Scandinavian Airlines System

Annual Report 1984–85

SAS

Scandinavian Airlines System

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

DDL **DNL** **ABA**

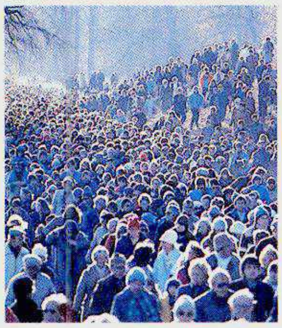
SAS Consortium

Subsidiaries

MEMBER OF IATA QUALITY IN AIR TRANSPORT

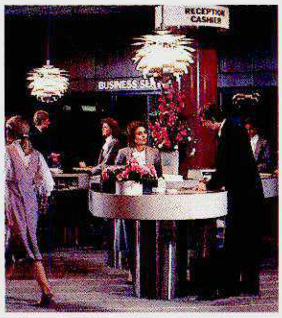
Contents

Highlights



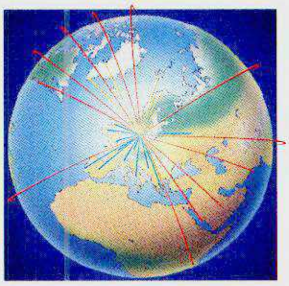
BILLION–KRONOR RESULT DESPITE CONFLICTS

SAS Group income after financial items topped the one-billion Swedish kronor mark for the first time, at 1,018 MSEK, even though labor market conflicts in Denmark and Sweden had a negative effect on the year's result.



EUROPEAN, DOMESTIC GROWTH CONTINUES

European and domestic routes continued to show solid growth in both traffic and income. Intercontinental routes operated at a deficit, with high costs in an increasingly competitive environment.



TREMENDOUS IMPROVEMENTS AMONG THE SUBSIDIARIES

SAS International Hotels, SAS Service Partner and Vingresor all noted very successful years, turning in an overall 147 MSEK result improvement.

MAJOR INVESTMENTS

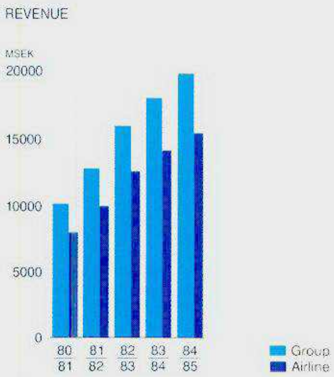
SAS ordered aircraft worth some 4.7 billion kronor during the year to meet steadily increasing capacity requirements.

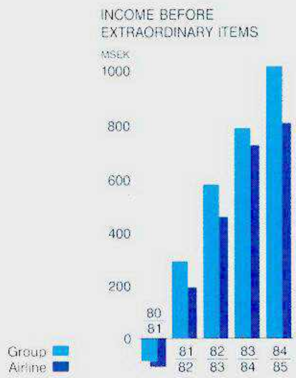
GROSS PROFIT MARGIN MUST BE IMPROVED

To afford continuing investments in capacity as well as the future replacement of its fleet, SAS must increase its gross profit margin to 13 percent.

NEW STRATEGIC DEVELOPMENT AREAS

Efficiency and excellence in operations, new communications and distribution systems, and an integrated Scandinavian "hub-and-spoke" network are strategic development areas which will be decisive for SAS's future.





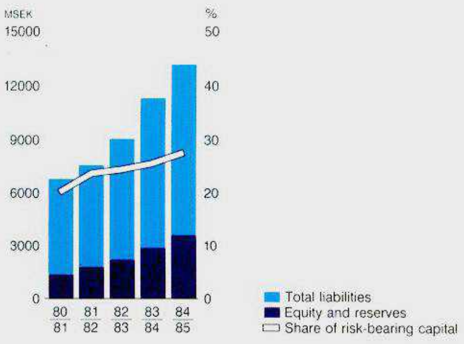
SAS Group Summary

REVENUE AND RESULT

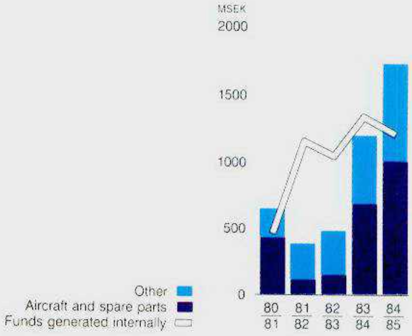
October 1 – September 30

BUSINESS AREA (MSEK)	Revenue 84/85	Revenue 83/84	Result 84/85	Result 83/84
SAS Airline	**15 434**	14 151	**811**	729
SAS International Hotels	**948**	843	**67**	21
SAS Service Partner	**2 393**	2 049	**81**	15
Vingresor	**1 537**	1 239	**81**	46
Other	**390**	695	**– 15**	2
Group eliminations	**– 912**	– 972	**– 7**	– 21
INCOME BEFORE EXTRAORDINARY ITEMS			**1 018**	792
EXTRAORDINARY ITEMS 'NET			**– 1**	+176
SAS GROUP	**19 790**	18 005	**1 017**	968

SHARE OF RISK-BEARING CAPITAL



INVESTMENTS



SAS's Concessions and Greater Competition

SAS's profit passed the billion kronor mark for the first time in 1984/85, thereby continuing the improvement trend in our annual results. It was particularly gratifying to see how the subsidiaries SAS International Hotels and Vingresor consolidated their positions in the market by conceiving and systematically applying their respective business strategies. It was equally pleasing to witness SAS Service Partner's rapid recovery from the previous year's decline.

THE AIRLINE MUST IMPROVE ITS RESULT

SAS has prospered in recent years and the airline is reasonably profitable by industry standards today. We are now faced with major investment requirements, for essential immediate expansion as well as a fleet renewal program in years ahead, and for the latest in computer and communications technology. In the past two years we have ordered, and already begun to receive, more than four billion Swedish kronor worth of aircraft and two hundred million kronor more in computer equipment. The interest payments and depreciation involved puts tremendous pressure on our bottom line. To afford these investments, and to consolidate our business to prepare for future fleet renewal, we have to generate much higher profits than we have today. The current result level, before depreciation, should be just about doubled, with a gross profit margin of about 12–13 percent.

NEW STRATEGIES TO MEET GREATER COMPETITION

SAS instituted "The Businessman's Airline" strategy to turn the company from deficit to profit in 1981. We are still attracting more and more full–fare passengers by providing a first class product at a normal economy fare.

This means, in turn, that SAS can provide the leisure traveler with very attractive low fares by differentiating service levels.

In addition, we have singled out three strategic development areas to help SAS convert a threat into an opportunity, and to ensure not only our survival but also our expansion in a more severe and freer competitive climate.

The first area is operational excellence and efficiency. This means that we shall be both best and most cost efficient.

The second area covers information and distribution of our services. New technology and communications systems imply radical changes in the relationship between producer, distributor and consumer. We intend to take up the challenge from major international interests in Scandinavia, even though we feel like David, up against the overwhelming resources of the multinational companies.

The third area signals our intent to compete with the major European hub–and–spoke systems by creating a strong, efficient and competitive Scandinavian traffic system.

WHAT ABOUT GREATER COMPETITION?

Much of the recent Scandinavian debate about the renewal of SAS's concessions has reflected conflicting views on the future liberalization of current regulations governing commercial aviation and the increased competition that would result.

Once and for all, let us clearly state that SAS is not opposed to freer competition. On the contrary, we want to take advantage of it. We have a good range of products to satisfy a market which demands safety, on-time performance, frequent departures and an efficient network. We have a better staff and our service is at least as good as the competition's. That's what has made SAS the best alternative for the business traveler on the routes we fly.

The problem we're faced with is on a much larger scale and actually quite another than what the debate has been focusing on thus far. We already have competition, and it's growing fast. It is not so much competition on individual routes, nor is it a struggle between SAS and other airlines in Scandinavia.

The overriding issue is the competition between a Scandinavian traffic system, which SAS represents, and other European traffic systems which either exist today or are fast emerging. These systems include, for example, Holland and KLM, Great Britain and British Airways, and West Germany and Lufthansa.

As we see it, our owners—the Scandinavian people, as represented by their governments and by private shareholders—expect SAS to provide a competitive and efficient traffic system with as many non-stop flights as possible from Copenhagen, Oslo and Stockholm, primarily to European points, and also to intercontinental destinations. And, to the greatest extent possible, we should also expand services from other major Scandinavian cities like Bergen, Stavanger, Aarhus and Gothenburg.

For this system to function, it is essential to develop efficient feeder routes to these major hubs, either on our own or in cooperation with other Scandinavian carriers.

In contrast to our previous standpoint, SAS is today prepared to encourage other airlines within the overall framework of a Scandinavian traffic system. We solidly oppose, however, other airlines feeding traffic from Scandinavia directly into other, competing European traffic systems at the very same time as we and the Scandinavian authorities work toward an integrated Scandinavian system. We don't want to see a fragmentation which would be detrimental to the Scandinavian business community in the long run, and would have negative consequences for the economies of our three countries.

There is an obvious parallel to metropolitan subway systems. Traffic flows from the suburbs to the city center and then out again in keeping with the hub-and-spoke principle. Efficient air transport follows much the same pattern.

We are not simply trying to protect what we have today; we want to develop a strong and competitive integrated Scandinavian system to benefit the majority of our customers in our three countries.

We don't want to give up without a fight the concept of a Scandinavian air transport system with many non-stop flights to European and other points around the world from Scandinavia's major cities, with a competitive gateway in Copenhagen to handle the rest. But it's going to be a tough struggle against the geographically more centrally located European traffic systems, all of which have strong national backing. Due regard must be taken to the fact that we Scandinavians live on the periphery of Europe.

OUR CONCESSIONS: THE VITAL QUESTION

Against this background, the main question in our concessionary debate should be whether we Scandinavians will join together and support a Scandinavian traffic system, or whether we – as the first countries in Europe – are prepared to abandon that idea and divide our resources between SAS and other airlines.

SAS's view is quite clear. We want a strong Scandinavian system. We also realize that we have a less advantageous starting point than our European competitors, since we are on the geographical periphery of Europe and have a relatively thin home market. We don't want to throw in the towel, but neither do we want the efforts of our own and other Scandinavian carriers undermined, even though isolated groups of customers in outlying districts might feel otherwise.

No matter what the outcome, SAS will undertake whatever role it is assigned. And we will do it well. But we need a clear and concise mandate. Our investment planning depends to a great extent on the outcome. Today, we are concentrating on smaller and medium-size aircraft to serve the network with as many non-stop flights as possible. Another course could possibly be to concentrate on a single Scandinavian hub supported by feeder routes. This would call for larger aircraft to handle efficiently the traffic that's fed into that hub.

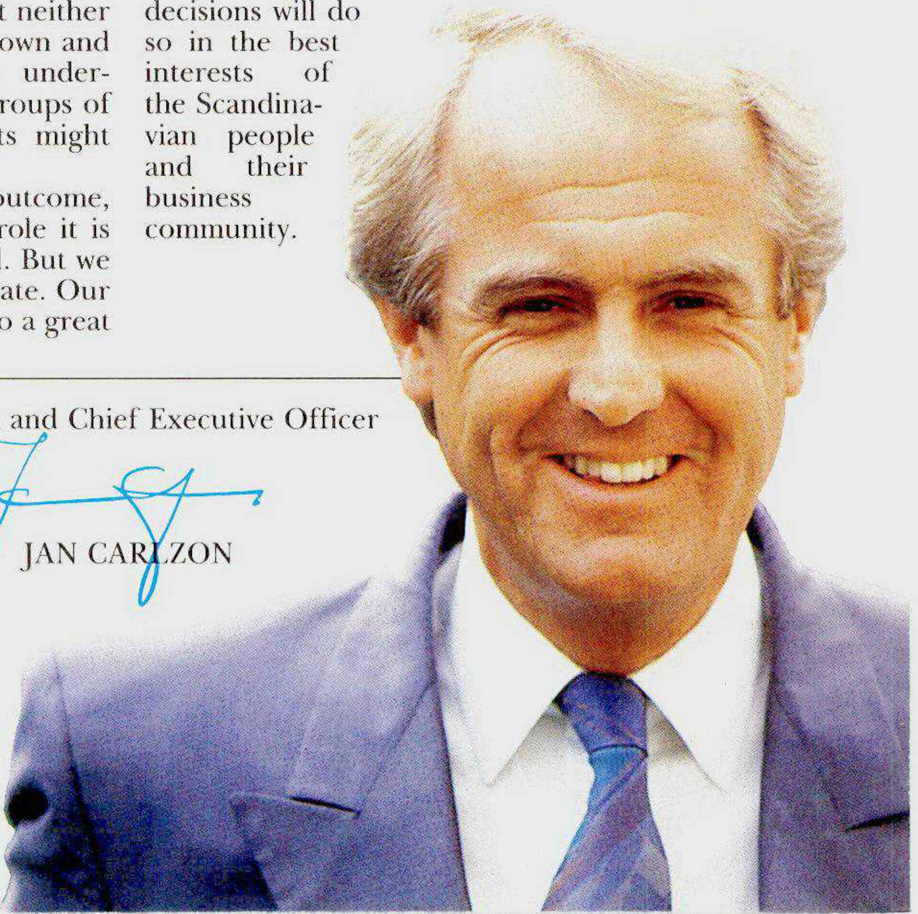
We are about to embark on an investment program of tremendous proportions. That's why it is only reasonable that we know the rules of the game. Once the rules have been set, it is up to us to satisfy the demands of our market. I am convinced we can do it.

I fully understand those who think that the concessionary debate reflects protectionistic arguments on SAS's behalf. We have to try to explain that this is not the case, and to clarify the long-term consequences of the different alternatives.

We don't expect all our customers to take sides, or even to show an interest, in these questions. But we are convinced that those who are about to make these vital political decisions will do so in the best interests of the Scandinavian people and their business community.

President and Chief Executive Officer

JAN CARLZON



The Operating Environment

The future of the international airline business will be determined mainly by two external factors. One is market growth and the other is changes in the air-political regulatory framework which has traditionally constituted the base on which the entire industry has existed.

In the early 1980s, international air transport was distinguished by a drop in demand, intense competition, depressed prices and low profitability. In the beginning of 1984, the market recovered and demand continued to mount in 1985. In 1984, the IATA airlines collectively showed a positive result after financial expense for the first time since 1978.

Still, the level of profitability is much too low in most companies to permit the levels of capital investment which will be necessary for replacement and expansion of aircraft fleets in the 1990s. Half of the IATA members are still reporting operating losses. For the next three years, continued traffic growth is expected in the Western World, but the rate of expansion is likely to be somewhat lower.

Most nations have their own national carriers. Ownership varies from full government control to entirely private ownership. International aviation is governed by more than 2000 bilateral agreements among the nations involved. These agreements govern capacity that may be offered and the destinations which may be served. The agreements also prescribe that fares and rates must be approved by the authorities in the countries involved.

At present, there is a gradual liberalization of the regulatory framework. The will to liberalize depends in principle on a country's government ideology, its geographical potential to pick up more traffic from other countries, and on the competitive strength of its national airline.

In Europe, these issues are primarily dealt with in the Common Market, where several nations have been accused by the EEC Commission of restraining competition.

Domestic traffic in the three member countries is today regulated by concessions which provide SAS with preferential rights on certain trunk routes. Demands have been made to stimulate competition by allowing other carriers access to trunk routes on which SAS holds the concession.

On European routes it is likely that the Common Market will influence an increase in capacity, operating permits for new airlines and considerably less price control.

There is no similar uniform pattern on intercontinental routes. It is very likely that the nations of South America, Africa and the Middle East will continue to advocate a restrictive policy to protect their own national carriers.

The United States is expected to work for continued deregulation to the extent it does not affect U.S. airlines negatively.

More competition would affect SAS both positively and negatively. The Scandinavian market is small and geographically dispersed, and is somewhat on the periphery of the mainstream of airline traffic. The cost level, the rate of inflation and government user charges are generally higher in Scandinavia, which means that SAS's costs are higher than those of most of its competitors.


EuroLink
SAS

Goals

Given its structure and the anticipated expansion of the market, SAS has set an overall goal to survive and even expand in a freer competitive environment.

This ultimate goal means that SAS must further improve its profitability in absolute as well as relative terms. To keep up with market growth, investments are required in new capacity. An increase in demand of three to four percent per year corresponds to a need for between two and three DC–9 aircraft per year. In addition, SAS must produce earnings sufficient to finance and profitably replace some 60 older DC–9 aircraft in the first instance and, over time, also its fleet of DC–8s and DC–10s.

Major investments will also be required in computer technology and equipment as well as the development of a competitive traffic system including the expansion of airports and terminals.

For a reasonable capital structure and return on equity, an increase of the gross margin to 12–13 percent, or income before depreciation of between 2.3 and 2.4 MSEK, is needed to meet the profitability goal.

SAS must also adapt to a world of increasingly severe competition within and outside Scandinavia. Liberalization of the European airline industry has already begun for political and commercial reasons. Based on experience from the United States after the deregulation in 1978, totally free competition could require a 25 percent improvement in efficiency. A substantial increase in efficiency will therefore be an obvious complement to SAS's profitability goal.

Strategies

To break the negative earnings trend in the early 1980s, SAS adopted "The Businessman's Airline" as its strategy. This means that SAS should be the obvious choice of the frequent business traveler. The main strategy was complemented by a marginal strategy of selling otherwise empty seats at lower prices to expand the market and to achieve better capacity utilization. It is the main strategy, with its inherent profit motive, that determines investments in additional capacity. Product and price differentiation are basic and decisive factors in all competitive business. SAS, therefore, does not subscribe to the current trend to obscure the definition between full–fare and low–fare products.

STRATEGIC AREAS OF DEVELOPMENT

SAS has identified three additional areas of strategic development which will prove critical to achieving its goals.

First, the entire organization must be distinguished by efficiency and excellence in every link of the service chain vis–à–vis the customer. To prevent efficiency from conflicting with, for instance, safety and service levels, non–negotiable norms have been established in three specific areas: operative standards, technical standards and service standards.

An easy way of rapidly, but only in the short term, improving profitability would be to lower product quality. It has therefore been established that the excellence of service, which is an SAS hallmark, must not be compromised.

These norms may never be questioned. They must be firmly established throughout the organization and they will always constitute the basis for all planning and operations.

The second strategic development area concerns the distribution of SAS products. Travel and purchasing habits and patterns of consumption are subject to change. The substantial cash flow in distribution and purchasing of air travel constitutes an interesting market for banks and credit card companies. SAS is therefore actively developing reservation and computer systems and communications networks as components in a more efficient system to sell all the elements in a total travel program.

