising from revaluation of monetary assets and liabilities		**209.9**	143.2	**188.7**	60.4
Valuation adjustments		**41.9**	60.6	**41.0**	132.6
Taxes payable by subsidiaries		**—39.0**	—35.6	**–**	–
Other (net)		**—11.8**	—37.4	**0.1**	—38.0
From operations		**1 234.8**	1 158.3	**1 032.3**	997.9
Borrowings		**145.5**	146.9	**49.6**	46.8
Repayment of long-term loans		**30.2**	32.4	**22.1**	48.6
Refund of prepayments for aircraft		**–**	127.9	**–**	127.9
Transfer of building to DNL		**39.0**	46.9	**39.0**	46.9
Minority interest in subsidiary equity		**2.3**	5.9	**–**	–
Total sources of funds		**1 451.8**	1 518.3	**1 143.0**	1 268.1
APPLICATION OF FUNDS					
Aircraft, spare engines, spare parts		**142.8**	109.0	**142.8**	109.0
Buildings and improvements		**132.1**	108.3	**88.3**	59.5
Other equipment, inventories, etc.		**203.0**	163.6	**111.2**	89.1
Stocks and goodwill		**80.8**	9.8	**140.4**	0.1
Total investments		**558.7**	390.7	**482.7**	257.7
Long-term lending		**36.1**	21.9	**26.3**	13.4
Repayment of long-term debt		**420.2**	421.1	**377.1**	361.2
Paid to parent companies out of last year's result		**175.0**	–	**175.0**	–
Changes in SAS Group structure*		**36.7**	–	**–**	–
Total funds applied		**1 226.7**	833.7	**1 061.1**	632.3
CHANGES IN WORKING CAPITAL		**225.1**	684.6	**81.9**	635.8
Specification of changes in working capital (before revaluation of monetary assets and liabilities)					
Increase (+)/decrease (—) in inventories		**+ 38.4**	+ 23.8	**+ 27.1**	+ 7.9
Increase (+)/decrease (—) in spare engines, spare parts		**+ 5.4**	+ 29.0	**+ 5.4**	+ 29.0
Increase (+)/decrease (—) in current receivables		**+457.0**	+357.8	**+409.8**	+351.9
Increase (—)/decrease (+) in current liabilities		**—697.2**	—501.2	**—644.8**	—438.0
Increase (+)/decrease (—) in cash and bank balances		**+387.1**	+775.2	**+284.4**	+685.0
Change in SAS Group structure*		**+ 34.4**	–	**–**	–

* Changes in company structure are reported separately as of 1982/83.

Notes to the Financial Statements

Consolidated financial statements

The consolidated financial statements of the SAS Group include the SAS Consortium, its wholly-owned subsidiaries and those partly-owned subsidiaries in which the Consortium has a controlling interest. Some wholly-owned subsidiaries, closely connected with the operations of the Consortium, are directly included in the accounts of the Consortium. Such subsidiaries are, for example, SAS Cargo Center A/S, Copenhagen, and Scandinavian Airlines of North America, Inc., New York.

The accounts of Scanair, another consortium owned by the parent companies of the SAS Consortium, are not included in the consolidated financial statements of the SAS Group.

The financial statements of the SAS Group cover the period October 1, 1982 – September 30, 1983.

Companies acquired in the financial year are included in the SAS Group's statement of income for the period during which they belonged to the SAS Group.

The consolidated financial statements of the SAS Group are prepared in accordance with the purchase method of accounting which means that subsidiary income is included in the group's disposable funds only to the extent that they were earned after the date of acquisition. The equity in a subsidiary at the time of acquisition, including 50 percent of acquired untaxed reserves, is eliminated against the acquisition value of the corresponding stocks in the accounts of the Consortium. Of the remaining book value of the stocks, (a) an amount equal to the difference between the real value and the book value of the acquired assets, less a 50 percent deferred tax liability, is allocated to the respective asset accounts, and (b) the residual amount, if any, is carried as goodwill (or a liability) in the consolidated balance sheet.

Inter-company profits and transactions within the SAS Group are eliminated.

The financial statements of the SAS Group are expressed in millions of Swedish kronor (MSEK).

Financial statements of subsidiaries directly included in the accounts of the Consortium are translated into Swedish kronor using the monetary/non-monetary method. The statements of income are thus translated at the average exchange rate during the financial year, with the exception of depreciation which is translated at the exchange rate prevailing at the time of acquisition. In the balance sheets, fixed assets (excluding long-term accounts receivable) are translated at the investment rate for the year of acquisition. Long-term accounts receivable, current assets and liabilities are translated at the exchange rate prevailing at the end of the financial year.

Translation according to the above principles creates a difference between income according to the balance sheet and income according to the statement of income. The total net difference is included in the statement of income.

The financial statements of the subsidiaries in currencies other than Swedish kronor are, for the purpose of consolidation, translated into Swedish kronor using financial year-end exchange rates while the year's result is translated at the average exchange rate for the year. The translation differences are transferred directly to equity of the SAS Group to the extent that they refer to SAS's share in such subsidiaries. Translation differences relating to minority interest in the subsidiaries are included under the heading "Minority interest" in the consolidated balance sheet.

Valuation principles

Monetary assets and liabilities in currencies other than Swedish kronor. Monetary assets and liabilities in currencies other than the respective accounting currency are stated in the balance sheet at financial year-end rates of exchange.

The translation of the long-term debt of the Consortium into Swedish kronór for 82/83 has resulted in substantial unrealized currency losses, mainly because of the strengthening of the U.S. dollar during the year and the devaluation of the Swedish krona in October, 1982. The ultimate size of the currency losses on the Consortium's long-term debt will depend on future currency developments. In order to distribute such currency losses (net) equitably between financial years, a distribution method was established in 1980/81. The losses are spread over the remaining life of the loans, currency losses being annually charged to income as follows:

(a) Currency losses realized through repayment during the year and unrealized currency losses relating to repayments due within one year, less the corresponding provision made in the preceding annual accounts.

(b) Unrealized currency losses related to loans with deferred repayment or no repayment prior to final maturity; exchange rate differences are established currently as a supplement/deduction in relation to earlier accounting and distributed over the remaining credit period of the individual loans.

Remaining unrealized exchange rate losses on long-term debt are deferred as a deduction from debt on a separate contra-liability account in the balance sheet of the Consortium.

Unrealized currency gains on long-term debt and long-term accounts receivable are credited to the currency adjustment account in the balance sheet of the Consortium, while currency gains/losses resulting from the translation of other monetary assets and liabilities into Swedish kronor are credited/charged directly to income.

The exchange rates used in the translation of monetary assets and liabilities to Swedish kronor are as follows:

		Exchange rates, Sept. 30	
Currency		**1983**	1982
Denmark	DKK 100	**82.40**	71.00
Norway	NOK 100	**106.45**	90.00
U.S.A.	USD	**7.83**	6.28
Switzerland	CHF 100	**368.00**	289.00
France	FRF 100	**98.00**	88.00

Expendable spare parts and sundry stores are stated at the lower of acquisition cost and market value. The necessary deduction for obsolescence has been made.

The expendable spare parts included under this heading comprise 2/3 of the total stock of such parts, the remaining 1/3 being treated as fixed assets.

Depreciation. In accordance with its conservative policy, the Consortium depreciates its flight equipment over 10 years with a 10 percent residual value except for the Airbus A300, Boeing 747 and Douglas DC-10-30 which are depreciated over 12 years with a 10 percent residual value.

Depreciation periods for goodwill and capitalized development costs range from five to 10 years. Workshop and aircraft servicing equipment and other equipment and vehicles are depreciated over five years, with the exception of computer equipment and flight simulators relating to the Airbus A300 and Douglas DC-10-30, for which the depreciation period is seven and 12 years, respectively. The annual rates of depreciation on buildings vary from two to 20 percent.

Definition of ratios

Return on capital employed, befores taxes. The result after depreciation plus financial income in relation to average capital employed. Capital employed is defined as total capital according to the balance sheet less short-term interest-free operating liabilities.

Return on equity, after taxes. Income before extraordinary items reduced by a standard tax of 50 percent in relation to adjusted average equity. Adjusted equity consists of the sum of stated equity plus 50 percent of untaxed reserves.

Gross profit margin. Operating result before depreciation in relation to operating revenue.

Equity ratio. Equity, reserves and minority interest in relation to balance sheet total.

Note 1 – Traffic revenue

	SAS Group		Consortium	
	1982/83	1981/82	**1982/83**	1981/82
Passenger	**8 847.3**	7 117.4	**8 847.3**	6 922.6
Freight	**1 279.9**	1 118.4	**1 279.9**	1 110.6
Mail	**227.9**	198.2	**227.9**	191.3
Charter	**31.3**	70.0	**31.3**	70.0
Leasing	**76.7**	147.8	**76.7**	147.8
Less: Elimination of internal transactions	-	—65.9	-	-
	10 463.1	8 585.9	**10 463.1**	8 442.3

Traffic revenue from subsidiaries during 1981/82 related to Danair and amounted to MSEK 209.6 before the elimination of internal transactions.

Note 2 – Other operating revenue

	SAS Group		Consortium	
	1982/83	1981/82	**1982/83**	1981/82
Consortium	**2 137.3**	1 559.7	**2 137.3**	1 559.7
Subsidiaries	**4 179.9**	3 245.1	-	-
Less: Elimination of internal transactions	**—807.8**	—583.7	-	-
	5 509.4	4 221.1	**2 137.3**	1 559.7

The Consortium's other operating revenue comprises revenue from workshop operations, ground service, interline sales, etc. carried out for other airlines, in-flight sales and sales in airport shops, and the leasing out of surplus resources, among other activities.
As of 1982/83, revenue which is not directly related to operations is treated in the accounts as a deduction item from operating expense. The change has the effect that revenues during the financial year are 67.4 MSEK lower than they would otherwise have been. In 1981/82, items of the same character amounted to 49.7 MSEK.

Note 3 – Operating expense

	SAS Group		Consortium	
	1982/83	1981/82	**1982/83**	1981/82
Consortium	**11 583.7**	9 277.2	**11 583.7**	9 277.2
Subsidiaries	**3 919.8**	3 268.0	-	-
Less: Elimination of internal transactions	**—807.8**	—649.6	-	-
	14 695.7	11 895.6	**11 583.7**	9 277.2

Operating expense includes, wages, salaries and remunerations as follows:

	SAS Group		Consortium	
	1982/83	1981/82	**1982/83**	1981/82
Wages, salaries and remunerations	**3 596.4**	2 804.1	**2 676.1**	2 121.0

Note 4 – Depreciation

	SAS Group		Consortium	
	1982/83	1981/82	**1982/83**	1981/82
Goodwill	**3.9**	2.9	-	-
Development costs	**0.5**	0.4	-	-
Aircraft	**199.6**	212.8	**199.6**	212.8
Spare engines and spare parts	**65.8**	67.9	**65.8**	67.9
Workshop and aircraft servicing equipment	**21.1**	21.4	**21.1**	21.4
Other equipment and vehicles	**124.1**	107.9	**80.0**	76.5
Buildings and improvements	**68.0**	60.2	**32.3**	30.0
Land and improvements	**0.1**	0.2	**0.0**	0.0
	483.1	473.7	**398.8**	408.6

During 1982/83 depreciation on aircraft declined by MSEK 13.2. This was due partly to three aircraft reaching a residual value as of September 30, 1982, as a result of which they were not included in the equipment to be depreciated during the year, and partly to a further five aircraft reaching a residual value during the 1982/83 financial year.

Note 5 – Dividend income from subsidiaries

Consortium	**1982/83**	1981/82
SAS Catering A/S, Denmark	**2.4**	2.0
SAS Catering A/S, Norge	**6.6**	4.6
Vingresor AB	**9.5**	-
Nyman & Schultz Resebyråer AB	**0.7**	-
AB Olson & Wright	**2.1**	0.8
Transair Sweden AB	**0.3**	-
	21.6	7.4

The stated dividends from subsidiaries are those decided by the respective annual general meetings for the financial year 1981/82 and 1980/81. Consequently, dividends are not anticipated in the statement of income.

Note 6 – Other financial income

	SAS Group		Consortium	
	1982/83	1981/82	**1982/83**	1981/82
Interest from subsidiaries	-	-	**3.1**	3.9
Other interest income	**314.5**	282.5	**243.2**	224.4
Cash discounts, etc.	**1.0**	2.9	**1.0**	1.5
	315.5	285.4	**247.3**	229.8

Note 7 – Financial expense

	SAS Group		Consortium	
	1982/83	1981/82	**1982/83**	1981/82
Interest paid to subsidiaries	-	-	**— 0.2**	— 0.3
Interest paid to others	**— 296.0**	—282.8	**—214.4**	—220.2
Currency losses on long-term debt, charged to the year's income	**—321.6**	—132.9	**—304.7**	—123.2
Other currency differences (net)	**97.3**	— 8.4	**97.3**	— 12.0
Write-down of discounts etc., on debenture loans	**— 1.4**	— 1.4	**— 1.4**	— 1.4
Banking fees etc.	**— 5.2**	— 6.4	**— 3.5**	— 4.3
	—526.9	—431.9	**—426.9**	—361.4

Note 8 – Gain on sale and retirement of equipment, etc. (net)

	SAS Group		Consortium	
	1982/83	1981/82	**1982/83**	1981/82
Aircraft	-	53.3	-	53.3
Spare engines and spare parts	**11.6**	13.0	**11.6**	6.1
Buildings	**7.0**	2.6	**3.2**	-
Other equipment, etc.	**—0.6**	—0.3	**—3.6**	0.4
	18.0	68.6	**11.2**	59.8

Note 9 – Extraordinary income

	SAS Group		Consortium	
	1982/83	1981/82	**1982/83**	1981/82
Pension bonus in Denmark	-	100.2	-	95.8
Write-down of loan in connection with financial reconstruction	**12.8**	-	-	-
Other extraordinary income	**1.2**	-	-	-
	14.0	100.2	-	95.8

The pension bonus in Denmark included in the accounts for 1981/82 represents a refund for the five-year period 1978–82.

