

**SCANDINAVIAN AIRLINES SYSTEM
ANNUAL REPORT 72/73**





At the end of the financial year, Dr. Marcus Wallenberg, a founder of SAS and one of its Chairmen for more than 25 years, decided to relinquish his duties on the SAS Board.

Through his enthusiastic interest in SAS Dr. Wallenberg has made an exceptional contribution to Scandinavian aviation.

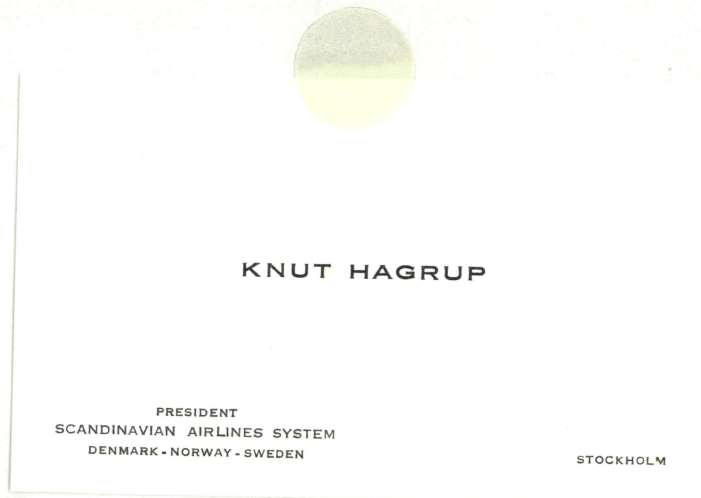
On behalf of SAS and the countries working together in SAS, the Board expresses its warm gratitude and deep appreciation to Marcus Wallenberg.

Copenhagen, Oslo and Stockholm, January 15, 1974.

*Jens Ole Haugen Armin Curt Nielsen
L. M. Sørensen Paul Andersen P. J. Nielsen*



SCANDINAVIAN AIRLINES SYSTEM ANNUAL REPORT 72/73



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Highlights

		1972/73	1971/72	Change
Available Ton-Kms, total	(mill.)	1,931.6	1,745.6	+ 11%
Available Ton-Kms, scheduled services	(mill.)	1,822.5	1,664.1	+ 10%
Revenue Ton-Kms, scheduled services	(mill.)	958.8	857.0	+ 12%
Total Load Factor, scheduled services	(%)	52.6	51.5	+ 1.1 point
Available Seat-Kms, scheduled services	(mill.)	14,166	12,671	+ 12%
Revenue Passenger-Kms, scheduled services	(mill.)	7,275	6,305	+ 15%
Passenger Load Factor	(%)	51.4	49.8	+ 1.6 point
Number of Passengers Carried	(000)	6,242	5,826	+ 7%
Traffic Revenue	(MSKR)	2,057.2	1,798.1	+ 14%
Net Profit	(MSKR)	84.0	35.0	
Number of Employees as of September 30		14,909	14,563	+ 2%

Glossary

Available ton-kilometers

Number of tons of capacity available for carriage of passengers, cargo and mail, multiplied by number of kilometers flown. *)

Revenue ton-kilometers

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

Load factor

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

Available seat-kilometers

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

Revenue passenger-kilometers

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

Passenger load-factor

Percentage of total passenger capacity actually utilized.

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

Report by the Board

Scandinavian Airlines System reports a net profit of 84.0 million Swedish crowns (MSKR) for the financial year ending September 30, 1973. This represents an increase of MSKR 49.0 compared to the MSKR 35.0 profit recorded for the 1971—1972 financial year.

The SAS accounts incorporate the entire results of the Consortium and its wholly-owned subsidiaries.

Total revenue increased from MSKR 2,633 to MSKR 3,094 or 18 per cent. Expenses, excluding depreciation, rose from MSKR 2,397 to MSKR 2,784 or 16 per cent. Depreciation amounted to

MSKR 226.2 compared with MSKR 201.7 the previous year.

The results of the 1972—1973 financial year and the financial status of the Consortium at the end of the year are presented in the Consolidated Profit and Loss Statement and Balance Sheet included in this report.

The Board of Directors submits to the Assembly of Representatives that MSKR 42.0 of the 1972-1973 profit be paid to the Parent Companies and that an equal amount be retained by SAS for purposes of consolidation and credited to the capital accounts of the Parent Companies.

General Review

The results shown for 1972—1973 represent a significant improvement over the previous year and are relatively satisfactory, considering the adverse factors that have influenced SAS and the rest of the airline industry during the year. Although reasonably profitable — an achievement in itself in the airline business of today — SAS still has not reached the level of return on capital required for long-term expansion under sound financial conditions.

During the year the upward trend in the business cycle in general was reflected in growing traffic. The results have been achieved primarily through a policy of restrained capacity increases, coupled with ambitious marketing, and by strong discipline in employment and cost administration.

However, currency fluctuations and political instability adversely affected the growth rate on international routes in varying degrees, most seriously on the North Atlantic, where revenue and actual costs of scheduled aviation continued to be out of balance, and results unsatisfactory.

Costs in general continued to rise during the year, most particularly wages and petroleum prices. So did government charges both in Scandinavia and in other parts of the world. (SAS

paid more than 200 million Swedish crowns in 1972—1973 in such charges, about 80 per cent inside Scandinavia.)

Crowded airways and overburdened air traffic control centers caused delays and extra expenses. Charter carriers continue to make deep inroads in the traffic base of scheduled aviation. Increased protectionism is being encountered in negotiations for new traffic rights.

At the beginning of the new financial year, due to the international petroleum crisis, there is great uncertainty as to the future of airline operations and the carriers' profitability. A new motivation for cooperation between countries and carriers is appearing as a beneficial by-product of the crisis. Adapting itself to the new circumstances, SAS is determined to continue its programs with the required amount of unorthodox flexibility and cautious optimism. During 1974 SAS will receive twenty new, more efficient jetliners.

With understanding from governments and customers, with modern equipment, with a consolidated financial position and a qualified staff, SAS should be able to continue to meet the requirements of the market and the traveling public.

The Fleet

During the 1972—1973 financial year, the SAS fleet included 74 aircraft: two Boeing 747-Bs, 15 DC-8s, 35 DC-9s, 13 Caravelles and nine Convair 440 Metropolitans. One DC-8-63 for 194 passengers and three DC-9-41s for 108 passengers were added to the fleet in the course of the year.

In January of 1973 SAS placed its largest single aircraft order ever, for 16 DC-9-41 jetliners, valued at about U.S. \$105 million. Options were taken on four more aircraft of the same type. Later in the year one additional DC-9-41 was ordered to replace a DC-9-21 that could not be repaired after a mishap at Fornebu airport. All 16 of the DC-9-41s will be delivered in the course of 1974.

When the major order was placed for new DC-9s, it was announced that SAS's remaining fleet of 13 Caravelle 94-seat jetliners would be retired by the end of 1974. SAS was the first non-French airline to order this twin-jet, which introduced the tailmounted engine design.

The newest version of the DC-9-41 which SAS has ordered incorporates the latest features in environmental engineering. Compared with earlier models, the new DC-9-41s will have substantially quieter powerplants.

When delivery of the new DC-9s has been completed, SAS will have a fleet of 52 of the twin-jets in short- and medium-range passenger as well as all-cargo models.

To meet demand on some long-range routes, it was also decided to advance delivery of two of the five DC-10-30s on order. The DC-10-30 is the 270-passenger, wide-fuselage intercontinental tri-jet airliner manufactured by McDonnell Douglas and is identical to those ordered by SAS's three partners in the KSSU cooperation, KLM, Swissair and UTA. SAS will operate the DC-10-30 with nine-abreast seating in economy class.

The first two DC-10-30s will now be delivered to SAS in the autumn of 1974. They will be placed in service, initially, on long-range express routes operated by SAS to the Orient and the U.S. West Coast.

SAS invested some MSKR 200 in flight equipment during 1972—1973. In the coming year, the investment requirement will be approximately MSKR 450. Investment of another MSKR 100 will be required in 1973—1974 for ground equipment to support the fleet expansion program.

Aircraft Fleet and Orders

Aircraft	In operation Sept. 30, 1973	On order for delivery during			
		1973/74	1974/75	1975/76	1976/77
Boeing 747-B	2				
DC-10-30			2	1	2
DC-8-63	7	1			
DC-8-62	8 ¹⁾				
DC-8-55	2 ²⁾				
DC-9-41	24	13	4		
DC-9-33AF	2				
DC-9-21	9				
Caravelle SE-210	13				
Metropolitan CV-440	9				
	76	14	6	1	2

1) 2 combined version (CF) and 1 all-cargo version (AF)
2) Leased to Scanair

Production and Traffic

Scheduled services	Total system	Intercontinental	Europe & M. East	Domestic routes
Available Ton-Kms (mill.)				
1972/73	1,823	1,118	500	205
1971/72	1,664	999	473	192
Change %	+ 9.5	+ 11.9	+ 5.8	+ 6.4
Distribution %	100.0	61.4	27.4	11.2
Revenue Ton-Kms (mill.)				
1972/73	959	608	243	108
1971/72	857	538	217	102
Change %	+ 11.9	+ 13.0	+ 12.0	+ 5.8
Distribution %	100.0	63.4	25.3	11.3
Load Factor (%)				
1972/73	52.6	54.3	48.5	53.1
1971/72	51.5	53.8	45.8	53.4

SAS's total production for 1972—1973, including both scheduled and charter operations, increased 11 per cent, measured in available ton-kilometers. The most significant capacity increases were noted on the routes serving South America and East Africa, where service was doubled from one to two flights a week to both areas; on the Chicago route where the 747-B recorded its first full year of service; and in Europe, on the routes serving Austria, Eastern Europe and Finland.

Scheduled traffic, measured in revenue ton-kilometers, increased 12 per cent systemwide. The most noticeable growth rates were on routes serving the Far East, up 22 per cent, while total intercontinental traffic increased by 13 per cent.

As a result, the overall load factor increased from 51.5 to 52.6 per cent. The intercontinental

load factor was 54.3 per cent, with the Far East load factor climbing from 55.8 to 64.8 per cent. The North Atlantic load factor was 52.1 per cent compared to 54.0 per cent last year. Intercontinental all-cargo routes also showed a slightly declining load factor, down from 71.0 to 67.2 per cent.

Traffic growth for the first six months of the 1972—1973 financial year was 14 per cent systemwide; that this trend did not continue throughout the rest of the year reflects the international currency situation and the unstable economic climate in some parts of the world. The exceptional growth on the Far East routes is partially attributed to the development of new pleasure travel markets, with Scandinavians utilizing scheduled flights for all-inclusive, low-priced intercontinental holidays.

Passenger Traffic

SAS carried a total of 6,242,000 passengers systemwide during 1972—1973, an increase of seven per cent.

Systemwide scheduled passenger capacity climbed 12 per cent in terms of available seat-kilometers. Traffic, in revenue passenger-kilometers, rose 15 per cent. Intercontinental passenger traffic rose 20 per cent; European passenger traf-

fic, 12 per cent; and domestic traffic, six per cent.