The third strategic development area calls for a total Scandinavian air transport system with a network and airports which can compete with other European systems. The Scandinavian capitals and a few other cities will be hubs in the system for non-stop traffic to major international destinations. Wherever the passenger base is insufficient for direct routes, traffic is channeled via Copenhagen by feeder service.

Regional traffic can be developed while cooperation with other airlines is established to meet the demand from routes, primarily domestic, that SAS does not serve.

To attract traffic to and from Europe, Copenhagen Airport is being expanded in cooperation with Danish authorities and airlines. The goal is not only to make Copenhagen Airport an attractive transit shopping center, but also to make it an extremely important component in an integrated traffic system.

Copenhagen Airport continues to be the main hub of the Scandinavian traffic system. A greater variety of shopping opportunities is being offered as part of the strategy to compete more effectively with other major gateways. In 1985, prices were cut some 30 to 50 percent on tax–free goods.

Organization

SAS's organization is based on goal orientation and decentralized result responsibility. The guiding principle is to give clear and unambiguous primary business goals and to create total alignment around the analysis on which the goals are based. Business strategies are then formulated to provide appropriate methods to achieve the goals. This model gives management an opportunity to concentrate on overall strategic issues, leaving daily operations to the line organization.

Supervisory systems, which are a condition for decentralization, are centrally coordinated together with overall planning and control. The airline is organized in six divisions, with the Commercial Division responsible for marketing and product development. Each geographical market has its own special requirements. To interpret their needs correctly, the division has six route sectors, one for each of the domestic markets in Scandinavia and for the European network, intercontinental routes and cargo. The route sectors are controlled by strategies and profit goals. Market requirements are translated into products, which in turn control resource allocation and production in the other divisions.

The airline is a complex and highly integrated operation, where all components are combined to create and produce a specific service. The lead time in certain units is long. To procure new aircraft with ancillary resources, such as recruitment and training of pilots, expansion of airport facilities and development of data systems, requires lead times that can be anywhere from just a few years to a decade or more. At the same time, demand can change quickly, which means being both foresighted and flexible in planning and cooperation.

Route sectors and divisions discuss and agree on product concepts, costs and quality levels of services offered. In this way, the route sectors can interpret the market and estimate revenue opportunities. Aside from the dialogue with the Commercial Division, the producing divisions are guided by efficiency goals, particularly on the cost side. Some divisions have considerable sales to companies outside SAS and close contact with the conditions that prevail in the external market. Integrated result center accounting for the entire airline ensures planning and performance evaluation of both products and functions.

A Concept for Human Resources

SAS's business concept is predicated on individual service, and personal attention to the customer. It calls for human creativity, technical quality and material resources. It means that SAS has to allow its personnel the greatest possible freedom of action to resolve their responsibilities so that SAS stands out as the best alternative for the customer.

This is a human resources concept based on an individual and personal treatment of SAS employees. It is founded on the firm conviction that SAS employees not only can but also want to put the company's current resources to better use, and to find ways to create new resources.

SAS is therefore developing:

– An organization which gives the individual employee sufficient motivation to tackle the work at hand, and ample incentive to do the job well.

– A management with the capacity to establish goals, to provide information about them and to create the proper conditions to ensure that they can be reached.

– A leadership able to make demands, delegate authority and control results.

– A spirit of cooperation based on candor, freedom of action and consideration.

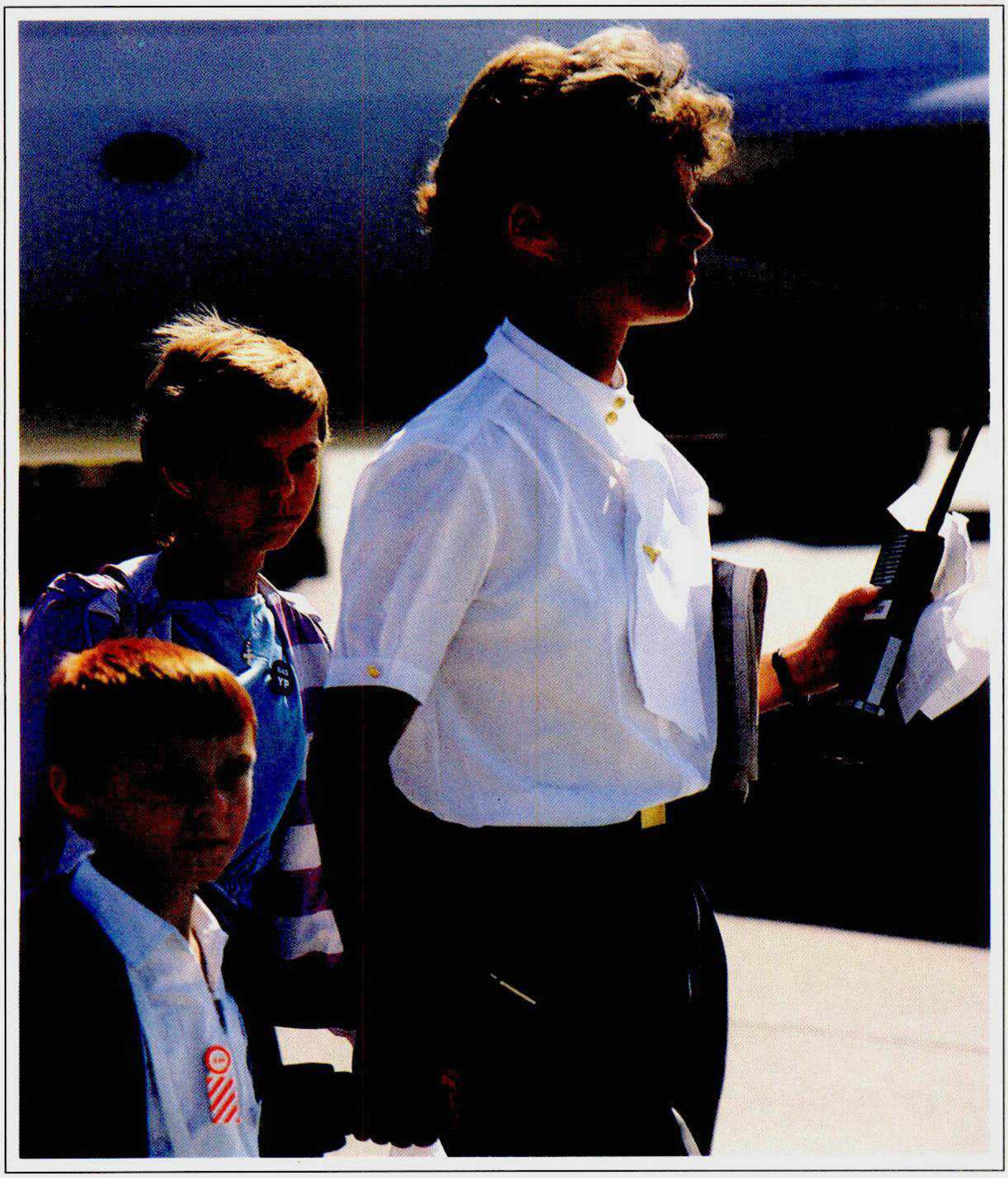
– A spirit of confidence with the right to question, take initiatives and even make mistakes.

– A training program including character development, opportunities to improve job routines and preparations for new challenges.

– A security which gives the employee confidence in his or her qualifications and, consequently, in his or her job.

This is a human resources concept which can be realized only by action!

SAS must be distinguished by excellence and efficiency in every link in the service chain where SAS meets the customer in "The Moment of Truth!"



Front–line people are the foundation of SAS's business. Excellence in performance is based on the service that each employee contributes in contact with the customer.

Horizontal Organization

Although SAS has undergone many changes, its operational routines remain essentially the same. The organization is bureaucratic, a pyramid with many layers of management and with the people on the front lines at the bottom of the pyramid. This type of organization is in reality a reflection of the social and economic structure that prevailed in Western society 20 or 30 years ago. There were relatively few well–educated people. Only a limited number were thought to have sufficient knowledge to function as managers in administrative hierarchies.

Today the situation is different. Information and knowledge are available to everybody. Economic barriers between social groups have been razed. SAS can not demand that every individual should assume personal responsibility for their work and decisions, while also allowing employees to work in an organization where various administrative layers execute decisions made at a higher level. Therefore, SAS must develop forms of cooperation that conform with the company's personnel policy. SAS's goal is a horizontal organization, where problems are solved at their source by the individuals best equipped to deal with them.

The requirement for increased efficiency and a decentralized organization calls for better cooperation over functional boundaries in the interest of producing the best product with the greatest possible productivity. To promote horizontal cooperation, a number of projects are testing ways for the front line to assume direct responsibility for implementing business strategies without repeatedly calling for support or authority from a higher level in the hierarchy.

Theoretically, this organizational model would mean that the highest level of management in the hierarchy can devote maximum effort to strategic development and formulation of overall goals. The next level concentrates on planning and resource procurement. The third level, the front line of personnel and resources closest to the customer, can concentrate exclusively on running the day–to–day business. The magnitude of front line efforts will determine how large a share of the market can be cultivated, not the size of the administrative effort or the hierarchical superstructure.

This organizational principle is well suited for an airline devoted to service. Many employees have direct contact with the customer. Their performance to a great extent influences the quality and content of the product that the customer is prepared to pay for. Punctuality and regularity are such elements, as are service levels and excellence in performance. In this context, technical, data and maintenance personnel are as important as the people in the terminals, in the flight kitchens, or in the aircraft.

Outside Scandinavia, every geographical area of the airline already operates as an independent unit with responsibility for marketing and sales, terminal operations, finance and administration. Within some areas, horizontal integration has come a long way and individual employees can participate in a number of front line jobs.

The Fleet

SAS's current fleet includes several types of aircraft. The market's requirements in terms of size and range, for non–stop flights with satisfactory capacity utilization and revenue levels, and the operating economy of the aircraft, are factors that determine the composition of the fleet. A small number of different aircraft types, together with common technical and operational equipment, facilitate efficient utilization of pilots, cabin crew and technicians.

With the DC–10, SAS can realize its business strategy of frequent non–stop departures on the intercontinental network. The Boeing 747 is too large. Therefore the decision has been made to shift to a uniform fleet of DC–10s, with three more being acquired during the year.

DC–8s are used for Middle Eastern, African and Greenland routes, and by Scanair. New noise restrictions are applicable in Europe and the United States to ban operation of unapproved aircraft from 1986. SAS is currently modifying its fleet of DC–8s to comply with the new requirements. This will extend their economic life by at least ten years.

In Europe and on domestic routes, expansion is based on the acquisition of new DC–9s. This type of aircraft is best suited for SAS's strategies with many non–stop departures for the frequent business traveler. Fokker F–27s are used on the regional feeder network.

SAS's departure frequency currently corresponds to market demand on many European routes, so that increased traffic can now be covered by larger aircraft instead of more flights. On a number of other routes, however, more non-stops are still required, calling for flexibility in the size of aircraft. Balance must also be achieved in operating economy and other financial constraints.

The future fleet can be comprised of either a family of aircraft in four sizes, with 50, 90, 130 and 175 seats, or a family with 50, 90-100 and 140–150 seats.

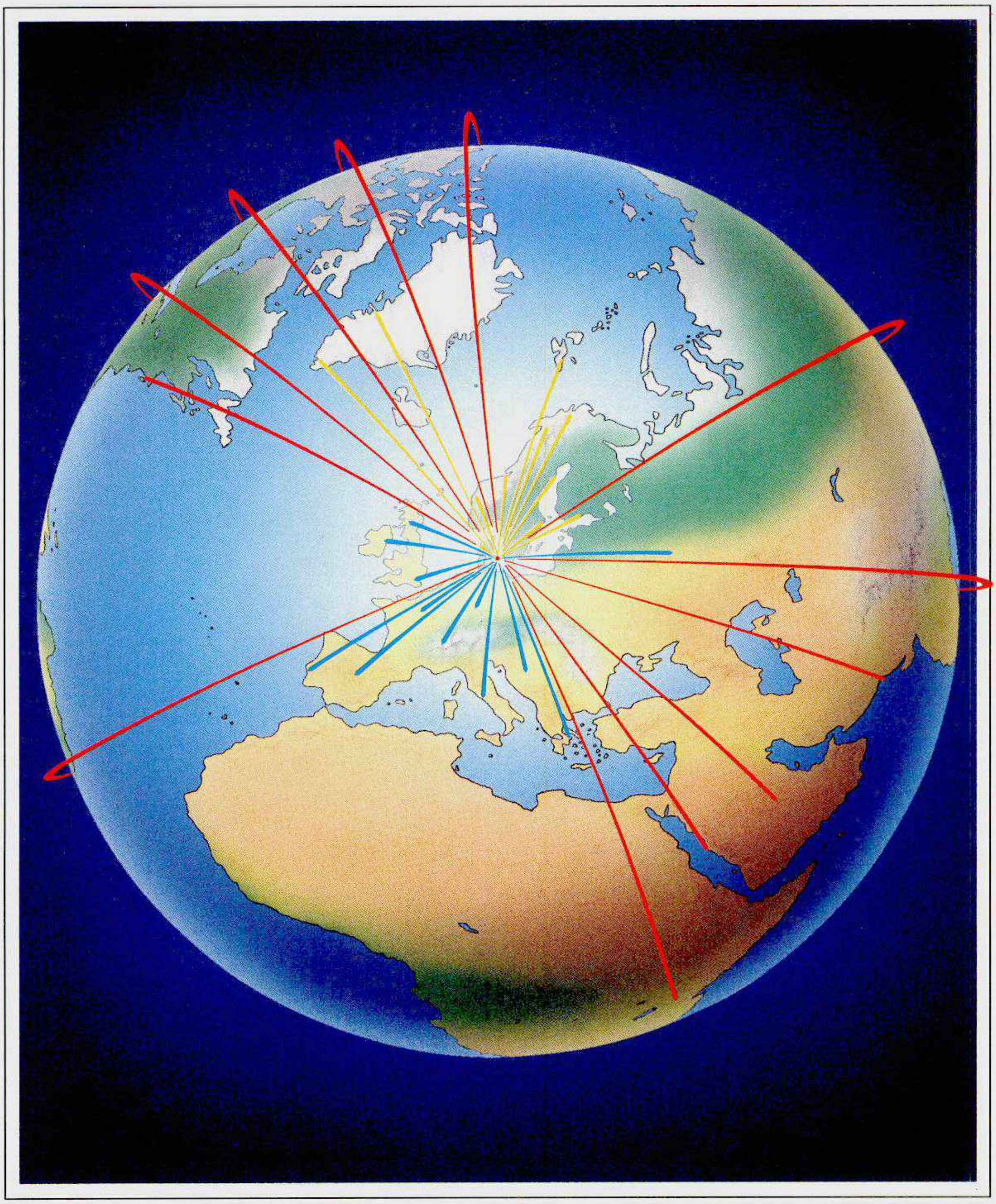
SAS participates in development and project work in planning its future fleet. This cooperation includes service level requirements in and around the aircraft, including cargo and baggage handling, to enable SAS to offer excellent and efficient service.

SAS's efforts to ensure development of a passenger–pleasing plane complement manufacturers' research to include the latest technological advances.

Future aircraft purchases will be governed by a combination of factors influencing both operating costs and revenue generation.

Among the technological developments is a return to a form of jet-powered propeller operation which could drastically cut fuel consumption. The new technology would combine current requirements for high speed and the power to take off with high payloads. There is also a rapid technological development in aerodynamics, with new wing profiles, new materials with increased use of composites, and electronics and more computers in instrumentation and flight control systems. Taken altogether, this development may mean that, in the mid-1990s, it will be possible to make aircraft that are more economical to operate and which provide new solutions for cabin interiors and cargo handling.

SAS offers an integrated traffic system in which air transport is complemented by other forms of transportation to provide efficient and improved service to the customer.



The SAS world with Scandinavia and Europe at its center. The Scandinavian cooperative venture enables SAS to build up a traffic system with frequent departures and many non–stop flights.

The SAS Network

DOMESTIC

In Denmark, SAS cooperates with Maersk Air and Cimber Air within the framework of Danair, the domestic airline. SAS serves the routes from Copenhagen to Aalborg, Aarhus, Karup and Greenland.

SAS currently uses 4 DC–9s to make some 200 Danish domestic flights a week, plus DC–8s which make 2 more to and from Greenland. Danish domestic routes generate 4 percent of SAS's total traffic revenue.

In Norway, SAS and Braathen SAFE share the concessions for domestic trunk route traffic. SAS provides 60 percent of the production and serves the routes connecting the northern parts of the country with the south and the Oslo–Bergen and Oslo–Haugesund routes, which are important business travel sectors.

The SAS network serves 13 points with 470 scheduled flights per week. The fleet consists of 8 DC–9s, which are fully utilized. An additional 2 DC–9s will be put in operation in 1985/86. Norwegian domestic flights produce 9 percent of SAS's traffic revenue.

In Sweden, SAS is responsible for traffic between Stockholm and Malmö, Gothenburg, Luleå and Kiruna. A major portion of the remaining traffic is handled by Linjeflyg. Additionally, there are a number of smaller regional carriers.

The Swedish network has 8 DC–9s to perform around 525 scheduled flights per week. The share of SAS's traffic revenue is 7 percent.

EUROPE

SAS links Scandinavia with 31 destinations in 17 European countries. The major destinations are London, Amsterdam and Helsinki, in terms of total passengers.

SAS's traffic system is based on frequent departures and a large number of non–stop flights, primarily from the Copenhagen, Oslo and Stockholm hubs. Feeder routes are now being expanded to satisfy the need for good, frequent and fast connections. The competition consists primarily of the national airlines in each of the countries served by SAS. In Switzerland it is Swissair, in West Germany Lufthansa, in Austria Austrian Airlines, etc.

Forty–two DC–9 aircraft are used in the European route sector. Another 5 DC–9s will be added to the fleet in 1985/86. Some 1,700 flights a week serve Europe, and the share of SAS's total traffic revenue is 44 percent.

INTERCONTINENTAL

Intercontinental flights serve 17 destinations in North and South America, the Middle and Far East, and Africa.

The route sector has 4 Boeing 747s, 7 DC–10s and 5 DC–8s. More DC–10s are being added to replace 747s which are too large and uneconomical for SAS, given its thin intercontinental traffic structure. The route sector operates 100 flights per week and generates 34 percent of SAS's traffic revenue.

