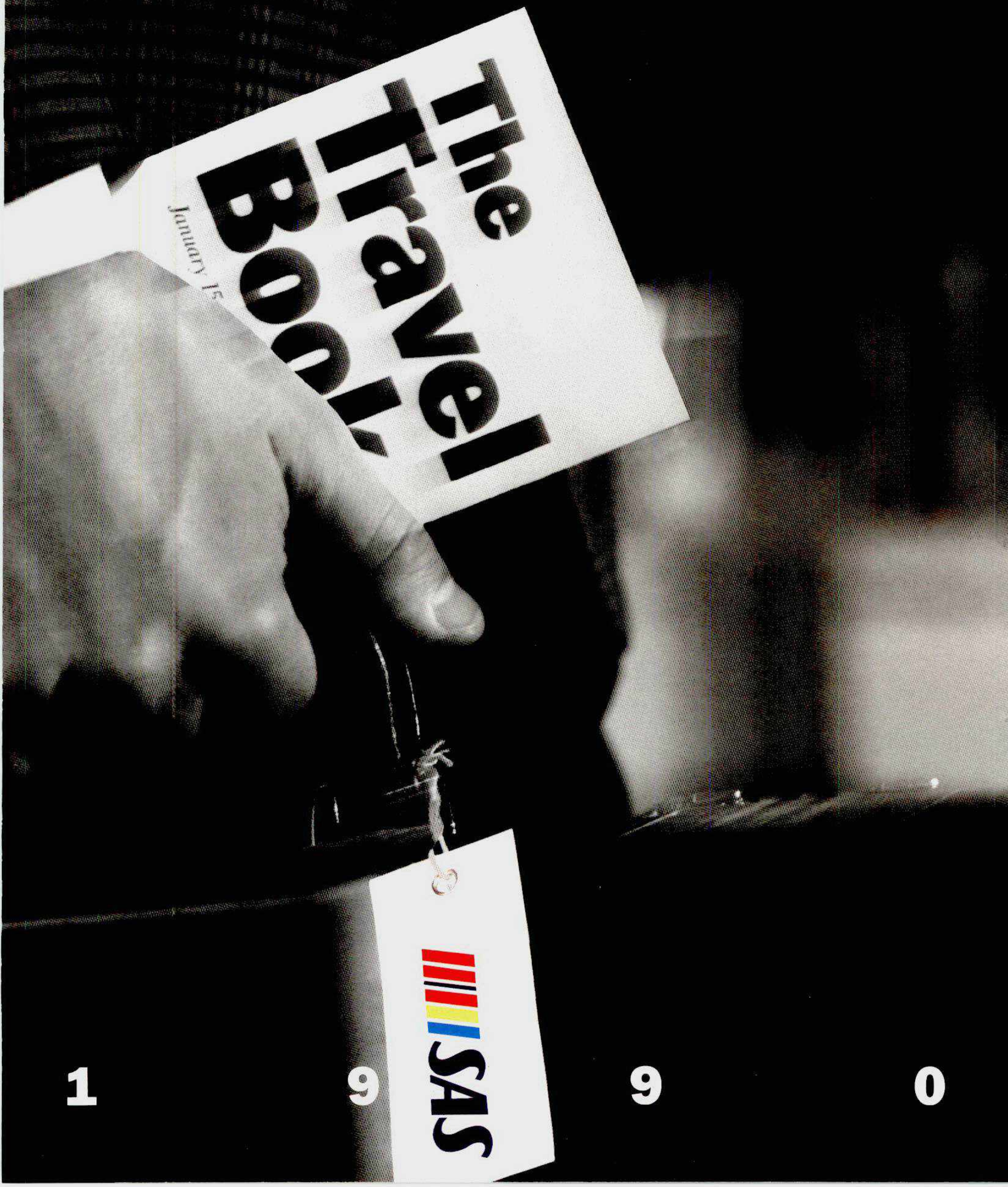
SCANDINAVIAN AIRLINES SYSTEM
ANNUAL REPORT



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SCANDINAVIAN AIRLINES SYSTEM
ANNUAL REPORT 1990

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THE CHIEF EXECUTIVE ON 1990

THE CHIEF EXECUTIVE ON 1990

1990 was the worst year for the airline industry since the Second World War. The first few months of 1991 were even worse. The current crisis is not confined to the air transport sector—it has spread to the entire travel industry. Meanwhile, the setback in the market has exposed the major cost problems at all the European airlines, and SAS is no exception.

Our weak earnings are rooted in external and internal factors. The effects from external factors, which are linked to developments in the market, will require a long recovery period. When the U.S. launched a single attack against Libya a few years ago, it took nine months for airline traffic to return to its previous level. My estimation is that it will take 12–18 months at best before we see the level of demand that existed prior to the outbreak of war in the Gulf. Regarding the internal influences, some are temporary, while others can become permanent unless we do something about them. This latter category includes SAS Airline's lack of efficiency and excessively high costs in relation to other carriers and changes in the market.

This is why we are now reviewing our organization and cost structure, to adapt SAS to the conditions in a new, freer market, where we have a very strong potential to maintain and expand our prominent position. We will be reducing SAS Airline's costs by SEK 3 billion over a two-year period, corresponding among other things to 3,500 jobs, primarily in administration and production. A number of other measures—big and small—are also being adopted. In my judgment, we will then have an efficient organization and unit costs which can stand up to the international competition. In SAS Airline we will give priority to activities which are close to the customer and which require low levels of working capital. We will eliminate costly activities which do not contribute to our competitiveness and which fail to provide sufficiently large revenues, directly or indirectly.

Financially Sound

The dramatic deterioration of the market in 1990 is the result of disruptions caused by the conflict in the Middle East and the subsequent dramatic fluctuations in the price of aircraft fuel, weak economic growth in many regions, and intensified competition. This led to major short-term losses for the established airlines at the same time as substantial—and in many cases unresolved—structural problems were brought to light. SAS's situation was exacerbated by the fact that demand in two important markets, Sweden and the U.K., fell sharply due to the weak economies in both countries. Even in a third important market, over the North Atlantic, demand deteriorated while competition intensified. The entire air transport market is experiencing substantial profitability problems, and most of the well established European and American carriers have reported substantial losses, redundancies and comprehensive programs to reverse the trend.

At the same time, it is important to stress that the financial problems facing the airlines are of two distinct types. The first is poor operating income due to problems in the market and excessive costs. The second is purely a financial crisis caused by chronic weak profitability. The SAS Group belongs to the first category. Financially we are well consolidated with equity of 10,785 MSEK, liquid funds of 11,388 MSEK, and unutilized credit commitments totaling an additional 3,500 MSEK. Thus we have the financial stability and stamina required to implement the structural changes which are essential to ensure future profitable growth and further development of our core operations.

We Have Not Reached Our Efficiency Goal

In 1985, when we formulated new strategies for SAS Airline in a freer market, we assigned three priorities. The first was development of the traffic system. The second was the development of a distribution and reservations system which would ensure SAS's products free exposure on the market. The third was to improve efficiency by at least 5 percent per year over a five-year period.

We've succeeded with regard to the traffic system. With our own resources and cooperation in strategic alliances, we have doubled many times over the number of destinations with one-stop service from the Scandinavian capitals. In 1985 we had 45 such routes. In 1990 the number was 290. This is accomplished in a seamless system in which we and our partners assume joint responsibility for the customer for the entire trip. Moreover, we have increased the number of weekly nonstop flights from the three capitals from 360 in 1985 to 748 in 1990.

Regarding distribution and reservations systems, the situation is complicated. Our strategy was to prevent SAS from being discriminated against in the major systems which were under development. Developing our own system would have been too expensive. We opted instead to invest in Amadeus together with Lufthansa, Air France and Iberia. Now, the situation has changed since new regulations in Europe and the United States require that all systems be competitively neutral. Our decision was strategically correct at the time. Paradoxically, the very development of independent systems provoked the new regulations. Nevertheless, the investments in Amadeus and other systems have been substantial.

In the third area, efficiency, we have been successful in those aspects of our operations which are exposed to competition. However, the primary reason for our weak performance is that we have not reached the efficiency goals for the Airline's production and administration units. Since this coincides with a sharp market downturn, the remedial program is more drastic than it would have been if demand had been more favorable.

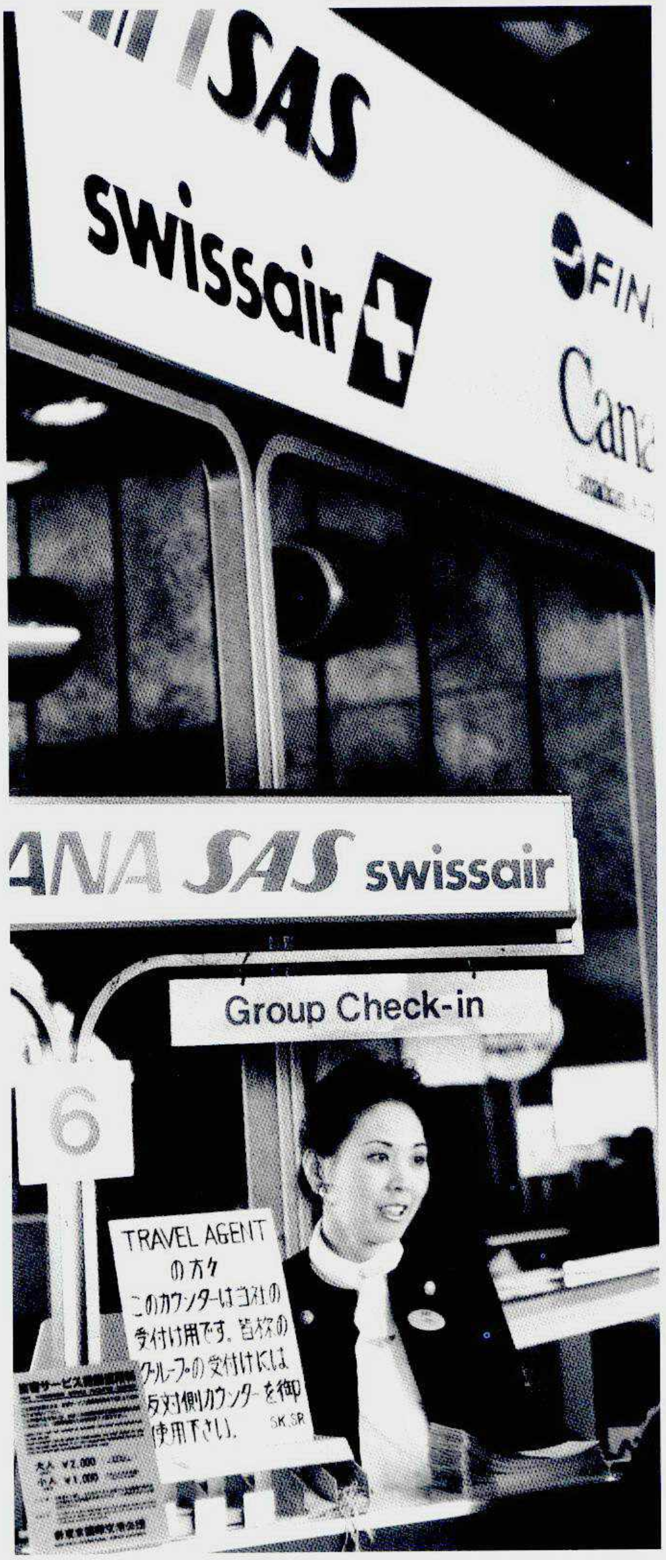
The Strategy Still Holds

The creation of strategic alliances, especially within the air transport and hotel sectors, has several positive aspects. In terms of the market, by coordinating our product development, marketing and sales, we can broaden the market base for our common products through a continuous customer orientation. A good example is our cooperation with Continental Airlines in the U.S., which accounted for a considerable boost in income. Another positive aspect, which will be especially important over the long term, is the better utilization of our common resources to expand the traffic system and reduce unit costs, and thereby be able to offer customized products at competitive prices. There is a great deal of untapped potential in this area, particularly with regard to the cooperation with Swissair, Austrian Airlines and Finnair within the framework of the European Quality Alliance. The difficult market situation gives us cause to speed up this process.

Between 1987 and 1990 we invested 4,471 MSEK in equity stakes in airlines and hotels. The largest expenditures were 660 MSEK for the 16.8-percent shareholding in Continental Airlines Holdings, and 3,148 MSEK for the 40-percent stake in Saison Holdings, which owns Inter-Continental Hotels. These acquisitions were made for strategic and financial reasons. Financially, these investments have interesting long-term potential, especially the hotels. The hotel properties SAS sold as partial payment for the Saison acquisition have been very profitable investments since SAS first entered that sector 30 years ago.

Since SAS's service concept is built around an integrated product which can be tailored to every traveler's individual needs and desires, it is crucial that SAS can influence product development, marketing, quality, costs, and more. Originally, we felt this could be facilitated if SAS clearly demonstrated its commitment to a long-term strategy by acquiring ownership stakes.

Since capital and financing have become a tighter sector, due to developments in the market and to our own major investment program in SAS Airline, we are now reviewing all our ownership involvements. We are also spreading out



deliveries of new aircraft over a longer period than originally planned.

Poor Year in 1991, Turnaround in 1992

As I said at the outset, 1990 was the worst year for the airline industry since the Second World War. In the aftermath of the Gulf war, 1991 will be a lost year for the entire travel industry. This is due in part to the unfavorable external circumstances facing SAS and all other airlines as well. No one could predict the magnitude of the repercussions from the Gulf war and their effect on the airlines and travel industry. Added to this is the fact that many airlines, in common with SAS, are rooted in 40 years of regulation and have not yet succeeded in adapting to the changes in their operating climate. We are firmly resolved to overcome the current situation and we have an aggressive strategy for the future. SAS Airline's entire organization is now being restructured to face freer competition. At the same time we are revaluating our capital commitment in a number of areas to be well prepared there, too. History shows that the business trend in the travel industry is cyclical, and that growth generally exceeds the average for most other established sectors. With investments of 5–10 billion SEK per year during a ten-year period, it is important to keep our long-term perspective in mind.

Jan Carlzon
President and Chief Executive Officer

THE SAS GROUP

To assure the continued successful development of the SAS Group in a freer competitive market, a comprehensive business concept has been formulated to improve SAS's effectiveness as an international travel service company.

With Europe as a base, the primary objective is to be the best alternative for the business traveler by effectively integrating air and ground transportation, hotels, airport services, hotel/airport check-ins and other related services.

SAS's business organization is based on management by objective and decentralized profit responsibility. Each business unit is responsible for ensuring its own growth, and each has a defined role in the Group's travel service.

The Group's legal structure is described in the section Ownership Structure on pp. 18–21.

SAS Airline is responsible, in cooperation with SAS's partners, for providing effective air services in a global traffic system tailored to the needs of business travelers with nonstop or one-stop service to as many destinations as possible.

SAS International Hotels—through its own hotels and the partly owned Inter-Continental Hotels—is responsible for the management and development of hotel operations at key destinations in the SAS traffic system.

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

SAS Trading develops and conducts businesses related to air transport, including wholesale trading, retail sales and media production.

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

SAS Financial Services—through SAS Finance—handles the Group's financial exposure. Diners Club Nordic is currently developing a payment system designed for the particular needs of the business traveler.

GROUP OVERVIEW

SAS GROUP – INCOME AND KEY RATIOS

MSEK	1990	1989
Operating revenue	31,883	28,786
Operating income before depreciation	2,011	2,658
Depreciation[1]	–1,362	–1,414
Operating income after depreciation	649	1,244
Net financial income/expense	–258	–98
Income after depreciation and net financial items	391	1,146
Share of income in affiliated companies	–156	83
Gain on the sale of		
– aircraft	452	286
– fixed assets, etc.	249	751
Unusual items	–898	–60
Income before extraordinary items	38	2,206
Extraordinary items	–801	–
Income before taxes	–763	2,206
Investments	5,651	9,922
Return on capital employed, %	6	10
Equity/assets ratio, %	27	36
Average number of employees	40,830	39,060

[1] Including 184 MSEK (277) in leasing costs.

Demand for the majority of SAS's products and services during the year was affected by a wavering market, a substantial surplus of air transport and hotel capacity, intensified competition and downward pressure on fares. All these factors contributed to lower profit margins for most operations. Cooperation with the Group's partners in the strategic alliances formed for the airline and hotel operations continued to focus on development of the traffic system and common products designed particularly for the business traveler.

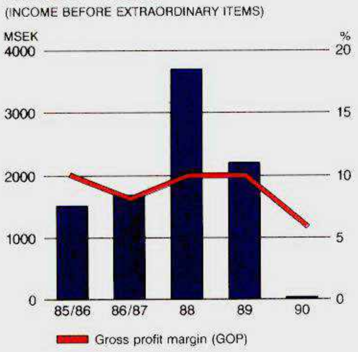
In light of developments at Continental Airlines Holdings, the stock has been taken up at a value corresponding to the market price on December 31, 1990. In the year's accounts, a total of 780 MSEK has been allocated to a general reserve for involvements in associated and affiliated companies. Application of rules concerning the competitive neutrality of distribution and booking systems has prompted SAS to reconsider its strategy in this area. Consequently, SAS is revaluating its involvement in Amadeus. As part of SAS Airline's restructuring, development of Terese, the Group's own booking system, is being canceled. A total of 636 MSEK has been charged against income for both projects and is reported as extraordinary expense.

SAS Airline decided to implement a compehensive efficiency-improvement program aimed at adapting operations to a freer competitive market.

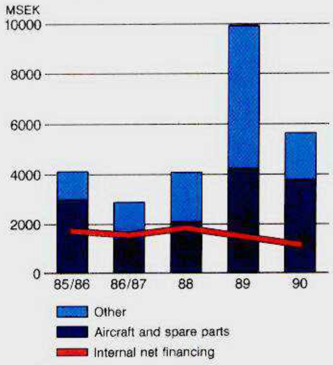
The SAS Group's operating revenue rose by 10 percent to 31,883 MSEK. Operating expenses rose by 14 percent, and operating income before depreciation decreased by 24 percent, to 2,011 MSEK. This decline is due to the unexpected drop in traffic revenue and higher costs, particularly for personnel and fuel, which together accounted for 44 percent of overall costs.

