Scandinavian Airlines System Annual Report 1981-82

SAS

Scandinavian Airlines System

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

MEMBER OF

IATA

QUALITY IN AIR TRANSPORT

Scandinavian Airlines System
Annual Report 1981–82

MARCUS WALLENBERG. OIL PAINTING BY D. TÄGTSTRÖM, 1974. INDUSTRIHUSET, STOCKHOLM

MARCUS WALLENBERG, who passed away on September 13, 1982, was one of the founders of SAS. His name will always be associated with the emergence of SAS as one of the world's leading airlines. Together with Thomas Falck and Per Kampmann, he laid the foundation for the unique and successful cooperation among the three Scandinavian countries which SAS represents. As a member of the SAS Board of Directors and the Swedish chairman, Dr. Wallenberg took a very active interest in all of the major decisions which shaped the development of SAS. When he left the Board in 1973 he continued to serve SAS as chairman of the board of SILA and as chairman of the executive committee of ABA.

Dr. Wallenberg maintained a vast network of international contacts and enjoyed an exceptional reputation around the world. His significance to SAS cannot be overestimated. His imagination, foresight and working capacity benefited SAS on many decisive occasions. Furthermore, he was passionately interested in SAS and was always prepared to step in, despite his heavy workload and extensive commitments in other areas. SAS was always something special to Marcus Wallenberg.

A great man has departed from our midst. We in SAS who have had the privilege of working together with him for many years are profoundly grateful for his contributions. His achievements live on at SAS.

Contents

Glossary

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

REVENUE TONNE-KILOMETERS
Total tonnage of paid traffic carried, multiplied by number of kilometers flown*.

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

AVAILABLE SEAT-KILOMETERS
Total number of seats available for passengers multiplied by number of kilometers flown*.

REVENUE PASSENGER-KILOMETERS
Number of paying passengers carried, multiplied by number of kilometers flown*.

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

REVENUE FREIGHT TONNE-KILOMETERS
Tonnage of paid freight carried, multiplied by number of kilometers flown*.

CURRENCY CODES
The following international currency codes are used in this Report:

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

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

Highlights

SOLID RESULT IMPROVEMENT

In the 1981/82 financial year—ending September 30, 1982—the SAS Group showed a profit before allocations and taxes of MSEK 448 against a loss of MSEK 51 in the preceding financial year. The SAS Consortium (the airline operations) earned a profit of MSEK 336, compared with a loss of MSEK 109 in 1980/81.

CONTINUED SUCCESS FOR THE SUBSIDIARIES

The subsidiaries of the SAS Consortium improved their aggregate profit before allocations and taxes from MSEK 67 in 1980/81 to MSEK 121 in 1981/82. Greatest profit increase was by Vingresor.

STAGNATION PERSISTS IN THE MARKET

Scheduled airlines are in their worst crisis ever.
The market is generally stagnant.
The combined loss of IATA members in 1982 has been estimated at U.S. $2.1 billion.

NEW AIRLINE STRATEGIES

As a market-oriented service company, SAS is concentrating on EuroClass and First Business Class for the full-fare market. The needs of the leisure travel market are being met through new low fares.

EUROPE'S MOST PUNCTUAL AIRLINE

SAS is improving its punctuality and, since May 1982, is tops among European airlines.

CONTINUED RATIONALIZATION PROGRAMS

SAS has continued to reduce administrative expenses, with resources transferred to revenue-generating activities.

CABIN FACTOR INCREASE

Production measured in available seat-kilometers decreased 4 percent, while passenger traffic rose 1 percent.
The systemwide cabin factor increased 2.7 points to 63.6 percent.

The Board of Directors

CURT NICOLIN, born 1921. Chairman of the Board 1981/82. Member of the SAS Board and the Swedish Chairman since 1973, representing Swedish private interests. Chairman of the Executive Committee of ABA. Chairman of ASEA, the Swedish Employers' Confederation (SAF), ESAB, Fläkt, Stal Laval Turbin, Vice Chairman of Swedish Match and SILA. Also member of the Boards of Skandinaviska Enskilda Banken, Incentive, Investor, Providentia and Linjeflyg.
Personal Deputy: Peter Wallenberg.

JENS CHR HAUGE, born 1915. First Vice Chairman of the Board 1981/82. Supreme Court Attorney. Member of the SAS Board and the Norwegian Chairman since 1962, representing the Norwegian Government. In addition to practicing law, he has held numerous appointments in Norwegian government and politics, and has served as Minister of Justice and Minister of Defense.
Personal Deputy: Håkon Kyllingmark.

HALDOR TOPSØE, born 1913. Second Vice Chairman of the Board 1981/82. Member of the SAS Board and the Danish Chairman since 1968, representing Danish private interests. Also Chairman of DDL and A/S Haldor Topsøe. Member of the Boards of Villaco, Hafnia-Haand i Haand, Philips Industri og Handels and Kampmann, Kierulf & Saxild.
Personal Deputy: Helge Bech-Bruun.

KRISTER WICKMAN, born 1924. Member of the SAS Board since 1974, representing the Swedish Government. Also Chairman of the Board of ABA. Managing Director of the National Swedish Pension Insurance Fund (APF). Has served as Foreign Minister, Minister of Industry and Governor of the Bank of Sweden.
Personal Deputy: Lars Wohlin.

PER M BACKE, born 1914. Member of the SAS Board since 1962, representing Norwegian private interests. Chairman of A/S NORCEM, also on the Boards of DNL, Den norske Creditbank, Norsk Hydro, Elkem, Noco (Norwegian Oil Company), Norwegian FINA and Viking Askim.
Personal Deputy: Johan Horn.

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

Employee Representatives

INGE JOHANNESSON, born 1939, Sweden. Employed in the Group Finance Department at SAS Head Office. Member of the SAS Board since 1979.
Deputies: Sten Eklund and Rune Löfdahl.

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

HANS DALL, born 1933, Denmark. Employed in traffic accounting in Copenhagen. Elected to the SAS Board in 1982.
Deputies: Niels Erik Hansen and Victor Brasen.

Seated, left to right: Haldor Topsøe, Curt Nicolin and Jens Chr Hauge. Standing, left to right: President and Chief Executive Jan Carlzon, Inge Johannesson, Jørgen L Halck, Per M Backe, Krister Wickman, Ingvar Lilletun and Hans Dall.

The Assembly of Representatives

Denmark	Norway	Sweden
Mogens Pagh First Vice Chairman	Johan Horn Chairman	Per A Norlin Second Vice Chairman
Normann Andersen	Nils J Astrup	Christer Andersson
Helge Bech-Bruun	Per M Backe	Nils Erik Bramsvik
Karl Bredahl	Ragnar Christiansen	Rolf Clarkson
Count Flemming af Rosenborg	Bjørn Eidem	Tryggve Holm
Jørgen L Halck	Jens Chr Hauge	Bo Ax:son Johnson
Povl Hjelt	Håkon Kyllingmark	Curt Nicolin
Gustav Holmberg	Torstein Ljøstad	Hans Sandebring
Otto Mørch	Tor Moursund	Björn Svedberg
Haldor Topsøe	Fred Olsen	Jan Wallander
	Arnljot Strømme Svendsen	Marcus Wallenberg †
	Niels Werring jr	Krister Wickman
		Lars Wohlin
		Bertil Zachrisson

Deputies

Denmark	Norway	Sweden
	Halvdan Bjørum	Gunnar Ericson
	Kåre Ellingsgård	Gösta Gunnarsson
	Helga Gitmark	Ove Rainer
	Einar Høvding	Erik Sundblad
		Jörgen Ullenhag
		Peter Wallenberg

Employee Representatives

Denmark	Norway	Sweden
Hans Dall	Ingvar Lilletun	Inge Johannesson
Niels Erik Hansen	Sigmunn Syversen	Sten Eklund
Victor Brasen	Per Heimdal	Rune Löfdahl

Deputies

Denmark	Norway	Sweden
Mogens E Christiansen	Asbjørn Hindrum	Gösta Sjöström
Bent Lund	Eilar Nilsson	Dan Vik Hansen

Auditors

Denmark	Norway	Sweden
Arne Brendstrup	Bernhard Lyngstad	Sten Nackstad
Stig-Erik Schaumburg-Müller	Tor Storhaug	Sören Wikström

Group Management

Jan Carlzon
President and Chief Executive Officer

Frede Ahlgreen Eriksen
Deputy President and Executive Vice President

Helge Lindberg
Executive Vice President
Commercial Division

Carl Erik Lindh
Executive Vice President
Finance

Nils G Molander
Executive Vice President
Planning and Control

Complete list of SAS Management, Central Staff Units and Subsidiaries, see page 62

Report by the Board and the President

RESULT AND PROPOSED PROFIT APPROPRIATION

The SAS Group recorded a consolidated profit of 448.0 million Swedish kronor (MSEK) before allocations and taxes for the financial year ending September 30, 1982. In the 1980/81 financial year the Group reported a loss of MSEK 51.3. The SAS Group's consolidated profit is derived after elimination of internal dividends, etc, amounting to MSEK 9.0 (8.8 last year).

The Consortium's profit, before allocations and taxes, amounted to MSEK 336.0, compared with a loss of MSEK 109.0 in the preceding financial year. No provision is made in the Consortium's accounts for corporate taxes in Denmark, Norway and Sweden. These taxes are paid by the three parent companies in their respective countries.

The Consortium's subsidiaries showed a total 1981/82 profit, before allocations and taxes, of MSEK 121.0, compared with a profit of MSEK 66.5 in 1980/81.

The Board and President propose to the SAS Assembly of Representatives that MSEK 175.0 of the Consortium's profit be paid to the parent companies. The Board and President also propose that the remaining MSEK 161.0 be retained by the Consortium and added to its capital. This fully restores the capital of the Consortium after two years of losses.

GENERAL REVIEW

New problems arose in the airline business during the 1970s. Cost development was very unfavorable, mainly due to rising fuel prices. Passenger fares and cargo rates did not keep pace with cost increases. Market growth slowed, and competition among airlines intensified.

As long as the market continued to expand—though at a slower rate—the airlines were still able to generate profits. In general, however, profitability levels deteriorated.

During 1979/80 the market stagnated. The airlines faced a new situation, and it took time for them to adjust to it. Many airlines suffered—and are still plagued by—major losses.

For 1979/80 the SAS Group reported a loss of MSEK 62.2. In 1980/81 its loss was MSEK 51.3.

To adjust its production and organization to the new market conditions, SAS initiated a number of measures in the spring of 1980 to reduce production costs and the number of employees. Productivity increased and, during the summer of 1981, the negative result trend had been reversed.

The further development of SAS's result-improvement program was based on the following principles:

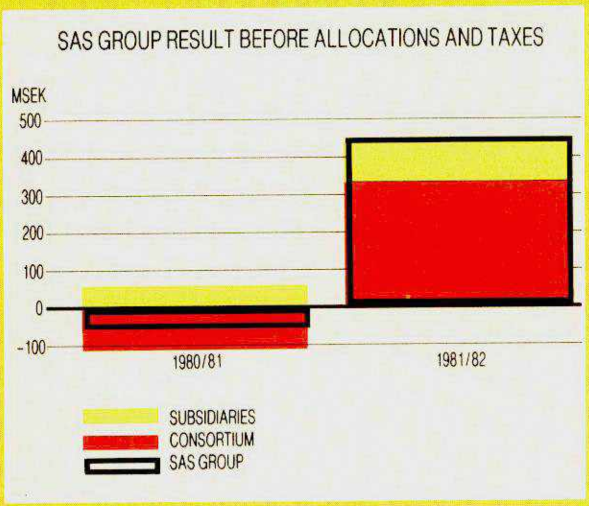
SAS shall achieve a stable level of profitability, even in a stagnant market.

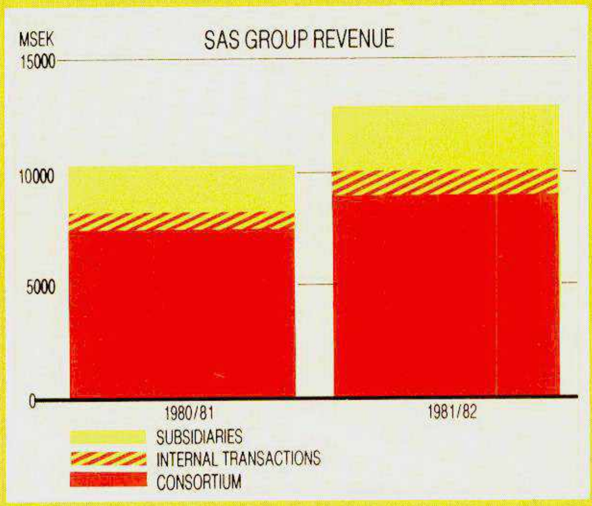
SAS shall place the greatest emphasis on market-orientation and service.

Total production and capacity shall continue to be trimmed, in order to achieve a higher utilization of resources and a lowering of capital costs by selling or leasing out equipment.

SAS shall recover and increase its share of the market represented by business travelers and other full-fare customers.

SAS shall differentiate its products and levels of service according to the price the customer is willing to pay.





Low-price traffic that does not cover normal costs shall be carried on a marginal basis.

The necessary investments shall be made in order to raise the level of service and increase the competitive strength of SAS.

The previous general cost reduction program shall be developed to facilitate the shift of personnel from administrative functions to the service sector.

These strategies, together with traffic program measures—such as more frequent connections, a greater number of non-stop flights and perfect punctuality, succeeded during 1981/82.

Also contributing to the improvement in the Consortium's earnings were a more favorable relationship between price and cost levels, as well as equipment sales and extraordinary income. During 1981/82 the Consortium's net interest also improved, primarily as a consequence of stronger liquidity, while currency losses had an adverse impact on the result.

The investments in service development have resulted in a marked improvement of SAS's product. Both SAS's product and service are now substantially better adapted to the needs and wishes of its customers. This represents an asset for the future and constitutes a necessary prerequisite for SAS's profitability. At the same time, market-orientation and the decentralization of decision-making have created a flexibility which is important in the increasingly severe competitive climate.

It is gratifying to be able to note that SAS's measures have been very positively received by the employees.

To secure SAS's future investments in aircraft and ground facilities, it is important to continue raising SAS's profit level. The Board and President are convinced that SAS will meet this challenge.

THE SAS GROUP

The SAS Group's total operating revenue for the 1981/82 financial year was MSEK 12,807 (10,172), an increase of 26 percent. Operating expenses, excluding depreciation, rose by 23 percent to MSEK 11,896 (9,664). Depreciation amounted to MSEK 474 (430). The operating result after depreciation was MSEK 438 (78).

Because SAS's accounts are kept in Swedish kronor, some of the increases in revenue and expenses are attributable to the devaluation of the Swedish krona by 10 percent in September 1981.

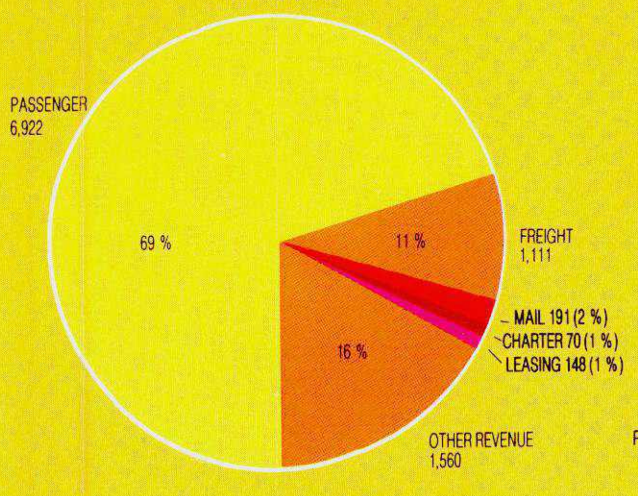
THE CONSORTIUM

Operating revenue of the SAS Consortium during 1981/82 totaled MSEK 10,002 (8,004), an increase of 25 percent. This includes traffic revenue of MSEK 8,442 (6,823). Operating expenses, excluding depreciation, rose by 22 percent to MSEK 9,277 (7,619). Depreciation amounted to MSEK 409 (370). The operating result after depreciation was MSEK 316 (15).

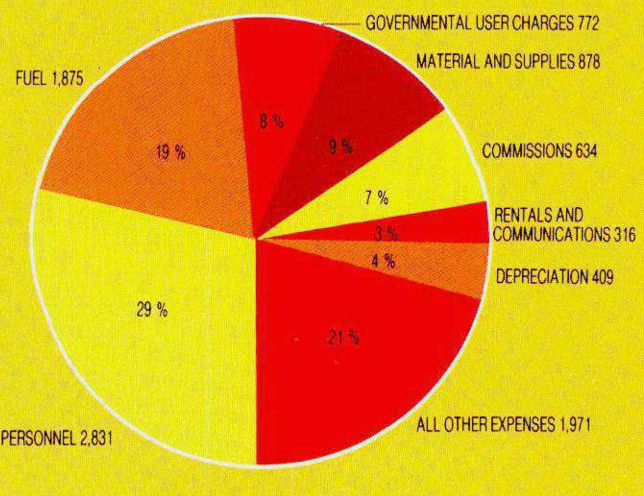
Total production, measured in seat-kilometers, declined by 4 percent. Passenger traffic rose by 1 percent. The cabin factor increased by 2.7 points to 63.6 percent. During 1981/82 SAS carried 8,861,000 passengers, an increase of 5 percent. SAS served 99 destinations in 43 countries during the summer of 1982.

The Consortium's result, before allocations and taxes, improved by MSEK 445.0 to MSEK

SAS CONSORTIUM – OPERATING REVENUE 1981/82
TOTAL MSEK 10,002



SAS CONSORTIUM – OPERATING EXPENSES 1981/82
TOTAL MSEK 9,686 INCLUDING DEPRECIATION



336.0. This solid improvement was primarily due to the new business strategies, the continued concentration of the traffic program and rationalization measures, as well as to leasing out excess capacity. At the same time, the improved relationship between the price level for transport services and the cost level contributed substantially to the result, despite the negative impact of the higher dollar exchange rate.

Net interest improved as a result of higher interest rates and better liquidity than during 1980/81. Because of the continued increase of the U.S. dollar rate, the Consortium recorded substantial unrealized currency losses on long-term liabilities. The portion of these losses charged against the 1981/82 result, plus the year's portion of currency losses deferred during the previous year, represent an expense of MSEK 123.2 (93.7). Deferred unrealized currency losses amount to MSEK 338.4 (311.0), as of Sept. 30, 1982. Net financial expenses were MSEK 123.5 (124.3).

The devaluation of the Swedish krona by 16 percent on October 8, 1982—the impact of which is not reflected in the current financial statements —will result in an increase of the unrealized currency losses on the Consortium's long-term liabilities. The effect is reduced, however, by currency gains on the Consortium's net monetary balances in currencies other than Swedish kronor. At the same time, the devaluation will have a favorable effect on the Consortium's operating result.

In January 1982 one of SAS's first Boeing 747B airliners was sold and leased back for five years. The sale resulted in a net income of MSEK 102.9, of which MSEK 53.3 represents a realized gain at the time of the sale. The remainder, MSEK 49.6, is being distributed over the lease period.

Extraordinary income includes a pension bonus of MSEK 95.8 in Denmark for the five-year period 1977–81. As a whole, the sale of equipment, together with extraordinary items, yielded a net income of MSEK 143.3 (–).

A Boeing 747B aircraft was delivered in October 1981. Its acquisition value was 71.0 million U.S. dollars, financed through an 18-year leasing contract. In February 1981 SAS had signed a similar contract for a Boeing 747 Combi, with an acquisition value of 65.8 million U.S. dollars.

During 1981/82 the Consortium invested MSEK 257.7 (571.3), mainly in spare parts for aircraft, and in buildings and ground equipment. Initial costs for new business strategies, a total of MSEK 110 were charged to the year as cost.

PASSENGER, FREIGHT AND MAIL TRAFFIC

Scheduled Services (Mill.)	PASSENGERS		CABIN FACTOR		FREIGHT		MAIL	
	Pass-Kms	% of L. Y.	%	Change in Pct. Pts.	Tonne-Kms	% of L. Y.	Tonne-Kms	% of L. Y.
NORTH AND SOUTH ATLANTIC								
North Atlantic	3 514	+ 2	69.8	+2.6	229.0	— 3	14.1	+22
South Atlantic	325	—11	52.3	—1.1	19.8	— 3	1.7	— 8
Total North and South Atlantic	3 839	+ 1	67.9	+2.4	248.8	— 3	15.8	+18
ASIA, AFRICA AND MIDDLE EAST								
Asia	1 445	— 7	70.2	+4.6	76.6	+10	10.6	— 7
Africa	488	+ 2	54.3	—0.4	20.1	— 7	2.3	—10
Middle East	157	—12	53.4	—2.6	2.8	—20	1.1	+ 8
Total Asia, Africa and Middle East	2 090	— 6	64.3	+2.2	99.5	+ 5	14.0	— 7
EUROPE								
Western Europe	1 331	+ 1	59.6	+4.3	19.9	— 8	4.9	+11
Central and Eastern Europe	709	— 5	52.2	+2.0	10.8	—10	3.4	—10
Intra-Scandinavia and Finland	1 006	0	57.1	+1.6	14.7	+ 1	3.6	+ 2
Other Routes	8	0	42.8	—0.8				
Total Europe	3 054	— 1	56.9	+2.9	45.4	— 6	11.9	+ 1
DOMESTIC								
Denmark	407	+12	68.3	+3.7	2.9	+26	2.8	+12
Norway	819	+ 7	64.1	+3.3	5.6	+14	4.5	0
Sweden	670	+16	69.7	+1.0	2.1	+ 5	2.7	0
Total Domestic	1 896	+11	66.9	+2.8	10.6	+16	10.0	+ 3
TOTAL NETWORK	10 879	+ 1	63.6	+2.7	404.3	— 1	51.7	+ 3

NEW BUSINESS STRATEGIES

The new business strategies were primarily designed to increase full-fare passenger traffic and also to exploit market potential to a better extent by the marginal pricing of excess capacity.

SAS is offering the full-fare passenger a new product which, without a price increase, provides a considerably higher level of service and comfort on the ground and in the air than is otherwise available on the market.

The new concept was introduced as EuroClass on the European network in November 1981. To respond better to demand, SAS simultaneously eliminated First Class, which had been little used by passengers on these routes.

