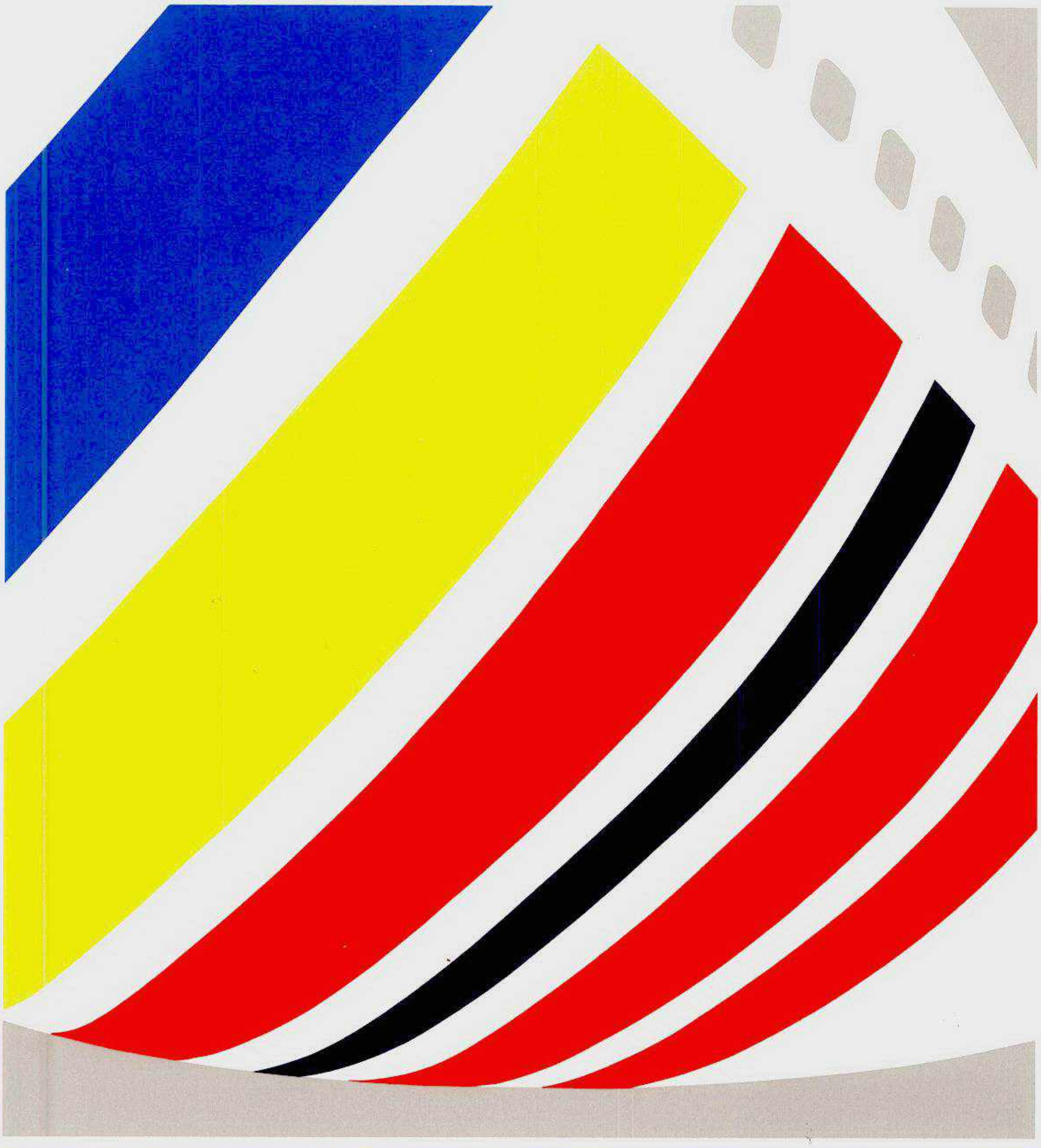
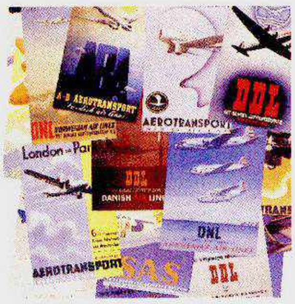
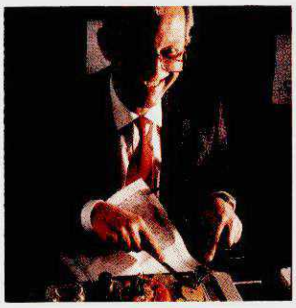
Scandinavian Airlines System

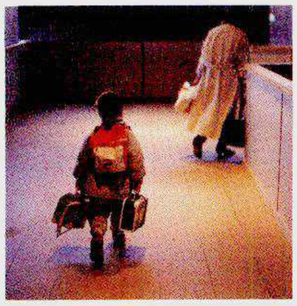


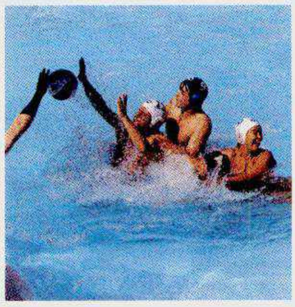
Annual Report
1985-86

Contents









MEMBER OF
IATA
QUALITY IN AIR TRANSPORT

The SAS Group

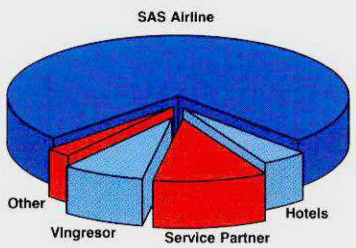
The SAS Group's commercial organization is comprised of the following business areas: SAS Airline, SAS International Hotels, SAS Service Partner, SAS Leisure and the Information and Reservation System. In addition there are a number of independent subsidiaries and affiliated companies. Group Management has overall responsibility for Group operations and earnings, including the general strategic and commercial development of the SAS Group and its business areas.

SAS's organization is based on management by objectives and decentralized profit responsibility. Each business area is run with great independence and is responsible for its own development in the short and long term. Each business area also plays a distinct role in the development of SAS's integrated travel service chain.

GROUP MANAGEMENT

SAS AIRLINE	Route Sectors, Traffic Services Division, Operations Division, Technical Division, Business Services Division, SAS Data, Commuter Operations, External Enterprises
SAS INTERNATIONAL HOTELS	International Hotels, Associated Hotels, North Cape Hotels
SAS SERVICE PARTNER	Flight kitchens, Restaurants, Offshore & Industrial Catering, Trading
SAS LEISURE	Vingresor, Scanair (independent consortium)
INFORMATION AND RESERVATION SYSTEM	Business Travel Systems, SMART, Travel Management Group, Diners Club Nordic
OTHER	Olson & Wright, Affiliated companies, etc.

REVENUE BY BUSINESS AREA
TOTAL 21,585 MSEK



SAS Group Summary

MSEK	**85/86**	84/85	83/84	82/83	81/82
Revenue	**21,585**	19,790	18,005	15,972	12,807
Operating income before depreciation	**2,216**	1,534	1,590	1,276	912
Gross profit margin, %	**10.3**	7.8	8.8	8.0	7.1
Income before extraordinary items	**1,481**	1,018	792	583	292
Extraordinary items, net	**+34**	−1	+176	+18	+156
Income before allocations and taxes	**1,515**	1,017	968	601	448
Investments	**4,128**	1,761	1,213	559	391
Net financing from operations	**1,631**	1,398	1,493	1,244	1,255
Return on					
– capital employed, %	**22**	21	27	24	17
– equity after standard tax, %	**20**	18	18	18	12
Ratio of risk-bearing capital, %	**29**	27	26	24	24
Average number of employees	**31,775**	29,730	28,526	26,657	24,770

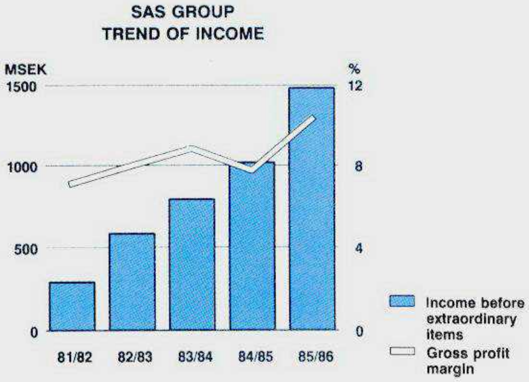
SAS Group income before allocations and taxes improved to 1,515 MSEK from 1,017 MSEK a year earlier.

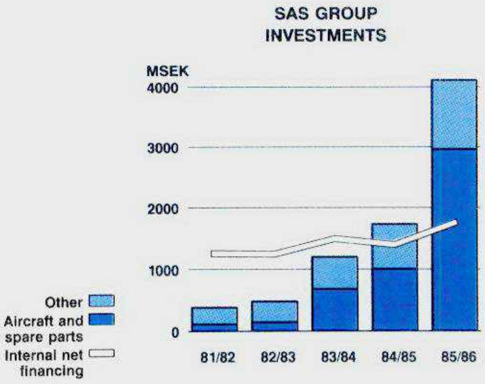
International air traffic noted weaker growth in 1985/86 compared to the preceding year. SAS succeeded better than European airlines on average.

The SAS Group's strategic development leans toward complete and integrated travel services for the frequent business traveler.

The Diners Club Nordic group of companies was acquired as a stage in creating an internationally competitive information, reservation and payment system.

SAS Group investments increased to 4,128 MSEK. Twelve new DC−9−80s entered service. Twenty more DC−9−80s are scheduled for delivery during the period 1987−1991.





REVENUE AND INCOME BY BUSINESS AREA

MSEK	Revenue 85/86	Revenue 84/85	Income 85/86	Income 84/85
SAS Airline (the Consortium)	**16,495**	15,434	**1,207**	811
SAS International Hotels	**1,083**	948	**72**	67
SAS Service Partner	**2,712**	2,393	**123**	81
Vingresor	**1,897**	1,537	**132**	81
Other	**415**	390	**−31**	−15
Group eliminations	**−1,017**	−912	**−22**	−7
Income before extraordinary items			**1,481**	1,018
Extraordinary items, net			**+34**	−1
SAS Group	**21,585**	19,790	**1,515**	1,017

SAS Airline noted continued strong growth, increasing its share of a weak European market. Its share of full-fare passenger traffic rose. A Scandinavian discount-fare sales promotion during the summer added many new tourist passengers.

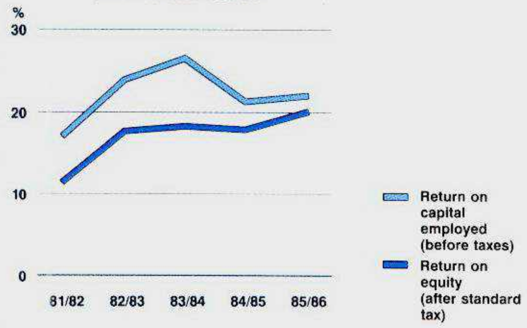
SAS Airline's income before extraordinary items improved to 1,207 MSEK from 811 MSEK. Depreciation grew by 243 MSEK to 690 MSEK.

Despite a weak market, SAS International Hotels improved income to 72 MSEK through successful product development and closer cooperation with SAS Airline.

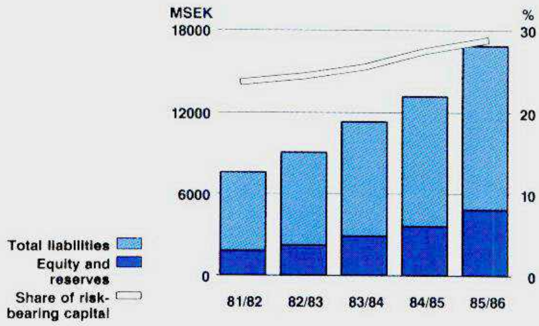
SAS Service Partner's successes continued. Income rose slightly more than 50 percent to 123 MSEK. Development was especially favorable for the restaurant business.

Vingresor improved income to 132 MSEK in a very competitive industry with generally weak profitability. The number of travelers rose by 19 percent to approximately 590,000.

SAS GROUP
RETURN ON EQUITY AND ON CAPITAL EMPLOYED



SAS GROUP
FINANCIAL STATUS



A Global Chain of Travel Services

In 1946 Denmark, Norway and Sweden decided to jointly manage civil air traffic through the SAS Consortium. The reason was that the three countries were each too small in themselves to offer commercially, financially and technically efficient domestic and international traffic services.

SAS faced its first financial crisis in 1960–61, with the arrival of the jet age. We were then able to regain profitability by adjusting costs to revenues. At the same time the catering business was hived off.

In the 1970s SAS entered the inclusive-tour market through the purchase of Vingresor. SAS Hotels was built up as a separate business. Airlines were still geared to production and cost efficiency and aircraft kept increasing in size. Production costs per seat fell, the market grew and profits rose.

Then came the effects of the oil crises, at the end of the decade. Technical development stagnated. New aircraft did not boost productivity. Airlines began to compete with each other as the market shrunk.

For SAS the turning point came in 1980. We better accommodated our products to customer needs. Low per-seat costs are futile if they result in products no one wants to pay for. Instead we strive for the highest possible revenue per flight at the lowest possible cost.

The Businessman's Airline strategy was formulated. Frequent flights, many non-stops and better service in the air and on the ground require smaller aircraft. The fleet was restructured and the negative trend reversed. SAS again became profitable.

We are market leaders in Europe. Yet discount and business-class fares to and from Scandinavia are the lowest in Europe. Our competitors charge a premium on other routes for the same product they market as full fare for Scandinavia. This is also true of tourist class. Since we offer the lowest discount fares in Europe, we force the competitors to do the same.

Total traffic increased by three percent in Europe in 1985/86. During the same period SAS noted a 10 percent increase in the full-fare segment and an 8 percent increase in the discount-fare segment. We account for 9 percent of total traffic revenue in Europe, but a substantially larger proportion of European airlines' total profits, according to 1986 forecasts.

Competition will become even more severe as a result of the continued liberalization of commercial aviation. Back in 1984 we stated that we were determined to be a winner following the restructuring of the European airline industry. But the Scandinavian market is still too small to support an efficient, global network. For that reason we must continue to expand our product range at the same time that we broaden our customer base to encompass all of Europe. Our goal is to offer integrated travel services to business travelers around the world. We will combine air travel through an information and reservation system with hotel rooms, ground transportation, food at airports and in the air and so on. In this manner we extend our offerings to the market and strengthen each link in the chain.

The aim of the strategic development of Group units should therefore be to support SAS as a whole, the integrated chain. The synergy – and profitability – gained is a product of cooperation between business areas.

Each business area should be strong enough to finance its own expansion. SAS International Hotels, SAS Service Partner and Vingresor are profitable and financially stable. SAS Airline improved its gross profit margin in 1985/86 to 10.7 percent. Consequently, we are well on our way to reaching the 13 percent we set as our goal, to afford the investments awaiting us in the 1990s. I therefore feel that the board's proposal to our parent companies for an increase in capital is a further vote of confidence.

Our job is to safeguard the interests of the Scandinavian traveler. As a representative of three small countries on Europe's periphery SAS must lead the fight for a competitive system shaped on the needs of the market. In the final analysis, though, it is a question whether to export or import air travel services. Since the SAS Group is today at the leading edge of development in the industry, total deregulation would probably be to our advantage. But this will not happen. New rules will replace old ones gradually and the competition will have time to adapt. Our chance lies in continually remaining at the forefront. Viewed from an international perspective, SAS is a relatively small airline with a limited market. We must therefore actively pursue cooperations with other carriers to complement our traffic system and expand our customer base. Discussions on such cooperations are currently under way. The Scandinavian SAS is on its way to becoming European and a part of a worldwide traffic and travel services system.

We will be where the Scandinavian businessman needs us with daily flights to hubs, where we interconnect with other traffic systems. In this way we can serve many destinations, though not always with our own aircraft.

We have defined our goals and strategies. We offer competitive products and have a good position in the market. And we have the trust of our customers. Finally, we have as our greatest resource a loyal and devoted staff, prepared to take responsibility for the actions the future will call for. Changes in our operating environment will place tough demands on us, but in light of the stable growth of the SAS Group during the past five-year period, I am optimistic about our opportunities.

JAN CARLZON
President and Chief Executive Officer

The International Airline Industry

The structure of the airline industry differs markedly from country to country. Most countries with their own civil air traffic have at least one airline that operates internationally. Ownership varies from full government control and subordination to aviation authorities, to ownership and operation by private interests. In addition, most countries have one or more carriers devoted to domestic traffic nationwide or regionally. The U.S., with many airlines with both international and national traffic, is an exception.

National sovereignty over air space is fundamental to international air traffic. Because of this, bilateral agreements must be reached to permit cross-border traffic. A prerequisite is that both countries agree to participate on equal terms. These agreements govern the routes that may be flown and sometimes capacity. Fares and rates must be approved by the authorities in each country.

The three Scandinavian countries cooperate through the SAS Consortium marketwise, technically and financially. For 40 years SAS has been Denmark's, Norway's and Sweden's combined international airline. This means that the three countries jointly negotiate traffic rights and conditions with other countries, giving them greater combined strength. The cooperation also covers parts of the domestic traffic in the three countries.

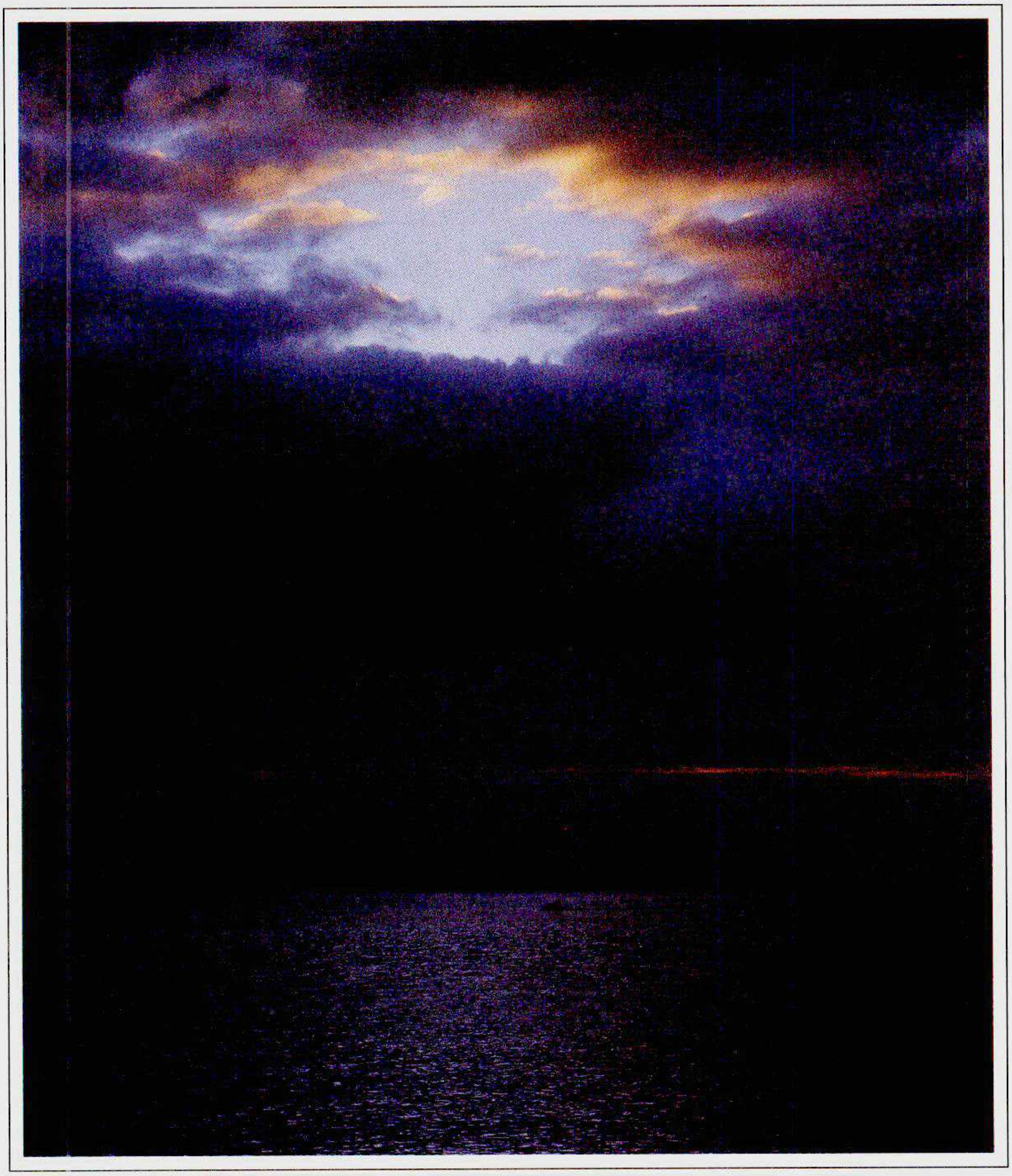
INCIPIENT LIBERALIZATION

Following the Second World War many industries and branches of industries spread their business globally. Companies ventured outside their home markets to broaden their base of operations. The resulting international competition has had a great effect on domestic companies.