The major investment program in new flight equipment, combined with high interest rates, resulted in greater capital costs. Depreciation totaled 1,362 MSEK (1,414), and net financial items of –258 MSEK (–98) were recorded. The SAS Group's income after depreciation and financial items totaled 391 MSEK (1,146). Income before extraordinary items amounted to 38 MSEK (2,206) and included

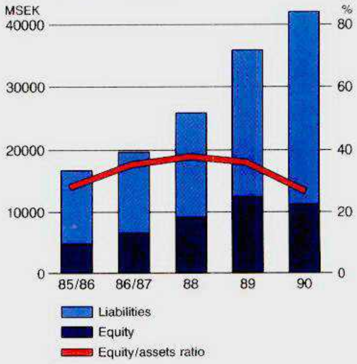
SAS GROUP
TREND OF INCOME
(INCOME BEFORE EXTRAORDINARY ITEMS)



SAS GROUP
INVESTMENTS



SAS GROUP
FINANCIAL POSITION



KEY RATIOS PER BUSINESS UNIT

	SAS Airline		SAS International Hotels		SAS Service Partner		SAS Trading		SAS Leisure		SAS Financial Services	
MSEK	**90**	89	**90**	89	**90**	89	**90**	89	**90**	89	**90**	89
Operating revenue	**21,626**	19,873	**1,489**	1,250	**4,739**	4,157	**1,669**	1,407	**4,166**	3,749	**318**	243
Income after depreciation and net financial items	**213**	1,026	**–91**	–105	**190**	211	**122**	114	**2**	–8	**144**	84
Income after extraordinary items	**–286**	1,271	**–231**	577	**190**	240	**122**	114	**7**	19	**150**	84
Gross profit margin, (GOP) %	**7**	12	**23**	25	**6**	7	**11**	10	**2**	2	**–**	–
Net profit margin, %	**–**	5	**–**	–	**4**	5	**8**	9	**–**	–	**–**	–
Return on capital employed, %	**6**	13	**2**	8	**29**	33	**–**	–	**8**	9	**–**	–
Investments	**4,396**	4,970	**281**	3,901	**255**	302	**66**	28	**247**	307	**15**	13
Average number of employees:												
– Men	**13,680**	12,970	**1,410**	1,170	**6,450**	6,450	**230**	200	**1,580**	1,620	**125**	110
– Women	**8,500**	8,150	**1,670**	1,570	**4,570**	4,290	**410**	340	**1,910**	1,910	**183**	170

gains of 701 MSEK (1,037) from the sale of flight equipment, hotel properties, and shareholdings in affiliated companies, etc. This includes share of income in affiliated companies totaling –156 MSEK (83) and unusual items including allocations to a shareholding reserve and for pension commitments, totaling –898 MSEK (–60). Extraordinary items of –801 (0) were reported, and income before taxes thus amounted to –763 MSEK (2,206).

SAS Airline noted a 9-percent increase in production and an 8-percent increase in traffic. The total number of passengers flown was 15.0 million (14.0), and the cabin factor was 64.7 percent (65.3). Operating revenue rose by 9 percent to 21,626 MSEK. Income after depreciation and financial items totaled 213 MSEK (1,026) and includes gains of 486 MSEK (245) from the sale of flight equipment, etc. The gross profit margin fell from 12 percent in 1989 to 7 percent.

SAS International Hotels reported revenues of 1,489 MSEK, an increase of 19 percent over a year ago. Income after depreciation and financial items amounted to –91 MSEK (–105) before the sale of hotel properties, which totaled 12 MSEK (686) for the year. The decline in operating income is due to lower business volume and a lower average occupancy rate. Net financial items improved by 72 MSEK, to –81 MSEK.

SAS Service Partner's revenues rose by 14 percent to 4,739 MSEK, and income after depreciation and financial items totaled 190 MSEK (211). The market was characterized by intensified competition due to developments in the airline market.

SAS Trading's revenues rose by 18 percent to 1,669 MSEK, and income after depreciation and financial items improved by 7 percent, to 122 MSEK.

The leisure travel market suffered from substantial overcapacity and weak growth. **SAS Leisure's** revenues rose by 11 percent to 4,166 MSEK, and income after depreciation and financial items amounted to 2 MSEK (–8).

SAS Financial Services reported income of 144 MSEK, compared with 84 MSEK in 1989.

The SAS Group's investments amounted to 5,651 MSEK (9,922) during the year. Investments in aircraft and other flight equipment totaled 3,755 MSEK (4,206). Net financing from operations, including changes in operating capital, amounted to 1,130 MSEK. This includes transfers of 595 MSEK to the parent companies. The return on capital employed is reported at 6 percent (10). Equity in the Group amounted to 11,097 MSEK (12,177) at year-end, and the equity/assets ratio was 27 percent (36).

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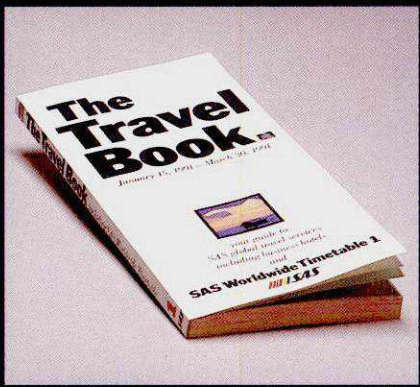

THE SAS TRAVEL SERVICE

The gradual deregulation of European air transport will create substantial challenges for the established airlines.

SAS recognized at an early stage that the freer competition which will emerge from the EC's internal market in 1993 will require major changes in the company's strategies and business practices.

In the mid-1980s the overall objective was set that SAS shall develop profitably in a free market.

Experience from deregulation in the United States since the late 1970s shows that the winners were a few major airlines, financially sound, highly efficient and with a market-oriented traffic system. The weaker carriers were reduced to providing feeder services or operating in limited geographic regions. Even though the process is expected to be less dramatic in Europe, the entire sector will undergo substantial structural changes. SAS is determined to be one of the few European airlines or consortia still operating as a major intercontinental carrier after 1995, when the first effects of deregulation have become evident.

These objectives will only be achieved if SAS can provide products that are equally as good and diversified as those offered by the major European, American and Asian airlines. Initially, this requires a highly developed, effective route network with nonstop or one-stop services and low unit costs based on a far greater degree of efficiency than that at present. Moreover, SAS's ambition is to acquire a competitive edge by offering an integrated travel service especially adapted to the demands and needs of the business traveler.

QUALITY PRODUCTS

SAS's strategy for the 1990s is based on the parallel development of two segments in the business travel market. In one, price will be the determining competitive factor. In the other, the content and quality of the product will be decisive. With the cost level and structure of SAS and Scandinavian business as a whole, price competition with volume products is not a viable approach to long-term profitability. Airlines operating out of the United States and the Far East have considerably lower costs and broader market bases, enabling them to fly with large aircraft and lower unit costs.

The principal element in the SAS Group's strategy is to offer a selection of quality services from which the business traveler can put together an individually designed travel package for each trip in an effective route network based on nonstop or one-stop service. By linking a variety of other products and services to the air transport itself, SAS aims to simplify travel so that the business traveler can devote more time and energy toward doing good business.

SAS's service portfolio covers all aspects of travel, starting with the initial booking, arranging ground transporta-

tion, providing services at the airports, on-board and at hotels, and ending with transportation home again after the trip. Although there are practical limitations to how far service and quality can be improved on any given flight, the potential for refining and improving the overall travel service, both in an effective traffic system and on the ground, is still considerable.

The customers which SAS attracts through these efforts will also be offered the SAS Group's services in the leisure travel segment, either through discount alternatives for scheduled flights and hotels, or through SAS Leisure's own product program. The unifying link is the SAS card which, in addition to serving as a credit card, is the key to the overall service concept.

Following deregulation in the United States, price became the principal competitive factor since the airlines all offered essentially identical products. This led to a decline in quality, low standards of service, and poor profitability for the airlines. The proliferation of discounts also attracted new customer groups to the market, resulting in a dramatic boost in passenger volume.

By creating a comprehensive travel service system together with its partners, the SAS Group offers the customer an integrated quality product. The more who choose this product, the greater scope there is to reduce prices for those who are only interested in specific point-to-point flights.


LanChile
British Midland
All Nippon Airways
USTRIAN AIRLINES
Canadian
Canadian Airlines International
CONTINENTAL
FINNAIR
swissair
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SENIOR SUPE

THE TRAFFIC SYSTEM

The Core Business

The most important component in the travel service is the traffic system.

SAS's home market consists of 18 million Scandinavians in Europe's northern periphery and is largely determined by the financial and competitive strength of Scandinavian business. At the same time, this geographic position is an advantage since the great distances to central Europe generate a need for air transportation.

SAS has two main strategies for expanding the traffic system. The first is to increase the number of nonstop flights within SAS's own network in pace with the market's growth and demands. The second is to combine this network with other systems by forging strategic alliances with other airlines.

In Europe the ambition is to develop Copenhagen, Oslo and Stockholm as hubs. The goal is to operate nonstop flights, mornings and evenings, between all three main Scandinavian hubs and other cities in Europe. If volume is not sufficient to operate nonstops from Oslo or Stockholm, the traffic is channeled through the three capitals to and from Europe. A system of feeder flights also links the three capitals with numerous secondary points in Scandinavia, and hourly services connect the three cities.

This strategy, based on effective nonstop service with small aircraft and frequent flights, has given SAS a very strong position in Europe today. It is a position on which the further expansion of intercontinental services can be based in a freer competition. The number of nonstop flights has increased dramatically during the 1980s. At the start of the decade, SAS served 20 European cities with nonstops from Copenhagen, two from Oslo and seven from Stockholm. In 1990, there were 34 cities served from Copenhagen, nine from Oslo and 19 from Stockholm.

On the intercontinental network, the strategy is to fly daily nonstops between Copenhagen and a number of important hubs on other continents. When Copenhagen nonstops have reached daily operation, the nonstops are

expanded between Oslo and Stockholm and the same intercontinental hubs.

SAS has established strategic alliances with quality airlines on other continents for the profitable development of the traffic system over and above what the modest home markets would permit.

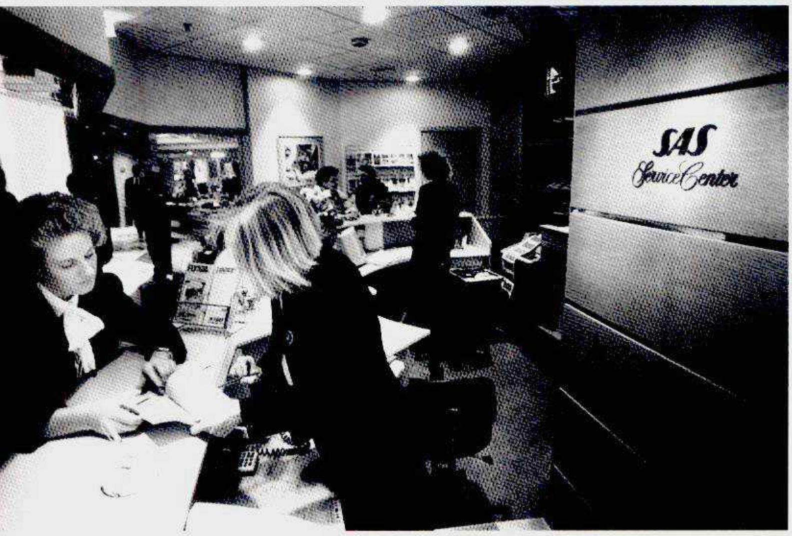
In Europe, SAS cooperates with Swissair, Finnair and Austrian Airlines within the framework of the European Quality Alliance. By operating frequent flights between the Scandinavian capitals and the partners' hubs, a joint traffic system is being created so that many more destinations than SAS itself serves can be reached from the Scandinavian capitals with only one stop.

SAS also cooperates in Europe with Airlines of Britain Holdings, which owns British Midland, Loganair and Manx Airlines. Together these carriers have a well developed network in the U.K., SAS's largest European market. British Midland has begun building up continental European services with frequent flights to Amsterdam, Brussels, Dublin and Paris.

The European cooperative ventures are beneficial not only for SAS's travelers, but for all of the partners' customers, who gain access to the entire range of services in the air and on the ground.

In North America SAS has two hubs, New York and Toronto. In New York SAS cooperates with Continental Airlines, and in Toronto with Canadian Airlines International. Via Newark Airport outside New York, SAS offers one-stop services with single check-in between the Scandinavian capitals and more than 50 cities in the U.S.

In Japan SAS cooperates with All Nippon Airways (ANA), Japan's largest, and one the world's biggest air-



lines. The alliance has produced daily service between Scandinavia and Tokyo. Most flights on this route will operate nonstop over over Siberia, reducing the flight time by five hours in each direction. ANA has a very extensive domestic network and is well established in the Pacific region.

Thai Airways International is SAS's partner in Bangkok. Together with Thai, SAS offers 15 weekly nonstop flights to and from Scandinavia. This hub extends SAS's reach to a substantial number of destinations in Southeast Asia, Australia and New Zealand. In South America SAS changed its hub during the year from Rio de Janeiro to São Paulo.

In 1990, SAS alone could offer nonstop or one-stop service to 72 destinations from Copenhagen, to 65 destinations from Oslo, and to 62 destinations from Stockholm. Together with its partners the corresponding figures were 291, 181 and 254.

The traffic program and timetables are adapted to the needs of the business traveler. This means, among other things, that it is possible to fly out in the morning and return home in the evening on most European routes. In addition to the traffic program and the timetables, the business traveler's high demands for punctuality are taken into account. Throughout the 1980s SAS's on-time record was the best of all European airlines. SAS aims to improve its on-time performance additionally in the 1990s.

Hotels' Growing Importance

HOTELS

The SAS Group's hotels are the other cornerstone of the travel service system. In the future the hotels will take over many tasks ordinarily handled at airports, such as airline check-in, changing of itineraries, reservations and payments for rental cars and limousines, tax-free shopping, etc. The philosophy is to more closely respond to the needs of individual customers.

In its fullest meaning, the Group's travel service should allow business travelers to utilize their hotel stay effectively for work, rest and recreation. Accordingly, the hotels offer customized service, with a price structure that enables customers to choose what they are willing to pay for. In addi-


THE
PORTMAN
INTER•CONTINENTAL

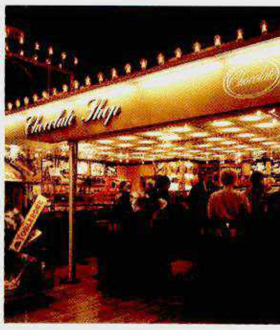
tion to hotel rooms and restaurants, SAS will operate shops, ground transportation, and other services which can be paid for with the SAS card.

The SAS Group's strategic alliances are also broadening the market for the hotels. Occupancy rates and profitability improve dramatically when only a small percentage of passengers who fly with SAS and its partners choose to stay at SAS hotels. A similar effect occurs when the hotel guests choose to fly with SAS. The SAS Group's own chain, SAS International Hotels, is responsible for development of the hotel products in the travel service. This is accomplished through 26 own units located primarily in Scandinavia, through a 40-percent shareholding in Inter-Continental Hotels—with 102 hotels worldwide, and through an additional 44 associated hotels. Thus, the SAS Group has covered the most important destinations for business travelers on all continents.

Creating a Profile

AIRPORTS

Aside from air transport and hotels, creating an airport profile is growing increasingly important. The established airlines have to a large extent contributed to the buildup of the infrastructure which is available to newcomers in the business at no extra cost. For this reason, having own terminals, check-in and baggage handling facilities, restaurants, shops, and so on increases the Airline's and airport's overall appeal. This, in turn, helps keep the customers within the Group's own travel service system and explains the SAS Group's focus on expanding and improving airport services in cooperation with local and national aviation authorities. The best example is Copenhagen Airport. Through substantial investments in an entirely new concept, this airport has been transformed into one of Europe's most attractive regarding prices and the range of services available.



SAS Trading operates retail shops at airports, while SAS Service Partner operates flight kitchens, restaurants, and cafeterias, thereby supporting the travel service concept in the air and on the ground. In addition, lounges are available for the exclusive use of business travelers, where they can find a quiet spot to relax or obtain assistance with practical matters such as telephone, fax and telex, or secretarial services. In most cases, conference facilities are also available for airport meetings.

Leisure Travel a Complement

LEISURE

In the future, the leisure travel segment is expected to grow at a faster rate than business travel. Development will be spurred by discount alternatives on scheduled flights and by traditional inclusive-tour packages. As in other contexts, the trend in this type of travel is moving toward greater individualism, with a more distinct demand for positive travel experiences.

The SAS Group works in the leisure travel segment through SAS Leisure, as well as through scheduled flights and hotels, in order to take advantage of the existing potential in the market and customer base built up within the travel service segment.

Following a period of rapid expansion throughout most of the 1980s, the market has now stagnated and is showing clear signs of saturation in Scandinavia and northern Europe. However, growth is still very strong in southern Europe, Japan and the United States. Over the long term, various regions in Southeast Asia will become significant both as a market base and as vacation destinations. SAS Leisure, already one of Europe's largest companies in the business, is looking into new expansion opportunities aside from the traditional charter packages to warmer climates. These include joint ventures with, and ownership stakes in, other travel operators and charter airlines.

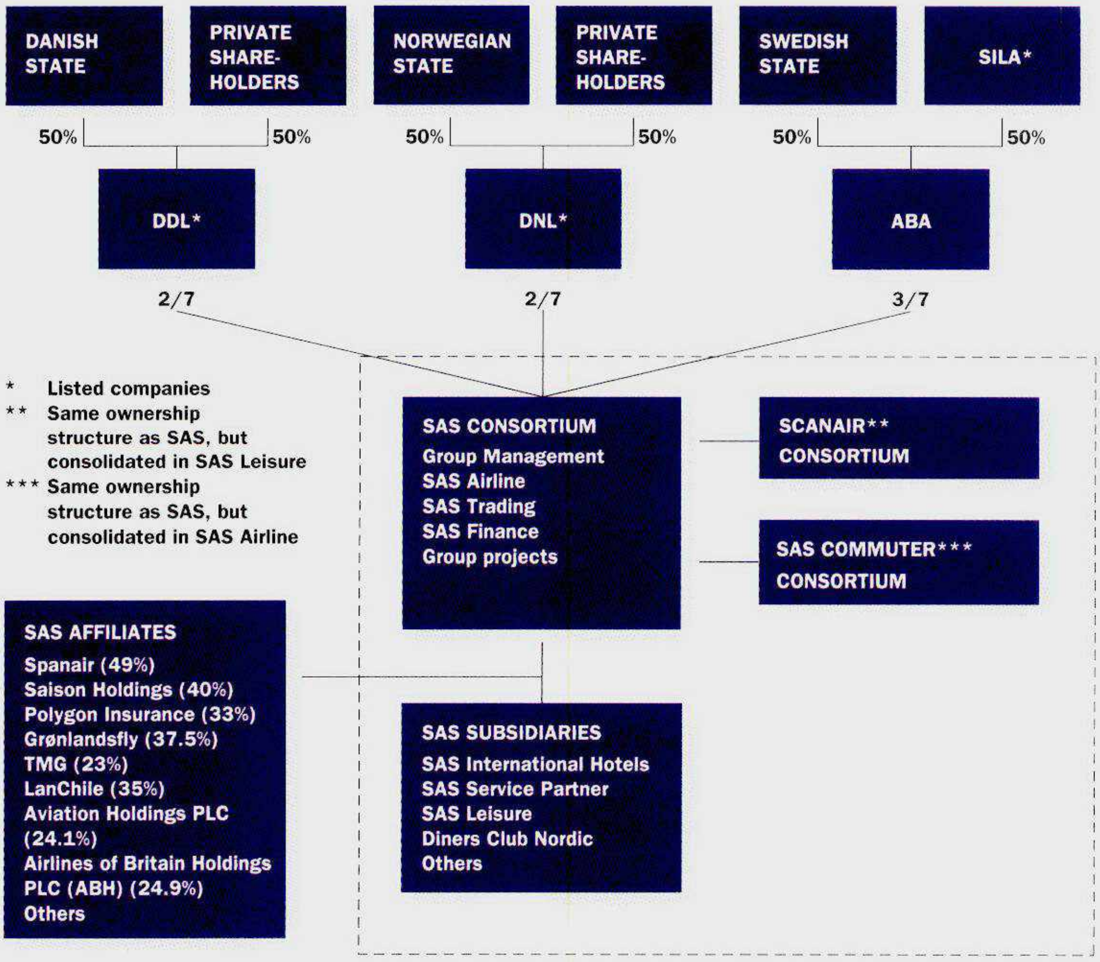
THE SAS CARD

The SAS Card is the Key

The SAS Group has the franchise rights to the Diners Club charge card in Denmark, Finland, Iceland, Norway and Sweden. In cooperation with Diners Club Nordic, SAS has introduced the SAS Club EuroClass Card for business travelers and companies. The card is intended to give customers a global payment instrument, while at the same time giving them access to the benefits of SAS's travel service.

