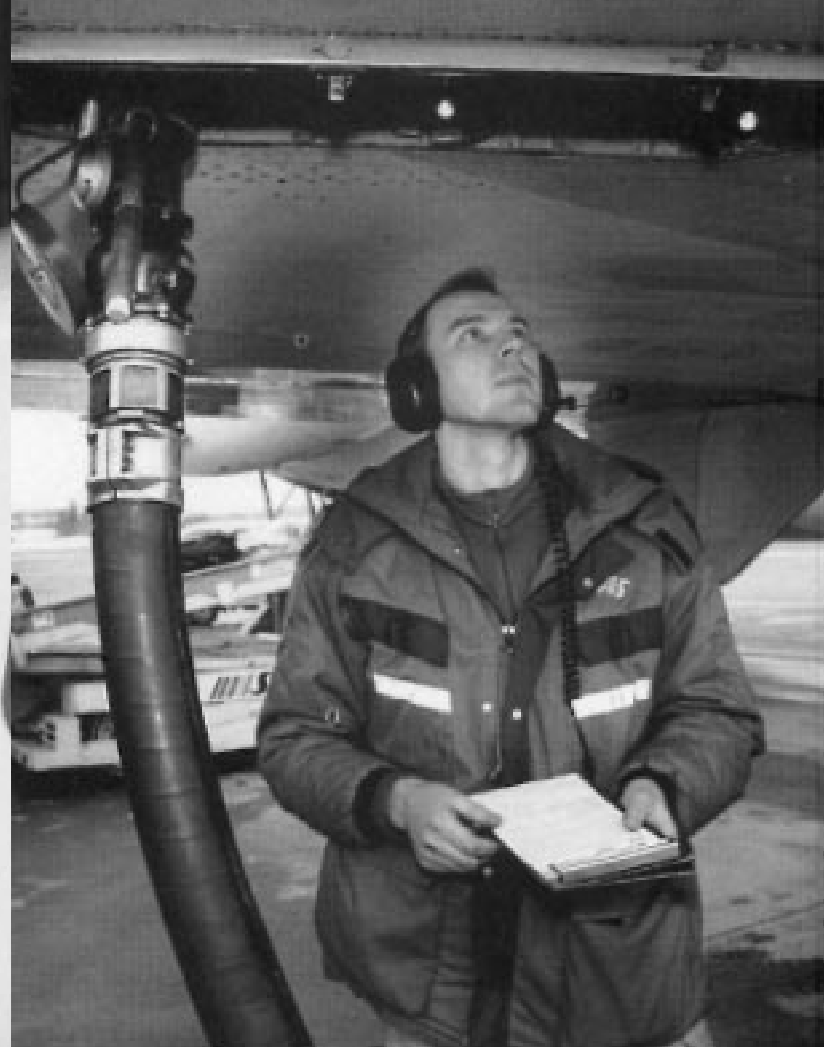
Scandinavian Airlines System Annual Report 1993


SAS



The Year at a Glance

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WEAK IMPROVEMENT IN RESULTS

The SAS Group's income before taxes amounted to –492 MSEK (–760). This includes net unrealized exchange losses of 1,000 MSEK due to the continued weakening of the Swedish krona. The result also includes an exchange gain of 810 MSEK on the sale and leaseback of aircraft.

GOOD LIQUIDITY – INADEQUATE EQUITY / ASSETS RATIO

Equity totaled 8,631 MSEK (8,958). Liquid funds amounted to 9,318 MSEK (9,829). The equity/assets ratio remained unchanged at 21%.

TURN IN THE MARKET

The Association of European Airlines (AEA) reports an increase in traffic measured in revenue passenger kilometers, RPK, of 8% in 1993. SAS's total passenger traffic measured in RPK increased by only 6%, due primarily to the weak market in Sweden, SAS's single largest market.

NEW ACTION PROGRAM

A new action program was announced in autumn 1993. The action program contains efficiency and productivity improvements designed to achieve a competitive level of costs, suspension of unprofitable routes, a concentration on air transport operations, and financial consolidation.

STREAMLINING THE CORE BUSINESS

The process of streamlining the Group structure around SAS's core business – air transport – began with the sale of SAS Service Partner's business areas, Terminal Catering and Contract Catering. Negotiations are taking place regarding the sale of the SAS Leisure Group and Diners Club Nordic.

A Year of Major Changes

During 1993 SAS was deeply engaged in basic issues surrounding the future of the airline. Difficult conditions in the market in the form of a persistent recession, deregulation and overcapacity in the airline industry have accentuated the urgency of making the right long-term decisions. At the same time the current situation was problematical and required attention in the form of ongoing and new action programs.

1993 was the year when many people in the airline industry discussed cooperation, but very little actually materialized. Instead most airlines were forced by sharply declining revenues to return to their core business.

SAS is no exception in this respect.

Throughout most of 1993, SAS was a highly active participant in the Alcazar project, designed to create a joint airline operation and joint income statements and balance sheets with KLM, Swissair and Austrian Airlines. During the autumn a plan of action without partners was formulated, and when negotiations finally broke down this program was given top priority.

Although it is our opinion that SAS in the longer term, in common with other airlines in Europe, must establish an extensive cooperation to ensure long-term development, it is first necessary to create conditions which secure SAS's position on a "stand alone" basis. We are now doing this by focusing our resources on a market-oriented, cost-effective airline operation.

UNSATISFACTORY RESULTS

The SAS Group's operating income amounted to 2,032 MSEK (2,930) in 1993. Income before taxes remained unsatisfactory at –492 MSEK (–760).

Income before taxes in SAS (airline operations and SAS Corporate Finance) amounted to –1,068 MSEK (–1,092). This includes, in addition to restructuring costs for the SAS/Linjeflyg integration, net unrealized exchange effects of –1,000 MSEK (–1,120). Exchange gains on the sale and leaseback of six Boeing 767-300s,

which after provisions for future increases in leasing costs amounted to 810 MSEK, are also reported in SAS's results.

The combined income before taxes in other business units in the SAS Group totaled 576 MSEK (349).

This includes capital gains of 510 MSEK (5) on the sale of shares, operations and flight equipment, of which 500 MSEK represents a capital gain from the sale in June of two of SAS Service Partner's business areas, Terminal Catering and Contract Catering.

ESCALATING COSTS UNDERMINE PREVIOUS ACTION PROGRAMS

SAS's profitability problems are rooted in high costs, weak or negative earnings in parts of the traffic system, high financial risk exposure, and a diffuse structure and organization.

Revenues developed comparatively well in 1993. SAS's main problem continues to be costs.

SAS has carried out several action programs during the past three years. A number of rationalization projects were identified in 1991–1992, when costs were reduced by the 18% target. However, this was counteracted by rising costs in other areas, resulting in an actual total cost reduction of only 2–3%.

A new program was adopted for the period 1993–1995 designed to reduce the level of controllable costs by 8% each year. Although some parts of the action program for 1993 were implemented, escalating costs and increases in other areas have reduced the effect of the program considerably.

Controllable costs increased by approximately 5% during the year. This largely matches the increases in production and traffic volumes, which means that the actual efficiency improvement during the year no more than matched inflation.

By the end of the first six months of 1993 it was apparent that the effects of the action program were insufficient. This led to a thorough analysis of the company in October 1993, which resulted in a new action program on four fronts:

– improvements in efficiency and productivity designed to achieve a competitive cost level
– suspension of unprofitable routes
– a focus on air transport operations
– financial consolidation.

This program will bring down costs by 2.9 billion SEK in 1994 and 1995. This corresponds to 17% of controllable costs.

SAS is now working hard and determinedly to carry out this program within these four areas, and we are on schedule. The efficiency and productivity measures are particularly demanding, since they require renegotiation of a number of contracts and structural changes.

The highest priority is to ensure that these programs are not also undermined by escalating costs, other than a very modest inflationary effect.

A PROGRAM FOR CONSOLIDATION AND IMPROVED RESULTS

Consolidation comprises a focus on both the total structure of the SAS Group and the internal organization.

The restructuring program is based on the sale of activities which do not have close commercial links with the airline business. The sale of the SAS Leisure Group and Diners Club Nordic were under negofiation in the first quarter of 1994.

The starting point for the reorganization program is that SAS must be perceived and organized as one company, regardless of its historic ties to operations in three countries.

A new function-oriented organization will therefore replace the old one. This means, among other things, that duplication of administrative functions between the head office and the three regional organizations will be eliminated. The streamlining of these functions will reduce administrative costs by more than 20%.

"It is important to understand that a competitive cost level is a 'moving target,' since our competitors are also constantly striving to increase efficiency."

Competitive unit costs are the central and most essential requirement for the airline. The unit cost is the average cost for the production of an air transport service. It must increase more slowly than yield, i.e. the average revenue from an air transport service. In a market with intensive competition over prices, fares and yields fall, making low unit costs essential for survival.

It is important to understand that a competitive cost level is a "moving target," since our competitors are also constantly striving to increase efficiency. That there are also inflationary effects which undermine the action programs, means that work on cost efficiency must be an ongoing process. This in turn means that cost awareness must be part of our corporate culture.

Since earnings vary from route to route, the profitability requirement must be based on the traffic system as a whole, which can be very complicated due to feeder effects and other internal synergies. This makes it difficult to evaluate profitability on a single route. In spite of this, we have identified a total of 12 routes – intercontinental, in Europe, and in the domestic markets – which have negative earnings and are not contributing to overall profitability. These routes are being phased out.

By reconstructing the route network, including its organization and logistics, our 1994 production will be almost as extensive as in 1993, but with 19 fewer aircraft. These are being sold or leased out.

The rationalization measures will result in the elimination of 2,900 full-time jobs in the immediate future. This means that many people will be forced to leave SAS, a difficult process both for the individual

employee and for the company. A service company's ability to supply a satisfactory product very much depends on its personnel.

We are making considerable efforts to minimize the negative impact on those employees affected. And we are carrying out the reduction in our work force so that there is no risk of an adverse effect on product quality. Neither will SAS's high safety standards be compromised.

SAS will continue to give priority to safety, punctuality and service.

Parallel with the action program SAS is making a major investment in its sales organization. This includes an extensive program to develop the expertise of our sales personnel. All sales people in Scandinavia have already attended a five-week course and been provided with completely new marketing tools. This has strengthened SAS's marketing considerably.

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FINANCIAL CONSOLIDATION

Financial consolidation is designed to increase the equity/assets ratio from 21% at year-end 1993 to 30–35% by the end of 1994.

Total assets will be reduced from approximately 45 billion SEK to approximately 32 billion SEK following the sale of the majority of subsidiaries, some properties and overcapacity in the aircraft fleet, including the sale and leaseback of a further two Boeing 767-300s. Capital rationalization will also be included in the reduction of assets.

The sale of six Boeing 767-300s agreed in 1993 provided a gross capital gain of 1.2 billion SEK. The sale was made when the sales currency, USD, was valued highly against the SEK. Thus some of the surplus value in the aircraft fleet, which arose when the Swedish krona was devalued, could be realized advantageously. 389 MSEK of this capital gain has been reserved to offset future leasing costs. The net capital gain of 810 MSEK represents a realized exchange gain.

The net debt will be reduced considerably through these and other measures. We can thus conclude that SAS will not have any new borrowing requirements during the next three to four years.

Taken as a whole the financial restructuring will lift SAS from a position with a weak equity/assets ratio and a high burden of debt to a position with a high equity/assets ratio, a reasonable level of debt, continued strong liquidity and financial flexibility.

NEW DEMANDS IN A FREE MARKET

The European airline business finds itself in a phase of transition between internationally and nationally regulated civil aviation and free competition. In this process the majority of airlines, in common with SAS, will be forced to implement radical programs to consolidate their operations, both in financial and operational terms. This treatment is badly needed.

It is therefore of decisive importance that the authorities which determine the basic rules for the airline industry in Europe establish and enforce conditions in which competition can function, and that all forms of government support and favoritism cease.

One of the most important tasks facing the airline industry today is to promote sound and equal conditions in which to compete.

Free competition requires continuous new thinking in the market. That's why SAS's new organization has such a strong focus on the marketing function. This will make us even more aware of our customers' needs and allow us to develop our products accordingly.

Stockholm, March 1994
Jan Reinås
President and Chief Executive Officer

Increased Competitive Pressure

Profitability in the European airline industry was quite dismal in 1993. Only a few of the 20 or so major airlines reported a profit, and the combined losses are estimated to reach at least 20 billion SEK.

Deregulation of civil aviation in Europe continued according to plan in 1993. The new liberal Phase 3 EU rules designed to support competitive neutrality and free competition went into effect at the beginning of 1993.

In brief, Phase 3 means licensed airlines have unrestricted access to the market and that there is no regulation of fares. Certain restrictions still apply to domestic traffic in this phase.

Norway and Sweden have had a civil aviation agreement with the EU since 1992, and became parties to the new, liberal Phase 3 rules at the end of June 1993.

The Swedish domestic market has been the least regulated in Europe since July 1, 1992. Norwegian domestic traffic was fully deregulated on April 1, 1994.

In Denmark the domestic market is limited and still regulated. Air transport faces considerable competition from other means of transport such as high-speed trains and catamarans.

MARKET TURN

Competitive pressure continued to increase during 1993, both in Europe and Scandinavia. At the same time, the demand for air transport services rose. In this respect 1993 differed from the early years of the 1990s, when increased competitive pressure was combined with a stagnated traffic base.

The Association of European Airlines (AEA) reported a growth in traffic, measured in RPK (Revenue Passenger Kilometers) of nearly 8%. The increase in capacity, measured in ASK (Available Seat Kilometers) amounted to 7%.

Demand from the business travel sector also increased during the autumn. Since the start of the 1990s, there has been a continuous mix swing in the European airline industry, from full-fare tickets to various types of discount tickets. This trend came to a halt in 1993 and reversed at the end of the year. This reflects the upturn in the economy.

In September, a marked increase in demand from the business travel sector was also noted in SAS's largest single market, Sweden. This trend continued in the first quarter of 1994.

GNP Trend

	89	90	91	92	E*93	F94	F95
OECD	3.2	2.4	0.8	1.6	1.1	2.2	2.7
Europe	3.4	2.9	1.2	0.8	–0.5	1.4	2.4
Denmark	0.6	1.4	1.0	1.2	0.4	2.8	3.0
Norway	0.6	1.7	1.6	3.3	2.5	3.2	3.4
Sweden	2.4	1.4	–1.1	–1.9	–2.1	2.0	2.8

*E= estimate 03/94 Source: Swedish Institute of Economic Research

SAS's Production and Traffic

	89	90	91	92	93
ASK (billions)	23.3	25.5	24.3	26.4	28.6
RPK (billions)	15.2	16.5	15.4	16.6	18.1

MANY FACTORS DISTORT COMPETITION

One of the most controversial issues in the airline industry today is the financial support some national European airlines receive from their governments.

Since 1991, European airlines have received more than 30 billion SEK in government subsidies. Requests for additional subsidies of between 40 and 50 billion SEK are now under consideration in a number of European countries.

The EU's civil aviation committee of "wise men," which promotes privatization and free competition in the airline industry, is also keeping the door open for continued government subsidies during a protracted interim period.

Naturally, subsidies distort competition. There are examples of airlines with government support being able to reduce their fares on Scandinavian routes to a

level which makes profitability impossible.

Another important factor which distorts competition is the government fees which airlines in Europe are forced to pay. These fees vary between different European countries, but are generally higher in Europe than in the U.S., thus providing American carriers with a cost advantage.

SAS's 3.5 billion SEK in government fees corresponds to 14% of operating expenses. No other expense has increased at the same rate, a full 40% in three years (29% after adjustments for foreign exchange effects).


OPEN

A Dawning Recovery

SAS's operating revenue increased 21% in 1993 to 27,538 MSEK. Adjusted for exchange effects, net revenues increased by 5%. However, costs increased by 11%, adjusted for exchange effects.

Traffic revenues on domestic routes in Norway and Denmark were satisfactory during the year. A similar highly positive trend was not seen in other route sectors.

SAS's total passenger traffic increased by 6% in 1993, measured in revenue passenger kilometers, RPK. Comparisons include the former Linjeflyg during the whole of 1992. The number of passengers totaled 18.6 million (18.4).

For SAS, traffic increases during the year were somewhat lower than the average in the AEA. This is due primarily to unchanged sales in Sweden, SAS's largest single market, during the year.

SAS's production measured in available seat kilometers, ASK, increased by 4% during the year. This means better overall capacity utilization, and the average cabin factor, which measures this, increased by approximately one percentage point to 63.5%. This should be compared with the AEA average, which was 66.4% in 1993.

The proportion of C-class (EuroClass) tickets on international routes, was 26% during the year. This represents the highest share of business travelers among European airlines. Revenues from sales of C-class tickets corresponded to 56% of the total. The C-class share of ticket sales is much lower, however, on intercontinental routes.

Punctuality decreased marginally during the year. The proportion of flights which departed within 15 minutes of scheduled time was 90.0%, compared with the AEA average of 87.2%.

SAS's freight operations, SAS Cargo, increased its total tonnage on scheduled international routes by 13% to 532 MTKM (million tonne kilometers), in spite of overcapacity in the market. Tonnage increases were particularly good on intercontinental routes.

TRAFFIC SYSTEM DEVELOPMENT

During 1993 SAS's traffic program covered 103 destinations in 33 countries, with the main focus on Scandinavia, the Baltic region and Western Europe.

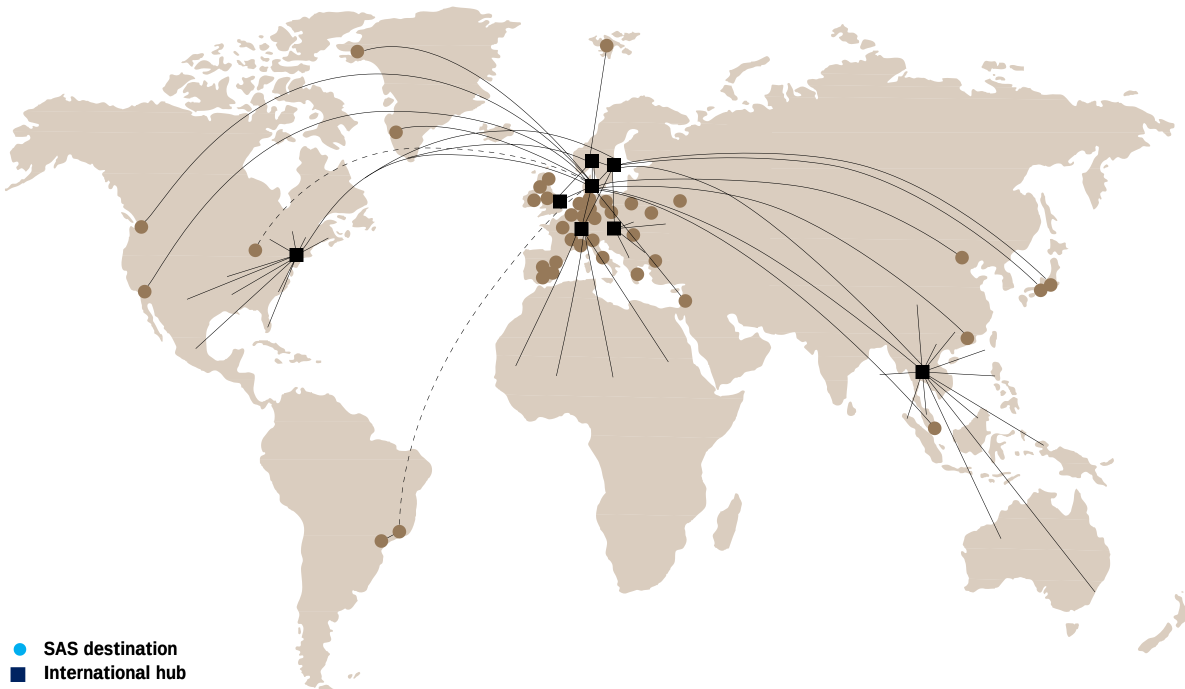
SAS has been making intensive efforts to develop the market around the Baltic since 1992. A Baltic Hub strategy, based on Copenhagen and Stockholm, has led to the establishment of an extensive traffic system to and from the Baltic countries, some countries in the former Soviet Union, and a number of other Eastern European countries. The Baltic region is a potentially profitable market and is already providing considerable feeder traffic to other parts of SAS's traffic system. In 1993 the route network was extended with three new destinations, Gdansk, Kaliningrad and Pori, and the number of flights was increased. Today, SAS is the leading airline in this region with services to 18 destinations in Finland, the Baltic countries, Russia, Ukraine, Poland and northern Germany. No new routes will be opened in the Baltic region in 1994, but the number of departures will increase to a total of nearly 250 round trip flights a week.