The systemwide cabin factor increased from 49.8 to 51.4 per cent. The most marked improvements in cabin factors were reported on routes serving the Far East, up collectively from 47.1 to 58.7 per cent.

Cargo and Mail Traffic

Cargo traffic during 1972—1973 increased by five per cent, measured in freight ton-kilometers, compared with the previous year.

On a systemwide basis, all-cargo routes serving Europe fared better than those serving intercontinental destinations. European all-cargo traffic

was 16 per cent above last year. Cargo revenue improved 13 per cent, due to higher unit yields.

Systemwide air mail traffic increased eight per cent, with intercontinental, Middle East and European routes all making substantial contributions to the growth.

The Network

At the peak of the 1972—1973 financial year SAS served 97 cities in 51 countries around the world. With affiliated carriers THAI International, Linjeflyg, Danair, Widerøe and Greenlandair, the overall network embraced 146 cities in 58 countries.

In November of 1972, SAS introduced a second weekly round trip by DC-8 between Scandinavia and East Africa.

Bucharest was added to the network in the spring of 1973 as an intermediate stop on one of the DC-9 routes linking Scandinavia with the Middle East.

Another new airport was opened in North Norway, at Evenes, during the summer of 1973. Evenes serves two important northern Norwegian cities: Harstad and Narvik. It brought to seven the number of domestic airports served by SAS above the Arctic Circle in North Norway.

In Europe, larger Super DC-9s were substituted for Caravelles on routes serving Hamburg, Manchester, Dublin and Glasgow; a new non-stop DC-9 service was introduced from Gothenburg

to Paris; and flights between Copenhagen and Berlin-Schoenefeld were increased from three to five a week.

In South Sweden, a new airport for Malmö was opened at Sturup. It enabled SAS to provide southern Sweden with scheduled international jet services for the first time, linking Malmö directly with such European destinations as Frankfurt, Amsterdam and London.

Non-stop services between Los Angeles and Copenhagen were increased from three to five round trips a week. The 20th anniversary of SAS's very first transarctic flight was noted in November 1972.

On the European all-cargo network, Cologne/Bonn was added to bring the number of commercial centers served by the worldwide SAS palletized cargo system to 43.

Capacity and frequency of service were increased throughout the domestic network by both SAS and its associated carriers in Denmark, Norway and Sweden.

Foreign Affairs

The year was marked by a continued trend towards protectionism and restrictive policies of governments. As in previous years, these policies primarily arise from the financial problems of national carriers of those countries.

With very few exceptions, anti-trust laws in the United States have never allowed airlines under their jurisdiction to conclude capacity limitation agreements. However, faced with overcapacity and, more recently, with fuel shortages, the American authorities have become more inclined to accept agreements between airlines on limitation of capacity. While permission thus far has primarily been granted for

American domestic services, the new practice has now led to similar measures on the North Atlantic.

In May of 1973 agreements were concluded between the Peoples Republic of China and the Scandinavian countries entitling SAS to serve Peking and Shanghai via the Soviet Union and Mongolia. Inauguration of services to China depends on the outcome of further negotiations with the Soviet Union for overflight permission, and on the development of an adequate traffic base.

The Scandinavian governments, in addition to asking the U.S.S.R. for consultations on this

question, have also sought permission from the Soviet government for SAS to increase Trans-Siberian flights from one to two a week.

In October of 1973 an agreement was reached between the aviation authorities of Japan and the Scandinavian countries enabling SAS and Japan Air Lines to increase their Trans-Polar route capacity beginning in the summer of 1974.

The negotiations between the United Kingdom and the Scandinavian countries regarding rights for SAS to serve Hong Kong continued on various government and company levels during the year. An agreement has yet to be achieved.

An agreement was reached between India and the Scandinavian countries to allow SAS to serve Delhi in addition to Calcutta. The service was inaugurated in November of 1973 on the Trans-Orient Express to Bangkok, Kuala Lumpur and Singapore.

A committee formed by the Scandinavian Ministries of Communication has been devoting considerable time and effort to reviewing the

present governmental charter policy and regulations.

During the year the authorities in Denmark and Sweden received applications from airlines not designated to perform scheduled international services to open scheduled routes between West Germany and Denmark and Sweden, respectively. As the applications conflicted with SAS's concessions, the relevant authorities did not grant the requested operating permits.

The decreasing yields experienced by most airlines, along with the increasing difficulties encountered within the IATA framework to reach tariff agreements has resulted in an increased interest in tariff questions on the part of many civil aviation authorities. The European Civil Aviation Conference (ECAC) held a seminar on the matter, with wide airline participation, and ICAO has launched an investigation of tariff-making procedures. The Scandinavian authorities have also demonstrated an increasing interest in the field.

Fares and Rates

During much of the year the scheduled airline industry negotiated within the IATA framework in order to achieve agreements on fares and rates covering most of the world, and to compensate for the losses sustained from currency depreciations.

The various IATA traffic conferences, which establish international passenger fares and cargo rates, were deadlocked for extensive periods, especially regarding the North Atlantic. The cargo conferences which met in Mexico City in May made good progress, however, and settled rates for practically all areas for a two-year period beginning October 1, 1973.

In the spring a temporary solution was finally reached to maintain the North Atlantic fares status quo until the end of the 1973 calendar year. Furthermore, surcharges were agreed upon, but they only partly compensate the airlines for losses caused by the depreciation of certain currencies, primarily the U.S. dollar and pound sterling.

Some passenger traffic conferences remained without agreement, including those within Europe, Europe to Africa, Europe to the Far East,

and across the mid-Atlantic. The authorities as well as the airlines in some countries utilized the situation to reduce fares through so-called "government requests," i.e. to Africa and Southeast Asia.

Most IATA airlines, however, respected the existing fare structure in situations where no agreement had been reached.

By September of 1973 the airlines agreed on new prices for the North Atlantic to be valid from January 1, 1974 through October 31, 1974. Prices were increased an average of six per cent. The agreement further gave the industry more time to evaluate additional measures to improve the economics of operating on the North Atlantic.

The concept of public service with advance bookings requires that international air transportation on any route in the world must be for sale to the public at any location and in the national currency of any country at internationally accepted levels and conditions. To function efficiently, this system, in turn, requires agreed currency parities which should be reasonably stable.

Charter Developments

SAS and the scheduled airline industry were faced during the year with increased charter competition on traditional intercontinental scheduled routes in most parts of the world.

The fares resulting from this competition have in many cases not covered operating costs on the routes concerned, and have presented a serious threat to airline profitability in general.

SAS maintains the view that if the public wants to continue to draw the benefits of scheduled airline transportation two basic conditions must be met:

First, a more rational division of labor between scheduled aviation and charter traffic must be found, preserving for scheduled aviation the traffic base it needs in order to operate for the benefit of the traveling public.

Second, there must be a sound pricing policy supported to an equal extent by the airlines, the authorities and the public. This pricing policy must adequately reflect actual costs of maintaining scheduled operations, even if the lowest prices may exceed those offered by charter airlines which are free of the traffic obligations of the scheduled carriers.

The Environment

Demands continue to be placed on SAS and the airline industry in general to reduce noise around airports and residential areas. The airlines have already, in cooperation with aircraft and engine manufacturers, spent considerable sums to meet the new environmental standards.

SAS's large order during the year for 17 cleaner, much quieter DC-9-41s reflects the airline's concern for the environment.

The new DC-9s meet the most severe environmental regulations as set by ICAO. Engine sound at takeoff will spread over an area only one third as large as that affected by the Caravelle, an aircraft of comparable size. The noise perceived by the human ear will be halved. The modified powerplants of the new DC-9s which will be introduced in 1974 are about 10 decibels quieter than the Caravelle engines.

The noise level has been substantially reduced by coating certain parts of the engines and their nacelles with special sound-absorbing material. SAS was the first airline to order the DC-9 with these features, which both are costly and increase the aircraft's weight.

The SAS DC-10s coming next year incorporate similar sound suppressing devices which add some 1.5 tons to the weight of the aircraft.

These investments are necessary in view of the airport curfews being imposed throughout Europe and other parts of the world as a result of noise problems. In Oslo, for example, Fornebu Airport is closed at night and operations have been shifted to Gardermoen Airport.

In general, the curfews reduce utilization of the fleet and increase costs by keeping aircraft out of service. The nighttime curfews particularly inhibit the growth of air cargo traffic which moves at night to a greater degree than passenger traffic.

While most environmental criticism is directed at the airlines and airport and other aviation authorities, governments and the public should pay more attention to these questions. If the public wants essential transportation services such as the airlines provide, it should see that government planners do not allow residential areas to crowd into the vicinity of new airports.

The question of fuel shortages has dominated the debate for much of the year. SAS has just completed the first year of a program to save fuel by very slightly reducing the speed of its jetliners. Thus, eight million liters were saved during 1972—1973.

Airport Development

On December 1, 1972, SAS moved its Malmö services from Bulltofta to the new Sturup airport, 23 kilometers from the city, where a longer runway accommodates larger jet aircraft opera-

tions. The airport and passenger terminal building were financed by the government, but SAS contributed with its own cargo terminal and flight kitchen.

In Stockholm, authorities decided to go ahead on the permanent passenger terminal at Arlanda. The temporary terminal opened in 1962 was designed for one million passengers. In 1972 the figure exceeded three million passengers. The new terminal will be ready in 1976 with an initial capacity for 4.5 million passengers a year. Two fingers will provide parking for up to 20 aircraft, including wide-fuselage jets.

A provisional charter terminal was opened in 1973 to free more space for scheduled passenger traffic at Arlanda. A MSKR 25 hangar built by ABA and leased by SAS to handle the 747-B neared completion at the end of the year.

Outside Gothenburg work was begun on a new airport to replace Torslanda which is inadequate for large jetliners and which is already too small to handle the traffic volume generated in the region. The new airport, Landvetter, 29 kilometers east of Gothenburg, is scheduled to be opened in 1977.

In Norway, the question of the location of a new airport for the greater Oslo area was resolved when the government designated Hobøl, 41 kilometers southwest of the capital, as the site.

SAS has supported selection of the Hobøl location but believes that Fornebu can be further developed before the new airport is required. The Fornebu runway should be extended and an expansion of the passenger terminal may be required. Hobøl, in any case, will probably not be ready until 1985 at the earliest.

During the year the Danish parliament passed legislation giving the go-ahead to the airport project on the island of Saltholm in the sound between Copenhagen and the southwest coast of Sweden. Meanwhile, a Danish government freeze on new construction at the present Copenhagen airport, Kastrup, was lifted as of November, 1973. Some 350 million Danish crowns have been earmarked for investments in the next three years, including expansion of passenger and cargo facilities and another runway at Kastrup.

Copenhagen airport is the fifth busiest in Europe, with more than eight million passengers last year. When the first stage of the Saltholm project is completed in 1985 at the very earliest, it will be able to handle 25 million passengers a year.

Consumer Affairs

In June the Swedish Commercial Court (Marknadsdomstolen) ruled that the suit brought against SAS by the Swedish Freedom of Commerce Ombudsman (NO) was unwarranted. In the suit the Freedom of Commerce Ombudsman had alleged that SAS was abusing a monopoly position by giving discounts on flights connecting to Scanair charter services. In its decision the Commercial Court stated it had not been established that such price discrimination actually existed, thereby absolving SAS.