AIR CARGO

Today's passenger aircraft have considerable cargo capacity, which, however, is difficult to utilize because the traffic structure is patterned on the requirements of the passenger market.

In addition to the air cargo transported on SAS's passenger aircraft, SAS has three cargo planes which feed goods to the intercontinental routes.

A total of 600,000 tons (555,000) of cargo is handled annually and air cargo generates 11 percent of traffic revenue, including 9 in respective route sectors.

The SAS Group

The SAS Group consists of several business areas. The airline is the largest. SAS Service Partner and SAS International Hotels have grown to become complements to the airline. The leisure area, represented by Vingresor and the independent consortium Scanair, are of great importance to balance weekly and seasonal variations in the scheduled airline business.

The distribution branch is now being developed through the Travel Management Group and Business Travel Systems.

Each business area operates under autonomy and with a requirement for sufficient profitability to ensure their own development over time. At the same time, all opportunities for synergistic effects and cooperation between the airline and other areas must be fully utilized. Uniform market performance and a common overall strategy for the entire SAS Group provide the opportunities.

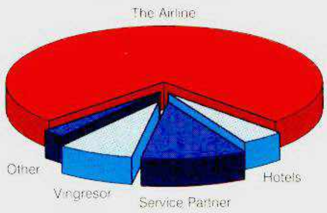
SAS's primary obligation is to provide safe and efficient travel services in the Scandinavian market. With door-to-door alternatives, embracing every link in the chain, from reservations and ground transportation to check-in, air travel, hotel and other services at the destination, the content of the SAS products are being enhanced to offer the customer greater efficiency.

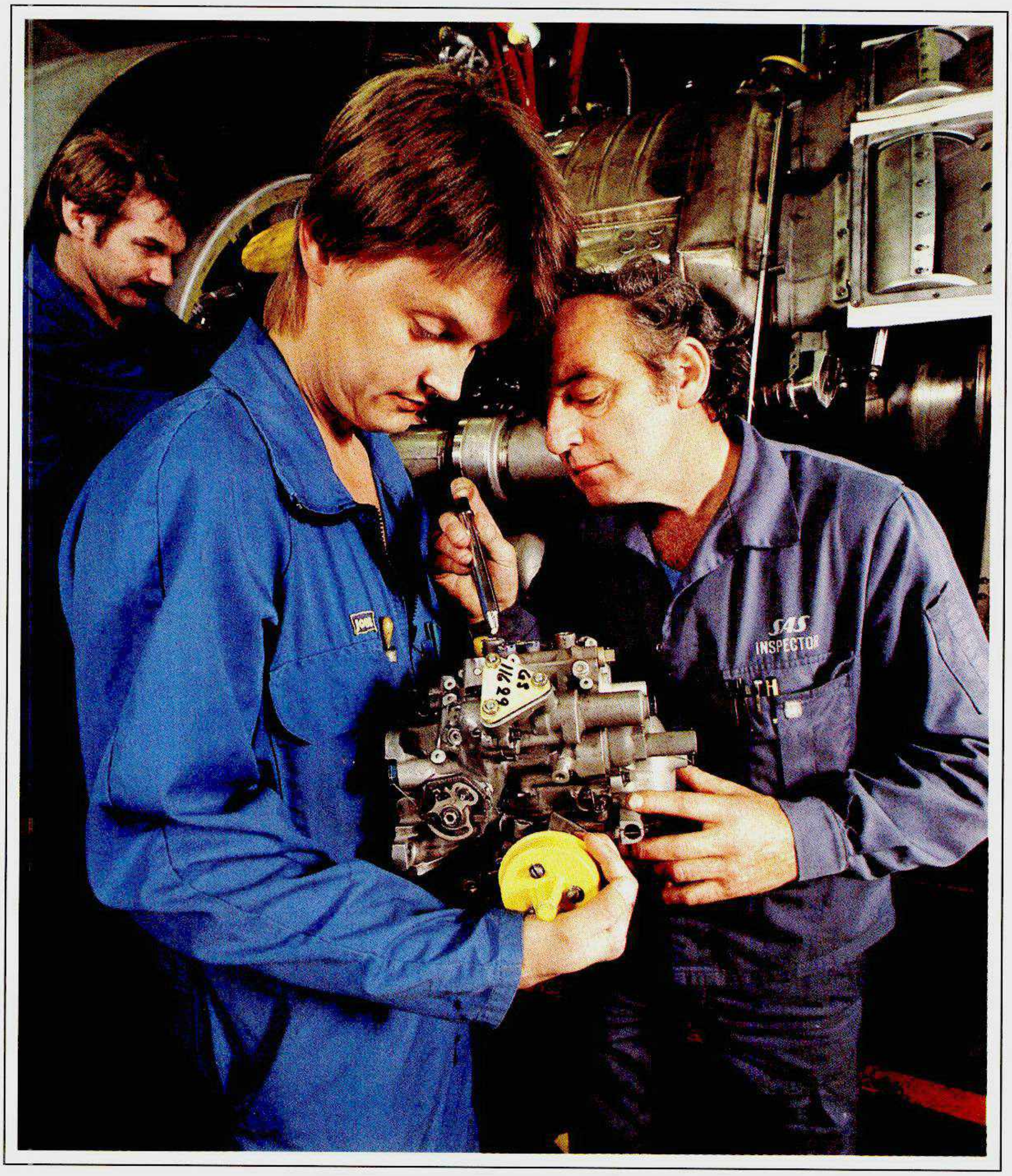
SAS GROUP ORGANIZATION and BUSINESS AREAS

GROUP MANAGEMENT

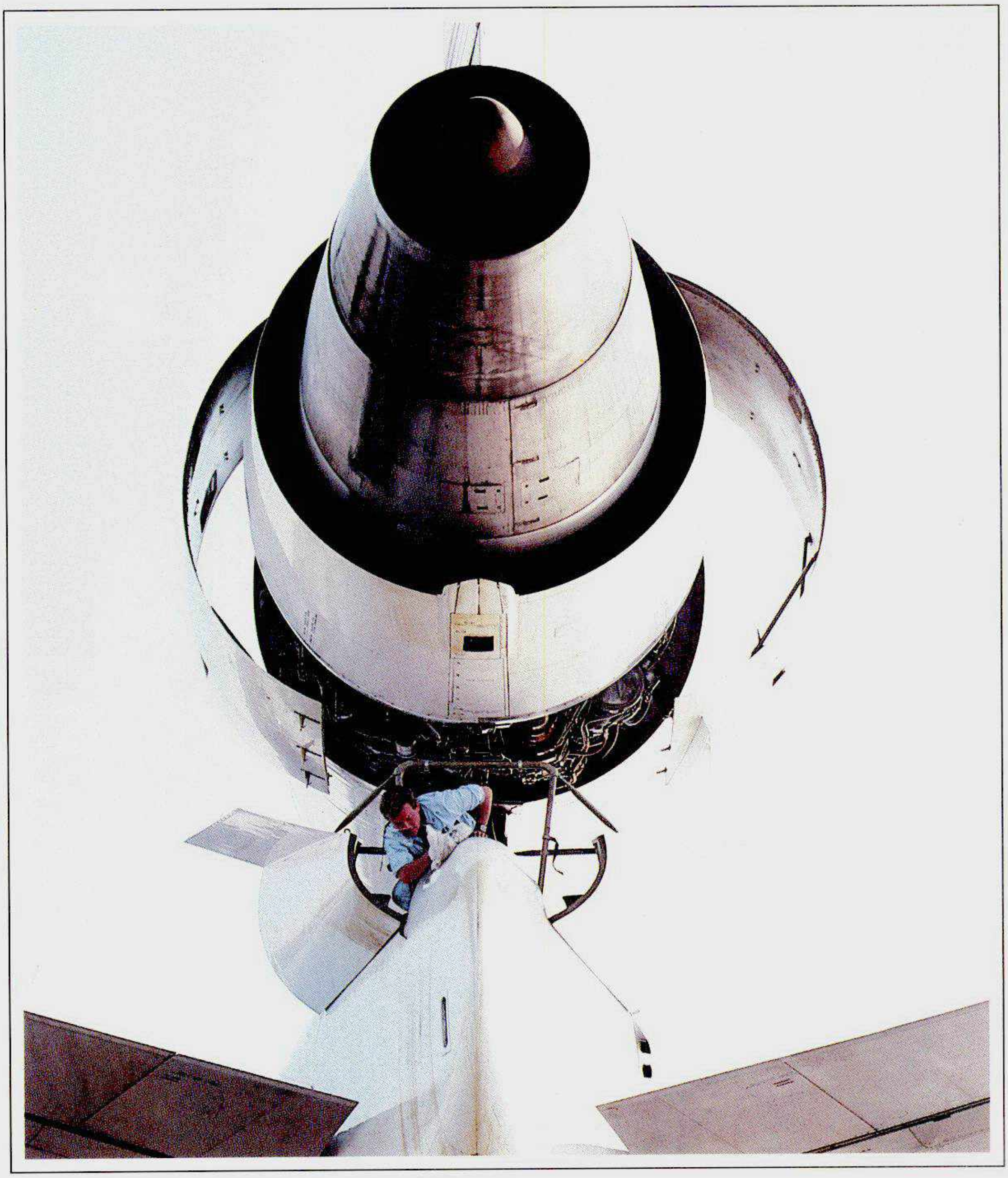
SAS AIRLINE	SAS INTERNATIONAL HOTELS	SAS SERVICE PARTNER	SAS LEISURE	OTHER
Commercial Division	Hotels	Flight kitchens	Vingresor	Olson & Wright
Traffic Services Division		Restaurants	Scanair Independent consortium	Affiliated companies
Business Services Division		Offshore & Industrial Services		
Operations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

REVENUE BY BUSINESS AREA
TOTAL 19.790 MSEK





The human factor is the most important element, even in a high–technology company.



The Airline

Airline traffic and other operating revenue for 1984/85 rose by 9 percent to 15,434 MSEK, primarily due to a strong increase in demand throughout the network.

Income after financial items improved from 729 MSEK to 811 MSEK, despite considerable negative effects of labor market conflicts in Denmark and Sweden. Continued strong growth, especially on European routes, contributed to high capacity utilization. The net of financial items improved considerably.

Airline Summary

	84/85	83/84
Revenue (MSEK)	**15 434**	14 151
Income (MSEK)[1]	**811**	729
Employees	**18 845**	17 710

[1] Income before extraordinary items.

EXPANDING MARKET

SAS serves three customer groups – the business traveler, the tourist and the cargo shipper. For SAS and other airlines with a similar structure, the leisure traveler category is the largest group, while business travelers generate substantially higher revenue. Cargo carried on passenger aircraft is in reality a marginal product, since the traffic program is based on the needs of passengers. But cargo is increasing in importance as new service concepts and products are developed.

SAS operates in specific geographical markets where customers have varying requirements. The Scandinavian domestic traveler needs efficient and affordable transportation, which can be defined as frequent departures and a low price. Air travel to and from Continental Europe follows a somewhat different pattern, where the customers want as many direct connections as possible and there are opportunities to differentiate products in terms of quality and price.

On intercontinental routes the flying time is often 10 to 12 hours and products are developed with due regard to the special needs for comfort during a long trip. It may seem a paradox, but the more people that choose full fare, the lower is the price that SAS can offer the leisure traveler. The more seats that are filled with low–fare passengers to increase total revenue, the greater are the opportunities to inhibit price increases on normal Economy fares.

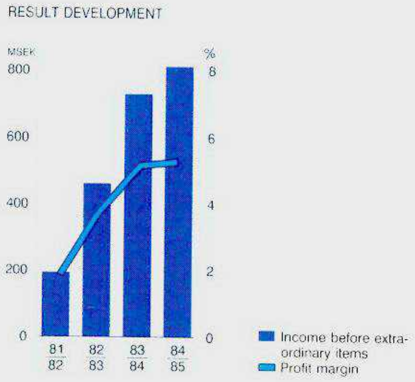
SOLID PRODUCT PROGRAM

SAS's products are distinguished by safety, quality and service. Prices must be competitive and generate profitability sufficient for expansion and renewal of the fleet.

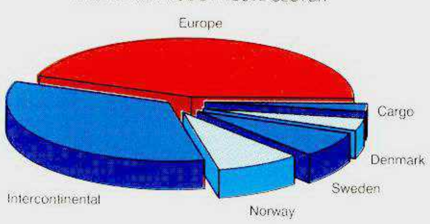
The service level is standardized in domestic traffic. SAS differentiates prices and offers passengers a wide selection of low–fare departures outside of normal business travel peaks.

On the European network, the business travel product is called EuroClass and on intercontinental routes First Business Class. Both offer a high level of service at normal fares. Every departure also offers low–fare alternatives to meet the need for inexpensive leisure travel and to fill more seats on every flight.

RESULT DEVELOPMENT



TRAFFIC REVENUE BY ROUTE SECTOR



COMMERCIAL DIVISION

In 1984/85, the Commercial Division had sales of 13,537 MSEK, an increase of 10 percent over the previous year. Employees numbered 4,559, mainly in the route sector organization and as sales personnel in Scandinavia and abroad.

DOMESTIC

Domestic traffic revenue in Denmark, Norway and Sweden in 1984/85 was 20 percent (19) of total airline revenue. Passenger revenue was 2,287 MSEK (2,013).

Demand rose during the year by an average of almost 10 percent and capacity utilization was high. Profitability on Greenland services continued to be low due to the small traffic base.

In Norway, SAS increased traffic by 15 to 20 percent on most routes, boosted by the country's strong economy with a low level of inflation and improved purchasing power. The oil and offshore industry is again expanding, which means a continuation of the upswing in the southwestern region. To meet the needs of the market, SAS from time to time has been forced to lease planes from other carriers.

The positive development continued in Sweden as well. Both SAS and Linjeflyg recorded sizable passenger increases and the two-year-old passenger terminal at Arlanda must be expanded. Awaiting delivery of three new DC-9-80s in 1985-86, SAS charters aircraft from other airlines.

EUROPE

SAS currently flies between Scandinavia and 31 destinations in 17 European countries. The market is estimated to be about 10 million passengers annually. SAS carried 5.4 million passengers during the year.

Demand on SAS's routes rose by 4 percent over 1983/84. Traffic revenue, including cargo on passenger flights, etc., increased by 9 percent to 5,683 MSEK, and passenger revenue by 9 percent to 5,175 MSEK.

The previously good result improved further and now allows for investment in new aircraft.

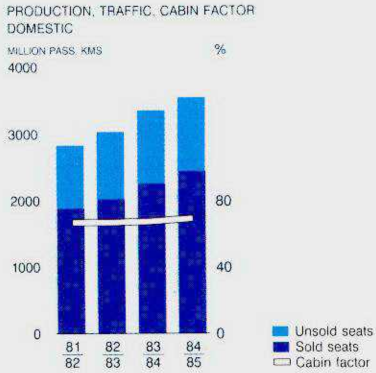
Market growth in recent years has led to a considerable need for more capacity. The route sector has ordered seven new DC-9-80s for delivery between the fall of 1985 and the spring of 1986. Competition for full-fare passengers is severe. Most European airlines have now developed products similar to SAS EuroClass. Maintaining the overall level of service is now more important than marginal inflight improvements.

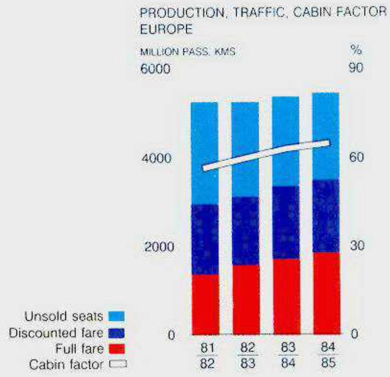
As a means of widening the lead in product excellence, SAS introduced SAS Business Hotels and SAS Destination Service (SDS) in the fall of 1985. This means that when a full-fare passenger books a trip, hotel reservations, limousine service or a rental car at reasonable prices can be arranged simultaneously at 28 European destinations.

The traffic program was further improved by adding more non-stop services and more frequent departures to European points.

INTERCONTINENTAL

Intercontinental traffic spans North and South America, the Middle East, the Far





Excellence also means efficiency. Short ground stops, high regularity and punctuality ensure optimal use of resources.

East and Africa. Total revenue in this route sector for 1984/85 was 4,281 MSEK, an increase of 9 percent.

On the intercontinental routes, freer competition is already a fact. An ever–increasing number of airlines are trying to expand into this market and demand is growing rapidly. Price competition was escalated further, especially on important routes across the North Atlantic. SAS's strategy is to offer a high frequency of departures to and from Scandinavia. SAS is currently switching to a uniform intercontinental fleet of DC–10s, since the 747s are too large for the frequent departure strategy. A single type of aircraft also improves efficiency, flexibility and punctuality.

The present level of results is unsatisfactory, due to higher costs than the competition.

AIR CARGO

On domestic routes and in Europe, SAS's timetables and destinations are totally attuned to the needs of the passenger market.

A competitive cargo product requires speed and precision. To take up competition with ground transportation in Europe, air transportation must therefore be combined with a strategically placed and well–functioning distribution network to pick up and deliver cargo. Against this background, SAS has built up a cargo center in Cologne to ensure on-time overnight delivery to some 2,000 points in Europe and Scandinavia. SAS has also introduced Priority Overnight and Door–to–Door Overnight, both of which guarantee precision at competitive rates.

For 1984/85, air cargo revenue amounted to 1,410 MSEK, an increase of 8 percent over the year before. Cargo's total contribution to the airline's result improved during the year.

TRAFFIC SERVICES DIVISION

The Traffic Services Division is responsible for a major share of SAS's customer service program, including check–in and baggage services at airports, ground transportation, catering and inflight services.

Revenue for 1984/85 was 2,922 MSEK.

OPERATIONS DIVISION

The Operations Division provides crews for the more than 500 flights per day operated by SAS and Scanair.

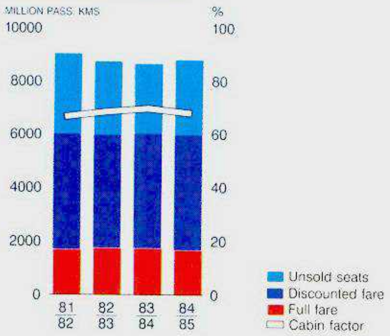
Total revenue in 1984/85 amounted to 1,713 MSEK.

A major recruitment program was initiated during the year to cover retirements and expansion as new aircraft are gradually introduced. The recruitment program is the largest in SAS's history, as some 300 positions have to be filled. During 1985 and 1986, close to 500 air hostesses and stewards will also be hired.