The airline industry is now undergoing a similar process. Regulations controlling civil aviation since its origins are gradually being loosened. The reasoning behind this change is that deregulation will lead to increased efficiency and benefits the consumer. U.S. civil aviation was deregulated in 1978. In Europe, deregulation has been discussed primarily by the EC. The matter was given new life when the European Court in 1986 ruled that the EC's competition regulations should also be applied to civil aviation.

The willingness of individual governments to liberalize air transport depends largely on ideologies, the potential to gain market shares of international traffic and the competitiveness of the national carrier.

Viewed against this background, SAS is affected by two external factors. Its population base of about 17 million people spread out over a large area is, in itself, too small to support comprehensive intercontinental traffic. For long-haul traffic, Scandinavia's location on Europe's periphery is a handicap for SAS in comparison to airlines in Western Europe's densely populated areas. On the other hand, the geography of Scandinavia makes an efficient traffic network necessary for transports within the countries and with the surrounding world.



AMERICAN MODEL

Even if developments in Europe will not follow the American pattern exactly, it is still valuable to take a close look at what has happened in the U.S. since deregulation.

After several years of transformation, the American market is today dominated by five "megacarriers": American Airlines, Delta Airlines, Northwest Airlines, United Airlines and Texas Air (which includes Eastern, People Express and Continental). In addition there are a number of airlines trailing the top five and a sizable group of small regional companies, many of which are under contract to supply feeder traffic to the leaders.

Common to the winners is their concentration on a few important areas. One is cost efficiency. To compete successfully, an airline must optimize efficiency at all levels of operations. This includes radical payroll policies, technical aspects and the choice of aircraft, capacity planning, optimization of airport space, company acquisitions and mergers with other airlines to complement one's own network, and investments in a distribution system to guarantee proximity to the market.

The large carriers also designed hub-and-spoke networks. Since they utilize various hubs, these networks at the same time reduce the risk that passengers change systems. The total scope and efficiency of the network is a determining competitive factor in the fight for customers

A third area the winners concentrated on was the development of comprehensive information and distribution systems to ensure contact with the market. The cost to airlines of the sale and distribution of tickets amounts to approximately 10 percent. These reservation systems have proven to be very profitable for airlines that operate them. And this does not take into account the value of the market information gained from having control of the system.

FREE, BUT NOT TOTALLY

The U.S. is a single federal government, while Europe is made up of many sovereign nations. Liberalization in Europe will most likely take a different form than in the U.S., influenced by national considerations and interests. The EC's Council of Ministers has established principles for civil aviation to ensure greater flexibility and thus promote economic and social efficiency.

The Council worked intensively last year to reach agreement on guidelines for price setting, available capacity and access to new markets. To date, agreement has not been reached.

The EC's heads of state have expressed their objective to create a common, free civil aviation market no later than 1992. Until then the bilateral structure in the EC remains in force and SAS is limited to fly to and from Scandinavia.

It is clear, however, that significant changes will occur in certain areas. Capacity regulation, which to date has been based on an equal sharing of capacity between two countries, will gradually accommodate increased competition. Moreover, a zone system is being introduced for prices, which guarantees airlines a certain degree of freedom from government control.

Very important changes in principle are also taking place as regards regional traffic. In addition to existing bilateral agreements, there is at present an EC directive that gives extended freedom to operate aircraft with a maximum of 70 seats on routes that exclude major airports. Major liberalizations have been proposed in this rule. This means that regional carriers can play a far greater role in feeding traffic to and from major airports.

Future Scandinavian air traffic policies will most likely follow in general what happens in the Common Market and this, naturally, will have significant consequences for SAS.

SAS'S CONCESSIONS

In 1986 the ministers of transport in Denmark, Norway and Sweden reached agreement on a proposal granting SAS extensions of its concessions until 2005 under basically the same conditions. Certain changes, however, will affect Scandinavian policies in several respects. Among other things cargo charter traffic will be completely deregulated and other airlines will be permitted to fly routes in Scandinavia where SAS does not operate. For SAS, this means greater competition, since its traffic base is weakened. At the same time, however, this improves opportunities for efficient feeder traffic through cooperation with regional carriers.

Goals and Strategies

The 40-year-old SAS cooperation has undergone intensive development in recent years. The aim has been to orient operations to a market and an environment where major, rapid changes in conditions give rise to new challenges and opportunities.

In international air travel SAS has achieved a position as a profitable, innovative and aggressive company offering refined air travel services.

SAS's operations in the hotel, catering and leisure sectors have been successful. The SAS name has a very positive image internationally.

To ensure a successful future SAS has formulated the following goal: With Scandinavia and Europe as its base, SAS will develop into a company that offers travel services to business travelers around the world, quick cargo handling for businesses and integrated leisure services.

Within their respective areas, individual operations will actively contribute to the realization of the Group's overall objective. By developing a complete, integrated chain of travel products and services, SAS can meet all the needs of its customers and thereby strengthen each operation as well as the Group's collective market force.

The market should always determine a product concept. Customers' true needs and their willingness to pay the full price – which is necessary to profitably meet demand – should ultimately guide SAS's operations. The acquisition of production resources should follow the goals and business strategies, not the other way around.

STRATEGIES

How will SAS achieve its established goals in an operating environment where radical changes are expected? Experiences in the U.S. have shown that three areas are of particular importance: cost efficiency, the design of the traffic system and distribution.

SAS's strategy is still to be the best alternative for the frequent business traveler. Furthermore, tourists should be offered a product with differentiated service quality at a lower price. Both products should allow for price competion within their respective segments without the risk of customers jumping from full fare to discount alternatives. This requires distinct product differentiation. Special products are being developed for the cargo market.

Cost efficiency should be improved in general. The level of service selected for each product, regardless of whether it applies to operations, technical aspects or other quality, should be supplied at a cost no higher than that offered by the competitors.

SAS's *traffic system* is based on Scandinavia's sparse population and geographic location on the edge of Europe. Thus, traffic within Scandinavia and to other parts of Europe is especially significant. Fundamental to the system are direct services to Europe from Copenhagen, Oslo and Stockholm, as well as from other locations such as Bergen, Gothenburg, Stavanger and Århus as traffic needs arise.

Other locations in Scandinavia are tied to our major hubs to create a broad system with a geographically log-

ical flow of flights to other parts of Europe morning and evening. This structure also facilitates efficient national and intra-Scandinavian connections. The aim of SAS's intercontinental traffic is to offer convenient flights to important hubs in other parts of the world, such as New York, Chicago, Rio de Janeiro, Bangkok and Tokyo. There, SAS's traffic should be tied to suitable regional systems that guarantee efficient transports in those parts of the world. The coordination of timetables, placement of terminals and gates, sales and reservation systems and levels of service should all be designed so that the customer perceives that his trip (and related services) takes place in a single system rather than several different ones. SAS can thereby cover many destinations with daily flights, though not always with its own aircraft.

Compared to other major European airlines, SAS's weakness in intercontinental traffic is the limited population base in Scandinavia. This is why SAS is discussing possible cooperations with other carriers in Europe – to ensure a larger market base and a more competitive total traffic system.

Investments in integrated travel services are another important dimension in SAS's strategy. The business traveler not only needs air transport with one or more carriers; he also needs ground transportation, hotels and other services. A complete range of products with a guaranteed level of service incorporated in an integrated system of information, reservations, payments and follow-up services that the customer can use before, during and after his travels is an added value and creates loyalty to the whole system.

EUROPEAN STRATEGY

European traffic accounted in 1985/86 for 46 percent of the Airline's traffic revenues. SAS's success in Europe during the past five years is due in great part to consistent product and price differentiation.

The market for scheduled airline traffic deteriorated at the end of the 1970s. Costs rose as a result of the oil crises. Demand stagnated and competition increased. Like the industry as a whole, SAS tried to maintain profitability through strict cost control. The result was poorer service and a shift by passengers from full fares to discount alternatives.

The European market reported a four-percent increase in 1980/81, while SAS's traffic rose only one percent. SAS lost three percent of its passengers in the full-fare segment and gained five percent among discount fares.

EUROCLASS

EuroClass, a full-fare product with substantially better service than the competitors, was introduced in Europe in 1981. The European market stagnated in 1981/82. In total, SAS's traffic remained unchanged, but it achieved a seven-percent increase in the full-fare segment, while its share of discount-fare passengers dropped by five percent. With EuroClass, SAS reversed the flow of passengers toward full fares, and turned a loss into a profit.

SPECIAL DISCOUNT FARES

In 1982 SAS introduced special discount fares to and from Scandinavia. The total market shrunk by three percent but SAS increased its traffic by five in both segments. Income was further improved.

In 1983/84 SAS's traffic again rose more quickly than the market as a whole. Both its share of full-fare passengers and the number of discount-fare passengers increased substantially. Its clear product differentiation helped SAS to regain lost market share in both segments. This, in combination with a sudden growth in demand, led to a capacity shortage in 1984/85. The market rose by nine percent while SAS's resources limited its gain to five percent. Through the consistent application of its EuroClass strategy, SAS succeeded in increasing the number of full-fare passengers by a further eight percent. This was accomplished at the expense of discount-fare traffic, which rose only one percent. In this way SAS was able to utilize available resources in the most effective way possible.

The market greatly deteriorated in 1985/86 because of Chernobyl and terrorism aimed at airlines and airports. European airlines' traffic rose by three percent. SAS, with greater capacity, increased its traffic by a total of nine percent, of which full-fare alternatives rose ten percent and discount-fare alternatives eight percent. This development was reflected in SAS Airline's income for 1985/86.

Developments in the past five years show that SAS's European strategy, with a clear, consistent product and price differentiation, has paid off. The successes confirm the paradox that when more passengers utilize low fares and thereby help to raise the cabin factor and total revenues of each flight, full fares can be kept at a lower level than would otherwise be possible.

PASSENGER TRAFFIC IN EUROPE

% change from preceding year	**85/86**	84/85	83/84	82/83	81/82	80/81
The European market	**+ 3**	+9	+7	−3	±0	+4
SAS	**+ 9**	+5	+8	+5	±0	+1
SAS – Full fare (EuroClass)	**+10**	+8	+9	+5	+7	−3
SAS – Discount fare	**+ 8**	+1	+7	+5	−5	+5

SAS's Ownership Structure

The first agreement covering the SAS cooperation was signed in the fall of 1946. In 1986 SAS thus celebrated its 40th anniversary. The current agreement was ratified in 1951 between the three national carriers: Det Danske Luftfartselskab A/S (DDL), Det Norske Luftfartselskap A/S (DNL) and Aktiebolaget Aerotransport (ABA). In this way three domestic airlines joined forces in a single organization, the SAS Consortium. The current agreement, a revision of the original, extends to September 30, 1995.

DDL and DNL each own two-sevenths of the Consortium, while ABA owns three-sevenths.

The three parent companies have given total responsibility for operations to the Consortium. At the conclusion of each reporting period the Consortium's income statement and balance sheet are divided among the parent companies in a 2-2-3 ratio.

PARENT COMPANIES

DDL and DNL are corporations listed on their respective countries' stock exchanges. Half of their shares are owned by their governments and the remainder by private interests, primarily businesses and institutions.

The 50% of ABA's shares not controlled by the government is owned by Svensk Interkontinental Lufttrafik AB (SILA), a listed company.

In addition to their participations in SAS and Scanair, the parent companies also have interests in other, national airlines.

DECISION MAKING

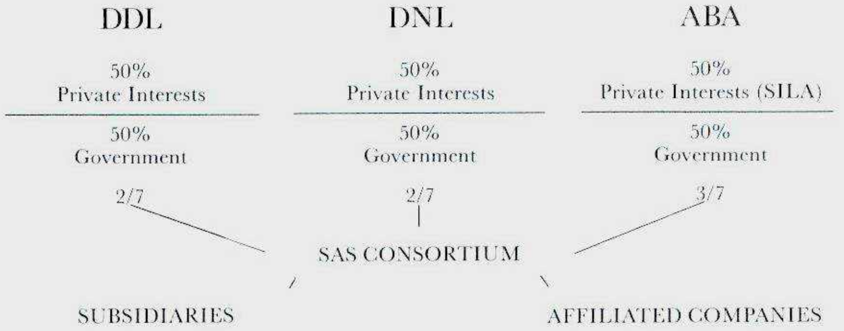
SAS's highest decision-making body is the Assembly of Representatives, which is made up of the parent companies' boards of directors. The Assembly of Representatives appoints SAS's board of directors, approves its financial accounts and decides on the portion of income that is transferred from the Consortium to the parent companies to cover their administrative costs, taxes and dividends. SAS's parent companies each have two members on SAS's board. One member represents the government interests and one the private. In addition, the unions in each country appoint a member and his or her deputies.

Responsibility for current operations rests with the president and chief executive officer of the SAS Group.

CAPITAL AND TAXES

SAS's equity is made up of its capital. This consists of funds contributed by the parent companies and surpluses retained in operations. The Consortium thus cannot issue shares. Instead, an increase in equity is made through contributions from the parent companies. The Consortium is itself responsible for external financing.

The Consortium is not a tax-paying entity. The parent companies make taxable allocations and pay taxes on their share of the Consortium in accordance with national regulations. The Consortium's subsidiaries pay taxes in the usual manner. The Consortium's accounts are examined by external auditors from the member-countries.



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SAS Airline

SAS Airline's basic strategy is to meet the business traveler's air travel needs around the world at competitive prices and with a high level of service: to be The Businessman's Airline.

The traffic network covers domestic routes in Denmark, Norway and Sweden, intra-Scandinavian routes and routes to and from other European cities, North and South America, the Middle East and the Far East. In total, the network covers 89 destinations in 35 countries. SAS serves three groups: business travelers, tourists and cargo customers. In 1985/86 the total number of passengers was approximately 12 million, divided equally among business travelers and tourists. The business traveler, who pays full fare, accounts for the largest share of revenues, while tourists contribute to the profitability of each individual flight.

Cargo flown on passenger aircraft is basically a byproduct, since the traffic program is geared to meet the needs of the passengers. However, cargo is increasing in significance in pace with the development of new service concepts and products.

Prices are differentiated based on the content of the products. In Europe the business-travel alternative is called EuroClass and on intercontinental routes First Business Class. Both have a high level of service at normal economy-class fares.

Discount-fare alternatives are offered on all routes to meet demand for inexpensive vacation travel.

SAS's products are distinguished by high quality with concern for safety and other service. Fares are set competitively yet profitably, to make possible investments in the expansion and replacement of the fleet of aircraft and other resources.

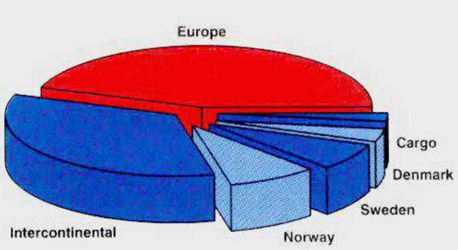
SAS Airline summary

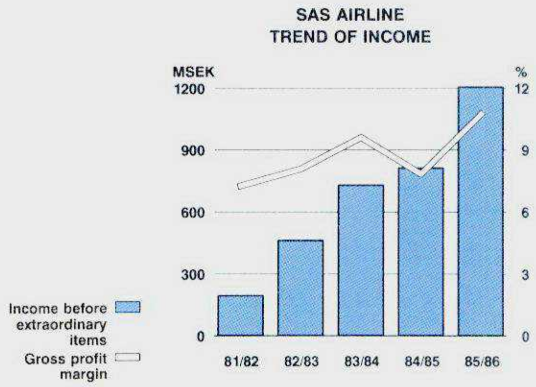
MSEK	85/86	84/85
Revenue	**16,495**	15,434
Income before depreciation	**1,772**	1,207
Gross profit margin, %	**10.7**	7.8
Income before extraordinary items	**1,207**	811
Investments	**3,733**	1,607
Return on		
– capital employed, %	**21**	21
– equity after taxes, %	**18**	16
Interest coverage, times	**1.7**	1.7
Number of employees	**19,773**	18,845

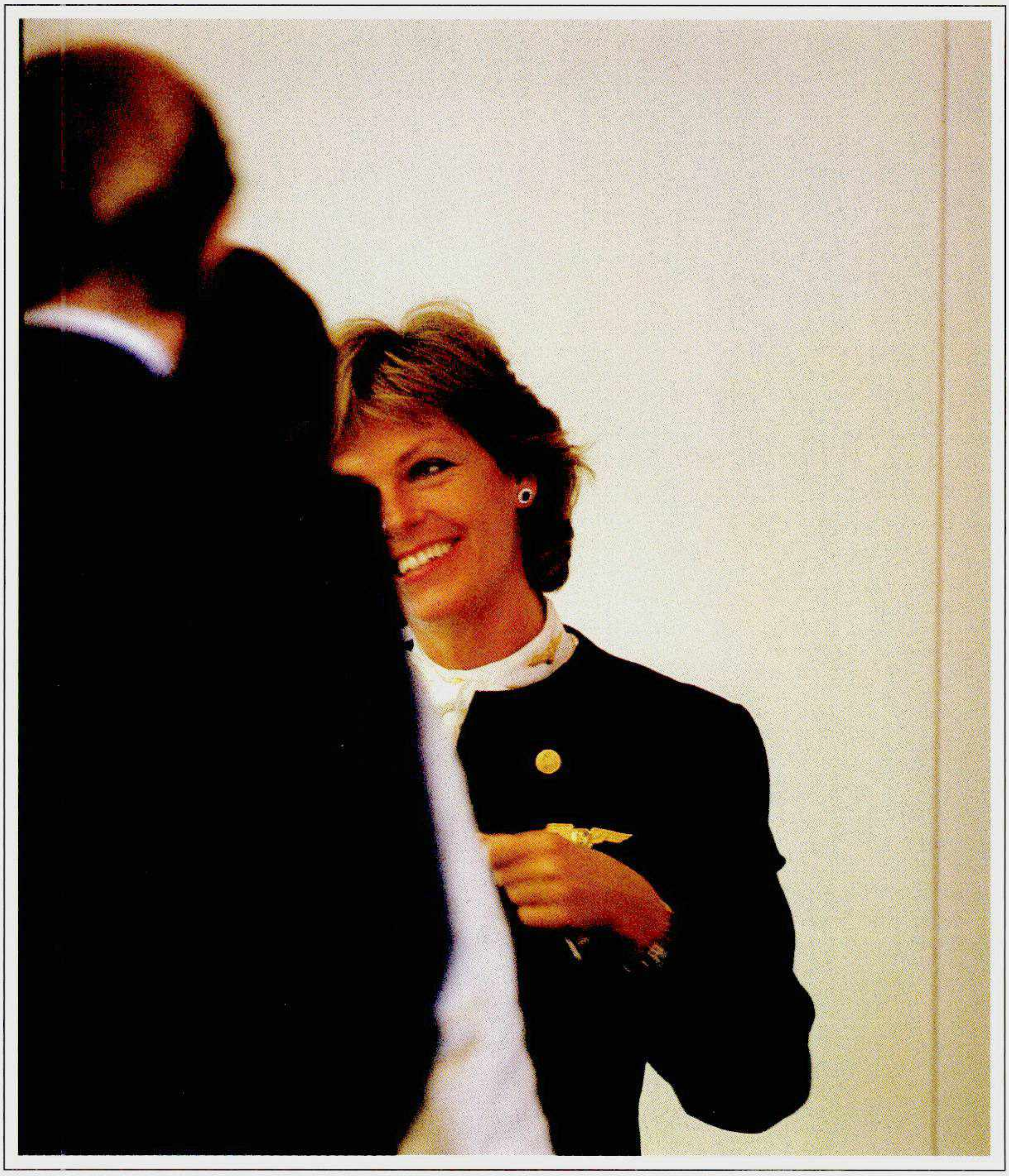
The commercial organization consists of six route sectors – Denmark, Norway, Sweden, Europe, Intercontinental and Cargo – each responsible for its income, development and the marketing of air travel products. Production, which is integrated, is managed by three divisions – Technical, Operations and Traffic Services – as well as a unit for small aircraft operations. A separate unit, External Enterprises, is in charge of developing and managing air travel-related services.

THE MARKET

Demand for business travel largely follows the trend of the gross national product of each country. In times of







high economic activity and industrial growth, travel increases. In times of recession, travel stagnates. Tourist travel has grown during the past several years, but price sensitivity is great.

Bilateral agreements that regulate air traffic also dictate which companies can operate between two countries. That is why there are generally only two airlines flying each route in Europe, one from each country. They compete in terms of destinations, number of flights, timetables and services on the ground and in the air, while fares are agreed on and approved by each country's authorities.

SAS has preferential rights to Scandinavian traffic connecting the three capitals and to routes between other major cities. Domestic traffic in Denmark, Norway and Sweden is divided between SAS and national carriers. Intercontinental routes, however, are in many cases regulated by bilateral agreements.

