Scandinavian Airlines System

Annual Report 1983-84

SAS

Scandinavian Airlines System

Scandinavian Airlines System (SAS) is the national 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 50 percent owned by private interests and 50 percent by government. The SAS Group consists of the SAS Consortium and its subsidiaries.

DDL **DNL** **ABA**

SAS Consortium

Subsidiaries

MEMBER OF
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QUALITY IN AIR TRANSPORT

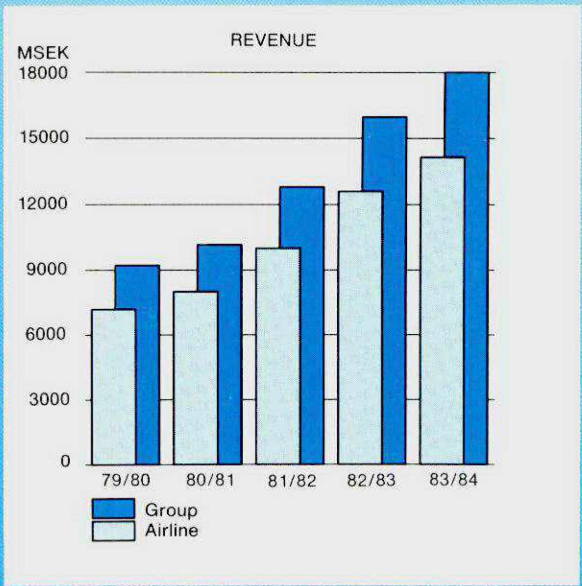
Contents

SAS Group Summary

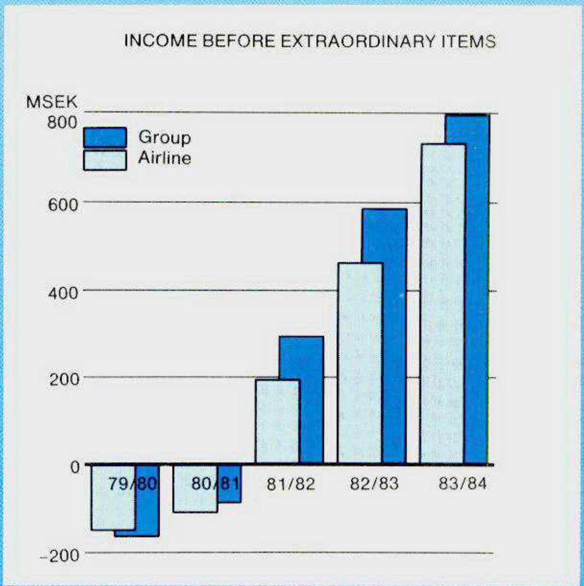
REVENUE AND RESULT

October 1 – September 30

BUSINESS AREA (MSEK)	Revenue 1983/84	1982/83	Result 1983/84	1982/83
SAS Airline	**14 151**	12 600	**729**	461
SAS International Hotels	**843**	732	**21**	14
SAS Service Partner	**2 049**	1 681	**15**	75
SAS Leisure	**1 474**	1 311	**43**	41
Other	**460**	456	**5**	17
Group eliminations	**– 972**	– 808	**– 21**	– 25
INCOME BEFORE EXTRAORDINARY ITEMS			**792**	583
EXTRAORDINARY ITEMS			**176**	18
SAS GROUP	**18 005**	15 972	**968**	601



The airline accounted for close to 80 percent of total SAS Group revenue. The large increases in recent years are due to exchange rate developments, and also to SAS's traffic growth.



Since 81/82 the SAS Group has reported major improvements in performance, largely due to airline initiatives.

ANOTHER SUCCESSFUL YEAR

Market recovery
After several years of stagnation, growth in demand for air travel resumed. SAS European traffic increased by 8 percent.

Increased market share
The airline further strengthened its position in business travel. New low-fare alternatives attracted more leisure travelers.

Product improvements
New non-stop flights and more frequent departures were introduced to many destinations. More Scanorama lounges were opened at airports in and outside Scandinavia.

New cargo product
A new cargo concept was introduced. Market response was positive.

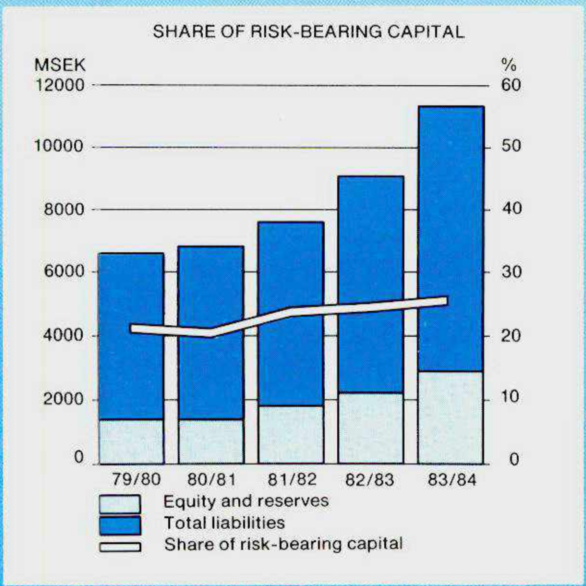
Continued earnings improvement
The result improvement over last year is due to SAS's positive traffic development, an increased share of full-fare passengers, more low-fare passengers and high capacity utilization.

Gains in Hotel, Leisure sectors
Hotels strengthened their ties with the airline by profiling services for the business traveler. The leisure sector, especially Vingresor, improved its result in a weak market.

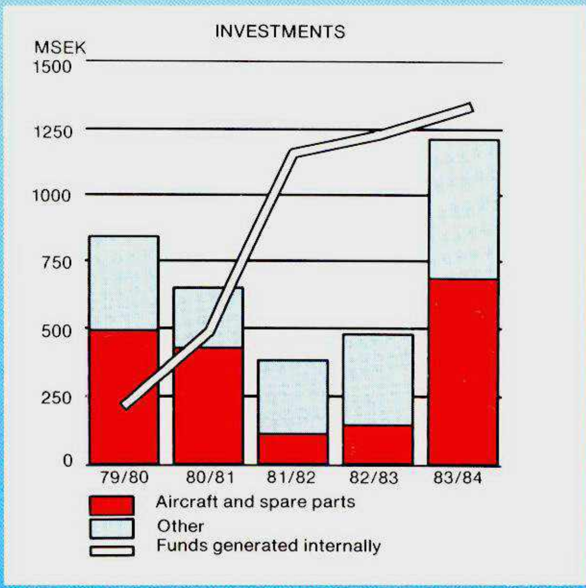
Setback for SAS Service Partner
SAS Service Partner, operator of flight kitchens and restaurants, sustained a sharp drop in profits. Action has been taken to reverse the trend.

More resources and investments
SAS successes in the market and high utilization of capacity call for more resources in the form of both personnel and aircraft. Six new DC–9s and two DC–10s were ordered.

Cautious optimism
Continued improvement of income before extraordinary items is forecast for 1984/85. This is essential in view of SAS's pending investment program.



The positive earnings development and the low level of investments has allowed the SAS Group to improve its capital ratio. Further improvement is needed for favorable financing of new aircraft.



The SAS Group has made relatively minor investments in fixed assets in the past two years. Recent market success has now led to some 2,200 MSEK in aircraft investments, including 580 MSEK of the total 1,200 MSEK investments made in 1983/84.

New Goals for the Future

SAS has reported considerably improved earnings for the third consecutive year. This year's profit of 792 MSEK before capital gains and other extraordinary items is in line with our forecasts. The airline result is particularly gratifying, while the lower result of SAS Service Partner (formely SAS Catering) was a disappointment. We expect a rapid recovery, with corrective measures already taken.

We had two goals when plans for the airline were staked out in the beginning of the 1980s. One was to make the airline profitable and the other was to become the world's best airline for the frequent business traveler. We can now affirm that we have achieved these goals. SAS is profitable and the earnings trend indicates that we will achieve the necessary level of earnings in the future. The Airline of the Year award, our own traffic development and a number of objective studies show that we are good enough to have lived up to our business idea.

But these three years merely extend SAS's previous successes before the airline crisis toward the end of the 1970s. To understand SAS today and in the future, we should look back in time.

In its more than thirty years in business, SAS has always been in the forefront in whatever standards have distinguished each epoch in airline development.

In the 1950s, the pioneers in SAS won the airline world recognition for top class operational development and service.Many airlines saw SAS as a model and we participated in the development of other national carriers. We were first to fly across the Pole. With the Caravelle, we were the first airline to operate regular jetliner services.

During the growth period of the 1960s, SAS rapidly entered the jet age. We built solid relationships for technical cooperation with other airlines and we were among the first to apply computer technology efficiently. We were also efficient in planning and cost control.

Growth and technical development continued during the first years of the 1970s. Business expanded into other areas, through new subsidiaries. But this was also the period when problems started to mount.

Fuel costs rose dramatically, government fees escalated, the market ceased to grow and competition mounted. Just like other airlines, SAS tried to adapt to the new situation with increased cost control and discounted fares. The result was service deterioration and damage to our corporate image. Tougher competition led to lower prices and weaker profits and, ultimately, financial setbacks. A rejuventated SAS emerged from the crisis. All of the essential elements for success had been in the company before but many had slipped away. Market orientation and the service philosophy inspired the staff to new, individual efforts to the benefit of the company. Everyone strived to surpass themselves; there was great unity in achieving the common goals.

SAS AND FREE COMPETITION

What happens now? What can we expect of the 1990s? I am convinced that we are headed for even freer competition. We must therefore formulate new, even more important and far-reaching goals for our future development.

We must earn the right to be the national carrier of the Scandinavian countries. When competition turns free, we must be able to continue to fly where we fly today and even be competitive enough to conquer new markets. For SAS, free competition should not be a threat but an opportunity. This is my vision of the future.

THREE PILLARS OF STRENGTH

What do we need to achieve these goals? Basically, this: Good products that satisfy a market need and great efficiency in supplying those products. SAS's products are based on three equally strong pillars: Operational quality, technical quality and service quality. All three are equally important and interdependent. If one falls, the others also collapse. The content of these basic elements must be clearly defined as clear-cut SAS standards, which must not be compromised.

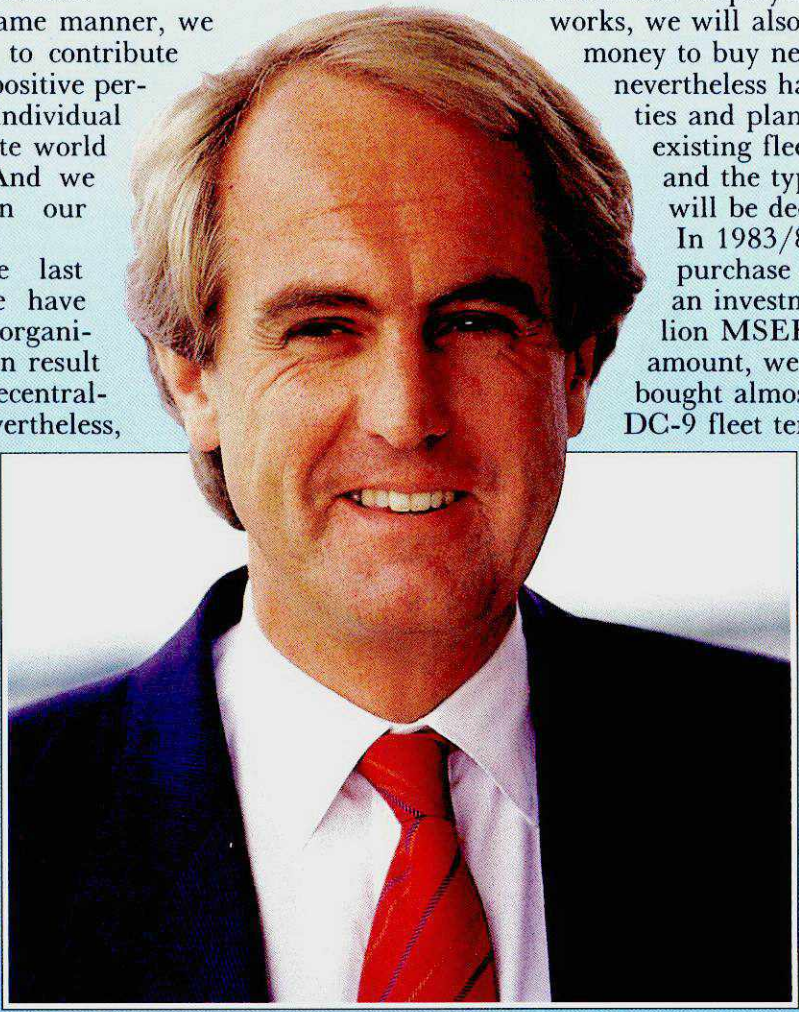
Our aircraft must be flawless even if it means that we must keep several airplanes in reserve; our timetables must be maintained even if that means increased costs, etc., etc. And, additionally, we must do our job so well and so efficiently that nobody can do what we do better. On the basis of these norms, we shall continue to develop differentiated products for the various segments of our market. We shall continue our Businessman's Airline strategy and we shall offer low prices to leisure travelers in order to obtain a high utilization of capacity. We shall integrate the various elements of travel into efficient door-to-door services.

A NEW PERCEPTION OF THE INDIVIDUAL

Our market orientation would not have been possible without strong emphasis on the individual and our conviction that everybody in the company desires to do as good a job as possible to satisfy our customers. The SAS service and market philosophy has become a byword far beyond our own company. Other companies and society at large have been influenced.

In the same manner, we shall now try to contribute to a new and positive perception of the individual in the corporate world and society. And we must start in our own backyard.

Over the last few years we have developed an organization based on result control and decentralization. Nevertheless, problems are still not being solved at their origin, but are frequently dragged up and down in the organization. This has resulted in a lack of positive action or in delays in dealing with problems. This has to change. We must have a horizontal organization instead of a vertical corporate structure. Responsibility has to be assumed on the very spot where a problem may arise. Rapidly and efficiently. Then we can provide better service as well as attain greater employee satisfaction. At the same time we can eliminate a lot of unnecessary administration and rigid bureaucracy. I look at this entire process as something very exciting, well aware of the time it will take and the efforts it will involve. We have a long way to go and I am convinced that we shall succeed.



MAJOR INVESTMENTS REQUIRE STRONG EARNINGS

We have recently been concentrating on the extensive capital investment program that lies ahead, and how to finance it. At the same time, we all know that the future of SAS will not be determined by the exact type of aircraft we buy. Our future as an independent airline will be determined by our capacity to create satisfied customers and motivated employees. If this works, we will also make enough money to buy new aircraft. We nevertheless have to face realities and plan to replace the existing fleet. The timing and the type of aircraft will be decided in 1985.

In 1983/84 we decided to purchase six new DC-9s, an investment of 1.3 billion MSEK. For that amount, we could have bought almost our entire DC-9 fleet ten or fifteen years ago. At that time SAS's earnings were on the order of 50 to 100 MSEK per year. Today a profit of over one billion annually is required just to finance a corresponding capital investment program. An even higher profit is actually required now, since SAS needs more airplanes today than ten years ago. Therefore, we must continue to improve our result at the same rate as during the last three years.

Sincerely,

Jan Carlzon

Investment Plans and Profitability

SAS has bettered its result substantially in the last three years. In evaluating SAS's earnings, however, result trends must be examined over a longer period of time. To make the necessary investments, a high level of profitability and a strong balance sheet are required. SAS is currently planning to replace its short and medium range fleet. The long range fleet also has to be restructured and become more efficient in response to market needs.

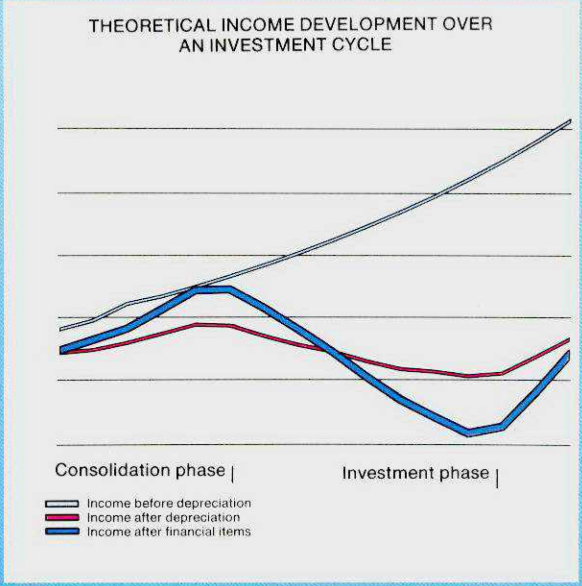
At present exchange rates, and expressed in constant value terms, the total net investment is estimated to be between 25 and 30 billion kronor over the next 10 to 15 year period.

Until the end of the 1970s the market for international scheduled air traffic was in a state of continuous and vigorous growth. To keep up with the growing market and technological developments, most airlines invested heavily in new aircraft. This development partially took place under protection of national monopolies and bilateral agreements. When traffic growth stagnated toward the end of the 1970s, and competition increased, many airlines suffered acute profitability problems. High interest rates and an unfavorable development of foreign exchange rates aggravated the situation.

SAS's present fleet of 60 DC–9s was acquired between 1968 and 1979. About half of the aircraft entered service prior to 1970 to replace propeller aircraft. In 1974 the entire fleet of Caravelle planes was replaced and, in the following years, two or three DC–9s were added to the fleet every year. DC–10s and Boeing 747s were acquired during the 1970s. A300s and additional Boeing 747s were delivered in the early 1980s.

Until 1974 SAS was able to finance the procurement of new aircraft without undue strain on the company's financial position. The debt equity ratio in the Consortium never exceeded 2.0 to 1. From 1974 the balance sheet grew more rapidly than equity as new investments led to a substantial increase in long–term debt. The debt equity ratio gradually increased to 3.5 to 1 in 1981.

Between 1966 and 1979, the SAS consortium recorded income after financial items varying between 10 MSEK and 100 MSEK.



The graphs illustrate how SAS's result could fluctuate over an investment cycle consisting of a consolidation phase and a high investment phase, with low and very high investment volume, respectively.
A constant gross profit margin has been assumed for income before depreciation. The kronor increase then corresponds to inflation.
During the consolidation phase depreciation is low when assets are comparatively old and, in part, fully depreciated. The net of financial items is also positive as old loans are largely repaid and interest on remaining loans is low, while large cash balances generate substantial interest income. Depreciation rises rapidly during the investment phase. The financial net shrinks and becomes negative with interest on new loans and as interest income on liquid funds falls off due to downpayments.

The SAS Consortium result of 729 MSEK for 1983/84 is indeed the highest ever recorded, but given the future investment requirement, this result level is considered inadequate. The result includes expenses for a low volume of investment where also interest and related expenses do not reflect current levels.

The goal of the airline as a whole, and its individual business entities, is to achieve a level of results allowing for necessary reinvestment in aircraft and other assets, while maintaining a sound financial position.

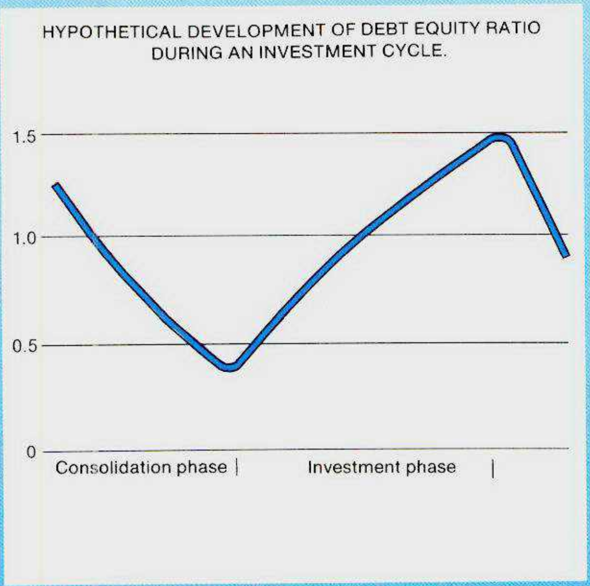
Prices for new aircraft have risen rapidly. A DC–9, which in 1968 cost 20 MSEK, in 1984 costs more than 200 MSEK, partly due to the development of the dollar exchange rate.

A hypothetical estimate of the consequences of replacement of the SAS fleet clearly demonstrates the need for continued result improvement.

For an investment program to replace SAS's fleet, where the DC-9 replacement is assumed to have a commercial life of 20 years and other aircraft a life of 25 years, net annual investments of 3 billion SEK in constant money over 10 years would be required. At 1984 financial year-end, aircraft and spare parts had a net book value of 1,570 MSEK. Assuming an average capital cost of 16 percent during the period, income after financial items of 1.3 to 1.5 billion SEK is required for the next few years for the Consortium to have a debt equity ratio not exceeding 1.5 to 1 by the end of the investment cycle.

Income before depreciation must therefore rise with inflation to cover increased capital costs in the form of interest and depreciation. Income after financial items will be reduced in direct consequence of investments made.

Internal analysis and evaluation of future investment plans are naturally based on the needs of customers and the market. Other aspects analyzed in detail include operating economy, different financing alternatives, as well as financial and tax consequences for the three parent companies in the SAS Consortium.



During the consolidation period, equity grows and debt is repaid for an improvement of the relationship between debt and equity. During the investment period considerable debt is incurred, resulting in higher capital costs and a deterioration in the relationship between debt and equity. A debt equity ratio not exceeding 1.5 to 1 at the end of the investment period is assumed in the diagram.

Report by the Board and the President
October 1, 1983 – September 30, 1984

SUMMARY

The SAS Consortium (the Airline) further strenghtened its position during the year in a market that showed signs of growth after several years of stagnation. SAS increased its share of the market, recording increases in both full-fare and low-fare traffic. Most route sectors, including intercontinental and cargo, registered gains. Air Transport World, the U.S. industry journal, named SAS the Airline of the Year for 1983.

In the leisure sector Vingresor strengthened its position despite intense competition and again recorded a good result. The market profile of SAS Hotels was sharpened with the addition of new services. Marketing efforts were intensified and the operating result improved.

SAS Service Partner is undergoing structural changes. New projects to strengthen the business were initiated during the year. The earnings of the flight kitchen and restaurant divisions declined. Measures have been taken to restore the operations to profitability.

The Board of Directors places great emphasis on continued efforts to further improve the results of the SAS Group. This is required in order to make the necessary investments to ensure SAS's continued growth.

The Board of Directors wishes to express its sincere thanks to all SAS personnel for dedicated and successful work during the past operating year.

THE SAS GROUP

MSEK	Revenue		Result	
Business area	**1983/84**	1982/83	**1983/84**	1982/83
Airline[1]	**14 151**	12 600	**729**	461
SAS Service Partner[2]	**2 049**	1 681	**15**	75
Hotels[3]	**843**	732	**21**	14
Leisure[4]	**1 474**	1 311	**43**	41
Other[5]	**460**	456	**5**	17
Group eliminations	**–972**	–808	**–21**	–25
Income before extraordinary items			**792**	583
Extraordinary items, net			**176**	18
SAS Group	**18 005**	15 972	**968**	601

The three parent companies, DDL in Denmark, DNL in Norway and ABA in Sweden, jointly operate the SAS Consortium, which in turn owns a number of subsidiaries. These businesses are included in the SAS Group for accounting and administrative purposes.

SAS is organized into separate business areas, the largest of which is the Airline. In addition, SAS operates hotels, flight kitchens, restaurants and tour operator activities, etc. in 16 subsidiaries.

Group consolidated revenue for the financial year amounted to 18,005 MSEK (15,972), an increase of 13 percent. Income before extraordinary items amounted to 792 MSEK compared to 583 MSEK last year. Income before allocations and taxes was 968 MSEK (601). This includes extraordinary items, net, for 176 MSEK (18).