TECHNICAL DIVISION

The Technical Division maintains and services the SAS fleet at the Scandinavian home bases and at most destinations abroad. Responsibilities include aircraft, engines, instrumentation and components.

PRODUCTION, TRAFFIC, CABIN FACTOR
INTERCONTINENTAL ROUTES



In 1984/85, total revenue amounted to 2,396 MSEK. About 60 percent of this amount was derived from SAS Group units, with the remainder from other airlines such as KLM, Swissair, UTA and Thai, plus the Swedish and Norwegian armed forces.

BUSINESS SERVICES DIVISION

The Business Services Division furnishes financial accounting, revenue accounting, real estate management, purchasing, etc., for the SAS Group. The Division's revenue was 816 MSEK for 1984/85.

EXTERNAL ENTERPRISES

External Enterprises is a new unit responsible for developing and conducting business in air travel–related areas and for marketing SAS know–how.

In Denmark, SAS, Sterling Airways, Maersk Air and Conair formed a company to operate the tax–free shopping center at Copenhagen's airport. Prices on alcoholic beverages and tobacco were lowered 30 percent; on perfume and cosmetics, 50 percent.

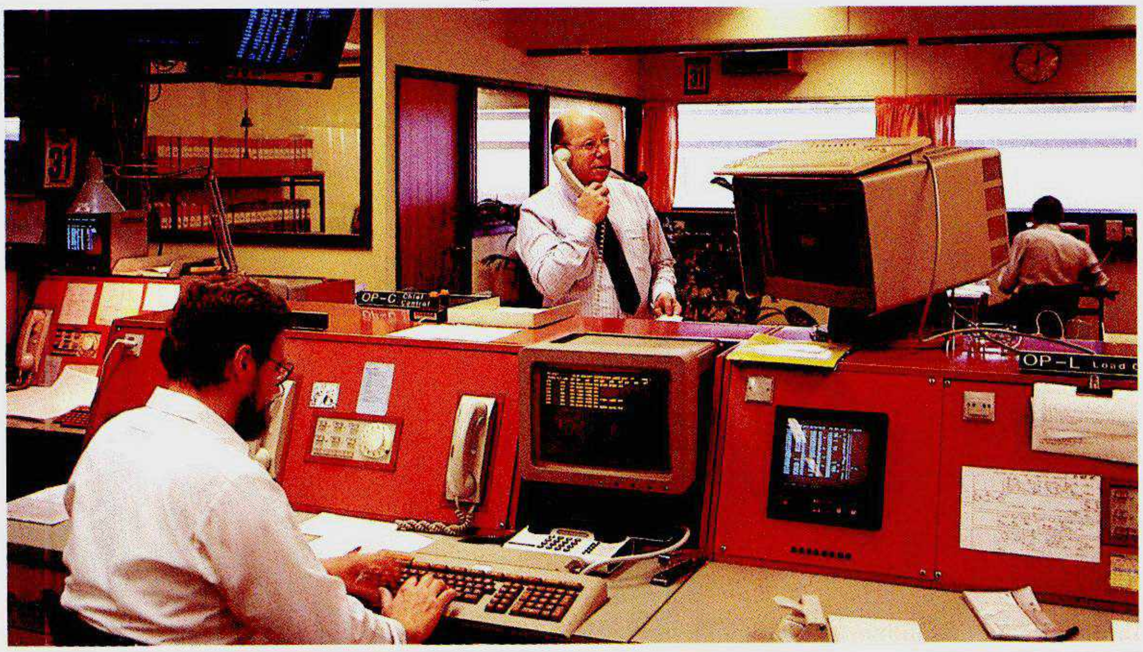
SAS DATA

SAS DATA's responsibilities include the development of new systems and the operation of current systems.

In airline operations, computer systems are needed for sales, reservations, check–in, revenue accounting, maintenance planning, etc.

Other SAS units and airlines such as Linjeflyg, Thai and Braathen are also among the customers.

Total revenue for 1984/85 was 499 MSEK, including 45 MSEK from external customers.



The Operations Control Center at Copenhagen Airport directs SAS's traffic through an integrated information and communications system and has primary responsibility for on-time performance and punctuality.

No more barriers! When guest and hotel employee meet on the same side of the counter, the opportunities for personalized service increase.

SAS International Hotels

Since October 1, 1984, SAS's hotel business has been operated as a separate subsidiary, SAS International Hotels, based in Oslo.

The company has 11 first class hotels in large Scandinavian cities, and in Singapore and Vienna. The most important customer of SAS International Hotels is the business traveler. SAS International Hotels is an essential component in The Businessman's Airline concept. Additionally, six hotels in northern Norway are included, which are marketed to the tourist segment under the name North Cape Hotels.

Demand was generally good on the local markets served by SAS International Hotels. The labor market conflicts during the year in Denmark and Sweden had a negative effect during the spring, however. The previous shortage of hotel rooms in the larger cities in Scandinavia is gradually becoming a surplus.

New hotels in Oslo and Gothenburg contributed to competition locally, increasing the requirement for systematic product development aimed at the business segment. Market growth and a concentrated profiling of hotel operations led to an increase in sales in 1984/85 by 12 percent to 948 MSEK. Income after financial items improved from 21 MSEK in 1983/84 to 67 MSEK. Aside from higher capacity utilization, the increase is attributable to greater cost efficiency.

During the year, a number of new services were introduced to expand the business travel program and strengthen competitiveness. Business Service Centers and Royal Clubs are examples distinguished by high quality combined with good personal service.

Hotel Summary

	84/85	83/84
Sales (MSEK)[1]	**948**	843
Income (MSEK)[2]	**67**	21
Employees	**2 936**	2 833

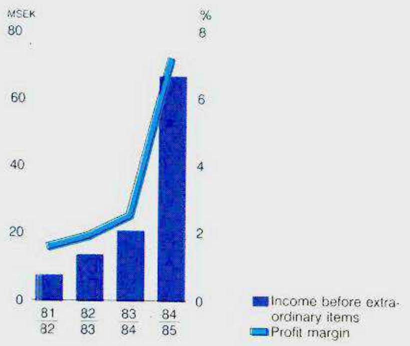
[1] Exclusive hotels operated under management contracts.
[2] Income before extraordinary items.

In January, the SAS Park Royal Hotel in Oslo (formerly Globetrotter) completed major expansion and remodeling. SAS Palais in Vienna was opened during the summer. The hotel offers 165 rooms of high international standard. Major expansion and renovation programs were completed on several other units. Total capacity increased from 1,356 to 1,400 room/nights and average capacity utilization was 72.4 percent.

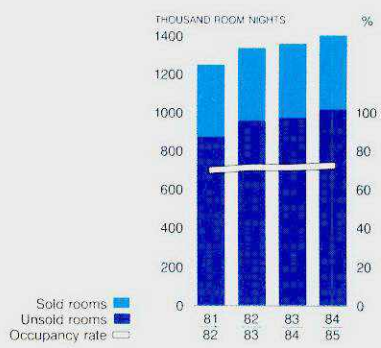
To improve service to the business traveler, SAS International Hotels initiated cooperation during the year with 42 independent hotels at SAS's most important destinations. This is part of SAS's effort to offer the business traveler a complete package as part of the concept SAS Destination Service. All the hotels offer the highest standards of comfort and quality. The system enables the customer to book the flights, ground transportation, hotel accommodation and to reserve a rental car all at the same time, at a predetermined price and with a guaranteed level of service.

In the continued development and profiling of SAS International Hotels, great emphasis will be placed on staff training, especially of those in the front line who have direct customer contact.

RESULT DEVELOPMENT



HOTEL OCCUPANCY



SAS Service Partner operates in many different markets, all of which demand high–quality raw materials, know–how and excellence in food and drink, and efficient production facilities.

SAS Service Partner

SAS Service Partner operates 11 flight kitchens in six countries and is responsible for the operation of an additional number of flight kitchens for, among others, British Airways and Saudia. The subsidiary – a group of its own within the SAS Group – is based in Copenhagen. The company's main business is catering to airlines, airport employees and passengers in the air and on the ground. Additionally, the company's know–how and experience is utilized for other, similar business activities, such as employee canteens, exhibition and conference center restaurants and accommodation and food service on offshore oil platforms. The operations are organized in six divisions, each serving a specific customer segment.

SAS Service Partner's sales in 1984/85 increased by 17 percent to 2,393 MSEK. Income after financial items improved from 15 MSEK to 81 MSEK.

The favorable development is primarily due to a comprehensive efficiency program, initiated in 1984 after the poor performance the year before. Operations have been decentralized, and development resources have been concentrated to areas where SAS Service Partner has a unique competence and where the potential is regarded as most promising. Administrative functions have been rendered more efficient. Control systems have been sharpened. The efficiency improvement program also included the closing of two units with unsatisfactory profitability.

SAS Service Partner Summary

	84/85	83/84
Revenue (MSEK)	**2 393**	2 049
Income (MSEK)[1]	**81**	15
Employees	**5 931**	5 663

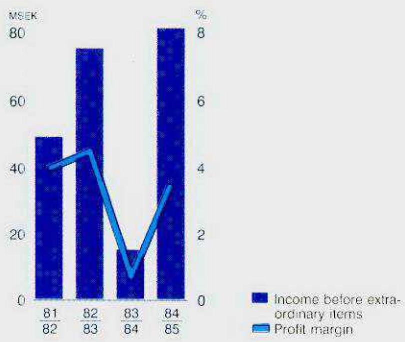
[1] Income before extraordinary items.

Demand was strong for all of the company's products during the year. Growth in international passenger traffic led to high capacity utilization at the flight kitchens as well as in airport restaurants. One of the effects of the airlines' product development for full-fare business travelers is higher quality food served onboard, which broadens the market for the flight kitchens. The depressed prices on the passenger market, especially for intercontinental traffic, have, however, had repercussions on subcontractors such as SAS Service Partner.

Several new contracts were concluded with employee canteens, which is also a growth market. Increased offshore activity in the North Sea, an important market for SAS Service Partner, led to high capacity utilization and offers expansion opportunities.

With its rapid recovery from the earnings setback in 1983/84, SAS Service Partner has a platform to go on the offensive in areas where the company is well-established and/or the opportunities for growth are regarded as favorable. One such area is health care, where there has been a trend toward increased privatization in many countries.

RESULT DEVELOPMENT



SAS Leisure

SAS Leisure consists of inclusive–tour and charter operations for the leisure market, offering travelers affordable vacations. Since SAS has surplus aircraft and crews during the vacation months and on holidays and weekends, charter flights are an important element of SAS's marginal business strategy.

VINGRESOR

Vingresor is the largest inclusive–tour operator in the Nordic countries. In 1984/85, Vingresor won a market share of 32 percent in Sweden and 29 percent in Norway. During the fiscal year, 495,000 persons traveled with Vingresor, 323,000 from Sweden and 172,000 from Norway, an increase of 15 percent.

Sales rose by 24 percent to 1,537 MSEK. Income after financial items improved from 46 MSEK in 1983/84 to 81 MSEK. The good result is due to capacity utilization approaching 100 percent of aircraft chartered and hotels owned by Vingresor.

Vingresor has displayed very strong growth development over the last five years, with an improved market position and greater profitability. Systematically planned and executed programs for the low–price and the quality segments, with distinct price and product differentiation, have been contributing factors.

In the first segment, Vingresor is consistently lower priced than the competition for similar alternatives. In the quality segment, the emphasis on Vingresor's own Sunwing hotel resorts has been a decisive factor.

Profitability in the industry has long been depressed. This has caused a number of smaller operators to withdraw from the market, contributing to a healthier situation in which the quality of products offered by the industry in general has improved. The Swedish and Norwegian markets are dominated by three airline–affiliated tour operators: Atlas/Saga (Braathen), Fritidsresor/Star Tours (Sterling) and Vingresor/Vingrejser (SAS). Together, these constellations have about 80 percent of the market in both countries and the concentration continues.

Modest growth is anticipated for the next few years. Vingresor will concentrate on continued expansion and development of the Sunwing concept, which matches well the requirements of the Scandinavian vacation traveler and where customer loyalty as well as profitability is good.

Vingresor Summary

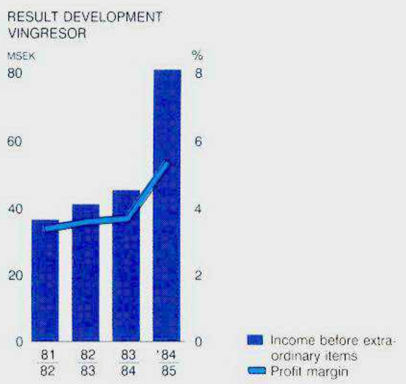
	84/85	83/84
Revenue (MSEK)	**1 537**	1 239
Income (MSEK)[1]	**81**	46
Employees	**1 497**	1 337

[1] Income before extraordinary items.

SCANAIR

Scanair is a sister consortium of SAS with the same ownership structure. The company conducts charter operations from Sweden and Norway and, to a lesser extent, from Denmark. Scanair has three DC–8s and three Airbus 300s on long–term lease from SAS and also leases additional equipment from both SAS and Linjeflyg on a marginal basis.

The customers are tour operators



that purchase Scanair's capacity on contract and thus assume the short–term risk. In the longer perspective, Scanair's growth is determined by the company's ability to do business with financially stable and successful tour operators.

Scanair's largest customer is Vingresor, which in 1984/85 utilized just over half of the company's production. The remainder is shared among a small number of customers, including Spiesresor, Atlas Resor and Royal Tours. Sales amounted to 1,111 MSEK in 1984/85, an increase of 16 percent. Income after financial items improved from 30 MSEK in 1983/84 to 46 MSEK.

Scanair's principal competitors are four other Scandinavian charter companies: Sterling Airways, Maersk and Conair in Denmark and Braathen in Norway. Scanair is the leading company in Norway and Sweden with a market share of 47 and 30 percent, respectively. Competition was further sharpened during the year when Maersk added two Boeing 737–300s, Sterling three DC–8s and Braathen two Boeing 767s.

In the latter part of the year, Braathen changed its fleet to restore the balance between supply and demand, but prices remained at the same level.

To maintain and increase profitability, Scanair must develop other sources of revenue. The most important is tax–free sales onboard, which increased despite the wider and lower–priced selection at Stockholm's Arlanda airport.

Vingresor has achieved a level of profitability unprecedented in the industry thanks to a systematic approach and a well–executed strategy based on distinct product and price differentiation.

Report by the Board and the President

October 1, 1984 – September 30, 1985

SUMMARY

SAS Group income before extraordinary items improved during the year to 1,018 MSEK compared to 792 MSEK last year.

The Airline (the SAS Consortium) recorded higher earnings and traffic growth, primarily on intra-Scandinavian and domestic routes and in Europe, while the intercontinental network showed a less favorable development of traffic and results. Air cargo business improved.

Labor market conflicts in Denmark and Sweden resulted in a considerable earnings shortfall with effects in all route sectors and business areas of the SAS Group.

Starting in October, 1985, 14 new DC–9 aircraft are being added to the fleet for a substantial capacity boost over the next few years.

SAS International Hotels had a very favorable development in the 1984/85 financial year.

Extensive restructuring of *SAS Service Partner* had a very positive effect on operating results.

In the leisure area, *Vingresor* strengthened its position on the Norwegian and Swedish markets and recorded a strong improvement in results.

Management continues to emphasize measures to further improve the results of the SAS Group. This is necessary to fulfill future investment programs and to ensure a continuation of SAS's favorable development. Continuing efficiency improvements are of particular importance because of the ongoing trend towards liberalization of the European airline industry.

The goal is for SAS to develop and expand profitably in a freer competitive environment. "The Businessman's Airline" strategy, to be the preferred airline of the frequent business traveler, will continue as the basic business concept. Product and price differentiation will be further emphasized.

SAS is focusing on three primary areas of strategic development to reach its goal: High efficiency and excellence in performance, the development of the distribution system and the expansion of the Scandinavian airport and route systems.

Shown below are the summary statements of income of the SAS Group and the Consortium.

STATEMENTS OF INCOME

	SAS Group		SAS Consortium	
MSEK	**84/85**	83/84	**84/85**	83/84
Revenue	**19 790**	18 005	**15 434**	14 151
Operating expense	**–18 256**	–16 415	**–14 227**	–12 791
Operating income before depreciation	**1 534**	1 590	**1 207**	1 360
Depreciation	**–574**	–545	**–447**	–438
Operating income after depreciation	**960**	1 045	**760**	922
Interest, net	**139**	122	**143**	138
Other financial items	**–81**	–375	**–92**	–331
Income before extraordinary items	**1 018**	792	**811**	729
Extraordinary items	**–1**	176	**–4**	189
Income before allocations and taxes	**1 017**	968	**807**	918

THE SAS GROUP REVENUE AND INCOME BY BUSINESS AREA

MSEK	Revenue		Result	
Business area	**84/85**	83/84	**84/85**	83/84
Airline [1]	**15 434**	14 151	**811**	729
SAS International Hotels	**948**	843	**67**	21
SAS Service Partner [2]	**2,393**	2,049	**81**	15
Vingresor	**1 537**	1 239	**81**	46
Other [3]	**390**	695 [4]	**–15**	2 [4]
Group eliminations	**–912**	–972	**–7**	–21
Income before extraordinary items			**1 018**	792
Extraordinary items, net			**–1**	+176
SAS Group	**19 790**	18 005	**1 017**	968

[1] SAS Consortium (including Group Management)
[2] Divisions: International Flight Kitchens, Scandinavian Flight Kitchens, Restaurants and Offshore & Industrial Services
[3] Olson & Wright, Dansk Rejsebureau, SMART AB, etc.
[4] In 1983/84 Nyman & Schultz was included with revenue of 282 MSEK and income of 6 MSEK.

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

The SAS Group is organized as a number of business areas, including the airline and a number of subsidiaries for hotels, flight kitchens, restaurants, inclusive tours and other operations.

Group consolidated revenue for the financial year amounted to 19,790 MSEK (18,005), an increase of 10 percent. Income before extraordinary items was 1,018 MSEK compared to 792 MSEK last year. The conflicts on the labor market caused a major shortfall in income. The high rate of the US Dollar, especially in the second half of the year, also had a negative effect. On the other hand, these effects were counteracted to some extent by a reduction in operating expense and a pension premium refund received in Denmark. Income before allocations and taxes was 1,017 MSEK (968).

THE AIRLINE (THE CONSORTIUM)

The Market. In 1984, international airline traffic increased by 8 percent compared to the years 1981–1983, when the rate of increase never exceeded 3 percent annually. For the first time since 1978, the IATA airlines reported aggregate positive income after financial items.