On intercontinental routes, the First Class chairs were replaced with Dormette sleeper seats. In February 1982 the first step was taken to enhance the quality of Business Class on Boeing 747 and DC-10 aircraft. In September, First Business Class was introduced on these routes, for an additional improvement in service and comfort for the full-fare passenger.

Within a short time, both EuroClass and First Business Class were a success. As a result, SAS has increased its First Business Class capacity on routes both to the United States and the Far East.

"The Businessman's Airline" program was thus very favorably received, resulting in a rapid increase in the number of full-fare passengers. During November 1981 – September 1982 full-fare passenger traffic was 8.4 percent higher on SAS's European routes than during the corresponding period of the preceding financial year.

The primary reason for the increased proportion of full-fare passengers is that those who previously used discount fares are now selecting normal fares. This shift in the traffic profile, resulting in higher revenue per flight, has enabled SAS, in accordance with its marginal strategy, to sell otherwise excess capacity with new, attractive, low-fare alternatives for tourist class passengers. The increase in EuroClass passengers—and later in passengers in First Business Class on the intercontinental routes—has made these new low fares possible.

Low fares were introduced during the summer of 1982 on intra-Scandinavian and Finland routes. They soon led to an increase in traffic. New low fares were also introduced on the European network during November 1982.

Other measures in the SAS program included a marked improvement in punctuality, a significant upgrading of Copenhagen Airport, Kastrup, an increase in the number of non-stop flights, and more frequent departures to the most important destinations.

"The Businessman's Airline" program has improved SAS's competitive position. Because these are long-term measures, SAS anticipates that they will also have a favorable impact on results in future years.

THE MARKET

The stagnant market persisted during 1981/82. Although demand for air travel rose by one or two percent to major destinations in the United States and the Far East, competition further intensified at the same time. In Europe, which accounts for almost 50 percent of SAS's passenger traffic revenue, the market remained at the same level as in 1980/81. Nevertheless, due to EuroClass and better service, SAS managed to increase its share of the full-fare market.

Domestic traffic developed very favorably, with increases of 12 percent in Denmark, 7 percent in Norway and 16 percent in Sweden.

TOTAL PRODUCTION AND TRAFFIC

Scheduled Services	AVAILABLE TONNE-KMS			REVENUE TONNE-KMS			OVERALL LOAD FACTOR	
	Mill.	% of L. Y.	% Share	Mill.	% of L. Y.	% Share	Change in %	Pct. Pts.
NORTH & SOUTH ATLANTIC	1 001	—2	42	615	0	43	61.4	+0.8
ASIA, AFRICA AND MIDDLE EAST	457	—2	19	304	— 2	21	66.6	—0.7
EUROPE	643	—7	27	318	— 2	23	49.4	+2.5
DOMESTIC	294	+5	12	181	+10	13	61.5	+3.0
TOTAL NETWORK	2 395	—2	100	1 418	0	100	59.2	+1.4

TRAFFIC PROGRAM

During 1981/82 SAS proceeded with the concentration of its traffic program, adjusting production to weak demand. Certain routes with unsatisfactory profitability were suspended. This released resources, some of which were shifted to other routes, while the remainder constituted excess capacity. The number of non-stop flights was increased, improving service from Stockholm, Gothenburg and Oslo and reducing the pressure on Copenhagen Airport.

By expanding cooperation with other airlines, SAS can provide the market with improved connections to and from its own destinations. In line with its "trading" strategy, SAS has signed agreements with Eastern Airlines and United Airlines enabling SAS First Business Class passengers to travel First Class on direct connecting flights in the U.S., without any surcharge. Cooperation between SAS and Thai International has produced frequent non-stop flights between Scandinavia and Bangkok, with good connections to and from other destinations in the Far East and Australia.

RATIONALIZATION MEASURES

During 1981/82, SAS conducted a rationalization program known as TRIM 82 aimed, among other things, at reducing administrative expenses and transferring resources to revenue-generating activities. TRIM 82 improved the year's result by MSEK 90. The program thus concentrated SAS's resources on operations that strengthen the airline's market position. The TRIM 82 program was completed in the fall of 1982. Continued rationalization activities are now being pursued within each of the airline's divisions.

THE FLEET

SAS had 86 jetliners at its disposal during 1981/82. The weak market development in recent years has created a considerable surplus of aircraft throughout the world. SAS nevertheless succeeded in leasing out part of its excess capacity to other airlines. These leases are for varying contract periods and include a Boeing 747B to Nigeria Airways, a Boeing 747 Combi to Avianca, two DC-8s to Arista and two DC-9s to Touraine Air Transport (TAT).

These leases contributed MSEK 58 after covering direct expenses. In addition, the leasing activities improved the utilization of the Consortium's technical and operational resources.

To enhance their potential and to facilitate their sale, SAS's four Airbuses are being rebuilt to fly longer-range routes. They are currently being used by SAS during peak traffic periods, and by Scanair.

THE ORGANIZATION

During 1981/82 the Consortium continued its reorganization, aimed at decentralizing its operations and at giving numerous units greater profit responsibility.

This reorganization is part of the continuous program to improve the efficiency of Consortium operations. The new organization is now being fine-tuned, and new control systems will simultaneously be introduced. At the same time, the new decentralized organisation encourages each SAS employee to develop further the type of commitment which is a prerequisite for the individual service SAS is striving for.

PRICES, FUEL COSTS AND GOVERNMENT USER CHARGES

International airlines have shown a declining level of profitability for many years. The International Air Transport Association (IATA) estimates that the total losses of its member airlines, including interest expenses, will amount to U.S. $ 2.1 billion in 1982, or about 5 percent of total revenue. Forecasts for 1983 point to an even higher deficit.

Because of their earnings level, IATA airlines jointly decided to recommend a general fare

AIRCRAFT FLEET

Aircraft type	Number
Boeing 747	6[1]) 3 leased by SAS
Douglas DC-10-30	5
Airbus A300B2	4
Douglas DC-8-63	5[2])
Douglas DC-8-62	6[3])
Douglas DC-9-41	49
Douglas DC-9-33	2
Douglas DC-9-21	9[4])
	86

[1]) 3 in all-passenger version and
3 in combined passenger/cargo version
1 leased to Nigeria Airways
1 leased to Avianca
[2]) 3 leased to Scanair
[3]) 1 leased to Scanair and 2 to Arista
[4]) 2 leased to TAT

increase of seven percent effective from October 1982. SAS has applied this increase on most of its international passenger routes.

The devaluations of the Swedish krona in 1981 and the Norwegian krone during 1982 led to increases in fares and rates in these countries. At the same time, adjustments were made to reconciliate fares and rates levels in Denmark, Norway and Sweden. The new devaluation of the Swedish krona during October 1982 resulted in additional fare increases in Sweden.

Fuel accounted for 19 percent or MSEK 1,875 of SAS's operating expenses during 1981/82. Despite the steep increase in the U.S. dollar, fuel expenses rose by only 13 percent. This was partly because the price in U.S. cents per gallon fell by seven percent, and partly because of the decrease in SAS's production.

No fare or rate increases were required in 1981/82 to compensate for fuel price development.

Substantial increases in fees charged by the authorities for take-offs and landings, air traffic control services, etc., have contributed to the deterioration of the airlines' financial condition in recent years. These charges are at a very high level in Scandinavia. SAS is consequently burdened by relatively higher costs than airlines based in other countries.

AIR-POLITICAL AFFAIRS

The United States authorities are endeavoring to modify their deregulation policies by accepting certain controls within international air transport. This is exemplified by the 1982 agreement between the U.S. and 13 European nations covering pricing zones for North Atlantic air traffic. The Scandinavian countries are not included in this agreement. Bilateral negotiations between SAS's home countries and the United States are continuing. Despite frequent rounds of negotiations, the two sides have been unable to agree on issues related to charter policies, prices and choices of destinations.

As a result of negotiations with Japan and the Soviet Union during 1981/82, SAS will be permitted to reopen its Trans-Siberian route to Tokyo during 1983.

The Argentine authorities have withdrawn SAS's permit to serve Argentina.

THE SAS SUBSIDIARIES

SAS subsidiary businesses developed very favorably during 1981/82. Operating revenue rose by 28 percent to MSEK 3,455 (2,707). The aggregate profit, before allocations and taxes, amounted to MSEK 121.0 (66.5).

Transair, the charter airline, was liquidated without additional expense in 1981/82. The company had lost money for a number of years, mainly because the operating economy of its aircraft could not meet current requirements.

SAS Catering & Hotels owns and operates flight kitchens, hotels and restaurants, mainly in the Scandinavian countries and, to an increasing extent, also abroad. The company's turnover was MSEK 1,565, an increase of 34 percent. The profit, before allocations and taxes, was MSEK 54.8 (47.2).

Flight kitchen operations developed favorably, due very much to the improvements in the quality of SAS's in-flight food and beverage services. Flight kitchens outside Scandinavia were more affected by the generally stagnant market for air travel. Restaurant operations, primarily in Norway, showed a positive result development.

The result from hotel operations deteriorated, due to a declining tourist market in North Norway, and also because initial costs for a new hotel in Bergen were charged to income. Other hotels reported an overall result improvement.

SAS Catering & Hotels' business in Saudi Arabia showed continued good growth.

During 1981/82 SAS Catering & Hotels assumed responsibility for operation of the SAS Royal Hotel in Copenhagen, owned by SAS-Invest. Its result level improved after being low for a number of years, but the hotel still showed a deficit.

SAS Royal Hotel A/S, Oslo, the subsidiary which owns the Hotel Scandinavia in the Norwegian capital, showed a profit of MSEK 7.0 (5.3) before allocations and taxes.

Vingresor reported a satisfactory growth during 1981/82. Turnover increased by 46 percent to MSEK 1,069 (730). The profit before allocations and taxes was MSEK 37.7 (10.5). This improvement is partly due to an increase of the overall market in Sweden and Norway. The main reason, however, is that over the past three years Vingresor has systematically built up a competitive program with attractive destinations, which has strengthened the company's image and market position. At the same time, the productivity of its operations has been continuously improved to counteract rising costs, without lowering the level of service to its customers.

Nyman & Schultz specializes in sales to the business travel sector. SAS's program to become "The Businessman's Airline" contributed to the 13 percent increase in sales, to MSEK 1,039.

PERSONNEL

	SAS CONSORTIUM								SUBSIDIARIES		SAS GROUP	
	Flight Deck		Cabin		Other Personnel		Total					
	1981/82	1980/81	1981/82	1980/81	1981/82	1980/81	1981/82	1980/81	1981/82	1980/81	1981/82	1980/81
DENMARK	366	386	742	756	4672	4573	5780	5715	1411	1379	7191	7094
NORWAY	346	367	577	564	2395	2326	3318	3257	2216	2104	5534	5361
SWEDEN	512	541	737	765	4002	4042	5251	5348	2495	2559	7746	7907
ABROAD	–	–	20	22	2007	2083	2027	2105	2272	1657	4299	3762
TOTAL	1224	1294	2076	2107	13076	13024	16376	16425	8394	7699	24770	24124

Figures represent average number of employees for the financial year.

Operating revenue amounted to MSEK 236 (237). The profit before allocations and taxes, was MSEK 7.9 (4.1).

Olson & Wright is a forwarding company whose operations include international cargo transport, liner agencies, ship brokerage, ship agencies, accident and insurance assistance, and maritime services. Operating revenue amounted to MSEK 96, an increase of 20 percent. The profit, before allocations and taxes, was MSEK 11.0 (8.2).

Freight forwarding operations were adversely affected by the stagnant market for air and sea cargo transport. Warehousing and terminal operations, on the other hand, showed a substantial improvement in earnings. The year's result was charged with the development expenses for a new computerized traffic system which, in the long run, will help improve the efficiency of the company's operations.

Olson & Wright is endeavoring to expand its operations in Denmark and Norway. As a step in this development, Olson & Wright purchased Nordsped A/S, one of Norway's largest forwarders, in November 1982.

PERSONNEL

The SAS Group had 24,160 employees at the beginning of the financial year and 25,368 at its close. The number of employees in the Consortium was 16,251 when 1981/82 began, increasing to 16,553 during the year, as a result of service improvements.

The comprehensive restructuring and development work that has taken place in SAS in recent years has placed great demands on the personnel. The efforts of SAS personnel have been a major factor behind the Consortium's ability to carry out its transformation program without being forced to reduce the number of employees. Considering the strained situation in which the airline industry will find itself during the foreseeable future, the attitude of the company's personnel will continue to be of crucial importance to the development of SAS's profitability.

The Board and the President would like to convey their immense gratitude and appreciation to all the employees in the Consortium and the subsidiaries for their efforts during the past financial year and for the result their work has yielded.

Copenhagen, Oslo and Stockholm, December 15, 1982

CURT NICOLIN — JENS CHR HAUGE — HALDOR TOPSØE

KRISTER WICKMAN — PER M BACKE — JØRGEN L HALCK

INGE JOHANNESSON — INGVAR LILLETUN — HANS DALL

JAN CARLZON
President and
Chief Executive Officer

Profit and Loss Statements

October 1, 1981 - September 30, 1982

		SAS GROUP Consolidated		SAS CONSORTIUM	
MSEK		**1981/82**	1980/81	**1981/82**	1980/81
Traffic revenue	Note 1	**8 585.9**	7 003.4	**8 442.3**	6 823.0
Other revenue	Note 2	**4 221.1**	3 168.1	**1 559.7**	1 181.0
OPERATING REVENUE		**12 807.0**	10 171.5	**10 002.0**	8 004.0
OPERATING EXPENSES	Note 3	**— 11 895.6**	— 9 663.7	**— 9 277.2**	— 7 618.7
OPERATING RESULT BEFORE DEPRECIATION		**911.4**	507.8	**724.8**	385.3
DEPRECIATION	Note 4	**— 473.7**	— 429.9	**— 408.6**	— 370.2
OPERATING RESULT AFTER DEPRECIATION		**437.7**	77.9	**316.2**	15.1
Dividends from subsidiaries	Note 5	**-**	-	**7.4**	6.7
Other dividends received		**0.8**	0.6	**0.7**	0.6
Other financial income	Note 6	**286.8**	169.5	**231.2**	135.7
Financial expenses	Note 7	**— 433.3**	— 335.8	**— 362.8**	— 267.3
PROFIT/LOSS AFTER FINANCIAL INCOME AND EXPENSES		**292.0**	— 87.8	**192.7**	— 109.2
Gain on sales and retirement of equipment, etc. (net)	Note 8	**68.6**	37.4	**59.8**	12.8
Extraordinary income	Note 9	**100.2**	117.6	**95.8**	103.9
Extraordinary expenses	Note 10	**— 12.8**	— 14.9	**— 12.3**	— 12.9
Extraordinary depreciation	Note 9	**-**	— 103.6	**-**	— 103.6
PROFIT/LOSS BEFORE ALLOCATIONS AND TAXES	Note 11	**448.0**	— 51.3	**336.0**	— 109.0
Allocations of subsidiaries (net)	Note 12	**— 30.7**	— 33.0		
PROFIT/LOSS BEFORE TAXES		**417.3**	— 84.3		
Taxes of subsidiaries	Note 13	**— 35.6**	— 15.9		
Minority interests		**— 3.1**	— 3.0		
PROFIT/LOSS BEFORE TAXES RELATING TO THE CONSORTIUM (payable by its parent companies in Denmark, Norway and Sweden) BUT AFTER TAXES OF SUBSIDIARIES		**378.6**	— 103.2		

Balance Sheets

ASSETS, MSEK		SAS GROUP Consolidated Sept. 30, 1982	SAS GROUP Consolidated Sept. 30, 1981	SAS CONSORTIUM Sept. 30, 1982	SAS CONSORTIUM Sept. 30, 1981
CURRENT ASSETS					
Cash and bank balances including temporary cash investments	Note 14	**1 989.6**	1 239.3	**1 553.9**	892.6
Bills receivable		**1.9**	8.6	**0.0**	0.0
Accounts receivable, subsidiaries		**-**	-	**89.7**	93.2
Accounts receivable, parent companies		**46.0**	0.9	**46.0**	0.9
Accounts receivable, customers	Note 15	**1 309.8**	1 169.3	**981.8**	834.9
Prepaid expenses and accrued income		**322.1**	246.7	**265.4**	195.9
Taxes receivable		**0.2**	0.5	**-**	-
Accounts receivable, other		**258.4**	214.3	**208.0**	162.3
Expendable spare parts and sundry stores	Note 16	**212.6**	178.6	**144.6**	118.7
Prepayments to suppliers		**31.4**	22.4	**10.5**	6.5
Total Current Assets		**4 172.0**	3 080.6	**3 299.9**	2 305.0
BLOCKED FUNDS					
For investment reserve	Note 17	**4.2**	3.8	**-**	-
FIXED ASSETS					
Shares and participations in subsidiaries	Note 18	**-**	-	**132.4**	132.4
Other shares and participations	Note 18	**63.2**	63.4	**59.1**	59.0
Bonds		**17.3**	12.5	**8.4**	8.7
Long-term accounts receivable, subsidiaries		**-**	-	**4.3**	33.8
Long-term accounts receivable, parent companies		**3.1**	4.5	**3.1**	4.5
Long-term accounts receivable, other		**57.3**	69.5	**33.4'**	42.3
Goodwill	Note 19	**15.9**	16.5	**-**	-
Developmental costs		**0.5**	1.1	**-**	-
Long-term prepayments to suppliers		**2.6**	99.6	**2.6**	99.6
Discount, etc., on debenture loans	Note 7	**4.9**	5.9	**4.9**	5.9
Fixed assets in progress	Note 20	**30.4**	68.2	**25.7**	49.8
Aircraft	Note 21				
At cost		**3 563.1**	3 694.8	**3 563.1**	3 694.8
Depreciation	Note 31	**1 756.5**	1 623.6	**1 756.5**	1 623.6
		1 806.6	2 071.2	**1 806.6**	2 071.2
Spare engines and spare parts					
At cost		**637.4**	538.3	**637.4**	538.3
Depreciation	Note 31	**319.6**	279.7	**319.6**	279.7
		317.8	258.6	**317.8**	258.6
Workshop and aircraft servicing equipment					
At cost		**209.8**	195.3	**209.8**	195.3
Depreciation		**150.8**	131.9	**150.8**	131.9
		59.0	63.4	**59.0**	63.4
Other equipment and vehicles	Note 22				
At cost		**922.8**	802.6	**625.7**	562.4
Depreciation		**491.0**	405.0	**357.1**	285.9
		431.8	397.6	**268.6**	276.5
Buildings and improvements					
At cost		**883.1**	833.9	**291.2**	266.8
Depreciation		**337.0**	296.8	**159.4**	138.7
		546.1	537.1	**131.8**	128.1
Land and improvements					
At cost		**66.7**	61.2	**8.6**	8.6
Depreciation		**1.5**	1.4	**0.3**	0.3
		65.2	59.8	**8.3**	8.3
Total Fixed Assets		**3 421.7**	3 728.9	**2 866.0**	3 242.1
TOTAL ASSETS		**7 597.9**	6 813.3	**6 165.9**	5 547.1

LIABILITIES AND EQUITY, MSEK		SAS GROUP Consolidated		SAS CONSORTIUM	
		Sept, 30, 1982	Sept. 30, 1981	**Sept. 30, 1982**	Sept. 30, 1981
CURRENT LIABILITIES					
Accounts payable, subsidiaries		**-**	-	**30.6**	12.7
Accounts payable, suppliers		**774.4**	695.7	**491.6**	401.7
Taxes payable		**30.4**	16.5	**-**	-
Accrued expenses and prepaid income		**1 122.2**	1 008.0	**947.7**	810.6
Current maturities of long-term debt		**358.6**	354.8	**333.7**	328.5
Accounts payable, other		**325.9**	278.7	**187.6**	166.9
Unearned transportation revenue (net)	Note 23	**849.7**	663.0	**849.6**	663.0
Prepayments from customers		**171.3**	104.6	**20.6**	12.0
Total Current Liabilities		**3 632.5**	3 121.3	**2 861.4**	2 395.4
NON-CURRENT LIABILITIES					
Loans from subsidiaries		**-**	-	**0.2**	0.2
Debenture loans	Note 24	**428.6**	446.1	**428.6**	446.1
Mortgage loans	Note 25	**240.6**	254.7	**14.5**	16.5
Other loans	Note 26	**1 620.9**	1 727.4	**1 470.0**	1 618.5
Other non-current liabilities	Note 27	**158.0**	138.4	**141.5**	126.7
Provision for pension liabilites	Note 28	**37.8**	32.9	**-**	-
Deferred currency losses	Note 29	**— 338.4**	— 311.0	**— 338.4**	— 311.0
Total Non-Current Liabilities		**2 147.5**	2 288.5	**1 716.4**	1 897.0
RESERVES					
Inventory reserve	Note 30	**39.1**	32.9	**32.6**	32.6
Depreciation reserve	Note 31	**502.2**	518.9	**502.2**	518.9
Accumulated excess depreciation	Note 32	**54.3**	45.7	**-**	-
Currency adjustment reserve	Note 33	**24.8**	2.2	**18.8**	4.7
General investment reserve	Note 34	**11.2**	6.7	**-**	-
District investment reserve, Norway		**18.1**	34.9	**-**	-
Profit equalization reserve	Note 34	**34.5**	11.5	**-**	-
Other reserves		**2.9**	0.2	**-**	-
Total Reserves		**687.1**	653.0	**553.6**	556.2
Minority Interests		**17.1**	12.9	**-**	-
EQUITY	Note 35				
Capital ABA (3/7)		**299.3**	346.1	**299.3**	346.1
DDL (2/7)		**199.6**	230.7	**199.6**	230.7
DNL (2/7)		**199.6**	230.7	**199.6**	230.7
Total Capital		**698.5**	807.5	**698.5**	807.5
Legal reserve		**22.4**	18.0	**-**	-
Revaluation reserve		**20.8**	14.2	**-**	-
Retained earnings		**— 6.6**	1.1	**-**	-
Profit/Loss of the year		**378.6**	— 103.2	**336.0**	— 109.0
Total Equity		**1 113.7**	737.6	**1 034.5**	698.5
TOTAL LIABILITIES AND EQUITY		**7 597.9**	6 813.3	**6 165.9**	5 547.1
PLEDGES, ETC.					
Mortgages on real estate		**320.8**	328.9	**16.0**	18.2
Sundry pledges		**128.7**	139.7	**9.0**	8.1
Total Pledges, etc.		**449.5**	468.6	**25.0**	26.3
CONTINGENT LIABILITIES	Note 36				
Guarantees and other contingent liabilities for subsidiaries		**-**	-	**163.4**	172.1
others		**124.7**	119.5	**94.4**	90.6
Pension commitments		**60.0**	44.0	**60.0**	43.4
Total Contingent Liabilities		**184.7**	163.5	**317.8**	306.1

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

Notes to Financial Statements

Consolidation and accounting principles

The consolidated financial statements of the SAS Group include the SAS Consortium, its wholly-owned subsidiaries and those partly-owned subsidiaries in which the Consortium has a controlling interest. Some wholly-owned subsidiaries, closely connected with the operations of the Consortium, are directly included in the accounts of the Consortium. Such subsidiaries are, i.a., SAS Cargo Center A/S, Copenhagen, and Scandinavian Airlines of North America Inc., New York. The accounts of Scanair, another consortium owned by the parent companies of the SAS Consortium, are not included in the consolidated financial statements of the SAS Group.

