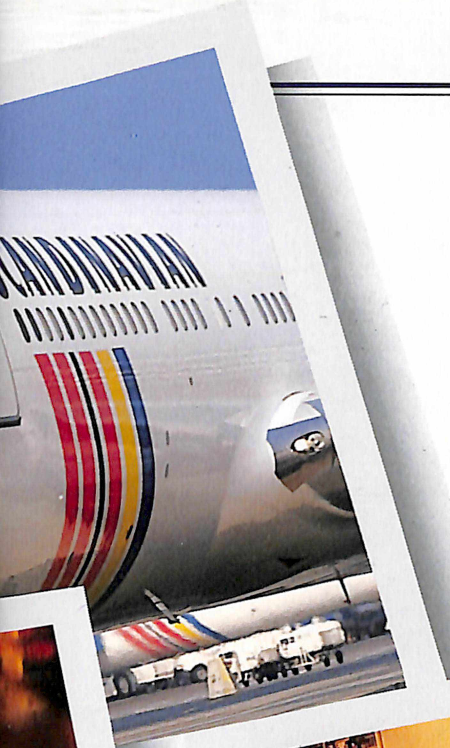
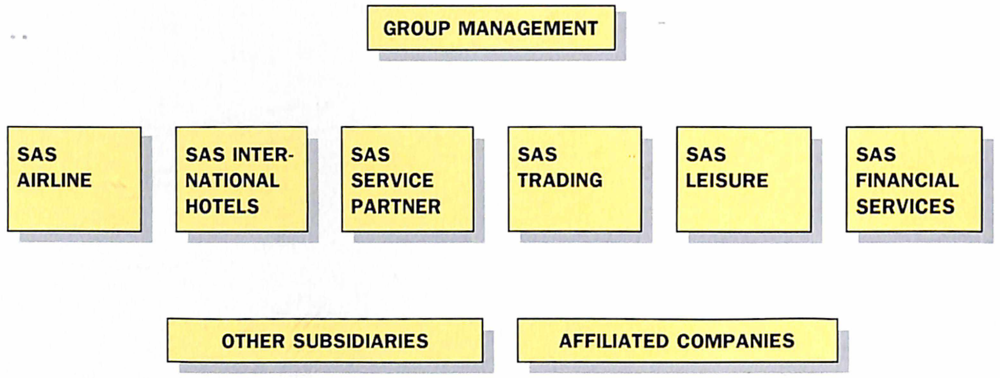


SCANDINAVIAN AIRLINES SYSTEM
ANNUAL REPORT 1989


SAS

THE SAS GROUP

CONTENTS



To assure the continued successful development of the SAS Group in a freer competitive market, a comprehensive business concept has been formulated to enhance fulfillment of the Group's international travel service. With Europe as a base, the primary objective is to be the best alternative for the business traveler by effectively integrating air and ground transportation, hotels, airport services, hotel/airport check-ins and other related services.

SAS's business organization is based on management by objective and decentralized profit responsibility. Each business unit is responsible for ensuring its own growth, and each has a defined role in the Group's business concept. The Group's legal structure is described on pp. 30–33.

SAS Airline is responsible, in cooperation with SAS's partners, for providing effective air services in a global traffic system tailored to the needs of business travelers.

SAS International Hotels is responsible for the management and development of hotel operations at key destinations in the SAS traffic system. In 1989 the Group acquired a 40-percent shareholding in Inter-Continental Hotels, with more than 100 hotels throughout the world.

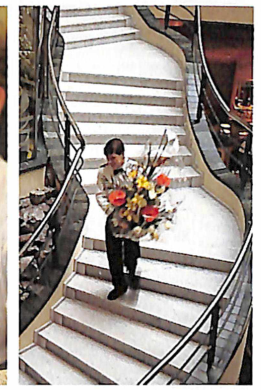
SAS Service Partner conducts business in two main areas, catering and restaurants, supporting the travel service system in the air and on the ground.

SAS Trading develops and conducts businesses related to the Group's air services, including wholesale trading, retail sales and media production.

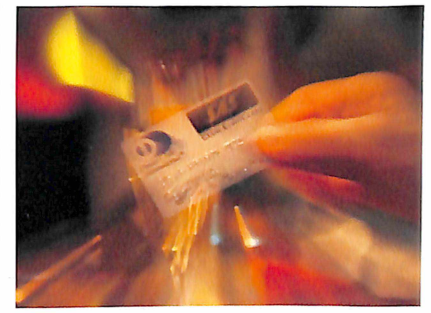
SAS Leisure's role is to consolidate and further SAS's position as a leading provider of vacation travel from Scandinavia and, over the long term, internationally as well. SAS Leisure comprises the tour operators Vingresor, Saga and Always, the Sunwing hotel chain, and the charter airlines Scanair and partly owned Spanair.

SAS Financial Services—through SAS Finance—handles the Group's financial exposure. Diners Club Nordic is currently developing a payment system for customers within the travel service system.

HIGHLIGHTS



- **SAS's global travel service system firmly established.**
- **Investments in aircraft, hotels, etc., total SEK 10 billion.**
- **Acquisition of 40 percent of Inter-Continental Hotels.**
- **Cooperation agreements with Swissair, Finnair, All Nippon Airways, LanChile and Canadian Airlines International broadens route network.**
- **New acquisitions expand the international scope of SAS Service Partner and SAS Trading.**
- **Earnings improvements at SAS International Hotels, SAS Service Partner, SAS Trading and SAS Financial Services.**
- **SAS Airline's income affected by intensified market-positioning efforts, rising fuel prices and higher capital costs.**
- **SAS Leisure improves position in weaker market.**
- **Strong equity ratio maintained due to the high level of earnings and parent company capital infusion of 1,750 MSEK.**



GROUP OVERVIEW

SAS GROUP — INCOME AND KEY RATIOS

MSEK	1989	1988[1]
Operating revenue	**29,471**	27,556
Operating income before depreciation	**2,658**	2,681
Depreciation[2]	**–1,414**	–1,174
Operating income after depreciation	**1,244**	1,507
Share of income in affiliated companies	**83**	127
Gain on the sale of		
- aircraft	**286**	1,061
- hotel properties	**751**	939
Unusual items	**–60**	–94
Net financial income/expense	**–98**	150
Income before extraordinary items	**2,206**	3,690
Investments	**9,922**	4,077
Return on capital employed, %	**10**	16[3]
Share of risk-bearing capital, %	**36**	38[3]
Average number of employees	**39,800**	36,150

[1] Including Scanair. [2] Including leasing costs, totaling 277 MSEK (112). [3] Excluding Scanair.

For the SAS Group as a whole, 1989 was characterized by intensive work aimed at developing SAS into a competitive, global travel service corporation. Investments made during the year amounted to 9,922 MSEK (4,077).

Cooperation with Continental Airlines in the United States, Thai Airways International in Southeast Asia, All Nippon Airways in Japan, and British Midland Airways in the U.K., unfolded very well. During the autumn new agreements were reached with Swissair (Switzerland) and Finnair (Finland) regarding cooperation within the framework of The European Quality Alliance.

A strategically important event during the year was the purchase of 40 percent of the shares in Saison Overseas Holdings, which owns the worldwide Inter-Continental Hotels chain. As a result of this acquisition, SAS is a co-owner of 102 hotels at important destinations.

The SAS Group's income before extraordinary items amounted to 2,206 MSEK (3,690) in 1989. This includes gains of 1,037 MSEK (2,000) from the sale of hotel properties, flight equipment, etc. Income was affected to a high degree by capacity-boosting measures taken within the hotel and air transport services. Added to this were the effects of lost revenue and added costs resulting from external threats made against the Airline earlier in the year, phase-in costs for new aircraft, start-up costs for new businesses, and high average fuel prices.

SAS Leisure's earnings were hurt by the generally weak market for vacation travel.

The trend of earnings remained favorable for SAS International Hotels, SAS Service Partner, SAS Trading, and SAS Financial Services.

Operating revenue for the SAS Group rose 9 percent to 29,471 MSEK for comparable units.

The Group's operating income before depreciation amounted to 2,658 MSEK (2,681).

The major investment program in the aircraft fleet, hotel operations, and other strategically important areas has led to greater capital costs. Depreciation rose to 1,414 MSEK (1,174), and a net financial expense of 98 MSEK (1988: net financial income of 150 MSEK) was recorded after booking interest costs of 208 MSEK in connection with the Inter-Continental Hotels investment.

SAS Airline noted a 9-percent increase in traffic, and the total number of passengers flown rose to 14.0 million (13.3). Growth was enhanced by cooperation agreements with other airlines.

Operating income totaled 1,026 MSEK (1,459), excluding 245 MSEK (1,020) from the sale of flight equipment, etc.

Business at **SAS International Hotels'** established units remained favorable despite low demand in both Norway and Denmark. Operating income totaled 103 MSEK (59). Sales of hotel properties yielded an additional 686 MSEK in income, compared with 925 MSEK in 1988.

SAS Service Partner continued its internationalization primarily with the acquisition of companies in West Germany and Turkey. Operating income before the sale of equipment totaled 211 MSEK (184). This improvement was largely attributable to the international flight kitchen operations.

SAS Trading's operating income rose 26 percent, to 114 MSEK. The greatest improvements were noted in the retailing operations.

To consolidate SAS's position as a leading producer of vacation travel, the Group's activities in the leisure travel segment were coordinated within a new business unit, **SAS Leisure.**

SAS Leisure's first year was largely characterized by a sharp decline in demand in Norway and a slight downturn in Sweden. Income before the sale of equipment amounted to a loss of 8 MSEK (1988; loss of 6).

SAS Financial Services includes SAS Finance and Diners' Club Nordic. Operating income improved to 84 MSEK (71).

Costs for the financing and direction of the numerous joint Group projects and activities aimed at developing the SAS travel service concept were charged against the Group's earnings. **The share of income in affiliated companies** amounted to 83 MSEK (127).

Net financing from operations totaled 1,550 MSEK after transfers of 490 MSEK to the parent companies.

A financing deficit of 6,495 MSEK was incurred in 1989 after balancing revenue from the sale of aircraft and hotel properties, etc. (2,035 MSEK) against investments made in equipment (9,922 MSEK) and advance payments for aircraft on order (158 MSEK).

Of **the year's total investments,** payments for flight equipment amounted to 4,206 MSEK (2,068), and the acquisition of 40 percent of Inter-Continental Hotels totaled 3,148 MSEK.

Due to the long-term nature of the Group's investments, with returns and growth in value calculated over a long economic lifetime, there is a drop in the Group's key ratios in the beginning of the investment cycle.

The return on capital employed is reported at 10 percent (16) in 1989. As a result of strong earnings and the capital contributions from the parent companies, the Group's debt-equity ratio remained satisfactory.

The SAS Group's **equity** on December 31, 1989 amounted to 12,177 MSEK (9,187), and **the share of risk-bearing capital** was 36 percent (38).

The SAS Group's accounts are prepared in accordance with International Accounting Standards.

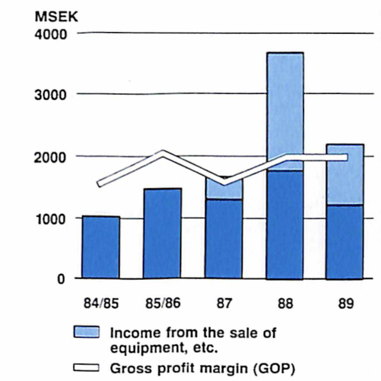
Starting in 1989 the Scanair and SAS Commuter Consortia, which have the same ownership structure as the SAS Consortium, are consolidated in the SAS Group. Corresponding figures from 1988 have been recalculated to provide accurate comparison.

SAS GROUP—INCOME PER BUSINESS UNIT

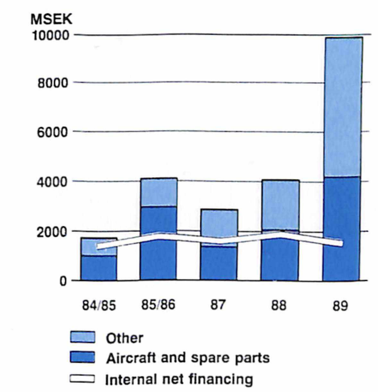
MSEK	1989	1988
SAS Airline	**1,026**	1,459
SAS International Hotels	**103**	59
SAS Service Partner	**211**	184
SAS Trading	**114**	90
SAS Leisure	**–8**	–6
SAS Financial Services	**84**	71
Group Management	**–84**	–113
SAS joint Group projects[1]	**–93**	–87
	1,353	1,657
Share of income in affiliated companies	**83**	127
Gain on the sale of equipment, etc.[2]	**770**	1,906
Income before extraordinary items and taxes	**2,206**	3,690

[1] Including Group eliminations. [2] Includes a 60 MSEK write-down of shares and financing costs totaling 208 MSEK associated with the investment in Inter-Continental Hotels.

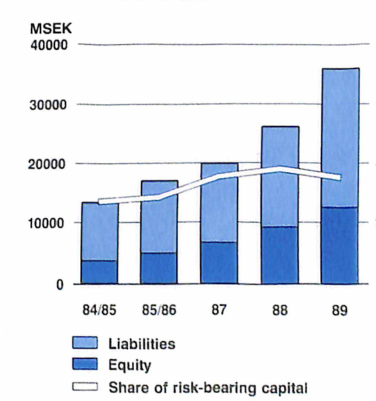
SAS GROUP
TREND OF INCOME
(INCOME BEFORE EXTRAORDINARY ITEMS)

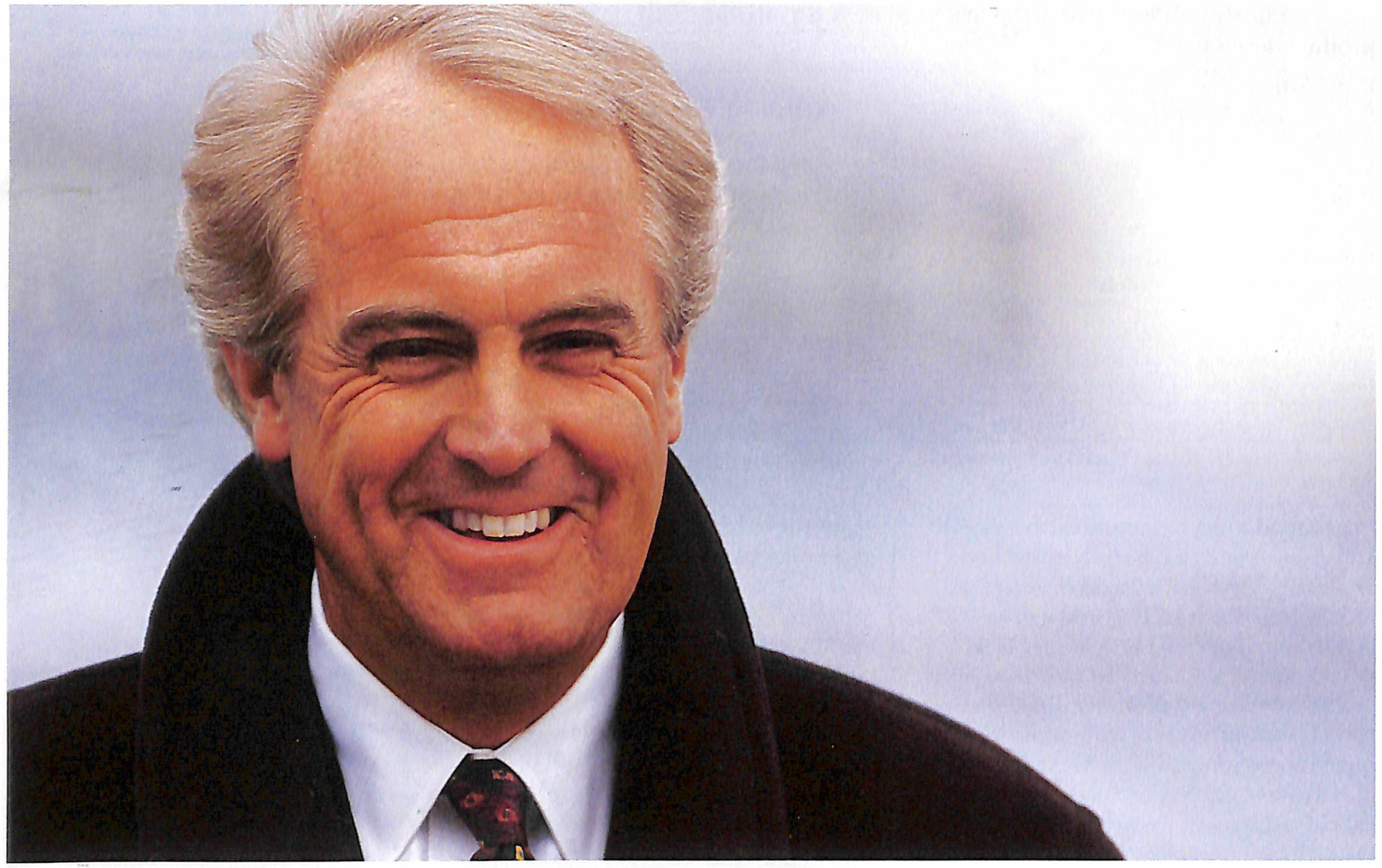


SAS GROUP
INVESTMENTS



SAS GROUP
FINANCIAL POSITION





SAS spent a large part of the 1980s preparing for the liberalization of European air transport in the 1990s. We set goals and strategies to gradually adapt to the changing conditions in the market. We transformed visions into action and created a global travel service system. Our challenge now is to satisfy our customers' needs, wherever they may be, and whenever the need arises. We will be there, wherever the customer needs us.

In the 1980s SAS recorded strong growth in volume, sales and earnings. We strengthened our financial position and created the basis for the major investment program we are currently engaged in. In the 1990s, our economy and finances will be influenced by the costs of funding this program. This, together with increasing competition, requires further improvements in cost-efficiency. At the same time, we are creating the conditions which will enable us to fulfill our shareholders' long-term profitability requirements. An investment-intensive company such as SAS cannot be judged by the performance of an individual year. We have to look at the company's development over a considerably longer perspective both historically and with regard to the future.

There is one thing we can definitely learn from history. Each time SAS has been faced with new challenges, we have had the strength and innovation to find winning solutions. For this reason, I am convinced that we will succeed this time as well, even though the challenge is in many respects more formidable than ever before.

From Scandinavian Airline to Global Travel Service

In free competition, the market will be divided into two segments. One will be based on quality on every level, from product development to service. The other segment will be based on price competition on specific point-to-point flights. The Scandinavian tradition, cost level and market as a whole do not lend themselves to strict price competition. In this respect we cannot hold our own against the major airlines in the United States and the Far East, for example. Instead, we have taken another course, creating products and services that satisfy the continually changing needs of our primary target group, the frequent business traveler.

There are clear limitations to how far we can develop and refine the specific air transport product. Personal service on board, good food, fine wines and in-flight entertainment can only be carried so far and still be decisive competitive factors in the customer's choice of an airline. Therefore, the battle for the air has to be won on the ground. We have to identify and evaluate the business traveler's total service needs. In the 1980s we saw a customer in every individual. In the 1990s, we see an individual in every customer.

The traffic system and integrated travel service are the pillars of the Group's global service concept. With this foundation, it will be our mission to help business travelers to do good business by taking care of all their practical travel details.

Exporting Our Hubs

Our strategy is to distribute traffic to as many important destinations as possible in a global system, offering nonstop or at the most one-stop service in coordination with our partners. SAS was the first airline in the world to move its hubs out to other continents. Through our cooperation with Continental Airlines, Thai Airways International, All Nippon Airways and LanChile, we have established hubs in practically every corner of the globe. From these, our passengers can continue flying in local traffic systems, where SAS and its partners retain responsibility for their customers throughout their journeys. The alliance with Swissair gives us a new hub in Central Europe and excellent links with Africa and the Middle East. The agreement with Finnair heralds a more intimate Nordic cooperation. All of these agreements together have established the global traffic system. With our own resources we offer nonstop or one-stop service to some 50 destinations. Together with our partners, we can reach more than 250 destinations with the same standard of service. Now it is time to grasp the opportunities the market holds.

Hotels a Key Component

The hotels are the second most important component in the Group's global travel service. Accordingly, SAS's part-ownership in Inter-Continental Hotels is of vital importance. Building up our own hotel chain to encompass all of the important destinations for business travelers would have taken a long time and required major financial and human resources. Instead, we added 102 first-class hotels in a single sweep. And we did so with a partner who shares our values regarding the products' content, quality and service. We also have 25 hotels in our own chain. In their most sophisticated form, the hotels will take care of many tasks which traditionally are handled at the airports. For the customer, this will make things much simpler and more rewarding.

Always Somebody's Customer

The travel product consists of a variety of components, to be sure. However, catering to the customers' individual needs involves much more—the secure feeling of always being somebody's customer. We've summarized this in the words Trust, Simplicity and Care.

By trust we mean that we will keep our promises. By simplicity we mean that traveling should be made easy. And by care we mean that we should take our customers and their needs seriously. We must be geared to respond to the needs of every individual. Putting these words into action will be the big challenge for every SAS employee during the 1990s. There is no tangible annual report from which to measure the market's and customers' confidence in the way we approach this task. Early in the 1980s we said that our balance sheet should actually show how many satisfied customers SAS has during a given year. There is good reason to reflect back on this measure of success in a time when the spotlight is on target figures and graphs illustrating our performance in dollars and cents.

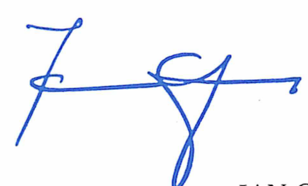
As proof of our commitment to service, we have established an internal university at SAS to train and develop our own staff. In the future we hope to go a step further and include our partners in this program in order to utilize the human potential within the Group's global travel service. As I see it, we are at the beginning of a huge process in which we will combine style and content in an exciting and profitable future program. In the long term, investments in the development of SAS's human resources are considerably more important than investments in fixed assets. If we cannot live up to our customers' expectations, then it really makes no difference what our aircraft look like or what they cost.

Bridging the Gap

SAS's present situation is strongly influenced by both long-term visions and the reality of the moment. We are in the midst of an intensive investment phase. The total investment program from the late 1980s and through the mid-1990s amounts to about 45 billion Swedish kronor. In 1989 we invested SEK 10 billion in new aircraft, hotels, company acquisitions, and more. That's about how much it would cost to build a bridge between Denmark and Sweden!

Obviously, this is going to have an impact on earnings, especially SAS Airline's, since both depreciation and interest expenses are rising. That's why it is essential that our less capital-intensive operations continue to expand in at least the same pace as they have to date, to bridge the gap. In this context, SAS Service Partner, SAS Trading and SAS Finance play strategically important roles both in supporting the global travel service and as individual players in their respective fields. The new SAS Leisure business unit has the crucial task of developing an international vacation travel business within the SAS Group. In the future, SAS Leisure will also be a significant weapon when competing in the low-price market.

Finally, I want to stress that I welcome free competition as long as it is conducted on equal terms. Living in a regulated world can seem comfortable and relatively risk-free. But we won't win the appreciation we deserve until we can show what we are worth in free competition in a wide-open marketplace. For this reason, the changes now taking place in the world around us will revitalize the entire industry and require greater cost effectiveness, benefiting customers as well as suppliers. At SAS, at least, we are very well prepared to face the challenges of the 1990s.



JAN CARLZON
President and Chief
Executive Officer

Throughout the 1980s SAS was a trendsetter in the business travel market with its strategy as The Businessman's Airline. However, it soon became clear that tougher competition on intercontinental routes, combined with the liberalization of civil aviation policies in the European Community, would dramatically change the entire air travel market.

The socioeconomic situation in Europe makes cost levels considerably higher than in Southeast Asia and North America, for example. What's more, the Scandinavian countries top the European cost list, and they also have significantly higher rates of inflation than most of the competition's countries. These factors present SAS with an immense challenge in tomorrow's open competition.

In the mid-1980s SAS set its ultimate objective of being a winner in a freely competitive market. The Group's business concepts and strategies were thereafter formulated and adapted to the anticipated future demands. Given a free choice, the customer should choose SAS.

For the 1990s, the SAS Group is working along two business concepts. One is to be the travel service system preferred by the European business traveler. The other is to provide vacation travelers superior experiences and more for their money.

Europe's Best Travel Service

In the coming free competition, the business travel market will be broken down into two segments. In one of these, the product and its quality will determine which carrier offers the best alternative. In the other, price will be the determining competitive weapon.

Accordingly, the principal element in

the SAS Group's strategy is to enable the business traveler to put together an individually designed travel package for each trip, based on a selection of quality services. SAS's role is to offer air and ground transportation, baggage handling services, simplified flight and hotel check-in procedures, an atmosphere conducive to work and relaxation, food, favorable shopping opportunities, simplified ticketing and travel accounting procedures, and so on. By taking care of all the practical aspects of traveling, SAS helps its customers attend to their business.

Following deregulation in the United States, the air travel market became entirely dictated by price. This led to a decline in quality, lower standards of service, and a sharp drop in profitability throughout the industry. At the same time, passenger volume rose, broadening the market for the winners.

The situation in Europe will probably not be as dramatic; still, a price war on fares to popular destinations is something to count on.

Following some turbulent years, the market will stabilize. The winners will then be those companies that are financially strong and that also have the resources to develop products which give customers the most for their money. To achieve and maintain satisfactory profitability over the long term, the airlines will have to reduce costs.

By creating a comprehensive travel service system, the SAS Group offers its customers a highly integrated quality product. The more who choose that product, the greater flexibility SAS has to reduce prices for those who are only interested in specific point-to-point flights.