Travelers, though, can also choose airlines from other traffic centers in Europe. A traveler who is forced to change planes during a trip still has a wide choice of connections and airports. Future competition will therefore deal less and less with particular airlines and routes, and more with entire traffic systems.

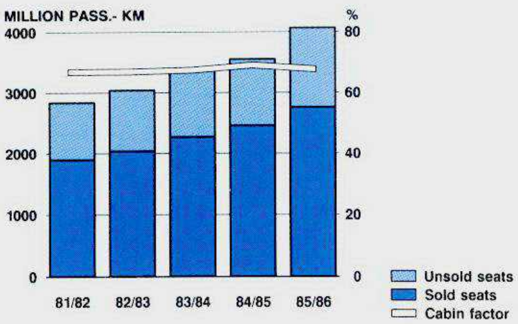
FACTORS AFFECTING PROFITABILITY

Decisive to an airline's revenues is the relation between full-fare and discount-fare traffic in combination with the cabin factor.

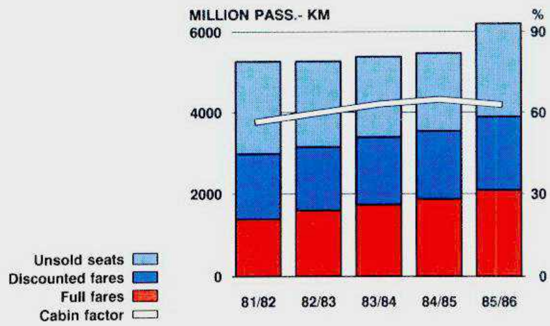
SAS's strategy – with many flights and non-stops to a large number of destinations – requires medium-size, cost-efficient aircraft. In contrast to many of its competitors, SAS has chosen to stick with DC–9 aircraft instead of replacing them with larger models such as the Airbus A300. Thanks to The Businessman's Airline strategy, the number of full-fare passengers increased, helping SAS to gain market share, primarily in the important European network. Attractive discount-fare alternatives were introduced to increase demand on departures with unutilized capacity. In this way SAS achieved a high cabin factor and high revenues from each flight. This strategy is a main reason for SAS's favorable financial and market development in the 1980s.

An airline's largest costs are salaries, government fees, fuel, commissions paid to agents and depreciation and interest expenses. In 1985 and 1986 fuel costs dropped quickly due to lower oil prices and a weaker dollar. At the beginning of the 1980s fuel costs accounted for approximately 20 percent of an airline's total costs. In 1985 this figure was down to 15 percent and in 1986 ten percent. Nevertheless, there are considerable differences in fuel consumption between short- and medium-haul traffic on the one hand and intercontinental traffic on the other. Fuel accounts for approximately ten percent of SAS's total costs on its European routes and nearly 20 percent on its long routes. Since the trend of fuel prices benefits all airlines, the effect on relative competitive advantages is slim. Lower

PRODUCTION, TRAFFIC & CABIN FACTOR DOMESTIC



PRODUCTION, TRAFFIC & CABIN FACTOR EUROPE



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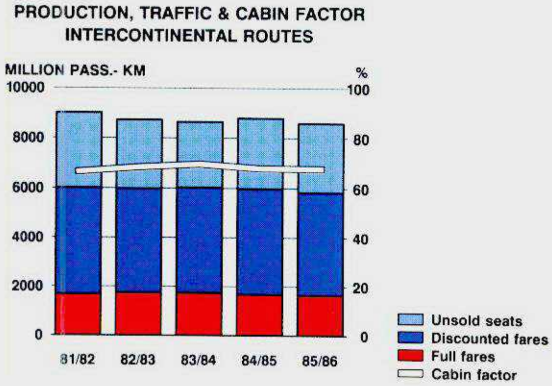


PRODUCTION, TRAFFIC & CABIN FACTOR
INTERCONTINENTAL ROUTES
MILLION PASS.- KM
%
10000
8000
6000
4000
2000
0
100
80
60
40
20
0
81/82
82/83
83/84
84/85
85/86
Unsold seats
Discounted fares
Full fares
Cabin factor

costs lead to lower price hikes on regulated routes. On routes where competition is an important factor, mainly on the intercontinental network, cost cuts have an immediate effect on fares. Fares are generally adjusted once a year and are based on the expected trend of costs and currency fluctuations.

SAS's strategy is also reflected in its costs. SAS focuses on service in each segment. A high level of service often means high personnel costs. In return, SAS gains higher revenue per seat than many of its competitors.

Authorities in the Scandinavian countries have expressed as their objective that civil aviation bear its own expenses. Some countries subsidize their airlines with low tariffs or by covering deficits. Since SAS has a large part of its traffic in the Scandinavian countries, where tariffs are high, these costs are relatively burdensome.

Commissions paid to agents constitute eight-to-ten percent of an airline's costs. To consolidate their networks of contacts in the market and cut costs, airlines are increasingly investing in their own information and reservation systems. Such systems can also be used by other producers of travel services and will become commercially attractive in time, after further product development and cost rationalization. The large investments are an impediment, however.

Viewed over a long period, an airline's investments occur in cycles. Since the lead times for acquiring aircraft and pilots are between two and three years, airlines tend to secure deliveries of new material as early as possible. If the market does not expand in pace with growth in capacity, the cabin factor drops, as does profitability. Companies then cannot bear increased depreciation and interest expenses. Capacity planning is therefore a vital factor for airlines.

Events in the 1980s show that airlines are sensitive to disturbances beyond their control. Acts of terrorism are often aimed at airlines and airports and can lead to temporary changes in demand. Some airlines are victimized more than others. Airlines' vulnerability makes them easily exploited in labor conflicts as well. Such conflicts have caused serious disturbances for SAS in the 1980s.

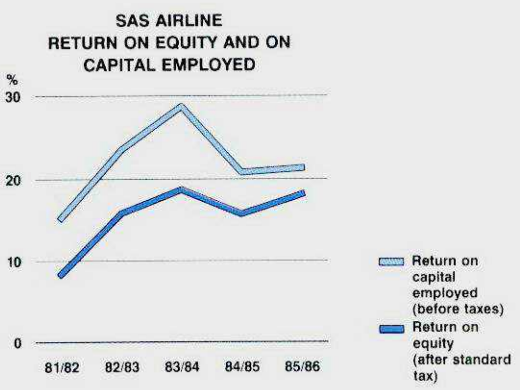
FARES IN THE EIGHTIES

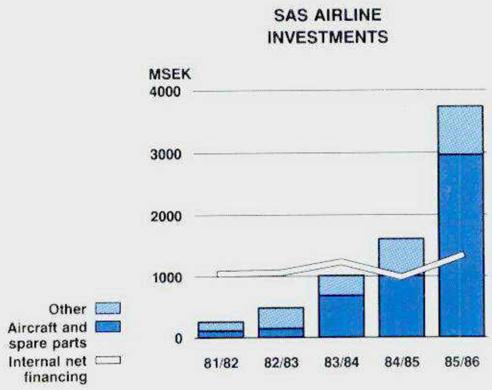
In 1984 IATA conducted an analysis on behalf of the EC comparing fare structures in the U.S. and Europe. The hypothesis was that fares in the U.S. were lower than in Europe thanks to deregulation. It was found that:

– average fares in Europe were higher than in the U.S., but that the difference was motivated by higher costs in Europe;

– airline costs were 20 percent higher in Europe for comparable distances because of a considerably smaller total market, fewer opportunities for economies of scale and higher government fees;

– European airlines offered more discount-fare alternatives than ever before and that every second passenger in





Europe chose such an alternative;
– European airlines offered better, more attractive products for business travelers than their American counterparts; and
– European airlines' operations do not include their extremely low-priced European charter traffic.

As shown in the table below, SAS's full fares for European and intra-Scandinavian traffic rose at a slower pace than the consumer price index in the three countries during the years 1983-1986. Even then, the comparisons do not take into account the many discount-fare alternatives SAS offers on its entire route network. SAS has been a pioneer in Europe in this area. The Scandinavian capitals have more discount-fare alternatives than all other cities in Europe with the exception of Amsterdam. This is a direct result of the successful promotion of EuroClass and the consistent application of SAS's strategy of product and price differentiation. It is also worth noting that other airlines' lowest fares apply to their Scandinavian traffic – a result of bilateral agreements in which SAS has set the tone.

The average discount in European traffic is between 25 and 50 percent of the full fare. The highest discounts are approximately 70 percent. SAS is now making selective cuts in fares for flights that are of less interest to business travelers. So while it has the largest share of full-fare passengers in Europe, SAS is also the discount-fare leader.

CONSUMER PRICE INDEX COMPARED TO AIR FARES

Annual average for the period April 1983 – April 1986

	Consumer-price index	Air fares (full fare)	
		Europe	Scandinavia
Denmark	+5.9%	+3.6%	+3.8%
Norway	+7.5%	+4.8%	+4.1%
Sweden	+8.3%	+3.8%	+3.4%

SAS International Hotels

SAS International Hotels consists mainly of 13 large first-class hotels in Scandinavia, one in Vienna and one in Kuwait. It also includes six hotels in northern Norway marketed under the name North Cape Hotels.

SAS International Hotels' business idea is to operate and develop hotels in and outside Scandinavia and thereby be an integrated link in the travel-service chain and the SAS Group's Businessman's Airline strategy. The build-up of its own hotel chain is therefore a natural element in the SAS Group's change from an airline to a travel-service company primarily for the frequent business traveler.

SAS International Hotels' goal is to establish, within a five-year period, hotels at two-thirds of the destinations to which the Airline has daily non-stop flights from Scandinavia. Hotel projects far along in their planning are those in London, Amsterdam, Brussels and Helsinki.

SAS International Hotels' qualitative goal is to one of be the best alternatives for the businessman. This means that all hotels should have the same high standard and offer services particular to SAS.

PRODUCT DEVELOPMENT AND PRICE DIFFERENTIATION

In implementing the Group's Businessman's Airline strategy, SAS International Hotels has adapted many of its products and services. A concept with higher standards for rooms and special services is marketed under the name Royal Club. Business services are offered at hotels to make it possible for guests to utilize their stays efficiently. Airline check-ins at hotels were introduced in cooperation with SAS Airline. A comprehensive campaign to raise the service culture for all hotel staff, called "no excuse," is being conducted.

The strategy applied in hotel operations is based on a clear product and price differentiation to increase the occupancy rate and improve profit margins. The product range has the same structure as in SAS Airline: an exclusive first class, a high standard for regular-price customers, and discount alternatives on weekends and vacation periods for tourists.

DEPENDENT ON ECONOMY

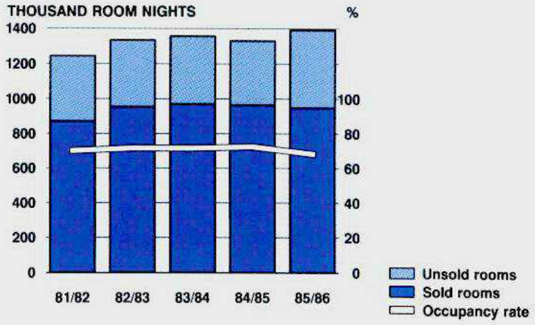
Demand for hotel rooms by businessmen follows general economic trends and shows the same pattern as air travel. The tourist sector is dependent on the scope of disposable income and is more sensitive to external factors.

SAS International Hotels summary

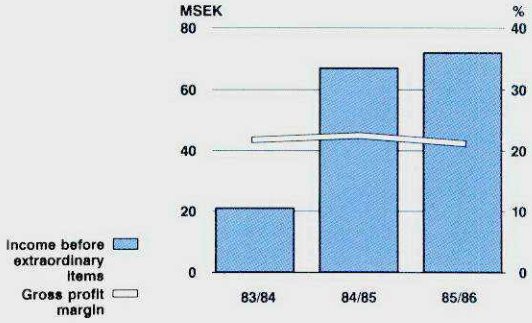
MSEK	85/86	84/85
Revenue	**1,083**	948
Operating income*	**230**	212
Gross profit margin, %	**21.2**	22.4
Income before extraordinary items	**72**	67
Investments	**110**	113
Return on		
– capital employed, %	**18**	20
– equity after taxes, %	**16**	18
Equity ratio, %	**26**	26
Number of employees	**2,992**	2,936

* Income before rentals, depreciation and net interest items

SAS INTERNATIONAL HOTELS
HOTEL OCCUPANCY



SAS INTERNATIONAL HOTELS
TREND OF INCOME




SAS
HOTEL

Growth in demand has generally been good in recent years. In 1986, however, extraordinary occurrences such as the Chernobyl accident, increased terrorism in Europe and a falling U.S. dollar had a negative effect, primarily on the tourist sector.

SAS DESTINATION SERVICE

As an element in the development of an integrated chain of travel services, SAS has entered into a cooperation with a number of first-class hotels – marketed together with air travel under the name SAS Destination Service. Fifty hotels around the world, selected by SAS for their quality, location, price, service and standard, are currently part of the program, which is administered by SAS International Hotels. SAS Destination Service has been very favorably received in the market.

The majority of hotel chains are owned by or affiliated with airlines. Hilton International is owned by TWA, Westin by United Airlines, Meridien by Air France and so on. But unlike SAS, no airline has integrated air travel, hotels and ground services into its product range.

LOCAL COMPETITION

About 70 percent of hotel bookings are today made locally. A hotel's image in the local market is therefore extremely important. SAS International Hotels uses a decentralized organization to ensure that its hotels are attractive and well respected in the areas where they are located. Synergy is gained through integrated cooperation with other SAS units.

OCCUPANCY RATE: THE CRITICAL FACTOR

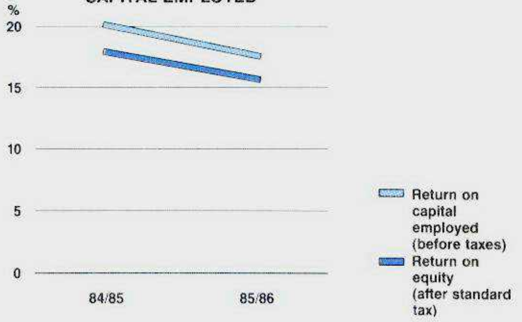
Two factors affect a hotel's profitability: the occupancy rate and the price per room.

A well-established first-class hotel generally has a high, consistent number of business travelers on weekdays during the fall, winter and spring. Customer loyalty is often very high. The summer season and weekends are utilized for marginal sales, which are decisive for the hotel's total profitability. The average price level depends on local competition, the balance of supply and demand and the hotel's general attraction and image. Its restaurant business plays an important role in the hotel's local profile and for service to its guests.

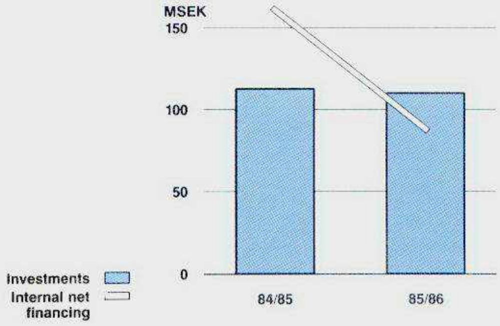
MAJOR INVESTMENTS

SAS International Hotels has initiated a comprehensive investment program. The rate of expansion is estimated at several units a year in the coming five-year period. Its real estate holdings will give SAS International Hotels financial flexibility during its continued build-up. Control over product offerings and their quality is a significant aspect in hotel operations. Real estate, on the other hand, is a business in itself and SAS International Hotel's share of ownership of hotel properties varies. Demand for hotels as investment objects is very high in large cities in a number of countries.

SAS INTERNATIONAL HOTELS RETURN ON EQUITY AND ON CAPITAL EMPLOYED



SAS INTERNATIONAL HOTELS INVESTMENTS



Comparable figures are only available for the past two years

SAS Service Partner

SAS Service Partner actively supports the SAS Group's strategy by improving on and offering meals and related services on commercially viable terms to business travelers and tourists using SAS's traffic system. Additionally, the company's know-how and resources are utilized and adapted to other, similar business activities.

SAS Service Partner's goal is to be the best alternative as a partner to selected customer groups.

To achieve this goal the company is trying to better orient itself to the market by applying well-defined business concepts and by developing products and logistics systems. Expansion is primarily taking place in existing product areas to maximize economies of scale and thereby improve competitiveness.

In the early 1980s SAS Service Partner was distinguished by rapid expansion both geographically and productwise. As it turned out, however, the company had branched off into too many areas and built up too large an administrative function.

During the 1984/85 financial year SAS Service Partner was restructured. Its operations were concentrated to specific areas in conformity with the Group's overall strategy. This consolidation phase was concluded in 1985/86. Operations are now broken down into six divisions that serve well-defined customer segments.

SAS Service Partner summary

MSEK	85/86	84/85
Revenue	**2,712**	2,393
Income before depreciation	**163**	132
Gross profit margin, %	**6.0**	5.5
Income before extraordinary items	**123**	81
Investments	**82**	56
Return on		
– capital employed, %	**32**	29
– equity after taxes, %	**34**	38
Equity ratio, %	**23**	20
Number of employees	**6,445**	5,931

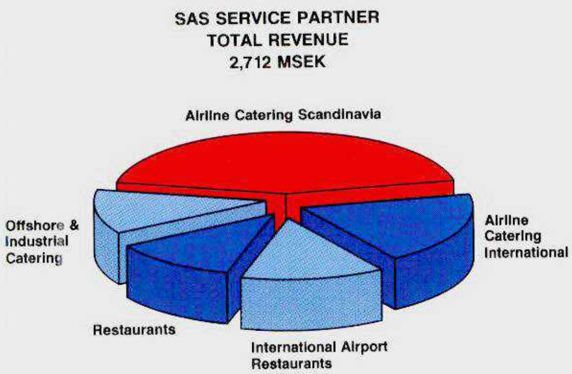
FLIGHT KITCHENS

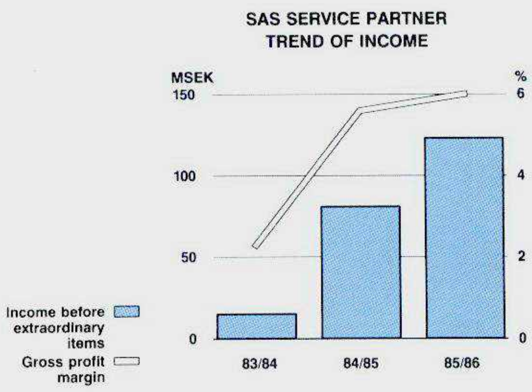
The two flight kitchen divisions, Airline Catering Scandinavia and Airline Catering International, together account for 60 percent of SAS Service Partner's total revenue. They run 16 flight kitchens in eight countries.

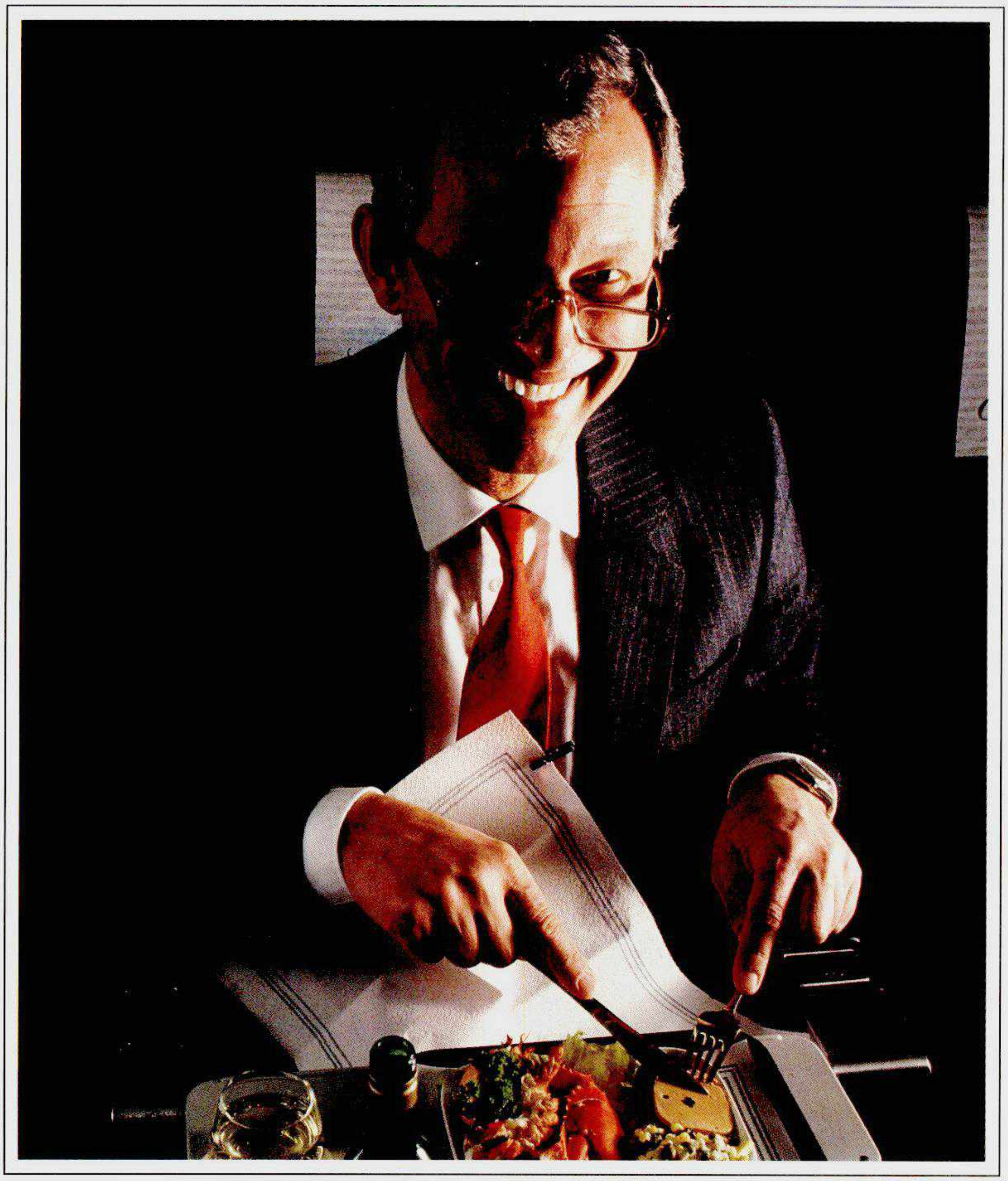
Operations include food and beverages as well as deliveries of tax-free goods sold on board. In some cases cabin cleaning services are also involved.