The Court's ruling cannot be appealed.

Also at issue was the conduct by SAS of scheduled air transportation together with affiliated activities in Scandinavia, such as hotels, travel agencies, tour-producing companies, in accordance with established business principles. SAS believes that these related activities are a natural complement to the airline's primary function and are, in addition, a widely accepted practice in the airline industry today.

Hotel Activities

SAS now owns, operates or has partial interest in 10 hotels: three in Copenhagen, two in Oslo, and one each in Stavanger, Bergen, Bodø, Tromsø and Narssarssuak (Greenland).

In May of 1973 the luxury class Hotel Scandinavia opened in Copenhagen. SAS, which owns 20 per cent of the 534-room hotel, initiated the project together with other interests in Den-

mark. The hotel is managed by the Western International chain which also owns 10 per cent. Results during the period of introduction did not meet expectations.

The cornerstone was laid in August of 1973 for the new SAS Royal Hotel i Oslo. The 22-story, 473-room hotel is due to be opened in the spring of 1975. It is owned 60 per cent by SAS and 40

per cent by Western International, which will also manage it. The ownership-management agreement concerning the hotel was signed in September of 1973.

In Bergen, where SAS had the name SAS Royal

Hotel registered, local shipping interests announced the financing of a waterfront hotel of 250—350 rooms to be managed by SAS. The hotel is expected to be ready by 1977.

Associated Companies

THAI International continued to record a major expansion of traffic during the financial year. In addition to its own six DC-8-33s, THAI International leased a DC-8-62 from SAS to operate intercontinental services to Australia and Europe. The airline also opened a route from Bangkok to London with a non-stop return as of November 1, 1973, doubling its services between Europe and Thailand.

Linjeflyg, the Swedish domestic airline owned 50 per cent by SAS and 50 per cent by ABA, received permission to operate the Fokker F-28 Fellowship from Stockholm's Bromma Airport for a trial period. Therefore, three F-28 jets seating 65

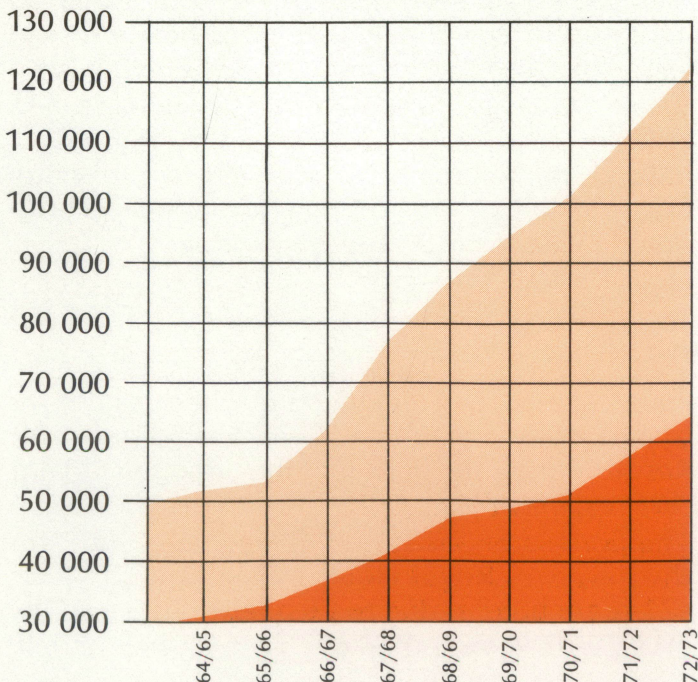
passengers were added to the fleet and jet services were introduced in June of 1973.

In Norway, Widerøe continued its expansion of Twin Otter short takeoff and landing (STOL) operations along the northern coast. A number of STOL airports were also added in western Norway and the Norwegian government granted Widerøe permission to expand to several more small communities when five new STOL airports are opened in North Norway in the summer of 1974.

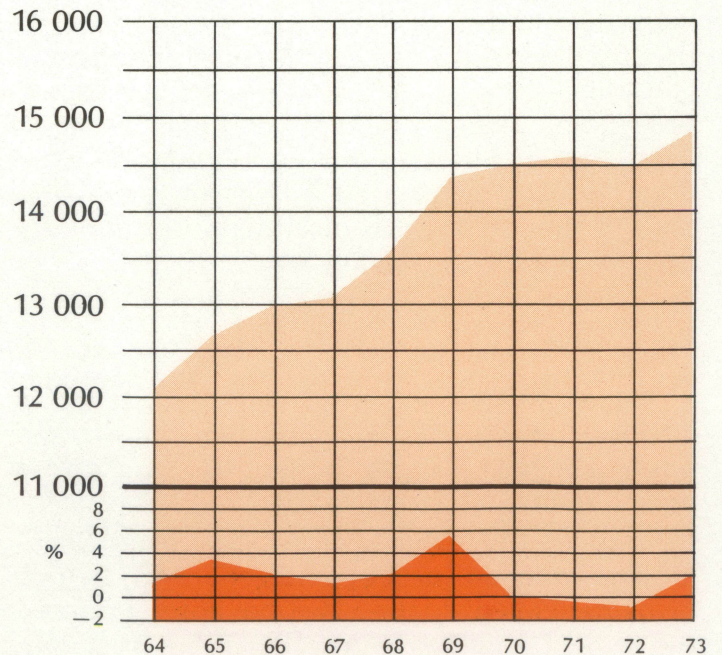
A complete summary of associate and subsidiary company operations during the financial year appears after this report.

Production and Traffic per Employee

Production (avail. ton-kms) per employee
Traffic (revenue ton-kms) per employee



Number of Employees and Annual Change in per cent as of Sept. 30



Personnel

	Flight deck Personnel			Cabin Personnel			Other Personnel			Total Personnel ¹⁾		
	1973	1972	1971	1973	1972	1971	1973	1972	1971	1973	1972	1971
Denmark	380	361	364	727	644	699	4,108	4,038	4,036	5,215	5,043	5,099
Norway	359	350	344	381	331	310	2,005	1,930	1,956	2,745	2,611	2,610
Sweden	556	529	534	404	317	343	2,564	2,596	2,555	3,524	3,442	3,432
Head Office	—	—	—	—	—	—	950	961	955	950	961	955
Abroad	—	—	—	22	24	24	2,453	2,482	2,517	2,475	2,506	2,541
Total	1,295	1,240	1,242	1,534	1,316	1,376	12,080	12,007	12,019	14,909	14,563	14,637

1) Not including SAS subsidiaries and affiliates

SAS employees numbered 14,909 as of September 30, 1973. This is an increase of 346, or 2.4 per cent, compared with the previous year. Revenue ton-kilometers per employee increased by 10 per cent to 64,800 in 1972—1973.

Staff training activities embraced 5,200 employees, from company newcomers to senior management, the latter in a series of seminars concentrating on long-range planning, administrative procedures and personnel development. In conjunction with, and in many cases in addition

to, staff training programs, the personnel have participated in the introduction or extension of numerous efficiency projects during the year. Rationalization programs have continued in nearly every sector of SAS's activities.

The Board wishes to take this opportunity to express its appreciation of the outstanding job done in 1972—1973 by SAS personnel all over the world in achieving the improved results for the financial year.

Copenhagen, Oslo and Stockholm, December 1973.

M. Wallenberg

Jens Chr. Hauge

Haldor Topsøe

Per Åsbrink

Per M. Backe

Palle Christensen

Knut Hagrup

President

Mill.
Ton-Km

1850

1800

1750

1700

1650

1600

1550

1500

1450

1400

1350

1300

1250

1200

1150

1100

1050

1000

950

900

850

800

750

700

650

600

550

500

450

400

350

300

250

200

150

100

50

0



**Comparative Statistics
1963/64—1972/73**

Production and Traffic		72/73	71/72	70/71	69/70	68/69	67/68	66/67	65/66	64/65	63/64
Size of Network (km 000)		245	243	224	205	208	206	190	158	158	155
Number of Countries Served		51	50	48	48	45	45	41	42	41	39
Number of Cities Served		97	94	96	92	90	90	84	87	81	77
Kilometers Flown (mill.)		118.4	109.9	107.0	101.7	97.7	88.7	75.8	69.4	65.9	63.3
Hours Flown (airborne) (000)		183.4	172.8	172.4	162.6	168.3	164.6	147.0	136.3	129.0	125.2
Available Ton-Kms, total (mill.)		1,931.6	1,745.6	1,546.0	1,431.5	1,286.9	1,075.1	834.8	724.8	668.0	623.5
Available Ton-Kms, scheduled services (mill.)		1,822.5	1,664.1	1,480.8	1,371.7	1,239.3	1,047.5	818.5	701.6	649.8	604.1
Revenue Ton-Kms, scheduled services (mill.)		958.8	857.0	738.5	710.1	658.3	554.7	480.7	415.9	391.2	347.8
Passenger		645.3	558.6	493.4	469.3	417.0	380.1	337.7	295.3	283.1	256.8
Freight		280.2	267.5	215.8	213.4	214.5	149.4	119.8	97.5	86.7	72.2
Mail		33.3	30.9	29.3	27.4	26.8	25.2	23.2	23.1	21.4	18.8
Total Load Factor, scheduled services (%)		52.6	51.5	49.9	51.8	53.1	53.0	58.7	59.3	60.2	57.6
Number of Passengers Carried (000)		6,242	5,826	5,688	5,058	4,588	4,155	3,734	3,241	2,999	2,617
Revenue Passenger Kms (mill.)		7,275	6,305	5,584	5,297	4,707	4,287	3,805	3,304	3,166	2,871
Passenger Load Factor (%)		51.4	49.8	49.0	50.3	47.7	50.2	54.5	52.6	54.3	52.9
Average Passenger Trip Length (kms)		1,192	1,102	997	1,061	1,036	1,038	1,024	1,029	1,064	1,109
Traffic Revenue/Revenue Ton-Km (SKR)		2.12	2.07	2.18	2.06	2.05	2.11	2.12	2.15	2.20	2.29
Operating Expenses/Available Ton-Km (based on calculated depreciation, excl. interest) (SKR)		1.04	1.02	1.03	1.00	1.01	1.04	1.16	1.18	1.19	1.16

Personnel		72/73	71/72	70/71	69/70	68/69	67/68	66/67	65/66	64/65	63/64
Number of Employees as of September 30		14,909	14,563	14,637	14,560	14,466	13,619	13,284	13,081	12,709	12,219
Available Ton-Kms/Employee (scheduled services)		123,100	114,000	101,700	95,000	88,100	78,200	62,500	54,800	52,200	50,300
Revenue Ton-Kms/Employee (scheduled services)		64,800	58,700	50,700	49,200	46,800	41,400	36,700	32,500	31,400	29,000