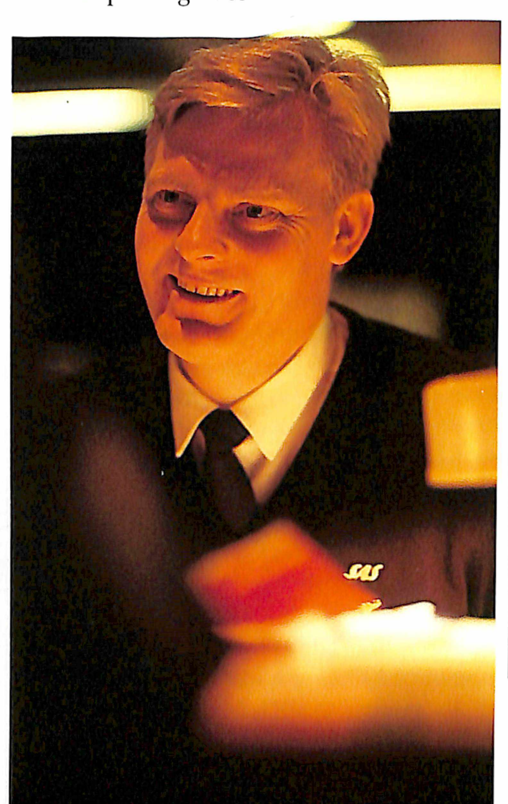
Today the SAS Group is alone in offering a comprehensive service which caters to the overall needs of the business traveler. In addition to air travel, the SAS Group and its cooperation partners offer 125 hotels in 54 countries, limousine services, an exclusive offering of duty-free goods, food and entertainment both onboard and at airports, and much more. A key feature in this travel service is the SAS Club EuroClass Card, introduced in cooperation with Diners Club in 1989.

With respect to vacation travel, the SAS Group has historically focused on package charter trips to popular destinations primarily in Spain and other Mediterranean countries. In a free competitive market, scheduled air traffic will inevitably take shares from the charter sector. SAS Leisure is preparing for this by taking a similarly comprehensive approach to the vacation travel segment, offering individually tailored alternatives to the widely varying needs of the market.

Being Where the Customer Needs Us

The SAS Group's key component is its traffic system. Regarding European traffic, SAS strives to offer frequent nonstop routes primarily between the Scandinavian capitals and as many other destinations as possible. When the market allows, nonstop service will be expanded to include other large cities in Scandinavia, such as Gothenburg, Bergen, and Århus.

As for the intercontinental network, the Scandinavian market is too weak a base for frequent nonstop service to a large number of destinations. In this sector, SAS's strategy is to fly nonstop primarily from Copenhagen to numerous major



hubs, from where passengers can continue traveling in traffic systems controlled by SAS's partners. SAS and its partners are to have fully integrated timetables, levels of service, check-in and check-out procedures, baggage handling, airport services, and so on. The customers should experience a smooth transition in travel, with consistent levels of quality and service.

The SAS Group and its partners offer the European business traveler approximately 250 destinations with nonstop or one-stop service. The SAS Group alone can furnish more than 50 of these routes.

Broadening of the European Market Base

SAS's domestic market consists of 18 million people in Europe's northern periphery and is largely determined by the financial and competitive strength of Scandinavian industry. SAS has a strong position on routes between Scandinavia and continental Europe. By forging strategic alliances with airlines on other continents, SAS has gained the external conditions necessary for further development of its intercontinental route network. Fulfilling the travel service concept requires a broadening of the market base so that economies of scale can be maintained in all operations. The cost structure must be changed, while costs in general must be brought down to the level of the competition.

Continued expansion of SAS's intercontinental route network is dependent on how well SAS exploits the ongoing liberalization of the European air transport market and the EC's internal market. Of SAS's owner-countries, only Denmark is a member of the European Community. However, the Norwegian and Swedish governments have explicitly pledged to adapt their aviation policies to conform with those of the EC. This will have an impact on intra-Scandinavian traffic and other international traffic to and from Sweden and Norway. SAS is regarded as an EC airline.

A broadening of the market base will require continued internationalization of air services, primarily in Europe. It is against this background that SAS sought cooperation with three European airlines —Swissair, Finnair, and the privately held group Airlines of Britain Holdings (ABH).

Extensive Part Ownership

The ownership structures of European airlines are varied. Among the state-owned carriers are Iberia, Alitalia and Air France. Government ownership in Finnair, Swissair, KLM, Lufthansa, Sabena and SAS varies between 23 and 70 percent. Following the public share offer in 1988, state ownership in British Airways has been eliminated.

In the United States, there is no government ownership whatsoever in airlines. Several major American carriers have changed owners in recent years. Companies have been bought out, sold, merged, eliminated or gone bankrupt. The American market is structured and has clear tendencies.

In the course of fulfilling the travel service system and developing a global route network, the SAS Group has acquired equity stakes in several of its cooperation partners. The most prominent example of this is in SAS's hotel operations, where the 40-percent holding in Inter-Continental Hotels is of major significance. The remaining 60 percent is owned by the Japanese conglomerate Seibu Saison.

The SAS Group has a 24.9-percent shareholding in Airlines of Britain Holdings PLC. In the United States, SAS has a 9.9-percent holding in Texas Air, the parent company of Continental Airlines. In early 1990 SAS acquired a 30-percent interest in LanChile. Cooperation with Swissair and Finnair will also be solidified through reciprocal financial arrangements.

Despite the EC Commission's efforts to liberalize the air transport market, clear protectionist elements remain in several member-countries. For example, certain countries have regulations which limit foreign companies from acquiring airlines within those countries. Having a major foreign interest over a national airline can in turn affect traffic rights. The SAS Group does not intend to acquire such large shares in airlines that their competitive positions would be weakened due to discriminative treatment from the respective countries' aviation authorities.

MSEK	1989	1988
Revenue	20,557	18,951
Income before sale of flight equipment, etc.	**1,026**	**1,459**
Income before extraordinary items	1,271	2,479
Gross profit margin (GOP), %	12	13
Return on capital employed, %	13	18
Investments	4,970	2,348
Number of employees	21,820	20,800

SAS Airline's business concept is to offer global travel services to the European business traveler.

The Airline provides the transportation elements in the travel service which, in addition to flights, comprises ground transport to and from airports, and rental car services at each destination.

The traffic network encompasses domestic routes in Denmark, Norway and Sweden, intra-Scandinavian routes, and routes to other cities in Europe, North and South America, the Middle East and the Far East. In all, the network covers 81 destinations.

SAS Commuter is an independent consortium with its own production within the framework of SAS Airline's operations. Its purpose is to operate regional traffic in the SAS system and to develop routes with a view to joining them into SAS's primary network once the market base is sufficient.

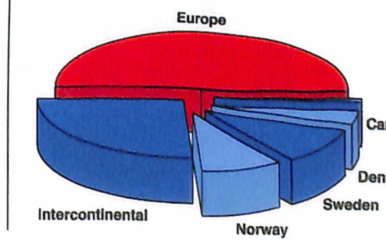
SAS Airline is also responsible for development of a global information system which will tie together all of the elements in the travel service for SAS's customers around the world.

One of Five by 1995

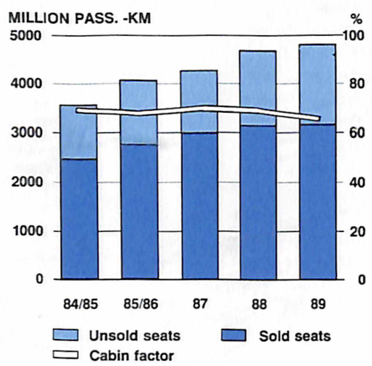
SAS Airline's ultimate goal is to become One of Five by 1995—that is, to be one of the five largest airlines in Europe offering intercontinental air services in the mid-1990s, when the liberalization of civil aviation in Europe will have taken full effect. Achieving this goal demands continual investments in aircraft, computer systems, airport terminals, recruiting, personnel training and development, and more.

The prime strategy is to be The Businessman's Airline—the best alternative for the frequent business traveler. SAS Airline's main product is called EuroClass, offering high standards and a high level of service at full fare. This is complemented by a marginal strategy in which SAS offers low-price alternatives to fill empty seats and boost the profitability of each flight. This low-price strategy will gain significance since vacation travel is expected to grow much more rapidly than business travel in the 1990s. Indications are that, in the liberalization of the airways, scheduled flights will draw traffic away from chartered flights, while it is expected that the latter will be able to compete with

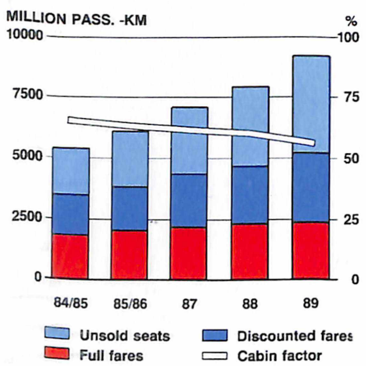
TRAFFIC REVENUE PER ROUTE SECTOR



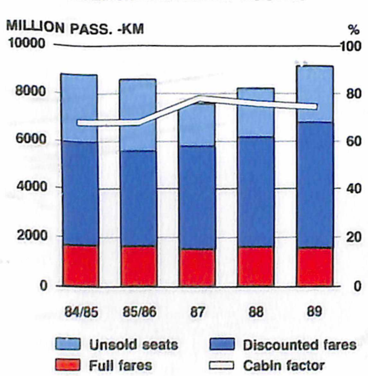
PRODUCTION, TRAFFIC & CABIN FACTOR
DOMESTIC



PRODUCTION, TRAFFIC & CABIN FACTOR
EUROPE



PRODUCTION, TRAFFIC & CABIN FACTOR
INTERCONTINENTAL ROUTES



scheduled flights on high-volume routes.

In addition to these two strategies, the cargo operations serve a supporting function, by selling a given capacity within the express freight market. The goal is to be a market leader in the 500 kilo-and-under segment.

Development of the Traffic System

SAS Airline benefits to a certain degree from its geographic position in Scandinavia since air travel in many cases is the most competitive means of transportation. At the same time, the market base is too weak to maintain frequent traffic to many destinations around the world.

SAS's major European competitors—British Airways, Lufthansa and Air France—are much more favorably located with respect to their market bases. Smaller competitors such as KLM and Sabena, though they have small domestic markets, attract a considerable amount of transit traffic due to their strategic locations.

In response to market demands, the SAS Group has forged numerous strategic alliances. As a result, SAS today has the world's most comprehensive network of nonstop and one-stop service. For hubs in this network, SAS has chosen Tokyo in the Far East, Bangkok in Southeast Asia, New York and Toronto in North America, and Rio de Janeiro in South America.

Great pains have been taken in recent years to find suitable partners at these hubs. By 1989 essentially all the pieces had fallen into place.

In Tokyo, SAS cooperates with All Nippon Airways. ANA is Japan's largest airline—and one of the world's largest—with an extensive domestic network. This alliance as a whole provides daily traffic between Scandinavia and Tokyo, extending SAS's reach to 36 destinations in the Far East with a single connecting flight.

Thai Airways International is SAS's partner in Bangkok. Together with Thai, SAS can now offer two daily nonstop or one-stop flights from Stockholm and Copenhagen to Bangkok, and 23 daily routes in Southeast Asia, Australia and New Zealand with a single connecting flight.

The United States is SAS's largest intercontinental market. SAS's traffic rights are limited to New York, Los Angeles, Seattle, Chicago and Anchorage.

The entrance of numerous American carriers to the Scandinavian market during the1980s has resulted in a dramatic increase in both traffic and competition. SAS's share of U.S. traffic has decreased considerably in recent years, despite the steady growth in total passenger volume. Leakage of traffic via London, Frankfurt and Amsterdam is one contributing factor. British Airways, Lufthansa and KLM have traffic rights to considerably more U.S. destinations than SAS. Their passengers prefer an early connection to a nonstop flight over troublesome connecting flights with American carriers.

Through cooperation with Continental Airlines, SAS offers 60 destinations in the U.S. via single connecting flights at Newark International Airport outside New York. In 1989 this led to a nearly 50-percent increase in SAS's transit traffic compared with the previous year.

Cooperation begun in 1989 with Canadian Airlines International has resulted in three nonstop flights each week to Toronto. In past years SAS had no service to Canada at all.

In 1990 cooperation with LanChile will be developed in South America.

Previously, SAS flew to only a few destinations in Africa. Following consolidation of the route network in the 1980s only Cairo remained. The cooperation with Swissair adds 19 destinations in Africa, the Middle East and India/Pakistan.

Cost Advantages

These intercontinental alliances are primarily aimed at improving SAS's product and thereby contributing to an increase in revenues. Moreover, the cooperation between SAS and its European partners Swissair, Finnair and Airlines of Britain Holdings will have a favorable impact on costs due to the considerable synergy between the companies regarding technical maintenance, aircraft purchases, training, marketing, and so on.

Finding a strong partner in central Europe has long been a high priority matter at SAS Airline. In 1989 an agreement was reached with Swissair. Swissair has a very good reputation in the business travel arena for safety, efficiency, punctuality and high service standards. In addition to a complementary route network, Swissair provides regional and charter air services, and hotels. Also, Swissair has an 8-percent stake in Austrian Airlines and a 5-percent interest in America's Delta Airlines. Swissair and Singapore Airlines are also entering into an agreement which will involve a minority cross-ownership.

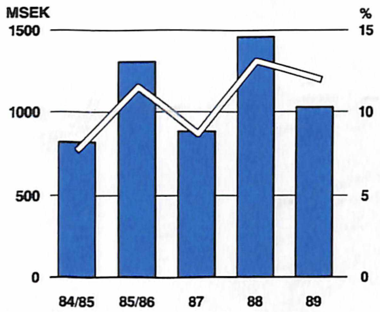
Through Finnair, Helsinki is the fourth Nordic capital to join SAS's global traffic network. The pattern is the same, with nonstop service to many joint hubs. Finnair also brings to the Group some interesting destinations, particularly in Eastern Europe. Finnair has hotel operations, charter air services and vacation tour operations which are well suited for the SAS Group's overall goals in the Nordic market.

In late 1988 SAS acquired a 24.9-percent stake in Airlines of Britain Holdings. Its largest subsidiary, British Midland, is the neighbor of one of SAS's fiercest competitors at London's Heathrow Airport, British Airways. British Midland has an established domestic traffic network and commands about 40 percent of the market. The company is rapidly expanding on the European continent with concessions to numerous major cities.

ABH also owns Manx Airlines, Loganair and London City Airways. Coordination of timetables, joint maintenance of certain aircraft, and simplified transfer services are just a few matters that will be accomplished in 1990. Substantial synergies were already created in 1989.

SAS, Swissair and Finnair will gradually market themselves jointly as The European Quality Alliance. Over the long term this will involve such efforts as joint sales offices, new product development, personnel training, and shared airport lounges. However, each company will

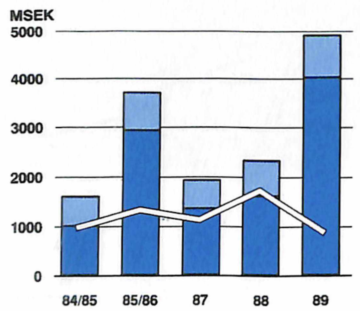
SAS AIRLINE
TREND OF INCOME*
(INCOME BEFORE EXTRAORDINARY ITEMS)



Excluding income from the sale of equipment
Gross profit margin (GOP)

* 1988 - 89 figures pertain to the SAS Airline business unit

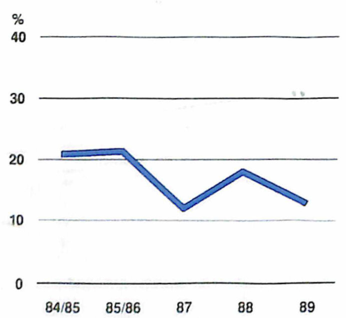
SAS AIRLINE
INVESTMENTS*



Other
Aircraft and spare parts
Internal net financing

* 1989 figures pertain to the SAS Airline business unit

SAS AIRLINE
RETURN ON CAPITAL EMPLOYED*



Excluding income from the sale of equipment

* 1989 figures pertain to the SAS Airline business unit

retain its own identity within the frame of this cooperation agreement.

A Growing Market
Growth of SAS's principal markets has been strong throughout most of the 1980s. From 1985-89, the average annual growth of Scandinavian domestic traffic volume was 6.4 percent, although the rate varied considerably within the three countries. Sweden noted the most stable growth, 11.6 percent, while Denmark and Norway each posted gains of 2.6 percent.

European traffic volume in general rose 8.5 percent per year during the same period. The corresponding rate of growth for SAS's European routes averaged 10.6 percent per year.

Intercontinental traffic has risen by 6.7 percent per year since 1985, with a 5.6-percent increase in production. The major capacity buildup has led to more intense competition, downward pressure on fares, and declining profit margins throughout the industry. Moreover, there is a greater percentage of vacationers on intercontinental routes than on European flights, flying on discount-fare alternatives. In 1989, 51.7 percent of SAS's passengers in the European network flew EuroClass, giving SAS the largest proportion of full-fare passengers of all the major European airlines. The corresponding figure for intercontinental routes was 24.0 percent.

Competition is the toughest on North Atlantic routes. In 1989 SAS successively began replacing its DC-10 fleet with Boeing 767s, which carry fewer passengers and are more cost-effective aircraft. This was reflected in the Airline's operating result for the year.

Travel to the Far East is concentrated to countries with established economies or those undergoing rapid growth, including Japan, South Korea, Taiwan, Singapore, Thailand, the People's Republic of China and Hong Kong. The national airlines of the respective countries are benefiting from a growing market base and technical developments which enable large aircraft to fly to practically any destination without refueling. Accordingly, carriers such as Japan Airlines, All Nippon Airways, Cathay Pacific, Singapore Airlines and Thai Airways International are showing greater strength in the international competition.

These airlines also have a completely different cost structure and lower costs than their European counterparts. Among this group are some of the world's most profitable airlines. The American carriers, on the other hand, have generally unsatisfactory profitability and aircraft fleets with a high average age, a factor which will create financial problems for them in the future. The European airlines lie somewhere in between. The renowned West German business magazine *Capital* conducted a review of the European airline industry in 1989 for the purpose of judging the survival potential of airlines in the coming free market. At the top of the list was SAS.

According to recent forecasts, global air traffic is expected to rise by an average of 7 percent per year until the year 2000. For the same period, capacity is expected to grow by only 50 percent. This gives SAS interesting perspectives in light of its buildup of a global travel service.

In Europe the 1990s will bring more airlines and greater capacity. Air corridors are already crowded and many airports are ill-equipped for the coming growth in traffic. This is causing frequent delays even today, resulting in substantial extra costs for the airlines. Sharper demands are now being raised in favor of replacing the various national air traffic control systems with a common system for all of Europe.

Cutting Costs Requires Greater Efficiency
SAS Airline's gross profit margin averaged 11 percent between 1985 and 1989, compared with the goal of at least 13 percent in 1989.

Personnel costs of the Airline are generally on the same level as the European competitors. However, productivity and efficiency are lower than most of the competitors'.

A fundamental condition for achieving

greater cost effectiveness is that SAS Airline itself produce only the bare essentials at competitive cost levels. Accordingly, technical analyses are currently being performed to find out what can be changed to improve profitability.

In 1989 SAS Airline adopted a policy aimed at extending SAS's leadership in the realm of environmental issues as well. The most obvious disturbances caused by air transport are noise and exhaust emissions. One of SAS's most significant environmental contributions is the changeover from DC-9 and DC-10 aircraft to the quieter and more efficient MD-80 and Boeing 767 aircraft.

Reservations System Gaining Importance
Fulfilling the travel service concept requires that SAS be able to freely expose individual and integrated products and services through international reservations systems.

SAS is one of four owners of the European system Amadeus, which handled approximately 60 percent of total European bookings in 1989. In all, some 25 airlines are connected to the system, including East Germany's Interflug, which signed on in early 1990 as the system's first East Bloc carrier.

Connected to Amadeus will be national communications systems, with hook-ups to local suppliers. SAS is backing SMART, the largest such system in Scandinavia.

The United States has numerous major systems with European offshoots. The largest of these are Apollo and Sabre, owned by United Airlines and American Airlines, respectively. Through cooperation with Continental Airlines, SAS has access to Texas Air's System One, which accounts for about 15 percent of bookings in the American market.

MSEK	1989	1988
Revenue	1,250	1,333
Income before sale of hotel-properties, etc.[1]	**103**	**59**
Income before extraordinary items	577	890
Gross profit margin (GOP), %	25	23
Return on capital employed, %	8	10
Investments	3,901	396
Number of employees[2]	2,740	3,170

[1] Excluding Financial expenses of 208 MSEK incurred with the investment in Inter-Continental Hotels.
[2] In 1989, excluding SAS Scandinavia Hotels, SAS Royal Hotel and SAS Globetrotter Hotel (Copenhagen).

SAS International Hotels operates first-class hotels in Norway, Denmark, Sweden, Austria, West Germany, the Netherlands, Belgium and Kuwait.

In 1989 SAS International Hotels acquired a 40-percent shareholding in Saison Overseas (Holdings), which in turn owns the Inter-Continental Hotels Group, with 102 hotels in 45 nations around the world. The purchase price was 500 MUSD. The remaining 60 percent is owned by Japan's Saison Group, whose holdings include one of Japan's largest department store chains with 6.5 million credit card holders. Saison is also active in the vacation travel segment.

Goals and Business Concept

In terms of market coverage, the goal of the hotel operations is to offer hotel accommodations at all destinations of importance for the business traveler. Through the investment in Inter-Continental, SAS has come much closer to achieving this goal.

The operations' financial goal is to achieve an average return on capital employed of at least 15 percent in a single investment cycle for established hotels, and a gross profit margin of 25 percent.

Key Role in the Future

The hotels play a vital, integrated role in the Group's travel service. Aided by an effective reservations and information system, the hotels heighten the SAS Group's overall market position.

In the future the hotels will take over many tasks ordinarily handled at airports. The idea is that customers should be able to make reservations, bookings, changes and payments for flights from their hotels. Check-ins, baggage handling, rental cars and limousine services will also be handled by the hotels. Customers will be able to use their SAS Diners Club card for payments as well as for cash-advances. And through the Group's own shops at the hotels, SAS will offer guests an exclusive range of attractive products which can be purchased either on the spot or for delivery via mail order.

Several of these services are already offered today at SAS's own hotels or at associated ones, and they have actively contributed to the dramatic increase in the number of the Airline's passengers who have chosen SAS hotels in the past three years. As an example, the percentage of Scandinavian guests at The Portman Intercontinental Hotel in London has risen from 3 to 22 percent since it became associated with SAS.

In its fullest meaning, the Group's travel service should allow persons traveling on business to utilize their hotel stay effectively for work, rest or recreation. The hotel should solve a number of practical problems so that the travelers can concentrate on doing good business. For this reason, the hotels offer customized service, with a price structure that gives customers the opportunity to choose and select their own programs. Each individual product or service is designed to augment the overall service, while remaining profitable in itself. The customers should get what they are willing to pay for.

Airline Cooperation Broadens Market

The SAS Group's strategic alliances with airlines on other continents are broadening the market for the Group's hotels. Occupancy rates and profitability will improve dramatically if only a few percent of passengers who fly with the Airline's partners choose to stay at SAS Hotels. Moreover, this would bring additional customers into the SAS system, which should lead to an increase in customer loyalty.

Market Sensitive to Economic Trends

Demand for hotel rooms for business travelers follows the same pattern as the air travel market, with a dependence on general economic trends. The vacation travel sector is dependent on individuals' disposable income and is considerably more sensitive to external factors.

Each hotel works in its own local market and is affected by local developments. An established first-class hotel generally has a high occupancy rate during the autumn, winter and spring. Customer loyalty is strong.

The occupancy rate and price are the most important factors affecting profitability. The average price level is dependent on local costs, competition, supply and demand, and the hotel's general attractiveness.

SAS International Hotels' operations are structured—like the Airline's—according to a distinct price and product differentiation. Royal Club is the exclusive alternative, followed by a normal price alternative with high standards, and a low-price alternative for weekends and low seasons. Such a structure provides customers with the best possible value for their money. Through this strategy, SAS has been able to increase the average price per room in its hotels by approximately 9 percent per year in the latter half of the 1980s. The occupancy rate has steadily averaged 70 percent.

Conferences make up a vital segment in the business travel market. As a result of active product development in the past five years, SAS's hotels have become professional conference organizers with a reputable name on the market. Conference customers demand punctuality and quality without hitches in all respects, while price is seldom a determining factor.

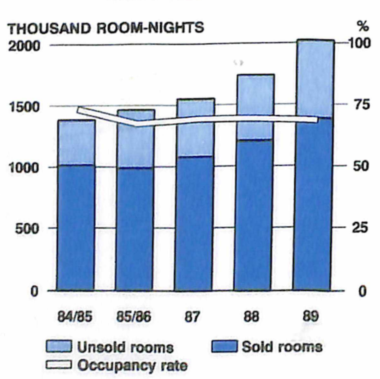
Local Variations

Growth in demand for hotel rooms has been generally good since the mid-1980s, although there have been considerable variations between the various markets in which SAS International Hotels is established.

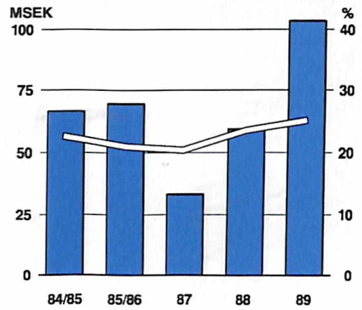
In Scandinavia, the market has been very favorable in Stockholm and Copenhagen, while Oslo and Gothenburg have been subject to major fluctuations. In Gothenburg, numerous hotel start-ups between 1986 and 1988 led to overcapacity and depressed rates. This same pattern is now being repeated in Oslo, where the market is already weak. Demand in general has decreased substantially in Norway in recent years as a result of developments in the oil industry. Bergen and Stavanger have been particularly hard-hit.