Note 10 – Extraordinary expense

	SAS Group		Consortium	
	1982/83	1981/82	**1982/83**	1981/82
Share in loss made by Hotel Scandinavia K/S, Copenhagen	**12,3**	12,3	**10,0**	12,3
Shareholder's contribution, Hotel Nya Snäck AB, in Visby	**0.8**	-	-	-
Group loss in connection with the closing-down of Security Services A/S	**0.7**	-	-	-
Other extraordinary expenses	**0.6**	0.5	**0.3**	-
	14.4	12.8	**10.3**	12.3

Both the shareholders' contribution to Hotel Nya Snäck AB and the group loss in connection with the closing-down of Security Services A/S are included in the accounts of SAS Catering & Hotels.

Note 11 – Income before allocations and taxes

SAS Group		**1982/83**		1981/82
Consortium's profit		**461.8**		336.0
Subsidiaries' profit		**171.1**		121.0
Elimination of internal dividends	**—21.6**		—7.4	
Elimination of capital gain in connection with the sale of inventories by one subsidiary to another	**— 4.3**		0.5	
Depreciation of goodwill and surplus value	**— 3.7**		—2.1	
Reversal of unconsolidated income in Hotel Scandinavia K/S, Copenhagen	**— 2,3**	**—31,9**		— 9,0
Consolidated profit before allocations and taxes		**601.0**		448.0

Note 12 – Allocations in the subsidiaries (net)

SAS Group		**1982/83**		1981/82
From reserves				
- supplementary depreciation	**0.3**		0.9	
- investment reserve	–		0.3	
- district investment reserve, Norway	**18.3**	**18.6**	15.6	16.8
To reserves				
- inventory reserve	**— 0,6**		— 6,2	
- supplementary depreciation	**—24.6**		—10.7	
- general investment reserve	**—25.1**		— 4.8	
- special investment reserve	**—12.9**		-	
- regional investment reserve, Norway	**— 2.6**		-	
- profit equalization reserve	**—10.4**		—23.1	
- consolidation reserve	**— 6.0**		— 2.5	
- other reserves	**— 0.4**	**—82.6**	— 0.2	—47.5
		—64.0		—30.7

Note 13 – Taxes paid by subsidiaries

The statement of income of the SAS Group includes only taxes payable by the subsidiaries, since the tax liability in Denmark, Norway and Sweden relating to the activities of the Consortium lies with the parent companies of the Consortium.
Taxes payable by the Consortium abroad are included in operating expense.

Note 14 – Cash and bank balances including temporary cash investments

As of September 30, 1983, 1 257.2 MSEK (696.4) were placed as short-term loans with various companies, mainly in Scandinavia, of which 953.1 MSEK (441.6) were placed by the Consortium. The Consortium's cash and bank balances are stated after provision for currency risks, etc., amounting to 32.9 MSEK (24.6).
The Consortium's balance includes restricted funds in a tax deduction account in Norway amounting to 36.2 MSEK.

Note 15 – Accounts receivable

Accounts receivable as stated in the balance sheet, are after provision for doubtful receivables and currency risks. Such provision amounted to 94.3 MSEK (65.0) for the SAS Group, of which 76.2 MSEK (52.3) related to the Consortium.

Note 16 – Expendable spare parts and inventory

	SAS Group		Consortium	
	1982/83	1981/82	**1982/83**	1981/82
Raw materials, etc.	**21.8**	21.8	**21.8**	21.8
Sundry goods for sale	**93.7**	74.2	**6.6**	6.2
Inventory	**41.4**	27.8	**41.4**	27.8
Work in progress	**7.8**	8.2	**7.8**	8.2
Catering material, uniforms, etc.	**25.0**	4.0	**25.0**	4.0
Expendable spare parts	**81.7**	76.6	**81.7**	76.6
	271.4	212.6	**184.3**	144.6

Note 17 – Restricted accounts

Deposits to non-interest bearning accounts relating to tax deductible allocations to investment reserves in Nyman & Schultz Resebyråer AB and AB Olson & Wright.

Note 18 – Stocks and participations in subsidiaries. Other stocks and participations

During the 1982/83 financial year, the Consortium increased its holdings in the Hotel Scandinavia K/S, Copenhagen, from 39 percent to 97 percent. The holding in the SAS Royal Hotel A/S, Oslo, was increased from 60 percent to 100 percent.
The Consortium's stocks and participations are specified on page 27.

Note 19 – Goodwill

Goodwill consists mainly of group goodwill relating to AB Olson & Wright amounting to 10 MSEK (12).

Note 20 – Other assets

SAS Group	At Cost 1983	At Cost 1982	Accumulated depreciation 1983	Accumulated depreciation 1982	Net value 1983	Net value 1982
Construction in progress	**20.6**	30.4	-	-	**20.6**	30.4
Aircraft	**3 652.8**	3 563.1	**1 938.7**	1 756.5	**1 714.1**	1 806.6
Spare engines and spare parts	**689.3**	637.4	**390.6**	319.6	**298.7**	317.8
Workshop and aircraft servicing equipment	**221.7**	209.8	**169.5**	150.8	**52.2**	59.0
Other equipment	**1 029.8**	922.8	**535.9**	491.0	**493.9**	431.8
Buildings and improvements	**1 224.2**	883.1	**424.1**	337.0	**800.1**	546.1
Land and improvements	**86.3**	66.7	**1.3**	1.5	**85.0**	65.2
Total as of September 30	**6 924.7**	6 313.3	**3 460.1**	3 056.4	**3 464.6**	3 256.9

Consortium	At Cost 1983	At Cost 1982	Accumulated depreciation 1983	Accumulated depreciation 1982	Net value 1983	Net value 1982
Construction in progress	**0.9**	25.7	-	-	**0.9**	25.7
Aircraft	**3 652.8**	3 563.1	**1 938.7**	1 756.5	**1 714.1**	1 806.6
Spare engines and spare parts	**689.3**	637.4	**390.6**	319.6	**298.7**	317.8
Workshop and aircraft servicing equipment	**221.7**	209.8	**169.5**	150.8	**52.2**	59.0
Other equipment	**653.2**	625.7	**378.5**	357.1	**274.7**	268.6
Buildings and improvements	**357.0**	291.2	**187.5**	159.4	**169.5**	131.8
Land and improvements	**8.7**	8.6	**0.3**	0.3	**8.4**	8.3
Total as of September 30	**5 583.6**	5 361.5	**3 065.1**	2 743.7	**2 518.5**	2 617.8

Construction in progress refers to buildings and land improvement under construction. After construction work is completed, the total acquisition costs are transferred to the respective headings in the balance sheet. A new administration building in Oslo, which was stated as construction in progress in the 1981/82 accounts, was completed and transferred to DNL, the Norwegian parent company, on September 30, 1983.

The book value of *aircraft* has changed as follows:

At cost		
As of October 1, 1982	3 563.1	
Modification of Airbus A300	85.8	
Modification of DC-9 engines	3.9	3 652.8
Accumulated depreciation		
As of October 1, 1982	1 756.5	
Depreciation during 1982/83 (see Note 4)	199.6	
Transfer to depreciation reserve	—17.4	—1 938.7
		1714,1
Depreciation reserve		—478.5
Net book value		1 235.6
Insurance value of aircraft As of September 30, 1983		6 287,5

The Consortium's computer and communications equipment and flight simulators are included under the heading *Other equipment,* with an acquisition value of 355.8 MSEK and 60.6 MSEK, respectively. The comparative figures as of September 30, 1982, were 361.7 MSEK and 62.6 MSEK.

The costs of *buildings and improvements* in the SAS Group increased by 341.1 MSEK. Of this increase, the Hotel Scandinavia K/S, Copenhagen, which is included in the SAS Group as of the 1982/83 financial year, accounted for 100.4 MSEK. In addition, the group surplus value in connection with the SAS Royal Hotel A/S, Oslo (Hotel Scandinavia), is also included, amounting to 66.1 MSEK.

Note 21 – Unearned transportation revenue (net)

As in previous years, the various accounts of the Consortium for traffic revenue are stated as a net balance. The unredeemed transportation sale relating to passenger documents, included under this heading, is calculated at 83.5 MSEK.

The dissolution of the reserve for traffic revenue liabilities is effected in such a manner that the reserve built up during the financial year is included in the revenue for the following year. In the accounts for 1982/83, a net amount of 77.6 MSEK (58.9) was dissolved.

Note 22 – Debenture loans	1983	1982
Consortium		
5.5% CHF 72.0 mill., due 1984–92	**264.9**	219.7
8.0% USD 16.0 mill., due 1984–85	**125.3**	113.0
10.75% SEK 120.0 mill., due 1983–94	**120.0**	130.0
	510.2	462.7
Less: Current portion included under current liabilities	**—40.4**	—34.1
As of September 30	**469.8**	428.6

Note 23 – Mortgage loans	1983	1982
Consortium		
6%/10% DKK 17.7 mill., due 1983–2003	**14.6**	13.5
10%/12% NOK 1.8 mill., due 1983–2001	**1.9**	1.8
14,75% ZAR 0.0 mill., due 1983–97	**0.3**	0.2
	16.8	15.5
Less: Current portion included under current liabilities	**—1.1**	—1.0
As of September 30	**15.7**	14.5
Subsidiaries		
Sundry loans	**426.7**	238.5
Less: Current portion included under current liabilities	**—21.5**	—12.4
As of September 30	**405.2**	226.1
SAS Group, as of September 30	**420.9**	240.6

Note 24 – Other loans	1983	1982
Consortium		
6.0% USD 25.0 mill., due 1983–88	**196.2**	248.4
6.5% USD 2.3 mill., due 1983–86	**18.3**	29.9
7.125% USD 0.5 mill., due 1983–84	**3.6**	5.7
7.5% USD 12.2 mill., due 1984–87	**95.3**	76.5
7.75% USD 35.9 mill., due 1984–90	**281.2**	260.3
8.0% USD 3.4 mill., due 1983–86	**26.4**	27.3
8.5% USD 0.6 mill., due 1984	**4.7**	18.8
8.75% USD 13.2 mill., due 1984–89	**103.3**	82.8
9.0% USD 4.8 mill., due 1983–87	**37.8**	33.6
9.25% USD 21.7 mill., due 1983–93	**170.2**	153.7
9.5% USD 16.3 mill., due 1983–93	**127.2**	102.0
LIBOR plus 0.5 % USD 4.6 mill., due 1983–84 (LIBOR, September26, 1983 9.7916 %)	**36.4**	48.6
LIBOR plus 0.5% USD 33.3 mill. multicurrency loan, due 1985 (LIBOR, September 30, 1983, 9.5625%)	**260.5**	208.9
USD base rate plus 0.5%, USD 0.5 mill., due 1982 (USD base rate, September 30, 1982, 13.5%)	**-**	3.4
6.0% CHF 40.0 mill., due 1985	**147.2**	115.6
8.0% FRF 218.0 mill., due 1983–91	**213.7**	217.5
8.5% NOK 2.0 mill., due 1984	**2.1**	9.0
9.5% NOK 16.4 mill., due 1983–84	**17.5**	24.6
10.125% GBP 0.1 mill., due 1987	**2.0**	-
Official discount rate plus 4.0% DKK 7.2 mill., due 1983–93 (official DKK discont rate, September 30, 1983, 7.5%)	**5.9**	4.7
Oficial-discount rate plus 3% SEK 31.3 mill., due 1983–92 (official SEK discount rate, September 30, 1983, 8.5 %)	**31.3**	40.1
12.5% SEK 13.8 mill., due 1983–89	**13.8**	15.7
13.2% SEK 3.0 mill., due 1984–96	**3.0**	3.3
13.5% SEK 29.9 mill., due 1983–97	**29.9**	2.5
13.25% SEK 0.1 mill., due 1983–87	**0.1**	0.1
	1 827.6	1 733.0
Less: Current portion included under current liabilities	**—330.1**	—263.0
As of September 30	**1 497.5**	1 470.0
Subsidiaries		
Sundry loans	**210.0**	163.3
Less: Current portion included under current liabilities	**—25.6**	—12.4
As of September 30	**184.4**	150.9
SAS Group, as of September 30	**1 681.9**	1 620.9

Note 25 – Other long term debt	1983	1982
Consortium		
Other long term debt	**193.1**	177.2
Less: Current portion included under current liabilities	**—23.4**	—35.7
As of September 30	**169.7**	141.5
Subsidiaries		
Other long term debt	**26.5**	14.6
Less: Current portion included under current liabilities	**— 2.6**	— 0.1
As of September 30	**23.9**	14.5
Deferred tax liability on untaxed reserves	**2.0**	2.0
SAS Group, as of September 30	**195.6**	158.0

Note 26 – Provision for pension liabilities	1983	1982
Subsidiaries		
SAS Catering AB, Sverige - PRI	**6.8**	6.0
- other	**0.9**	0.9
Vingresor AB - PRI	**12.1**	10.1
- other	**0.1**	0.1
Nyman & Schultz Resebyråer AB	**1.3**	1.3
AB Olson & Wright - PRI	**20.1**	17.5
- other	**1.8**	1.9
As of September 30	**43.1**	37.8

The Pension Registration Institute (PRI) is a non-profit organization for the management and administration of staff pension schemes. Other pension liabilities are either covered by periodic pension premium payments or are recorded as pension commitments under contingent liabilities.