Financial	(Mill. Swedish Crowns)	72/73	71/72	70/71	69/70	68/69	67/68	66/67	65/66	64/65	63/64
Total Revenue		3,094.0	2,633.3	2,297.2	1,989.6	1,785.6	1,520.4	1,354.4	1,192.3	1,119.5	1,030.6
Traffic Revenue		2,057.2	1,798.1	1,621.8	1,478.9	1,366.1	1,179.0	1,023.3	913.5	875.2	807.6
Other Operating Revenue		958.5	767.3	607.9	420.1	336.9	304.4	284.5	246.4	218.4	202.8
Financial and Other Income, etc.		78.3	67.9	67.5	90.6	82.6	37.0	46.6	32.4	25.9	20.2
Total Expenses		3,010.0	2,598.3	2,225.8	1,900.7	1,702.3	1,434.3	1,270.4	1,127.5	1,044.6	960.6
Operating and Administrative Expenses		2,656.5	2,279.0	1,953.1	1,628.8	1,453.2	1,276.7	1,133.4	1,002.7	924.4	839.5
Financial and Other Expenses		127.3	117.6	98.5	104.0	95.1	53.9	44.6	39.2	37.7	35.5
Depreciation		226.2	201.7	174.2	167.9	154.0	103.7	92.4	85.6	82.5	85.6
Net Profit		84.0	35.0	71.4	88.9	83.3	86.1	84.0	64.8	74.9	70.0
Balance Sheet (total)		2,998.4	2,791.7	2,528.8	2,262.2	1,850.9	1,538.3	1,253.8	1,046.9	963.2	867.8
Aircraft, Spare Engines and Spare Parts (certain Expendable Parts included), Prepayments on Flight Equipment		1,474.7	1,489.2	1,468.7	1,327.6	1,129.2	894.2	547.0	423.5	335.3	367.3
Buildings, Ground Equipment, etc., Shares, Long-term Receivables		332.6	275.7	254.8	185.7	161.0	137.0	121.6	100.4	88.5	84.7
Current Assets		1,191.1	1,026.8	805.3	748.9	560.7	507.1	585.2	523.0	539.4	415.8
Capital including Net Profit		806.5	740.0	670.7	643.7	596.5	486.2	442.1	371.1	321.3	260.4
Subordinated Debentures		132.6	141.8	157.5	157.5	157.5	157.5	157.5	157.5	157.5	157.5
Long-term Debt		893.2	914.6	814.0	732.9	526.4	393.7	215.1	137.1	136.0	112.4
Short-term Liabilities		1,003.2	926.7	870.1	711.6	554.0	484.4	422.6	364.7	331.9	321.0
General Valuation Reserve and Currency Adjustment		162.9	68.6	16.5	16.5	16.5	16.5	16.5	16.5	16.5	16.5

Consolidated Profit and Loss Statement

October 1, 1972 — September 30, 1973
(including wholly-owned subsidiary companies)

Income (in millions of Swedish Crowns)	1972/73	1971/72
Traffic revenue	2,057.2	1,798.1
Other operating revenue (Note 1 and 2)	<u>958.5</u>	<u>767.3</u>
Financial income	37.6	28.5
Other income	26.1	29.0
Income from sale and retirement of flight equipment, etc. (Note 3)	14.6	10.4
	<u>3,094.0</u>	<u>2,633.3</u>

Expenses (in millions of Swedish Crowns)	1972/73	1971/72
Operating expenses (Note 2)	2,578.6	2,209.7
Administrative expenses	77.9	69.3
Financial expenses	101.3	80.8
Other expenses	26.0	36.8
Depreciation (Note 4)	226.2	201.7
Net profit (note 5)	84.0	35.0
	<u>3,094.0</u>	<u>2,633.3</u>

Copenhagen, Oslo and Stockholm, December, 1973

M. Wallenberg

Jens Chr. Hauge

Haldor Topsøe

Per Åsbrink

Per M. Backe

Palle Christensen

Knut Hagrup

President

/C.E. Lindh

"Notes to Financial Statements" on pages 19—21 refer to the above Profit and Loss Statement.

Consolidated Balance Sheet

September 30, 1973 (including wholly-owned subsidiary companies)

Assets (in millions of Swedish Crowns)	Sept. 30, 1973		Sept. 30, 1972 (Note 6)		Liabilities (in millions of Swedish Crowns)	Sept. 30, 1973		Sept. 30, 1972 (Note 6)	
Aircraft (Note 7)					Capital (Note 12)				
At cost	1,920.4		1,817.4		ABA (3/7)	309.6		302.2	
Depreciation and valuation reserves	<u>761.1</u>	1,159.3	<u>618.2</u>	1,199.2	DDL (2/7)	206.4		201.4	
Spare engines and spare parts (Note 7)					DNL (2/7)	<u>206.4</u>	722.5	<u>201.4</u>	705.0
At cost	410.3		419.2		Net profit		84.0		35.0
Depreciation and valuation reserves	<u>188.9</u>	221.4	<u>166.2</u>	253.0	Subordinated debentures		132.6		141.8
Advance payments on flight equipment and simulators on order		94.0		37.0	Debtore loan (Note 13)		126.0		144.6
Buildings and improvements (Note 8)					Mortgage loans		51.0		33.4
At cost	213.4		159.9		Loans in Switzerland (Note 14)		139.2		—
Depreciation and valuation reserves	<u>44.9</u>	168.5	<u>38.9</u>	121.0	Loans in USA (Note 15)		301.2		344.1
Workshop and aircraft servicing equipment					Manufacturer's credit on flight equipment		117.2		227.3
At cost	80.6		79.5		Other long-term liabilities (Note 16)		158.6		165.2
Depreciation and valuation reserves	<u>62.4</u>	18.2	<u>55.7</u>	23.8	Short-term liabilities (Note 17)		1,003.2		926.7
Other equipment and vehicles					Currency adjustment (Note 18)		146.4		52.1
At cost	189.1		154.9		General valuation reserve		16.5		16.5
Depreciation and valuation reserves	<u>121.6</u>	67.5	<u>106.8</u>	48.1			<u>2,998.4</u>		<u>2,791.7</u>
Discount etc. on debenture loans		8.6		9.5	Contingent liabilities and guarantees (Note 19)		84.0		32.1
Shares and bonds (Note 10)		27.5		27.7					
Goodwill (Note 11)		13.1		14.5	Furthermore, SAS has assumed certain liabilities in respect of pensions, and in connection with ticket sales according to pay-later plans				
Long-term accounts receivable and prepayments		29.2		31.1	Pledges (Note 20)				
Shop work in progress		3.7		0.9	Mortgages on real estate		77.3		38.1
Sundry stores		82.3		77.0	Sundry pledges		<u>11.2</u>		<u>13.8</u>
Short-term accounts receivable and prepayments		422.7		377.1			<u>88.5</u>		<u>51.9</u>
Cash and bank balances including short-term cash investments		<u>682.4</u>		<u>571.8</u>					
		<u>2,998.4</u>		<u>2,791.7</u>					

Copenhagen, Oslo and Stockholm, December, 1973

M. Wallenberg

Jens Chr. Hauge

Haldor Topsøe

Per Åsbrink

Per M. Backe

Palle Christensen

Knut Hagrup
President

/C.E. Lindh

The above Profit and Loss Account and Balance Sheet are in accordance with the books of the Consortium, which have been examined by the undersigned Auditors, as set forth in our Auditor's Report dated January, 1974.

Stockholm, January, 1974
Centralanstalten for Revision

Viking Bergman
Authorized Public Accountant

Erik Sivertsen
Authorized Public Accountant

Stig-Erik Schaumburg-Müller
Authorized Public Accountant

Christian Blom
Authorized Public Accountant

Sten Nackstad
Authorized Public Accountant

Hugo Engman

Tor Storhaug
Authorized Public Accountant

"Notes to Financial Statements" on pages 19—21 refer to the above Balance Sheet.

Notes to Financial Statements

The consolidated profit and loss statement and the consolidated balance sheet of SAS include wholly-owned subsidiaries such as SAS Catering A/S, SAS-Invest A/S, Nyman & Schultz/Nordisk Resebureau AB, Vingresor/Club 33 AB and Nordair A/S. The accounts of Scanair, a consortium wholly-owned by the parent companies of SAS, are not consolidated with those of SAS.

Note 1 — Other operating revenue

"Other operating revenue" in the profit and loss statement, comprises revenue from sundry activities, such as shop work, ground handling, interline sales, etc., performed for other airlines, income from sale on board and in gateway stores, as well as revenue earned by wholly-owned subsidiaries from customers other than SAS.

Note 2 — Other operating revenue and operating expenses

For 1972/73 revenue and expenses for inclusive tour arrangements produced by Nyman & Schultz/Nordisk Resebureau AB are shown gross under the headings "Other operating revenue" and "Operating expenses" respectively. In the accounts for 1971/72 they were netted under the firstmentioned heading resulting in a reduction of the turnover by MSKR 68.1.

Note 3 — Sale and retirement of flight equipment, etc.

"Income from sale and retirement of flight equipment, etc." includes the excess of insurance value over book value, etc., for a DC-9-21 aircraft damaged beyond repair in Oslo in January, 1973, MSKR 7.7. The gain on the sale of five spare engines is also included under this heading.

Note 4 — Depreciation

The depreciation charges are apportioned as follows (MSKR):

	1972/73	1971/72
Aircraft, spare engines and spare parts	189.9	171.0
Buildings and improvements	7.5	5.7
Ground equipment and vehicles	27.0	25.0
Goodwill	1.8	—
	<u>226.2</u>	<u>201.7</u>

SAS flight equipment is depreciated over 10 years with a 10 per cent residual value except for Boeing 747-B equipment, which is depreciated over 12 years with a 10 per cent residual value. The residual value of Metropolitan aircraft is further depreciated based on the expected remaining useful life of the aircraft. In view of the planned retirement of the Caravelle fleet during 1974 no such depreciation has been made on the Caravelle aircraft. The residual value of Caravelle and Metropolitan spares has been fully depreciated as per September 30, 1973.

Depreciation on goodwill during 1971/72, MSKR 1.6, was included under the heading "Other expenses".

Depreciation on goodwill during 1971/72, MSKR 1.6, was included under the heading "Other expenses".

Note 5 — Income taxes

The accounts of SAS, except for subsidiaries, contain no provision for corporate income taxes in Denmark, Norway and Sweden, such liability resting upon the parent companies of SAS.

Note 6 — Financial statements as of September 30, 1972

A regrouping of certain items has been made in the balance sheet as of September 30, 1972, and in the funds statement for 1971/72, in order to meet the corresponding statements in this report.

Note 7 — Aircraft, spare engines and spare parts

During the year one DC-8-63 and three DC-9-41 aircraft were delivered and one DC-9-21 aircraft was retired.