OWNERSHIP STRUCTURE

OWNERSHIP STRUCTURE



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 first consortium agreement covering North Atlantic traffic was signed in 1946, and the current agreement was ratified in 1951. The parent companies have transferred responsibility to the SAS Consortium for scheduled air transport, and to Scanair for charter air services. In 1988 the current consortium agreement was extended until December 30, 2005. The parent companies' concessions, which are the base of SAS's air services, were extended for the same time period. A third consortium, SAS Commuter, was formed in 1989 to conduct air transport exclusively for the SAS Consortium.

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

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

Of SAS's three owner-countries, only Denmark is a member of the European Community. As a result of an agreement reached in March 1991 between Norway, Sweden and the EC, these two countries will be subject to the EC's commercial aviation policies starting in 1992.

Decision-making

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

Responsibility for overall operations rests with the Chief Executive of the SAS Group. SAS Commuter is managed within the framework of SAS Airline's operations. Scanair became a profit center of the newly formed sub-group SAS Leisure in 1989.

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.

The capital account can only be increased through contributions from the parent companies.

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

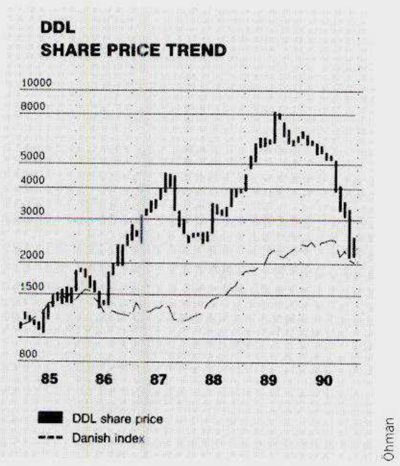
The consortia's accounts are examined by a group of six auditors—two appointed by each of the parent companies.

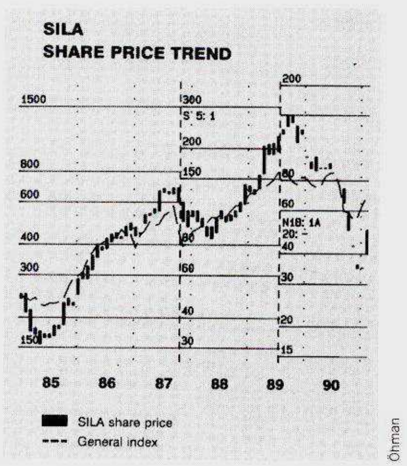
DDL (Det Danske Luftfartselskab A/S)

DDL has concessions to conduct scheduled domestic traffic, international traffic originating from Denmark, and charter air services. Preferential rights that DDL chooses not to utilize on certain regional routes may be transferred to other airlines.

DDL's primary business surrounds its shareholdings in the three consortia, and related capital management. In addition, DDL owns hangars, repair shops and warehouses at Copenhagen Airport, which are leased to SAS at current market terms. Annual revenues from these operations amount to roughly 13 MDKK. DDL also owns the property on which the SAS Royal Hotel is located in Copenhagen.

DDL's share capital totals 50.8 MDKK. Fifty percent of the company's stock is owned by the Danish government. Of the remainder, only 19 percent is registered in the stockholders' names. DDL's stock is listed on the Copenhagen Stock Exchange.





DNL (Det Norske Luftfartselskap A/S)

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

DNL has preferential rights for international traffic. As a result of the adaptation of Scandinavian commercial aviation policies to conform with those in Europe, other companies may be granted concessions for special circumstances on routes for which DNL/SAS do not wish to utilize their preferential rights. DNL also has an operational permit to conduct charter air services.

In addition to DNL's interest in the three consortia, it owns a number of properties which are leased to SAS at current market terms. These holdings include hangars, repair shops and offices in Oslo, Bergen, Bodø and Tromsø. DNL's stock is broken down into equal numbers of "A" and "B" shares. All A-shares are owned by the Norwegian government, while B-shares are owned by private investors and are traded publicly on the Oslo Stock Exchange. Approximately 12 percent of DNL's stock is held by foreign investors. DNL's share capital amounted to 314.5 MNOK at year-end 1990.

ABA (AB Aerotransport)

ABA's permit to conduct Swedish domestic air services covers primarily the routes between Stockholm and Gothenburg, Malmö, Luleå and Kiruna. For intra-Scandinavian traffic, ABA is allowed to fly between the capitals and a few other major cities. Also, ABA has preferential rights to all international traffic, including charter flights. Aside from its involvement in SAS, ABA conducts its own capital management activities and, through affiliated companies, has additional interests in the air transport industry, as well as in the real estate and Swedish printing industries. ABA directly owns 50 percent of Linjeflyg and 25 percent of Swedair, both of which are Swedish domestic airlines.

ABA is a co-owner with Bonniers and Esselte of the printing companies Interprint AB and Sörmlands Grafiska AB. Ownership is divided evenly among the three companies.

ABA's real estate holdings at Bromma Airport were transferred in 1988 to Fastighets AB Brommastaden, in which ABA has a convertible debenture. After conversion it gives ABA 25 percent of the profits and equity. Earlier, ABA had transferred those properties used and leased primarily by SAS Airline to SPP Insurance Company through a sale-and-leaseback agreement. ABA has the option to repurchase the convertible debenture.

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

In 1989 ABA issued 352.5 MSEK in new stock. SILA financed its share, 176.25 MSEK, through a new issue of B-shares, which facilitates trading in that company and makes it possible for foreign investors to invest indirectly in SAS.

SILA's share capital amounted to 352.5 MSEK at year-end 1990.

The Scanair Consortium

Scanair, which is part of SAS Leisure, is the largest charter airline in the Nordic countries and conducts traffic primarily from Norway and Sweden. Scanair's fleet consists of six 374-seat DC–10–10s. Five of these aircraft are used in charter services, while the sixth plane was leased out during the year. This base fleet is complemented by leased marginal capacity from SAS Airline.

As in 1989, the market in 1990 was characterized by

SCANAIR STATEMENT OF INCOME

MSEK	1990	1989
Operating revenue	**1,550**	1,628
Operating expenses	**1,600**	1,657
Operating income before depreciation	**–50**	–29
Straight-line depreciation	**17**	12
Operating income after depreciation	**–67**	–41
Gain on the sale of flight equipment	**–**	41
Unusual items	**–**	–24
Net financial items	**23**	19
Income before extraordinary items	**–44**	–5

SCANAIR BALANCE SHEET

MSEK	1990	1989
Liquid funds	**16**	113
Other current assets	**299**	219
Total current assets	**315**	332
Fixed assets	**106**	112
Total assets	**421**	444
Current liabilities	**354**	331
Long-term debt	**1**	3
Equity	**66**	110
Total liabilities and equity	**421**	444

overcapacity, downward pressure on fares and declining profitability for most charter airlines in Scandinavia. It was not possible during the year to fully adjust Scanair's costs to the market situation. A program aimed at reducing costs and restructuring the organization in response to current market conditions is expected to be completed during 1991. Various cooperation projects with other charter airlines are under consideration to achieve greater cost-effectiveness and a better balance between supply, demand and capacity utilization.

Scanair's sales totaled 1,550 MSEK (1,628), of which charter air services accounted for approximately 75 percent. In-flight sales accounted for the remainder. Income before extraordinary items amounted to –44 MSEK (–5). Earnings were hurt by a surplus of air transport alternatives and lower capacity utilization, resulting in dramatically lower profit margins for Scanair.

SAS COMMUTER STATEMENT OF INCOME

MSEK	1990	1989
Operating revenue	**333**	19
Operating expenses	**–388**	35
Operating income before depreciation	**–55**	–16
Straight-line depreciation	**2**	0
Operating income after depreciation	**–57**	–16
Net financial items	**25**	0
Operating contribution from SAS Airline	**0**	16
Income before extraordinary items	**–32**	0

SAS COMMUTER BALANCE SHEET

MSEK	1990	1989
Liquid funds	**14**	5
Other current assets	**12**	4
Total current assets	**26**	9
Fixed assets	**834**	2
Total assets	**860**	11
Current liabilities	**638**	4
Long-term debt	**0**	0
Equity	**222**	7
Total liabilities and equity	**860**	11

The SAS Commuter Consortium

SAS Commuter is a production company conducting air transport on behalf of SAS in Scandinavia and northern Europe. The traffic program is handled by a fleet of Fokker 50s. At the beginning of the year this fleet consisted of four aircraft, while an additional 16 aircraft were put in service during the year.

Thirteen of these aircraft were used in Eurolink, a southern traffic system based in Copenhagen, while the remaining seven planes were used in NorLink, a northern system based in Tromsø, Norway.

Operating revenue amounted to 333 MSEK. Income before allocations and taxes amounted to –32 MSEK. Earnings were charged with considerable costs connected with the phase-in of the aircraft fleet and training.

REPORT BY THE BOARD OF DIRECTORS AND PRESIDENT*

for the fiscal year January 1, 1990 – December 31, 1990.

***A translation of the Swedish original.**

The SAS Group's accounts are prepared in accordance with International Accounting Standards, which are explained in the section "Significant valuation and accounting principles." (Figures in parentheses refer to 1989.)

THE SAS GROUP, 1990

Business Environment

1990 marked the beginning of the biggest crisis for civil aviation since the Second World War. Events in the Middle East led to dramatic increases in fuel prices, while weak economic growth in several countries contributed to the crisis in the airline industry and poor profitability.

These developments had a negative impact on demand for most of SAS's products and services. The wavering market, combined with a broader market offering of air transport and hotel accommodations, contributed to continued fierce competition, downward pressure on fares, and declining profit margins for many of SAS's operations.

Politically, civil aviation developments were dominated by the liberalization within the European Community. During the year the EC established new aviation policies which enable greater competition between airlines. In March 1991 Norway and Sweden reached agreement with the EC, whereby these two countries will become subject to the EC's civil aviation rules. The agreement has to be approved by both countries' governments and parliaments, and by the EC commission. Assuming approval is granted, the agreement will take effect January 1, 1992, at which time Sweden and Norway will be subject to the same rules that currently apply in Denmark. The EC's rules will also cover intra-Scandinavian traffic.

Concession policies in Scandinavia are also being liberalized. Other Scandinavian airlines are being allowed to a greater extent to fly to European destinations and within Scandinavia. At year-end, more than sixty permits to conduct traffic had been granted to other Scandinavian airlines. The civil aviation policies governing long-distance routes were largely unchanged during 1990.

Financial Development

The SAS Group's earnings, like those in the rest of the airline industry, were highly affected by changes in the business climate. A sharp rise in fuel prices and high financial costs have had a negative impact on income. Declining demand caused by weak economic growth primarily in Sweden and the U.K., combined with high costs and negative currency exchange differences, have further hurt SAS Group income. Efforts at coordinating systems and operations with SAS's cooperation partners were intensified during the year.

In 1989, cooperation was established with LanChile, with a planned part ownership. At year-end 1989, SAS's ownership in LanChile amounted to 30 MUSD in convertible debentures in Icarosan S.A., LanChile's majority shareholder. In early 1990 SAS exercised its right to convert its debentures to a 30-percent shareholding in LanChile. SAS also contributed 4 MUSD in a new issue of stock, bringing its total shareholding to 35 percent.

SAS's investment in Continental Airlines Holdings Inc. (formerly Texas Air) in 1988 was increased through the purchase of an additional 6.9 percent of that company's stock for 52 MUSD in August 1990. SAS's ownership thereafter amounted to 16.8 percent, with 18.4 percent of the voting rights. By acquiring an equity stake in Continental, SAS aims to cement its cooperation over the long term and secure its position in the important North Atlantic market through Continental's well-developed route network. In December, Continental Airlines Holdings filed for protection under Chapter 11 of the American bankruptcy code. This was precipitated by the dramatic increase in fuel prices during the fourth quarter caused by events in the Middle East, and by the downturn of the U.S. economy.

In light of developments at Continental Airlines Holdings, the stock has been taken up at a value corresponding to the market price on December 31, 1990, i.e., 1 7/8 USD per share. On March 21, 1991, the stock was listed at 3 2/8 USD per share. A total of 780 MSEK has been allocated to a general reserve in the year's accounts.

To avoid being discriminated against in the major, primarily American, distribution and booking systems which were under development in 1987, SAS decided to invest in Amadeus. Linked to Amadeus are a number of national communications systems which enable primarily local suppliers to hook into the system. Application of rules for competitive neutrality has reduced the strategic need to own a distribution system. Added to this is an unfavorable cost development, making the investment in Amadeus of less value for SAS. As part of SAS Airline's restructuring, the decision was made to cancel development of its own booking system, Terese, and instead consider alternatives. Development costs, etc. for these two projects in 1990, the capitalized expense through 1989, and allocations to a reserve for discontinued operations, amounted to a combined total of 636 MSEK, and are reported as extraordinary expenses.

During the autumn of 1990 and spring of 1991, SAS Airline adapted its traffic program to the wavering market situation. Actions taken within the other business units include the reduction of more than 2,000 jobs due to lower demand throughout the travel industry. The decision was made during the year to commence a comprehensive action program to boost SAS Airline's competitiveness ahead of the freer market which will emerge as a result of continued deregulation of civil aviation in the EC. The program is designed to reduce costs by 3 billion SEK and will involve the phasing out of 3,500 jobs by year-end 1992. Income will be charged with additional costs associated with this action program during its implementation.

Extraordinary items in the financial statements include an allocation of 165 MSEK to a reserve for employee severance pay.

INCOME AND KEY RATIOS

MSEK	1990	1989
Operating revenue	**31,883**	28,786
Operating income before depreciation, etc.	**2,011**	2,658
Depreciation	**–1,178**	–1,137
Leasing costs	**–184**	–277
Operating income after depreciation, etc.	**649**	1,244
Net financial income/expense	**–258**	–98
Income after depreciation and financial items	**391**	1,146
Share of income in affiliated companies	**–156**	83
Gain on the sale of		
– flight equipment	**452**	286
– other fixed assets	**249**	751
Unusual items	**–898**	–60
Income before extraordinary items and taxes	**38**	2,206
Extraordinary items	**–801**	–
Income before taxes	**–763**	2,206
Investments	**5,651**	9,922
Return on – capital employed, %	**6**	10
– equity before taxes, %	**–**	11
Equity/assets ratio, %	**27**	36
Debt/equity ratio	**1.9**	1.3
Average number of employees	**40,830**	39,060

In September 1990 SAS sold its 50-percent shareholding in Linjeflyg AB to Bilspedition AB. The capital gain on this transaction amounted to 196 MSEK and is reported under "Income from the sale of fixed assets, etc."

The SAS Group's operating revenue amounted to 31,883 MSEK (28,786), an increase of approximately 10 percent for comparable units over 1989. Operating expenses rose by 14 percent, and operating income before depreciation, etc. amounted to 2,011 MSEK, a decrease of just over 24 percent. Operating income was hurt by lower-than-expected traffic revenue and higher operating expenses, particularly payroll and fuel costs. The ongoing extensive investment program in the aircraft fleet and other strategic areas, combined with high interest rates, has contributed to greater capital costs.

Depreciation, etc. was slightly lower than the previous year at 1,362 MSEK (1,414), while net financial items decreased by 160 MSEK to –258 MSEK.

The SAS Group's income after depreciation and financial items amounted to 391 MSEK (1,146). Income before extraordinary items amounted to 38 MSEK (2,206) and included gains of 701 MSEK (1,037) from the sale of flight equipment, hotel properties/operations, and shareholdings in affiliated companies, etc., as well as share of income in affiliated companies totaling –156 MSEK (83) and other unusual items including allocations to a shareholding reserve and reserves for pension commitments totaling –898 MSEK (–60). Income was charged with extraordinary items of –801 MSEK (–). Income before taxes thus amounted to –763 MSEK (2,206).

INCOME PER BUSINESS UNIT

MSEK	1990	1989
SAS Airline	**213**	1,026
SAS International Hotels	**–91**	–105
SAS Service Partner	**190**	211
SAS Trading	**122**	114
SAS Leisure	**2**	–8
SAS Financial Services	**144**	84
SAS joint Group projects[1]	**–189**	–176
Income after depreciation and financial items	**391**	1,146
Share of income in affiliated companies	**–156**	83
Gain on the sale of fixed assets, etc.	**701**	1,037
Unusual items	**–898**	–60
Income before extraordinary items and taxes	**38**	2,206

[1] Including Group adjustments.

Investments during the year decreased by 4,271 MSEK to 5,651 MSEK. Of this total, investments in flight equipment accounted for 3,755 MSEK.

The return on capital employed is reported at 6 percent in 1990, compared with 10 percent in 1989. Due to the year's operating loss, the equity/assets ratio dropped from 36 percent to 27 percent. The debt/equity ratio rose to 1.9 due to a conscious effort to achieve excess liquidity in the SAS Group.

SAS Airline

SAS Airline offers the business traveler global travel service by developing and maintaining an effective traffic system under its own direction and in cooperation with other airlines. SAS's own traffic system in 1990 covered 85 destinations and included domestic routes in Denmark, Norway and Sweden, intra-Scandinavian routes, routes to Europe, North America and South America, and the Middle and Far East. Together with its cooperation partners, SAS offers one-stop service to 291 destinations from Copenhagen, 181 from Oslo, and 254 from Stockholm.

The business trend was unfavorable in Scandinavia, especially in Sweden—the largest home market—but also in Denmark due to lower economic growth. An upturn was noted in Norway from a low initial level. Growth in Europe was satisfactory, however, the market was characterized by overcapacity and price competition caused by ongoing deregulation and new players.

Demand for air transport to the major destinations in the U.S., Japan and Brazil showed clear signs of abatement. Demand was also affected by the U.S. recession and economic crisis in South America. There is substantial overcapacity on intercontinental routes and price competition is fierce.

SAS's total production rose by 9 percent compared with 1989. The combined traffic increase of 8 percent is broken down as follows: domestic routes, 3 percent; European routes, 13 percent; and intercontinental routes, 7 percent. Total passenger volume was 15.0 million (14.0), and the average cabin factor was 64.7 percent (65.3).

In *Europe*, cooperation between SAS, Swissair, and Finnair within the framework of the European Quality Alliance (EQA) was strengthened with the addition of Austrian Airlines. The EQA cooperation involves considerable improvements for the customer, including check-through to final destinations on partners' flights, hotel check-in at airports prior to departure, and access to the partners' business class lounges at the airports. The EQA companies together generated a greater product offering and traffic volume, which had a favorable impact on revenues and expenses. For example, SAS's traffic between Scandinavia and Switzerland rose by 57 percent. Among other product improvements, SAS's London flights are now all routed via Heathrow, where SAS moved to a new terminal during the year. In addition, the London Express concept was launched to head off the considerably intensified competition from Scandinavian carriers and Air Europe. The goal was to create a distinct profile for the nearly 20 daily connections between Scandinavia and London. This concept was well received by the market, and SAS's traffic rose by 11 percent in EuroClass and 8 percent for economy class compared with a year ago. In March 1991, market developments forced Air Europe to discontinue its operations. New routes were opened during the year between Stockholm and Tampere, Copenhagen and Riga, Stockholm and Berlin, Copenhagen and Berlin, and Copenhagen and Prague.