Note 27 – Deferred currency losses

Unrealized currency losses on long-term debt, deferred by the Consortium as a deduction from debt on a separate contra-liability account in the balance sheet, amounted to 511.9 MSEK as of September 30, 1983 (338.4). Of the total, 400.5 MSEK refer to long-term debt in US dollars.

	Consortium
As of October 1, 1982	338.4
Currency losses on long-term debt incurred in 1982/83	478.2
Currency losses on long-term debt charged to income in 1982/83 (see Note 7)	—304.7
As of September 30, 1983	511,9

The Consortium's accounting principles governing deferral and distribution of currency losses on long-term debt are described under "Valuation principles," page 21.

Note 28 – Reserves

SAS Group	Sept. 30, 1982	Provisions	Dissolution	Other	Sept 30, 1983
Inventory reserve	39.1	0.6	-	-	39.7
Depreciation reserve	502.2	48.0	—15.1	-	535.1
Accumulated supplementary depreciation reserve	54.3	24.6	— 0.3	+5,1[1]	83.7
Currency adjustment account	24.8	1.2	—22.3	+0.5	4.2
Investment reserve	11.2	25.1	-	+0.1	36.4
Regional investment reserve Norway	18.1	2.6	—18.3	+3.3[1]	5.7
Profit equalization reserve	34.5	10.4	-	-	44.9
Other reserves					
Consolidation reserve	2.5	6.0	-	+0.4[1]	8.9
Provision for special investment reserve	-	12.9	-	-	12.9
Other	0.4	0.4		+0.1	0.9
Total	687.1	131.8	—56.0	+9.5	772.4

[1] The effect of currency translation resulting from the change from SEK 90 to SEK 106.45 for NOK 100.

The *inventory reserve* relates to expendable spare parts and inventories under current assets (see Note 16).

The depreciation policy of the Consortium in connection with aircraft equipment is described under "Valuation principles." In the reports required to be submitted under several of its credit agreements with U.S. lenders, the Consortium depreciates its flight equipment over 12 years to a 10 percent residual value for Douglas DC-8s, 14 years to a 10 percent residual value for Douglas DC-9s, and 16 years to a 10 percent residual value for Airbus A300s, Boeing 747s and Douglas DC-10-30s.

The Consortium records depreciation in accordance with the same terms in the depreciation accounts which are deducted from the acquisition values concerned. At the same time, the depreciation actually incurred by the Consortium supplementary to such depreciation is recorded in the *depreciation reserve*. The depreciation reserve shows a balance of 535.1 MSEK (502.2).

Under the heading *Accumulated supplementary depreciation*, the subsidiaries record depreciation made as a profit allocation additional to their ordinary depreciation.

The currency adjustment account has changed as follows:

	SAS Group	Consortium
As of October 1, 1982	24.8	18.8
Unrealized currency gains incurred during the year	1.2	1.2
Realized currency gains on long-term loans	—22.3	—18.1
Elimination	0.5	-
As of September 30, 1983	4,2	1,9

The *investment reserve, regional investment reserve, profit equalization reserve and provisions for other reserves* comprise tax-deductible allocations made by the subsidiaries.

Note 29 – Equity	SAS Group	Consortium
As of October 1, 1982	1 113.7	1 034.5
Transferred to parent companies from previous year's income	—175.0	—175.0
Income before taxes relating to the Consortium but after taxes in the subsidiaries	496.5	461.8
Translation difference (consolidation)	11.6	-
Adjustment of minority share of equity	—1.4	-
Sundry adjustments	—0.6	0.1
As of September 30, 1983	1 444.8	1 321.4

Note 30 – Contingent liabilities

Assets pledged

During 1982/83 the SAS Group's pledges increased by MSEK 286, of which real estate mortgages in the Hotel Scandinavia K/S, Copenhagen, accounted for 194 MSEK. SAS Catering & Hotels accounted for 44 MSEK and the SAS Royal Hotel A/S, Oslo (Hotel Scandinavia), for 19 MSEK.

Contingent liabilities

The Consortium's contingent liabilities as of September 30, were as follows:

	1983	1982
Travel guaranties for Vingresor AB	**170.0**	115.0
Guaranties for pension liabilities, AB Olson & Wright	**20.0**	17.5
Guaranty for loan, Hotel Scandinavia K/S, Copenhagen	**90.0**	-
Other contingent liabilities in subsidiaries	**36.9**	30.9
Total contingent liabilities, subsidiaries	**316.9**	163.4
Guaranty for loan, Linjeflyg AB	**25.0**	25.0
Guaranty for loan, Hotel Scandinavia K/S Copenhagen	-	36.1
Other contingent liabilities	**37.4**	33.3
Total other contingent liabilities	**62.4**	94.4
Pension commitments	**62.9**	60.0
As of September 30	**442.2**	317.8

THE CONSORTIUM'S STOCKS AND PARTICIPATIONS September 30, 1983	Number of shares	Per-cent	Par Value in Thousands		Book Value MSEK
Subsidiaries directly included in the accounts of the Consortium					
SAS Cargo Center A/S, Copenhagen	48	100	DKK	300	0.2
Scandinavian Airlines of North America, Inc., New York	1 750	100	USD	175	0.9
SAS France S.A., Paris	1 000	100	FRF	100	0.1
Sundry					0.0
					1.2
Subsidiaries consolidated with the Consortium in the SAS Group					
SAS Catering A/S, Danmark, Copenhagen	16 000	100	DKK	16 000	11.3
SAS Catering A/S, Norge, Oslo	8 000	100	NOK	8 000	6.0
SAS Catering AB, Sverige, Stockholm	160 000	100	SEK	16 000	16.0
Vingresor AB, Stockholm	200 000	100	SEK	20 000	20.0
Nyman & Schultz Resebyråer AB, Stockholm	30 000	100	SEK	15 000	15.0
AB Olson & Wright, Stockholm	3 000	100	SEK	3 000	33.0
Hotel Scandinavia K/S, Copenhagen	Share in capital	97	DKK	197 000	22.0
Scandinavia Hotel Invest A/S, Copenhagen	8	93	DKK	2 500	–
SAS-Invest A/S, Copenhagen	4 110	100	DKK	10 000	7.2
Scandinavian Air Tour Productions AB, Stockholm	10 000	100	SEK	1 000	1.0
Nordair ApS, Copenhagen	200	100	DKK	300	0.2
Gamla Vingresor AB, Stockholm	10 000	100	SEK	1 000	1.0
InterSAS B.V., Amsterdam	104	100	NLG	104	0.2
SAS Royal Hotel A/S, Oslo	10 000	100	NOK	10 000	66.9
	Convertible loan stock	100	NOK	30 000	26.3
Arctic Hotel Corp. A/S, Narssarssuaq	1 550	50	DKK	1 550	1.3
Danair A/S, Copenhagen	1 710	57	DKK	1 710	1.2
A/S Dansk Rejsebureau, Copenhagen	49	50	DKK	400	0.3
Congrex AB, Stockholm	1 000	100	SEK	100	0.1
SAS Oil A/S, Copenhagen	300	100	DKK	300	0.3
Sundry					0.2
					229.5
Other companies					
Linjeflyg AB, Stockholm	500 000	50	SEK	50 000	53.0
Helikopter Service A/S, Oslo	64 000	5	NOK	6 400	6.7
Polygon Insurance Co Ltd., Guernsey	665 668	33	GBP	666	4.4
Bennett Reisebureau A/S, Oslo	87	31	NOK	1 392	1.1
Grønlandsfly A/S, Godthåb	140	25	DKK	3 000	0.4
Widerøe's Flyveselskap A/S, Oslo	26 622	22	NOK	2 662	1.1
A/S Hotel Atlantic, Stavanger	1 117	20	NOK	559	0.4
Copenhagen Excursions A/S, Copenhagen	23	17	DKK	210	0.5
Malmö Flygfraktterminal AB, Malmö	1 455	40	SEK	146	0.0
Scanator AB, Stockholm	500	50	SEK	50	0.1
Sundry					0.8
					68.5

Auditors' Report

We, the undersigned, appointed in accordance with Article 11 of the Consortium Agreement between AB Aerotransport (ABA), Det Danske Luftfartselskab A/S (DDL) and Det Norske Luftfartselskap A/S (DDL) as auditors of

SCANDINAVIAN AIRLINES SYSTEM
Denmark – Norway – Sweden

having completed our assignment, herewith submit our report for the financial year October 1, 1982 – September 30, 1983.

We have examined the Annual Report, which also includes the accounts of the Group.

The Internal Auditing Department of SAS, acting in accordance with instructions approved by us, has conducted a continuous check of the accounting records and we have received reports on the examination thus conducted.

The Annual Report of the Consortium shows a profit of 461.8 MSEK after depreciation, of which 210.0 MSEK is proposed to be paid to the parent companies.

We recommend

that the Annual Accounts for the Consortium and for the Group be adopted, and

that the Members of the Board and the President be discharged from further responsibility for the financial year.

Stockholm, January 17, 1984

STEN NACKSTAD Authorized Public Accountant	CENTRALANSTALTEN FOR REVISION STIG-ERIK SCHAUMBURG-MÜLLER Authorized Public Accountant	BERNHARD LYNGSTAD Authorized Public Accountant
SÖREN WIKSTRÖM Authorized Public Accountant	ARNE BRENDSTRUP	TOR STORHAUG Authorized Public Accountant

Comparative Statistics

PRODUCTION, TRAFFIC AND PERSONNEL SAS Consortium		82/83	Change	81/82	80/81	79/80	78/79
Size of Network	(km 000)	**214**	+ 2 %	210	224	252	264
Number of Cities Served		**93**	— 6 %	99	105	103	102
Kilometers Flown, scheduled services	(mill.)	**119.3**	+ 6 %	112.9	113.2	120.4	124.3
Hours Flown (airborne),total	(000)	**182.1**	+ 6 %	171.1	171.1	180.0	185.7
Available Tonne Kms, total	(mill.)	**2 331.3**	— 4 %	2 427.3	2 472.4	2 536.8	2 528.3
Available Tonne Kms, scheduled services		**2 311.5**	— 4 %	2 394.9	2 450.7	2 515.9	2 483.5
Available Tonne Kms, non-sched. services		**19.8**	—39 %	32.4	21.7	20.9	44.8
Revenue Tonne Kms, sched. services	(mill.)	**1 431.2**	+ 1 %	1 418.3	1 415.8	1 432.6	1 435.1
Passenger and Excess Baggage		**986.0**	+ 2 %	962.3	958.3	972.6	966.6
Freight		**393.9**	— 3 %	404.3	407.5	412.2	425.2
Mail		**51.3**	— 1 %	51.7	50.0	47.8	43.3
Total Load Factor, scheduled services	(%)	**61.9**	+ 2.7 enh	59.2	57.8	56.9	57.8
Number of Passengers Carried, total	(000)	**9 222**	+ 4 %	8 861	8 413	8 393	8 669
Available Seat Kms, sched. services	(milj.)	**17 037**	0 %	17 118	17 761	18 460	18 216
Revenue Pass. Kms, sched. services	(mill.)	**11 159**	+ 3 %	10 879	10 817	10 972	10 908
Passenger Load Factor, sched. services	(%)	**65.5**	+ 1.9 enh	63.6	60.9	59.4	59.9
Average Pass. Trip Length, sched.	(kms)	**1 219**	— 2 %	1 239	1 296	1 318	1 272
Traffic Revenue/Revenue Tonne Km	(SEK)	**7.17**	+25 %	5.74	4.64	4.13	3.57
Airline Operating Expenses/Available Tonne Km (including depreciation)	(SEK)	**4.12**	+23 %	3.35	2.80	2.49	2.11
Average Number of Employees		**17 101**	+ 4 %	16 376	16 425	17 069	16 755
Revenue Tonne Kms/Empl., sched. services		**83 700**	— 3 %	86 600	86 200	83 900	85 700
Revenue Pass-Kms/Empl., sched. services		**652 500**	— 2 %	664 300	658 600	642 800	651 000