STATEMENTS OF INCOME

MSEK	SAS Consortium **1983/84**	SAS Consortium 1982/83	SAS Group **1983/84**	SAS Group 1982/83
Revenue	**14 151**	12 600	**18 005**	15 972
Operating expense	**–12 791**	–11 583	**–16 415**	–14 695
Operating income before depreciation	**1 360**	1 017	**1 590**	1 277
Depreciation	**–438**	–399	**–545**	–483
Operating income after depreciation	**922**	618	**1 045**	794
Interest, net	**138**	21	**122**	6
Financial items, other	**–331**	–178	**–375**	–217
Income before extraordinary items	**729**	461	**792**	583
Extraordinary items	**189**	1	**176**	18
Income before allocations and taxes	**918**	462	**968**	601

BALANCE SHEETS

MSEK	SAS Consortium **1983/84**	SAS Consortium 1982/83	SAS Group **1983/84**	SAS Group 1982/83
Liquid funds	**3 443**	1 993	**4 011**	2 595
Other current assets	**2 666**	2 292	**3 280**	2 833
Current assets	**6 109**	4 285	**7 291**	5 428
Fixed assets	**3 157**	2 883	**4 056**	3 654
Total assets	**9 266**	7 168	**11 347**	9 082
Current liabilities	**4 976**	3 636	**6 105**	4 552
Long-term debt	**1 715**	1 641	**2 346**	2 313
Reserves	**546**	570	**783**	772
Equity	**2 029**	1 321	**2 113**	1 445
Total liabilities and equity	**9 266**	7 168	**11 347**	9 082

[1] SAS Consortium (including Group management)
[2] Divisions: Flight Kitchens International, Flight Kitchens Scandinavia, Restaurants, Offshore & Industrial Services.
[3] SAS International Hotels and hotel real estate companies
[4] Vingresor and SAS Tours
[5] Nyman & Schultz, Dansk Rejsebureau, Olson & Wright and others

THE AIRLINE

The market. After several years of stagnation in the international air travel market, signs of recovery were noted in late 1983. This trend continued in 1984. The international airlines, most of which had operated at a loss since the late 1970s, are collectively expected to show profits for 1984.

On the important *European market,* where SAS earns about half of its passenger revenue, SAS's traffic increased by 8 percent compared to an increase of 7 percent for the other European airlines in AEA (*).

The introduction of more frequent departures and more non-stop flights continues wherever the market permits. Non-stop flights were started between Copenhagen and Bergen, Copenhagen and Barcelona and from Copenhagen to Lisbon. A new traffic program for Eastern Europe was introduced, with more non-stops to Hungary, Yugoslavia and Turkey.

Low-fare destinations were added in Europe. SAS now has a comprehensive and very competitive low-fare program covering the entire European network. This program has attracted many new passengers.

Traffic on the *intercontinental* network increased, especially on North Atlantic routes, where the rise was 5 percent compared to 1982/83. Traffic on the North Atlantic continues to be extremely competitive with a large share of low-fare traffic. Additional non-stop services were introduced from both Oslo and Stockholm to New York. The program for connecting flights with domestic U.S. airlines for full-fare SAS passengers was improved.

On routes to Japan SAS strengthened its position somewhat, while traffic on Southeast Asia, the Middle East, Africa and South America was weaker. Continued political unrest in the Middle East prompted redirection of traffic, which was concentrated to Jeddah. Flights to Lagos were suspended.

Domestic traffic displayed continued growth, especially in Sweden and Norway.

Product improvements for full-fare passengers were introduced in the form of around-the-clock reservations, higher free baggage allowance and check-in at certain SAS-hotels in Scandinavia. SAS also introduced hovercraft service between Malmö harbor and Copenhagen Airport. New Scanorama lounges were opened at several airports. To further strengthen the business travel product, feeder routes will be improved to Copenhagen from southern Norway and Sweden. A separate business unit has been formed for this commuter traffic within Scandinavia and to certain destinations in Europe.

Punctuality was maintained at a very high level on European and domestic lines. On the intercontinental network, on-time performance has periodically been below target.

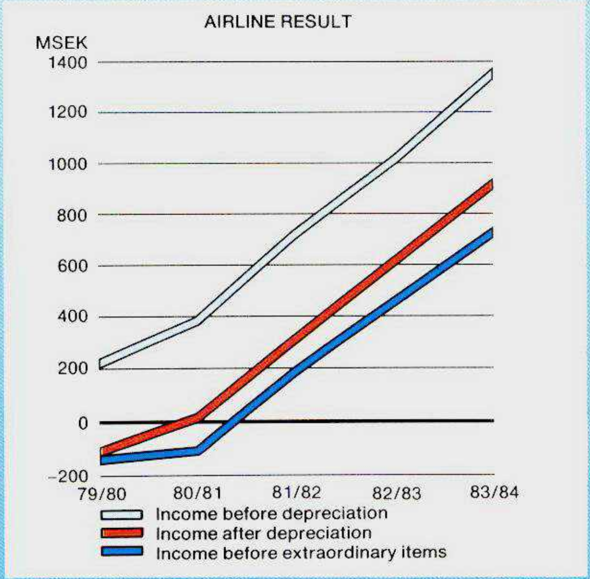
The general improvement in the economy and the strong U.S. Dollar contributed to a marked improvement of a previously depressed *cargo market* during the year. Export traffic from Scandinavia to the United States increased substantially. The overca-

PASSENGER TRAFFIC IN EUROPE

% – change from the year before

	1980/81	1981/82	1982/83	1983/84
AEA*	+4	+1	-1	+7
SAS	+1	+1	+6	+8
SAS – full-fare (EuroClass)	–3	+7	+6	+9
SAS – low-fare	+5	–5	+6	+7

The European market accounts for half of SAS's traffic revenue. Such developments as EuroClass, which was introduced in 1981, and other product improvements, have resulted in major increases in full-fare as well as low-fare traffic.



Airline results have improved substantially since 1981/82, largely due to initiatives stimulating more traffic, more full-fare passengers and improved capacity utilization. SAS's capital costs have been almost unchanged during the period.

* Association of European Airlines

TOTAL PRODUCTION AND TRAFFIC

Scheduled traffic	AVAILABLE TONNE-KILOMETERS Million	Change %	Share %	REVENUE TONNE-KILOMETERS Million	Change %	Share %	LOAD FACTOR %	Change, percentage units
NORTH & SOUTH ATLANTIC	915	5	40	652	7	44	71.2	1.5
ASIA, AFRICA AND THE MIDDLE EAST	424	-15	18	264	-14	18	62.3	0.5
TOTAL INTERCONTINENTAL	1 339	- 2	58	916	0	62	68.4	1.6
EUROPE	623	1	27	342	6	23	54.8	2.8
DOMESTIC	352	9	15	216	11	15	61.4	1.1
TOTAL NETWORK	2 314	0	100	1 474	3	100	63.7	1.8

pacity previously offered on the Scandinavian market by European and other airlines was rapidly redeployed to the respective home markets. SAS increased its intercontinental cargo capacity in the Scandinavian market. The development and introduction of new cargo services is also continuing. In many cases these special services are provided to the customers as an important link in an integrated logistics system. Such cargo services can be reasonably profitable for the airline. Reception by the market has been positive, and gradual price increases have been possible.

Traffic and Production. Compared with the prior year, SAS's total production for passenger traffic rose by 2 percent, while passenger traffic rose by 5 percent. The *cabin factor* or capacity utilization improved from 65.5 percent to 67.2 percent.

Passenger totals increased in the full-fare as well as the low-fare segments. 10.1 million passengers flew with SAS during the year, up about 10 percent.

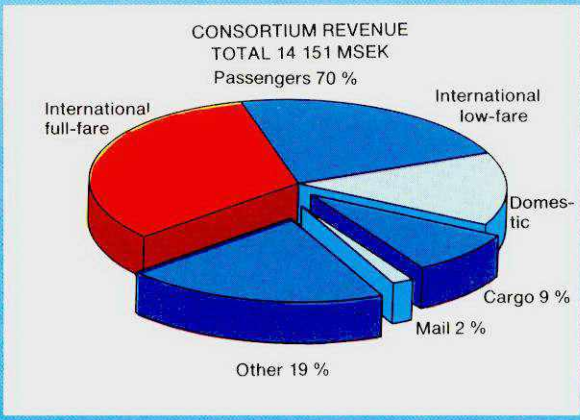
Cargo traffic was about the same, while production declined by 6 percent. The freight load factor thus rose by 2.8 percentage points to 58.9 percent.

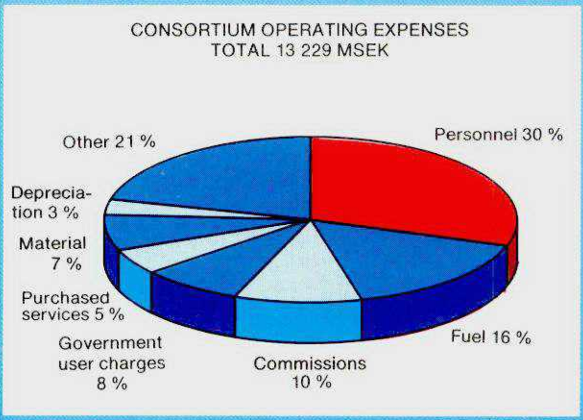
Airline Operating Revenue and Result. Operating revenue of the airline rose by 12 percent to 14,151 MSEK compared with last year (12,600). Traffic revenue amounted to 11,577 MSEK (10,463), with 85 percent (85) from passenger traffic. Operating expenses excluding depreciation increased by 10 percent to 12,791 MSEK (11,583).

Operating income before depreciation amounted to 1,360 MSEK (1,017). The result improvement is mainly due to SAS's positive traffic development, with a growing share of full-fare passengers and more low-fare passengers contributing to a high utilization of aircraft capacity and of other resources.

Depreciation was 438 MSEK (399). A number of aircraft were fully depreciated during the year and the loss of three aircraft further reduced the depreciation base. On the other hand, there was in creased depreciation on a number of aircraft due to engine modifications to achieve improved fuel efficiency.

Operating revenue and operating expenses are illustrated in the diagrams below. Personnel and fuel expenses are the largest individual items, 30 and 16 percent, respectively. Payroll and related expenses increased by 11 percent to 3,942 MSEK. Expressed in US Dollars, the average fuel price declined 11 percent. Expressed in Swedish kronor this meant a cost reduction





PASSENGER, CARGO AND MAIL TRAFFIC

Scheduled traffic (Million)	PASSENGERS Passenger kilometers	Change %	CABIN FACTOR %	Change, percentage units	CARGO Tonne kilometers	Change %	MAIL Tonne kilometers	Change %
INTERCONTINENTAL								
NORTH & SOUTH ATLANTIC	4 155	5	72.5	0.1	259.2	11	15.0	0
ASIA, AFRICA AND THE MIDDLE EAST	1 867	– 7	63.9	2.1	79.1	–27	14.5	1
Total intercontinental	6 022	1	69.6	1.2	338.3	– 1	29.5	0
EUROPE	3 388	8	63.0	3.2	40.6	– 1	12.1	3
DOMESTIC								
Denmark	392	0	68.5	2.2	2.4	– 4	2.5	–5
Norway	966	11	65.1	1.3	6.6	1	4.5	2
Sweden	913	19	69.8	–1.5	2.7	9	3.6	20
Total Domestic	2 271	12	67.5	0.5	11.7	2	10.6	6
TOTAL NETWORK	11 681	5	67.2	1.7	390.6	– 1	52.2	2

of 77 MSEK to 2,122 MSEK. The cost for modification of the existing fleet, and the introduction of a new corporate identity, 145 MSEK (68), has been charged to the year's earnings. Aicraft leasing costs were 165 MSEK (113).

Financial items developed as follows:

MSEK	1983/84	Change from previous year
Interest, net	**138**	+117
Revaluation differences	**–131**	–228
Currency losses on long-term debt (share)	**–210**	+94
Other	**11**	–18
	–192	–35

The positive development of *interest, net*, is due primarily to higher liquidity from the improved operating result, insurance settlements received, 885 MSEK, and the sale of one Boeing 747 (sale-lease-back), 211 MSEK. The higher balances compared to 1982/83 improved interest income by over 140 MSEK, which was partially offset by a lower level of interest rates.

The *revaluation differences* with respect to monetary net holdings and working capital in currencies other than Swedish kronor caused a negative result effect of 131 MSEK, whereof Norwegian kroner 51, US Dollars 39 and Brazilian Cruzeiros 25 MSEK. The negative revaluation difference in respect of Norwegian kroner arose mainly as a result of the devaluation of the Norwegian krone on September 23, 1984.

Dividends from subsidiaries, 21 MSEK (22), are included in the financial net.

Income before extraordinary income and expense amounted to 729 MSEK (461). The profit margin was thereby improved to 5.2 percent, compared to 3.7 percent for the previous year.

The result from the sale of aircraft, etc., amounted to 111 MSEK, whereof 93 MSEK constitutes a capital gain on the sale of a Boeing 747 by way of a sale/lease-back agreement. The airline operation additionally reports extraordinary income of 580 MSEK, which is the accounting outcome of insurance settlements. At the same time, the principle for accounting for unrealized currency losses on long-term debt has been changed. The year's result is charged with all remaining unrealized currency losses and not, as before, only with the portion attributable to the current year.

The year's portion of unrealized currency losses, based on the maturity of the loans, -210 MSEK (-304), is reported as a financial expense. Income before extraordinary income and expense is therefore comparable with the corresponding item last year. The remaining currency losses, which according to the previously applied accounting principle would have been deferred to future years, 413 MSEK (512), have been charged to earnings as an extraordinary expense. After a writedown of 75 MSEK on buildings, and other extraordinary items, *extraordinary income and expense,* net is reported as +189 MSEK (1).

Extraordinary items are summarized in the table below:

MSEK	1983/84	Change from previous year
Sale of equipment	**111**	+100
Insurance settlements	**580**	+580
Unrealized currency losses	**–413**	–413
Write-downs, etc.	**–89**	–79
	189	+188

The result of the Consortium before allocations and taxes hereafter amounted to 918 MSEK (462). Allocations are made by SAS's parent companies, DDL in Denmark, DNL in Norway and ABA in Sweden, each of which is liable for its share of taxes in its home country.

The dispute with Laker mentioned in last year's report has not been resolved.

The fleet. SAS had 89 aircraft (86), including 4 leased (3) in its fleet on September 30, 1984.

Two of SAS's aircraft on lease to other airlines were lost in accidents. One Boeing 747 was lost in Madrid in November, 1983, and one Airbus A300 was lost in Kuala Lumpur in December, 1983. These aircraft were flown by the crews of the lessee, which also had full operational responsibility for the aircraft. Also, one SAS DC-10 was heavily damaged, without personal injuries, on landing at Kennedy Airport in New York in February, 1984. The value of the planes was covered by insurance.

To replace the DC-10, and to enable expansion on the intercontinental network, two used DC-10-30s were purchased during the year.

SAS's very positive development on the European market and in domestic traffic has created a need for additional aircraft capacity. In September, 1984, six new DC-9 aircraft were ordered for a total of 152 MUSD. These airplanes will be delivered during the fall of 1985. They will be used in traffic between the Scandinavian capitals, between those cities and London and in domestic traffic. Four used Fokker F-27s were also acquired. After modifications, they will be used for SAS's new commuter traffic.

THE FLEET[1]

Aircraft type	Owned	Leased	Total	Leased out	On order
Boeing 747[2]	1	4	5		
Douglas DC-10-30	6		6		
Airbus A300-B4	3		3	3[3]	
Douglas DC-8-63	5		5	3[3]	
Douglas DC-8-62	6		6	3[4]	
Douglas DC-9-41	49		49		
Douglas DC-9-33	2		2		
Douglas DC-9-21	9		9		
Douglas DC-9-81/82					6
Fokker F-27	4		4		
	85	4	89	9	6

[1] On September 30, 1984
[2] 2 in passenger and 3 in combined passenger/cargo version
[3] Rented to Scanair
[4] 1 leased to Aero Peru, 2 leased to Thai

SAS SERVICE PARTNER

Operations previously conducted in SAS Catering & Hotels were split into two business areas during the year: SAS Service Partner and SAS International Hotels.

SAS Service Partner's business primarily consists of flight kitchens and restaurant management. Catering to off-shore installations is an area of growing importance.

SAS Service Partner sustained a marked deterioration of earnings with a result of 15 MSEK (75) before extraordinary items. For a number of newly established units, it has taken longer than expected to achieve break-even. More intense competition in flight catering has meant that it has not been possible to compensate for lost contracts. It was decided to close the flight kitchen in Athens. Expenses in connection with the shutdown have been charged to this year's earnings.

Long-term contracts for catering and service to the off-shore industry enjoyed a favorable development. Outside Scandinavia, and in cooperation with other parties, continued efforts are being made in the area of non-medical health care services.

Measures have been instituted to improve marketing and cost efficiency, thereby ensuring a positive business development.

SAS INTERNATIONAL HOTELS

In the hotel sector, product development and profiling of first class hotels have been conducted under the name SAS International Hotels. Among product improvements that have been well received by the customers are airline check-in at the hotels and the introduction of Business Service Centers. The units in northern Norway are marketed with their own profile under the name North Cape Hotels.

The market recorded some growth and the occupancy rate was satisfactory.

The capital expenditure program included the renovation of some hotels and the expansion of, among others, the SAS Globetrotter Hotel in Oslo and SAS Arlandia Hotel in Stockholm.

Hotel revenue rose by 15 percent to 843 MSEK (732). Including unrealized currency losses of 15 MSEK on US Dollar loans in the Hotel Scandinavia in Copenhagen, the result before extraordinary income and expense amounted to 21 MSEK (14).

SAS LEISURE

The charter travel market continued its vigorous expansion in Norway. On the Swedish market, pricing has become more agressive. Flight capacity from Stockholm was significantly increased with the stationing of Braathens' new Boeing 767 at Stockholm/Arlanda.

Competition at the distributor level continues to be severe and profitability in the industry is generally weak.

SAS Leisure has well maintained its position, through Vingresor, as the largest tour operator in Scandinavia. Operations in Norway have enjoyed a very favorable development. In both Norway and Sweden Vingresor now has a market share of about 30 percent. The Vingresor group had 430,000 travelers (392,000).

SAS Leisure total revenue was 1,474 MSEK (1,311) and income before extraordinary items increased to 43 MSEK (41). For Vingresor the year was very successful and the result improved to 46 MSEK (41).

OTHER BUSINESSES

The travel agency business is somewhat overestablished and price competition is severe. Nyman & Schultz retained its share of the business travel market during the year. The result was slightly lower, at 6 MSEK (7).

After fiscal year-end, an agreement was reached with AB Nordstjernan whereby it and SAS will form a joint company to own and operate Nyman & Schultz and AB Resespecialisterna. With effect from 1984/85, Nyman & Schultz will therefore not be consolidated in the accounts of the SAS Group.

Olson & Wright is one of Scandinavia's larger freight forwarders, concentrating on air cargo. Income before extraordinary items declined by 7 MSEK to 3 MSEK. The deterioration is attributable to its Norwegian operation and to the surface freight division, which reported lower revenue due to a lower volume of import traffic from the European Continent.

PERSONNEL AND PAYROLL EXPENSES

The average number of employees in the SAS Group was 28,526 (26,657). In the airline (SAS Consortium), the number of employees was 17,710 (17,101). The increase in personnel is primarily due to changes in traffic programs, more passengers and airline service improvements.

The number of employees in the subsidiaries increased to 10,816 (9,556).

The total payroll of the SAS Group, inluding payroll-related costs, was 5,334 MSEK (4,691). The corresponding costs for the Consortium were 3,942 MSEK (3,558). Payroll-related costs for personnel are included in the SAS Group and the Consortium with 1,263 MSEK and 964 MSEK, respectively.

PROFITABILITY AND EQUITY RATIO

The pre-tax return on total capital employed, excluding non-interest bearing operating debt, by the SAS Consortium owned by the parent companies, including its subsidiaries (SAS Group) was 27 percent (24). The return on adjusted equity, after 50 percent standard taxes, was unchanged at 18 percent. The equity ratio as of September 30, 1984, taking into account 50 percent deferred tax libility on untaxed reserves, was 22 percent (20).

The ratio of risk-bearing capital, i.e. book equity including untaxed reserves relative to total capital, improved to 26 percent (24) in the SAS Group. For the SAS Consortium the ratio of risk-bearing capital rose

PERSONNEL

	SAS CONSORTIUM								SUBSIDIARIES		SAS GROUP	
	Flight deck		Cabin		Other personnel		Total					
	83/84	82/83	**83/84**	82/83	**83/84**	82/83	**83/84**	82/83	**83/84**	82/83	**83/84**	82/83
DENMARK	**341**	363	**750**	766	**5 206**	4 847	**6 297**	5 976	**1 882**	1 714	**8 179**	7 690
NORWAY	**321**	330	**580**	591	**2 794**	2 614	**3 695**	3 535	**2 994**	2 568	**6 689**	6 103
SWEDEN	**477**	490	**756**	771	**4 384**	4 193	**5 617**	5 454	**2 977**	2 601	**8 594**	8 055
ABROAD	–	–	**24**	22	**2 077**	2 114	**2 101**	2 136	**2 963**	2 673	**5 064**	4 809
TOTAL	**1 139**	1 183	**2 110**	2 150	**14 461**	13 768	**17 710**	17 101	**10 816**	9 556	**28 526**	26 657

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

by 2 percentage points to 28 percent (26).

When judging profit levels, return on capital employed and on equity, and the equity ratio, it should be remembered that the airline is in a phase of consolidation with relatively low investments. An extensive future investment program, with replacement of a major part of the aircraft fleet, will require increased earnings and further strengthening of the capital base.

INVESTMENTS

SAS Group investments in facilities and equipment totaled 1,199 MSEK (478). The airline's share was 997 MSEK (342). Catering and restaurants invested 76 MSEK and the hotels, 84 MSEK.

During the year, two used DC-10-30s were bought for 50 MUSD, or 432 MSEK. Modification of these aircraft to SAS standards will make the total investment 82 MUSD, or 713 MSEK. Four used Fokker F-27s for 78 MSEK are included in the new profit center unit for commuter traffic. Investments have also been made in more fuel efficient engines, etc., for some DC-9 aircraft and for the DC-10 fleet. These aircraft modifications cost 89 MSEK.

In September a contract was signed with McDonnell-Douglas for the purchase of six new DC-9 aircraft. The order sum was 152 MUSD (about 1,320 MSEK) and the airplanes will be delivered in late 1985.

Decisions have thereby been made during the financial year to invest about 2,200 MSEK in the aircraft fleet.

FINANCING AND LIQUIDITY

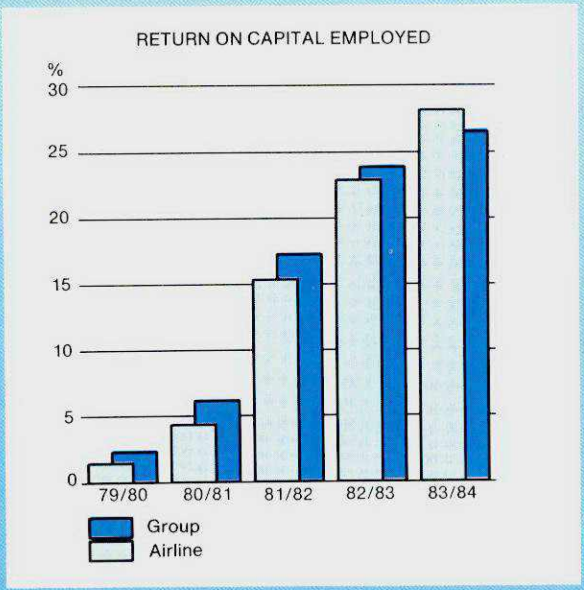
SAS Group holdings of liquid funds on September 30, 1984 increased by more than 1,480 MSEK to 4,011 MSEK as a result of positive earnings and insurance settlements received. Liquid funds in the Consortium amounted to 3,443 MSEK (1,993).

Funds generated internally in the SAS Group amounted to 1,342 MSEK (1,048), after transfer of 210 MSEK (175) to the parent companies.

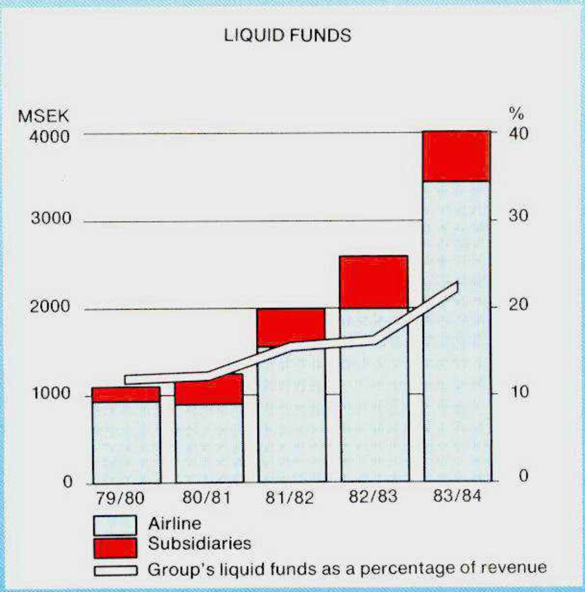
Despite a relatively large increase in current assets, excluding liquid funds, funds tied up in operations were reduced. Unearned transportation revenue, reflecting tickets sold but as yet unused, improved liquidity by about 200 MSEK.

Insurance settlements received during the year amounted to 885 MSEK and sales of aircraft, etc. provided 243 MSEK.

After capital investments of 1,213 MSEK, and advance payments of 187 MSEK referring to contracts signed for future delivery of aircraft, SAS Group financing surplus amounted to 1,187 MSEK (733).