SAS Airline is the largest customer for the Scandinavian flight kitchens. Customers of the international business are usually other airlines. Several flight kitchens are operated on behalf of such airlines as Saudia and British Airways; SAS Service Partner has worked with both for some years.

The flight kitchen market is growing in pace with demand for air travel. Sharp competition between airlines and increasing product differentiation has led to greater demands for new products, quality and service. Price competition is severe, however,







making high operating efficiency a prerequisite for satisfactory profitability.

AIRPORT RESTAURANTS

The International Airport Restaurants Division accounts for 15 percent of total revenue. Operations include more than 90 restaurants at seven airports in Europe. In addition to restaurants, the division operates bars, cafeterias, newsstands and, in some cases, grocery stores at airports.

The selection of restaurants and other services greatly influences an airport's competitiveness. For that reason major investments are being made in this area at many airports around the world, including Copenhagen, Manchester and London-Heathrow. SAS Service Partner has developed efficient control systems that, along with a decentralized organization, are advantages in competition for contracts.

RESTAURANTS

The Restaurant Division is responsible for non-airport restaurant operations. These include restaurants at exhibition and conference centers, race tracks, roadside restaurants and employee canteens. The division has more than 100 units in Denmark, Norway and Sweden and accounts for 13 percent of SAS Service Partner's total revenue.

OFFSHORE

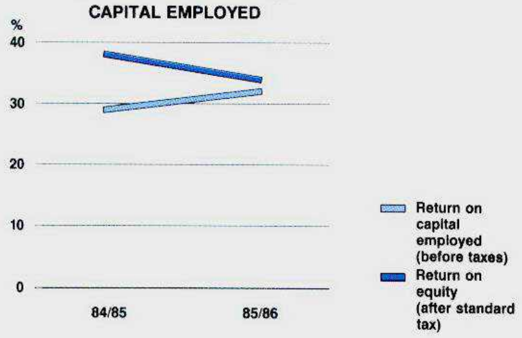
Offshore & Industrial Catering offers services in connection with accommodations and meals at sea and on land. It is a market leader in Scandinavia in this area. Offshore Catering at present has 12 long-term contracts for services on board oil platforms in the North Sea. The market, which developed very positively in the early 1980s, has since stagnated due to falling oil prices. Potential still exists for companies like SAS Service Partner, which can offer flexible service at competitive prices.

Industrial business is often tied to large construction sites, where services are the same as on oil platforms – to supply food and accommodations for those working on the project.

TRADING

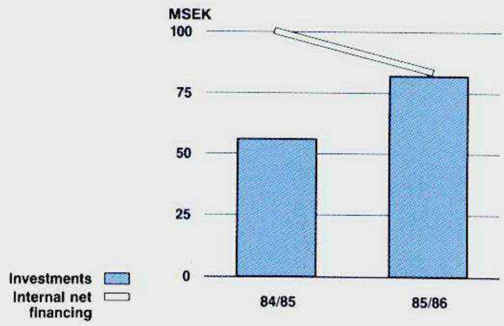
The Trading Division has as its goal to further develop SAS Service Partner's know-how by utilizing the synergy arising from the different operations. This know-how is important for the improvement of the business area's own products, and is marketed to non-Group clients on a consultancy basis. Examples of product areas with good potential are Party Service and hospital services, which involve meals, cleaning, washing, etc. Demand is expected to increase in the future.

SAS SERVICE PARTNER
RETURN ON EQUITY AND ON
CAPITAL EMPLOYED



Comparable figures are only available for the past two years

SAS SERVICE PARTNER
INVESTMENTS



SAS Leisure

SAS Leisure comprises Vingresor and Scanair, an independent consortium.

Vingresor

Vingresor is the largest inclusive-tour operator in Scandinavia, with a 1985/86 market share of 33.6 percent in Sweden and 33.5 percent in Norway. During the year 583,000 people traveled with Vingresor, 361,000 from Sweden and 222,000 from Norway.

Vingresor's business idea is to offer its customers value for their money, providing superior vacation trips in a competitive market. Its strategy is based on a clear product and price differentiation with systematically planned programs for both the low-price and quality segments. In the former, Vingresor offers lower prices than its competitors for similar alternatives. In the quality segment, the Sunwing resorts are the most important element.

Vingresor summary

MSEK	85/86	84/85
Revenue	**1,897**	1,537
Income before depreciation	**111**	52
Gross profit margin, %	**5.9**	3.4
Income before extraordinary items	**132**	81
Investments	**200**	53
Return on		
– capital employed, %	**42**	38
– equity after taxes, %	**33**	32
Equity ratio, %	**21**	20
Number of employees	**1,855**	1,497

GOALS

Vingresor's qualitative goal is to have the market's most satisfied customers, its highest repeat purchase rate and its best partners.

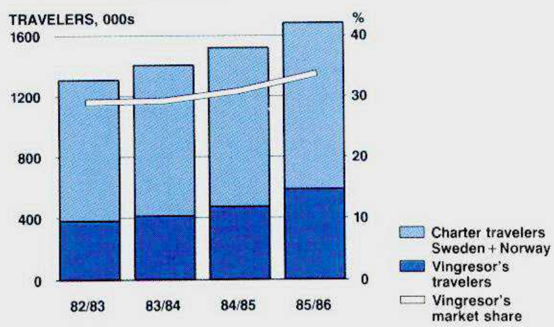
STRONG MARKET POSITION

The market has grown by 15 percent in the past five years, an average of three percent a year, with greater growth in Norway than in Sweden. During the same period, Vingresor has grown 47 percent, more than nine percent annually. Higher disposable income and more leisure time, favorable price trends due to relatively low oil costs and a falling dollar and, not least of all, the Scandinavian weather are all indicators of continued market growth. Prospects are good. Each year a million Swedes and nearly 700,000 Norwegians vacation abroad. This group consists of 800,000 who travel every year and 2.3 million who travel as often as their budget allows: on average once every third year. The latter group is therefore one with great potential. However, taxes on charter travel and possibly weaker domestic currencies pose serious threats.

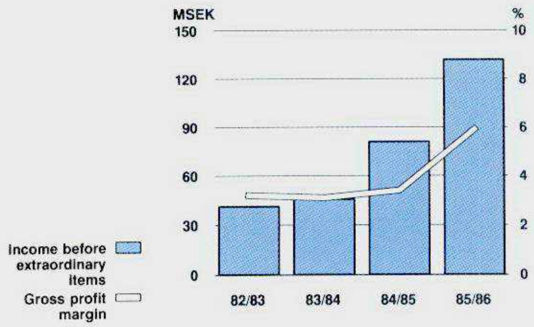
HIGH CAPACITY UTILIZATION

Vingresor sets its prices based on extremely high capacity utilization. The goal in 1985/86 was 99-percent capacity utilization; the result was 99.4 percent. To achieve this requires a high repeat purchase rate, a clear strategy for prices, products and service and a

VINGRESOR
MARKET SHARE IN SWEDEN AND NORWAY



VINGRESOR
TREND OF INCOME




Sunwing

distribution system focused on company-owned outlets with full control of the booking status.

STIFF COMPETITION

The Swedish and Norwegian markets are dominated by three airline-affiliated operators: Atlas/Saga (Braathen), Fritidsresor/Star Tours (Sterling) and Vingresor/Vingreiser (SAS). Together, these three constellations account for approximately 80 percent of the market in the two countries. Profitability in the industry is generally weak and many small operators have been forced out of the market in recent years, which has led to an oligopoly. Competition is not only fought over customers, but equally as much over the ability to find and maintain attractive partners – primarily hotel operators – to ensure the quality of products and services. The most important competitors here are the large tour operators in Western Europe, who may try to expand their market to the Scandinavian countries in the long term.

Vingresor is therefore investing to upgrade its "Vingcenters" and the Sunwing hotel chain. The eleventh hotel was opened in the fall of 1986. Expansion is mainly taking place in Spain and Greece, the most frequent travel destinations.

VERTICAL INTEGRATION

Vingresor's role in the SAS Group is to develop integrated leisure travel services and to contribute to greater exploitation of Group resources. In doing so, Vingresor has become Scanair's largest customer, accounting for 57 percent of its available capacity. An increased vertical integration in the tour operator-airline-hotel chain will strengthen Vingresor, and thereby the SAS Group, in the leisure market.

MAJOR INVESTMENT PROGRAM

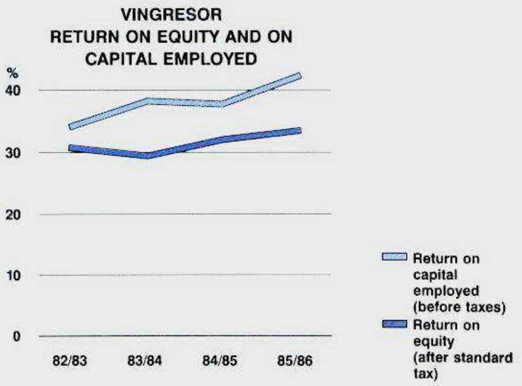
To achieve its qualitative and quantitative goals, Vingresor must make substantial investments in new products and facilities. At present Vingresor owns hotels with a total book value of nearly 300 MSEK.

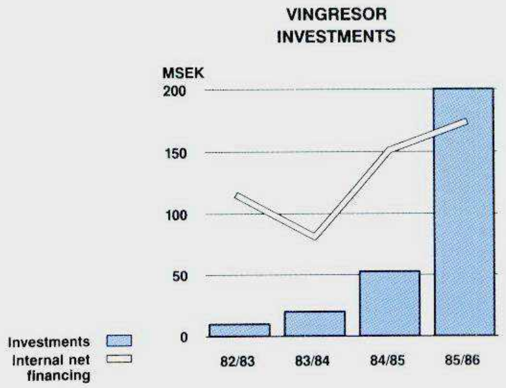
The expansion program will cost 300 MSEK over a two-year period and an additional 300 MSEK over the following three years. To finance these investments while maintaining its equity ratio, Vingresor must at least maintain its current level of income.

Scanair

Scanair is a separate consortium with the same ownership structure as SAS. The company conducts charter operations from Sweden and Norway and, to a lesser extent, from Denmark.

During the year Scanair had three DC–8s and three Airbus A300s on long-term lease from SAS. Another DC–8, the first of three SAS acquired on behalf of Scanair, was placed in service in 1986. The two remaining DC–8s will enter service in 1986/87 and replace the Airbuses, which SAS has sold. The last Airbus will be disposed of in the fall of 1987, after which Scanair will have a uniform fleet of DC–8s. Scanair also leased DC–9 capacity from SAS on a short-term





basis during the year, as well as a Fokker F28 from Linjeflyg.

Scanair's customers are tour operators that purchase capacity on contract and thus assume the short-term financial risk. The company's long-term growth will be determined by its ability to do business with financially stable and successful tour operators.

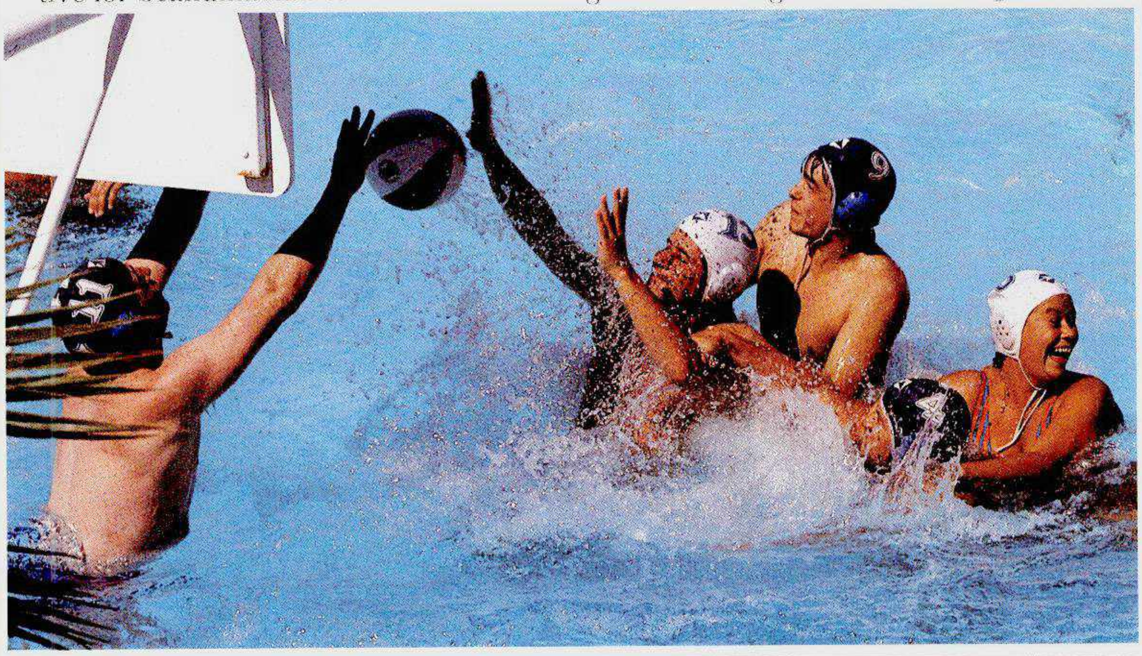
In 1985/86 Scanair served 18 tour operators, including 11 from Sweden and four from Norway. Its largest single customer, Vingresor, purchased 57 percent of production.

The three main destinations are the Canary Islands, other locations in Spain and Greece, which together accounted for 76 percent of passengers. Miami was added last year; the falling dollar has again made the U.S. attractive for Scandinavian tourists.

Sales rose ten percent to 1,218 MSEK in 1985/86. Income before extraordinary items increased from 46 MSEK to 72 MSEK, due mainly to increased capacity in combination with a higher average cabin factor and improved net financial income.

Scanair's principal competitors are four Scandinavian charter companies: Sterling Airways, Maersk and Conair from Denmark and Braathen from Norway. Scanair is the Scandinavian leader with a 29 percent of the market. Its share in Sweden was 53 percent and in Norway 28 percent.

An important part of Scanair's operations is inflight tax-free sales. In addition to maintaining an attractive product range, the company is working here to further simplify and improve goods handling and cash management.



Information and Reservation System

SAS's annual traffic revenue amounts to approximately 14,000 MSEK. Tickets sold in Scandinavia account for about 60 percent of this total, of which travel agencies refer approximately 80 percent. Commissions paid to travel agencies normally add up to nine percent – for SAS, more than 600 MSEK annually. The distribution of travel services consists of:

– information on timetables and prices for flights, hotels and ground transports
– bookings and reservations
– preparation of documents
– en route services
– convenient means of payment
– invoicing services
– cost follow-ups for completed trips.

Important changes have taken place in the distribution chain in recent years. Earlier, airlines and travel agencies basically had a monopoly on these services. Developments in electronic communications have today opened opportunities for other types of companies to enter the market. At present competition can be broken down into three categories:

– airlines with advanced reservation systems such as SABRE and APOLLO;
– companies involved mainly with information processing such as the Official Airline Guide (OAG) and credit information agencies; and
– credit-card companies such as American Express and MasterCard/Eurocard.

Sales of airline tickets and travel services account for a significant cash flow through the distribution chain. In a future environment with greater international competition, airline information and reservation systems increase in importance. Access to the market and effective communications with customers and travelers are already on their way to becoming decisive competitive factors.

The aim of SAS's distribution system is to allow the Group to freely market its products in a system where SAS's position cannot be restricted. The market should always have unlimited access to SAS's products. Each function should be developed in accordance with customer and market needs. The SAS Group should be able to offer an alternative that is at least as good if not better than its competitors at all levels.

As a producer in the travel services chain, the SAS Group should offer an attractive reservation system that is a natural choice for middlemen and direct customers. This can be done either through the development of its own system or through outside cooperations. Business Travel System (BTS) and SMART design, develop and operate communications systems that, through quality and efficiency, will be natural choices for customers who use electronic communication. In this way, SAS can attract as large a share as possible of producers, wholesalers and retailers of travel and related services in Scandinavia.

Travel Management Group (TMG) is actively working to improve efficiency at the agent level and of its forms of distribution. Travel agencies remain the SAS Group's most important channel to the market.

A large and growing portion of the flows of payments for travel and related services is handled via credit- and charge-card companies. In addition to its regular business, Diners Club Nordic will therefore become an integrated part of SAS's distribution system.

Affiliated Companies

Affiliated companies are defined as those companies in which SAS's ownership is between 20 and 50 percent. These companies include Linjeflyg AB, Travel Management Group Sweden AB, Scanator AB, Bennett Reisebureau A/S, Greenlandair A/S and Polygon Insurance Co Ltd.

LINJEFLYG AB (50%)

MSEK	85/86	84/85
Revenue	**1,809**	1,552
Income [1]	**155**	85
Adjusted equity	**342**	272
Number of employees	**1,700**	1,617

[1] Income before allocations and taxes

Linjeflyg's share of the Swedish domestic air travel market is approximately 60 percent. During the 1985/86 financial year 3.7 million passengers were transported, a 14-percent increase over a year earlier.

The aircraft fleet consists of 18 Fokker F28s. Two additional F28s ordered in 1985/86 are scheduled for delivery in 1986/87. Linjeflyg's secondary routes are served with Saab SF340s leased from Swedair.

Normal fare increases were avoided in 1985/86 because of declining fuel prices. This improved Linjeflyg's competitiveness in relation to other forms of travel such as trains and automobiles.

To further improve service, Linjeflyg, in cooperation with SAS, has begun development of a new booking system for Swedish domestic air travel. The system is expected to gradually be placed in operation in 1988.

TRAVEL MANAGEMENT GROUP SWEDEN AB (50%)

MSEK	85/86	84/85 (15 months)
Revenue	**2,980**	3,266
Income [1]	**−6**	9
Adjusted equity	**12**	24
Number of employees	**991**	991

[1] Income before allocations and taxes

Travel Management Group (TMG) includes the travel agencies Resespecialisterna and Nyman & Schultz. Costs attributable to the development and testing of several new business travel concepts were charged to income, primarily that of Resespecialisterna. Nyman & Schultz maintained its strong position in the business travel market and improved income.

SCANATOR AB (50%)

MSEK	85/86	84/85
Revenue	**38**	24
Income [1]	**7**	3
Adjusted equity	**8**	3
Number of employees	**5**	5

[1] Income before allocations and taxes

In 1985 Scanator noted a breakthrough in the application of its business idea – to market computer systems to users in the aviation industry.

More than 60 consultants are on Scanator's staff. In 1985/86 the company, together with SAS, delivered a comprehensive system for technical maintenance to Saudia, the Saudi Arabian airline.

SAS INCOME AND EQUITY INCLUDING AFFILIATED COMPANIES

MSEK	Group exluding affiliated companies 85/86	84/85	Affiliated companies [1] 85/86	84/85	Group including affiliated companies 85/86	84/85
Income before allocations and taxes	**1,515**	1,017	**78**	56	**1,593**	1,073
Untaxed reserves [2]	**530**	448	**112**	80	**642**	528
Equity	**3,771**	2,723	**133**	130	**3,904**	2,853
Adjusted equity	**4,301**	3,171	**245**	210	**4,546**	3,381
Book value of shares in affiliated companies			**84**	77		

[1] Undistributed share; some small companies are not included in the figures

[2] After 50% standard tax

BENNETT REISEBUREAU A/S (31%)

MSEK	1985	1984
Revneue	**1,401**	1,329
Income[1]	**14**	13
Adjusted equity	**34**	27
Number of employees	**411**	412

[1] Income before allocations and taxes

The Bennett group of companies consists of the parent company, Bennett Reisebureau A/S in Norway, and three wholly owned subsidiaries in Denmark, France and the U.S. The group runs travel agency and inclusive-tour operations. Bennett is Norway's largest travel agent, with more than 60 sales outlets. It is one of the largest agents in Denmark as well.