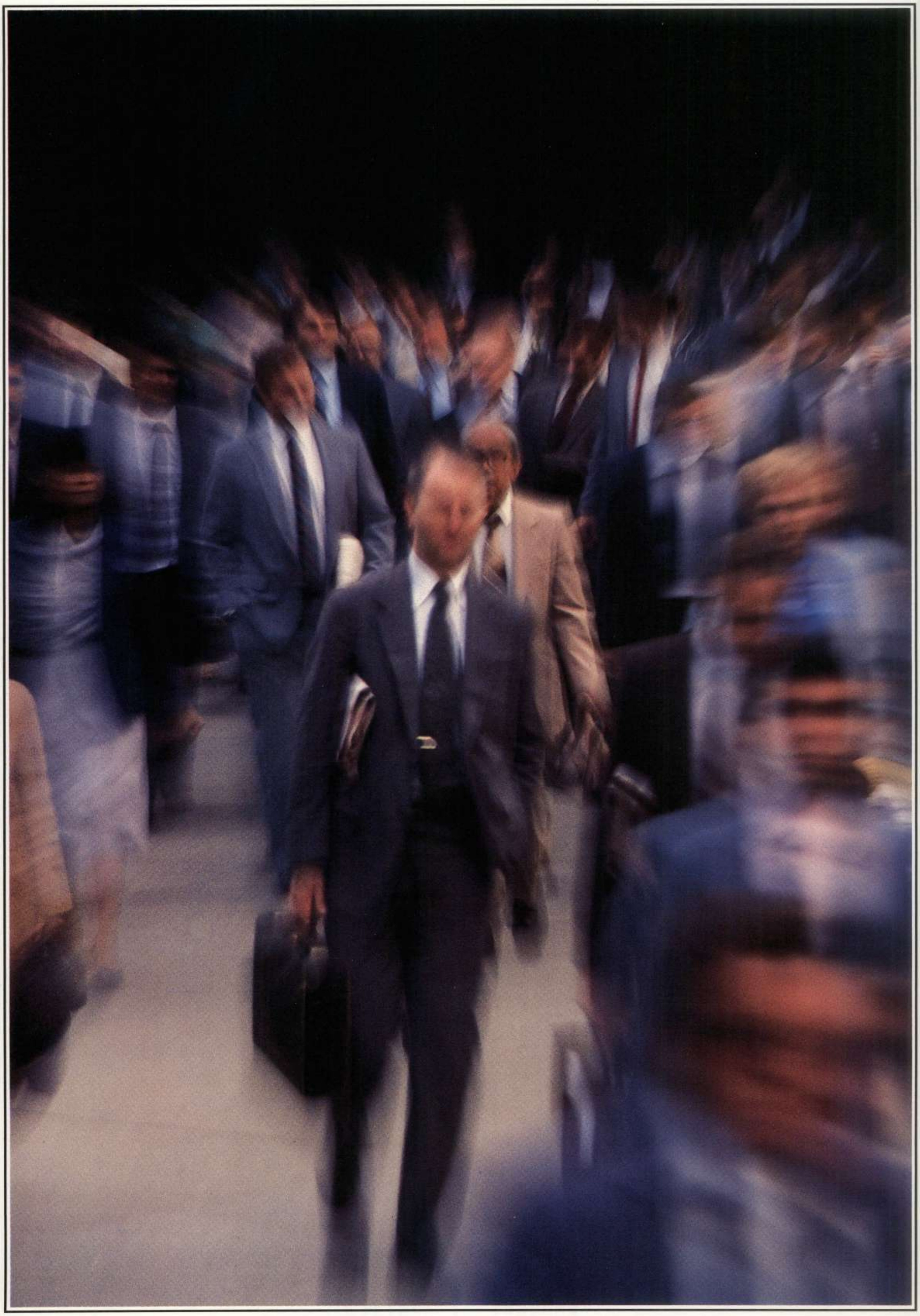
Data on Major Subsidiaries

	SAS Catering & Hotels [1,2] Consolidated		Vingresor AB Consolidated		Nyman & Schultz Resebyråer AB Consolidated		AB Olson & Wright Consolidated	
	MSEK	MSEK	MSEK	MSEK	MSEK	MSEK	MSEK	MSEK
	82/83	81/82	**82/83**	81/82	**82/83**	81/82	**82/83**	81/82
INCOME STATEMENT DATA								
Operating Revenue	**2 338.7**	1 564.6	**1 145.2**	1 068.5	**280.5**	235.6	**161.2**	96.3
Operating Income after Depreciation	**113.5**	62.3	**26.4**	35.5	**4.2**	3.7	**7.2**	3.3
Income after Financial Items	**96.1**	51.9	**41.3**	37.7	**6.9**	7.7	**9.6**	10.9
Income before Allocations and Taxes	**102.7**	54.8	**41.3**	37.7	**6.9**	7.9	**9.3**	11.0
Allocations, etc.	**—36.2**	—14.7	**—22.8**	—6.6	**—3.3**	—3.5	**—2.2**	—6.2
Taxes	**—18.8**	—19.7	**—11.7**	—8.6	**—3.0**	—3.2	**—5.5**	—2.8
Net Income	**47.7**	20.4	**6.8**	22.5	**0.6**	1.2	**1.6**	2.0
BALANCE SHEET DATA								
Current Assets	**485.5**	292.4	**389.4**	336.1	**174.7**	138.5	**162.7**	159.9
Fixed Assets (incl. Restricted Accounts)	**424.0**	301.2	**126.7**	130.2	**14.9**	11.6	**41.1**	31.5
Total Assets	**909.5**	593.6	**516.1**	466.3	**189.6**	150.1	**203.8**	191.4
Current Liabilites	**418.4**	275.6	**328.4**	279.5	**150.1**	116.5	**142.6**	137.8
Long Term Debt	**221.5**	142.8	**91.5**	106.6	**8.0**	5.0	**31.7**	25.9
Untaxed Reserves	**124.0**	79.7	**43.0**	24.0	**15.7**	12.4	**23.9**	21.6
Minority Interest	**5.0**	3.7	**5.0**	3.6	–	–	–	–
Equity	**140.6**	91.8	**48.2**	52.6	**15.8**	16.2	**5.6**	6.1
Total Liabilities and Equity	**909.5**	593.6	**516.1**	466.3	**189.6**	150.1	**203.8**	191.4
AVERAGE NUMBER OF EMPLOYEES	**6 984**	5 530	**1 292**	1 221	**418**	415	**460**	365

[1] Consolidation of three national companies owned directly by the SAS Consortium: SAS Catering A/S, Danmark; SAS Catering A/S, Norge; and SAS Catering AB, Sverige.
[2] During 1983, SAS Catering took over operation of the Hotel Scandinavia and Royal Hotel in Copenhagen and the Hotel Scandinavia in Oslo.
[3] The name of the company will be changed to SAS Tours AB.

SELECTED FINANCIAL DATA, MSEK SAS Group	**82/83**	81/82	80/81	79/80	78/79
INCOME STATEMENT DATA					
Traffic Revenue	**10 463.1**	8 585.9	7 003.4	6 342.2	5 544.7
Other Revenue	**5 509.4**	4 221.1	3 168.1	2 878.0	2 521.0
Operating Revenue, total	**15 972.5**	12 807.0	10 171.5	9 220.2	8 065.7
Operating Expenses before Depreciation	**14 695.7**	11 895.6	9 663.7	8 920.8	7 551.2
Depreciation	**483.1**	473.7	429.9	390.8	359.5
Operating Income after Depreciation	**793.7**	437.7	77.9	— 91.4	155.0
Financial Items (net)	**—210.3**	—145.7	—165.7	— 71.6	—56.8
Income after Fincancial Items	**583.4**	292.0	— 87.8	—163.0	98.2
Other Items (net)	**17.6**	156.0	36.5	99.9	49.4
Income before Allocations and Taxes	**601.0**	448.0	— 51.3	— 63.1	147.6
BALANCE SHEET DATA					
Current Assets	**5 428.4**	4 172.0	3 080.6	2 727.1	2 473.1
Fixed Assets (incl. Restricted Funds)	**3 653.6**	3 425.9	3 732.7	3 628.7	3 218.8
Total Assets	**9 082.0**	7 597.9	6 813.3	6 355.8	5 691.9
Current Liabilities	**4 551.5**	3 632.5	3 121.3	2 803.1	2 320.8
Long Term Debt	**2 299.4**	2 147.5	2 288.5	2 147.2	1 805.0
Reserves, Minority Interest	**786.3**	704.2	665.9	585.8	576.4
Equity including Income of the Year	**1 444.8**	1 113.7	737.6	819.7	989.7
Total Liabilities and Equity	**9 082.0**	7 597.9	6 813.3	6 355.8	5 691.9

Scand. Air Tour Prod.AB[3] Consolidated		SAS Royal Hotel A/S (Oslo)[2]		Hotel Scandinavia K/S (Copenhagen)[2]		SAS-Invest A/S[2]		Arctic Hotel Corp.A/S		A/S Dansk Rejsebureau		Danair A/S	
MSEK	MSEK	MNOK	MNOK	MDKK	MDKK	MDKK	MDKK	MDKK	MDKK	MDKK	MDKK	MDKK	MDKK
82/83	81/82	**82/83**	81/82	**82/83**	81/82	**82/83**	81/82	**82/83**	81/82	**82/83**	81/82	**82/83**	81/82
167.2	85.3	**60.1**	133.7	**9.1**	–	**31.1**	53.0	**19.3**	16.7	**16,7**	17.3	**2.1**	294.8
—1.1	—0.4	**25.8**	27.9	**6.0**	–	**0.7**	1.1	**1.9**	1.1	**1.1**	—0.3	**—0.3**	0.0
0.0	0.0	**6.1**	8.3	**—12.4**	–	**—4.6**	—4.4	**1.5**	0.7	**0.9**	—0.6	**0.0**	0.0
0.0	0.0	**6.1**	8.3	**2.7**	–	**0.3**	—4.4	**1.5**	0.7	**0.9**	—0.6	**0.0**	0.0
–	–	–	–	–	–	–	–	–	–	–	–	–	–
0.0	0.0	–	–	–	–	–	–	–	–	–	–	–	–
0.0	0.0	**6.1**	8.3	**2.7**	–	**0.3**	—4.4	**1.5**	0.7	**0.9**	—0.6	**0.0**	0.0
16.1	11.1	**20.9**	17.9	**65.3**	–	**0.2**	6.6	**5.6**	5.6	**18.0**	20.6	**3.3**	17.7
0.5	0.5	**157.9**	176.8	**134.3**	–	**38.0**	49.0	**4.9**	4.7	**2.0**	2.2	**0.0**	0.1
16.6	11.6	**178.8**	194.7	**199.6**	–	**38.2**	55.6	**10.5**	10.3	**20.0**	22.8	**3.3**	17.8
15.6	10.6	**13.0**	27.1	**9.4**	–	**6.8**	21.9	**3.7**	5.0	**19.2**	22.8	**0.3**	14.8
–	–	**139.4**	147.4	**165.1**	–	**27.7**	30.3	**0.5**	0.6	**0.2**	0.3	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–	–	–	–	–	–
1.0	1.0	**26.4**	20.2	**25.1**	–	**3.7**	3.4	**6.3**	4.7	**0.6**	—0.3	**3.0**	3.0
16.6	11.6	**178.8**	194.7	**199.6**	–	**38.2**	55.6	**10.5**	10.3	**20.0**	22.8	**3.3**	17.8
73	83	**121**	402	–	–	**93**	237	**39**	39	**68**	79	**6**	15



The Market

SAS is a service company. Our job is to provide customers with the service they want and are willing to pay for. Our market consists of three customer categories: business travelers, leisure travelers and cargo shippers. These groups place different demands on, and have varying expectations of, the services and products we offer.

For the *business traveler,* travel is frequently part of the job. Their travel is the best way to create and maintain contacts, survey new markets, pick up new business ideas and carry out and finalize business deals. Their trips are an investment in present and future business.

We believe that the business traveler places highest priority on departure times, punctuality, efficiency and service. Service covers more than just the journey—it includes booking, checking in, waiting time, baggage handling, ground transport, accommodation and related services provided by the hotel. If each element functions properly, the businessman's trip is greatly simplified and his chances of getting a positive result from his journey increase.

For the *leisure traveler,* travel is nearly always associated with recreation, an escape from everyday life and a chance to see new places and make new acquaintances.

In contrast to business trips, vacations are planned far in advance and are seldom changed. For the tourist, the price is a very important factor in his decision to book a holiday.

The business traveler and leisure traveler are often the same person in different guises. The role of the businessman creates one type of behavior, the role of the tourist another, the demands and expectations in travel varying accordingly.

Business travel usually follows general economic trends. During recessions, the frequency of travel declines and price sensitivity increases.

The pattern of leisure travel is somewhat different. Demand often rises during recessions, possibly because households reduce investments in capital goods and spend their money instead on leisure pursuits, with vacation travel an important element.

Business and tourist travel patterns show wide seasonal variations by month, week and day. The businessman prefers to travel between Monday and Friday while tourists plan their excursions for weekends and holiday periods.

Naturally, destinations also vary by customer category. On SAS's domestic and inter-Scandinavian services, business travelers account for about 40 percent of passengers, the remainder being leisure travelers. On other European routes, the breakdown is about 50–50, with a slight edge for the business traveler category. On intercontinental routes, 30 percent of passengers are business travelers and the rest tourists.

The *cargo market* is very sensitive to general economic developments and usually reflects overall industrial trends. At the present time, air cargo accounts for only one percent of the total cargo volume on the world market and three percent of total freight revenues.

Cargo services are a part of the customer's production resources, in the field of logistics. Air cargo emerges as a competitive means of transport only when the customer has made a precise estimate covering the cost of materials handling, inventories and capital. Obviously, speed gives air cargo a competitive edge.

SAS's most important customers are the full-fare business travelers. They put priority on punctuality, a high standard of service in the air and on the ground, and timetables suited to the special nature of business travel.

Until the early 1970s, the scheduled airlines expanded at a steady pace. However, the oil crisis of 1973 decisively transformed the earlier growth pattern of the industrialized nations into stagnation. The demand for air transport dropped drastically, while the cost of fuel and capital in foreign currencies climbed rapidly. The basic conditions for the entire air transport industry were changed.

The weak market quickly led to excess capacity. Since there is a long lead time for the purchase of new aircraft, capacity continued to increase, even though the market had started to send new signals. Competition and lack of growth produced a flurry of discounts. Despite ambitious efforts to bridle the rapid cost escalation, scheduled airline profitability deteriorated drastically. In 1982, the total deficit of IATA airlines was two billion U.S. dollars, equal to five percent of total revenues.

This trend continued during 1983. Airlines have yet to adjust their resources and fixed costs for personnel and aircraft to the new environment. Supply exceeds demand and many airlines base their pricing policies on marginal costs. They attempt to fill their aircraft with the help of generous discounts, each extra passenger providing a contribution to fixed costs. As an example, one of the biggest American airlines carried 78 percent of its passengers at discount fares in 1982. The comparative figure for 1977 was 27 percent. Most large airlines, domestic and international, show the same pattern in their efforts to increase revenue. Persisting excess supply and largely unchanged demand steadily increases competition in most route sectors.

