



Annual Report 1999

The SAS Group
SAS Danmark A/S • SAS Norge ASA • SAS Sverige AB
www.scandinavian.net

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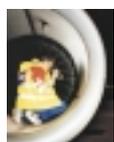
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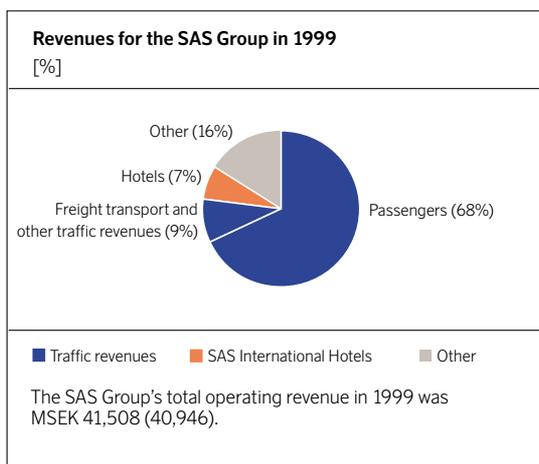
The Annual Report is available in Danish, Norwegian, Swedish and English. Certain English terms that are generally accepted throughout the airline industry are used in all four versions.

- SAS shall offer competitive flight connections in, between, to and from each of the Scandinavian countries via flights arranged either under its own auspices or together with selected partners.
- SAS prioritizes absolute safety, maximum punctuality and excellent personal service. SAS makes every effort to design its products and services to meet the market's general requirements, as well as the individual's specific wishes and the need for freedom of choice.
- SAS's operations shall maintain satisfactory profitability in terms of its owners' requirements for a return on their investments. SAS shall also be perceived as an attractive investment object.
- SAS is strongly committed to limiting the environmentally harmful effects of aviation.
- SAS encourages social development through its contributions to cultural life, as well as sports and education.



The SAS Group incorporates SAS's airline operations, including freight transports (SAS Cargo) and airport and in-flight sales (SAS Trading), as well as SAS International Hotels, which runs hotel operations under the name Radisson SAS Hotels & Resorts.

A description of SAS's legal structure is provided on page 66.



Summary of 1999

- **Excess capacity in the market**, a downward pressure on prices and a modified product mix were the main reasons for the decline in full-year-income.
- **The SAS Group's income before taxes** was MSEK 1,846 (2,857).
- **Operating revenue for the SAS Group** rose 1.4% to MSEK 41,508.
- **Passenger traffic (RPK)** increased 1.6%. Traffic in Economy Class rose 4%, while the number of passengers grew by 2.4%.
- **Cash flow from the operations** was MSEK 2,227 (3,807).
- **Capital gains** on the sale of shares and other fixed assets were MSEK 1,431 (1,016).
- **The average number of employees at the SAS Group** was 28,863 (27,071).
- **The Customer Satisfaction Index** rose from 70 to 74.
- **SAS decided to expand** its intercontinental operations.



Key indicators SAS Group, SAS and SAS International Hotels

	The SAS Group		SAS		SAS International Hotels	
	1999	1998	1999	1998	1999	1998
Operating revenue, MSEK	41,508	40,946	38,630	38,211	2,963	2,786
Income before taxes, MSEK	1,846	2,857	1,307	2,616	544	233
Gross profit margin, %	7	10	6	10	31	32
Investments, MSEK	5,870	6,112	5,720	5,554	150	557
CFROI, %	14	22	13	22	23	22
ROCE, market based, %	9	18	7	18	28	15
Average number of employees	28,863	27,071	25,754	23,992	3,071	3,041

Key indicators SAS share (local currency)

	SAS Danmark A/S		SAS Norge ASA		SAS Sverige AB	
	1999	1998	1999	1998	1999	1998
Earnings per share	7.34	11.60	7.49	11.51	8.41	12.77
Market price at year-end	77.00	72.80	87.00	64.00	76.00	74.50
Dividend (proposed for 1999)	3.50	3.15	3.75	3.70	4.00	4.00
Dividend yield, average price, %	4.7	3.0	5.2	3.7	5.3	3.8

Key indicators, SAS's goals

	1999	1998
Customer Satisfaction Index, CSI	74	70
Personnel index, PULS	108	106
Environmental efficiency index (index 100:1996)	89	96

For definitions and concepts, see page 114.
Environmental efficiency index, see page 59.

Events of note in 1999

First Quarter

- SAS experienced continued disruptions in the wake of the airspace rearrangements in Scandinavia known as Luftrum 98 (Airspace 98), as well as running-in problems at Oslo's Gardermoen airport.
- SAS sold 30% of its shareholding in the data network provider Equant N.V.
- SAS International Hotels sold its hotel property in Amsterdam.
- SAS EuroBonus won the Freddie Award for the third consecutive year.
- SAS won the 1998 Mercury Award in competition with 250 participants in the airline and catering industry.

Second Quarter

- SAS Cargo was chosen as Cargo Airline of the Year.
- SAS and Singapore Airlines launched a strategic alliance.
- Air New Zealand and Ansett Australia joined Star Alliance™.
- The SAS 2000+ change program was launched to the customers.
- SAS ordered another five deHavilland Q400 aircraft.
- Star Alliance signed a joint document known as the Environmental Commitment Statement, describing its undertakings in the environmental field.

Third Quarter

- SAS International Hotels (SIH) sold the Radisson SAS Portman Hotel property in London. SIH will in future be running the hotel via a long-term management contract.

Fourth Quarter

- All Nippon Airways joined Star Alliance.
- SAS announced its intention to sell part of its shareholding in British Midland to Lufthansa.
- SAS launched its new Internet site.
- SAS was the first airline to introduce a new safety system installed in all Boeing 737s.
- SAS's Board decided to acquire 10 Airbus aircraft for a total of SEK 10 billion. Up to 2004, these will gradually replace the Boeing 767s used in SAS's intercontinental traffic. The new aircraft reduce emissions per passenger seat by 10-20% compared with the Boeing 767.
- SAS sold additional shares in the data network provider Equant N.V.
- SAS formed a company with GECAS covering 30 Douglas MD-80 aircraft.
- Swedish business travellers named SAS the best domestic and overseas airline.

Main events since the end of the year

- There were no disruptions to SAS's traffic system during the transition to the new millennium.
- SAS launched a WAP service that allows mobile telephones to be used to book tickets.
- SAS was named best domestic airline in Norway and won the Grand Travel Award.
- SAS EuroBonus won the Freddie Award for the fourth consecutive year.
- SAS's Board decided to acquire new larger aircraft for Europe and Scandinavia, involving twelve Airbus A321-100s and options valued at SEK 4.5 billion. Delivery of the aircraft will start in the autumn of 2001.



“In collaboration with selected airlines, SAS shall offer competitive flight connections within, between and to and from each of the Scandinavian countries.”

During 1999, SAS flew 22.2 million passengers to 105 destinations in 32 countries, 96 of which in Europe, six in Asia and three in the US. SAS had over 1,000 daily departures and transported almost 285,000 tonnes of freight goods.

SAS has been a member of Star Alliance since 1997. This is the world’s largest global collaboration between airlines and consists of SAS, Air Canada, Air New Zealand, All Nippon Airways, Ansett Australia, Lufthansa, Thai Airways International, United Airlines and Varig. Via Star Alliance, as well as regional and other partners, SAS is able to offer more than 8,600 daily departures to just over 800 destinations in 114 countries.

Comments from the President

For SAS, 1999 was a demanding year, as indeed was the case in many parts of the airline industry. Traffic growth continued, but not to the same extent as previously, even though economic and business conditions were relatively favorable. Larger and more numerous aircraft were deployed during the year, adding to the excess capacity within the industry. The result was an increasing downward pressure on prices. There was also a change in travel patterns, and the number of Business Class travellers fell as more and more chose Economy Class. This development caught us and many of our competitors by surprise. This meant, unfortunately, that traffic planning failed to keep pace with market developments and customer wishes, which undermined profitability, leading to disappointing results for SAS in 1999. Operating income before depreciation decreased to MSEK 2,765 and we failed to achieve the financial goals we had set ourselves, either in terms of cash flow or return on capital. It should however be emphasized that certain improvements could be noted at the end of the year. Unit costs for the year as a whole fell 1.1%. Taking the final quarter in isolation, they were as much as 5.4% below the level the previous year. As was the case last year, SAS's hotel operations turned in a good performance.

Despite the poor performance of the market, we can look back on a year that included many achievements, both on the cost and the revenue sides.

While SAS's cost level is still altogether too high, we are implementing corrective measures within all divisions, as well as at the central level. The work on the improvement program described in last year's annual report accelerated during the second half of the year. Of the SEK 3 billion in total cost cuts that constitute the goal of the program for 2001, cuts of SEK 1 billion have already been effectuated and activities are under way in the framework of the ordinary budget to ensure that the remaining part of the cuts are made. Activities designed to increase productivity over and above the level specified by this program will also be required.

SAS had a series of successes in 1999. Radical efforts were successfully made during the second half of the year to remedy the shortcomings in basic quality with which we started the year, and SAS is now one of Europe's most punctual airlines. This was also one of the reasons for the improvement in customer rankings. The Customer Satisfaction Index, CSI, rose from 70 to 74. We also received a number of awards for our high quality standards, particularly from business travellers, confirm-

ing the fact that our new service, product and design program 2000+ has had the desired effect. The modern Scandinavian profile is clearly easy to identify with and has had an encouraging effect on our employees.

Renewal of the aircraft fleet

Alongside the work on renewing our product range, the SAS aircraft fleet is also being renewed. We are currently in the midst of a period of major undertakings. Decisions have been taken to acquire new aircraft and the total order value for the coming five-year period is around USD 3 billion.

The Boeing 737-600 is to replace a number of older aircraft on short and medium-haul flights and delivery of 22 deHavilland Q400s for regional traffic has begun. More importantly, a decision was taken in December to invest in 10 Airbus A330-300s and A340-300s for our intercontinental traffic. Deliveries begin in 2001 and will continue until 2004. This is more than just a replacement investment. It is also part of a conscious expansion strategy that is crucial to SAS's continued development as an intercontinental airline. The idea is to take advantage of the excellent demand situation as regards our long-distance routes, particularly over the North Atlantic. The new aircraft greatly increase our capacity while cutting our costs per seat.

From an environmental point of view the new aircraft represent a major, purposeful step forward.

As intercontinental passenger numbers increase, so do our chances of attracting passengers to our connecting flights in Europe and Scandinavia. The overcrowding at Europe's major airports has now rendered an increase in the number of routes virtually impossible. The only expansion option now open is to increase the size of the aircraft, which is why a decision was taken in February 2000 to invest in 12 Airbus 321-100s with an order value of just over SEK 4.5 billion.

Partners

SAS's alliance and partnership strategy has been a tremendous success. SAS's membership of the world's leading airline collaboration, Star Alliance, has become increasingly important, particularly on the revenue side. The alliance gives our customers access to a convenient global traffic system with high and constant quality standards as regards products. This system provides us with an increasingly important competitive edge. The income contribution in 1999 was MSEK 800. The alliance has

now been in existence for some three years. Its most important focus should now be to develop joint business concepts that are beneficial to our customers while also exploiting internal synergies.

New financing forms

It is crucial for the airline industry to optimize its capital structure and maintain a flexibility conducive to rapid adaptations to market developments. The market for various forms of aircraft financing is developing rapidly. An important step for SAS in this context was the agreement with General Electric Capital Aviation Services on forming a company to which 30 Douglas MD-80 aircraft have been transferred. Via a sale-leaseback agreement, SAS gains access to the aircraft for a period of 10 years, although they may also be returned at any time, either before or after this period. The transaction gives SAS the flexibility it requires, while also creating scope in the balance sheet for new investments.