Intercontinental traffic was adversely affected by weak economic trends primarily in the U.S. and Sweden, which led to a decline in travel. Despite this, SAS's traffic increase was generally as high as the increase in capacity, and the cabin factor exceeded 75 percent on most routes. Price competition on intercontinental routes was fierce, especially in tourist class, which accounts for 78 percent of volume. This, in combination with the weak position of the dollar and the yen, has led to continued unsatisfactory earnings. Cooperation between SAS and Continental Airlines continued to develop very positively. Transit volume through Newark Airport to Continental's traffic system rose by 33 percent compared with a year ago. In late 1989 cooperation was initiated with the Chilean airline LanChile to strengthen SAS's presence in South America. In September SAS switched its service to South America from Rio de Janeiro to São Paulo, Brazil's industrial center and the base of the expansive Scandinavian-owned industry.

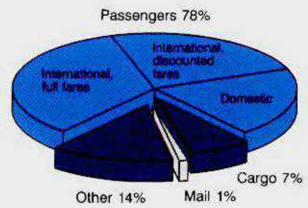
Cooperation with Japan's ANA and Thailand's Thai Airways developed favorably, with the number of frequencies to and from Scandinavia amounting to 7 and 15 per week, respectively. Concerning the Tokyo route, SAS is gradually changing over to exclusive nonstop service over Siberia, which reduces travel time considerably.

The changeover from DC-10s to Boeing 767s continued. At year-end only one DC-10 remained in traffic. As a result of the shift to more efficient aircraft, the impact of higher fuel prices late in the year on intercontinental routes was less severe than if the previous long-distance fleet had been kept.

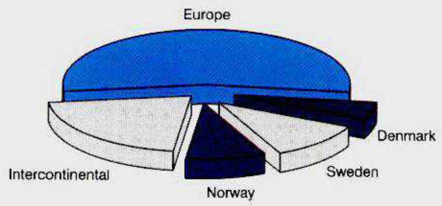
Danish domestic traffic, including traffic to Greenland, was adversely affected by the sluggish market. Within Denmark, private travel decreased the most due to a decline in disposable income, while traffic to Greenland dropped in all segments. Toward the end of the year, the DC-10 was replaced with a Boeing 767 on the Greenland route.

Norwegian business travel rose faster than overall traffic due to the current recovery of the Norwegian economy. SAS increased its market share on the competitive routes, primarily among business travelers. In May a new traffic system was inaugurated in northern Norway. Service on local routes is handled by 50-seat Fokker 50 aircraft, while

SAS AIRLINE REVENUE



TRAFFIC REVENUE PER ROUTE SECTOR



PRODUCTION AND TRAFFIC

	AVAILABLE TONNE-KILOMETERS			REVENUE TONNE-KILOMETERS			LOAD FACTOR	
12 months	Million	Change %	Share %	Million	Change %	Share %	%	Change %-pts
North & South Atlantic	997	1	31	694	1	34	69.6	0.3
Asia	528	11	16	398	12	20	75.4	0.6
INTERCONTINENTAL	1,525	4	47	1,092	5	54	71.6	0.6
EUROPE	1,228	14	37	597	12	30	48.6	–0.7
DOMESTIC	513	1	16	314	3	16	61.2	1.2
TOTAL NETWORK	3,266	7	100	2,003	7	100	61.3	–0.2

the considerably larger MD-80 is used for nonstop flights between northern Norway and Oslo. The program was initially plagued by substantial technical problems. Major efforts were made to solve these problems, and notable improvements were noted during the year. A new, simplified fare structure was introduced in Norway which cuts in half the number of discount alternatives.

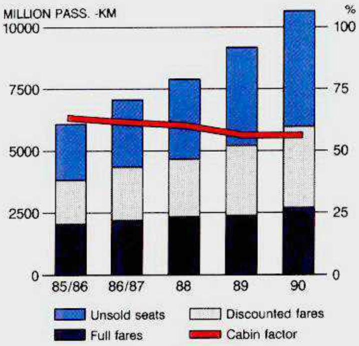
In Sweden, a sharp decline in traffic was noted during the autumn. Business travel was down throughout the year due to the recession, while private traffic volume was unchanged. The addition of Swedish value-added tax on travel will have substantial negative consequences in 1991 and later, especially in the private segment. In October SAS inaugurated its own domestic terminal at Arlanda, providing more space, shorter processing times and better service. A new fare and discount system was also introduced in Sweden.

SAS Cargo, the Group's freight operation, noted a 2-percent gain in revenues in 1990. This low figure is the direct result of a 6-percent reduction in capacity associated with the changeover from DC-10 to Boeing 767 aircraft. The effect of this changeover was most noticeable on the long-haul routes such as Tokyo, Singapore and São Paulo. To meet the increasing commercial demand for capacity, SAS Cargo introduced a freight route to the Far East during the year, with a hub in Bangkok. Freight volume on European routes rose by 6 percent. A new company—JETPAK—was started in early 1991 to develop and conduct overnight delivery within the Nordic countries. The company is co-owned by SAS Cargo and Linjeflyg.

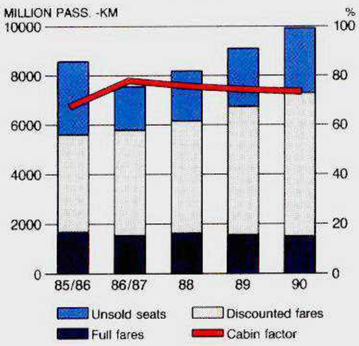
Priority Cargo, introduced in 1989 in cooperation with Continental Airlines for service to the U.S., expanded its service during the year with a system originating from the U.S. to Scandinavia and Europe. SAS Cargo can now provide overnight delivery to 65 destinations in Europe from 80 U.S. airports. At the same time, westbound freight services were added to European cities served by SAS.

The European Quality Alliance is also providing new opportunities for further development of SAS's freight

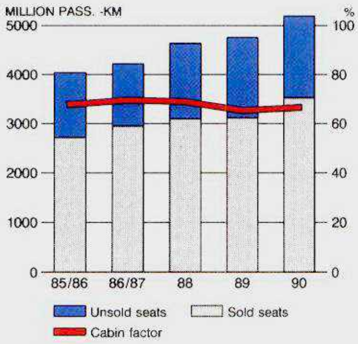
PRODUCTION, TRAFFIC & CABIN FACTOR
EUROPE



PRODUCTION, TRAFFIC & CABIN FACTOR
INTERCONTINENTAL ROUTES



PRODUCTION, TRAFFIC & CABIN FACTOR
DOMESTIC



PASSENGER, FREIGHT AND MAIL TRAFFIC

	PASSENGER		CABIN FACTOR		FREIGHT		MAIL	
12 month	Pass. km.	Change %	%	Change %-pts.	Tonne-km.	Change %	Tonne-km.	Change %
North & South Atlantic	4,816	5	72.6	–4.2	232.7	–6	18.2	8
Asia	2,462	12	75.2	–1.1	143.7	10	15.9	–8
INTERCONTINENTAL	7,278	7	73.4	–0.7	376.4	0	34.1	0
EUROPE	5,962	13	56.0	–0.6	37.6	20	17.2	7
Denmark	444	–2	61.5	2.2	4.9	6	2.5	–7
Norway	1,270	7	63.7	0.5	7.0	1	4.5	4
Sweden	1,539	2	69.9	0.6	3.9	12	0.3	–17
DOMESTIC	3,253	3	66.1	0.6	15.8	6	7.3	–1
TOTAL NETWORK	16,493	8	64.7	–0.6	429.8	2	58.6	2

operations. Among other things, the alliance has increased availability of SAS products in southern Europe, Africa, and the Middle East.

To improve access for SAS Cargo's customers, an ADP-based distribution system has been developed. Under the name Tradevision, the system gives customers a direct link from their own computer terminals to SAS Cargo's computerized freight system.

SAS Airline is responsible for development and operation of the distribution systems required for the exposure, reservations, booking and payment of SAS's products.

To further define profit responsibility and increase market orientation, SAS Flight Academy, the Group's flight school, and SAS Data were each formed into three national companies based in the respective Scandinavian countries.

SAS Airline's operating revenue rose by 9 percent in 1990, to 21,626 MSEK (19,873). Operating income before depreciation and leasing costs totaled 1,584 MSEK (2,432), and the gross profit margin (GOP) fell from 12 percent in 1989 to 7 percent.

Fuel costs rose by 29 percent, to 1,873 MSEK (1,457). Fuel prices in cents per gallon rose by 36 percent.

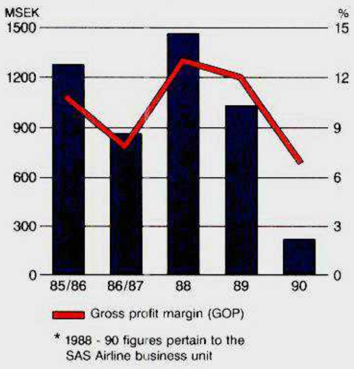
Payroll costs rose by 17 percent to 7,557 MSEK (6,448). Volume increases accounted for 5 percentage points of this total, while increases in wages, salaries and currency exchange differences accounted for the remainder. The average number of employees was 22,180 (21,120).

Net financial items decreased by 258 MSEK to –373 MSEK, primarily due to higher interest and borrowing costs.

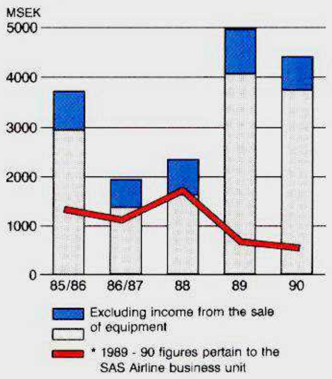
Income after depreciation and financial items totaled 213 MSEK (1,026). Capital gains on the sale of fixed assets, etc. amounted to 486 MSEK (245). Income before allocations and taxes totaled –286 MSEK (1,271).

SAS Airline's investments during the year totaled

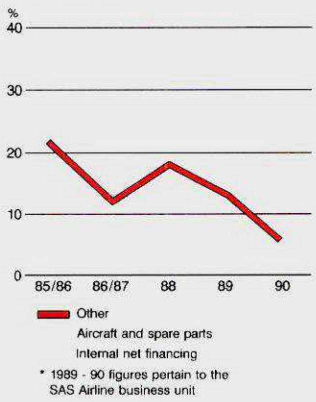
SAS AIRLINE
TREND OF INCOME*
(INCOME AFTER DEPRECIATION AND NET FINANCIAL ITEMS)



SAS AIRLINE
RETURN ON CAPITAL EMPLOYED*



SAS AIRLINE
INVESTMENTS*



SAS's AIRCRAFT FLEET DEC. 31, 1990

Aircraft type	Owned	Leased	Total	Leased out	On order
Boeing 767-300	10		10		4
Boeing 767-200	2		2		2
Douglas DC-10-30	3	1	4	2[1]	
Douglas MD-81	18		18		19
Douglas MD-82	11		11		7
Douglas MD-83	2		2		
Douglas MD-87	8		8		8
Douglas DC-9-21	9		9		
Douglas DC-9-41	21	26	47		
Douglas DC-9-51	1		1	1[2]	
Fokker F-50	11	9	20		2
	96	36	132	3	42

[1] Leased to Air Outre Mer. [2] Leased to Hawaiian Airlines

4,396 MSEK (4,970), of which flight equipment accounted for 3,724 MSEK (4,074).

The aircraft fleet was expanded with the addition of 25 new aircraft during the year, including seven Boeing 767s, four MD-80s, and fourteen Fokker 50s. Parallel with this, seven DC-10s, three DC-9-51s, and five Fokker 27s were decommissioned. Between 1985 and 1990, SAS invested approximately 11,000 MSEK in Boeing 767s, MD-80s and Fokker 50s. Moreover, aircraft worth approximately 1,300 MUSD have been contracted for delivery between 1991 and 1994.

A decision was made in spring 1988 to begin phasing out the DC-9 fleet in favor of MD-80 aircraft. The DC-9-41s in the fleet are still in very good condition and satisfy the stringent requirements regarding safety and operating economy. Due to the tougher economic climate, the rate at which the fleet is being renewed has been reduced slightly.

In its short- and medium-range fleet, SAS Airline operated nine DC-9-21s, 47 DC-9-41s, eighteen MD-81s, eleven MD-82s, two MD-83s, and eight MD-87s. In early 1988 it was decided to gradually change over to a uniform fleet of Boeing 767-300s and Boeing 767-200s, which in SAS's versions seat 209 and 150 passengers, respectively. Twelve Boeing 767s were delivered through 1990. The one remaining DC-10 in traffic will be replaced in spring 1991.

In 1984 SAS decided to begin operating a regional air transport operation in order to serve and develop short routes with insufficient market bases for DC-9 service. Nine 40-seat Fokker 27s were purchased for this purpose. In late 1989 a sister consortium, SAS Commuter, was created to run this operation, and the decision was made to change over from Fokker 27s to Fokker 50s. Twenty planes have been delivered to date. The new consortium flies on behalf of SAS Airline on short European and intra-Scandinavian routes, on routes in northern Norway, and on the Oslo-Haugesund route.

SAS International Hotels

SAS International Hotels (SIH) operates first-class hotels in Norway, Denmark, Sweden, the Netherlands, Belgium, Germany, Austria and Kuwait. Operations also include the 40-percent shareholding in Saison Holdings B.V., which in turn owns the Inter-Continental Hotels Group. The remaining 60 percent is owned by Japan's Saison Group, with interests in the retail and leisure travel industries.

During 1990 the hotel markets in the three Scandinavian countries were adversely affected by the general economic recession. The events in the Middle East contributed to a decline in business travel, while many companies took action to reduce costs. This also led to a reduction in travel, conferences, business-related expenses, and so on.

The weakened market resulted in greater competition at all locations where SAS International Hotels operates. This was evidenced in sharply reduced room rates and attractive offers designed to avoid loss of volume.

SAS International Hotels' revenues amounted to 1,489 MSEK (1,250). Including hotels operated through management contracts, operating revenues amounted to 2,005 MSEK (1,726). Net financial items totaled –81 MSEK (–153). Income before the sale of fixed assets dropped from –99 MSEK in 1989 to –243 MSEK. Capital gains on the sale of hotel properties/operations yielded 12 MSEK.

SAS International Hotels' own hotel operations noted a 56 MSEK decrease in income after depreciation compared with a year ago. This is attributable to the sale of two hotels in 1989 which continued to be operated under a leasing contract, and to start-up costs for two new hotels.

At year-end 1990 a casino was opened at the SAS Scandinavia Hotel in Copenhagen. Also, a leasing contract was signed for the Falkoner Center in Copenhagen. This puts SAS International Hotels in a unique position to host international conferences and creates new commercial opportunities for the four SAS hotels in Copenhagen. Total investments in 1990 amounted to 282 MSEK, compared with 3,901 MSEK in 1989 (of which 3,148 MSEK pertained to the shareholding in Saison Holdings).

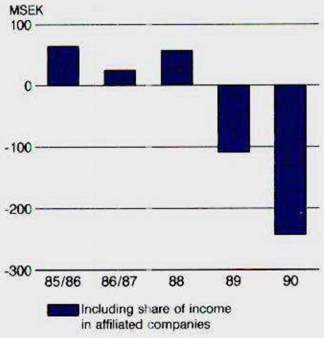
Sales of fixed assets during the year were limited to the sale of the shareholding in SAS Luleå Hotel AB. In the future this hotel will be managed by the new owner through a franchise agreement with SIH. Operations of SAS Kuwait Hotel were temporarily suspended in connection with Iraq's invasion of Kuwait. Efforts to boost competitiveness in the business travel segment continued during the year through improvements in products and service. A market cooperation was initiated with *Inter-Continental Hotels* (IHG), which gives SAS access to their global reservations system and provides for the mutual exchange of attractive offers by the two chains to their guests.

Development and expansion of IHG's hotel chains continued in 1990 through acquisitions and new management contracts. At year-end, IHG's holdings comprised 85 hotels under the name Inter-Continental, 16 Forum Hotels, and three Scanticon-Conference Centers. These facilities together comprise 39,400 hotel rooms in 46 countries.

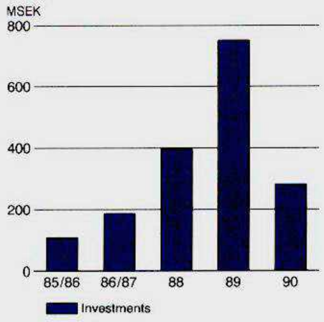
SAS International Hotels' share of income in Saison Holdings amounted to –152 MSEK (6), with an estimated 25 MSEK (55) in tax expense. The share of income for 1989 pertains to just over eight months. SAS International Hotel's equity in Saison was reported at 2,787 MSEK (2,787) on December 31, 1990. Saison Holdings B.V.'s revenues in 1990 amounted to 4,625 MSEK (4,113), and income before extraordinary items and taxes totaled –259 MSEK (–243). In addition, income was charged with substantial nonrecurring costs associated with the move of IHG's head office from Montvale, New Jersey (USA) to London during the year. The negative trend of earnings is a result of the general economic situation and is thus not expected to be lasting. Therefore it is not considered necessary to adjust the value of this shareholding.

The investment in Saison Holdings B.V. is of a long-term nature. The value of the shareholding is determined in accordance with the equity method of accounting, i.e., 40 percent of Saison Holdings B.V.'s booked equity plus an additional 57 MSEK in surplus value. Equity and share of income in Saison Holdings B.V. is based on an audited annual report dated December 31, 1990.

SAS INTERNATIONAL HOTELS
TREND OF INCOME
(INCOME AFTER DEPRECIATION AND NET FINANCIAL ITEMS)

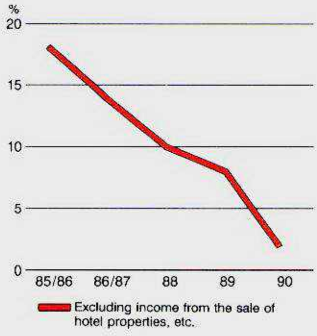


SAS INTERNATIONAL HOTELS
INVESTMENTS*



* Excluding investments in Inter-Continental Hotels 1989

SAS INTERNATIONAL HOTELS
RETURN ON CAPITAL EMPLOYED



SAS Service Partner

SAS Service Partner is engaged in catering and restaurant operations with a primary focus on the European market. The largest product area is Airline Catering, which accounted for 56 percent of revenues in 1990. A slight downturn was noticed in several of SAS Service Partner's most important markets, especially in the home markets of Norway and Sweden. Lower activity in Scandinavian charter traffic had a marked impact on the Terminal Restaurants unit in Scandinavia, the U.K. and Spain. The Airline Catering unit continued to show favorable growth due to the geographic spead of operations to countries with satisfactory growth, and to a well-balanced customer makeup.

The current economic trend and profitability problems within the airline industry have intensified competition in SAS Service Partner's market, regarding price, quality, service and capacity. For this reason, SAS Service Partner, which is one the the largest airline catering companies in the world, continues to focus on the further development of its business concept, products, production and logistics.

SAS Service Partner's revenues rose by 14 percent during the year, to 4,739 MSEK. Income before the sale of fixed assets, etc. amounted to 190 MSEK (211).

During the year a joint venture agreement was signed with Korea's Kumho Group, the largest shareholder in Asiana Airlines. According to the agreement, a new flight kitchen will be built in Seoul. Once it opens in 1993 it will be operated by SAS Service Partner through a management contract. Total investments amounted to 255 MSEK (302).