The SAS Group's return on average capital employed before taxes has increased sharply in nominal terms since 80/81. The increase is necessary since the airline is in a phase of consolidation with relatively low depreciation and investments.



Positive airline result development and comparatively limited capital investments have gradually increased the volume of liquid funds in the SAS Group. Liquid funds now correspond to 2.5 months revenue. Average interest earned on liquid funds was 13 percent in 83/84.

The year's repayments of long-term debt amounted to 562 MSEK (420). This amount includes scheduled repayments of USD-loans of MSEK 163, and repayment of loans in FRF valued at 108 MSEK as a result of the loss of an A300.

New borrowing amounted to 861 MSEK, including 200 MNOK in the form of a Norwegian bond issue. 392 MSEK cover the financing of two DC-10 aircraft.

SUMMARY STATEMENTS OF CHANGES IN FINANCIAL POSITION

	SAS CONSORTIUM		SAS GROUP	
	1983/84	1982/83	**1983/84**	1982/83
Funds provided by the year's operations	**1 198**	857	**1 342**	1 048
Change in working capital	**35**	203	**151**	196
Net financing from the year's operations	**1 233**	1 060	**1 493**	1 244
Capital investments	**−1 011**	− 483	**−1 213**	− 559
Sale of assets, etc.	**955**	35	**907**	48
Financing surplus	**1 177**	612	**1 187**	733
New borrowing, net	**295**	− 328	**299**	− 346
Increase in liquid funds	**1 472**	284	**1 486**	387

ALLOCATION OF INCOME

The result of the SAS Group before allocations and taxes was 968 MSEK compared to 601 MSEK in 1982/83.

The result of the Consortium before allocations and taxes was 918 MSEK (462). The result includes dividends of 21 MSEK (22) from subsidiaries.

Allocations are made by SAS's parent companies, DDL in Denmark, DNL in Norway and ABA in Sweden. The parent companies are taxed for their share in SAS's profit in their respective countries.

The Board of Directors and the President propose to the SAS Assembly of Representatives that 280 MSEK of the Consortium's income be paid to the parent companies (210 MSEK was transferred for 1982/83) and that the remaining amount, 638 MSEK (252), be transferred to the Consortium's capital account, which thereafter will be 1,749 MSEK (1,111).

FORECAST FOR 1984/85

The market for scheduled air travel is expected to continue to expand in 1985.

SAS's success in the market has led to higher capacity utilization with immediate positive effects on the results. Now, additional resources are needed in the form of personnel and aircraft. It will become more difficult to compensate rising costs with higher fares. Intense competition in a freer market will instead call for higher productivity and restraint in cost development.

When judging SAS's earnings performance, profitability and financial position, the development must be seen in a longer perspective. The airline has been in a phase of relatively modest investments, depreciaton and interest expense.

The development in the first few months of the new financial year has been favorable. The Board of Directors expects a positive development of income before extraordinary items for 1984/85. This development is necessary to cover the need for major investment in new aircraft.

The result and financial position of the SAS Group and the SAS Consortium for the 1983/84 financial year are shown in the following financial statements and notes, as integral parts of the Annual Report.

Copenhagen, Oslo and Stockholm, December 18, 1984

HALDOR TOPSØE
JØRGEN L HALCK
HANS DALL

TOR MOURSUND
BJÖRN EIDEM
INGVAR LILLETUN

CURT NICOLIN
KRISTER WICKMAN
INGE JOHANNESSON

JAN CARLZON
President and Chief Executive Officer

SAS Group Consolidated Statement of Income

October 1 – September 30

MSEK		1983/84	1982/83
Traffic revenue	Note 1	**11 577.2**	10 463.1
Other operating revenue	Note 2	**6 428.0**	5 509.4
OPERATING REVENUE		**18 005.2**	15 972.5
OPERATING EXPENSE	Note 3	**16 415.5**	14 695.7
OPERATING INCOME BEFORE DEPRECIATION		**1 589.7**	1 276.8
DEPRECIATION	Note 4	**544.6**	483.1
OPERATING INCOME AFTER DEPRECIATION		**1 045.1**	793.7
Dividend income	Note 5	**2.8**	1.1
Interest income	Note 6	**122.3**	6.1
Exchange rate differences	Note 7	**–364.1**	–224.3
Other financial items	Note 8	**– 14.0**	6.8
INCOME AFTER FINANCIAL ITEMS		**792.1**	583.4
Gain on sale and retirement of equipment, etc. (net)	Note 9	**103.2**	18.0
Extraordinary income	Note 10	**580.2**	14.0
Extraordinary expense	Note 11	**–507.4**	– 14.4
INCOME BEFORE ALLOCATIONS AND TAXES	Note 12	**968.1**	601.0
Allocations in the subsidiaries	Note 13	**– 37.4**	– 64.0
Result before subsidiaries' taxes		**930.7**	537.0
Taxes paid by subsidiaries	Note 14	**– 34.0**	– 39.0
Minority interests		**5.0**	– 1.5
Income before taxes relating to the Consortium (payable by its parent companies in Denmark, Norway and Sweden) but after taxes payable by subsidiaries		**901.7**	496.5

SAS Group Consolidated Balance Sheet

ASSETS, MSEK		Sept. 30 1984	Sept. 30 1983
CURRENT ASSETS			
Cash and bank balances including short-term investments	Note 15	**4 010.8**	2 595.2
Bills receivable		**2.1**	1.8
Due from parent companies		**23.6**	97.3
Accounts receivable	Note 16	**1 840.9**	1 739.2
Prepaid expense and accrued income		**521.3**	365.7
Tax refund receivable		**6.9**	2.8
Other accounts receivable		**521.7**	327.7
Expendable spare parts and inventory	Note 17	**322.7**	271.4
Prepayments to suppliers		**40.8**	27.3
Total current assets		**7 290.8**	5 428.4
RESTRICTED ACCOUNTS	Note 18	**26.6**	6.6
FIXED ASSETS			
Stocks and participations	Note 19	**88.4**	75.7
Bonds and other securities		**53.9**	14.5
Long-term accounts receivable, parent companies		**3.4**	3.7
Long-term accounts receivable, others	Note 20	**98.8**	64.5
Goodwill	Note 21	**9.3**	12.3
Capitalized development costs		**2.4**	5.3
Discount on debenture loans		**2.7**	3.5
Long-term prepayments to suppliers	Note 22	**189.2**	2.9
Other assets	Note 23		
Construction in progress		**52.4**	20.6
Aircraft		**1 753.6**	1 714.1
Spare engines and spare parts		**316.0**	298.7
Workshop and aircraft servicing equipment		**61.3**	52.2
Other equipment and vehicles		**529.6**	493.9
Buildings and improvements		**789.6**	800.1
Land and improvements		**79.2**	85.0
Total fixed assets		**4 029.8**	3 647.0
TOTAL ASSETS		**11 347.2**	9 082.0

ASSETS PLEDGED	Note 36		
Mortgages on real estate		**591.5**	581.0
Sundry pledges		**168.0**	154.3
Total assets pledged		**759.5**	735.3

LIABILITIES AND EQUITY		Sept. 30 1984	Sept. 30 1983
CURRENT LIABILITIES			
Accounts payable	Note 24	**1 201.8**	937.8
Taxes payable	Note 25	**38.4**	50.6
Accrued expense and prepaid income		**1 767.6**	1 417.4
Unearned transportation revenue (net)	Note 26	**1 167.5**	1 009.7
Prepayments from customers		**244.1**	193.6
Current portion of long-term debt		**977.2**	444.7
Other current liabilities	Note 27	**708.4**	497.7
Total current liabilities		**6 105.0**	4 551.5
LONG-TERM DEBT			
Debenture loans	Note 28	**515.8**	469.8
Mortgage loans	Note 29	**408.7**	420.9
Other loans	Note 30	**1 130.4**	1 681.9
Other long-term debt	Note 31	**238.7**	195.6
Provision for pension liabilities	Note 32	**46.4**	43.1
Deferred currency losses	Note 33	**–**	–511.9
Total long-term debt		**2 340.0**	2 299.4
Minority interest		**6.1**	13.9
RESERVES	Note 34		
Depreciation reserve		**499.4**	535.1
Other reserves		**283.3**	237.3
Total reserves		**782.7**	772.4
EQUITY	Note 35		
Capital			
ABA (3/7)		**476.3**	368.4
DDL (2/7)		**317.5**	245.6
DNL (2/7)		**317.5**	245.6
Total equity		**1 111.3**	859.6
Legal reserve		**38.6**	28.0
Revaluation reserve		**20.0**	22.7
Retained earnings		**41.8**	38.0
Net income for the year		**901.7**	496.5
Total equity		**2 113.4**	1 444.8
TOTAL LIABILITIES AND EQUITY		**11 347.2**	9 082.0

CONTINGENT LIABILITIES	Note 36		
Guaranties and other contingent liabilities		**125.2**	89.1
Pension commitments		**63.7**	62.9
Total contingent liabilities		**188.9**	152.0

SAS Consortium Statement of Income

October 1 – September 30

MSEK		1983/84	1982/83
Traffic revenue	Note 1	**11 577.2**	10 463.1
Other operating revenue	Note 2	**2 573.4**	2 137.3
OPERATING REVENUE		**14 150.6**	12 600.4
OPERATING EXPENSE	Note 3	**12 791.0**	11 583.7
OPERATING INCOME BEFORE DEPRECIATION		**1 359.6**	1 016.7
DEPRECIATION	Note 4	**438.3**	398.8
OPERATING INCOME AFTER DEPRECIATION		**921.3**	617.9
Dividend income	Note 5	**23.6**	22.7
Interest income, net	Note 6	**137.8**	20.4
Exchange rate differences	Note 7	**–341.5**	–207.4
Other financial items	Note 8	**–12.1**	7.3
INCOME BEFORE EXTRAORDINARY INCOME AND EXPENSE		**729.1**	460.9
Gain on sale and retirement of equipment, etc. (net)	Note 9	**111.4**	11.2
Extraordinary income	Note 10	**580.1**	–
Extraordinary expense	Note 11	**–502.8**	–10.3
INCOME BEFORE ALLOCATIONS AND TAXES[1]	Note 12	**917.8**	461.8

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

SAS Consortium Balance Sheet

ASSETS, MSEK		Sept. 30 1984	Sept. 30 1983
CURRENT ASSETS			
Cash and bank balances including short-term investments	Note 15	**3 442.5**	1 992.8
Bills receivable		**0.0**	0.0
Due from subsidiaries		**173.2**	121.3
Due from parent companies		**23.6**	97.3
Accounts receivable	Note 16	**1 311.8**	1 310.5
Prepaid expense and accrued income		**446.9**	285.8
Other accounts receivable		**468.5**	284.7
Expendable spare parts and inventory	Note 17	**233.0**	184.3
Prepayments to suppliers		**9.8**	8.1
Total current assets		**6 109.3**	4 284.8
FIXED ASSETS			
Stocks and participations in subsidiaries	Note 19	**172.4**	229.5
Other stocks and participations	Note 19	**83.3**	68.5
Bonds and other securities		**9.1**	9.3
Long-term accounts receivable, subsidiaries		**4.1**	5.1
Long-term accounts receivable, parent companies		**3.4**	3.7
Long-term accounts receivable, others	Note 20	**69.9**	42.2
Discount on debenture loans		**2.7**	3.5
Long-term prepayments to suppliers	Note 22	**189.2**	2.6
Other assets	Note 23		
Construction in progress		**15.9**	0.9
Aircraft		**1 753.6**	1 714.1
Spare engines and spare parts		**316.0**	298.7
Workshop and aircraft servicing equipment		**61.3**	52.2
Other equipment and vehicles		**303.0**	274.7
Buildings and improvements		**165.0**	169.5
Land and improvements		**8.2**	8.4
Total fixed assets		**3 157.1**	2 882.9
TOTAL ASSETS		**9 266.4**	7 167.7
ASSETS PLEDGED	Note 36		
Mortgages on real estate		**15.8**	17.7
Sundry pledges		**15.2**	15.6
Total assets pledged		**31.0**	33.3

LIABILITIES AND EQUITY		Sept. 30 1984	Sept. 30 1983
CURRENT LIABILITIES			
Accounts payable, subsidiaries		**47.9**	53.7
Accounts payable, suppliers	Note 24	**882.5**	651.3
Accrued expense and prepaid income		**1 487.5**	1 190.5
Unearned transportation revenue (net)	Note 26	**1 167.5**	1 009.7
Prepayments from customers		**16.4**	15.7
Current portion of long-term debt		**905.2**	395.0
Other current liabilities	Note 27	**469.3**	319.5
Total current liabilities		**4 976.3**	3 635.4
LONG-TERM DEBT			
Loans from subsidiaries		**0.6**	0.5
Debenture loans	Note 28	**515.8**	469.8
Mortgage loans	Note 29	**13.6**	15.7
Other loans	Note 30	**970.4**	1 497.5
Other long-term debt	Note 31	**214.4**	169.7
Deferred currency losses	Note 33	–	– 511.9
Total long-term debt		**1 714.8**	1 641.3
RESERVES	Note 34		
Depreciation reserve		**499.4**	535.1
Other reserves		**46.8**	34.5
Total reserves		**546.2**	569.6
EQUITY	Note 35		
Capital			
ABA (3/7)		**476.3**	368.4
DDL (2/7)		**317.5**	245.6
DNL (2/7)		**317.5**	245.6
Total capital		**1 111.3**	859.6
Net income for the year		**917.8**	461.8
Total equity		**2 029.1**	1 321.4
TOTAL LIABILITIES AND EQUITY		**9 266.4**	7 167.7
CONTINGENT LIABILITIES	Note 36		
Guaranties and other contingent liabilities for			
subsidiaries		**330.8**	316.9
others		**77.2**	62.4
Pension commitments		**63.7**	62.9
Total contingent liabilities		**471.7**	442.2

Furthermore, the Consortium has assumed lease obligations in connection with an 18-year lease of a Boeing 747-Combi in February, 1981, and the similar lease of a Boeing 747B in October, 1981. Lease obligations have also been assumed with respect to a 5-year agreement for a Boeing 747B in January, 1982, and a 4-year agreement for a Boeing 747B in October, 1983. The Consortium also has certain liabilities in connection with ticket sales according to pay-later plans.

Statements of Changes in Financial Position

October 1 – September 30

	SAS Group		SAS Consortium	
MSEK	**1983/84**	1982/83	**1983/84**	1982/83
THE YEAR'S OPERATIONS				
Income before allocations and taxes	**968.1**	601.0	**917.8**	461.8
Depreciation	**544.6**	483.1	**438.3**	398.8
Exchange rate differences	**773.6**	209.9	**755.7**	188.7
Capital gains/losses on assets sold, etc.	**– 661.9**	22.8	**– 670.1**	29.6
Other (net)	**– 72.8**	– 94.3	**– 33.5**	– 46.6
	1 551.6	1 222.5	**1 408.2**	1 032.3
Payments made to the parent companies	**– 210.0**	– 175.0	**– 210.0**	– 175.0
Funds provided by the year's operations	**1 341.6**	1 047.5	**1 198.2**	857.3
Increase (–)/decrease (+) inventories	**– 19.5**	– 43.8	**– 10.4**	– 32.5
Increase (–)/decrease (+) in current receivables	**– 425.0**	– 457.0	**– 353.4**	– 409.8
Increase (+)/decrease (–) in current liabilities	**595.9**	697.2	**398.6**	644.8
Funds used in operations	**151.4**	196.4	**34.8**	202.5
Net financing from the year's operations	**1 493.0**	1 243.9	**1 233.0**	1 059.8
INVESTMENTS				
Aircraft	**– 598.3**	– 89.6	**– 598.3**	– 89.6
Spare parts	**– 85.0**	– 53.2	**– 85.0**	– 53.2
Buildings, improvements and other equipment	**– 515.3**	– 335.1	**– 314.0**	– 199.5
Securities	**– 14.7**	– 80.8	**– 14.0**	– 140.4
Total investments	**– 1 213.3**	– 558.7	**– 1 011.3**	– 482.7
Advance payments for aircraft	**– 186.6**	–	**– 186.6**	–
Long-term receivables (net)	**– 34.1**	– 5.9	**– 1.0**	– 4.2
Sale of assets and stocks	**242.5**	53.5	**257.8**	39.0
Insurance settlements	**885.5**	–	**885.5**	–
Net investments	**– 306.0**	– 511.1	**– 55.6**	– 447.9
Balance after net investments	**1 187.0**	732.8	**1 177.4**	611.9
EXTERNAL FINANCING, ETC.				
Repayment of long-term debt	**– 562.1**	– 420.1	**– 510.1**	– 377.1
Borrowings	**860.9**	145.5	**804.5**	49.6
Other	**–**	– 71.1	**–**	–
Financing – external	**298.8**	– 345.7	**294.4**	– 327.5
INCREASE IN LIQUID FUNDS (cash, bank balances and short-term investments)	**1 485.8**	387.1	**1 471.8**	284.4
Valuation adjustment, liquid funds, etc.	**– 70.2**	218.5	**– 22.1**	154.5
Liquid funds at beginning of year	**2 595.2**	1 989.6	**1 992.8**	1 553.9
Liquid funds at year-end	**4 010.8**	2 595.2	**3 442.5**	1 992.8

Notes to the Financial Statements

SUMMARY OF ESSENTIAL ACCOUNTING PRINCIPLES

Consolidated financial statements
The financial year of the SAS Group is October 1, 1983 to September 30, 1984.

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. See further in the specification of stocks and participations as of Sept. 30, 1984.

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.

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.

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 and equity) 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 the current-rate method. Assets and liabilities are thus translated to Swedish kronor at financial year-end rates of exchange, while the year's result is translated at the average rate of exchange 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 ubusidiaries. Translation differences relating to minority interest in the subsidiaries are included under the heading "Minority interest" in the consolidated balance sheet.

Valuation of monetary assets and liabilities in currencies other than Swedish kronor.
Monetary assets and liabilities expressed in currencies other than the respective accounting currency are stated in the balance sheet at financial year-end market rate of exchange. Long-term debt, however, is never translated at an exchange rate lower than that valid when a loan was disbursed.

Long-term liabilities in foreign currency (excluding next year's installments, which are reported among current liabilities) have been restated using the higher of the rates prevailing at the time of disbursement and the financial year-end market rate. For each loan, exchange losses are spread over the duration of the loans. That part of the loss, attributable to repayments due within one year, is charged to income as a financial expense. Until and including fiscal 1982/83, the remaining currency loss was reported as a separate deduction item among the long-term liabilities of the Consortium. For fiscal 1983/84 all currency losses have been charged to earnings – that part, which would have been deferred under the previously applied accounting principles, has been charged to earnings as an extraordinary expense.

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 liabilites into Swedish kronor are credited/charged directly to income and are reported as exchange rate differences among the financial items.

Exchange rates for some of SAS's significant currencies are:

Currency		Exchange rates, Sept. 30 1984	1983
Denmark	DKK 100	**78.10**	82.40
Norway	NOK 100	**98.05**	106.45
USA	USD	**8.70**	7.83
Switzerland	CHF 100	**343.35**	368.00
France	FRF 100	**92.00**	98.00

Valuation of Expendable spare parts and sundry stores
Expendable spare parts and sundry stores are stated at the lower of cost or 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 off such parts, the remaining 1/3 being treated as fixed assets.

Fixed assets and depreciation
Owned fixed assets are carried in the balance sheet at cost less accumulated depreciation.

In accordance with its policy, the Consortium depreciates its flight equipment. i.e. aircraft and engines including spare parts:

Type of aircraft	Depreciation period	Residual value
Boeing 747	12 years	10%
Douglas DC-10	12 years	10%
Airbus A300	12 years	10%
Douglas DC-8	10 years	10%
Douglas DC-9	10 years	10%
Fokker F-27	5 years	10%

In the reports that the SAS Consortium submits under most of its loan agreements with U.S. lenders, flight equipment is depreciated over 12 years to a residual value of 10 percent for Douglas DC-8, over 14 years to a residual value of 10 percent for Douglas DC-9 and over 16 years to a residual value of 10 percent for Airbus A300, Boeing 747 and Douglas DC-10-30.

The above mentioned rules are applied by the Consortium to compute the amount of depreciation to be deducted from flight equipment cost. Depreciation charged in the SAS Statement of Income in excess of thus reported depreciation is added to the depreciation reserve of the Consortium.

Leased fixed assets are not capitalized in the Balance Sheet. Leasing costs are charged to earnings.

Workshop and aircraft servicing equipment and other equipment and vehicles are depreciated over 5 years, with the exception of flight simulators for A300 and DC-10, for which the depreciation period is 12 years. The annual depreciation for buildings varies between 2 percent and 20 percent. Depreciation periods for goodwill and capitalized development costs varies between 5 and 10 years.

The depreciation period for computer equipment has been reduced from 7 years to 5 years. Improvements to own and rented premises are, in principle, depreciated over the rental period or over estimated life.

Maintenance costs

Routine aircraft maintenance and repairs costs are charged to earnings as incurred.

Major modifications and improvements are capitalized and depreciated over the remaining life of the assets.

Allocations are not made for future maintenance costs with respect to owned aircraft and other assets.

Due to the structure of SAS's fleet, with a dominance of DC-9s, maintenance costs are spread fairly evenly over time. For leased aircraft, due allocation is made for accrued maintenance cost based on hours flown.

Traffic revenue

Ticket sales are reported as traffic revenue only upon completion of the relative air travel.

The value of tickets sold but not yet used (flown) is reported as unearned transportation revenue among current liabilities. This item is reduced either when SAS or another airline completes the transportation, or after refund to the ticket holder.

Based on statistical estimates, a reserve against the unearned transportation revenue liability is reported annually. The reserve corresponds to that portion of tickets sold which is estimated to remain unutilized.

Reversal of the reserve for unearned transportation revenue is effected in such a way that the reserve accrued in one year is taken up as revenue in the following year.

Reclassifications

Certain items in the Income Statement and the Balance Sheet have been reclassified effective from 1983/84. The Statement of Changes in Financial Position has been given a new format highlighting the change in liquid funds. For comparability, a corresponding change has been made in the 1982/83 figures.

Definitions of financial concepts and ratios used in the Annual Report

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

Profit margin. Income before extraordinary items in relation to operating revenue.

Pretax return on capital employed. Income after depreciation plus financial income in relation to average capital employed. Capital employed is defined as total capital according to the Balance Sheet less current non-interest bearing 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 is made up of the sum of stated equity plus 50 percent of untaxed reserves.

Equity ratio. Equity plus 50 percent of untaxed reserves as a percentage of total capital.

Ratio of risk-bearing capital. Equity plus untaxed reserves and minority interest as a percentage of total capital.

Note 1 – Traffic revenue

	SAS Group		Consortium	
	1983/84	1982/83	**1983/84**	1982/83
Passengers	**9 873.4**	8 847.3	**9 873.4**	8 847.3
Freight	**1 302.5**	1 279.9	**1 302.5**	1 279.9
Mail	**245.4**	227.9	**245.4**	227.9
Charter	**51.9**	31.3	**51.9**	31.3
Rental	**104.0**	76.7	**104.0**	76.7
	11 577.2	10 463.1	**11 577.2**	10 463.1

Note 2 – Other operating revenue

	SAS Group		Consortium	
	1983/84	1982/83	**1983/84**	1982/83
Consortium	**2 573.4**	2 137.3	**2 573.4**	2 137.3
Subsidiaries	**4 804.7**	4 179.9	**-**	-
Less: Elimination of internal transactions	**– 950.1**	– 807.8	**-**	-
	6 428.0	5 509.4	**2 573.4**	2 137.3

Other operating revenue of the Consortium consists of revenue from maintenance operations, ground services, interline sales, etc., for other airlines, inflight sales and sales in airport shops, rental of excess capacity and other miscellaneous revenue.

Note 3 – Operating expense

	SAS Group		Consortium	
	1983/84	1982/83	**1983/84**	1982/83
Consortium	**12 791.0**	11 583.7	**12 791.0**	11 583.7
Subsidiaries	**4 578.1**	3 919.8	**-**	-
Less: Elimination of internal transactions, etc.	**– 953.6**	– 807.8	**-**	-
	16 415.5	14 695.7	**12 791.0**	11 583.7

Operating expense includes payroll expense as follows:

	SAS Group		Consortium	
	1983/84	1982/83	**1983/84**	1982/83
Payroll	**4 071.5**	3 596.4	**2 978.5**	2 676.1
Payroll related expense	**1 262.5**	1 094.6	**963.7**	881.5
Total payroll	**5 334.0**	4 691.0	**3 942.2**	3 557.6

Note 4 – Depreciation

	SAS Group		Consortium	
	1983/84	1982/83	**1983/84**	1982/83
Goodwill	**2.0**	3.9	**-**	-
Development costs	**1.0**	0.5	**-**	-
Aircraft (see Note 34)	**206.3**	199.6	**206.3**	199.6
Spare engines and spare parts	**72.3**	65.8	**72.3**	65.8
Maintenance and aircraft servicing equipment	**23.0**	21.1	**23.0**	21.1
Other equipment and vehicles	**155.5**	124.1	**97.4**	80.0
Buildings and improvements	**84.4**	68.0	**39.3**	32.3
Land and land improvements	**0.1**	0.1	**0.0**	0.0
	544.6	483.1	**438.3**	398.8

The year's increase in aircraft depreciation is due to increased depreciation of aircraft modifications by 49.2 MSEK. The remaining depreciation amount is thus 42.5 MSEK less than in 1982/83. This is mainly due to a three-plane reduction of the depreciation base following losses of aircraft during fall and winter 1983/84.