On the *European market*, traffic handled by European carriers increased in total by an average of 9 percent compared with the preceding year.

For SAS, traffic on the European market, which accounts for almost half of its passenger revenue, increased by 4 percent. The share of full-fare passengers rose by 8 percent.

SAS's somewhat lower increase is due to the labor market conflicts and shortages of aircraft, among other factors.

The introduction of more frequent departures and more non–stop flights continues wherever the market and other conditions allow. The traffic program has been improved by new non–stop routes and more frequent departures to many European destinations.

The competition for full–fare passengers has intensified. With EuroClass, SAS has held its own well against airlines offering similar products. Compared with other European airlines in nations with a lower rate of inflation, SAS has not been able to compensate by price increases for the higher rate of inflation in Scandinavia.

On the *intercontinental* network, which accounted for just over 30 percent of SAS's total traffic revenue, traffic was 1 percent lower than in 1983/84. Traffic on the North Atlantic, Transpolar and Japanese routes was weaker during the year, and has encountered severe competition and a large share of low–fare traffic.

The strong US Dollar has created opportunities for increased traffic and production from the United States, while its effect on tourist traffic from Scandinavia was negative.

SAS's continuing adaption of traffic programs and pricing to market conditions has contributed to steady gains in *domestic traffic*. Traffic increased 11 percent in Norway, 4 percent in Denmark and 7 percent in Sweden.

More product improvements were introduced for SAS's domestic passengers during the year. The connections from southern Norway and southern Sweden to Copenhagen were improved. A separate business unit, the Commuter Operations Department with the product name "EuroLink," was created, primarily for feeder traffic to and from Copenhagen, but also for other regional services within Scandinavia and to a few destinations in Europe.

For many airlines, *air cargo* is a marginal business. The aircraft have cargo capacity which can be utilized to provide a contribution to earnings, but the traffic program is geared to the needs of the passengers. Major air cargo companies have a strong position on intercontinental routes.

For Europe, SAS has developed and launched two new air cargo products, Priority Overnight and Door–to–Door Overnight, which offer speed and guaranteed on–time delivery. New, centrally located distribution centers have been established in Brussels and Cologne. The overall contribution from SAS's air cargo business increased during the year.

Capacity Expansion. The business strategy with more frequent departures and more non–stop flights requires aircraft smaller than the Boeing 747. A fleet with only one type of long–haul aircraft provides an opportunity for a higher degree of punctuality and regularity, since both equipment and crew flexibility increases. Five more DC–10s have been acquired to gradually replace the Boeing 747 aircraft.

Delivery times and the recruitment and retraining of pilots prolong the overall lead time for acquiring new aircraft. Starting in October, 1985, 14 new DC–9s are gradually being delivered for a substantial boost in SAS's capacity. The new, larger planes will be used on routes between the Scandinavian capitals, to and from London, and on domestic Norwegian and Swedish routes.

Eight F–27s have been acquired for SAS EuroLink operations.

Business Development. SAS's objective is to prepare for freer competition. The business concept is still to concentrate on the frequent business traveler, while maintaining service excellence and increasing operating efficiency. The program also calls for the development of a competitive Scandinavian network responsive to market needs, with direct flights to major destinations from central points such as Copenhagen, Oslo, Stockholm, Bergen, Gothenburg and Stavanger, and with feeder lines to these central points. The distribution sector will also be developed with all the latest technology available in the computer and communications areas.

The investment in a Scandinavian traffic system in competition with other European traffic systems includes the expansion of Copenhagen Airport as an important element. Copenhagen is being developed into a vital hub for the traffic that cannot be operated non-stop from other major Scandinavian cities. The expansion of tax–free sales plays a major role in this development. A new company has been formed, in which SAS, in cooperation with Conair, Maersk and Sterling, operates the new shopping center at Copenhagen Airport.

The SMART, BTS (Business Travel Systems) and Travel Management Group companies are developing integrated travel products, reservations and computer systems and a communications network to be the cornerstones of more efficient sales and distribution of travel–related products and services. An important part of this development work is a continuation of the close cooperation with travel agencies, a business sector in which SAS is also becoming more heavily involved.

Within the airline, a separate profit center – External Enterprises – conducts ancillary businesses which are not directly related to air transport. The unit also sells SAS know–how to outside parties and coordinates SAS's 50–percent interests in the Scandinavian Service School and Scanator.

Traffic and Production. The number of passengers increased in both full–fare and low–fare segments. A total of 10.7 million passengers flew with SAS during the year, an increase of about 7 percent.

Compared with the previous year, SAS's total passenger traffic increased by 2 percent, the same as production. The *cabin factor,* or capacity utilization, was unchanged at 67.2 percent. All route sectors, with the exception of intercontinental, reported

TOTAL PRODUCTION AND TRAFFIC

Scheduled traffic	AVAILABLE TONNE-KILOMETERS Million	Change %	Share %	REVENUE TONNE-KILOMETERS Million	Change %	Share %	LOAD FACTOR %	Change, percentage units
NORTH & SOUTH ATLANTIC	969	6	41	654	0	43	67.5	– 3.7
ASIA, AFRICA AND THE MIDDLE EAST	400	– 6	17	265	0	18	66.3	4.0
TOTAL INTER-CONTINENTAL	1 369	2	58	919	0	61	67.1	– 1.3
EUROPE	623	0	26	350	2	23	56.2	1.4
DOMESTIC	372	6	16	233	8	16	62.6	1.2
TOTAL NETWORK	2 364	2	100	1 502	2	100	63.5	– 0.2

higher cabin factors. Air cargo also increased its capacity utilization.

Airline Revenue and Income. Airline revenue climbed 9 percent to 15,434 MSEK (14,151). Traffic revenue amounted to 12,572 MSEK (11,577), with passenger traffic accounting for 85 percent. Volume and price increases each amounted to 4 percent of the additional revenue. Operating expense excluding depreciation rose at a more rapid pace – 11 percent – than revenue, to 14,227 MSEK (12,791).

Operating income before depreciation was 1,207 MSEK (1,360).

Operating expense was reduced by a pension bonus of 124 MSEK received in Denmark for 1981–1984. In the future, pension bonuses will be reconciled on an annual basis.

A settlement has been reached in the Laker case. SAS's share amounts to 23 MSEK. This amount has been accounted for as an operating expense.

Operating income has also been charged with expenses for recruiting and training pilots due to the acquisition of new aircraft entering service in 1985/86.

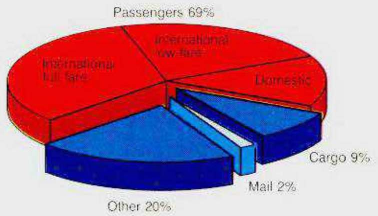
The Technical Division completed the New Corporate Identity program for the fleet with new aircraft decor and new interiors. Since its inception in 1982/83, the entire program has cost about 250 MSEK.

The Consortium's operating revenue and expense are shown in the diagram below. Personnel and fuel costs are the largest single elements – 30 and 15 percent, respectively. Payroll and social benefits increased by 13 percent to 4,454 MSEK. Expressed in US Dollars, the average fuel price declined by 9 percent from the previous year. Due to the high average Dollar rate during the year, fuel costs increased 40 MSEK to 2,151 MSEK.

The cost of leasing extra aircraft capacity increased to 183 MSEK (165).

Operating income before capital expenses was lower than in 1983/84.

CONSORTIUM REVENUE
TOTAL 15 434 MSEK



PASSENGER, CARGO AND MAIL TRAFFIC

Scheduled traffic (Million)	PASSENGERS Passenger kilometers	Change %	CABIN FACTOR %	Change, percentage units	CARGO Tonne kilometers	Change %	MAIL Tonne kilometers	Change %
INTERCONTINENTAL								
NORTH & SOUTH ATLANTIC	4 102	1	67.6	– 4.9	265.1	3	15.2	3
ASIA, AFRICA AND THE MIDDLE EAST	1 872	– 5	68.5	4.3	80.4	0	14.2	– 4
Total Intercontinental	5 974	– 1	67.9	– 1.7	345.5	2	29.4	0
EUROPE	3 534	4	64.7	1.7	37.6	– 7	11.4	– 6
DOMESTIC								
Denmark	407	4	68.8	0.3	3.0	25	2.7	6
Norway	1 071	11	66.7	1.6	7.6	15	4.8	7
Sweden	978	7	72.2	2.4	2.8	5	2.9	– 20
Total Domestic	2 458	8	69.1	1.6	13.4	15	10.4	– 2
TOTAL NETWORK	11 966	2	67.2	0.0	396.5	1	51.2	– 2

As a result, *the gross profit margin* declined; income before depreciation relative to total revenue fell from 9.6 percent in 83/84 to 7.8 percent in 84/85.

Depreciation was 447 MSEK (438). A number of aircraft were fully depreciated during the year. Depreciation increased due to engine modifications for greater fuel efficiency. Newly acquired aircraft only marginally affected the year's depreciation since they went into service toward the end of the year.

Due to an improvement in net interest income and a positive development of exchange differentials, net financial items improved to +51 MSEK compared to –193 MSEK a year earlier.

Net interest income amounted to 143 MSEK (138) and improved primarily due to a high level of liquidity and a relatively high level of interest rates for short–term investments.

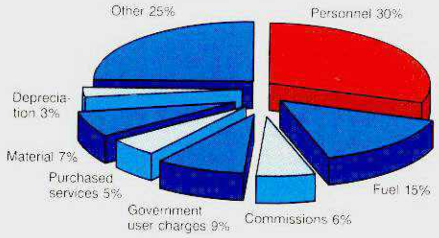
Currency differences with respect to monetary net balances and working capital in currencies other than Swedish kronor resulted in a negative earnings effect of 130 MSEK (–131). The negative revaluation difference is primarily due to the declining rate of exchange for the US Dollar and a weakening of the currencies of Brazil and Argentina.

Exchange rate differentials on long-term loans were 28 MSEK for the year (–211). It is important to note, however, that due to the change in accounting principles effected in 1983/84, exchange rate differentials for the two fiscal years are not comparable.

Dividend income from subsidiaries is included in financial income in an amount of 7 MSEK (21).

Income before extraordinary items was 811 MSEK (729).

CONSORTIUM OPERATING EXPENSES
TOTAL 14 674 MSEK



Extraordinary items, net, were −4 MSEK (189). This amount includes the sale of equipment for 12 MSEK (111) and stockholder contributions to SAS Tours and SMART AB in a total amount of 15 MSEK.

Last year's gains on the sale of aircraft, insurance settlements, etc., did not reoccur this year.

Income before allocations and taxes of the Consortium was 807 MSEK (918). Allocations are made by SAS's parent companies, DDL in Denmark, DNL in Norway and ABA in Sweden, each of which also pays taxes on their part of SAS's income.

The Fleet. Orders were placed for the following aircraft during the year: 4 F−27s, 3 DC−10s, 8 DC−9−82s and 5 DC−9−51s. At the end of the financial year, 2 F−27s and 2 DC−10s had been delivered.

THE FLEET[1]

Aircraft type	Owned	Leased	Total	Leased Out	On order
Boeing 747[2]	1	4	5		
Airbus A300 B4	3		3	3[3]	
Douglas DC-10-30	8		8		1[5]
Douglas DC-8-62	4		4	1[4]	
Douglas DC-8-63	5		5	3[3]	
Douglas DC-9-21	9		9		
Douglas DC-9-33	2		2		
Douglas DC-9-41	49		49		
Douglas DC-9-51					5[5]
Douglas DC-9-81					6
Douglas DC-9-82					8
Fokker F-27	6		6		2[5]
	87	4	91	7	22

[1] On September 30, 1985
[2] 2 in passenger and 3 in combined passenger/cargo versions
[3] Leased to Scanair
[4] 1 leased to Aero Peru
[5] Second-hand aircraft

SAS INTERNATIONAL HOTELS

In general, 1984/85 was a good year for the Scandinavian hotel business, except for the effects of the labor market conflicts in Denmark and Sweden. Market conditions, coupled with the continuing drive to profile SAS International Hotels as "Business Travelers' Hotels" contributed to an 12 percent increase in sales, to 948 MSEK.

Income before extraordinary items improved to 67 MSEK, as against 21 MSEK last year. The capital structure has been reviewed and strengthened through a new 49 MSEK share issue, among other measures.

In January, 1985, SAS Park Royal Hotel (formerly Globetrotter) at Oslo's Fornebu Airport completed an extensive renovation and expansion program. SAS Palais Hotel in Vienna opened in the fall of 1985 and the Nordkap Hotel was reopened after total renovation in the beginning of the financial year. An agreement has been concluded for an SAS hotel in London.

To further improve service to SAS Group customers, 42 independent hotels at major SAS destinations were organized as SAS Associated Hotels.

SAS SERVICE PARTNER

SAS Service Partner primarily operates flight kitchens and restaurants. Catering to offshore installations is an area of growing importance.

Several new customers for Scandinavian and international flight kitchens and a general increase in the passenger base has resulted in improved capacity utilization and higher earnings.

In the course of the year, measures were implemented to increase efficiency in both operations and administration. Operations were streamlined and share capital was increased by 59 MSEK. The fast-food chain in Norway was sold.

With income before extraordinary items of 81 MSEK (15), SAS Service Partner recorded a significant earnings increase. The figure includes a Danish pension refund of 9 MSEK.

VINGRESOR

The charter travel market in Norway continued its strong growth. Pricing has become more aggressive on the Swedish market.

Vingresor has solidified its position as the largest tour operator in the Nordic countries. Both in Norway and Sweden, Vingresor now has a market share of about 30 percent. The Vingresor Group had a total of 495,000 customers (430,000). Income improved to 81 MSEK (46).

Vingresor has captured a larger share of the total market by competing successfully in both the low–price and quality sectors. In the first category, lower prices than the major competitors have been decisive. In the upper end of the market , promotion of Vingcenter and Sunwing hotels has been particularly successful. As a result, the number of repeat customers has increased.

A decision was made during the year to invest 290 MSEK over a five-year period to increase the share of Vingcenter and Sunwing hotels – the upper end of the product line – to about 40 percent of total production, from the present 23 percent.

The share capital was increased by 50 MSEK, to 70 MSEK, during the year.

SAS TOURS

A decision was taken during the year to liquidate SAS Tours, which no longer was relevant to SAS's current business strategy and has had several years of unsatisfactory earnings.

OLSON & WRIGHT

Olson & Wright is one of Sweden's largest international forwarders, active in air cargo, shipping and surface freight.

Major product development and marketing efforts considerably increased business volume during the year.

The Norwegian subsidiary, Nordsped A/S, was sold during the year. The disposal of Nordsped followed several years of heavy losses.

Gross revenue for Olson & Wright in 1984/85 amounted to 1,305 MSEK (1,455), 11 percent below the preceding year. After deduction of customs duties, operating revenue was

134 MSEK (158). The net result of Olson & Wright was a loss of 12 MSEK (3), before allocations and taxes.

The company's negative result for the year is in its entirety attributable to losses in Nordsped A/S, and costs incurred in its sale.

AFFILIATED COMPANIES

The SAS Group includes a number of affiliated companies (defined as companies in which SAS's ownership is between 20 percent and 50 percent). Among affiliated companies are Linjeflyg AB (50 %), Travel Management Group Sweden AB (50 %), Scanator AB (50 %) and Polygon Insurance Co. Ltd (33 %).

In addition to consolidated income before allocations and taxes of 1,017 MSEK (968), SAS's share of 1984/85 income retained in affiliated companies was 56 MSEK (52); see also Note 30.

PERSONNEL AND PAYROLL EXPENSES

The average number of employees in the SAS Group was 29,730 (28,526). The number of employees in the airline (the SAS Consortium) was 18,845 (17,710). The increase in the number of employees is mainly due to increased timetables, more passengers and measures to improve the level of service in the airline.

The number of employees in the subsidiaries increased to 10,885 (10,816).

The total payroll of the SAS Group, including payroll-related costs, was 5,940 MSEK (5,334). Corresponding costs for the Consortium were 4,454 MSEK (3,942).

PROFITABILITY AND EQUITY RATIO

Due primarily to extensive capital investment activity late in the year, SAS Group pre-tax return on total capital employed, excluding non interest bearing operating debt, declined to 21 percent (27). The return on adjusted equity, after a standard 50 percent deduction for taxes, was unchanged at

PERSONNEL

	SAS CONSORTIUM								SUBSIDIARIES		SAS GROUP	
	Flight deck		Cabin		Other personnel		Total					
	84/85	83/84	**84/85**	83/84	**84/85**	83/84	**84/85**	83/84	**84/85**	83/84	**84/85**	83/84
DENMARK	**358**	341	**800**	750	**5 551**	5 206	**6 669**	6 297	**2 071**	1 882	**8 740**	8 179
NORWAY	**346**	321	**634**	580	**3 052**	2 794	**4 032**	3 695	**3 927**	2 994	**7 959**	6 689
SWEDEN	**482**	477	**802**	756	**4 730**	4 384	**6 014**	5 617	**2 286**	2 977	**8 300**	8 594
ABROAD			**23**	24	**2 107**	2 077	**2 130**	2 101	**2 601**	2 963	**4 731**	5 064
TOTAL	**1 186**	1 139	**2 259**	2 110	**15 400**	14 461	**18 845**	17 710	**10 885**	10 816	**29 730**	28 526

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

18 percent. The equity ratio as of September 30, taking into account a 50 percent deferred tax liability on untaxed reserves, was 24 percent (22).

The ratio of risk-bearing capital, i.e. book equity including untaxed reserves, improved to 27 percent (26). For the SAS Consortium, the ratio of risk-bearing capital rose to 29 percent (28).

When judging profit levels, return on capital employed and equity, and the equity ratio, it should be remembered that the airline has been in a phase of consolidation with relatively low levels of capital investment. The extensive future investment program will require continuing improvement in earnings and further strengthening of the capital base of the Consortium.

INVESTMENTS

Investments of the SAS Group in facilities and equipment totaled 1,761 MSEK (1,213). The airline's share of investments in facilities was 1,465 MSEK (997). Catering and restaurants invested 57 MSEK and the hotels, 113 MSEK.

Two second-hand DC-10-30s were acquired during the year for 50 MUSD, corresponding to 457 MSEK. Two second-hand Fokker F-27s were also purchased, for 45 MSEK. Additionally, investments have been made to increase the fuel efficiency, etc. on the DC-9 and DC-10 fleets. These modifications cost 55 MSEK. Further, substantial changes were made on two DC-10 aircraft acquired in 1983/84, in order that they meet with SAS standards.