SAS Trading

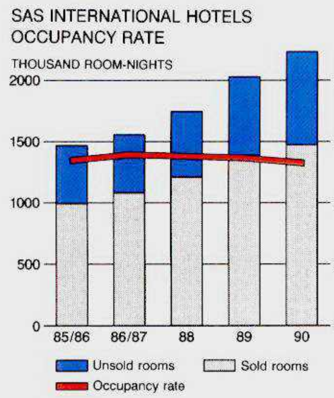
SAS Trading develops and conducts businesses associated with air transport. Operations are divided into retail sales, wholesale trading, and media production. Retail sales, the largest segment, are conducted on flights and at airports, on ships, at hotels, through the mail-order company Ostermann Petersen Bros. Ltd., and starting in 1990, through Brands, a new mail-order concept.

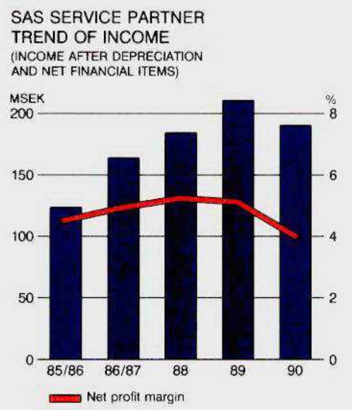
SAS Trading's revenues rose by slightly more than 18 percent, to 1,669 MSEK. Income before extraordinary items amounted to 122 MSEK (114), an increase of 7 percent. Investments totaled 66 MSEK (28) and pertained mainly to the expansion of the shopping area at Arlanda Airport and a computerized check-out system.

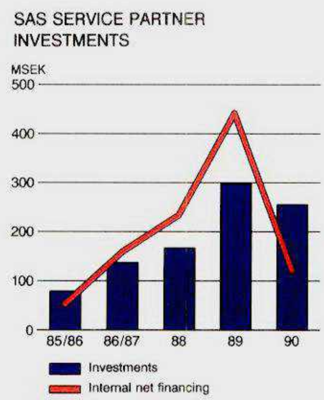
Six new gift shops were opened on oceanliners during the year and contracts were signed for an additional four, to open in 1991 and 1992. New shops were opened at regional airports in Sweden, in Riga, and in Las Palmas. A contract was also signed for the takeover of perfume sales at NK department stores in Stockholm and Gothenburg.

SAS Leisure

SAS Leisure was established in 1989 to strengthen SAS's position in the leisure travel sector. Operations consist of







inclusive-tour operations, hotel operations, and charter air services. SAS Leisure's principal market is made up of charter travelers in Sweden and Norway who in 1990 numbered 1,300,000 and 500,000 persons, respectively. The business unit had a 44 percent share of the Swedish market and a 45 percent share of the Norwegian market.

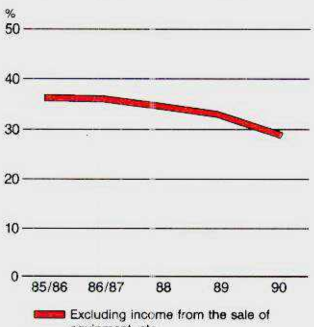
During 1990 demand declined somewhat in Sweden, while Norway showed a marginal gain. Demand in the rest of Europe weakened, leading to a substantial surplus of hotel capacity, especially in the Canary Islands. This forced prices down, hurting the hotel operations but benefiting the inclusive-tour operations. The charter air market was characterized by a large overcapacity and lower airline revenues, which also benefited the inclusive-tour operations. The marketing units in Sweden and Norway produced and sold trips to 809,000 customers, an increase of 44,000 over 1989. The tour operators Always and Saga, which were established in 1989, accounted for most of this increase.

SAS Leisure's revenues rose by 11 percent to 4,166 MSEK. Income before the sale of fixed assets amounted to 7 MSEK, compared with –15 MSEK in 1989. Investments totaled 247 MSEK (307) and pertained mainly to ongoing construction of a Sunwing facility in Cala Bona on Mallorca. In response to saturation in the Scandinavian market, SAS Leisure began expanding its operations internationally through the acquisition of a 32-percent shareholding in the Italian company Turfin S.R.L. (Aviatour Group), a 17-percent shareholding in Spain's Club de Vacaciones, and a 50-percent shareholding in Finland's Toivelomat. In addition, SAS Leisure acquired a 33-percent stake in the Swedish tour operator Plusresor.

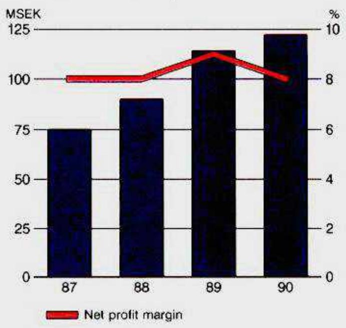
Sunwing, SAS Leisure's own hotel chain, continued to expand and today comprises fifteen facilities in five countries. Total bed capacity of the Sunwing chain was 8,800. During the spring the second phase of the new Sunwing unit on Cyprus was completed. The facility is now complete, with a bed capacity of 725. In June the first phase of the Cala Bona facility on Mallorca was opened. The project will be completed in time for the 1991 summer season, with a bed capacity of 800. Scanair continued adapting its organization toward greater operative and technical responsibility for the aircraft fleet, comprising six 374-seat DC-10-10s. The airline's core fleet is complemented with marginal capacity leased from SAS Airline. To reduce excess capacity, one DC-10-10 was leased out to World Airlines in the U.S.

Spanair, in which SAS Leisure has a 49-percent shareholding, increased its fleet of leased MD-83s from seven to eight. The number of passengers flown to and from Spain amounted to 960,000, of whom 15 percent were Vingresor customers. Spanair was also adversely affected by overcapacity in the market, though it is reporting a profit for 1990. During 1991 Spanair will begin operating two Boeing 767-300s on long-distance routes from Madrid to various vacation destinations in the U.S., and South and Central America.

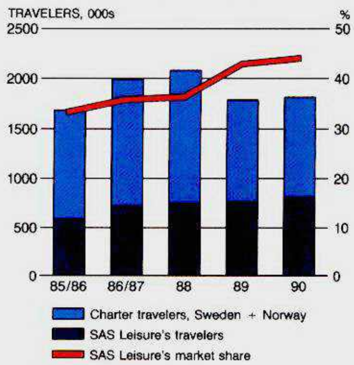
SAS SERVICE PARTNER
RETURN ON CAPITAL EMPLOYED



SAS TRADING
TREND OF INCOME
(INCOME AFTER DEPRECIATION AND NET FINANCIAL ITEMS)



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



SAS Financial Services

SAS Financial Services includes SAS Finance, Diners Club Nordic and SAS's shareholdings in Polygon Insurance Co. Ltd. (33%) and the aircraft leasing company Aviation Holdings PLC (24%). SAS Financial Services provides financial services and advice to the Group's other business units.

SAS Financial Services reported income after financial items of 144 MSEK (84) in 1990, of which SAS Finance accounted for 120 MSEK (64). SAS Finance's business concept is to offer SAS's business units financial products and services at the lowest possible cost, working in competition with banks and other financial institutions. The unit owes its strong performance to better utilization of opportunities created through the central coordination of the SAS Group's financial transactions.

In 1990 SAS Finance arranged long-term credits totaling 6,375 MSEK, primarily to finance the ongoing investment program. Large credits taken out during the year include a bond issue in Japan for 10 billion JPY, and a credit facility of 200 MUSD with The European Investment Bank.

Major efforts are continually made to reduce costs of foreign capital and improve financial income. The current situation in international finance and banking will result in higher capital costs for all borrowers, including SAS. With the liquidity reserves built up in recent years, SAS expects that the changes in the capital markets will have only a marginal impact on the Group's interest expense.

Diners Club Nordic reported continued favorable growth in volume. Income before extraordinary items improved from 20 MSEK in 1989 to 30 MSEK. This is mainly due to a 9-percent increase in the number of cardholders, which totaled 280,000, and to a marked increase in Diners Club card use for payment of business travel expenses. Cooperation with other SAS units concerning the SAS Club EuroClass card and the RVC card was intensified during the year.

In December an agreement was signed for the takeover of the credit card operations of the Swedish department store NK, with some 120,000 cardholders.

Joint Group Projects

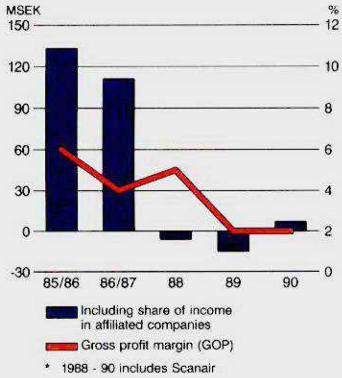
Numerous joint Group projects and activities were financed and managed centrally during the year. All associated costs have been charged against income.

In connection with the stock conversion in LanChile, the company Inversiones SAS Chile Ltda. was established.

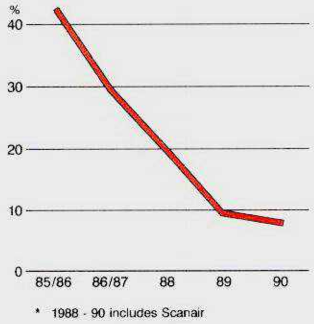
Affiliated Companies

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

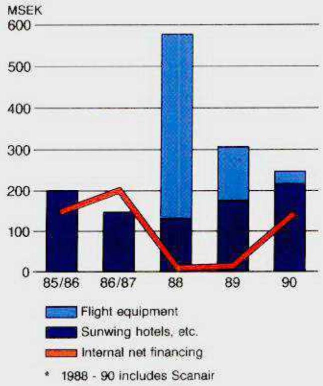
SAS LEISURE
TREND OF INCOME*
(INCOME AFTER DEPRECIATION
AND NET FINANCIAL ITEMS)



SAS LEISURE
RETURN ON CAPITAL EMPLOYED*



SAS LEISURE
INVESTMENTS*



Affiliated companies are defined as companies in which the SAS Group's ownership is between 20% and 50%. These include, among others, Saison Holdings B.V. (40%), Airlines of Britain Holdings PLC (25%), Aviation Holdings PLC (24%), Spanair S.A. (49%), and LanChile S.A. (35%). During the year SAS sold its shareholdings in Linjeflyg AB (50%) and Bennett Reisebureau A/S (31%).

The SAS Group's income before extraordinary items was charged with a pretax loss of 156 MSEK (1989: income of 83) from affiliated companies. The Group's equity in affiliated companies amounted to 3,458 MSEK (3,700).

Investments

The SAS Group's investments amounted to 5,651 MSEK in 1990, as follows: SAS Airline, 4,396 MSEK; SAS International Hotels, 282 MSEK; SAS Service Partner, 255 MSEK; and SAS Leisure, 247 MSEK. Investments in aircraft and other flight equipment totaled 3,755 MSEK (4,206).

Financing and Liquidity

Net financing from operations, including changes in operating capital, amounted to 1,130 MSEK in 1990. This includes transfers totaling 595 MSEK to the parent companies. A financing deficit of 2,730 MSEK was incurred in 1990 after balancing revenue from the sale of aircraft and other fixed assets (1,541 MSEK), against investments made in equipment and stocks (5,651 MSEK) and advance payments for aircraft on order (250 MSEK).

A capital infusion of 247 MSEK was made in SAS Commuter by the parent companies DDL, DNL and ABA.

Net borrowing in 1990 amounted to 5,949 MSEK. The Group's liquid funds amounted to 11,388 MSEK on December 31, 1990, compared with 6,892 MSEK a year earlier. The dramatic increase in liquidity should be seen in light of SAS's desire to secure favorable financing terms for future investments. The Group's liquid funds are in the Scandinavian currencies—primarily Swedish kronor—and U.S. dollars. Borrowing was conducted using various financial instruments, including public, domestic bond issues in the Scandinavian, Japanese and Swiss markets. In addition, the Japanese leasing market was used to fully finance five Boeing 767s and three MD-80s, for a total of 2,285 MSEK. Finally, a total of 150 MGBP was borrowed from institutional investors in England.

The short-term borrowing program was used actively in 1990. The Swedish commercial paper program was increased from 1,000 to 2,000 MSEK, while the Norwegian program was increased from 500 to 1,000 MNOK. SAS continues to have long-term credit commitments totaling 450 MUSD, which remained unutilized during the year.

The Group's balance of financial income and expense amounted to a net expense of 258 MSEK (–98). The major investment outlays and high interest rates had a noticeable impact on the balance of interest income and expense, which resulted in a net expense of 367 MSEK, compared with an expense of 169 MSEK a year ago. Capitalized interest on prepaid aircraft totaled 147 MSEK (144).

As a result of the major investment program and the dramatic increase in liquidity, the SAS Group's total assets rose by approximately 6 billion SEK during the year, to slightly more than 42 billion SEK.

Equity in the Group, excluding minority shares of 89 MSEK (64), amounted to 11,097 MSEK (12,177) on December 31, 1990.

Personnel

The average number of employees in the various business units of the SAS Group during the year was 40,830 (39,060), of whom 22,180 (21,120) were employed in SAS Airline, 3,080 (2,740) in SAS International Hotels, 11,020 (10,740) in SAS Service Partner and 3,490 (3,530) in SAS Leisure. A breakdown of the average number of employees in each country is provided in the table on page 34. The number of employees in the SAS Consortium totaled

STATEMENT OF CHANGES IN FINANCIAL POSITION

MSEK	1990	1989
Net financing from operations	**1,130**	1,550
Investments	**-5,651**	-9,922
Advance payments, net	**250**	-158
Sale of fixed assets, etc.	**1,541**	2,035
Financing deficit	**-2,730**	-6,495
Capital infusion from parent companies	**305**	1,750
External borrowing, net	**5,949**	5,907
Financial receivables, net	**972**	-2,103
Change in liquid funds	**4,496**	-941

20,820, including 7,530 in Denmark, 4,680 in Norway and 6,610 in Sweden.

The Group's total payroll, including payroll-related costs, was 10,941 MSEK, compared with 9,418 MSEK in 1989. Corresponding costs for the Consortium amounted to 7,022 MSEK (6,428).

EMPLOYEES

	1990		1989	
	Men	Women	Men	Women
Denmark	**6,380**	**3,940**	6,050	3,790
Norway	**4,580**	**4,170**	4,300	4,040
Sweden	**6,140**	**4,920**	5,890	4,830
U.K.	**1,600**	**1,080**	1,500	980
Germany	**730**	**820**	840	660
Spain	**920**	**640**	880	660
Greece	**210**	**220**	250	210
USA	**290**	**280**	270	260
Turkey	**1,380**	**150**	1,540	150
Other	**1,320**	**1,060**	1,080	880
Total	**23,550**	**17,280**	22,600	16,460

SAS and the Environment

SAS has continued renewing its fleet with more environmentally sound aircraft, such as the Boeing 767. In addition, major efforts have been made with regard to the environment at Sweden's Arlanda Airport, where SAS participated in a concession application. When planning the new domestic terminal, particular emphasis was put on the environment by minimizing the need for ground vehicles. SAS also started an energy-conservation campaign during the year. In Denmark, the Airline's chemical-handling routines were mapped out and are consequently being improved. In Oslo, SAS has worked with a system for recycling glycol. SAS belongs to an IATA group which focused on drafting an environment policy for the entire airline industry in 1990. Measures have been implemented to improve waste-handling and recycling routines. Attention has also been given to improvement of indoor environments. Among other measures, rest cabins have been installed for crews on Boeing 767s, making SAS a pioneer in this area.

BALANCE SHEET

MSEK	1990	1989
Liquid funds	**11,388**	6,892
Other current assets	**6,362**	7,590[2]
Non-current assets	**24,265**	21,245
Assets	**42,015**	35,727
Current liabilities	**12,805**	11,508
Long-term debt	**16,938**	11,172
Subordinated debenture loan	**1,086**	806
Equity[1]	**11,186**	12,241
Total liabilities and equity	**42,015**	35,727

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

The SAS Consortium

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

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

The SAS Consortium's operating revenue amounted to 22,399 MSEK (20,509). Operating income before extraordinary items amounted to 163 MSEK (1,460). Net financial items, totaling –479 MSEK (156), include dividends from subsidiaries and affiliated companies totaling 55 MSEK (58) and capital gains on the sale of flight equipment totaling 452 MSEK (245 MSEK). Gains on the sale of other fixed assets amounted to 466 MSEK (104), including 397 MSEK from the sale of the stock in Linjeflyg.

Reported under "unusual items" are a 402 MSEK allocation to reserves and a write-down of receivables from subsidiaries, etc, totataling 366 MSEK. After extraordinary items of –801 MSEK (–), income before allocations and taxes amounted to –638 MSEK (1,460).

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

The Scanair and SAS Commuter Consortia

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

Allocation of Income and Equity

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

The Board of Directors and the President propose to the SAS Assembly of Representatives that no transfers be made to the parent companies (1989: 595 MSEK), and that the SAS Consortium's deficit for the year, totaling 638 MSEK, be charged against the SAS Consortium's capital account, which will thereafter total 9,000 MSEK.

1991 Forecast

The crisis in the international airline industry was intensified by the outbreak of war in the Gulf in January 1991. The crisis affected the entire travel industry and thus all the SAS Group's business units. Added to this are the effects of continued weak economies in SAS's important markets and greater competition.

The impact of measures begun within the Group and restructuring work at SAS will not be sufficient to compensate for the loss of income in 1991. For this reason, income before extraordinary items is not expected to reach the same level as in 1990.

Copenhagen, Stockholm and Oslo—March 21, 1991

TAGE ANDERSEN	CURT NICOLIN	TOR MOURSUND
LARS P. GAMMELGAARD	KRISTER WICKMAN	BJØRN EIDEM
IB JENSEN	RALF FRICK	INGVAR LILLETUN

JAN CARLZON
President
and Chief Executive Officer

SAS GROUP CONSOLIDATED STATEMENT OF INCOME

MSEK	1990	1989
Operating revenue[1]—Note 1	31,883	28,786
Operating expense[1]—Note 2	29,872	26,128
Operating income before depreciation, etc.	2,011	2,658
Depreciation, etc.—Note 3	1,362	1,414
Operating income after depreciation, etc.	649	1,244
Dividend income	10	–
Interest income/expense, net—Note 5	-367	-169
Other financial items—Note 6	99	71
Income after depreciation and financial items	391	1,146
Share of income in affiliated companies—Note 7	-156	83
Gain on the sale of flight equipment—Note 8	452	286
Gain on the sale of other fixed assets—Note 9	249	751
Unusual items—Note 10	-898	-60
Income before extraordinary items	38	2,206
Extraordinary items—Note 11	-801	–
Income before taxes	-763	2,206
Taxes payable by subsidiaries and affiliated companies—Note 12	-100	-217
Minority interests	-3	-12
Income before taxes relating to the SAS Consortium	-866	1,977

[1] Starting in 1990, SAS Airline's traffic revenue is reported after deductions for discounts. Figures for 1989 have been adjusted accordingly.