The consolidated financial statements of the SAS Group are prepared in accordance with the purchase method of accounting. This means that the equity in a subsidiary at the time of acquisition, including 50 per cent of acquired untaxed reserves, are eliminated against the acquisition value of the corresponding shares in the accounts of the Consortium. Out of the remaining book value of the shares (a) an amount equal to the difference between the real value and the book value of the acquired assets, less a 50 per cent deferred tax liability, is allocated to the respective asset accounts, and (b) the residual amount, if any, is stated as goodwill (or a liability) in the consolidated balance sheet.

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

The financial statements of subsidiaries, which are kept in other currencies than Swedish kronor, are, for the purposes of consolidation, translated into Swedish kronor by using the current rate method. Assets and liabilities are thus translated into Swedish kronor using market-oriented rates of exchanges as of the end of the financial year, while equity and the year's result are translated at historical exchange rates and weighted average rates for the year, respectively. The translation adjustments are included in the equity of the SAS Group to the extent they refer to SAS's share in such subsidiaries. Translation adjustments relating to minority interests in the subsidiaries are entered under the heading "Minority interests" in the consolidated balance sheet.

Financial statements of subsidiaries directly included in the accounts of the Consortium are converted into Swedish kronor using the monetary/nonmonetary method.

Monetary assets and liabilities in other currencies than the respective accounting currency are stated in the balance sheet based on market-oriented exchange rates as of the end of the financial year. The translation of the long-term debt of the Consortium into Swedish kronor has during 1981/82 resulted in additional unrealized currency losses, mainly because of the strengthening of the U.S. dollar during the year. The ultimate extent of the unrealized currency losses on long-term debt will depend on future currency developments. In order to distribute such currency losses (net) equitably between accounting years, a distribution scheme was established in 1980/81. According to this scheme, the currency losses are annually charged to income as follows:

(a) currency losses realized through amortization during the year, less the corresponding provision made in the preceding annual accounts, and unrealized currency losses relating to amortizations due within the year following.

(b) unrealized currency losses allocated to an equivalent share of debt with deferred amortization or no amortization prior to final maturity; such currency losses are established currently and distributed over the remaining lives of the individual loans.

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

In this report some reclassifications have been made in the profit and loss statement, balance sheet and funds statement of the Consortium. As from 1981/82, loans from members of the KSSU-group/THAI, corresponding to their shares of SAS stock of spares, have been deducted from such stock while receivables from members of the KSSU-group, corresponding to SAS' share of their stocks of spares, have been accounted for as spares in SAS' balance sheet. Rental payments for such shares, both receivable and payable, have been accounted for as deductions from respectively additions to depreciation and interest. Previously, these items were treated as operating revenue and operating expenses, respectively. The financial statements for 1980/81 have been restated accordingly.

Note 1 – Traffic revenue	SAS Group		Consortium	
	1981/82	1980/81	**1981/82**	1980/81
Passenger	**7 117.4**	5 730.1	**6 922.6**	5 579.2
Freight	**1 118.4**	920.1	**1 110.6**	914.9
Mail	**198.2**	148.2	**191.3**	142.8
Charter	**70.0**	122.7	**70.0**	40.8
Leasing	**147.8**	145.3	**147.8**	145.3
Less: Elimination of internal transactions	**—65.9**	—63.0	-	-
	8 585.9	7 003.4	**8 442.3**	6 823.0

Traffic revenue of subsidiaries amount to MSEK 209.6 (1980/81 MSEK 234.4) before elimination of internal transactions.

Note 2 – Other revenue	SAS Group		Consortium	
	1981/82	1980/81	**1981/82**	1980/81
Consortium	**1 559.7**	1 181.0	**1 559.7**	1 181.0
Subsidiaries	**3 245.1**	2 463.3	-	-
Less: Elimination of internal transactions	**—583.7**	—476.2	-	-
	4 221.1	3 168.1	**1 559.7**	1 181.0

Other revenue of the Consortium comprises revenue from sundry activities such as shopwork, ground handling, interline sales etc., performed for other airlines, income from sales on board and in gateway stores.

Note 3 – Operating expenses	SAS Group		Consortium	
	1981/82	1980/81	**1981/82**	1980/81
Consortium	**9 277.2**	7 618.7	**9 277.2**	7 618.7
Subsidiaries	**3 268.0**	2 584.1	-	-
Less: Elimination of internal transactions	**—649.6**	—539.1	-	-
	11 895.6	9 663.7	**9 277.2**	7 618.7

Operating expenses include salaries, wages and remunerations as shown in the following table

	SAS Group		Consortium	
	1981/82	1980/81	**1981/82**	1980/81
Salaries, wages and renumerations	**2 804.1**	2 428.8	**2 121.0**	1 848.8

Note 4 – Depreciation	SAS Group		Consortium	
	1981/82	1980/81	**1981/82**	1980/81
Goodwill	**2.9**	4.1	-	1.5
Developmental costs	**0.4**	0.9	-	-
Aircraft	**212.8**	221.6	**212.8**	216.4
Spare engines and spare parts	**67.9**	41.3	**67.9**	40.8
Workshop and aircraft servicing equipment	**21.4**	19.1	**21.4**	19.1
Other equipment and vehicles	**107.9**	89.0	**76.5**	64.4
Buildings and improvements	**60.2**	53.7	**30.0**	28.0
Land and improvements	**0.2**	0.2	**0.0**	0.0
	473.7	429.9	**408.6**	370.2

In accordance with its conservative policy, the Consortium depreciates its flight equipment over 10 years with a 10 per cent residual value except for Airbus A300, Boeing 747 and Douglas DC-10-30 equipment which is depreciated over 12 years with a 10 per cent residual value. See also note 31.

Depreciation periods for goodwill and developmental costs ranges from five to 10 years. Workshop and aircraft servicing equipment is depreciated over five years. For other equipment depreciation terms vary between five and 10 years with the exception of flight simulators for A300 and DC10, which are depreciated over 12 years. Vehicles are depreciated over five years. The annual rates of depreciation on buildings vary from two to 20 per cent.

Note 5 – Dividends from subsidiaries

	Consortium 1981/82	1980/81
SAS Catering A/S, Danmark	**2.0**	–
SAS Catering A/S, Norge	**4.6**	4.1
Nyman & Schultz Resebyråer AB	–	1.0
AB Olson & Wright	**0.8**	1.5
Scandinavian Air Tour Productions AB	–	0.1
	7.4	6.7

Note 6 – Other financial income

	SAS Group 1981/82	1980/81	Consortium 1981/82	1980/81
Interest earned from subsidiaries	–	–	**3.9**	5.4
Interest earned from others	**283.9**	167.5	**225.8**	129.0
Cash discounts, etc.	**2.9**	2.0	**1.5**	1.3
	286.8	169.5	**231.2**	135.7

Note 7 – Financial expenses

	SAS Group 1981/82	1980/81	Consortium 1981/82	1980/81
Interest paid to subsidiaries	–	–	**0.3**	0.0
Interest paid to others	**284.2**	271.1	**221.6**	214.3
Currency losses on long-term debt, charged to income of the year	**132.9**	105.6	**123.2**	93.7
Other currency differences (net)	**8.4**	—46.1	**12.0**	—44.9
Depreciation on discount, etc, on debenture loans	**1.4**	1.5	**1.4**	1.5
Bank expenses etc	**6.4**	3.7	**4.3**	2.7
	433.3	335.8	**362.8**	267.3

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

	SAS Group 1981/82	1980/81	Consortium 1981/82	1980/81
Aircraft	**53.3**	19.0	**53.3**	–
Spare engines and spare parts	**13.0**	10.8	**6.1**	10.8
Buildings	**2.6**	5.8	–	–
Other equipment, etc.	**—0.3**	1.8	**0.4**	2.0
	68.6	37.4	**59.8**	12.8

The excess of sales price over book value, etc in connection with the sale of a Boeing 747B aircraft for U.S. dollars 24.0 mill. in January 1982 amounted to MSEK 102.9 The aircraft was leased back for five years during which period the Consortium, through lease payments, will amortize 50 percent of the sales price. At the time of sale MSEK 53.3 was credited to income whereas the remaining amount, MSEK 49.6, was deferred in order to be credited to income over the lease period.

Note 9 – Extraordinary income

	SAS Group 1981/82	1980/81	Consortium 1981/82	1980/81
Pension bonus in Denmark	**100.2**	–	**95.8**	–
Unredeemed transportation sale credited to income	–	103.6	–	103.6
Transair Sweden AB – bonus in connection with repayment of PRI pension liabilities after September 30, 1981	–	13.6	–	–
Other extraordinary income	–	0.4	–	0.3
	100.2	117.6	**95.8**	103.9

Pension bonus in Denmark represents a refund for the 5-year period 1977–81.
Simultaneously with the extraordinary credit to income of unredeemed transportation sale, MSEK 103.6, in 1980/81 extrarodinary depreciation on surplus flight equipment was made with the same amount. This depreciation was credited to the depreciation reserve.

Note 10 – Extraordinary expenses

	SAS Group 1981/82	1980/81	Consortium 1981/82	1980/81
Provision for SAS share in loss of Hotel Scandinavia K/S, Copenhagen	**12.3**	12.9	**12.3**	12.9
Other extraordinary expenses	**0.5**	2.0	–	–
	12.8	14.9	**12.3**	12.9

Note 11 – Profit/Loss before allocations and taxes

		SAS Group 1981/82		1980/81
Profit/Loss of the Consortium		**+336.0**		—109.0
Profit/Loss of the subsidiaries		**+121.0**		+66.5
Elimination of internal dividends	**—7.4**		—6.7	
Elimination of currency loss	**+0.5**		–	
Depreciation on goodwill	**—2.1**	**—9.0**	—2.1	—8.8
Consolidated profit/loss before allocations and taxes		**448.0**		-51.3

Note 12 – Allocations of subsidiaries (net)

	1981/82	1980/81
From reserves		
– inventory reserve	–	1.4
– excess depreciation	**0.9**	–
– general investment reserve	**0.3**	9.2
– district investment reserve, Norway	**15,6**	2.0
– profit equalization reserve	–	0.9
– other reserve	–	0.8
	16,8	14.3
To reserves		
– inventory reserve	**— 6.2**	— 0.1
– excess depreciation	**—10,7**	—18.9
– general investment reserve	**— 4.8**	— 2.9
– district investment reserve, Norway	**—**	—18.7
– profit equalization reserve	**—23.1**	— 6.5
– consolidation reserve	**— 2.5**	—
– other reserves	**— 0.2**	— 0.2
	—47,5	—47.3
	—30.7	—33.0

Note 13 – Taxes of subsidiaries

The profit and loss statements of the SAS Group include only taxes of the subsidiaries as the tax liability in Denmark, Norway and Sweden relating to the activities of the Consortium, rests upon the parent companies of the Consortium. Taxes payable by the Consortium abroad are included in operating expenses.

Note 14 – Cash and bank balances including temporary cash investments

As of September 30, 1982, MSEK 696.4 (250.9) were placed as short-term loans, mainly in Scandinavia, out of which MSEK 441.6 (165.4) by the Consortium. Placements by the Consortium in Danish public bonds amounted to MSEK 81.8 (105.1). The Consortium's cash and bank balances are net of provisions for currency risks etc., MSEK 24.6 (4.1).

Note 15 – Accounts receivable, customers

Accounts receivable, customers, as stated in the balance sheet, are net of provisions for doubtful receivables and currency risks. Such provisions of the SAS Group amounted to MSEK 67.7 (37.1), out of which MSEK 54.8 (28.1) refer to the Consortium.

Note 16 – Expendable spare parts and sundry stores

	SAS Group		Consortium	
	1982	1981	**1982**	1981
Raw materials, etc.	**21.8**	16.0	**21.8**	16.0
Sundry goods for sale	**74.2**	60.9	**6.2**	6.0
Surplus stores	**27.8**	27.4	**27.8**	22.4
Work in progress	**8.2**	5.3	**8.2**	5.3
Catering material, uniforms, etc	**4.0**	4.1	**4.0**	4.1
Expendable spare parts	**76.6**	64.9	**76.6**	64.9
As of September 30	**212.6**	178.6	**144.6**	118.7

Expendable spare parts and sundry stores are stated at the lowest of acquisition prices and market value.
The expendable spare parts, included under this heading, comprise 2/3 of the total stock of such parts, the remaining 1/3 being treated as fixed assets.

Note 17 – Blocked funds

Funds blocked on non-interest-bearing accounts in connection with tax-deductible allocations to investment reserves refer mainly to Nyman & Schultz Resebyråer AB and AB Olson & Wright.

Note 18 – Shares and participations in subsidiaries. Other shares and participations

The Consortium's shares and participations in subsidiaries are unchanged since September 30, 1981. The shares and participations held by the Consortium are specified on page 25.

Note 19 – Goodwill

Out of the price paid by the Consortium 1979/80 for the shares in AB Olson & Wright, MSEK 34.0, an amount of MSEK 16.4 was treated as goodwill in the consolidated balance sheet of the SAS Group (please refer to the description of the purchase method of accounting under "Consolidation and accounting principles" above). This goodwill amount is depreciated over 10 years and the depreciation is charged directly to the consolidated profit and loss statement.

Note 20 – Fixed assets in progress

This item covers buildings and land improvements in progress. Upon completion of the projects, the final acquisition values are transferred to the headings concerned in the balance sheet. Out of the total, MSEK 22.1 refer to a new administration building of the Consortium in Oslo and MSEK 4.6 to various buildings of SAS Catering & Hotels, mainly new flight kitchens.

Note 21 – Aircraft

	Consortium
Acquisition value	
As of September 30, 1981	3 694.8
Aircraft sold in 1981/82	—125.7
Adjustment of modifications	— 6.0
As of September 30, 1982	3 563.1
Depreciation	
As of September 30, 1981	1 623.6
Depreciation 1981/82 (see Note 4)	212.8
Transfer to depreciation reserve (see Note 31)	— 7.6
Accrued depreciation on aircraft sold in 1981/82	—72.3
As of September 30, 1982	1 756.5
Insurance value of aircraft	
As of October 01, 1982	5 348.7

A Boeing 747B was delivered in October 1981 under an 18 years lease arrangement with Wilmington Trust Company, Wilmington, Delaware, as owner trustee for TCB Leasing Company, Houston, Texas.
"Aircraft sold in 1981/82" refers to the sale of a Boeing 747B which was subsequently leased back for five years.

Note 22 – Other equipment and vehicles

Data and communication equipment and flight simulators of the Consortium are included under this heading with acquisition values of MSEK 361.7 and MSEK 64.2 respectively. As of September 30, 1981 the corresponding amounts were MSEK 318.3 and MSEK 64.1.

Note 23 – Unearned transportation revenue (net)

For practical reasons, the various accounts of the Consortium for traffic revenue have been stated, as hitherto, as a net balance. The unredeemed transportation sale relating to passenger documents, included under this heading, is calculated to MSEK 69.0, all of which refers to the sale of passenger documents during 1981/82.

Note 24 – Debenture loans

	1982	1981
Consortium		
5.5% CHF 76.0 mill., due 1983–1992	**219.7**	226.4
8.0% USD 18.0 mill., due 1983–1985	**113.0**	112.2
10.75% SEK 130.0 mill., due 1982–1994	**130.0**	140.0
	462.7	478.6
Less: Current maturities included under current liabilities	**—34.1**	—32.5
As of September 30	**428.6**	446.1

Note 25 – Mortgage loans

	1982	1981
Consortium		
5%/13% DKK 19.0 mill., due 1982–2003	**13.5**	16.5
10%/12% NOK 2.0 mill., due 1982–2001	**1.8**	1.8
15.75% ZAR 0.0 mill., due 1982–1997	**0.2**	0.2
	15.5	18.5
Less: Current maturities included under current liabilities	**—1.0**	—2.0
As of September 30	**14.5**	16.5
Subsidiaries		
DKK 16.3 mill.	**11.6**	12.9
NOK 192.6 mill.	**173.3**	159.3
USD 1.9 mill.	**12.2**	32.8
GRD 186.5 mill.	**16.6**	19.4
Sundry loans	**24.8**	30.0
	238.5	254.4
Less: Current maturities included under current liabilities	**—12.4**	—16.2
As of September 30	**226.1**	238.2
SAS Group, as of September 30	**240.6**	254.7

Note 26 – Other loans

	1982	1981
Consortium		
6.0% USD 39.6 mill., due 1982–1988	**248.4**	296.0
6.5% USD 4.8 mill., due 1982–1986	**29.9**	56.8
7.125% USD 0.9 mill., due 1982–1984	**5.7**	7.7
7.5% USD 12.2 mill., due 1984–1987	**76.5**	68.3
7.75% USD 41.4 mill., due 1983–1990	**260.3**	263.5
8.0% USD 4.3 mill., due 1982–1986	**27.3**	27.1
8.5% USD 3.0 mill., due 1983–1984	**18.8**	30.3
8.75% USD 13.2 mill., due 1984–1989	**82.8**	74.0
9.0% USD 5.3 mill., due 1983–1987	**33.6**	30.1
9.25% USD 24.4 mill., due 1982–1993	**153.7**	149.7
9.5% USD 16.3 mill. due 1983–1993	**102.0**	91.1
LIBOR plus 0.5% USD 7.7 mill. due 1982–1984 (LIBOR Aug. 19, 1982, 11.375%)	**48.6**	60.8
LIBOR plus 0.5% USD 33.3 mill. multicurrency loan, due 1985 (LIBOR Sept. 30, 1982, 11.4375%)	**208.9**	186.6
USD Base rate plus 0.5%, USD 0.5 mill., due 1982 (USD Base rate Sept. 30, 1982, 13.5%)	**3.4**	12.9
6.0% CHF 40.0 mill., due 1985	**115.6**	113.2
8.0% FRF 247.1 mill., due 1982–1991	**217.5**	276.2
8.5% NOK 10.0 mill., due 1983–1984	**9.0**	16.9
9.5% NOK 27.3 mill., due 1982–1984	**24.6**	35.9
Official discount rate plus 5% DKK 0.9 mill., due 1982–1992 (official DKK discount rate Sept. 30, 1982, 11%)	**0.6**	–

Official discount rate plus 5.5% DKK 5.5 mill., due 1983–1992 (official DKK discount rate Sept. 30, 1982, 11%)	**3.9**	4.6
Official discount rate plus 6.5% DKK 0.3 mill., due 1983–1992 (official DKK discount rate Sept. 30, 1982, 11%)	**0.2**	–
Official discount rate plus 3% SEK 40.1 mill., due 1982–1989 (official SEK discount rate Sept. 30, 1982, 10%)	**40.1**	49.6
12.5 SEK 15.7 mill., due 1982–1989	**15.7**	17.7
13.2% SEK 3.3 mill., due 1983–1996	**3.3**	2.3
13.5% SEK 2.5 mill., due 1983–1997	**2.5**	–
14.7% SEK 0.1 mill., due 1982–1987	**0.1**	0.1
	1 773.0	1 871.4
Less: Current maturities included under current liabilities	**—263.0**	—252.9
As of September 30	**1 470.0**	1 618.5
Subsidiaries		
Sundry loans	**163.3**	119.0
Less: Current maturities included under current liabilities	**—12.4**	—10.1
As of September 30	**150.9**	108.9
SAS Group, as of September 30	**1 620.9**	1 727.4

Note 27 – Other non-current liabilities	1982	1981
Consortium		
Other non-current liabilities	**177.2**	147.3
Less: Current maturities included under current liabilities	**—35.7**	—20.6
As of September 30	**141.5**	126.7
Subsidiaries		
Other non-current liabilities	**14.6**	9.7
Less: Current maturities included under current liablities	**— 0.1**	— 0.1
As of September 30	**14.5**	9.6
Deferred tax liability on acquired untaxed reserves	**2.0**	2.1
SAS Group, as of September 30	**158.0**	138.4

Note 28 – Provision for pension liablities	1982	1981
Subsidiaries		
SAS Catering AB, Sverige – PRI	**6.0**	5.1
– other	**0.9**	0.9
Vingresor AB – PRI	**10.1**	8.6
– other	**0.1**	0.1
Nyman & Schultz Resebyråer AB	**1.3**	1.1
AB Olson & Wright – PRI	**17.5**	15.2
– other	**1.9**	1.9
As of September 30	**37.8**	32.9

The Pension Registration Institute (PRI) is a non-profit organization for management and administration of staff pension schemes.

Other pension liabilities are either covered by periodic pension premium payments or are recorded as pension commitments under contingent liabilities.

Note 29 – Deferred currency losses

Unrealized currency losses on long-term debt, deferred by the Consortium as deduction from debt on a separate contra-liability account in the balance sheet (see "Consolidation and accounting principles") amounted as of September 30, 1982 to MSEK 338.4 (September 30, 1981 MSEK 311.0). Out of the total MSEk 305.2 refer to long-term debt in U.S. dollars.

	Consortium
As of September 30, 1981	311.0
Currency losses on long-term debt incurred in 1981/82	150.6
Currency losses on long-term debt charged to income in 1981/82 (see Note 7)	—123.2
As of September 30, 1982	338.4

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

Note 30 – Inventory reserve

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

Note 31 – Depreciation reserve

The depreciation policy of the Consortium is described in Note 4. In the reports required to be submitted under several of its credit agreements with U.S. lenders, the Consortium depreciates its flight equipment over 12 years to a 10 per cent residual value for Douglas DC-8, 14 years to a 10 per cent residual value for Douglas DC-9 and 16 years to a 10 per cent residual value for Airbus A300, Boeing 747 and Douglas DC-10-30 equipment. The Consortium records depreciation in accordance with the same terms in the depreciation accounts which are deducted from the acquisition values concerned. At the same time, the depreciation actually incurred by the Consortium in excess of such depreciation is recorded in the depreciation reserve account.