GREENLANDAIR A/S (25%)

MSEK	1985	1984
Revenue	**209**	187
Income[1)]	**14**	13
Adjusted equity	**105**	87
Number of employees	**388**	354

[1)] Pre-tax income

This group consists of the parent company, Grønlandsfly A/S, and three operating subsidiaries. Greenlandair primarily operates domestic air traffic in Greenland.

POLYGON INSURANCE CO LTD (33%)

MSEK	85/86	84/85
Premiums, net	**148**	109
Income[1]	**15**	6
Equity	**76**	59

[1] Pre-tax income

Polygon, established in 1975, is owned one-third each by KLM, SAS and Swissair. Day-to-day administration is handled by Transglobe Underwriting Management Ltd.

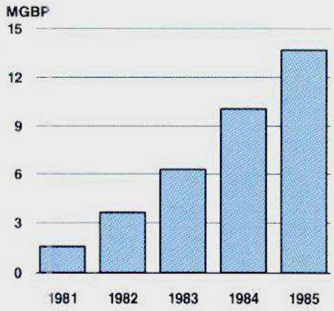
There were two reasons for forming Polygon, a captive company. One was to create a vehicle for placing part of the owners' insurance at favorable terms and influencing long-term price levels for premiums. The other reason was to underwrite lines of third-party aviation insurance to achieve a more balanced portfolio and a better spread of risk.

Total equity amounted to 6.2 MGBP on December 31, 1985.

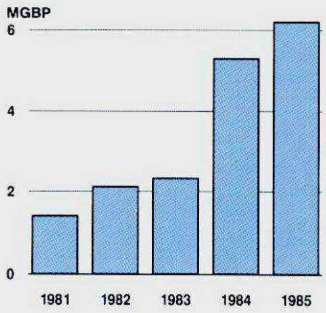
Despite the generally unfavorable market for aviation insurance during the period 1975 to 1984. Polygon performed successfully primarily due to a prudent balance between its own risks and reinsurance risks.

The company is currently in a period of strong growth. A London-based subsidiary, Polygon Insurance Company (UK) Ltd, was formed in April 1986 to develop non-aviation business.

POLYGON PREMIUM REVENUE



POLYGON EQUITY



Report by the Board and the President*

October 1, 1985 – September 30, 1986

SUMMARY

SAS Group income before allocations and taxes rose to 1,515 MSEK compared to 1,017 MSEK a year earlier.

Revenue and income for the SAS Group, by business area, are summarized in the following table.

REVENUE AND INCOME BY BUSINESS AREA

MSEK	Revenue		Income	
Business area	**85/86**	84/85	**85/86**	84/85
SAS Airline (the Consortium)	**16,495**	15,434	**1,207**	811
SAS International Hotels	**1,083**	948	**72**	67
SAS Service Partner	**2,712**	2,393	**123**	81
Vingresor	**1,897**	1,537	**132**	81
Other [1]	**415**	390	**–31**	–15
Group eliminations	**–1,017**	–912	**–22**	– 7
Income before extraordinary items			**1,481**	1,018
Extraordinary items, net			**+34**	– 1
SAS Group	**21,585**	19,790	**1,515**	1,017

[1] Diners Club Nordic A/S, AB Olson & Wright, A/S Dansk Rejsebureau, SMART AB, etc.

SAS Airline (SAS Consortium) noted continued favorable traffic growth for routes in Europe, within and between the Scandinavian countries and for air cargo business.

In Europe, SAS gained market share within both the business travel and tourist segments. On its intercontinental network, SAS was able to maintain its market position despite unfavorable circumstances and intensive competition. Discount-fare promotions in Scandinavia added a great number of new tourist passengers.

SAS Airline's income before extraordinary items increased to 1,207 MSEK compared to 811 MSEK in the preceding financial year. This figure includes depreciation of 690 MSEK (1984/85: 447 MSEK), which increased due to the expansion of the fleet.

SAS International Hotels noted higher income, 72 MSEK (67), in a weak market, through continued successful product development and expanded cooperation with *SAS Airline*.

Continued concentration of its operations and improvements in efficiency helped *SAS Service Partner* raise income substantially, from 81 MSEK to 123 MSEK.

Vingresor further consolidated its position as the leading inclusive-tour operator in Scandinavia, increasing its number of passengers by 19 percent and its income to 132 MSEK (81).

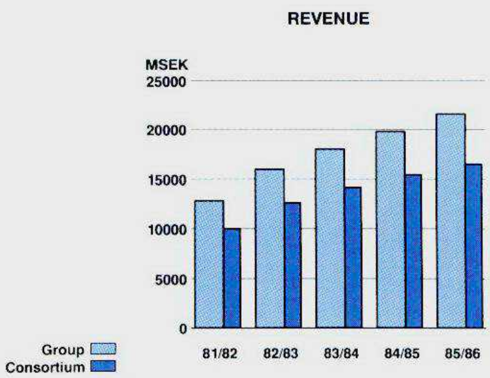
The *Diners Club Nordic* group of companies was acquired as an element in the creation of an internationally competitive information, reservation and payment system.

The operations of the *Olson & Wright* forwarding company were restructured.

SAS Group *investments* in 1985/86 amounted to 4,128 MSEK (1,761). Because of the favorable traffic trend, twelve new DC–9–80s were placed in service. Another twenty DC–9–80s are scheduled for delivery during the period 1987-1991.

The nuclear accident at Chernobyl and events tied to international ter-

* *A translation of the Swedish original*



rorism had negative effects on European traffic and on the hotel market. In making comparisons with last year's figures, it should be remembered that Scandinavian labor conflicts seriously disrupted SAS operations in 1984/85.

The SAS Group's and SAS Consortium's statements of income are summarized in the table below.

STATEMENTS OF INCOME

	SAS Group		SAS Consortium	
MSEK	**85/86**	84/85	**85/86**	84/85
Revenue	**21,585**	19,790	**16,495**	15,434
Operating expense	**−19,369**	−18,256	**−14,723**	−14,227
Operating income before depreciation	**2,216**	1,534	**1,772**	1,207
In percent of revenue	**10.3**	7.8	**10.7**	7.8
Depreciation	**−863**	−574	**−690**	−447
Operating income after depreciation	**1,353**	960	**1,082**	760
Financial items, net	**+128**	+ 58	**+125**	+ 51
Income before extraordinary items	**1,481**	1,018	**1,207**	811
Extraordinary items, net	**+ 34**	− 1	**− 10**	− 4
Income before allocations and taxes	**1,515**	1,017	**1,197**	807

SAS AIRLINE (THE CONSORTIUM)

The Market. The trend of international air traffic was weaker in 1985/86. However, SAS's traffic developed stronger than the market average.

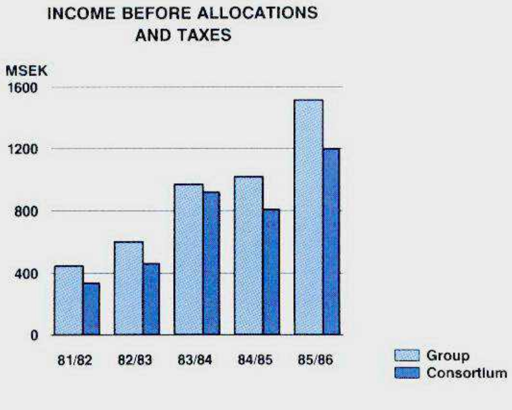
European traffic expanded more slowly than in earlier years. Following the Chernobyl accident and terrorist acts, summer traffic dropped below last year's level. A slight recovery was noted toward the end of the financial year. Intercontinental traffic followed a similar pattern and was distinguished by intensive competition on all routes.

In the *European market,* which accounts for nearly half of SAS's traffic revenues, SAS's traffic rose by 9 percent. EuroClass traffic increased by 10 percent, while SAS's tourist traffic climbed 8 percent.

The introduction of more flights and non-stop services continued. The traffic program was expanded with non-stops between Stockholm and Brussels, Oslo and London, and Copenhagen and Hannover. The number of flights was increased to London, Amsterdam, Barcelona and Athens, among other cities. Regularity and service were maintained at a high level, and the trend of income remained favorable.

On the *Intercontinental* route network, which accounts for one-third of SAS's traffic revenues, SAS's traffic decreased by 2 percent. The decline was attributable to reduced production caused by the changeover from 747s to DC−10s and cutbacks in the traffic program. Traffic to Karachi, Nairobi, Dar es Salaam and Johannesburg was discontinued during the year.

The declining dollar resulted in a decrease in tourists from the U.S. Higher sales of trips from Scandinavia to the



U.S. compensated to some extent for this decrease.

Despite measures taken, income from SAS's intercontinental routes did not reach a satisfactory level, due to market developments.

The continuing adaption of its traffic program and prices to the market contributed to further growth in SAS's *domestic traffic*.

A discount-fare sales promotion in Scandinavia in the summer greatly increased the volume of tourist travel, including many first-time travelers.

Business travel promotions in Denmark – with more flights, among other things – helped to increase traffic by 8 percent. Business travel now accounts for 80 percent of Danish domestic traffic.

More flights were introduced to all destinations served by SAS in Sweden. The usual summer tourist offers proved positive, with total traffic increasing by 21 percent.

During the labor conflict in Norway, SAS was forced to cut back its traffic program. This, in combination with the consequences on Norwegian industry of falling oil prices, limited the increase in domestic traffic to 5 percent.

For many airlines in Europe, air cargo is a marginal business. An aircraft's cargo capacity is used to contribute to earnings, but traffic programs are geared primarily to the needs of the passengers. On intercontinental routes, air cargo plays a larger role.

Greater competition from ground-based transports are having a negative effect on conventional air cargo business in Europe.

SAS's *cargo operations* have therefore been concentrated on two products: conventional intercontinental air cargo and, for European customers, value-added overnight services, which offer speedy, guaranteed on-time deliveries at fixed prices.

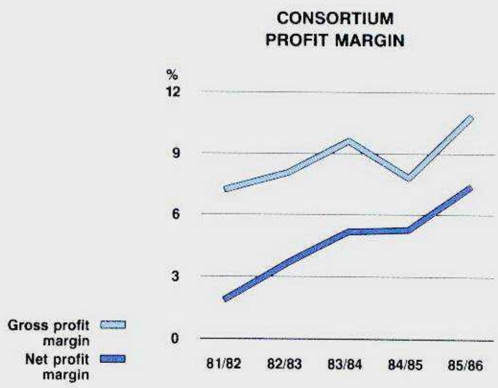
The new SAS concept uses Cologne as its central distribution point, with ground transports from there to European destinations.

SAS's total cargo traffic rose by 3 percent, and the operation's total contribution to income improved compared to 1984/85.

Capacity expansion. Twelve of the 14 DC–9–80s ordered were placed in service during the operating year, significantly raising available capacity. These aircraft entered service between the Scandinavian capitals, between these cities and London, and on domestic routes in Norway and Sweden. In 1986 contracts were signed for 18 additional DC–9s, for delivery during the period 1987-1991.

SAS's strategy – with more frequent flights and non-stops – requires aircraft smaller than the Boeing 747 on intercontinental routes. The changeover to a uniform fleet of DC–10s is proceeding as planned.

Another DC–10 was delivered in August 1986. A Boeing 747 covered by a sale and leaseback agreement was returned to its owners in March 1986.



The fleet. The aircraft fleet was made up as follows on September 30, 1986.

THE FLEET

Aircraft type	Owned	Leased	Total	Leased out	On order
Boeing 747	1	3	4	2[1]	
Airbus A300	3		3	3[2]	
Douglas DC-10-30	9		9		
Douglas DC-8-62	4		4	1[3]	
Douglas DC-8-63	6		6	4[2]	2
Douglas DC-9-21	9		9		
Douglas DC-9-33	2		2		
Douglas DC-9-41	49		49		
Douglas DC-9-51					5
Douglas DC-9-81	6		6		2
Douglas DC-9-82	6		6		2
Douglas DC-9-83					2
Douglas DC-9-87					14
Fokker F27	9		9		
Hovercraft		2	2		
	104	5	109	10	27

[1] One leased to Nigeria Airways and one to Gulf Air
[2] Leased to Scanair
[3] Leased to Aero Peru

Traffic and production. SAS's total passenger traffic rose by 4 percent compared to 1984/85, while production climbed 6 percent during the same period. The average *cabin factor* fell by one percentage point to 66.2 percent.

The total number of passengers who flew SAS increased by 9 percent to 11.7 million.

Airline revenue and income. SAS Airline *revenue* was 7 percent higher than a year earlier, at 16,495 MSEK (15,434). Traffic revenue amounted to 13,456 MSEK (12,572), of which passenger traffic accounted for 85 percent. Additional revenue relates to tax-free sales, station and maintenance services, the leasing out of flight equipment, etc.

Increased volume accounted for 4 percent of the total gain in revenue, while price increases, including the effects of currency fluctuations and an altered product mix, totaled 3 percent.

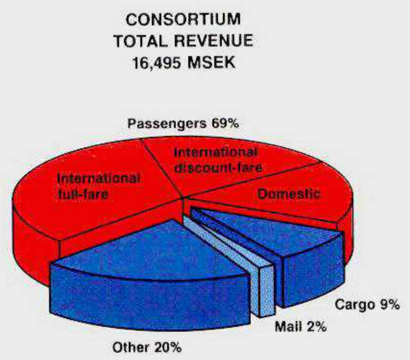
Operating expense, excluding depreciation, rose nearly 4 percent to 14,723 MSEK (14,227).

Operating income before depreciation improved to 1,772 MSEK (1,207) and the *gross profit margin* (income before depreciation as a ratio of total revenue) increased from 7.8 percent in 1984/85 to 10.7 percent. After adjustments for the labor conflicts in 1984/85, this year's gross profit margin rose by approximately 1.3 percentage points.

Income in 1985/86 was affected positively by the declining rate of the dollar, which reduced costs in Swedish kronor for fuel and spare parts, among other items. However, the effect was partly offset by the lower value in kronor of SAS's considerable dollar revenues, primarily from intercontinental operations. Lower fuel costs had a restraining effect on price increases.

The largest cost items were for personnel and fuel, which accounted for 30 and 10 percent of total costs, respectively. During the past five years the proportion of fuel costs in relation to total costs has declined from 20 to 10 percent, while the corresponding proportions of personnel costs, government fees and depreciation have increased.

Payroll and social benefits rose by 13 percent to 5,016 MSEK, of which 7 percent relates to pay raises. The average number of employees increased during the year by slightly more than



TOTAL PRODUCTION AND TRAFFIC

Scheduled traffic	AVAILABLE TONNE-KILOMETERS			REVENUE TONNE-KILOMETERS			LOAD FACTOR	
	Million	Change %	Share %	Million	Change %	Share %	%	Change, % pts
North & South Atlantic	968	0	39	667	+2	43	68.8	1.3
Asia, Africa and the Middle East	376	−6	15	254	−4	16	67.8	1.5
INTERCONTINENTAL	1,344	−2	54	921	0	59	68.5	1.4
EUROPE	708	14	29	379	8	24	53.6	−2.6
DOMESTIC	427	15	17	261	12	17	61.0	−1.6
TOTAL NETWORK	2,479	5	100	1,561	4	100	63.0	−0.5

900 to 19,773. Airline personnel were added to handle growth.

Fuel prices were not affected by falling oil prices until March 1986. The average fuel price in 1985/86 was 71.2 cents a gallon, against 86.5 cents a gallon a year earlier.

Income was charged with the extensive costs of recruiting and training pilots as well as the costs incurred in connection with the acquisition of new aircraft.

The cost of leasing aircraft capacity was reduced to 118 MSEK (183), mainly due to the lower dollar exchange rate.

Continued expansion of airline operations increased *depreciation* during the period by 243 MSEK to 690 MSEK. The depreciation of flight equipment accounted for nearly 70 percent of total depreciation.

Despite net borrowing of 1,824 MSEK and lower average liquid funds, *net financial items* improved to +125 MSEK from +51 MSEK a year earlier.

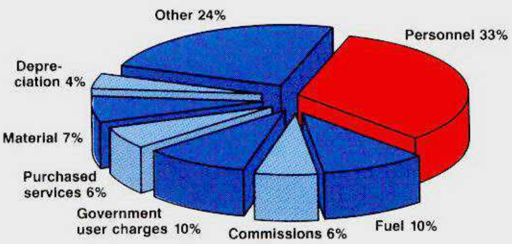
Net interest income of 115 MSEK (165) includes gains on investments in bonds and interest-rate swaps totaling 151 MSEK (22).

Currency differences on long-term loans resulted in a loss of 26 MSEK compared to a gain of 28 MSEK in 1984/85. Favorable currency differences on U.S. dollar loans were offset by negative differentials on loans in Swiss francs and ECUs. Other currency differences produced a gain of 65 MSEK, against a loss of 130 MSEK in 1984/85.

Dividends of 30 MSEK (8) are included in financial income.

Income before extraordinary items amounted to 1,207 MSEK (811). Extraordinary items, net, were −10 MSEK (−4). This amount includes a 13-MSEK writedown of the book value of shares in AB Olson & Wright.

CONSORTIUM
TOTAL OPERATING EXPENSES
15,413 MSEK



PASSENGER, FREIGHT AND MAIL TRAFFIC

Scheduled traffic (millions)	PASSENGERS		CABIN FACTOR		FREIGHT		MAIL	
	Pass. km	Change %	%	Change % pts	Tonne km	Change %	Tonne km	Change %
North & South Atlantic	4,139	1	67.5	−0.1	271.3	2	17.7	16
Asia, Africa and the Middle East	1,690	−10	68.9	4.0	86.7	8	14.1	1
INTERCONTINENTAL	5,829	− 2	67.8	−0.1	358.0	4	31.8	8
EUROPE	3,886	9	62.8	−2.0	36.1	−4	12.3	8
Denmark	442	8	68.2	−0.6	3.3	10	3.0	11
Norway	1,130	5	66.7	0	8.4	11	5.2	8
Sweden	1,184	21	68.7	−3.5	3.2	14	3.0	3
DOMESTIC	2,756	12	67.8	−1.3	14.9	11	11.2	8
TOTAL NETWORK	12,471	4	66.2	−1.0	409.0	3	55.3	8

The Consortium's income before allocations and taxes amounted to 1,197 MSEK (807).

Allocations are made by SAS's parent companies – DDL in Denmark, DNL in Norway and ABA in Sweden – all of which also pay taxes on their share of SAS's income.

SAS INTERNATIONAL HOTELS

The hotel operations noted positive growth during the first months of the 1985/86 financial year. The trend changed due to labor conflicts in Norway and greatly reduced tourist traffic following terrorist actions in Europe and the nuclear accident at Chernobyl. The weaker dollar also contributed to lower tourist travel from the U.S.

Despite the weak market, SAS International Hotels was able to consolidate its position as one of the leading hotel chains in Scandinavia. An expanded cooperation with SAS Airline, improvements in service and quality and investments in product development enabled the established hotels to raise their rates. Income for hotel operations thereby improved to 72 MSEK (67).

Revenues for hotel operations increased by 14 percent to 1,083 MSEK (948). The occupancy rate totaled 68 percent (74).

The trend of income was generally positive for units in all three Scandinavian countries.

SAS Palais Hotel in Vienna was negatively affected by a very weak local hotel market.

Investments in hotels, furnishings, etc. totaled 110 MSEK.

The return on capital employed was 18 percent (20). The return on equity was 16 percent (18) and the equity ratio was unchanged at 26 percent.

SAS International Hotels took over the operations of the Strand Hotel in Stockholm on September 30, 1986. A program was initiated to expand SAS International Hotels in coming years through the establishment of hotels in SAS Airline's major business travel destinations, primarily in Europe.

SAS SERVICE PARTNER

The continued concentration of operations and improvements in efficiency, in combination with increased capacity utilization brought on by further growth in airline traffic, helped SAS Service Partner to improve income before extraordinary items to 123 MSEK (81).

SAS Service Partner's revenue amounted to 2,712 MSEK, a 13-percent increase.

The Scandinavian flight kitchens reported continued positive development. The Airline Catering International Division was able to maintain its market position in stiff competition.

The Scandinavian airport restaurants noted a very strong trend of income, and the international airport restaurants increased their market thanks to a greater number of airline passengers at many of the airports served by SAS Service Partner.

SAS Service Partner's investments in flight kitchens and restaurants, among other things, amounted to 82 MSEK (56). The largest single investment projects were the renovations of the units in Oslo, Stockholm, Copenhagen and Frankfurt.

The return on capital employed rose to 32 percent (29) and the return on equity after taxes was 34 percent (38). The equity ratio rose by 3 percentage points to 23 percent.

VINGRESOR

The inclusive-tour market in Norway and Sweden continued to grow. Vingresor further strengthened its position as the leading tour operator in Scandinavia.

Product development and the opening of more Sunwing hotels and Vingcenters, together with well-balanced price and product differentiation, resulted in very high capacity utilization and a low proportion of marked-down sales.