Note 5 – Dividends

	SAS Group		Consortium	
	1983/84	1982/83	**1983/84**	1982/83
SAS Service PartnerA/S, Denmark	-	-	**3.1**	2.4
SAS Service PartnerA/S, Norway	-	-	**9.6**	6.6
Vingresor AB	-	-	**5.8**	9.5
Nyman & Schultz Resebyråer AB	-	-	**0.6**	0.7
AB Olson & Wright	-	-	**1.7**	2.1
Transair Sweden AB in liquidation	-	-	-	0.3
From subsidiaries	-	-	**20.8**	21.6
From others	**2.8**	1.1	**2.8**	1.1
	2.8	1.1	**23.6**	22.7

Dividends from subsidiaries are the dividends approved by each respective Annual General Meeting for the financial years 1982/83 and 1981/82, respectively. Dividends are thus not anticipated in the Statement of Income.

Note 6 – Interest income, net

	SAS Group		Consortium	
	1983/84	1982/83	**1983/84**	1982/83
Interest from subsidiaries	-	-	**3.0**	3.1
Other interest income	**436.5**	302.1	**359.9**	231.9
Interest income	**436.5**	302.1	**362.9**	235.0
Interest to subsidiaries	-	-	**– 0.2**	– 0.2
Other interest expense	**–314.2**	–296.0	**–224.9**	–214.4
Interest expense	**–314.2**	–296.0	**–225.1**	–214.6
	122.3	6.1	**137.8**	20.4

Note 7 – Currency differences, net

	SAS Group		Consortium	
	1983/84	1982/83	**1983/84**	1982/83
Currency losses on long-term debt (the year's share)	**– 232.9**	– 321.6	**– 210.3**	– 304.7
Other revaluation differences	**– 131.2**	97.3	**– 131.2**	97.3
	– 364.1	– 224.3	**– 341.5**	– 207.4

Note 8 – Other financial items

	SAS Group		Consortium	
	1983/84	1982/83	**1983/84**	1982/83
Writedown of capital discount on debenture loan	**– 1.0**	– 1.4	**– 1.0**	– 1.4
Capital gain, bonds	-	11.3	-	11.3
Bank fees	**– 13.2**	– 5.1	**– 11.2**	– 3.5
Other	**0.2**	2.0	**0.1**	0.9
	– 14.0	6.8	**– 12.1**	7.3

Note 9 – Gain on sale of flight equipment, etc. (net)

	SAS Group		Consortium	
	1983/84	1982/83	**1983/84**	1982/83
Aircraft	**93.4**	-	**93.4**	-
Spare engines and spare parts	**7.2**	11.6	**7.2**	11.6
Buildings	**0.2**	7.0	**0.1**	3.2
Other equipment, etc.	**2.4**	– 0.6	**4.7**	– 3.6
Sale of stock in Nyman & Schultz Resebyråer AB	-	-	**6.0**	-
	103.2	18.0	**111.4**	11.2

The selling price for the Boeing 747 aircraft sold during the year for 27 MUSD (211 MSEK) exceeded book value by 199 MSEK. The aircraft was leased back for a period of four years, during which the Consortium repays half of the selling price. 93 MSEK was reported as revenue at the time of the sale, while the remaining amount, after selling expense, has been recorded as long-term debt in order to be credited to income over the lease period.

Note 10 – Extraordinary income

	SAS Group		Consortium	
	1983/84	1982/83	**1983/84**	1982/83
Insurance settlements	**580.1**	-	**580.1**	-
Writedown of loans	-	12.8	-	-
Other extraordinary income	**0.1**	1.2	-	-
	580.2	14.0	**580.1**	-

In November and December, 1983, two planes on lease from SAS to other airlines were lost: One Boeing 747 Combi and one Airbus A300. In February, 1984, a DC-10 operated by SAS was damaged upon landing at Kennedy Airport in New York. All insurance claims were settled during the financial year. The income effect of the insurance claims results from settlements in excess of book value.

Note 11 – Extraordinary expenses

	SAS Group		Consortium	
	1983/84	1982/83	**1983/84**	1982/83
Currency losses on long-term loans due to change in accounting principle	**412.7**	–	**412.7**	–
Non-recurring depreciation of computer equipment	**45.0**	–	**45.0**	–
Non-recurring depreciation of improvements/equipment	**48.9**	–	**30.0**	–
Share in losses/writedown of participation in Hotel Scandinavia K/S, Copenhagen	**0.6**	12.3	**14.9**	10.0
Other extraordinary expense	**0.2**	2.1	**0.2**	0.3
	507.4	14.4	**502.8**	10.3

Currency losses

The translation of Consortium long-term debt to SEK has resulted in substantial unrealized currency losses, principally resulting from the appreciation in value of the US Dollar and the devaluations of the Swedish krona. The final outcome of the unrealized currency losses depends on the future development of exchange rates.

Since 1980/81 SAS has spread unrealized currency losses on loans in foreign currency over the duration of the loans. In the accounts for 1983/84 it has been deemed prudent to change the principle for accounting for unrealized currency losses on long-term loans. The year's result has been charged with the entire currency loss and not, as previously, only with the portion of the loss attributed to the operating year.

In order to achieve comparability between the years' result before extraordinary items, this year's share of unrealized currency losses, computed on the basis of the remaining life of the loans, as before, has been recorded as currency differences among financial items. The remaining currency losses, which according to prior accounting principle would have been deferred to later years, 412.7 MSEK, have been charged to earnings as an extraordinary expense.

Writedowns

Against the background of the shorter economic and technological life of computers and related equipment, it has been decided to shorten the depreciation period from 7 to 5 years.

In the year's accounts for the Consortium for the period ending September 30, a one-time writedown of 45.0 MSEK has been made against existing equipment. The book value has thereby been reduced from 204.5 MSEK to 159.5 MSEK.

Effective in 1984/85 SAS introduces a more restrictive principle for capitalization of improvements to own and rented premises. Costs for repair and maintenance should normally not be regarded as improvements adding value to be included in original cost.

On September 30, 1984, the SAS Consortium makes a writedown of 30.0 MSEK against capitalized improvements. The remaining book value then is 68.6 MSEK. With respect to SAS Service Partner and SAS Hotels, a one-time writedown of restaurant equipment of 8.9 MSEK and 10.0 MSEK, respectively, has been made.

Note 12 – Income before allocations and taxes

SAS Group	**1983/84**		1982/83	
Consortium income		**917.8**		461.8
Subsidiary income		**63.1**		171.1
Elimination of internal dividends	– **20.8**		– 21.6	
Elimination of capital gain in connection with sale of equipment between subsidiaries	**-**		– 4.3	
Depreciation of goodwill and surplus values	– **3.7**		– 3.7	
Reversal of loss/income in Hotel Scandinavia K/S	**14.3**		– 2.3	
Reversal of loss in Congrex AB[1]	**3.4**		-	
Reversal of capital gain on sale of stock in Nyman & Schultz Resebyråer AB	– **6.0**	– **12.8**	-	– 31.9
Consolidated income before allocations and taxes		**968.1**		601.0

[1] Not to be consolidated

Note 13 – Allocations in the subsidiaries (net)

SAS Group	**1983/84**		1982/83	
From reserves				
– supplementary depreciation	**20.4**		0.3	
– investment reserve	**4.9**		-	
– special investment reserve	**5.6**		-	
– district investment reserve	**2.9**	**33.8**	18.3	18.6
To reserves				
– inventory reserve	– **1.7**		– 0.6	
– supplementary depreciation	– **29.2**		– 24.6	
– investment reserve	– **9.5**		– 25.1	
– special investment reserve	– **7.1**		– 12.9	
– district investment reserve	– **0.6**		– 2.6	
– profit equalization reserve	– **9.8**		– 10.4	
– consolidation reserve	– **8.8**		– 6.0	
– emergency reserve	– **4.1**		-	
– other reserves	– **0.4**	– **71.2**	– 0.4	– 82.6
		– **37.4**		– 64.0

Note 14 – Subsidiary taxes

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 15 – Liquid funds and short-term investments

	SAS Group		Consortium	
	1984	1983	**1984**	1983
Cash and bank balances	**382.6**	432.9	**214.5**	262.6
Short-term investments	**3 628.2**	2 162.3	**3 228.0**	1 730.2
	4 010.8	2 595.2	**3 442.5**	1 992.8

On September 30, 1984, short-term investments were made with corporations, banks and institutions, primarily in Scandinavia. The liquid funds of the Consortium are stated after a provision for currency risks, etc., amounting to 20.7 MSEK (32.9).

The balance of the Consortium includes funds in an amount of 36.0 MSEK (36.2) in restricted tax deduction account in Norway.

Uncompleted interest arbitrage transactions are reported net and amounted to 95.2 MSEK on September 30. The amount borrowed is a like amount, which has been invested as follows:

Promissory notes	60.0
Treasury discount note	35.2
Total	95.2

Note 16 – Accounts receivable

Accounts receivable as stated in the balance sheet, are after provision for doubtful receivables and currency risks. Such provision amounted to 70.2 MSEK (94.3) for the SAS Group, of which 53.2 MSEK (76.2) related to the Consortium.

Note 17 – Expendable spare parts and inventory

	SAS Group		Consortium	
	1984	1983	**1984**	1983
Expendable spare parts	**90.8**	81.7	**90.8**	81.7
Surplus stores	**59.7**	37.1	**59.7**	37.1
Work in progress	**12.2**	7.8	**12.2**	7.8
Raw materials	**18.4**	13.6	**18.4**	13.6
Goods for internal use	**19.9**	12.5	**19.9**	12.5
Inventory	**100.6**	95.3	**10.9**	8.2
Cabin and catering materials, uniforms	**21.1**	23.4	**21.1**	23.4
	322.7	271.4	**233.0**	184.3

Note 18 – Restricted accounts
Deposits to non-interest bearing, restricted accounts of 26.6 MSEK relate to tax deductible allocations to investment reserve in SAS's subsidiaries in Sweden.

Note 19 – Stocks and participations in subsidiaries. Other stocks and participations
During the year (effective September 30) the Consortium sold all stock in Nyman & Schultz Resebyråer AB, 15.0 MSEK, to the wholly owned subsidiary, Nordisk Resebureau AB for 21.0 MSEK. SAS Royal Hotel A/S, Oslo, has further repaid capital of 26,3 MSEK. Hotel Scandinavia K/S in Copenhagen has been written down by 14.9 MSEK.

In Helikopter Service A/S in Oslo, included in other stocks and participations, the Consortium has increased its investment by 13.4 MSEK.

Arctic Hotel Corp. A/S in Narssarssuaq is now included in other stocks and participations.

The Consortium's stocks and participations are specified separately.

Note 20 – Other long-term receivables
The item "Other long-term receivables" includes 19.2 MSEK on deposit in a special "liquidity account" with Sveriges Riksbank.

Note 21 – Goodwill
Goodwill consists mainly of Group goodwill relating to AB Olson & Wright in an amount of 8.6 MSEK (10.2).

Note 22 – Long-term advance payments to suppliers
The item "Long-term advance payments to suppliers" includes 186.6 MSEK to McDonnell Douglas Corporation relating to six new DC-9 aircraft.

Note 23 – Other assets

	At cost		Accumulated depreciation		Book value	
SAS Group	**1984**	1983	**1984**	1983	**1984**	1983
Construction in progress	**52.4**	20.6	–	–	**52.4**	20.6
Aircraft	**3 642.3**	3 652.8	**1 888.7**	1 938.7	**1 753.6**	1 714.1
Spare engines and spare parts	**776.4**	689.3	**460.4**	390.6	**316.0**	298.7
Workshop and aircraft servicing equipment	**249.4**	221.7	**188.1**	169.5	**61.3**	52.2
Other equipment and vehicles	**1 241.2**	1 029.8	**711.6**	535.9	**529.6**	493.9
Buildings and improvements	**1 304.7**	1 224.2	**515.1**	424.1	**789.6**	800.1
Land and improvements	**80.7**	86.3	**1.5**	1.3	**79.2**	85.0
Total as of September 30	**7 347.1**	6 924.7	**3 765.4**	3 460.1	**3 581.7**	3 464.6

Consortium						
Construction in progress	**15.9**	0.9	–	–	**15.9**	0.9
Aircraft	**3 642.3**	3 652.8	**1 888.7**	1 938.7	**1 753.6**	1 714.1
Spare engines and spare parts	**776.4**	689.3	**460.4**	390.6	**316.0**	298.7
Workshop and aircraft servicing equipment	**249.4**	221.7	**188.1**	169.5	**61.3**	52.2
Other equipment and vehicles	**801.6**	653.2	**498.6**	378.5	**303.0**	274.7
Buildings and improvements	**420.8**	357.0	**255.8**	187.5	**165.0**	169.5
Land and improvements	**8.6**	8.7	**0.4**	0.3	**8.2**	8.4
Total as of September 30	**5 915.0**	5 583.6	**3 292.0**	3 065.1	**2 623.0**	2 518.5

Construction in progress refers to buildings and ground facilities under construction. When construction is completed the total cost is transferred to the respective item in the Balance Sheet. This year's increase for the Consortium includes new construction at Kastrup in an amount of 11.1 MSEK. Also included are renovation and new building projects for SAS Service Partner in an amount of 10.8 MSEK, mainly relating to the SAS Globetrotter Hotel in Oslo.

The book value of aircraft has been changed as follows:

At cost		
As of October 1, 1983	3 652.8	
Modification of DC-10	32.9	
Modification of DC-9 engines	55.8	
Aircraft purchases	509.5	
Aircraft sold and retired	-608.7	3 642.3
Accumulated depreciation		
As of October 1, 1983	1 938.7	
Aircraft sold and retired	-230.1	
Depreciation 1983/84 (see Note 34)	180.1	-1 888.7
Book value		1 753.6
Depreciation reserve as of October 1, 1983	478.5	
Aircraft sold and retired	-74.1	
The year's supplementary depreciation (see Note 34)	26.2	-430.6
Net book value		1 323.0
Insurance value of aircraft as of September 30, 1984		9 124.0

The Consortium's data and communications equipment and flight simulators are included under the heading *Other equipment,* with an acquisition value of 445.8 MSEK, and 71.0 MSEK, respectively. The corresponding figures as of September 30, 1983, were 355.8 MSEK and 60.6 MSEK.

The cost of *Buildings and improvements* in the SAS Group has increased by 80.5 MSEK. A major part of the increase is attributable to the Consortium. This item includes the hovercraft terminal in Malmö, 17.1 MSEK, and various new construction at Arlanda in connection with the relocation of the domestic terminal, 14.3 MSEK.

Note 24 – Accounts payable

"Accounts payable" includes 391.5 MSEK relating to two DC-10 aircraft.

Note 25 – Taxes due

The Balance Sheet of the SAS Group contains only taxes payable by the subsidiaries. See Note 14.

Note 26 – Unearned transportation revenue

As in previous years, the various accounts for traffic revenue are stated as a net amount.

Reversal of the reserve for traffic revenue liability is effected such that the reserve accrued one year is restored to revenue the next. In this year's accounts 83.0 MSEK (77.6) was reversed.

Note 27 – Other current liabilities

The year's increase is primarily due to reclassification of current liability to Scanair.

Note 28 – Debenture loans	**1984**	1983
Consortium/Group		
5.5% CHF 68.0 million, due 1985–1992	**233.5**	264.9
8.0% USD 14.0 million, due 1985	**121.8**	125.3
10.75% SEK 110.0 million, due 1984–1994	**110.0**	120.0
11.625% NOK 200.0 million, due 1991	**196.1**	-
	661.4	510.2
Less: Current portion included in current liabilities	**-145.6**	-40.4
As of September 30	**515.8**	469.8

Note 29 – Mortgage loans	**1984**	1983
Consortium/Group		
6%/10% DKK 16.5 million, due 1984–2003	**12.9**	14.6
10%/12% NOK 1.8 million, due 1984–2004	**1.7**	1.9
17.5% ZAR 0.0 million, due 1984–1997	**0.2**	0.3
	14.8	16.8
Less: Current portion included in current liabilities	**-1.2**	-1.1
Consortium, as of September 30	**13.6**	15.7
Subsidiaries		
Sundry loans	**415.1**	426.7
Less: Current portion included in current liabilities	**-20.0**	-21.5
As of September 30	**395.1**	405.2
SAS Group, as of September 30	**408.7**	420.9

Note 30 – Other loans	**1984**	1983
Consortium/Group		
6.0% USD 10.6 million, due 1984–1988	**92.7**	196.2
6.5% USD 1.4 million, due 1984–1986	**11.6**	18.3
7.125% USD 0.5 million, due 1984	**-**	3.6
7.5% USD 9.7 million, due 1985–1987	**84.8**	95.3
7.75% USD 30.4 million, due 1985–1990	**264.4**	281.2
8.0% USD 2.4 million, due 1984–1986	**21.0**	26.4
8.5% USD 11.2 million, due 1985	**97.3**	4.7
8.75% USD 13.2 million, due 1984–1989	**114.7**	103.3
9.0% USD 3.7 million, due 1984–1987	**32.6**	37.8
9.25% USD 19.0 million, due 1984–1993	**165.5**	170.2
9.5% USD 14.9 million, due 1984–1993	**129.6**	127.2
LIBOR plus 0.5% USD 4.6 million, due 1984 (LIBOR Sept. 26, 1983=9.7916%)	**-**	36.4
LIBOR plus 0.625% USD 33.3 million, multicurrency loan, due 1985 (LIBOR June 29, 1984=12.6875%)	**289.4**	260.5
6.0% CHF 40.0 million, due 1985	**137.4**	147.2
8.0% FRF 97.5 million, due 1985–1991	**89.7**	213.7
8.5% NOK 2.0 million, due 1984	**-**	2.1
9.5% NOK 5.5 million, due 1984	**5.4**	17.5
10.1875% GBP 0.2 million, due 1987	**1.8**	2.0
Discount rate plus 4.0% DKK 7.2 million, due 1984 (Discount rate DKK Oct. 27, 1983=7.0%)	**-**	5.9
Discount rate plus 3% SEK 23.3 million, due 1984–1989 (Discount rate Sept. 30, 1984=9.5%)	**23.3**	31.3
11.875% SEK 30.2 million, due 1985–1994	**30.2**	-
12.25% SEK 32.0 million, due 1984–1993	**32.0**	0.1
12.5% SEK 11.8 million, due 1984–1989	**11.8**	13.8
12.75% SEK 23.8 million, amoteras 1984–1992	**23.8**	26.5
13.2% SEK 2.8 million, due 1985–1996	**2.8**	3.0
13.5% SEK 3.2 million, due 1985–1997	**3.2**	3.4
	1 665.0	1 827.6
Less: Current portion included in current liabilities	**-694.6**	-330.1
Consortium, as of September 30	**970.4**	1 497.5
Subsidiaries		
Sundry loans	**211.8**	210.0
Less: Current portion included in current liabilities	**-51.8**	-25.6
As of September 30	**160.0**	184.4
SAS Group, as of September 30	**1 130.4**	1 681.9

Note 31 – Other long-term debt		**1984**	1983
Consortium/Group			
Other long-term liabilities		**278.2**	193.1
Less: Current portion included in current liabilities		**– 63.8**	– 23.4
Consortium, as of September 30		**214.4**	169.7
Subsidiaries			
Other long-term liabilities		**36.0**	26.5
Less: Current portion included in current liabilities	**– 0.1**		– 2.6
Consolidation adjustment relating to Nordisk Resebureau AB	**– 13.6**	**– 13.7**	-
As of September 30		**22.3**	23.9
Deferred tax liability on untaxed reserves		**2.0**	2.0
SAS Group, as of September 30		**238.7**	195.6

Note 32 – Provision for pension liabilities	**1984**	1983
Subsidiaries		
SAS Service Partner AB, Sweden - PRI	**7.6**	6.8
- other	**0.9**	0.9
Vingresor AB – PRI	**12.9**	12.1
- other	**0.1**	0.1
Nyman & Schultz Resebyråer AB	**1.2**	1.3
AB Olson & Wright - PRI	**21.8**	20.1
- other	**1.9**	1.8
As of September 30	**46.4**	43.1

The Pension Registration Institute (PRI) is an organization that administers employee pension arrangements. Other pension liabilities are covered either by periodic premium payments or are included as a pension liability under contingent liabilities.

Note 33 – Unrealized currency losses

Unrealized currency losses on long-term debt, previously reported as a separate deductible item among the liabilities in the Consortium balance sheet, amounted to 511.9 MSEK on September 30, 1983. The remaining unrealized currency losses on September 30, 1984 have been charged to earnings as follows:

	Consortium
Currency losses as of October 1, 1983	511.9
Currency losses sustained during 1983/84 on long-term debt	111.1
Currency losses on long-term debt charged to earnings in 1983/84 as a financial expense (Note 7)	– 210.3
Remaining currency losses on September 30, 1984, have been charged to earnings as an extraordinary expense (Note 11)	– 412.7
	0

The Consortium's accounting principles with respect to distribution of currency losses on long-term debt are described in the section "Summary of Significant Accounting Principles".

Note 34 – Reserves

SAS Group	Sept. 30, 1983	Allocation 1983/84	Reversal 1983/84	Other	Sept. 30, 1984
Inventory reserve	32.6	-	-	-	32.6
Depreciation reserve					
aircraft	478.5	26.2	– 70.7	– 3.4	430.6
spare materials	56.6	12.2	-	-	68.8
Currency adjustment	1.9	12.3	-	-	14.2
Consortium	569.6	50.7	– 70.7	– 3.4	546.2
Inventory reserve	7.1	1.7	-	-	8.8
Accumulated supplementary depreciation	83.7	29.2	– 20.4	– 2.8[1]	89.7
Currency adjustment account	2.3	2.6	-	– 0.7	4.2
Investment reserve	36.4	9.5	– 4.9	0.2	41.2
District investment reserve	5.7	0.6	– 2.9	– 0.5[1]	2.9
Profit equalization reserve	44.9	9.7	-	-	54.6
Other reserves					
Consolidation reserve	8.9	8.8	-	– 1.0[1]	16.7
Allocation to special investment reserve	12.9	7.1	– 5.6	0.1	14.5
Emergency reserve	-	4.1	-	– 0.2[1]	3.9
Other	0.9	0.4	-	– 1.3	-
Subsidiaries	202.8	73.7[2]	– 33.8	– 6.2	236.5
Group	772.4	124.4	– 104.5	– 9.6	782.7

[1] Restatement difference due to change of Norwegian kroner from 106:45 SEK to 98:05 SEK per NOK.

[2] Excluding the allocation to currency adjustment reserve, the amount corresponds to subsidiary allocations for tax purposes. See Note 13.

The *inventory reserve* relates to expendable spare parts and inventory under current assets. See Note 17.

The depreciation policy of the Consortium is described in the section on SAS accounting principles.

The depreciation reserve shows a balance of 499.4 MSEK (535.1), whereof the depreciation reserve for aircraft is 430,6 MSEK (478.5).

The relationship between the year's depreciation of aircraft and the change in the depreciation reserve can be described as follows:

Depreciation	MSEK
Depreciation (12–16 years)	180.1
Supplementary depreciation	26.2
Depreciation (10–12 years)	206.3
Change in depreciation reserve	
Supplementary depreciation	26.2
Change in the aircraft fleet, etc	–74.1
	–47.9
Reserve as of September 30, 1983	478.5
Reserve as of September 30, 1984	430.6

The item *Accumulated supplementary depreciation* includes depreciation in subsidiaries in the form of allocations in excess of regular depreciation.

The *Currency adjustment account* has been changed as follows:

	SAS Group	Consortium
Balance, October 1, 1983	4.2	1.9
Unrealized currency losses sustained during the year	14.9	12.3
Elimination	– 0.7	-
Balance, September 30, 1984	18.4	14.2

Investment reserve, District investment reserve, Profit equalization reserve and allocation to *Other reserves* include tax deductible allocations made by the subsidiaries.