SAS's hotel project in Vienna was a reg-

SAS INTERNATIONAL HOTELS
OCCUPANCY RATE



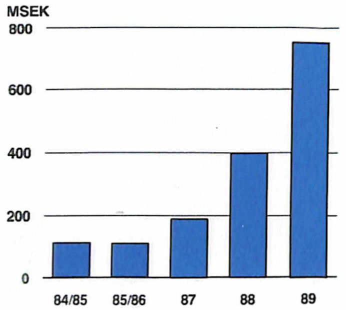
SAS INTERNATIONAL HOTELS
TREND OF INCOME*
(INCOME BEFORE EXTRAORDINARY ITEMS)



Excluding income from the sale of hotel properties, etc.
Gross profit margin (GOP)

* Excluding effects of investments in Inter-Continental Hotels

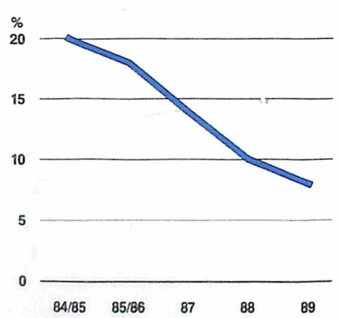
SAS INTERNATIONAL HOTELS
INVESTMENTS*



Investments

* Excluding investments in Inter-Continental Hotels

SAS INTERNATIONAL HOTELS
RETURN ON CAPITAL EMPLOYED*



Excluding income from the sale of hotel properties, etc.

* Excluding effects of investments in Inter-Continental Hotels

ular disappointment from its start in the early 1980s, partly due to weak demand. That market has now rebounded and the trend is clearly favorable. Vienna has a potentially key role as a gateway to Eastern Europe.

New hotels were inaugurated in Amsterdam and Brussels in early 1990. The future looks promising for both hotels, which are centrally situated in prized cities.

New hotels will be opened in Beijing and Helsinki in 1991. Aside from the Inter-Continental Hotels acquisition, the investment program amounts to 1,574 MSEK for the period 1987–91.

Capital Released Through Sale of Hotels

Managing a hotel business does not necessitate owning the actual hotel property. Regarding the purchase and construction of new facilities, SAS International Hotels is prepared to finance such investments internally, retain ownership for a few years and then sell the properties through sale-and-leaseback agreements. By owning the properties originally, SAS can negotiate more favorable operational terms upon their sale. Hotels currently owned by SAS International Hotels are an important source of financing for this strategy.

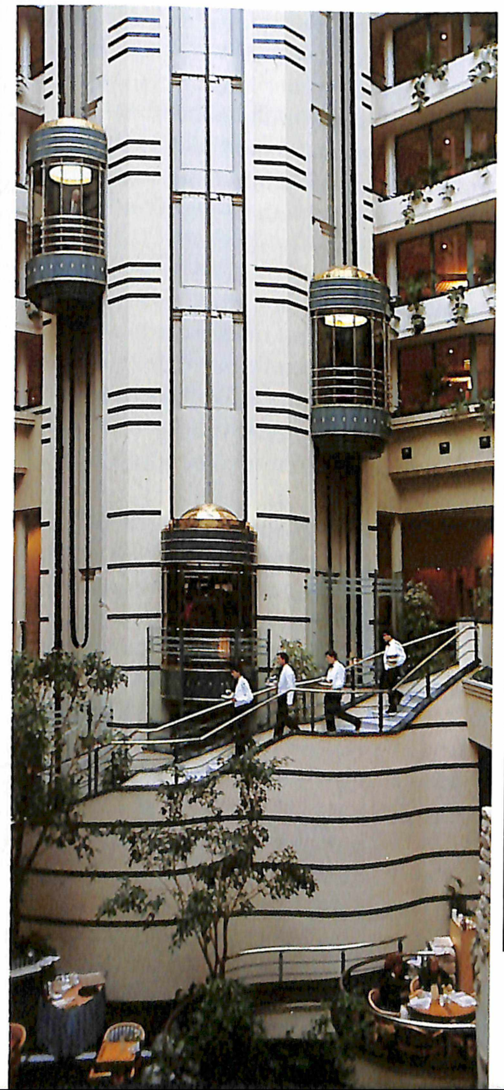
In 1988 three hotel properties in Copenhagen were sold with ten-year sale-and-leaseback agreements. These sales released approximately SEK 1 billion in liquid funds.

SAS Scandinavia Hotel in Oslo and SAS Park Avenue Hotel in Gothenburg were sold in 1989, releasing an additional 800 MSEK. SAS International Hotels' property holdings now include SAS Park Royal Hotel in Oslo, SAS Plaza Hotel in Hamburg, and the new units in Amsterdam and Brussels.

Inter-Continental Hotels

Inter-Continental Hotels consists of 102 facilities, of which 17 are marketed under the Forum name. Inter-Continental Hotels has a very high reputation among business travelers all over the world.

Operations are currently most concentrated in Europe. Inter-Continental Hotels is committed to growth on a global basis, with emphasis on North America and the Pacific Basin in order to achieve better market coverage. Inter-Continental has long been affiliated with hotels in Eastern Europe and is well prepared to participate in the anticipated sharp rise in demand for hotel accommodations.



SAS SERVICE PARTNER

MSEK	1989	1988
Revenue	4,157	3,580
Income before sale of equipment, etc.	211	184
Income before extraordinary items	**240**	**184**
Net profit margin, %	5	5
Return on capital employed, %	33	35
Investments	302	172
Number of employees	10,740	8,000

SAS Service Partner's business concept is to produce and supply meals as a supplement to its business partners' core operations, thereby helping boost the partners' competitiveness.

Customer relations are largely based on goal-oriented cooperation with airlines, aviation authorities, conference centers, trade fairs, hospitals, businesses or other conceivable partners.

Goals

SAS Service Partner's qualitative goal is to be the best alternative as a partner for selected customer groups by developing, producing and supplying products and services that are tailored for each customer's individual needs at competitive prices.

The quantitative goal for the period 1989–91 is to double income with a 30-percent return on capital employed. This increase will be accomplished through organic growth as well as through acquisitions and joint ventures within established product areas and new geographic markets.

Catering and Restaurants

SAS Service Partner is engaged in catering and restaurant operations with a primary focus on the European market.

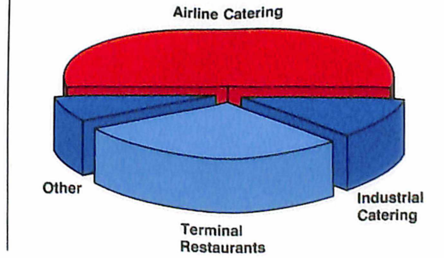
SAS Service Partner's role in the Group's travel service is to supply quality catering services at competitive prices on board SAS flights, and to operate restaurants at the major Scandinavian airports, thereby helping make airport stays as pleasant as possible for travelers. In order to increase the unit's expertise, profitability and spread of risk, operations will be expanded to include product areas and geographic markets which are outside the overall business concept of the SAS Group.

Home Market Europe

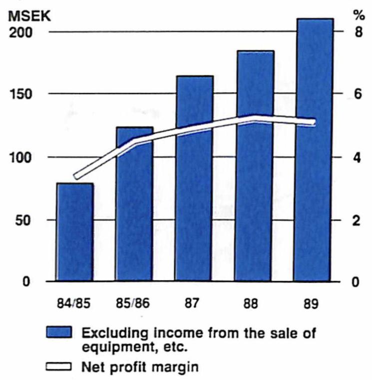
Catering accounted for 2,830 MSEK, or 68 percent of the unit's total sales of 4,157 MSEK in 1989. Airline Catering is the largest single product area.

SAS Service Partner is the largest airline-catering company in Europe, and one of the three largest in the world. In 1989, it served more than 100 airlines through its own flight kitchens, joint ventures and

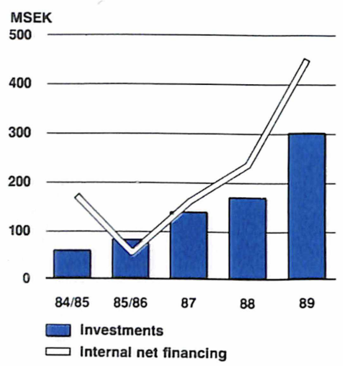
SAS SERVICE PARTNER
REVENUE



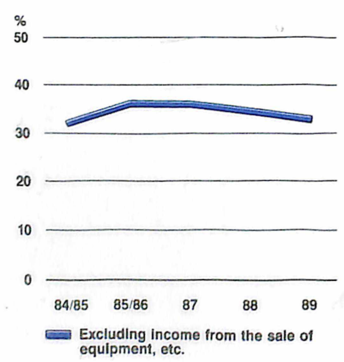
SAS SERVICE PARTNER
TREND OF INCOME
(INCOME BEFORE EXTRAORDINARY ITEMS)



SAS SERVICE PARTNER
INVESTMENTS



SAS SERVICE PARTNER
RETURN ON CAPITAL EMPLOYED



other forms of cooperation. The SAS Group accounted for 21 percent of SAS Service Partner's total sales.

Although Scandinavia has been SAS Service Partner's primary market in the past, operations are now focused on the whole of Europe. In 1989 operations outside Scandinavia accounted for 34 percent of total sales. This expansion is largely the result of a number of acquisitions, of which West German CSG Catering Service in 1988 and Turkish USAS in 1989 are the most significant.

The major competitors in the airline catering business are chains such as Marriott (USA) and Trusthouse-Forte (UK), which are not aligned with any specific airline. In addition, local companies, such as Sterling Airways' Aerochef, present a considerable deal of competition.

Demand for in-flight catering services is strongly tied to fluctuations in passenger volume. The past five-year period has therefore been characterized by steady growth. The introduction of various business travel alternatives on scheduled flights has led to the implementation of more exclusive menus as a standard feature.

The fierce competition and the virtually equal standards of products in airline catering make price an important factor in the customer's choice of an airline caterer. This has a dampening effect on profit margins. Coordinated and centrally developed management systems for logistics, finances, purchasing and products, as well as staff training programs, provide economies of scale and are a determining factor in the unit's profitability.

Patient Hotels in Sweden and Denmark

The health care sector in Scandinavia, as in the rest of Europe, is increasingly looking for alternative working methods. SAS Service Partner has decided to concentrate on the Scandinavian market, where it operates a number of hospital kitchens, personnel restaurants, cafeterias and shops. This market has recently seen the emergence of the patient hotel, an entirely new concept developed by Service Partner in cooperation with county council and hospital authorities. The patient hotel is an inexpensive hotel where outpatients can stay for the duration of their treatment. It also offers a substantially higher degree of service than hospitals. The first such hotel was opened in Lund, Sweden, in 1988, and a similar cooperation agreement was undertaken in 1989 with Rigshospitalet in Copenhagen, thus representing a breakthrough in the Danish market.

Restaurants

Of Service Partner's restaurant sales of 1,343 MSEK in 1989, 76 percent were generated by the airport restaurant operations. Operations are generally conducted under commission of local aviation authorities, and the competition for such contracts is often fierce.

SAS Service Partner operates some 300 units, including 75 restaurants at Scandinavia's international airports.

SAS Service Partner is a European market leader and one of the three largest companies of its type in the world. Catering chains, both regional and national, provide the main source of competition. Another type of competition often comes from locally based family firms.

Operations are individually designed to fit various target groups. One example of this is the 16 SAS Service Partner restaurants at Copenhagen Airport, each offering a particular specialty to a selected clientele. In 1989, Copenhagen Airport Restaurants was nominated airport restaurant of the 1980s by the magazine *Frequent Flyer.*

The airport restaurant operations are much less dependent on passenger volume than the flight catering operations. Nevertheless, they utilize largely the same economies of scale with regard to methods, personnel and general business organization. Apart from airport restaurants, SAS Service Partner operates approximately 100 company cafeterias in Scandinavia. The Stockholm Globe Arena, the Bella Center in Copenhagen and the Barbican Centre in London are examples of special-event concessions operated by SAS Service Partner.

The Industrial Catering unit conducts extensive catering operations on offshore accommodation and drilling platforms for the North Sea oil industry as well as on building sites in Norway and Greenland.

An International Market

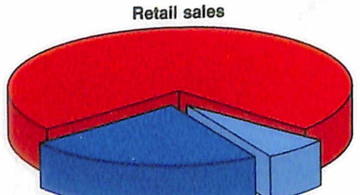
Expansion within SAS Service Partner's direct market is expected to continue throughout the next five years. SAS Service Partner already has a significant share of the market in many European countries, including West Germany, Great Britain and the whole of Scandinavia. The opening of the EC's internal market in 1992 is expected to lead to a large increase in air traffic, which in turn indicates a greater demand for both in-flight and airport catering services. At the same time, competition between airlines will increase, forcing them to boost cost-effectiveness. This will put additional pressure on in-flight meal prices, favoring large-volume caterers who can maintain efficient production in the face of lower margins. It is therefore reasonable to expect that many airlines will be forced to consider the future development of their own catering systems in a more general strategic light, with regard to how product support can be reorganized so as to give the greatest possible financial return. Such a situation is likely to open up new opportunities for companies like SAS Service Partner.

Regarding new geographic markets, it is of primary importance to get a foothold at key airports in the SAS Group's traffic network. In this way, SAS Service Partner can support the Group's overall travel service. Other obvious ways of reaching these markets are through cooperation agreements with the SAS Group's new business partners. This makes Great Britain and the United States particularly interesting as potential markets, since SAS Service Partner is already in place there.

Developments in Eastern Europe are also creating new business opportunities, and contact has already been made with numerous airports. An example of potential business in this area is the letter of intent signed in 1989 to start up restaurant operations at Moscow's airport.

MSEK	1989	1988
Revenue	1,407	1,251
Income before extraordinary items	**114**	**90**
Net profit margin, %	9	8
Number of employees	540	390

SAS TRADING REVENUE



SAS Trading's business concept is to offer attractively priced quality goods to travelers, and cost-effective advertising space in diverse media productions. These operations are an important part of SAS's service concept and are an expression of the Group's total view when it comes to fulfilling the various needs of the Airline's passengers throughout their journeys.

SAS Trading became an independent business unit of the SAS Group on January 1, 1988. Operations comprise retail sales, wholesale trade, and media production. A new organizational structure was initiated in early 1990, employing numerous distributive units which broaden market contact and facilitate improved business objectives.

Growth will be sought through further development of the unit's established product segments, as well as through cooperation agreements and/or acquisitions of complementary businesses.

SAS Trading's goal is to grow by an average of 25 percent per year from 1990 to 1992, with a minimum 30-percent return on capital employed.

Sharp Rise in Retail Sales Volume

Retail sales are conducted primarily in cooperation with the Scandinavian aviation authorities. The objective is to make the international airports in Denmark, Norway and Sweden attractive transit alternatives in competition with airports in other locations, such as London, Amsterdam and Frankfurt, and thereby reduce leakage to traffic systems outside Scandinavia.

In all, SAS Trading owns 35 shops at Copenhagen Airport, at Fornebu and Gardermoen Airports in Oslo, and at Stockholm's Arlanda Airport. The retail sales operations also include substantial in-flight sales on the Airline's domestic and international flights.

A new gift shop was opened in 1989 at the airport in Bergen. Additional expansion of retail space at Arlanda is planned for 1990.

Retail sales rose 13 percent in 1989, to MSEK 1,017. This improvement is attributable to a sizable gain in volume both in the shops and in in-flight sales. Intensified marketing and the continued shift of the product selection toward more exclusive goods have also aided this growth. In-flight sales rose dramatically due to effective sales efforts and an attractive product offering.

Hotel Shops and Mail-Order Sales

In 1990 SAS Trading is initiating cooperation with the Group's hotel operations. The first phase will involve setting up shops at the Inter-Continental Hotels in London and Paris. Cruise liners are another segment with promising potential, and the first contract of this kind was signed in 1989 with an Asian firm.

Mail-order sales on-board may become a thriving alternative to traditional sales of duty-free goods as a result of the greater number of nonstop flights, shorter transit times, and demands for comfort and larger product selection. In 1989 SAS Trading acquired the Danish mail-order firm Brdr. Ostermann Petersen A/S, a leading supplier to diplomats around the world. SAS Trading plans to broaden that market to travelers around the world.

Rise in Wholesale Trade

SAS Trading's wholesale operations involve the purchase, inventorying and distribution of goods sold by its retailing operations. Other customers include Scanair, Transwede, Conair, and the ferry company Silja Line. The wholesale company Copenhagen Duty-Free Distribution put a new computer system in operation which will dramatically improve its ability to meet new orders. Sales to third parties amounted to 265 MSEK during the year.

Higher Quality Media Productions

SAS Media produces a number of airline magazines, spearheaded by SAS Airline's *Scanorama*, as well as videofilms for in-flight showing. These media productions are attractive from an advertising viewpoint since they are aimed at a highly receptive target group with large purchasing power. In 1989 additional editorial resources were made available for *Scanorama*, while changes were made to the magazine's graphic design. These measures have contributed to further improvements in quality and give SAS Media a solid platform for new assignments in the travel media segment in the 1990s.

MediaSäljarna, a wholly owned subsidiary, sells advertising space in SAS Media's productions. MediaSäljarna is also commissioned by Scanair, Linjeflyg and other clients outside the airline industry, and produces *HeadHunter*, the Swedish domestic air industry's recruitment/management magazine.

Future Internationalization

SAS Trading works according to two chief strategies within the framework of the Group's integrated travel service. The first is to support the SAS Group's global expansion by setting up operations in key locations. The other is to increase the number of sales outlets in areas and sectors outside of the airline industry.

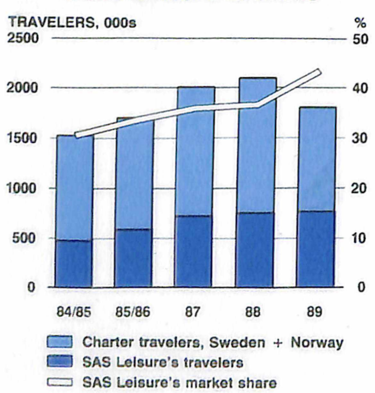
EC Internal Market a Challenge

One of the greatest potential threats against SAS Trading's continued growth is posed by the EC's internal market inauguration in 1992 and the harmonization of taxes and fees, which could result in a reduction or elimination of price incentives for certain product groups. Intercontinental traffic will only be marginally affected by this development.

For many business travelers, the airport has become the natural place to do certain shopping. Therefore, factors such as product selection, service, payment methods, proximity and delivery alternatives are often just as important as attractive prices, even though prices are traditionally the primary means of competing against specialty shops and department stores in the urban centers. Upholding SAS Trading's competitive edge after 1992 will require continuous efficiency-improvements in logistics and accounting systems, large volumes, and regular adaptation of product inventories to the market's needs.

MSEK	1989	1988
Revenue	3,749	3,530
Income before sale of equipment, etc.	**-8**	**-6**
Income before extraordinary items	26	46
Gross profit margin (GOP), %	2	5
Return on capital employed, %	9	19
Investments	307	577
Number of employees	3,570	3,240

SAS LEISURE
MARKET SHARE, SWEDEN AND NORWAY
INCLUSIVE-TOUR OPERATIONS



SAS Leisure was established in 1989 to strengthen the SAS Group's position in the vacation travel sector. The business unit has three solid cornerstones: inclusive-tour leisure travel operations, hotel operations, and charter air transport.

The Best Weeks

SAS Leisure's business concept is to give its customers their best weeks of the year at a reasonable price and high standards in every respect. SAS Leisure does this by designing competitively priced vacation packages, marketed and produced in a comprehensive leisure travel system, while maintaining control over air and ground transport, hotels, service, recreational activities, favorable shopping opportunities and so on.

Goals

SAS Leisure's qualitative goal is to have the market's most satisfied customers, the highest repeat purchase rate, and the best workforce and partners, while attaining an international position within the inclusive-tour market—regarding both air services and hotel accommodations. The quantitative goal is a 15-percent return on capital employed, a 40-percent market share in established markets, and entrance into several new markets during the 1990s.

Strong Position, Weaker Market

SAS Leisure's principal market is made up of charter travelers in Sweden and Norway who in 1989 totaled 1,350,000 and 450,000 persons, respectively. SAS Leisure's share of the Swedish market rose to 41 percent; in Norway its share rose to 48 percent. The entire Nordic market in 1989 is estimated at 3,630,000 vacationers, of whom 22 percent flew with SAS Leisure.

Vacation travel from the Nordic countries increased dramatically throughout the 1980s, as a favorable economic trend contributed to gains in disposable income. Added to this was a series of cold and wet summers, which prompted many people to look south for the sun. The total Nordic market expanded sharply between 1984 and 1988. In relative terms, the markets in Norway and Finland grew the fastest, while Sweden and Denmark noted the greatest increases in actual numbers.

SAS Leisure's subsidiary Vingresor strengthened its position as the leading inclusive-tour operator in Sweden and Norway, boosting its market share from 25 percent to about 33 percent.

By late 1988 demand began to fall, especially in Norway, which is struggling with an economic recession. Demand decreased in Sweden as well, though to a lesser degree. This downward trend intensified in 1989. This, combined with a more extensive market offering primarily in Denmark and Sweden, led to fiercer competition and lower margins. The relatively low price level and the large proportion of discounted trips translated into sharp declines in profitability throughout the market.

The total market in Norway has de-

creased from 762,000 to 452,000 travelers in two years' time. In Sweden, the number of purchased trips rose in 1988, but declined in 1989. Capacity reductions are expected to continue in 1990.

New Players in Established Oligopoly

The leisure travel market underwent a restructuring during the 1980s, moving from many small, specialized operators to a few strong blocs with airline ties. In recent years new players have entered the market, changing the ownership picture dramatically.

Stockholm-Saltsjön acquired a majority shareholding in the expanding charter company Transwede and also purchased Atlasresor, which was formerly Braathen's Swedish inclusive-tour operator. KF/Reso now has a majority stake in Fritidsresor after acquiring shareholdings from Sterling. In addition, Fritidsresor and Stockholm-Saltsjön have holdings in Transwede, which owns Royal Tours and Spain Tours. And in 1989 Stockholm-Saltsjön and Reso agreed to coordinate their tour operations in a newly formed, jointly owned company. In early 1989 Spies took over Tjaereborg Rejser, marking the largest merger ever in the Nordic leisure travel market.

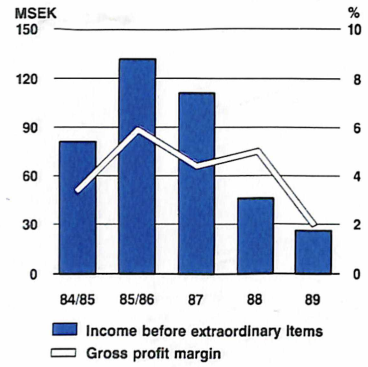
In pace with these changes, SAS Leisure has advanced its own market-position. During the autumn of 1988 Vingreiser and Saga Tours in Norway merged to form a single company owned in part by Braathen.

The liberalization of the European airways and demands for greater shares of traffic for each nation's airlines in important vacation countries have led to the formation of new charter companies and small, scheduled-flight airlines. To exploit opportunities in the Spanish market, SAS Leisure increased its stake to 49 percent in Spanair, a Spanish charter airline formed in 1988.

As a result of the dramatic restructuring of the leisure travel market, Scanair lost all or part of a number of major customers, including Royal, Fritidsresor and Atlasresor. In 1988, to compensate the reduction in volume, Scanair formed a new inclusive-tour company, Always, in cooperation with TMG and SJ Resebyrå.

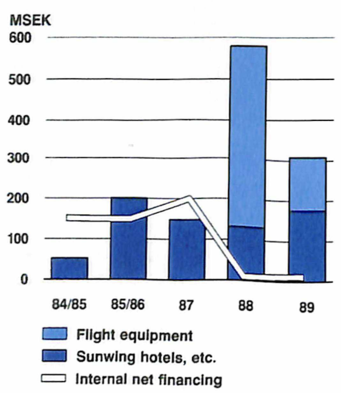
As a result of these changes, three

SAS LEISURE
TREND OF INCOME*



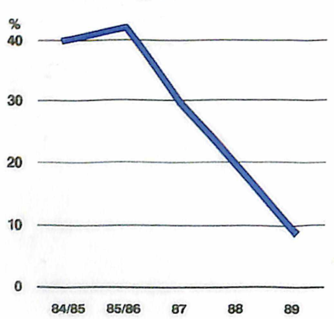
* 1988 - 89 includes Scanair

SAS LEISURE
INVESTMENTS*



* 1988 - 89 includes Scanair

SAS LEISURE
RETURN ON CAPITAL EMPLOYED*



* 1988 - 89 includes Scanair

strong blocs have evolved in the Nordic leisure travel market: Spies-Tjaereborg, SAS Leisure, and Reso-Stockholm-Saltsjön. These account for approximately 85 percent of vacation travel volume in Denmark, Norway and Sweden.

Inclusive-Tour Operations
SAS Leisure conducts inclusive-tour operations through Vingresor and Always in Sweden, and through Vingreiser and Saga in Norway. Ving sells its products exclusively through its own offices, while Always and Saga sell primarily through travel agents. The inclusive-tour operations comprise a variety of travel packages, such as youth vacations, golf vacations, Alpine vacations and conference trips. Sales of the inclusive-tour operations amounted to 2,500 MSEK in 1989. Earnings for the year were charged with costs associated with the start-up of Always and the acquisition of Saga.

Hotels
SAS Leisure's own hotel chain, Sunwing, has 14 facilities in five countries, including three Hotel 33s, which are geared for the youth sector. Total capacity amounts to 8,020 beds. Sunwing accounted for 20 percent of Vingresor's sales in 1989. The goal is 20– 25 percent. Approximately 20 percent of Sunwing's capacity is sold to other European travel operators.

Capacity doubled during the past five years, during which time Sunwing invested 513 MSEK in new facilities and the renovation of older ones. Revenues from the hotel operations rose 23 percent in 1989 to 488 MSEK.

Charter Air Transport
Charter air transport is handled by SAS's sister consortium, Scanair, and by partly owned Spanair.