The number of vacationers increased by 19 percent to 590,000. The close cooperation with Scanair was expanded to the benefit of the entire SAS Leisure business area.

Income before extraordinary items was 132 MSEK compared to 81 MSEK a year earlier. Vingresor's revenue rose 23 percent to 1,897 MSEK.

Vingresor's income was favorably affected by the falling dollar and lower fuel prices, due to the manner in which retail prices are set and charter flight contracts settled. A total of 18 MSEK was reimbursed to customers.

Investments concerning Vingresor-owned hotels in Spain and Greece are now being carried out as planned, and amounted to 200 MSEK during the year.

The net profit margin was 7 percent, an increase of 2 percentage points over 1984/85. The return on capital employed and on equity increased to 42 percent (38) and 33 percent (32), respectively, and the equity ratio was 21 percent (20).

OTHER COMPANIES

The *AB Olson & Wright* forwarding company is undergoing a total restructuring after weak development in recent years. The measures taken significantly affected the reported loss of 28 MSEK (2) before extraordinary items. After a capital gain of 30 MSEK on a property sale, the company reported income before allocations and taxes of 2 MSEK. The Group wrote down the goodwill value in Olson & Wright by 5 MSEK.

Through the acquisition of *Diners Club Nordic A/S*, SAS took over franchise rights in the Nordic countries for the Diners Club charge card.

Sales and payments of travel services are increasingly being made by charge card, and the acquisition of Diners Club is a step in the implementation of the SAS Group's distribution strategy. The number of active cardholders and sales outlets increased during the year and income before extraordinary items met expectations, amounting to 7 MSEK for the nine-month period ended September 30, 1986.

AFFILIATED COMPANIES

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

In addition to the consolidated income before allocations and taxes, which totaled 1,515 MSEK (1,017), SAS's share of 1985/86 income retained in affiliated companies was 78 MSEK (56).

The SAS Group's share of its affiliated companies' adjusted equity amounted to 245 MSEK (210) on September 30, 1986.

The book value of shares in affiliated companies reported by the SAS Consortium amounted to 84 MSEK (77).

PERSONNEL AND PAYROLL EXPENSES

The average number of employees in the SAS Group was 31,775 (29,730). The number of employees in SAS Airline (SAS Consortium) was 19,773 (18,845). The increase in the number of employees was mainly a product of changes in the traffic program and an increase in passengers as well as measures taken to improve the level of SAS Airline's service.

The average number of employees in SAS International Hotels was 2,992 (2,936); in SAS Service Partner, 6,445 (5,931); and in the Vingresor group, 1,855 (1,497).

The Group's total payroll, including payroll-related costs, was 6,771

PERSONNEL

	SAS CONSORTIUM								SUBSIDIARIES		SAS GROUP	
	Flight deck		Cabin		Other personnel		Total					
	85/86	84/85	**85/86**	84/85	**85/86**	84/85	**85/86**	84/85	**85/86**	84/85	**85/86**	84/85
DENMARK	**362**	358	**771**	800	**5,926**	5,511	**7,059**	6,669	**2,173**	2,071	**9,232**	8,740
NORWAY	**379**	346	**647**	634	**3,247**	3,052	**4,273**	4,032	**3,675**	3,927	**7,948**	7,959
SWEDEN	**517**	482	**837**	802	**4,990**	4,730	**6,344**	6,014	**2,639**	2,286	**8,983**	8,300
ABROAD			**24**	23	**2,073**	2,107	**2,097**	2,130	**3,515**	2,601	**5,612**	4,731
TOTAL	**1,258**	1,186	**2,279**	2,259	**16,236**	15,400	**19,773**	18,845	**12,002**	10,885	**31,775**	29,730

MSEK (5,940). Corresponding costs for the Consortium were 5,016 MSEK (4,454).

PROFITABILITY AND EQUITY RATIO

Despite the comprehensive investments made, the SAS Group's pre-tax return on total capital employed, excluding noninterest-bearing operating debt, was 22 percent (21). The return on adjusted equity after a standard 50-percent deduction for taxes was 20 percent (18). The SAS Group's interest coverage rose from 3.6 to 4.7 in 1985/86.

The equity ratio as of September 30, 1986, taking into account a 50-percent deferred tax liability on untaxed reserves, was 26 percent (24). The ratio of risk-bearing capital – i.e., book equity including untaxed reserves – rose to 29 percent (27) for the SAS Group. For the SAS Consortium, the ratio of risk-bearing capital increased by 2 percentage points to 31 percent.

INVESTMENTS

SAS Group investments amounted to SEK 4,128 MSEK (1,761), of which SAS Airline (the Consortium) accounted for 3,733 MSEK (1,607). Aircraft and other flight equipment totaling 2,961 MSEK were acquired. The total figure also includes investments in computer capacity, buildings, equipment, etc. SAS's new headquarters accounted for 135 MSEK of the SAS

BALANCE SHEETS

	SAS Group		SAS Consortium	
MSEK	**Sep 86**	Sep 85	**Sep 86**	Sep 85
Liquid funds	**3,582**	3,676	**2,551**	2,839
Other current assets	**4,530**	3,610	**3,328**	2,930
Total current assets	**8,112**	7,286	**5,879**	5,769
Non-current assets	**8,769**	5,901	**7,632**	4,985
Total assets	**16,881**	13,187	**13,511**	10,754
Current liabilities	**6,729**	6,257	**4,796**	4,959
Long-term debt	**4,479**[1]	3,310[1]	**3,703**	2,630
Subordinated debentures	**843**		**843**	
Reserves	**1,059**	897	**696**	609
Equity	**3,771**	2,723	**3,473**	2,556
Total liabilities and equity	**16,881**	13,187	**13,511**	10,754

[1] Including minority interest

STATEMENTS OF CHANGES IN FINANCIAL POSITION

MSEK	SAS Group 85/86	SAS Group 84/85	SAS Consortium 85/86	SAS Consortium 84/85
Funds provided by the year's operations	**1,931**	1,221	**1,626**	966
Change in working capital	**−300**	177	**−295**	18
Net financing from the year's operations	**1,631**	1,398	**1,331**	984
Investments	**−4,128**	−1,761	**−3,733**	−1,607
Advance payments and sale of assets, etc.	**401**	− 696	**290**	− 750
Financing deficit	**−2,096**	−1,059	**−2,112**	−1,373
New borrowing, net	**2,002**	724	**1,824**	770
Change in liquid funds	**− 94**	− 335	**− 288**	− 603

Consortium's investments. The scheduled move-in date is early 1988.

A total of 82 MSEK was invested in the catering and restaurant areas. The hotel area's investments amounted to 110 MSEK; Vingresor invested 200 MSEK.

The Diners Club Nordic group of companies was acquired in early 1986 as a stage in SAS's total distribution strategy.

The total value of aircraft on order on September 30, 1986 was 640 MUSD (slightly more than 4,400 MSEK).

FINANCING AND LIQUIDITY

The SAS Group's net financing from the year's operations, after transfers of 280 MSEK (280) to the parent companies, was 1,631 MSEK (1,398).

A financing deficit of 2,096 MSEK resulted due to the comprehensive investments made. This deficit was covered mainly by net borrowing of more than 2,000 MSEK. This includes a ten-year bond loan of 150 MUSD and a subordinated perpetual 200 million Swiss franc debenture loan.

SAS Group liquid funds on September 30, 1986 were 3,582 MSEK (3,676). The Consortium's share was 2,551 MSEK (2,839).

ALLOCATION OF INCOME AND EQUITY

Income of the SAS Consortium before allocations and taxes was 1,197 MSEK (807). Allocations are made by the parent companies of SAS — DDL in Denmark, DNL in Norway and ABA in Sweden — all of which also pay taxes in their respective countries on their share of SAS's income.

The Board of Directors and the President propose to the SAS Assembly of Representatives that 350 MSEK be paid to the parent companies (280 MSEK was transferred in 1984/85) and that the remaining amount, 847 MSEK (527), be transferred to the Consortium's capital account, which will thereafter total 3,123 MSEK (2,276).

Capital infusion. To further strengthen SAS's capital base in an important stage of expansion of the operations, the Board of Directors has proposed that SAS's parent companies increase SAS's capital account by 1,050 MSEK to 4,173 MSEK.

FORECAST FOR 1986/87

Given continued growth in airline traffic and continued commitment to an integrated and expanded range of travel services, SAS Group income is expected to continue to improve.

The income and financial position of the SAS Group and the SAS Consortium for the 1985/86 financial year are shown in the following financial statements and notes, as integral parts of this report.

Oslo, Copenhagen and Stockholm, December 16, 1986

TOR MOURSUND	HALDOR TOPSØE	CURT NICOLIN
BJØRN EIDEM	JØRGEN L. HALCK	KRISTER WICKMAN
INGVAR LILLETUN	PER ESPERSEN	RALF FRICK

JAN CARLZON
President and Chief
Executive Officer

SAS Group Consolidated Statement of Income

October 1 – September 30

MSEK		85/86	84/85
Traffic revenue	Note 1	**13,456**	12,572
Other operating revenue	Note 2	**8,129**	7,218
OPERATING REVENUE		**21,585**	19,790
OPERATING EXPENSE		**19,369**	18,256
OPERATING INCOME BEFORE DEPRECIATION		**2,216**	1,534
DEPRECIATION	Note 3	**863**	574
OPERATING INCOME AFTER DEPRECIATION		**1,353**	960
Dividend income	Note 4	**8**	1
Interest income, net	Note 5	**99**	161
Exchange rate differences, net	Note 6	**67**	−82
Other financial items	Note 7	**− 46**	−22
INCOME BEFORE EXTRAORDINARY INCOME AND EXPENSE		**1,481**	1,018
Gain on sale and retirement of equipment, net	Note 8	**29**	15
Extraordinary income	Note 9	**11**	7
Extraordinary expense	Note 10	**− 6**	−23
INCOME BEFORE ALLOCATIONS AND TAXES		**1,515**	1,017
Allocations in the subsidiaries, net	Note 11	**− 84**	−56
Income before subsidiaries' taxes		**1,431**	961
Taxes payable by subsidiaries	Note 12	**−105**	−85
Minority interests		**1**	0
Income before taxes relating to the Consortium (taxes payable by its parents companies in Denmark, Norway and Sweden) but after taxes payable by subsidiaries		**1,327**	876

SAS Group Consolidated Balance Sheet

ASSETS, MSEK		Sept. 30 1986	Sept. 30 1985
CURRENT ASSETS			
Liquid funds	Note 13	**434**	500
Short-term investments	Note 14	**3,148**	3,176
Accounts receivable	Note 15	**2,614**	2,029
Prepaid expense and accrued income		**582**	574
Other accounts receivable		**823**	565
Expendable spare parts and inventory	Note 16	**433**	389
Prepayments to suppliers		**78**	53
Total current assets		**8,112**	7,286
RESTRICTED ACCOUNTS	Note 17	**34**	8
NON-CURRENT ASSETS			
Stocks and participations		**137**	119
Bonds and other securities		**50**	52
Other long-term accounts receivable		**199**	193
Goodwill	Note 19	**88**	7
Capitalized development costs		**7**	1
Long-term prepayments to suppliers	Note 20	**450**	815
Fixed assets	Note 21		
Construction in progress		**238**	37
Aircraft		**4,711**	2,365
Spare engines and spare parts		**476**	368
Maintenance and aircraft servicing equipment		**117**	85
Other equipment and vehicles		**1,165**	849
Buildings and improvements		**943**	916
Land and improvements		**154**	86
Total non-current assets		**8,735**	5,893
TOTAL ASSETS		**16,881**	13,187
ASSETS PLEDGED, ETC.	Note 29	**734**	725

LIABILITIES AND EQUITY		Sept. 30 1986	Sept. 30 1985
CURRENT LIABILITIES			
Accounts payable		**1,055**	1,141
Taxes payable	Note 12	**100**	73
Accrued expense and prepaid income		**2,028**	1,924
Unearned transportation revenue, net	Note 22	**1,364**	1,301
Current portion of long-term debt		**548**	666
Other current liabilities	Note 23	**1,323**	889
Prepayments from customers		**311**	263
Total current liabilities		**6,729**	6,257
LONG-TERM DEBT			
Bond loans	Note 24	**2,751**	1,440
Other loans	Note 25	**1,495**	1,663
Other long-term debt		**160**	149
Provision for pension liabilities	Note 26	**57**	51
Total long-term debt		**4,463**	3,303
SUBORDINATED DEBENTURE LOAN	Note 27	**843**	
MINORITY INTEREST		**16**	7
RESERVES	Note 11	**1,059**	897
EQUITY	Note 28		
Capital			
ABA (3/7)		**976**	749
DDL (2/7)		**650**	500
DNL (2/7)		**650**	500
Total capital		**2,276**	1,749
Legal reserve		**64**	43
Revaluation reserve		**20**	21
Retained earnings, etc.		**84**	34
Net income for the year		**1,327**	876
Total equity		**3,771**	2,723
TOTAL LIABILITIES AND EQUITY		**16,881**	13,187
CONTINGENT LIABILITIES	Note 30	**296**	291

SAS Consortium Statement of Income

October 1 – September 30

MSEK		85/86	84/85
Traffic revenue	Note 1	**13,456**	12,572
Other operating revenue	Note 2	**3,039**	2,862
OPERATING REVENUE		**16,495**	15,434
OPERATING EXPENSE		**14,723**	14,227
OPERATING INCOME BEFORE DEPRECIATION		**1,772**	1,207
DEPRECIATION	Note 3	**690**	447
OPERATING INCOME AFTER DEPRECIATION		**1,082**	760
Dividend income	Note 4	**30**	8
Interest income, net	Note 5	**115**	165
Exchange rate differences, net	Note 6	**39**	–102
Other financial items	Note 7	**– 59**	– 20
INCOME BEFORE EXTRAORDINARY INCOME AND EXPENSE		**1,207**	811
Gain on sale and retirement of equipment, net	Note 8		12
Extraordinary income	Note 9	**3**	0
Extraordinary expense	Note 10	**– 13**	– 16
INCOME BEFORE ALLOCATIONS AND TAXES[1]		**1,197**	807

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

SAS Consortium Balance Sheet

ASSETS, MSEK		Sept. 30 1986	Sept. 30 1985
CURRENT ASSETS			
Liquid funds	Note 13	**131**	293
Short-term investments	Note 14	**2,420**	2,546
Due from subsidiaries		**91**	52
Accounts receivable	Note 15	**1,786**	1,620
Prepaid expense and accrued income		**481**	496
Other accounts receivable		**672**	476
Expendable spare parts and inventory	Note 16	**286**	278
Prepayments to suppliers		**12**	8
Total current assets		**5,879**	5,769
NON-CURRENT ASSETS			
Stocks and participations in subsidiaries	Note 31	**333**	229
Other stocks and participations	Note 31	**114**	114
Bonds and other securities		**9**	10
Long-term accounts receivable, subsidiaries	Note 18	**190**	120
Long-term accounts receivable, others		**142**	137
Long-term prepayments to suppliers	Note 20	**450**	815
Fixed assets	Note 21		
Construction in progress		**150**	18
Aircraft		**4,711**	2,365
Spare engines and spare parts		**476**	368
Maintenance and aircraft servicing equipment		**117**	85
Other equipment and vehicles		**626**	486
Buildings and improvements		**263**	230
Land and improvements		**51**	8
Total non-current assets		**7,632**	4,985
TOTAL ASSETS		**13,511**	10,754
ASSETS PLEDGED, ETC.	Note 29	**26**	27

LIABILITIES AND EQUITY		Sept. 30 1986	Sept. 30 1985
CURRENT LIABILITIES			
Accounts payable, subsidiaries		**84**	61
Accounts payable, suppliers		**673**	754
Accrued expense and prepaid income		**1,669**	1,596
Unearned transportation revenue, net	Note 22	**1,364**	1,301
Current portion of long-term debt		**362**	618
Other current liabilities	Note 23	**631**	610
Prepayments from customers		**13**	19
Total current liabilities		**4,796**	4,959
LONG-TERM DEBT			
Bond loans	Note 24	**2,751**	1,440
Other loans	Note 25	**849**	1,075
Other long-term debt		**103**	115
Total long-term debt		**3,703**	2,630
SUBORDINATED DEBENTURE LOAN	Note 27	**843**	
RESERVES	Note 11	**696**	609
EQUITY	Note 28		
Capital			
ABA (3/7)		**976**	749
DDL (2/7)		**650**	500
DNL (2/7)		**650**	500
Capital		**2,276**	1,749
Net income for the year		**1,197**	807
Total equity		**3,473**	2,556
TOTAL LIABILITIES AND EQUITY		**13,511**	10,754
CONTINGENT LIABILITIES	Note 30	**509**	488

Furthermore, the Consortium has assumed lease obligations in connection with an 18-year lease of a Boeing 747-Combi in February 1981, and a similar lease of a Boeing 747B in October 1981. Lease obligations have also been assumed with respect to 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 85/86	84/85	SAS Consortium 85/86	84/85
THE YEAR'S OPERATIONS				
Income before allocations and taxes	**1,515**	1,017	**1,197**	807
Depreciation	**863**	574	**690**	447
Exchange rate differences	**12**	– 29	**27**	– 28
Book value of sold materiel, etc.	**58**	54	**43**	51
Other, net	**– 237**	– 115	**– 51**	– 31
Subtotal	**2,211**	1,501	**1,906**	1,246
Payments made to the parent companies	**– 280**	– 280	**– 280**	– 280
Funds provided by the year's operations	**1,931**	1,221	**1,626**	966
Increase (–)/decrease (+) in inventories	**– 20**	– 62	**15**	– 40
Increase (–)/decrease (+) in current receivables	**– 569**	– 256	**– 403**	– 218
Increase (+)/decrease (–) in current liabilities	**289**	495	**93**	276
Change in working capital	**– 300**	177	**– 295**	18
Net financing from the year's operations	**1,631**	1,398	**1,331**	984
INVESTMENTS				
Aircraft	**–2,731**	– 794	**–2,731**	– 794
Spare parts	**– 230**	– 212	**– 230**	– 212
Buildings, improvements and other equipment	**–1,149**	– 723	**– 655**	– 459
Shares and participations	**– 18**	– 32	**– 117**	– 142
Total investments	**–4,128**	–1,761	**–3,733**	–1,607
Increase (–)/decrease (+) in advance payments for flight equipment	**365**	– 626	**365**	– 626
Long-term receivables, net	**– 9**	– 89	**– 75**	– 125
Sale of assets etc.	**45**	19		1
Net investments	**–3,727**	–2,457	**–3,443**	–2,357
Financing deficit	**–2,096**	–1,059	**–2,112**	–1,373
EXTERNAL FINANCING				
Repayment of long-term debt	**– 867**	–1,009	**– 787**	– 853
Borrowings	**2,869**	1,733	**2,611**	1,623
External financing, net	**2,002**	724	**1,824**	770
INCREASE IN LIQUID FUNDS (cash, bank balances and short-term investments)	**– 94**	– 335	**– 288**	– 603
Liquid funds at beginning of the year	**3,676**	4,011	**2,839**	3,442
Liquid funds at year-end	**3,582**	3,676	**2,551**	2,839

Notes to the Financial Statements

SIGNIFICANT ACCOUNTING POLICIES AND PRINCIPLES

Principles of consolidation

The financial year of the SAS Group ends September 30.

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

The consolidated financial statements of the SAS Group include the SAS Consortium, its wholly owned subsidiaries and those partly owned companies in which the Consortium has a controlling interest. Those wholly owned subsidiaries that are closely connected with the business of the Consortium are directly included in the accounts of the Consortium. For further information see Note 31, the specification of stocks and participations as of September 30, 1986.

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

Equity accounting is not applied in the financial statements of the SAS Group, but shares in income and capital in SAS affiliated companies (where the ownership is between 20 and 50 percent) are reported separately in the Annual Report.

Companies acquired during the financial year are included in the Consolidated 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 income of subsidiaries 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 acquisition value of the corresponding stocks in the accounts of the Consortium.

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

Financial statements of subsidaries in currencies other than Swedish kronor are, for the purposes of consolidation, translated into Swedish kronor using the current-rate method. Assets and liabilities are thus translated to Swedish kronor at year-end rates of exchange, while income for the year is translated at the average annual rate of exchange. SAS' share of such translation differences are transferred directly to the 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 Swedish kronor

Monetary assets and liabilities in currencies other than Swedish kronor are translated at year-end market rates of exchange.

In cases where a loan has been the object of a currency-rate swap (where, in principle, interest expenses and repayments are paid in a currency other than the original one – a swap currency), the loan is stated after translation to the swap currency's year-end rate of exchange.

Unrealized currency gains on long-term receivables and liabilities, where the rate is higher and lower, respectively, than at the time the receivable or loan was recorded, are credited to a currency adjustment account among reserves in the Balance Sheet. Unrealized currency gains that offset earlier currency losses are reported in earnings as exchange rate differences.

Unrealized exchange losses on long-term debt and long-term receivables are charged to earnings. Prepayments on flight equipment are accounted for at the rate of exchange on the date of payment.