SAS International Hotels (SIH)

SAS's hotel operations also deserve some attention. Considerable efforts have been focused on sales and productivity improvements, resulting in excellent results in 1999. The operations are growing rapidly as new management, leasing and franchise agreements are reached. The strategy consistently followed so far has been to develop into a streamlined service company for hotel operations with a decreasing number of property ownership commitments.

A positive trend and market recovery

1999 was thus a year of both success and adversity for SAS. The all-important thing is for our improvement efforts to lead to results, and this is exactly what is happening. Many of our figures are now beginning to look healthier: unit costs are falling and customer appreciation is increasing. Thanks to our employees, we can now pride ourselves on having given real substance to our claim to have created "a new SAS" where a year ago only its outer shell existed. Service, customer treatment and punctuality are the cornerstones of our industry, and our successes in these fields should be ascribed to our employees. The investment in our intercontinental fleet and the conscious expansion strategy we are currently implementing have helped to encourage personnel throughout the organization. But if we are to implement this strategy successfully and profitably, we need to be



prepared to make renewed efforts. Just as we are now meeting new customer requirements by providing new and better solutions, we must also endeavor to find new and more expedient forms for organizing and carrying out our tasks.

We are thus entering the new millennium with careful optimism, justified in part by the developments during the first months of this year, which have given us reason to believe in a market recovery.

I would like to conclude by saying how much I appreciate the outstanding efforts of all employees at SAS. They are responsible for the fact that our customers now perceive SAS as being one of Europe's top airlines.

Stockholm, March 2000

Jan Stenberg
President and CEO of the SAS Group

Business concept and goals

In collaboration with selected airlines, SAS shall offer competitive flight connections within, between and to and from the three Scandinavian countries.

Business concept

SAS's business concept is to serve the Scandinavian market while maintaining satisfactory profitability by offering flight services with a special focus on the frequent business traveller. SAS also offers travel products aimed at private travellers through the SAS Pleasure program. SAS Cargo provides a supplementary income contribution to SAS by offering efficient and profitable freight solutions together with partners.

Overall goals

SAS's overall goals are as follows: all customers should be satisfied with our airline and wish to fly with us again, and performance in terms of shareholder value should maintain a competitive level.

Financial goals

The goal for shareholder value can be divided into two sub-goals. One relates to the dividend yield and the other to SAS's financial performance. The dividend yield goal for shareholders is 14% of the sum of the annual change in the share price and the dividend, calculated over one business cycle. The financial goals are expressed in terms of:

- CFROI, Cash Flow Return On Investments over a business cycle, and
- market-based ROCE (Return On Capital Employed) over a business cycle.

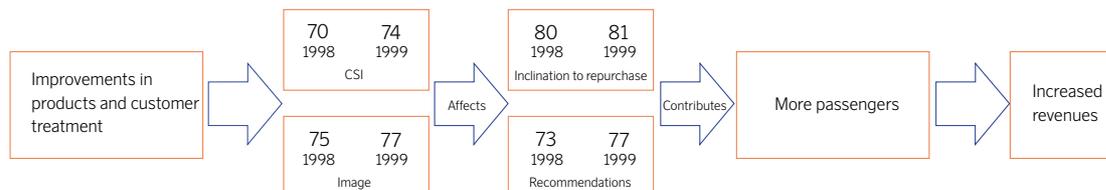
The financial goals are discussed in detail on page 15.

Customer goals

The SAS customer goal is that all customers shall want to fly with SAS again. The inclination to repurchase, i.e. the

Customer goals

Product improvements and a better treatment of customers enhance customer satisfaction and strengthen the company's image. This in turn increases passenger numbers and eventually generates higher revenues.



For definitions and concepts, see page 114.

customers' explicit intention to travel with SAS again, is measured annually and presented in the form of an index. This index has risen from 75 to 81 over the period 1996-1999.

SAS also measures the way the airline is perceived and assessed by its customers. The Customer Satisfaction Index, CSI, provides an indication of overall customer satisfaction with SAS, as well as of the extent to which SAS is perceived to meet customer expectations, and how close to/far from the "ideal" airline SAS is considered to be.

The CSI is an index with a maximum theoretical value of 100. A company whose customers really appreciate it should have an index of over 77. The CSI provides SAS with clear indications of where improvement measures should be implemented.

The factors most significant to customer satisfaction are:

- pleasant treatment
- punctuality and regularity
- product offering.



The CSI measurements started in 1996. The goal for 1999 was set at 74 and was met by SAS. The CSI rose a whole four units between 1998 and 1999. Customer satisfaction has thus increased significantly since the first year in 1996, when the outcome was 65. For 2000, the goal has been set at 77.

In order to increase customer satisfaction, SAS is concentrating on two main areas: things should always run smoothly with SAS and it should always be a pleasure to travel with SAS.

Quality goals

For some years now, SAS has had the airline industry's highest quality goals as regards regularity and punctuality. These goals include not cancelling flights and ensuring that flights leave at their scheduled departure times.

The quality goals are based on the assumption that there is always room for improvement. They are therefore measured as negative deviations from standard, in other words as irregularity and failure to be punctual.

In 1999, SAS was one of the absolute top performers in terms of quality compared with other European airlines. In spite of this, SAS failed to meet its own goals for a number of reasons, some of which SAS was able to influence and some of which were beyond its control, such as capacity shortage in terms of airspace and at airports, major weather problems and difficulties with the running in of Oslo's new airport, Gardermoen.

Personnel goals

SAS's personnel goals are to release the positive resources of its employees, developing its personnel and enhancing work satisfaction.

During the year, SAS has tried actively to involve its employees in the current development of the company's business and competitiveness. Extensive information

and discussion meetings have been held regarding the requirements imposed on all employees as regards improved profitability and efficiency. The cornerstones of this process are understanding and participation. The structural changes discussed (e.g. partnership companies and other company forms) have met with resistance from certain personnel groups.

Traditionally, SAS performs annual PULS surveys (PULS = *Personal Undersökningar om Livet i SAS*, in English: "Personnel Surveys on Life at SAS") of all personnel groups. The survey measures the employees' perception of the working climate at SAS. The result for 1999 shows that the index has risen to 108, two units higher than the previous year.

Environmental goals

One of SAS's goals is to be one of the airline industry's leaders in terms of adapting its operations to the environment and integrating environmental management into the business management process. The ambitions of the environmental program and the quality that SAS is endeavoring to achieve in terms of its environmental performance are listed below:

- SAS shall implement one of the airline industry's most ambitious environmental programs.
- SAS shall maintain an environmental standard equal to that of its principal competitors in the industry.
- SAS's environmental goals and environmental measures shall be coordinated and harmonized with other goals for production, quality and finance.

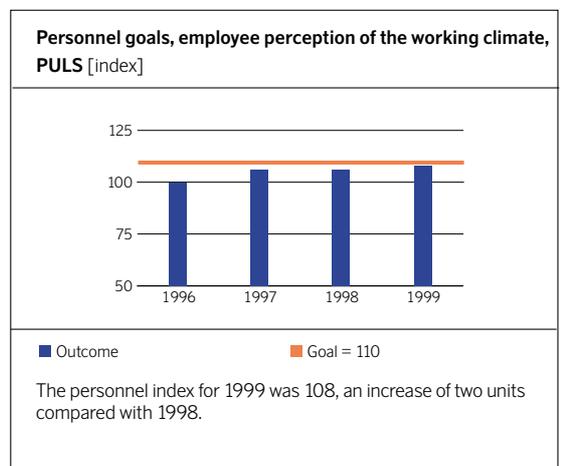
SAS International Hotels (SIH)

SIH's goal is to be the most attractive hotel company for customers, employees and investors alike.

SIH's financial goals are 20% ROCE and a gross profit margin of 40% within a 3-5 year period.

SAS's quality goals

	1999	1998	Goal
No accidents or serious incidents	0	0	0
Cancelled flights	2%	2%	max. 1%
Flights delayed more than 15 minutes	16%	17%	max. 10%
Flights delayed more than 2 minutes	42%	44%	max. 25%
Percentage of customers who have to wait so long for a reply from SAS's telephone reservations that the call is lost	22%	23%	max. 5%



Strategies

Flight safety

SAS has always had safety as its absolute top priority. Our high standard of flight safety should be reinforced and improved by:

- developing and enhancing our reporting systems
- developing expertise in the field of flight safety
- establishing a new, top-quality system for the early identification of emerging flight safety trends.

The market

SAS's operations are based on its customers' needs. Key areas are absolute safety, optimal punctuality, and excellent personal service.

Non-stop routes from Scandinavian capital cities are a top priority in SAS's traffic system. Copenhagen is the hub of international traffic, since there is not yet sufficient demand for non-stop traffic from Oslo and/or Stockholm. SAS also offers its freight customers highly competitive services.

Business travel

Business travellers are SAS's primary target group. Activities such as planning, building up resources and developing services and products should focus on meeting the needs of business travellers.

Private travel

The private travel market is growing faster than the market for business travel. SAS is therefore developing a customized private travel program, SAS Pleasure, which will cater to private travellers' needs in terms of accessibility and flexibility.

Partners

Star Alliance

SAS's partnership strategy is to develop a global traffic system and standardized products together with its Star Alliance partners.

Regional partners

SAS is developing a comprehensive traffic system together with regional partners in the Nordic countries, designed to complement and strengthen SAS's own traffic system.

European partners

SAS is establishing partnerships with other selected airlines with the aim of further strengthening its traffic system to and from Scandinavia.

Joint Ventures

SAS has signed Joint Venture agreements designed to create a strong market position for the company and its partners. In Joint Venture structures, the partners normally share the business risks involved by sharing the revenues and costs.

Product development

SAS's key concepts in developing its products and services are simplicity, freedom of choice and consideration. The company's goal is to make it as comfortable and simple as possible for SAS's customers to use its services, as well as for SAS to produce and offer them. Freedom of choice entails the development by SAS of a range of aspects of products and services that enable customers to influence the way they actually travel. Consideration implies maximum understanding and awareness of the customer's situation at all times.

Distribution

SAS's products should be available in the markets in which customers choose to obtain their information and make their purchases. The products are sold via agents, tour operators and through own sales and new channels. SAS is investing its resources in the development of new technologies that benefit its passengers and/or enhance SAS's long-term competitiveness.

Financial strategy

SAS is endeavoring to secure a high level of flexibility through a strong cash flow and access to financing funds.

Cost efficiency

SAS's operations should be conducted in such a manner that the coordination and synergy opportunities – across both organizational and national boundaries – are optimally exploited. Salary and employment terms should be adapted to the conditions prevailing for competitive airlines and operations. Long-term competitiveness should be achieved through ongoing development of personnel skills, and through cooperation and the ability to see “the big picture”, as well as via technical aids and improved working methods.

SAS is evaluating the possibility of establishing independent business units/companies – either under its own auspices or together with partners – to enhance competitiveness and improve control. Should a long-term competitive cost level not be achieved within any part of SAS's

operations by improving internal efficiency, the services concerned should be outsourced to external suppliers.

The environment

SAS's operations should have a minimal negative impact on the environment. SAS should be Europe's leading airline in terms of environmental friendliness. See also page 57.

Creative, involved employees

Creative, involved employees make a commitment to the company, they influence, improve and develop both the operations and themselves in striving to achieve both the company's goals and their own.