In general, the traffic system was consolidated during the year. In November it was decided to suspend 12 unprofitable routes during 1994, primarily in Sweden.

In 1993, SAS flew to five destinations in Asia – Tokyo, Beijing, Bangkok, Hong Kong and Singapore. During the year fourth weekly flights were added to the Beijing and Hong Kong routes. The intercontinental program, with a total of eight destinations, will see an even greater shift from North America to the Far East, with the suspension of the Los Angeles route in 1994, and the opening of a new route to Osaka.

SAS's geographical position provides a natural competitive edge in traffic between Europe and Northeast Asia. We have the shortest flight distances, and therefore the shortest flight times.

Total capacity utilization on the intercontinental routes increased by 1.5%, and the cabin factor was 76.1%.



SAS Partnerships 1993

Austrian Airlines, a member of the EQA, provides a Vienna hub for extensive coverage of Eastern Europe, the Middle East and Africa, and runs a joint service with SAS Copenhagen-Chicago.

British Midland hubs with SAS at London/Heathrow, has a widespread domestic network and is expanding in Europe.

Continental Airlines cooperates with SAS through the Newark hub with routes to numerous points in North, Central and South America.

Icelandair hubs with SAS in Copenhagen on flights from Iceland and northern Germany.

Swissair serves a wide range of points in Southern Europe, the Middle East, Asia, Africa and South America within the EQA cooperation.

Thai Airways International covers numerous points for SAS throughout the Pacific Rim through the Bangkok hub.

Varig and SAS operate joint services between Scandinavia and South America through the Rio and São Paulo hubs.

Qantas Airways Ltd. and Air New Zealand hub with SAS in Southeast Asia for wide coverage of points in Australia and New Zealand.

1993 saw the further development of existing alliances, particularly with British Midland (in which SAS has a 34.9% stake) and with Continental in the U.S. The cooperation with Continental at Newark Airport, provided SAS with nearly 180,000 transfer passengers in its traffic system. The EQA cooperation with Austrian Airlines and Swissair was also intensified along existing lines. Cooperation with Icelandair started during the year, while cooperation with ANA ended.

The European program outside the Baltic region was expanded during the year with three new destinations – Lyons, Luxembourg and Thessaloniki – and with more departures.

In total, SAS increased its production in Europe by 13% measured in ASK. Sales measured in RPK increased by the same amount. The cabin factor remained unchanged at 52.8%.

The major business destinations in Europe were prioritized during the year with the aim of always offering the most flights and the best schedule.

In 1993, production on Nordic routes increased by 1% and sales rose by 4%, which improved the cabin factor to 55.1%.

Production increased 1 % on Danish domestic routes, while sales remained at the 1992 level.

On domestic routes in Norway, production rose by 13% and sales went up 14%. This provided an improved cabin factor of 67.0%.

In general, favorable development was noted in Norway and traffic to and from Norway also developed well. Altogether, SAS Norway's traffic development outpaced the general growth in the market.

Domestic routes in Sweden showed a production increase of 9%, including Linjeflyg (7 months in

1992). Traffic rose by 13% and the cabin factor increased by 1.4 percentage points to 64.8%. SAS's Swedish traffic has included routes served by Linjeflyg since May 1992. Compared with SAS and Linjeflyg before the merger, 1993 saw a 20% decline in production and a 14% decrease in traffic.

COMPETITION EXPANDS

Competitive pressure continued to rise in the majority of SAS's markets in 1993, due partly to new players, and partly to competition over fares because of overcapacity in the industry. One example from 1993 is the routes between Paris and Scandinavia, where the entry of British Airways/TAT increased competitive pressure considerably.

The tough competition on Swedish domestic routes continued. However, fares have stabilized considerably.

Competition increased on the whole, although unevenly and sporadically.

During 1993, SAS's strategically important triangle between the three capitals, Copenhagen, Oslo, Stockholm, was also opened to competition, and some airlines took advantage of this opportunity. SAS has also entered new markets as a competitor. SAS attracted considerable attention in Spain, when the airline extended its Copenhagen–Barcelona route to Madrid, and thus became the first company to offer a daily alternative to Iberia between Barcelona and Madrid.

SAS'S COMMERCIAL PERFORMANCE

In general, SAS has strengthened its position somewhat in the market. SAS increased its market shares in Europe, particularly in the business sector. The major European destinations developed well for SAS. Competition stabilized and conditions for a favorable yield trend were established.

On the other hand, SAS's position in the Swedish domestic market weakened, partly because of increased competition, but also as a result of some operational problems with the integration of SAS and Linjeflyg. In 1993 the total share of the Swedish domestic market declined by 8 percentage points to 76%, and to 73% on routes exposed to competition.

Yields generally developed well. One contributory factor was the break in, and reversal towards the end of the year of, the mix swing from business class to tourist class.

The average yield (excluding exchange effects) had declined by 6% at the end of the first six months compared with the same period in 1992, but by year-end was only 1% lower than for the full year 1992. SAS's experience is that it is difficult to increase yields in a market with constant overcapacity.

1993 was also the year in which many of SAS's commercial initiatives yielded results. The mini fare concept, SAS Jackpot, was already a success in 1992, and continued to increase in popularity in 1993. SAS EuroTicket is a discount EuroClass ticket, which requires the passenger to travel with SAS in both directions. EuroTicket was launched in 1992 but its big breakthrough came in 1993.

SAS EuroBonus continued to enjoy considerable success. At the end of the year EuroBonus had 384,380 members, an increase of approximately 90% over the previous year. Membership outside Scandinavia increased, primarily in the U.K.

A number of cooperation partners now participate in SAS EuroBonus, including Swissair, Austrian Airlines and British Midland; the car rental companies Hertz and Avis; the SAS International Hotels, Hilton International, Inter-Continental Hotels, Swissôtels hotel chains, and some 35 independent hotels. This program will be developed further in 1994.

During 1993 SAS also started the SAS Corporate Program and the SAS Partner Agent Program, designed to provide major customers and travel agents with expanded services.

SOPHISTICATED SERVICE PRODUCT

During the year SAS continued to work on the quality of service on board. Cabin comfort has been improved still further in the entire aircraft fleet, including more leg room. New seats have been installed in EuroClass on intercontinental and European routes.

SAS EuroSleeper, a special seat nearly as comfortable as a bed, which was launched in 1992, increased in popularity during 1993, particularly on U.S. routes. The Quick Meal service was launched for EuroSleeper passengers.

The meal and beverages service has been upgraded still further in EuroClass, with regard to content and presentation. On intercontinental routes meals appropriate to the destination are served. Individual Video Walkmans are also available.

During the year a new SAS EuroClass Lounge concept was tested at London Heathrow Airport. It is based on the passenger being able to choose comfort according to need and includes a quiet area where

people can sit in peace, a social café/bistro section and a well-equipped business corner. The lounge has been very well received.

INCREASED PRODUCT DIFFERENTIATION

Towards the end of the 1980s, the competitive climate was such that airlines were unable to resist the temptation to make their tourist class better and better. This reduced the difference between the value of a full-fare ticket and various forms of discount fares. It could be described as an insidious devaluation of the full-fare ticket.

In the early 1990s, tourist class in general expanded at the expense of business class, partly because of the recession, but also because of insufficient product differentiation.

SAS has based its route network and its main products on the needs of the business traveler, while still offering competitive products to all types of travelers and freight customers. SAS will continue to focus mainly on being "the Businessman's Airline." It is therefore important that EuroClass passengers are provided with and perceive that they are getting good value for money and a better product than that offered by other airlines.

SAS is now going to improve on its product differentiation. SAS EuroClass, which already is the industry leader in many areas, will be gradually improved, based on customer analysis and external benchmarking.

SAS's tourist class product must remain on a level with competitors. It can, however, be simplified considerably, particularly on short flights, among other things with increased self-service. This will allow SAS to offer the right quality at a reasonable price.

A key part of this rationalization work is to separate core product functions, which customers are prepared to pay for, from the more peripheral benefits which are not considered essential.

SAS is now removing peripheral customer benefits. This will increase the service level while bringing down unit costs. One example is that meal service will be upgraded, while some ground services which are not important to our customers will be removed, such as cloakrooms at airports. Another example is that children traveling unaccompanied will in future be accompanied to the gate by their parents, instead of by SAS personnel as before.

Even high-priority areas are now becoming increasingly efficient through the "lean enterprise" concept. The major rationalization effects are to be found behind the scenes, in the practical handling of meals, for example.

A NEW MODEL

During 1993, SAS tested a new method for developing, coordinating and packaging new products based on the automotive industry's annual model formula. Working methods and an organization for this were established during the year. "The '95 Model" will be introduced in autumn 1994.

The basic elements in an annual model are seating comfort, meal service, entertainment and communication on board, and ground services. The key word for EuroClass '95 is choice.

Seating comfort will be further improved with greater allowance for individual preferences. EuroClass passengers will also have a far wider choice of meals.

Video Walkman will be introduced in EuroClass on all intercontinental routes. All passengers can choose a program and watch it when it suits them. Telephones at every seat will be tested on international routes. Tourist class passengers will be able to borrow a telephone.

We will also offer a ground alternative to some services on board, particularly meals. Where the new EuroClass Lounge service is introduced, the customer will be able to choose a light meal there as an alternative or complement to on-board service.

There is considerable scope for innovation in ground services, particularly with regard to the passenger flow, where many irritating procedures can be rationalized using new technology which will benefit both passengers and the airline.

The new ATB technology, which includes check-in automats, gives the customer more freedom of choice and thus increases the level of service, while providing lower operating costs. A EuroClass passenger must always be able to choose between personal service and fast, automated check-in and boarding without standing in line.

In spite of our good intentions, some travelers will encounter problems and SAS's ability to solve these problems quickly and on the spot will be an increasingly important part of product quality. This is receiving very high priority in 1994.

Streamlining the Core Business

At end of 1993, the SAS Group comprised SAS and SAS Trading (which excluding subsidiaries but including Group management together form the SAS Consortium), SAS International Hotels, SAS Service Partner, the SAS Leisure Group and Diners Club Nordic.

Streamlining of the corporate structure was started in June 1993, when two of the business areas in SAS Service Partner, which were not directly related to airline operations – Terminal Catering and Contract Catering – were sold.

After the termination of the Alcazar negotiations at the end of 1993, an intensified restructuring program was initiated. This was based on the "stand alone" alternative developed during the autumn. The program is designed to concentrate the Group on its core business, air transport.

Two hotel properties were sold in Hamburg and Cologne, respectively, at the end of 1993.

In February 1994, SAS sold its 42.1% stake in LanChile to a group of Chilean investors. The involvement with LanChile, which started in 1989, was a strategic investment designed to strengthen SAS's South American traffic system.

SALE OF PERIPHERAL OPERATIONS

On a "stand alone" basis SAS has decided to concentrate its management and financial resources on its core business. At the same time, there is considerable potential and investment requirements in subsidiary operations, particularly SAS Service Partner.

At the end of 1993 a decision in principle was therefore made to sell SAS Service Partner, the SAS Leisure Group and Diners Club Nordic. The aim is to find commercially viable solutions for these subsidiaries within the industry so that they can develop successfully under new ownership.

KEY RATIOS PER BUSINESS UNIT

	SAS		SAS International Hotels		SAS Service Partner		SAS Trading		SAS Leisure		Diners Club Nordic	
MSEK	**93**	92	**93**	92	**93**	92	**93**	92	**93**	92	**93**	92
Operating revenue	**27,538**	22,795	**1,853**	1,669	**4,816**	5,220	**2,259**	1,741	**4,440**	4,629	**517**	440
Income after depreciation, etc.	**–50**	918	**44**	–28	**190**	229	**163**	141	**–224**	3	**149**	137
Income before the sale of flight equipment and shares, etc.	**–1,114**	–1,094	**–110**	–122	**170**	209	**201**	189	**–213**	55	**49**	30
Income before taxes	**–1,068**	–1,092	**–110**	–128	**670**	209	**204**	195	**–199**	64	**49**	30
Gross profit margin (GOP), %	**5**	9	**24**	20	**8**	8	**7**	8	**—**	3	**—**	—
Return on capital employed, %	**5**	7	**4**	—	**18**	27	**—**	—	**—**	9	**—**	—
Investments	**674**	2,731	**47**	67	**272**	418	**30**	20	**244**	90	**12**	11
Number of employees: men	**13,135**	13,010	**1,372**	1,680	**5,563**	6,530	**208**	180	**1,456**	1,660	**112**	110
Number of employees: women	**8,217**	8,150	**1,554**	1,750	**3,449**	4,490	**398**	500	**1,625**	1,840	**209**	180

Totals for the SAS Group and the SAS Consortium, see pages 58–59.

Negotiations are currently in progress for the sale of the SAS Leisure Group and Diners Club Nordic, and the aim is to sell these units before the end of 1994.

HOTEL OPERATIONS CONTINUE

SAS International Hotels (SIH) will remain in the SAS Group for the time being.

It is important for SAS, particularly for the bonus program, to have connections with leading hotel chains in order to create effective marketing and booking synergies. This is a need which SIH meets extremely well.

SIH is also engaged in an extensive program designed to improve profitability. For example, the gross profit margin increased by 4 percentage points in 1993.

Although it is part of the SAS Consortium, SAS Trading was previously reported as a separate business unit. Since its operations, which include inflight sales, are closely linked to the core business, SAS Trading will be placed in SAS's airline operations and reported there from 1994 onwards.

The Scanair Consortium was phased out during 1993. The formal closure will take place during 1994. From the beginning of 1994 SAS Leisure will buy its air transport services from Premiair, the charter airline owned jointly with Spies, which was formed on January 1, 1994.

The SAS Commuter Consortium is also reported in SAS. SAS Commuter conducts flights for SAS in Scandinavia and Northern Europe, with Fokker 50 aircraft.

New Function-Based Organization

The concentration of SAS's business on air transport has its counterpart in a functional organization which started to be implemented on February 10, 1994.

For many years SAS has worked with a form of matrix organization which included central functions, as well as regional organizations in Denmark, Norway and Sweden. This led to duplication of many administrative functions in the head office and the three country-based organizations. This in turn required coordination and considerable administration, which led to unnecessarily high costs and unsatisfactory quality.

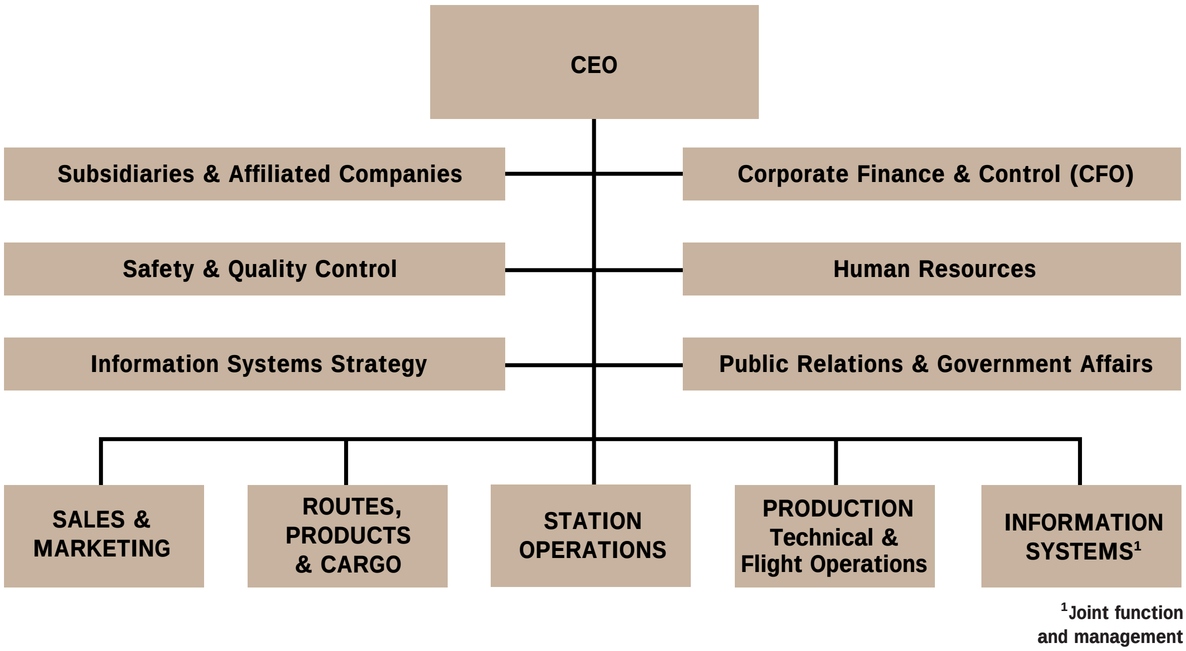
The new organization is based on operating SAS as one company. All functions will therefore be grouped in a line organization without duplication. This will provide strength and cost effectiveness.

The extensive program to improve profitability will require strong management and direct control.

Many functions will be redefined with clearer areas of responsibility and functional requirements. Responsibility, authority and control will be closely linked. Daily operations will receive far higher priority than before, as will qualified business control. This

SAS MANAGEMENT: ***Back row from left.*** **Otto Lagarhus** Production, **Hans-Åke Lilja** Safety & Quality Control, **Hans-Erik Stuhr** Station Operations, **Björn Boldt-Christmas** Information Systems Strategy. ***Center row from left.*** **Vagn Sørensen** Routes, Products & Cargo, **Peter Højland** Sales & Marketing, **Bernhard Rikardsen** Human Resources, **Nils Bengtsson** Subsidiaries & Affiliated Companies. ***Front row from left.*** **Jan Reinås** President and CEO. **Jan Stenberg** President and CEO, effective April 1, 1994. **Gunnar Reitan** Corporate Finance & Control.
Not pictured: **Peter Forssman** Public Relations & Government Affairs.

SAS ORGANIZATION 1994



will be strengthened both at corporate level and at senior levels in each function.

In overheads alone, this reorganization will provide annual savings of approximately 280 MSEK, which corresponds to 20% of overhead costs in 1993. The new organization was set as of March 15, 1994.

FOCUS ON FUNCTIONS

The new organization has five operational line functions and six staff functions.

The line functions are Sales & Marketing, Routes, Products & Cargo, Production (technical and flight operations), Station Operations and Information Systems.

One of the most important effects of the reorganization is that sales and marketing, which were formerly separate responsibilities, are now united in the new Sales & Marketing function. SAS will be represented by market directors in the local markets.

The six staff functions are Corporate Finance & Control, Human Resources, Public Relations & Government Affairs, Subsidiaries & Affiliated Companies, Safety & Quality Control, and Information Systems Strategy.

PERSONNEL REDUCTIONS

The average number of employees in the SAS Group in 1993 was 37,330, of which 19,931 were employed in the SAS Consortium and 9,012 in SAS Service Partner.

The new organization in SAS's airline operations will be conducted with an average of 2,900 fewer jobs than in the old organization, corresponding to 13.7% of the work force. Production measured in ASK will only be marginally less than production prior to the action program. This will require considerably higher productivity per employee after the program has been completed.

Reductions have been planned so that product quality is not jeopardized.

The personnel reductions will be carried out with high regard for employees and after consultation with the unions. As far as possible part-time employment, leaves of absence, early retirement and relocation will be offered. Financial advice and help with job applications or self-employment will be included in the program.

Consistency, Discipline and Endurance

SAS was formed after the Second World War to meet the needs of Scandinavian travelers and shippers. At the time, civil aviation was entirely politically controlled. In common with other national airlines, SAS acquired a privileged position in its home markets. Monopoly and regulations were taken for granted when establishing a communications infrastructure. SAS has grown up and developed in this environment.

Today, all of SAS's major market sectors are exposed to competition. SAS also had a taste of the effects of full deregulation earlier than most of its European competitors, in its largest home market, Sweden.

I have previously witnessed at close hand the deregulation of another market, telecommunications. There the emergence of totally free competition was delayed due to the existing physical infrastructure being controlled by the established telecommunications operators. In my opinion, based among other things on what happened in the U.S., deregulation will be a more brutal process in the airline industry. The final outcome – which of the established companies and newcomers will survive as independent and profitable operators – is far more uncertain.