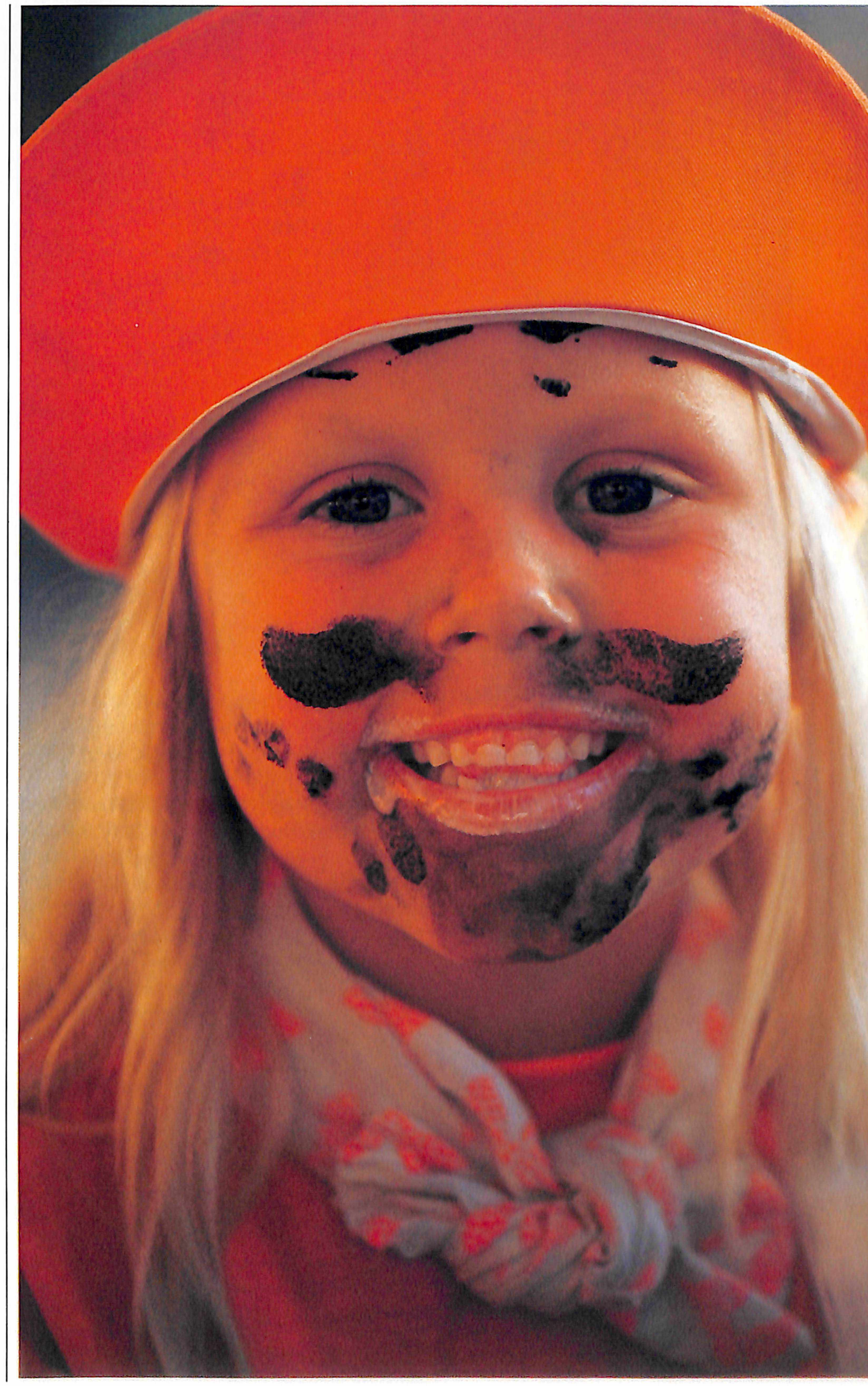
Scanair carried 789,000 roundtrip passengers in 1989, accounting for 70 percent of flights sold by Vingresor, Always and Saga. Scanair's services consist primarily of transporting large volumes of travelers from major points of departure to the most popular vacation destinations, offering a high standard of service and low prices. To accommodate this end is a fleet of six 374-seat DC-10-10s. These aircraft were commissioned in 1989, resulting in substantial phase-in costs for the year. Marginal capacity is leased from SAS Airline to complement Scanair's base fleet. Scanair's revenue rose 2 percent in 1989, to 1,628 MSEK.

Spanair's fleet consists of seven 163-seat MD-83s. This size aircraft is well suited for Spanair's program, handling flights from areas with smaller passenger bases to major vacation destinations, and from major points of departure to smaller destinations. Aside from SAS Leisure, Spanair served 55 European travel operators in 12 countries in 1989. The company also conducts domestic air services in Spain for Iberia. About 75 percent of production is sold outside Scandinavia.

Continued Internationalization Needed
Improved profitability over the short term will require regular improvements in efficiency and more rapid adjustment to market developments. To parry fluctuations in the low-price vacation travel segment, a greater focus will be placed on refined products which are less sensitive to price trends. Accordingly, every aspect of the travel service will be improved and upgraded, giving the customer a greater choice. This creates a platform for price differentiation, better margins and greater customer satisfaction.

Demand for international vacation trips will increase during the 1990s and into the next century. More people in more countries are gaining more free time and purchasing power. Interest in travel is also increasing in general. There is a bit of saturation regarding the market base in Northern Europe, while the tourist base from Southern Europe, Japan, Southeast Asia and the U.S. is increasing.

Deregulation of the air travel industry is creating conditions for new constellations and improved capacity utilization. Scheduled traffic will be in a position to complement charter services and thereby creates even more alternatives for the vacation travel market. SAS Leisure will play a vital role in the internationalization and development of the SAS Group's global travel service, as well as in managing the effects of deregulation.



SAS FINANCIAL SERVICES

MSEK	1989	1988
Income before extraordinary items:		
-SAS Finance	**64**	**54**
-Diners Club Nordic A/S	**20**	**17**
	84	71
Number of employees	280	250

SAS Financial Services consists of SAS Finance, Diners Club Nordic, Polygon Insurance Co. Ltd. (33 percent), and Aviation Holdings PLC (24 percent).

SAS Finance

SAS Finance is the SAS Group's central finance unit and is legally included in the SAS Consortium.

SAS Finance's function is to take advantage of financial opportunities created by the various business units of the SAS Group in such areas as liquidity management, foreign exchange, funding, project financing and leasing. SAS Finance is also responsible for investor relations and for maintaining the Group's financial risk within established limits.

SAS Finance works as an internal bank vis-à-vis the other business units of the SAS Group. These operations are conducted in competition with banks and other financial institutions, thereby guaranteeing a professional and businesslike relationship with the Group's business units and subsidiaries.

Financing of the SAS Group's extensive investment program is handled by SAS Finance and is arranged mainly through international borrowing. SAS is currently one the the largest Scandinavian borrowers in the international capital markets. Through active monitoring of these markets and by utilizing the most up-to-date borrowing techniques, SAS has contracted favorable terms of funding, especially compared with other airlines.

The Group's financing is generally long-term in order to avoid major refinancing during the ongoing investment program.

The SAS Group's currency policy stipulates that financing be made in the Group's surplus cash-flow currencies in order to reduce currency exposure. Due to SAS Airline's currency position, in which the market value of aircraft is predominantly in U.S. dollars, a substantial amount of financing is also conducted in U.S. dollars to cover this balance sheet exposure. Various liability-management techniques are used to hedge the Group's currency exposure and actively reduce funding costs.

SAS Finance also handles the majority of the Group's liquid funds, primarily in the Scandinavian currencies and U.S. dollars.

Through SAS Finance, the SAS Group is in a favorable position to raise additional cash through commercial paper programs in Denmark, Norway, Sweden, and the Euromarket, as well as through available long-term committed stand-by facilities with international bank syndicates.

The majority of SAS Finance's employees are based at SAS's head office in Stockholm. SAS Finance also has branch offices in Copenhagen and Oslo, as well as a subsidiary in the Netherlands, SAS Capital B.V., whose branch office in Brussels serves as a coordination center.

Diners Club Nordic A/S

Diners Club Nordic has been a wholly owned subsidiary of SAS since 1986, giving the Group the franchise rights to the Diners Club charge card in Denmark, Finland, Iceland, Norway and Sweden. The Diners Club card is backed by Citicorp of the United States.

In 1989 SAS and Diners Club Nordic launched the SAS Club EuroClass Card, targeted at business travelers and the companies they work for. The card is intended to give customers a global payment tool, while at the same time giving them access to the services and privileges of SAS's global travel service.

The goal is that the combined Diners Club/SAS card will be able to store all the information currently contained in the various travel documents. This will enable frequent business travelers—with a single card—to make all payments in connection with their travels, take care of flight and hotel check-ins, and so on.

Polygon Insurance Co. Ltd. (33%)

Polygon Insurance Co. Ltd. is owned equally by SAS, KLM and Swissair.

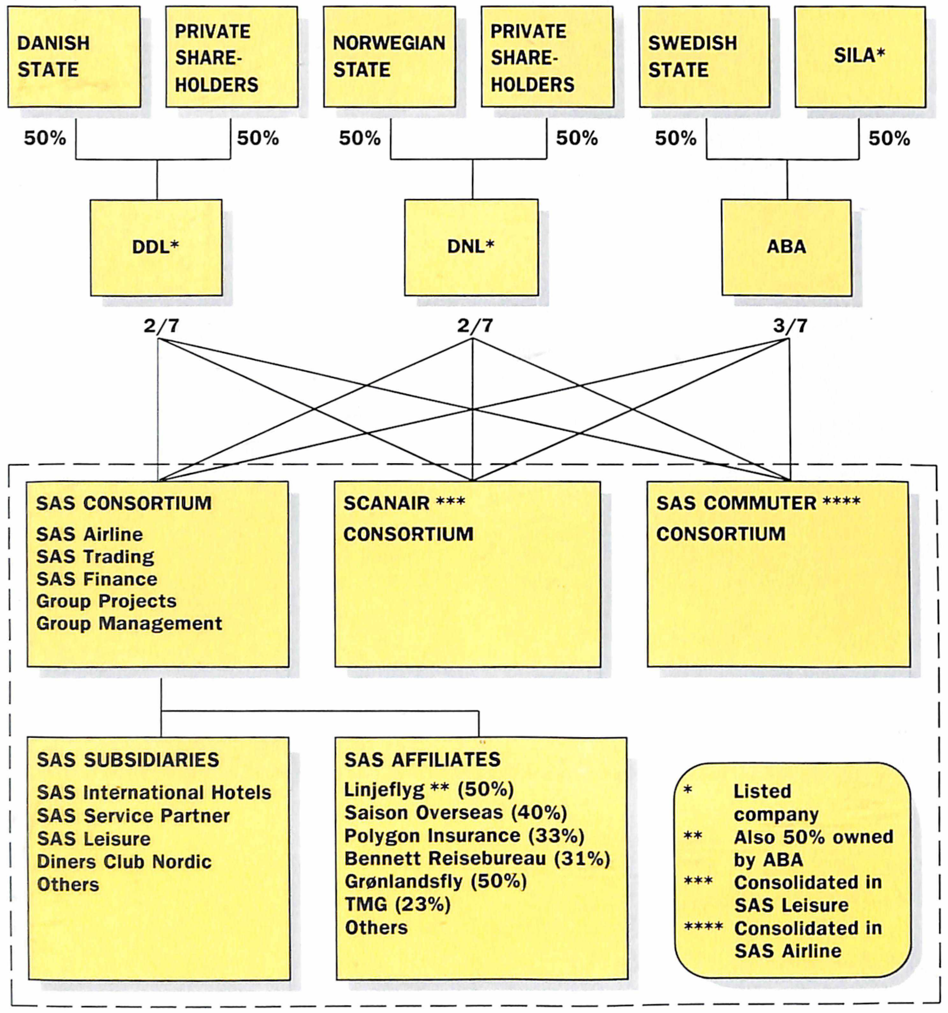
The company conducts insurance operations based in Guernsey and currently ranks among the major international aviation underwriters with approximately 90 percent of income derived from open market business.

The subsidiary Polygon Insurance Co. (UK) London, explores opportunities in other lines of insurance.

Aviation Holdings PLC (24%)

Aviation Holdings PLC is an international aircraft leasing company formed in July, 1989 in London.

The primary business concerns the operational leasing of aircraft for commercial use. The company has a capital base of 160 MUSD.



The three national airlines Det Danske Luftfartselskab A/S (DDL), Det Norske Luftfartselskap A/S (DNL), and AB Aerotransport (ABA) are the parent companies of the SAS Consortium. The first consortium agreement covering North Atlantic traffic was signed in 1946, and the current agreement was ratified in 1951. The parent companies have transferred responsibility to the SAS Consortium for scheduled air transport, and to Scanair for charter services. A third consortium, SAS Commuter, was formed in 1989 to conduct air transport exclusively for the SAS Consortium. In 1988 the current consortium agreement was extended until September 30, 2005. The parent companies' concessions, which are the base of SAS's traffic rights, were extended for the same time period. Scanair and SAS Commuter are sister consortia of SAS Airline, with the same ownership structure. DDL and DNL each own two-sevenths of the three consortia, while ABA owns three-sevenths.

Of SAS's three owner-countries, only Denmark is a member of the EC. However, Norway and Sweden have reached agreement on conformance to the EC's commercial aviation policies. Consequently, SAS is regarded as an EC airline.

At the end of each accounting period the consortia's profits, assets and liabilities are reported in the accounts of the parent companies in a 2-2-3 ratio.

Decision-making

The consortia's highest decision-making body is the Assembly of Representatives, comprising the parent companies' boards of directors. The Assembly of Representatives appoints the consortia's boards of directors and auditors, approves their financial statements, and decides on the amount of profit to be transferred from the consortia to the parent companies. The parent companies each have two members on the consortia's boards. In addition, the unions in each country appoint a member and his or her personal deputies.

Responsibility for overall operations rests with the chief executive of the SAS Group. SAS Commuter is managed within SAS Airline's operations. Scanair became a profit center of the newly formed business unit SAS Leisure in 1989.

Capital and Taxes

The consortia's equity is made up of the capital account, which consists of capital paid in by the parent companies and earnings retained in operations. The capital account can only be increased through contributions from the parent companies, which are free to raise capital through stock issues.

The consortia are not tax-paying entities. Instead, the parent companies each file income tax returns and pay taxes on their share of the consortia's profits in accordance with national regulations. The consortia's subsidiaries are responsible for filing taxes in their respective countries in accordance with national regulations.

The consortia's accounts are examined by a group consisting of two external auditors from the member-countries, appointed by the parent companies.

DDL (Det Danske Luftfartselskab A/S)

DDL has concessions to conduct scheduled domestic traffic, international traffic originating from Denmark, and charter services. Preferential rights that DDL chooses not to utilize on certain regional routes can be transferred to other airlines. All of DDL's traffic rights have been ceded to SAS and Scanair.

DDL's primary business is its shareholdings in the three consortia and related activities. In addition, DDL owns hangars, repair shops and warehouses at Copenhagen Airport, which are leased to SAS at current market terms. Annual revenues from this leasing amount to roughly 13 MDKK. DDL also owns the property on which the SAS Royal Hotel is located in Copenhagen. DDL's share capital amounts to 50.8 MDKK, with a market value of 3,263 MDKK at year-end 1989.

Fifty percent of the company's stock is owned by the Danish government. Of the remainder, only 17.5 percent is registered in the shareholders' names. DDL's stock is listed on the Copenhagen Stock Exchange.

DNL (Det Norske Luftfartselskap A/S)

In addition to concessions to conduct international air services, DNL has traffic rights for most of the important routes in the Norwegian domestic scheduled flight network. Since 1987, however, the authorities are allowed to grant parallel concessions for special circumstances.

DNL has preferential rights for international traffic. Through the adaptation of the Scandinavian commercial aviation policies to conform with those in Europe, regional airlines are being given the opportunity to fly to certain destinations outside Norway. DNL also has concessions to conduct charter services.

DNL's principal line of business concerns its interest in the three consortia. DNL also owns a number of properties which are leased to SAS at current market terms. These holdings include hangars, repair shops and offices in Oslo, Bergen, Bodø and Tromsø, with a book value of 385 MNOK at year-end 1989. Leasing revenues amounted to 67 MNOK in 1989.

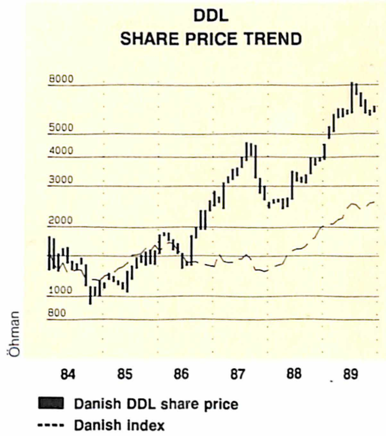
DNL's stock is broken down into equal numbers of A- and B-shares. All A-shares are owned by the Norwegian government, while B-shares are owned by private investors and are traded publicly on the Oslo Stock Exchange. Approximately 15 percent of DNL's stock is held by foreign investors. DNL's share capital amounted to 314.5 MNOK at year-end 1989, with a market value of 3,523 MNOK.

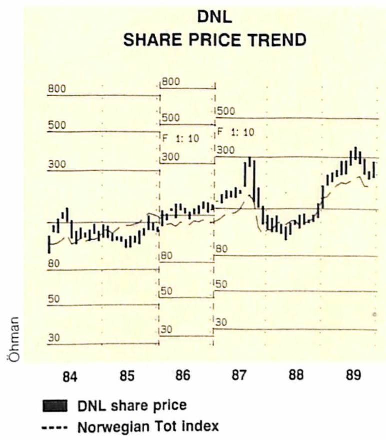
ABA (AB Aerotransport)

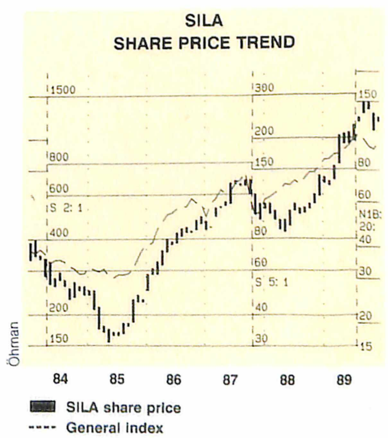
ABA's permit to conduct Swedish domestic air services covers primarily the routes between Stockholm and Gothenburg, Malmö, Luleå and Kiruna. For intra-Scandinavian traffic, ABA is allowed to fly between the capitals and a few other major cities. Also, ABA has preferential rights to all international traffic, including charter flights. In addition to its involvement with SAS, ABA conducts capital management operations and has interests in other airlines as well as in the real estate business and the printing industry. ABA directly owns 50 percent and 25 percent of the Swedish domestic carriers Linjeflyg and Swedair, respectively.

Grafon AB, a new Swedish printing group, was formed during the year through the merger of the printing companies Sörmlands Grafiska, in which ABA had a 75-percent shareholding, and Interprint, which was owned equally by Bonniers and Esselte. ABA, Bonniers and Esselte each have 30-percent shareholdings in Grafon AB, while the Swedish Trade Union Confederation and others have a 10-percent shareholding.

ABA's real estate holdings at Bromma Airport were transferred during the year to the property management company Fastighets AB Brommastaden, in which the builder/developer Anders Diös AB has a 75-percent shareholding and ABA a 25-percent shareholding. Earlier, ABA had transferred those properties used and leased by SAS Airline through a sale-and-







SCANAIR STATEMENT OF INCOME

MSEK	1989	1988
Operating revenue	**1,628**	1,600
Operating expenses	**1,657**	1,554
Operating income before depreciation	**–29**	46
Depreciation	**12**	48
Operating income after depreciation	**–41**	–2
Gain on the sale of flight equipment	**41**	55
Unusual items	**–24**	–99
Net financial items	**19**	26
Income before extraordinary items	**–5**	–20

SCANAIR BALANCE SHEET

MSEK	1989	1988
Liquid funds	**113**	14
Other current funds	**219**	357
Total current funds	**332**	371
Non-current assets	**112**	159
Total assets	**444**	530
Current liabilities	**331**	391
Long-term debt	**3**	3
Equity	**110**	136
Total liabilities and equity	**444**	530

SAS COMMUTER STATEMENT OF INCOME

MSEK	1989
Operating revenue	**19**
Operating expenses	**35**
Operating income before depreciation	**–16**
Depreciation	**0**
Operating income after depreciation	**–16**
Operating contribution from SAS Airline	**16**
Income before extraordinary items	**0**

SAS COMMUTER BALANCE SHEET

MSEK	1989
Liquid funds	**5**
Other current assets	**4**
Total current assets	**9**
Non-current assets	**2**
Total assets	**11**
Current liabilities	**4**
Long-term debt	**0**
Equity	**7**
Total liabilities and equity	**11**

leaseback agreement.

The Swedish government owns 50 percent of ABA's stock. The other half is owned by SILA (Svensk Interkontinental Lufttrafik AB), which is listed on the Stockholm Stock Exchange. Its stockholders include listed companies, the Swedish Trade Union Confederation, Folksam Insurance Company, mutual funds and other institutions.

In 1989 ABA issued 705 MSEK in new stock. SILA financed its share, 352.5 MSEK, through a new issue of B-shares, which facilitates trading in that company and makes it possible for foreign investors to invest indirectly in SAS. SILA's share capital amounted to 352.5 MSEK at year-end 1989, with a market value of SEK 4.05 billion.

The SAS Consortium

The SAS Consortium and its subsidiaries collectively form the SAS Group. The consortium includes the SAS Group management and the business units SAS Airline, SAS Finance, SAS Trading, and joint Group projects.

Revenues of the SAS Consortium amounted to 21,194 MSEK in 1989 (19,511). Income before allocations and taxes reached 1,460 MSEK (2,355), of which 245 MSEK (1,006) is attributable to gains on the sale of flight equipment, etc. Financial items of 156 MSEK (23) included dividends from subsidiaries totaling 58 MSEK (62). The parent companies increased the SAS Consortium's capital account by 1,750 MSEK during the year to facilitate financing of the ongoing investment program. Of this total, 700 MSEK will be paid in May 1990.

The Scanair Consortium

Beginning in 1989, Scanair is included in SAS Leisure, a newly formed business unit within the SAS Group. Accordingly, Scanair's accounts are consolidated in the SAS Group's 1989 financial statements. Scanair is the largest charter airline in Scandinavia, conducting traffic from Norway and Sweden, and from Denmark to a limited degree.

The Scandinavian charter air market was generally characterized by overcapacity, downward pressure on fares and declining profitability in 1989. From October 1988 until December 1989, demand decreased by 2 percent in Sweden, 40 percent in Norway, and 15 percent in Denmark.

Scanair's current aircraft fleet consists of six DC-10-10s on five-year leases. The aircraft were gradually phased in during 1988 and 1989, replacing the previous fleet of DC-8s. Due to the tough market situation, one DC-10 was leased out during the year.

Scanair's sales totaled 1,628 MSEK (1,600), of which charter services accounted for 75 percent. The remainder was generated from in-flight sales.

Income before extraordinary items amounted to a loss of 5 MSEK (1988: loss of 20 MSEK). Earnings were hurt by the decline in demand and restructuring within the travel industry. Costs associated with the phase-in of Scanair's new fleet also had a negative impact on earnings.

The SAS Commuter Consortium

The SAS Commuter Consortium was formed in 1989 as a production company conducting air transport on behalf of SAS in Scandinavia and Northern Europe. It is hoped that the service offered by SAS Commuter will have a favorable impact on traffic and passenger volume, so that successful routes can be incorporated into SAS's primary network for service with larger aircraft. The traffic program is handled by a fleet of Fokker 50s which were leased from SAS Airline in 1989. SAS has ordered a total of 22 Fokker 50s on behalf of SAS Commuter. At year-end 1989, four of these aircraft had been delivered; 16 aircraft are scheduled for delivery in 1990, and two more in 1991. Fifteen of these aircraft will be used in EuroLink, a southern traffic system with its base in Copenhagen, while the remaining seven planes will be used in Norlink, a northern system based in Tromsø. SAS Commuter's equity amounted to 7 MSEK in 1989.

In 1990 SAS Commuter will be taking over the ownership rights to all of the Fokker 50 airplanes and their spare parts, valued at 1,700 MSEK. The parent companies have decided to increase SAS Commuter's equity to 500 MSEK during 1990 and 1991.

Report by the Board of Directors and President for the fiscal year January 1, 1989 - December 31, 1989.*

The SAS Group's accounts are prepared in accordance with International Accounting Standards.

Starting in 1989 the Scanair and SAS Commuter Consortia, which have the same ownership structure as the SAS Consortium, are consolidated in the SAS Group. A proforma statement of income for 1988 is included to provide accurate comparison.

* A translation of the Swedish original.

THE SAS GROUP

Business Environment

The competition intensified for the SAS Group's business units as a result of more players in the international markets, the liberalization of the European market, new hotel start-ups, and overcapacity in the leisure travel market.

Politically, civil aviation developments were dominated by the liberalization within the European Community (EC). Aviation policies implemented in 1988 have now resulted in greater competition from new and established airlines. In December 1989 the EC Commission established guidelines for further development. In 1990 a new, major step will be taken to liberalize the market, with the objective of achieving essentially free competition for intra-EC traffic in 1993.

Norway's and Sweden's requests to find a suitable form of association with the EC's air transport market have not yet resulted in any concrete discussions, although such are expected in 1990.

As a result of liberalization of Scandinavian concession policies in 1988, other Scandinavian airlines in 1989 opened some thirty new international routes between Scandinavia and Europe.

Current civil aviation developments in Europe do not immediately affect the conditions for long-distance routes. Through bilateral agreements SAS secured new air rights in Singapore, Canada, and the Soviet Union. This has made possible the opening of new routes to Toronto and Tallinn (Estonia).

Business Development, 1989

For the SAS Group as a whole, 1989 was distinguished by continued intensive work towards developing SAS into a competetive, global travel service corporation. The level of investments during the year was higher than any year previously, amounting to 9,922 MSEK (4,077).

The main strategy for the SAS Group's business units is to work together to be the best alternative for the business traveler by offering an effective global travel service, with air and ground transportation provided by SAS Airline or its cooperation partners, hotels by SAS's own hotel operations, and airport services, restaurants and the like by SAS Trading and SAS Service Partner. The Group's services are extended to the vacation travel segment through SAS Leisure.

Cooperation with Continental Airlines in the United States, Thai Airways International in Southeast Asia, All Nippon Airways in Japan, and with British Midland Airways in Great Britain exceeded expectations.