SAS endeavors to maintain an ongoing dialogue between management and personnel

- about SAS's goals and strategies and how the efforts of individual employees contribute to and strengthen the company's competitiveness
- about requirements and expectations, conditions, goals and results.

Sponsoring

SAS is concentrating its sponsoring initiatives on a limited number of large-scale and long-term projects, although there is also some scope for local projects. In terms of quality, the selected projects must conform to SAS's values and contribute to enhancing the company's image among customers and personnel.

Hotels

SAS International Hotels (SIH) has long-term rights to the Radisson SAS Hotels & Resorts brand in Europe, North Africa and the Middle East. SIH is concentrating its operations on running hotels via various forms of contracts and its strategy involves continued expansion. Ownership holdings in hotel properties will be phased out over the next few years.





SAS and the capital market

Share price performance for European airlines

Share price performance was weak in 1999 for European airlines. Following substantial falls from the record levels of July 1998, share prices stabilized in 1999 at a level that was 4% lower than at the end of 1998. The reasons for this can be found in excess capacity, pressure on prices and the decline in the business travel segment caused by the financial crises in Asia and later in Russia.

The performance of SAS's shares

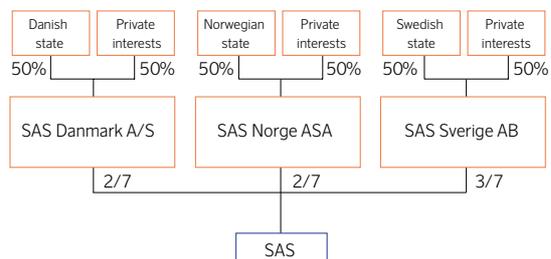
SAS's share price performance in 1999 was healthy. The total market value rose 8.1% during the year, which is 12.1 percentage units more than the average for the eight largest listed European airline shares. SAS's market value increased from MSEK 12,820 to MSEK 13,858 at the end of the year.

Share structure

The total number of outstanding SAS shares is 164.5 million. They are distributed in accordance with SAS's ownership structure as follows: 2/7 are shares in SAS Danmark A/S, 2/7 are shares in SAS Norge ASA and 3/7 are shares in SAS Sverige AB.

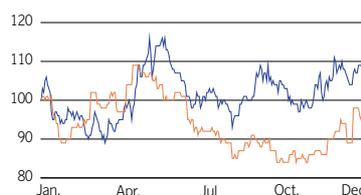
Share	Number of shares	Nominal value	Listing
SAS Danmark A/S	47,000,000	DKK 10	Copenhagen
SAS Norge ASA ¹	47,000,000	NOK 10	Oslo
SAS Sverige AB	70,500,000	SEK 10	Stockholm
Total (SAS)	164,500,000		

¹Only the private part of SAS Norge ASA is listed.



SAS was formed in 1946 and is a consortium consisting of the three national airline companies SAS Danmark A/S, SAS Norge ASA and SAS Sverige AB. The Danish and Norwegian parent companies own 2/7 of the consortium each and the Swedish parent company owns the remaining 3/7. The parent companies are listed on the Copenhagen, Oslo and Stockholm stock exchanges respectively. Half of the shares in each parent company are owned by the respective state, and half by private interests.

Performance of SAS shares compared with other European airlines' shares in 1999 [Market weighted index]



■ Trend for SAS's total market value
 ■ Average share price performance for Europe's eight largest listed airlines

SAS's share price performance was third best among European airline shares in 1999.

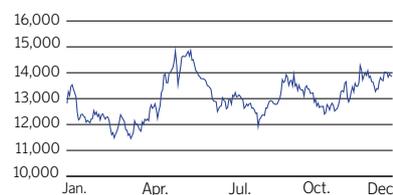
(Index = Alitalia, Air France, British Airways, Finnair, KLM, Lufthansa, SAS and Swissair)

Source: Factsets

A study of SAS' shares

An international investment bank has performed a study of SAS's income and share performance compared with other European airlines during the period 1990-1999. In a nutshell, the study shows that the performance of the SAS Group in terms of its most important key financial indicators, CFROI and ROCE, is equal to or better than that of comparable airlines. On the other hand, SAS's share price performance has been weaker than that of its competitors during the same period. The bank's

Trend in combined market value – SAS shares in 1999 [MSEK]



SAS's combined stock market value increased 8.1% in 1999 to MSEK 13,858.

Source: SIX Findata

conclusion is that the discount on SAS's shares of around 20-25% is mainly due to the company's complex ownership structure and the limited liquidity of the shares.

The liquidity of the shares

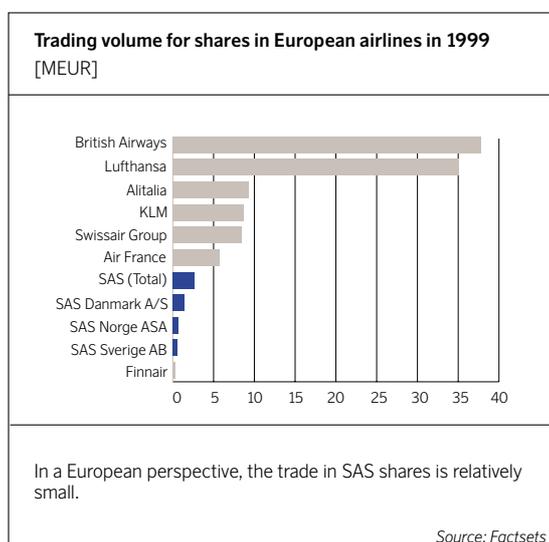
The split into three SAS shares limits trading volume and liquidity. Many investors, particularly the large institutions, focus primarily on large blocks of shares, which means that trading volumes need to be high. The graph below shows the trading volume in SAS shares in absolute terms, as well as for those of other European airlines.

Transparency

Even if the harmonization measures implemented by SAS's parent companies have helped to simplify the analysis of SAS's operations, the ownership structure remains complex and the company is less transparent than its listed competitors with more traditional structures.

Capital structure flexibility would simplify new share issues and buy-backs

If SAS had a single issue of shares instead of three, its capital costs would fall, as would the required return for investments and expansion. It would be easier to use shares as a means of payment, which would enhance the company's readiness to act and its flexibility when making strategic acquisitions.



SAS's principal owners

Of the 164.5 million SAS shares on issue, 70.1% are owned by eight different owners. During 1999, there has been a marginal drop in the proportion of international owners, the figure being 9% at the end of the year. The statistics have a margin of error due to unrecorded cases, and the share of overseas owners is probably somewhat higher.

Top eight shareholders on 31 December 1999 (Total of 164.5 million shares)

Percentage holding	SAS Danmark A/S	SAS Norge ASA	SAS Sverige AB	Totalt	Acc.
The Swedish state			50	21.4	21.4
The Danish state	50			14.3	35.7
The Norwegian state		50		14.3	50.0
Investor AB			18.8	8.1	58.1
Chase Manhattan (nominees)	2.5	4.2	4.4	3.8	61.9
Odin Fondene		5.4	4.8	3.6	65.5
Robur Aktiefonder			7.3	3.1	68.6
PFA koncernen	5.3			1.5	70.1

Dividend policy

The Boards of SAS's parent companies intend to apply a coordinated dividend policy to ensure that the dividend on all three SAS shares is the same size when converted to the same currency.

When calculating the annual dividend, account is taken of the SAS Group's income performance, financial position and capital requirements, as well as of relevant prevailing macroeconomic conditions.

The aim of the dividend policy is for the dividend over one business cycle to be somewhere in the region of 30-40% of the SAS Group's income after deductions for standard tax. The table shows the total dividend for the three parent companies over the period 1997-1999, as well as how it relates to the goals of the dividend policy.

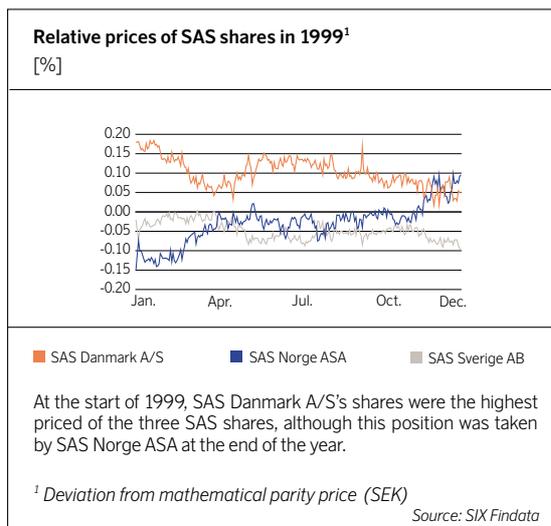
	1999	1998	1997
Dividend (proposed, 1999)	658	658	658
Dividend as a percentage of income after standard tax	50	33	42
Dividend as a percentage of income after standard tax (average)	41	37	42

For 1999, a dividend totalling MSEK 658 has been proposed, which is SEK 4 per share. This corresponds to a dividend yield of 4.7% on the basis of the closing price on December 31, 1999, and of 5% on the basis of the average share price over the 1999 financial year.

Relative share price performance

The relative prices, adjusted for currency, of the three SAS shares harmonized to a certain extent in 1999. At the end of the year, the difference in price in Swedish kronor between the three shares was between 4% and 17%.

The highest value growth of the three SAS shares was reported by SAS Norge ASA. The share price rose 36% over the year from NOK 64/share at the end of 1998 to NOK 87/share at the end of 1999, making this the highest valued share of the three. SAS Sverige AB's shares were valued much lower than those of SAS Norge ASA. SAS Danmark A/S share prices were 34.5% higher at the start of the year than those of SAS Norge ASA, but at the end of the year, they fell to a level that was 3.7% lower.

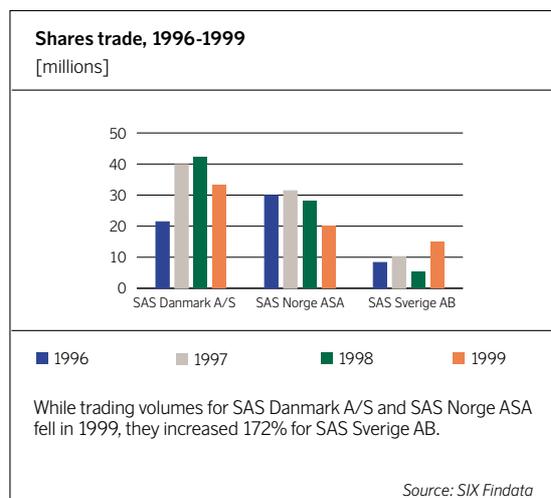


The fiscal conditions applying to SAS's Norwegian parent company are slightly less advantageous than those prevailing in Sweden and Denmark, but apart from the differences in the liquidity of the shares, there are no other fundamental reasons for the differences in the valuation of the three SAS shares.

31 Dec. 1999	Price in local currency	Price in SEK	Price deviation against SAS Norge ASA
SAS Danmark A/S	77.0	88.6	-4%
SAS Norge ASA	87.0	92.2	-
SAS Sverige AB	76.0	76.0	-17%

Trading volume

Share trading volumes in 1999 on the three Scandinavian stock markets were 64.7 million for SAS's shares, a fall of 14% compared with the previous year. This corresponds to a trading volume of 39% (46) of the total outstanding shares. Adjusted for the 50% share in SAS owned by the three states, this corresponds to a trading volume totalling 79% (92). In absolute terms and com-



pared with SAS's main competitors, trading in SAS shares is small.