For the IATA airlines, 1983 will also be a deficit year due to net interest expenses partly related to previous investments in aircraft which are now unprofitable. Against the background of the air transport industry's investment requirements for the coming decade, the condition of the entire airline business is precarious.

AIR-POLITICAL AFFAIRS

In addition to external circumstances and the commercial conditions created by the industry itself, airlines are also affected by government air transport agreements and various national air transport policies.

International scheduled air services are based on bilateral agreements between countries. These agreements specify which destinations the airlines may serve and regulate the capacity they may offer. These treaties also generally stipulate that timetables and tariffs must be approved by the authorities in the countries involved.

In negotiating SAS's traffic rights, the three Scandinavian countries work together, improving SAS's negotiating position.

The requirement in transport agreements that prices must be approved by the authorities presupposes that fares and rates first be coordinated among the respective national airlines. IATA (the International Air Transport Association) has been a forum for multilateral tariff coordination. Sharper competition has made it increasingly difficult to attain unanimity and conclude agreements within the framework of IATA's tariff conferences. As a result, individual airlines have freer hands to draw up their own pricing policies. The earlier rigidity in product development, pricing and marketing is being gradually replaced by greater flexibility and stricter adjustment of marketing to customers' needs.

A significant factor for airline development has been the emergence of liberalization in air transport policies. It started in the United States at the end of the 1970s. The intention was that a freer market should lead to such beneficial effects as lower prices, increased traffic and better service. However, the outcome has been precisely the opposite. With excess capacity unleashed in a stagnant market, extremely aggressive pricing policies were applied, contributing to a further deterioration of airline profitability which was weak even prior to liberalization.

The call for more liberal air transport policies has also been heard in Europe. The motives are similar to those earlier used in the United States. These proposals have yet to gain wide-spread support in Europe, partly because certain European airlines already receive government subsidies for their operations and investments, and partly because of experiences in the U.S. and the general profitability crisis in the airline industry.

There are an estimated 250 scheduled airlines in the world. Most of those with international services are among IATA's 120 members. The largest IATA members, in terms of passenger traffic, are United, American and PanAm. In 1983, SAS was ranked 17th.

Helicopter service between Kennedy Airport and downtown New York is one element in SAS's improved service to the business traveler.

Goals and Strategies

SAS's mission is to provide the Scandinavian countries with appropriate air transport and other travel-related services. Its business is required to be profitable, without subsidies for operations and investments from the owner countries.

After a careful analysis of the air transport industry's current development and the company's structure, SAS reformulated its objectives and strategies for the company's business orientation and product development.

SAS's financial goals reflect an effort to set the stage for a strongly improved profitability and financial position through a revised business orientation. This is necessary to ensure the company's survival and facilitate the investments needed to provide for a continued positive development.

The formulation of goals is based on the airline's investment requirements to cover future market demands. Within the SAS Group there are a number of other areas which also show promising development potential and investment requirements. It is intended that the profits earned by the subsidiaries shall be used to develop their respective areas.

SAS's strategy is based on the concept of a market-oriented service company. A keen appreciation of market requirements shall permeate the entire organization, and all resources shall be concentrated on creating and marketing products that our customers are willing to pay for.

MAIN STRATEGY THE BUSINESSMAN'S AIRLINE

To succeed in an environment distinguished by lack of growth and increased competition, SAS has decided to concentrate on a clearly-defined part of the market. Operations have therefore been consistently and systematically adapted to this market segment. SAS decided to concentrate on the full-fare passenger, a customer category accounting for a substantial part of overall demand and willing to pay a reasonable price for a quality product. SAS's decision to concentrate on the business traveler is also consistent with the guidelines for SAS when it was founded over 30 years ago.

The Businessman's Airline strategy was created in 1981 when SAS's profitability and market position were in a troublesome period. The new strategy was designed to re-establish the airline's profitability. As early as the 1981/82 financial year, the products developed as a result of the strategy led to a strong result improvement. The airline once again showed a profit.

Based on this performance, SAS is now examining new ways to expand its range of products through more extensive coordination among the various units of the SAS Group.

SAS's on-going development calls for new approaches to the products and services the company should market. Market studies by SAS reveal that business travelers ask for a substantially larger number of services than airlines normally offer; that is, more than the flight and certain related activities such as checking in and transport between terminals. An integrated transport chain contains a large number of other links, from the time the journey is booked until the moment the traveler's luggage is unpacked in the hotel at his destination.

MARGINAL SALES

SAS's main strategy is aimed at reaching the highest possible number of full-fare passengers.

No matter how successful the main strategy may be, there will always be surplus capacity. These empty seats will be filled through active marketing measures, thereby increasing SAS's total revenue.

Marginal sales are of great importance to the airline. To maintain a traffic program which satisfies the needs of the business traveler, resources must be set at a certain level. The businessman's travel pattern, with seasonal variations and preferences on departure times and days, automatically leads to excess aircraft capacity and crews at other times. These surplus resources are utilized on charter flights and through low-fare tickets on scheduled services departing at times not favored by businessmen.

Apart from the inevitable excess capacity in a traffic program, there is at present also surplus capacity in the form of aircraft, maintenance bases, etc. If the latter cannot be utilized to cover their costs in full, they should be eliminated. This includes a number of SAS aircraft.

Marginal sales should not be developed so as to require extra resources. Consequently, SAS has to govern the output so that low-fare tickets do not compete with the sale of full-fare tickets or negatively affect service to full-fare passengers.

Properly controlled, marginal sales contribute to higher revenue per flight. The more empty seats which can be filled by marginal sales to tourists, the lower the prices that can be offered to full-fare passengers. If the latter choose to fly with SAS more frequently, the price of tourist class tickets can be positively influenced. Although it is not always fully understood, the fact is that the ability to offer tourists products at attractive prices is dependent on the success of our main strategy for the business traveler.

COOPERATION

Within the framework of its main strategy SAS aims to serve all destinations which are of interest to its customers. If this is not possible due to lack of traffic rights or because the Scandinavian market is too small, SAS would nevertheless like to provide the product in cooperation with other airlines.

In this way, market service is improved without SAS needing to commit its own resources unprofitably. An example of this approach is that SAS is now working to build up its own terminals at important traffic hubs in North America and the Far East.

One of these traffic hubs is New York, which SAS serves non-stop to and from Scandinavia. As a result of cooperation with several U.S. airlines, SAS passengers have access to an extensive U.S. domestic network, with coordinated timetables and a service level similar to that of SAS. The availability of efficient terminals is an important element in this strategy.

SAS FLEET DEVELOPMENT

SAS will have to renew its fleet during the coming decade. To be competitive, our new aircraft must meet market needs and at the same time be cost-efficient. Just as now, SAS's markets will continue to demand frequent departures to a large number of destinations and many non-stop flights.

At the moment, 60 DC-9s are used for SAS's domestic traffic and European services—the oldest went into service in 1968/70 and the newest in 1979. The Middle East, Africa, India/Pakistan and Greenland are served by five DC-8s. On the routes to North and South America and the Far East, five DC-10s and three Boeing 747s are used. In addition, SAS has a number of surplus aircraft: two Boeing 747s, three Airbus A300s and three DC-8s. These aircraft are for sale and have, in the meantime, been leased to other airlines. SAS currently has five different aircraft types at its disposal. In the future, it should be possible to reduce this variety to two or, at most, three aircraft types. This would provide economies of scale.

During 1983 SAS outlined plans for the pending replacement of, in the first instance, the DC-9 fleet. These plans are based on two fundamental premises:

— The new aircraft which can be purchased at the present time, or are now on the drawing board for delivery at the end of the 1980s, represent only a further development of already existing airplanes. Compared to the aircraft which are presently in service, their advantages are mainly in operating economy. It is therefore important to emphasize that there is no aircraft in service at the present time or being designed which can or will provide passengers with a better transport product in terms of comfort, cabin atmosphere or safety than, for example, the DC-9s which SAS now operate.

— SAS's DC-9 fleet has no technical or economic limitations to its use throughout the 1980s.

These basic facts mean that SAS has no acute need to replace its DC-9 fleet. When fleet renewal eventually takes place, it must be with new aircraft which, as far as possible, are designed to meet customers' demands.

The medium-range DC-8s can be operated only until the end of 1986 when new international noise regulations go into effect.

On SAS's intercontinental routes, in common with the rest of the network, frequent departures and many non-stop services are required. In the long term, SAS will use aircraft with smaller passenger capacities and a longer range than the DC-10 and Boeing 747. However, SAS's DC-10s and 747s are relatively new and no replacements are planned at the moment. The entire SAS fleet is now undergoing a modernization program as part the airline's introduction of a new corporate identity. The DC-9 engines are being modified for a five percent reduction in fuel consumption.

In addition, the interiors of all our aircraft are being remodeled for improved passenger comfort. New seats, textiles and other decorative details create a completely new cabin atmosphere. Aircraft exteriors are also being repainted in the new decor. New uniforms for all SAS personnel and redecorated ticket offices, lounges, etc., are other elements of the new corporate identity program.

An important part of the SAS strategy is to contribute to the development of a new airliner which will emphasize passenger convenience and comfort. In the meantime, the SAS fleet is undergoing a total renovation that includes new furnishings and a new exterior decor.

The SAS Organization

SAS has market-oriented its airline operations to emphasize service and the customer and employee as individuals. Clear-cut goals and strategies were developed for the entire Group and all employees. All department heads and the entire personnel were informed about, and trained in, SAS's objectives. Goals and strategies, market orientation, service, customers and colleagues became the watchwords of the new approach.

To start with, the rest of the SAS Group was operated on its own, as before, so that management resources could be concentrated on restoring the airline's profitability.

To emphasize and support the new approach, the airline was reorganized in the spring of 1981, with new managers in many positions. Five divisions were created, each with independent responsibility for its vital function within the airline. A data division was later added.

To develop and strengthen service capabilities, which constitute an important part of SAS's products, a new service unit was created, the Traffic Services Division. Within the divisions, profit centers were established at various levels to raise awareness of the sources of revenue and expenses.

In the Commercial Division, which is responsible for the development and marketing of air transport products, units were created based on geographical areas. Called route sectors, they constitute the airline's main profit centers. Their economic result potential will be decisive for the future dimensioning of resources.

Various projects underlined the importance of decentralized profit responsiblity. A controller's department was established to develop control systems and take responsiblity for planning and following up results. The object was to create an environment in which all employees are well aware of SAS's goals and the strategies for their fulfillment.

The new organization worked fast to attain SAS's new goals. At the same time, a value analysis was made of administrative expenses, leading to the transfer of resources to revenue-yielding activities, with a reduction of administrative costs wherever possible.

In the past two years, the organization carried out the new strategies and achieved a clearly positive result development.

The continued development of the SAS Group has now called for additional organizational adjustments to stimulate and exploit the competitive advantages inherent in a closer coordination of the various other business activities in the Group. SAS's impact on the market can be further strengthened by maximizing the potential in cooperation between the airline and the subsidiaries.

SAS PHILOSOPHY

An important aspect of market orientation is the emphasis on SAS as a service company. Since SAS's business philosophy is fundamentally based on service, the airline's activities naturally become less technology-oriented. A high technological standard, which does not contribute to increased safety, has a commercial value only if it improves the content of the service the customer demands. Sophisticated equipment and technology should not become ends in themselves. The decisive question is whether new technology provides something extra which motivates a higher price or reduces expenses.

SAS has developed a philosophy to ensure that the service concept is solidly accepted as an integrated part of the organization's approach and behavior. It is based on the conviction that every person, customer or employee, is an individual and wants to be treated as an individual. A person's expectations of, and demands on, service are thus wholly individual. If SAS's employees can generate that "extra dimension" in personal qualities, experience and the ability to take the initiative, instead of being steered by instructions and regulations, the relationship between customer and SAS personnel will yield a quality of service above and beyond that which can usually be defined and specified in quantitative terms.

This perception of service and the decisive role of SAS personnel in the service chain encompasses all staff with direct or indirect customer contact. This category of personnel is the vital front line where the "battle" for the customer is decided. It is therefore logical that this perception of the individual be extended to cover everyone who works in SAS.

SAS's strategy is to offer the traveler an integrated program covering all links in his journey, from leaving home or office until unpacking at the hotel. The photograph shows the SAS check-in desk at a hotel. This eliminates a step at the airport, saving time for the traveler.


SAS
Check-In
First Class
First Business Class
Euro Class
SAS HOTELS
SAS

If the front line is to function effectively, it always needs the support of the rest of the organization. Each unit and every individual employee have their own markets and customers whose needs and expectations must be met. Whether the customer is inside or outside SAS is irrelevant. All SAS personnel can grasp the opportunities implied in their individual freedom to act. This will lead to greater satisfaction both for the customer and for the employee, who will experience his efforts as being meaningful. This is decisive for a philosophy and a perception of the individual which puts the emphasis on people.

This new approach should encourage the employees to take a fresh look at their jobs and how they work. It simultaneously creates unforeseen possibilities and demands. The individual must assume personal responsiblitity for his role in the company's operations and his efforts to make those operations successful. If this interplay between individuals is to be effective, personal qualities such as honesty and openness are as important as the formal competence and know-how for each individual job.

To simplify and speed up the process of change, an extensive training program is being conducted in all levels of the organization. It is aimed at increasing the level of knowledge in important areas such as management and result control, and at boosting the level of motivation. Substantial efforts are also being made to take advantage of new business ideas and simplify present job routines.