European civil aviation has been marked by ongoing deregulation and a deep recession for nearly four years. Overcapacity has led to sharp competition over fares. Profitability has been squeezed to its limits in almost all major airlines, including SAS.

SAS's long-term role as defined by its owners is unchanged: to serve its three home markets with an effective traffic program and reasonable profitability.

The strategies with which this will be achieved may vary and are currently being evaluated. But one thing is clear, SAS cannot meet its owners' requirements without itself achieving a cost-effective level on a par with its competitors. Every effort will therefore be made in 1994 to use SAS's internal resources more efficiently.

I am responsible for ensuring that the action program which has now been adopted is completed as planned. I have no mandate to make compromises for SAS's survival. This means that SAS must return to profitability.

SAS advocates free competition without any form of government subsidies. We are active in every organization which can influence this process, so that an entirely free competitive environment can be established as soon as possible. Only free competition in an unsubsidized airline industry can create the right conditions for sound airlines with the ability to survive in the long term, and strong enough to meet competition from the American and Asian megacarriers. This adjustment process may be painful, but it is the only conceivable way.

A restructuring program of the scope and depth of the one SAS is now pursuing, requires strong leadership and motivated employees.

It requires consistent planning and decisions and follow-up of adopted measures. Aiming for the summit but only reaching half way is not good enough. We must implement our entire restructuring program in a disciplined manner.

Awareness that the world around us is constantly changing and that our rivals are improving their competitive edge, must lead us to create a culture of constant improvement. Such a culture is lacking in many companies, particularly those operating in a protected environment.

If all personnel are motivated this will result in common goals being put before individual or professional self interests. Everyone must pull in the same direction. Loyalty and good work ethics are essential.

My short time with SAS has already convinced me that employees feel considerable loyalty towards the company and are willing to meet the new challenges created by a competitive environment. I have also been impressed by the competence and creativity of my colleagues.

My own and management's responsibility is to channel these positive qualities and reinforce them with a set of rules and an infrastructure which constantly supports the efforts for quality and change.

Management must also be responsible for the endurance which is required to gain the confidence of personnel and customers. The daily grind is not always glamorous, but it is the only way to achieve profitability and success. By benchmarking our competitors and other industries we will verify and develop our competitive edge. For us employees this will lead to sensitivity to customer requirements and pride in our ability to supply real quality.

Pride comes from the knowledge that we belong to a successful team, and security comes from the knowledge that we are working in a company which can meet its commitments, even with meager resources.

In a free competitive scenario the customer's preference will decide our future to a greater degree than ever before. The same lack of compromise as we bring to our internal efficiency must therefore distinguish our outward efficiency, the benefits of the product we provide our customers. At SAS the customer will only pay for what he or she perceives as important.

Our current focus on internal work does not mean that our customers come second. Everything that does not serve their interests is a wasted effort. We intend to be a well-run company with competitive products. If and when we enter new cooperation discussions with other companies in the industry, it will be with a well-run, profitable and therefore more attractive SAS.

Stockholm, March 1994
Jan Stenberg
President and Chief Executive
Officer from April 1, 1994.

Ownership Structure and Shares

The three national carriers 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 Scanair Consortium and SAS Commuter. They hold concessions to operate scheduled and non-scheduled air services to and from the Scandinavian countries. The parent companies, however, have been authorized by the Scandinavian authorities to transfer all operations to the SAS Consortium for scheduled air transport, and to Scanair and SAS Commuter for non-scheduled flights. The current consortium agreement will run until September 30, 2005.

DDL and DNL each own 2/7 of the consortia, while ABA owns 3/7.

At the end of each accounting period the consortia's profits, assets and liabilities are reported in the accounts of the three parent companies in a 2–2–3 ratio. The SAS Consortium'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, approves the financial statements, and decides the share of profit to be transferred to the parent companies.

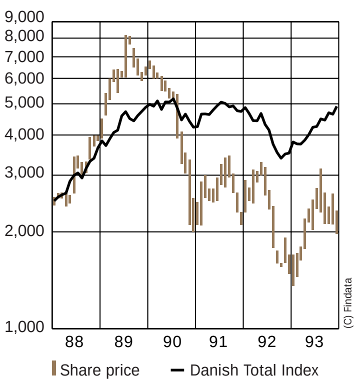
Responsibility for SAS's overall operations rests with the Chief Executive. SAS Commuter is managed within the framework of SAS.

CAPITAL AND TAXES

The consortia's equity is made up of the capital account, which consists of funds contributed by the parent companies and surpluses retained in operations. Increases in the capital account and distributions of profit may only be made through the parent companies.

The consortia are not tax-paying entities. The parent companies make allocations for tax purposes and pay taxes on their share of the consortia's profits in accordance with their respective national regulations. The consortia's subsidiaries pay taxes in their respective countries.

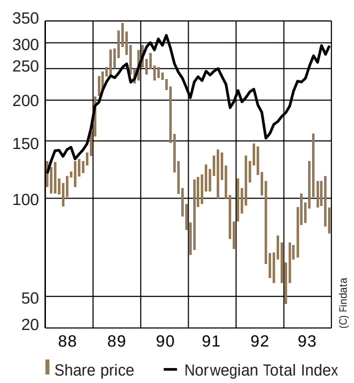
DDL
Share Price Trend



Number of shares: 508,000

Market value at year-end 1993: DKK 1,188,720,000

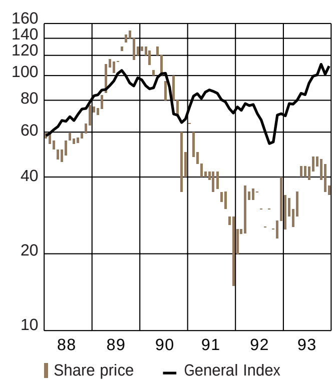
DNL
Share Price Trend



Number of shares: 12,581,678

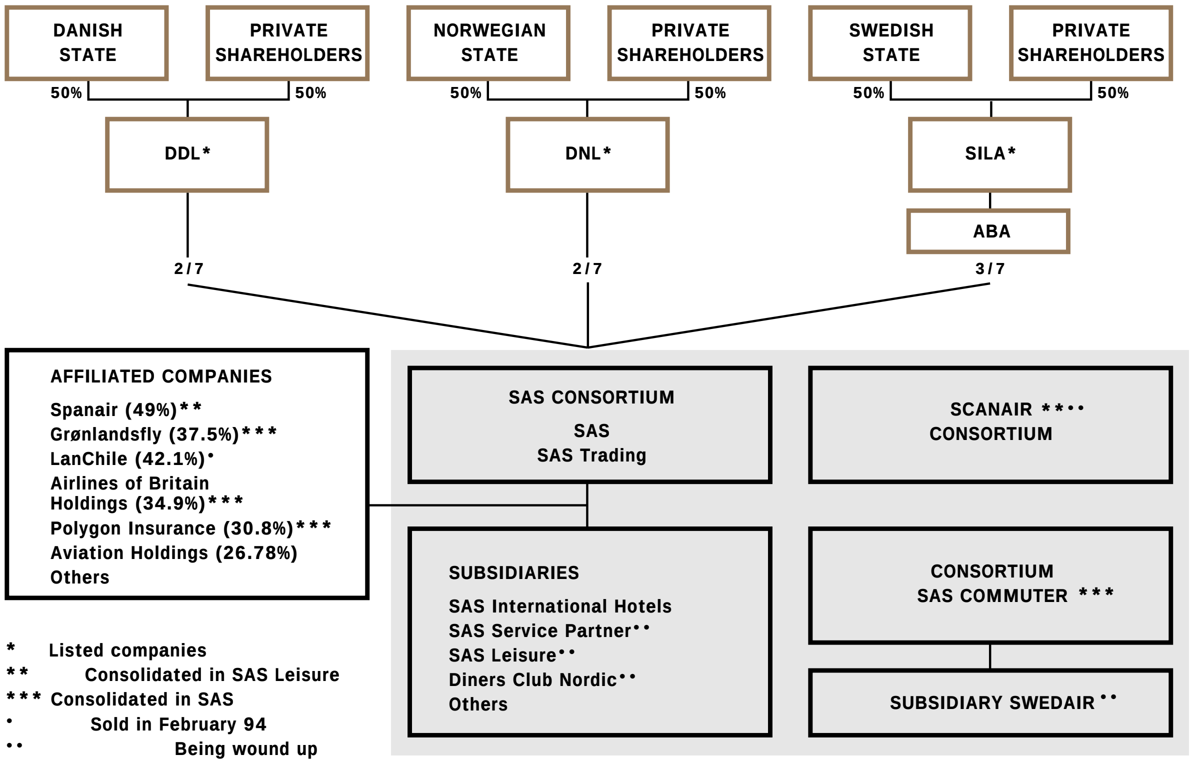
Market value at year-end 1993: NOK 1,195,259,000

SILA
Share Price Trend



Number of shares: 70,500,000

Market value at year-end 1993: SEK 2,467,500,000



DET DANSKE LUFTFARTSELSKAB A/S (DDL)

DDL's primary business covers its shareholdings in the consortia SAS, Scanair, and SAS Commuter, and related capital management. In addition, DDL owns hangars, maintenance bases and warehouses at Copenhagen Airport, which are leased to SAS on open market terms. Annual revenues from these operations amount to approximately 14 MDKK. DDL also owns the property on which the SAS Royal Hotel is located in Copenhagen.

50% of the company's stock is owned by the Danish government. DDL's stock is listed on the Copenhagen Stock Exchange.

DDL's share capital totaled 50.8 MDKK at year-end 1993.

DET NORSKE LUFTFARTSELSKAP A/S (DNL)

DNL conducts its air transport operations through the three consortia. In addition DNL owns office buildings at Fornebu which are leased to SAS on market terms. Leasing revenues totaled 17 MNOK in 1993.

DNL's stock is divided 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 on the Oslo Stock Exchange. Approximately 20% of DNL's stock is held by foreign investors.

DNL's share capital amounted to 315 MNOK at year-end 1993.

AB AEROTRANSPORT (ABA)

ABA conducts air transport services through its shareholdings in the three consortia. In addition, ABA and SAS own 49% and 51% respectively, of the Linjeflyg trading company which took over Linjeflyg's aircraft fleet. The aircraft are leased out, primarily to SAS. ABA also conducts its own capital and real estate management activities.

ABA sold its shareholding in the Grafon AB and Sörmlands Grafiska AB printing companies. ABA's involvement in printing operations will cease during 1994.

ABA is a wholly owned subsidiary of Svensk Interkontinental Lufttrafik AB (SILA), whose shares are 50% owned by the Swedish State and 50% owned by institutions and listed Swedish companies. SILA's share capital amounted to 705 MSEK at year-end 1993.

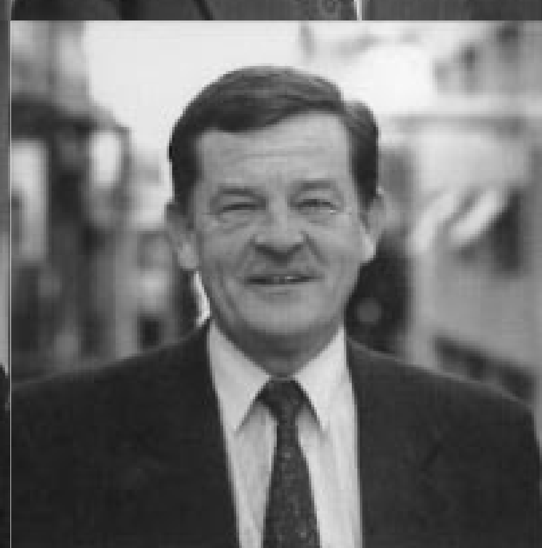












Top from left:

Jan Reinås **Tage Andersen** **Anders Eldrup**

Bo Berggren **Bjørn Eidem** **Leif Kindert**

Tony Hagström **Harald Norvik** **Leif Christoffersen**

Ingvar Lilletun **Jan Stenberg**

Board of Directors and Presidents

TAGE ANDERSEN, born 1927. Chairman of SAS's Board since 1993. Danish Chairman of SAS's Board since 1990 and Chairman of the Board of DDL, as representative of the private Danish owners. Former Chairman of management at Den Danske Bank. Member of the Boards of several Danish companies.
Personal Deputy: Povl Hjelt

BO BERGGREN, born 1936. Hon.Dr.Eng. First Vice Chairman of SAS's Board since 1993. Swedish Chairman of SAS's Board since 1992 and Chairman of the Boards of ABA and SILA, as representative of the private Swedish owners. Chairman of the Boards of STORA and ASTRA. Vice Chairman of the Board of Investor. Member of the Boards of a number of companies and organizations.
Personal Deputy: Erik Belfrage

BJØRN EIDEM, born 1942, Supreme Court Attorney. Second Vice Chairman of SAS's Board since 1993. Alternating Norwegian Chairman of SAS's Board since 1992 and member of SAS's Board since 1993. Chairman of the Board of DNL since 1993, as representative of the private Norwegian owners. Member of the Board 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, among others.
Personal Deputy: Mads Henry Andenæs

HARALD NORVIK, born 1946, M.B.A. Alternating Norwegian Chairman of SAS's Board since 1992. Vice Chairman of the Board of DNL since 1993, as representative of the Norwegian Government. CEO of Statoil. Member of the Board of Orkla Borregaard AS and member of the Main Board of NHO (Næringslivets Hovedorganisasjon).
Personal Deputy: Åshild M. Bendiktsen

TONY HAGSTRÖM, born 1936, Ph.D. Member of SAS's Board since 1993 and Vice Chairman of the Boards of ABA and SILA, as representative of the Swedish Government. President and CEO of Telia AB. Vice Chairman of the Board of Svenskt Stål AB (SSAB). Member of the Boards of ASTRA and the Swedish Association for Share Promotion, among others.
Personal Deputy: Ingemar Eliasson

ANDERS ELDRUP, born 1948, B.Pol.Sc. Member of SAS's Board since 1993. Vice Chairman of the Board of DDL, as representative of the Danish Government. Secretary of State at the Ministry of Finance. Member of the Board of DONG.
Personal Deputy: Jimmy Stahr

Employee Representatives:

INGVAR LILLETUN, born 1938. Member of SAS's Board since 1979. Employed in SAS Norway.
Deputies: Randi Kile and Svein Vefall

LEIF CHRISTOFFERSEN, born 1946. Member of SAS's Board since 1991. Employed in SAS Denmark.
Deputies: Jens Tholstrup Hansen and Ib Jensen

LEIF KINDERT, born 1941. Member of SAS's Board since 1992. Employed in SAS Sweden.
Deputies: Harry Sillfors and Ulla Gröntvedt

President:

JAN REINÅS, born 1944. President and CEO during the period September 28, 1993 – March 31, 1994.

President designate:

JAN STENBERG, born 1939, LL.B. President and CEO, effective April 1, 1994.

Board of Directors' Report

Report by the Board of Directors and the President for the fiscal year January 1 – December 31, 1993.

THE SAS GROUP 1993
The SAS Group's accounts are prepared in accordance with International Accounting Standards.
(Figures in parentheses refer to 1992.)

BOARD OF DIRECTORS' REPORT

During a large part of 1993 negotiations were conducted in the Alcazar project, in which SAS, KLM, Swissair and Austrian Airlines explored the possibility of joint income statements and balance sheets.

The Board of Directors is of the opinion that in the long term SAS needs intensive cooperation with one or more partners in order to effectively and profitably provide the Scandinavian market with traffic services, as defined in its original mission.

Analyses of the Alcazar project were completed in April, and SAS's owners authorized the Board of Directors to initiate negotiations with the other airlines.

Extensive management resources were committed to the Alcazar project, and when the negotiations became protracted it was obvious that SAS's management must be reorganized with priority on operations and internal work, and that the negotiations must therefore be separated from operational management.

On September 27, Jan Reinås, head of SAS Norway, was appointed President of SAS for an interim period until March 31, 1994.

Jan Carlzon was assigned to remain at the Board of Directors' disposal in the Alcazar project. When the parties failed to reach a consensus, the Alcazar negotiations were terminated on November 23, 1993, whereupon Jan Carlzon's assignment from the Board of Directors ended.

A thorough analysis of SAS's operations and finances was conducted in autumn 1993. This analysis revealed that SAS's profitability problems stem from an excessively high cost level, weak or negative earnings in parts of the traffic system, high financial risk exposure, and a diffuse structure and organization. A new action program was therefore adopted in four areas:

– improvements in efficiency and productivity designed to achieve a competitive cost level
– suspension of unprofitable routes
– concentration on air transport operations and closely related activities
– financial consolidation.

This action program is designed to lower costs by 2.9 billion SEK in 1994 and 1995. The work force will be reduced by 2,900 jobs.

An operational sale and leaseback transaction comprising six Boeing 767-300s was made in December 1993. It was decided to carry out a similar transaction for a further two aircraft in 1994.

The business focus on air transport operations has been matched by a new functional organization which was fully in place on March 15, 1994.

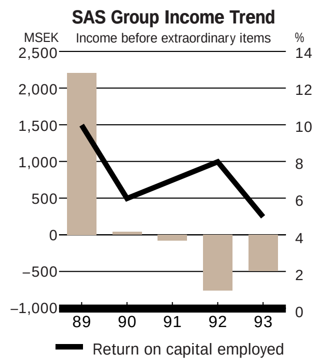
Jan Stenberg was appointed as the new President and CEO of SAS on January 25, 1994. Jan Stenberg assumed his position on April 1, 1994.

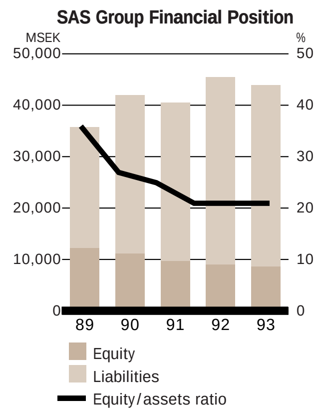
FINANCIAL DEVELOPMENT

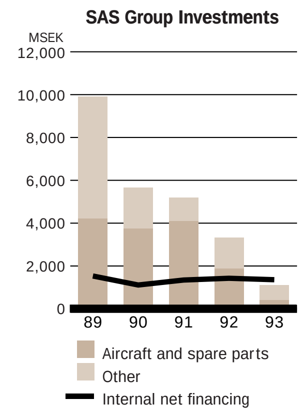
The year was characterized by increased competition between a growing number of operators on Scandinavian and international routes. The international air transport market noted a general recovery in traffic volume in 1993. The Association of European Airlines (AEA) reports an increase in passenger traffic of just under 8% for the full year. The rise in capacity during the year was 7%.

SAS's total traffic, including Linjeflyg AB, increased by 6% compared with 1992, in spite of a 14% decline in traffic in Sweden. The increase in capacity was 4%. Competition over fares led to a 1% decline in yield, adjusted for exchange rate effects, compared with 1992. Yield decreased by 6% in the first six months of the year. Yield developed favorably in the second half and was 5% higher than in the same period in 1992.

The SAS Group's operating revenue, adjusted for units acquired and sold during the year, amounted to 39,122 MSEK (34,445), an increase of nearly 14% compared with 1992. Operating expenses rose by







approximately 18%, whereby operating income before depreciation, etc. amounted to 2,032 MSEK (2,930).

The weak market, overcapacity and pressure on prices in the charter market, costs for the integration of SAS/Linjeflyg AB and the closing of the charter airline Scanair led to lower operating income than in 1992.

Income and Key Ratios (MSEK)	**1993**	1992
Operating revenue	**39,122**	34,445
Operating expense	**–37,090**	–31,515
Operating income before depreciation, etc.	**2,032**	2,930
Depreciation, etc.	**–1,782**	–1,532
Share of income in affiliated companies	**–1**	–8
Income after depreciation, etc.	**249**	1,390
Financial items, net	**–1,123**	–1,094
Unrealized exchange effects, net	**–1,000**	–1,150
Realized exchange gains on the sale and leaseback of aircraft	**810**	–
Income after financial items	**–1,064**	–854
Minority shares in income after financial items	**16**	89
Income before the sale of flight equipment and shares, etc.	**–1,048**	–765
Gain on the sale of flight equipment and shares, etc.	**666**	5
Provisions to reserve for decline in value of hotel investments	**–110**	–
Income before taxes	**–492**	–760
Key Ratios		
Investments	**1,112**	3,338
Return on capital employed, %	**5**	8
Equity/assets ratio, %	**21**	21
Debt/equity ratio	**1.6**	1.7
Average number of employees	**37,330**	40,140

Depreciation was higher than in 1992, 1,782 MSEK (1,532), primarily due to increased depreciation of flight equipment.