Trading in the three shares during 1999 was distributed as follows: 29.5 million (42.2) for SAS Danmark A/S, 20.2 million (28.2) for SAS Norge ASA and 15.0 million (5.5) for SAS Sverige AB.

General macroeconomic trends

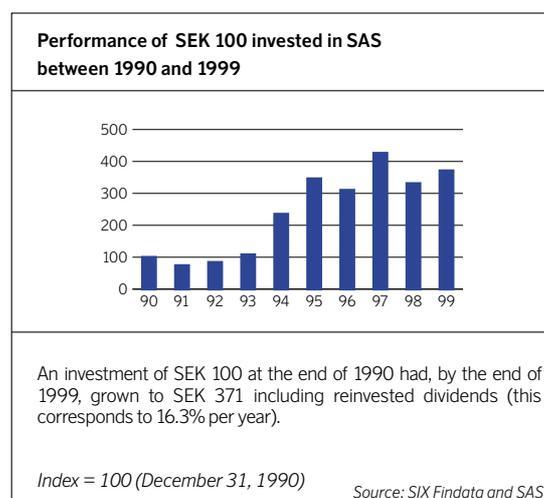
When discussing air traffic growth, the crucial macroeconomic factor is the trend in gross domestic product (GDP). On average, the annual growth rate was two to three times GDP growth throughout the eighties, although it was slightly lower in the nineties. Other macroeconomic factors are also relevant to demand. By and large, the following applies to air traffic:

GDP	affects overall activity in the airline industry
Private consumption	mainly affects private travel
Export growth/Industrial production	mainly affects business travel

GDP development varied in different European countries in 1999. In SAS's major markets, Denmark, Norway and Germany, growth was relatively low at approx. 1%. In Sweden and the UK, growth was higher, 2-4%. On average, GDP growth in SAS's key markets was 2-3%.

The growth in European air traffic (defined as RPK, traffic between European countries among AEA companies) displayed major fluctuations in 1999. The year started with a relatively healthy growth of around 6%. During the second and third quarters, growth declined to 3%. The increases at the end of the year led to a total increase in European air traffic of around 4.5%. The connection between GDP and European air traffic was weaker in 1999 than it has been historically.

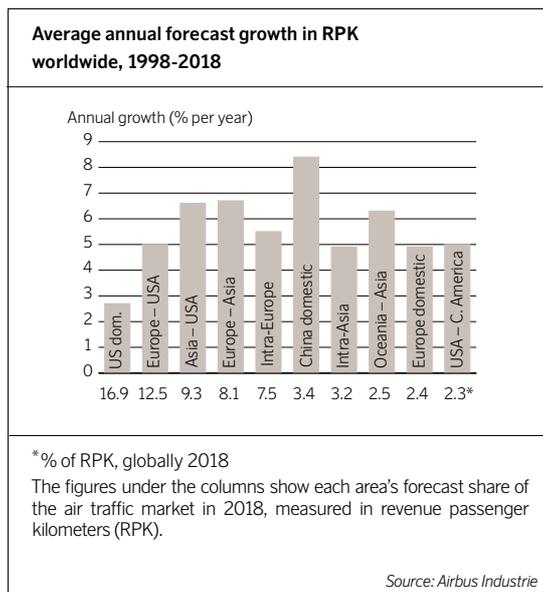
There was a healthy increase in private consumption in Sweden in 1999 and private travel on Swedish domestic flights developed very well. SAS's important London traffic increased in the private travel segment.



Export growth was relatively healthy throughout Scandinavia, the one exception being the oil-related industry in Norway. Compared with previous years, however, the growth rate fell, which contributed to the lower figures for business travel during the year.

Global growth forecasts

The airline industry is a global growth industry. The world's two largest aircraft manufacturers, Airbus Industrie and Boeing Company, are forecasting an average annual growth rate of 4.85% and 4.70% respectively over the coming twenty-year period. IATA has however



modified its long-term growth forecast, which is now 3.8%. It is believed that the number of daily flights will almost have doubled in twenty years' time compared with the current situation. The largest growth according to the forecast will be in traffic within and to and from Asia, particularly China. Domestic US traffic is expected to display the lowest growth rate over the same period.

The cycles of the airline industry

In addition to macroeconomic trends, the development of the airline industry is affected by other factors, such as the number of aircraft in use, as well as access to seat capacity. In 1999, there was considerable excess capacity in the airline industry, although there are now indications that the capacity increase of recent years may start to level out:

- Newly delivered aircraft constituted approx. 8% of the world's aircraft fleet in 1999. In 2002, the equivalent figure is estimated to be around 4%.
- The number of aircraft taken out of operation is forecast to increase from around 2% in 1999 to around 2.5% in 2002.

Current traffic plans indicate that the capacity increase on transatlantic routes will fall from 10% in 1999 to 4% in 2000.

The sensitivity of the operations to macroeconomic trends

The following provides a somewhat simplified description of the relationships between SAS's income and the three crucial operational key figures:

Passenger traffic (RPK)

A 1% change in RPK has an impact of around MSEK 225 on income.

RPK (Business Class/Economy Class)

A 1% change in RPK has an impact of around MSEK 135 on income from Business Class and of around MSEK 90 for Economy Class.

Cabin Factor

A 1% change in the cabin factor has an impact of MSEK 340 on income.

Unit revenue per passenger (Yield)

A 1% change in the passenger revenue per passenger kilometre has an impact of around MSEK 300 on income.

Unit cost

A 1% change in the unit cost has an impact of around MSEK 290 on income.

These effects on income cannot be totalled, but they reflect something of the sensitivity of SAS's current income.

Total shareholder return (TSR) on SAS shares, 1990-1999

The last clear business recession for the airline industry reached its all-time-low around 1990. A calculation of the performance of SAS shares between 1990 and 1999 shows an average annual total return of 16.3%, exceeding SAS's goals for a total return of 14% over a business cycle by 2.3 percentage units.

Total shareholder return (TSR), 1990-1999

Share	Average annual return
SAS Danmark A/S	+14.6%
SAS Norge ASA	+19.9%
SAS Sverige AB	+15.1%
Total (SAS)	+16.3%

The table shows the average total shareholder return (TSR) per year for each SAS share in the local currency over the period December 31, 1990 to December 31, 1999.

Financial goals

The overall goal of the SAS Group is to provide its shareholders with a competitive return. The goal is 14% of the total shareholder return (TSR) over one business cycle. This goal includes both increases in the share price and dividends. This return requirement has been translated into two internal financial goals, CFROI and ROCE.

The goals are defined as

CFROI minimum requirement 17%

ROCE minimum requirement 12%

as an average over one business cycle.

CFROI

CFROI is SAS's key return concept, since this key indicator is best suited to showing the return generated by the operations in relation to the actual capital investment. CFROI provides an indication of the relationship between cash flow prior to operating lease rental expenses (EBITDAR) and adjusted capital. The return figure reflects the EV/EBITDAR multiple, which in international capital market circles is considered one of the key value indicators for airlines.

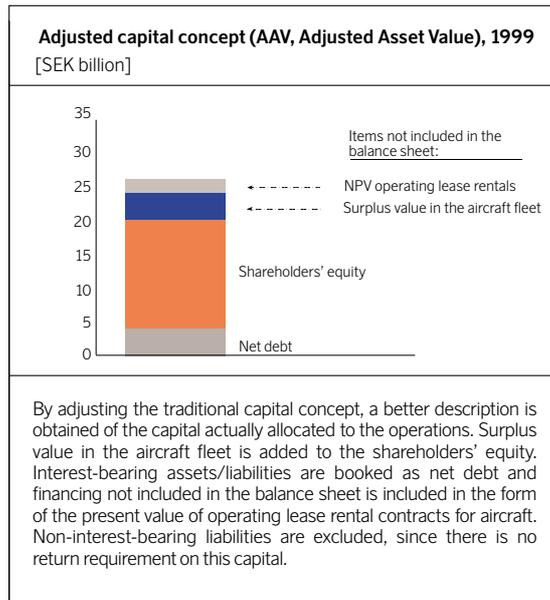
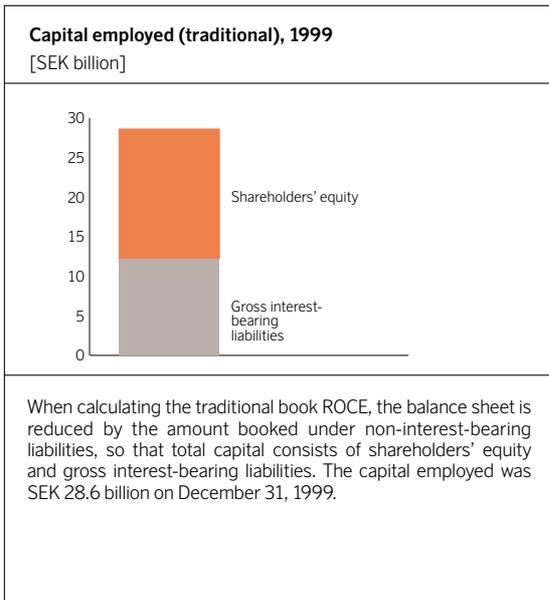
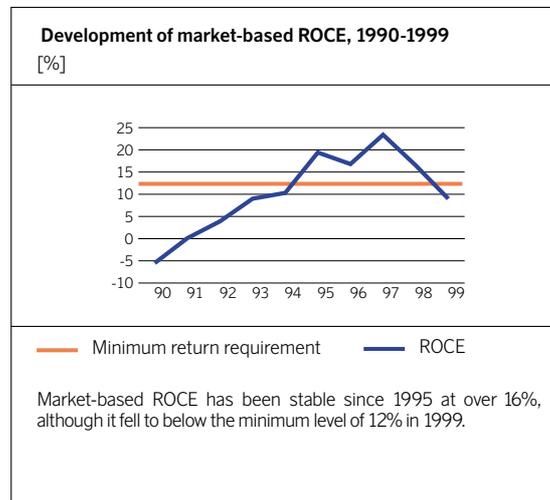
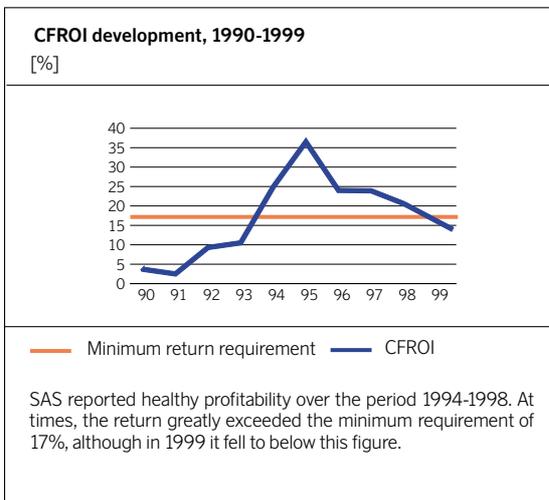
ROCE, market-based

The ROCE is based on income before net financial income/expenses and tax. The income is adjusted to take account of

60% of operating lease rental expenses, a percentage generally accepted as representing the interest figure. Book depreciation is adjusted to take account of the actual value development of the aircraft fleet over the period.

Weighted average cost of capital (WACC)

SAS's weighted average capital cost comprises the costs for interest-bearing liabilities, shareholders' equity and operating lease rental for aircraft. The costs for shareholders' equity are calculated on the basis of an anticipated inflation rate of 1-2%, as well as SAS's historical beta-value for shareholders' equity. SAS's costs for liabilities are assumed to be 5.5% and leasing expenses are calculated on the basis of prevailing market interest rates and depreciation levels. The financing sources are estimated and weighted in accordance with the prevailing market value of shareholders' equity and liabilities, as well as the capitalized present value of operating lease rental.