The depreciation reserve shows a balance of MSEK 502.2 (518.9).

Note 32 – Accumulated excess depreciation

Under this heading the subsidiaries record depreciation made as an allocation in excess of their ordinary depreciation.

Note 33 – Currency adjustment reserve	Consortium
As of September 30, 1981	4.7
Restatement of unrealized currency gains	—0.9
Realized currency gain on long-term receivables	—3.8
Unrealized currency gain on long-term loans	18.8
As of September 30, 1982	18.8

The rates of exchange as of September 30 used by the Consortium for the translation of assets and liabilities from Danish kroner (DKK), Norwegian kroner (NOK), U.S. dollars (USD), Swiss francs (CHF) and French francs (FRF) into Swedish kronor are given below

	100 DKK	100 NOK	USD	100 CHF	100 FRF
As of September 30, 1981	77.00	94.00	5.61	283.00	100.00
As of September 30, 1982	71.00	90.00	6.28	289.00	88.00

Note 34 – General investment reserve. Profit equalization reserve

These items represent tax-deductible allocations made by the subsidiaries.

Note 35 – Equity	SAS Group	Consortium
As of September 30, 1981	737.6	698.5
Profit before taxes relating to the Consortium but after taxes of subsidiaries	378.6	336.0
Conversion difference in connection with consolidation	—9.8	–
Allocations to reserves through revaluation of properties	+6.6	–
Sundry adjustments	+0.7	–
As of September 30, 1982	1 113.7	1 034.5

Due to the retroactive implementation of new depreciation rules in SAS Catering & Hotels, the equity of the SAS Group as of September 30, 1981, MSEK 737.6, is MSEK 5.0 (net) higher than stated in the annual report for 1980/81.

Note 36 – Contingent liabilities	Consortium 1982	1981
Travel guarantees on behalf of Vingresor AB	**115.0**	75.0
Guarantees of pension liabilities in Transair Sweden AB	–	49.4
Guarantees of pension liabilities in AB Olson & Wright	**17.5**	15.6
Other contingent liabilities for subsidiaries	**30.9**	32.1
	163.4	172.1
Guarantees of loan of Linjeflyg AB	**25.0**	25.0
Guarantees of loan of Hotel Scandinavia K/S	**36.1**	32.3
Other contingent liabilities	**33.3**	33.3
	94.4	90.6
Pension Commitments	**60.0**	43.4
As of September 30	**317.8**	306.1

Funds Statements

MSEK	SAS GROUP Consolidated 1981/82	1980/81	SAS CONSORTIUM 1981/82	1980/81
SOURCES OF FUNDS				
Profit/Loss before allocations and taxes	448.0	—51.3	336.0	—109.0
Depreciation (ordinary)	473.7	429.9	408.6	370.2
Reserves credited to income	–	—103.6	–	—103.6
Depreciation (extraordinary)	–	103.6	–	103.6
Book value of assets sold and retired	56.2	63.2	48.7	15.4
Deferred income from sale of one 747B leased back	49.6	–	49.6	–
Currency differences arising from revaluation of monetary assets and liabilities	143.2	64.0	133.0	48.8
Valuation adjustments	60.6	18.1	60.4	18.0
Taxes of subsidiaries	—35.6	—15.9	–	–
Other (net)	—37.4	—21.9	—38.4	—20.0
From operations	1 158.3	486.1	997.9	323.4
Borrowing	146.9	379.8	46.8	335.6
Amortization on long-term loans	32.4	16.0	48.6	9.0
Refund of prepayments for aircraft	127.9	101.9	127.9	101.9
Transfer of building to DNL	46.9	–	46.9	–
Minority shares in new capital of subsidiaries etc.	5.9	3.0	–	–
Total funds received	1 518.3	986.8	1 268.1	769.9
USES OF FUNDS				
Aircraft, spare engines, spare parts	109.0	377.6	109.0	377.4
Prepayments on aircraft	–	49.6	–	49.6
Buildings and improvements	108.3	81.8	59.5	40.6
Other equipment, inventories, etc.	163.6	138.9	89.1	92.8
Shares and goodwill	9.8	0.7	0.1	3.8
Other	–	7.1	–	7.1
Sub-total investments	390.7	655.7	257.7	571.3
Long-term lending	21.9	23.6	13.4	14.8
Amortization on long-term debt	421.1	327.1	361.2	244.6
Paid to parent companies out of last year's result	–	–	–	–
Total funds applied	833.7	1 006.4	632.3	830.7
CHANGES IN WORKING CAPITAL	684.6	—19.6	635.8	—60.8
Specification of changes in working capital (before revaluation of monetary assets and liabilities)				
Increase (+)/decrease (—) of sundry stores	+ 23.8	+ 12.4	+ 7.9	+ 9.4
Increase (+)/decrease (—) of expendable spare parts	+ 29.0	+ 18.7	+ 29.0	+ 18.7
Increase (+)/decrease (—) of short-term accounts receivable	+357.8	+134.7	+351.9	+153.6
Increase (—)/decrease (+) of short-term accounts payable	—501.2	—209.6	—438.0	— 91.7
Increase (+)/decrease (—) of cash and bank balances	+775.2	+ 24.2	+685.0	—150.8

Copenhagen, Oslo and Stockholm, December 15, 1982

CURT NICOLIN — JENS CHR HAUGE — HALDOR TOPSØE

KRISTER WICKMAN — PER M BACKE — JØRGEN L HALCK

INGE JOHANNESSON — INGVAR LILLETUN — HANS DALL

JAN CARLZON
President and Chief Executive Officer

/CARL ERIK LINDH

Specification of shares and participations as of September 30, 1982

	Number of Shares, etc.	Percent of total	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	250	0.2
Scandinavian Airlines of North America Inc., New York	1 750	100	USD	175	0.9
SAS France S.A., Paris	1 000	100	FRF	100	0.1
Sundry					0.0
					1.2
Subsidiaries consolidated with the Consortium in the SAS Group					
SAS Catering A/S, Danmark, Copenhagen	16 000	100	DKK	16 000	11.3
SAS Catering A/S, Norge, Oslo	8 000	100	NOK	8 000	6.0
SAS Catering AB, Sverige, Stockholm	160 000	100	SEK	16 000	16.0
Vingresor AB, Stockholm	200 000	100	SEK	20 000	20.0
Nyman & Schultz Resebyråer AB, Stockholm	30 000	100	SEK	15 000	15.0
AB Olson & Wright, Stockholm	3 000	100	SEK	3 000	33.0
SAS-Invest A/S, Copenhagen	4 110	100	DKK	10 000	7.2
Scandinavian Air Tour Productions AB, Stockholm	10 000	100	SEK	1 000	1.0
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	6 000	60	NOK	6 000	4.5
	Convertible Loan Stock	60	NOK	18 000	13.7
Arctic Hotel Corp. A/S, Narssarssuaq	1 550	50	DKK	1 550	1.3
Danair A/S, Copenhagen	1 710	57	DKK	1 710	1.2
A/S Dansk Rejsebureau, Copenhagen	49	50	DKK	400	0.3
Sundry					0.5
					132.4
Other companies					
Linjeflyg AB, Stockholm	500 000	50	SEK	50 000	53.0
Hotel Scandinavia K/S, Copenhagen	Share in capital	39	DKK	45 700	–
Scandinavia Hotel Invest A/S, Copenhagen	2	33	DKK	500	–
Polygon Insurance Co Ltd., Guernsey	665 668	33	GBP	399	2.4
Bennett Reisebureau A/S, Oslo	87	31	NOK	1 392	1.1
Grønlandsfly A/S, Godthåb	140	25	DKK	3 000	0.4
Widerøe's Flyveselskap A/S, Oslo	26 622	22	NOK	2 662	1.1
A/S Hotel Atlantic, Stavanger	1 117	20	NOK	559	0.4
Copenhagen Excursions A/S, Copenhagen	23	17	DKK	210	0.5
Malmö Flygfraktterminal AB, Malmö	1 455	40	SEK	146	0.0
Sundry					0.2
					59.1

Auditors' Report

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

SCANDINAVIAN AIRLINES SYSTEM
Denmark – Norway – Sweden

having completed our assignment, herewith submit our report for the financial year October 1, 1981 – September 30, 1982.

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

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

As evident from the Annual Report, the Consortium has declared a profit of MSEK 336.0 after depreciation, out of which MSEK 175.0 is proposed to be paid to the parent companies.

We recommend

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

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

Stockholm, January 18, 1983

STEN NACKSTAD
Authorized Public Accountant

CENTRALANSTALTEN FOR REVISION
STIG-ERIK SCHAUMBURG-MÜLLER
Authorized Public Accountant

BERNHARD LYNGSTAD
Authorized Public Accountant

SÖREN WIKSTRÖM
Authorized Public Accountant

ARNE BRENDSTRUP

TOR STORHAUG
Authorized Public Accountant

Comparative Statistics

PRODUCTION, TRAFFIC AND PERSONNEL SAS Consortium		81/82	Change	80/81	79/80	78/79	77/78
Size of Network	(km 000)	**210**	— 6 %	224	252	264	264
Number of Cities Served		**99**	— 6 %	105	103	102	98
Kilometers Flown, scheduled services	(mill.)	**112.9**	0	113.2	120.4	124.3	122.8
Hours Flown (airborne), total	(000)	**171.1**	0	171.1	180.0	185.7	182.6
Available Tonne Kms, total	(mill.)	**2 427.3**	— 2 %	2 472.4	2 536.8	2 528.3	2 515.7
Available Tonne Kms, scheduled services		**2 394.9**	— 2 %	2 450.7	2 515.9	2 483.5	2 453.7
Available Tonne Kms, non-sched. services		**32.4**	+49 %	21.7	20.9	44.8	62.0
Revenue Tonne Kms, scheduled services	(mill.)	**1 418.3**	0	1 415.8	1 432.6	1 435.1	1 367.3
Passenger and Excess Baggage		**962.3**	0	958.3	972.6	966.6	882.7
Freight		**404.3**	— 1 %	407.5	412.2	425.2	439.5
Mail		**51.7**	+ 3 %	50.0	47.8	43.3	45.1
Total Load Factor, scheduled services	(%)	**59.2**	+ 1.4 points	57.8	56.9	57.8	55.7
Number of Passengers Carried, total	(000)	**8 861**	+ 5 %	8 413	8 393	8 669	7 886
Available Seat Kms, scheduled services	(mill.)	**17 118**	— 4 %	17 761	18 460	18 216	17 654
Revenue Passenger Kms, scheduled services	(mill.)	**10 879**	+ 1 %	10 817	10 972	10 908	9 959
Passenger Load Factor, scheduled services	(%)	**63.6**	+ 2.7 points	60.9	59.4	59.9	56.4
Average Passenger Trip Length, scheduled	(kms)	**1 239**	— 4 %	1 296	1 318	1 272	1 279
Traffic Revenue/Revenue Tonne Km	(SEK)	**5.74**	+24 %	4.64	4.13	3.57	3.34
Airline Operating Expenses/Available Tonne Km (including depreciation)	(SEK)	**3.35**	+20 %	2.80	2.49	2.11	1.80
Average Number of Employees		**16 376**	0	16 425	17 069	16 755	16 010
Revenue Tonne Kms/Employee, scheduled services		**86 600**	0	86 200	83 900	85 700	85 400
Revenue Pass-Kms/Employee, sched. services		**664 300**	+ 1 %	658 600	642 800	651 000	622 100

Selected Data of Subsidiaries

	SAS Catering & Hotels Consolidated		Vingresor AB Consolidated		Nyman & Schultz Resebyråer AB Consolidated	
	MSEK	MSEK	MSEK	MSEK	MSEK	MSEK
	81/82	80/81	**81/82**	80/81	**81/82**	80/81
PROFIT & LOSS STATEMENT DATA						
Operating Revenue	**1564.6**	1168.8	**1068.5**	729.6	**235.6**	237.0
Operating Result after Depreciation	**+62.3**	+63.5	**+35.5**	+21.5	**+3.7**	+0.7
Profit/Loss after Financial Items	**+51.9**	+50.5	**+37.7**	+10.5	**+7.7**	+4.3
Profit/Loss before Allocations and Taxes	**+54.8**	+47.2	**+37.7**	+10.5	**+7.9**	+4.1
Allocations, etc.	**—14.7**	—24.6	**— 6.6**	— 1.9	**—3.5**	—4.1
Taxes	**—19.7**	—12.3	**— 8.6**	— 1.3	**—3.2**	—0.2
Net Profit/Loss	**+20.4**	+10.3	**+22.5**	+7.3	**+1.2**	—0.2
BALANCE SHEET DATA						
Current Assets	**292.4**	231.9	**336.1**	210.2	**138.5**	136.8
Fixed Assets (incl. Blocked Funds)	**301.2**	247.0	**130.2**	137.2	**11.6**	11.1
Total Assets	**593.6**	478.9	**466.3**	347.4	**150.1**	147.9
Current Liabilities	**275.6**	224.5	**279.5**	191.2	**116.5**	119.1
Non-Current Liabilities	**142.8**	102.9	**106.6**	114.6	**5.0**	5.7
Untaxed Reserves	**79.7**	67.9	**24.0**	13.1	**12.4**	8.0
Minority Interests	**3.7**	3.1	**3.6**	3.6	–	–
Equity	**91.8**	80.5	**52.6**	24.9	**16.2**	15.1
Total Liabilities and Equity	**593.6**	478.9	**466.3**	347.4	**150.1**	147.9
AVERAGE NUMBER OF EMPLOYEES	**5530**	4718	**1221**	1198	**415**	409

SELECTED FINANCIAL DATA, MSEK SAS Group	**81/82**	80/81	79/80	78/79	77/78
PROFIT & LOSS STATEMENT DATA					
Traffic Revenue	**8 585.9**	7 003.4	6 342.2	5 544.7	4 910.4
Other Revenue	**4 221.1**	3 168.1	2 878.0	2 521.0	2 139.3
Operating Revenue, total	**12 807.0**	10 171.5	9 220.2	8 065.7	7 049.7
Operating Expenses excluding Depreciation	**11 895.6**	9 663.7	8 920.8	7 551.2	6 436.5
Depreciation	**473.7**	429.9	390.8	359.5	346.9
Operating Result after Depreciation	**+437.7**	+ 77.9	— 91.4	+155.0	+266.3
Financial Items (net)	**—145.7**	—165.7	— 71.6	— 56.8	—166.3
Result after Financial Items	**+292.0**	— 87.8	—163.0	+98.2	+100.0
Other Items (net)	**+156.0**	+ 36.5	+ 99.9	+ 49.4	+ 26.7
Profit/Loss before Allocations and Taxes	**+448.0**	— 51.3	— 63.1	+147.6	+126.7
BALANCE SHEET DATA					
Current Assets	**4 172.0**	3 080.6	2 727.1	2 473.1	2 491.0
Fixed Assets (incl. Blocked Funds)	**3 425.9**	3 732.7	3 628.7	3 218.8	2 890.2
Total Assets	**7 597.9**	6 813.3	6 355.8	5 691.9	5 381.2
Current Liabilities	**3 632.5**	3 121.3	2 803.1	2 320.8	2 085.6
Non-Current Liabilities	**2 147.5**	2 288.5	2 147.2	1 805.0	1 870.3
Reserves, Minority Interests	**704.2**	665.9	585.8	576.4	476.6
Equity including Profit/Loss of the Year	**1 113.7**	737.6	819.7	989.7	948.7
Total Liabilities and Equity	**7 597.9**	6 813.3	6 355.8	5 691.9	5 381.2

AB Olson & Wright Consolidated		SAS-Invest A/S		Scand. Air Tour Prod.AB Consolidated		SAS Royal Hotel A/S (Oslo)		Arctic Hotel Corp. A/S		Danair A/S		A/S Dansk Rejsebureau	
MSEK	MSEK	MDKK	MDKK	MSEK	MSEK	MNOK	MNOK	MDKK	MDKK	MDKK	MDKK	MDKK	MDKK
81/82	80/81	**81/82**	80/81	**81/82**	80/81	**81/82**	80/81	**81/82**	80/81	**81/82**	80/81	**81/82**	80/81
96.3	80.0	**53.0**	44.3	**85.3**	77.5	**133.7**	120.7	**16.7**	18.6	**294.8**	234.9	**17.3**	15.5
+ 3.3	+2.0	**+1.1**	—1.6	**—0.4**	—2.7	**+27.9**	+24.1	**+1.1**	+1.4	**0.0**	0.0	**—0.3**	+0.2
+10.9	+8.0	**—4.4**	—4.9	**0.0**	—1.8	**+ 8.3**	+ 6.4	**+0.7**	+0.9	**0.0**	0.0	**—0.6**	0.0
+11.0	+8.2	**—4.4**	—4.9	**0.0**	—1.5	**+ 8.3**	+ 6.4	**+0.7**	+0.9	**0.0**	0.0	**—0.6**	0.0
— 6.2	—5.3	–	–	–	+0.9	–	–	–	–	–	–	–	0.0
— 2.8	—1.9	–	–	**0.0**	0.0	–	–	–	—0.2	**0.0**	–	–	–
+ 2.0	+1.0	**—4.4**	—4.9	**0.0**	—0.5	**+ 8.3**	+ 6.4	**+0.7**	+0.7	**0.0**	0.0	**—0.6**	0.0
159.9	165.6	**6.6**	5.3	**11.1**	8.2	**17.9**	35.4	**5.6**	5.1	**17.7**	17.1	**20.6**	22.9
31.5	28.5	**49.0**	47.5	**0.5**	0.4	**176.8**	176.3	**4.7**	4.3	**0.1**	0.1	**2.2**	2.0
191.4	194.1	**55.6**	52.8	**11.6**	8.6	**194.7**	211.7	**10.3**	9.4	**17.8**	17.2	**22.8**	24.9
137.8	149.8	**21.9**	26.4	**10.6**	7.5	**27.1**	27.0	**5.0**	5.7	**14.8**	14.0	**22.8**	23.7
25.9	24.0	**30.3**	18.6	–	–	**147.4**	172.7	**0.6**	0.7	–	–	**0.3**	0.5
21.6	15.5	–	–	–	–	–	–	–	–	–	–	–	0.4
–	–	–	–	–	–	–	–	–	–	–	–	–	–
6.1	4.8	**3.4**	7.8	**1.0**	1.1	**20.2**	12.0	**4.7**	3.0	**3.0**	3.0	**—0.3**	0.3
191.4	194.1	**55.6**	52.8	**11.6**	8.6	**194.7**	211.7	**10.3**	9.4	**17.8**	17.2	**22.8**	24.9
365	356	**237**	243	**83**	82	**402**	396	**39**	42	**15**	15	**79**	72

From Market Growth to Stagnation

The 1960s were the golden age of scheduled air transport, with annual growth rates close to 15 percent for most of the decade. The overcapacity dating from the transition to jet aircraft was gradually filled, while new technology resulted in a reduction of unit costs. The result was a rapid improvement in profitability. Passengers also benefited through lower fares. For a number of years, unit yields consequently declined, even though the airlines still generated good profits.

The growth rate slowed in the early 1970s. Most countries continued to apply protectionist air transport policies. The activities of the airlines in most markets were still regulated by tariff agreements and by sharing production. Limitations on competition helped mitigate the impact of the negative market development.

With Caravelles on European routes and DC-8s on intercontinental flights, SAS had become a jet carrier at an early stage. The airline's gradual shift from the Caravelle to the DC-9 began in 1967/68. The development of highly efficient engines made possible the emergence of a new generation of larger intercontinental aircraft. SAS received the first of its Boeing 747s in 1970/71, and its first DC-10s in 1974/75.

Maintenance technology gradually advanced, facilitating extended intervals between overhauls and other maintenance. At the same time, periodic maintenance was replaced to a large extent by condition-controlled maintenance, with a resulting reduction of the workload.

During the 1960s, and well into the 1970s, the ability of the airlines to adjust and innovate technologically was a prerequisite for their rapid adjustment to market trends on satisfactory business terms. SAS's technical standards and pioneering contributions to intercontinental air transport, particularly on Polar routes, had substantially enhanced SAS's reputation. Scandinavian service standards were also a contributing factor.

The condition of the scheduled airlines deteriorated drastically with the impact of the two oil crises in the 1970s. The market stagnated in 1979/80. Fuel costs climbed faster than both inflation and air fares and rates. At the same time, the liberalization of American air transport policy resulted in a further escalation of the already devastating competition on North Atlantic routes.

The new situation soon created excess capacity. The airlines had geared their resources to meet continued growing demand. With lead times of several years for aircraft deliveries, capacity continued to increase even after the market had begun to transmit new signals.

Competition and the stagnant market generated a plethora of discounts. Most airlines' profitability seriously deteriorated despite ambitious attempts to cope with the rapid escalation of costs.

The past two years, 1981 and 1982, have been the worst ever, with the IATA airlines estimating their 1982 aggregate deficit at about two billion U.S. dollars or five percent of their total turnover.

During 1979/80 and 1980/81, SAS took vigorous steps to reduce production and the number of employees. New low-fare alternatives were introduced to raise cabin factors and thus generate more revenue. Losses were thereby limited, and the negative result trend was reversed during 1980/81.

The unfavorable development was not only caused by weak market demand. SAS's productivity had in fact increased, but not sufficiently to retain its level of profitability. Product quality had declined in recent years. This, combined with mounting competition on a number of SAS's most important routes, had contributed to SAS's gradual loss of shares in the full-fare market.

In addition, unit yields had been adversely affected by passengers increasingly switching from full-fare to low-fare alternatives.

Also contributing to the troublesome situation, more aircraft had been ordered on the basis of the then-existing market trends. Although SAS had been more cautious in ordering new aircraft than most other airlines, deliveries had to be accepted even though the new equipment could not be operated profitably because of the declining customer base.

To restore airline profitability and ensure a positive development in the future, SAS had to embark upon a new course.

Free porter service and free baggage carts are among the numerous service improvements at Copenhagen Airport

Air-Political Affairs and Airline Cooperation

GOVERNMENT AIR TRANSPORT AGREEMENTS

International scheduled air services are based on bilateral agreements between countries. These agreements specify the destinations the airlines may serve and regulate the capacity they may offer. These treaties also generally stipulate that timetables and tariffs must be approved by the authorities in the countries involved. In negotiations on SAS's traffic rights, the three Scandinavian countries act jointly, which has strengthened their position and been beneficial to SAS.