After shares of income in affiliated companies of –1 MSEK (–8), income after depreciation, etc. amounted to 249 MSEK (1,390).

Net financial items totaled –1,123 MSEK (–1,094). In addition, net unrealized exchange effects of –1,000 MSEK (–1,150) were attributable to the continued weakening of the Swedish krona. This was offset by a realized exchange gain of 810 MSEK (–) on the sale and leaseback of six Boeing 767-300s. (See Note 7).

The effect of the devaluation of the Swedish krona on the financial statements of the SAS Group is described in more detail in the section "Financial Overview."

Income after financial items, but before minority shares was –1,064 MSEK (–854).

Gains on the sale of flight equipment and shares, etc., include the sale in June 1993 of two of SAS Service Partner's business areas, Terminal Catering and Contract Catering. The capital gain amounted to 500 MSEK. SAS Plaza Hotel, Hamburg, and SAS Royal Hotel, Cologne, were sold during the year. SAS International Hotels will continue to operate the hotel in Hamburg under a management contract. These sales provided a net capital gain of 110 MSEK. Provisions to reserves for the decline in value of hotel properties were made in the same amount. The sale of other shares and real estate, etc., totaled 56 MSEK.

Excluding net unrealized exchange effects and realized exchange gains on the sale and leaseback of aircraft, income before the sale of flight equipment and shares, etc., amounted to –858 MSEK (385).

Income before taxes was –492 MSEK (–760).

1993 investments decreased by 2,226 MSEK compared with 1992 to 1,112 MSEK, of which investments in flight equipment accounted for 408 MSEK. Return on capital employed was 5% compared with 8% in 1992. The debt/equity ratio as per December 31 decreased from 1.7 to 1.6. The equity/assets ratio remains unchanged from the previous year at 21%.

Balance Sheet (MSEK)	**1993**	1992
Liquid funds	**9,318**	9,829
Other current assets	**9,973**	6,849
Fixed assets	**24,566**	28,790
Total assets	**43,857**	45,468
Current liabilities	**12,485**	11,713
Long-term debt	**21,446**	23,612
Subordinated debenture loans	**1,136**	982
Minority interests	**159**	203
Equity	**8,631**	8,958
Total liabilities and equity	**43,857**	45,468

FINANCIAL OVERVIEW

The SAS Group's assets are denominated primarily in foreign currencies, of which aircraft with a market value in USD corresponding to 17 billion SEK are booked at 14.7 billion SEK. SAS's operational cash surplus is generated primarily in Scandinavian and European currencies, with a deficit in Danish kronor due to the major hub in Copenhagen, and in USD as a result of fuel costs, etc.

The SAS Group's financial statements are prepared in accordance with International Accounting Standards (IAS), with SEK as the consolidation currency. According to the IAS, the SAS Group's net debt in foreign currencies must be revalued, while revaluation of corresponding non-financial assets in foreign currencies may not be made above the income statement. Since a considerable portion of SAS's assets are denominated in foreign currencies, at the same time as the operational cash surplus is primarily in foreign currencies, SAS has retained a large portion of its net debt in foreign currencies, in addition to its financing in SEK. However, the resulting effect on the financial statements was such that SAS had to include large unrealized exchange losses on its foreign debt in net financial items.

In December 1993 SAS signed an agreement for the sale of six Boeing 767-300s. The total sales figure was 400 MUSD, or 3,317 MSEK. The sale thus resulted in a capital gain of 810 MSEK, after provisions to reserves for future additional costs of 389 MSEK. This gain is primarily attributable to the increase in value of SAS's assets denominated in USD resulting from the devaluation of the Swedish krona. The gain is therefore regarded as a realized exchange gain, which offsets the unrealized exchange losses that resulted from related financing.

The SAS Group's net interest income of –1,289 MSEK (–1,399) was somewhat better than in the previous year, despite a higher average net debt during the year. SAS changed from having a total foreign currency debt denominated in low interest-rate European currencies during the greater part of 1992, by placing part of the debt in SEK in order to offset the exchange effects on the financial statements. Since SAS had a high portion of the net debt with floating interest, the decline in interest rates in Europe was to its advantage.

As of December 31, 1993, the net debt was 13,888 MSEK (15,589). This improvement was attributable to the fact that net financing from operations, and the sale of aircraft, hotels and parts of SAS Service Partner, reduced debt to a greater extent than the revaluation required as a result of the weakening of the Swedish krona.

The SAS Group's gross interest-bearing debt was reduced by 2,427 MSEK. This was achieved through reduction of current liabilities, early redemption of long-term loans, and the purchase of bond issues. The average remaining term for the outstanding debt is approximately five years.

SAS has no new borrowing requirements in 1994, but intends to use the increase in liquid funds, provided by future surpluses from operations and completed and planned sales, to reduce its debt.

The SAS Group has liquid funds of 9,318 MSEK (9,829) and a currency composition that largely matches currencies in the long-term debt. In addition, SAS still has unutilized long-term credit facilities of 450 MUSD, as well as unutilized commercial paper programs of 2,000 MSEK, 1,500 MDKK and 200 MUSD. SAS's credit rating from Moody's is A2 on the observation list for long-term debt and P1 for short-term debt. Moody's credit rating of SAS remains among the best in the air transport business.

The SAS Group's financial development can be summarized in the following statement of changes in financial position.

Statement of Changes in Financial Position (MSEK)	**1993**	1992
Net financing from operations	**1,377**	1,444
Investments	**–1,112**	–3,338
Advance payments, net	**–29**	466
Sale of fixed assets, etc.	**1,852**	86
Financing surplus/deficit	**2,088**	–1,342
Amortization/external borrowing, net [1]	**–2,654**	2,058
Financial receivables, etc.	**185**	–474
Change in liquid funds	**–381**	242
Liquid funds in companies sold/acquired	**–130**	216
Change in liquid funds according to the balance sheet	**–511**	458

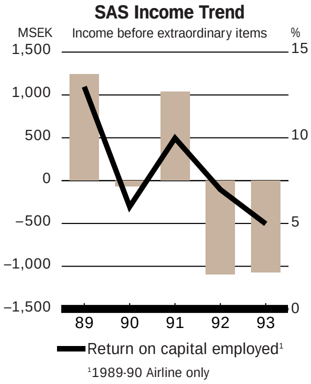
[1] Amortization/external borrowing, net, excludes unrealized exchange effects on net debt.

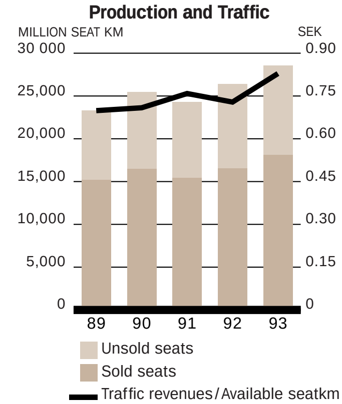
Net financing from operations, including changes in working capital, amounted to 1,377 MSEK (1,444) in 1993. Investments fell by more than 2,200 MSEK. The market value of shares, aircraft, etc., totaled 5,382 MSEK, of which 2,776 MSEK accrued in January 1994 and 491 MSEK will accrue later in the year. Amounts paid after December 31, 1993 are excluded from the statement of changes in financial position. After the sale of fixed assets, a financing surplus of 2,088 MSEK is reported. A deficit of –1,342 MSEK was incurred in 1992.

Income by Business Unit (MSEK)	**1993**	1992
SAS		
Income after depreciation, etc.	**–50**	918
Financial items, net	**–949**	–1,012
Unrealized exchange effects, net	**–1,000**	–1,120
Realized exchange gains on sale and leaseback of aircraft	**810**	–
Minority shares	**75**	120
SAS total	**–1,114**	–1,094
SAS International Hotels	**–110**	–122
SAS Service Partner	**170**	209
SAS Trading	**201**	55
SAS Leisure	**–213**	55
Diners Club Nordic	**49**	30
Other operations/Group eliminations	**–31**	–32
Income before sale of flight equipment and shares, etc.	**–1,048**	–765
Gain on the sale of flight equipment and shares, etc.	**666**	5
Provisions to reserve for decline in value of hotel investments	**–110**	–
Income before taxes	**–492**	–760

SAS

SAS includes SAS airline operations and SAS Finance, both including subsidiaries, SAS Commuter and joint-Group costs.





SAS's traffic growth during the year was lower than the average 8% increase among members of the Association of European Airlines (AEA). This was due to the changed competitive climate in combination with a weak market, primarily in Sweden. Measured in revenue passenger kilometers, RPK, the increase was 6% with an increase in capacity of 4%. Passenger revenues adjusted for exchange effects increased by 4%. The increase in RPK was 13% on European routes, 14% on Norwegian domestic routes, and 7% on intercontinental routes. RPK decreased by 14% on Swedish domestic routes. The systemwide cabin factor was nearly five percentage points higher than in 1992, at 63.5%. The total number of passengers was 18.6 million (18.4). All comparisons include Linjeflyg AB for the full year 1992.

Intercontinental Routes

The cooperation with All Nippon Airways on the Stockholm–Tokyo route was terminated on May 31, 1993, and SAS now has the entire capacity at its disposal.

Overall intercontinental RPKs increased by 7% and the cabin factor was 76.1%.

Jackpot and EuroTicket fares concepts were introduced to all destinations except Japan. In addition, a new travel concept was introduced, with rules adapted for business travel in Tourist Class.

EuroSleeper sales rose by 33% over the previous year. This product is sold most on routes from New York to Scandinavia. EuroClass sales increased over last year, a trend which is expected to continue in 1994.

Adjusted for exchange effects, yield declined by 4% compared with 1992.

European Routes

Production increased by 13% compared with last year.

The overall traffic growth was positive, 13% higher than last year, which matched the increase in production. EuroClass traffic increased by 7% and Tourist Class by 16%. The market share for EuroClass fluctuates between 60% and 70% compared with major competitors in the individual route sectors. The systemwide cabin factor was largely unchanged at 52.8%. The cabin factor for EuroClass fell by 2% due to the dramatic growth in Tourist Class, and reached 35% for the full year.

Excluding exchange rate adjustments, yield was 1% lower than in 1992.

Nordic Routes

Free competition within Scandinavia was initially scheduled for January 1, 1993, but this liberalization did not start until August. However, competing traffic was very limited in 1993. Pori was introduced as a new destination.

Traffic on Nordic routes increased by 4% and production by 1%. The yield trend was positive, 2% excluding exchange rate adjustments.

Danish Domestic Traffic

The trend for both full-fare and tourist traffic was satisfactory, on Danish domestic and Greenland routes. Traffic and production remained largely unchanged, while a 3% decline in yield was noted.

Norwegian Domestic Traffic

Traffic rose by a total of 14%. The business sector increased by 4% and budget tickets by 20%. SAS developed well in the southern Norway market throughout 1993. The increase in total traffic volume was greatest to and from northern Norway, but was relatively evenly distributed over other areas. Yield rose by 3%.

Production increased by 13%. The cabin factor was 67%, representing a 0.6% increase over 1992.

Swedish Domestic Traffic

As part of the strategic necessity of securing the customer base in the home market, SAS acquired the majority shareholding in Linjeflyg AB in 1992. The acquisition was also designed to exploit extensive synergies through joint operations.

Starting in January 1993, the operations of SAS and Linjeflyg AB were merged in SAS Swedish Domestic. The first months of the year were marked by insufficient quality with regard to punctuality and regularity, mainly due to an underestimation of the complexity and size of the new operations.

PRODUCTION AND TRAFFIC

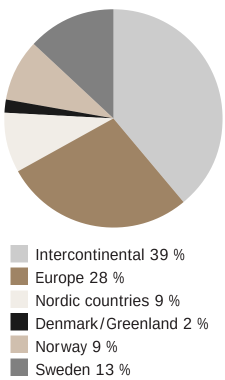
	AVAILABLE TONNE KILOMETERS			REVENUE TONNE KILOMETERS			LOAD FACTOR	
12 months	Million	Change %	Share %	Million	Change %	Share %	%	Change %-points
Intercontinental	1,432	4	40	1,037	7	49	72.4	2.0
Europe	1,126	14	31	507	13	24	45.0	−0.2
Nordic countries	339	2	10	159	3	8	46.9	0.4
International	**2,897**	**7**	**81**	**1,703**	**8**	**81**	**58.8**	**0.6**
Denmark	89	0	3	45	0	2	50.8	−0.1
Norway	242	14	7	151	14	7	62.5	−0.5
Sweden	339	−1	9	208	17	10	61.5	9.5
Domestic	**670**	**4**	**19**	**404**	**13**	**19**	**60.4**	**4.9**
TOTAL	**3,567**	**7**	**100**	**2,107**	**9**	**100**	**59.1**	**1.4**

PASSENGER, FREIGHT AND MAIL TRAFFIC

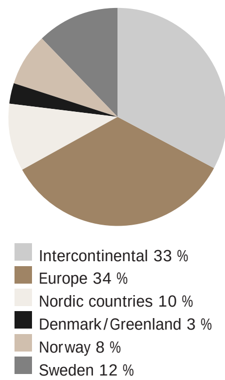
	PASSENGERS			CABIN FACTOR		FREIGHT		MAIL	
12 months	Pass. km	Change %	Share %	%	Change %	Million tonne km	Change %	Million tonne km	Change %
Intercontinental	7,122	7	39	76.1	1.5	355	7	26	−5
Europe	5,104	13	28	52.8	0.3	38	17	14	6
Nordic countries	1,642	4	9	55.1	1.4	10	−3	3	−12
International	**13,868**	**9**	**76**	**63.0**	**0.7**	**403**	**7**	**43**	**−2**
Denmark	439	0	2	59.8	−0.9	4	5	2	−10
Norway	1,575	14	9	67.0	0.6	6	2	4	2
Sweden[1]	2,256	−14	13	64.8	4.7	7	19	0	0
Domestic	**4,270**	**−4**	**24**	**65.0**	**3.0**	**17**	**9**	**6**	**−2**
TOTAL	**18,138**	**6**	**100**	**63.5**	**1.3**	**420**	**7**	**49**	**−2**

[1] 1992 figures include Linjeflyg's traffic and production, 12 months.

Traffic Per Geographic Market
Paid passenger km



Production Per Geographic Market
Available passenger km



The conclusion from the first fiscal year is that SAS achieved its desired customer base in Sweden with satisfactory market shares, in spite of intense competition. In December, SAS's market share on routes exposed to competition was 73% and 76% for the total domestic market.

The integration of the two operations is now completed.

During the year costs for the SAS/Linjeflyg AB integration were charged against income in a net amount of 502 MSEK. While cost savings were achieved in several areas, the aircraft fleet was successively reduced by approximately 10 aircraft, compared with 1992.

Compared with 1992, production declined by 20% and traffic by 14%. Yield remained unchanged. During the fourth quarter, yield increased by 17% compared with the same period of 1992. The cabin factor rose by 4.7 percentage points to 64.8% for the full year.

SAS Cargo

In 1993 SAS Cargo transported 532 MTKM on scheduled flights to and from Asia, North America and within Europe, compared with 470 MTKM in 1992, an increase of 13%.

On short-haul routes, available freight capacity rose by 15% as a result of considerable expansion of the traffic network to the Baltic countries and the former CIS. Freight capacity on long-haul routes increased by 5%.

Freight revenues rose by 25% compared with 1992. However, adjusted for exchange effects revenues fell by 4%. The decline in yield is primarily attributable to a surplus of cargo capacity, and intense price competition in SAS Cargo's most important markets in Scandinavia and Western Europe.

SAS's 1993 operating revenue amounted to 27,538 MSEK, representing an increase over 1992 when operating revenue was 22,795 MSEK. Traffic revenue rose by 23% to 23,869 MSEK. The increase in traffic revenue excluding exchange effects was 1,335 MSEK or 7%.

Fuel costs totaled 2,000 MSEK (1,529). This increase was mainly due to the high rate of the USD, and to some extent to volume, while the price of fuel in cents per gallon fell by 7%.

Payroll costs increased from 7,651 MSEK to 9,428 MSEK. The increase was 1% excluding exchange effects but including Linjeflyg AB for the full year 1992, as well as restructuring costs for SAS/Linjeflyg AB. The average number of employees was 21,352, compared with 21,160 (including Linjeflyg AB for seven months) in 1992.

SAS's total operating expense rose by 5,453 MSEK or 26%. Excluding exchange effects, the increase was 2,234 MSEK or 11%.

Cost Trend 1993/1992, % (adjusted for exchange effects)

Costs	Increase, nominal	Volume in (ASK/RPK)	Increase excl. volume	Inflation	Efficiency gain
Controllable	4.7	4.7	0	3.0	3.0
Total, excluding restructuring	3.1	4.7	–1.6	3.0	4.6

The increase in SAS's controllable costs was on the same level as the increase in volume. Efficiency gains corresponded to price increases caused by inflation, and the target of 8% annual cost savings was therefore not achieved.

Operating income before depreciation, etc. was 710 MSEK lower than the previous year, 1,249 MSEK (1,959).

Operating income was affected by lower yields, higher costs for government fees, among other things, distribution costs and the integration in Swedish domestic traffic.

Shares of income in affiliated companies amounted to –44 MSEK (–28).

Net financial items were reported at –1,139 MSEK (–2,132). The –1,093 MSEK (–1,255) improvement in net interest income was due to lower interest expense resulting from falling interest rates, in spite of higher average net debt. Unrealized exchange effects are included with approximately –1,000 MSEK (–1,120). A surplus value of 810 MSEK attributable to the development of rate for the USD was realized in conjunction with the sale and leaseback of six Boeing 767-300s.

Income after financial items and minority shares totaled –1,114 MSEK (–1,094). Excluding unrealized exchange effects and realized exchange gains, income was –924 MSEK (26).

Gains on the sale of flight equipment and shares, etc. amounted to 46 MSEK (2).

Income before taxes was –1,068 MSEK (–1,092).

Investments totaled 674 MSEK (2,731), of which 380 MSEK (1,868) was invested in flight equipment.

Aircraft Fleet

SAS purchased two aircraft in 1993, one new Boeing 737-500 and a Douglas MD-83 from SAS Leisure. SAS sold seven aircraft during the year, all Boeing 767s. Six of these Boeing 767-300s were included in a series of sale and leaseback transactions carried out in December. As a result of these transactions, the number of aircraft owned by SAS was reduced from 158 at the beginning of the 1993 to 153 at year-end, this includes 105 aircraft in the SAS Consortium.

The number of leased aircraft increased by five, whereby the total number of aircraft in the SAS fleet (owned and leased) amounted to 183, both at the start of the year and at year-end. Of these, 11 were leased out at the start of the year, and 14 were leased out at year-end. During 1993, three leased Douglas DC-9s were returned and six Boeing 767-300s were leased, as a part of the sale and leaseback transactions. Two Boeing 737-300 QCs which were originally leased by Linjeflyg AB, are now leased by SAS through a contract between Falcon Aviation and SAS.

Negotiations with British Midland Airways are underway for a ten-year contract for British Midland to lease all of SAS's Boeing 737-500s. When all the aircraft are transferred, which is expected to take place in May 1995, SAS will have achieved a reduction in the number of aircraft types in its fleet, which will contribute to improved cost efficiency. The transaction will also help to reduce SAS's aircraft surplus in 1994.

The acquisition value of contracted aircraft amounts to approximately 500 MUSD.

In 1995 ten Douglas DC-9s will be phased out of the fleet as a result of environmental restrictions. This reduction will be covered by the remaining surplus from 1994, changes in the traffic program and the possible leasing of a few aircraft. Environmental requirements mean that all Douglas DC-9s and Fokker F-28s must be phased out between 1998 and 2002, or be modified. SAS is currently conducting studies in order to find a suitable replacement for the Douglas DC-9 and Fokker F-28.

In conjunction with the takeover of Linjeflyg AB, SAS acquired through SAS Commuter all of Swedair's SAAB 340 fleet. In order to simplify and consolidate the aircraft fleet, SAS plans to phase out the SAAB 340s.