Unrealized exchange gains and losses on translations to Swedish kronor of other monetary assets and liabilities are credited/charged to earnings and reported as foreign exchange rate differences.

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

		Year-end rate		Average rate	
Currency		**1986**	1985	**85/86**	84/85
Denmark	DKK 100	**90.50**	82.90	**85.70**	80.30
Norway	NOK 100	**94.05**	101.30	**98.94**	99.59
USA	USD	**6.91**	8.06	**7.40**	8.88
Gr. Brit.	GBP	**9.98**	11.32	**10.83**	10.89
Switzerland	CHF 100	**421.40**	367.70	**383.00**	346.45
W. Germany	DEM 100	**341.10**	300.80	**316.23**	287.82
	ECU [1]	**7.14**	6.67	**6.85**	6.66

[1] European Currency Unit

Expendable spare parts and inventory

Expendable spare parts and inventory 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 two-thirds of the total stock of such parts. The remaining one-third is reported and accounted for as fixed assets.

Fixed assets and depreciation

Fixed assets are stated in the Balance Sheet at cost less accumulated depreciation.

New flight equipment (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–9–80	14 years	10%
Douglas DC–9	10 years	10%
Fokker F 27	5 years	10%

New aircraft are depreciated according to plan over their estimated economic lives. Aircraft acquired secondhand are depreciated over their conservatively estimated remaining economic lives. The flying time logged by secondhand aircraft is taken into account in such estimations.

In the special reports the SAS Consortium submitted under its agreements with U.S. lenders, longer depreciation periods are applied for aircraft than those stated above (with the exception of twelve DC−9−80s), resulting in lower depreciation rates being applied for flight equipment. Accumulated depreciation at these rates is deducted from cost to arrive at the book value of flight equipment included in fixed assets while the balance of the annual charge is accumulated in a depreciation reserve.

Major modifications and improvements in fixed assets are capitalized and are depreciated over their estimated economic lives.

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

Maintenance 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 and 20 percent. Goodwill and development costs are amortized over 5 to 10 years.

Improvements to the Group's own and rented premises are, in principle, depreciated over their estimated useful lives or rental periods.

Transportation revenue

Ticket sales are reported as transportation 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 the ticketholder has requested a refund.

A reserve against the unearned transportation revenue liability, based on statistical estimates, is reported annually. This reserve corresponds to that portion of tickets sold that is estimated to remain unused.

In principle, the estimated reserve against the unearned transportation revenue liability at year-end is reported as revenue the following year.

Maintenance costs

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

Due to the structure of SAS's fleet, with a predominance of DC−9s, maintenance costs are spread relatively evenly over time. Thus, no provisions are made for future maintenance costs with respect to owned aircraft and other assets.

For leased aircraft, contracted maintenance is accrued on the basis of hours flown.

Reclassifications

Certain items in the Statement of Income and the Balance Sheet were reclassified effective 1985/86. For the sake of comparison, the 1984/85 figures have been changed correspondingly.

Definitions of financial terms and ratios used in the Annual Report

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

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

Interest coverage. Income before extraordinary income and expense plus interest expense and exchange rate differences (net) on long-term debt as a ratio of interest expense and realized exchange rate differences on long-term debt.

Pre-tax return on capital employed. Operating income after depreciation plus financial income as a ratio of average capital employed. Capital employed equals total assets less noninterest-bearing liabilities.

Return on equity after taxes. Income before extraordinary items less an 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 assets.

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

Note 1 — Traffic revenue	**85/86**	84/85
Passengers	**11,430**	10,764
Freight	**1,501**	1,410
Mail	**291**	265
Other	**234**	133
	13,456	12,572

Note 2 — Other operating revenue

Other operating revenue of the SAS Group includes 6,107 MSEK (5,266) arising in subsidiaries. Also included are eliminations on consolidation, including intra-Group sales, of −1,017 MSEK (−912). 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.

	SAS Group		Consortium	
Note 3— Depreciation	**85/86**	84/85	**85/86**	84/85
Goodwill	**5**	1		
Development costs	**1**	0		
Aircraft	**385**	182	**385**	182
Spare engines and spare parts	**81**	86	**81**	86
Maintenance and aircraft servicing equipment	**28**	25	**28**	25
Other equipment and vehicles	**287**	200	**162**	121
Buildings and improvements	**76**	80	**34**	33
Land and improvements	**0**	0	**0**	0
	863	574	**690**	447

Note 4 – Dividends	85/86	84/85
SAS Service Partner A/S	**8**	
SAS International Hotels A/S	**5**	
Vingresor AB	**7**	7
InterSAS BV	**2**	
Dividends from subsidiaries	**22**	7
Dividends from Linjeflyg AB	**5**	
Dividends from others	**3**	1
	30	8

Dividends from subsidiaries represent distributions from the earnings of the financial years 1984/85 and 1983/84, respectively. Dividends are therefore not anticipated in the Statement of Income.

	SAS Group		Consortium	
Note 5 – Interest, net	**85/86**	84/85	**85/86**	84/85
Interest from subsidiaries			**10**	7
Other interest income	**651**	533	**531**	431
Total interest income	**651**	533	**541**	438
Interest to subsidiaries				– 4
Other interest expense	**–552**	–372	**–426**	–269
Total interest expense	**–552**	–372	**–426**	–273
Interest, net	**99**	161	**115**	165

Cash payments received in connection with interest-rate swaps, totaling 61 MSEK (–), are, like the capital gains on disposals of bonds of 90 MSEK (22), reported as interest income.

Note 6 – Exchange rate differences	SAS Group **85/86**	84/85	Consortium **85/86**	84/85
Exchange rate differences on long-term debt	**2**	48	**–26**	28
Other exchange rate differences	**65**	–130	**65**	–130
	67	– 82	**39**	–102

Note 7 – Other financial items	SAS Group **85/86**	84/85	Consortium **85/86**	84/85
Issue expenses on loans	**–54**	–18	**–54**	–18
Other	**8**	– 4	**– 5**	– 2
	–46	–22	**–59**	–20

Note 8 – Gains on sales of fixed assets, net	SAS Group **85/86**	84/85	Consortium **85/86**	84/85
Flight equipment		14		14
Other equipment, etc.		1		–2
Buildings	**29**			
	29	15		12

The gain on the sale of buildings relates to the sale of AB Olson & Wright's office and warehouse in Stockholm. Gains on sales of surplus materiel, spare parts and so on amounted to 12 MSEK in 1984/85. Effective 1985/86 similar gains are reported as operating income. These gains amounted to 24 MSEK in 1985/86.

Note 9 – Extraordinary income	SAS Group **85/86**	84/85	Consortium **85/86**	84/85
Investment contribution received and other extraordinary income in SAS International Hotels	**9**			
Capital infusion repaid by SAS Tours AB			**3**	
Other	**2**	7		0
	11	7	**3**	0

Note 10 – Extraordinary expense	SAS Group **85/86**	84/85	Consortium **85/86**	84/85
Writedown of SAS Group's goodwill value and book value of shares in AB Olson & Wright	**5**		**13**	
Loss in AB Olson & Wright upon sale of Nordsped A/S		14		
Capital loss incurred by the Group upon sale of Nordisk Reseburcau AB		5		
Capital infusion to SMART AB and SAS Tours AB				15
Other	**1**	4		1
	6	23	**13**	16

Note 11 – Reserves

Consortium	Inventory reserve	Depreciation reserve Flight equipment	Foreign exchange reserve	Accumulated supplementary depreciation	Investment reserve	Other reserves	Total
Untaxed reserves, 30/9-84	32	500	14				546
Allocations 84/85		53	72				125
Reversals 84/85	1	–55	– 8				– 62
Untaxed reserves, 30/9-85	33	498	78				609
Allocations 85/86		33	180				213
Reversals 85/86	–33	–58	–35				–126
Untaxed reserves 30/9-86		473	223				696
SAS Group							
Untaxed reserves, 30/9-84	41	500	18	90	58	76	783
Allocations 84/85				19	17	20	56
Other changes 84/85[1]		– 2	61	27	–28		58
Untaxed reserves, 30/9-85	41	498	79	136	47	96	897
Allocations 85/86	4			18	24	34	80[2]
Other changes 85/86[1]	–33	–25	149	3	– 7	–5	82
Untaxed reserves, 30/9-86	12	473	228	157	64	125	1,059

[1] Including allocations to/reversals of reserves in the Consortium, changes in foreign exchange reserve, utilization of investment reserves, etc.

[2] The Group's allocations also include a provision for the pension reserve in the amount of 4 MSEK, which is reported among other current liabilities.

Note 12 – Taxes of subsidiaries

The Statement of Income and Balance Sheet of the SAS Group include only taxes payable by subsidiaries, since the tax liability in Denmark, Norway and Sweden relating to the activities of the Consortium lies with its parent companies.

Taxes payable by the Consortium abroad are included in operating expense in the amount of 6 MSEK (22).

Note 13 – Liquid funds

The balance of liquid funds of the Consortium includes 31 MSEK (24) in a restricted tax deduction account in Norway. The liquid funds of the Consortium are stated after deductions for currency risks, etc. amounting to 8 MSEK (13).

Note 14 – Short-term investments

On September 30, 1986 short-term investments consisted primarily of government securities and housing bonds. Short-term investments are reported at the lower of cost and market value.

Uncompleted interest arbitrage transactions are reported net and amounted to 668 MSEK on September 30, 1985. No corresponding transactions existed on September 30, 1986.

Note 15 – Accounts receivable

Accounts receivable are after provisions for uncertain receivables and currency risks. Such provisions amounted to 78 MSEK (63) in the SAS Group, of which 52 MSEK (49) related to the Consortium.

Note 16 – Expendable spare parts and inventory

	SAS Group 1986	SAS Group 1985	Consortium 1986	Consortium 1985
Expendable spare parts, flight equipment	**224**	218	**224**	218
Expendable spare parts, other	**47**	48	**47**	48
Inventory	**162**	123	**15**	12
On September 30	**433**	389	**286**	278

Note 17 – Restricted accounts

	1986	1985
Development reserve	**7**	
Special investment reserve	**3**	3
Investment reserve	**23**	5
Regional development reserve	**1**	0
On September 30	**34**	8

On September 30, 1985 the Consortium's deposits in a liquidity account, totaling 86 MSEK, were reported under this heading. SAS is following a general change in practice and now reports these deposits under "Other long-term accounts receivable."

Note 18 – Long-term accounts receivable, subsidiaries

This includes 54 MSEK receivable from SAS International Hotels A/S, which is reported as loan capital in the accounts of the subsidiary. Also included is 126 MSEK due from SMART AB.

Note 19 – Goodwill

Goodwill arising on consolidation mainly relates to Diners Club Nordic A/S, 82 MSEK (–), and AB Olson & Wright, 3 MSEK (7).

Note 20 – Long-term advance payments to suppliers

20	DC–9–80s	250
5	DC–9–51s	83
2	DC–8–63s	29
	Engines	88
As of September 30		450

Note 21 – Fixed assets

SAS Group	Cost 1986	Cost 1985	Accumulated depreciation 1986	Accumulated depreciation 1985	Book value 1986	Book value 1985
Construction in progress	**238**	37			**238**	37
Aircraft	**7,130**	4,398	**2,419**	2,033	**4,711**	2,365
Spare engines and spare parts	**1,056**	896	**580**	528	**476**	368
Maintenance and aircraft servicing equipment	**348**	292	**231**	207	**117**	85
Other equipment and vehicles	**2,273**	1,700	**1,108**	851	**1,165**	849
Buildings and improvements	**1,506**	1,469	**563**	553	**943**	916
Land and improvements	**156**	88	**2**	2	**154**	86
As of September 30	**12,707**	8,880	**4,903**	4,174	**7,804**	4,706
SAS Consortium						
Construction in progress	**150**	18			**150**	18
Aircraft	**7,130**	4,398	**2,419**	2,033	**4,711**	2,365
Spare engines and spare parts	**1,056**	896	**580**	528	**476**	368
Maintenance and aircraft servicing equipment	**348**	292	**231**	207	**117**	85
Other equipment and vehicles	**1,340**	1,070	**714**	584	**626**	486
Buildings and improvements	**562**	512	**299**	282	**263**	230
Land and improvements	**51**	9		1	**51**	8
As of September 30	**10,637**	7,195	**4,243**	3,635	**6,394**	3,560

Changes in the *book value of aircraft* were as follows:

Cost, September 30, 1985	4,398	
Aircraft purchases, modifications, etc.	2,732	7,130
Accumulated depreciation, September 30, 1985	2,033	
Depreciation 1985/86	386	2,419
Book value		4,711
Depreciation reserve, September 30, 1985	408	
This year's supplementary depreciation	–1	407
Net book value, September 30, 1986		4,304

The insurance value of the aircraft was 12,529 MSEK on September 30, 1986. This includes the insurance value of leased aircraft in the amount of 1,226 MSEK.

The heading *Other equipment and vehicles* includes the Consortium's data processing and communications equipment at a cost of 792 MSEK (651) and 93 MSEK (86), respectively.

The cost of *Construction in progress* in the SAS Group increased by 201 MSEK. A major portion of the increase is attributable to the Consortium. This item includes SAS's new headquarters and miscellaneous new construction in Denmark and Norway.

Accumulated supplementary depreciation, including writedowns against investment reserves, etc., relates to the following assets of the SAS Group:

	1986	1985
Machinery and equipment	**87**	61
Buildings and improvements	**67**	72
Land improvements	**3**	3
As of September 30	**157**	136

Writedowns against investment reserves and regional development reserves during the year amounted to 11 MSEK (39), of which 5 MSEK (15) related to machinery and equipment, 5 MSEK (22) to buildings and improvements, and 1 MSEK (2) to land improvements. These writedowns increased the balance of accumulated supplementary depreciation.

Note 22 – Unearned transportation revenue
As in previous years, the clearing accounts for transportation revenue are reported as a net amount.

The reserve against the unearned transportation revenue liability at each year-end is reported as revenue the following year. In this year's accounts, 86 MSEK (86) was reversed.

Note 23 – Other current liabilities
These include 208 MSEK (142) in overdraft facilities utilized by the Group, of which 50 MSEK (47) was utilized by the Consortium.

Note 24 – Bond loans
The aggregate of SAS Consortium bond loans was 2,751 MSEK (1,440).

Loans are in the following amounts and denominations:

	1986	1985
USD US dollar	**1,037**	
ECU European Currency Unit	**714**	667
NOK Norwegian krona	**423**	456
CHF Swiss franc	**276**	242
AUD Australian dollar	**238**[1]	
SEK Swedish krona	**90**	100
Total	**2,778**	1,465
Less repayments 1986/87 and 1985/86, respectively	**–27**	–25
As of September 30	**2,751**	1,440

Specification of individual loans:

Amount issued	Interest rate	Tenor	Remaining debt in MSEK
80 M Swiss francs	5.5%	77/92	276
150 M Swedish kronor	10.75%	79/94	90
200 M Norwegian kroner	11.625%	84/91	188
250 M Norwegian kroner	10.125%	85/93	235
100 M European Currency Units	9.0%	85/95	714
150 M US dollars	10.125%	85/95	1,037
50 M Australian dollars[1]	14.25%	86/89	238
Total			2,778

[1] Through a currency swap transaction, SAS's repayment commitment has in principle been changed to USD.

Note 25 – Other loans
Other long-term loans of the SAS Group amount to 1,495 MSEK (1,663), of which the Consortium accounts for 849 MSEK (1,075).

The loans are denominated in currencies as follows:

	SAS Group		Consortium	
	1986	1985	**1986**	1985
USD US dollar	**1,087**[1]	1,515	**957**[1]	1,352
NOK Norwegian krona	**195**	219	**1**	1
DKK Danish krone	**163**	108	**14**	14
SEK Swedish krona	**141**	154	**91**	109
ESB Spanish peseta	**84**	33		
DEM German mark	**75**	39		
FRF French franc	**70**	82	**70**	82
GRD Greek drachma	**41**	14		
Other	**50**	32	**3**	2
Total	**1,906**	2,196	**1,136**[2]	1,560[2]
Less repayments 86/87 and 85/86, respectively	**–411**	–533	**–287**	–485
As of September 30	**1,495**	1,663	**849**	1,075

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

1987/88	237
1988/89	447
1989/90	61
1990/91	31
1991/92 and thereafter	73
	849

[1] Of a total of 138 MUSD, repayment commitments on 45 MUSD have, through a currency-swap transaction, been changed in principle to British pounds.
[2] Of which 1 MSEK in loans from subsidiaries.

Note 26 – Provision for pension liabilities	**1986**	1985
PRI	**54**	48
Other	**3**	3
As of September 30	**57**	51

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

Other pension liabilities are either covered by periodic premium payments or are entered as contingent liabilities under the heading "Pension commitments."

Note 27 – Subordinated debenture loans
A perpetual 200 million Swiss franc bond loan was floated during the 1985/86 financial year. Every fifth year SAS has the exclusive right to terminate the loan.

The interest rate, fixed for periods of 10 years, at present amounts to 5¾ percent per annum.

Not 28 – Equity

SAS Group	Capital	Restricted equity Legal reserve	Revaluation reserve	Unrestricted equity Retained earnings	Year's income	Total equity
September 30, 1985	1,749	43	21	34	876	2,723
Income 84/85	807			69	−876	
Transfer to parent companies	−280					−280
Allocation to statutory reserves		20		−20		
Change in translation difference, net				4		4
Other		1	−1	− 3		− 3
Income 1985/86					1,327	1,327
September 30, 1986	2,276	64	20	84	1,327	3,771
Consortium						
September 30, 1985	1,749				807	2,556
Income 1984/85	807				−807	
Transfer to parent companies	−280					−280
Income 1985/86					1,197	1,197
September 30, 1986	2,276				1,197	3,473

Note 29 – Assets pledged

	SAS Group 1986	1985	Consortium 1986	1985
Mortages in real estate	**636**	639	**16**	16
Corporate mortgages	**45**	37		
Receivables	**36**	38	**10**	11
Securities assigned	**17**	11	**0**	0
Other	**0**	0		
As of September 30	**734**	725	**26**	27

Note 30 – Contingent liabilities

	SAS Group 1986	1985	Consortium 1986	1985
Travel guaranties			**205**	170
Guaranties for pension liabilities			**35**	41
Loan guaranties			**92**	111
Other contingent liabilities for subsidiaries			**5**	4
Total contingent liabilities for subsidiaries			**337**	326
Other contingent liabilities	**206**	219	**82**	90
Pension commitments	**90**	72	**90**	72
As of September 30	**296**	291	**509**	488

Note 31 – Consortium's holdings of stocks and participations

September 30, 1986

	Number of shares	Percent holding	Par value in 000s		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 System 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, Copenhagen	90,000	100	DKK	90,000	70.5
Vingresor AB, Stockholm	700,000	100	SEK	70,000	70.0
Diners Club Nordic A/S, Oslo	25,000	100	NOK	25,000	95.4
AB Olson & Wright, Stockholm	3,000	100	SEK	3,000	20.0
Scandinavian Multi Access Systems AB, Stockholm	150,000	75	SEK	15,000	15.0
Travel Management Group, Norway A/S, Oslo	50,000	100	NOK	5,000	5.1
Travel Management Group, Denmark A/S, Copenhagen	50,000	100	DKK	5,000	4.3
Danair A/S, Copenhagen	1,710	57	DKK	1,710	1.2
A/S Dansk Rejsebureau, Copenhagen	49	50	DKK	400	0.3
Business Travel Systems AB, Stockholm	500	100	SEK	50	0.1
InterSAS BV, Amsterdam	104	100	NLG	104	0.2
SAS Service Power A/S, Copenhagen	200	100	DKK	300	0.2
SAS Oil Denmark A/S, Copenhagen	300	100	DKK	300	0.3
Other					1.5
Stocks and participations in subsidiaries					333.1
Other companies					
Linjeflyg AB, Stockholm	500,000	50	SEK	50,000	53.0
Polygon Insurance Co Ltd., Guernsey	1,664,518	33	GBP	1,665	14.1
Travel Management Group, Sweden AB, Stockholm	75,000	50	SEK	7,500	7.5
Arctic Hotel Corp. A/S, Narssarssuaq	4,000	29	DKK	4,000	3.2
Københavns Lufthavns Førretningscenter K/S, Copenhagen	Share of capital	40	DKK	4,000	3.2
Bennett Reisebureau A/S, Oslo	20,880	31	NOK	2,088	1.1
Widerøe's Flygveselskap A/S, Oslo	26,622	22	NOK	2,662	1.1
Greenlandair (Grønlandsfly) A/S, Godthåb	146	25	DKK	6,000	0.5
Scanator AB, Stockholm	500	50	SEK	50	0.1
Malmö Flygfraktterminal AB, Malmö	1,455	40	SEK	146	0.0
Affiliated companies					83.8
Helikopter Service A/S, Oslo	130,500	9	NOK	13,050	26.2
Sanitas Investment AB, Stockholm	800	5	SEK	80	0.4
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
Other					1.5
Other stocks and participations					113.7

Auditors' Report

We, the undersigned, appointed in accordance with Article 11 of the Consortium Agreement between AB Aerotransport (ABA), Det Danske Luftfartselskab A/S (DDL) and Det Norske Luftfartselskap A/S (DNL) as auditors of SCANDINAVIAN AIRLINES SYSTEM Denmark–Norway–Sweden have examined the financial statements for the year ended September 30, 1986 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, 1986, 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 "Significant accounting policies and principles."