During the autumn a cooperation agreement was signed with Swissair and Finnair, establishing a comprehensive partnership within the framework of "The European Quality Alliance" which, in addition to the traffic system, covers hotel operations, aircraft and fuel purchases, and cooperation in other aspects of the Group's travel service. A minority cross-ownership between the companies is planned for 1990.

In South America, cooperation with a planned minority shareholding was established with LanChile. And in Canada, a close coordination of traffic was initiated with Canadian Airlines International.

A number of major projects were started during the year to capitalize on the inherent potential within the coordination of systems and operations with SAS's cooperation partners. With the cooperation agreements made with airlines in Europe and other continents, SAS has laid the groundwork for a travel service system which spans the globe.

A strategically important deal during the year was the SAS Group's purchase of 40 percent of the shares in Saison Overseas (Holdings) B.V., owner of the globally operative Inter-Continental Hotels chain. As a result of this investment which totaled 3,148 MSEK, the number of SAS hotels rose by 102 facilities. Along with the 25 hotels currently operated by SAS International Hotels, the majority of destinations served by SAS and its cooperation partners are covered by first-class hotels associated with the SAS Group.

As a step in positioning itself in the market prior to the full liberalization of the air transport market, SAS Airline expanded its own network with new routes and more frequent service.

Substantial investments were made in the aircraft fleet. The long-range Boeing 767 was introduced as the replacement for the DC-10 on SAS's intercontinental routes, while the changeover from the DC-9 to the new MD-80 continued for European, intra-Scandinavian and domestic traffic. The Fokker 50 was introduced to handle regional commuter traffic.

Investments in flight equipment amounted to 4,206 MSEK (2,068).

SAS Commuter was established in 1989 to handle production within SAS's Scandinavian and European regional traffic.

Development and integration of the Diners charge card in SAS has further enhanced customer access to the Group's comprehensive travel service.

SAS Leisure was formed in 1989 as a business unit of the SAS Group in a move aimed to consolidate and develop SAS's position as a leading producer of vacation travel originating in Scandinavia. The business unit comprises the inclusive-tour operators Vingresor, SAGA/Solreiser and Always, the Sunwing hotel chain, and the charter airlines Scanair and partly owned Spanair.

SAS Service Partner and SAS Trading continued to expand internationally through acquisitions and new business start-ups in Europe.

SAS Financial Services expanded its operations by becoming a co-owner in the aircraft leasing company Aviation Holdings PLC.

Financial Development

Earnings were affected considerably by actions taken to boost capacity at SAS Airline, with expansion and further development of the route network. Traffic production rose 11 percent, and 20 new aircraft were delivered during the year.

The large increase in capacity, combined with a weaker-than-anticipated growth in traffic, led to a decline in the cabin factor. In addition, SAS Airline's earnings were affected by the loss of revenues resulting from external threats made earlier in the year, phase-in costs for new flight equipment, and a high average price for fuel.

SAS Leisure's earnings were hurt by the generally weak market for vacation travel in Norway, and substantial overcapacity in the Swedish market.

The trend of earnings remained favorable for SAS International Hotels' established operations, SAS Service Partner, SAS Trading, and SAS Financial Services.

The SAS Group's operating revenue amounted to 29,471 MSEK (27,556), an increase of 9 percent for comparable units over 1988. Operating income before depreciation was level with the previous year, totaling 2,658 MSEK (2,681).

The massive investment program in the aircraft fleet, the hotel operations and other strategic areas, has led to a sharp increase in capital costs.

Depreciation, etc. rose to 1,414 MSEK (1,174), and the net financial expense totaled 98 MSEK, compared with net financial income of 150 MSEK in 1988. This figure includes interest expenses of 208 MSEK associated with the investment in Inter-Continental Hotels.

The SAS Group's income before extraordinary items amounted to 2,206 MSEK (3,690). Income from the sale of fixed assets was exceptionally large in 1988. In 1989, income from the sale of flight equipment, hotel properties, etc. totaled 1,037 MSEK, compared with 2,000 MSEK in 1988. The SAS Group's revenues, income and key ratios are shown in the table on p. 36.

Investments during the year rose to 9,922 MSEK, compared with 4,077 MSEK in 1988 (including Scanair). Of this total, investments in flight equipment accounted for 4,206 MSEK, and acquisition of the 40-percent holding in Inter-Continental Hotels accounted for 3,148 MSEK.

Due to the long-term nature of these investments, with returns and growth in value calculated over a relatively long economic lifetime, there is a drop in the Group's key ratios in the beginning of the investment cycle.

The return on capital employed is reported at 10 percent in 1989, compared with 16 percent in 1988.

INCOME AND KEY RATIOS

MSEK	1989	1988[1]	1988
Operating revenue	**29,471**	27,556	27,067
Operating income before depreciation, etc.	**2,658**	2,681	2,735
Depreciation	**–1,137**	–1,062	–1,015
Leasing costs	**–277**	–112	–112
Operating income after depreciation	**1,244**	1,507	1,608
Share of income in affiliated companies	**83**	127	127
Gain on the sale of			
– flight equipment	**286**	1,061	1,006
– hotel properties, etc.	**751**	939	939
Unusual items	**–60**	–94	–94
Net financial income/expense	**–98**	150	124
Income before extraordinary items and taxes	**2,206**	3,690	3,710
Investments	**9,922**	4,077	3,938
Return on			
– capital employed %	**10**	–	16
– equity before taxes %	**11**	–	22
Share of risk-bearing capital %	**36**	–	38
Debt-equity ratio	**1.3**	–	0.9
Average number of employees	**39,800**	36,150	35,600

[1] Including Scanair.

Through the year's earnings and the capital contributions from the parent companies, the Group's solvency margin and debt-equity ratio remained strong.

A breakdown of income for the business units of the SAS Group is summarized in the table on p. 37.

SAS Airline

SAS's total traffic production (Available Seat Kilometers) rose 11 percent in 1989, while passenger traffic (Revenue Passenger Kilometers) rose 9 percent. Total passenger volume amounted to 14 million (13.3), and the average cabin factor was 65.3 percent (67.0).

By giving high priority to safety and punctuality, SAS's performance is among the top of international airlines.

SAS's *European traffic* grew sharply. Production rose by 16 percent, with a 12-percent increase in traffic. This was achieved in spite of a weak start to the year caused by external threats made against SAS. The year's expansion entailed more frequent service and the addition of a large number of new routes. Two new destinations were added during the year (Stockholm–Tallinn and Copenhagen– Birmingham), as well as thirteen nonstop routes, including Oslo-–Brussels and Stockholm–Rome. Through this expansion SAS has consolidated its position as one of Europe's leading airlines in the business travel segment.

Traffic to Western Europe as a whole developed favorably in 1989, headed by France and Belgium. The budget carrier Air Europe's venture in Scandinavia has not affected traffic between Sweden, Denmark and the U.K. to any considerable degree, but it did have an adverse effect on traffic between Norway and the U.K.

SAS benefited during the year from political events in Eastern Europe, where traffic rose by 34 percent. The majority of this increase was generated on the Airline's Moscow routes. The inauguration of service between Stockholm and Tallinn was a great success, with a high level of passenger volume. Such positive developments are leading to a greater focus on Eastern Europe. In the short term, SAS plans to increase the number of frequencies to Moscow, while introducing service to Prague and Riga.

In 1989 SAS entered into a cooperation agreement with Swissair and Finnair. A cornerstone in the SAS-Swissair alliance is the development of a common route system between Scandinavia and Switzerland to meet demand for frequent service to and from Switzerland. This measure also gives Scandinavians substantially expanded one-stop service primarily to Africa and the Middle East. Cooperation with Finnair will result in further improvements in the Finnish traffic program starting in summer 1990. In March 1990 SAS and Finnair will be initiating a new commuter schedule between Stockholm and Helsinki, with sixteen daily departures—one per hour in each direction. SAS will provide half of these flights. Service will also be expanded with a new route between Stockholm and Tampere.

INCOME PER BUSINESS UNIT

MSEK	1989	1988
SAS Airline	**1,026**	1459
SAS International Hotels	**103**	59
SAS Service Partner	**211**	184
SAS Trading	**114**	90
SAS Leisure	**–8**	–6
SAS Financial Services	**84**	71
Group Management	**–84**	–113
SAS joint Group projects[1]	**–93**	–87
	1,353	1,657
Share of income in affiliated companies	**83**	127
Gain on the sale of equipment, etc.	**1,037**	2,000
Other items	**–267**[2]	–94
Income before extraordinary items and taxes	**2,206**	3,690

[1] Including Group adjustments.
[2] Includes financing costs totaling 208 MSEK associated with the investment in Inter-Continental Hotels.

SAS passed a milepost in its *intercontinental traffic* in 1989 when annual passenger volume exceeded one million passengers for the first time. Growth in volume amounted to 100,000 passengers, or 11 percent. A determining factor in this favorable development has been the establishment of hubs at strategically important points in different continents through cooperation with other airlines.

The cooperation with Continental Airlines at Newark Airport got off to a successful start in 1989. Via Continental's extensive route network, SAS can offer quick and smooth connections throughout North America. Traffic volume to New York rose by 10 percent during the year, while production rose by 11 percent. The move from Gardermoen to Fornebu airport in Oslo led to a greater market share in Norway. Corresponding with the shift in traffic to Newark's international airport, SAS introduced the Boeing 767, which has been a major success.

The cooperation agreement with Canadian Airlines International will make it possible for both companies to start joint tri-weekly service between Copenhagen and Toronto as early as spring 1990. Beginning in the autumn of 1989 SAS and Thai International each began daily nonstop service between Scandinavia and Bangkok. The cooperation with ANA in Japan has resulted in two new frequencies between Stockholm and Tokyo.

Danish domestic traffic increased by 3 percent in 1989. This slightly weaker trend reflects the general stagnation within Danish industry. The downturn in Greenland's economy was more pronounced that expected, resulting in a 4-percent decline in passenger traffic.

Domestic traffic in Norway remained weak in 1989. Traffic during the first half of the year was down 6 percent compared with the preceding year, while traffic for the year was down 3 percent. No changes in market share were noted between SAS and its competitor Braathens SAFE.

In *Sweden*, the annual growth rate of about 10 percent in recent years dropped to about 4 percent in 1989. Outside factors such as external threats and air-traffic controller conflicts contributed to this decrease and also hurt on-time performance.

Regarding *freight operations, SAS Cargo* reported improved earnings, with a 7-percent gain in freight volume. Both export and import to and from the United States (Chicago/New York) and the Far East (Bangkok/Singapore) were very favorable. The cooperation with Continental Airlines has strengthened SAS's market position in this respect. Great interest was shown in the Priority Cargo Airport-to-Door

PRODUCTION AND TRAFFIC

	AVAILABLE TONNE-KILOMETERS		REVENUE TONNE-KILOMETERS				LOAD FACTOR	
12 months	Million	Change %	Share %	Million	Change %	Share %	%	Change %-pts
North & South Atlantic	990	7	32	685	6	37	69.3	−0.7
Asia	476	19	16	356	18	19	74.8	−0.5
INTERCONTINENTAL	1,466	10	48	1,041	10	56	71.0	−0.6
EUROPE	1,076	22	35	530	13	28	49.3	−3.7
DOMESTIC	508	4	17	305	1	16	60.0	−2.1
TOTAL NETWORK	3,050	13	100	1,876	8	100	61.5	−2.3

product during the year. SAS now offers shipping agents and Scandinavian businesses overnight delivery—from the airport to the addressee's door—to 7,000 zip code areas in the United States.

Exports to Japan accounted for the largest rise in demand. In Europe, competition intensified through the entrance of new companies in the freight market. Development of Amadeus, SAS's global reservations and information system, continued. Amadeus introduced its first product on the market during the year. In early 1990, the Erding computer center outside Munich was inaugurated.

Work on expansion and modernization of the international terminal at Copenhagen Airport is continuing on schedule. Improvements were made to passenger station services. In addition, a new domestic terminal was opened at Copenhagen Airport during the year. At Fornebu Airport in Oslo, SAS will obtain its own terminal for both international and domestic traffic as a result of ongoing renovation work. At Stockholm's Arlanda Airport, an agreement was reached with the Swedish Civil Aviation Administration allowing SAS to take over the entire A-pier in the international terminal. In addition, a new domestic terminal will be inaugurated in October 1990.

SAS adapted its technical maintenance routines to the new Boeing 767 fleet. External maintenance agreements regarding this aircraft model were reached with LOT (Poland) and Martinair (Holland).

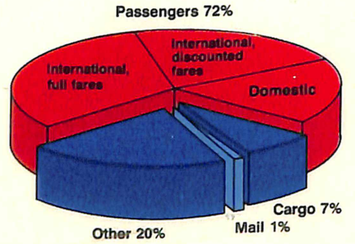
In 1989 SAS Flight Academy inaugurated a modern flight school employing high-tech training aids. This move guarantees effective and flexible training for the SAS Group's flight crews. The school has also considerably strengthened its competitive strength in the international air transport market. Joining SAS's own crews for various levels of training at SAS Flight Academy are employees from more than 40 different airlines.

Twenty new aircraft were delivered during 1989, and *the aircraft fleet* on December 31 amounted to 119 planes, including 18 under short-term leasing contracts. Five Boeing 767s were delivered, and at year-end eleven B767s were contracted for delivery between 1990 and 1992. Parallel with this is the phasing-out of the DC-10 fleet. In addition, nine MD-80s were delivered, and orders were lodged for another eight. As of December 31, 1989, 34 MD-80s were on order for delivery in the coming years. Finally, six Fokker 50s (of 22 ordered) were delivered during the year, while SAS sold four Fokker 27s. SAS's last DC-8 was sold during the year. Three DC-10s and one DC-9-41 were also sold. A specification of the aircraft fleet as per December 31, 1989 is shown in the table on p. 43.

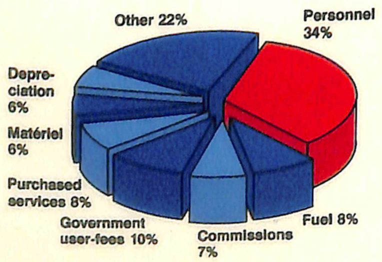
SAS Airline's operating revenue rose 8.5 percent to 20,557 MSEK (18,951).

Operating income before depreciation and aircraft leasing costs amounted to 2,274 MSEK (2,361). The gross profit margin was 12 percent (13). The gross profit margin does not take into account leasing costs totaling 277 MSEK (112) and non-recurring phase-in costs for new aircraft (Boeing 767s and Fokker 50s) etc., totaling 158 MSEK (139). Fuel costs rose 26 percent in 1989, to 1,457 MSEK

SAS AIRLINE REVENUE



SAS AIRLINE OPERATING EXPENSES



PASSENGER, FREIGHT AND MAIL TRAFFIC

	PASSENGER		CABIN FACTOR		FREIGHT		MAIL	
12 months	Pass. km.	Change %	%	Change %-pts.	Tonne-km.	Change %	Tonne-km.	Changes %
North & South Atlantic	4,583	7	73.1	−1.0	246.3	3	16.7	0
Asia	2,204	17	76.3	−0.5	130.4	14	17.3	31
INTERCONTINENTAL	6,787	10	74.1	−0.8	376.7	7	34.0	14
EUROPE	5,290	12	56.6	−2.4	31.4	6	16.1	2
Denmark	451	0	60.2	−2.8	4.7	15	2.7	−4
Norway	1,186	−2	63.2	−1.1	6.8	−8	4.3	−15
Sweden	1,515	4	69.3	−1.1	3.5	−3	0.3	−25
DOMESTIC	3,152	1	65.5	−1.3	15.0	−1	7.3	−8
TOTAL NETWORK	15,229	9	65.3	−1.7	423.1	6	57.4	6

(1,152). Fuel prices measured in cents per gallon rose 12 percent.

Payroll costs rose by slightly more than 6 percent, to 6,448 MSEK (6,058), and the average number of emplyees was 21,820, compared with 20,800 in 1988.

Traffic disruptions in the beginning of the year caused by external threats to the Airline had an adverse effect on income due to lower traffic revenues and added costs. Moreover, SAS's traffic volume rose relatively the most in the vacation segment, with lower profit margins than full-fare business.

The high level of investments have resulted in greater capital costs, such as depreciation and interest payments. Depreciation, etc. rose by 30 percent to 1,133 MSEK (873) and includes costs for leased aircraft capacity, totaling 277 MSEK (112). Net financial expenses increased by 85 MSEK to 115 MSEK, primarily attributable to interest expenses.

Excluding gains on the sale of aircraft, etc., the Airline's income amounted to 1,026 MSEK (1,459). Added to this are capital gains on the sale of flight equipment, etc., which totaled 245 MSEK (1,020).

SAS Airline's investments during the year totaled 4,970 MSEK (2,348), of which flight equipment accounted for 4,074 MSEK (1,622).

SAS International Hotels

The hotel market was weak in Norway in 1989. A slight rise in demand was noted in Denmark, while in Sweden, demand remained strong.

Overall, developments at SAS International Hotels' established units were very positive. The average occupancy rate was unchanged at 69 percent, and the gross profit margin rose to 25 percent (23), mainly as a result of additional improvements in cost-effectiveness.

SAS International Hotels' revenues amounted to 1,250 MSEK in 1989. Including hotels operated through management contracts, operating revenues amounted to 1,726 MSEK (1,497). Income before the sale of hotel properties improved to 103 MSEK (59). Added to this are gains on the sale of hotel properties totaling 686 (925), and financial expenses totaling 208 MSEK in connection with the acquisition of 40 percent of Saison Overseas (Holdings) B.V., which owns the Inter-Continental Hotels chain.

The Inter-Continental shareholding was acquired on April 18, 1989 for 500 MUSD, or 3,148 MSEK. Partial financing for this acquisition was arranged through an offer to external investors to participate in a capital increase of 200 MUSD in SIH. Inter-Continental Hotels' operations include 82 hotels under its own name, 17 Forum Hotels, and three Scanticon-Conference Centers. The Inter-Continental hotels offer a very high standard of service and products. The Forum hotels are in a slightly lower price category, while the Scanticon units are strictly conference hotels.

Between the Inter-Continental chain and SAS International Hotels, SAS can offer hotel services at nearly all of its most important destinations, in addition to many points served by its partners in the Group's global route network. SAS International Hotels' operations will not be affected by the agreement with Saison. However, efficiency-improvement measures and coordination possibilities will be explored.

Based on a preliminary report from Saison Overseas, SAS's share of income before taxes amounted to 6 MSEK for the period April 18 – December 31, 1989. Added to this is an estimated tax expense totaling 55 MSEK. SIH's equity in Saison is estimated at 2,787 MSEK as per December 31, 1989.

New SAS hotels were inaugurated in early 1990 in Brussels and Amsterdam. The hotel project in Helsinki is progressing on schedule; the unit will be opened in 1991. In early January 1989, SAS acquired the SAS Plaza Hotel property in Hamburg. Management of the hotel was taken over in December 1988.

In May the Berns Hotell in Stockholm (60 rooms) was opened; it is operated by SIH under a management contract. Hotel capacity at Stockholm's Arlanda Airport will be increased dramatically. SIH has signed a contract for the management of Sky City Hotel (230 rooms), which is scheduled to open in 1993. Addition of 50 rooms to the SAS Arlandia Hotel was completed during the autumn. Expansion of the Globetrotter Hotel in Copenhagen, with the addition of 50 rooms, a conference center, and a health club, was completed early in the year. In December the hotel properties SAS Park Avenue Hotel (Gothenburg) and SAS Scandinavia Hotel (Oslo) were sold. Both hotels will continue to be operated by SIH, though now under management contracts.

SAS International Hotels' investments totaled 3,901 MSEK (396) in 1989, of which 3,148 MSEK pertained to the shareholding in Saison Overseas (Holdings) B.V., and 753 MSEK (396) in other hotel projects.

SAS Service Partner

SAS Service Partner's revenues rose 16 percent in 1989, to 4,157 MSEK. Income before the sale of equipment improved to 211 MSEK (184). Both the Restaurants and Catering operating areas noted improvements in earnings. In June Checker's Restauranger AB was sold, yielding a capital gain of 30 MSEK.

The Airline Catering Product Area received a license to operate a flight kitchen at Gatwick Airport outside London, while the Terminal Catering Product Area signed a seven-year contract to operate all the restaurants at the Leeds-Bradford Airport. In Germany, business was expanded through the purchase of Giele & Söhne GmbH (Hamburg) and the takeover of a large part of the restaurant facilities at Hamburg's airport. The Hospital Catering Product Area signed a contract to operate the university hospital in Umeå, Sweden, and management contracts were signed with Rigshospitalet in Copenhagen, and with general hospitals in Malmö and Borlänge, Sweden. On April 1, 1989 the Industrial Catering Product Area took over the companies Scot Catering, Offshore Services (Aberdeen) Ltd., and Sodexho Scotland Ltd., Aberdeen. The contract with Statoil in Norway was extended in December for five years, with an option to extend the contract until the year 2000. In August SAS Service Partner acquired a 70-percent equity stake in a Turkish catering and restaurant company with operations at six airports in Turkey.

Total investments in plant and equipment amounted to 302 MSEK (172).

SAS Trading

SAS Trading conducts and develops businesses associated primarily with the Group's air transport services. Commercial rights at Arlanda International Airport in Sweden were extended during the year until the year 2000.

The decision was made during the year to modernize two shopping centers at Arlanda. The Danish mail-order firm Ostermann Petersen Bros. Ltd., which sells duty-free items all over the world, was acquired. Gunnar Lundström AB was acquired in an effort to strengthen Mediasäljarna's position in the market for advertising in movie theaters and videofilms. Agreement was reached with the shipping line Seven Seas Cruise Operations, Singapore Ltd. to conduct retailing operations on a cruise ship.

Investments during the year totaled 28 MSEK (7), of which company acquisitions accounted for 10 MSEK.

SAS Trading's operating revenue rose 12 percent, to 1,407 MSEK. Income before extraordinary items totaled 114 MSEK (90), an increase of 27 percent over 1988. The earnings improvement is mainly attributable to the business unit's retail operations, resulting from successful marketing and a product inventory well suited to the market, as well as improvements in financial income.

SAS Leisure

To consolidate SAS's position as a leading producer of vacation travel, the SAS Group's activities in the leisure travel segment were coordinated within a new business unit, SAS Leisure. This unit is divided into three main operating areas: inclusive-tour operations (Vingresor/Vingreiser/SAGA/Always), hotel operations (Sunwing), and air transport (Scanair and Spanair).

The year was characterized by a sharp decline in the Norwegian market and a subsequent considerable drop in capacity. The number of vacation travelers in Norway decreased by more than 30 percent during the year, to 452,000. Demand in Sweden was unchanged over 1988, although the market remained highly saturated. The number of travelers decreased by 23,000 to 1,352,000. Taken together, this resulted in large volume and price discrepancies, which had an adverse effect on the inclusive-tour operations as well as the hotel and charter operations.

The marketing units in the Swedish and Norwegian companies produced and sold trips to 773,000 customers, an increase of 39,000 over the previous year. This gain is attributable to the new tour operators SAGA and Always.

The Norwegian operations underwent a restructuring during the spring of 1989. The travel agency SAGA/Solreiser was purchased from Braathens SAFE. A jointly owned company, Saving A/S, was then formed, in which Vingreiser A/S owns 91 percent and Braathens SAFE 9 percent. As a result of this acquisition, SAS Leisure's market share in Norway has risen from 34 percent to about 48 percent.

Scanair lost several important customers in connection with the restructuring within the vacation travel industry. To fill the gap, the travel agency Always was started in 1989. Always reported a successful first year and was the choice of some 80,000 vacationers, which works out to 100,000 on a full-year basis.

SAS Leisure's own hotel chain, Sunwing, continued to expand and now comprises 14 facilities in five countries. Total bed capacity of the Sunwing chain amounted to 8,020 at year-end.

During December 1989 and January 1990 a new 700-bed facility was opened on Lanzarote in the Canary Islands. Bed capacity at the Sunwing Hotel on Crete was expanded by 140, to just over 800.

Scanair continued work on adapting its organization toward greater operative and technical responsibility for the aircraft fleet, which consists of six 374-seat DC-10 jetliners. The airline's core fleet is complemented with marginal capacity leased from SAS Airline. Phase-in costs for the new aircraft were charged against the year's income.

SAS Leisure's ownership in the Spanish charter carrier Spanair S.A. was increased from 25 percent to 49 percent during the year. The number of leased MD-83s rose from four to seven in 1989. The number of passengers transported to and from Spain amounted to 766,000, of whom 22 percent were Vingresor customers. Spanair reported satisfactory earnings for its first full year of operations.

Investments during the year totaled 307 MSEK. A large portion of this figure is attributable to the ongoing construction of a new Sunwing facility in Cala Bona on Mallorca. The first phase of this hotel will include approximately 400 beds and will be inaugurated in time for the 1990 summer season.

SAS Leisure's revenues rose 6 percent to 3,749 MSEK. Income before sales of equipment, etc., amounted to a loss of 8 MSEK, compared with a loss of 6 MSEK in 1988. The year's income includes a capital gain on the sale of aircraft from Scanair, totaling 41 MSEK (55).

SAS Financial Services

SAS Financial Services includes SAS Finance, Diners Club Nordic, and SAS's shareholdings in Polygon Insurance Co. Ltd. (33 percent) and the aircraft leasing company Aviation Holdings PLC (24 percent).

SAS Financial Services' reported income of 84 MSEK (71) in 1989.

Of this total, *SAS Finance* contributed income of 64 MSEK (54) earned through liquidity management, currency trading and arbitrage transactions.

SAS Finance assisted the other business units of the SAS Group through funding and advice on the comprehensive investment program. Leverage leases for six new aircraft were arranged for SAS Airline.

SAS's hotel operations were supported through the sale of hotel properties made during the year. SAS Finance also arranged a bridge loan to help finance the Inter-Continental Hotels investment.

In total, SAS Finance arranged long-term credits corresponding to SEK 4.6 billion in 1989, compared with SEK 1.8 billion in 1988. Various liability management techniques were used during the year to actively reduce the SAS Group's borrowing costs.