SAS management's mission is to define the external environment which influences the company's development and clearly describe for the personnel the Group's business orientation. In addition, management must create an environment which allows all employees to contribute to the development of products and services which provide the best value for money for customers, both inside and outside the company. It s also important that persons in managerial positions—at all levels in the company—conduct activities with a normative behavior, that is, reflect the meaning of the SAS philosophy in their actions.

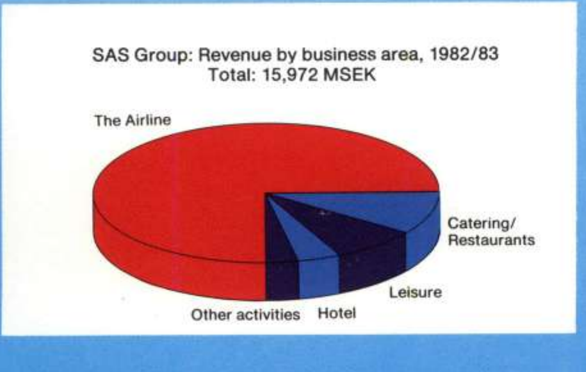
The SAS philosophy has now begun to circulate on a wide front. It will probably take several years before the corporate culture encompasses, and is accepted by, the entire organization.

SAS GROUP ORGANIZATION AND BUSINESS AREAS

GROUP MANAGEMENT

SAS AIRLINE	SAS HOTELS	SAS LEISURE	SAS CATERING	OTHERS
Commercial Division	Hotel Division	Vingresor	Flight Kitchens	Nyman & Schultz
Traffic Services Division		SAS Tours	Restaurants	Olson & Wright
Operations Division		Scanair Independent consortium		Associated Companies
Technical Division				
Administrative Services Division				
Data Services Division				

The principles behind the SAS philosophy can also be applied to the profit-oriented control system which is part of the company's decentralization process. The philosophy is based on the assumption that profit responsiblity is equivalent to business responsibility. Profit responsibility means responsibility, not only for a result which constitutes the difference between revenues and costs, but also for all those factors which ensure a sound financial result even in the longer run. This involves participating in the responsibility for investments in plants and equipment, the company's position and goodwill on the market, and in relations with customers, suppliers, authorities and other groups which influence the Group's future. It also means taking responsibility for the competence and loyalty of personnel and ensuring that all business potential, both large and small, is exploited in day-to-day activities. Profit responsibility can therefore only be delegated if those who assume it are prepared to accept this responsibility, and to display the competence to administrate and develop it. Profit responsiblitity is not given; it is earned.



The SAS Group is divided into business areas with the airline as the largest. In addition, SAS operates hotels, flight kitchens, restaurants, travel agencies and inclusive tours, in more than 20 subsidiaries.

The Airline

Airline operations are conducted within the SAS Consortium and are organized into six divisions. The Commercial Division is responsible for the development, marketing and sale of products to passengers and the cargo market. The functions of the other divisions are basically in production and support, selling the various elements of the airline's production to the Commercial Division. In addition, they have substantial external sales. The SAS Group's management belongs to the Consortium.

Airline Summary		
	1982/83	1981/82
Revenue, MSEK	**12,600**	10,221
Income before allocations and taxes, MSEK	**462**	336
Number of employees, average	**17,101**	16,376

COMMERCIAL DIVISION

In 1982/83 Commercial Division sales amounted to 11,145 MSEK, an increase of 25 percent over the previous financial year. The major part of the division's sales consisted of external traffic revenue which amounted to 10,463 MSEK (8,442). The number of employees is 4,363, mainly sales and other ground personnel in the Scandinavian countries and abroad. The division consists of five geographical route sectors, each of which has total profit responsibility for the routes in its area, and a cargo sector which is responsible for all freight production.

Domestic Routes

SAS operates domestic services in Denmark, Norway and Sweden. In 1982/83, domestic passenger revenue accounted for 16 percent of total airline traffic revenue.

In *Denmark*, SAS cooperates with Maersk Air and Cimber Air within the Danair subsidiary.

Danish market demand calls for frequent departures to a large number of destinations. The country's geography means that flights are short, resulting in a high level of production. This in turn leads to high costs which are difficult to compensate through fare levels. As a result, the profitability on Danish domestic routes has been weak for a number of years.

Within the framework of Danair's operations, there was a realignment of the Danish route network in 1982. As a result, the longer routes from Copenhagen to Aarhus, Aalborg and Karup are served by SAS, while Maersk Air and Cimber Air operate the remainder of the network. Consequently, SAS was able to reduce its Danish production by 40 percent at the same time as service to the market was improved. Continued product development and a new fare structure increased the number of full-fare passengers which, together with reduced production, improved results by 64 MSEK.

In *Norway*, SAS shares domestic trunk-route traffic with Braathens SAFE, on about a 60/40 ratio. SAS operates the trunk routes which connect the southern and northern parts of the country.

During 1983 a new traffic program was introduced i northern Norway to provide more frequent departures together with efficient feeder services. SAS cooperates with Widerøe's Flyveselskap which leases aircraft and crews to SAS for operation of the feeder services. This has freed DC-9 capacity for more frequent departures on routes where there is heavier demand.

Norwegian domestic passenger traffic increased by 18 percent in 1982/83. New discounts and price differentiation resulted in the number of low-fare passengers increasing at a faster rate than full-fare passengers. Nevertheless, high capacity utilization led to a satisfactory result during 1982/83.

In *Sweden*, SAS serves the routes linking Stockholm with Gothenburg, Malmö, Luleå and Kiruna. The remainder of the domestic network is served mainly by Linjeflyg, owned 50 percent by SAS. The Swedish market shows good growth and SAS passenger traffic increased 15 percent during 1982/83, further improving results over the previous year.

In Sweden, air transport competes with rail and road traffic. In the important Stockholm-Gothenburg sector, SAS carries over 60 percent of all business travelers, despite the competition.

In the autumn of 1983 Linjeflyg moved its Stockholm traffic hub from Bromma Airport to Arlanda Airport, thereby increasing the potential for integrating flight programs, traffic control, station services and reservations, while at the same time creating a new potential for transfer traffic to and from domestic and international routes.

Flight safety has always had the highest priority in SAS, which is a major reason for the company's good reputation. The photograph shows the flight deck of a Boeing 747, which is manned by three pilots.

European Routes

SAS currently flies between Scandinavia and 30 destinations in Europe. The market represents 8–10 million passengers annually, with SAS commanding a share of just over 50 percent.

During 1982/83, overall market demand remained at the same level as the previous year in Europe, apart from certain variations on individual routes.

SAS continued to improve its market position during 1983. Total passenger revenue from European traffic amounted to 4,216 MSEK, an increase of 31 percent compared to 1981/82. Thus, the European network accounted for 40 percent of the airline's total traffic revenue. The result reflected continued improvement.

In 1981 SAS introduced EuroClass, which was an immediate success. Since then, the number of full-fare passengers has continued to increase, yielding higher revenue per flight.

SAS's progress has forced many competing airlines to improve their products and service levels to stay competitive. This has led to an overall improvement in the standards of airline passenger service in Europe.

The fact that SAS's competitors are trying to create similar products and services calls for continual preparedness and planning in the development of new products to maintain and further strengthen SAS's position.

During the autumn, new low fares were introduced to most of the major European destinations. This low-fare campaign was very well-received in the market and yielded substantial marginal revenue.

In accordance with SAS's strategy to provide the market with frequent departures to many destinations, new non-stop services were introduced between Stockholm and Zurich, Gothenburg and Amsterdam, and Gothenburg and Paris.

Intra-Scandinavian traffic was expanded with more daily flights between Copenhagen and Växjö, Jönköping and Kristiansand, respectively, and between Oslo and Gothenburg. On these routes, SAS uses smaller Fokker F-27 aircraft.

SAS's airport services are continually improving. The airline now has its own ticket offices at all western European airports and has its own organization to take care of passengers at most stations.

During the spring of 1984 the first Scanorama lounges outside Scandinavia will be opened in London and Dusseldorf. SAS is also increasing its service personnel at European airports.

Intercontinental Routes

While European markets have been relatively stable, turbulence has increased on intercontinental routes. Competition in fares and product quality has been severe on all 12 routes operated by SAS to North and South America, the Far East and Africa. Intercontinental passenger traffic accounted for 2,803 MSEK or 27 percent of airline traffic revenue. The result improved considerably during the year, but is still at a clearly unsatisfactory level.

The most important product introduction during the year was First Business Class, corresponding to EuroClass, on intercontinental routes. First Business Class was also an immediate success. Full-fare sales rose and the cabin space used for First Business Class seating has been continually expanded.

A comparison of the major intercontinental airlines by Fortune magazine rated SAS as having clearly the best business class product, noting also that it is provided without any additional charge. On the North Atlantic, SAS has several daily non-stop flights to New York and, in addition, flies to four other North American destinations.

During 1982/83, the market was still characterized by weak growth and severe competition. Despite this, SAS's North American traffic showed a profit for the first time in the airline's history. This is largely the result of the successful concentration on First Business Class.

SAS service to South America is limited. All countries, with a few exceptions, have very restrictive and protectionistic air transport policies. As a result, SAS can offer only two flights a week to South America. Against this background, SAS launched a cooperative venture with the Brazilian airline Varig during 1982/83.

The route to Santiago de Chile was reopened during 1982/83. Negotiations to reopen service to Argentina have not progressed to date.

SAS's new corporate identity includes uniforms for almost 10,000 of the employees and new furnishings at all ticket offices, including Paris, at left.

In Southeast Asia, SAS has a competitive, daily non-stop service to Bangkok in cooperation with Thai International. The cooperation gives travelers access to timetable-coordinated, one-stop connections to all of Asia and Australia.

Southeast Asia is the only part of the world where airline traffic shows a good growth trend. At the same time, competition is intense, particularly since many of the national airlines are still in their early stages of development. European cost levels are clearly disadvantageous on these routes. Even so, SAS shows a clearly improved result. The strong increase in commerce with the nations of Southeast Asia means that, for the present, all airlines serving the area, including those losing money, have chosen to stay on in expectation of better times. SAS currently offers four departures a week to Tokyo, including a newly-opened route over Siberia via Moscow.

Services to Africa, the Middle East and the Far East are too limited to produce satisfactory profitability. Development of these routes will include a study of appropriate traffic hubs and cooperation with other airlines in order to improve service and profitability.

Air Cargo

SAS routes are mainly constructed for the passenger market's needs in schedules and destinations. Even so, cargo accounted for 12 percent, or 1,280 MSEK, of 1982/83 airline traffic revenue and provided a valuable contribution, especially on intercontinental routes.

The cargo market reflects international business cycles, and demand is currently weak in general. At the same time, the air cargo share of international trade of high-technology goods, which are not price sensitive, is growing. This will favor fast and safe forms of transportation in the future.

During the autumn of 1983, SAS introduced a new cargo program with price differentials based on speed, punctuality of delivery and connecting ground transport. An important part of the service includes reporting any delays or other irregularities to the customer. The goal is to improve cargo results and raise SAS's status as an effective, service-oriented cargo carrier. It should be as natural to choose SAS for air cargo as for business travel.

In Europe, the cargo share of airline traffic revenue is relatively small. This is mainly because surface transportation by road, rail and sea is very competitive to the major Nordic markets, Britain and West Germany. The increase in non-stop passengers flights with short turn-around times is a disadvantage for cargo, where longer handling times are required.

Air cargo is more competitive on longer intercontinental routes. During 1983, air cargo traffic on the world market increased 20 percent in volume while other forms of transportation were practically at a standstill. However, air cargo's share of the total world market is still very small.

SAS has two all-cargo DC-9s and three leased all-cargo Electras, which are about the same size. These are used exclusively for cargo transportation, partly within Europe, partly for feeder services delivering cargo to and from intercontinental flights.

TRAFFIC SERVICES DIVISION

The Traffic Services Division is responsible for the lion's share of SAS's customer service program. It includes ground transportation—for example, limousine services—as well as check-in and in-flight service and arrival assistance. The Traffic Services Division is also responsible for selling duty-free goods at airports and on board.

Employees number 3,464, with the majority in the Scandinavian countries. In 1982/83, sales of services to the Commercial Division totaled 1,808 MSEK. External sales were 680 MSEK.

The Traffic Services Division is making a comprehensive effort to develop the SAS service concept. The result is that in September 1983 SAS was the most punctual airline in Europe for the 16th month in a row. It was one of the three most punctual airlines on intercontinental routes. Fornebu, Kastrup and Arlanda are the three most punctual airports in Europe.

In-flight service has been improved, in particular by the introduction of First Business

SAS is working hard to make Copenhagen Airport, Kastrup, an attractive gateway for intercontinental traffic. Business travelers have their own lounges and the quality of the restaurants and shops has been improved, all to make waiting times as pleasant as possible.

Class on intercontinental routes, with better quality food and wine, the introduction of porcelain tableware, and larger, more comfortable seats. First Class service improved markedly towards the end of this stage of development, which was topped off with SAS's new corporate identity program.

Transport to and from airports was facilitated by the introduction of the SAS Limousine Service in Stockholm, Gothenburg, Malmö, Amsterdam and New York. Several other cities are under consideration for limousine service.

SAS's ability to maintain a standard of airport services corresponding to customers expectations is to a large extent influenced by the civil aviation authorities in the respective countries. In the Scandinavian countries, airports are owned by the civil aviation authorities, who are responsible for their design and operation. The Traffic Services Division is working together with the authorities to eliminate value-added taxes at Scandinavian airports. This will reduce airport prices to the levels of most competing airports abroad.