Note 35 – Equity

SAS Group	Capital	Legal reserve	Revaluation reserve	Retained earnings	Period's result	Total equity
October 1, 1983	859.6	28.0	22.7	38.0	496.5	1 444.8
Consortium income 1982/83	461.8				– 461.8	-
Transferred to parent companies	– 210.0					– 210.0
Adjustment of revaluation reserve			– 2.7			– 2.7
Subsidiary income 1982/83				66.6	– 66.6	-
Allocation to legal reserve		10.6		– 10.6		-
Change in translation difference				– 20.5		– 20.5
Consolidation adjustment				– 31.9	31.9	-
Other	– 0.1			0.2		0.1
Income 1983/84					901.7	901.7
September 30, 1984	1 111.3	38.6	20.0	41.8	901.7	2 113.4

Note 36 – Contingent liabilities

Assets pledged
During 1983/84 SAS Group pledges increased by 24.2 MSEK, of which deposits in subsidiaries accounted for 13.7 and real estate mortgages in subsidiaries for 10.5.
Contingent liabilities
The Consortium's contingent liabilities as of September 30, were as follows:

	Consortium	
	1984	1983
Travel guaranties	**173.9**	170.0
Guaranties for pension liabilities	**24.3**	20.0
Loan guaranties	**128.5**	90.0
Other contingent liabilities for subsidiaries	**4.1**	36.9
Total contingent liabilities for subsidiaries	**330.8**	316.9
Guaranty for loan, Linjeflyg AB	**25.0**	25.0
Other contingent liabilities	**52.2**	37.4
Total other contingent liabilities	**77.2**	62.4
Pension liabilities	**63.7**	62.9
As of September 30	**471.7**	442.2

Glossary
Available tonne-kilometers. Number of tonnes capacity available for carriage of passengers, baggage, freight and mail, multiplied by the number of kilometers flown *.
Total load factor. Utilization of capacity, expressed as a percentage of total transport capacity.
Available seat kilometers. Total number of available passenger seats, multiplied by the number of kilometers flown *.
Revenue seat kilometers. Number of paying passengers carried, multiplied by the number of kilometers flown *.
Passenger load factor. Utilization of capacity, expressed as a percentage of total number of available seats. (Also called cabin factor.)
Revenue freight-tonne kilometers. Tonnage of paid freight carried, multiplied by the number of kilometers flown *.
Currency codes. The following international currency codes are used in this Annual Report.
CHF Swiss Francs • DKK Danish kroner • FRF French Francs • GBP Pound Sterling • NLG Dutch Guilders • NOK Norwegian kroner • SEK Swedish kronor • USD US Dollars.

* Kilometers flown are based on IATA Great Circle distances.

THE CONSORTIUM'S HOLDINGS OF STOCKS AND PARTICIPATIONS September 30, 1984	Number of shares held	Percent holding	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	2 000	100	FRF	200	0.2
Sundry					0.0
					1.3
Subsidiaries consolidated with the Consortium in the SAS Group					
SAS Service Partner A/S, Denmark, Copenhagen	16 000	100	DKK	16 000	11.3
SAS Service Partner A/S, Norge, Oslo	8 000	100	NOK	8 000	6.0
SAS Service Partner AB, Sweden, Stockholm	160 000	100	SEK	16 000	16.0
Vingresor AB, Stockholm	200 000	100	SEK	20 000	20.0
AB Olson & Wright, Stockholm	3 000	100	SEK	3 000	33.0
Hotel Scandinavia K/S, Copenhagen	Share of capital	97	DKK	197 000	7.1
Scandinavia Hotel Invest A/S, Copenhagen	8	93	DKK	2 500	–
SAS-Invest A/S, Copenhagen	4 110	100	DKK	10 000	7.2
SAS Tours AB, Stockholm	10 000	100	SEK	1 000	1.0
Gamla Vingresor AB, Stockholm	10 000	100	SEK	1 000	1.0
Nordair ApS, Copenhagen	200	100	DKK	300	0.2
InterSAS B.V., Amsterdam	104	100	NLG	104	0.2
SAS Royal Hotel A/S, Oslo	10 000	100	NOK	10 000	66.9
Danair A/S, Copenhagen	1 710	57	DKK	1 710	1.2
A/S Dansk Rejsebureau, Copenhagen	49	50	DKK	400	0.3
SAS Medical AB, Stockholm	2 500	100	SEK	250	0.3
SAS Oil A/S, Copenhagen	300	100	DKK	300	0.3
Other					0.4
					172.4
Other companies					
Linjeflyg AB, Stockholm	500 000	50	SEK	50 000	53.0
Scandinavian Multi Access System AB, Stockholm	5 000	33	SEK	500	0.5
Helikopter Service A/S, Oslo	130 500	10	NOK	13 050	20.1
Polygon Insurance Co Ltd., Guernsey	665 668	33	GBP	666	4.4
Bennett Reisebureau A/S, Oslo	20 880	31	NOK	2 088	1.1
Grønlandsfly A/S, Godthåb	146	25	DKK	6 000	0.4
Widerøe's Flyveselskap A/S, Oslo	26 622	22	NOK	2 662	1.1
Arctic Hotel Corp A/S, Narssarssuaq	2 000	33	DKK	2 000	1.6
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
Other					0.5
					83.3

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 (DNL) as auditors of
SCANDINAVIAN AIRLINES SYSTEM
Denmark–Norway–Sweden
have examined the financial statements for the year ended September 30, 1984, of the Group and the Consortium. Our audit was made in accordance with generally accepted auditing standards.

In our opinion, the financial statements present fairly the financial position of the Group and the Consortium at September 30, 1984, and the result of their operations for the year then ended based upon the accounting principles described under the heading "Summary of significant accounting principles."

Stockholm, January 16, 1985

STEN NACKSTAD
Authorized Public Accountant

STIG-ERIK SCHAUMBURG-MÜLLER
Authorized Public Accountant

BERNHARD LYNGSTAD
Authorized Public Accountant

SÖREN WIKSTRÖM
Authorized Public Accountant

ARNE BRENDSTRUP

JACOB BERGER
Authorized Public Accountant

Five Year Summary

TRAFFIC/PRODUCTION		Change	**1983/84**	1982/83	1981/82	1980/81	1979/80
Number of cities served		– 2	**91**	93	99	105	103
Kilometers flown, scheduled	(mill)	+4%	**123.5**	119.3	112.9	113.2	120.4
Total airborne hours	(000)	+6%	**192.7**	182.1	171.1	171.1	180.0
Total number of passengers carried	(000)	+9%	**10 066**	9 222	8 861	8 413	8 393
Available tonne kilometers, total	(mill)	+/– 0%	**2 333.0**	2 331.3	2 427.3	2 472.4	2 536.8
Available tonne kilometers, charter		– 7%	**18.4**	19.8	32.4	21.7	20.9
Available tonne kilometers, scheduled		+/– 0%	**2 314.6**	2 311.5	2 394.9	2 450.7	2 515.9
Revenue tonne kilometers, scheduled	(mill)	+3%	**1 473.6**	1 431.2	1 418.3	1 415.8	1 432.6
Passengers and excess baggage		+6%	**1 030.8**	986.0	962.3	958.3	972.6
Cargo		– 1%	**390.6**	393.9	404.3	407.5	412.2
Mail		+2%	**52.2**	51.3	51.7	50.0	47.8
Total load factor, scheduled	(%)	+ 1.8 pts	**63.7**	61.9	59.2	57.8	56.9
Available seat kilometers, scheduled		+2%	**17 395**	17 037	17 118	17 761	18 460
Revenue seat kilometers, scheduled	(mill)	+5%	**11 681**	11 159	10 879	10 817	10 972
Cabin factor, scheduled	(%)	+ 1.7 pts	**67.2**	65.5	63.6	60.9	59.4
Average passenger trip length	(km)	– 4%	**1 168**	1 219	1 239	1 296	1 318
Traffic revenue/Revenue tonne Km	(SEK)	+7%	**7.66**	7.17	5.74	4.64	4.13
Airline operating expense/avail. tonne Km	(SEK)	+6%	**4.35**	4.12	3.35	2.80	2.49
Revenue tonne Km/Empl., scheduled		– 1%	**83 200**	83 700	86 600	86 200	83 900
Rev passenger Km/Empl., scheduled		+1%	**659 600**	652 500	664 300	658 600	642 800

PERSONNEL (average)					
Consortium	**17 710**	17 101	16 376	16 425	17 069
Group	**28 526**	26 657	24 770	24 124	24 980

INCOME STATEMENT DATA – GROUP (MSEK)					
Traffic revenue	**11 577**	10 463	8 586	7 003	6 342
Other operating revenue	**6 428**	5 509	4 221	3 169	2 878
Total operating revenue	**18 005**	15 972	12 807	10 172	9 220
Income before depreciation	**1 590**	1 276	912	508	299
Depreciation	**545**	483	474	430	391
Financial items, net	**– 253**	– 210	– 146	– 166	– 71
Income after financial items	**792**	583	292	– 88	– 163
Extraordinary income/expense	**176**	18	156	37	100
Income before allocations and taxes	**968**	601	448	– 51	– 63

STATEMENT OF CHANGES IN FINANCIAL POSITION – GROUP (MSEK)					
Funds from the year's operations	**1 342**	1 048	1 164	489	123
Change in working capital	**151**	196	91	44	120
Net financing from the year's operations	**1 493**	1 244	1 255	533	243
Investments in flight equipment	**– 683**	– 143	– 109	– 378	– 385
Investments, other	**– 530**	– 416	– 282	– 278	– 554
Sales of assets, etc	**907**	48	185	94	6
Financing surplus/deficit	**1 187**	733	1 049	– 29	– 690
Net borrowings	**299**	– 346	– 274	53	508
Change in liquid funds	**1 486**	387	775	24	– 182

BALANCE SHEETS – GROUP (MSEK)					
Current assets	**7 291**	5 428	4 172	3 080	2 727
Fixed assets[1]	**4 056**	3 654	3 426	3 733	3 864
Total assets	**11 347**	9 082	7 598	6 813	6 591
Current liabilities	**6 105**	4 552	3 633	3 121	2 803
Long-term debt[2]	**2 346**	2 313	2 164	2 302	2 391
Equity and reserves	**2 896**	2 217	1 801	1 390	1 397
Liabilities and equity	**11 347**	9 082	7 598	6 813	6 591

RATIOS – GROUP					
Gross profit margin, %	**8.8**	8.0	7.1	5.0	3.2
Net profit margin, %	**4.3**	3.6	2.2	– 0.8	– 1.8
Return on capital employed, %	**26.5**	23.9	17.3	6.1	2.3
Return on adjusted equity, %	**18.2**	17.8	11.6	– 8.1	– 15.0
Proportion of risk-bearing capital, %	**25.5**	24.4	23.7	20.4	21.2
Capital ratio, after 50% deferred taxes, %	**22.1**	20.2	19.2	15.6	16.8

[1] Restricted account balances are included
[2] Including minority interest

SAS's Most Valuable Resource

SAS has made major changes in its business strategies during the 1980s. The market and the customers have become the focal point. The importance of a service oriented and highly motivated staff has been emphasized. Training programs have been performed and measures have been taken to apply these strategies in detail.

The market—and result—orientation of the entire SAS organization was a great challenge to the people in the company while, at the same time, strain was exerted on the structure. New personnel groups, the people working closest to the customer, were placed in the limelight. Administrative resources were transferred to the front line, unessential costs were cut and the requirement of better utilization of human resources created both stimulation and pressure.

FOCUS ON THE INDIVIDUAL

Market orientation was combined with emphasis on the needs and potential of the individual. Every person, customer as well as employee, wants to be treated as an individual.

The opportunity for personalized service is created in the contact between two individuals—the customer and the SAS employee. Greater responsibility means more authority and this calls for more precise information from management about business goals in the short and longer term. Individual initiative is stressed. Instructions are replaced by information.

Staff motivation and cooperation are comparatively easy to achieve in a crisis situation. It is much more difficult when things are going well. In the latter case, the demand for compensation increases as corporate profits rise.

This also applies to SAS. It may seem a paradox that, while SAS has succeeded in motivating its staff to personal sacrifices benefiting the company, SAS has also been drawn into a number of conflicts with its personnel organizations.

EQUITABLE COMPENSATION

There is a multitude of unions in SAS, about 40 personnel organizations, almost all of which function as bargaining partners. Scandinavian collective agreements are further complicated by different wage development in each of the three parent countries and by major foreign exchange fluctuations in recent years. This situation causes large optical differences in pay scales among the SAS countries.

To address this problem, and to create an equitable compensation policy benefiting the individual as well as the company, SAS is adopting an across-the-board policy. The basic elements of this policy are:
- compensation shall be based on conditions in the home market of each individual;
- relative compensation levels for the different personnel categories should be the same in the three countries, and
- levels of compensation should be perceived as fair and stimulating in each country's labor market.

NEW HIRINGS

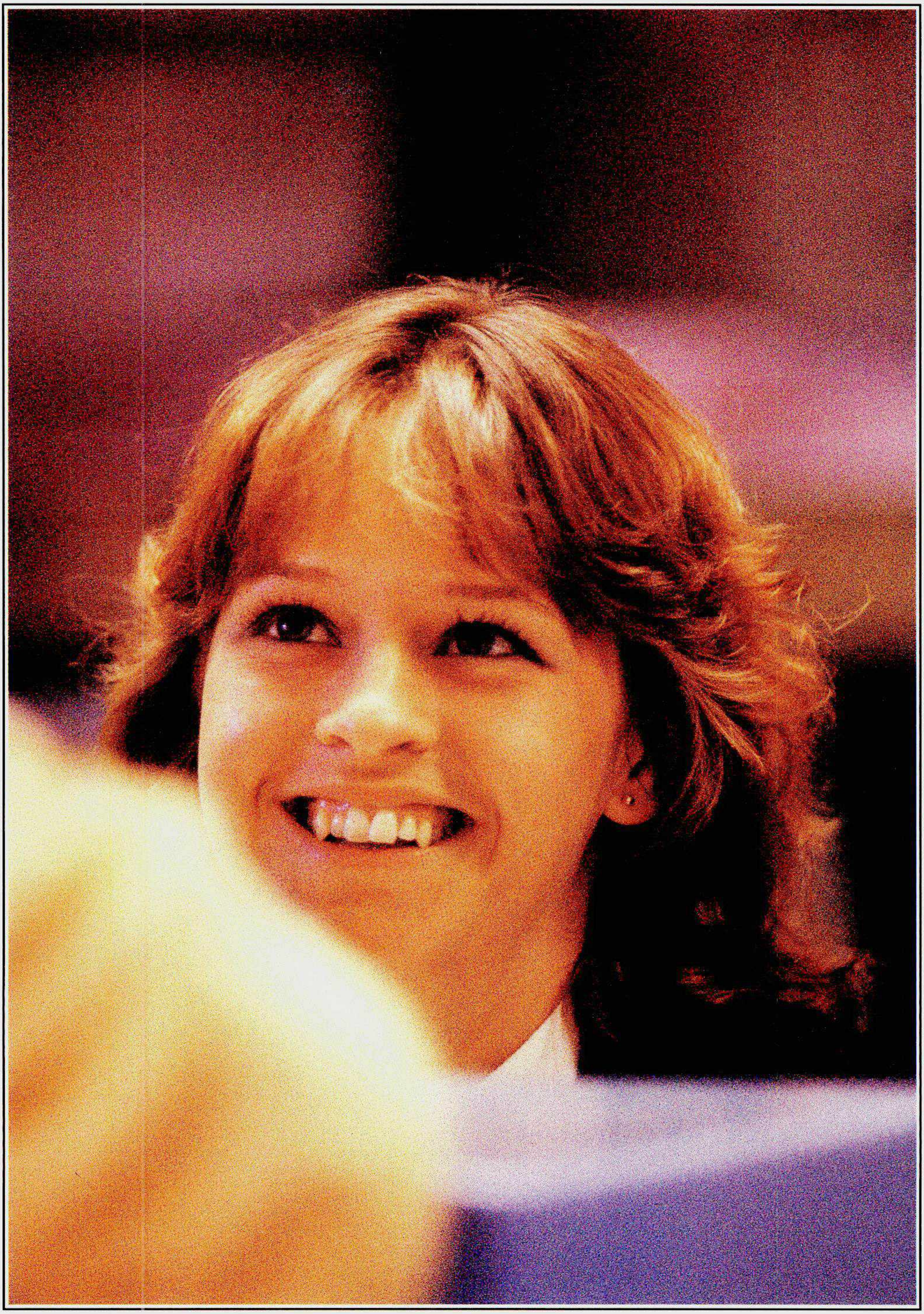
The airline has had a surplus of personnel for several years. As a result of a trimming program, better balance was achieved between administrative personnel and the staff in direct contact with customers. Increased demand for SAS's services, as a result of market orientation and some market growth after several years of stagnation, has meant a greater workload for front line personnel. SAS will now recruit new personnel to improve service in the marketplace. Investments in new aircraft will necessitate the hiring of pilots and cabin crew. Recruitment will take place where needed with all due consideration to the national balance among the three countries.

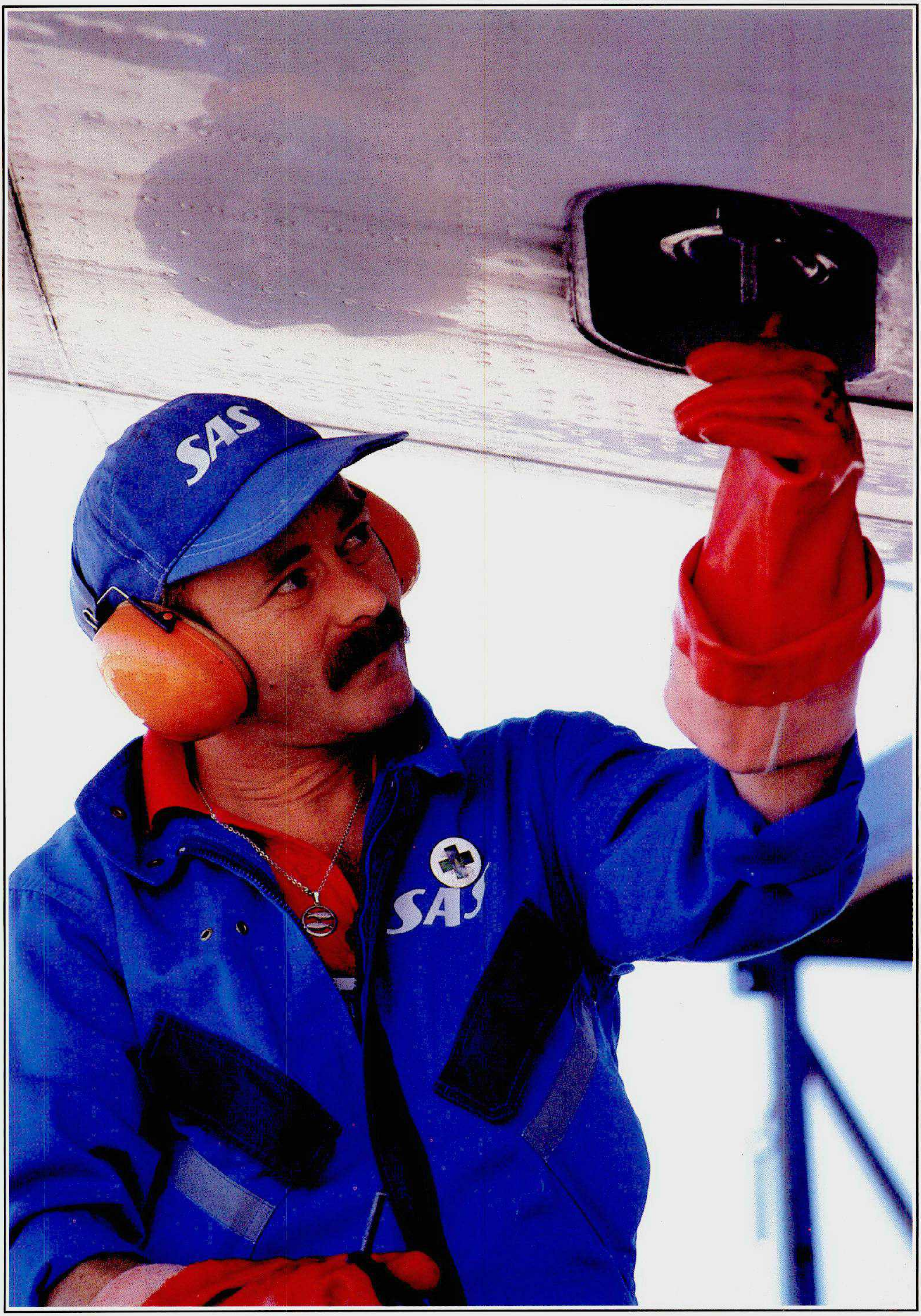
TRAINING AND INFORMATION

The new corporate orientation, together with market growth, place new demands on development and communication with the employees and their organizations. Management has an important role both in terms of communication with and development of the personnel. Management training programs are therefore now being planned to implement the strategy of decentralizing responsibility and authority, thereby effectively utilizing human resources.

OUR PERSONNEL – THE GREAT POTENTIAL

The public has very high expectations of SAS today. SAS's greatest strength is its loyal, knowledgeable and dedicated staff, which has created "The New SAS." The entire organization is distinguished by great self-confidence and strong belief in its own ability and the company's future potential to fulfil these expectations.

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The SAS Group

The SAS Group consists of a number of business sectors, of which the airline, operating as the Consortium, is the largest. Two of the others, SAS Service Partner and the hotels, have developed to complement and support the airline. SAS Leisure, represented among others by Vingresor and the independent consortium Scanair, is of vital importance to balance the seasonal variations of scheduled air travel. All operating sectors are managed with great independence and with profitability requirements to ensure a positive development over the short as well as long term. At the same time all opportunities for synergy and cooperation between the airline and the other units of the Group shall be utilized in full.

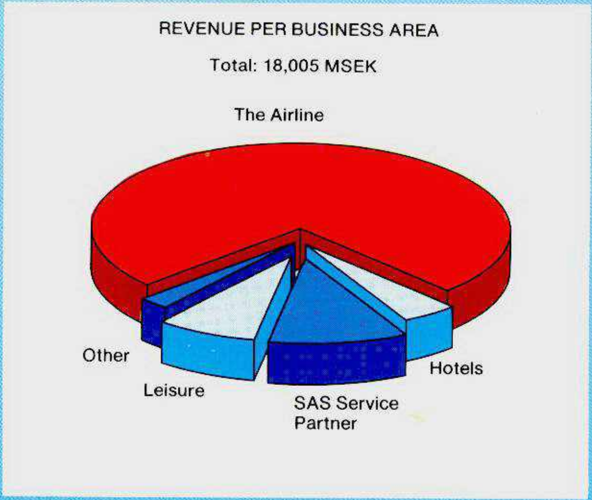
The requirement of uniform conduct in the market and a unified strategy for the entire SAS Group becomes even more important in an environment of increased competition in all business areas.

SAS's primary function is to provide Scandinavian travelers and cargo customers with reliable and safe transportation services. By being able to offer door-to-door services, encompassing all links in the transport chain from reservations via ground transportation, check-in, travel and hotel with other services at the destination, the SAS product content has been efficiently expanded for the customer.

SAS GROUP ORGANIZATION and BUSINESS AREAS

GROUP MANAGEMENT

SAS AIRLINE	SAS INTERNATIONAL HOTELS	SAS SERVICE PARTNER	SAS LEISURE	OTHER
Commercial Division	Hotels	Flight Kitchens	Vingresor	Nyman & Schultz
Traffic Services Division		Restaurants	SAS Tours	Olson & Wright
Operations Division		Offshore & Industrial Services	Scanair Independent consortium	Affiliated companies
Technical Division				
Business Services Division				
Data Services Division				
Commuter Operations Department				
External Enterprises				



The Airline

Airline traffic and other operating revenue for 1983/84 rose by 12 percent to 14,151 MSEK (12,600). About 6 percentage points of the improvement is attributable to an increase in volume and to product innovations.

The result before extraordinary items rose from 461 MSEK to 729 MSEK. Most route sectors showed an improvement. The following factors have been particularly important in improving results:

- Increased traffic
- Increased share of full-fare passengers
- Improved capacity utilization

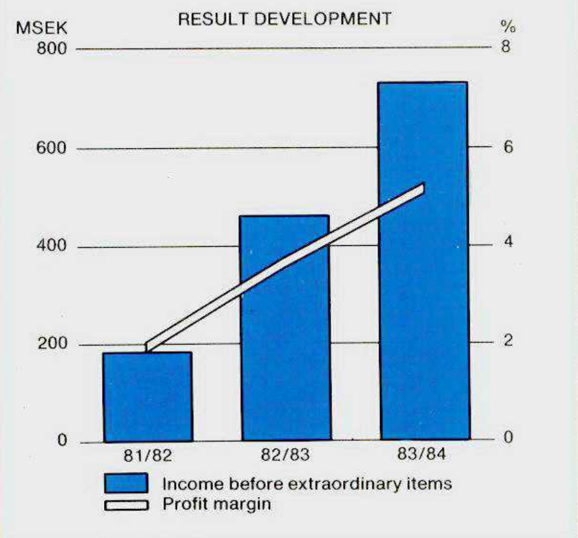
The effect of higher ticket prices by an average of 6 percent corresponds to the increase in the general cost level, where the price of fuel (in SEK/gallon) decreased by 5 percent, but other costs (net) rose 9 percent.