Changes during the year in total acquisition value and total depreciation and valuation reserves of aircraft, spare engines and spare parts are specified below (MSKR):

Acquisition value	
As of September 30, 1972	2,236.6
DC-8 flight equipment delivered in 1972/73	
Prepayments etc. made before October 1, 1972 (transferred from account for advance payments)	2.3
Investments during 1972/73	<u>54.5</u>
DC-9 flight equipment delivered in 1972/73	
Prepayments etc. made before October 1, 1972 (transferred from account for advance payments)	26.4
Investments during 1972/73	<u>51.6</u>
Other flight equipment delivered during 1972/73	
Investments during 1972/73	20.7
Flight equipment sold and retired in 1972/73, etc.	<u>-61.4</u>
As of September 30, 1973	<u>2,330.7</u>
Depreciation and valuation reserves	
As of September 30, 1972	784.4
Depreciation 1972/73	189.9
Accrued depreciation on flight equipment sold and retired in 1972/73, etc.	<u>-24.3</u>
As of September 30, 1973	<u>950.0</u>

Note 8 — Buildings and improvements

Investments in buildings and improvements during the year amounted to MSKR 57.1. This includes investments in a new administration building under construction in Copenhagen MSKR 10.8, in flight kitchens owned by SAS Catering A/S MSKR 11.3, in hotel projects of Vingresor/Club 33 AB MSKR 6.1, and in SAS Royal Hotel under construction in Oslo MSKR 17.7.

Note 9 — Insurance values

As of September 30, 1973, flight equipment and other physical assets of SAS were insured as follows (MSKR):

	1973	1972
Aircraft	1,622.3	1,736.6
Spare engines, spare parts and technical stores	537.4	577.7
Buildings and improvements	290.7	235.8
Workshop and aircraft servicing equipment and tools	130.6	101.8
Other equipment, vehicles and various stores	<u>276.2</u>	<u>208.4</u>
	<u>2,857.2</u>	<u>2,860.3</u>

The decline in the insurance value for aircraft and spares expressed in Swedish crowns is due to the depreciation of the United States dollar.

The insurance value for "Buildings and improvements" is exclusive of the SAS Royal Hotel in Oslo under construction with a value of MSKR 30.2 which is insured by the contractor.

Note 10 — Shares and bonds

The item "Shares and bonds" includes shares in the amount of MSKR 4.3 in Linjeflyg AB, MSKR 6.9 in Thai Airways International Ltd., and MSKR 6.9 in Hotel Scandinavia K/S, Copenhagen.

Note 11 — Goodwill

"Goodwill" in the balance sheet includes MSKR 12.0 relating to Vingresor/Club 33 AB, acquired in 1970/71, and MSKR 0.6 referring to AB Ringån, a Swedish company acquired by SAS during 1971/72.

Note 12 — Capital

The capital of SAS was increased in 1972/73 by MSKR 17.5, retained by SAS out of the profit for the year 1971/72, and amounts as of September 30, 1973 to MSKR 722.5, excluding the profit for the year 1972/73. The capital includes statutory reserves and retained earnings in wholly-owned subsidiaries as follows (MSKR):

Statutory reserves

SAS Catering A/S	2.2	
SAS-Invest A/S	0.3	
Vingresor/Club 33 AB	<u>0.5</u>	3.0
Other reserves and retained earnings		
SAS Catering A/S	10.9	
SAS-Invest A/S	2.8	
Nyman & Schultz/Nordisk Resebureau AB	0.1	
Vingresor/Club 33 AB	<u>4.9</u>	18.7
		<u>21.7</u>

The wholly-owned subsidiaries account for MSKR 3.7 out of the total profit of SAS in 1972/73.

Note 13 — Debenture loan

This item represents the 8 per cent debenture loan in the amount of US\$ 30.0 mill. raised in June 1972. The debentures are due in 1987.

Note 14 — Loans in Switzerland

Two loans of SFR 50.0 mill. each were raised in Switzerland during 1972/73. The loans mature in 1977 and 1978 respectively.

Note 15 — Loans in USA

As of September 30, 1973, the loans from insurance companies in the United States amounted to US\$ 1.0 million.

In the course of the year US\$ 10.3 mill. were amortized under the loan agreements entered into in 1968 for the financing of two Boeing 747-B aircraft with spare engines and spare parts and nine DC-9-41 aircraft. As of September 30, 1973, the loans of 1968 amounted to US\$ 44.9 mill. Borrowing during the year under the loan agreements of 1971 concerning the financing of five DC-9-41 aircraft and one DC-8-63 aircraft with spare engines and spare parts amounted to US\$ 11.8 mill., and US\$ 3.6 mill. were amortized. These loans amounted to US\$ 26.9 mill. as of September 30, 1973.

Other loans in USA, included under this heading, amounted to US\$ 16.4 mill. as of September 30, 1973.

Current maturities of "Loans in USA", amounting to US\$ 17.4 mill. at the end of the financial year, are included under "Short-term liabilities" in the balance sheet.

Note 16 — Other long-term liabilities

Loans from KSSU-partners, drawn for the purpose of financing Boeing 747-B spare engines and engine spare parts held by SAS on behalf of KLM and Swissair under the KSSU-arrangements, inclusive of current maturities, amount to US\$ 19.1 mill. as of September 30, 1973.

The countervalue in Swedish crowns of these loans — and of the corresponding spare engines and spare parts — has been adjusted downward to reflect the effect of the depreciation of the United States dollar during the year.

Note 17 — Short-term liabilities

“Short-term liabilities” in the balance sheet include current maturities of long-term liabilities totalling MSKR 185.3 at the end of the financial year.

For practical reasons, the various clearing accounts for traffic revenue are, as hitherto, included as a net balance in the item “Short-term liabilities”.

Note 18 — Currency development

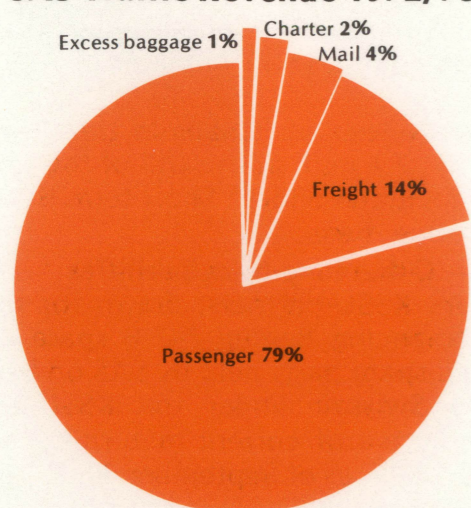
SAS accounts are kept in Swedish crowns. During the year SAS has used, for accounting purposes, the following rates of exchange between Swedish crowns and the other two Scandinavian currencies as well as the United States dollar:

Period	100 Danish crowns	100 Norwegian crowns	1 US dollar
Oct. 1972—Feb. 1973	68.95	72.42	4.82
March—June 1973	72.59	76.24	4.56
July—Sept. 1973	72.59	76.24	4.10
As per Sept. 30, 1973	72.59	76.24	4.20

The new rate of exchange between Swedish crowns and Danish and Norwegian crowns respectively corresponds to a 5.3 per cent change from the rate used for accounting purposes prior to March 1973.

The net effect on the SAS result due to changes in

SAS Traffic Revenue 1972/73



currency values during the year has been minor. The item “Currency adjustment” in the balance sheet represents mainly adjustments, in Swedish crowns, of long-term liabilities, inclusive of current maturities, in United States dollars outstanding as per September 30, 1973.

After the end of the SAS financial year the Norwegian crown has revalued, i.a., against the Swedish crown, and the United States dollar has strengthened considerably compared to the rate used by SAS in the annual accounts as per September 30, 1973. An effect of this development has been the appreciation, in terms of Swedish crowns, of SAS net working capital in these two currencies. At the same time, long-term debt, inclusive of current maturities, denominated or due in Norwegian crowns and United States dollars has been adjusted accordingly through a transfer from the account “Currency adjustment”.

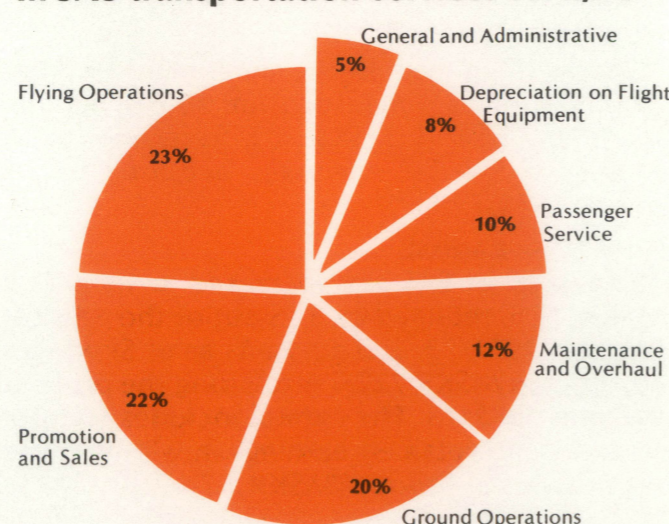
Note 19 — Contingent liabilities and guarantees

Contingent liabilities and guarantees as of September 30, 1973 include guarantees by SAS for 50 per cent of the loans raised by Linjeflyg AB to finance three F-28 aircraft.

Note 20 — Pledges

The increase of mortgages on real estate refers mainly to the new administration building under construction in Copenhagen, the flight kitchen of SAS Catering A/S in Oslo and the SAS cargo building at John F. Kennedy airport, New York.

Operating expenses incurred in SAS transportation services 1972/73



Funds Statement
(in millions of Swedish Crowns)

	1972/73	1971/72	1970/71	1969/70	1968/69
Source of funds					
Net profit	84.0	35.0	71.4	88.9	83.3
Depreciation	226.2	201.7	174.2	167.9	154.0
Book value of assets sold and retired	21.5	11.7	26.4	80.0	71.5
Other (net)	11.2	7.7	-4.9	-0.7	-0.3
From operations	342.9	256.1	267.1	336.1	308.5
New capital from parent companies		70.0			70.0
Borrowing	256.3	327.8	180.2	392.8	273.1
Loans from KSSU-partners	15.3	16.4	87.0		
Short-term liabilities	88.6	70.0	106.0	82.8	40.7
Amortization on long-term lending	2.5	7.8			
Other	12.2	10.0	10.1	16.1	
Sub-total	717.8	758.1	650.4	827.8	692.3
Use of funds					
Aircraft, spare engines, spare parts	126.8	199.4	277.7	365.7	337.0
Prepayments on aircraft and flight simulators	86.6	21.6	45.4	67.4	100.3
Loans to KSSU-partners	1.1	5.1	6.7		
Buildings, etc.	57.1	23.9	32.2	15.1	13.4
Other equipment, supplies, etc.	44.1	30.7	38.2	25.6	21.6
Shares (and goodwill)	0.7	15.6	21.5	6.5	2.8
Discount on debenture loan		6.6			
Long-term lending			4.2	5.5	8.3
Total investments	316.4	302.9	425.9	485.8	483.4
Accounts receivable and prepayments, etc.	48.7	79.9	19.1	29.9	24.2
Amortization on long-term debt	211.0	183.7	159.5	135.9	110.9
Paid to parent companies out of last year's profit	17.5	35.7	44.4	41.7	43.0
Other	13.6	7.9			
Sub-total	607.2	610.1	648.9	693.3	661.5
Change in cash and bank balances (including short-term cash investments)	+ 110.6	+ 148.0	+ 1.5	+ 134.5	+ 30.8

Investments in Flight Equipment

	Amounts (in millions of Swedish Crowns)					
	No. of aircraft Delivered	No. of aircraft On order	Deliveries 1966/67-1972/73	Advance payments Sept. 30, 1973	To be paid 1973/74-1976/77	Total
747-B	2		445.4		22.4	467.8 ¹⁾
DC-10-30		5	2.6	36.5	554.4	593.5 ¹⁾
DC-8-63	7	1	820.1	5.0	50.1	875.2
DC-8-62	8					
DC-9-41	24	17	822.7	50.3	420.9	1,293.9
DC-9-33AF	2					
DC-9-21	9					
Total	52	23	2,090.8	91.8	1,047.8	3,230.4

1) includes spare engines and spare parts, as the case may be, held by SAS on behalf of the other partners to the KSSU-arrangements as well as loans by SAS to these partners to finance spare engines and spare parts held by them on behalf of SAS.