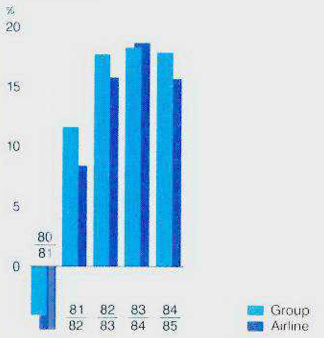
BALANCE SHEETS

MSEK	SAS Group 84/85	SAS Group 83/84	SAS Consortium 84/85	SAS Consortium 83/84
Liquid funds	**3 675**	4 011	**2 839**	3 442
Other current assets	**3 611**	3 280	**2 930**	2 667
Current assets	**7 286**	7 291	**5 769**	6 109
Fixed assets	**5 901**	4 056	**4 985**	3 157
Total assets	**13 187**	11 347	**10 754**	9 266
Current liabilities	**6 257**	6 105	**4 959**	4 976
Long-term debt	**3 303**	2 340	**2 630**	1 715
Reserves	**904**	789	**609**	546
Equity	**2 723**	2 113	**2 556**	2 029
Total liabilities and equity	**13 187**	11 347	**10 754**	9 266

STATEMENTS OF CHANGES IN FINANCIAL POSITION

MSEK	SAS Group 84/85	SAS Group 83/84	SAS Consortium 84/85	SAS Consortium 83/84
Funds provided by the year's operation	**1 221**	1 342	**966**	1 198
Change in working capital	**177**	151	**18**	35
Net financing from the year's operations	**1 398**	1 493	**984**	1 233
Capital investments	**−1 761**	−1 213	**−1 607**	−1 011
Advance payments and sale of assets, etc.	**− 696**	907	**− 750**	955
Financing deficit	**−1 059**	1 187	**−1 373**	1 177
New borrowing, net	**724**	299	**770**	295
Increase in liquid funds	**− 335**	1 486	**− 603**	1 472

RETURN ON EQUITY AFTER TAXES



In May, 1985 contracts were concluded with McDonnell Douglas for the purchase of 8 more DC–9 aircraft for 187 MUSD (about 1,500 MSEK) in addition to the 6 DC-9s ordered in 1983/84. The aircraft will be delivered in the course of 1985/86. The total value of aircraft on order on September 30, 1985 was 424 MUSD.

In the last two years, decisions have thus been made to invest approximately 4,700 MSEK in the aircraft fleet.

FINANCING AND LIQUIDITY

SAS Group holdings of liquid funds on September 30, 1985 decreased by 335 MSEK to 3,675 MSEK as a result of capital spending activity. Liquid funds in the Consortium amounted to 2,839 MSEK (3,442), a decline of 603 MSEK.

Funds generated internally by the year's operations of the SAS Group amounted to 1,221 MSEK (1,342) after transfer to the parent companies of 280 MSEK (210).

After capital investments of 1,761 MSEK and advance payments of 626 MSEK on contracts for aircraft, SAS records a financing deficit of 1,059 MSEK. Last year, major insurance settlements contributed to a financing surplus of 1,187 MSEK.

Repayments on loans were made in an amount of 1,009 MSEK (562). This includes contractual repayments on USD loans of 774 MSEK.

New loans were raised in the amount of 1,733 MSEK, including a Norwegian bond issue of 253 MSEK and a loan denominated in ECU (European Currency Units) of 667 MSEK.

ALLOCATION OF INCOME AND EQUITY

Income of the SAS Group before allocations and taxes was 1,017 MSEK compared to 968 MSEK last year.

Income of the Consortium before allocations and taxes was 807 MSEK (918). The result includes dividends from subsidiaries of 7 MSEK (21).

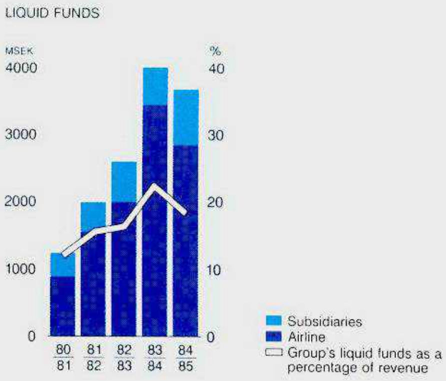
Allocations are made by the parent companies of SAS, DDL in Denmark, DNL in Norway and ABA in Sweden, each of which also pays taxes in their respective countries on their share of SAS's income.

The Board of Directors and the President propose to the Assembly of Representatives that 280 MSEK be paid to the parent companies (280 MSEK was transferred for 1983/84) and that the remaining amount, 527 MSEK (638), be transferred to the Consortium's capital account, which thereafter will be 2,276 MSEK (1,749).

FORECAST FOR 1985/86

For 1986, continued growth is expected in the scheduled airline market.

The successes of SAS in the market have resulted in increased capacity utilization, which has had a rapid effect on results. Increased resources are now required in both personnel and aircraft. It will become more difficult to compensate for rising costs by raising



prices. Steadily increasing competition in a harsher business climate compels moderation in cost increases, with greater efficiency instead.

The trend in the first few months of the financial year has been positive. The Board of Directors expects the favorable development of income before capital expenses of the SAS Group to continue. Despite extensive investments in 1985/86, income before extraordinary items is expected to reach the level of 1984/85.

The result and financial position of the SAS Group and the SAS Consortium for the 1984/85 financial year are shown in the following financial statements and notes, as integral parts of the Annual Report.

Stockholm, Oslo and Copenhagen, December 15, 1985

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

JAN CARLZON
President and Chief Executive Officer

SAS Group Consolidated Statement of Income

October 1 – September 30

MSEK		84/85	83/84
Traffic revenue	Note 1	**12 572**	11 577
Other operating revenue	Note 2	**7 218**	6 428
OPERATING REVENUE		**19 790**	18 005
OPERATING EXPENSE	Note 3	**18 256**	16 415
OPERATING INCOME BEFORE DEPRECIATION		**1 534**	1 590
DEPRECIATION	Note 4	**574**	545
OPERATING INCOME AFTER DEPRECIATION		**960**	1 045
Dividend income	Note 5	**1**	3
Interest income, net	Note 6	**139**	122
Exchange rate differences	Note 7	**– 82**	–364
Other financial items	Note 8	**0**	– 14
INCOME BEFORE EXTRAORDINARY INCOME AND EXPENSE		**1 018**	792
Gain on sale and retirement of equipment, etc. (net)	Note 9	**15**	103
Extraordinary income	Note 10	**7**	580
Extraordinary expense	Note 11	**– 23**	–507
INCOME BEFORE ALLOCATIONS AND TAXES		**1 017**	968
Allocations in the subsidiaries (net)	Note 12	**– 56**	– 37
Result before subsidiaries' taxes		**961**	931
Taxes paid by subsidiaries	Note 13	**– 85**	– 34
Minority interests		**0**	5
Income before taxes relating to the Consortium (payable by its parent companies in Denmark, Norway and Sweden) but after taxes payable by subsidiaries		**876**	902

SAS Group Consolidated Balance Sheet

ASSETS, MSEK		Sept. 30 1985	Sept. 30 1984
CURRENT ASSETS			
Liquid funds	Note 14	**500**	383
Short-term investments	Note 15	**3 175**	3 628
Bills receivable		**2**	2
Due from parent companies		**24**	24
Accounts receivable	Note 16	**2 029**	1 841
Prepaid expense and accrued income		**575**	521
Tax refund receivable		**5**	7
Other accounts receivable		**534**	521
Expendable spare parts and inventory	Note 17	**389**	323
Prepayments to suppliers		**53**	41
Total current assets		**7 286**	7 291
RESTRICTED ACCOUNTS	Note 18	**95**	46
FIXED ASSETS			
Stocks and participations	Note 19	**119**	88
Bonds and other securities		**52**	54
Long-term accounts receivable, parent companies		**4**	3
Other long-term accounts receivable		**102**	79
Goodwill	Note 21	**7**	9
Capitalized development costs		**1**	2
Discount on debenture loans		**–**	3
Long-term prepayments to suppliers	Note 22	**815**	189
Other assets	Note 23		
Construction in progress		**37**	53
Aircraft		**2 365**	1 754
Spare engines and spare parts		**368**	316
Workshop and aircraft servicing equipment		**85**	61
Other equipment and vehicles		**849**	530
Buildings and improvements		**916**	790
Land and improvements		**86**	79
Total fixed assets		**5 806**	4 010
TOTAL ASSETS		**13 187**	11 347
ASSETS PLEDGED, ETC.	Note 31	**725**	759

LIABILITIES AND EQUITY		Sept. 30 1985	Sept. 30 1984
CURRENT LIABILITIES			
Accounts payable		**1 141**	1 202
Taxes payable	Note 13	**73**	38
Accrued expense and prepaid income		**1 924**	1 768
Unearned transportation revenue (net)	Note 24	**1 301**	1 168
Current portion of long-term debt		**666**	977
Prepayments from customers	Note 25	**889**	708
Other current liabilities		**263**	244
Total current liabilities		**6 257**	6 105
LONG-TERM DEBT			
Bond loans	Note 26	**1 440**	516
Other loans	Note 27	**1 663**	1 539
Other long-term debt		**149**	239
Provision for pension liabilities	Note 28	**51**	46
Total long-term debt		**3 303**	2 340
MINORITY INTEREST		**7**	6
RESERVES	Note 12	**897**	783
Total reserves			
EQUITY	Note 29		
Capital			
ABA (3/7)		**749**	477
DDL (2/7)		**500**	317
DNL (2/7)		**500**	317
Total capital		**1 749**	1 111
Legal reserve		**43**	38
Revaluation reserve		**21**	20
Retained earnings		**34**	42
Net income for the year		**876**	902
Total equity		**2 723**	2 113
TOTAL LIABILITIES AND EQUITY		**13 187**	11 347
CONTINGENT LIABILITIES	Note 32	**291**	189

SAS Consortium Statement of Income

October 1 – September 30

MSEK		84/85	83/84
Traffic revenue	Note 1	**12 572**	11 577
Other operating revenue	Note 2	**2 862**	2 574
OPERATING REVENUE		**15 434**	14 151
OPERATING EXPENSE	Note 3	**14 227**	12 791
OPERATING INCOME BEFORE DEPRECIATION		**1 207**	1 360
DEPRECIATION	Note 4	**447**	438
OPERATING INCOME AFTER DEPRECIATION		**760**	922
Dividend income	Note 5	**8**	24
Interest income, net	Note 6	**143**	138
Exchange rate differences, net	Note 7	**–102**	–342
Other financial items	Note 8	**2**	– 13
INCOME BEFORE EXTRAORDINARY INCOME AND EXPENSE		**811**	729
Gain on sale and retirement of equipment, etc. (net)	Note 9	**12**	111
Extraordinary income	Note 10	**0**	580
Extraordinary expense	Note 11	**– 16**	–502
INCOME BEFORE ALLOCATIONS AND TAXES[1]		**807**	918

[1] Allocations are made and taxes are payable by the parent companies.

SAS Consortium Balance Sheet

ASSETS, MSEK		Sept. 30 1985	Sept. 30 1984
CURRENT ASSETS			
Liquid funds	Note 14	**293**	214
Short-term investments	Note 15	**2 546**	3 228
Due from subsidiaries		**52**	173
Due from parent companies		**24**	24
Accounts receivable	Note 16	**1 620**	1 312
Prepaid expense and accrued income		**496**	447
Other accounts receivable		**452**	468
Expendable spare parts and inventory	Note 17	**278**	233
Prepayments to suppliers		**8**	10
Total current assets		**5 769**	6 109
RESTRICTED ACCOUNTS	Note 18	**86**	19
FIXED ASSETS			
Stocks and participations in subsidiaries	Note 19	**229**	173
Other stocks and participations	Note 19	**114**	83
Bonds and other securities		**10**	9
Long-term accounts receivable, subsidiaries	Note 20	**120**	4
Long-term accounts receivable, parent companies		**4**	3
Long-term accounts receivable, others		**47**	51
Discount on debenture loans		**–**	3
Long-term prepayments to suppliers	Note 22	**815**	189
Other assets	Note 23		
Construction in progress		**18**	16
Aircraft		**2 365**	1 754
Spare engines and spare parts		**368**	316
Workshop and aircraft servicing equipment		**85**	61
Other equipment and vehicles		**486**	303
Buildings and improvements		**230**	165
Land and improvements		**8**	8
Total fixed assets		**4 899**	3 138
TOTAL ASSETS		**10 754**	9 266
ASSETS PLEDGED	Note 31	**27**	31

LIABILITIES AND EQUITY		Sept. 30 1985	Sept. 30 1984
CURRENT LIABILITIES			
Accounts payable, subsidiaries		**61**	48
Accounts payable, suppliers		**754**	882
Accrued expense and prepaid income		**1 596**	1 488
Unearned transportation revenue (net)	Note 24	**1 301**	1 168
Current portion of long-term debt		**618**	905
Prepayments from customers	Note 25	**610**	469
Other current liabilities		**19**	16
Total current liabilities		**4 959**	4 976
LONG-TERM DEBT			
Loans from subsidiaries		**1**	1
Bond loans	Note 26	**1 440**	516
Other loans	Note 27	**1 074**	984
Other long-term debt		**115**	214
Total long-term debt		**2 630**	1 715
RESERVES	Note 12	**609**	546
EQUITY	Note 29		
Capital			
ABA (3/7)		**749**	477
DDL (2/7)		**500**	317
DNL (2/7)		**500**	317
Total capital		**1 749**	1 111
Net income for the year		**807**	918
Total equity		**2 556**	2 029
TOTAL LIABILITIES AND EQUITY		**10 754**	9 266
CONTINGENT LIABILITIES	Note 32	**488**	472

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

Statements of Changes in Financial Position

October 1 – September 30

MSEK	SAS Group 84/85	SAS Group 83/84	SAS Consortium 84/85	SAS Consortium 83/84
THE YEAR'S OPERATIONS				
Income before allocations and taxes	**1 017**	968	**807**	918
Depreciation	**574**	545	**447**	438
Exchange rate differences, unrealized	**– 29**	774	**– 28**	756
Capital gains/losses on assets sold, etc.	**54**	– 662	**51**	– 670
Other (net)	**– 115**	– 73	**– 31**	– 34
Subtotal	**1 501**	1 552	**1 246**	1 408
Payments made to the parent companies	**– 280**	– 210	**– 280**	– 210
Funds provided by the year's operations	**1 221**	1 342	**966**	1 198
Increase (–)/decrease (+) in inventories	**– 62**	– 20	**– 40**	– 10
Increase (–)/decrease (+) in current receivables	**– 256**	– 425	**– 218**	– 353
Increase (+)/decrease (–) in current liabilities	**495**	596	**276**	398
Funds used in operations	**177**	151	**18**	35
Net financing from the year's operations	**1 398**	1 493	**984**	1 233
INVESTMENTS				
Aircraft	**– 794**	– 598	**– 794**	– 598
Spare parts	**– 212**	– 85	**– 212**	– 85
Buildings, improvements and other equipment	**– 723**	– 515	**– 459**	– 314
Securities	**– 32**	– 15	**– 142**	– 14
Total investments	**– 1 761**	– 1 213	**– 1 607**	– 1 011
Advance payments for aircraft	**– 626**	– 187	**– 626**	– 186
Long-term receivables (net)	**– 89**	– 34	**– 125**	– 1
Sale of assets and stocks	**19**	242	**1**	257
Insurance settlements	**–**	886	**–**	885
Net investments	**– 2 457**	– 306	**– 2 357**	– 56
Balance after net investments	**– 1 059**	1 187	**– 1 373**	1 177
EXTERNAL FINANCING, ETC.				
Repayment of long-term debt	**– 1 009**	– 562	**– 853**	– 510
Borrowings	**1 733**	861	**1 623**	805
Financing – external, net	**724**	299	**770**	295
INCREASE IN LIQUID FUNDS (cash, bank balances and short-term investments)	**– 335**	1 486	**– 603**	1 472
Valuation adjustment, liquid funds, etc.	**– 1**	– 70	**–**	– 23
Liquid funds at beginning of the year	**4 011**	2 595	**3 442**	1 993
Liquid funds at year-end	**3 675**	4 011	**2 839**	3 442

Notes to the Financial Statements

SUMMARY OF ESSENTIAL VALUATION AND ACCOUNTING PRINCIPLES

Principles of consolidation

The financial year of the SAS Group is October 1, 1984 to September 30, 1985.

The financial statements of the SAS Group are expressed in million Swedish kronor (MSEK), unless otherwise stated.

The consolidated financial statements of the SAS Group include the SAS Consortium, its wholly owned subsidiaries and those partially owned companies in which the Consortium has a controlling interest. Some wholly owned subsidiaries, closely connected with the business of the Consortium, are directly included in the accounts of the Consortium. See further the specification of stocks and participations as of September 30, 1985.

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.

Shares in income and capital in SAS affiliated companies where the ownership is between 20 and 50 percent are reported separately in a note to the financial statements.

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

The consolidated financial statements are prepared in accordance with the purchase method of accounting, which means that subsidiary income is included in the Group's disposable funds only to the extent that it was earned after the date of acquisition. The equity in a subsidiary at the time of acquisition, including 50 percent of acquired untaxed reserves, is eliminated against the acquistion value of the corresponding stocks in the accounts of the Consortium.

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

Subsidiary financial statements in currencies other than Swedish kronor are, for purposes of consolidation, translated into Swedish kronor using the current–rate method. Assets and liabilities are thus converted to Swedish kronor at financial year–end rates of exchange, while the result for the year is converted at the average rates of exchange for the year. SAS's share of such translation differences are transferred directly to equity of the SAS Group. Translation differences relating to minority interest in subsidiaries are entered under the heading "Minority interest" in the Consolidated Balance Sheet.

Monetary assets and liabilities in currencies other than the currency of consolidation

Monetary assets and liabilities expressed in currencies other than the currency of consolidation are stated in the Balance Sheet converted at financial year–end market rates of exchange.

Unrealized currency gains on long–term debt, where the rate is lower than at the time the loan was disbursed, are credited to a currency adjustment account among reserves in the Balance Sheet. If the financial year–end rate of exchange is higher, the unrealized foreign exchange gain is credited to earnings as a foreign exchange rate difference in the financial net. Unrealized foreign exchange losses (on long–term debt and long–term receivables) are charged to earnings. Foreign exchange losses and gains created in conversion to Swedish kronor of other monetary assets and liabilities are credited/charged to earnings and reported as foreign exchange rate differences.

Receivables and liabilities covered by foreign exchange futures contracts are converted at the respective contract rates.