For SAS to increase its shares of European and intercontinental traffic, Kastrup must become an attractive gateway. By revising the aircraft parking pattern, walking distances for transfer passengers have been significantly reduced. Lounges have been built for business travelers and baggage handling has improved. A number of other projects, such as expanded lounges and a better range of business services, will further increase the standard of service.

The Traffic Services Division is also responsible for some of the training of cabin and other service personnel having direct contact with passengers. During the year, a number of internal service courses was completed, attracting wide attention outside SAS. As a result, SAS and Time Manager International started the Scandinavian Service School in 1983. Some 30,000 external customers attended courses the first year.

OPERATIONS DIVISION

The Operations Division is responsible for the crews on all SAS flights. The division has 3,756 employees, including 1,183 pilots and 2,150 cabin attendants. The division's sales within SAS were 1,356 MSEK in 1982/83. In addition, there were external sales of pilot and cabin attendant services, route documentation, flight dispatch and training totaling 24 MSEK. The division is responsible for all SAS flights being operated according to authorities' regulations, with the greatest degree of safety and with the stipulated punctuality.

Flight crews are based at Kastrup, Fornebu and Arlanda. Since a relatively large number of SAS flights originate in Copenhagen, personnel must be flown from the other bases to Kastrup as part of their duty hours.

The division sells classroom and simulator training to other airlines on a large scale. SAS will be responsible for training pilots who will fly Saab-Fairchild's new commuter airliner. Training starts with the first deliveries.

TECHNICAL DIVISION

The Technical Division is responsible for the maintenance and overhaul of the SAS fleet at home bases and at stops along the network.

The division's employees number 3,787, of which 3,632 are at the maintenance bases at Kastrup, Fornebu, Arlanda and Linta—the engine overhaul station at Stockholm-Bromma.

Sales in 1982/83 totaled 1,943 MSEK, of which 1,140 MSEK were to the Commercial Division, while 541 MSEK, or 28 percent, represent technical maintenance and other services to other airlines.

Together with KLM of the Netherlands, Swissair of Switzerland and UTA of France, SAS is part of the KSSU cooperative organization which was formed to achieve economies of scale and reduce costs in aircraft maintenance. The fleets of these airlines, individually, are too small to sustain efficient maintenance operations for all of their aircraft types. SAS, for example, does fuselage maintenance on DC-8s and Airbus A300s for KSSU, as well as maintenance for certain engine types.

Because SAS is phasing the A300s out of its fleet, it means terminating maintenance of this aircraft type for the other KSSU airlines. SAS is currently seeking substitute work to keep maintenance base employment at a reasonable level. The first priority is to find new external cus-

At Kastrup, junior travelers have their own lounge.


SAS
Limousine
VOLVO

tomers, but a certain reapportionment of maintenance work to other bases cannot be excluded. Since Linjeflyg moved its base of operations to Arlanda in the autumn of 1983, opportunities to coordinate SAS's and Linjeflyg's technical resources, resulting in increased utilization of the Arlanda base.

Technical and safety matters have always been given highest priority at SAS and the airline has a good market reputation in this respect. Together, maintenance costs account for around 12 percent of SAS's total operating expenses. The average level for IATA member airlines is 10–14 percent, indicating that SAS is at a reasonable level. Rationalization makes more efficent maintenance possible without jeopardizing safety.

ADMINISTRATIVE SERVICES DIVISION

The Administrative Services Division sells accounting, personnel and payroll administration, security and building maintenance and management, including equipment, furniture and office machines. The division is also responsible for a large part of SAS's current management and personnel development programs.

Durijng 1982/83, the division's sales were 668 MSEK, including 59 MSEK in external services. The number of employees is 979, with the majority working in Copenhagen, Oslo and Stockholm.

During the past two years, the division has presented new administrative products and services, reflecting the needs emerging from the transformation SAS is undergoing. By letting market forces work within the company in the purchase and sale of services, the quantity as well as quality of administrative services can be influenced. Thus, the division develops and maintains only those services that other units within SAS are willing to buy.

DATA SERVICES DIVISION

SAS Data was organized as the sixth division of the airline during 1982/83. The division is responsible for the planning, programming, operation and maintenance of SAS's central data processing systems for the airline. Its customers are the other divisions, other SAS companies and other airlines.

SAS Data's sales for 1982/83 totaled 386 MSEK, including 35 MSEK from the outside. The division has 563 employees, about half of whom are involved in the operation of SAS's large central computer station in Copenhagen.

Many systems are basic to the routine operations of the airline. These include, among others, passenger systems which control reservations, check-in, seating and traffic accounting. All SAS ticket offices around the world are linked to the system, as well as most international travel agents. During the high season, over two million transactions per day are handled by the passenger systems.

Other systems are used for routine maintenance planning for engines and other aircraft components, as well as the handling of spare parts.

During the year, SAS Data continued to adjust its services and practices to the requirements of its customers, thereby becoming more market-oriented. An important element is to increase access to SAS's large data bases. This allows development of data processing practices to be better adapted to requirements in individual business areas. In many cases, the development method can be spun off by SAS Data to its customers.

SAS Limousine Service between Stockholm and Arlanda Airport was introduced during the autumn of 1982 and was an immediate success. The service is being expanded and is currently also available in Malmö, Gothenburg, Amsterdam and New York.

WIEN SAS HOTEL
PALAIS HENCKEL VON DONNERSMARCK
KAPITAL & WERT
1060 WIEN, MARIAHILFERSTRASSE 77-79
TEL. 93 76 04-0
PRÄSENTIERT DEN
BODEN-WERT FONDS 1
GENERALPLANUNG UND
INNENRAUMGESTALTUNG
PFEFFER - CONSULT
1040 WIEN, PRINZ EUGEN-STRASSE 30
TEL. 65 18 93
PROJEKTMANAGEMENT
UND AUSFÜHRUNG
WIBERA
TEL. 63 16 95

SAS Hotels

During the year, hotel operations were established as a separate division of the SAS Group.

SAS has 21 hotels, either owned or operated under management contracts. The majority are in Scandinavia at locations where SAS has substantial traffic. All are marketed under the SAS Hotels name.

Revenue increased by 221 MSEK, or 43 percent, over the previous financial year. The SAS Hotel Scandinavia in Copenhagen, which became a subsidiary during the year, accounted for 78 MSEK of the increase. The number of employees, including those in hotels operated under management contracts, is 2,991.

The demand for hotel rooms at key SAS locations varied during the year. In northern Norway, the market continued to be weak and several of SAS's smaller hotels had poor occupancy rates. Demand significantly exceeded supply in Oslo where SAS Hotels recorded a positive development.

In Sweden, there are SAS hotels in Gotenburg, Luleå, and at Arlanda Airport. The SAS Park Avenue Hotel in Gothenburg showed a considerable result improvement in 1982/83. The Star Hotel at Arlanda is being expanded to meet increased demand.

In Copenhagen, SAS operates three hotels—the SAS Hotel Scandinavia, the SAS Royal Hotel and the SAS Globetrotter Hotel.

New hotels in Vienna and Singapore are scheduled to open in 1985.

Summary of Hotel Operations[1]

	1982/83	1981/82
Revenue, MSEK	**732**	511
Income before allocations and taxes, MSEK[2]	**31**	8
Number of employees, average	**2,640**	2,117

[1] Excluding hotels operated on management contracts.
[2] The income includes estimates.

SAS Hotels Division began renovation of an old palace in Vienna in 1982/83. The cultural landmark will become an SAS hotel, scheduled to open in 1985, at the same time as another new SAS hotel in Singapore.


SKYLINER
SERVICES
SAS CATE
SMB
SKYLINER SERVICE
DRAIN VALVE

Catering and Restaurants

The business area includes the Catering, Restaurants and Offshore Industrial Services divisions of SAS Catering.

SAS operates flight kitchens and restaurants in more than 100 locations in 11 countries and has, in addition, extensive business in Saudi Arabia.

Revenue rose by 452 MSEK and the profit by 30 MSEK over the previous financial year.

SAS Catering operates 15 flight kitchens in 10 countries, and is responsible for the purchase, storing and distribution of duty-free goods at all Scandinavian airports except Copenhagen. SAS is the largest airline customer, with a 45 percent share of total flight kitchen sales.

SAS Catering has developed systems and methods for the efficient operation of flight kitchens. As a result, SAS Catering is expanding its operation of flight kitchens for other airlines. Since 1982, for example, SAS Catering has been managing the British Airways flight kitchen at London's Heathrow Airport. The outlook is optimistic for Royal Orchid Catering, a new flight kitchen chain in the Far East to be operated by SAS Catering and Thai International. A contract has also been signed to establish and manage a second flight kitchen in Saudi Arabia.

SAS operates airport restaurants at Arlanda, Kastrup and Fornebu, as well as cafeterias and snack bars at a number of other airports. Manchester and Dublin are among SAS Catering's airport restaurants outside Scandinavia. It also operates restaurants at exhibition halls.

During 1983, the "Snappy" fast-food chain was launched in Norway, and a major expansion of the "Checkers" roadside restaurant chain is planned in Sweden.

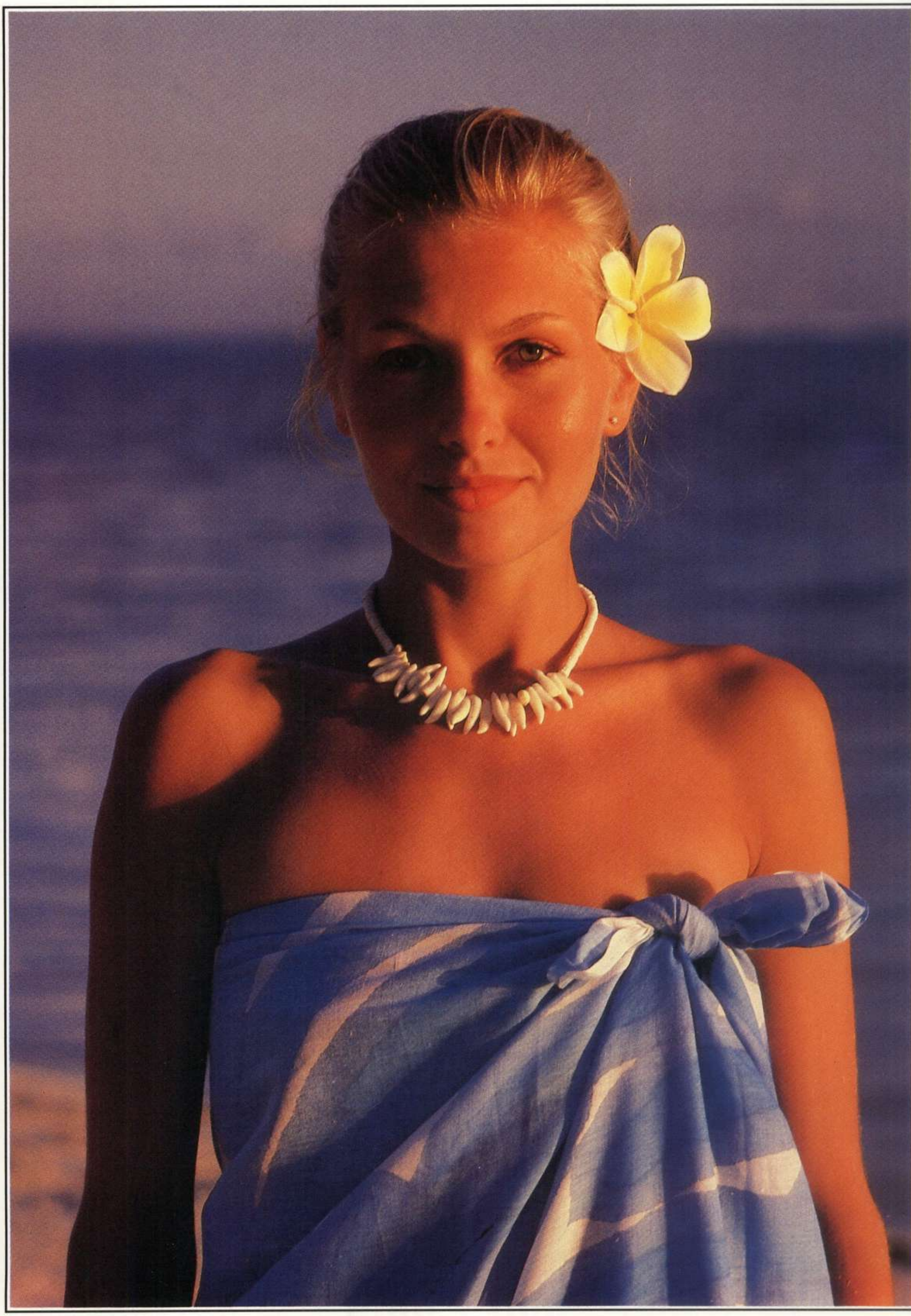
SAS Catering is also engaged in the quartering and provisioning of employees on offshore oil platforms, a rapidly growing market. During the year, the Offshore Industrial Services division won contracts for catering and other services in the Tyra Block in the Danish sector of the North Sea, and in the Statfjord Block in the Norwegian sector.

Catering and Restaurants Summary

	1982/83	1981/82
Revenue, MSEK	**1,681**	1,229
Income before allocations and taxes, MSEK[1]	**82**	52
Number of employees, average	**4,597**	4,091

[1] The income includes estimates.

SAS operates flight kitchens on its own behalf and for other airlines around the world. Activities are being gradually expanded to include other services such as cabin and fuselage cleaning.



The Leisure Sector

The business area includes SAS inclusive tour and charter operations in the tourist market, offering travelers reasonably priced holidays. Charter flights play an important role in SAS's marginal strategy and contribute significantly to overall airline results.