Auditor's Report

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

SCANDINAVIAN AIRLINES SYSTEM
Denmark — Norway — Sweden

having completed our assignment, herewith submit to the Parent Companies our report for the financial year October 1, 1972—September 30, 1973.

We have examined the Annual Report, which includes the wholly-owned subsidiary companies. To the required extent we have studied the accounting records, minutes and other documents which give information about the economy and administration of the Consortium and have, moreover, taken those measures of inspection which we have considered necessary.

The Internal Auditing Department of SAS, acting in accordance with instructions approved

by us, has conducted a continuous check of the accounting records of the Consortium and we have, in the course of the financial year and in connection with the closing of the accounts, received reports on the examination thus conducted.

The accounting records are properly kept.

As is seen from the Report for the financial year there is declared, after depreciation, a net profit of 84.0 million Swedish Crowns, out of which 42.0 million Swedish Crowns are proposed to be paid out to the Parent Companies.

We recommend

that the Annual Accounts as of September 30, 1973 which have been submitted and which have been signed by us, be adopted, and that the Members of the Board and the President be discharged from responsibility for their administration in respect of the financial year.

Stockholm, January, 1974

Centralanstalten for Revision

Viking Bergman

Authorized Public Accountant

Erik Sivertsen

Authorized Public Accountant

Stig-Erik Schaumburg-Müller

Authorized Public Accountant

Christian Blom

Authorized Public Accountant

Sten Nackstad



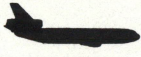
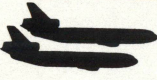
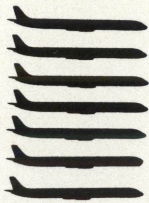


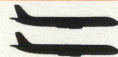
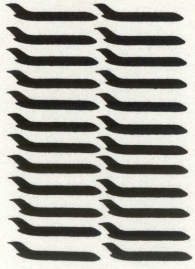
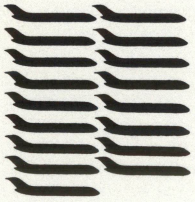




Authorized Public Accountant

Hugo Engmann

Tor Storhaug

Authorized Public Accountant

Aircraft Fleet

	30/9-73	1974	1975	1976	
	No. Fleet at the end of the year	Order	Order	Order	
747 - B	2 				
DC - 10 - 30					
DC - 8 - 63	7 				
DC - 8 - 62	8  1) 1) 2)				
DC - 8 - 55	2 				
DC - 9 - 41	24 				
DC - 9 - 33AF	2 				
DC - 9 - 21	9 				
CARAVELLE	13 				
METROPOLITAN	9 		1) Combined version (CF) 2) All cargo version (AF)		
	76				



Intercontinental Routes

Scheduled services (Mill.) Last year's figures in brackets	Passenger		Cargo		Mail		Load Factor %	Cabin Factor %
	Pass.- Kms	Change %	Ton- Kms	Change %	Ton- Kms	Change %		
North Atlantic	2,664 (2,337)	+ 14	156.1 (158.6)	- 2	10.2 (10.4)	- 2	52.3 (54.3)	50.5 (50.9)
Other Intercontinental Routes	1,365 (1,009)	+ 35	63.6 (54.9)	+ 16	9.5 (7.9)	+ 20	59.0 (52.7)	51.8 (44.6)
Total Intercontinental Traffic	4,029 (3,346)	+ 20	219.7 (213.5)	+ 3	19.7 (18.3)	+ 8	54.3 (53.8)	51.0 (48.8)



European (incl. Middle East) and Inter-Scandinavian Routes

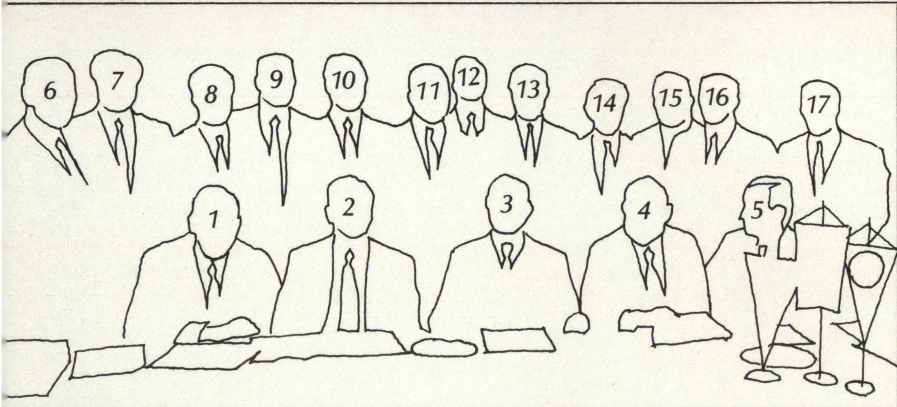
Scheduled services (Mill.) Last year's figures in brackets	Passenger		Cargo		Mail		Load Factor %	Cabin Factor %
	Pass.- Kms	Change %	Ton- Kms	Change %	Ton- Kms	Change %		
Middle East	129 (109)	+ 19	2.7 (2.7)	+ 1	0.6 (0.4)	+ 35	44.8 (42.5)	42.3 (39.5)
European Routes	1,607 (1,425)	+ 13	42.0 (37.2)	+ 13	6.2 (5.4)	+ 17	49.9 (46.8)	50.6 (48.6)
Inter-Scandinavian Routes	383 (357)	+ 7	9.5 (8.5)	+ 13	0.7 (0.9)	- 22	44.6 (43.2)	46.6 (45.6)
Total Europe, Middle East and Inter-Scandinavian Traffic	2,119 (1,891)	+ 12	54.2 (48.4)	+ 12	7.5 (6.7)	+ 13	48.5 (45.8)	49.2 (47.4)



Scandinavian Domestic Routes

Scheduled services (Mill.) Last year's figures in brackets	Passenger		Cargo		Mail		Load Factor %	Cabin Factor %
	Pass.- Kms	Change %	Ton-Kms	Change %	Ton-Kms	Change %		
Denmark	258 (256)	+1	1.6 (1.4)	+15	1.5 (1.3)	+8	57.0 (55.4)	60.8 (60.3)
Norway	485 (450)	+8	2.6 (2.2)	+18	2.3 (2.3)	0	53.5 (53.0)	57.7 (57.2)
Sweden	384 (362)	+6	2.1 (2.0)	+5	2.3 (2.4)	-1	50.2 (52.5)	55.6 (58.7)
Total Domestic Traffic	1,127 (1,068)	+6	6.3 (5.6)	+13	6.1 (6.0)	+2	53.1 (53.4)	57.6 (58.4)

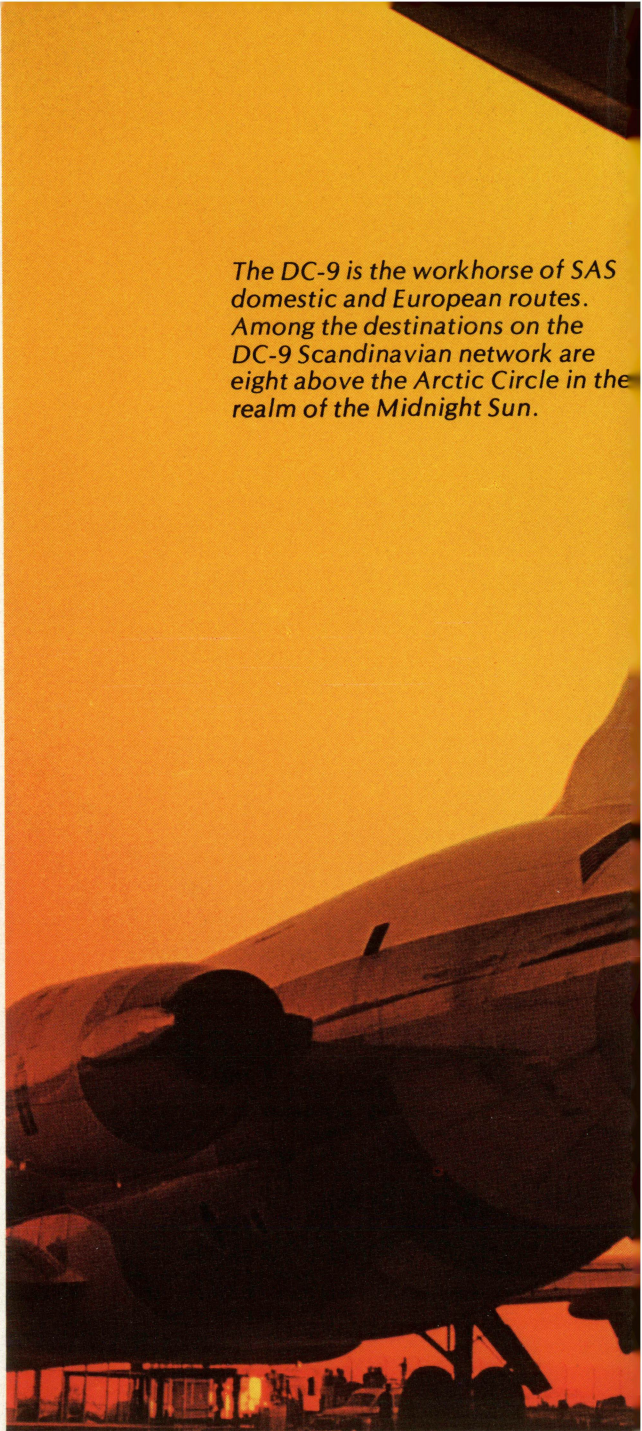
KSSU Management Meeting,
Oslo, Feb. 1, 1973