SAS GROUP CONSOLIDATED BALANCE SHEET

MSEK ASSETS	1990	1989
Current Assets		
Liquid funds—Note 13	11,388	6,892
Accounts receivable	3,280	3,109
Prepaid expense and accrued income	1,074	742
Paid-in capital receivable	–	700
Other accounts receivable	1,062	2,157
Expendable spare parts and inventory—Note 14	869	773
Prepayments to suppliers	77	109
Total current assets	17,750	14,482
Fixed assets		
Restricted accounts—Note 15	98	93
Stocks and participations—Note 16	370	564
Equity in affiliated companies—Note 17	3,458	3,700
Other long-term accounts receivable	790	928
Goodwill and other intangible assets—Note 18	518	762
Long-term prepayments to suppliers—Note 20	1,452	1,702
Fixed assets—Note 21		
Construction in progress	459	734
Aircraft	11,360	8,246
Spare engines and spare parts	1,010	805
Maintenance and aircraft servicing equipment	201	150
Other equipment and vehicles	1,846	1,484
Buildings and improvements	2,504	1,859
Land and improvements	199	218
Total fixed assets	24,265	21,245
TOTAL ASSETS	42,015	35,727

MSEK LIABILITIES AND EQUITY	1990	1989
Current liabilities		
Accounts payable	1,500	1,289
Taxes payable	143	160
Accrued expense and prepaid income	3,958	3,301
Unearned transportation revenue, net—Note 22	1,268	970
Prepayments from customers	390	352
Current portion of long-term debt	1,172	578
Other current liabilities	4,374	4,858
Total current liabilities	12,805	11,508
Long-term debt		
Bond issues—Note 23	9,144	7,916
Other loans—Note 24	6,147	1,970
Other long-term debt—Note 25	1,647	1,286
Total long-term debt	16,938	11,172
Subordinated debenture loan—Note 26	1,086	806
Minority interest	89	64
Equity—Note 28		
Capital	10,011	8,899
Legal reserve	1,399	561
Retained earnings	553	740
Net income for the year	–866	1,977
Total equity	11,097	12,177
TOTAL LIABILITIES AND EQUITY	42,015	35,727

	1990	1989
Assets pledged, etc.—Note 29	591	632
Contingent liabilities—Note 30	687	501

SAS CONSORTIUM STATEMENT OF INCOME

MSEK	1990	1989
Operating revenue[1]—Note 1	**22,399**	20,509
Operating expense[1]—Note 2	**20,993**	18,432
Operating income before depreciation	**1,406**	2,077
Depreciation, etc.—Note 3	**914**	1,062
Operating income after depreciation	**492**	1,015
Dividend income—Note 4	**55**	58
Interest income/expense, net—Note 5	**-252**	-173
Other financial items—Note 6	**-282**	271
Income after depreciation and financial items	**13**	1,171
Gain on the sale of flight equipment—Note 8	**452**	245
Gain on the sale of fixed assets, etc.—Note 9	**466**	104
Unusual items—Note 10	**-768**	-60
Income before extraordinary items	**163**	1,460
Extraordinary items—Note 11	**-801**	–
Income before allocations and taxes[2]	**-638**	1,460

[1] Starting in 1990, SAS Airline's traffic revenue is reported after deductions for discounts. Figures for 1989 have been adjusted accordingly.
[2] Allocations and taxes are made by the SAS Consortium's parent companies.

SAS CONSORTIUM BALANCE SHEET

MSEK ASSETS	1990	1989
Current Assets		
Liquid funds—Note 13	**10,664**	5,816
Accounts receivable, subsidiaries	**3,302**	3,286
Accounts receivable	**1,485**	1,554
Prepaid expense and accrued income	**678**	662
Paid-in capital receivable	**–**	700
Other accounts receivable	**833**	1,173
Expendable spare parts and inventory—Note 14	**408**	433
Prepayments to suppliers	**28**	34
Total current assets	**17,398**	13,658
Fixed assets		
Stocks and participations in subsidiaries—Note 16	**1,351**	1,454
Other stocks and participations—Note 16	**89**	178
Long-term accounts receivable, subsidiaries and affiliated companies—Note 19	**1,050**	648
Other long-term accounts receivable	**483**	588
Intangible assets—Note 18	**252**	420
Long-term prepayments to suppliers—Note 20	**1,402**	1,702
Fixed assets—Note 21		
Construction in progress	**162**	169
Aircraft	**10,068**	7,816
Spare engines and spare parts	**653**	785
Maintenance and aircraft servicing equipment	**156**	118
Other equipment and vehicles	**570**	838
Buildings and improvements	**1,131**	968
Land and improvements	**67**	80
Total fixed assets	**17,434**	15,764
TOTAL ASSETS	**34,832**	29,422
Assets pledged, etc.—Note 29	**11**	12

MSEK LIABILITIES AND EQUITY	1990	1989
Current liabilities		
Accounts payable, subsidiaries	**789**	532
Accounts payable, suppliers	**828**	771
Accrued expense and prepaid income	**3,122**	2,493
Unearned transportation revenue, net—Note 22	**1,268**	970
Current portion of long-term debt	**766**	325
Other current liabilities	**3,237**	3,907
Total current liabilities	**10,010**	8,998
Long-term debt		
Bond issues—Note 23	**9,144**	7,916
Other loans—Note 24	**3,803**	1,321
Other long-term debt	**1,861**	107
Total long-term debt	**14,808**	9,344
Subordinated debenture loan—Note 26	**879**	806
Reserves—Note 27	**135**	37
Equity—Note 28		
Capital		
DDL	**2,754**	2,508
DNL	**2,754**	2,508
ABA	**4,130**	3,761
Total capital	**9,638**	8,777
Net income for the year	**–638**	1,460
Total equity	**9,000**	10,237
TOTAL LIABILITIES AND EQUITY	**34,832**	29,422
Contingent liabilites—Note 30	**870**	708

STATEMENTS OF CHANGES IN FINANCIAL POSITION

MSEK	SAS GROUP 1990	SAS GROUP 1989	SAS CONSORTIUM 1990	SAS CONSORTIUM 1989
THE YEAR'S OPERATIONS				
Income before taxes	**-763**	2,206	**-638**	1,460
Depreciation	**1,178**	1,137	**730**	785
Revaluations, write-downs, etc.	**737**	–	**672**	–
Gain on the sale of fixed assets, etc.	**-701**	-1,037	**-918**	-349
Other, net	**-255**	-332	**-330**	-60
	-196	1,974	**-484**	1,956
Payments made to the parent companies	**-595**	-490	**-595**	-490
Funds provided by the year's operations	**-399**	1 484	**-1,079**	1,466
Change in:				
inventories[1]	**39**	-101	**160**	-12
current receivables	**320**	-547	**18**	-257
current liabilities	**1,170**	714	**1,320**	-137
Change in working capital	**1,529**	66	**1,498**	-406
Net financing from the year's operations	**1,130**	1,550	**419**	1,060
INVESTMENTS				
Aircraft	**-3,544**	-3,495	**-3,544**	-3,448
Spare parts	**-211**	-711	**-180**	-626
Buildings, improvements and other equipment	**-1,361**	-1,422	**-710**	-411
Stocks and participations, goodwill, etc.	**-535**	-4,294	**-257**	-1,239
Total investments	**-5,651**	-9,922	**-4,691**	-5,724
Advance payments for flight equipment, increase (–), decrease (+), net	**250**	-158	**300**	-184
Sale of fixed assets, etc.	**1,541**	2,035	**2,726**	1,012
Other	**–**	–	**–**	72
Net investments	**-3,860**	-8,045	**-1,665**	-4,824
Financing deficit	**-2,730**	-6,495	**-1,246**	-3,764
EXTERNAL FINANCING				
Long-term receivables, net	**946**	-2,247	**768**	-3,714
Repayment of long-term debt	**-578**	-1,104	**-325**	-850
Borrowings	**6,527**	7,011	**5,651**	6,970
Capital infusion from parent companies, new stock issue	**305**	1,750	**–**	1,750
Change in minority interest	**26**	20	**–**	–
Other	**–**	124	**–**	–
External financing, net	**7,226**	5,554	**6,094**	4,156
CHANGE IN LIQUID FUNDS				
(Cash, bank balances and short-term investments)	**4,496**	-941	**4,848**	392
Liquid funds at beginning of the year	**6,892**	7,833	**5,816**	5,424
Liquid funds at year-end	**11,388**	6,892	**10,664**	5,816

[1] For 1990, includes 135 MSEK which was reported under fixed assets in 1989 as spare parts.

NOTES TO THE FINANCIAL STATEMENTS

Significant valuation and accounting principles

General

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

The value of equity in Saison Holdings B.V. is based on an annual report prepared in accordance with U.K. GAAP. See Note 17.

The financial statements of the SAS Consortium are prepared in accordance with generally accepted auditing standards in Scandinavia. The SAS Group's fiscal year corresponds to the calendar year, and the financial statements are stated in millions of Swedish kronor (MSEK) unless otherwise indicated.

International Accounting Standards (IAS) deviate in the following respects from Danish, Norwegian and Swedish accounting practices.

– Affiliated companies

IAS require that shareholdings in other companies which amount to between 20 and 50 percent be reported according to the equity method.

– Receivables and liabilities in foreign currencies

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

– Capitalization of borrowing costs

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

– Leasing

According to IAS, the two main forms of leasing, financial and operational, are treated differently. Classification as a financial or operational lease depends on the extent to which the risks and advantages of ownership are transferred over to the leasor. Financial leases, in accordance with IAS, should be reported among fixed assets in the Balance Sheet, while the leasing commitment is to be reported among liabilities. Leasing costs for operational leasing are to be reported over income.

– Taxes

According to IAS, taxes attributable to a particular accounting period should be reported for that period, even if the tax is not paid until some later accounting period.

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. The consolidated financial statements also include the consortia Scanair and SAS Commuter. 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 stocks and participations.

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

Holdings in major affiliated companies in which the SAS Group's ownership is between 20 and 50 percent, or in which the SAS Group has a controlling interest, are reported according to the equity method.

Principles of consolidation

The consolidated financial statements are prepared in accordance with the purchase method, whereby the Group's acquisition value of stocks and participations is offset against equity in the acquired companies, including the equity share in untaxed reserves at the date of acquisition.

Accordingly, the Consolidated Balance Sheet includes equity in acquired companies only to the extent that it was earned after the date of acquisition.

The difference between acquired equity and the SAS Group's reported acquisition value is reported either as an adjustment of the subsidiaries' assets and liabilities, or as consolidated goodwill/negative goodwill.

In accordance with the equity method, the SAS Group's book value of stocks in major affiliated companies corresponds to the Group's share of the affiliated companies' equity, including 60 percent of untaxed reserves and any residual values of acquired surplus/deficits which arise upon the acquisition calculation. Regarding the reporting of equity in Saison Holdings B.V., see note 17. The SAS Group's share of affiliated companies' income before allocations and taxes, adjusted for depreciation/dissolution of acquired surplus/deficit values, is reported in the Consolidated Statement of Income. The SAS Group's tax expense includes the Group's share of affiliated companies' reported taxes and estimated taxes on allocations.

Translation of foreign subsidiaries' financial statements

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

Other valuation and accounting principles

Receivables and liabilities in currencies other than Swedish kronor (SEK)

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

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

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

Exchange rates to SEK for some principal currencies are:

		Year-end rate		Average rate	
Currency		**1990**	1989	**1990**	1989
Denmark	DKK 100	**97.45**	94.35	**95.70**	88.23
Norway	NOK 100	**95.90**	94.25	**94.45**	93.36
USA	USD	**5.71**	6.23	**5.98**	6.46
U.K.	GBP	**10.83**	9.97	**10.48**	10.62
Switzerland	CHF 100	**439.71**	402.76	**424.91**	395.14
Germany	DEM 100	**375.35**	366.80	**365.67**	342.14
Japan	JPY 100	**4.21**	4.34	**4.09**	4.71
	ECU[1]	**7.70**	7.39	**7.48**	7.01

[1] European Currency Unit

Expendable spare parts and inventory

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

Fixed assets and depreciation

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

For new flight equipment acquired in 1988 and later, a reducing balance method of depreciation is applied over the economic life of such investments, meaning that the asset is fully depreciated after approximately 19 years.

This method results in an even distribution of capital costs over the useful lives of the assets and a favorable matching of costs and revenues. This also provides an accurate picture of the aircrafts' residual values over time. According to this schedule, depreciation during the first year amounts to 2 percent, thereafter increasing by 0.33 percentage points annually, i.e., 2 1/3 percent in the second year, 2 2/3 percent in the third year, and so on.

Older flight equipment (DC–10s) is depreciated on a straight-line method with a 10 percent residual value in accordance with planned depreciation schedules. The depreciation period is 12 years.

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

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

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

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

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

Pension commitments

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

Traffic revenue

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

The value of tickets sold but not yet used is reported as unearned transportation revenue. This item is reduced either when SAS or another airline completes the transportation or after the ticketholder has requested a refund.

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

Maintenance costs

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

Due to the makeup of SAS's fleet, with a predominance of DC–9s and MD–80s, maintenance costs are spread relatively evenly over time. Thus, no provisions are made for future maintenance costs with respect to owned aircraft and other assets. In addition, no provisions are made for the Boeing 767s acquired in 1989 and 1990.

Other income and expense

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

Extraordinary income and expense

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

SAS Consortium

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

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

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

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

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

Definitions of financial terms and ratios

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

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

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

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

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

Equity/assets ratio. Equity plus deferred taxes and minority interests as a percent of total assets.

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

Note 1 – Operating revenue

	1990	1989
Traffic revenue:		
Passengers	**16,476**	14,510
Freight	**1,139**	1,108
Mail	**217**	224
Other	**338**	447
Other operating revenue	**4,229**	4,220
SAS Consortium operating revenue	**22,399**	20,509
Subsidiary operating revenue	**11,612**	10,172
Group eliminations	**–2,128**	–1,895
SAS Group operating revenue	**31,883**	28,786

Subsidiary operating revenue includes traffic revenue totaling 1,215 MSEK (1,286) from Scanair.

Starting in 1990, SAS Airline's traffic revenue is reported after deducting discounts, which amounted to 740 MSEK (685). Figures for 1990 have been adjusted accordingly.

Reversals of unnecessary reserves for unearned transportation revenue have added 263 MSEK (381) to traffic revenue. See the preceding section "Traffic revenue" in principles of accounting.

Note 2 – Operating expenses

	SAS Group		SAS Consortium	
	1990	1989	**1990**	1989
Personnel/payroll costs	**10,941**	9,418	**7,022**	6,428
Aircraft fuel	**2,119**	1,696	**1,873**	1,457
Other operating expenses	**16,812**	15,014	**12,098**	10,547
Total	**29,872**	26,128	**20,993**	18,432

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

Note 3 – Depreciation, etc.

	SAS Group		SAS Consortium	
	1990	1989	**1990**	1989
Goodwill and intangible assets	**62**	65	**24**	22
Aircraft	**345**	311	**312**	282
Spare engines and spare parts	**56**	126	**34**	125
Maintenance and aircraft servicing equipment	**60**	24	**48**	13
Other equipment and vehicles	**516**	491	**246**	272
Buildings and improvements	**139**	120	**66**	71
Sub-total	**1,178**	1,137	**730**	785
Leasing costs for additional aircraft capacity	**184**	277	**184**	277
Total	**1,362**	1,414	**914**	1,062

Flight equipment is depreciated on a reducing balance over the investments' economic lives, resulting in full depreciation after 19 years. This method is considered to accurately reflect the aircraft's residual value development.

Note 4 – Dividends

SAS Consortium	1990	1989
Dividends from:		
SAS Service Partner A/S	43	19
SAS International Hotels A/S	–	14
Vingresor AB	–	11
Diners Club Nordic A/S	–	2
Dividends from subsidiaries	43	46
Dividends from affiliated companies	3	11
Other dividends	9	1
Total dividends	55	58

Note 5 – Interest, net

SAS Group	1990	1989
Interest income	1,198	913
Interest expense	–1,712	–1,226
Capitalized interest on prepaid aircraft	147	144
Interest, net	–367	–169

SAS Consortium	1990	1989
Interest from subsidiaries	393	320
Other interest income	1,036	697
Total interest income	1,429	1,017
Interest paid to subsidiaries	–224	–115
Other interest expenses	–1,457	–1,075
Total interest expenses	–1,681	–1,190
Interest, net	–252	–173

Capital gains on disposals of bonds are reported as other interest income and amounted to 10 MSEK (1989: interest expense of –41).

Note 6 – Other financial items

SAS Group	1990	1989
Currency exchange losses on long-term receivables/debt (net)	–20	–62
Allocation of accrued currency exchange gains in 1988	73	73
Other currency exchange differences	15	98
Currency exchange differences, net	68	109
Issue expenses on loans	–12	–32
Other	43	–6
	31	–38
Total other financial items, net	99	71

Of the SAS Group's currency exchange differences in 1990, 42 MSEK is unrealized.

SAS Consortium	1990	1989
Currency exchange gains/losses on long-term receivables/debt	24	–86
Reversal of unnecessary currency equalization reserve, as per 12/31/88	–	280
Other currency exchange differences	–295	92
Currency exchange differences, net	–271	286
Issue expenses on loans	–12	–27
Other	1	12
	–11	–15
Other financial items, net	–282	271

Of the SAS Consortium's currency exchange differences in 1990, 11 MSEK is unrealized.

Note 7 – Share of income in affiliated companies

SAS Group	1990	1989
Saison Holdings B.V.	–152	6
Airlines of Britain Holdings PLC	–53	–23
Linjeflyg AB	–	71
LanChile S.A.	–25	–
Aviation Holdings PLC	36	3
Polygon Insurance Company Ltd.	5	17
Grønlandsfly A/S	–9	0
Turfin S.R.L.	0	–
Tenerife Sol S.A.	–2	–8
Bennett Reisebureau A/S	4	2
Spanair S.A.	4	1
TMG Sverige AB	3	3
Widerøe's Flyveselskap A/S	5	–1
Club de Vacaciones S.A.	3	–
Other affiliated companies	25	12
Total	–156	83

Share of income in affiliated companies is reported before taxes and is based on the companies' unaudited preliminary reports. Share of income includes depreciation of goodwill totaling 27 MSEK (10).

Note 8 – Gain on the sale of flight equipment

In 1990 fifteen DC–9s, one DC–10 and five Fokker 27s were sold in connection with the changeover to a new aircraft fleet. SAS Airline leased back the DC–9s and the DC–10 from the purchasers for a short period (operational leasing) in order to maintain capacity during the transition to MD–80s and Boeing 767s. An allocation of 290 MSEK has been made for future additional costs associated with the leasing of these aircraft.

	1990	1989
SAS Airline	452	245
Scanair	–	41
Total	452	286

Note 9 – Gain on the sale of fixed assets, etc.

SAS Group	1990	1989
Hotel properties/operations in SIH	12	686
Property, other	34	35
Stock in Linjeflyg AB	196	–
Operations in SAS Service Partner	–	30
Stocks	7	–
Total	249	751

SAS Consortium	1990	1989
Stocks	432	104
Properties	34	–
Total	466	104

Note 10 – Unusual items

SAS Group	1990	1989
Allocation to shareholding reserve for associated and affiliated companies	–780	–60
Allocation to reserve for pension commitments	–118	–
Total	–898	–60

SAS Consortium	1990	1989
Write-down of receivables in subsidiaries, etc.	–366	–
Allocation to shareholding reserve	–402	–60
Total	–768	–60

Note 11 – Extraordinary items

SAS Group	1990	1989
Restructuring costs (severance pay, early retirement)	–165	–
Development costs, write-downs of intangible assets, etc.	–636	–
Total	–801	–

SAS Consortium	1990	1989
Restructuring costs	–165	–
Development costs, write-downs of intangible assets, etc.	–636	–
Total	–801	–

Note 12 – Subsidiaries' and affiliated companies' taxes

SAS Group	1990	1989
Taxes payable by subsidiaries	–106	–115
Full taxes payable by affiliated companies	–18	–90
Allocation(–)/reversal (+) of deferred tax pertaining to untaxed reserves	24	–12
Total	–100	–217

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

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

Note 13 – Liquid funds

	SAS Group		SAS Consortium	
	1990	1989	1990	1989
Cash and bank accounts	1,364	857	783	235
Short-term investments	10,024	6,035	9,881	5,581
Total	11,388	6,892	10,664	5,816

The balance of the liquid funds of the SAS Consortium includes 77 MSEK (63) in a restricted tax deduction account in Norway.