The SAS Group's liquidity reserves were strengthened during the year through commercial paper programs in SEK, DKK, NOK and USD.

In preparation for continued activities in the international capital markets, presentations of SAS were held in New York, Tokyo, London and Frankfurt. In early 1990 SAS launched Scandinavian bonds in DKK, NOK and SEK; these are listed on the bond markets of the respective Scandinavian countries.

Diners Club Nordic reported favorable growth in volume. Operating income improved to 20 MSEK (17). The joint SAS/Diners Club card introduced during the year contributed to the strong earnings growth. The major success of the Group's travel service concept also had a key role in this favorable development. Larger volumes, the continued high level of profitability of the Club Credit product, and efficiency improvement measures contributed to the high level of earnings.

Diners Club strengthened its position during the year as a professional and competitive supplier of billing and information services for business travel. Numerous major national and international companies have now chosen the Diners Club card.

The new SAS Club EuroClass Card was also introduced during the year. Aside from its use as a global payment tool, the card improves customer access to the various features of the Group's travel service. International payment opportunities for cardholders were expanded during the year.

SAS Financial Services broadened its operational scope during the year and had an active role in the establishment of *Aviation Holdings PLC* in July, a London-based aircraft leasing company. SAS has a 24-percent interest in the company's stock and convertibles, totaling 40 MUSD.

SAS Joint Group Projects

Numerous joint Group projects and activities were directed and financed centrally during the year. All costs associated with these activities have been charged against income.

To mark the long-term commitment in the Group's cooperation agreement with Continental Airlines in the United States, SAS acquired a 9.9-percent shareholding through the New York Stock Exchange in Continental's parent company, Texas Air. The acquisition price was 55 MUSD, corresponding to an average share price of 14 USD.

In light of developments surrounding the market price of Texas Air's stock at year-end, an allocation of 60 MSEK was made to a reserve, reported under unusual items. On April 3, 1990 Texas Air's stock was selling at $7^2/_8$ USD per share.

SAS Holding B.V. (wholly owned by SAS Holding A/S) was established during the year in connection the Group's strategic investments. See Note 15.

The SAS Group's holdings in Texas Air, Aviation Holdings, Airlines of Britain Holdings and LanChile, are held by SAS Holding. On October 31, 1989 SAS's involvement in LanChile consisted of convertible debentures totaling 30 MUSD in Icarosan S.A., LanChile's majority shareholder. The convertibles can be converted to stock corresponding to a 30–35 percent shareholding in LanChile.

Affiliated Companies

Aside from the SAS Consortium and companies in which it has majority shareholdings, the SAS Group includes a number of affiliated companies. Shares of income and equity in affiliated companies are reported in accordance with the equity method of accounting.

Affiliated companies are defined as companies in which the SAS Group's ownership is between 20 and 50 percent. These include, among others, Saison Overseas (Holdings) B.V. (40 percent), Airlines of Britain Holdings PLC (25 percent), Aviation Holdings PLC (24 percent), Spanair S.A. (49 percent), Amadeus (25 percent), and Linjeflyg (50 percent).

The SAS Group's income before extraordinary items includes 83 MSEK (127) in pre-tax income from affiliated companies. The Group's equity in affiliated companies' amounted to 3,700 MSEK (718).

Investments

The SAS Group's investments amounted to 9,922 MSEK during the year, with the shareholding in Inter-Continental Hotels accounting for MSEK 3,668. The Group's total investments can be broken down as follows: SAS Airline, 4,970 MSEK; SAS International Hotels, 3,901 MSEK; SAS Service Partner, 302 MSEK; and SAS Leisure, 307 MSEK.

Investments in aircraft and other flight equipment totaled 4,206 MSEK (2,068).

Financing and Liquidity

The Group's financial development is summarized in the statement of changes in financial position below.

Net financing from operations, including changes in operating capital, amounted to 1,550 MSEK in 1989. This includes transfers totaling 490 MSEK to the parent companies.

A financing deficit of 6,495 MSEK was incurred in 1989 after balancing revenue from the sale of aircraft and hotel properties, etc., (2,035 MSEK) against investments made in equipment and stocks (9,922 MSEK) and advance payments for aircraft on order (158 MSEK).

To aid financing of the SAS Group's investments and development, SAS's parent companies decided to increase the SAS Consortium's paid-in capital by 1,750 MSEK. An initial payment totaling 1,050 MSEK was made on May 1, 1989, and the remainder will be paid in May 1990.

Net borrowing amounted to 5,907 MSEK (2,869). The Group's liquid funds amounted to 6,892 MSEK on December 31, 1989, compared with 7,833 MSEK a year earlier.

New borrowing primarily involved bond issues on the Euromarket. This includes new, ten-year issues totaling 400 MUSD and 700 MFRF. In addition, a loan in CHF was prematurely redeemed and refinanced at 100 MCHF. A short-term bridge loan of 350 MUSD was taken out

STATEMENT OF CHANGES IN FINANCIAL POSITION

MSEK	1989	1988[1]
Net financing from operations	**1,550**	1,885
Investments	**–9,922**	–3,938
Advance payments, net	**–158**	–1,063
Sale of equipment, etc.	**2,035**	2,995
Financing deficit	**–6,495**	–121
Capital infusion from parent companies	**1,750**	–
External borrowing, net	**5,907**	2,869
Financial receivables, etc.	**–2,103**	–22
Change in liquid funds	**–941**	2,726

[1] Excluding Scanair.

THE FLEET[3]

As per 12–31–89 Aircraft type	Owned	Leased	Total	Leased out	On order
Boeing 767-300	5		5		7
Boeing 767-200					3
Boeing 767-x[1)]					1
Douglas DC-10-30	4	4	8		
Douglas MD-81	15		15		13
Douglas MD-82	11		11		3
Douglas MD-83	2		2		
Douglas MD-87	7		7		5
Douglas MD-8x[1)]					13
Douglas DC-9-21	9		9		
Douglas DC-9-41	36	11	47		
Douglas DC-9-51	1	3	4	1[2)]	
Fokker F-27	5		5		
Fokker F-50	6		6		16
	101	18	119	1	61

1) Version unspecified.
2) Leased to Hawaiian Airlines.
3) Excluding Scanair.

PERSONNEL

	SAS Group 1989	1988
Denmark	**10,110**	9,920
Norway	**8,500**	8,470
Sweden	**10,990**	10,740
U.K.	**2,480**	1,900
West Germany	**1,500**	900
Spain	**1,540**	1,410
Greece	**470**	510
USA	**540**	570
Turkey	**1,690**	–
Other	**1,980**	1,730
Total	**39,800**	36,150

Including Scanair.

BALANCE SHEET

MSEK	Dec. 89	Dec. 88[1]
Liquid funds	**6,892**	7,833
Other current assets	**7,590[3]**	5,297
Non-current assets	**21,245**	12,955
Total assets	**35,727**	26,085
Current liabilities	**11,508**	9,200
Long-term debt	**11,172**	6,851
Subordinated debenture loan	**806**	814
Equity[2]	**12,241**	9,220
Total liabilities and equity	**35,727**	26,085
Return on capital employed, %	**10**	16
Equity before taxes, %	**11**	22
Share of risk-bearing capital	**36**	38
Debt-equity ratio	**1.3**	0.9

[1] Excluding Scanair. [2] Including minority shares. [3] Including 700 MSEK in paid-in capital from SAS's parent companies.

for the investment in Saison Overseas.

SAS was the first company to introduce a commercial paper program in Denmark during the year with an issue of 400 MDKK, which was subsequently increased to DKK 1 billion, while 500 MNOK in commercial paper was floated on the Norwegian market. In addition to this, SAS has floated SEK 1 billion in commercial paper in Sweden, 200 MUSD in the Euromarket, and has access to a long-term cash credit totaling 450 MUSD.

The Group's balance of financial income and expense amounted to a net expense of 98 MSEK (1988: income of 150 MSEK). The major investment outlays had a noticeable impact on the balance of interest income and expense, which resulted in a net expense of 169 MSEK (1988: income of 138 MSEK). Capitalized interest on prepaid aircraft totaled 144 MSEK (90).

Financial Position

The financial position of the SAS Group is summarized in the balance sheet items.

As a result of SAS's major investment program, the SAS Group's assets rose by approximately SEK 10 billion during the year, to SEK 36 billion.

Due to the long-term nature of the Group's investments, with returns and growth in value calculated over a long economic lifetime, there is a drop in the Group's key ratios in the beginning of the investment cycle.

The return on capital employed is reported at 10 percent in 1989 (16). As a result of continued strong earnings and the capital contributions from the parent companies, the Group's solvency margin and debt-equity ratio remained satisfactory. Equity in the Group, excluding minority shares totaling 64 MSEK (33), amounted to 12,177 MSEK (9,187) on December 31, 1989.

Personnel

The average number of employees in the SAS Group during the year was 39,800 (36,150), of whom 21,820 were employed in SAS Airline, 2,740 in SAS International Hotels, 10,740 in SAS Service Partner and 3,570 in SAS Leisure.

A breakdown of the average number of employees in each country is provided in the table. The number of employees in the SAS Consortium totaled 21,360, including 7,950 in Denmark, 4,540 in Norway and 6,970 in Sweden.

The Group's total payroll, including payroll-related costs, was 9,418 MSEK, compared with 8,608 MSEK in 1988. Corresponding costs for the SAS Consortium amounted to 6,428 MSEK (6,124).

The SAS Consortium

The SAS Group is made up of the SAS Consortium and its subsidiaries and affiliated companies.

The SAS Consortium was formed by the three national airlines of Denmark, Norway, and Sweden: Det Danske Luftfartselskab A/S (DDL), Det Norske Luftfartselskap A/S (DNL), and AB Aerotransport (ABA), respectively. The SAS Consortium comprises the SAS Group's executive management, SAS Finance, SAS Airline, SAS Trading and Group-wide projects.

At the end of each fiscal year the SAS Consortium's assets, liabilities and earnings are divided between the parent companies according to their respective share of ownership—DDL, 2/7; DNL, 2/7; and ABA, 3/7.

The SAS Consortium's operating revenue amounted to 21,194 MSEK (19,511). Operating income before allocations and taxes amounted to 1,460 MSEK (2,355) and includes capital gains on the sale of flight equipment totaling 245 MSEK (1,006).

Net financial items, totaling 156 MSEK (23), include dividends from subsidiaries totaling 58 MSEK (62) and the reversal of unnecessary funds in a currency equalization reserve, totaling 280 MSEK.

The SAS Consortium's capital account grew during the year as a result of the parent companies' decision to contribute 1,750 MSEK. On December 31, 1989, 700 MSEK, was reported as a current financial receivable from SAS's parent companies.

The SAS Consortium's accounts are prepared in accordance with Scandinavian accounting practices. Since the SAS Group's accounts are prepared in accordance with international standards, certain accounting differences occur between the SAS Group and the SAS Consortium. See the following section of Significant Valuation and Accounting Principles. The SAS Consortium's accounts are presented separately in the following accounts and notes.

The Scanair and SAS Commuter Consortia

The Scanair and SAS Commuter Consortia have the same ownership structure and legal status as the SAS Consortium. Starting in 1989, Scanair and SAS Commuter are consolidated in the SAS Group within the business units SAS Leisure and SAS Airline, respectively. Scanair's and SAS Commuter's statements of income and balance sheets are reported in summary in the section on the Group's ownership (pp 30–33) in this annual report.

Allocation of Income and Equity

Allocations are made by SAS's parent companies: DDL in Denmark, DNL in Norway, and ABA in Sweden, all of which also pay taxes in their respective countries on their share of the SAS Consortium's profit.

The Board of Directors and the President propose to the SAS Assembly of Representatives that, of the SAS Consortium's surplus for the fiscal year, 595 MSEK be paid to the parent companies (490 MSEK was transferred in 1988), and that the remaining amount, 865 MSEK, be transferred to the SAS Consortium's capital account, which will thereafter total 9,642 MSEK.

1990 Forecast

The SAS Group's operating result before depreciation, etc. is expected to increase.

The high level of investment involved in the ongoing renewal of the aircraft fleet will result in greater capital costs which will not be fully offset by increased capital gains on the sale of flight equipment.

Copenhagen, Stockholm and Oslo—April 3, 1990

HALDOR TOPSØE	CURT NICOLIN	TOR MOURSUND
KAJ IKAST	KRISTER WICKMAN	BJØRN EIDEM
IB JENSEN	RALF FRICK	INGVAR LILLETUN

JAN CARLZON
President and Chief
Executive Officer

SAS GROUP CONSOLIDATED STATEMENT OF INCOME

MSEK	1989	1988[1]	1988
Operating revenue—Note 1	**29,471**	27,556	27,067
Operating expense—Note 2	**26,813**	24,875	24,332
Operating income before depreciation	**2,658**	2,681	2,735
Depreciation, etc.—Note 3	**1,414**	1,174	1,127
Operating income after depreciation	**1,244**	1,507	1,608
Share of income in affiliated companies—Note 4	**83**	127	127
Gain on the sale of flight equipment—Note 5	**286**	1,061	1,006
Gain on the sale of hotel properties, etc.—Note 6	**751**	939	939
Unusual items—Note 7	**−60**	−94	−94
Interest income/expense, net—Note 9	**−169**	138	111
Other financial items—Note 10	**71**	12	13
Income before extraordinary income and expense	**2,206**	3,690	3,710
Taxes payable by subsidiaries and affiliated companies—Note 11	**−217**	−425	−425
Minority interests	**−12**	−3	−3
Income before taxes relating to the SAS Consortium	**1,977**	3,262	3,282

[1] Pro forma statement of income, including the Scanair Consortium.

SAS GROUP CONSOLIDATED BALANCE SHEET

MSEK ASSESTS	Dec. 31 1989	Dec. 31 1988[1]
Current Assets		
Liquid funds—Note 12	**6,892**	7,833
Accounts receivable	**3,109**	2,787
Prepaid expense and accrued income	**742**	802
Paid-in capital receivable	**700**	–
Other accounts receivable	**2,157**	924
Expendable spare parts and inventory—Note 13	**773**	672
Prepayments to suppliers	**109**	112
Total current assets	**14,482**	13,130
Non-current assets		
Restricted accounts—Note 14	**93**	33
Stocks and participations—Note 15	**564**	309
Equity in affiliated companies—Note 16	**3,700**	718
Other long-term accounts receivable	**928**	386
Goodwill and other intangible assets—Note 17	**762**	171
Long-term prepayments to suppliers—Note 19	**1,702**	1,544
Fixed assets—Note 20		
Construction in progress	**734**	560
Aircraft	**8,246**	5,570
Spare engines and spare parts	**805**	358
Maintenance and aircraft servicing equipment	**150**	153
Other equipment and vehicles	**1,484**	1,278
Buildings and improvements	**1,859**	1,623
Land and improvements	**218**	252
Total non-current assets	**21,245**	12,955
TOTAL ASSETS	**35,727**	26,085
Assets pledged, etc.—Note 28	**632**	665

MSEK LIABLITIES AND EQUITY	Dec. 31 1989	Dec. 31 1988[1]
Current liabilities		
Accounts payable	**1,289**	1,126
Taxes payable	**160**	279
Accrued expense and prepaid income	**3,301**	2,869
Unearned transportation revenue, net—Note 21	**970**	1,156
Prepayments from customers	**352**	315
Current portion of long-term debt	**578**	1,104
Other current liabilities	**4,858**	2,351
Total current liabilities	**11,508**	9,200
Long-term debt		
Bond issues—Note 22	**7,916**	4,141
Other loans—Note 23	**1,970**	1,552
Other long-term debt—Note 24	**1,286**	1,158
Total long-term debt	**11,172**	6,851
Subordinated debenture loan—Note 25	**806**	814
Minority interest	**64**	33
Equity—Note 27		
Capital	**8,899**	5,162
Legal reserve	**561**	529
Retained earnings	**740**	214
Net income for the year	**1,977**	3,282
Total equity	**12,177**	9,187
TOTAL LIABILITIES AND EQUITY	**35,727**	26,085
Contingent liabilities—Note 29	**501**	413

[1] Excluding Scanair.

SAS CONSORTIUM STATEMENT OF INCOME

MSEK	1989	1988
Operating revenue—Note 1	**21,194**	19,511
Operating expense—Note 2	**19,117**	17,336
Operating income before depreciation	**2,077**	2,175
Depreciation, etc.—Note 3	**1,062**	808
Operating income after depreciation	**1,015**	1,367
Gain on the sale of flight equipment—Note 5	**245**	1,006
Gain on the sale of equipment, etc.—Note 6	**104**	14
Unusual items—Note 7	**-60**	-55
Dividend income—Note 8	**58**	62
Interest income/expense, net—Note 9	**-173**	42
Other financial items—Note 10	**271**	-81
Income before allocations and taxes[1]	**1,460**	2,355

[1] Allocations and taxes are made by the SAS Consortium's parent companies.

SAS CONSORTIUM BALANCE SHEET

MSEK ASSETS	Dec. 31 1989	Dec. 31 1988
Current Assets		
Liquid funds—Note 12	**5,816**	5,424
Accounts receivable, subsidiaries	**3,286**	656
Accounts receivable	**1,554**	1,628
Prepaid expense and accrued income	**662**	664
Paid-in capital receivable	**700**	–
Other accounts receivable	**1,173**	740
Expendable spare parts and inventory—Note 13	**433**	421
Prepayments to suppliers	**34**	15
Total current assets	**13,658**	9,548
Non-current assets		
Stocks and participations—Note 15	**1,454**	378
Other stocks and participations—Note 15	**178**	147
Long-term accounts receivable, subsidiaries—Note 18	**648**	1,174
Other long-term accounts receivable	**588**	236
Intangible assets—Note 17	**420**	0
Long-term prepayments to suppliers—Note 19	**1,702**	1,518
Fixed assets—Note 20		
Construction in progress	**169**	371
Aircraft	**7,816**	5,241
Spare engines and spare parts	**785**	358
Maintenance and aircraft servicing equipment	**118**	111
Other equipment and vehicles	**838**	627
Buildings and improvements	**968**	923
Land and improvements	**80**	86
Total non-current assets	**15,764**	11,170
TOTAL ASSETS	**29,422**	20,718
Assets pledged, etc.—Note 28	**12**	18

MSEK LIABILITIES AND EQUITY	Dec. 31 1989	Dec. 31 1988
Current liabilities		
Accounts payable, subsidiaries	**532**	440
Accounts payable, suppliers	**771**	684
Accrued expense and prepaid income	**2,493**	2,290
Unearned transportation revenue, net—Note 21	**970**	1,156
Current portion of long-term debt	**325**	850
Other current liabilities	**3,907**	1,419
Total current liabilities	**8,998**	6,839
Long-term debt		
Bond issues—Note 22	**7,916**	4,141
Other loans—Note 23	**1,321**	858
Other long-term debt	**107**	173
Total long-term debt	**9,344**	5,172
Subordinated debenture loan—Note 25	**806**	814
Reserves—Note 26	**37**	376
Equity—Note 27		
Capital		
DDL	**2,508**	1,475
DNL	**2,508**	1,475
ABA	**3,761**	2,212
Total capital	**8,777**	5,162
Net income for the year	**1,460**	2,355
Total equity	**10,237**	7,517
TOTAL LIABILITIES AND EQUITY	**29,422**	20,718
Contingent liabilities—Note 29	**708**	580

STATEMENTS OF CHANGES IN FINANCIAL POSITION

MSEK	SAS Group 1989	SAS Group 1988[2]	SAS Consortium 1989	SAS Consortium 1988
THE YEAR'S OPERATIONS				
Income before extraordinary items	**2,206**	3,710	**1,460**	2,355
Depreciation, etc.	**1,414**	1,127	**1,062**	808
Gain on the sale of equipment, etc.	**–1,037**	–1,945	**–349**	–1,020
Other, net	**–609[1]**	–630[1]	**–217**	44
Sub-total	**1,974**	2,262	**1,956**	2,187
Payments made to the parent companies	**–490**	–490	**–490**	–490
Funds provided by the year's operations	**1,484**	1,772	**1,466**	1,697
Change in				
inventories	**–101**	–16	**–12**	58
current receivables	**–547**	–432	**–257**	–302
current liabilities	**714**	561	**–137**	453
Change in working capital	**66**	113	**–406**	209
Net financing from the year's operations	**1,550**	1,885	**1,060**	1,906
INVESTMENTS				
Aircraft	**–3,495**	–1,804	**–3,448**	–1,481
Spare parts	**–711**	–141	**–626**	–141
Buildings, improvements and other equipment	**–1,422**	–1,279	**–411**	–753
Stocks and participations	**–4,294**	–714	**–1,239**	–543
Total investments	**–9,922**	–3,938	**–5,724**	–2,918
Advance payments for flight equipment, increase (–), decrease (+), net	**–158**	–1,063	**–184**	–1,063
Sale of equipment, etc.	**2,035**	2,995	**1,012**	1,736
Other	**–**	–	**72**	–
Net investments	**–8,045**	–2,006	**–4,824**	–2,245
Financing deficit	**–6,495**	–121	**–3,764**	–339
EXTERNAL FINANCING				
Long-term receivables, net	**–2,247**	–44	**–3,714**	–459
Repayment of long-term debt	**–1,104**	–455	**–850**	–340
Borrowings	**7,011**	3,324	**6,970**	2,597
Capital infusion from parent companies	**1,750**	–	**1,750**	–
Change in minority interest	**20**	22	**–**	–
Other	**124**	–	**–**	–
External financing, net	**5,554**	2,847	**4,156**	1,798
INCREASE IN LIQUID FUNDS				
(Cash, bank balances and short-term investments)	**–941**	2,726	**392**	1,459
Liquid funds at beginning of the year	**7,833**	5,107	**5,424**	3,965
Liquid funds at year-end	**6,892**	7,833	**5,816**	5,424

[1] Includes effects of changeover to International Accounting Standards, taxes in subsidiaries, etc.
[2] Excluding Scanair.

NOTES TO THE FINANCIAL STATEMENTS

SIGNIFICANT VALUATION AND ACCOUNTING PRINCIPLES

General
The SAS Group's financial statements are prepared in accordance with the recommendations of the International Accounting Standards Committee (IASC).

The financial statements of the SAS Consortium are prepared in accordance with Scandinavian accounting principles. Essential differences between IAS and Scandinavian accounting principles are summarized in Note 30.

The SAS Group's fiscal year corresponds to the calendar year. The SAS Group's financial statements are stated in millions of Swedish kronor (MSEK) unless otherwise indicated.

Principles of consolidation
The consolidated financial statements of the SAS Group include the SAS Consortium, its wholly owned subsidiaries and those partly owned companies in which the SAS Consortium has a controlling interest. Wholly owned subsidiaries that are closely connected with the business of the SAS Consortium are directly included in the accounts of the SAS Consortium. For further information see Note 15, the specification of stocks and participations as of December 31, 1989.

Starting in 1989, the Scanair and SAS Commuter Consortia are consolidated in the SAS Group. Scanair and SAS Commuter have the same ownership structure as the SAS Consortium. A pro forma statement of income for 1988 has been included to allow for accurate comparison.

The equity method of accounting is applied for shares of income and equity in SAS's affiliated companies (where the Group's ownership is between 20 and 50 percent).

Companies acquired during the fiscal 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, whereby equity in the subsidiaries is included in the Group's equity 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.

The financial statements of subsidiaries 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 converted to Swedish kronor at year-end rates of exchange, while income for the year is translated at the average annual rate of exchange. SAS's share of such translation differences is 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.

Receivables and liabilities in currencies other than Swedish kronor (SEK)
Current and long-term receivables and liabilities in currencies other than Swedish kronor are translated at year-end market rates of exchange. When the rate of exchange on the payment date is secured by a forward contract, translation is carried out at the rate of exchange of the forward contract currency.

In cases where a foreign 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.

Advance payments on flight equipment are accounted for at the rate of exchange on the date of payment.

In conformance with IAS, the SAS Group's realized and unrealized currency losses and gains on receivables and liabilities are reported above net income.

Exchange rates to SEK for some principal currencies are:

Currency		Year-end rate Dec. 31 1989	Year-end rate Dec. 31 1988	Average rate 1989	Average rate 1988
Denmark	DKK 100	**94.35**	89.25	**88.23**	91.48
Norway	NOK 100	**94.25**	93.50	**93.36**	94.09
USA	USD	**6.23**	6.14	**6.46**	6.13
UK	GBP	**9.97**	11.05	**10.62**	10.89
Switzerland	CHF 100	**402.76**	407.16	**395.14**	421.57
West Germany	DEM 100	**366.80**	344.77	**342.14**	349.89
Japan	JPY 100	**4.34**	4.89	**4.71**	4.78
	ECU[1]	**7.39**	7.16	**7.01**	7.27

[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.

Fixed assets and depreciation
Fixed assets are stated in the Balance Sheet at cost less accumulated depreciation. Depreciation is booked according to plan based on the assets' estimated economic lives.

For flight equipment acquired in 1988 and later, a reducing balance method of depreciation is applied over the economic life of such investments.

The reducing balance method reflects the actual utilization of resources by distributing the costs (start-up, financing, and maintenance) associated with investments against the revenue they generate. This also provides an accurate picture of the aircrafts' residual values over time. According to this schedule, depreciation during the first year amounts to 2 percent, thereafter increasing by 0.33 percentage points annually, i.e., 2 1/3 percent in the second year, 2 2/3 percent in the third year, and so on.

Older flight equipment (DC-9s, DC-10s, and Fokker 27s) are depreciated on a straight-line method by 10 percent of residual values in accordance with planned depreciation schedules. The depreciation period is ten years for DC-9s, twelve years for DC-10s, and five years for Fokker 27s.

In the SAS Group's financial statements, interest expenses outstanding over long periods of time on advance payments for aircraft not yet delivered, are capitalized. Upon delivery of the aircraft in question, depreciation is begun on the capitalized interest charges in accordance with the principle for flight equipment.

Maintenance and aircraft servicing equipment and other equipment and vehicles are depreciated over a period of 5 years. The annual depreciation of buildings varies between 2 and 20 percent.