Aircraft Fleet Dec. 31, 1993	Owned / leased	Leased in	Total	Leased out	On order
Boeing 767-300	8	6	14		
Boeing 767-200	1		1	1 [1]	2
Douglas MD-81	31		31		
Douglas MD-82	16		16	7 [2]	
Douglas MD-83	2		2		
Douglas MD-87	16		16		
Douglas MD-90					6
Douglas DC9-21	9		9		
Douglas DC9-41	21	5	26		
Douglas DC9-51	1		1	1 [3]	
Boeing 737-300		2	2		
Boeing 737-500 *	8	3	11	3 [4]	3
Fokker F-28 *	14	5	19		
Fokker 50**	13	9	22		
SAAB 340 ***	13		13	2 [5]	
Total	153	30	183	14	11

* Owned by Linjeflyg Leasing HB
** Owned by SAS Commuter Consortium
*** Owned by Swedair, which is part of SAS Commuter

1 Leased out to Trans Brazil SpA
2 Leased out to Reno Air, 6 aircraft, Nordic East, 1 aircraft
3 Leased out to Hawaiian Airlines
4 Leased out to British Midland
5 Leased out to Air Nelson

SAS INTERNATIONAL HOTELS

SAS International Hotels (SIH) developed favorably in Scandinavia. The group increased its market share during the year. Occupancy in the hotels in the three Scandinavian countries and London increased in 1993 compared with 1992. The trend in the Central European market was less favorable, however. SIH improved its gross profit margin to more than 24%, an increase of 4 percentage points compared with the preceding year, mainly due to rationalization measures. A number of projects designed to improve results are currently being carried out.

The SAS Plaza Hotel property in Hamburg was sold, effective from January 1, 1993. However, SIH will continue to operate the hotel for a period of 20 years under a management contract with the new owner. SAS Royal Hotel, Cologne was sold on December 31, 1993, whereupon SIH's operation of the hotel was terminated. These sales provided a capital gain of 110 MSEK. Provisions to reserves for a decline in the value of the hotel properties were made in a corresponding amount. In the summer the SAS Sky City Hotel opened at Arlanda Airport, and the leasing contracts for SAS Royal Hotel in Bodø and SAS Strand Hotel in Stockholm were extended. Starting on January 1, 1994, SIH operates the Grand Olav Hotel in Trondheim, Norway. A thorough renovation of the SAS Portman Hotel in London will be carried out in 1994.

The SAS International Hotels group's operating revenue amounted to 1,853 MSEK (1,669). Including hotels operated under management contracts, revenues totaled 2,786 MSEK (2,154). Income before taxes was –110 MSEK (–128).

The average number of employees decreased from 3,430 to 2,926, primarily as a result of efficiency measures and the sale of hotels.

SAS SERVICE PARTNER

As a part of SAS's strategy to focus on its core business, SAS Service Partner sold two business areas on June 18, 1993, Terminal Catering and Contract Catering. Negotiations to sell the remaining parts of SAS Service Partner will continue in 1994.

In January a tenth unit was opened in Germany, at Tempelhof Airport in Berlin. SSP is now represented at all Berlin's airports.

A seven-year contract with European Passenger Services was signed in the fall for operation of a unit at London's Waterloo Station. This unit will provide service on Eurostar trains serving the Channel Tunnel. Operations will commence in summer 1994.

In November SSP acquired 51% of the Spanish catering company Air Cater S.A., with operations at Madrid's airport.

Operating revenue totaled 4,816 MSEK (5,220). For comparable units, Airline Catering, this represents an increase of 18%, which is favorable in light of increased competition.

SAS Service Partner's income before taxes was 670 MSEK (209), including a capital gain of 500 MSEK from the sale of Contract Catering and Terminal Catering.

SAS TRADING

SAS Trading's activities comprise retail trading, primarily in the duty-free sector, with the operation of some 40 shops at 20 airports in 6 countries, as well as inflight sales on SAS aircraft and on other airlines. SAS Trading also has purchasing cooperation with other operators.

The number of passengers in SAS's home market increased in 1993. At the same time, competition from the local market intensified as the price difference between duty-free and the local market decreased due to the removal of luxury tax on perfume and changed taxation of alcohol.

During the year an ordering in advance system was developed and a loyalty program was introduced. Other marketing efforts were aimed at profiling SAS Trading in relation to the local markets.

Operations were streamlined in 1993. This meant that interests in NK Parfym and SAS Mail Order were relinquished. To increase volume in its core business, SAS Trading took over the operation of the alcohol and tobacco shop at Copenhagen Airport.

An action program was carried out during the year to reduce costs.

Operating revenue amounted to 2,259 MSEK (1,741), an increase of 30%.

Income before gains on the sale of shares was 201 MSEK (189).

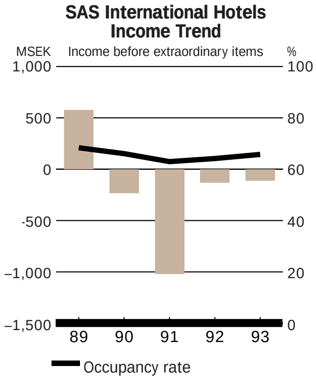
Income before taxes amounted to 204 MSEK (195), which was achieved in spite of considerably higher concession fees. The main reasons for this positive development are the increased number of passengers, higher average purchases, lower operating costs, and the closure of unprofitable units.

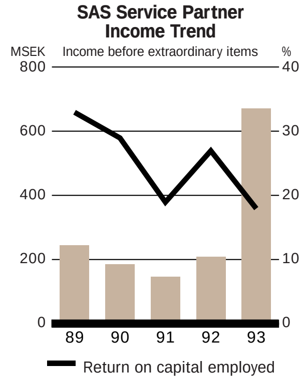
SAS LEISURE

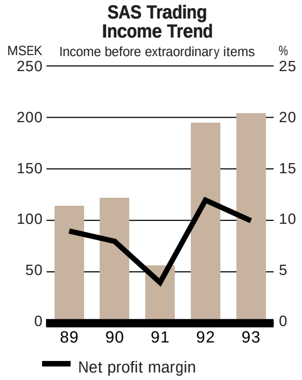
The SAS Leisure group is divided into three business areas: tour operations, charter airline services and resort hotels. The tour operations include Ving, which is established in Sweden, Norway and Denmark, as well as Always in Sweden, and Saga in Norway. The latter two conduct sales through travel agencies, while Ving operates through direct sales. The charter airline services include Scanair (from 1994: 50% of Premiair A/S) and 49% in the Spanish/Scandinavian company Spanair S.A. The hotel operations comprise 14 Sunwing hotels.

1993 was the worst year ever for the travel industry. The main reasons were the unease in the labor and finance markets in autumn 1992 and 1993. The high interest rates and the devaluation of the Swedish krona led to a dramatic deterioration in purchasing power.

Prices fell considerably as a result of a substantial surplus of tours and vacation alternatives from exist-







ing and new competitors in charter air travel, scheduled air travel, and shipping lines, as well as cheaper domestic tourism. Demand in Norway was comparable to 1992, while it fell by 30–40% in Sweden and Denmark.

The removal of charter taxes in Sweden and Norway, and improved interest rates in the fall contributed to a considerable increase in demand for the 1993/94 winter program and the 1994 summer program.

Extensive cost efficiency measures and considerable marketing efforts during the year strengthened the SAS Leisure group's market position.

In addition, an active effort was made to restructure the charter air travel market. Scanair was closed down and a new airline, Premiair A/S, started at year-end 1993. Premiair A/S is jointly owned 50/50 with the Spies Group, which has closed down its former charter airline Conair. The goal is to create a more cost effective airline with a common customer base that facilitates optimal utilization of aircraft and employees.

The SAS Leisure group's operating revenue amounted to 4,440 MSEK (4,629) in 1993. The major action programs implemented in 1993, including the closure of Scanair, the establishment of the Premiair airline, the relocation of the tour operator Alway's head office from Gothenburg to Stockholm, and an general review of costs and efficiency in the group, resulted in restructuring costs of 82 MSEK, which are included in income before gains on the sale of flight equipment and shares, etc. of –213 MSEK (55). Income before taxes was –199 MSEK (64).

DINERS CLUB NORDIC

The company has franchise rights to Diners Club in Denmark, Norway, Sweden, Finland and Iceland, and is also responsible for operations in the Baltic countries.

1993 saw the launching of World Card in cooperation with Statoil, and telephone cards in Norway and Denmark.

The number of cards increased by 11% to 395,000.

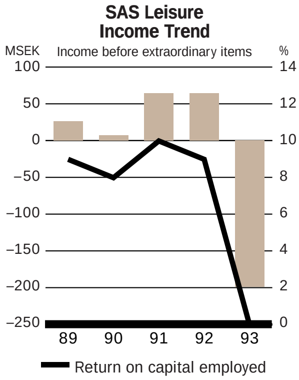
Operating revenue increased by 18% in 1993 from 440 to 517 MSEK. Income before taxes was 49 MSEK (30).

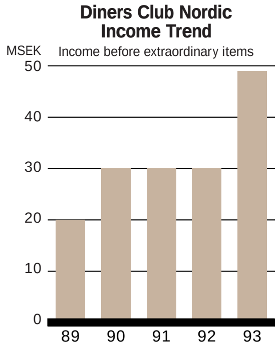
AFFILIATED COMPANIES

Affiliated companies are companies in which the SAS Group's ownership is between 20% and 50%. These include Airlines of Britain Holdings PLC (35%), Spanair S.A. (49%), LanChile S.A. (42%) and Premiair A/S (50%).

Airlines of Britain Holdings' key markets showed a lower growth rate than anticipated in 1993. A two-class system with Diamond EuroClass was introduced during the year, and a new route was opened between Heathrow and Frankfurt. Orders were placed with Fokker for a total of nine aircraft, and a Letter of Intent was signed with SAS for the lease of all of SAS's Boeing 737-500s. Income after taxes amounted to 1 million GBP. SAS's share of this income (34.9%), including a 22 MSEK (17) write-down of goodwill, is –20 MSEK (–14).

The Chilean airline LanChile S.A. reports a 1993 profit of 0.3 MUSD. SAS's share of income is reported at 1 MSEK (3). In February 1994, SAS completed the sale of its entire holding in LanChile S.A. After the reversal of reserves pertaining to LanChile, this transaction provided a break-even result for the SAS Group. The sales price is reported under other receivables.





The SAS Group's income before taxes includes shares of affiliated companies' income after tax of –1 MSEK (–8). The Group's equity in affiliated companies amounted to 517 MSEK (638).

INVESTMENTS

The SAS Group's 1993 investments totaled 1,112 MSEK (3,338). SAS accounted for 532 MSEK of investments, after elimination of all aircraft taken over from SAS Leisure; SAS International Hotels for 47 MSEK; SAS Service Partner for 272 MSEK, and SAS Leisure for 244 MSEK. Investments in aircraft and other flight equipment amounted to 408 MSEK (1,872).

PERSONNEL

The average number of employees in the various business units of the SAS Group in 1993 was 37,330 (40,140). Of this total, 21,352 (21,160, including Linjeflyg AB, seven months) were employed by SAS, 2,926 (3,430) by SAS International Hotels, 9,012 (11,020) by SAS Service Partner, and 3,081 (3,500) by SAS Leisure.

A breakdown of the average number employees per country is provided in the table below.

The average number of employees in the SAS Consortium totaled 19,931 (18,420), including 6,549 (6,847) in Denmark, 4,071 (4,046) in Norway, and 7,679 (5,848) in Sweden. The 1993 figures include personnel previously employed by Linjeflyg AB.

The SAS Group's total payroll costs, including payroll-related costs, amounted to 12,935 MSEK (11,363). Corresponding costs for the SAS Consortium amounted to 8,321 MSEK (6,204) (see also Note 3).

Average number of employees – SAS Group	**1993 Men**	**1993 Women**	1992 Men	1992 Women
Denmark	**5,902**	**3,376**	6,023	3,660
Norway	**3,998**	**3,256**	4,266	3,846
Sweden	**6,365**	**4,687**	6,254	5,046
U.K.	**1,522**	**1,095**	1,967	1,283
Germany	**1,036**	**783**	1,227	892
Spain	**596**	**678**	918	675
Turkey	**782**	**228**	782	163
Greece	**211**	**180**	245	195
USA	**144**	**199**	152	199
Other	**1,303**	**989**	1,376	971
Total	**21,859**	**15,471**	23,210	16,930

SAS AND THE ENVIRONMENT

In the first six months of 1993, SAS's management further improved the efficiency of the Company's environmental activities. Cost efficiency measures, future national and international environmental requirements and environmental audits are important parts of these activities. In 1993 SAS developed an environmental organization in which responsibility was decentralized to the different regions and divisions. SAS is involved in policy and work groups within IATA, ICAO and AEA, and is also represented in NALM, in which the Nordic civil aviation authorities deal with environmental issues. Through the AEA, SAS initiated a European survey of waste from air transport operations.

The Norwegian anti-pollution authority conducted two unannounced audits at SAS Norway with satisfactory results. Measures were taken in 1993 to reduce the amount of waste burdening the environment.

SAS Denmark has started using a halogen-recovery compressor. Halogens are ozone-depleting gases which are used in fire extinguishers on aircraft, among other things. In conjunction with service inspections, the compressor recovers and purifies 98–99% of the emissions.

Systematic waste handling was introduced to achieve efficient source sorting and recycling.

In addition, a program was initiated designed to reduce noise levels in all indoor workplaces to a maximum of 85 dB(A).

Since 1993 all SAS's diesel vehicles at Arlanda use environmental class 1 diesel fuel, which reduces exhaust emissions.

THE SAS CONSORTIUM

The SAS Consortium is 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 SAS and SAS Trading, both excluding subsidiaries.

The SAS Consortium's assets, liabilities and earnings are divided among the parent companies at the end of each fiscal year according to their respective ownership shares: DDL 2/7, DNL 2/7, ABA 3/7.

The SAS Consortium's operating revenue amounted to 28,509 MSEK (22,093).

Financial items totaled –225 MSEK (–1,644) and include dividends from subsidiaries and affiliated companies of 473 MSEK (264). Net financial items were charged with unrealized exchange effects of –850 MSEK (–1,080), which were offset in 1993 by realized exchange gains of 810 MSEK from the sale and leaseback of six Boeing 767-300s.

Income after financial items amounted to –466 MSEK (–654) after exchange gains on the sale and leaseback of aircraft. The net gain from the sale of flight equipment and shares, etc. was 43 MSEK (20), and unusual items totaled –203 MSEK (–131). Income before taxes amounted to –626 MSEK (–765).

Remuneration to the SAS Consortium's Board of Directors amounted to 1.8 MSEK (1.5) in 1993.

The SAS Consortium's accounts are prepared in accordance with the same principles as the SAS Group, except for the accounts of subsidiaries and affiliated companies. See the section Accounting and Valuation Principles. The SAS Consortium's accounts are presented separately in the following financial statements and notes.

THE SCANAIR AND SAS COMMUTER CONSORTIA

The Scanair and SAS Commuter Consortia have the same ownership and legal status as the SAS Consortium, and are consolidated in the SAS Group within the SAS Leisure and SAS business units.

THE SCANAIR CONSORTIUM

Scanair discontinued its operations on December 31, 1993. A new airline, Premiair, was started at the same time. Scanair's operations included traffic from Sweden, Norway and Denmark, to destinations around the Mediterranean and the Canary Islands.

The aircraft fleet comprised six DC-10-10s, two of which were leased out in 1993, and two MD-80s leased in from SAS. In addition, marginal capacity from SAS was used at weekends.

During the year demand for charter air travel declined as a result of the recession. In addition, competition from scheduled air services increased and Scanair was unable to adjust its cost level.

Scanair's 1993 operating revenue amounted to 1,852 MSEK (1,996). Income before taxes was –86 MSEK (52). 1993 income includes liquidation costs of 46 MSEK.

Statement of Income (MSEK)	**1993**	1992
Operating revenue	**1,852**	1,996
Operating expense	**–1,924**	–1,944
Operating income before depreciation	**–72**	52
Depreciation	**–26**	–25
Operating income after depreciation	**–98**	27
Net financial items	**12**	25
Income before taxes	**–86**	52

Balance Sheet (MSEK)	**1993**	1992
Liquid funds	**145**	190
Other current assets	**146**	96
Total current assets	**291**	286
Fixed assets	**–**	80
Total assets	**291**	366
Current liabilities	**289**	278
Equity	**2**	88
Total liabilities and equity	**291**	366

THE SAS COMMUTER CONSORTIUM

SAS Commuter is a production company which conducts air transport on behalf of SAS in Scandinavia and Northern Europe, using Fokker 50 aircraft. The total fleet comprises 22 aircraft, of which 17 were used in EuroLink, a southern traffic system based in Copenhagen, in 1993. The remaining five were used in NorLink, a northern system based in Tromsø, Norway.

Approximately 50,000 flights carrying a total of 1.4 million passengers were made during the year. Operating revenue totaled 636 MSEK (524) and income before taxes was 70 MSEK (70).

In 1993 a subsidiary owned by the SAS Commuter Consortium took over Swedair AB, a former subsidiary of Linjeflyg AB. Swedair's air transport operations will be discontinued during 1994.

Statement of Income (MSEK)	**1993**	1992
Operating revenue	**636**	524
Operating expense	**–480**	–376
Operating income before depreciation	**156**	148
Depreciation	**–30**	–26
Operating income after depreciation	**126**	122
Net financial items	**–56**	–52
Income before taxes	**70**	70

Balance Sheet (MSEK)	**1993**	1992
Liquid funds	**38**	33
Other current assets	**25**	17
Total current assets	**63**	50
Fixed assets	**904**	926
Total assets	**967**	976
Current liabilities	**70**	68
Long-term debt	**482**	560
Equity	**415**	348
Total liabilities and equity	**967**	976

ALLOCATION OF INCOME AND EQUITY IN THE SAS CONSORTIUM

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 income.

The Board of Directors and the President propose to the SAS Assembly of Representatives that no transfers be made to the parent companies, and that the SAS Consortium's deficit for the year, totaling –626 MSEK be charged against the SAS Consortium's capital account, which will thereafter total 7,063 MSEK.

1994 FORECAST

The recovery in the international air transport market is expected to continue in 1994. At the same time deregulation will lead to increased competition and pressure on fares. Norwegian domestic traffic will be deregulated on April 1, 1994. It is difficult to judge how competition will develop on intra-Scandinavian routes.

Operations in 1994 therefore face uncertainties in several key areas for SAS.

In spite of this, and taking into account the divestment decisions taken in principle, and other effects of the action program, SAS anticipates favorable results in 1994, as well as an improved financial position.