Exchange rates to SEK for some of SAS's principal currencies are:

Currency		Year-end rate 1985	1984	Average rate 1985	1984
Denmark,	DKK 100	**82.90**	78.10	**80.30**	80.99
Norway,	NOK 100	**101.30**	98.05	**99.59**	103.79
USA,	USD	**8.06**	8.70	**8.88**	8.04
Switzerland,	CHF 100	**367.70**	343.35	**346.45**	359.00
France,	FRF 100	**98.85**	92.00	**94.04**	95.92
	ECU [1]	**6.67**	–	–	–

[1] European Currency Unit

Expendable spare parts and sundry stores

Expendable spare parts and sundry stores are stated at the lower of cost or market value. An appropriate deduction for obsolescence has been made.

Expendable spare parts included under this heading comprise 2/3 of the total stock of such parts. The remaining 1/3 are accounted and regarded as fixed assets.

Fixed assets and depreciation

Owned fixed assets are carried in the Balance Sheet at cost less accumulated depreciation.

Flight equipment, i.e. aircraft and engines, including spare parts, is depreciated as follows:

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

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

The above–mentioned rules are applied by the Consortium to increase the depreciation accounts deducted from the cost of flight equipment. Depreciation deducted in SAS's Statement of Income in excess of this reported depreciation is added to the depreciation reserve of the Consortium.

Aircraft acquired second–hand are depreciated over their estimated useful economic lives.

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

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

Improvements to own and rented premises are, in principle, depreciated over the rental period or estimated useful life.

Maintenance costs

Routine aircraft maintenance and repairs are charged to earnings as incurred. Major modifications and improvements are capitalized and depreciated over the remaining lives of the relative assets.

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

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

Traffic revenue

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

The value of tickets sold, but not yet used, is reported as unearned transportation revenue among current liabilities. This item is reduced, either when SAS or another airline completes the transportation, or after request for a refund has been made by the ticket holder.

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

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

Reclassifications

Certain items in the Statement of Income and the Balance Sheet have been reclassified effective 1984/85. For comparison, a corresponding change has been made in the 1983/84 figures.

Definitions of financial concepts and ratios used in the Annual Report

Gross profit margin. Operating income before depreciation as a ratio of operating revenue.

Profit margin. Income before extraordinary income and expense as a ratio of operating revenue.

Pretax return on capital employed. Operating income after depreciation, plus financial income, as a ratio of average capital employed. Capital employed denotes total capital according to the Balance Sheet, less current, non-interest bearing, operating liabilities.

Return on equity after taxes. Income before extraordinary items, reduced by estimated tax of 50 percent, as a ratio of adjusted average equity. Adjusted equity consists of book equity plus 50 percent of untaxed reserves.

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

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

Note 1 – Traffic revenue

	84/85	83/84
Passengers	**10 764**	9 873
Freight	**1 410**	1 303
Mail	**265**	245
Charter	**46**	52
Leasing	**87**	104
	12 572	11 577

Traffic revenue refers only to the Consortium.

Note 2 – Other operating revenue

Subsidiary revenue is included in the SAS Group in an amount of 5,266 MSEK (4,826). Also included are consolidation adjustments of −912 MSEK (−972). Other operating revenue of the Consortium consists of revenue from maintenance, ground handling, interline sales, etc., for other airlines, inflight and airport sales, leasing of excess capacity and other miscellaneous revenue.

Note 3 – Operating expense

A pension premium refund in Denmark for the period 1981-1984 is deducted in an amount of 133 MSEK, whereof 124 MSEK refers to the Consortium.

Note 4 – Depreciation

	SAS Group		Consortium	
	84/85	83/84	**84/85**	83/84
Goodwill	**1**	2	-	-
Development costs	**0**	1	-	-
Aircraft	**182**	206	**182**	206
Spare engines and spare parts	**86**	72	**86**	72
Maintenance and aircraft servicing equipment	**25**	23	**25**	23
Other equipment and vehicles	**200**	156	**121**	98
Buildings and improvements	**80**	85	**33**	39
Land and land improvements	**0**	0	**0**	0
	574	545	**447**	438

Note 5 – Dividends

	SAS Group		Consortium	
	84/85	83/84	**84/85**	83/84
SAS Service Partner A/S, Danmark	-	-	-	3
SAS Service Partner A/S, Norge	-	-	-	10
Vingresor AB	-	-	**7**	6
Nyman & Schultz Resebyråer AB	-	-	-	0
AB Olson & Wright	-	-	-	2
Dividends from subsidiaries	-	-	**7**	21
Dividends from others	**1**	3	**1**	3
	1	3	**8**	24

Dividends from subsidiaries are the dividends approved by each respective Annual General Meeting for the financial years 1983/84 and 1984/85, respectively. Dividends are thus not anticipated in the Statement of Income.

Note 6 – Interest income, net

	SAS Group		Consortium	
	84/85	83/84	**84/85**	83/84
Interest from subsidiaries	-	-	**7**	3
Other interest income	**511**	436	**409**	360
Interest income	**511**	436	**416**	363
Interest to subsidiaries	-	-	**–4**	0
Other interest expense	**–372**	–314	**–269**	–225
Interest expense	**–372**	–314	**–273**	–225
Interest (net)	**139**	122	**143**	138

Note 7 – Currency differences, net

	SAS Group		Consortium	
	84/85	83/84	**84/85**	83/84
Currency gains/losses on long-term debt	**48**	–233	**28**	–211
Other currency differences	**–130**	–131	**–130**	–131
	–82	–364	**–102**	–342

Note 8 – Other financial items

	SAS Group		Consortium	
	84/85	83/84	**84/85**	83/84
Writedown of capital discount on debenture loan	**–3**	–1	**–3**	–1
Capital gain, bonds	**22**	-	**22**	-
Bank fees	**–21**	–13	**–17**	–11
Other	**2**	0	**0**	–1
	0	–14	**2**	–13

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

	SAS Group		Consortium	
	84/85	83/84	**84/85**	83/84
Aircraft	**2**	93	**2**	93
Spare engines and spare parts	**12**	7	**12**	7
Other equipment	**1**	3	**–2**	5
Sales of stock in Nyman & Schultz Resebyråer AB	-	-	-	6
	15	103	**12**	111

Income in an amount of 93 MSEK from a Sale/Leaseback transaction for a 747 aircraft was recorded in 1983/84. There was no corresponding entry this year.

Note 10 – Extraordinary income

	SAS Group		Consortium	
	84/85	83/84	**84/85**	83/84
Insurance settlements	-	580	-	580
Other	**7**	0	**0**	0
	7	580	**0**	580

Note 11 – Extraordinary expense

	SAS Group		Consortium	
	84/85	83/84	**84/85**	83/84
Currency losses on long-term debt due to change in accounting principle	-	412	-	412
Non-recurring depreciation of computer equipment	-	45	-	45
Non-recurring depreciation of improvements/equipment	-	49	-	30
Share in losses/writedown of participation in Hotel Scandinavia K/S, Copenhagen	-	1	-	15
Capital infusion in SMART AB and SAS Tours AB	-	-	**15**	-
Loss in AB Olson & Wright upon transfer of Olson & Wright Nordsped A/S	**14**	-	-	-
Capital loss incurred by the Group upon sale of Nordisk Resebureau AB	**5**	-	-	-
Severance payments, etc., SAS Tours AB	**2**	-	-	-
Other extraordinary expense	**2**	0	**1**	0
	23	507	**16**	502

Note 12 – Allocations and reserves

	Inventory reserve	Depreciation reserves Flight material	Foreign exchange reserve	Accumulated supplementary depreciation	Investment reserve	Special investment reserve	Regional development reserve	Profit equalization reserve	Consol. reserve	Emergency reserve	Total
Consortium											
Untaxed reserves 30/9–83	32	535	2								569
Allocations 83/84		38	12								50
Reversals 83/84		–70									–70
Other changes		–3									–3
Untaxed reserves 30/9–84	32	500	14								546
Allocations 84/85		53	72								125
Reversals 84/85		–54	–8								–62
Other changes	1	–1									-
Untaxed reserves 30/9–85	33	498	78								609
SAS Group											
Untaxed reserves 30/9–83	39	535	4	84	36	13	6	45	9	1	772
Allocations 83/84		38	15								53
Reversals 83/84		–70									–70
Allocations 83/84	2			9	4	1	–2	10	9	4	37
Other changes		–3	–1	–3	1		–1		–1	–1	–9
Untaxed reserves 30/9–84	41	500	18	90	41	14	3	55	17	4	783
Allocations 84/85		53	73	28							154
Reversals 84/85		–54	–12		–23	–8					–97
Allocations 84/85				19	14	–3	6	–13	22	11	56
Other changes		–1		–1	3						1
Untaxed reserves 30/9–85	41	498	79	136	35	3	9	42	39	15	897

Note 13 – Subsidiary taxes

The Statement of Income of the SAS Group includes only taxes payable by the subsidiaries, since the tax liability in Denmark, Norway and Sweden relating to the activities of the Consortium lies with the parent companies of the Consortium. Subsidiary taxes include deferred taxes of 20 MSEK.

Taxes payable by the Consortium abroad are included in operating expense in an amount of 22 MSEK (9).

Note 14 – Liquid funds

The balance of liquid funds of the Consortium includes funds in an amount of 24 MSEK (36) in a restricted tax deduction account in Norway. The liquid funds of the Consortium are stated after a deduction for currency risks, etc. amounting to 13 MSEK (21).

Note 15 – Short-term investments

On September 30, 1985 short–term investments were made in banks, corporations and institutions, primarily in Scandinavia. Uncompleted interest arbitrage transactions within the Consortium are reported net and amounted to 668 MSEK (95). The amount borrowed is a like amount which has been invested as follows:

	1985	1984
Promissory notes	**109**	60
Treasury discount notes	**224**	35
Certificates of deposit	**3**	-
Bank deposits	**332**	-
As of September 30	**668**	95

No pledge or assignment of receivables has been made for these liabilities.

Note 16 – Accounts receivable

Accounts receivable are after provisions for uncertain receivables and currency risks. Such provisions amounted to 63 MSEK (70) in the SAS Group, of which 49 MSEK (53) is related to the Consortium.

Note 17 – Expendable spare parts and inventory

	SAS Group		Consortium	
	1985	1984	**1985**	1984
Expendable spare parts	**108**	91	**108**	91
Surplus stores	**74**	60	**74**	60
Work in progress	**16**	12	**16**	12
Raw materials	**20**	18	**20**	18
Goods for internal use	**23**	20	**23**	20
Inventory	**123**	101	**12**	11
Cabin and catering materials, uniforms	**25**	21	**25**	21
As of September 30	**389**	323	**278**	233

Note 18 – Restricted accounts

Deposits to restricted accounts of 95 MSEK (46) are specified below:

	SAS Group		Consortium	
	1985	1984	**1985**	1984
Investment reserve	-	2	-	-
Special investment reserve	**3**	8	-	-
General investment reserve	**5**	13	-	-
Regional development reserve	**0**	1	-	-
Liquidity account	**87**	22	**86**	19
	95	46	**86**	19

Note 19 – Other stocks and participations. Stocks and participations in subsidiaries.

As of October 1, 1984, SAS International Hotels (SIH) assumed at book value the liabilities of the Consortium in SAS Royal Hotel A/S, Hotel Scandinavia K/S, Scandinavia Invest A/S and SAS Invest A/S in a total amount of 81 MSEK. The former stock holdings of the SAS Consortium in SAS Service Partner, Sweden and Norway, 22 MSEK, were also transferred to SIH. 49 MSEK of the liability to the Consortium was converted to share capital.

SAS Service Partner A/S (SSP) has received a share capital increase of 59 MSEK.

Capital infusions have also been made in Vingresor AB by 50 MSEK and in Polygon Insurance Co. Ltd by 10 MSEK.

The Consortium has also invested 6 MSEK in Helikopter Service A/S and made a capital infusion of 8 MSEK in Travel Management Group Sweden AB.

The Consortium's stock and participations are specified separately.

Note 20 – Long-term accounts receivable, subsidiaries

This amount includes 57 MSEK which refers to SAS International Hotels (SIH). 54 MSEK hereof is the amount remaining of engagements assumed from the Consortium. This liability is recorded as equity loan capital in the accounts of SIH. An amount of 63 MSEK due from SMART AB is also included.

Note 21 – Goodwill

Goodwill mainly consists of Group goodwill relating to AB Olson & Wright in an amount of 7 MSEK (9).

Note 22 – Long-term advance payments to suppliers

This item consists of 672 MSEK (187) relating to 14 (6) new DC-9 aircraft and 26 MSEK for a DC-10-30 aircraft as well as advance payments for engines in an amount of 117 MSEK.

Note 23 – Other assets

	At cost depreciation		Accumulated		Book value	
SAS Group	**1985**	1984	**1985**	1984	**1985**	1984
Construction in progress	**37**	53	-	-	**37**	53
Aircraft	**4 398**	3 642	**2 033**	1 888	**2 365**	1 754
Spare engines and spare parts	**896**	776	**528**	460	**368**	316
Workshop and aircraft servicing equipment	**292**	249	**207**	188	**85**	61
Other equipment and vehicles	**1 700**	1 241	**851**	711	**849**	530
Buildings and improvements	**1 469**	1 305	**553**	515	**916**	790
Land and installations	**88**	81	**2**	2	**86**	79
As of September 30	**8 880**	7 347	**4 174**	3 764	**4 706**	3 583

Consortium						
Construction in progress	**18**	16	-	-	**18**	16
Aircraft	**4 398**	3 642	**2 033**	1 888	**2 365**	1 754
Spare engines and spare parts	**896**	776	**528**	460	**368**	316
Workshop and aircraft servicing equipment	**292**	249	**207**	188	**85**	61
Other equipment and vehicles	**1 070**	802	**584**	499	**486**	303
Buildings and improvements	**512**	421	**282**	256	**230**	165
Land and improvements	**9**	9	**1**	1	**8**	8
As of September 30	**7 195**	5 915	**3 635**	3 292	**3 560**	2 623

The book value of aircraft has been changed as follows:

Cost, October 1, 1984	3 642	
Aircraft purchases, modifications, etc.	825	
Aircraft sold and retired	−69	4 398
Accumulated depreciation, October 1, 1984	1 888	
Aircraft sold and retired	−60	
Depreciation 1984/85	205	2 033
Book value		2 365
Depreciation reserve, October 1, 1984	431	
Aircraft sold and retired	-	
The year's supplementary depreciation	−23	408
Net book value, September 30, 1985		1 957
Insurance value of aircraft, September 30, 1985		10 093

The Consortium's data and communications equipment and flight simulators are included under the heading *"Other equipment and vehicles"* at a cost of 651 MSEK and 86 MSEK, respectively. The corresponding figures as of September 30, 1984 were 446 MSEK and 71 MSEK.

The cost of *Buildings and improvements* in the SAS Group has increased by 166 MSEK. A major portion of the increase is attributable to the Consortium. This item includes miscellaneous new construction.

The accumulated supplementary depreciation in the SAS Group, including writedown against investment reserves, etc. is distributed as follows:

	1985	1984
Machinery and equipment	**61**	47
New construction	**–**	4
Buildings and improvements	**72**	39
Land and improvements	**3**	0
	136	90

With utilization of investment reserves and regional development reserves, assets were written down by 39 MSEK (10). Machinery and equipment were written down by 15 MSEK of this amount, buildings and improvements by 22 MSEK. These writedowns have increased the balance of accumulated supplementary depreciation.

Note 24 – Unearned transportation revenue

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

Reversal of the reserve for traffic revenue liability is effected such that the reserve accrued one year is restored to revenue the following year. In this year's accounts, 86 MSEK (83) was reversed.

Note 25 – Other current liabilities

Utilization of checking account facilities in the SAS Group amounted to 142 MSEK (112), of which the Consortium accounted for 47 MSEK (30), as of September 30, 1985.

Note 26 – Bond loans

The aggregate amount of SAS Consortium bond loans was 1,440 MSEK (516) on September 30, 1985.

Loans are in the following amounts and denominations:

	Consortium	
	1985	1984
US dollar	-	122
Norwegian kroner	**456**	196
Swiss francs	**242**	233
Swedish kronor	**100**	110
European Currency Units	**667**	-
Total	**1 465**	661
Less repayments 85/86 and 84/85, respectively	**−25**	−145
As of September 30	**1 440**	516

Specification of individual loans:

Amount issued	Interest rate	Tenor	Remaining long-term debt
80 M Swiss francs	5.5%	77/92	242
150 M Swedish kronor	10.75%	79/94	100
200 M Norwegian kroner	11.625%	84/91	203
250 M Norwegian kroner	10.125%	85/93	253
100 M European Currency Units	9.00%	85/95	667
Total			1 465

Note 27 – Other loans

Other long-term loans of the SAS Group amount to 1,663 MSEK (1,539), of which the Consortium accounts for 1,074 MSEK (984).

The loans are denominated in currencies as follows:

	SAS Group		Consortium	
	1985	1984	**1985**	1984
US dollar	**1 515**	1 173	**1 352**	1 014
"Multi Currency" loan	-	289	-	289
Norwegian kroner	**219**	220	**1**	7
Swedish kronor	**154**	203	**109**	127
Swiss francs	-	138	-	138
Danish kroner	**108**	99	**13**	13
French francs	**82**	90	**82**	90
German marks	**39**	38	-	-
Spanish pesetas	**33**	5	-	-
Others	**46**	52	**2**	2
Total	**2 196**	2 307	**1 559**	1 680
Less repayments 85/86 and 84/85, respectively	**−533**	−768	**−485**	−696
As of September 30	**1 663**	1 539	**1 074**	984

The loans for the Consortium fall due for repayment as follows:

1986/87	196
1987/88	540
1988/89	128
1989/90	83
1990/91 and thereafter	127

Note 28 – Provision for pension liabilities

	1985	1984
Subsidiary provisions for pensions are as follows:		
PRI	**48**	42
Other	**3**	4
As of September 30	**51**	46

The Pension Registration Institute (PRI) is a non-profit service organization that manages employee pension plans.

Other pension liabilities are covered either by periodic premium payments or are entered as pension liabilities among contingent liabilities.