Stockholm, January 15, 1987

ARNE BRENDSTRUP
Authorized Public Accountant

BERNHARD LYNGSTAD
Authorized Public Accountant

CAJ NACKSTAD
Authorized Public Accountant

OLE KOEFOED
Authorized Public Accountant

JACOB BERGER
Authorized Public Accountant

SÖREN WIKSTRÖM
Authorized Public Accountant

Financial Summary

TRAFFIC/PRODUCTION		Change	**85/86**	84/85	83/84	82/83	81/82
Number of cities served		+ 1%	**89**	88	91	93	99
Kilometers flown, scheduled	(mill)	+ 9%	**135.9**	125.0	123.5	119.3	112.9
Total airborne hours	(000)	+ 9%	**217.5**	199.7	192.7	182.1	171.1
Total number of passengers carried	(000)	+ 9%	**11,708**	10,735	10,066	9,222	8,861
Available tonne kilometers, total	(mill)	+ 5%	**2,490.9**	2,382.2	2,333.0	2,331.3	2,427.3
Available tonne kilometers, charter		−33%	**12.2**	18.2	18.4	19.8	32.4
Available tonne kilometers, scheduled		+ 5%	**2,478.7**	2,364.0	2,314.6	2,311.5	2,394.9
Revenue tonne kilometers, scheduled	(mill)	+ 4%	**1,560.9**	1,502.1	1,473.6	1,431.2	1,418.2
Passengers and excess baggage		+ 4%	**1,096.6**	1,054.4	1,030.8	986.0	962.3
Freight		+ 3%	**409.0**	396.5	390.6	393.9	404.3
Mail		+ 8%	**55.3**	51.2	52.2	51.3	51.7
Total load factor, scheduled	(%)	− 0.5 pts	**63.0**	63.5	63.7	61.9	59.2
Available seat kilometers, scheduled	(mill)	+ 6%	**18,849**	17,818	17,395	17,037	17,118
Revenue seat kilometers, scheduled	(mill)	+ 4%	**12,471**	11,966	11,681	11,159	10,879
Cabin factor, scheduled	(%)	− 1.0 pts	**66.2**	67.2	67.2	65.5	63.6
Average passenger trip length	(km)	− 5%	**1,067**	1,119	1,168	1,219	1,239
Traffic revenue/revenue tonne km	(SEK)	+ 3%	**8.41**	8.15	7.66	7.17	5.74
Airline oper. expense/avail. tonne km	(SEK)	+ 9%	**5.26**	4.81	4.35	4.12	3.35
Revenue tonne km/employee, scheduled		− 1%	**78,900**	79,700	83,200	83,700	86,600
Rev. passenger km/employee, scheduled		− 1%	**630,700**	635,000	659,600	652,500	664,300
PERSONNEL (average)							
Consortium			**19,773**	18,845	17,710	17,101	16,376
Group			**31,775**	29,730	28,526	26,657	24,770

GROUP, MSEK	**85/86**	84/85	83/84	82/83	81/82
INCOME STATEMENTS					
Revenue	**21,585**	19,790	18,005	15,972	12,807
Income before depreciation	**2,216**	1,534	1,590	1,276	912
Depreciation	**863**	574	545	483	474
Financial items, net	**+ 128**	+ 58	− 253	−210	−146
Income before extraordinary items	**1,481**	1,018	792	583	292
Extraordinary items	**+ 34**	− 1	+ 176	+ 18	+156
Income before allocations and taxes	**1,515**	1,017	968	601	448
STATEMENTS OF CHANGES IN FINANCIAL POSITION					
Net financing from the year's operations	**1,631**	1,398	1,493	1,244	1,255
Investments, total	**−4,128**	−1,761	−1,213	−559	−391
Advance payments, etc.	**401**	− 696	907	48	185
Financing deficit/surplus	**−2,096**	−1,059	1,187	733	1,049
Net borrowings	**2,002**	724	299	−346	−274
Change in liquid funds	**− 94**	− 335	1,486	387	775
BALANCE SHEETS					
Current assets	**8,112**	7,286	7,291	5,428	4,172
Non-current assets[1]	**8,769**	5,901	4,056	3,654	3,426
Current liabilities	**6,729**	6,257	6,105	4,552	3,633
Long-term debt[2]	**5,322**	3,310	2,346	2,313	2,164
Equity and reserves	**4,830**	3,620	2,896	2,217	1,801
Total assets	**16,881**	13,187	11,347	9,082	7,598
RATIOS					
Gross profit margin, %	**10.3**	7.8	8.8	8.0	7.1
Net profit margin, %	**6.9**	5.1	4.4	3.7	2.3
Return on capital employed, %	**22.0**	21.3	26.5	23.9	17.3
Return on adjusted equity, %	**19.8**	17.9	18.3	17.7	11.6
Ratio of risk-bearing capital, %	**28.7**	27.4	25.5	24.4	23.7
Equity ratio, after 50% deferred taxes, %	**25.6**	24.0	22.1	20.2	19.2

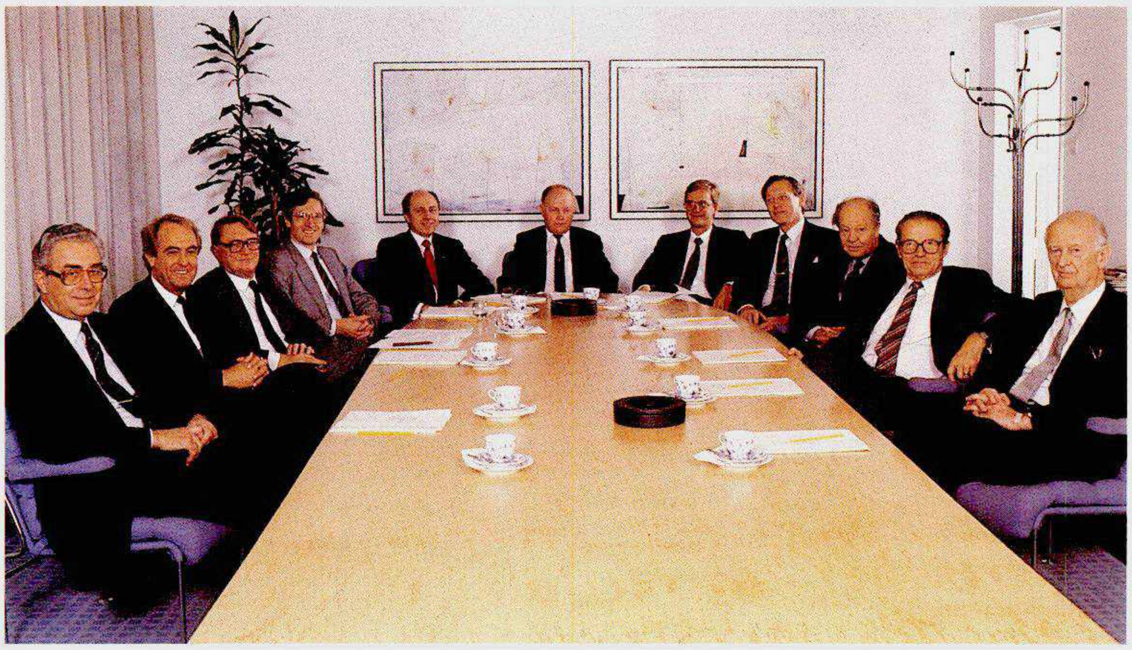
[1] Including restricted account balances [2] Including minority interest

CONSORTIUM, MSEK	**85/86**	84/85	83/84	82/83	81/82
INCOME STATEMENTS					
Traffic revenue	**13,456**	12,572	11,577	10,463	8,586
Other operating revenue	**3,039**	2,862	2,574	5,509	4,221
Revenue	**16,495**	15,434	14,151	15,972	12,807
Income before depreciation	**1,772**	1,207	1,360	1,277	911
Depreciation	**690**	447	438	483	474
Financial items, net	**+ 125**	+ 51	−193	−211	−145
Income before extraordinary items	**1,207**	811	729	583	292
Extraordinary items	**− 10**	− 4	+189	+ 18	+156
Income before allocations and taxes	**1,197**	807	918	601	448
STATEMENTS OF CHANGES IN FINANCIAL POSITION					
Net financing from the year's operations	**1,331**	984	1,233	1,060	1,047
Investments in flight equipment	**−2,961**	−1,006	−683	−143	−109
Investments, other	**− 772**	− 601	−328	−340	−149
Advance payments, etc.	**290**	− 750	955	35	210
Financing deficit/surplus	**−2,112**	−1,373	1,177	612	999
Net borrowings	**1,824**	770	295	−328	−314
Change in liquid funds	**− 288**	− 603	1,472	284	685
BALANCE SHEETS					
Current assets	**5,879**	5,769	6,109	5,428	4,172
Non-current assets	**7,632**	4,985	3,157	3,654	3,426
Current liabilities	**4,796**	4,959	4,976	4,552	3,633
Long-term debt	**4,546**	2,630	1,715	2,299	2,148
Equity and reserves	**4,169**	3,165	2,575	2,231	1,817
Total assets	**13,511**	10,754	9,266	9,082	7,598
RATIOS					
Gross profit margin, %	**10.7**	7.8	9.6	8.0	7.1
Net profit margin, %	**7.3**	5.3	5.2	3.7	2.3
Return on capital employed, %	**21.3**	20.8	28.7	23.5	15.3
Return on adjusted equity, %	**18.1**	15.7	18.7	15.8	8.4
Ratio of risk-bearing capital, %	**30.9**	29.4	27.8	24.6	23.9

MAIN SUBSIDIARIES, MSEK	SAS International Hotels		SAS Service Partner		Vingresor		Olson & Wright		Diners Nordic[1]
INCOME STATEMENTS	**85/86**	84/85	**85/86**	84/85	**85/86**	84/85	**85/86**	84/85	**85/86**
Revenue	**1,083**	948	**2,712**	2,393	**1,897**	1,537	**111**	134	**97**
Operating income before depreciation	**152**	146	**163**	132	**111**	52	**−20**	4	**14**
Depreciation	**73**	60	**40**	37	**20**	15	**5**	4	**4**
Financial items, net	**− 7**	−19	**0**	−14	**41**	44	**− 3**	2	**−3**
Income before extraordinary items	**72**	67	**123**	81	**132**	81	**−28**	2	**7**
Extraordinary items	**6**	13	**0**	0	**1**	0	**30**	−14	**−1**
Income before allocations and taxes	**78**	80	**123**	81	**133**	81	**2**	−12	**6**
Allocations	**−13**	−32	**−50**	−24	**−22**	−26	**+ 1**	+ 7	**0**
Taxes	**−24**	−23	**−33**	−27	**−48**	−26	**0**	0	**0**
Net income	**41**	25	**40**	30	**63**	29	**3**	− 5	**6**
BALANCE SHEETS									
Current assets	**254**	207	**700**	565	**722**	652	**154**	129	**486**
Non-current assets	**741**	710	**268**	247	**357**	179	**34**	51	**48**
Current liabilities	**239**	206	**514**	478	**639**	511	**132**	127	**497**
Long-term debt	**405**	396	**168**	138	**147**	109	**35**	33	**4**
Equity and reserves	**351**	315	**286**	196	**293**	211	**21**	20	**33**
Total assets	**995**	917	**968**	812	**1,079**	831	**188**	180	**534**

[1] Included in the SAS Group as of January 1, 1986

Board of Directors



From left: Tor Moursund, *President and Chief Executive Officer* Jan Carlzon, Jørgen L. Halck, Bjørn Eidem, Ralf Frick, Ingvar Lilletun, Per Espersen, *Board Secretary* Bo Ståhle, Krister Wickman, Curt Nicolin, Haldor Topsøe.

TOR MOURSUND, born 1927. Supreme Court Attorney. President of Christiania Bank og Kreditkasse. Chairman of SAS Board 1985/86. Norwegian Chairman of SAS Board since May 1983, representing the Norwegian Government. Chairman of DNL and a member of its Board since 1982. Chairman of Norsk Skibs Hypothekbank and Christiania Bank Luxembourg.
Personal deputy: Ragnar Christiansen.

HALDOR TOPSØE, born 1913. Dr. Phil. and Eng. First Vice Chairman of SAS Board 1985/86. Danish Chairman of SAS Board since 1968, representing the private Danish owners. Also Chairman of DDL and Haldor Topsøe A/S. Member of the Boards of Jens Villadsens Fabriker A/S, Hafnia Forsikring A/S and Hafnia Invest A/S, and Kampmann, Kierulf & Saxild.
Personal deputy: Flemming af Rosenborg.

CURT NICOLIN, born 1921. Hon.Dr.Eng. Second Vice Chairman of SAS Board 1985/86. 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, 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.

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

JØRGEN L. HALCK, born 1929. B.Pol.Sc., 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 and a member of the Boards of Copenhagen Harbor Board, Copenhagen Telephone Company, Jydsk Telefon A/S and the Government Telecommunications Council.
Personal deputy: Kaj Ikast.

KRISTER WICKMAN, born 1924. LL.B. and Ph.L. Member of SAS Board since 1974, representing the Swedish Government and Chairman of ABA. President 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, Pharos and VPC (the Swedish Securities Register Center).
Personal deputy: Bengt Dennis.

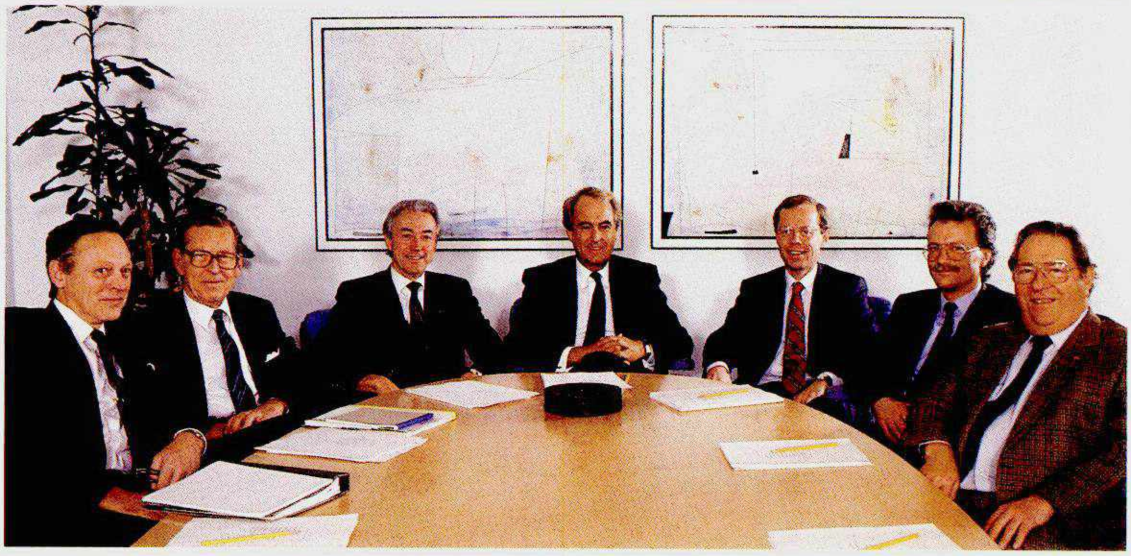
Employee Representatives

INGVAR LILLETUN, Norway, born 1938. Employed in the sales sector in Route Sector Norway. Member of SAS Board since 1979.
Deputies: Karin Hval and Kjell Henry Paulsen.

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.

RALF FRICK, Sweden, born 1931. Employed in the Technical Division of SAS. Member of the SAS Board since 1986.
Deputies: Harry Sillfors and Kenneth Andréasson.

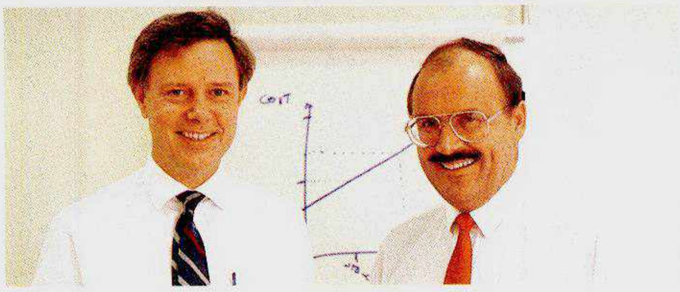
Corporate Management



GROUP MANAGEMENT
From left: Bo Ståhle, *General Counsel;* Helge Lindberg, *Executive Vice President – Norway;* Per-Axel Brommesson, *Executive Vice President – Sweden;* Jan Carlzon, *President and Chief Executive Officer;* Nils G. Molander, *Executive Vice President and Group Controller;* Anders Claesson, *Vice President and Group Treasurer;* Frede Ahlgreen Eriksen, *Executive Vice President – Denmark.*

Ivar Samrén, *SAS Service Partner*
Terje Myklebust, *SAS International Hotels*
Henrik Meldahl, *Scanair*

Gorm Bjercke, *Information and Reservation System*
Christer Sandahl, *Vingresor*

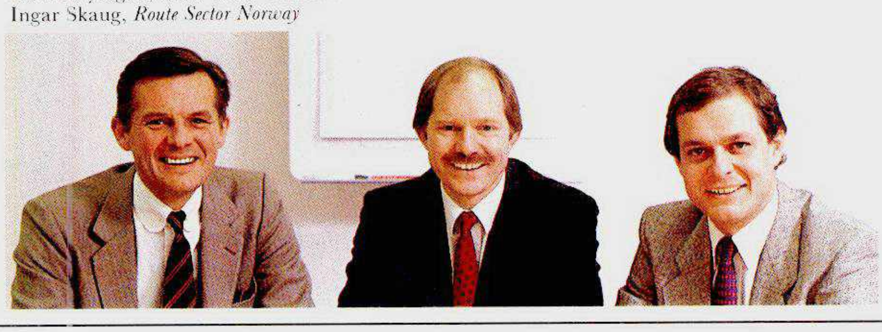


Lars Bergvall, *Chief Operating Officer SAS Airline*
Bengt A Hägglund, *Deputy C.O.O. SAS Airline*

Viggo Løfsgaard, *Head of Flight Operations*
Kjell Fredheim, *Route Sector Intercontinental*
Göran Yxhammar, *Traffic Services Division*
Christer Nilsson, *Technical Division*

Sven Heiding, *Route Sector Europe*
Mats Mitsell, *Operations Division*

Peter Forssman, *Route Sector Sweden*
Kurt Thyregod, *Route Sector Denmark*
Ingar Skaug, *Route Sector Norway*



Assembly of Representatives

Denmark

MOGENS PAGH
Chairman
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FLEMMING AF ROSENBORG
NIELS FRANDSEN
JØRGEN L. HALCK
SVEND AAGE HEISELBERG
POVL HJELT
KAJ IKAST
JIMMY STAHR
HALDOR TOPSØE

Employee representatives
VICTOR BRASEN
HANS DALL
PER ESPERSEN

Deputies
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ARNE SØRENSEN
HANS P. TANDERUP

Norway

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Second Vice Chairman
HALVDAN BJØRUM
RAGNAR CHRISTIANSEN
BJØRN EIDEM
PER HYSING-DAHL
EINAR HØVDING
TORSTEIN LJØSTAD
TOR MOURSUND
GISLAUG MYRSET
FRED. OLSEN
OLE RØMER SANDBERG JR.

Deputies
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JANNIK LINDBÆK
JOHAN FR. ODFJELL
HERMOD SKÅNLAND

Employee representatives
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INGVAR LILLETUN
KJELL HENRY PAULSEN

Deputies
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ASBJØRN HINDRUM

Sweden

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First Vice Chairman
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NILS HÖRJEL
BO AX:SON JOHNSON
CURT NICOLIN
BO RYDIN
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MONICA SUNDSTRÖM
BJÖRN SVEDBERG
JAN WALLANDER
PETER WALLENBERG
KRISTER WICKMAN

Deputies
PEDER BONDE
INGEMAR ELIASSON
GUNNAR ERICSSON
GÖSTA GUNNARSSON
CARL-OLOV MUNKBERG
BERTIL ZACHRISSON

Employee representatives
KENNETH ANDRÉASSON
RALF FRICK
HARRY SILLFORS

Deputies
BO FRIDSBERG
HANS LEVIN
BENGT RADIX

Auditors

ARNE BRENDSTRUP
Authorized Public Accountant
SCHØBEL & MARHOLT
member firm
Touche Ross International

OLE KOEFOED
Authorized Public Accountant
CENTRALANSTALTEN FOR REVISION
member firm
Arthur Young International

BERNHARD LYNGSTAD
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REVISJONSSELSKAPET FORUM
member firm
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