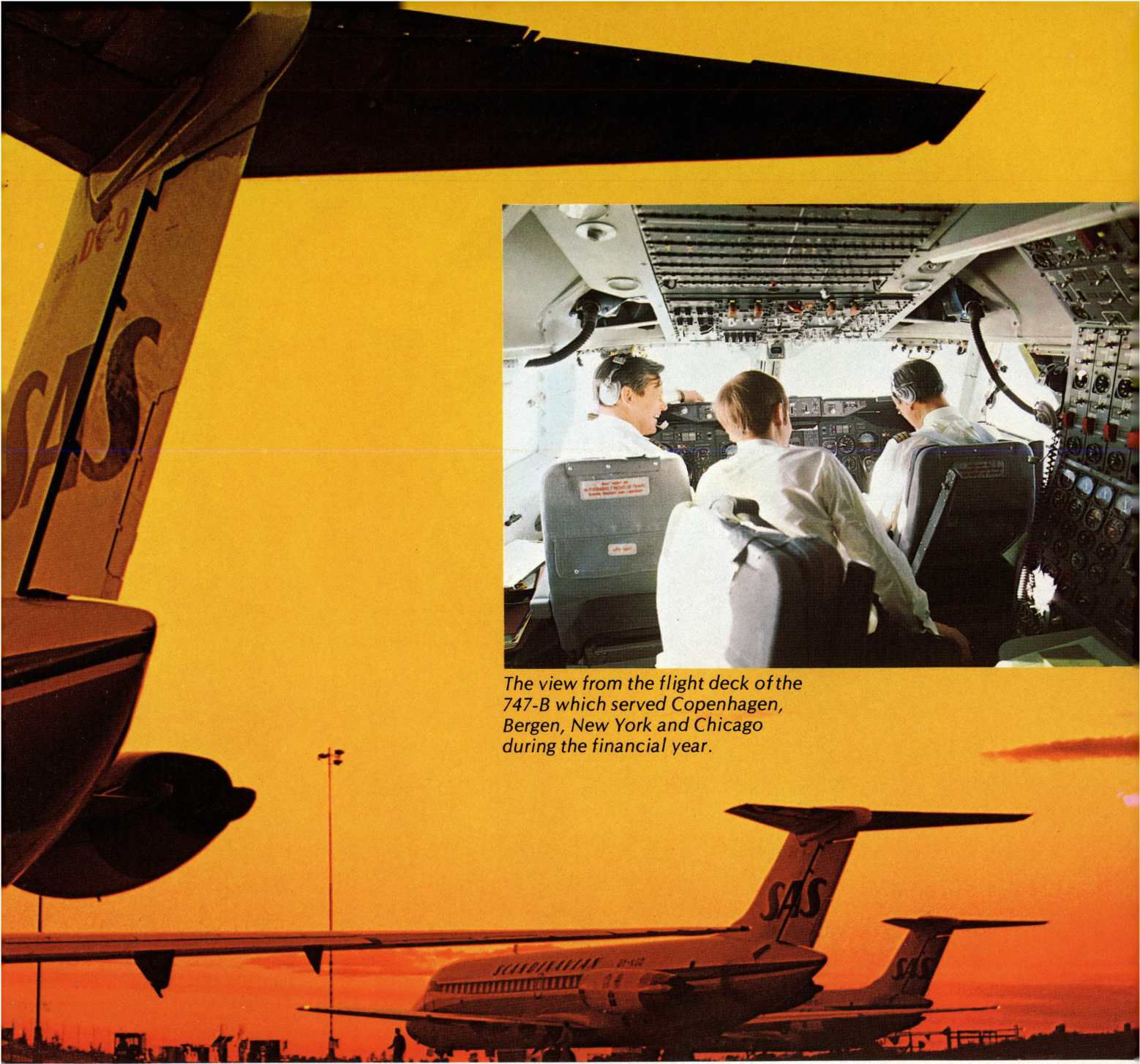


- | | |
|---|--|
| 1. A. Fischer
Vice President Operations Swissair | 10. G. Sandberg
Senior Vice President Administration SAS |
| 2. F. Roth
Vice President Engineering & Maintenance Swissair | 11. R. Reot
Manager Technical Studies UTA |
| 3. A. Veil
President UTA | 12. K. Ledebøer
Assistant General Manager KLM |
| 4. B. Törnblom
Executive Vice President Technical & Operations SAS | 13. B. Holmer
Vice President Aircraft Project & Development SAS |
| 5. J. de Soet
General Manager KLM | 14. P. Negre
Vice President Aircraft Resarch & Development SAS |
| 6. R. Krähenbühl
Manager Technical Planning & Control Swissair | 15. A. Karlsson
Vice President Engineering & Maintenance SAS |
| 7. I. Nord
Director Administration Development SAS | 16. J. van Ameyden
Vice President Engineering & Maintenance KLM |
| 8. V. Holmboe
Director Technical & Operations Planning & Control SAS | 17. J. van der Schaff
Manager KSSU Coordination KLM |
| 9. P. Jensen
Vice President Operations SAS | |

The SAS Royal Hotel, Oslo, is the newest in the SAS group. Norway's Crown Prince Harald laid the cornerstone for the hotel which will be Norway's largest when opened in the spring of 1975.

The DC-9 is the workhorse of SAS domestic and European routes. Among the destinations on the DC-9 Scandinavian network are eight above the Arctic Circle in the realm of the Midnight Sun.





The view from the flight deck of the 747-B which served Copenhagen, Bergen, New York and Chicago during the financial year.



Airline catering has come a long way. SAS serves some six million meals a year in the air, and SAS Catering provides food and beverages for about 50 airlines in all. To handle this giant-sized gastronomic assignment, SAS Catering chefs are now guided by computerized meal planning, loading, and supply control.

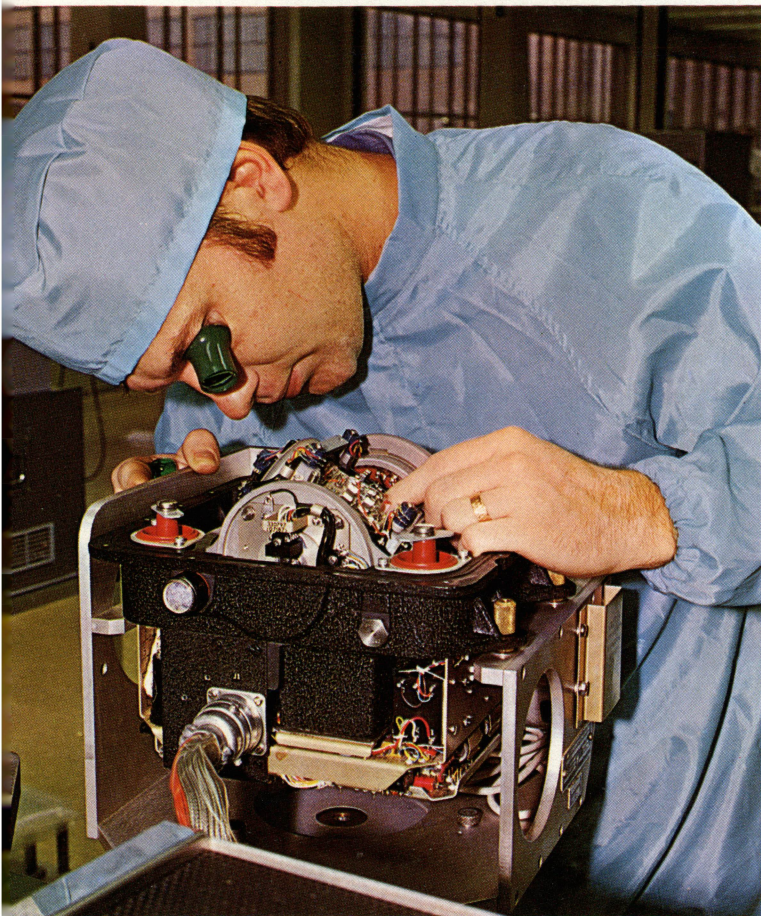


The SAS Escort Service is distinguished by special hostesses in red uniforms. Having formerly served as regular SAS cabin attendants, the Escort Service hostesses fly with unaccompanied children, elderly or infirm passengers who may require special assistance during their journey.



The large DC-9 fleet also includes DC-9 freighters, with pallets interchangeable with the larger, intercontinental DC-8 freighters.

SAS aircraft are overhauled at regular intervals, as are all of their components. Instruments are carefully examined and adjusted at a special, dust-free "clinic" at Copenhagen airport.



SAS's DC-8 intercontinental jetliners have been outfitted with "flex-seats" for additional passenger comfort and convenience. When not occupied, the center seats in the economy class cabins fold down into extra wide armrests and tables.



SAS carries all manner of air cargo and provides special handling as each shipment requires. Live tropical fish shipments from Southeast Asia are among the frequent cargo "VIP's" to pass through the Copenhagen Air Cargo Center.

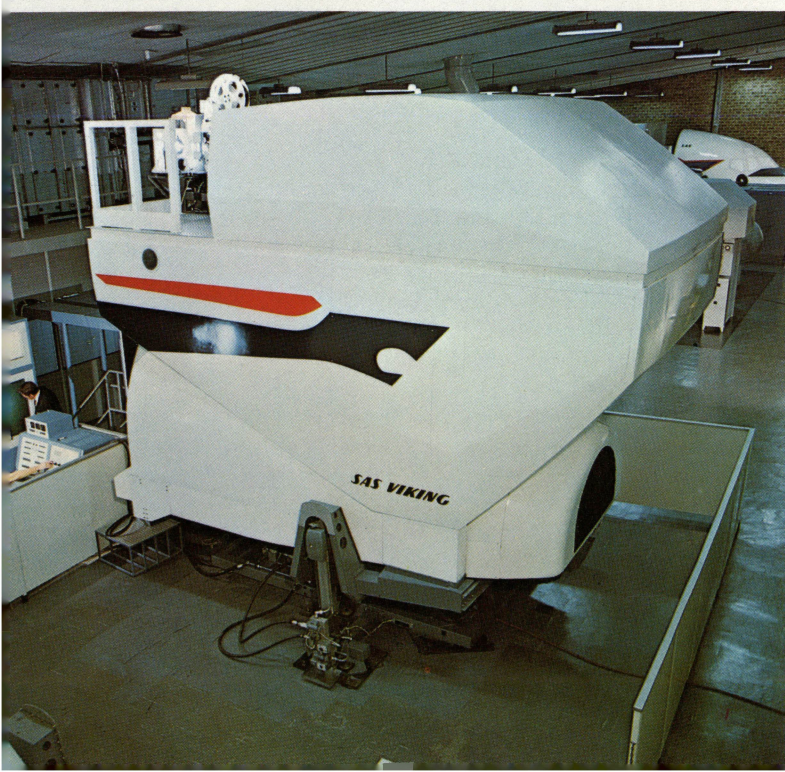
The DC-10-30 is the intercontinental version of the 270-passenger wide-fuselage jetliner. SAS has ordered five, and the first two will be delivered in late 1974.



Right: The SAS order for 17 more Super DC-9s during the 1972-73 financial year will increase the twin-jet fleet, which is overhauled at Oslo's Fornebu airport, to 52 aircraft by 1975.



Far right: SAS invested another 17 million Swedish crowns for its fourth VAMP simulator, the most advanced pilot training system, computer-controlled to recreate all realistic — and some unusual — flying conditions, and with a film projector to aid pilots in judging approaches and landings. The latest VAMP-system is for the new DC-10-30s which SAS will begin to receive in late 1974. SAS also has two VAMP simulators for the DC-9 and one for the DC-8, all located at the Flight Crew Training Center in Stockholm.



Above: During the financial year SAS completed development of the so-called PNR-system, a visual split-second reservations system that will gradually go into service in SAS offices around the world, beginning in early 1974. PNR means Passenger Name Record and the system can create, change or amend reservations within seconds, with all pertinent information flashed from the computer onto a screen in front of the reservations agent. Later PNR applications will include automatic ticketing, statistics and accounting.