Based on these assumptions and a debt/equity ratio of 1:1, SAS's present WACC works out at 10%. This discount rate is used to evaluate new investment projects and investments in the operations. An investment with a return above WACC contributes to an increase in the value of the operations, as well as the shareholder value.

Key indicator policy

The idea behind the return requirements is to create value by having an ongoing return that exceeds the company's average capital costs. The capital base comprises both liabilities included and not included in the balance sheet and shareholders' equity.

The key indicators known as CFROI and ROCE are used systematically in the operational part of the business. Crucial criteria for all investment decisions are that the return should meet the CFROI and ROCE requirements.

For examples of how SAS's key indicators are calculated, see the Ten-year financial overview on page 26.

CFROI fell below 17% in 1999, although it has, since 1994, sometimes greatly exceeded the minimum requirement. Market-based ROCE was stable at over 16% between 1995 and 1998, but fell below the 12% minimum requirement in 1999.

The capital concept

The calculation of the key value-creating figures (CFROI and ROCE) is based on an adjusted capital concept.

Since return is assessed in terms of the capital actually employed in the operations, SAS reports the market value of assets and liabilities. The main difference compared with booked capital is that an adjustment is made for the value of operating lease rental obligations regarding aircraft, as well as surplus value in the aircraft fleet owned by SAS. When calculating market based capital employed, account is also taken of financing not included in the balance sheet, since the present value of operating lease rental contracts is added. At the end of 1999, the present value of these oper-

ating lease rental contracts was MSEK 3,245, discounted at a rate of 5.5% (see table on page 18).

Surplus value in the aircraft fleet

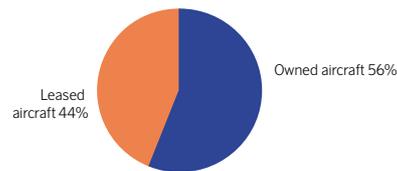
Over the period 1993-1998, SAS used a rate of 6% for its book depreciation to a residual value of 10% after 15 years. As of 1999, SAS uses a book depreciation rate of 4.5% to a residual value of 10% after 20 years, a method that better reflects the actual value development of the aircraft. This change in the depreciation principles has led to a reduction in the accumulation of excess value.

At the end of 1999, the surplus value in the aircraft fleet was MSEK 4,037, which is MSEK 450 less than the previous year, partly due to the fact that aircraft sales, as well as other aircraft transactions, led to a capital gain of MSEK 829.

Operating lease rental agreements for aircraft

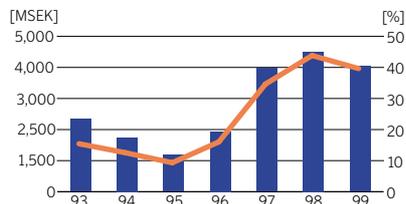
Operating lease rental is used to optimize the composition of the aircraft fleet and to reduce tied up capital. Flexible rights to extension and premature redemption increase operational flexibility, making it easier to adapt

Distribution of the market value of SAS's total aircraft fleet, 1999 [Total value USD 2.9 billion]



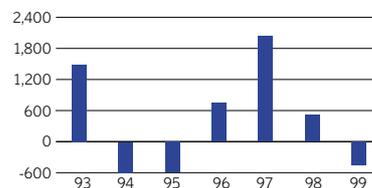
The total market value of SAS's operational aircraft fleet was SEK 24.7 billion. The value of the aircraft owned by SAS was SEK 14.5 billion.

Development of surplus value in the aircraft fleet, 1993-1999



At the turn of the year 1999/2000, the surplus value in the aircraft fleet was MSEK 4,037.

Annual change in the surplus value in the aircraft fleet, 1993-1999 [MSEK]



The change in SAS's depreciation principles as of January 1, 1999 has led to a lower increase in the surplus value in the aircraft fleet. The fall in 1999 can be explained by the sale of a number of aircraft.

the aircraft fleet to macroeconomic fluctuations. A reduction in residual value risks is another positive effect of operating lease rental.

Capital tied up in operating lease rental agreements for aircraft is calculated as the present value of future leasing sums. The table below shows SAS's annual costs for operating lease rental, as well as the aggregated present value based on a discounting factor equal to the average loan cost used in WACC, 5.5%.

Contracted operating lease rental for aircraft, 2000-2006

Present value (NPV) at 5.5%	MUSD 381		[Annual lease payments]				
	MSEK 3,245		MUSD				
Dec. 31 1999	2000	2001	2002	2003	2004	2005	2006
Boeing 737	21	21	21	21	20	19	17
Boeing 767	63	33	11	-	-	-	-
Douglas DC-9	19	11	3	-	-	-	-
Douglas MD-80/90	45	37	26	19	5	-	-
Fokker F50/SAAB 2000	18	2	2	-	-	-	-
Total	166	104	63	40	25	19	17

Dec. 31 1999	Number of aircraft						
	2000	2001	2002	2003	2004	2005	2006
Boeing 737	9	9	9	9	9	8	8
Boeing 767	9	7	3	-	-	-	-
Douglas DC-9	31	16	10	-	-	-	-
Douglas MD-80/90	32	27	20	15	5	-	-
Fokker F50/SAAB 2000	14	1	1	-	-	-	-
Total	95	60	43	24	14	8	8

Alternative forms of financing not included in the balance sheet

An aircraft's economic lifetime is normally considered to be 25 years.

SAS bases its calculations on the anticipated remaining economic lifetime of each individual aircraft. In terms of its attitude to ownership of aircraft, SAS's main principle is that it should own the aircraft that it expects to use in its operations for a period of more than seven years. This seven-year perspective may however be altered by economic and business circumstances, as well as technological developments.

Recently, new forms of ownership have also been developed in the form of so-called Joint Ventures. These contribute towards increasing the operational and financial flexibility of airlines.

SAS forms a company with GECAS

In 1999, SAS completed a major aircraft transaction for 30 Douglas MD-80 aircraft. These aircraft are due to be used in the operations for many years to come. The transaction was completed during the fourth quarter of 1999 in collaboration with the world's largest aircraft owner, General Electric Capital Aviation Services, GECAS. A company, Commercial Aviation Leasing Limited, Ireland, was established with both SAS and GECAS as owners.

The agreement gives SAS access to aircraft for a period of 10 years, with the right both to extend the agreement and to return the aircraft at an earlier date. The average fixed term is around 3.5 years, decreasing the immobilization of capital compared with a ten-year leasing contract. The increase in financial and operational flexibility can be summed up in the following points:

- SAS is able to release capital since the figure for total capital tied up in aircraft is lower.
- SAS secures access to aircraft while at the same time substantially limiting its financial obligations.
- The agreement structure means that profits generated by future sales are transformed into lower ongoing leasing costs.
- SAS's flexibility increases ahead of future changes in the aircraft fleet.
- The capital cost is lower than SAS's own average capital costs.

SAS's ambitions in its dialogue with the capital market Goals

A major campaign designed to improve relations with the capital market began in 1997 and has expanded in recent years. The SAS Investor Relations program's principal goal is to strengthen interest in SAS's shares among existing and future investors by providing relevant and up-to-date information.

The other main goal is to supply investors and capital market players with relevant information conducive to an understanding of the operations and their capacity to create added shareholder value. The target group includes investors, analysts, brokers and the business press.

Developments in 1999

Interest among international analysts is increasing and three new international banks now perform regular analyses of the SAS shares. Altogether, there are 11-12 international banks now following the SAS shares, and there around 15 analysts in Scandinavia who regularly follow SAS.

From the point of view of the capital market, SAS has a broad and healthy international analyst coverage, although coverage in Scandinavia is less satisfactory.

Investments and fiscal conditions

SAS's parent companies

The operations of the parent companies involve managing their participations in SAS. The income of the three parent companies is taxed in proportion to their ownership stakes and is taxable in the countries in which they are registered. The differences in income between the parent companies are mainly attributable to interest income arising because of different liquid asset balances (an effect of the differences in fiscal legislation). Taxes refer both to assessed tax payable and increases in deferred taxes.

The assets consist of participations in SAS, as well as liquid assets (which are invested with SAS). The liabilities consist mainly of tax liabilities. The differences between the parent companies are mainly due to differences in national fiscal legislation.

The dividend policy of the parent companies and the proposed dividends are described on page 13. The accounts of each parent company may be found on pages 88 to 107.

Key indicators, 1999 – SAS Parent Companies

	SAS Danmark A/S	SAS Norge ASA	SAS Sverige AB
Earnings per share, local currency	7.34	7.49	8.41
Earnings per share, SEK	8.70	7.94	8.41
Cash flow per share, local currency	9.04	10.53	9.93
Cash flow per share, SEK	10.71	11.16	9.93
Shareholders' capital per share, Dec. 31 1999, local currency	80.94	86.74	94.41
Shareholders' capital per share, Dec. 31 1999, SEK	93.12	91.99	94.41

Renewal of the aircraft fleet

The table below shows planned investments as reflected by fixed orders for Boeing 737s, deHavilland Q400s, Airbus A340/330-300s and Airbus A321s. Altogether, the value of SAS's orders totals MUSD 3,000. In addition to investments in flight material, other investments to the tune of MSEK 800-900 per year are also made (see the section on the aircraft fleet on page 54.)

Investments, (CAPEX) for the period 2000-2003>

	Total	2000	2001	2002	2003>
MUSD	3,000	1,000	670	650	680
Number of aircraft	70	39	11	9	11

SAS's fiscal position

Total tax payable for SAS's parent companies, and subsidiaries, was MSEK 325 in 1999. Given the SAS Group's EBIT of MSEK 2,079, this means an effective average tax rate for the SAS Group of 16%.

With the investments planned so far, the effective tax rate will fall as of 2000. The main reason for this lies in the investments made in the intercontinental fleet of 10 Airbus A340/330s. As of 2002, the planned deliveries of the Airbus A321 will also enable major tax write-offs. A number of major aircraft transactions have however caused the elimination of excess tax write-offs, which decreases the impact of the above.

Fiscal residual values for SAS's parent companies

MSEK	1 January 1999	31 December 1999
SAS Danmark A/S	67	79
SAS Norge ASA	2,161	2,104
SAS Sverige AB	1,349	1,165
Total	3,577	3,348

Fiscal conditions

General

In Norway and Sweden, the tax rate is 28% and in Denmark it is 32%. Denmark has special regulations for overseas operations (udlandslempelse), resulting in a tax rate for SAS Danmark A/S of 30% in 1999.

Denmark

- In Denmark, tax deductions of 30% of the fiscal balance value are permissible for depreciation of machinery and equipment.
- Advance tax write-offs for aircraft are allowed as of the year in which a binding purchasing agreement is made, on condition that delivery takes place four years later at most. The accumulated advance write-off may total a maximum of 30% of the acquisition value and may not exceed 15% per year.

Norway

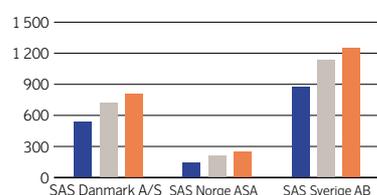
- In Norway, a tax deduction of 12% of the fiscal residual value is allowed for aircraft, and the figure is 20-30% for other machinery and equipment. Profits from the sale of aircraft are booked as revenue in the amount of 20% during the year in which the sale took place. In following years, 20% of the remaining balance is booked as revenue.