The requirement in air transport agreements that prices be approved by the authorities presupposes that prices first be coordinated among the respective national airlines. IATA has been a forum for multilateral tariff coordination.

IATA

The most important coordinating agency among international scheduled airlines is the International Air Transport Association (IATA), founded in 1945. IATA currently has 120 members, including SAS.

The most conspicuous of IATA activities has been the tariff conferences, at which the airlines have reached mutual agreements on price levels and conditions applicable to practically all international air transport. These agreements have then been submitted to the relevant government agencies for approval.

More intensive competition among airlines and divergent views on how best to solve the problems of the airline industry have complicated the tariff conferences in recent years. It has become all the more difficult to achieve unanimity. Consequently, the conferences have increasingly been devoted to tariff coordination of a more general nature. This has left individual airlines considerably freer to determine their own tariff policies. Fares and rates must still be approved by the appropriate authorities, however.

In addition to tariff coordination, IATA has a number of other missions of major economic and practical significance to its member airlines. IATA authorizes some 30,000 travel agencies around the world, and administers the standard agreements which enable customers to use many different airlines, both IATA members and others, all on one and the same transport document. Payments among the members are settled efficiently and inexpensively through the IATA Clearing House.

IATA also coordinates technical and safety regulations and issues recommendations to aircraft manufacturers, airports and authorities. IATA campaigns to dampen the rapidly increasing governmental user charges which cover the use of airports and air traffic controls. IATA also works to shorten the air corridors assigned to commercial air transport. In Europe, for example, air corridors average 15 per cent longer than the most direct routing between city pairs.

THE LIBERALIZATION OF AIR TRANSPORT POLICIES

Tariff coordination has led to inflexibility and a lack of innovation in the setting of international fares and rates. Under the Carter Administration, the United States made drastic changes in its air transport policies, signifying a sweeping liberalization. The intention was that free competition would provide such beneficial effects as lower fares, more frequent flights and improved service to travelers. The new policy has had the opposite effect in many markets, however.

For U.S. domestic traffic, the policy shift resulted in a devastating price war on economically important routes, while routes with a weaker traffic base were neglected. Free competition in a stagnant market led to an acute deterioration of profitability. One of the oldest and largest U.S. airlines, Braniff, went bankrupt in 1982.

The U.S. deregulation policy also affected traffic development on the North Atlantic. The deficits of IATA airlines on these routes during 1982 have been estimated at 10 percent of turnover, or 800 million U.S. dollars. Non-IATA airlines have not had an easier time. The first major bankruptcy hit low-fare Laker Airways in 1982.

American air transport policies are now being reassessed with a view toward protecting U.S. airlines in international traffic. It appears entirely unlikely, however, that the previous regulatory system will be restored. In European countries, too, there are advocates of freer competition within commercial aviation. Critics of existing air transport policies in Europe nevertheless realize that any change must take place gradually and that totally free competition would benefit neither consumers nor airlines.

Nearly every country now has its own national airline for scheduled domestic and international services. IATA's ranking of the international airlines in 1981 in terms of passenger traffic placed PanAm first, British Airways second, and Japan Air Lines third. SAS was the 13th largest out of 120 IATA-members.

Check in
Open
Closing
EuroClass
Business Class
EuroClass
Business Class
EuroClass
Business Class
OBS!

Our Customers

There are two main categories of customers in the passenger sector: business travelers and other full-fare passengers, and vacationers.

The business traveler assigns high priority to suitable departure times, punctuality, efficiency and service. This includes not only service and comfort on board, but the entire chain of events from reservation to baggage delivery at the destination. Transportation to and from airports also falls within the service concept.

For *the vacationer,* the price of the trip is the most important factor. While the business traveler frequently decides to travel on very short notice, a tourist will plan a trip months in advance.

The trend in business travel largely follows general business cycles. During a recession, business travel declines. The current airline industry crisis thus reflects the prevailing economic situation throughout the Western world.

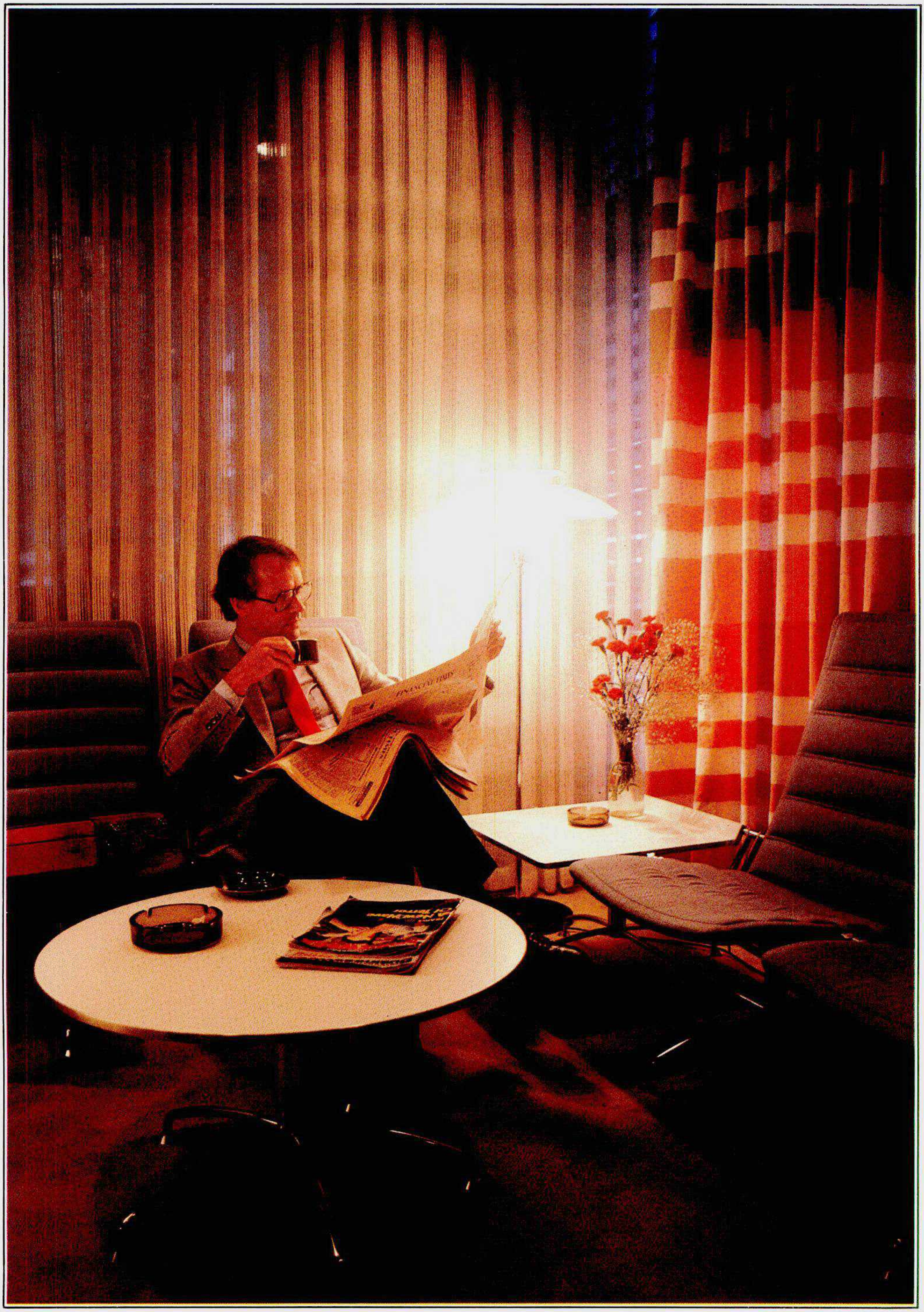
Vacation travel follows a somewhat different pattern. Demand often increases during recessions. One explanation could be that households reduce their investments in capital goods and spend correspondingly more on leisure activities such as vacation travel instead.

Business and vacation travel also vary according to season. There are also different patterns for days and times of departure. Business travel is most frequent from Mondays to Fridays, while leisure travel is more of a weekend market.

Their destinations are different, too, of course. On SAS's domestic and intra-Scandinavian routes, businessmen account for 41 percent of the tickets purchased and tourists account for 59 percent. Businessmen dominate on other European routes, accounting for 52 percent. On intercontinental routes, 28 percent of sales are for business travel and 72 percent for tourist travel.

The cargo market is very sensitive to business cycles and follows the economic trends of industry as a whole. In the prevailing market situation, the utilization of available cargo capacity is quite low. Cargo transport has thus become increasingly unprofitable for most airlines.

SAS EuroClass and First Business Class passengers enjoy the convenience of their own check-in counters to guarantee fast ticket- and baggage-handling.


FINANCIAL TIMES

Our Business Objectives . . .

Because of declining market demand and mounting competition, SAS reassessed its previous objectives and business strategies in 1981.

Traffic growth could no longer be taken for granted, so future operations would have to focus on achieving satisfactory profitability, even in a zero-growth market. This required development of a product line consistent with the business traveler's requirements. This meant, primarily, a total commitment to service, rather than an adjustment of costs. On the other hand, resources not corresponding to the needs of the market—and thus not generating revenue—would be phased out.

During 1981 these objectives were defined as follows:

- SAS shall be regarded by specific target groups as the best air transport alternative to and from the destinations SAS serves.
- SAS shall be profitable in its airline operations even if the market does not expand.
- SAS's primary long-term economic objective is to yield a satisfactory return on equity.
- SAS's financial strength shall be improved to give it the freedom to choose among the alternatives for financing future investments in a new aircraft fleet.

To realize these objectives, SAS shall be developed into a market-oriented enterprise. Its product range shall be determined by the needs of the market, and the planning of its operations shall be based on the services required by the market.

The demands that must be placed on SAS in the current market situation do not imply that production and technology should be disregarded. The quality of service depends on successful technical solutions to various problems related to cabin furnishings and air circulation, ground handling, etc. High technical and operational standards are also fundamental in achieving top punctuality.

At a time when SAS's technological capabilities are not being utilized for expansion and modernization of the aircraft fleet, resources will be devoted to a greater degree than previously to developing the products included in SAS's new service program.

SAS's range of products for "The Businessman's Airline" includes special Scanorama lounges where full-fare passengers can relax, read, enjoy refreshments and other amenities.

. . . and Our Strategies

A number of strategies were formulated to guide SAS operations toward the desired objectives.

MAIN STRATEGY: THE BUSINESSMAN'S AIRLINE

To succeed in new circumstances characterized mainly by escalating competition, a clearly defined segment of the market must be selected. Then, operations must consistently and systematically be adapted to this segment.

SAS chose the full-fare traveler. This customer category accounts for a large proportion of total demand and is prepared to pay a fair price for a quality product. It is also consistent with the policies outlined when SAS was founded more than three decades ago, that the airline specifically aims for the business travel market. Since then, SAS has played an important role in the Scandinavian countries' official and business contacts abroad.

SAS's products are to be distinguished by high transport efficiency and by service that is well adapted to its target group. This will increase the proportion of full-fare passengers, resulting in higher total revenue per flight.

MARGINAL SALES

The purpose of SAS's main strategy is to attract the highest possible number of full-fare passengers. No matter how successful this strategy may be, there will always be surplus capacity on most flights. Through effective marketing, this capacity should be utilized to increase SAS's total revenue. Marginal sales must not require additional resources, however.

SAS wants marginal sales to appeal to the tourist market and thus also to the businessman in his role as a vacation traveler.

SAS must, however, monitor the availability of low-fare alternatives so that they do not compete with sales of normal-fare tickets or have an adverse impact on service to full-fare passengers.

Marginal sales result in higher total revenue. The more empty seats can be filled through marginal sales to tourists, the lower the fares that can be offered to the full-fare traveler. When even more turn to SAS, fares in tourist class can be further reduced. It is an interesting but little noted fact that the possibilities to offer tourists lower fares depend on the success of the main strategy for full-fare travelers.

CONCENTRATION

To achieve profitability in a stagnant market, it is necessary to concentrate all resources to areas that yield a profit and conform to the main strategy. Deficit operations should be discontinued if they cannot become profitable within a reasonable time frame. This concentration process applies to types of aircraft, choices of destinations, etc. Concentration also simplifies the administration of products within the company, resulting in lower costs. Administrative resources can then be transferred to revenue-generating activities.

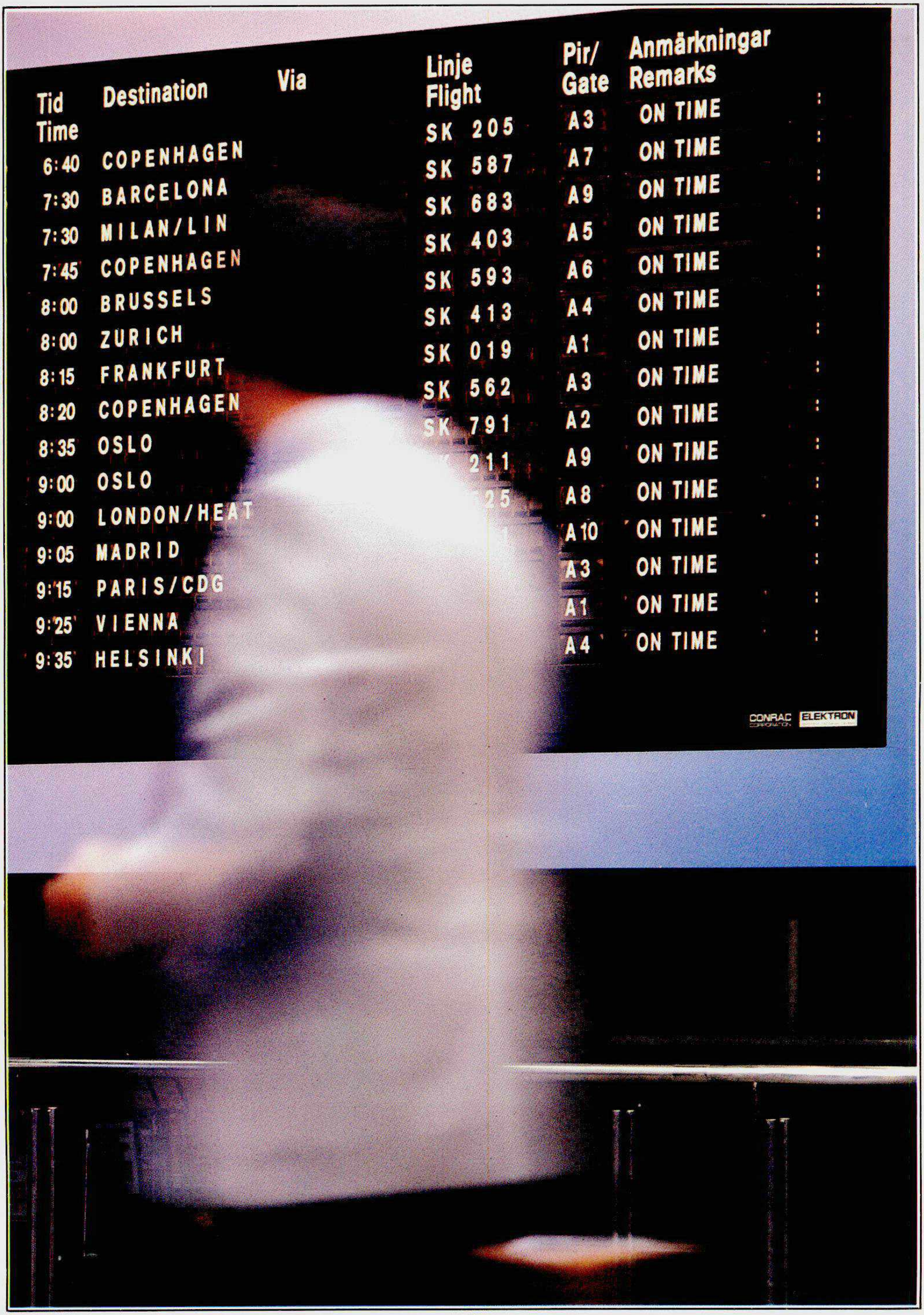
TRADING

Within the framework of its main strategy, SAS's ambition is to serve all destinations of interest to its customers. If SAS cannot do this itself because it does not have traffic rights or because the Scandinavian market is too limited, SAS will still be able to provide a service by cooperating with other companies. In this way, the market will obtain better service without SAS having to commit its own resources unprofitably. This may not be a novelty in the airline business, but SAS is striving to maximize the benefits.

CARGO

Today's aircraft have substantial cargo capacity. Timetables and frequency of departures are, however, primarily adapted to the needs of the passenger market. To achieve better utilization of capacity and consequently improved profitability, air cargo products must be adapted to market requirements. Among other things, this calls for a more flexible pricing.

Gate Managers have been introduced to provide special assistance to passengers prior to boarding, and clear up last-minute problems before departures.


Tid Time
Destination
Via
Linje Flight
Pir/ Gate
Anmärkningar Remarks
6:40 COPENHAGEN SK 205 A3 ON TIME
7:30 BARCELONA SK 587 A7 ON TIME
7:30 MILAN/LIN SK 683 A9 ON TIME
7:45 COPENHAGEN SK 403 A5 ON TIME
8:00 BRUSSELS SK 593 A6 ON TIME
8:00 ZURICH SK 413 A4 ON TIME
8:15 FRANKFURT SK 019 A1 ON TIME
8:20 COPENHAGEN SK 562 A3 ON TIME
8:35 OSLO SK 791 A2 ON TIME
9:00 OSLO 211 A9 ON TIME
9:00 LONDON/HEAT A8 ON TIME
9:05 MADRID A10 ON TIME
9:15 PARIS/CDG A3 ON TIME
9:25 VIENNA A1 ON TIME
9:35 HELSINKI A4 ON TIME
CONRAC
ELEKTRON

Market-Oriented Organization

Scandinavian Airlines System (SAS) is a consortium formed in 1951 by agreement between Det Danske Luftfartselskab A/S (DDL) of Denmark, Det Norske Luftfartselskap A/S (DNL) of Norway and AB Aerotransport (ABA) of Sweden. DDL and DNL each own two-sevenths of the Consortium, while ABA owns three-sevenths. Half the shares in each of the three parent companies are owned by the respective governments. In DDL and DNL, the other half are owned by a large number of private stockholders, and their shares are listed on the Copenhagen and Oslo stock exchanges, respectively. The other half of the shares in ABA are owned by Svensk Interkontinental Lufttrafik AB (SILA), whose shares are quoted on the Stockholm stock exchange.

SAS operates on concessions held by the three parent airlines, which entitle them to provide domestic and international air transport.

The parent companies are jointly responsible for SAS operations. Profits or losses are distributed among the parent companies in proportion to their ownership.

The highest governing body of SAS is the Assembly of Representatives, which consists of the Boards of Directors of the parent companies. The accounts of SAS are examined by a committee made up of the parent companies' auditors.

The SAS Board of Directors includes two representatives of each parent company. One of these represents the interests of each government, and the other represents the private shareholders. The chairmanship rotates among the three countries each year. The Board also includes an employee representative from each country.

The Consortium, together with a number of air transport-related subsidiaries, constitute the SAS Group. In addition, the Consortium holds interests in other companies, among them the domestic airlines Linjeflyg in Sweden (50 percent), Greenlandair in Denmark (25 percent) and Widerøe's Flyveselskap in Norway (22 percent).

Scanair is not included in the SAS Group. It is a sister consortium with the same ownership structure as SAS. Scanair, which exclusively operates charter traffic, cooperates directly with SAS by utilizing its aircraft and crews.

The SAS Group is headed by the President and Chief Executive. The Group Management also consists of the Deputy President, and three Executive Vice President: the heads of the Commercial Division, the Finance Department, and the Planning and Control Department.

Airline operations are organized into five divisions, each with its own profit responsibility. The Commercial Division is a marketing organization which develops and sells the airline's products. Commercial is divided into route sectors, each one a profit center. The four other divisions are responsible for traffic services and the technical, operational and administrative services required to perform airline operations.

The organizational structure of SAS is based, in part, on decentralized decision-making and profit responsibility and, in part, on a centrally-coordinated control of financial activities. Decentralization facilitates, the monitoring of profitability. Deviations from established objectives are discovered at an early stage, and corrective action can be taken rapidly.

Punctuality is one of the most important elements of air transport. Since May 1982 SAS has been the most punctual airline in Europe, and the main Scandinavian airports have been among the most punctual in the world.

Value for Your Money

SAS's new product range was introduced in stages, beginning in November 1981. It is designed to attract both the business traveler and the tourist. It is based on the concept that these two categories of passengers have different needs and demands which cannot be fulfilled with a single product. SAS therefore offers a differentiated selection of service, with different products carrying different prices. Because both categories of customers receive the products they demand at a reasonable price, total revenue increases, providing the basis for a competitive price level for the entire range.

SUCCESS FOR EUROCLASS AND FIRST BUSINESS CLASS

The Businessman's Airline strategy has materialized as EuroClass on European routes and as First Business Class on intercontinental routes. In addition, a number of other steps have been taken to improve passenger service. With a massive effort by ground staff and flight crews, SAS has substantially improved its punctuality. Since May 1982 SAS has been the most punctual airline in Europe and one of the most punctual in the world. Furthermore, Fornebu (Oslo), Arlanda (Stockholm) and Kastrup (Copenhagen) enjoy top rankings among the world's most punctual airports.

Another important goal was the development of Kastrup as an attractive gateway. Earlier dissatisfaction with Kastrup was among the reasons why Norwegian and Swedish business travelers often preferred to fly via Frankfurt, London and Amsterdam on other airlines rather than via Copenhagen on SAS. The aim is to win back these passengers and also to increase their numbers.

The new products mean better service and a higher standard of comfort than previously available, but still at normal economy class fares.

The entire new product range is designed to provide passengers with the best possible service at every link in the transportation chain. It is therefore a completely new, systematically developed service concept.

The total introductory costs of EuroClass, First Business Class and other service improvements in The Businessman's Airline program are estimated at MSEK 140, of which MSEK 110 were charged as cost in the 1981/82 accounts.

EuroClass was a success. Between November 1981 and September 1982, full-fare passenger traffic grew 8.4 percent over the previous year. At the same time, the proportion of tourist class discount traffic declined, indicating a shift of passengers to EuroClass. In terms of net revenue, a normal-fare passenger is worth about twice as much as an average discount-fare passenger.

Adjustment to the needs of the market resulted in the elimination of First Class on European routes when EuroClass was introduced.