Stockholm, March 25, 1994

Tage Andersen *Bjørn Eidem* *Bo Berggren*

Anders Eldrup *Harald Norvik* *Tony Hagström*

Leif Christoffersen *Ingvar Lilletun* *Leif Kindert*

Jan Reinås
President and Chief Executive Officer

SAS Group Consolidated Statement of Income
(Note 1)

MSEK	**1993**	1992
Operating revenue – *Note 2*	**39,122**	34,445
Operating expense – *Note 3*	**–37,090**	–31,515
Operating income before depreciation, etc.	**2,032**	2,930
Depreciation, etc. – *Note 4*	**–1,782**	–1,532
Shares of income in affiliated companies – *Note 5*	**–1**	–8
Income after depreciation, etc.	**249**	1,390
Financial items, net – *Note 7*	**–1,123**	–1,094
Unrealized exchange effects, net – *Note 7*	**–1,000**	–1,150
Realized exchange gains on sale and leaseback of aircraft – *Note 7*	**810**	–
Income after financial items	**–1,064**	–854
Minority shares of income after financial items	**16**	89
Income before the sale of flight equipment and shares, etc.	**–1,048**	–765
Gain on the sale of flight equipment – *Note 8*	**6**	0
Gain on the sale of shares, etc. – *Note 9*	**660**	5
Provisions to reserve for decline in value of hotel investments	**–110**	–
Income before taxes	**–492**	–760
Taxes payable by subsidiaries – *Note 11*	**–99**	–111
Income before taxes relating to the SAS Consortium	**–591**	–871

SAS Group Consolidated Balance Sheet (Note 1)

MSEK

ASSETS	1993	1992
Current assets		
Liquid funds – *Note 12*	**9,318**	9,829
Accounts receivable	**4,195**	3,854
Prepaid expense and accrued income	**692**	760
Other accounts receivable – *Note 13*	**4,448**	1,496
Expendable spare parts and inventories – *Note 14*	**582**	684
Prepayments to suppliers	**56**	55
Total current assets	**19,291**	16,678
Fixed assets		
Restricted accounts – *Note 15*	**33**	47
Shares and participations – *Note 16*	**127**	149
Equity in affiliated companies – *Note 17*	**517**	638
Other long-term accounts receivable	**786**	740
Goodwill and other intangible assets – *Note 19*	**293**	409
Long-term prepayments to suppliers – *Note 20*	**395**	366
Fixed assets: – *Note 21*		
New investments	**242**	169
Aircraft	**14,716**	17,524
Spare engines and spare parts	**866**	1,150
Maintenance and aircraft servicing equipment	**80**	95
Other equipment and vehicles	**1,673**	2,157
Buildings and improvements	**4,538**	5,062
Land and land improvements	**300**	284
Total fixed assets	**24,566**	28,790
TOTAL ASSETS	**43,857**	45,468
Assets pledged, etc. – *Note 28*	**1,817**	1,989

MSEK

LIABILITIES AND EQUITY	1993	1992
Current liabilities		
Accounts payable	**1,671**	1,561
Taxes payable	**153**	172
Accrued expense and prepaid income	**4,084**	4,029
Unearned transportation revenue, net – *Note 22*	**1,402**	1,062
Prepayments from customers	**480**	372
Current portion of long-term debt	**1,579**	680
Other current liabilities	**3,116**	3,837
Total current liabilities	**12,485**	11,713
Long-term debt		
Bond issues – *Note 23*	**8,594**	10,127
Other loans – *Note 24*	**10,129**	11,309
Other long-term debt – *Note 25*	**2,723**	2,176
Total long-term debt	**21,446**	23,612
Subordinated debenture loan – *Note 26*	**1,136**	982
Minority interest	**159**	203
Equity – *Note 27*		
Capital	**8,127**	8,771
Restricted reserves	**708**	700
Unrestricted reserves	**387**	358
Net income for the year	**–591**	–871
Total equity	**8,631**	8,958
NET LIABILITIES AND EQUITY	**43,857**	45,468
Contingent liabilities – *Note 29*	**2,641**	1,398
Leasing commitments – *Note 30*		

SAS Consortium Statement of Income (Note 1)

MSEK	1993	1992
Operating revenue – *Note 2*	**28,509**	22,093
Operating expense – *Note 3*	**–27,783**	–20,354
Operating income before depreciation, etc.	**726**	1,739
Depreciation, etc. – *Note 4*	**–967**	–749
Income after depreciation, etc.	**–241**	990
Dividends – *Note 6*	**473**	264
Financial items, net – *Note 7*	**–658**	–828
Unrealized exchange effects, net – *Note 7*	**–850**	–1,080
Realized exchange gains on the sale and leaseback of aircraft – *Note 7*	**810**	–
Income after financial items	**–466**	–654
Gain on the sale of flight equipment – *Note 8*	**–4**	0
Gain on the sale of shares, etc. – *Note 9*	**47**	20
Unusual items – *Note 10*	**–203**	–131
Income before taxes[1]	**–626**	–765

[1] Taxes are the responsibility of the SAS Consortium parent companies.

SAS Consortium Balance Sheet (Note 1)

MSEK

ASSETS	1993	1992
Current assets		
Liquid funds – *Note 12*	**8,427**	8,902
Accounts receivable, subsidiaries	**1,680**	1,664
Accounts receivable	**1,610**	1,417
Prepaid expense and accrued income	**402**	407
Other accounts receivable – *Note 13*	**3,412**	1,134
Expendable spare parts and inventories – *Note 14*	**328**	354
Prepayments to suppliers	**4**	8
Total current assets	**15,863**	13,886
Fixed assets		
Shares and participations in subsidiaries – *Note 16*	**1,710**	1,761
Other shares and participations – *Note 16*	**313**	314
Long-term accounts receivable, subsidiaries and affiliated companies – *Note 18*	**2,935**	2,276
Other long-term accounts receivable	**311**	528
Intangible assets – *Note 19*	**51**	153
Long-term prepayments to suppliers – *Note 20*	**327**	323
Fixed assets: – *Note 21*		
New investments	**115**	45
Aircraft	**11,966**	14,761
Spare engines and spare parts	**714**	650
Maintenance and aircraft servicing equipment	**80**	95
Other equipment and vehicles	**269**	313
Buildings and improvements	**1,493**	1,557
Land and land improvements	**78**	79
Total fixed assets	**20,362**	22,855
TOTAL ASSETS	**36,225**	36,741
Assets pledged, etc. – *Note 28*	**53**	27

MSEK

LIABILITIES AND EQUITY	1993	1992
Current liabilities		
Accounts payable, subsidiaries	**1,604**	1,200
Accounts payable, suppliers	**997**	756
Accrued expense and prepaid income	**3,039**	2,672
Unearned transportation revenue, net – *Note 22*	**1,392**	967
Current portion of long-term debt	**1,437**	555
Other current liabilities	**1,137**	1,612
Total current liabilities	**9,606**	7,762
Long-term debt		
Bond issues – *Note 23*	**8,575**	10,110
Other loans – *Note 24*	**8,017**	9,125
Other long-term debt – *Note 25*	**1,828**	1,088
Total long-term debt	**18,420**	20,323
Subordinated debenture loan – *Note 26*	**1,136**	967
Equity – *Note 27*		
Capital		
DDL	**2,196**	2,415
DNL	**2,196**	2,415
ABA	**3,297**	3,624
Total capital	**7,689**	8,454
Net income for the year	**–626**	–765
Total equity	**7,063**	7,689
TOTAL LIABILITIES AND EQUITY	**36,225**	36,741
Contingent liabilities – *Note 29*	**2,130**	1,291

Statements of Changes in Financial Position

MSEK	SAS Group 1993	SAS Group 1992	SAS Consortium 1993	SAS Consortium 1992
THE YEAR'S OPERATIONS				
Income before taxes	**–492**	–760	**–626**	–765
Depreciation, etc.	**1,782**	1,532	**967**	749
Revaluations, write-downs, etc.	**128**	191	**51**	120
Income from the sale of fixed assets	**–1,451**	–74	**–796**	–20
Unrealized exchange effects, net	**1,000**	1,150	**850**	1,080
Other, net	**–115**	–393	**–**	19
Funds provided by the year's operations	**852**	1,646	**446**	1,183
Change in:				
Expendable spare parts and inventory	**62**	206	**26**	–10
Current receivables	**–659**	444	**–301**	610
Current liabilities	**1,122**	–852	**808**	87
Change in working capital	**525**	–202	**533**	687
Net financing from the year's operations	**1,377**	1,444	**979**	1,870
INVESTMENTS				
Aircraft	**–380**	–1,711	**–354**	–1,711
Spare parts	**–28**	–161	**–19**	–140
Buildings, improvements and other equipment	**–661**	–891	**–191**	–110
Shares and participations, goodwill, etc.	**–43**	–575	**–1**	–677
Equipment taken over from Linjeflyg AB, etc.	**–**	–	**–259**	–
Total investments	**–1,112**	–3,338	**–824**	–2,638
Advance payments for flight equipment, net	**–29**	466	**–4**	406
Sale of fixed assets	**2,115**	86	**1,172**	199
Exchange effects	**–263**	–	**–**	–
Net investments	**711**	–2,786	**344**	–2,033
Financing surplus/deficit	**2,088**	–1,342	**1,323**	–163
EXTERNAL FINANCING				
Long-term receivables	**213**	–460	**156**	–442
Prepayments and early redemption	**–2,995**	–900	**–2,870**	–901
Borrowings excluding unrealized exchange effect on net debt	**341**	2,958	**916**	1,712
Change in minority interest	**–28**	–14	**–**	–
External financing, net	**–2,469**	1,584	**–1,798**	369
Change in liquid funds (cash, bank balances and short-term investments)	**–381**	242	**–475**	206
Liquid funds in companies sold/acquired	**–130**	216		–
CHANGE IN LIQUID FUNDS				
according to Balance Sheet	**–511**	458	**–475**	206
Liquid funds at beginning of the year	**9,829**	9,371	**8,902**	8,696
Liquid funds at year-end	**9,318**	9,829	**8,427**	8,902

Notes to the Financial Statements

ACCOUNTING AND VALUATION PRINCIPLES

General

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

The same accounting principles are applied by the SAS Consortium with the main exception that shares in affiliated companies, which are reported according to the equity method by the SAS Group, are reported according to the purchase method by the SAS Consortium. The SAS Consortium also reports shares in subsidiaries according to the purchase method.

Consolidated Financial Statements

Definition of Consolidated and Affiliated Companies:
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, as well as the Scanair and SAS Commuter consortia. Certain wholly owned subsidiaries which 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 16, the specification of shares and participations.

Income and expense of companies acquired or sold during the fiscal year are included in the Consolidated Statement of Income for the period in which they belonged to the SAS Group.

Holdings in major affiliated companies in which the SAS Group's ownership is at least 20% and not more than 50%, are reported according to the equity method.

Principles of Consolidation

The consolidated financial statements are prepared according to the purchase method, whereby subsidiaries' assets and liabilities are reported at market value according to the acquisition analysis. If the acquisition value of shares in a subsidiary exceeds the estimated market value of the company's net assets according to the acquisition analysis, the difference is reported as consolidated goodwill. Accordingly the SAS Group's balance sheet includes equity in acquired companies only to the extent it was earned after the date of acquisition.

The book value of shares in major affiliated companies is reported in accordance with the equity method. This means that the SAS Group's share of the affiliated companies' equity amounts to the share of equity taking into account deferred taxes according to the tax rates in the countries concerned and any residual values of surpluses/deficits.

The SAS Group's share of affiliated companies' income after taxes, adjusted for any depreciation/dissolution of acquired surplus/deficit values, is reported in the Consolidated Statement of income.

Translation of Foreign Subsidiaries' Financial Statements

The financial statements of foreign subsidiaries are translated into Swedish kronor using the current-rate method. All subsidiaries' assets and liabilities are thus converted to Swedish kronor at year-end rates of exchange, while all income statement items are translated at the average annual rate of exchange. SAS's share of such translation difference is transferred directly to the equity of the SAS Group.

Receivables and Liabilities in Foreign Currencies and Financial Instruments

Current and long-term receivables and liabilities in currencies other than Swedish kronor (SEK) are stated in the balance sheet translated at year-end rates of exchange. Realized and unrealized exchange gains and losses on receivables and liabilities are reported above income. (See also Note 7.)

SAS uses various financial instruments to control the company's total currency and interest exposure. The use of these instruments must be seen in connection with the above-named receivables and liabilities. The following accounting and valuation principles are used:

Forward exchange contracts: Financial forward exchange contracts are valued at market exchange rates at year-end. Unrealized exchange gains and losses are reported above income. The difference between the forward rate and the current market rate on the date of the contract (forward premium) is an interest rate difference, which is reported under net interest income.

Currency swap contracts: Currency swap contracts are valued at market exchange rates at year-end. Unrealized exchange gains or losses are reported above income. The net income effect of interest income and interest expense connected to a currency swap contract is accrued over the term of the contract and included in income. The net income effect of currency swap contracts connected to loans at the date of raising the loans is reported over income in the event the connected loans are redeemed. (See also Note 1.)

Currency options: Currency options are listed at market value at year-end. Unrealized exchange gains or losses are reported above income. Option premiums are capitalized and accrued over the term of the option.

Interest rate swap contracts: Interest rate swap contracts' net income effect on interest income and interest expense is transferred to income as incurred. For further information, see Note 31 – Financial Instruments.

Exchange rates to SEK for some principal currencies:

			Year-end rate		Average rate	
Currency			**1993**	1992	**1993**	1992
Denmark	DKK	100	**123.65**	113.50	**120.06**	96.46
Norway	NOK	100	**111.25**	102.75	**109.68**	93.66
USA	USD		**8.33**	7.05	**7.78**	5.83
U.K.	GBP		**12.35**	10.69	**11.69**	10.23
Switzerland	CHF	100	**568.00**	483.24	**527.06**	414.14
Germany	DEM	100	**482.20**	438.24	**468.22**	372.68
Japan	JPY	100	**7.45**	5.66	**7.00**	4.60
European Currency Unit	XEU		**9.34**	8.55	**9.10**	7.51

Expendable Spare Parts and Inventories

Expendable spare parts and inventories are stated at the lower of cost or market value. Appropriate deduction for obsolescence has been made.

Fixed Assets and Depreciation

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

Since 1988, a reducing balance method of depreciation has been applied to aircraft (Boeing 767, Boeing 737, MD-80 and Fokker 50) over the economic life of such investments, resulting in full depreciation of the asset after approximately 19 years. This method results in an even distribution of capital costs over the useful lives of the assets. Depreciation during the first year amounts to 2%, thereafter increasing by 1/3 percentage point annually, i.e. 2 1/3% in year 2, 2 2/3% in year three, and so on.

Fokker F-28 aircraft are depreciated over 15 years by 10% of residual value. SAAB 340 aircraft are depreciated according to the annuity method over 12 years by 20% of residual value.

Interest expenses on advance payments for aircraft not yet delivered, are capitalized. If it is decided to postpone delivery of aircraft for which advance payments have been made, capitalization of interest expenses ceases. Once the relevant aircraft goes into operation, depreciation is begun on the capitalized interest charges, in accordance with the main principle for aircraft.

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%.

Goodwill and other intangible assets are depreciated over their estimated economic lives, whereby long-term strategic investments in SAS's operations are depreciated for up to 15 years, and other investments over a 5-year period.

Major modifications and improvements of fixed assets which increase their value are capitalized and depreciated over their economic lives.

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

Pension Commitments
All pension commitments have been covered by the payment of insurance premiums and allocations to pensions. Allocations are based on actuarial calculations of the discounted commitment. So-called vulnerable pension commitments where the pension is not yet in payment are reported under Contingent Liabilities, see Note 29.

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 ticket holder has requested a refund.

A portion of unearned transportation revenue covers tickets sold which are expected to remain unused. A reserve against the unearned transportation revenue liability is assessed annually. This reserve is reported as revenue the following year.

Maintenance Costs
Routine aircraft maintenance and repairs are charged to income as incurred.

From 1991 onwards, allocations are made for future heavy maintenance costs for the MD-80s, in order to obtain a more even distribution of maintenance costs. The costs for which allocations are made relate to D-checks, which are carried out approximately every ten years at an estimated cost of 10 MSEK. The annual allocation per aircraft is 1 MSEK. Allocations for future maintenance costs are also made for Fokker 50s (belonging to the SAS Commuter Consortium). Charges for engine services for Fokker F-28s are capitalized and depreciated over four years.

SAS Consortium
The SAS Group's accounts are prepared in accordance with IAS. Out of regard for local regulations concerning accounting and taxation in Sweden and Norway, the main deviation in the principles applied by the SAS Consortium is that shares in subsidiaries and affiliated companies are reported at cost, and dividends are transferred to income.

Definitions of Financial Terms and Ratios
Gross profit margin (GOP). Income before depreciation, etc. in relation to operating revenue.
Net profit margin. Income after financial items in relation to operating revenue.
Return on capital employed. Income after depreciation, etc. plus financial income in relation to average capital employed. Capital employed equals total assets less non-interest bearing liabilities.
Return on equity. Income before tax in relation to average equity and minority interests.
Debt/equity ratio. Interest-bearing liabilities minus interest-bearing assets in relation to equity.
Equity/assets ratio. Equity plus deferred taxes and minority interests in relation to total assets.
Net financing from operations. Funds provided internally including change in working capital.
Net debt. Interest-bearing debts minus interest-bearing assets.
Interest coverage ratio. Income after depreciation, etc. plus financial income in relation to financial expense.

Notes

All amounts in MSEK unless otherwise stated.

Note 1 – Changed Accounting Principles

SAS Group and SAS Consortium
To make the 1993 and 1992 financial statements comparable, some items relating to the 1992 fiscal year have been reclassified.
Currency swap contracts: The net income effect of currency swap contracts tied to loans at the date they were raised is reported over income upon redemption of the connected loans. The effect of the changed accounting principle on 1993 income was 31 (–).

Note 2 – Operating Revenue

		1993	1992
Traffic revenue:	Passengers	**21,936**	16,277
	Freight	**1,331**	1,066
	Mail	**245**	207
	Other	**363**	550
Other operating revenue		**4,634**	3,993
SAS Consortium operating revenue		**28,509**	22,093
Subsidiary operating revenue		**12,988**	14,509
Group eliminations		**–2,375**	–2,157
SAS Group operating revenue		**39,122**	34,445

Subsidiary operating revenue includes external traffic revenue totaling 564 (548) from Scanair.
SAS's traffic revenue is reported after deducting discounts, which amounted to 1,590 (961).

Note 3 – Operating Expense

	SAS Group		SAS Consortium	
	1993	1992	1993	1992
Personnel/payroll costs	**13,441**	11,737	**8,664**	6,474
Aircraft fuel	**2,205**	1,786	**1,982**	1,386
Government user fees	**3,889**	3,232	**3,529**	2,521
Other operating expenses	**17,555**	14,760	**13,608**	9,973
Total	**37,090**	31,515	**27,783**	20,354

Other operating expenses of the SAS Consortium include commissions, purchased services, supplies, etc.
In 1990,15 Douglas DC-9s, one Douglas DC-10 and five Fokker-27s were sold as part of the planned renewal of the aircraft fleet. SAS leased back the Douglas DC-9s and the Douglas DC-10 for a short period (operational leasing). At the date of the sale an allocation of 290 was made against future additional costs of leasing these aircraft. 1993 leasing costs, 20 (70), paid for leasing back five Douglas DC-9s was deducted from the allocation. Only five of the above mentioned Douglas DC-9s remained in SAS's fleet as of December 31, 1993.

Note 4 – Depreciation, etc.

	SAS Group		SAS Consortium	
	1993	1992	1993	1992
Goodwill and intangible assets	**161**	116	**102**	25
Aircraft	**657**	519	**506**	431
Spare engines and spare parts	**115**	78	**86**	11
Maintenance and aircraft servicing equipment	**53**	56	**53**	47
Other equipment and vehicles	**571**	581	**134**	154
Buildings and improvements	**224**	181	**85**	80
Land improvements	**1**	1	**1**	1
Total	**1,782**	1,532	**967**	749

Note 5 – Share of Income in Affiliated Companies

SAS Group	1993	1992
Airlines of Britain Holdings PLC (ABH)[1]	**–20**	–14
Polygon Insurance Company Ltd	**–26**	–16
Grønlandsfly A/S	**0**	1
LanChile S.A.	**1**	3
Københavns Lufthavns Forretningscenter K/S	**36**	31
Spanair S.A.	**5**	0
SAS Casinos Denmark A/S/ Casino Copenhagen K/S	**5**	1
Others	**–2**	–14
Total	**–1**	–8

[1] Share of income includes depreciation of goodwill totaling 22 (17).

SAS's share of income in affiliated companies is based on the companies' unaudited preliminary reports.

Note 6 – Dividends

SAS Consortium	1993	1992
Dividends from:		
SAS Service Partner A/S	**472**	254
Diners Club Nordic AS	**–**	10
Dividends from subsidiaries	**472**	264
Dividends from affiliated companies	**1**	–
Total dividends	**473**	264

Note 7 – Financial Items, Net

SAS Group	1993	1992
Interest income	**1,550**	1,127
Interest expense	**–2,839**	–2,525
Capitalized interest on prepaid aircraft	**–**	–1
Interest, net	**–1,289**	–1,399
Allocations of accrued exchange gains at the start of 1988	**–**	73
Exchange differences, net	**199**	136
Other	**–33**	96
Total financial items, net	**–1,123**	–1,094
Unrealized exchange effects, net[1]	**–1,000**	–1,150

[1] The effect of unrealized exchange effects is divided among the SAS Group's business units as follows:

SAS	**–1,000**	–1,120
SAS International Hotels	**–26**	7
SAS Service Partner	**34**	–35
Others	**–8**	–2
Total	**–1,000**	–1,150

SAS Consortium	1993	1992
Interest from subsidiaries	**434**	422
Other interest income	**1,344**	958
Total interest income	**1,778**	1,380
Interest paid to subsidiaries	**–380**	–433
Other interest expense	**–2,260**	–2,008
Capitalized interest on prepaid aircraft	**–**	–1
Total interest expense	**–2,640**	–2,442
Interest, net	**–862**	–1,062
Exchange differences, net	**199**	154
Other	**5**	80
Total financial items, net	–**658**	–828
Unrealized exchange effects, net	**–850**	–1,080

SAS Group / SAS Consortium

Realized exchange gains on the sale and leaseback of aircraft amounted to 810 (–).

In December 1993 SAS signed contracts with four investors for the sale of six Boeing 767-300s. The total amount of the sale was approximately 400 MUSD, or 3,317 MSEK. One aircraft was registered in the new owner's name in December 1993, while registration of the other five aircraft, and therefore also payment for them, could not be made until January 1994.