Sweden

In Sweden, a tax deduction is allowed for depreciation of machinery and equipment via the annual determination of the minimum fiscal residual value.

- According to the 30% rule (the principal rule), the residual value is calculated as a minimum of 70% of the sum of the opening balance, plus purchases, minus the amount received at the time of the sale.
- According to the 20% rule (the supplementary rule), the minimum residual value is calculated as the acquisition value minus 20% annual depreciation for the remaining inventory.

Anticipated potential tax write-offs for SAS's parent companies [MSEK]



Potential tax write-offs in addition to the book depreciation given the fixed planned investments in Boeing 737s, deHavilland Q400s, Airbus A321s and Airbus A340/330s. (Assuming ownership of all fixed orders and no sales).

Data per share

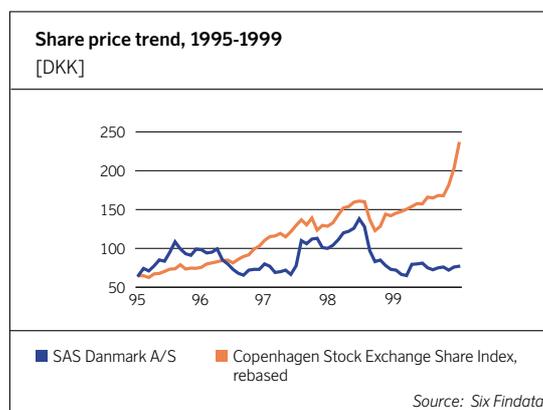
SAS Danmark A/S

Share price trend and trading volume

The share price trend was positive during the year. At the end of 1999, the share price was DKK 77, an increase of 5.8%. The share price fluctuated between DKK 63 and DKK 85. A total of 30 million shares were traded during the year, a downturn of 30% compared with 1998.

Shareholders

The Danish Companies Act requires disclosure of shareholders who own 5% or more of the shares in a company. Danmarks Hypotekbank (the Danish State) owns 50% of the shares. The PFA Group owns 5.3% of the shares. At the end of 1999, there were approximately 6,700 shareholders listed by name.



Changes in share capital

MDKK	Bonus issue	Split	New issue	Nom. share capital	Par value, DKK	Number of shares (000s)
1991	–	–	–	50.8	100	508
1995	152.4	1:4	–	203.2	25	8,128
1996	121.9	1:4	144.9	470.0	10	47,000

Data per share¹

Key data per share, DKK	1999 IAS	1998 IAS	1997 IAS	1996 IAS	1995
Earnings	7.34	11.60	8.28	6.96	7.08
Cash flow from operations ²	9.04	16.02	18.72	18.81	–
Dividend (1999 proposed)	3.50	3.15	3.50	2.60	2.46
Dividend as % of earnings	48	27	42	37	35
Price-related data, DKK					
Market price at year-end	77	72.80	100	73	99
Highest market price during the year	85	141	119	111	112
Lowest market price during the year	62.8	70	65	61	64
Average price during the year	73.7	104	90	82	86
Market capitalization/shareholders' equity, % at year-end	95	103	148	118	194
Dividend yield, average price %	4.7	3.0	3.9	3.2	2.9
P/E ratio, average price	10.0	9.0	10.9	11.8	12.2
P/CE ratio, average price	8.2	6.5	4.8	4.4	–
Market capitalization, at year-end, MDKK	3,619	3,422	4,700	3,431	3,934
Yearly trading volume, million shares	29.51	42.20	39.96	21.37	18.92

¹ Group accounts 1995. Group accounts with IAS adjustment 1996-99

² Cash flow from operations less paid tax

Source: SIX Findata, Datastream, SAS

For definitions and concepts, see page 114.

Data per share

SAS Norge ASA

Share price trend and trading volume

The share price trend was positive during the year. At the end of 1999, the share price was NOK 87, an increase of 36%. A total of 20 million shares were traded during the year, which was 28% less than in 1998.

Shareholders

At the end of 1999, there were 2,753 shareholders, 20 of whom own 62% of the share capital. The proportion of foreign shareholders decreased from 18% to 14% (of the privately owned part).

Changes in share capital

MNOK	Bonus issue	Split	New issue	Nom. share capital	Nom. value NOK	Number of shares (000s)
1987	40.9	–	–	235.9	25	9,436
1988	–	–	78.6	314.5	25	12,582
1995	62.9	–	–	377.5	30	12,582
1996	92.6	1:3	–	470.0	10	47,000

Distribution of shares

Dec. 31 1999	Number of shareholders	% of all shareholders	Total number of shares	% of share capital
1-500	2,040	74	269,206	0.6
501-1,000	259	9	199,086	0.4
1,001-10,000	299	11	961,011	2.0
10,001-50,000	79	3	1,987,778	4.2
50,001-100,000	32	1	2,357,848	5.0
100,001-	44	2	41,225,071	87.8
Total	2,753	100.0	47,000,000	100.0

Data per share¹

Key data per share, NOK	1999 IAS	1998 IAS	1997 IAS	1996 IAS	1995
Earnings	7.49	11.51	9.36	8.08	7.94
Cash flow from operations ²	10.53	19.06	19.74	19.63	–
Dividend (1999 proposed)	3.75	3.70	3.70	2.80	3.35
Dividend as % of earnings	50	32	40	35	42
Price-related data, NOK					
Market price at year-end	87	64	103	69	75
Highest market price during the year	88	137	123	89	89
Lowest market price during the year	59.5	61	65	57	56
Average price during the year	72.6	100	88	72	71
Market capitalization/shareholders' equity, % at year-end	100	78	139	101	109
Dividend yield, average price %	5.2	3.7	4.2	3.9	4.7
P/E ratio, average price	9.7	8.7	9.4	8.9	8.9
P/CE ratio, average price	6.9	5.2	4.5	3.7	–
Market capitalization, at year-end, MNOK	4,089	3,008	4,841	3,243	3,511
Yearly trading volume, million shares	20.19	28.20	31.35	29.85	32.72

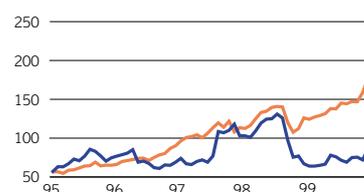
¹ Group accounts 1995. Group accounts with IAS adjustment 1996-99.

² Cash flow from operations less paid tax.

For definitions and concepts, see page 114.

Share price trend, 1995-1999

[NOK]



■ SAS Norge ASA ■ Oslo Stock Exchange total index, rebased

Source: SIX Findata

The ten largest shareholders in SAS Norge ASA

Dec. 31 1999	Number of shares	% share capital
The Norwegian State	23,500,000	50.0
Chase Manhattan Bank (nominee)	1,979,737	4.2
Aksjefondet Odin Norge	1,703,400	3.6
Bankers Trust company (nominee)	1,572,956	3.3
KLP Forsikring	1,328,700	2.8
Aksjefondet Storebrand Livsforsikring	1,163,826	2.5
Gjensidig Nor	1,049,616	2.2
Vital Forsikring ASA	879,335	1.9
Aksjefondet Odin Norden	855,910	1.8
Verdipapirfondet AVA	566,476	1.2

Source: SIX Findata, Datastream, SAS

Data per share

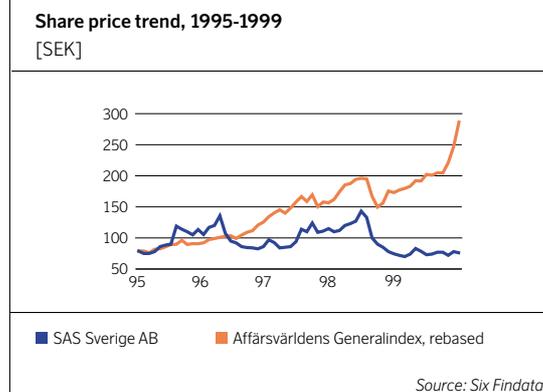
SAS Sverige AB

Share price trend and trading volume

The share price trend was slightly positive during the year. At the end of 1999, the share price was SEK 76, an increase of 2%. A total of 15 million shares were traded during the year, an increase of 172% compared with 1998.

Shareholders

At the end of 1999, there were 4,000 shareholders, an increase of 23%. 10 shareholders own 88.1% of the share capital. The proportion of institutional ownership was 77.6%. Foreign ownership was 12.2%, an upturn of 5.7 percentage points compared with 1998.



Changes in share capital

MSEK	Bonus issue	Non-cash issue	Nom. share capital	Nom. value SEK	Number of shares (000s)
1992	–	–	352.5	10	35,250
1993	–	352.5	705.0	10	70,500
1996	–	–	705.0	10	70,500

Distribution of shares

(according to Dagens Nyheter's shareholder service)

31 Dec. 1999	Number of shareholders	% of all shareholders	Total number of shares	% of share capital
1-500	3,119	78.0	477,787	0.7
501-1,000	449	11.2	381,687	0.5
1,001-10,000	350	8.8	979,845	1.4
10,001-50,000	46	1.1	1,171,811	1.7
50,001-100,000	8	0.2	568,500	0.8
100,001-	28	0.7	66,911,541	94.9
Total	4,000	100.0	70,496,171 *	100.0

* Excluding any redeemable preference shares, bearer shares, shares held by unknown persons and unutilized fund shares.

Data per share¹

Key data per share, SEK	1999 IAS	1998 IAS	1997 IAS	1996 IAS	1995
Earnings	8.41	12.77	10.13	9.42	13.32
Cash flow from operations ²	9.93	19.49	23.15	22.30	–
Dividend (1999 proposed)	4.00	4.00	4.00	3.00	3.00 ³
Dividend as % of earnings	48	31	39	32	23 ³
Price-related data, SEK					
Market price at year-end	76	74.50	115	86	120
Highest market price during the year	86	143	125	145	119
Lowest market price during the year	68	77	83	80	70
Average price during the year	75.3	106.50	102	101	92
Market capitalization/shareholders' equity, % at year-end	80	83	143	118	127
Dividend yield, average price %	5.3	3.8	3.9	3.0	3.3
P/E ratio, average price	9.0	8.3	10.1	10.7	6.9
P/CE ratio, average price	7.6	5.5	4.4	4.5	–
Market capitalization, at year-end MSEK	5,358	5,252	8,108	6,063	8,460
Yearly trading volume, million shares	15.01	5.50	10.25	6.42	0.30

¹ Group accounts 1995. Group accounts with IAS adjustment 1996-99.

² Cash flow from operations less paid tax

³ Extraordinary dividend of SEK 24.30 not included, and remaining here in shareholders' equity. For definitions and concepts, see page 114.

Source: SIX Findata, Datastream, SAS

SAS's competitiveness and improvement program

As the airline industry becomes increasingly deregulated, competition is becoming increasingly fierce and pressure on prices is considerable. This imposes considerable demands on the ability of airlines to adapt, change and implement measures designed to ensure lasting competitiveness.

SAS has always been one of the driving forces behind the deregulation of the airline industry, and has for many years been preparing for the current situation.

Enhancing competitiveness requires both an innovative capacity and the ability to change established processes, agreement structures, etc. The work on improving SAS's competitiveness intensified in 1999 with the launch of an extensive improvement program. This program's goal is to enhance quality as perceived by the customer, as well as internal working processes, and to cut cost levels by MSEK 3,000 over a two-year period. The full effects of the program should be felt during 2001.