On December 31, 1990 short-term investments consisted primarily of special borrowing from banks, government securities, and housing loans/bonds. Short-term investments are reported at the lower of cost or market value.

Uncompleted interest arbitrage transactions are reported net and amounted to 1,821 MSEK (1,147) on December 31, 1990. No assets have been pledged.

Note 14 – Expendable spare parts and inventory

	SAS Group		SAS Consortium	
	1990	1989	1990	1989
Expendable spare parts, flight equipment	492	413	298	332
Expendable spare parts, other	76	74	67	67
Inventory	301	286	43	34
Total	869	773	408	433

Note 15 – Restricted accounts

SAS Group	1990	1989
Development reserve	1	1
Special investment reserve	95	90
Regional development reserve	2	2
Total	98	93

Note 16 – Stocks and participations

	Number of shares	Percent holding		Par value in 000s	Book value
SAS Consortium					
Subsidiaries					
SAS Holding A/S, Copenhagen	600,000	100	DKK	600,000	853.1[1]
SAS Leisure AB, Stockholm	3,000,000	100	SEK	300,000	300.0
SAS International Hotels Holding A/S, Oslo	100,000	100	NOK	100,000	138.7
SAS Flight Academy Holding AB	20,000	100	SEK	2,000	100.0
SAS Service Partner A/S, Copenhagen	90,000	100	DKK	90,000	70.5
Diners Club Nordic A/S, Oslo	25,100	100	NOK	25,100	70.0
Scandinavian Aero Engine Services AB, Stockholm	450,000	75	SEK	45,000	45.0
SAS Ejendom A/S, Copenhagen	20,000	100	DKK	20,000	31.9
Scandinavian Multi Access Systems AB, Stockholm	200,000	100	SEK	20,000	20.5
Scandinavian Airlines Data Holding A/S, Copenhagen	20,000	100	DKK	20,000	18.9
SAS Media Partner AB, Stockholm	5,000	100	SEK	500	9.8
SAS Capital B.V., Rotterdam	501	100	NLG	2,500	7.7
Bromma Tryck AB, Stockholm	9,000	100	SEK	900	1.8
Danair A/S, Copenhagen	1,710	57	DKK	1,710	1.2
Travel Management Group Norway A/S, Oslo	50,000	100	NOK	5,000	1.1
SAS Trading Holding A/S, Copenhagen	300	100	DKK	300	0.9
SAS Oil Denmark A/S, Copenhagen	300	100	DKK	300	0.2
InterSAS B.V., Amsterdam	104	100	NLG	104	0.2
Other					0.9
Shareholding reserve					(321.0)
Total stocks and participations in subsidiaries					1,351.4

[1] After transfers of 60 MSEK to the shareholding reserve on December 31,1989.

	Number of shares	Percent holding		Par value in 000s	Book value
Affiliated companies					
Amadeus, Madrid	13,313	25	ESB	1,331,300	73.8
Amadeus, Munich	210	25	DEM	2,125	7.3
Grønlandsfly A/S, Godthåb	219	37.5	DKK	9,000	22.6
Polygon Insurance Co. Ltd., Guernsey	5,825,810	33	GBP	5,826	19.0
Travel Management Group Sweden AB, Stockholm	900,000	23	SEK	9,000	10.5
Scandinavian Info Link AB, Stockholm	13,334	34	SEK	10,333	10.3
Widerøe's Flyveselskap A/S, Oslo	26,622	22	NOK	2,662	1.1
Copenhagen Excursions A/S, Copenhagen	294	24.5	DKK	294	1.0
Scanator AB, Stockholm	500	50	SEK	50	0.1
Malmö Flygfraktterminal AB, Malmö	1,455	40	SEK	146	0.0
Other					0.2
Shareholding reserve					(81.0)
Total, affiliated companies					64.9
Other companies					
Norwegian Show Case A/S, Oslo	3,750	9	NOK	3,750	5.4
Dar-es-Salaam Airport Handling Co. Ltd, Dar-es-Salaam	27,000	15	TAS	2,700	1.4
Airline Tariff Publishing Company, Washington D.C.	17,737	4.2	USD	18	0.4
Other					17.4
Total other companies					24.6
Total other stocks and participations					89.5

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

	Number of shares	Percent holding		Par value in 000s	Book value
SAS Group					
Stocks and participations owned by other Group companies					
Continental Airlines Holdings Inc.	7,303,000	16.8	USD	73,030	692.0
Coronado A/S, Oslo	699,999	19.9	NOK	147,000	141.0
Copenhagen International Hotels K/S, Copenhagen		10	DKK	119,000	116.0
Other					35.0
Shareholding reserve					(614.0)
Total					370.0

The market value of SAS's Continental Airlines Holdings Inc. stock totaled 78.2 MSEK on December 31, 1990.

Note 16, continued

	Number of shares	Percent holding		Par value in 000s	Book value
Affiliated companies owned by other Group companies					
Saison Holdings B.V.	400	40	USD	500,000	2,786.8
Airlines of Britain Holdings PLC (ABH), Derby	14,937,312	24.9	GBP	3,734	208.5
Aviation Holdings PLC	20,000,000	24.1	USD	2,000	147.8
SIHSKA A/S, Copenhagen	17,720	50	DKK	17,720	13.8
Spanair S.A., Madrid	367,500	49	ESB	367,500	19.6
Tenerife Sol S.A.	23,000	50	ESB	230,000	29.6
SAS Royal Viking Hotel AB, Stockholm	20,000	25	SEK	2,000	1.0
LanChile S.A.	95,089,014	35	USD	36,151	178.2
Turfin S.R.L.	7,200,000	32	ITL	7,200,000	39.3
Toivelomat OY	250	50	FIM	2,500	3.9
Plusresor AB	165	33	SEK	165	1.4

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

Note 17–Equity in affiliated companies

SAS Group	1990	1989
Saison Holdings B.V.	2,787	2,787
Airlines of Britain Holdings PLC (ABH)	209	255
Linjeflyg AB	–	255
LanChile S.A.	178	–
Aviation Holdings PLC	148	131
Amadeus	81	39
Polygon Insurance Company Ltd.	89	81
Grønlandsfly A/S	46	56
Turfin S.R.L.	39	–
Tenerife Sol S.A.	30	4
SIHSKA A/S	14	15
Bennett Reisebureau A/S	–	18
Spanair S.A.	20	15
TMG Sverige AB	13	24
Widerøe's Flyveselskap A/S	10	6
Other affiliated companies	20	14
Shareholding reserve	(226)	–
Total	3,458	3,700

Equity in affiliated companies includes acquired surplus in ABH, written down to 163 MSEK.

Saison Holding B.V.'s annual report is prepared in accordance with U.K. GAAP.

In addition to the year's share of income after taxes and minority interests, totaling –182 MSEK, the value of equity has been affected by currency exchange differences, etc. of 325 MSEK and the effect of goodwill incurred in connection with company acquisitions, totaling –143 MSEK. In accordance with U.K. GAAP, the latter is directly written off against Saison Holdings B.V.'s equity.

Saison Holdings has an unreported, deferred tax liability which would arise on the sale of all its assets. The SAS Group's share of this liability amounts to 210 MUSD. It is unlikely that assets will be sold to the extent that this deferred tax becomes activated.

In accordance with U.K. GAAP, no depreciation is made of buildings and long-term leasing contracts. The continuous maintenance of the properties is judged to assure that the book values at least correspond to the market values. Depreciation of these assets would result in an approximate MSEK 65 charge against the SAS Group's income.

Note 18–Goodwill and other intangible assets

SAS Group	1990	1989
Consolidated goodwill	235	301
Development costs	80	233
Other intangible assets	203	228
Total	518	762

SAS Consortium	1990	1989
Development costs	49	192
Other intangible assets	203	228
Total	252	420

Other intangible assets include a non-recurring payment made for access to and user-rights for the terminal at Newark Airport outside New York. Development costs carried forward from Dec. 31, 1989 were written down by 186 MSEK in the SAS Group and 176 MSEK in the SAS Consortium.

Note 19–Long-term accounts receivable, subsidiaries and affiliated companies

SAS Consortium	1990	1989
SAS Trading Holding A/S	3	11
SAS Leisure AB	324	309
SMART AB	25	94
SAS International Hotels A/S	138	148
SAS Oil Denmark A/S	14	15
SAS Data Sverige AB	40	–
SAS Commuter	56	–
Scandinavian Aero Engine Services AB	46	–
SAS Media Partner AB	8	–
SAS Flight Academy AB	353	–
SAS Holding B.V.	36	–
SAS Capital B.V.	–	61
Other	7	10
Total	1,050	648

Note 20 – Long-term advance payments to suppliers

SAS Consortium	1990	1989
Boeing (B-767)	**537**	928
McDonnell Douglas (MD-80)	**822**	440
Fokker (F-50)	**38**	274
Other (engines)	**5**	60
Total	**1,402**	1,702

In the SAS Group, an additional 50 MSEK (0) pertained to long-term advance payments by SAS Group subsidiaries.

Note 22 – Unearned transportation revenue

Unearned transportation revenue consists of sold, but unutilized, tickets. See p. 42, Accounting Principles.

The reserve for unearned transportation revenue is estimated at 220 MSEK (200) on December 31, 1990.

Note 21 – Fixed assets

	Cost		Accumulated depreciation		Book value	
SAS Group	1990	1989	1990	1989	1990	1989
Construction in progress	**459**	734	**–**	–	**459**	734
Aircraft	**13,344**	10,496	**1,984**	2,250	**11,360**	8,246
Spare engines and spare parts	**1,549**	1,379	**539**	574	**1,010**	805
Maintenance and aircraft servicing equipment	**529**	422	**328**	272	**201**	150
Other equipment and vehicles	**4,104**	3,326	**2,258**	1,842	**1,846**	1,484
Buildings and improvements	**3,135**	2,359	**631**	500	**2,504**	1,859
Land and land improvements	**202**	221	**3**	3	**199**	218
Total	**23,322**	18,937	**5,743**	5,441	**17,579**	13,496
SAS Consortium						
Construction in progress	**162**	169	**–**	–	**162**	169
Aircraft	**11,978**	10,026	**1,910**	2,210	**10,068**	7,816
Spare engines and spare parts	**1,160**	1,357	**507**	572	**653**	785
Maintenance and aircraft servicing equipment	**457**	375	**301**	257	**156**	118
Other equipment and vehicles	**1,777**	1,994	**1,207**	1,156	**570**	838
Buildings and improvements	**1,395**	1,175	**264**	207	**1,131**	968
Land and land improvements	**70**	83	**3**	3	**67**	80
Total	**16,999**	15,179	**4,192**	4,405	**12,807**	10,774

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

Cost, December 31, 1989	10,026	
Acquisitions (gross)	3,544	
Sales (gross)	–1,592	11,978
Accumulated depreciation, December 31, 1989	2,210	
Depreciation 1990	312	
Reversal of depreciation upon sale of aircraft, 1990	–612	1,910
Net book value, December 31, 1990		10,068

The insurance value of the aircraft was 19,260 MSEK on December 31, 1990. This includes the insurance value of leased aircraft in the amount of 2,547 MSEK.

Of the year's aircraft acquisitions, three (1989: 14) MD–80s and five B–767s were acquired formally through 10–15 year leasing contracts. On behalf of the SAS Consortium, a number of banks have agreed to pay all acccruing leasing fees and an agreed-upon residual value at the expiry of each leasing period for 15 (14) MD–80s. The SAS Consortium has irrevocably reimbursed the banks for these payments. The combined nominal value of the banks' payment commitment on behalf of the SAS Consortium was approximately 1,968 MSEK (2,285) on December 31, 1990.

With regard to other aircraft, the terms of the leasing contracts (especially pertaining to SAS's purchase options during the contract period and termination, and 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. The acquisition value these planes amounted to 2,285 MSEK. The value of the 22 (14) aircraft is reported at 4,036 MSEK (1,782) in the Balance Sheet.

Note 23 – Bond issues

The SAS Consortium's bond issues totaled 9,889 MSEK (8,175). Issues are in the following amounts and currencies:

SAS Group / SAS Consortium		1990	1989
USD	U.S. dollars	**4,758**	5,085
ECU	European Currency Units	**770**	739
NOK	Norwegian kronor	**912**	424
CHF	Swiss francs	**1,320**	806
JPY	Japanese yen	**555**	0
AUD	Australian dollars	**0**	249
SEK	Swedish kronor	**240**	50
LUF	Luxembourg francs	**73**	70
DKK	Danish kroner	**487**	0
FRF	French francs	**774**	752
		9,889	8,175
Less: repayments in 1991 and 1990, respectively		**–745**	–259
Total		**9,144**	7,916

Specification of individual issues:

		Interest rate	Tenor	Remaining debt in MSEK
150 M	Swedish kronor	11.500%	79/94	40
200 M	Norwegian kronor	11.625%	84/91	192
250 M	Norwegian kronor	10.125%	85/93	240
100 M	European Currency Units	9.000%	85/95	770
150 M	U.S. dollars	10.125%	85/95	857
400 M	Luxembourg francs	7.375%	87/94	73
100 M	U.S. dollars[1]	7.125%	88/98	582
100 M	U.S. dollars[2]	8.750%	88/91	542
50 M	U.S. dollars	10.650%	88/08	285
700 M	French francs	9.250%	89/99	774
200 M	U.S. dollars[3]	10.000%	89/99	1,225
200 M	U.S. dollars[4]	9.125%	89/99	1,267
100 M	Swiss francs	5.000%	89/01	440
100 M	Swiss francs	6.125%	89/99	440
100 M	Swiss francs	7.000%	90/00	440
500 M	Danish kroner	9.000%	90/00	487
500 M	Norwegian kronor	10.750%	90/95	480
200 M	Swedish kronor	14.000%	90/00	200
5,000 M	Japanese yen[5]	7.000%	90/98	183
10,000 M	Japanese yen[6]	6.921%	90/97	372
Total				9,889

[1] Through a currency swap transaction, SAS's repayment commitment has been partly changed to NOK. [2] In addition, 100,000 warrants were issued, entitling the purchaser to buy additional bonds up to a total of 100 MUSD during the tenor of the bond issue. These would carry an interest rate of 9.25 percent until the year 2003. [3] Through a currency swap transaction, SAS's repayment commitment has been partly changed to DKK and DEM. [4] Through a currency swap transaction, half of SAS's repayment commitment has been changed to DEM and JPY. [5] Through a currency swap transaction, SAS's repayment commitment has in principle been changed to USD. [6] Through a currency swap transaction, SAS's repayment commitment has in principle been changed to USD.

Bond issues are due for redemption as follows:

1991	745
1992	10
1993	250
1994 and thereafter	8,884
Total	9,889

Note 24 – Other loans

Other long-term loans of the SAS Group amount to 6,147 MSEK (1,970), of which the SAS Consortium accounted for 3,803 MSEK (1,321).

The loans are denominated in currencies as follows:

		SAS Group		SAS Consortium	
		1990	1989	1990	1989
ATS	Austrian schillings	**13**	34	**13**	34
NOK	Norwegian kronor	**–**	52	**–**	–
DKK	Danish kroner	**40**	52	**–**	–
SEK	Swedish kronor	**37**	36	**37**	36
JPY	Japanese yen	**1,801**	1,238	**1,782**	1,223
DEM	German marks	**28**	171	**–**	–
BEF	Belgian francs	**216**	190	**–**	–
NLG	Dutch guilders	**473**	212	**50**	49
GBP	British pounds	**2,249**	–	**624**	–
USD	U.S. dollars	**1,317**	–	**1,317**	–
Other		**5**	6	**–**	–
Total		**6,179**	1,991	**3,823**	1,342
Less repayments in 1991 and 1990, respectively		**–32**	–21	**–20**	–21
Total		**6,147**	1,970	**3,803**	1,321

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

1991	20
1992	9
1993	12
1994 and thereafter	3,782
Total	3,823

Note 25 – Other long-term debt

SAS Group	1990	1989
PRI	**35**	30
Other pension commitments	**244**	114
Deferred taxes	**176**	244
Accrued currency exchange gain	**140**	218
Other liabilities	**1,052**	680
Total	**1,647**	1,286

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

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

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

Note 26 – Subordinated debenture loan

A perpetual 200 million Swiss franc subordinated loan was floated during the 1985/86 fiscal year. There is no set maturity date on the loan. 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 percent p.a.

In 1990 SAS International Hotels issued convertible bonds for a value of 207 MSEK (par value 36.2 MUSD). The bonds carry an interest rate of 6 percent and can be converted to stock in SAS International Hotels A/S from the date of issue to May 31, 1997.

Note 27 – Reserves

SAS Consortium	Currency equalization reserve
January 1, 1990	37
Allocation	106
Reversal	–8
December 31, 1990	135

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

Note 28 – Equity

SAS Group	Paid-in capital	Legal reserve	Revaluation reserve	Retained earnings	Year's profit	Total equity
December 31, 1989	8,899	155	406	740	1,977	12,177
Income 1989	1,460			517	–1,977	
Transfer to parent companies	–595					–595
Allocation to statutory reserves		802	–2	–799		1
Change in translation difference		11		116		127
Capital:						
– SAS Commuter	247					247
Other		27		–21[1]		6
Profit/loss 1990					–866	–866
December 31, 1990	**10,011**	**995**	**404**	**553**	**–866**	**11,097**
SAS Consortium						
December 31, 1989	8,777				1,460	10,237
Income 1989	1,460				–1,460	
Transfer to parent companies	–595					–595
Other	–4					–4
Profit/loss 1990					–638	–638
December 31, 1990	**9,638**				**–638**	**9,000**

[1] Includes the effect of changed Group structure, etc.

Note 29 – Assets pledged

	SAS Group 1990	SAS Group 1989	SAS Consortium 1990	SAS Consortium 1989
Mortgages in real estate	**518**	529	**0**	2
Corporate mortgages	**15**	15	**–**	–
Receivables	**37**	62	**11**	10
Securities on deposit	**21**	26	**–**	–
Total	**591**	632	**11**	12

Note 30 – Contingent liabilities

	SAS Group 1990	SAS Group 1989	SAS Consortium 1990	SAS Consortium 1989
Travel guaranties	**–**	–	**426**	389
Guaranties for pension liabilities	**–**	–	**0**	1
Other contingent liabilities for subsidiaries	**–**	–	**–**	113
Total contingent liabilities for subsidiaries	**–**	–	**426**	503
Contingent liabilities	**687**	501	**215**	88
Pension commitments	**–**	–	**229**	117
Total	**687**	501	**870**	708

In addition to these contingent liabilities, certain commitments which could reach 59 MSEK (22) have been made formally through leasing agreements in connection with the acquisition of aircraft. (See note 21.)

Certain pension commitments are also in effect regarding pilots' right to retire at 55 years of age.

In early 1991 SAS pledged guaranties for a credit facility of up to 20 MGBP on behalf of Airlines of Britain Holdings.