In February 1982 Business Class was improved on intercontinental routes. This led to an increase in full-fare passenger traffic by 16 percent through September 1982. At that time First Business Class was introduced as a further improved product at the normal economy-class fare. It has already exceeded expectations. First Class has been retained on intercontinental routes. It is also a considerably improved product.

LOW FARES INCREASE TOTAL REVENUE

The success of the Businessman's Airline creates opportunities for new, attractive low fares. Because the fare level is the most decisive factor for a tourist, a higher cabin factor and thus an increase in total revenue per flight can be achieved with low fares. Low-fare products should have a lower level of service and must not influence the quality of the normal-fare product.

New low fares were introduced on intra-Scandinavian routes and to and from Finland during the summer of 1982 and attracted 30,000 new passengers over last year. In November, low fares were introduced between Scandinavia and most European destinations. SAS will examine the potential for introducing lower fares also on intercontinental routes during the coming year.

There is a very wide choice of discounts and low-fare tickets in the airline business. This creates administrative problems and, in the long run, added costs that the customer must cover. Furthermore, it is difficult and time-consuming for the traveler to select the appropriate discount. One of the purposes of the SAS low-fare program is to help clean up the market. Simplified handling creates opportunities for substantial fare reductions, attracting new categories of customers and expanding the market.

TRADING FOR BETTER WORLDWIDE CONNECTIONS

SAS currently has traffic rights to almost all European destinations of interest to the Scandinavian business travel market. There are limitations that handicap SAS on intercontinental routes. SAS has permission, for example, to fly to only five gateways in the United States. To provide good alternatives for passengers continuing within the U.S., SAS has signed agreements

Introduced in September 1982, First Business Class offers full-fare passengers improvements in service and comfort on intercontinental flights. First Business Class was such an immediate success that SAS is now providing even more capacity for this premium service.


DIALING INSTRUCTION
COUNTRY
DIAL COUNTRY CODE
DIAL SUBSCRIBER NUMBER
CHARGES PER 3 MINUTES:
FREE
PLEASE PAY AT RECEPTION
AUSTRIA
BELGIUM
CANADA
CYPRUS

with Eastern Airlines and United Airlines allowing First Business Class passengers to travel in First Class at no additional cost on connecting flights within the U.S.

Another example of SAS's efforts to improve service by cooperating with other airlines is an agreement with Thai International which provides for frequent non-stop flights to and from Bangkok and timetable-coordinated connections to other destinations in the Far East and Australia. The new route is the only non-stop service between Bangkok and Europe and is thus a competitive alternative even for passengers originating or terminating their travel in North America.

EVALUATING THE CARGO MARKET

Cargo accounted for only 11 percent of SAS's total traffic revenue in 1981/82.

The cargo market is characterized by intense price competition due to excess capacity. Modern passenger aircraft can carry substantial quantities of cargo. There are also numerous planes used exclusively for cargo. Despite fast and reliable transport, air cargo accounts for only a small percentage of the total freight market. Better adjustment to the market should increase this share.

During 1981/82 SAS introduced new cargo products as well. Aside from traditional air cargo, a door-to-door service is being tested in the Scandinavian countries. When it has been evaluated, SAS will decide whether to introduce this product in other markets, too. Meanwhile, SAS is striving to create a total strategy for its cargo business.

CONTINUED EFFORTS TO IMPROVE DOMESTIC AIR TRAVEL

In Denmark, SAS cooperates with Maersk Air and Cimber Air through Danair.

The Danish market demands frequent departures to numerous destinations. The geography of the country means short flights and, in turn, a high cost level that is difficult to cover in the fare structure. Within the framework of Danair's operations, the three parties agreed in 1982 on a new division of the network. SAS will operate the longer routes to Aarhus, Aalborg and Karup, while the two other companies will handle the remaining traffic. For customers, this means more departures than previously to most destinations and a major expansion of shuttle traffic. At the same time, the equipment flown by the airlines is being utilized more efficiently, enabling them to keep fares at a reasonable level.

In Norway, SAS and Braathens SAFE share trunk-route traffic, currently at an approximately 60–40 ratio. SAS flies the trunk network connecting the southern and northern parts of the country. Because the most northerly points can only be reached by plane or boat, domestic air travel plays an important role in Norway's overall communications. At the same time, however, the traffic base at many destinations is limited. As in Denmark, the object is to create efficient shuttle traffic to most population centers.

In Sweden, SAS operates the routes between Stockholm and Gothenburg, Malmö, Luleå and Kiruna. Other services are provided mainly by Linjeflyg. Sweden already has non-stop traffic between Stockholm and all cities served by SAS and Linjeflyg. The two companies are now studying the possibilities of more extensive coordination of operations when Linjeflyg moves its Stockholm traffic hub from Bromma to Arlanda airport.

SAS's Scanorama Business Service lounges provide telephone, telex, conference room, secretarial assistance, etc.

Result Development . . .

DOWNTURN IN THE 1970s

The growth rate tapered off and inflation increased during the 1970s. Fuel costs climbed substantially faster than other costs as a result of the oil crises of 1973 and 1979. The airlines were no longer able to reduce costs with the help of new aircraft technology.

In many respects, SAS was in a more vulnerable position than the other airlines. Personnel costs in Scandinavia rose sharply, while government user charges increased to levels unmatched elsewhere in the world.

SAS took a number of steps to counteract this unfavorable trend. Among these were a dampening of the rate of expansion, more nonstop flights, continuous rationalization measures and stricter cost control. New low fares stimulated demand. In 1977/78 passenger traffic increased by 12 percent and in 1978/79 by 10 percent, but the contribution to earnings did not keep pace with the growth in volume.

At the same time, the Consortium expanded its engagement in subsidiaries as a supplement to airline operations.

The Consortium retained its conservative depreciation principles unchanged. At the same time, however, considerable gains were realized from the sale of used aircraft.

The Consortium ended the financial year 1978/79 with a profit of MSEK 109, before allocations and taxes. The subsidiaries recorded a profit of MSEK 40, before allocations and taxes. The Annual Report noted, however, that the airlines faced the task of adjusting to new realities.

RESULT-IMPROVEMENT PROGRAM INITIATED

When the market stagnated in the spring of 1980, SAS initiated a cost-cutting and concentration program which led to reductions in personnel and production as early as 1979/80. Productivity once again began to rise.

At the same time, SAS placed its first two Airbus A300 aircraft in service. They had been ordered at a time when there was reason to anticipate continued traffic growth, crowded air space and fuel shortages.

During 1979/80 SAS also initiated a comprehensive reorientation and reorganization of its operations. This laid the groundwork for the restoration of SAS's profitability.

The Consortium could nevertheless not avoid declaring a loss during 1979/80, amounting to MSEK 54, before allocations and taxes. The year's labor market conflicts had cost the Consortium about MSEK 85, but at the same time the 1979/80 loss had been reduced by a MSEK 93 credit from reserves. In addition, the subsidiaries showed a loss of MSEK 1.

REVERSING THE UNFAVORABLE TREND

The new programs were intensified during 1980/81. Production was reduced by four percent, and substantial aircraft capacity was released for subsequent leasing to other companies. The number of employees dropped by about 650, and productivity continued to increase.

Net interest, which had previously shown a favorable trend, nevertheless deteriorated due to lower liquidity and borrowing for the Airbus program. Fluctuations in exchange rates, especially the rise in the U.S. dollar, adversely affected the result, even though most unrealized currency losses on long-term liabilities were deferred to spread them out over a longer period. As in 1979/80, the sale of used equipment was negligible.

Despite these financial burdens, the result-improvement measures led to an improved cash flow. In the summer of 1981 the negative result trend was also reversed. At the same time, the new business strategies were being formulated to restore the Consortium's profitability during the following year.

In 1980/81 the Consortium's operating result after depreciation was a profit of MSEK 15, or an improvement of MSEK 126 compared with 1979/80. After financial items, etc, the Consortium's deficit was MSEK 109. The subsidiaries, which had rapidly adjusted to the new market conditions, achieved an aggregate profit of MSEK 67, before allocations and taxes.

RETURN TO PROFITABILITY

The Consortium moved from deficit to profitability in 1981/82, the third year of the adjustment process. This was primarily due to the new business strategies, the continued concentration of operations, and the further development of the cost-reduction program. Contributing to the result was an extensive leasing of aircraft to other carriers.

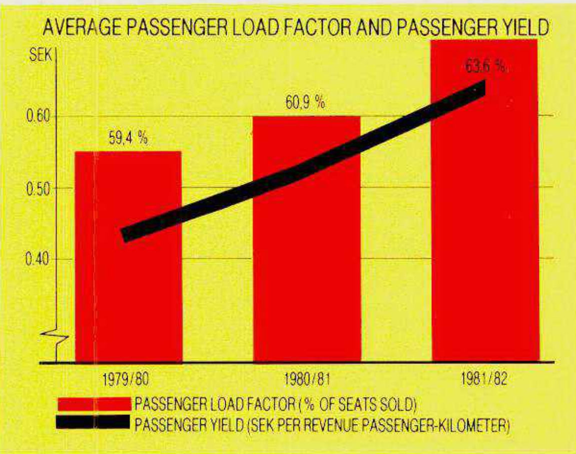
Simultaneously, the relationship between the Consortium's revenue and cost levels developed favorably during the year. This compensated by a wide margin for the negative effects of the steadily increasing U.S. dollar rate on the operating result.

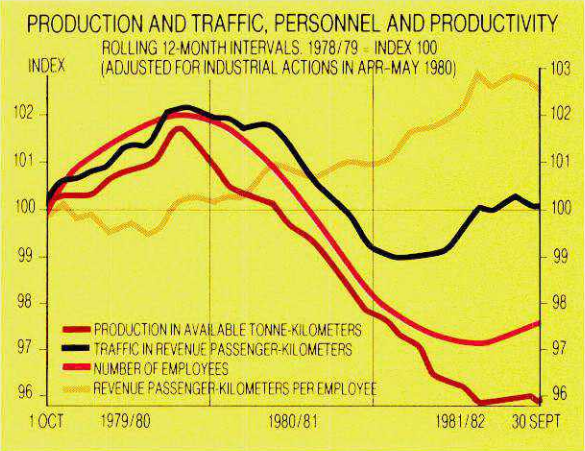
The total operating result, after depreciation, improved from MSEK 15 in 1980/81, to MSEK 316.

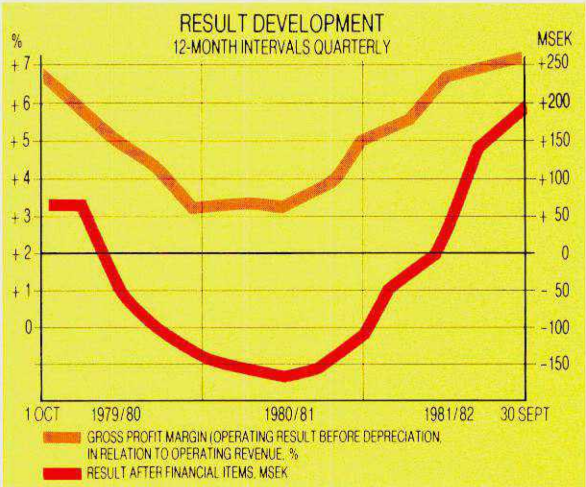
Other items in the profit and loss statement also developed favorably. The improvement in the Consortium's net interest and other financial items largely compensated for the increases in currency losses, which were charged to income. Sales of equipment, which had been insignificant during the two preceding years, now yielded substantial income, as did extraordinary items. The overall improvement in other items amounted to MSEK 144 during 1981/82.

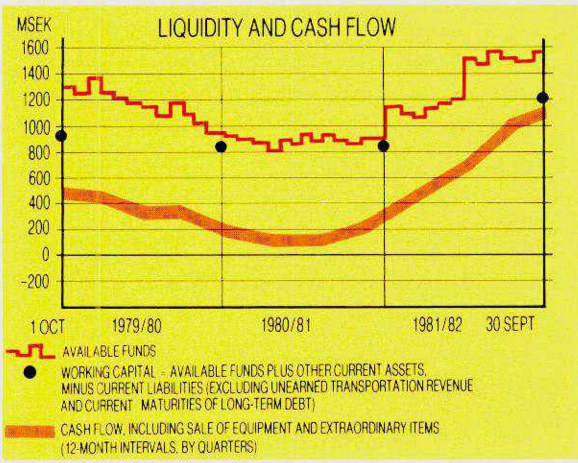
The Consortium's profit, before allocations and taxes, was MSEK 336. At the same time, the strong growth trends of the subsidiaries continued. Their total profit before allocations and taxes was MSEK 121, an improvement of MSEK 54 over 1980/81. After allocations and taxes, the subsidiaries reported a MSEK 52 profit.

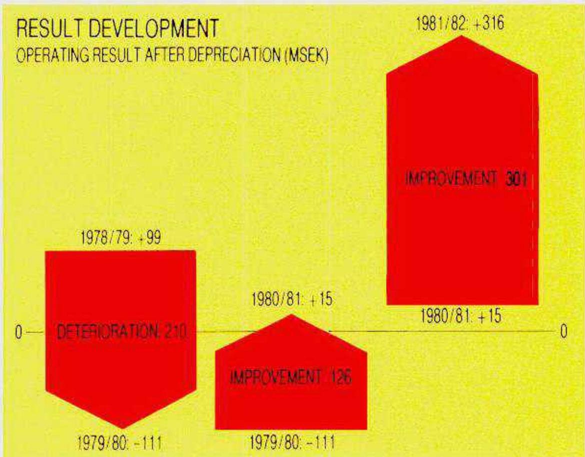
THE SAS CONSORTIUM–THREE-YEAR TRENDS











. . . and Financing

CAPITAL EXPENSES

When assessing the Consortium's current level of profitability, capital expenses and deferred unrealized currency losses deserve special attention.

More than half the DC-9 fleet, or 32 planes delivered between 1967 and 1971, are already depreciated to residual value. Within the next three years an additional 20 planes will have reached residual value. A rapidly growing share of the fleet is therefore not subject to depreciation. During 1981/82 the Consortium's depreciation was MSEK 86 (81) below what it would have been if all aircraft had been subject to full depreciation based on historical acquisition values. In 1981/82, depreciation (excluding aircraft leases) was four percent of operating expenses, against nine percent 10 years ago.

At present, SAS has no aircraft on order, and 1982/83 will be the first year since 1962/63 that no new planes will be put into service. At the same time, the average interest expenses of the Consortium—excluding the effect of unrealized currency losses—are far below today's market interest levels. At the close of 1981/82 the Consortium's long-term loans amounted to MSEK 2,200 (after conversion based on the exchange rates prevailing at the end of the financial year). Of this amount, 86 percent carry fixed interest rates and 14 percent variable rates. At the end of the financial year, on September 30, 1982, the average weighted interest rate for this financing stood at 8.4 percent.

In addition, the Consortium has financed two Boeing 747 aircraft, with a total acquisition value of 136.8 million U.S. dollars, through 18-year leasing contracts. On the basis of the interest rates prevailing at the end of the financial year, the effective interest for this financing would be 6.2 percent per annum.

THE DOLLAR AND THE KRONA

The rising exchange rate for the U.S. dollar and the devaluations of the Swedish krona have caused the Consortium substantial unrealized currency losses on its long-term liabilities. According to SAS's accounting principles, these exchange losses are deferred and later charged to income in such a way that, at all times, the currency loss related to the short-term portion of the loans is covered (for loans with deferred repayment, a corresponding share of the total currency loss). During the period 1980/81– 1981/82 the loss charged to income amounted to MSEK 217, including MSEK 68 in currency losses realized through amortizations.

In the balance sheet as of September 30, 1982, the remaining deferred amount is MSEK 338. As a result of the Swedish devaluation in October 1982, this amount has increased by MSEK 384. After deducting the currency losses to be charged to income in 1982/83, the amount deferred at the end of this year would total about MSEK 444, based on the exchange rates prevailing at the end of October 1982.

At the moment, it is impossible to predict the final amount of present unrealized currency losses. It is obvious, however, that the Consortium's very low average interest level will rise as a consequence of currency developments.

At the same time, however, it should be noted that the Consortium's operating result is favorably affected by the Swedish devaluation. This is due partly to the net earnings of the Consortium in currencies other than Swedish kronor, and partly to the adjustment of fares and rates in Sweden to maintain the international level. In addition, the Consortium benefits from a currency gain on its current net monetary assets in currencies other than Swedish kronor.

FUTURE INVESTMENTS REQUIRE STABLE PROFITABILITY

During the 1970s the Consortium's debt/equity ratio gradually weakened because the growth of equity did not keep pace with expansion. During the two years of losses, equity was further diluted. Currency developments simultaneously brought about an increase in liabilities expressed in Swedish kronor. The result was a rising debt/equity ratio. Calculated according to the rules established in the Consortium's 1972 Eurodollar loan agreements, the debt/equity ratio increased from 0.9 at the close of 1978/79 to 1.5 at the end of 1980/81.

Furthermore, the weak demand for second-hand aircraft created an uncertainty about the margin between market and book value of the fleet, even though the rising dollar and the Swedish devaluations increased the value of the aircraft as expressed in Swedish kronor.

During its two deficit years, the Consortium's cash flow and liquidity deteriorated, but was never close to being critical. The Consortium never had to draw on its short-term lines of credit.

At the end of 1979/80, the Governments of Denmark, Norway and Sweden had not renewed the agreement providing for certain financial guarantees to SAS's parent companies. The agreement dates originally to the formation of the SAS Consortium in 1951, effective retroactively as of October 1, 1950. It had been regularly renewed for five-year periods, with the size of the guaranteed amounts adjusted upwards to correspond to the scope of SAS airline operations. Based on more recent parliamentary decisions in the three countries, the Governments of Denmark, Norway and Sweden now have the possibility to re-establish and increase the guarantees for the five-year period from October 1, 1982 through September 30, 1987. Danish action is pending an opinion from the EEC on the guarantees.

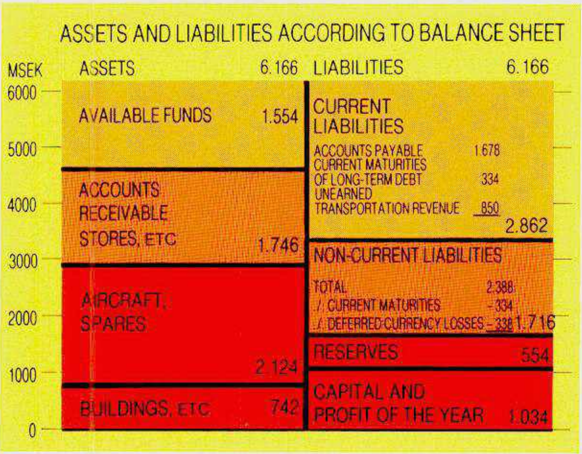
As mentioned in the Report on preceding pages, the SAS Board and President have recommended that MSEK 161 of the 1981/82 profit be added to the Consortium's capital. This fully restores the Consortium's capital after two deficit years.

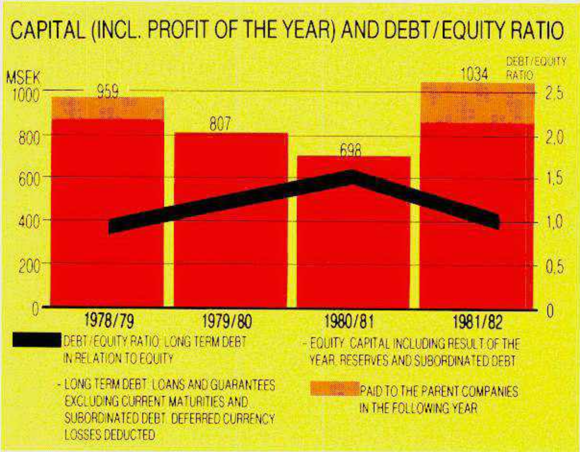
Including the year's profit the debt/equity ratio described in the previous page was reduced to 1.0 by the end of 1981/82. At the same time, the Consortium's profit represents a reasonable return on equity for the year.

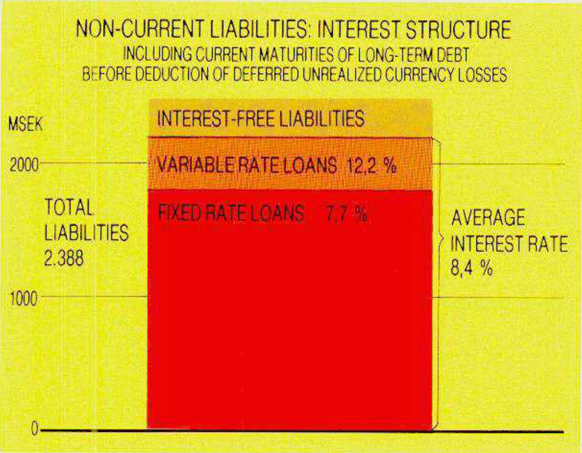
The Consortium's borrowings are based on its creditworthiness, monitored by a system of financial data and ratios. The Consortium's loans are not secured through mortgages on aircraft owned by the Consortium, or other forms of collateral. This method of financing was established when SAS began borrowing on the American capital market. The Consortium operates two Boeing 747s leased for 18 years. A third 747 was sold by SAS and leased back for five years.

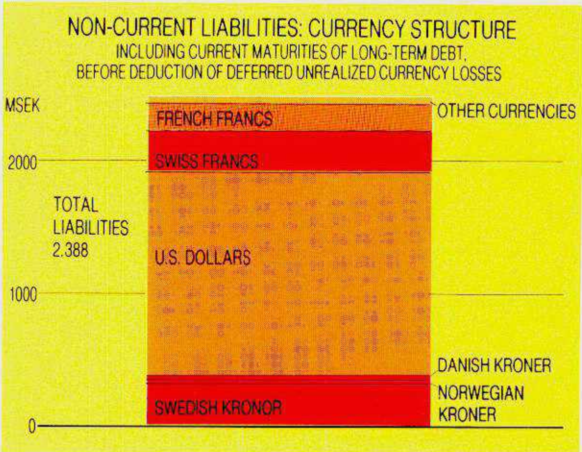
Even in the future, the creditworthiness of the Consortium will be decisive for its financing opportunities. For another few years, the Consortium will have declining depreciation on its aircraft and relatively low interest rates on its loans. This situation will change radically, however, when SAS begins to renew its fleet. A continued increase in profitability is thus necessary, considering the need to strengthen further the Consortium's capital and creditworthiness before it is time for major new investments in aircraft toward the end of the 1980s.