The improvement in airline earnings is therefore mainly due to the effect of SAS's own initiatives and to overall market development. SAS increased its shares of both the full-fare and the low-fare markets during the year. Together with some market growth, this has resulted in a traffic increase totaling 3 percent. Production, however, was unchanged from the year before and capacity utilization therefore improved. Among factors contributing to the traffic increase was the transfer of capacity from less profitable to more profitable areas. A new cargo concept was also a success.

Airline Summary

	1983/84	1982/83
Revenue (MSEK)	**14 151**	12 600
Income[1] (MSEK)	**729**	461
Employees	**17 710**	17 101

[1] Income before extraordinary items and expense.



CLEARLY DEFINED MARKETS

After several years of stagnating airline traffic, there was a modest recovery in market growth toward the end of 1983. The trend grew stronger during the remainder of the financial year, due to the general improvement in the Western economies. The international airlines as a whole will report a positive result for 1984, for the first time since the late 1970s.

The market consists of three customer groups – The business traveler, the tourist and the cargo shipper. For SAS, tourists provide the volume while business travelers are more important in terms of revenue. Most scheduled international airlines have the same structure. In SAS, full-fare business travelers account for a major portion of revenue and income because of determined efforts to develop products and services to meet the specific demands of this market segment.

SAS operates in clearly defined geographical markets with heterogeneous requirements. The Scandinavian domestic traveler demands frequent departures, many non-stop flights and a low price. Regional political considerations are also a factor in domestic airline operations, as important links in the national transportation systems.

The travel demand to and from Europe follows a somewhat different pattern. Frequent departures and non-stop flights are also required. The business traveler dominates in this segment, creating opportunities to differentiate the product in terms of quality, standard and price.

The flying time is long on intercontinental routes, often 10 to 12 hours. This market demands the greatest possible comfort as well as a low price.

It may appear as a paradox, but the more travelers who choose the full-fare alternative, the lower the price SAS can offer to the tourist traveler. When more tourists fill seats that would otherwise depart empty, the airline can dampen full-fare price development.

Cargo was previously a typically marginal product. But, even in this area, the market demands product development to the same extent as in the passenger sector with respect to service and prices.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INCREASED COMPETITION

Scheduled international airline traffic is based on bilateral agreements. These agreements determine which destinations may be served and regulate the capacity which may be offered. They stipulate that fares and rates be approved by the appropriate national authorities.

There are major differences in the degree of competition among the geographical markets served by SAS. There is a trend toward liberal competition in several markets. This development is partly the result of political manifestations, and partly due to the fact that the airlines are forced to resort to all forms of competition in the battle for passengers in a stagnating market. This means that the stringent and complex network of regulations is now gradually being relaxed. Deregulation has been more sweeping in the United States than elsewhere. In many countries, protectionistic tendencies favor the national airline.

In Europe, traffic continues to be regulated to the degree that the airlines cooperate on timetables, prices and capacity. Also in this area there are clear tendencies toward deregulation and politically motivated desires to allow other than established national airlines to compete in scheduled service. In Scandinavia, there is also increased pressure from small carriers to obtain additional concessions.

AN ORGANIZATION TUNED TO THE MARKET

Based on developments in the market, SAS formulated the The Businessman's Airline strategy in the beginning of the 1980s. Product development is to be guided by the requirements of the business traveler. Investments in new capacity can be made only when growth and profitability in the business travel segment so warrant.

SAS's current organization, has evolved over the last three years to execute this strategy efficiently.

The airline, which is operated in the SAS Consortium, is organized in six divisions. The Commercial Division is closest to the market and responsible for the development, marketing and sale of products to the passenger and cargo markets. To identify the individual characteristics of each market, the Division is divided into six route sectors, including three for the domestic traffic in each of the Scandinavian countries, and one each for European traffic, intercontinental routes and cargo. The route sectors translate the needs of the market into products which, in turn, guide production and resource dimensioning in the other five divisions. The route sectors therefore have great influence over investments in new capacity and are responsible for efficient fleet utilization.

Product content is discussed and established in negotiations between the route sectors and the divisions in a typical client/supplier relationship. In this way, it is the market that determines product content and price. The airline applies strict profit responsibility with predetermined, individual profit targets. This system is conducive to cost efficiency in the entire organization.

SOLID PRODUCT PROGRAM

SAS's products are distinguished by safety, quality and service. The price must be competitive and yet sufficiently high to provide a contribution to a level of profitability based on which new capital investments can be justified. The products are geared to the needs of the business traveler and are differentiated for each geographical market.

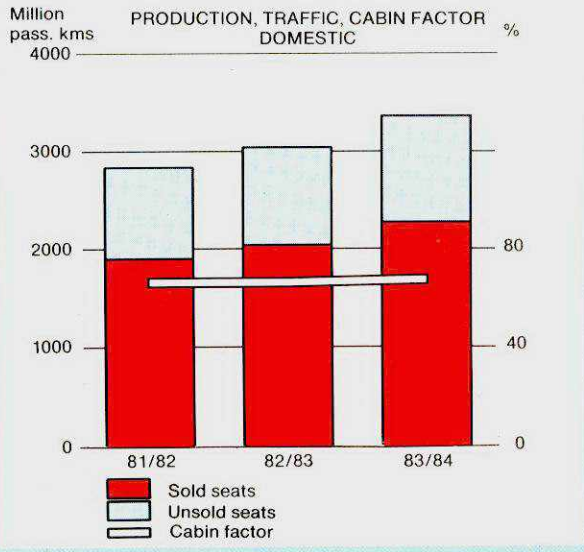
On domestic routes the service level is highly standardized. Pricing is differentiated, however, and travelers are offered a wide variety of low-fare alternatives at times which are off-peak for business travel.

On the European network the business travel product is called EuroClass and in intercontinental traffic it is known as First Business Class. Both are distinguished by excellent service at normal fare levels. There are also low-fare alternatives to satisfy leisure travel demands and to increase capacity utilization on each flight.

By offering differentiated products and by strict adherence to its business travel strategy, SAS has become a market leader in this sector. Other airlines are now attempting to copy SAS's products. At the same time, the marginal return on improvements is shrinking. SAS is therefore concentrating efforts on developing other elements in its total travel concept. These include ground transportation, travel arrangements, reservations, payment routines, hotels with special arrangements for business travelers, etc. These elements broaden the product range and increase competitive strength.

INVESTMENT DECISIONS

Since the beginning of the 1980s, SAS has enjoyed increasing demand, ultimately leading to high capacity utilization. Now, additional resources are required in the form of personnel and aircraft. In the summer of 1984 SAS therefore decided to make certain complementary additions to the fleet. Two almost new DC-10s were bought for a total of 50 MUSD, and with the modifications necessary to meet SAS's standards, the total investment will be 82 MUSD or about 700 MSEK. SAS has also purchased four Fokker F-27s, a smaller aircraft to be used on short hauls with a limited traffic base, so-called commuter operations. The largest investment decision during the year was to order six new DC-9s for 152 MUSD. These aircraft will be put in service in late 1985 on domestic and European routes, where demand has gradually increased during 1984, creating a need for more capacity.



SAS domestic passenger traffic production has increased by an average of 5 percent per year, while passenger traffic has grown slightly faster. Utilization is high.

COMMERCIAL DIVISION

Commercial Division sales in 1983/84 amounted to 12,347 MSEK, an increase of 11 percent. The major portion of the division's sales was traffic revenue amounting to 11,577 MSEK (10,463).

The number of employees is 4,460, mainly in the route sector organization and as sales personnel in Scandinavia and abroad. Apart from marketing and ticket sales, the international organization is responsible for station operations outside Scandinavia.

DOMESTIC

SAS conducts domestic airline services in Denmark, Norway and Sweden. Domestic traffic revenue in 1983/84 was 19 percent (18) of total airline revenue. Passenger revenue was 2,013 MSEK (1,745).

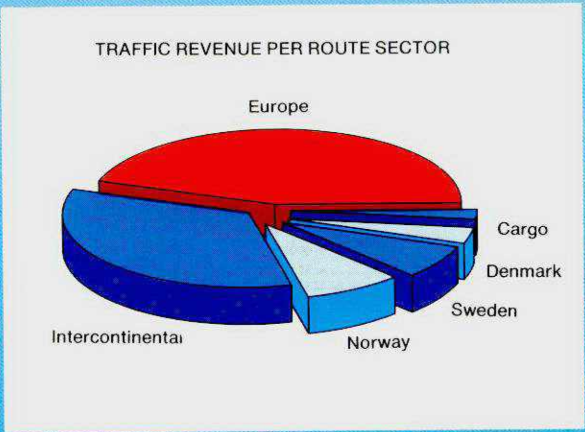
More capacity is being added in response to the increase in domestic demand.

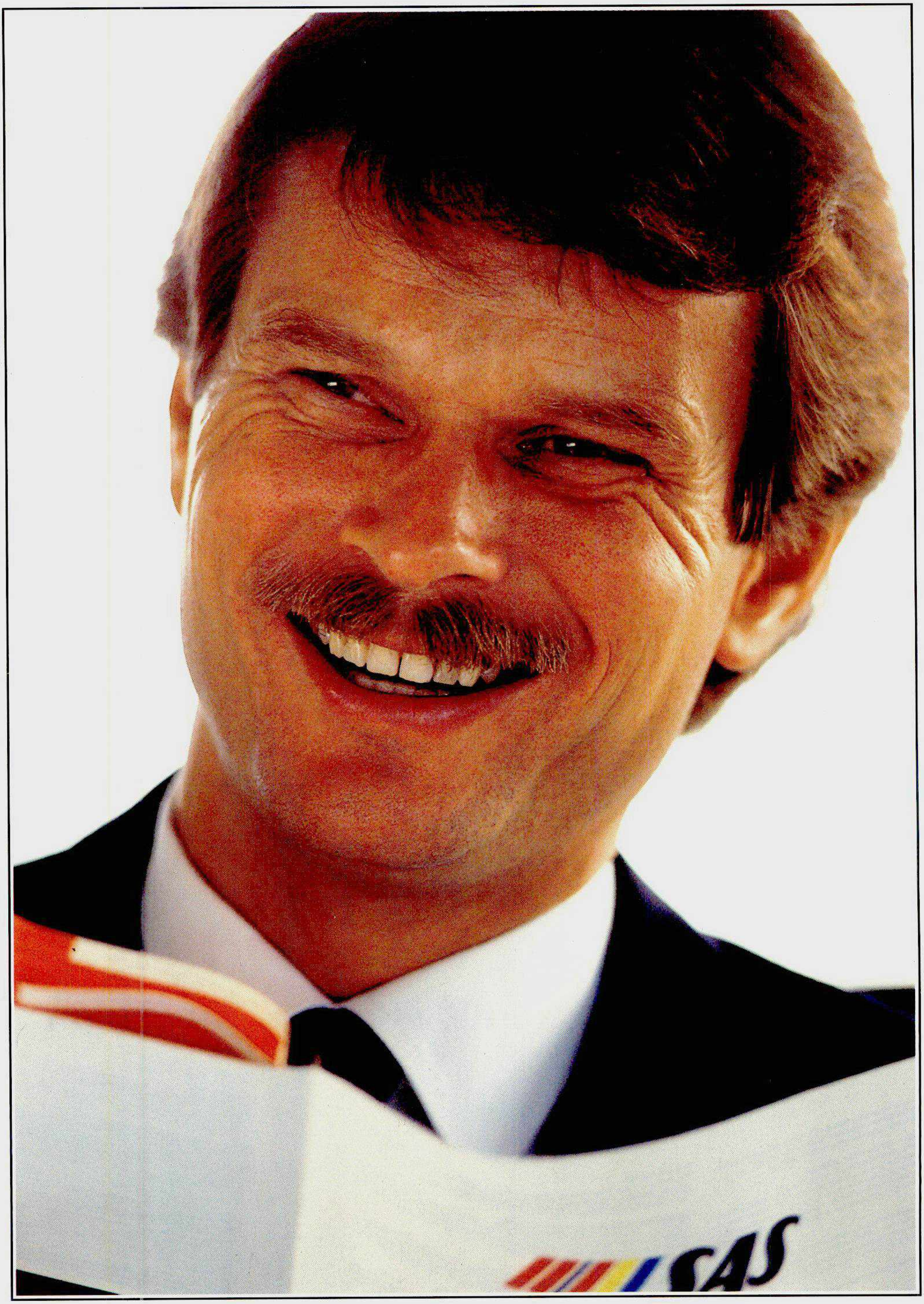
In Denmark SAS cooperates with Maersk Air and Cimber Air within the Danair subsidiary. The routes between Copenhagen and Aarhus, Aalborg and Karup are served by SAS, while the two other companies operate the remainder of the network.

The demand for air travel in Denmark continued weak despite some volume increase in 1983/84. SAS's passenger revenue during the year was 367 MSEK, an increase by 5 percent over last year.

The short distances in Denmark mean that a flight constitutes only a small part of total travel time. Such peripheral arrangements as ground transportation, parking, ticket handling, check-in, etc., therefore have to be very efficient for domestic air travel to be competitive. An expansion of the domestic terminal in Copenhagen, planned for 1986, will considerably improve comfort and give air travel a further boost over other modes of transport.

In Norway SAS and Braathens SAFE share the concessions for domestic trunk route traffic. SAS has 60 percent of the production and serves the routes, connecting the northern parts of the country with the

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South, and the Oslo–Bergen and Oslo–Haugesund routes, which are important business travel sectors.

The Norwegian economy enjoyed strong growth with a positive influence on domestic air travel. The offshore industry primarily contributed to the increase in demand for business travel. Passenger revenue amounted to 894 MSEK, an increase of about 10 percent.

In Norway, air transportation is of great regional-political importance. SAS is assuming its responsibility of maintaining traffic even to destinations with a weak traffic base. New low-fare alternatives to northern Norway resulted in an increase in passenger traffic over last year. At the same time, full-fare traffic continued to expand on business travel-intensive routes.

In Sweden demand followed the same pattern as in Norway. Air travel's share of a growing market is rising despite severe competition from rail as well as highway travel. Passenger revenue increased to 752 MSEK during the year.

Linjeflyg moved its Stockholm traffic hub to a new domestic terminal at Arlanda Airport in late 1983. Widespread fears of a decline in domestic traffic proved unjustified. Instead, a marked increase, has benefited both SAS and Linjeflyg.

In order to capitalize on the opportunities of the growing market, additional staff and aircraft are now required.

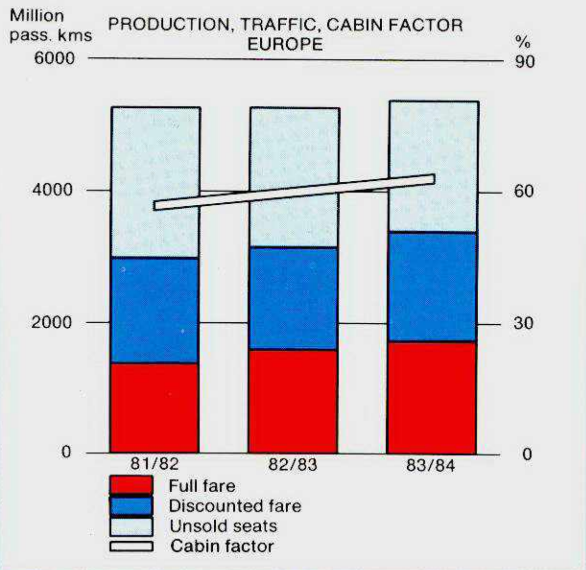
In general, the development of results in domestic service is satisfactory, even though Denmark is lagging slightly behind.

EUROPE

SAS currently links Scandinavia with 31 destinations in 18 European countries. The market for this network is estimated to be about 10 million passengers per year, of which SAS has a little more than half.

In late 1983, a slight traffic volume increase was recorded for the first time in several years. The trend continued in 1984 and, for the 1983/84 financial year, the increase was about 7 percent.

SAS's traffic revenue, including cargo, etc., increased to 5,122 MSEK (4,560) during the year. Passenger revenue on European routes increased by 13 percent to 4,758 MSEK. Earnings improved to a level satisfactory enough to support investment in new aircraft. A decision was taken during the year to add new capacity in the form of



SAS's successful introduction of EuroClass and other measures have increased the share of full-fare passengers to over 50 percent. SAS's highly competitive, low fares have attracted more passengers. Capacity utilization, or cabin factor, has been rising about 3 percentage points annually.

three DC-9s. When these aircraft are delivered at the end of 1985, the route sector will have 44 aircraft at its disposal.

The competition primarily consists of the national airlines in each of the countries SAS serves. In Switzerland it is Swissair, in West Germany Lufthansa, in Austria Austrian Airlines, etc. Air traffic in Europe is still rather heavily regulated. However, new airlines may be afforded opportunities to fly some routes on the strength of new directives approved by the EEC.

The competition for full-fare passengers, constituting about half of the European market, was further escalated during the year as more airlines developed products modeled on SAS's EuroClass.

To continue to improve the business travel product, several new service elements were added, such as around-the-clock reservations, higher baggage weight allowances, airline check-in at SAS hotels, etc. The first Scanorma lounges outside Scandinavia were opened in Düsseldorf and London. SAS also introduced hovercraft service between Malmö and Copenhagen to make travel easier for passengers to and from southern Sweden. New connecting non-stop flights were started between Copenhagen and Bergen, Copenhagen and Barcelona and from Lisbon to Copenhagen.

An entirely new program for Eastern Europe was presented, with more non-stop flights to Hungary, Yugoslavia and Turkey.

New low-fare alternatives were introduced to West Germany, Switzerland, Hungary and Turkey during the year. No other European airline has as comprehensive a low-fare program as SAS. In sum, the low-fare traffic provides significant marginal earnings and is very important in balancing seasonal variations in the travel patterns of different customer groups.

INTERCONTINENTAL

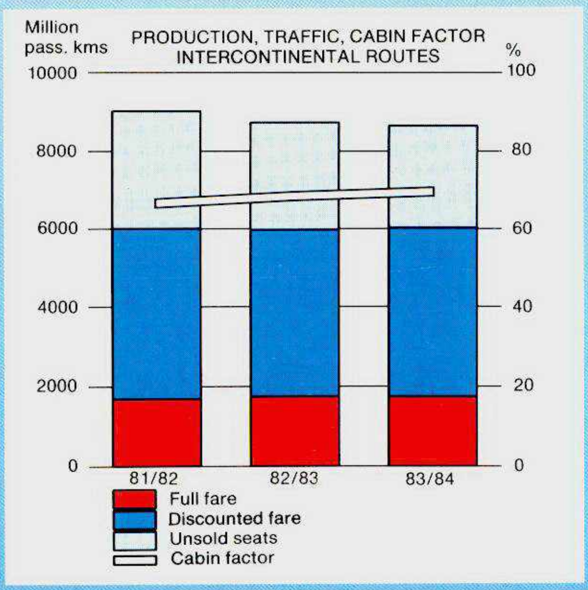
Intercontinental traffic spans North and South America, the Middle and Far East and Africa. Total revenue in this route sector for 1983/84 was 3,933 MSEK, an increase of 5 percent. Intercontinental passenger traffic in 1983/84 generated revenue of 3,002 MSEK, or 26 percent (27), of total airline revenue. The operating result improved, but profitability is still not sufficient to warrant investment in new aircraft.

The weak market persisted on most routes while competitive pressure mounted. Many airlines seek traffic rights where the traffic base is sufficient only for a few flights per week. The result is serious overcapacity and depressed prices. On North American routes, the situation is very serious and has been aggravated by a major increase in low-fare traffic between Great Britain and the United States. Nonetheless, SAS's North Atlantic result improved with the successful debut of First Business Class.

Compared with many other airlines, SAS has a high cost level and a small home market, both competitive handicaps. Average intercontinental revenue per kilometer is only a third of European traffic revenue.

The proportion of full-fare passengers is much lower in intercontinental traffic than in other geographical markets. Full-fare traffic increased most on the North Atlantic. There was some improvement on Southeast Asia and Tokyo routes. Result development on South American and African routes is still unsatisfactory as the Scandinavian passenger base is insufficient to support scheduled traffic to most of these destinations. Efforts continue to consolidate the network, to cooperate with other airlines, and to improve the product.

During the year the route sector had at its disposal five Boeing 747s, four DC-10s and five DC-8s. A consequence of developments in the market is that there are too many types of aircraft in the fleet to provide, efficiently and economically, nonstop services and frequent departures. To do so economically, SAS must use smaller aircraft, which probably means phasing out the Boeing 747s in favor of DC-10s.



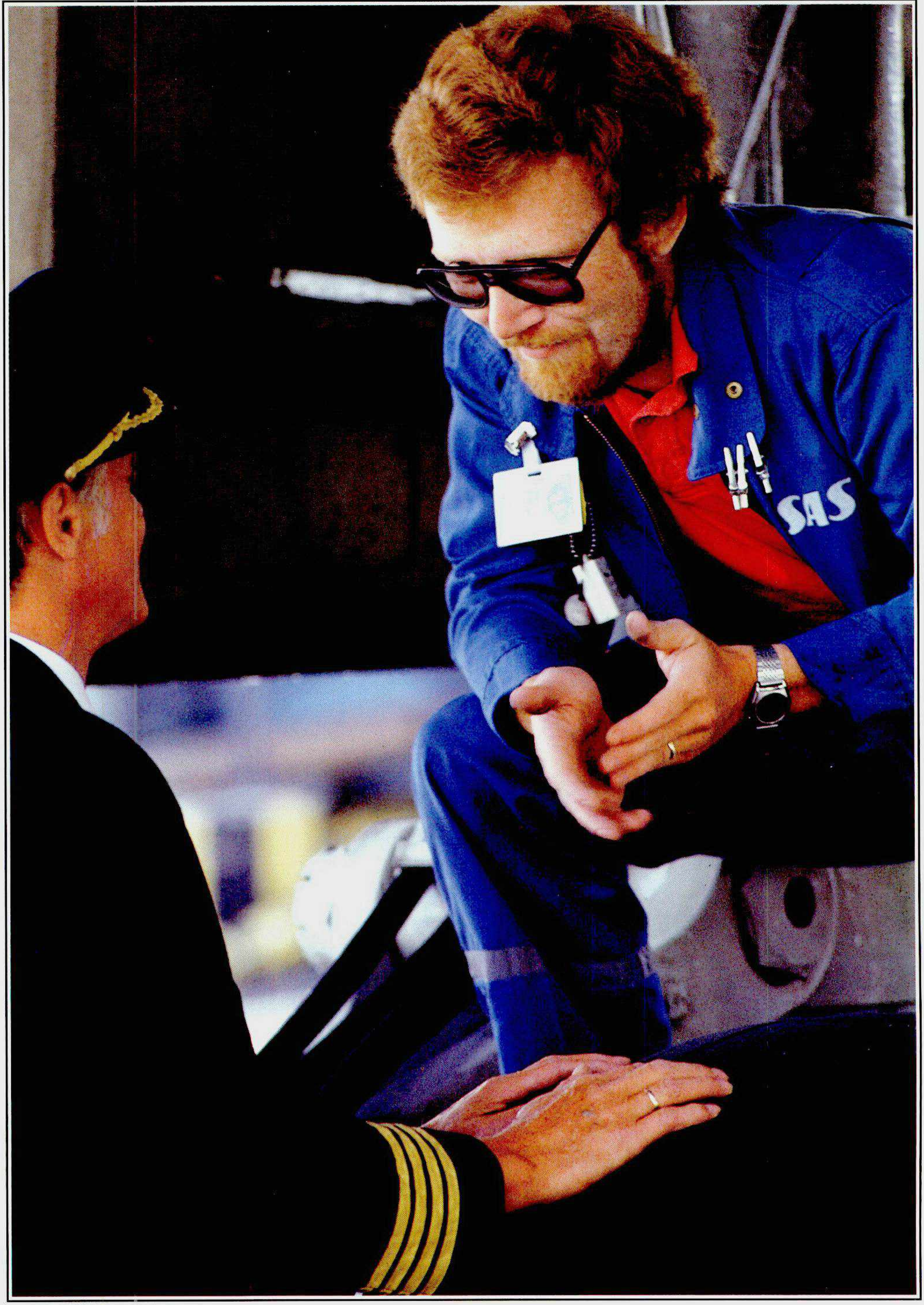
SAS has concentrated production on intercontinental routes, reducing capacity where market demand is weak. Heavy promotion of both business and tourist segments has increased capacity utilization. First Business Class has attracted more full-fare passengers; their share was 30 percent in 1983/84.