In addition to Vingresor and Scanair, the business area also includes Scandinavian Air Tour Productions AB (Globetrotter), which was recently renamed SAS Tours AB.

Summary of Leisure Sector Operations[1]

	1982/83	1981/82
Revenue, MSEK	**1,311**	1,154
Income before allocations and taxes, MSEK	**41**	41
Number of employees, average	**1,365**	1,312

[1] Excluding Scanair.

VINGRESOR

Vingresor is Sweden's largest operator of inclusive tours, with 31 percent of the market in 1982/83. The company also has substantial business in Norway, where its market share is 26 percent.

A total of 392,000 vacationers traveled with Vingresor in 1982/83, including 110,000 from Norway, an increase of 35 percent. The total market in Sweden declined 19 percent, to 877,000 inclusive tours sold, while the total Norwegian market rose by 17 percent to 431,000.

Vingresor's sales were 1,145 MSEK compared to 1,069 MSEK in the previous financial year. Income befor allocations and taxes rose from 38 MSEK in 1981/82 to 41 MSEK. The year was the most successful in the history of Vingresor. Despite the sharp decline in demand in Sweden because of the devaluation of the krona, Vingresor was able to improve on the previous year's record result. The market share increased by three percentage points in Sweden and four percentage points in Norway. Capacity utilization in Swedish operations, calculated as the average flight cabin factor, was 99.4 percent, which contributed strongly to the good result. Another factor is Vingresor's incentive to vacationers who book early and pay in cash. This increases liquidity, with active cash management generating substantial financial revenue.

During 1982/83, the three largest Swedish tour operators—Vingresor with 270,000 vacationers, Atlasresor with 230,000 and Fritidsresor with 200,000—together had more than 80 percent of the Swedish market.

In Norway, Vingresor has gained a market share of 26 percent since starting in the mid-1970s and is about the same size as Saga and Stjärnresor, companies associated with Atlasresor and Fritidsresor, respectively. The Norwegian market is smaller than the Swedish, but is growing more rapidly.

Quality, company image and tour programs are important factors in the vacationer's choice of a tour operator. Price is, however, the most important competitive factor. To be price-competitive means being highly cost-efficient, which in turn requires large volume, long production series, efficient purchasing, high precision and low marketing costs. Vingresor sells exclusively through its own agencies or by mail order, which means considerably lower costs compared to competitors who use agents.

In an effort to achieve a cabin factor over 99 percent, and to distribute demand evenly among the seasons, points of departure and destinations, Vingresor has the most highly differentiated price policy on the market.

Vingresor also approaches the market with a wide variety of products. VingKonferens arranges conferences for businesses and organizations. VingAlpin operates winter sports tours to ski resorts in Austria and France, as well as to the Swedish ski district. VingGolf sells more than half of all Swedish golf holidays abroad. Club 33 is the group's youth tour operator, which has an international reputation.

At most of its foreign destinations as well as in Åre, Sweden, Vingresor operates its own hotels under the Sunwing name. A new hotel was opened on Cyprus during the year. The next project is a Sunwing hotel on Crete which will open during 1984. The Sunwing hotels give Vingresor a unique product advantage. The hotels are designed to meet the needs of Scandinavian vacationers, with emphasis on families and the active tourist.

Vingresor has a very strong position on the market. Although the effects of the devaluation of the Swedish krona continue to reduce demand, steadily improving currency change rates for many vacation destinations have led to gradual adjustment in the market, and demand is expected to increase in Sweden. A continued positive development is expected in Norway.

Vingresor is Sweden's largest inclusive-tour operator and one of the three largest in Norway. Despite the negative effects of the Swedish krona devaluation, a new profit record was set in 1982/83.

SCANAIR

Scanair is a sister consortium of SAS, with the same ownership structure as the airline itself. It was formed in 1961 to operate charter flights from and to the Scandinavian countries. It has 300 employees. Scanair is not included in SAS's accounts and is therefore not included in the above summary.

Revenue during the year was 858 MSEK (756) an increase of 13 percent. Income before allocations and taxes rose from 25 MSEK to 33 MSEK. During the year, 1,066,000 passengers flew with Scanair, compared to 1,111,000 in 1981/82.

Charter airlines operate in a considerably freer market than scheduled airlines, but there are rules limiting their opportunities to compete directly with the latter. These regulations are set by the civil aviation authorities in each country.

Charter airlines sell their services to inclusive tour operators which are responsible for utilizing the aircraft capacity. The charter airlines, therefore, take a limited short-term risk. In a long run, however, the development of charter airlines depends on their ability to sign long-term contracts with tour operators whose stable position in the market are the result of attractive tour programs and sound finances.

Scanair's share of the Swedish charter market is 48 percent, an increase of three percentage points from the previous year. In Norway, the share rose from 11 to 25 percent. In Denmark, Scanair still has only a modest share of the market. Scanair is one of Scandinavia's two largest charter companies. The main competitors are Sterling Airways in Denmark and Braathens SAFE in Norway. Both have ownership interests in inclusive tour operators.

Scanair's improvement over the previous year's good result, despite the weak market, was due to efficent use of its aircraft fleet in a flexible program adjusted to customer needs. Scanair has some 15 regular tour-operator customers, with five accounting for 80 percent of production. The combination of large and small customers means that Scanair can quickly adjust its own program to market changes and achieve the best possible utilization of resources.

When vacationers select inclusive tours, price is still the overriding deciding factor. It is very likely that the tour operators' choice of charter airline will play an increasing role as a means of competition. Scanair, therefore, must continually improve its product program and service to vacation travelers. Scanair, like SAS, is making a strong effort to improve punctuality. Other important ingredients in its service program are the selection of duty-free goods on board, better in-flight food and entertainment, check-in procedures, ground services and more.

During the year, Scanair operated three DC-8s and two Airbus A300s, all of which are on long-term lease from SAS. Scanair also leases surplus SAS capacity, mainly DC-9s, on weekends, making a valuable contribution to SAS's marginal sales.

Scanair is a charter airline consortium associated with SAS. The most frequented destinations are Mediterranean countries during the summer and the Alps during the winter. In the future, new, exotic destinations may be added to satisfy the Scandinavian vacationer's demand for relaxation and recreation.


PRIORITY
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AIR CARGO
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OLSON & WRIGHT
MALMÖ – SWEDEN

Other Businesses

Other SAS businesses include the subsidiaries Nyman & Schultz Business Travel Agency in Sweden (wholly-owned), Dansk Rejsebureau in Denmark (50 percent), and the wholly-owned freight forwarding company Olson & Wright. In addition, the SAS Consortium and its subsidiaries are part-owners in several affiliated companies not consolidated in the SAS Group.

Summary of other Business

	1982/83	1981/82
Revenue, MSEK	**456**	342
Income before allocations and taxes, MSEK[1]	**17**	20
Number of employees, average	**954**	874

[1]) The income is partly estimated.

NYMAN & SCHULTZ

Nyman & Schultz is Sweden's oldest travel agency and one of the largest in the country.

Sales in 1982/83 totaled 1,205 MSEK, 16 percent over the previous financial year. Operating revenue, mainly commissions and sales of travel arranged by Nyman & Schultz itself, totaled 281 MSEK (237). Income before allocations and taxes amounted to 7 MSEK (8).

Nyman & Schultz has specialized in travel services to Swedish business and industry. It emphasizes this specialty by marketing itself as Nyman & Schultz Affärsresebyrå (Nyman & Schultz Business Travel Agency). Around 90 percent of 1982/83 sales, 1,097 MSEK, were to business travel customers. About 80 percent of travel sold was to destinations outside Sweden.

Nyman & Schultz's products are service and qualified advice for all aspects of travel planning and practical preparations for travel.

Because of its size and stable market position, the agency has the resources to develop and continually adjust its products according to the needs of business travelers. It is the only Swedish travel agency associated with Woodside, the world's largest hotel booking service. In Denmark, Dansk Rejsebureau, and in Norway, Bennett, are linked to Woodside. Both agencies are partially owned by the SAS Consortium.

Among other product developments which have gained recognition is the 24-hour service that was introduced during 1983. This enables customers to order tickets, book hotel rooms, etc., around the clock and make changes in their itineraries as well.

Business travel generally reflects the state of the world economy. Changes in the economic climate have rapid impact on the results of the travel agency business.

During 1982/83, business travel was affected by the devaluation of the Swedish krona. At the start, there was a marked decline in demand as a result of price increases of 15–20 percent. After six months, a gradual upturn started and the market for business travel has now stabilized at the level prevailing before the devaluation. Nyman & Schultz estimates that 1982/83 income was 1.5 MSEK to 2 MSEK lower because of the devaluation, even though the agency improved its market share in the sale of air travel.

The improved competitive strength of Swedish companies will lead to growth in the business travel market and Nyman & Schultz is projecting improved profits in 1983/84.

OLSON & WRIGHT

Olson & Wright is one of Sweden's major international freight forwarding companies. In November, 1982, it acquired Nordsped, a large Norwegian freight forwarder.

Olson & Wright is active in three areas: air cargo, shipping and land transport.

Its air cargo operations include all freight forwarding services connected with the import and export of goods. Olson & Wright has its own offices at Arlanda (Stockholm), Landvetter (Gothenburg), Bulltofta (Malmö), and Kungsängen (Norrköping). Nordsped is based at Fornebu (Oslo) with a branch office in Stavanger. In addition, Olson & Wright owns half the shares in Olson & Wright/Air Express Int. A/S, with offices at Kastrup (Copenhagen), Aarhus and Esbjerg.

Shipping includes chartering, mainly of tanker tonnage, liner agency assignments, and

Olson & Wright is one of Sweden's leading freight forwarding companies, specializing in air cargo. Air cargo's share of the world's total freight volume is still small. SAS's new cargo program is a competitive alternative to surface transport in Europe and on intercontinental routes.

shipping agency work including insurance. In addition, Olson & Wright is the agent for a number of shipyards and salvage companies, including the world's largest salvage company, Smit of the Netherlands.

The third area of operations includes road and rail shipments, container services, and all import- and exported-related services. For these services, Olson & Wright has offices in Malmö, Helsingborg, Gothenburg, Jönköping, Norrköping, Stockholm and Sundsvall. Aside from pure transport and freight forwarding services, Olson & Wright offers long-term warehousing, including inventory accounting and packing.

Olson & Wright differs from other freight forwarders by specializing in the international transport of goods, and in the broad scope of services it provides. The company has a leading position in the Swedish air cargo market.

Service is the most important competitive tool. With efficient systems, including cargo consolidation, scheduled traffic, and an optimal combination of different routes and modes of transportation, service can be adapted to the needs of each individual customer. New products are constantly developed within this framework.

A very important phase in the subsidiary's on-going rationalization is its transition to integrated, data-based systems. These will improve customer service and increase productivity. The introduction of these data processing systems involves, for the present, high costs for comprehensive training of almost all personnel.

Olson & Wright's total revenue amounted to 1,337 MSEK (1,096) in 1982/83, an increase of 22 percent over last year. After deducting import fees and forwarding charges, revenue was 161 MSEK (96).

During the year, the Swedish government tightened the deadlines for the payment of import fees. This very significantly affected the cash flow of freight forwarding companies and reduced Olson & Wright's interest revenue by around 3 MSEK.

The company's income before allocations and taxes was 9 MSEK (11).

SAS Group Organization

PRESIDENT & CHIEF EXECUTIVE OFFICER
Jan Carlzon

EXECUTIVE COMMITTEE

President's Office
Jan Carlzon
Frede Ahlgreen Eriksen
Helge Lindberg

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Nils G Molander

Business Strategy & Corporate Development
Jan Lapidoth

Advisor to the Board and President on Long-term Financing
Carl Erik Lindh

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Björn Gadd

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Lars Enkler

Legal Affairs
Bo Ståhle

Public Relations
John A Herbert

Quality Assurance
Åke Romander

Internal Auditing
Harald Svensson (acting)

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Jan Carlzon
Frede Ahlgreen Eriksen
Helge Lindberg
Nils G Molander
Jan Lapidoth
Lars Bergvall
Per-Axel Brommesson
Björn Gadd

GROUP COUNCIL

The Group Council includes the Executive Committee, Group Management Committee, Corporate Staff, heads of the main Business Areas, and the Regional Managers:

SAS Denmark
Roald Søkilde

SAS Norway
Oddvar Bache-Mathiesen

SAS Sweden
Yngve Wessman

BUSINESS AREAS

Airline
Commerical Division
Lars Bergvall

- Route Sector Europe
  Sven A Heiding
- Route Sector Intercontinental
  Jørn Bundgaard-Nielsen
- Route Sector Cargo
  Mats Mitsell
- Route Sector Denmark/Greenland
  Kurt Thyregod
- Route Sector Norway
  Tom Voss
- Route Sector Sweden
  Linnar Borén

Traffic Services Division
Göran Lundqvist

Technical Division
Lennart Ringqvist

Operations Division
Oskar S Nordland

Administrative Services Division
Göran Yxhammar

Data Services Division
Curt Ekström

Hotels
Hotel Division
Terje Myklebust

Catering/Restaurants
SAS Catering
Per-Axel Brommesson

Leisure Sector
Vingresor
Christer Magnusson
Christer Sandahl
(from January 1, 1984)

Scanair (Independent consortium)
Bengt Hägglund

SAS Tours
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"Everyone, customer and employee alike, wants to be—and should be—treated like an individual. SAS equates good service with living up to the individual customer's or employee's needs and expectations at any given time."

JAN CARLZON, PRESIDENT AND CHIEF EXECUTIVE OFFICER, SAS