SAS CONSORTIUM – CAPITAL STRUCTURE PER SEPT. 30, 1982









Investing for the Future

The development of SAS's airline operations is dependent on future market growth. Given the prevailing relationship between business cycles and the demand for air travel, SAS cannot count on any major increase in total demand in the near future. Its planning will, consequently, have to continue to assume zero market growth.

Increased revenue and stable profitability can only be based on a continuous adjustment to the needs of the market through product development and pricing policies. The position SAS enjoys in the market is dependent upon a competitive product range offering good value for money, and on extensive training and motivational programs for the personnel.

The investment in the personnel will be decisive for SAS's competitive strength in the future. SAS's service philosophy is based on an interplay between the SAS employee and the customer. The purpose with service is to be flexible enough to satisfy the needs and wishes of different categories of customers. Each time an SAS employee meets a customer, he or she has a chance to improve the SAS product by providing the service the customer expects. Decisions should be made as close to the customer as possible, without the employee being governed by detailed instructions. Within the framework of an overall policy established by SAS management, the employees themselves should take the responsibility and make their own decisions in their customer contacts. This new way to work presupposes extensive training programs for employees at all company levels. Such programs were implemented during 1981/82, and others will be carried out in 1982/83.

A new generation of aircraft based on more sophisticated technology can be expected on the market by the end of the 1980s. Developments in engine technology, along with aerodynamical improvements, may lead to as much as a 45 percent reduction in fuel consumption. New, lighter materials will reduce aircraft weight and thereby increase payloads. New instrumentation will further simplify flight deck routines. It is also anticipated that the new generation of aircraft will be able to meet public concern about noise abatement and air pollution.

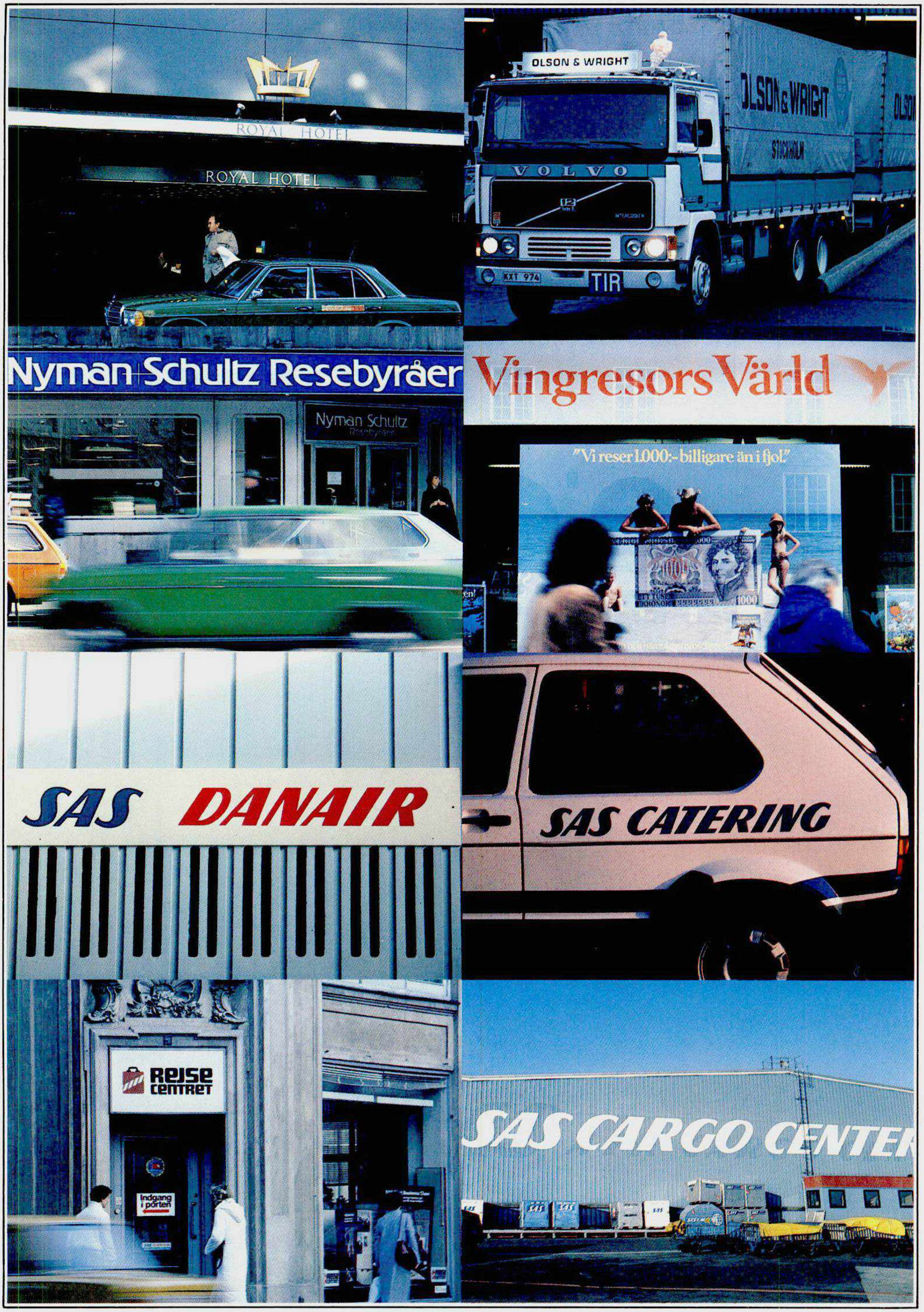
Technological achievements and the development of new maintenance techniques will place heavy demands on the airlines' technical know-how. Along with continued development of its market-orientation, SAS must consequently prepare itself in the long term for another concentrated production-oriented effort similar to those of the 1960s and 1970s.

SAS has already begun to evaluate how and when its current fleet of 60 DC-9 aircraft should be replaced. As of now, there is no aircraft which fulfills SAS's requirements to meet future market needs. A production run of at least 300 units is required to make it worthwhile to develop a new aircraft type and new engines. SAS will present its views to the manufacturers and advocate the development of a plane suitable for SAS and other airlines with a similar traffic structure.

SAS's total investment in a new fleet to replace its DC-9s between 1988 and 1993 is estimated today at some 19 billion Swedish kronor in current prices, including 16 billion kronor for aircraft and the balance for ground support equipment. In today's climate, it cannot be expected that proceeds from the sale of secondhand aircraft will significantly reduce these capital requirements.

Solid profitability and financial strength provide freedom to choose among different financing alternatives. Ownership combined with borrowing appears to be the natural choice. Leasing could, however, become an interesting alternative, to the extent it offers specific economic advantages. To cope with the future financing of such a major investment satisfactorily, the Consortium will need a profit of some MSEK 700–800 per year in today's monetary value during the coming decade.

At the same time as SAS establishes profitability goals to secure future investments, the airline intends to use its present DC-9 fleet for as long as possible. This will postpone the financial burden that early replacement would entail. Instead, starting in 1983, SAS will invest in improvements of the DC-9s and make them even more appealing and competitive on its important European routes.


ROYAL HOTEL
ROYAL HOTEL
OLSON & WRIGHT
OLSON&WRIGHT
STOCKHOLM
VOLVO
TIR
Nyman Schultz Resebyråer
Nyman Schultz
Resebyråer
Vingresors Värld
"Vi reser 1.000:- billigare än i fjol."
SAS DANAIR
SAS CATERING
rejse centret
Indgang i porten
SAS CARGO CENTE

The Subsidiaries

In 1981/82 the subsidiaries of the SAS Consortium accounted for a total turnover of MSEK 3,455, or 27 percent of the SAS Group's overall revenue. Several of these subsidiaries are among the leaders in their markets and have substantial development potential. Among these are SAS Catering & Hotels, which operates flight kitchens, hotels and restaurants; the Nyman & Schultz travel agency; the inclusive-tour operator, Vingresor; and the freight forwarding company, Olson & Wright.

SAS is now developing a Group strategy in which the companies belonging to the SAS Group as well as the Scanair consortium will combine their resources to offer new and improved products, without limiting their independence. Within the framework of this strategy, service to the business traveler will be extended to include not only the flight but also ground transportation, hotel accommodations, etc. As a further result of a group-wide strategy, Vingresor and Scanair will make greater use of SAS's excess capacity and thereby be able to market a product which offers better value for the money.

A presentation of the major subsidiaries follows on pages 52–61. In addition, the following subsidiaries belong to the SAS Group:

SAS Royal Hotel A/S, which owns the Hotel Scandinavia in Oslo. SAS has been holding 60 percent of the shares, with the remainder held by Westin Hotels, which has also operated the hotel under a management contract. The profit, before allocations and taxes, amounted to MSEK 7 in 1981/82, compared with MSEK 5 the preceding year. The 500-room hotel had about an 84-percent occupancy rate, the same as during the previous year.

SAS-Invest A/S, owner of the SAS Royal Hotel in Copenhagen. Since October 1, 1981, the hotel has been operated by SAS Catering & Hotels. SAS-Invest is a wholly-owned subsidiary of the SAS Consortium.

Scandinavian Air Tour Productions AB, which markets intercontinental inclusive tours in Scandinavia under the Globetrotter trademark. The company is wholly-owned by the Consortium and is based in Stockholm.

Arctic Hotel Corporation A/S, which owns the Arctic Hotel at Narssarssuaq airport, Greenland. The hotel is used by transit passengers all year round and by tourists mainly in the summer. SAS owns 50 percent of the company.

Danair A/S, which operates domestic air services in Denmark and to the Faeroe Islands. The company is 57 percent owned by SAS, with Maersk Air and Cimber Air holding the remaining shares.

A/S Dansk Rejsebureau, which is one of Denmark's largest travel agencies. The company specializes in business travel, which accounts for about 70 percent of sales. SAS owns 50 percent.

SAS Cargo Center A/S, which operates the cargo terminal at Copenhagen airport, Kastrup. The SAS Cargo Center is also responsible for handling all transit air mail at Kastrup on behalf of the Danish Postal Administration. The company is a wholly-owned subsidiary of the Consortium.

SAS also has holdings in a number of transport-related companies not included in the SAS Group. Among these are the domestic airline Linjeflyg in Sweden, the Hotel Scandinavia in Copenhagen, the travel agency Bennett Reisebureau in Norway, Greenlandair in Greenland, and the Polygon Insurance Company in Guernsey, Channel Islands.

Negotiations with the Westin hotel chain early in the 1982/83 financial year have subsequently led to SAS assuming one hundred percent control of the Hotel Scandinavia in Copenhagen and the Hotel Scandinavia in Oslo. Both hotels are now operated by SAS Catering & Hotels.

The 270-room SAS Royal Hotel in Bergen was opened in 1982. Its architecture harmonizes with the 1,000-year-old facades along the harborfront.

SAS Catering & Hotels

SAS Catering & Hotels is a consortium consisting of SAS Catering A/S, Denmark; SAS Catering A/S, Norway; and SAS Catering AB, Sweden. SAS Catering & Hotels, which is the largest subsidiary in the SAS Group, owns and operates flight kitchens, restaurants and hotels in 13 countries.

Turnover for 1981/82 amounted to MSEK 1,565 (1,169). Total revenue for the subsidiary, including businesses operated under management contracts, was MSEK 1,938, an increase of 52 percent. The average number of employees in SAS Catering & Hotels, including management contract operations, increased to 6,878 from 5,560 the previous year.

Profit, before allocations and taxes, improved by 17 percent to MSEK 55. Earnings did not grow as fast as turnover due to a higher investment level than in previous years and substantial initial costs in connection with the opening of new units. Demand wavered in some important markets, including the hotels in North Norway. Competition intensified, pressing prices down and affecting occupancy rates.

SAS Catering & Hotels has four operating divisions: Catering (flight kitchens), Hotels, Restaurants, and Saudi Arabian businesses. The divisions are responsible for their own results and are run by their own boards of directors, with the head of SAS Catering & Hotels as chairman. The divisions are split into a number of profit centers controlling product development, marketing, product supply, and economy. This organizational structure creates considerable flexibility and enables the units to react quickly to changes in demand and thus adapt to market developments.

In 1981/82 the Catering Division accounted for 43 percent or MSEK 840 of the total turnover of SAS Catering & Hotels. The division operates 13 flight kitchens in eight countries. During the financial year, a new flight kitchen was opened in Frankfurt. The division also took over operation of one of the British Airways flight kitchens at Heathrow airport in London. In addition, an agreement was signed to operate the Kuwait Airways flight kitchen in Kuwait beginning in 1983.

Restaurant Division sales totaled MSEK 366 in 1981/82, 19 percent of SAS Catering & Hotels' total turnover.

The division operates airport restaurants at Kastrup, Arlanda, Fornebu and several other airports, cafeterias and fast-food stands at a number of airports, as well as canteens. The division is also active in catering and accommodations for employees aboard offshore oil platforms, a rapidly growing market.

About 10 new restaurant units were opened during 1981/82. Among these were restaurants and fast-food stands at the Åby racetrack in Gothenburg and a hamburger chain in Oslo. An agreement was signed to operate the restaurants at Manchester airport, England, beginning in December 1982. The division also signed agreements to provide services to three oil platforms.

Together with Linjeflyg, the Restaurant Division took over the conference, hotel and restaurant operations at Snäckgärdsbaden near Visby, located on the Swedish isle of Gotland.

The Hotel Division operates 18 hotels, either owned or under management contract. The division also coordinates SAS's interests in three other hotels. All of the hotels are marketed as SAS Hotels. The division's sales amounted to MSEK 441, or 23 percent of SAS Catering & Hotels' total turnover in 1981/82.

During the financial year, the division acquired the Star Hotel at Stockholm's Arlanda airport. In Copenhagen, it took over operation of the SAS Royal Hotel, owned by SAS-Invest. The new SAS Royal Hotel in Bergen, Norway, was opened. Among new projects now underway are the establishment of hotels in Vienna and Singapore.

For the time being, activities in Saudi Arabia are being handled by a separate division whose task is to develop new business opportunities for SAS Catering & Hotels. These operations developed favorably during the year. Total turnover reached MSEK 280, or 15 percent of the SAS Catering & Hotels total.

SAS Catering & Hotels is in the midst of an expansive development phase. More than 20 new hotels outside Scandinavia are planned for the coming decade. An SAS hotel in Stockholm is also among the specific projects for the near future.

For the Catering Division, the most interesting markets are in the Far East, the Middle East and the United States, and major expansion is anticipated in these areas.

Service industries are currently enjoying substantially faster growth than most other sectors. SAS Catering & Hotels has a stable position in its domestic markets in Denmark, Norway and Sweden and has major development potential in countries with a growing demand for know-how and service. For these reasons, a favorable development is expected to continue.

Vingresor

Vingresor is Sweden's largest operator of inclusive tours, with 28 percent of the market. The company also has substantial business in Norway. Vingresor was acquired by SAS in 1971.

The 1981/82 financial year was very successful. A total of 390,000 vacationers traveled with Vingresor, 308,000 of them from Sweden and 82,000 from Norway.

In 1981/82 Vingresor's turnover exceeded one billion Swedish kronor for the first time, amounting to MSEK 1,068 compared with MSEK 730 the preceding year, for an increase of 46 percent. Profit before allocations and taxes was MSEK 38, against MSEK 11 the previous year.

Demand for inclusive tours declined after the record year of 1978/79. The summer of 1981 saw a reversal of this trend, however. Since then, demand has once again increased, although the inclusive tour business still suffers from excess capacity. During 1981/82 the total market for group travel grew by 12 percent to 1,090,000 passengers in Sweden and by 42 percent to 368,000 in Norway.

Vacation travel has two peak seasons, one in the summer months and one covering the period from Christmas through Easter. During the summer months, the destinations in greatest demand are beach resorts in Spain and Greece. During the winter half, beach vacations in the Canary Islands and skiing vacations in Austria, France and Italy account for most tour operator sales.

The Swedish inclusive-tour business is dominated by a few large tour operators. Vingresor's biggest competitors in Sweden are Atlasresor with about 23 percent of the market and Fritidsresor with 19 percent. In fourth place is Spiesresor, which is based in Denmark. All the major tour operators belong to corporate groupings which also include, or are affiliated with, charter airlines.

In Norway, over the past decade, Vingresor has attained a market share of 22 percent, making it the third largest tour operator. Although the Norwegian market is smaller than the Swedish, it has shown considerably faster growth.

Because most tour operators have identical destinations in their travel programs, the price is the most important competitive tool. Vacation travelers are very price-conscious. Comparing the prices of different tour operators is an important part of their decision-making, although quality and company reputation are major factors in the selection of a tour operator.

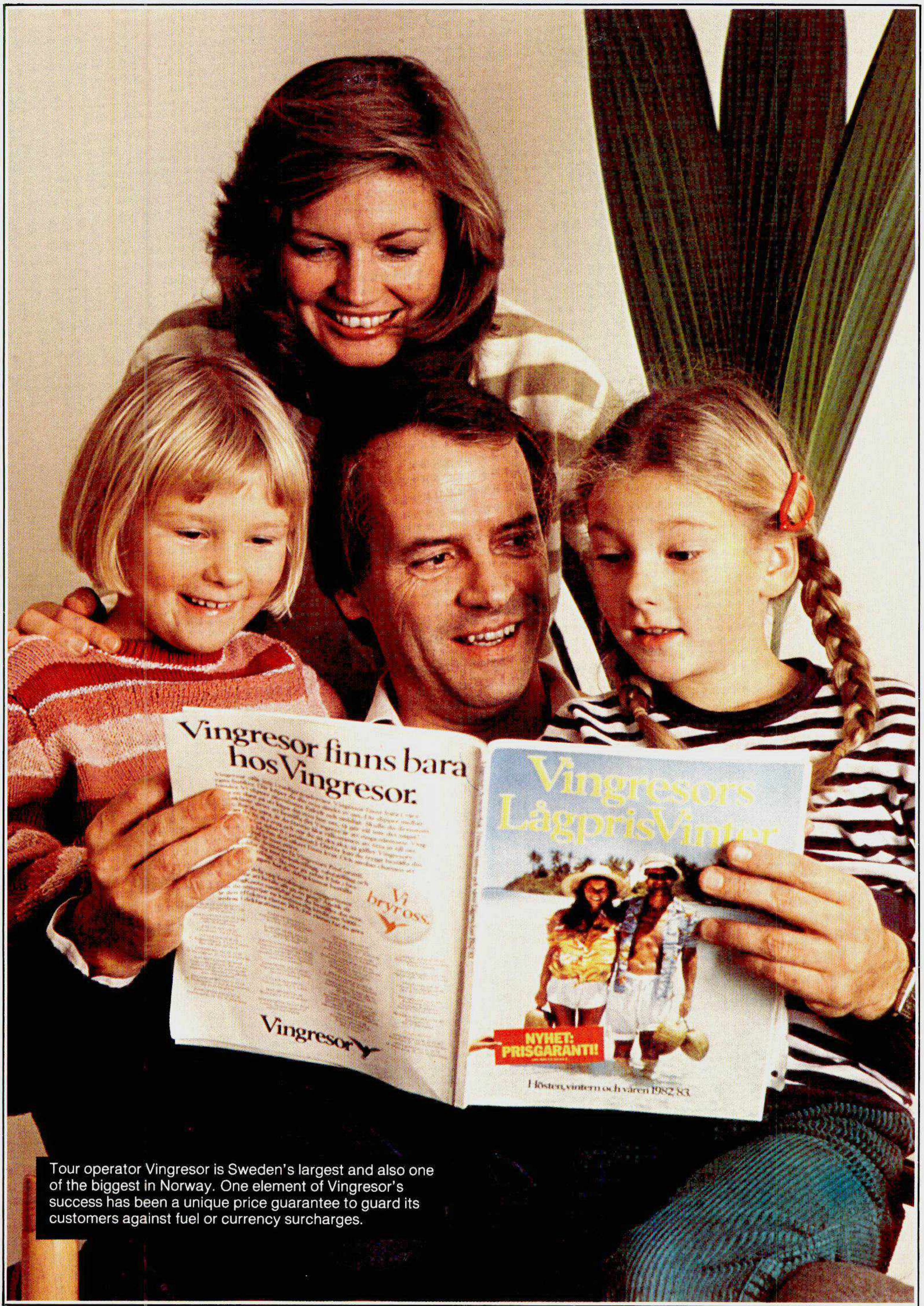
Vingresor's product range is well-adapted to different customer categories. At a number of the most popular vacation spots around the Mediterranean, Vingresor operates its own hotels under the Sunwing trade name. These hotels maintain high standards and are specially designed with the needs of Scandinavian tourists in mind.

About 50 percent of Vingresor's sales represent repeat business. The share of repeat business at the Sunwing resorts is 70 percent. For this reason, Vingresor is devoting its development resources primarily to continued expansion in this field.

Vingresor sells its inclusive tours exclusively through its own sales organization and offers a price guarantee which encourages early bookings. Under this system the customer does not risk any surcharges due to later fluctuations in currency exchange rates or fuel prices. To Vingresor it means early reservations and payments, which facilitate planning and have a positive effect on the company's cash position.

The most significant element determining a tour operator's profitability is the aircraft cabin factor, since the operator assumes the entire financial risk by chartering all the seats. During 1981/82 Vingresor had an average cabin factor of almost 99 percent. Along with greater volume, this is the main factor in the improvement of the year's result. In addition, higher liquidity had a favorable impact on earnings.

The devaluation of the Swedish krona in October 1982 is expected to result in a sharp decline in demand for inclusive tour travel. Vingresor has a satisfactory booking situation for the winter season of 1982/83 but anticipates a decline during the summer. Due to its strong market position and competitive product range, Vingresor nevertheless considers it possible to increase its share of the Swedish market even further, thereby compensating for part of the overall decline in demand. In Norway, a continued favorable trend is predicted.



Tour operator Vingresor is Sweden's largest and also one of the biggest in Norway. One element of Vingresor's success has been a unique price guarantee to guard its customers against fuel or currency surcharges.

Nyman & Schultz Resebyråer

Nyman & Schultz Resebyråer is Sweden's oldest travel agency and one of the largest in the country. The company became part of the SAS Group in 1970.

In 1981/82 Nyman & Schultz reported sales of MSEK 1,039, an increase of 13 percent. Operating revenue, mainly commissions and the sale of tours produced by Nyman & Schultz itself, amounted to MSEK 236 (237). Profit before allocations and taxes was MSEK 7, against MSEK 4 in 1980/81.