Goodwill and other intangible assets are depreciated over their estimated economic lives; long-term strategic investments in SAS's operations are depreciated over a period of 10 - 20 years, and other investments over a 5-year period.

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

Improvements to the Group's own and rented premises are, in principle, depreciated over their estimated useful lives, but not to exceed the length of the rental period for the premises.

Pension commitments
For most of SAS's employees, the company pays insurance premiums which fully cover accrued pension commitments.

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

The value of tickets sold but not yet used is reported as unearned transportation revenue. 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 assessed annually. This reserve corresponds to that portion of tickets sold that is estimated to remain unused.

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 income as incurred.

Due to the makeup of SAS's fleet, with a predominance of DC-9s and MD-80s, 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.

Extraordinary income and expense
Only items which lack a clear connection with the company's regular operations are reported as extraordinary. In addition, the entries must be of a non-recurring nature and may not be expected to amount to major sums.

Income from the sale of flight equipment, hotel properties and unusual items is shown in the Statement of Income between income after depreciation and financial income and expense. Such items have a direct connection with the company's normal operations and often contribute to various financing operations. The extent of these items and their effect on earnings can vary considerably from year to year. They are therefore reported separately, to allow an accurate assessment of operating income.

The SAS Consortium
Out of regard for local regulations concerning accounting and taxations in Sweden, Norway and Denmark, the SAS Consortium's financial statments are prepared in accordance with Scandinavian practice. The SAS Group's accounting principles are prepared in accordance with international practice. The principles applied by the SAS Consortium deviate from those applied by the SAS Group in the following ways:

In the SAS Consortium, unrealized currency exchange losses on long-term debt are offset by unrealized exchange gains on long-term debt. Excess losses are charged to income, while excess gains are credited to a currency equalization reserve in the Balance Sheet. Unrealized currency exchange gains on long-term receivables are reported as income to the extent in which they are offset by exchange losses on long-term loans arranged in the same currency. Other unrealized currency exchange gains on long-term receivables are credited to the currency equalization reserve. Unrealized currency exchange losses are charged to income.

Interest expenses outstanding for long periods for advance payments on aircraft are posted as expenses in the SAS Consortium's accounts.

In the SAS Consortium, shares in affiliated companies are reported at cost, and dividends are transferred to income.

Certain pension commitments are reported under contingent liabilities in the SAS Consortium.

Reclassifications
Certain items in the Statement of Income and Balance Sheet have been reclassified. For the sake of comparison, 1988 values have been adjusted accordingly.

Definitions of financial terms and ratios
Gross profit margin (GOP). Operating income before depreciation, etc. and phase-in costs, in relation to operating revenue.

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

Net profit margin. Income before extraordinary income and expense, but excluding gains on the sale of equipment, etc., in relation to operating revenue.

Pre-tax return on capital employed. Operating income after depreciation plus share of income in affiliated companies and financial income, in relation to the average capital employed. Capital employed equals total assets less noninterest-bearing liabilities.

Pre-tax return on equity. Income before gains/losses on the sale of equipment and extraordinary items in relation to the average equity. Equity includes minority equity shares.

Debt-equity ratio. Interest-bearing liabilities in relation to adjusted equity.

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

Net financing from operations. Funds provided internally including change in working capital.

Note 1—Operating revenue

	1989	1988
Traffic revenue:		
Passengers	**14,803**	13,484
Freight	**1,500**	1,384
Mail	**224**	259
Other	**447**	401
Other operating revenue	**4,220**	3,983
SAS Consortium operating revenue	**21,194**	19,511
Subsidiary operating revenue	**10,172**	9,736
Group eliminations	**–1,895**	–1,691
SAS Group operating revenue	**29,471**	27,556

Subsidiary operating revenue includes traffic revenue totaling 1,286 MSEK (1,274) from Scanair. Traffic revenues increased by 381 MSEK (267) and operating expenses were decreased by 32 MSEK (–) due to the reversal of unnecessary reserves for unearned transportation revenue. See note 21.

Note 2—Operating expenses

SAS Group	1989	1988
Personnel/payroll costs	**9,418**	8,608
Aircraft fuel	**1,696**	1,400
Other operating expenses	**15,699**	14,867
Total	**26,813**	24,875

SAS Consortium	1989	1988
Personnel/payroll costs	**6,428**	6,124
Aircraft fuel	**1,457**	1,157
Other operating expenses	**11,232**	10,055
Total	**19,117**	17,336

Other operating expenses of the SAS Consortium include government user-fees, commissions, purchased services and supplies.

Note 3—Depreciation, etc.

SAS Group	1989	1988
Goodwill and intangible assets	**65**	21
Aircraft	**311**	316
Spare engines and spare parts	**126**	62
Maintenance and aircraft servicing equipment	**24**	47
Other equipment and vehicles	**491**	481
Buildings and improvements	**120**	135
Sub-total	**1,137**	1,062
Leasing costs for additional aircraft capacity	**277**	112
Total	**1,414**	1,174

SAS Consortium	1989	1988
Goodwill and intangible assets	**22**	–
Aircraft	**282**	305
Spare engines and spare parts	**125**	62
Maintenance and aircraft servicing equipment	**13**	43
Other equipment and vehicles	**272**	214
Buildings and improvements	**71**	72
Sub-total	**785**	696
Leasing costs for additional aircraft capacity	**277**	112
Total	**1,062**	808

Note 4—Share of income in affiliated companies

SAS Group	1989	1988
Linjeflyg AB	**71**	75
Airline of Britain Holdings PLC	**–13**	–
Saison Overseas (Holdings) B.V.	**6**	–
Aviation Holdings PLC	**3**	–
TMG Sverige AB	**3**	7
Grønlandsfly A/S	**0**	9
Bennett Reisebureau A/S	**2**	2
Polygon Insurance Ltd.	**17**	19
Other	**–6**	15
Total	**83**	127

Share of income in affiliated companies is reported before taxes and is partly based on the companies' preliminary reports.

Note 5—Gain on the sale of flight equipment
In 1989 1 DC-9, 3 DC-10s,1 DC-8 and 4 Fokker 27s were sold in connection with the changeover to a new aircraft fleet. These sales were made in order to confirm residual values. SAS Airline leased back the DC-10s from the purchasers for a short period (operational leasing) in order to maintain capacity during the transition to Boeing 767s.

One DC-10 was sold to Electra Aviation, a subsidiary of Aviation Holdings PLC, in which SAS has a 24-percent shareholding. The capital gain on this sale was 73 MSEK.

	1989	1988
SAS Airline	**245**	1,006
Scanair	**41**	55
Total	**286**	1 061

Note 6—Gain on the sale of equipment, etc.

SAS Group	1989	1988
Hotel properties	**686**	925
Property, other	**35**	14
Operations in SAS Service Partner	**30**	–
Total	**751**	939

Two hotel properties were sold in 1989 as part of SAS International Hotels' financial strategy. Income from these sales amounted to 686 MSEK, compared with 925 MSEK in 1988. SIH has signed management contracts for continued operation of the hotels.

SAS Consortium	1989	1988
Securities	**104**	–
Properties	–	14
Total	**104**	14

Note 7—Unusual items
Unusual items include write-downs of fixed assets, etc.

SAS Group	1989	1988
Allocation to shareholding reserve	**–60**	–
Write-down of hotel equipment, etc.	–	–94
Total	**–60**	–94

SAS Consortium	1989	1988
Allocation to shareholding reserve	**–60**	–
Shareholder contribution	–	–55
Total	**–60**	–55

Note 8—Dividends

SAS Consortium	1989	1988
Dividends from:		
SAS Service Partner A/S	**19**	28
SAS International Hotels A/S	**14**	9
Vingresor AB	**11**	13
Diners Club Nordic A/S	**2**	–
Dividends from subsidiaries	**46**	50
Dividends from affiliated companies	**11**	11
Other dividends	**1**	1
Total dividends	**58**	62

Dividends from subsidiaries, approved by their respective annual meetings, represent distributions for the earnings of the fiscal years 1988 and 1986/87, respectively. Dividends are thus not anticipated in the Statement of Income.

Note 9—Interest, net

SAS Group	1989	1988
Interest income	**913**	757
Interest expense	**–1,226**	–709
Capitalized interest on prepaid aircraft	**144**	90
Interest, net	**–169**	138

SAS Consortium	1989	1988
Interest from subsidiaries	**320**	91
Other interest income	**697**	545
Total interest income	**1,017**	636
Interest paid to subsidiaries	**–115**	–41
Other interest expenses	**–1,075**	–553
Total interest expenses	**–1,190**	–594
Interest, net	**–173**	42

Capital losses on disposals of bonds are reported as other interest expense and amounted to 41 MSEK (1988: gain of 4).

Note 10—Other financial items

SAS Group	1989	1988
Currency losses on long-term receivables/debt, net	**–62**	–50
Allocation of accrued currency gains	**73**	73
Other currency differences	**98**	–39
Currency differences, net	**109**	–16
Sale of securities	**0**	20
Issue expenses on loans	**–32**	–5
Other	**–6**	13
Total	**–38**	28
Total other financial items	**71**	12

Of the SAS Group's currency exchange differences in 1989, –144 MSEK is unrealized.

SAS Consortium	1989	1988
Currency losses on long-term debt, net	**–86**	–47
Reversal of unnecessary currency equalization reserve, as per 12/31/88	**280**	–
Other currency differences	**92**	–51
Currency differences, net	**286**	–98
Sale of stock	**0**	21
Issue expenses on loans	**–27**	–5
Other	**12**	1
Total	**–15**	17
Total other financial items	**271**	–81

Of the SAS Consortium's currency exchange differences in 1989, –44 MSEK is unrealized.

Note 11—Subsidiaries' and affiliated companies' taxes

SAS Group	1989	1988
Taxes payable by subsidiaries	**115**	368
Full taxes payable by affiliated companies	**90**	49
Allocation(–)/reversal (+) of deferred tax pertaining to untaxed reserves	**12**	8
Total	**217**	425

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

Taxes during the period are calculated as paid taxes plus estimated tax on taxable allocations made during the period. Allocations to reserves in previous fiscal periods were split between deferred taxes and equity.

Note 12—Liquid funds

	SAS Group Dec. 31 1989	SAS Group Dec. 31 1988	SAS Consortium Dec. 31 1989	SAS Consortium Dec. 31 1988
Cash and bank accounts	**857**	972	**235**	209
Short-term investments	**6,035**	6,861	**5,581**	5,215
Total	**6,892**	7,833	**5,816**	5,424

The balance of the liquid funds of the SAS Consortium includes 63 MSEK (46) in a restricted tax deduction account in Norway.

On December 31, 1989 short-term investments consisted primarily of special borrowing from banks, government securities, and housing loans/bonds. Short-term investments are reported at the lower of cost and market value.

Uncompleted interest arbitrage transactions are reported net and amounted to 1,147 MSEK (192) on December 31, 1989.

Note 13—Expendable spare parts and inventory

	SAS Group Dec. 31 1989	SAS Group Dec. 31 1988	SAS Consortium Dec. 31 1989	SAS Consortium Dec. 31 1988
Expendable spare parts, flight equipment	**413**	339	**332**	339
Expendable spare parts, other	**74**	107	**67**	56
Inventory	**286**	226	**34**	26
Total	**773**	672	**433**	421

Note 14—Restricted accounts

SAS Group	Dec. 31 1989	Dec. 31 1988
Development reserve	**1**	4
Special investment reserve	**90**	27
Regional development reserve	**2**	2
Total	**93**	33

Note 15—Stocks and participations

	Number of shares	Percent holding		Par value in 000s	Book value
SAS Consortium					
Subsidiaries					
SAS Holding A/S, Copenhagen	60,000	100	DKK	600,000	913.0
SAS Leisure AB, Stockholm	2,000,000	100	SEK	200,000	200.0
SAS International Hotels A/S, Oslo	100,000	100	NOK	100,000	138.7
SAS Service Partner A/S, Copenhagen	90,000	100	DKK	90,000	70.5
Diners Club Nordic A/S, Oslo	25,100	100	NOK	25,100	70.0
Scandinavian Aero Engine Services AB, Stockholm	450,000	75	SEK	45,000	45.0
SAS Ejendom A/S, Copenhagen	20,000	100	DKK	20,000	31.9
Scandinavian Multiaccess Systems AB, Stockholm	200,000	100	SEK	20,000	20.5
Mediasäljarna AB, Stockholm	4,000	100	SEK	9,400	9.8
SAS Capital B.V., Rotterdam	501	100	NLG	2,500	7.7
Bromma Tryck AB, Stockholm	9,000	100	SEK	900	1.8
Danair A/S, Copenhagen	1,710	57	DKK	1,710	1.2
Travel Management Group, Norway A/S, Oslo	50,000	100	NOK	5,000	1.1
SAS Trading Holding A/S, Copenhagen	300	100	DKK	300	0.9
SAS Oil Denmark A/S, Copenhagen	3,000	100	DKK	300	0.2
InterSAS B.V., Amsterdam	104	100	NLG	104	0.2
SAS Oil Sweden AB, Stockholm	2,000	100	SEK	200	0.2
SAS Service Power A/S, Copenhagen	300	100	DKK	300	0.2
Business Travel Systems AB, Stockholm	500	100	SEK	50	0.1
Other					0.6
General shareholding reserve					(60.0)
Total stocks and participations in subsidiaries					1,453.6

	Number of shares	Percent holding		Par value in 000s	Book value
Affiliated companies					
Linjeflyg AB, Stockholm	500,000	50	SEK	50,000	53.0
Amadeus, Madrid	5,970	25	ESP	5,970,000	31.4
Amadeus, Munich	210	25	DEM	2,125	7.3
Grønlandsfly A/S, Godthåb	50	50	DKK	540	22.8
Polygon Insurance Co. Ltd., Guernsey	3,329,036	33	GBP	3,329	19.0
Travel Management Group Sweden AB, Stockholm	900,000	23	SEK	9,000	10.5
Scandinavian Info Link AB, Stockholm	10,000	25	SEK	1,000	10.0
Bennett Reisebureau A/S, Oslo	20,880	31	NOK	2,088	1.1
Widerøe's Flyveselskap A/S, Oslo	26,622	22	NOK	2,662	1.1
Copenhagen Excursions A/S, Copenhagen	225	24.5	DKK	225	0.9
Scanator AB, Stockholm	500	50	SEK	50	0.1
Malmö Flygfraktterminal AB, Malmö	1,455	40	SEK	146	0.0
Total, affiliated companies					157.2
Other companies					
Norwegian Show Case A/S, Oslo	3,750	9	NOK	3,750	5.4
Dar-es-Salaam Airport Handling Co. Ltd., Dar-es-Salaam	27,000	15	TAS	2,700	1.4
Calab Medical AB, Stockholm	1,667	10	SEK	167	0.8
Airline Tariff Publishing Company, Washington D.C.	17,737	4.2	USD	18	0.4
Other					13.1
Total other companies					21.1
Total other stocks and participations					178.3

The wholly owned subsidiaries SAS Cargo Center A/S, Scandinavian Airlines System of North America Inc., and SAS France S.A., with a combined book value of 1.6 MSEK, are directly included in the accounts of the SAS Consortium.

	Number of shares	Percent holding		Par value in 000s	Book value
SAS Group					
Stocks and participations owned by other Group companies					
Texas Air Inc.	3,933,000	9.9	USD	39,330	343.6
Made in Coronado A/S, Oslo	699,999	20	NOK	147,000	138.5
Copenhagen International Hotels K/S, Copenhagen	1,190	10	DKK	119,000	112.3
Other					29.5
Shareholding reserve					–60.0
Total					563.9

The market value of SAS's Texas Air stock was 282 MSEK on December 31, 1989.

	Number of shares	Percent holding		Par value in 000s	Book value
Affiliated companies owned by other Group companies					
Saison Overseas (Holdings) B.V.	400	40	USD	500,000	2,787.0
Airline of Britain Holdings PLC (ABH), Derby	14,937,312	24.9	GBP	3,734	255.4
Aviation Holdings PLC	20,000,000	24.1	USD	2,000	130.9
SIHSKA A/S, Copenhagen	17,720	50	DKK	17,720	16.7
Spanair S.A., Madrid	367,500	49	ESP	367,500	15.2
Tenerife Sol S.A.	23,000	50	ESP	230,000	4.1
SAS Royal Viking Hotel AB, Stockholm	20,000	25	SEK	2,000	2.5

Affiliated companies owned by other Group companies are not included in the SAS Group's book value of stocks and participations. These are reported together with the SAS Consortium's affiliated companies as equity in affiliated companies. See note 16.

Note 16—Equity in affiliated companies

SAS Group	1989	1988
Saison Overseas (Holdings) B.V.	**2,787**	–
Airlines of Britain Holdings PLC (ABH)	**255**	278
Linjeflyg AB	**255**	226
Aviation Holdings PLC	**131**	–
Polygon Insurance Co. Ltd.	**81**	72
Grønlandsfly A/S	**56**	36
Amadeus	**39**	39
Bennett Reisebureau A/S	**18**	16
Spanair S.A.	**15**	4
TMG Sverige AB	**24**	13
Other affiliated companies	**39**	34
Total	**3,700**	718

Equity in affiliated companies include surplus values of 189 MSEK arising in ABH. A deficit value of 10 MSEK has arisen in connection with the non-cash issue connected with the merging of SJ Resebyrå into TMG.

Note 17—Goodwill and other intangible assets

SAS Group	Dec. 31 1989	Dec. 31 1988
Consolidated goodwill	**301**	145
Development costs	**233**	26
Other intangible assets	**228**	–
Total	**762**	171
SAS Consortium		
Development costs	**192**	–
Other intangible assets	**228**	–
Total	**420**	–

Development costs for a reservations and booking system were capitalized in 1989. Corresponding costs in 1988 totaled 42 MSEK.

Other intangible assets includes the non-recurring payment made for access to and user-rights for the terminal at Newark Airport outside New York.

Note 18—Long-term accounts receivable, subsidiaries

SAS Consortium	Dec. 31 1989	Dec. 31 1988
SAS Trading Holding A/S	**11**	–
SAS Holding A/S	**–**	439
SAS Leisure AB	**309**	309
SMART AB	**94**	126
SAS International Hotels A/S	**148**	218
SAS Capital B.V.	**61**	58
SAS Oil Denmark A/S	**15**	17
Other	**10**	7
Total	**648**	1,174

Note 19—Long-term advance payments to suppliers

SAS Consortium	Dec. 31 1989	Dec. 31 1988
Boeing (B 767)	**928**	777
McDonnell Douglas (MD-80)	**440**	471
Fokker (F 50)	**274**	231
Other (engines)	**60**	39
Total	**1,702**	1,518

In 1988, 26 MSEK pertained to long-term advance payments by SAS Group subsidiaries.

Note 20—Fixed assets

	Cost		Accumulated depreciation		Book value	
SAS Group	**Dec. 31 1989**	Dec. 31[1] 1988	**Dec. 31 1989**	Dec. 31 1988	**Dec. 31 1989**	Dec. 31[1] 1988
Construction in progress	**734**	560			**734**	560
Aircraft	**10,496**	7,776	**2,250**	2,206	**8,246**	5,570
Spare engines and spare parts	**1,379**	927	**574**	569	**805**	358
Maintenance and aircraft servicing equipment	**422**	391	**272**	238	**150**	153
Other equipment and vehicles	**3,326**	2,959	**1,842**	1,681	**1,484**	1,278
Buildings and improvements	**2,359**	2,083	**500**	460	**1,859**	1,623
Land and land improvements	**221**	254	**3**	2	**218**	252
Total	**18,937**	14,950	**5,441**	5,156	**13,496**	9,794
SAS Consortium						
Construction in progress	**169**	371			**169**	371
Aircraft	**10,026**	7,436	**2,210**	2,195	**7,816**	5,241
Spare engines and spare parts	**1,357**	927	**572**	569	**785**	358
Maintenance and aircraft servicing equipment	**375**	345	**257**	234	**118**	111
Other equipment and vehicles	**1,994**	1,648	**1,156**	1,021	**838**	627
Buildings and improvements	**1,175**	1,073	**207**	150	**968**	923
Land and land improvements	**83**	87	**3**	1	**80**	86
Total	**15,179**	11,887	**4,405**	4,170	**10,774**	7,717

[1] Does not include Scanair.

Changes in the net book value of aircraft in the SAS Consortium were as follows:

Cost, December 31, 1988	7,436	
Acquisitions (gross)	3,447	
Sales (gross)	–857	10,026
Accumulated depreciation, December 31, 1988	2,195	
Depreciation 1989	282	
Reversal of depreciation upon sale of aircraft, 1989	–267	2,210
Net book value, December 31, 1989		7,816

The insurance value of the aircraft was 16,130 MSEK on December 31, 1989. This includes the insurance value of leased aircraft in the amount of 1,913 MSEK.

Of the year's aircraft acquisitions, 6 MD-80s (earlier years 8) were acquired formally through 10-15 year leasing agreements. On behalf of the SAS Consortium, a number of banks have agreed to pay all acccruing leasing fees and an agreed-upon residual value at the expiry of each leasing period. The SAS Consortium has irrevocably reimbursed the banks for these payments. The combined nominal value of the banks' payment commitment on behalf of the SAS Consortium was approximately 2,272 MSEK (1,275) on December 31, 1989. The 14 (8) aircraft are stated in the Balance Sheet at a value of 1,782 MSEK (1,011).

Note 21—Unearned transportation revenue

Unearned transportation revenue consists of sold, but unutilized, tickets. See Accounting Principles.

The reserve for unearned transportation revenue is estimated at 200 MSEK (350) on December 31, 1989.

Note 22—Bond issues

The SAS Consortium's bond issues totaled 8,175 MSEK (4,141). Issues are in the following amounts and denominations:

SAS Group/SAS Consortium	**Dec. 31 1989**	Dec 31 1988
USD U.S. dollars	**5,085**	2,981
ECU European Currency Unit	**739**	716
NOK Norwegian kronor	**424**	421
CHF Swiss francs	**806**	267
AUD Australian dollars[3]	**249**	457
SEK Swedish kronor	**50**	60
LUF Luxembourg francs	**70**	66
FRF French francs	**752**	
	8,175	4,968
Less: repayments in 1990 and 1989, respectively	**–259**	–827
Total	**7,916**	4,141

Specification of individual issues:

		Interest rate	Tenor	Remaining debt in MSEK
150 M	Swedish kronor	11.500%	79/94	50
200 M	Norwegian kronor	11.625%	84/91	188
250 M	Norwegian kronor	10.125%	85/93	236
100 M	European Currency Units	9.000%	85/95	739
150 M	U.S. dollars	10.125%	85/95	934
400 M	Luxembourg francs	7.375%	87/94	70
100 M	U.S. dollars[1]	7.125%	88/98	626
100 M	U.S. dollars[2]	8.750%	88/91	623
50 M	Australian dollars[3]	13.250%	88/90	249
50 M	U.S. dollars	10.650%	88/08	312
700 M	French francs	9.250%	89/99	752
200 M	U.S. dollars[4]	10.000%	89/99	1,279
200 M	U.S. dollars[5]	9.125%	89/99	1,311
100 M	Swiss francs	5.000%	89/01	403
100 M	Swiss francs	6.125%	89/99	403
Total				8,175

[1] Through a currency swap transaction, SAS's repayment commitment has been partly changed to NOK. [2] In addition, 100,000 warrants were issued, entitling the purchaser to buy additional bonds up to a total of 100 MUSD during the tenor of the bond issue. [3] Through a currency swap transaction, SAS's repayment commitment has in principle been changed to USD. [4] Through a currency swap transaction, SAS's repayment commitment has been partly changed to DKK and DEM. [5] Through a currency swap transaction, SAS's repayment commitment has been partly changed to DEM and JPY.

Bond issues are due for redemption as follows:

1990	259
1991	831
1992	10
1993 and thereafter	7,075
Total	8,175

Note 23—Other loans

Other long-term loans of the SAS Group amount to 1,970 MSEK (1,552), of which the SAS Consortium accounted for 1,321 MSEK (858). The loans are denominated in currencies as follows:

	SAS Group **Dec. 31 1989**	SAS Group Dec. 31 1988	SAS Consortium **Dec. 31 1989**	SAS Consortium Dec. 31 1988
ATS Austrian schillings	**34**	47	**34**	32
NOK Norwegian kronor	**52**	239	**–**	84
DKK Danish kroner	**52**	77	**–**	7
SEK Swedish kronor	**36**	138	**36**	52
JPY Japanese yen[1]	**1,238**	665	**1,223**	650
ESP Spanish pesetas	**–**	147	**–**	–
DEM Deutsche marks	**171**	64	**–**	–
BEF Belgian francs	**190**	74	**–**	–
NLG Dutch guilders	**212**	77	**49**	46
GRD Greek drachmas	**–**	92	**–**	–
Other	**6**	81	**–**	–
Total	**1,991**	1,701	**1,342**	871
Less repayments in 1990 and 1989, respectively	**–21**	–149	**–21**	–13
Total	**1,970**	1,552	**1,321**	858

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

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

1990	21
1991	22
1992	9
1993 and thereafter	1,290
Total	1,342

Note 24—Other long-term debt

SAS Group	**Dec. 31 1989**	Dec. 31 1988
PRI	**30**	59
Other pension commitments	**114**	118
Deferred taxes	**244**	257
Accrued currency exchange gain	**218**	291
Other liabilities	**680**	433
Total	**1,286**	1,158

The Pension Registration Institute (PRI) is a non-profit service organization that manages employee pension plans. Other pension liabilities are covered by periodic premium payments.

Deferred taxes are attributable to subsidiaries' reserves and are calculated in accordance with the full-tax method (calculated tax on allocations).

Accrued currency exchange gains as of January 1, 1988 are allocated over the average maturity of the loans.

Note 25—Subordinated debenture loan

A perpetual 200 million Swiss franc subordinated loan was floated during the 1985/86 fiscal year. There is no set maturity date on the loan. SAS has the exclusive right to terminate the loan once every five years.

The interest rate, fixed for periods of 10 years, at present amounts to 5 3/4 percent p.a.