Note 29 – Equity

SAS Group	Restricted equity: Capital	Restricted equity: Legal reserve	Revaluation reserve	Unrestricted equity: Retained earnings	Unrestricted equity: Period's result	Total equity
October 1, 1984	1 111	38	20	42	902	2 113
Income 1983/84	918			–16	–902	-
Transferred to parent companies	–280					–280
Allocation to statutory reserves		5		–5		-
Adjustment of revaluation reserves			1			1
Change in translation difference, net				15		15
Other				–2		–2
Income 1984/85					876	876
September 30, 1985	1 749	43	21	34	876	2 723

Consortium	Capital	Period's result	Total equity
October 1, 1984	1 111	918	2 029
Income 1983/84	918	–918	-
Transferred to the parent companies	–280		–280
Income 1984/85		807	807
September 30, 1985	1 749	807	2 556

Note 30 – Income and equity in SAS's affiliated companies

Companies in which SAS's ownership is between 20 and 50 percent are defined as affiliated companies. The affiliated companies include Linjeflyg (50 percent), Travel Management Group Sweden AB (50 percent), Scanator AB (50 percent), Polygon Insurance Co. Ltd (33 percent), Bennett Reisebureau A/S (31 percent), Greenlandair A/S (25 percent), Widerøe's Flyveselskap A/S (22 percent), among others. Several smaller companies are not included.

Income before allocations and taxes and adjusted equity capital for the SAS Group and SAS's affiliated companies relative to SAS's share of retained funds are shown below:

(MSEK)	The Group excluding affiliated companies 84/85	83/84	Shares of affiliated companies 84/85	83/84	The Group including affiliated companies 84/85	83/84
Income before allocations and taxes	**1 017**	968	**56**	52	**1 073**	1 020
Untaxed reserves after estimated taxes of 50 %	**448**	391	**80**	63	**528**	454
Equity	**2 723**	2 113	**130**	93	**2 853**	2 206
Adjusted equity	**3 171**	2 504	**210**	156	**3 381**	2 660
SAS's book value of stocks in affiliated companies as above			**77**	60		

Note 31 – Assets pledged

	SAS Group 1985	1984	Consortium 1985	1984
Mortgages in real property	**639**	591	**16**	16
Corporate mortgages	**37**	44	-	-
Receivables	**38**	42	**11**	15
Securities assigned	**11**	13	**0**	0
Other	**0**	69	-	-
As of September 30	**725**	759	**27**	31

Note 32 – Contingent liabilities

	SAS Group 1985	1984	Consortium 1985	1984
Travel guaranties	-	-	**170**	174
Guaranties for pension liabilities	-	-	**41**	24
Loan guaranties	-	-	**111**	129
Other contingent liabilities for subsidiaries	-	-	**4**	4
Total contingent liabilities for subsidiaries	-	-	**326**	331
Other contingent liabilities	**219**	125	**90**	77
Pension liabilities	**72**	64	**72**	64
As of September 30	**291**	189	**488**	472

THE CONSORTIUM'S HOLDING OF STOCKS AND PARTICIPATIONS September 30, 1985	Number of shares held	Percent holding		Par value in thousands	Book value MSEK
Subsidiaries directly included in the accounts of the Consortium					
SAS Cargo Center A/S, Copenhagen	48	100	DKK	300	0.2
Scandinavian Airlines of North America Inc., New York	1 750	100	USD	175	0.9
SAS France S.A., Paris	5 000	100	FRF	500	0.5
Other					0.0
					1.6
Subsidiaries consolidated with the Consortium in the SAS Group					
SAS International Hotels A/S, Oslo	50 000	100	NOK	50 000	49.0
SAS Service Partner A/S, Denmark, Copenhagen	90 000	100	DKK	90 000	70.5
Vingresor AB, Stockholm	700 000	100	SEK	70 000	70.0
AB Olson & Wright, Stockholm	3 000	100	SEK	3 000	33.0
Scandinavian Multi Access Systems AB, Stockholm	30 000	75	SEK	3 000	3.0
SAS Tours AB, Stockholm	10 000	100	SEK	1 000	0.0
A/S Dansk Rejsebureau, Copenhagen	49	50	DKK	400	0.3
Business Travel Systems AB, Stockholm	500	100	SEK	50	0.1
Danair A/S, Copenhagen	1 710	57	DKK	1 710	1.2
Gamla Vingresor AB, Stockholm	10 000	100	SEK	1 000	1.0
InterSAS BV, Amsterdam	104	100	NLG	104	0.2
Nordair ApS, Copenhagen	200	100	DKK	300	0.2
SAS Oil A/S, Copenhagen	300	100	DKK	300	0.3
Other					0.5
					229.3
Other companies					
Linjeflyg AB, Stockholm	500 000	50	SEK	50 000	53.0
Polygon Insurance Co. Ltd., Guernsey	1 664 668	33	GBP	1 665	14.1
Travel Management Group, Sweden AB, Stockholm	75 000	50	SEK	7 500	7.5
Bennett Reisebureau A/S, Oslo	20 880	31	NOK	2 088	1.1
Widerøe's Flyveselskap A/S, Oslo	26 622	22	NOK	2 662	1.1
Greenlandair Inc. Godthåb	146	25	DKK	6 000	0.5
Scanator AB, Stockholm	500	50	SEK	50	0.1
Affiliated companies according to Note 30					77.4
Helikopter Service A/S, Oslo	130 500	10	NOK	13 050	26.2
Københavns Lufthavns Forretningscenter K/S, Copenhagen	Share of capital	40	DKK	4 000	3.2
Arctic Hotel Corp. A/S Narssarssuaq	4 000	29	DKK	4 000	3.2
AB Resdab, Stockholm	2 000	20	SEK	200	0.2
Dar-es-Salaam Airport Handling Co Ltd, Dar-es-Salaam	27 000	15	TAS	2 700	1.4
Copenhagen Excursions A/S, Copenhagen	23	17	DKK	210	0.4
Malmö Flygfraktterminal AB, Malmö	1 455	40	SEK	146	0.0
Other					1.6
					113.6

Auditors' Report

We, the undersigned, appointed in accordance with Article 11 of the Consortium Agreement between AB Aerotransport (ABA), Det Danske Luftfartselskab A/S (DDL) and Det Norske Luftfartselskap (DNL) as auditors of SCANDINAVIAN AIRLINES SYSTEM Denmark–Norway–Sweden have examined the financial statements for the year ended September 30, 1985, of the Group and the Consortium. Our audit was made in accordance with generally accepted auditing standards. In our opinion, the financial statements present fairly the financial position of the Group and the Consortium at September 30, 1985, and the result of their operations for the year then ended based upon the accounting principles described in the section of the annual report entitled "Summary of essential valuation and accounting principles."

Stockholm, January 15, 1986

CAJ NACKSTAD Authorized Public Accountant	OLE KOEFOED Authorized Public Accountant	BERNHARD LYNGSTAD Authorized Public Accountant
SÖREN WIKSTRÖM Authorized Public Accountant	ARNE BRENDSTRUP Authorized Public Accountant	JACOB BERGER Authorized Public Accountant

Five Year Summary

TRAFFIC/PRODUCTION		Change	84/85	83/84	82/83	81/82	80/81
Number of cities served		– 3 %	**88**	91	93	99	105
Kilometers flown, scheduled	(mill)	+1 %	**125.0**	123.5	119.3	112.9	113.2
Total airborne hours	(000)	+4 %	**199.7**	192.7	182.1	171.1	171.1
Total number of passengers carried	(000)	+7 %	**10 735**	10 066	9 222	8 861	8 413
Available tonne kilometers, total	(mill)	+2 %	**2 382.2**	2 333.0	2 331.3	2 427.3	2 472.4
Available tonne kilometers, charter		– 1 %	**18.2**	18.4	19.8	32.4	21.7
Available tonne kilometers, scheduled		+2 %	**2 364.0**	2 314.6	2 311.5	2 394.9	2 450.7
Revenue tonne kilometers, scheduled	(mill)	+2 %	**1 502.1**	1 473.6	1 431.2	1 418.2	1 415.8
Passengers and excess baggage		+2 %	**1 054.4**	1 030.8	986.0	962.3	958.3
Cargo		+2 %	**396.5**	390.6	393.9	404.3	407.5
Mail		– 2 %	**51.2**	52.2	51.3	51.7	50.0
Total load factor, scheduled	(%)	– 0.2 pts	**63.5**	63.7	61.9	59.2	57.8
Available seat kilometers, scheduled	(mill)	+2 %	**17 818**	17 395	17 037	17 118	17 761
Revenue seat kilometers, scheduled	(mill)	+2 %	**11 966**	11 681	11 159	10 879	10 817
Cabin factor, scheduled	(%)	0.0 pts	**67.2**	67.2	65.5	63.6	60.9
Average passenger trip length	(km)	– 4 %	**1 119**	1 168	1 219	1 239	1 296
Traffic revenue/revenue tonne Km	(SEK)	+6 %	**8.15**	7.66	7.17	5.74	4.64
Airline operating expense/avail. tonne Km	(SEK)	+11 %	**4.81**	4.35	4.12	3.35	2.80
Revenue tonne Km/employee, scheduled		– 4 %	**79 700**	83 200	83 700	86 600	86 200
Rev. passenger Km/employee, scheduled		– 4 %	**635 000**	659 600	652 500	664 300	658 600
PERSONNEL (average)							
Consortium			**18 845**	17 710	17 101	16 376	16 425
Group			**29 727**	28 526	26 657	24 770	24 124
INCOME STATEMENT DATA – GROUP (MSEK)							
Traffic revenue			**12 572**	11 577	10 463	8 586	7 003
Other operating revenue			**7 218**	6 428	5 509	4 221	3 169
Total operating revenue			**19 790**	18 005	15 972	12 807	10 172
Income before depreciation			**1 534**	1 590	1 276	912	508
Depreciation			**574**	545	483	474	430
Financial items, net			**+ 58**	– 253	– 210	– 146	– 166
Income after financial items			**1 018**	792	583	292	– 88
Extraordinary income/expense			**– 1**	176	18	156	37
Income before allocations and taxes			**1 017**	968	601	448	– 51
STATEMENTS OF CHANGES IN FINANCIAL POSITION – GROUP (MSEK)							
Funds from the year's operations			**1 221**	1 342	1 048	1 164	489
Change in working capital			**177**	151	196	91	44
Net financing from the year's operations			**1 398**	1 493	1 244	1 255	533
Investments in flight equipment			**– 1 006**	– 683	– 143	– 109	– 378
Investments, other			**– 755**	– 530	– 416	– 282	– 278
Sales of assets, etc			**– 696**	907	48	185	94
Financing surplus/deficit			**– 1 059**	1 187	733	1 049	– 29
Net borrowings			**724**	299	– 346	– 274	53
Change in liquid funds			**– 335**	1 486	387	775	24
BALANCE SHEETS – GROUP (MSEK)							
Current assets			**7 286**	7 291	5 428	4 172	3 080
Fixed assets[1]			**5 901**	4 056	3 654	3 426	3 733
Total assets			**13 187**	11 347	9 082	7 598	6 813
Current liabilities			**6 257**	6 105	4 552	3 633	3 121
Long-term debt[2]			**3 310**	2 346	2 313	2 164	2 302
Equity and reserves			**3 620**	2 896	2 217	1 801	1 390
Liabilities and equity			**13 187**	11 347	9 082	7 598	6 813
RATIOS – GROUP							
Gross profit margin, %			**7.8**	8.8	8.0	7.1	5.0
Net profit margin, %			**5.1**	4.4	3.7	2.3	– 0.9
Return on capital employed, %			**21.3**	26.5	23.9	17.3	6.1
Return on adjusted equity, %			**17.9**	18.3	17.7	11.6	– 4.1
Ratio of risk-bearing capital, %			**27.4**	25.5	24.4	23.7	20.4
Capital ratio, after 50 % deferred taxes, %			**24.0**	22.1	20.2	19.2	15.6

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

Board of Directors

Curt Nicolin, born 1921. Chairman of SAS Board 1984/85. Swedish Chairman of SAS Board since 1973, representing the private Swedish owners. Chairman of the Executive Committee of ABA. Chairman of the Boards of ASEA, ESAB, FLÄKT, ASEA-STAL, SILA and Swedish Match. Also, member of the Boards of Skandinaviska Enskilda Banken, Incentive, Investor, Providentia, Linjeflyg and the Royal Swedish Academy of Sciences.

Personal deputy: Peter Wallenberg.

Tor Moursund, born 1927. Supreme Court Attorney. First Vice Chairman of SAS Board 1984/85. Norwegian Chairman of SAS Board since 1983, representing the Norwegian Government. Chairman of DNL and a member of its Board since 1982. President of Christiania Bank & Kreditkasse. Also serves on several other boards.

Personal deputy: Ragnar Christiansen.

Haldor Topsøe, born 1913. Second Vice Chairman 1984/85. Danish Chairman of SAS Board since 1968, representing the private Danish owners. Also Chairman of DDL, Haldor Topsøe A/S. Member of the Boards of Villaco, Philips Industri og Handels, Hafnia Forsikring and Kampmann, Kierulf & Saxild.

Personal deputy: Flemming af Rosenborg.

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

Personal deputy: Bengt Dennis.

Jan Carlzon, Chief Executive Officer

Bjørn Eidem

Curt Nicolin

Krister Wickman

Jørgen L Halck

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

Personal deputy: Halvdan Bjørum.

Jørgen L Halck, born 1929. Permanent Under Secretary, Ministry of Public Works. Member of SAS Board since 1977, representing the Danish Government. Jørgen L Halck is Vice Chairman of DDL, member of the Boards of Copenhagen Harbor Board, the Copenhagen Telephone Company, Jydsk Telefon A/S and the Government Telecommunications Board.

Personal deputy: Kaj Ikast.

Employee Representatives

Inge Johannesson, Sweden, born 1937. Employed in the SAS Corporate Finance Department in Sweden. Member of SAS Board since 1979.

Deputies:
Rune Löfdahl and Christer Pehrson.

Ingvar Lilletun, Norway, born 1938. Employed in the travel agency sector in SAS Norway. Member of SAS Board since 1979.

Deputies:
Karin Hval and Per Heimdal.

Per Espersen, Denmark, born 1949. Employed as a steward in the Operations Division of SAS. Member of SAS Board since 1985.

Deputies:
Victor Brasen and Hans Dall.

Inge Johannesson

Haldor Topsøe

Tor Moursund

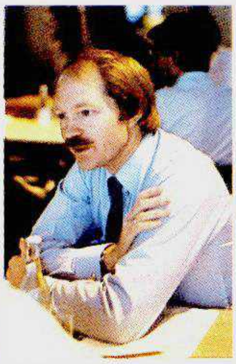
Ingvar Lilletun

Per Espersen

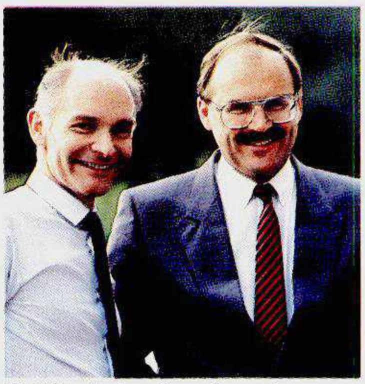
Corporate Management

Preben Kjær, *Corporate Communications.*

Linnar Borén, *Swedish Domestic Traffic.* Göran Yxhammar, *Traffic Services Division.* Sven Heiding, *Route Sector Europe.*



Kurt Thyregod, *Route Sector Denmark.*



Kjell Fredheim, *Route Sector Intercontinental.* Bengt A. Hägglund, *Operations Division.*

Jörgen Grauengaard, *Commuter Operations Dept.* Christer Nilsson, *Technical Division.*

Peter Forssman, *Route Sector Sweden.*

Christer Sandahl, *Vingresor.* Robert Hallenborg, *Olson & Wright.* Terje Myklebust, *SAS International Hotels.*

SAS GROUP ORGANIZATION

CHIEF EXECUTIVE OFFICER

CORPORATE STAFF IN GROUP MANAGEMENT

BUSINESS AREAS

OTHER CORPORATE STAFF

Göran Lundqvist, *External Enterprises.* Inge Damm, *Business Services Division.* Curt Ekström, *SAS Data.*

Björn Gadd, *Personnel and Organization.* Helge Lindberg, *President's Office.*

Nils G. Molander, *Finance, Planning and Control.* Lars Bergvall, *Commercial Division.* Bo Krantz, *Business Travel Systems.* Jan Lapidoth, *Travel Management Group.*

Mats Mitsell, *Route Sector Cargo.*

Ivar Samrén, *SAS Service Partner.* Henrik Meldahl, *Scanair.*

Ingar Skaug, *Route Sector Norway.*

Oddvar Bache-Mathiesen, *Region Norway.* Frede Ahlgreen Eriksen *Region Denmark.* Per-Axel Brommesson, *Region Sweden.*

Assembly of Representatives

Denmark

Mogens Pagh,
First Vice Chairman
Karl Bredahl
Flemming af Rosenborg
Niels Frandsen
Jørgen L. Halck
Povl Hjelt
Svend Erik Hovmand
Kaj Ikast
Jimmy Stahr
Haldor Topsøe

Employee representatives
Victor Brasen
Hans Dall
Per Espersen

Deputies
Ingvar Holmen
Arne Sørensen
Hans P Tanderup

Norway

Nils J Astrup
Chairman
Halvdan Bjørum
Ragnar Christiansen
Bjørn Eidem
Per Hysing-Dahl
Torstein Ljøstad
Tor Moursund
Gislaug Myrset
Fred. Olsen
Ole Rømer Sandberg Jr
Niels Werring Jr

Deputies
Helga Gitmark
Einar Høvding
Johan Fr. Odfjell
Hermod Skånland

Employee representatives
Per Heimdal
Karin Hval
Ingvar Lilletun

Deputies
Knut E Andersen
Asbjørn Hindrum
Kjell Poulsen

Sweden

Karl-Erik Persson
Second Vice Chairman
Börje Andersson
Rolf Clarkson
Kurt Hugosson
Nils Hörjel
Bo Ax:son Johnson
Curt Nicolin
Bo Rydin
Hjalmar Strömberg
Monica Sundström
Björn Svedberg
Jan Wallander
Peter Wallenberg
Krister Wickman

Deputies
Peder Bonde
Gunnar Ericsson
Gösta Gunnarsson
Carl-Olov Munkberg
Jörgen Ullenhag
Bertil Zachrisson

Employee representatives
Inge Johannesson
Rune Löfdahl
Christer Pehrson

Deputy
Gösta Sjöström

Auditors

Arne Brendstrup
Ole Koefoed

Bernhard Lyngstad
Jacob Berger

Caj Nackstad
Sören Wikström

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

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"SAS should be able to survive and even expand in a climate of greater competition.

"We also want to earn the right to be the national airline of Scandinavia, even in the years ahead."

JAN CARLZON