Comparison of different airlines' unit costs

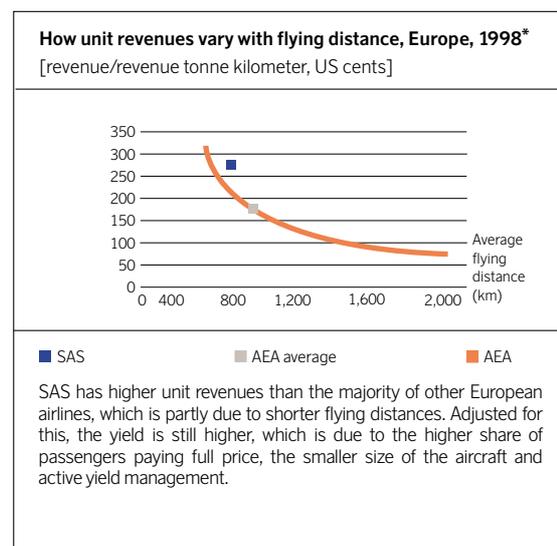
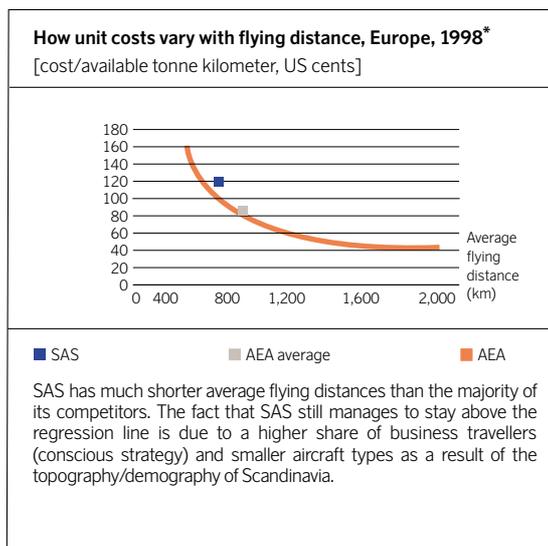
The AEA (Association of European Airlines) performs annual analyses and comparisons of unit costs among its members. The structure of the traffic network, the aircraft fleet and the customer/market segment are crucial factors that impact on the cost structure. Compared with other European competitors, SAS has a unique structure in the following areas:

- SAS flies shorter routes.
- SAS has so far used aircraft of a smaller size.
- SAS has Europe's highest share of Business Class passengers.

On average, SAS flies 720 km per flight (European and intra-Scandinavian traffic), while the average for airlines that are members of AEA is around 888 km per flight. Shorter flying distances mean more landings and higher costs for such things as passenger/luggage handling, catering, landing charges and resting time for flight personnel. Airlines conducting only intercontinental operations often have unit costs that are more than three times lower than those of airlines flying on the shortest routes.

SAS's efforts in the business travel segment during the eighties and nineties have led to a traffic system based on frequent departures with smaller aircraft, mainly planned and scheduled to suit the needs of business travellers. Smaller aircraft have a higher cost per seat than larger ones. At the same time, a higher share of Business Class passengers means a more demanding product in terms of resources. On the other hand, the strategy has led to a yield for SAS (average revenue per passenger kilometre) that is one of the highest in the industry.

The diagrams below show that SAS has somewhat higher unit costs, but also a higher yield.



* For definitions and concepts, see page 114.

The renewal of the aircraft fleet cuts unit costs

As a result of the current renewal of the aircraft fleet, larger aircraft types will gradually be replacing the smaller aircraft. This will lead to a fall in unit costs over the next few years, which means that SAS will be able to offer more seats at lower unit costs.

	Number of seats	Index Cost/seat kilometer
Boeing 767-300	189	100
Airbus A330/A340-300	275	85-88
Fokker F28/Douglas DC-9-21/41	87	100
Boeing 737-600	98	96
Fokker F50	46	100
deHavilland Q400	72	78
Douglas MD-81	130	100
Douglas MD-81	141	92 Config 2000 ¹
Airbus A321	174	87

¹ Configuration 2000, see page 54, SAS's aircraft fleet.

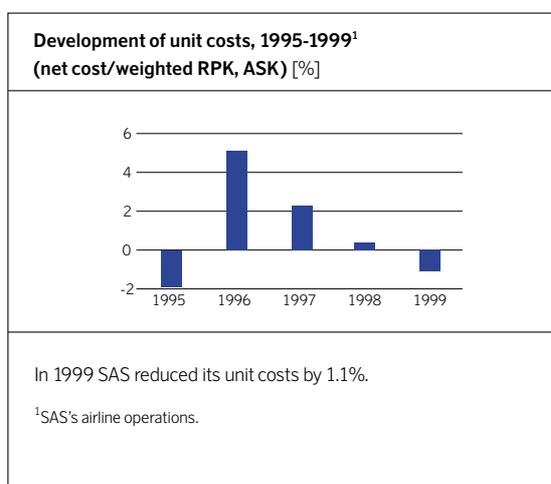
The table shows the changes in SAS's unit costs expected after the phasing in of the new aircraft. The transition from Boeing 767s to the A330/A340s that have been ordered will for example entail 12-15% lower unit costs (from index 100 to index 85-88).

Capacity costs

Depreciation and lease rental expenses for aircraft, as well as interest expenses relating to the financing of aircraft, are generally referred to in the airline industry as capacity costs. During 1999/98, these costs were distributed as follows:

Capacity costs, 1998/99, the SAS Group

MSEK	1999	1998
Depreciation	1,942	2,125
Operating lease rental expenses, aircraft	1,291	1,027
Interest expenses, net	233	129
Total	3,466	3,281



Cost trends in 1999

The macroeconomic factors mentioned previously have also had an impact on SAS in terms of costs. Capacity in 1998/99 was planned on the basis of a relatively healthy basic macroeconomic scenario. The crises in Asia and later in Russia had a profound effect on the market. The same is true of the effect of the fall in oil prices on the Norwegian economy. For SAS, this meant that its planning assumptions had to be modified. The production plans had to be radically revised, although certain cost-increasing consequences of the earlier planning for higher production, staff training, etc., could not be revised. The running-in period at Gardermoen, with costs for overtime, new systems, etc., together with the implementation of the product and profile program 2000+, led to a cost level at the beginning of 1999 that was altogether too high. Considerable efforts were made during the year to cut costs to an acceptable level, and towards the end of the year, this work yielded a number of results.

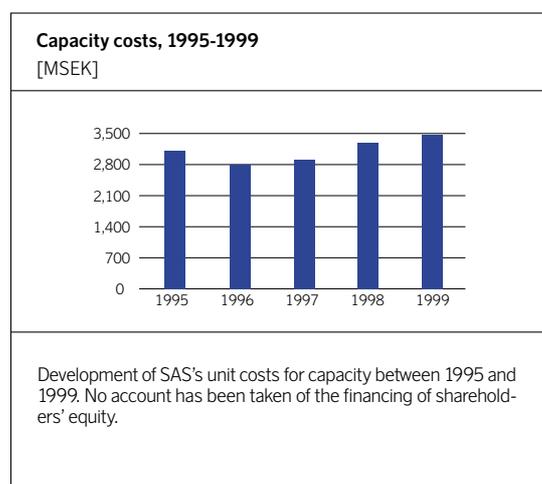
Development of unit costs in 1999

SAS's production and passenger volumes increased 3.2%, expressed as a weighted average of ASK/RPK development. SAS's unit costs, adjusted for currency effects, fell 1.1% in 1999 compared with the previous year. During the fourth quarter of 1999, unit costs were cut by 5.4% compared with 1998.

Unit cost development in 1999

MSEK	Adjusted 1998	1999	Share of total difference, %
Selling expenses	2,175	1,597	2.0
Personnel	12,255	12,728	(1.6)
Jet fuel	2,491	2,181	1.1
Government charges	3,701	3,486	0.7
Other costs	8,190	8,503	(1.1)
Total	28,812	28,495	1.1
Volume component (weighted RPK/ASK)			3.2

¹The SAS Group excluded SIH and SAS Trading. Capacity costs are excluded.



Personnel costs

Personnel costs are closely related to traffic volume, and constitute SAS's single largest resource area, accounting for 36% of total costs.

In 1999, the number of employees grew by 8.1%. This contributed to an increase in unit costs of 1.6%, an unsatisfactory development. In addition to the general changes mentioned above, the increase in the number of employees can be explained by the following points:

- the program for increased punctuality and regularity.
- investments in "Call Centers", i.e. SAS's own sales.
- demands from authorities regarding higher staffing levels on aircraft (JAR OPS).
- SAS 2000+, the SAS service, product and design program.
- the phasing in of the Boeing 737-600.
- teething problems at Oslo's new airport.

The Operational Improvement Program

During the year, SAS performed an extensive review of its operations, both on the revenue and the cost sides. A wide range of improvement projects were identified, and these were initiated together with a program designed to cut costs by SEK 3 billion up to the start of 2001. The work involved in this so-called Operational Improvement Program intensified during the autumn. At the end of the year, cost cuts totalling SEK 2.2 billion had been verified and were being implemented. In addition to measures designed to improve internal productivity, steps are also being taken to cut costs for purchasing and distribution.

This work has been under way since September within the framework of the ordinary budget and business plan.

Status of the Operational Improvement Program

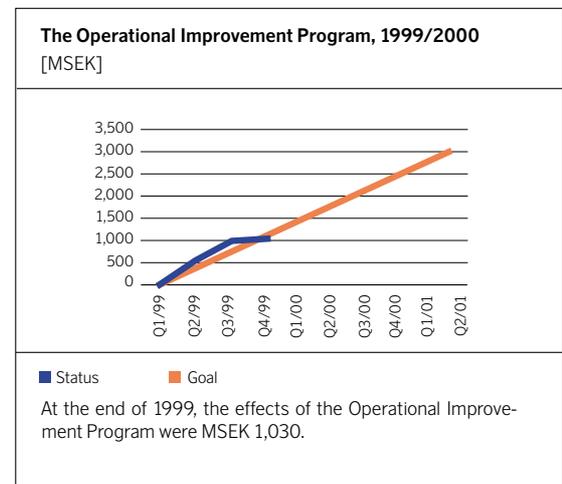
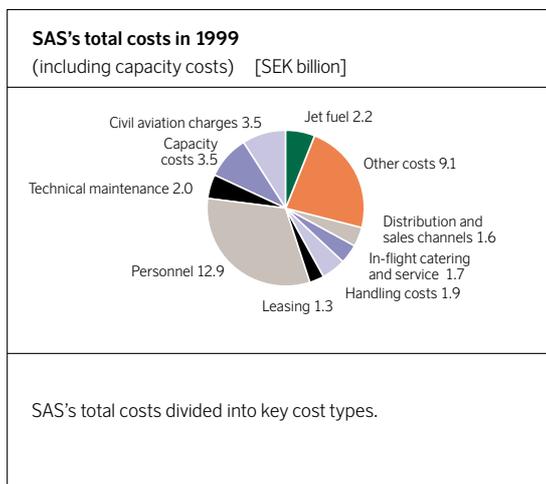
MSEK	Achieved in 1999 ¹	Goal for 2001 ¹
Freight handling	45	100
In-flight catering and service	0	300
IT and communication	30	250
Distribution and sales channels	370	850
Flight crews	220	650
Station operations	90	300
Technical maintenance	150	310
Administration and other support functions	125	340
Total	1,030	3,100

¹ Compared with the 1998 cost base (level).