Note 26—Reserves

SAS Consortium	Currency equalization reserve
December 31, 1988	**376**
Allocation	**47**
Reversal	**–386**
December 31, 1989	**37**

Reserves pertaining to the SAS Group are reported in accordance with the full-tax method (calculated tax on untaxed reserves) as deferred tax and equity.

The Consortium's opening and closing currency equalization reserves do not include a requisite allocation of 280 MSEK in connection with changed accounting principles in 1986/87. This entire amount was reversed during the year.

Note 27—Equity

SAS Group	Paid-in capital	Legal reserve	Revaluation reserve	Retained earnings	Year's profit	Total equity
December 31, 1988	5,162	128	401	214	3,282	9,187
Income 1988	2,355			927	–3,282	
Transfer to parent companies	–490					–490
Allocation to statutory reserves		16	5	–16		5
Change in translation difference, net		18		–337[3]		–319
Capital:						
– Scanair[1]	115					115
– SAS Commuter[1]	7					7
Parent company contribution	1,750					1,750
Other[2]		–7		–48		–55
Profit 1989					1,977	1,977
December 31, 1989	**8,899**	**155**	**406**	**740**	**1,977**	**12,177**
SAS Consortium						
December 31, 1988	5,162				2,355	7,517
Income 1988	2,355				–2,355	
Transfer to parent companies	–490					–490
Parent company contribution	1,750					1,750
Profit 1989					1,460	1,460
December 31, 1989	**8,777**				**1,460**	**10,237**

[1] Starting in 1989, the Scanair and SAS Commuter consortia are consolidated.
[2] Write-down of goodwill in SAS Service Partner, 23 MSEK; adjustments to IAS, 14 MSEK in Diners Club Nordic; and effects of changed Group structure.
[3] Pertains mainly to the investment in Saison Overseas (Holdings) B.V.

Note 28—Assets pledged

	SAS Group		SAS Consortium	
	Dec. 31 1989	Dec. 31 1988	**Dec. 31 1989**	Dec. 31 1988
Mortgages in real estate	**529**	567	**2**	11
Corporate mortgages	**15**	43	**–**	–
Receivables	**62**	28	**10**	7
Securities on deposit	**26**	27	**–**	–
Total	**632**	665	**12**	18

Note 29—Contingent liabilities

	SAS Group		SAS Consortium	
	Dec. 31 1989	Dec. 31 1988	**Dec. 31 1989**	Dec. 31 1988
Travel guaranties	**–**	–	**389**	295
Guaranties for pension liabilities	**–**	–	**1**	14
Loan guaranties	**–**	–	**–**	24
Other contingent liabilities for subsidiaries	**–**	–	**113**	47
Total contingent liabilities for subsidiaries	**–**	–	**503**	380
Contingent liabilities	**501**	413	**88**	84
Pension commitments	**–**	–	**117**	116
Total	**501**	413	**708**	580

In addition to these contingent liabilities, certain commitments which could reach 22 MSEK (14) have been made formally through leasing agreements in connection with the acquisition of aircraft. (See note 20.)

Loans which have become the objects of currency-rate swaps are stated at the swap currency's year-end rate of exchange. In the event that an entered agreement is not fulfilled, SAS's currency exposure reverts to the swap currency. The maximum amount of such commitments is 2 MSEK.

Note 30—International accounting practice

The financial statements of the SAS Group, prepared in accordance with the recommendations of the International Accounting Standards Committee (IASC), deviate in certain respects from Danish, Norwegian and Swedish accounting practices. Previously, the SAS Group's accounting principles were a partial combination of the three countries' practices.

SAS is engaged in international operations which focus primarily on achieving a global, integrated travel service. Conformance to internationally accepted accounting practices improves the general understanding of SAS's financial position and development, something which should improve SAS's communication with foreign capital markets while facilitating comparisons with other international airlines.

IASC was founded in 1973 through an agreement between the accounting organizations in the major industrialized countries. Today the organization has approximately 50 member-countries.

IASC's chief objective is to contribute to the development and harmonization of international accounting practices.

Significant differences between SAS's accounting principles today (IAS) and common Scandinavian accounting practices.

A. Affiliated companies

IAS require the use of the equity method in reporting shareholdings of between 20 and 50 percent in other companies.

B. Receivables and liabilities in foreign currencies

According to IAS, all exchange gains and losses are reported above income during the period in which they are incurred.

C. Capitalization of borrowing costs

According to IAS, interest expenses associated with the financing of major investments in fixed assets (advance payments for aircraft) can be capitalized if the acquisition extends over a long period.

D. Leasing

According to IAS, the two main forms of leasing, financial and operational, are treated differently. Classification as a financial or operational lease depends on the extent to which the risks and advantages of ownership are transferred over to the leasor. Financial leases, in accordance with IAS, should be reported among fixed assets in the Balance Sheet, while the leasing commitment is to be reported among liabilities. According to previous practices, SAS only had to report the leasing cost above income. SAS has no financial leases of material significance in the 1989 financial statements.

E. Taxes

According to IAS, taxes attributable to a particular accounting period should be reported for that period, even if the tax is not paid until some later accounting period. Previously, deferred taxes were not considered in SAS's accounts.

AUDITORS' REPORT

for Scandinavian Airlines System (SAS)
Denmark-Norway-Sweden

We have audited the Financial Statements for the SAS Group and the SAS Consortium for 1989. Our audit has been performed according to generally accepted audited standards.

The Financial Statements are based upon accounting principles described in the section of the Annual Report entitled Significant Valuation and Accounting Principles. The Financial Statements of the SAS Group are prepared in accordance with recommendations issued by the International Accounting Standards Committee (IASC), while Scandinavian accounting principles have been applied to the SAS Consortium.

In our opinion the Financial Statements present fairly the financial position of the SAS Consortium and the Group on December 31, 1989, and the results of their operations for the year then ended, in accordance with the principles described above.

Stockholm, April 5, 1990

ARNE BRENDSTRUP — BERNHARD LYNGSTAD — ROLAND NILSSON

OLE KOEFOED — JACOB BERGER — SÖREN WIKSTRÖM

Authorized Public Accountants

FINANCIAL SUMMARY

TRAFFIC/PRODUCTION		1989	1988	1987[3]	85/86	84/85
Number of cities served		**81**	79	82	89	88
Kilometers flown, scheduled	(millions)	**169.4**	152.9	138.9	135.9	125.0
Total airborne hours	(000)	**268.3**	243.7	221.2	217.5	199.7
Total numbers of passengers carried	(000)	**14,005**	13,341	12,662	11,708	10,735
Available tonne kilometers, total	(millions)	**3,060.4**	2,707.4	2,444.2	2,490.9	2,382.2
Available tonne km, charter		**10.2**	10.9	17	12.2	18.2
Available tonne km, scheduled		**3,050.2**	2,696.5	2,427.2	2,478.7	2,364.0
Revenue tonne km, scheduled	(millions)	**1,876.5**	1,719.7	1,597.6	1,560.9	1,502.1
Passengers and excess baggage		**1,396.0**	1,269	1,168.3	1,096.6	1,054.4
Freight		**423.1**	397.1	380.3	409.0	396.5
Mail		**57.4**	53.6	49	55.3	51.2
Total load factor, scheduled	(%)	**61.5**	63.8	65.8	63.0	63.5
Available seat km, scheduled	(millions)	**23,320**	20,941	19,019	18,849	17,818
Revenue seat km, scheduled	(millions)	**15,229**	14,027	13,207	12,471	11,966
Cabin factor, scheduled	(%)	**65.3**	67	69.4	66.2	67.2
Average passenger trip length	(km)	**1,087**	1,053	1,045	1,067	1,119
Traffic revenue/revenue tonne km	(SEK)	**8.82**	8.76	8.55	8.41	8.15
Airline oper., expense/avail. tonne km	(SEK)	**5.50**	5.40	5.47	5.26	4.81
Revenue tonne km/employee, scheduled		**90,000**	84,400	77,900	78,900	79,700
Revenue passenger km/employee, scheduled		**730,400**	688,400	644,000	630,700	635,000

GROUP, MSEK					
INCOME STATEMENTS*					
Revenue	**29,471**	27,556	24,288	21,585	19,790
Operating income before depreciation	**2,658**	2,681	1,850	2,216	1,550
Depreciation	**1,414**	1,174	993	863	574
Share of income in affiliated companies	**83**	127	92	–	–
Gain on the sale of equipment, etc.	**977**	1,906	372	34	–17
Financial items, net	**–98**	150	368	128	58
Income before extraordinary items	**2,206**	3,690	1,689	1,515	1,017
Extraordinary items	**–**	–	–	–	–
Income before taxes	**2,206**	3,690	1,689	1,515	1,017
STATEMENTS OF CHANGES IN FINANCIAL POSITION					
Net financing from the year's operations	**1,550**	1,885	2,559	1,625	1,398
Investments, total	**–9,922**	–3,938	–3,493	–4,128	–1,761
Sale of equipment, etc.	**1,877**	1,932	1,065	410	– 696
Financing deficit/surplus	**–6,495**	–121	131	–2,093	–1,059
Capital infusion from parent companies	**1,750**	–	1,050	–	–
Net borrowings	**3,804**	2,847	344	1,999	724
Change in liquid funds	**–941**	2,726	1,525	– 94	– 335
BALANCE SHEETS					
Liquid funds	**6,892**	7,833	5,107	3,582	3,676
Current assets, other	**7,590**	5,297	4,692	4,530	3,610
Non-current assets[1]	**21,245**	12,955	10,149	8,769	5,901
Current liabilities	**11,508**	9,200	6,852	6,729	6,257
Long-term debt[2]	**12,042**	7,698	6,372	5,322	3,310
Equity	**12,177**	9,187	6,724	4,830	3,620
Total assets	**35,727**	26,085	19,948	16,881	13,187
RATIOS					
Gross profit margin (GOP), %	**10**	10	8	10	8
Net profit margin, %	**4**	7	5	7	5
Return on capital employed, %	**10**	16	13	22	21
Share of risk-bearing capital, %	**36**	38	36	29	27

* Starting in 1987, figures calculated in accordance with International Accounting Standards.

SAS CONSORTIUM,[4] MSEK	1989	1988	1987[3]	85/86	84/85
INCOME STATEMENTS					
Traffic revenue	**16,974**	15,528	14,179	13,456	12,572
Other operating revenue	**4,220**	3,983	3,581	3,039	2,862
Operating revenue	**21,194**	19,511	17,760	16,495	15,434
Operating income before depreciation	**2,077**	2,175	1,344	1,772	1,216
Depreciation, etc.	**1,062**	808	730	690	447
Gain on the sale of equipment, etc.	**289**	965	319	– 10	2
Financial items, net	**156**	23	190	125	51
Income before extraordinary items	**1,460**	2,355	1,123	1,197	822
Extraordinary items	**–**	–	–	–	– 15
Income before allocations and taxes	**1,460**	2,355	1,123	1,197	807
STATEMENTS OF CHANGES IN FINANCIAL POSITION					
Net financing from the year's operations	**1,060**	1,906	2,049	1,331	984
Investments in flight equipment	**–4,074**	–1,622	–1,694	–2,961	–1,006
Investments, other	**–1,650**	–1,296	–1,100	– 772	– 601
Gain on the sale of equipment, etc.	**900**	673	1,008	365	– 750
Financing deficit/surplus	**–3,764**	–339	263	–2,037	–1,373
Capital infusion from parent companies	**1,750**	–	1,050	–	–
Net borrowings	**2,406**	1,798	101	1,749	770
Change in liquid funds	**392**	1,459	1,414	– 288	– 603
BALANCE SHEETS					
Liquid funds	**5,816**	5,424	3,965	2,551	2,839
Current assets, other	**7,842**	4,124	3,273	3,328	2,930
Non-current assets	**15,764**	11,170	8,374	7,632	4,985
Current liabilities	**8,998**	6,839	4,641	4,796	4,959
Long-term debt	**10,150**	5,986	4,954	4,546	2,630
Equity and reserves	**10,274**	7,893	6,017	4,169	3,165
Total assets	**29,422**	20,718	15,612	13,511	10,754
RATIOS					
Gross profit margin (GOP), %	**11**	11	8	11	8
Net profit margin, %	**6**	7	5	7	5
Return on capital employed, %	**11**	16	12	21	21
Share of risk-bearing capital, %	**35**	38	39	31	29
PERSONNEL (average)					
Consortium	**21,360**	20,830	20,890	19,770	18,840
Group	**39,800**	36,150	34,900	31,770	29,730

[1] Including restricted account balances.
[2] Including minority interests.
[3] Refers to 15-month period, 1986/87.
[4] The SAS Consortium includes the Group Management, SAS Airline, SAS Finance, SAS Trading and joint Group projects.

Tor Moursund, born 1927, Supreme Court Attorney. Chairman of SAS's Board 1989. Norwegian Chairman of SAS's Board since 1983. Chairman of the Board of DNL, as representative of the Norwegian Government. Chief Executive of Christiania Bank & Kreditkasse. Chairman of the Board of Christiania Bank Luxembourg and Synergos A.S.
Personal Deputy: Ragnar Christiansen.

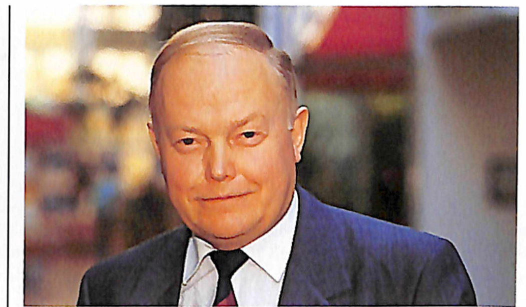
Haldor Topsøe, born 1913, Dr. Phil. and Tech. First Vice Chairman of SAS's Board 1989. Danish Chairman of SAS's Board since 1968 and Chairman of DDL's Board, as representative of the private Danish owners. Chairman of Haldor Topsøe A/S. Member of the Boards of several Danish and other foreign companies.
Personal Deputy: Povl Hjelt.

Curt Nicolin, born 1921, Hon.Dr. Eng. Second Vice Chairman of SAS's Board 1989. Swedish Chairman of SAS's Board since 1973 and Chairman of ABA's executive committee, as representative of the private Swedish owners. Chairman of the Boards of ASEA, ESAB, Fläkt and SILA. Co-chairman of the Board of ABB Asea Brown Boveri. Member of the boards of numerous companies and organizations.
Personal Deputy: Peter Wallenberg.

Bjørn Eidem, born 1942, Supreme Court Attorney. Member of SAS's Board since 1983 and Vice Chairman of DNL's Board, as representative of the private Norwegian owners. Senior Vice President of Fred. Olsen & Co. Chairman of the Boards of Norges Handels- og Sjøfartstidende and Widerøe's Airlines. Member of the Boards of Ganger Rolf, Bonheur, and Harland & Wolff.
Personal Deputy: Halvdan Bjørum.

Kaj Ikast, born 1935, Major. Member of SAS's Board since 1987. Vice Chairman of DDL's Board, as representative of the Danish government. Member of Danish Parliament. Member of the (Danish) Railway Council, Personal Traffic Council and Transportation Council.
Personal Deputy: Jimmy Stahr.

Krister Wickman, born 1924, LL.B. and Ph.L. Member of SAS's Board since 1974 and Chairman of ABA's Board, as representative of the Swedish Government. President of the National Swedish Pension Insurance Fund. Chairman of the Swedish Authors Foundation and member of the Boards of AGA, Pharos AB, Pleia Real Estate AB, VPC (the Swedish Securities Register Center) and PMC (Penningmarknadscentralen).
Personal Deputy: Bengt Dennis.



Employee Representative
Ingvar Lilletun, Norway, born 1938. Member of SAS's Board since 1979. Employed in SAS Route Sector Norway.
Deputies:
Karin Hval and Svein Vefall.

Employee Representative
Ib Jensen, Denmark, born 1943. Member of SAS's board since 1990. Employed in SAS Traffic Services Division.
Deputies:
Hans Dall and Jens Tholstrup Hansen.

Employee Representative
Ralf Frick, Sweden, born 1931. Member of SAS's Board since 1986. Employed in SAS's Technical Division.
Deputies:
Harry Sillfors and Leif Kindert.

GROUP MANAGEMENT

Helge Lindberg
Torbjörn Sköld
Christer Sandahl

Anders Claesson
Bengt A. Hägglund
Ivar Samrén

Steffen Harpøth
Terje Sunde Johnsen
Kurt Ritter
Göran Lundqvist

Lars Bergvall
Jan Carlzon

SAS GROUP ORGANIZATION

SAS Group

Jan Carlzon
President and Chief Executive Officer

Group Management

Helge Lindberg
Deputy President

Lars Bergvall
Executive Vice President Chief Operating Officer, SAS Airline

Anders Claesson
Senior Vice President Chief Financial Officer

Steffen Harpøth
Senior Vice President Group Controller

Bengt A. Hägglund
Managing Director, Saison Overseas (Holdings) B.V.

Torbjörn Sköld
Senior Vice President General Counsel

Terje Sunde Johnsen
Senior Vice President Strategic Development

Göran Lundqvist
President SAS Trading

Kurt Ritter
President SAS International Hotels

Ivar Samrén
President SAS Service Partner

Christer Sandahl
President SAS Leisure

SAS Airline

Lars Bergvall
Chief Operating Officer

Sven A. Heiding
Vice President Route Sector Europe

Kjell Fredheim
Vice President Route Sector Intercontinental

Michael Mørch
Vice President Deputy Chief Operating Officer, Denmark

Kurt Thyregod
Vice President Route Sector Denmark

Ingar Skaug
Vice President Route Sector Norway and Deputy Chief Operating Officer, Norway

Peter Forssman
Vice President Route Sector Sweden and Deputy Chief Operating Officer, Sweden

Per Johan Orrby
Vice President SAS Cargo

Krister Kalin
Vice President Technical Division

Mats Mitsell
Vice President Operations Division

Johan Juhlin
Vice President Flight Operations

Göran Yxhammar
Vice President Traffic Services Division

Björn Boldt-Christmas
Vice President Data and Distribution Division

Thomas Nilsson
Vice President Finance

SAS International Hotels

Kurt Ritter
President

Tom Johansen
Vice President Administration

Knut Kleiven
Operational Controller

Knut Regbo
Company Secretary

Roland Gaelens
Vice President Food & Beverages Operations

Paul Tribolet
Vice President Sales & Marketing

Christian Petzold
Vice President Technical Development

Finn Schultz
Director Management Information Systems

Per Kjellström
Vice President Area Sweden

Bahram Sadr-Hashemi
Vice President Area Denmark

Bjørn Gullaksen
Vice President Area Norway

SAS Service Partner

Ivar Samrén
President

Peter Højland
Deputy President Business Area Catering

Bengt Nordenstedt
Senior Vice President Business Area Restaurants

Per Braagaard
Vice President Finance

Vagn Haagensen
Vice President Personnel

Lennart Gustafsson
Vice President Corporate Strategy

SAS Trading

Göran Lundqvist
President

Leif Håkansson
Vice President

Sten Ramel
Director Finance

Jan Hinds
General Manager SAS Media

Sven-Gunnar Hjorth
Managing Director Mediasäljarna AB

SAS Leisure

Christer Sandahl
President

Claes Bernhard
Managing Director Sunwing Hotels

Bjørn Lunde
Managing Director Ving Group

Ingvar Ståhl
Financial Director

Jan Sundling
Managing Director Scanair

Henrik Meldahl
Director Business Project SAS Leisure

Reidar Svedahl
Director Business Development SAS Leisure

SAS Financial Services

Anders Claesson
Chief Financial Officer

Lars Kleivan
President Diners Club Nordic A/S

Lars Thuesen
Vice President Chief Operating Officer, SAS Finance

ASSEMBLY OF REPRESENTATIVES

Denmark

NIELS FRANDSEN
Chairman
AXEL, GREVE AF ROSEN-BORG
KARL BREDAHL
JØRGEN L. HALCK
SVEND AAGE HEISELBERG
POVL HJELT
KAJ IKAST
SVEND JAKOBSEN
JIMMY STAHR
HALDOR TOPSØE

Employee representatives
HANS DALL
IB JENSEN
JENS THOLSTRUP HANSEN

Deputy
HANS P. TANDERUP

Norway

NILS J. ASTRUP
Vice Chairman
ÅSHILD M. BENDIKTSEN
HALVDAN BJØRUM
RAGNAR CHRISTIANSEN
BJØRN EIDEM
TORSTEIN LJØSTAD
TOR MOURSUND
GISLAUG MYRSET
JOHAN FR. ODFJELL
FRED. OLSEN
OLE RØMER SANDBERG

Deputies
MADS HENRY ANDENÆS
GRO BALAS
HELGA GITMARK
JANNIK LINDBÆK

Employee representatives
KARIN HVAL
INGVAR LILLETUN
SVEIN VEFALL

Deputies
ODD A. GILBOE
GUNNSTEIN MOEN
KJELL PAULSEN

Sweden

KARL-ERIK PERSSON
First Vice Chairman
BÖRJE ANDERSSON
ROLF CLARKSON
BENGT DENNIS
GUNNEL FÄRM
BO AX:SON JOHNSON
CURT NICOLIN
BIRGER ROSQVIST
BO RYDIN
JAN-OLOF SELÉN
BJÖRN SVEDBERG
JAN WALLANDER
PETER WALLENBERG
KRISTER WICKMAN

Deputies
PEDER BONDE
ULF DAHLSTEN
INGEMAR ELIASSON
GUNNAR ERICSSON
GÖSTA GUNNARSSON
CARL-OLOV MUNKBERG

Employee representatives
RALF FRICK
LEIF KINDERT
HARRY SILLFORS

Deputy
HANS LEVIN

AUDITORS

ARNE BRENDSTRUP
Authorized Public Accountant
SCHØBEL & MARHOLT
member firm
DRT International

OLE KOEFOED
Authorized Public Accountant
CENTRALANSTALTEN FOR REVISION
member firm
KPMG

BERNHARD LYNGSTAD
Authorized Public Accountant
FORUM TOUCHE ROSS
member firm
DRT International

JACOB BERGER
Authorized Public Accountant
FORUM TOUCHE ROSS
member firm
DRT International

ROLAND NILSSON
Authorized Public Accountant
BOHLINS REVISIONSBYRÅ AB
member firm
KPMG

SÖREN WIKSTRÖM
Authorized Public Accountant
TRG Revision AB
member firm
DRT International

ADDRESSES

Head Office

SAS
S-161 87 Stockholm
Sweden
Visitors' address:
Frösundaviks allé 1, Solna
Telephone: +46-8-797 00 00

Denmark:
SAS
Box 150
DK-2770 Kastrup
Denmark
Visitors' address:
Hedegårdsvej 88
Telephone: +45-31-50 91 11

Norway:
SAS
N-1330 Oslo Lufthavn
Norway
Visitors' address:
Fornebuveien 40
Telephone: +47-2-59 60 50

Sweden:
SAS
S-161 87 Stockholm
Sweden
Visitors' address:
Frösundaviks allé 1, Solna
Telephone: +46-8-797 00 00

SAS's Scandinavian telex number is
22263 SASXT DK

Scanair
Box 20083
S-161 02 Bromma
Sweden
Telephone: +46-8-764 91 00

SAS Commuter
Postboks 150
DK-2770 Kastrup
Denmark
Telephone: +45-32-32 52 11

Subsidiaries

SAS International Hotels A/S
Postboks 325
N-1324 Lysaker
Norway
Telephone: +47-2-53 18 00

SAS Service Partner A/S
Kristen Bernikows Gade 1
DK-1105 Köpenhamn K
Denmark
Telephone: +45-33-93 19 86

SAS Leisure AB
S-105 20 Stockholm
Sweden
Telephone: +46-8-796 67 00

Diners Club Nordic A/S
Langkaia 1
N-0150 Oslo 1
Norway
Telephone: +47-2-33 43 60

MediaSäljarna AB
S:t Eriksgatan 121 3 tr
S-113 43 Stockholm
Sweden
Telephone: +46-8-34 00 10

Scandinavian Multi Access Systems AB
Box 1419
S-171 27 Solna
Sweden
Telephone: +46-8-734 96 20

Scandinavian Aero Engine Services AB
Box 218
S-161 26 Bromma
Sweden
Telephone: +46-8-799 21 00

Copenhagen Duty Free Distribution A/S
Oljefabriksvej 61
DK-2770 Kastrup
Denmark
Telephone: +45-31-50 44 33

Ostermann Petersen Bros. Ltd.
Jydekrogen 40
DK-2620 Albertslund
Denmark
Telephone: +45-42-63 05 33

Affiliated Companies

Linjeflyg AB
Box 550
S-190 45 Stockholm-Arlanda
Sweden
Telephone: +46-8-797 50 00

Travel Management Group Sweden AB
Grevgatan 34
S-114 53 Stockholm
Sweden
Telephone: +46-8-666 18 80

Polygon Insurance Company Ltd.
P.O. Box 34
St. Peter Port, Guernsey
Channel Islands
Telephone: +44-481-72 81 36

Bennett Reisebureau A/S
Postboks 469
N-0105 Oslo 1
Norway
Telephone: +47-2-20 90 90

Grønlandsfly A/S
Postboks 1012
DK-3900 Godthåb
Greenland
Telephone: +299-244 88

Airlines of Britain Holdings PLC
Donington Hall
Castle Donington
Derby DE7 2SB
England
Telephone: +44-332-81 07 41

Amadeus
Paseo de la Castellana 95,
Planta 11
280 46 Madrid
Spain
Telephone: +34-1-582 01 00

Aviation Holdings PLC
65 Kingsway
London WC2B 6QT
England
Telephone: +44-1-831 17 71

Saison Overseas (Holdings) B.V.
Suite 100 E, Professor Tulpplein 1
1018 GX Amsterdam
The Netherlands
Telephone: +31-20-24 71 54

Spanair S.A.
Palma de Mallorca Airport
P.O. Box 50086
Palma 07000
Spain
Telephone: +34-71-49 20 12

Copenhagen Airport Shopping Center K/S (KLF)
Kontorsbygning Nordvest
Københavns Lufthavn
DK-2770 Kastrup
Denmark
Telephone: +45-31-50 50 60

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