Since all contracts were signed in December, the resulting gain is reported in 1993. Since the gain primarily comprises a exchange effect, SAS judges it to give a true picture to report the gain which arose under financial items. The booked gain amounts to 1,199, from which a 389 allocation was made in order to ensure future cost neutrality. The aircraft will be leased back for a period of approximately five years. The allocated amount will be reversed over a corresponding period.

Note 8 – Gain on the Sale of Flight Equipment

SAS Group	1993	1992
SAS – sale of one Boeing 767-200	**–6**	**–**
SAS – sale of one Twin Otter	**6**	**–**
SAS Leisure	**6**	**–**
Total	**6**	–

SAS Consortium	1993	1992
SAS – sale of one Boeing 767-200	**–6**	–
SAS – other	**2**	0
Total	**–4**	0

Note 9 – Gain on the Sale of Shares, etc.

SAS Group	1993	1992
Shares in LanChile S.A.	**0**	–
Shares in NK Parfym AB	**3**	–
Operations in Terminal & Contract Catering	**500**	–
Shares in SAS Royal Hotel, Cologne	**–17**	–
Shares in SAS Royal Hotel, Hamburg	**127**	–
Shares in Coronado A/S	**–**	–85
Real estate	**39**	83
Other shares	**8**	7
Total	**660**	5

SAS Consortium	1993	1992
Shares in Jetpak	**–**	16
Real estate	**38**	–
Other shares	**9**	4
Total	**47**	20

Note 10 – Unusual Items

SAS Consortium	1993	1992
Write-down of shares in subsidiaries	**–51**	–165
Write-down of receivables in subsidiaries	**–156**	–11
Reversal of write-down of receivables in subsidiaries	**5**	–
Capital infusion from ABA relating to Swedair AB	**–**	45
Shareholders' contribution to subsidiaries	**–16**	–
Repayment of shareholders' contribution from subsidiaries	**15**	–
Total	**–203**	–131

Note 11 – Subsidiaries' Taxes

SAS Group	1993	1992
Taxes payable by subsidiaries	**–137**	–118
Minority share of reversal of deferred tax	**–52**	–27
Reversal of deferred tax attributable to untaxed reserves	**90**	34
Total	**–99**	–111

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 are split between deferred taxes and equity.

Note 12 – Liquid Funds

	SAS Group		SAS Consortium	
	1993	1992	**1993**	1992
Cash and bank accounts	**1,100**	845	**606**	263
Short-term investments	**10,157**	8,984	**7,821**	8,639
Total	**11,257**	9,829	**8,427**	8,902
Less early redemption of loans	**–1,939**	–	**–**	–
Liquid funds	**9,318**	9,829	**8,427**	8,902

The balance of the liquid funds of the SAS Consortium includes 58 (65) in a restricted tax deduction account in Norway.

On December 31, 1993, short-term investments consisted primarily of special borrowing from banks and investment in government securities and bonds. Short-term investments are reported at the lower of cost or market value.

Uncompleted interest arbitrage transactions are reported net and amounted to 295 (186) on December 31, 1993. No assets have been pledged.

In December 1993, the SAS Group irrevocably paid an amount corresponding to full redemption of loans (see also Note 24).

Note 13 – Other Receivables

Receivables are included in the SAS Group relating to the sale of flight equipment and shares, etc., amounting to 3,267 (–). The amount in the SAS Consortium amounts to 2,776 (–).

Note 14 – Expendable Spare Parts and Inventories

	SAS Group		SAS Consortium	
	1993	1992	**1993**	1992
Expendable spare parts, flight equipment	**246**	302	**237**	265
Expendable spare parts, other	**45**	40	**45**	37
Inventories	**291**	342	**46**	52
Total	**582**	684	**328**	354

Note 15 – Restricted Accounts

SAS Group	1993	1992
Special investment reserve	**33**	47
Total	**33**	47

Note 16 – Shares and Participations

	Number of shares	Percent holding		Par value in 000s	Book value MSEK
SAS Consortium					
Subsidiaries					
SAS International Hotels AS, Oslo	22,087,797	100	NOK	2,208,780	775.0
Linjeflyg AB, Stockholm	1,020,000	51	SEK	102,000	153.7
SAS Leisure AB, Stockholm	3,000,000	100	SEK	300,000	300.0
SAS Service Partner A/S, Copenhagen	240,000	100	DKK	240,000	212.3
SAS Flight Academy Holding AB, Stockholm	20,000	100	SEK	2,000	100.0
Diners Club Nordic AS, Oslo	25,000	100	NOK	28,000	70.0
Scandinavian Airlines Data Holding A/S, Copenhagen	25,100	100	DKK	25,000	44.6
Scandinavian Multi Access Systems AB, Stockholm	190,000	95	SEK	19,000	19.5
SAS Media Partner AB, Stockholm	5,000	100	SEK	500	12.3
SAS Ejendom A/S, Copenhagen	20,000	100	DKK	20,000	11.0
SAS Capital B.V., Rotterdam	501	100	NLG	2,500	7.7
Danair A/S, Copenhagen	1,710	57	DKK	1,710	1.2
SAS Trading Holding A/S, Copenhagen	300	100	DKK	300	0.9
SAS Cargo Center A/S, Copenhagen	500	100	DKK	500	0.4
SAS Oil Denmark A/S, Copenhagen	500	100	DKK	500	0.5
Others					0.7
Total shares and participations in subsidiaries					**1,709.8**

The wholly owned subsidiaries Scandinavian Airlines System of North America Inc., and SAS France S.A., with a combined book value of 1.4, are directly included in the accounts of the SAS Consortium.

	Number of shares	Percent holding		Par value in 000s	Book value MSEK
Affiliated companies					
Airlines of Britain Holdings PLC (ABH), Derby	20,936,232	34.9	GBP	5,234	242.8
Polygon Insurance Company Ltd., Guernsey	7,704,997	30.8	GBP	7,705	32.7
Grønlandsfly A/S, Nuuk	286	37.5	DKK	9,000	22.6
Scandinavian Info Link AB, Stockholm	13,336	34	SEK	1,334	2.3
Copenhagen Excursions A/S, Copenhagen	106	25	DKK	300	1.1
Aviation Holdings PLC	29,411,600	26.78	USD	2,941	0.0
Others					0.4
Total affiliated companies					301.9
Other companies					
Dar-es-Salaam Airport Handling Co Ltd, Dar-es-Salaam	27,000	15	TZS	2,700	1.4
Amadeus Marketing S.A., Madrid	17,800	7.9	PTS	178,000	1.0
Airline Tariff Publishing Company, Washington D.C.	17,737	4.2	USD	18	0.4
Others					7.9
Total other companies					10.7
Total other shares and participations					**312.6**
SAS Group					
Shares and participations					
Copenhagen International Hotels K/S, Copenhagen	–	11.3	DKK	134,300	97.2
Others					19.4
SAS Consortium's holdings in other companies					10.7
Total shares and participations					**127.3**

Note 16, continued

	Number of shares	Percent holding		Par value in 000s	Book value in SAS Group
Affiliated companies owned by other Group companies					
Spanair S.A.	784,000	49	ESP	784,000	52.1
Tenerife Sol S.A.	23,000	50	ESP	230,000	19.9
SAS Casinos Denmark A/S/Casino Copenhagen K/S	500	50	DKK	1,000	10.4
Club de Vacaciones S.A.	1,700	16.7	ESP	42,500	0
Plusresor AB	165	33	SEK	165	2.6
Toivelomat O.Y.	500	50	FIM	5,000	0
SAS Grand Hotel Beijing J.V. Co Ltd.	–	50	USD	4,500	0
Premiair A/S	25,000	50	DKK	25,000	30.9
International Service Partner Inc.	1	50	USD	1	10.7
Asiana Catering Inc.	48	51	KRW	1,275	10.2

Affiliated companies owned by other Group companies are not included in the SAS Group's book value of shares and participations. These are reported together with the SAS Consortium's affiliated companies as equity in affiliated companies, see Note 17.

Note 17 – Equity in Affiliated Companies

SAS Group	1993	1992
Airlines of Britain Holdings PLC (ABH)	**325**	306
Polygon Insurance Company Ltd.	**63**	80
Grønlandsfly A/S	**61**	56
Spanair S.A.	**52**	37
Premiair A/S	**31**	–
Tenerife Sol S.A.	**20**	18
International Service Partner Inc.	**11**	8
Asiana Catering Inc.	**10**	11
SAS Casinos Denmark A/S/ Casino Copenhagen K/S	**10**	4
Københavns Lufthavns Forretningscenter K/S	**5**	5
Plusresor AB	**3**	3
LanChile S.A.	**–**	247
Club de Vacaciones S.A.	**0**	4
Aviation Holdings PLC	**0**	0
Others	**6**	4
Shareholding reserve	**– 80**	–145
Total	**517**	638

Equity in affiliated companies includes acquired surplus in ABH, amounting to 156 (150).

Sale of the shareholding in LanChile S.A. was completed in February 1994. The amount of the sale is reported under other receivables.

Note 18 – Long-term Accounts Receivable, Subsidiaries and Affiliated Companies

SAS Consortium	1993	1992
Linjeflyg HB	**1,280**	–
SAS Commuter Consortium	**460**	560
SAS Leisure AB	**389**	213
SAS Flight Academy AB	**275**	350
SAS International Hotels AS	**226**	662
Diners Club Nordic AS	**150**	–
Scandinavian Airlines Data Denmark A/S	**87**	88
SAS Oil Denmark A/S	**28**	14
Scandinavian Multi Access Systems AB	**15**	30
Scandinavian Airlines Data Sweden AB	**10**	10
SAS Mailorder (Brands A/S)	**6**	12
Linjeflyg AB	**–**	250
SAS Capital B.V.	**–**	75
Others	**9**	12
Total	**2 935**	2 276

Note 19 – Goodwill and Other Intangible Assets

	SAS Group		SAS Consortium	
	1993	1992	**1993**	1992
Consolidated goodwill	**204**	205		
Development costs	**29**	35		
Other intangible assets	**60**	169	**51**	153
Total	**293**	409	**51**	153

Other intangible assets include the net book values of the nonrecurring payment made for SAS's access to and user-rights for the terminal at Newark Airport outside New York amounting to 51 (60). In 1992 the cooperation agreement with Continental Airlines amounting to 93 was also included, but is written down to 0 in 1993.

Note 20 – Long-term Advance Payments to Suppliers

SAS Consortium	1993	1992
Boeing (B-767)	**29**	29
McDonnell Douglas (MD-90/80)	**292**	293
Other (engines)	**6**	1
Total	**327**	323

In addition, the SAS Group includes long-term advance payments to subsidiaries of 68 (43).

Note 21 – Fixed Assets	Acquisition value		Accumulated depreciation		Book value	
SAS Group	**1993**	1992	**1993**	1992	**1993**	1992
New investments	**242**	169	**–**	–	**242**	169
Aircraft[1]	**18,010**	20,505	**3,294**	2,981	**14,716**	17,524
Spare engines and spare parts	**1,219**	1,676	**353**	526	**866**	1,150
Maintenance and aircraft servicing equipment	**492**	467	**412**	372	**80**	95
Other equipment and vehicles	**5,067**	5,659	**3,394**	3,502	**1,673**	2,157
Buildings and improvements	**5,873**	6,366	**1,335**	1,304	**4,538**	5,062
Land and land improvements	**305**	288	**5**	4	**300**	284
Total	**31,208**	35,130	**8,793**	8,689	**22,415**	26,441
SAS Consortium						
New investments	**115**	45	**–**	–	**115**	45
Aircraft	**14,514**	17,062	**2,548**	2,301	**11,966**	14,761
Spare engines and spare parts	**1,025**	857	**311**	207	**714**	650
Maintenance and aircraft servicing equipment	**492**	467	**412**	372	**80**	95
Other equipment and vehicles	**1,125**	1,100	**856**	787	**269**	313
Buildings and improvements	**1,889**	1,907	**396**	350	**1,493**	1,557
Land and land improvements	**83**	83	**5**	4	**78**	79
Total	**19,243**	21,521	**4,528**	4,021	**14,715**	17,500

[1] Includes aircraft covered by issued call options amounting to 304 (390).

The insured value of aircraft in the SAS Group as per December 31, 1993 was 29,896, including the insured value of leased-in aircraft in the amount of 2,298.

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

Acquisition value:	
December 31, 1992	17,062
Investments	354
Sales 1993	–2,902
	14,514
Accumulated depreciation:	
December 31, 1992	2,301
Depreciation 1993	506
Reversal of depreciation upon sale of aircraft	–259
	2,548
Book value:	
December 31, 1993	11,966

Of previous years' aircraft acquisitions, 30 Douglas MD-80s and five Boeing-767s were acquired formally through 10–17-year leasing contracts.

On behalf of the SAS Consortium, a number of banks have agreed to pay all accruing leasing fees and an agreed residual value for 15 of the Douglas MD-80s at the expiry of each leasing period. The SAS Consortium has irrevocably reimbursed the bank for these payments. The combined nominal value of the banks' payment commitment on behalf of the SAS Consortium was 2,375 (2,177) on December 31, 1993.

With regard to other leased aircraft, the terms of the leasing contracts (especially pertaining to SAS's call options during the contract period and at the expiry of the leasing contract, as well as the financial risk regarding the value of the aircraft) are such that the agreement, from SAS's point of view, is comparable to a purchase. These 35 (35) aircraft are reported at 5,607 (5,784) in the Balance Sheet.

The SAS Consortium's aircraft fleet can be specified as follows:

	1993	1992
Owned	**6,359**	8,977
Formally leased (paid)	**1,752**	1,814
Other leased	**3,855**	3,970
Book value	**11,966**	14,761

In connection with a sale and leaseback transaction, six Boeing 767-300s are leased in on an operational lease. The acquisition value of these aircraft amounted to 2,338.

Note 22 – Unearned Transportation Revenue, Net

Unearned transportation revenue consists of sold, but unutilized tickets, see page 46, Traffic Revenue. The reserve for unearned transportation revenue on December 31, 1993 amounted to 335 (315) in the SAS Group and 335 (290) in the SAS Consortium.

Note 23 – Bond Issues

The SAS Consortium's bond issues totaled 9,246 (10,377).
Specification of individual issues:

Issued amount		Interest rate %	Tenor	Outstanding debt in MSEK
150 M	Swedish kronor	11.500	79/94	10
150 M	U.S. dollars	10.125	85/95	1,052
400 M	Luxembourg francs	7.375	87/94	93
50 M	U.S. dollars	10.650	88/08	417
700 M	French francs	9.250	89/99	826
200 M	U.S. dollars	10.000	89/99	1,168
200 M	U.S. dollars	9.125	89/99	1,331
100 M	Swiss francs	5.000	89/94	568
100 M	Swiss francs	6.125	89/99	568
100 M	Swiss francs	7.000	90/00	440
500 M	Danish kroner	9.000	90/00	328
500 M	Norwegian kronor	10.750	90/95	162
200 M	Swedish kronor	14.000	90/00	181
5,000 M	Japanese yen	7.000	90/98	267
10,000 M	Japanese yen	6.921	90/97	543
10,000 M	Japanese yen	6.100	91/01	547
10,000 M	Japanese yen (FRN)	variable	91/96	745
				9,246
Less repayments in 1994				–671
Total				**8,575**
In the SAS Group:				
15 M	Danish kroner	11.000	87/98	19
Total				**8,594**

Note 23, continued

The majority of the above issues have been switched to other currencies through currency and interest rate swap agreements and forward exchange contracts. The currency exposure of the debt has thus been changed so that the debt primarily comprises exposure in European currencies.

SAS's own bonds totaling 2,150 (1,309) were repurchased and are netted under this balance sheet item.

Note 24 – Other Loans

The SAS Group's other loans prior to early redemption amount to 12,945 (11,686), of which the SAS Consortium accounts for 8,656 (9,352). The loans are denominated in the following currencies:

		SAS Group		SAS Consortium	
		1993	1992	**1993**	1992
NOK	Norwegian kronor	**521**	483	**0**	0
DKK	Danish kroner	**169**	16	**1**	2
SEK	Swedish kronor	**591**	139	**7**	7
JPY	Japanese yen	**2,545**	2,287	**2,488**	2,244
DEM	German marks	**238**	410	**107**	88
BEF	Belgian francs	**266**	222	**0**	0
NLG	Dutch guilders	**315**	292	**65**	58
GBP	British pounds	**2,571**	2,185	**632**	2,185
USD	U.S. Dollars	**4,017**	3,880	**4,038**	3,383
XEU	European Currency Unit	**1,548**	1,560	**1,318**	1,322
CHF	Swiss francs	**0**	63	**0**	63
	Others	**164**	149	**0**	0
Total prior to early redemption		**12,945**	11,686	**8,656**	9,352
Less early redemption		**–1,939**	–	**–**	–
Less repayments in 1994 and 1993, respectively		**–877**	–377	**–639**	–227
Other loans according to the Balance Sheet		**10,129**	11,309	**8,017**	9,125

The above loans have mostly been exchanged for other currencies through currency swap agreements and forward exchange contracts.

Early redemption of other loans totaled 1,939. The contracted notification period displaces the date of redemption to February 1994 (see also Note 12).

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

1994	639
1995	437
1996	763
1997 and thereafter	6,817
Total	**8,656**

Note 25 – Other Long-term Debt

SAS Group	**1993**	1992
PRI	**76**	66
Other pension commitments	**454**	351
Deferred taxes	**231**	338
Other liabilities	**1,962**	1,421
Total	**2,723**	2,176

SAS Consortium	**1993**	1992
Other pension commitments	**430**	300
Other liabilities	**1,398**	788
Total	**1,828**	1,088

The majority of SAS's employees in Denmark, Norway and Sweden have retirement pension coverage through payment of pension insurance premiums. For certain employees in Norway and Sweden, retirement pensions are not covered through pension insurance, but through allocations above SAS's income statement and with the commitment reported as a liability.

In 1993, estimations of SAS total pension commitment and SAS-related pension funds are reported in accordance with International Accounting Standards (IAS) 19 and Financial Accounting Standards (FAS) 87. These are based on the following long-term economic conditions: discount rate 7%, long-term return 8%, and future pension adjustment and inflation 3%. (Premium payments to insurance companies do not include an amount to secure anticipated future increases in the pension base).

Due to the above-mentioned circumstances some pension plans show a deficit and some a surplus in 1993. Overall, SAS's pension commitments are considered to be covered.

In 1993 agreements were concluded in Norway regarding improvements in the pension plan, with a discounted current value amounting to approximately 200. This cost is accrued over the average remaining earning period.

Under an agreement with pilots in Denmark, Norway and Sweden, and cabin crew in Sweden and Norway, voluntary early retirement with pension is allowed from the age of 55 at the earliest. Such pensions are paid directly by the company. SAS pays pension premiums to pension funds for the period from 55 to 60 years for those employees who have taken early retirement with pension.

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

Note 26 – Subordinated Debenture Loan

A perpetual 200 million Swiss franc subordinated loan was issued during the 1985/86 fiscal year. There is no set maturity date on the loan. The SAS Consortium 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% p.a.

Note 27 – Equity

SAS Group	Paid-in capital	Restricted reserves	Unrestricted reserves	Year's income	Equity
December 31, 1992	8,771	700	358	–871	8,958
Income 1992	–644	6	–233	871	
Allocation to restricted reserves		93	–93		
Change in translation difference		–20	284[1]		264
Transfer between restricted and unrestricted reserves		–71	71		
Income 1993				–591	–591
December 31, 1993	**8,127**	**708**	**387**	**–591**	**8,631**

SAS Consortium	Paid-in capital	Restricted reserves	Unrestricted reserves	Year's income	Equity
December 31, 1992	8,454			–765	7,689
Income 1992	–765			765	
Income 1993				–626	–626
December 31, 1993	**7,689**			**–626**	**7,063**

[1] Net after reversal of 75 pertaining to LanChile S.A.

The following specifications show the difference between Equity and Income in the SAS Consortium and the SAS Group, resulting from different accounting principles for subsidiaries and affiliated companies.

Equity	
Equity in the SAS Consortium	**7,063**
Difference between equity/Consortium's book value of shares in subsidiaries	1,081
Difference between equity share/acquisition value of affiliated companies owned directly by the Consortium	70
Equity in the SAS Commuter and Scanair Consortia	417
Total equity in the SAS Group	**8,631**

Income	
Income before taxes in the SAS Consortium	**–626**
Reversal of write-down of shares in subsidiaries, dividends from subsidiaries, net	–311
Income in subsidiaries before taxes, net	508
Share of income in affiliated companies owned directly by the Consortium	–47
Income in the SAS Commuter and Scanair Consortia, net	–16
Income before taxes in the SAS Group	**–492**
Taxes in subsidiaries	–99
Income before taxes attributable to the SAS Consortium	**–591**

Note 28 – Assets Pledged, etc.