AIR CARGO

Much the same as in the passenger market, air cargo demand fluctuates according to distance and geographical factors.

On domestic routes and in Europe, air cargo competes in speed and efficiency with land and waterway transport. SAS's and other airlines' traffic programs on these sectors are adapted to the passenger markets' timetable and destination requirements. On these routes air cargo will therefore always be a marginal product. Aside from air cargo carried by passenger aircraft, SAS also has the cargo aircraft with their own schedules operating in Europe.

The situation is different in intercontinental traffic. Surface transport cannot compete with air cargo in terms of quality or speed, but price is generally a restraining factor. Since international trade increasingly consists of sophisticated manufactured products with relatively low sensitivity to the cost of transportation, air freight becomes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more competitive and can often warrant cargo aircraft with their own timetables.

In 1983/84 cargo revenue was 1,303 MSEK (1,280) including 61 MSEK for ground transport. Earnings, which have been weak over an extended period, improved substantially. One contributing factor was SAS Cargo's introduction of a new product concept, Priority Cargo, which is patterned on full-fare passenger services. Priority Cargo is a normal price product with the best possible service and without a surcharge. The cargo is flown according to timetable and SAS offers a money-back guarantee if the cargo is not delivered on time. Timetables were also adjusted for all-cargo traffic to better fulfill the market's requirements, all of which had a positive effect on the result.

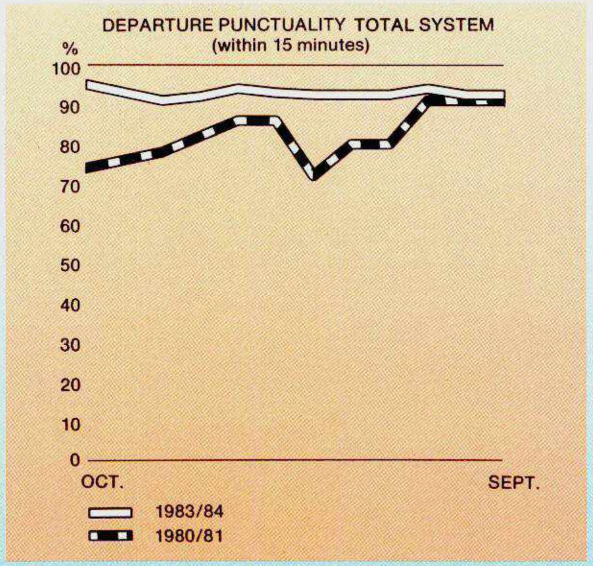
A third factor in the improvement was the change in total cargo capacity in Scandinavia. Previously, a large number of European airlines operated on the Scandinavian market, resulting in highly depressed prices. When US Dollar exchange rates rose, exports from Europe to the United States increased. These airlines responded by withdrawing capacity from Scandinavia, using it instead where they could find more profitable traffic. This trend, which is expected to continue, has helped improve SAS's cargo capacity utilization. In the meantime, SAS Cargo's products are becoming better established and stronger in a highly competetive market.

TRAFFIC SERVICES DIVISION

The Traffic Services Division is responsible for a major share of SAS's customer service program, including ground transportation – for example, limousine services – check-in and baggage services at the airports, inflight service and entertainment and arrival assistance. The division has also handled the sale of tax-free goods onboard and at the airports.

The 3,942 employees in the Division served 21.5 million passengers for SAS and other airlines.

1983/84 sales of services to the Commercial Division amounted to 2,066 MSEK. External sales, primarily to other airlines and to SAS's own passengers, were 785 MSEK. During the fall the Division's external activities were organized in a separate entity in order to better capitalize on opportunities in the market. SAS External Enterprises includes tax-free sales, business development, SAS Media and related areas.



Punctuality is defined as the percentage of departures within 15 minutes of schedule. Since 1980/81 SAS's punctuality has increased significantly. SAS was again Europe's most punctual airline.

Punctuality is a very important element of SAS's product concept. For the third year in a row, SAS was Europe's most punctual airline. The three Scandinavian airports continually top the list of punctual airports. During the year, a concerted effort was made to elevate intercontinental punctuality to the same high standard as on the European network.

Airports play an important role in the travel system. The goal must be to attain an efficient flow so that the passenger spends as little time as possible at the airport. Intermediate stops, when necessary, should be regarded as a positive experience.

For SAS to increase its market share of European and intercontinental traffic, Copenhagen Airport must be transformed into an attractive gateway superior to the other large European airports. Some additional steps towards this goal were taken during the year. As an example, the new, spacious Scanorama Lounge was opened, as were new, larger lounges to improve passenger service at intercontinental departure gates at Copenhagen Airport.

One of an airport's greatest attractions is retail shops with a wide, exclusive and inexpensive selection. Copenhagen is today not competitive in this regard. SAS has therefore presented a comprehensive proposal to the Danish authorities on how retail sales can be organized to benefit both customers as well as the government and shopowners in the airport transit hall.

OPERATIONS DIVISION

The Operations Division furnishes crews for the more then 500 flights a day operated by SAS and Scanair.

Operations has 3,673 employees, including 1,139 pilots and 2,110 pursers, stewards and air hostesses.

The Division sells its services to SAS and Scanair, and also to other airlines. Total revenue for 1983/84 was 1,502 MSEK.

The Division's personnel play a vital role in ensuring maximum flight safety in accordance with rules and regulations established by the authorities, aircraft manufacturers and SAS's own air safety organization. The personnel, in their direct contact with the customers, are also responsible for a large part of SAS's product content. Their performance is crucial in making SAS a market leader in business travel. Both pilots and cabin staff also share a large responsibility for product cost efficiency.

To live up to customer expectations, continuous training programs are conducted in operational matters and service in general. Most of the training is in SAS's own school, the SAS Flight Academy, whose services are also sold to other airlines.

TECHNICAL DIVISON

The Technical Division maintains and services the SAS fleet at the Scandinavian bases and at most major destinations abroad. Responsibilities include the aircraft themselves, engines, instrumentation and components. A basic organization of a certain size and competence is needed to cover these requirements. To utilize this organization efficiently, the Division must serve additional external customers.

The Division has 3,787 employees. Of these, 3,693 are employed at the three aircraft maintenance bases at Copenhagen, Fornebu and Arlanda airports, and at the Linta engine maintenance base at Stockholm–Bromma. Each base is comparable in size to a medium-size Scandinavian industry. SAS's bases are therefore important parts of each country's aircraft industry.

Revenue was 2,083 MSEK in 1983/84. Two thirds of this amount was derived from SAS Group units, and one third from other airlines, primarily KLM, Swissair, UTA and THAI, as well as the Norwegian and Swedish armed forces. The total volume was basically unchanged from the year before. Productivity improved slightly.

BUSINESS SERVICES DIVISION

The Division sells administrative services in financial accounting, revenue accounting, real estate management, and similar sectors.

In 1983/84 the Division's revenue amounted to 775 MSEK, including 65 MSEK in external sales, with 988 employees, the majority of whom are based in Copenhagen, Oslo and Stockholm.

The Division develops administrative systems adapted to SAS's own requirements. Many products, especially revenue accounting systems, are also of interest to other users, primarily other airlines. Training programs are among the other services that are successfully marketed externally.

DATA SERVICES DIVISION

About 90 percent of SAS DATA's customers are the other divisions of the airline. primarily the Commercial Division. Other SAS units and airlines such as Linjeflyg, Braathens and THAI are among its clients.

SAS DATA's revenue for 1983/84 was 457 MSEK, 14 percent of which was from sources outside SAS. The Division has 597 employees.

In airline operations, computer systems are needed for sales, reservations, check-in, revenue accounting, material and spare parts handling, etc.

Among SAS DATA's responsibilities are the development of new systems and the operation of already established systems. The Division also conducts computer training within the Company. SAS DATA ensures that SAS applies computer technology for maximum airline efficiency.

The "heart" of SAS's data system is the central computer in Copenhagen. The system is designed to handle very large volumes. In peak season, as many as 50 transactions per second are handled by the reservations system.

Computer technology is currently headed toward smaller and easier-to-operate units. SAS DATA is actively involved in the introduction of personal computers at different levels and functions within SAS, to streamline administrative procedures.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IMMEDIATE ACTION
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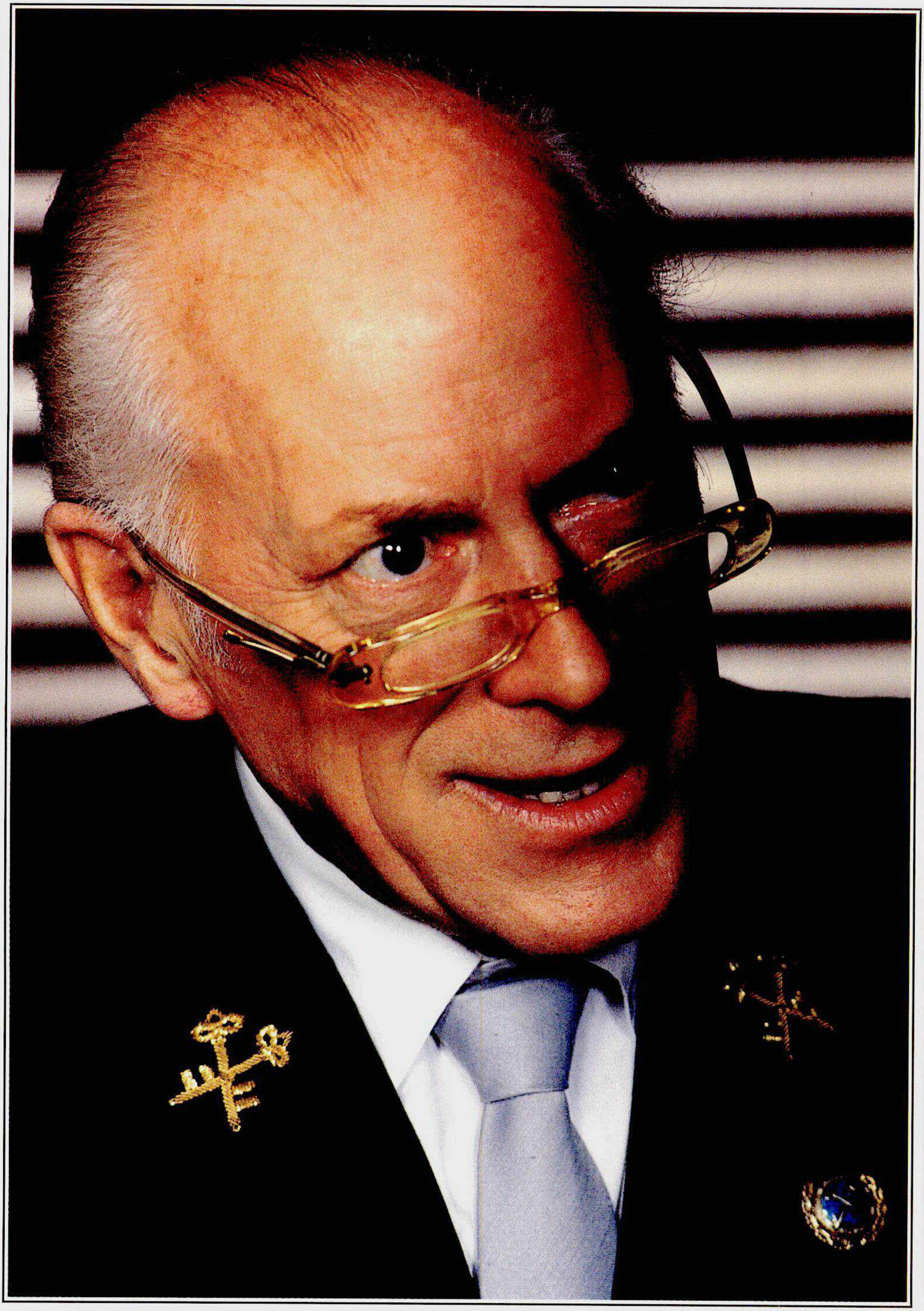


SAS International Hotels

SAS International Hotels is a subsidiary primarily catering to the business traveler. The operation includes 17 hotels in Scandinavia and one in Kuwait with a total of 3,800 rooms. Additionally, six hotels in northern Norway form a separate unit marketed under the name North Cape Hotels.

1983/84 sales increased by 15 percent to 843 MSEK. Income before extraordinary items improved from 14 MSEK in 1982/83 to 21 MSEK.

The local markets served by SAS grew slightly during the year and occupancy rates were satisfactory at virtually all locations of significance. A strong marketing effort, and emphasis on the hotels as elements of SAS's strategy to be a full service company for the business traveler, contributed to the positive development of earnings.

One of the new products is airline check-in at the hotel. The traveler can then further shorten the time spent at the airport. Office-for-a-day and Business Service Centers make business travel easier and time at the hotel can be more efficient.

The expansion and improvement of several units was begun or completed last year. The addition to SAS Arlandia Hotel in Stockholm with 90 rooms, a renovation of rooms, lobby and facade at SAS Park Avenue in Gothenburg, a hundred new rooms and excellent conference facilities at SAS Globetrotter Hotel in Oslo, and a total renovation of SAS Royal Hotel in Copenhagen are current projects.

The new SAS Palais Hotel in Vienna and SAS Amara Hotel in Singapore are progressing according to plan. Both facilities will be opened in 1985. An agreement has also been reached for management of a large, centrally located luxury hotel in Jeddah in Saudi Arabia.

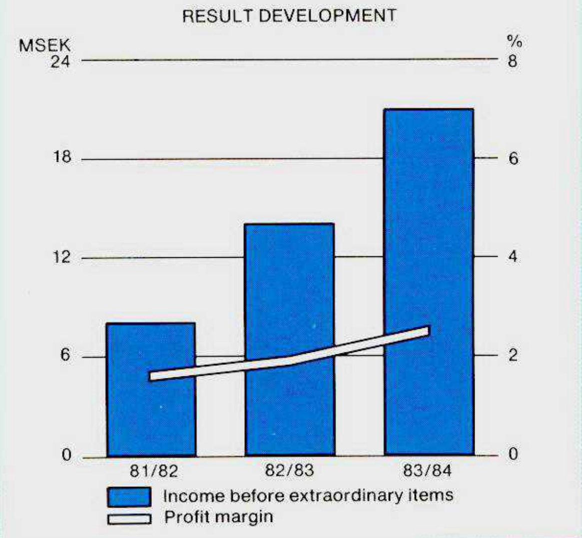
For SAS International Hotels to become an efficient link in the SAS business concept, a continued expansion of the hotel network to cities of great commercial importance for the airline is planned. Major destinations such as London, New York, Paris and Amsterdam belong in this category.

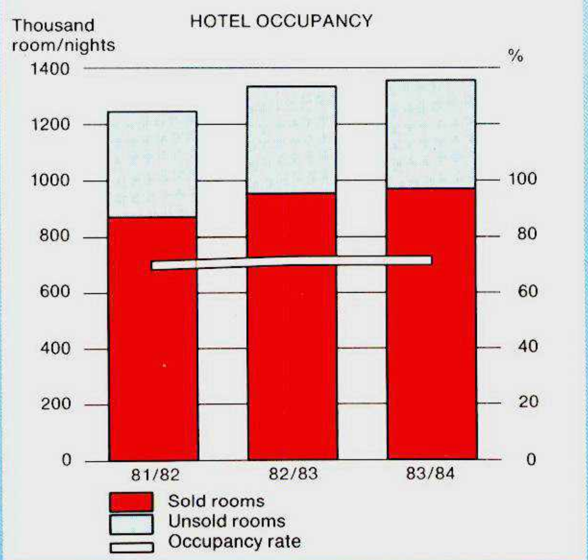
A centrally located hotel in Stockholm has long been an SAS goal. Negotiations are in progress to try to realize these plans, either via new construction, take-over of an existing hotel, or by cooperation with other hotels or hotel chains.

Hotel Summary

	1983/84	1982/83
Sales (MSEK)[1]	**843**	732
Income (MSEK)[2]	**21**	14
Employees	**2 699**	2 640

[1] Excl. hotels operated under management contracts.
[2] Income before extraordinary items and expense. The result is partially estimated.





SAS Hotels has added rooms through acquisitions and by expansion of existing hotels. Since 1980/81 the occupancy rate has increased, through productivity and quality improvements, to 72 percent in 1983/84.

SAS Service Partner

SAS Service Partner, which until April, 1984, was called SAS Catering, operates flight kitchens and restaurants and provides service to the offshore sector in the form of provisioning and quartering. Operations are organized in four divisions.

SAS Service Partner's sales for 1983/84 were 2,049 MSEK, a 22 percent increase over the year before. Income before extraordinary items was 15 MSEK against 75 MSEK in 1982/83. The drastic reduction is due mainly to much lower profitability in several Scandinavian flight kitchens because of sharper price competition. Also, costs for establishing two restaurants outside Scandinavia were much greater than anticipated.

SAS Service Partner has 12 flight kitchens of its own in seven countries, and is responsible for the operation of Saudia's and Kuwait Airways' in their respective home countries.

The catering business was created primarily to satisfy SAS's own needs for such services. By also selling products to other airlines, the operating base has been expanded, giving SAS as well as the other customers products at more competitive prices.

The Restaurant Division operates restaurants, cafeterias, bars and personnel canteens at most airports in Scandinavia and is therefore an important link in SAS's total service to travelers. The Division also runs the "Snappy's" fast-food chain in Norway and, together with Shell, the "Checkers" roadside restaurant chain in Sweden. Operations also include restaurants at fair grounds, conference centers, harbor terminals and race tracks in Scandinavia.

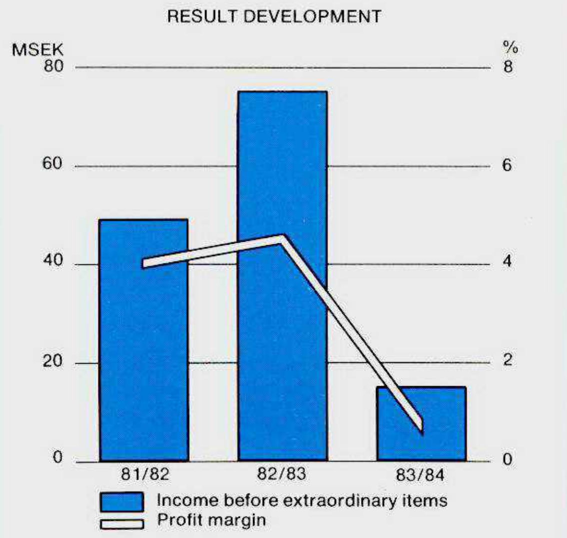
The offshore industry is becoming increasingly interesting. In 1983/84 agreements were concluded with, among others, Mobil Exploration for service and provisioning. This is SAS Service Partner's largest transaction in the offshore industry to date.

It has become evident that the Division's competence and experience can be utilized in areas other than the traditional flight kitchen and restaurant business. One example is service to health care institutions and hospitals. During 1983/84, partially owned companies were formed in Sweden and England to furnish complete, non-medical services, mainly to hospitals in Great Britain and the Middle East.

SAS Service Partner Summary

	1983/84	1982/83
Revenue (MSEK)	**2 049**	1 681
Income (MSEK)[1]	**15**	75
Employees	**5 663**	4 597

[1] Income before extraordinary items and expense. The result is partially estimated.



Among the more important events of the year were agreement to operate a new flight kitchen in Riyadh and the restaurants at Dublin's airport. The flight kitchen in Athens was closed since profitable operations were deemed unattainable under prevailing market conditions.

To break the negative earnings trend, a number of corrective measures have been instituted. Operations and administration have been made more efficient. There has been a concentration of development efforts on projects which are deemed to become profitable in the short term, and operating costs have been trimmed for greater efficiency. Parts of the recovery program have already provided beneficial effects, while others will take longer to have a positive influence on earnings. A substantial improvement in profits is expected in 1984/85.

SAS Leisure

The SAS Leisure sector consists of tour and charter operations aimed at the leisure market, offering travelers reasonably priced vacations. Since SAS has surplus aircraft and crews during the vacation months and on holidays, charter flights are a very important element of SAS's marginal strategy and contribute significantly to overall airline results. The business area includes Vingresor, SAS Tours and the independent consortium Scanair.

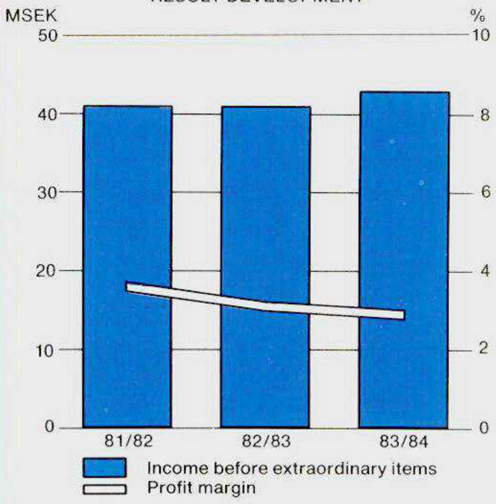
The demand for leisure travel is forecast to grow by an average of 5 to 7 percent annually in Sweden and at a slightly higher rate in Norway. The forecast reflects a growing number of senior citizens and the fact that reserved vacation weeks will gradually result in more leisure time. Some improvement in purchasing power is also expected as a result of increases in real personal income. Political intervention, for example in the form of increased taxes on charter travel, and excess airline capacity constitute the greatest threats to a favorable development of the leisure sector.

SAS Leisure Summary[1]

	1983/84	1982/83
Revenue (MSEK)	**1 474**	1 311
Income (MSEK)[2]	**43**	41
Employees	**1 427**	1 365

[1] Excluding Scanair.
[2] Income before extraordinary items and expense.

RESULT DEVELOPMENT



VINGRESOR

Vingresor has market shares of 30 percent in Sweden and 28 percent in Norway. During 1983/84, 430,000 passengers traveled with Vingresor, 285,000 from Sweden and 145,000 from Norway, for an increase of 9 percent over the year before, making Vingresor the largest tour operator in the Nordic countries. Sales in 1983/84 reached 1,239 MSEK, an increase of 4 percent. Income before extraordinary items improved for the fourth consecutive year, to 46 MSEK, 10 percent higher than last year.

During the winter half of the year, the Swedish market was still affected by the devaluation in October, 1982, while some recovery was noted during the summer half of the year. This is mainly due to a gradual positive development of the Swedish krona in relation to the currencies of the most important destination countries. Additionally, there was an increase in purchasing power and, importantly, a pent-up demand for leisure travel to warmer countries.

Competition in Sweden was further escalated during the year. One important reason was the dramatic increase in seat capacity with the addition of a Boeing 767 by Braathens SAFE from Stockholm.

Profitability in the industry in general was weak. Many operators are finding it increasingly difficult to live up to the requirements for guaranties toward customers as well as suppliers. Bankruptcies are on the increase. Structual changes are leading to greater domination by the three airline-affiliated tour operators, Atlas (Braathens), Fritidsresor (Sterling) and Vingresor (SAS). These companies now have about 75 percent of the charter travel market.

In Norway Vingresor has become Norway's largest tour operator in just a few years, despite severe competition.

A number of new vacation destinations were introduced during the year. Air charters were complemented by bus travel to the Alps and the northern Mediterranean.

Good performance in vacation travel was augmented by a positive development for conference activities and special programs such a VingAlpin and VingGolf.

Vingresor's own hotel chain, Sunwing, opened a new unit on Crete and completed an addition to the hotel at Alcudia. Among approved investments are expansion of the facilitites on Cyprus, at Alcudia and Åre,


SAS
SAS

and a new hotel on southern Gran Canaria.

In order to further strenghten its long-term competitiveness, Vingresor continues to invest in new facilities. With its Sunwing hotels Vingresor has created a product that well satisfies the Scandinavian vacation traveler's demand for reasonably priced recreation.

Even if the market shows signs of recovery, it is likely that vacation travel in the future will be confined to points around the Mediterranean and on the Canary Islands. The growth in real income is not sufficiently high to allow for the development of new, exotic travel destinations for large consumer groups.

SCANAIR

Scanair is a sister consortium of SAS with the same ownership structure. Scanair is not included in SAS's accounts and therefore not in the above summary of the leisure sector.

Revenue in 1983/84 increased by 12 percent to 959 MSEK. Income before extraordinary items was 30 MSEK, about the same level as last year.

SAS and Scanair have a close business relationship. Scanair leases aircraft and pilots from SAS and thereby contributes to a better capacity utilization for SAS. Scanair had at its disposal six aircraft last year, three DC-8s and three Airbus A300s.