Nyman & Schultz is a full service agency, which means that the company can arrange tickets for all airline, boat and train connections throughout the world and book hotel rooms, reserve ground transportation, etc.

Full-service travel agencies are authorized by IATA to issue tickets and other documents on behalf of the airlines. Other full-service agencies in Sweden are SJ Resebyrå, Resespecialisterna and Reso.

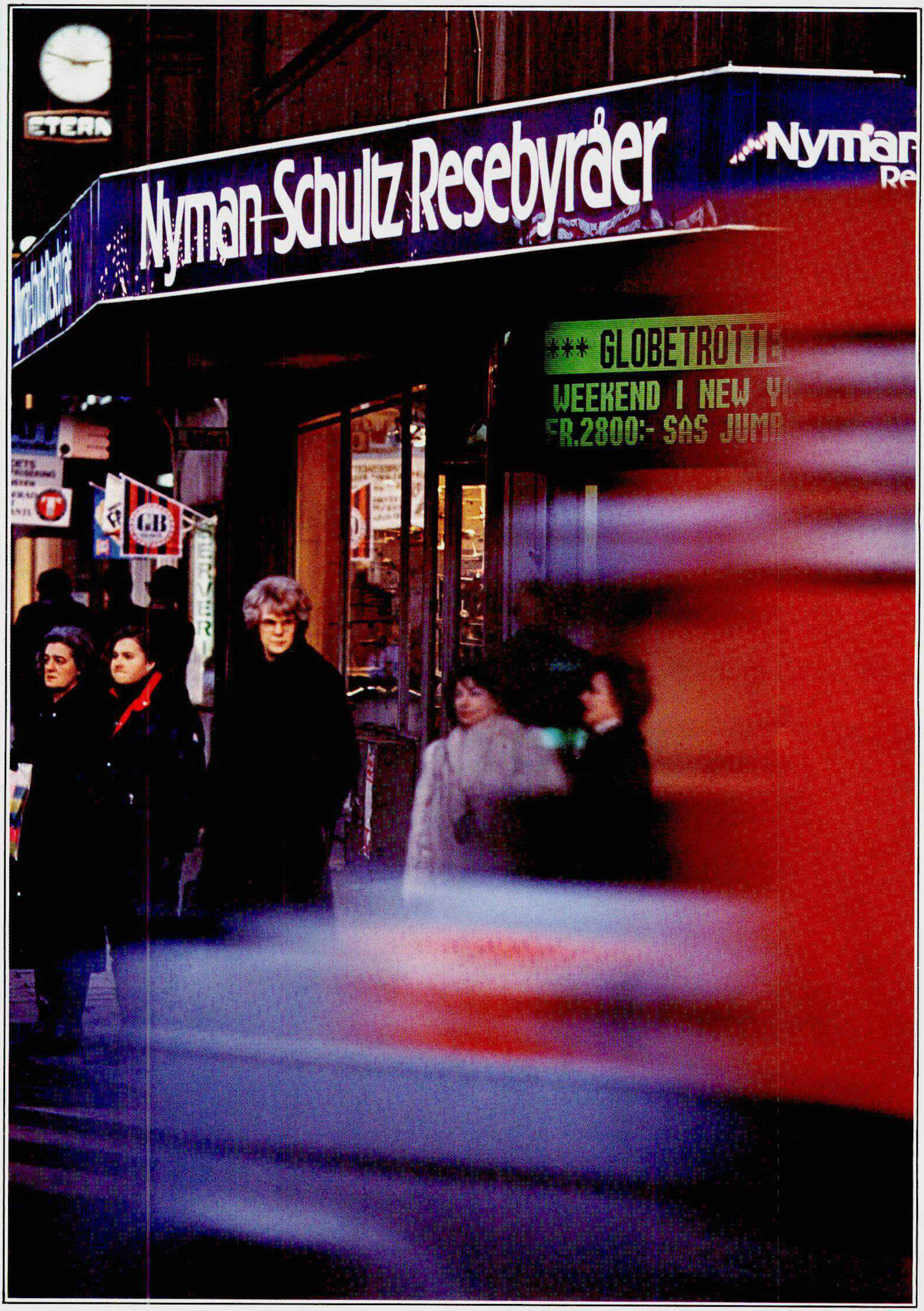
Nyman & Schultz specializes in business travel and service to Swedish business and industry. About 75 percent of sales, or MSEK 775, are derived from this category. More than 80 percent of this travel is to destinations outside Sweden.

Nyman & Schultz provides service and expert advice for all travel planning and practical travel preparations. Because of its size and market position, the company can offer the products and services especially adapted to the needs of business travelers. Nyman & Schultz is the only Swedish travel agency affiliated with Woodside, the world's largest hotel booking agency. In addition, Nyman & Schultz has an annual contract for a number of rooms at the Intourist Hotel, one of Moscow's largest and best-located hotels.

Business travel largely follows international business cycles. Changes in these trends are therefore quickly reflected in travel agencies' earnings. They are also very sensitive to the effects of such labor market conflicts as blockades against overtime which result in a drop in business travel.

To be able to provide complete service to the business traveler, a travel agency requires a professional staff, reliable suppliers, a broad network of contacts and efficient booking procedures. Personal service is an equally-important competitive instrument. With its decentralized structure, Nyman & Schultz tries to combine the resources of a large travel bureau with a smaller agency's flexibility and ability to adapt quickly to the individual needs of customers.

Nyman & Schultz is Sweden's second largest IATA travel agency and has specialized in the business travel market for many years. It has 27 centrally-located branch offices throughout Sweden, like this one at Stureplan in downtown Stockholm.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Nyman-Schultz Resebyråer
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Olson & Wright

Olson & Wright is one of Sweden's major international freight forwarding companies. The firm was founded in 1864 and was acquired by SAS in 1980.

During 1981/82 Olson & Wright's gross sales amounted to MSEK 1,085. After deducting customs duties, value-added tax on imports, freight rates and forwarding expenses, operating revenue was MSEK 96, against MSEK 80 the preceding year, a 20 percent increase. Profit before allocations and taxes was MSEK 11, up from MSEK 8 in 1980/81.

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

Air cargo includes all freight forwarding services in connection with exports and imports. Olson & Wright has its own offices at Arlanda (Stockholm), Landvetter (Gothenburg), Bulltofta (Malmö) and Kungsängen (Norrköping).

Shipping includes chartering (mainly of tanker tonnage), liner agency assignments and shipping agency work. In addition, Olson & Wright is an agent for a number of shipyards and salvage companies, among them the world's largest salvage firm, Smit of the Netherlands.

The third branch of operations includes road and rail shipments, and container services. Road haulage is handled primarily by contracted truckers. Aside from transport forwarding services, Olson & Wright also offers long-term warehousing, including inventory accounting and packing.

The market for freight forwarding services is sensitive to business cycles, and demand consequently follows international economic trends.

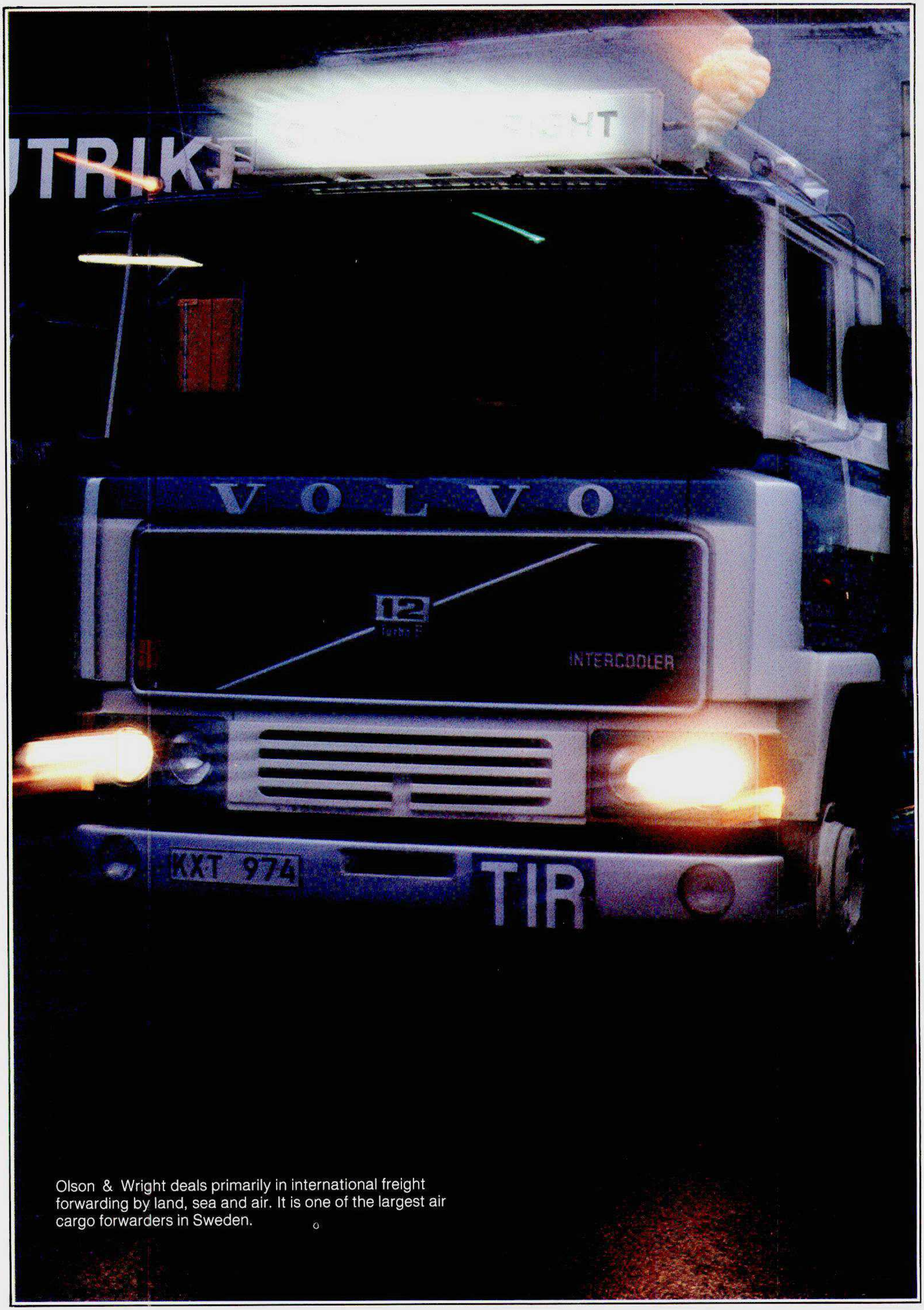
In Sweden there are several hundred freight forwarders of different size and specialization. The largest are ASG, Bilspedition, Scansped, Olson & Wright and Wilson & Co. Olson & Wright differs from the others through its specialization in international freight forwarding and the scope of service it offers. In a number of fields, such as air cargo, Olson & Wright has a leading position on the Swedish market.

Service is the most important competitive weapon in freight forwarding. By using efficient systems that include cargo consolidation, scheduled timetable traffic and an optimal combination of different modes of transportation and routes, Olson & Wright can adapt to the individual needs of each customer, thereby continuously developing new products that offer good value for money.

To spread its risks, Olson & Wright actively solicites customers with differing service requirements and with operations in many countries. The company currently has regular cargo consolidation to more than 50 destinations throughout the world.

Olson & Wright is also working to develop a Scandinavian image. In recent years its operations have been expanded through the purchase of companies in Denmark and Norway. A/S Nordsped, one of Norway's largest freight forwarding companies, was acquired in October 1982.

During 1982/83 Olson & Wright anticipates growth in the volume of freight between Scandinavia and continental Europe and Great Britain. Investments in Norway and Denmark are also expected to pay off in greater volume. Over a three-year period, Olson & Wright will develop and install a new computerized system which, in the long run, will further improve efficiency and thereby contribute to a higher level of profits.



Olson & Wright deals primarily in international freight forwarding by land, sea and air. It is one of the largest air cargo forwarders in Sweden.


SUN JET
SCANAIR

Scanair

Scanair is a consortium with the same ownership structure as SAS. Scanair was formed in 1961 for the purpose of operating charter traffic from the Scandinavian countries.

In 1981/82 Scanair's turnover amounted to MSEK 761, or 60 percent more than the year before. The profit was MSEK 25 (4), before allocations and taxes. A total of 1,111,000 passengers flew Scanair, an increase of 46 percent.

Charter airlines operate in a considerably freer market than scheduled airlines, but existing rules limit their opportunities to compete with scheduled airlines. The rules are set by the civil aviation authorities in each country.

Charter airlines sell their services to inclusive tour operators, who are responsible for utilizing the available capacity. Because air transport is the largest cost component in an inclusive tour, the operator generally has to achieve a cabin factor of more than 90 percent to be profitable.

During the 1970s, charter travel expanded vigorously. In 1978 there were 2.5 million charter passengers from Scandinavia. The impact of the second oil crisis, however, resulted in a sharp decline in the following two years. In 1981 demand recovered, and the number of passengers was estimated at two million in 1982.

There are five charter carriers on the Scandinavian market. With a 28 percent share, Scanair is the second largest after Danish Sterling Airways. Next is Norwegian Braathens, followed by Conair and Maersk Air, both Danish. They all belong to groups of companies which include, or are affiliated with, inclusive-tour operators.

Scanair has a strong position in Sweden. During the next few years, it is expected to strengthen its position substantially in Norway. In Denmark, on the other hand, its operations have thus far been very limited, primarily due to intense competition.

Vingresor is Scanair's largest customer. Other important customers are Atlas, Spies, Perikles and Royal Tours.

During 1981/82 Scanair had at its disposal three DC-8-63s and a DC-8-62, all on long-term lease from SAS. These planes accounted for more than 65 percent of production. Scanair's remaining capacity was also leased from SAS on an ad hoc basis. Scanair thereby contributed to a higher utilization of SAS's capacity.

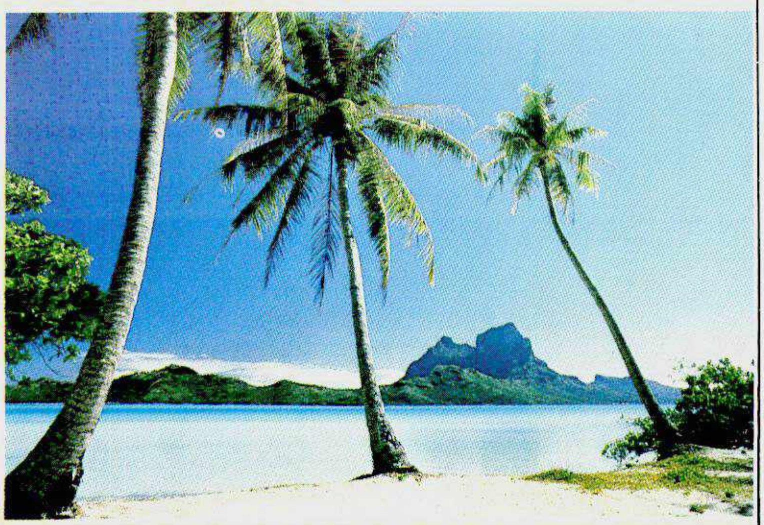
Scanair's greatest strength is the composition of its fleet and the size and technical standard of its aircraft. One important element of its service is that Scanair is the only Scandinavian charter airline that can offer hot food on board as well as music and film entertainment.

Price is the foremost means of competition on the charter market, but passengers are also willing to pay more for the type of high-quality products Scanair provides.

Scanair had a successful year in 1981/82. Its profit was equivalent to 3.2 percent of turnover, which is relatively high compared with the average for the industry.

The booking situation is satisfactory for the winter season of 1982/83, but it is too early to forecast business for the summer season of 1983. The Swedish devaluation in October 1982 will, however, have a negative impact on demand in Sweden.

Overall growth on the Scandinavian charter market is expected to be about 5–6 percent during 1982/83. Since Scanair already has a considerable share of the Swedish market, it is primarily interested in expansion in Norway and Denmark. Scanair consequently believes that there is a good potential for continued expansion, despite the uncertain prospects for the Swedish market.



Scanair is a sister consortium of SAS, operating charter flights from Scandinavia. Scanair cooperates closely with SAS and leases SAS aircraft and flight deck crews.

Group Management

JAN CARLZON
President and
Chief Executive Officer

FREDE AHLGREEN ERIKSEN
Deputy President and
Executive Vice President

HELGE LINDBERG
Executive Vice President,
Commercial Division

CARL ERIK LINDH
Executive Vice President,
Finance

NILS G MOLANDER
Executive Vice President,
Planning and Control

Division and Regional Managements

JAN LAPIDOTH
Vice President and
General Manager,
Traffic Services Division

OSKAR S NORDLAND
Vice President and General Manager
Operations Division

LENNART RINGQVIST
Vice President and
General Manager, Technical Division

GÖRAN YXHAMMAR
Vice President and
General Manager,
Administrative Services Division

CURT EKSTRÖM
Vice President and
General Manager, SAS DATA

ROALD SØKILDE
Vice President and General Manager, SAS Denmark

ODDVAR BACHE-MATHIESEN
Vice President and General Manager, SAS Norway

YNGVE WESSMAN
Vice President and General Manager, SAS Sweden

Route Sector Management

LARS BERGVALL
Vice President,
Route Sector Europe

BOSCO JANZON
Vice President,
Route Sector North and South Atlantic

JØRN ERIKSEN
Vice President,
Route Sector Asia,
Africa and Middle East

RAGNAR WILTON
Vice President,
Route Sector Cargo

Central Staff Units

LARS ENKLER
Vice President,
Foreign and Industry Affairs

BO STÅHLE
Vice President, General Counsel,
Secretary to the Board

CHRISTINA EDLER
Director, Internal Information

OLOF EKMAN
Director, Personnel

JOHN A HERBERT
Director, Public Information

OLLE LUNDQUIST
Chief Auditor

ÅKE ROMANDER
Director, Quality Assurance Office

SAS Subsidiaries

PER-AXEL BROMMESSON
President, SAS Catering & Hotels

CHRISTER MAGNUSSON
Managing Director, Vingresor AB

BO KRANTZ
Managing Director,
Nyman & Schultz Resebyråer AB

OLOF BERGENS
Managing Director, AB Olson & Wright

GUNNAR TIETZ
Managing Director, Danair A/S

BJØRN GULLAKSEN
Managing Director,
SAS Royal Hotel A/S, Oslo (from January 1, 1983)

VAGN SCHULTZ
Managing Director,
Scandinavian Air Tour Productions AB

TOR HAMNES
Managing Director, SAS-Invest A/S

SVEN-ERIK HANSEN
Managing Director, Arctic Hotel Corporation A/S

NIELS KARRITSØ
Managing Director, A/S Dansk Rejsebureau

POUL ERIK HANSEN
Managing Director, SAS Cargo Center A/S

Addresses

SAS HEAD OFFICE

Ulvsundavägen 193, S-16187 Stockholm-Bromma, Sweden
Telephone: 46–8–780 10 00

The public telex number for SAS Head Office and the Regional Offices in Scandinavia, below, is 22263, SASXTDK, Denmark

SAS DENMARK

Hedegårdsvej 88, DK-2300 Copenhagen S, Denmark
Telephone: 45–1–50 91 11

SAS NORWAY

N-1330 Oslo Airport, Norway
Telephone: 47–2–59 60 50

SAS SWEDEN

Kvarnbacksvägen 30, S-16188 Stockholm-Bromma, Sweden
Telephone: 46–8–780 10 00

SUBSIDIARIES

SAS Catering & Hotels

Kristen Bernikows Gade 1
DK-1105 Copenhagen K, Denmark
Telephone: 45–1–14 55 14

Vingresor AB

Sveavägen 25–27
S-10520 Stockholm, Sweden
Telephone: 46–8–22 23 60

Nyman & Schultz Resebyråer AB

Sveavägen 31
S-10369 Stockholm, Sweden
Telephone: 46–8–24 80 80

AB Olson & Wright

Hammarbyvägen 59
S-10483 Stockholm, Sweden
Telephone: 46–8–22 80 20

Danair A/S

Kastruplundgade 13
DK-2770 Kastrup, Denmark
Telephone: 45–1–51 50 55

SAS Royal Hotel A/S (Hotel Scandinavia)

Holbergsgate 30
N-Oslo 1, Norway
Telephone: 47–2–11 30 00

Scandinavian Air Tour Productions AB (Globetrotter)

Bällstavägen 6
S-16171 Stockholm-Bromma, Sweden
Telephone: 46–8–780 10 00

SAS-Invest A/S (SAS Royal Hotel)

Hammerichsgade 1
DK-1611 Copenhagen V, Denmark
Telephone: 45–1–14 14 12

Arctic Hotel Corporation A/S

Gammel Mønt 12
DK-1117 Copenhagen K, Denmark
Telephone: 45–1–11 65 02

A/S Dansk Rejsebureau

Bredgade 28
DK-1260 Copenhagen K, Denmark
Telephone: 45–1–12 66 11

SAS Cargo Center A/S

Flyvervej 10, Hangar B
DK-2770 Kastrup, Denmark
Telephone: 45–1–50 91 11

AFFILIATED COMPANIES

Scanair

P.O. Box 10026
S-16110 Stockholm-Bromma, Sweden
Telephone: 46–8–780 10 00

Linjeflyg AB

P.O. Box 10016
S-16110 Stockholm-Bromma, Sweden
Telephone: 46–8–24 00 20

Hotel Scandinavia K/S

Amager Boulevard 70
DK-2300 Copenhagen S, Denmark
Telephone: 45–1–11 23 24

Grønlandsfly A/S (Greenlandair)

Box 1012
DK-3900 Godthåb, Greenland
or
Nyropsgade 26
DK-1602 Copenhagen V, Denmark
Telephone: 45–1–11 22 41

Widerøe's Flyveselskap A/S

Mustads vei 1
N-Oslo 2, Norway
Telephone: 47–2–55 59 90

Bennett Reisebureau A/S

Karl Johansgt 35
N-Oslo 1, Norway
Telephone: 47–2–20 90 90

A/S Hotel Atlantic

P.O. Box 307
N-4001 Stavanger, Norway
Telephone: 47–4–275 20

Polygon Insurance Company, Ltd.

P.O. Box 34
50, High Street
St. Peter Port, Guernsey
Channel Islands

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"An airline's only really valuable asset is a satisfied customer. Therefore, the assets in the balance sheet should consist of the number of satisfied customers who flew SAS during the year."

JAN CARLZON, PRESIDENT