	SAS Group		SAS Consortium	
	1993	1992	**1993**	1992
Mortgages in real estate	**1,480**	1,252	**–**	–
Corporate mortgages	**25**	24	**–**	–
Aircraft mortgages[1]	**132**	580	**–**	–
Receivables	**118**	119	**53**	27
Securities on deposit	**62**	14	**–**	–
Total	**1,817**	1,989	**53**	27

[1] Re. aircraft, see also Note 21.

Note 29 – Contingent Liabilities

	SAS Group		SAS Consortium	
	1993	1992	**1993**	1992
Travel guaranties	**–**	–	**–**	441
Other contingent liabilities for subsidiaries	**–**	–	**2**	2
Total contingent liabilities for subsidiaries	**–**	–	**2**	443
Contingent liabilities, other	**2,507**	1,276	**1,996**	779
Pension commitments, other	**134**	122	**134**	69
Total	**2,641**	1,398	**2,130**	1,291

In addition to the contingent liabilities in the above table, certain commitments which could reach 0 (9) have been made formally through leasing agreements in connection to the acquisition of aircraft. (See Note 21.)

SAS is also responsible for the correct completion of payment for formally leased aircraft according to Note 21.

Contingent liabilities include 198 (16 MGBP) as a guarantee for a credit facility on behalf of Airlines of Britain Holdings.

Contingent liabilities include a gross amount of 973 (461) attributable to swap transactions in foreign currencies for loans for which the currency swapped to has a lower value than the original loan. 252 is also included attributable to the difference between the accrued debt and income interest for swap transactions.

SAS has undertaken to pay a pension up until normal retirement age, 60, to pilots who have lost their licenses. The probable current value of these commitments, including payroll tax, amounts to 134 (122). Since these commitments can be regarded as a possible liability, no cost has been charged to 1993 income.

SAS intends to compensate SAS Commuter for the costs which arise in connection with the discontinuation of operations in Swedair AB.

SAS International Hotels AS has, for SAS Palais Hotel in Vienna, issued a guarantee for the performance of the leasing contract as well as for extension and repairs upon expiry of the contract. A bank has provided a counter-guarantee which covers these commitments.

Contingent liabilities include 258 corresponding to 31 MUSD for Premiair A/S' meeting its payment commitments to Finans Scandic relating to leasing contracts for spare parts and spare engines.

In the beginning of 1994, SAS also issued guarantees for a leasing contract for two aircraft leased by Premiair AB. Premiair A/S has in turn issued a counter-guarantee to cover SAS's guarantee commitments.

Note 30 – Leasing Commitments

The business units in the SAS Group have the following leasing commitments. The amounts specified are the total leasing costs for 1994.

Aircraft	747
Hotel properties	294
Other properties	522
Machinery and equipment	11
Total	**1,574**

Leasing contracts run for between two and 30 years and individual objects with an annual leasing cost in excess of 0.5 have been included.

In conjunction with the sale and leaseback transaction for Boeing 767-300s, six aircraft will be leased back on an operational basis in accordance with a leasing contract which runs for 52–64 months, with the right to extend the contract for 1–2 years. The leasing cost for 1994 is calculated at 405. For 1995–1997, the annual cost amounts to 417. The leasing cost for 1998 is 367, and for 1999, 82.

SAS International Hotels signed a leasing contract for the SAS Royal Hotel in Aarhus, Denmark for the period 1995–2015.

Linjeflyg HB leases in five Fokker F-28s on an operational lease. The combined leasing cost amounts to 36 in 1994, but will increase in the last two years 1995–1996 under the contract to 63 and 66, respectively.

In March 1988, SAS and Linjeflyg AB (“SAS”) on the one part and the Swedish Board of Civil Aviation (Luftfartsverket) on the other part, signed an agreement in which SAS would provide full capacity cost compensation (since SAS at that time had a monopoly on domestic traffic) to Luftfartsverket in connection with the construction of Terminal 2 at Arlanda. The prerequisites for the said agreement changed with the deregulation of domestic air transport on June 30, 1992. An agreement in principle between SAS and Luftfartsverket was reached on November 25, 1992 under which SAS will pay a fixed charge to Luftfartsverket during the period 1993–2000, in addition to a variable charge per passenger. The total leasing commitment for the period 1994–2000 amounts to 507. SAS claims that all Swedish domestic airlines should bear their share of Luftfartsverket’s capacity costs for Terminal 2 in a competitively neutral manner, i.e. that all airlines should pay the same cost per passenger, and has therefore demanded renegotiation of the agreement in principle. The total amount under dispute is 100 calculated on SAS’s current share of the number of passengers. No provisions were made for this in the 1993 financial statements.

Note 31 – Financial Instruments

As per December 31, 1993 the SAS Group had currency swap contracts for a nominal value of 5,800. Valuation at market exchange rates provides a net exchange gain of 750. SAS has outstanding currency options for a nominal value of 1,120, and with an exchange gain of 9. Outstanding forward exchange contracts amount to a gross nominal value of 23,800. Market valuations provide a net negative value of 25. All exchange gains/losses for the above valuations are taken into account in income.

Outstanding forward exchange contracts raised to hedge future commercial payment obligations amount to a nominal value of 2,100. The effect on income is reported on the due date of the contract concerned. A valuation at market exchange rates as per December 31, 1993 shows a net positive value of 10, which is not included in income.

The financial currency exposure includes exposure from all liquid fund investments, short-term and long-term borrowing and the above-named financial instruments, but does not include forward exchange contracts for future commercial payments. Currency exposure is subject to constant changes.

As per December 31, 1993 the SAS Consortium’s approximate financial currency exposure (net) against the Swedish krona was as follows:

	Value in MSEK
Norwegian kronor	–2,400
Danish kroner	–100
German marks	–1,800
French francs	–800
Belgian francs	–900
European Currency Units	–100
Swiss francs	–1,100
British pounds	–500
Dutch guilders	–100
Other European currencies	0
U.S. dollars	–400
Japanese yen	0
Total currency exposure (net liability)	–8,200

Auditors’ Report

for Scandinavian Airlines System (SAS)

Denmark – Norway – Sweden

We have audited the Financial Statements of the SAS Group and the SAS Consortium for 1993. Our audit was performed according to generally accepted auditing standards.

The Financial Statements of the SAS Group and the SAS Consortium are based upon the accounting principles described in the section of the Annual Report entitled “Accounting and Valuation Principles.”

In our opinion the Financial Statements present a true picture of the financial position of the SAS Group and the SAS Consortium on December 31, 1993, and the results of operations for the fiscal year then ended, in accordance with the principles described above.

Stockholm, April 8, 1994

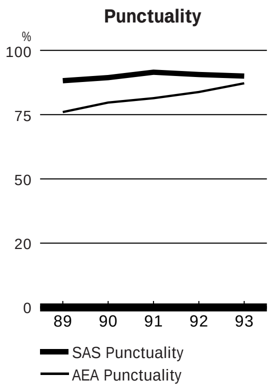
Arne Brendstrup	**Bernhard Lyngstad**	**Roland Nilsson**
Ole Koefoed	**Olav Revheim**	**Jan Åke Magnuson**

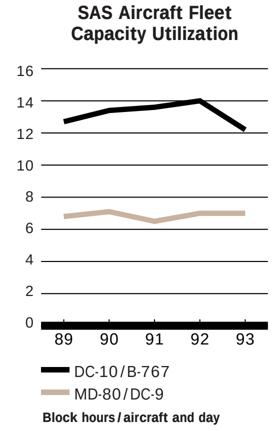
Authorized Public Accountants

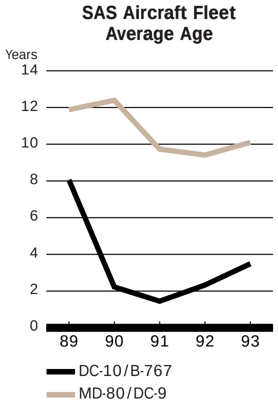
Five-Year Operational Summary

TRAFFIC / PRODUCTION		**1993**	1992[1]	1991	1990	1989
Number of cities served		**104**	98	82	85	81
Kilometers flown, scheduled	(millions)	**225.6**	202.9	190.7	188.4	169.4
Total airborne hours	(000)	**367.9**	326.0	286.6	298.3	268.3
Number of passengers carried	(000)	**18,619**	16,808	13,949	14,962	14,005
Available tonne kilometers, total	(millions)	**3,633.4**	3,389.8	3,074.4	3,278.4	3,060.4
Available tonne kilometers, charter		**66.8**	44.8	7.5	12.0	10.2
Available tonne kilometers, scheduled		**3,566.6**	3,345.0	3,066.9	3,266.4	3,050.2
Revenue tonne km, scheduled	(millions)	**2,106.9**	1,929.9	1,847.2	2,002.9	1,876.5
Passengers and excess baggage		**1,637.3**	1,488.0	1,394.5	1,514.5	1,396.0
Freight		**420.4**	391.7	406.4	429.8	423.1
Mail		**49.2**	50.2	46.3	58.6	57.4
Total load factor, scheduled	(%)	**59.1**	57.7	60.2	61.3	61.5
Available seat km, scheduled	(millions)	**28,581**	26,396	24,317	25,475	23,320
Revenue passenger km, scheduled	(millions)	**18,138**	16,554	15,416	16,493	15,229
Cabin factor, scheduled	(%)	**63.5**	62.7	63.4	64.7	65.3
Punctuality	(% within 15 minutes)	**90.0**	90.6	91.5	89.4	88.2
Regularity		**98.7**	99.0	99.2	98.4	98.5
Average passenger trip length	(km)	**976**	990	1,108	1,102	1,087
Traffic revenue / Revenue tonne km	(SEK)	**11.33**	10.48	10.52	9.26	8.82
Airline oper. expense / Available tonne km	(SEK)	**7.00**	5.94	6.45	5.90	5.50
Revenue tonne km / Employee	(scheduled)	**108,388**	93,500	99,300	99,000	90,000
Revenue passenger km / Employee	(scheduled)	**933,053**	802,000	828,800	815,300	730,400
Fuel price	(cent / gallon)	**71**	76	82	90	66

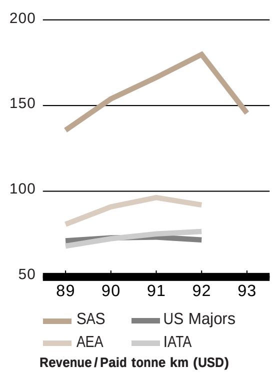
[1] The 1992 figures include 7 months of traffic and production figures from Linjeflyg.



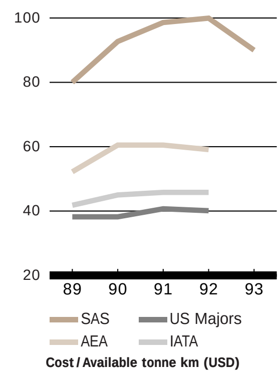




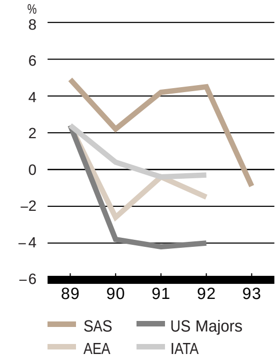
Yield



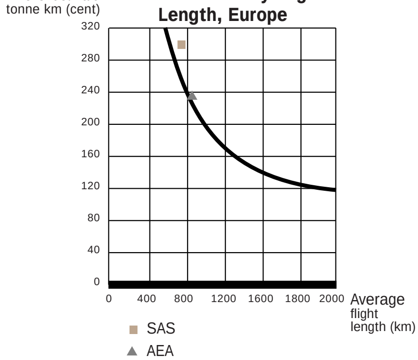
Unit Costs



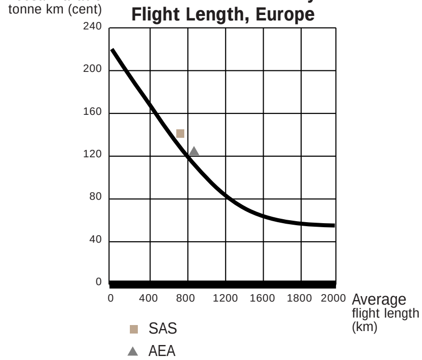
Operating Margin



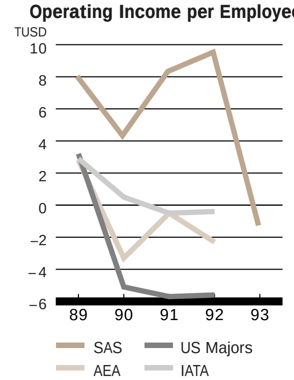
Yield Variation by Flight Length, Europe



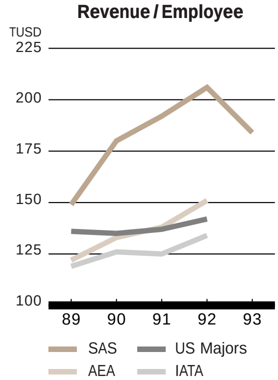
Unit Cost Variation by Flight Length, Europe



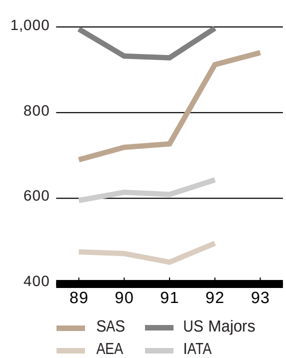
Operating Income per Employee



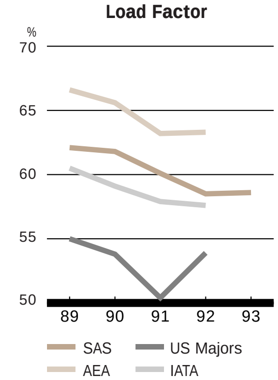
Revenue / Employee



Passengers / Employee



Load Factor



Five-Year Financial Summary

SAS GROUP, MSEK INCOME STATEMENTS	**1993**	1992	1991	1990	1989
Operating revenue	**39,122**	34,445	32,286	31,883	28,786
Operating income before depreciation, etc.	**2,032**	2,930	2,717	2,011	2,658
Depreciation, etc.	**1,782**	1,532	1,338	1,362	1,414
Share of income in affiliated companies	**–1**	–8	–871	–156	83
Financial items, net	**–1,313**	–2,244	–882	–258	–98
Minority shares in income after financial items	**16**	89	–17	–	–
Gain on the sale of flight equipment and shares, etc.	**556**	5	313	701	1,037
Unusual items	**–**	–	–	–898	–60
Income before extraordinary items	**–492**	–760	–78	38	2,206
Extraordinary items	**–**	–	–1,214	–801	–
Income before taxes	**–492**	–760	–1,292	–763	2,206
STATEMENTS OF CHANGES IN FINANCIAL POSITION					
Net financing from the year's operations	**1,377**	1,444	1,362	1,130	1,550
Investments	**–1,112**	–3,338	–5,197	–5,651	–9,922
Sale of fixed assets, etc.	**1,823**	552	1,591	1,791	1,877
Financing surplus/deficit	**2,088**	–1,342	–2,244	–2,730	–6,495
Capital infusion from parent companies	**–**	–	–	305	1,750
External financing, net	**–2,469**	1,584	227	6,921	3,804
Change in liquid funds	**–381**	242	–2,017	4,496	–941
Liquid funds in sold/acquired companies	**–130**	216	–	–	–
Change in liquid funds according to balance sheets	**–511**	458	–2,017	4,496	–941
BALANCE SHEETS					
Liquid funds	**9,318**	9,829	9,371	11,388	6,892
Current assets, other	**9,973**	6,849	6,289	6,362	7,590
Fixed assets[1]	**24,566**	28,790	24,854	24,265	21,245
Current liabilities	**12,485**	11,713	10,471	12,805	11,508
Long-term debt [2]	**22,741**	24,797	20,404	18,113	12,042
Equity	**8,631**	8,958	9,639	11,097	12,177
Total assets	**43,857**	45,468	40,514	42,015	35,727
KEY RATIOS					
Gross profit margin (GOP), %	**5**	9	8	6	10
Return on capital employed, %	**5**	8	7	6	10
Equity/assets ratio, %	**21**	21	25	27	36
OTHER FINANCIAL FIGURES AND RATIOS					
Income after depreciation	**249**	1,390	508	493	1,327
Financial income	**1,592**	1,181	1,542	1,310	916
Financial expense[3]	**–1,905**	–2,275	–2,424	–1,568	–1,014
Interest income	**1,550**	1,127	1,458	1,198	913
Interest expense	**–2,839**	–2,526	–2,087	–1,565	–1,082
Interest-bearing assets	**10,515**	11,240	10,109	12,543	8,951
Interest-bearing liabilities	**24,403**	26,830	21,645	21,790	15,618
Interest coverage ratio	**1.0**	1.1	1.2	1.2	2.1
Net interest income/average net debt	**8%**	11%	6%	5%	4%
Debt/equity ratio	**1.6**	1.7	1.2	0.8	0.5

SAS CONSORTIUM[4], MSEK

INCOME STATEMENTS	**1993**	1992	1991	1990	1989
Operating revenue	**28,509**	22,093	22,340	22,399	20,509
Operating income before depreciation, etc.	**726**	1,739	1,676	1,406	2,077
Depreciation, etc.	**967**	749	748	914	1,062
Financial items, net	**–225**	–1,644	–383	–479	156
Gain on the sale of flight equipment and shares, etc.	**43**	20	–1,666	918	289
Unusual items	**–203**	–131	269	–768	0
Income before extraordinary items	**–626**	–765	–852	163	1,460
Extraordinary items	**0**	0	24	–801	0
Income before taxes	**–626**	–765	–828	–638	1,460
STATEMENTS OF CHANGES IN FINANCIAL POSITION					
Net financing from year's operations	**979**	1,870	1,151	419	1,060
Investments	**–824**	–2,638	–4,238	–4 691	–5,724
Sale of fixed assets, etc.	**1,168**	605	1,970	3,026	900
Financing surplus/deficit	**1,323**	–163	–1,117	–1,246	–3,764
Capital infusion from parent companies	**–**	–	–	–	1,750
External financing, net	**–1,798**	369	–851	6,094	2,406
Change in liquid funds according to balance sheets	**–475**	206	–1,968	4,848	392
BALANCE SHEETS					
Liquid funds	**8,427**	8,902	8,696	10,664	5,816
Current assets, other	**7,436**	4,984	4,437	6,734	7,842
Fixed assets	**20,362**	22,855	21,305	17,434	15,764
Current liabilities	**9,606**	7,762	8,067	10,010	8,998
Long-term debt	**19,556**	21,290	17,917	15,687	10,150
Equity/Reserves	**7,063**	7,689	8,454	9,135	10,274
Total assets	**36,225**	36,741	34,438	34,832	29,422
KEY RATIOS					
Gross profit margin (GOP), %	**3**	8	8	6	11
Return on capital employed, %	**7**	9	10	7	11
Equity/assets ratio, %	**19**	21	24	26	35
PERSONNEL (average)					
Consortium	**19,931**	18,420	19,190	20,820	20,290
Group	**37,330**	40,140	38,940	40,830	39,060

[1] Including restricted account balances.
[2] Including minority interests.
[3] Excluding unrealized exchange losses.
[4] SAS Consortium includes SAS and SAS Trading, both excluding subsidiaries.

ASSEMBLY OF REPRESENTATIVES

Sweden

Members
Bo Rydin
Chairman
Georg Andersson
Erik Belfrage
Bo Berggren
Annika Christiansson
Rolf Clarkson
Ingemar Eliasson
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Tony Hagström
Tom Hedelius
Per-Egon Johansson
Stig Malm
Jan-Olov Selén
Sven Wallgren

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Gösta Gunnarsson
Gunilla Olofsson
Björn Svedberg
Tom Wachtmeister
Marcus Wallenberg

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First Vice Chairman
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Anders Eldrup
Lars P. Gammelgaard *(† 1994-02-11)*
Jørgen L. Halck
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Svend Jakobsen
Axel af Rosenborg
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Helge Kvamme
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Svein Vefall (deputy)

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with the National Tax Authority

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