Subsidiaries

SAS Catering A/S

SAS Catering A/S, a wholly-owned subsidiary, increased total revenue by 12 per cent to MDKR 352.2. SAS Catering operates 11 flight kitchens around the world, serving more than 50 airlines. The subsidiary also runs four hotels, a number of restaurant facilities in the three Scandinavian countries, and contracted during the year to run a catering unit on an oil rig in the North Sea. SAS accounted for 41 per cent of SAS Catering's total revenue. SAS Catering had an average of 1,981 employees during the year.

SAS-Invest A/S

SAS-Invest A/S, another wholly-owned subsidiary, owns and operates the SAS Royal Hotel in Copenhagen. The hotel had an occupancy rate of 90 per cent and total revenue of MDKR 28.4, an increase of 3 per cent. The staff averaged 357.

Nyman & Schultz/Nordisk Resebureau AB

Nyman & Schultz/Nordisk Resebureau AB, wholly-owned by SAS, is the largest IATA travel agency in Sweden. Total sales of travel and related services increased by 19 per cent to MSKR 273.8. Business travel accounted for 66 per cent of total sales, pleasure travel for 25 per cent, and other travel services for nine per cent. Operating revenue for the year increased from MSKR 22.4 to MSKR 26.5, derived primarily from commissions. The travel agency had a total of 327 full-time employees during 1972—1973.

Vingresor/Club 33 AB

Vingresor/Club 33 AB, another wholly-owned SAS subsidiary, is Sweden's largest producer of inclusive tours with a market share of 25 per cent. The number of customers increased by seven per cent to 204,000. Total revenue rose 14 per cent to MSKR 218.8. Employees numbered 417.

Scandinavian Star Tour Corporation

SAS has the majority interest in Scandinavian Star Tour Corporation in partnership with travel agencies in Denmark, Norway and Sweden. Sale of inclusive tours increased during 1972—1973, from 89,600 to 98,500 passengers. Total sales increased 15 per cent to MDKR 117.6. The company had 170 employees during the year, including tour conductors abroad.

Globetrotter

Globetrotter, arrangers of intercontinental inclusive tours on scheduled flights, is owned 50 per cent by SAS and 50 per cent by IATA travel agents in Denmark, Norway and Sweden, including some which are subsidiaries of SAS. Inclusive tours passengers increased 52 per cent to 17,300 while sales (excluding air fares) increased 88 per cent to MSKR 18.3. Globetrotter averaged 61 employees during the year, including tour conductors abroad, and added an office in Oslo to its organization.

Copenhagen Air Cargo Center A/S

The Copenhagen Air Cargo Center, also owned by SAS, handled 133,000 tons of cargo in 1972—1973, representing an increase of nine per cent. The Center, at Copenhagen airport, processed 1.1 million shipments comprising five million individual parcels. The number of employees averaged 245 during the year.

Affiliated Airlines

THAI International

Thai Airways International Ltd. is owned 70 per cent by Thai Airways Co., and 30 per cent by SAS. THAI International made a record profit of 111.6 million baht in the 1972—1973 financial year. This compares with a profit of 40 million baht the previous year.

Total revenue for 1972—1973 amounted to 1,361.2 million baht, an increase of 27 per cent. Capacity increased 7.4 per cent, traffic 30.5 per cent. The load factor rose from 51.8 to 62.9 per cent. Passenger traffic increased 30.4 per cent, with the cabin factor up 11.1 percentage points to 63.8 per cent.

THAI International carried 778,000 passengers in 1972—1973, an increase of 130,400 or 20 per cent. The airline served 19 cities in 15 countries during the year with a fleet of six DC-8-33s and a DC-8-62 leased from SAS.

Towards the end of the year THAI International made plans to increase European operations from one to two round trips a week, by opening a service from Bangkok to London with a non-stop return and the addition of Frankfurt to the previous route from Copenhagen as of November 1, 1973.

At Bangkok's Don Muang airport a new passenger terminal was completed and THAI International opened comprehensive tax-free shopping facilities in the building. The airline's staff was 3,106 at the end of the year.

Danair A/S

In its second year of operation, Danair, owned 51 per cent by SAS, served eight points within Denmark as well as the Faroe Islands. The airline, which leased aircraft and crews from SAS and its other two Danish parent companies, Maersk Air and Cimber Air, carried 510,000 passengers in 1972—1973, an increase of 15 per cent. Cabin factor was 54 per cent, equal to last year. Total revenue increased 25 per cent to MDKR 71.5.

Linjeflyg AB

Linjeflyg, which is owned jointly by SAS and SAS's Swedish parent company ABA, began jet operations in the spring of 1973. Three Fokker F-28 Fellowships seating 65 passengers were introduced after these jets had been given temporary 2½-year authority to operate from Stockholm's Bromma airport.

Linjeflyg also has a 50 per cent ownership of the government-owned feeder and taxi airline Crownair which began operating some of Linjeflyg's short-haul routes with short takeoff and landing (STOL) Twin-Otters. As a result Linjeflyg decided to sell its four Nord 262 short-haul aircraft. At the same time, with the introduction of the F-28s, Linjeflyg sold four of its 19 Metropolitans. Linjeflyg employed 739 at the end of the year.

Linjeflyg carried 900,700 passengers during the financial year, equal to last year. The airline's cabin factor was 54.3 per cent, compared with 50.6 per cent the previous year. Passenger capacity was down 5.3 per cent while the volume of passenger traffic increased 1.5 per cent. Total revenue amounted to MSKR 138.5, or 4.1 per cent above last year. The Linjeflyg network embraced 23 Swedish airports.

Greenlandair

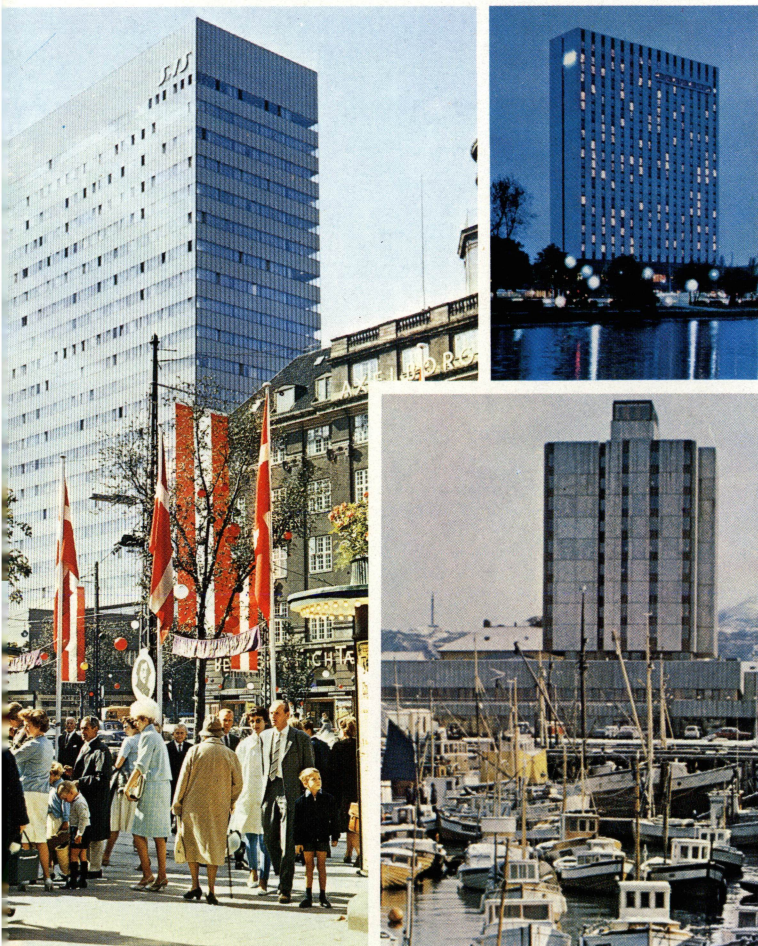
Greenlandair, which primarily provides scheduled helicopter services on Greenland, is owned 25 per cent by SAS. The airline carried 75,000 passengers, up 25 per cent. Air mail traffic rose 30 per cent while cargo traffic remained unchanged. At the end of the financial year the Greenlandair fleet included two DC-6s, six S-61N helicopters and one S-58T helicopter.

Widerøe's Flyveselskap A/S

SAS has a 20 per cent interest in Widerøe, which provides local services with Twin Otter STOL aircraft to 21 communities along the Norwegian coast. Five more airports were opened during the financial year as were two heliports serving islands north of the Arctic Circle. Widerøe has a fleet of seven Twin Otters, including two which were added during the year. Another two are on order for 1974 delivery. The airline carried 140,300 passengers, an increase of 45 per cent. Employees totaled 124. Widerøe plans to expand services to five more short takeoff and landing airports in northernmost Norway in the summer of 1974.

Scanair

Scanair is the charter Consortium owned by the three parent companies of SAS. Its fleet of two DC-8s and three 727s provides charter aircraft capacity for the Scandinavian inclusive tour market. Under an interchange agreement with SAS, Scanair also flies 747-B wide-fuselage jets to the Canary Islands during peak periods. In all, Scanair served 41 vacation destinations in 22 countries during 1972—1973. The charter airline flew 735,000 one-way passengers in the course of the year, representing a one per cent increase. Total revenue was MSKR 163.6, up 15 per cent. Scanair's main traffic was to and from Spain, with 229,000 passengers; the Canary Islands, with 251,000; Greece, 71,000, and Italy, 31,000 passengers. Scanair performed 2,763 round trip charters. The Scanair staff numbered 371 at the end of the financial year.



SAS owns, operates or has a partial interest in 10 hotels. In the left column, the 300-room SAS Royal Hotel, Copenhagen; the 534-room Hotel Scandinavia, also in Copenhagen; the 306-room SAS Royal Hotel, Bodø, Norway. In the column to the right, from the top, the 157-room SAS Globetrotter Hotel near Copenhagen Airport; the 158-room SAS Royal Hotel in Tromsø, Norway; the 160-room SAS Royal Atlantic Hotel, Sta-

vanger; the 150-room SAS Globetrotter Hotel near Oslo Airport; and, at the bottom, the 50-room Arctic Hotel in Narsarsuaq, Greenland. Not shown, but under construction is the 473-room SAS Royal Hotel, Oslo, due to open in 1975. Also planned is a 250-350-room SAS Royal Hotel in Bergen, expected to open in 1977. The "SAS Royal Hotel" name is registered in some other Scandinavian cities to cover future plans.

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Norway

Sweden

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SCANDINAVIAN AIRLINES SYSTEM

Scandinavian Airlines System (SAS) is the designated national carrier of three sovereign nations, Denmark, Norway, and Sweden. The owners of SAS are: Det Danske Luftfartselskab A/S (Danish Airlines), Det Norske Luftfartselskap A/S (Norwegian Airlines), AB Aerotransport (Swedish Airlines). These three limited companies are in turn, through shareholdings, owned 50 per cent by private individuals or enterprises, and 50 per cent by their respective national Governments.