Like other charter airlines, Scanair sells its services to tour operators, which in turn are responsible for filling the aircraft. To ensure a positive financial development, it is vital for the airline to make long-term arrangements with stable tour operators.

Bankruptcies among tour operators, resulting from weak demand and increased capacity, also affects the air transporter. In the summer of 1984 one of Scanair's customers, Perikles, filed for bankruptcy, which however had no major effect on Scanair.

Scanair's single largest customer is Vingresor, which in 1983/84 filled just short of half of Scanair's capacity. Among other larger customers can be noted Spies Rejser, Atlas Resor and Royal Tours.

The three Scandinavian countries have had different competitive patterns thus far. Denmark has several national charter companies with a typical low-cost profile. Also in Sweden the companies have been forced to adapt to increased price competition in recent years, while Norway has displayed a more stable development from the companies' point of view.

Sharp increases in supply in all of Scandinavia, in combination with a low rate of growth, will continue to affect charter company profitability.

During the year, the Scandinavian charter market recovered after the setback of 1982/83. An increase of 5 percent was recorded. For the third consecutive year Scanair increased its market share of the Scandinavian market. The largest relative gain occured in Sweden, but there was an increase even in Norway. In Denmark Scanair's market share was modest and at the same level as last year.

Scanair's main competitors are four other Scandinavian charter companies, Sterling Airways, Conair and Maersk in Denmark, and Braathens SAFE in Norway. Aditionally, there are a few non-Scandinavian companies and, to some extent, the low-fare alternatives of the scheduled airlines.

Competition considerably intensified during the year with Braathens' introduction of a new Boeing 767 in Stockholm. Sterling also increased its capacity by switching to larger aircraft, and Scanair added one more Airbus A300. The expansion of capacity is thereby considerably higher than the growth of the passenger base. This development has negatively affected the profitability of both the charter companies and the tour operators.

During the year Scanair continued to improve service onboard and on the ground. Simplified check-in procedures reduce waiting time at the airports.

Movies and music are available on all long journeys, hot food on most flights and the higher baggage allowance of 30 kilos are among other improvements.

Since unit revenue is always under pressure due to increased competition, the charter companies must find other sources of revenue in order to maintain profitability. One very important source of revenue is inflight tax-free sales. An improved selection of tax-free products strongly contributed to the satisfactory overall result of Scanair.

Other Businesses

NYMAN & SCHULTZ

Nyman & Schultz is one of Sweden's oldest travel agencies. Since the beginning of 1983/84 the company is being marketed as Nyman & Schultz Business Travel Agency as part of a strategy to concentrate on the business travel market, a move started in the late 1970s.

Revenue, primarily consisting of commissions and sales of agency-produced travel arrangements, was 283 MSEK compared to 281 MSEK in 1982/83. Income before extraordinary items was 6 MSEK against 7 MSEK in 1982/83. The lower result is primarily due to extensive product development and costs for establishing eight new sales offices, which may be regarded as investments for the future.

The objective of the business travel agency is to offer superior service in all aspects of business travel. Nyman & Schultz functions as the purchasing arm of the client, in each instance offering the best travel arrangement.

The company's clients are found among Swedish business and export industries. Nyman & Schultz is the country's largest international air travel agent with a market share of about 25 percent.

The demand for business travel follows international business cycles. Changes in the economic climate are quickly reflected in the results of travel agents. A positive development in the travel agency industry requires active product development, which means major investment in computerization and integration with the information and communications systems of the clients.

After the end of the financial year, SAS and Nordstjernan formed a new company called Travel Management Group Sweden AB, owned 50 percent each by the partners. The new firm will be the parent organization for a group of travel agencies consisting of Nyman & Schultz and Resespecialisterna, formerly owned by Nordstjernan, a Swedish shipping company.

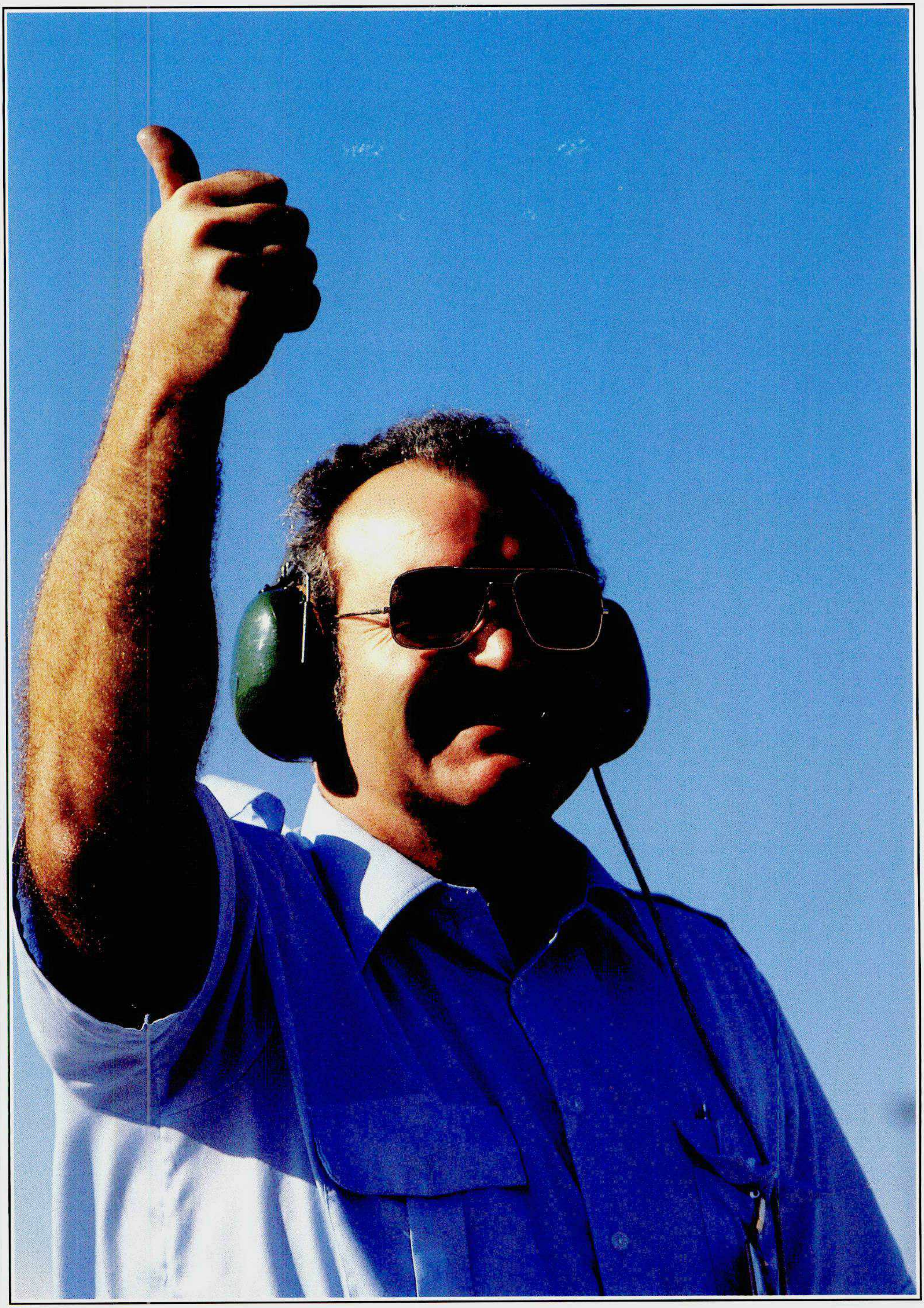
OLSON & WRIGHT

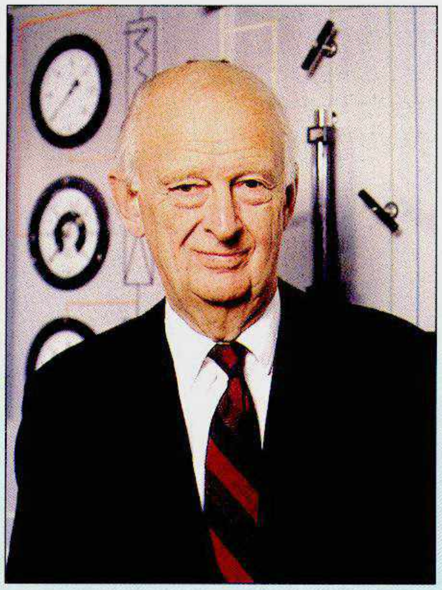
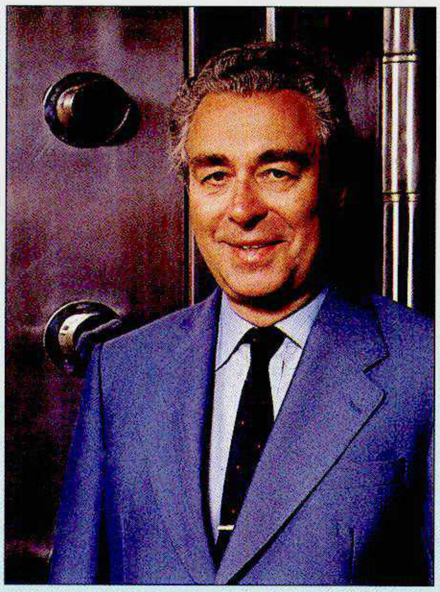
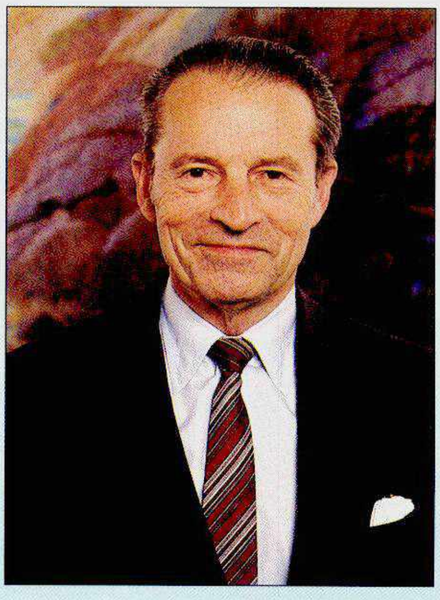
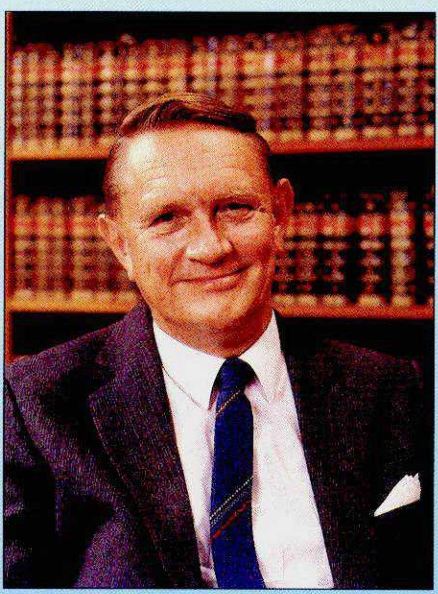
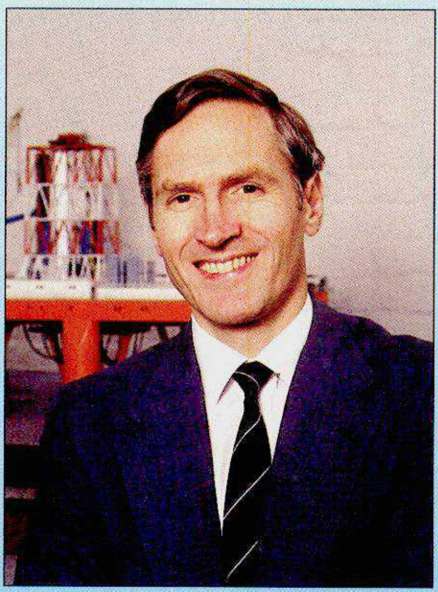
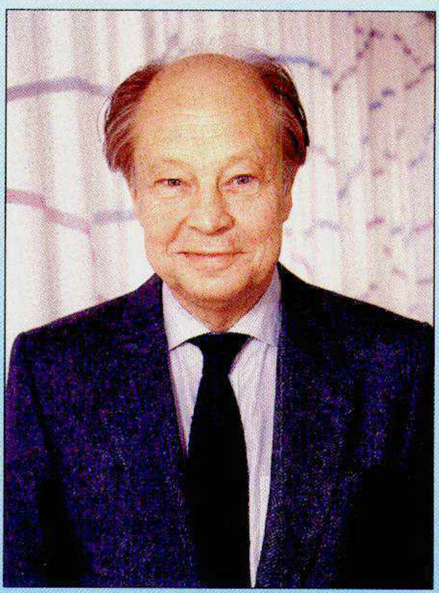
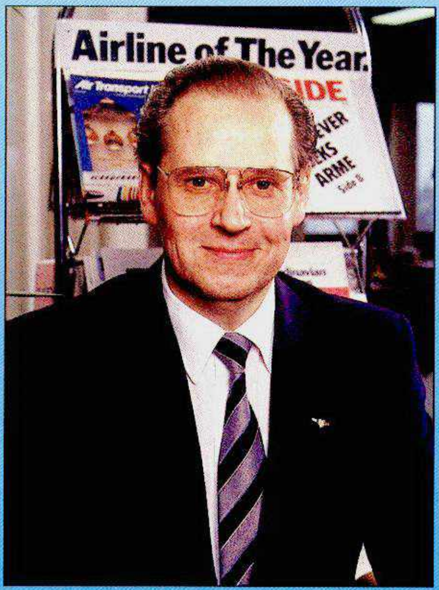
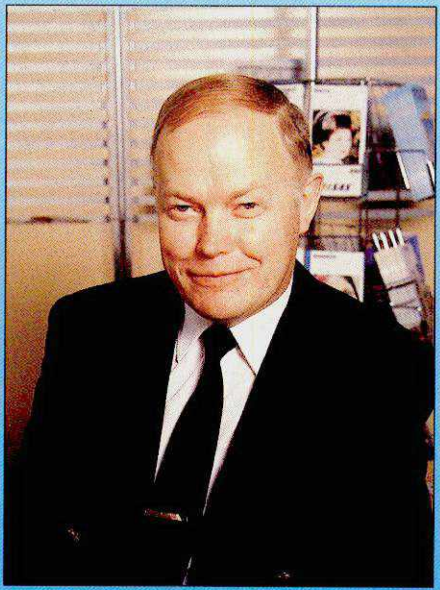
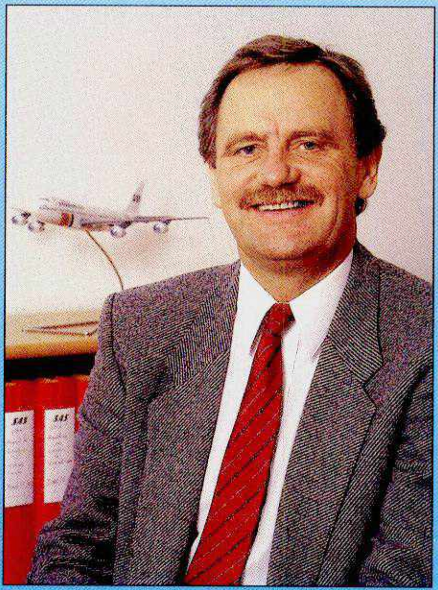
Olson & Wright is Scandinavia's largest freight forwarding company specialized on international freight. In Sweden the business is conducted in the parent company and in Norway in Nordsped, a subsidiary.

Olson & Wright is active in the areas of air cargo, surface and ocean freight, shipping and land transport. Sweden's exports increased during the year, while imports were more or less unchanged. However, the volumes in those market segments, where Olson & Wright is active, declined overall. Competition, especially in air cargo, continued to escalate. By vigorous efforts in product development, Olson & Wright was able increase its market shares and the volume of goods transported reached the same level as the year before.

After deduction of customs duty, import fees and forwarding charges, operating revenue was 159 MSEK against 161 MSEK in the prior year. Income before extraordinary items reached 3 MSEK against 10 MSEK in 1982/83.

Swedish foreign trade is expected to increase over the next five–year period. The traditional role of the freight forwarder is subject to change, however. Olson & Wright's strategy for the future includes elements such as market orientation, closeness to the client, development of new produts and services and greater responsibility for the clients total transportation requirement.










Airline of The Year.



Board of Directors

Haldor Topsøe, born 1913. Chairman of SAS Board 1983/84. Danish Chairman of SAS Board since 1968, representing the private Danish owners. 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.

Tor Moursund, born 1927. Supreme Court Attorney. Second Vice Chairman of SAS Board 1983/84. Norwegian Chairman of SAS Board since 1983, representing the Norwegian Government. Chairman of DNL and a member of its Board since 1982. President of Christiania Bank & Kreditkasse. Also serves on several other boards.
Personal deputy: Håkon Kyllingmark.

Curt Nicolin, born 1921. First Vice Chairman of SAS Board 1983/84. Swedish Chairman of SAS Board since 1973, representing the private Swedish owners. Chairman of the Executive Committee of ABA. Chairman of the Boards of ASEA, ESAB, FLÄKT, ASEA-STAL, 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.

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

Bjørn Eidem, born 1942. Supreme Court Attorney. Member of SAS Board since May, 1983, representing the private Norwegian owners. Senior Vice President of Fred. Olsen & Co. Vice Chairman of DNL. Chairman of the Board of the Aker Shipyard Group, Norges Handels- og Sjøfartstidende and Widerøe's Airlines. Member of the Boards of Ganger Rolf, Borgå and Bonheur.
Personal deputy: Halvdan Bjørum.

Krister Wickman, born 1924. Member of SAS Board since 1974 and Chairman of the Board of ABA, representing the Swedish Government. Managing Director of the National Swedish Pension Insurance Fund. Former Minister of Industry, Minister of Foreign Affairs and Governor of the Bank of Sweden. Chairman of the Association of Swedish Authors and member of the Boards of AGA and Pharos.
Personal deputy: Bengt Dennis.

Hans Dall, born 1933. Employed in the Personnel Department in SAS Denmark. Member of SAS Board since 1982.
Deputies: Niels Erik Hansen and Victor Brasen.

Ingvar Lilletun, born 1938. Employed in the travel agency sector in SAS Norway. Member of SAS Board since 1979.
Deputies: Per Heimdal and Karin Hval.

Inge Johannesson, born 1937. Employed in the SAS Corporate Finance Department in Sweden. Member of SAS Board since 1979.
Deputies: Sten Eklund and Rune Löfdahl.

Assembly of Representatives

Denmark

MOGENS PAGH, *Second Vice 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

Norway

NILS J ASTRUP, *First Vice Chairman*
HALVDAN BJØRUM
RAGNAR CHRISTIANSEN
BJØRN EIDEM
HÅKON KYLLINGMARK
TORSTEIN LJØSTAD
TOR MOURSUND
FRED. OLSEN
OLE RØMER SANDBERG JR
GIESLAUG MYRSET
NIELS WERRING JR

Deputies
HELGA GITMARK
EINAR HØVDING
JOHAN FR ODFJELL
HERMOD SKÅNLAND

Employee Representatives
INGVAR LILLETUN
KARIN HVAL
PER HEIMDAL

Deputies
ASBJØRN HINDRUM
KJELL POULSEN
KNUT E ANDERSEN

Sweden

PER A NORLIN, *Chairman*
BÖRJE ANDERSSON
BO RYDIN
ROLF CLARKSON
HJALMAR STRÖMBERG
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
PEDER BONDE
JÖRGEN ULLENHAG
BERTIL ZACHRISSON

Employee Representative
INGE JOHANNESSON
STEN EKLUND
RUNE LÖFDAHL

Deputy
GÖSTA SJÖSTRÖM

Auditors

ARNE BRENDSTRUP
STIG-ERIK SCHAUMBURG-MÜLLER

BERNHARD LYNGSTAD
JACOB BERGER

STEN NACKSTAD
SÖREN WIKSTRÖM

SAS Group Organization

CHIEF EXECUTIVE OFFICER Jan Carlzon

CORPORATE STAFF IN GROUP MANAGEMENT

President's Office
Frede Ahlgreen Eriksen
Helge Lindberg
Per-Axel Brommesson

Finance, Planning and Control
Nils G. Molander

Personnel and Organization
Björn Gadd

OTHER CORPORATE STAFF

Corporate Secretary
Bo Ståhle

Foreign Affairs
Lars Enkler

Quality Assurance
Bengt Söderholm

Internal Auditing
Leif Frandsen

Public Relations
John A. Herbert

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

BUSINESS AREAS

The Airline
Chief Executive Officer
Jan Carlzon

Chief Operating Officer
Helge Lindberg

Commercial Division
Lars Bergvall

Route Sector Europe
Sven A. Heiding

Route Sector Intercontinental
Jörn Bundgaard-Nielsen

Route Sector Cargo
Mats Mitsell

Route Sector Denmark/Greenland
Kurt Thyregod

Route Sector Norway
Tom V. Voss

Route Sector Sweden
Linnar Borén

Traffic Services Division
Göran Yxhammar

Technical Division
Lennart Ringqvist

Operations Division
Bengt A Hägglund

Business Services Division
Inge M. Damm

Data Services Division
Curt Ekström

Commuter Operations Dept
Jörgen Grauengaard

External Enterprises
Göran Lundqvist

Region Denmark
Frede Ahlgreen Eriksen

Region Norway
Oddvar Bache-Mathiesen

Region Sweden
Per-Axel Brommesson

SAS International Hotels
Terje Myklebust

SAS Service Partner
Ivar Samrén

SAS Leisure
Vingresor
Christer Sandahl

SAS Tours
Poul Erik Hansen

Scanair*
Henrik Meldahl

Others
Nyman & Schultz
Bo Krantz

Olson & Wright
Robert Hallenborg

* Independent consortium

Major Subsidiaries

SAS SERVICE PARTNER

SAS Service Partner has 12 flight kitchens in seven countries, and operates several more for other airlines outside Scandinavia. Operations also include restaurants, snack bars and cafeterias at Scandinavian airports and abroad. Service to the offshore industry is expanding.

	1983/84	1982/83
Revenue (MSEK)	**2 049**	1 681
Income (MSEK)[2]	**15.0**	75.0
Employees	**5 663**	4 597

NYMAN & SCHULTZ RESEBYRÅER

Nyman & Schultz Travel Agencies specialize in business travel. The company is Sweden's largest international airline travel agent with a market share of 25 percent.

	1983/84	1982/83
Revenue (MSEK)	**283**	281
Income (MSEK)[2]	**6.0**	6.9
Employees	**498**	418

SAS INTERNATIONAL HOTELS

SAS International Hotels primarily caters to the business traveler. Operations include 17 hotels in Scandinavia and one in Kuwait. New units will be opened in Vienna and Singapore in 1985.

	1983/84	1982/83
Revenue (MSEK)	**843**	732
Income (MSEK)[2]	**21.0**[1]	14.0[1]
Employees	**2 699**	2 640

OLSON & WRIGHT

The company is Scandinavia's leading freight forwarder in international air and surface transportation.

	1983/84	1982/83
Revenue (MSEK)	**159**	161
Income (MSEK)[2]	**2.5**	9.6
Employees	**455**	460

VINGRESOR

Vingresor is Scandinavia's largest tour operator with about a 30 percent market share in Norway and Sweden. Production includes a large number of destinations with emphasis on the Mediterranean basin, the Canary Islands and the Alps.

	1983/84	1982/83
Revenue (MSEK)	**1 239**	1 145
Income (MSEK)[2]	**45.6**	41.3
Employees	**1 337**	1 292

SCANAIR

Scanair* is a sister consortium of SAS, with the same ownership. Operations include charter air travel from Scandinavia with aircraft and pilots leased from SAS.

	1983/84	1982/83
Revenue (MSEK)	**959**	844
Income (MSEK)[2]	**30.1**	32.8
Employees	**319**	300

*Independent consortium

[1] Also includes the result of real estate companies owned directly by the SAS Consortium
[2] Before extraordinary items

Addresses

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SAS NORWAY
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The public telex number for SAS Head Office and the Regional Offices in Scandinavia is 22263 SASXT DK, Denmark.

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AB Olson & Wright
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Telephone: 46–8–22 80 20

Danair A/S
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A/S Dansk Rejsebureau
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Linjeflyg AB
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Grønlandsfly A/S–Greenlandair Inc.
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or
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St. Peter Port, Guernsey
Channel Islands

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Photo Ted Fahn
Printing Sörmlands Grafiska AB, 1985

"We feel that SAS indeed has demonstrated overall excellence in a number of fields, has provided outstanding service to the travelling public and is truly one of the finest airlines in the world. We feel that Norway, Denmark and Sweden should be very proud of their airline."

AIR TRANSPORT WORLD

SAS