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 1990. Our audit has been 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 "Significant Valuation and Accounting Principles."

In our opinion the Financial Statements present fairly the financial position of the SAS Group and the SAS Consortium on December 31, 1990, and the results of their operations for the fiscal year then ended, in accordance with the principles described above.

Stockholm, March 22, 1991

ARNE BRENDSTRUP	BERNHARD LYNGSTAD	ROLAND NILSSON
OLE KOEFOED	JACOB BERGER	SÖREN WIKSTRÖM

Authorized Public Accountants

FINANCIAL SUMMARY

TRAFFIC/PRODUCTION		1990	1989	1988	1987[3]	85/86
Number of cities served		**85**	81	79	82	89
Kilometers flown, scheduled	(millions)	**188.4**	169.4	152.9	138.9	135.9
Total airborne hours	(000)	**298.3**	268.3	243.7	221.2	217.5
Total numbers of passengers carried	(000)	**14,962**	14,005	13,341	12,662	11,708
Available tonne kilometers, total	(millions)	**3,278.4**	3,060.4	2,707.4	2,444.2	2,490.9
Available tonne km, charter		**12**	10.2	10.9	17	12.2
Available tonne km, scheduled		**3,266.4**	3,050.2	2,696.5	2,427.2	2,478.7
Revenue tonne km, scheduled	(millions)	**2,002.9**	1,876.5	1,719.7	1,597.6	1,560.9
Passengers and excess baggage		**1,514.5**	1,396.0	1,269	1,168.3	1,096.6
Freight		**429.8**	423.1	397.1	380.3	409.0
Mail		**58.6**	57.4	53.6	49	55.3
Total load factor, scheduled	(%)	**61.3**	61.5	63.8	65.8	63.0
Available seat km, scheduled	(millions)	**25,475**	23,320	20,941	19,019	18,849
Revenue seat km, scheduled	(millions)	**16,493**	15,229	14,027	13,207	12,471
Cabin factor, scheduled	(%)	**64.7**	65.3	67	69.4	66.2
Average passenger trip length	(km)	**1,102**	1,087	1,053	1,045	1,067
Traffic revenue/revenue tonne km	(SEK)	**9.26**	8.82	8.76	8.55	8.41
Airline oper., expense/avail. tonne km	(SEK)	**5.90**	5.50	5.40	5.47	5.26
Revenue tonne km/employee, scheduled		**99,000**	90,000	84,400	77,900	78,900
Revenue passenger km/employee, scheduled		**815,300**	730,400	688,400	644,000	630,700
GROUP, MSEK INCOME STATEMENTS*						
Revenue		**31,883**	28,786	27,556	24,288	21,585
Operating income before depreciation		**2,011**	2,658	2,681	1,850	2,216
Depreciation, etc.		**1,362**	1,414	1,174	993	863
Share of income in affiliated companies		**–156**	83	127	92	–
Gain on the sale of fixed assets, etc.		**701**	977	1,906	372	34
Unusual items		**–898**	–	–	–	–
Financial items, net		**–258**	–98	150	368	128
Income before extraordinary items		**38**	2,206	3,690	1,689	1,515
Extraordinary items		**–801**	–	–	–	–
Income before taxes		**–763**	2,206	3,690	1,689	1,515
STATEMENTS OF CHANGES IN FINANCIAL POSITION						
Net financing from the year's operations		**1,130**	1,550	1,885	2,559	1,625
Investments, total		**–5,651**	–9,922	–3,938	–3,493	–4,128
Sale of fixed assets, etc.		**1,791**	1,877	1,932	1,065	410
Financing deficit/surplus		**–2,730**	–6,495	–121	131	–2,093
Capital infusion from parent companies		**305**	1,750	–	1,050	–
Net borrowings		**6,921**	3,804	2,847	344	1,999
Change in liquid funds		**4,496**	–941	2,726	1,525	– 94
BALANCE SHEETS						
Liquid funds		**11,388**	6,892	7,833	5,107	3,582
Current assets, other		**6,362**	7,590	5,297	4,692	4,530
Fixed assets[1]		**24,265**	21,245	12,955	10,149	8,769
Current liabilities		**12,805**	11,508	9,200	6,852	6,729
Long-term debt[2]		**18,113**	12,042	7,698	6,372	5,322
Equity		**11,097**	12,177	9,187	6,724	4,830
Total assets		**42,015**	35,727	26,085	19,948	16,881
RATIOS						
Gross profit margin (GOP), %		**6**	10	10	8	10
Net profit margin, %		**–**	4	7	5	7
Return on capital employed, %		**6**	10	16	13	22
Equity/assets ratio, %		**27**	36	38	36	29

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

SAS CONSORTIUM[4], MSEK

INCOME STATEMENTS	1990	1989	1988	1987[3]	85/86
Traffic revenue	18,170	16,289	15,528	14,179	13,456
Other operating revenue	4,229	4,220	3,983	3,581	3,039
Operating revenue	22,399	20,509	19,511	17,760	16,495
Operating income before depreciation	1,406	2,077	2,175	1,344	1,772
Depreciation, etc.	914	1,062	808	730	690
Gain on the sale of fixed assets, etc.	918	289	965	319	- 10
Unusual items	- 768	–	–	–	–
Financial items, net	- 479	156	23	190	125
Income before extraordinary items	163	1,460	2,355	1,123	1,197
Extraordinary items	-801	–	–	–	–
Income before allocations and taxes	- 638	1,460	2,355	1,123	1,197
STATEMENTS OF CHANGES IN FINANCIAL POSITION					
Net financing from the year's operations	419	1,060	1,906	2,049	1,331
Investments in flight equipment	-3,724	-4,074	-1,622	-1,694	-2,961
Investments, other	- 967	-1,650	-1,296	-1,100	- 772
Sale of fixed assets, etc.	3,026	900	673	1,008	365
Financing deficit/surplus	-1,246	-3,764	-339	263	-2,037
Capital infusion from parent companies	–	1,750	–	1,050	–
Net borrowings	6,094	2,406	1,798	101	1,749
Change in liquid funds	4,848	392	1,459	1,414	- 288
BALANCE SHEETS					
Liquid funds	10,664	5,816	5,424	3,965	2,551
Current assets, other	6,734	7,842	4,124	3,273	3,328
Fixed assets	17,434	15,764	11,170	8,374	7,632
Current liabilities	10,010	8,998	6,839	4,641	4,796
Long-term debt	15,687	10,150	5,986	4,954	4,546
Equity and reserves	9,135	10,274	7,893	6,017	4,169
Total assets	34,832	29,422	20,718	15,612	13,511
RATIOS					
Gross profit margin (GOP), %	6	11	11	8	11
Net profit margin, %	–	6	7	5	7
Return on capital employed, %	7	11	16	12	21
Share of risk-bearing capital, %	26	35	38	39	31

PERSONNEL (average)					
Consortium	20,820	20,290	20,830	20,890	19,770
Group	40,830	39,060	36,150	34,900	31,770

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

GROUP MANAGEMENT

Sven A Heiding, Anders Claesson, Kurt Ritter
Lars Bergvall, Ivar Samrén, Christer Sandahl, Göran Lundqvist, Steffen Harpøth
Helge Lindberg, Jan Carlzon, Kjell Fredheim
(Not present: Terje Sunde Johnsen.)

SAS GROUP ORGANIZATION

SAS Group
Jan Carlzon
President and Chief Executive Officer

Group Management

Helge Lindberg
Deputy President

Anders Claesson
Senior Vice President Chief Financial Officer

Steffen Harpøth
Senior Vice President Group Controller

Terje Sunde Johnsen
Senior Vice President Business and Strategic Development

Lars Bergvall
Senior Vice President Business and Strategic Development

Sven A. Heiding
Senior Vice President Commercial Development

SAS Airline

Kjell Fredheim
Executive Vice President Chief Operating Officer

Per Stendebakken
Vice President Strategic Marketing

Vacant
Business Control

Leif Håkansson
Vice President Purchasing

Karl Miiro
Vice President Staff Relations

Lennart Svantemark
Vice President Foreign Affairs

Bengt Söderholm
Director Quality Audit

Mauritz Ljungman
Director Information

Business Units

Peter Højland
Vice President SAS Airline Denmark

Jan Reinås
Vice President SAS Airline Norway

Peter Forssman
Vice President SAS Airline Sweden

Vagn Sørensen
Vice President SAS Airline International

Per-Johan Orrby
Vice President SAS Cargo

Production Units

Björn Boldt-Christmas
Vice President Marketing Automation Division

Krister Kalin
Vice President Technical Division

Jan Sundling
Vice President Operations Divisions

Bjørn Grøn
Director Movement Control Center

SAS International Hotels

Kurt Ritter
President

Tom Johansen
Vice President Administration

Knut Kleiven
Operational Controller

Knut Regbo
Company Secretary

Roland Gaelens
Vice President Food & Beverages Operations

Paul Tribolet
Vice President Sales & Marketing

Christian Petzold
Vice President Technical Development

Finn Schultz
Director Management Information Systems

Bahram Sadr-Hashemi
Senior Vice President Operations Vice President Area Denmark, Austria and the Netherlands

Per Kjellström
Vice President Area Sweden and Finland

Bjørn Gullaksen
Vice President Area Norway, Belgium and Germany

Arild Hovland
Vice President Area Far East

SAS Service Partner

Ivar Samrén
President

Bengt Nordenstedt
Senior Vice President Business Area Restaurants

Per Braagaard
Vice President Finance

Vagn Haagensen
Vice President Personnel

Lennart Gustafsson
Vice President Corporate Strategy

SAS Trading

Göran Lundqvist
President

Sten Ramel
Director Finance

Olle Björk
Director Data & Information Systems

Jan-Eric Carlsson
Director Personnel Development

Sven-Gunnar Hjorth
Managing Director SAS Media Partner

SAS Leisure

Christer Sandahl
President

Ingvar Ståhl
Director, Finance and Business Control

Lennart Pellvik
Director, Commercial

Reidar Svedahl
Director Business Development

Per Hultman
Director Research and Strategic Development

Olle Tönnervik
Director Ving Sweden

P-O Nyhagen
Director Ving Norway

Thomas Rosenqvist
Managing Director (acting) Scanair

Claes Bernhard
Managing Director Sunwing Group

SAS Financial Services

Anders Claesson
Chief Financial Officer

Lars Thuesen
Vice President Chief Operating Officer, SAS Finance

Lars Kleivan
President Diners Club Nordic A/S

BOARD OF DIRECTORS

TAGE ANDERSEN
Born 1927. Chairman of SAS's Board 1990. Danish Chairman of SAS's Board since 1990 and Chairman of DDL's Board, 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.

CURT NICOLIN
Born 1921. Hon. Dr. Eng. First Vice Chairman of SAS's Board 1990. Swedish Chairman of SAS's Board since 1973 and Chairman of ABA's executive committee, as representative of the private Swedish owners. Chairman of the Boards of ASEA, ESAB, Fläkt, Incentive and SILA. Co-chairman of the Board of ABB Asea Brown Boveri. Member of the Boards of numerous companies and organizations.
Personal Deputy: Peter Wallenberg.

TOR MOURSUND
Born 1927. Supreme Court Attorney. Second Vice Chairman of SAS's Board 1990. Norwegian Chairman of SAS's Board since May 1983. Chairman of the Board of DNL, as representative of the Norwegian Government. Chairman of the Boards of Christiania Bank og Kreditkasse and Synergos A.S. Member of the Boards of numerous Norwegian companies.
Personal Deputy: Ragnar Chrisitiansen.

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

LARS P. GAMMELGAARD
Born 1945. B. Pol. Sc. Member of SAS's Board since 1991 and Vice Chairman of DDL's Board, as representative of the Danish Government. Chairman of the Danish Conservative Party and member of Danish parliament (Folketinget) since 1979. Minister of Fishing 1986-89.
Personal Deputy: Jimmy Stahr.

KRISTER WICKMAN
Born 1924. LL.B. and Ph.L. Member of SAS's Board since 1974 and Chairman of ABA's Board, as representative of the Swedish Government. President of the National Swedish Pension Insurance Fund 1981-90. Chairman of the Swedish Authors Foudation and member of the Boards of AGA, Pharos, Pleiad Real Estate and VPC (the Swedish Securities Register Center).
Personal Deputy: Bengt Dennis.

Employee Representatives

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

IB JENSEN
Denmark, born 1943. Member of SAS's board since 1990. Employed in SAS Airline Denmark.
Deputies: Hans Dall and Jens Tholstrup Hansen.

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

Jan Carlzon, Bjørn Eidem, Krister Wickman, Lars P. Gammelgaard,
Ralf Frick, Ib Jensen, Ingvar Lilletun,
Tor Moursund, Tage Andersen, Curt Nicolin

ASSEMBLY OF REPRESENTATIVES

Denmark

NIELS FRANDSEN
Vice Chairman
TAGE ANDERSEN
KARL BREDAHL
LARS P. GAMMELGAARD
JØRGEN L. HALCK
SVEND AAGE HEISELBERG
POVL HJELT
SVEND JAKOBSEN
AXEL AF ROSENBORG
JIMMY STAHR

Employee Representatives
HANS DALL
IB JENSEN
JENS THOLSTRUP HANSEN

Deputy
HANS P. TANDERUP

Norway

NILS J. ASTRUP
First Vice Chairman
MADS HENRY ANDENÆS
RAGNAR CHRISTIANSEN
BJØRN EIDEM
TORSTEIN LJØSTAD
TOR MOURSUND
GISLAUG MYRSET
JOHAN FR. ODFJELL
FRED. OLSEN
OLE RØMER SANDBERG

Deputies
GRO BALAS
HELGA GITMARK
BORGER A. LENTH
JANNIK LINDBÆK

Employee Representatives
RANDI KILE
INGVAR LILLETUN
SVEIN VEFALL

Deputies
ODD A. GILBOE
GUNNSTEIN MOEN
KJELL PAULSEN

Sweden

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

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

Employee Representatives
RALF FRICK
LEIF KINDERT
HARRY SILLFORS

Deputy
HANS LEVIN

AUDITORS

Denmark

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

OLE KOEFOED
Authorized Public Accountant
CENTRALANSTALTEN FOR REVISION
member firm
KPMG

Norway

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

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

Sweden

ROLAND NILSSON
Authorized Public Accountant
BOHLINS REVISIONSBYRÅ AB
member firm
KPMG

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

ADDRESSES

Head Office

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

Denmark:
SAS
P.O Box 150
DK-2770 Kastrup
Denmark
Visitors' address:
Hedegårdsvej 88
Telephone: +45-32-32 00 00

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

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

SAS's Scandinavian telex number is 22263 SASXT DK

Subsidiaries

SAS International Hotels A/S
Boulevard du Régent 45
B-1000 Brussels
Belgium
Telephone: +32-2-514 50 55

SAS International Hotels A/S
Elveveien 25B
N-1324 Lysaker
Norway
Telephone: +47-2-53 18 00

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

SAS Leisure AB
Sveavägen 25
S-105 20 Stockholm
Sweden
Telephone: +46-8-796 68 00

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

SAS Mediapartner AB
Gävlegatan 18
S-113 30 Stockholm
Sweden
Telephone: +46-8-729 75 00

Scandinavian Multi Access Systems AB
Box 1419
S-171 27 Solna
Sweden
Telephone: +46-8-735 05 00

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

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

Ostermann Petersen Bros. Ltd.
Jydekrogen 40
DK-2625 Vallensbæk
Denmark
Telephone: +45-43-63 05 33

Affiliated Companies

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

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

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

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

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

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

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

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

Grønlandsfly A/S
P.O. Box 1012
DK-3900 Godthåb
Greenland
Telephone: +299-244 88

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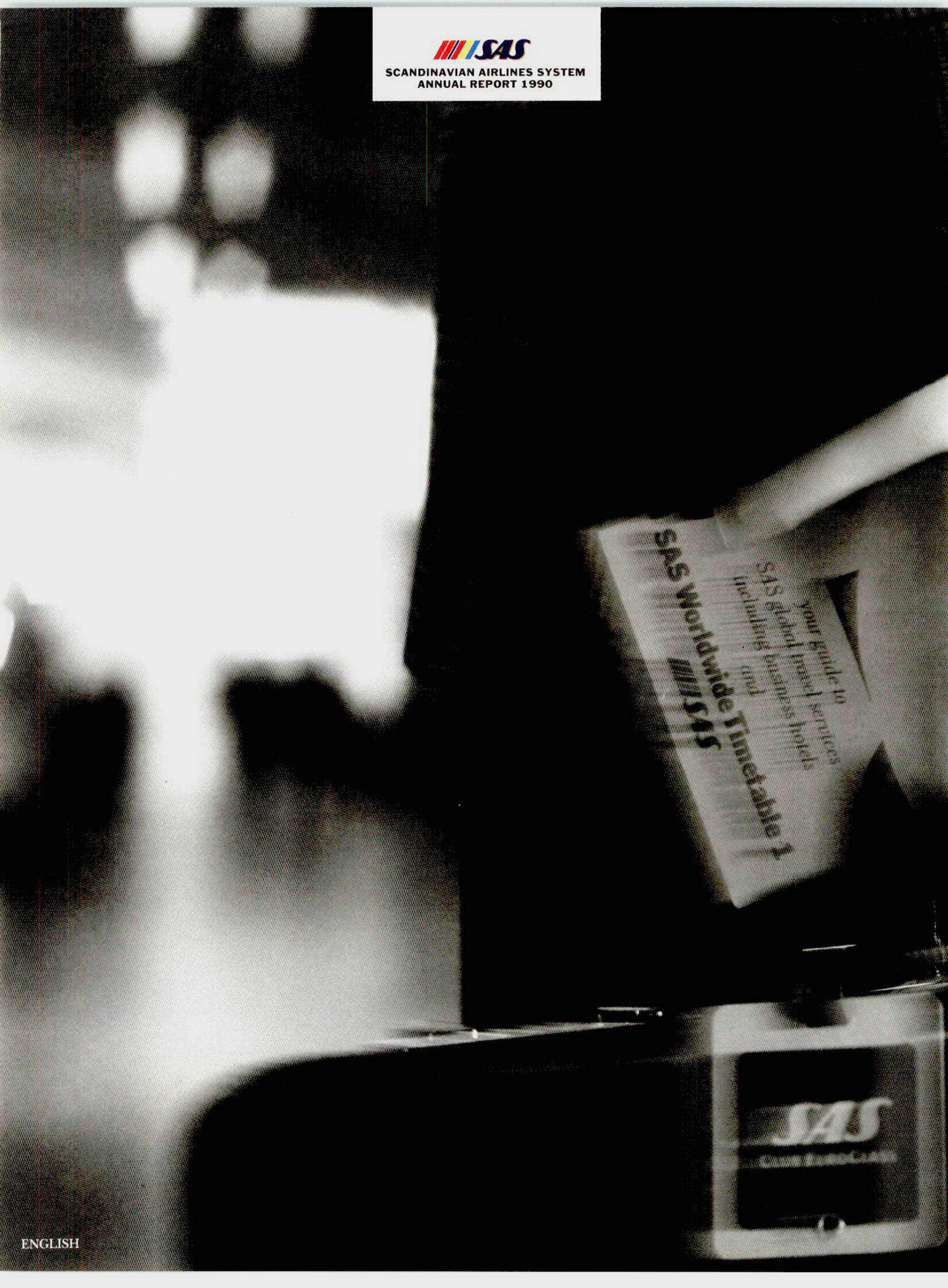

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