The future

The measures implemented do not mean that the goal of sustainable competitiveness has been achieved. The need for ongoing improvements in efficiency remains and will continue to be central to the operations. The pressure on prices and the current restructuring of the industry, focusing as it does on larger and more cost-efficient units, will mean that SAS, in addition to measures designed to increase internal productivity, will also have to consider structural changes in certain parts of its operations.

The operational program will reduce unit costs during 2000/2001. SAS's long-term plan includes cutting unit costs even more each year over the coming four-year period.



Ten-year financial overview

The SAS Group

Income statements, MSEK	1999	1998	1997	1996	1995
Operating revenue	41,508	40,946	38,928	35,189	35,403
Operating income before depreciation	2,765	4,115	4,118	3,668	4,761
Depreciation	-1,942	-2,125	-1,880	-1,851	-1,840
Share of income in affiliated companies	-175	-20	88	5	97
Income from sale of shares in subsidiaries and affiliated companies	283	1	1	-	6
Income from sale of aircraft and buildings	731	1,014	83	100	83
Operating income	1,662	2,985	2,410	1,922	3,107
Net financial items	184	-128	-152	-85	-448
Income before taxes	1,846	2,857	2,258	1,837	2,659
Balance sheets, MSEK					
Fixed assets	27,568	26,489	23,000	20,784	19,345
Current assets, excl. liquid assets	6,557	5,949	4,812	4,036	3,477
Liquid assets	8,335	8,011	9,817	11,050	10,078
Shareholders' equity	17,061	16,110	14,241	13,030	10,588
Long-term liabilities and provisions ¹	9,838	9,819	12,209	13,218	11,750
Current liabilities	15,561	14,520	11,179	9,622	10,562
Total assets	42,460	40,449	37,629	35,870	32,900
Cash Flow Statement, MSEK					
Net financing from operations	1,932	4,137	4,256	3,814	4,881
Investments	-5,870	-6,112	-3,256	-4,202	-1,399
Sale of fixed assets, etc.	6,439	2,360	252	1,066	619
Disbursements to parent companies	-957	-1,141	-844	-1,150	-591
Capital contributions from parent companies	-	-	-	1,400	-
Financing surplus/deficit	1,544	-756	408	928	3,510
External financing (net)	-1,220	-1,050	-1,641	44	-4,157
Change in liquid assets	324	-1,806	-1,233	972	-647
Liquid assets in sold companies	-	-	-	-	-
Change in liquid assets according to balance sheets	324	-1,806	-1,233	972	-647
Key figures					
Gross profit margin, %	6.7	10.1	10.6	10.4	13.5
Return On Capital Employed, ROCE, %	8.7	13.2	11.6	10.6	15.6
Return on shareholders' equity after standard tax, %	7.6	12.9	11.4	10.9	18.5
Equity/assets ratio, %	41	40	38	37	32
Key Value Drivers (based on market-adjusted capital employed), MSEK					
Cash Flow Return On Investments, CFROI, %	14.3	22.4	24.7	26.4	31.8
Return On Capital Employed, ROCE, market based, %	9.0	17.8	24.1	18.4	16.9
Market value of aircraft fleet, MSEK	14,525	14,691	15,284	13,662	13,354
Book value of aircraft fleet, MSEK	10,488	10,204	11,314	11,732	12,170
<i>Calculation of Marked-adjusted Capital Employed²</i>					
Total assets	41,175	38,874	36,642	34,075	34,915
+ Surplus value, aviation	4,600	4,073	3,277	1,583	1,427
+ Present value of operating lease rental contract (NPV)	2,265	1,806	1,770	1,650	1,408
- Interest-bearing assets	-9,073	-9,936	-10,982	-10,802	-10,968
- Non-interest-bearing liabilities	-12,240	-11,722	-10,070	-9,205	-8,749
Total	26,727	23,095	20,637	17,301	18,033
<i>Calculation of CFROI</i>					
EBIT, Income before financial net and tax	2,079	2,986	2,425	1,922	3,107
+ Depreciation	1,942	2,125	1,880	1,851	1,840
+ Goodwill amortization	41	43	32	27	29
- Capital gains	-1,532	-1,011	-99	-100	-81
+ Operating lease rental expenses for aircraft	1,291	1,027	859	872	834
Total EBITDAR	3,821	5,170	5,097	4,572	5,729
<i>Calculation of market-based ROCE</i>					
EBIT, Income before financial net and tax	2,079	2,986	2,425	1,922	3,107
+ Operating lease rental expenses for aircraft	1,291	1,027	859	872	834
- 40% of the operating lease rental expenses for aircraft	-516	-411	-344	-349	-334
± Change in surplus value, aviation	-450	517	2,040	746	-566
Total EBIT, market-adjusted	2,404	4,119	4,980	3,191	3,041
Other financial data, MSEK					
Financial income	864	634	674	745	1,011
Financial expenses	-680	-762	-826	-830	-1,459
Interest-bearing liabilities	12,396	11,859	12,108	13,376	12,935
Net debt	529	2,079	1,345	1,754	2,544
Interest expenses/average gross debt, %	4.8	5.9	6.1	6.6	8.3
Interest coverage ratio	3.7	4.7	3.7	3.2	2.8
Debt/equity ratio	0.03	0.1	0.1	0.1	0.2

¹Including minority interests.

²Average over 5 quarters for the years 1995-1999.

For definitions and concepts, see page 114.

	1994	1993	1992	1991	1990
	36,886	39,122	34,445	32,286	31,883
	3,404	2,032	2,930	2,591	1,092
	-2,000	-1,782	-1,532	-1,338	-1,362
	-13	-1	-8	-2,109	-382
	869	511	7	148	0
	12	45	83	375	694
	2,272	805	1,480	-333	42
	-668	-1,313	-2,329	-942	-805
	1,604	-508	-849	-1,275	-763
	20,904	24,566	28,790	24,854	24,265
	3,670	9,973	6,849	6,289	6,362
	10,725	9,318	9,829	9,371	11,388
	9,355	8,631	8,958	9,639	11,097
	15,971	22,741	24,797	20,404	18,113
	9,973	12,485	11,713	10,471	12,805
	35,299	43,857	45,468	40,514	42,015
	2,338	1,377	1,444	1,362	1,130
	-1,391	-1,141	-3,338	-5,197	-5,651
	5,305	1,852	552	1,591	1,791
	-	-	-	-	-
	-	-	-	-	305
	6,252	2,088	-1,342	-2,244	-2,425
	-3,872	-2,469	1,584	227	6,921
	2,380	-381	242	-2,017	4,496
	-973	-130	216	-	-
	1,407	-511	458	-2,017	4,496
	9.2	5.2	8.5	8.0	3.4
	10.5	8.7	7.8	3.3	2.5
	10.0	-	-	-	-
	27	21	21	25	27
	25.0	10.5	9.4	2.5	3.8
	10.3	9.0	3.9	0.1	neg.
	15,304	17,049	18,374	15,817	12,165
	13,554	14,716	17,524	14,728	11,360
	35,299	43,857	45,468	40,514	42,015
	1,750	2,333	850	1,089	805
	1,641	2,416	634	556	685
	-11,363	-10,515	-11,240	-10,109	-12,543
	-8,379	-10,664	-1,693	-1,465	-1,493
	18,948	27,427	34,019	30,585	29,469
	2,272	805	1,480	-333	42
	2,000	1,782	1,532	1,338	1,362
	25	22	17	21	27
	-12	-6	0	-375	-452
	450	290	161	127	131
	4,735	2,893	3,190	778	1,110
	2,272	805	1,480	-333	42
	450	290	161	127	131
	-180	-116	-64	-51	-52
	-583	1,483	-239	284	-1,759
	1,959	2,462	1,338	27	-1,638
	933	2,402	1,138	1,398	704
	-1,601	-3,715	-3,467	-2,340	-1,509
	17,417	24,403	26,830	21,645	21,790
	6,054	13,888	15,590	11,536	9,247
	7.7	9.9	10.4	9.6	8.4
	2.0	0.9	0.8	0.5	0.5
	0.6	1.6	1.7	1.2	0.8

SAS 1990-1999

When observing SAS over a ten-year period, several factors have to be taken into account. At the start of the period, the air travel market had not yet been deregulated, and SAS was different then in comparison with today. After an expansive phase, SAS owned many more subsidiaries and associated companies than was the case at the end of 1999.

Operating income, 1990-1999

At the start of the period, SAS was hit hard by the recession, which meant fewer passengers and lower freight volumes. The decline came at a time when the company was in the midst of increasing capacity via major investments. The Kuwait crisis also arose in 1990, which further diminished air traffic. As a result of the deregulation of air travel in 1992, there was also a downward pressure on prices. Together with the recession and the weakening of the Swedish krona, this pressure on prices led the Board of Directors to decide in 1993 to focus on core operations. SAS began to phase out its holdings in most subsidiaries, which had a negative impact on operating revenues during 1994 and 1995, while operating income improved. There was an economic upswing in 1994, and air travel began to increase. By then, SAS had also implemented a restructuring program, while at the same time getting rid of unprofitable routes.

1995 was SAS's best year ever in terms of operating income. The decline in income in 1996 was mainly due to increased costs. When the recession was over, there were many demands for pay rises. In 1995, SAS also started to employ new cabin personnel for the first time in five years after concerns that earlier cut-backs had been detrimental to basic quality. 1997 was a positive year, but as early as 1998, income excluding capital gains started to fall as a result of increased costs. At the end of 1998, a decision was taken regarding an extensive program designed to improve the gross margin through cost reductions of MSEK 3,000.

Income and capital concepts included in the market-based profitability measures' key indicators

MSEK	1999	
Income		Market-adjusted capital employed
EBIT, income before financial net and tax	2,079	Total assets 41,175
+ Depreciation	1,942	+ Surplus value, aircraft 4,600
+ Goodwill amortization	41	+ Present value of operating lease rental contracts 2,265
- Capital gains	-1,532	- Interest-bearing assets -9,073
+ Operating lease rental expenses for aircraft	1,291	- Non-interest-bearing liabilities -12,240
EBITDAR (included in CFROI)	3,821	Market-adjusted capital employed
EBIT	2,079	26,727
+ Operating lease rental expenses for aircraft	1,291	(Included in CFROI and ROCE, marketbased)
EBITR	3,370	
- 40% of the operating lease rental expenses	-516	
± Change in surplus value, aviation, since the turn of the year	-450	
EBIT, market-adjusted		
(included in market-based ROCE)	2,404	

Calculation of CFROI

$$\frac{\text{EBITDAR}}{\text{Market-adjusted capital employed (average over 5 quarters)}} = \frac{\text{MSEK } 3,821}{\text{MSEK } 26,727} = 14.3\%$$

Calculation of ROCE

$$\frac{\text{EBIT, marknadsbaserad}}{\text{Market-adjusted capital employed (average over 5 quarters)}} = \frac{\text{MSEK } 2,404}{\text{MSEK } 26,727} = 9\%$$

Financial risks

Financial risk management

Through its international and capital intensive operations, the SAS Group is exposed to various types of financial risks – currency risks, interest rate risks, credit risks and liquidity and borrowing risks. These risks are managed centrally by SAS Finance within the framework of the financial policy adopted by the Board, whose aim is to control and manage the financial risks.

Currency risks

In order to decrease the currency risk, the currency composition of the liquid assets is matched against the interest-bearing gross debt.

The currency composition of the interest-bearing net debt is spread to match the currency composition of the net cash surplus from operations. The major net operational inflow currencies during the year were NOK, SEK, EUR, GBP and JPY.

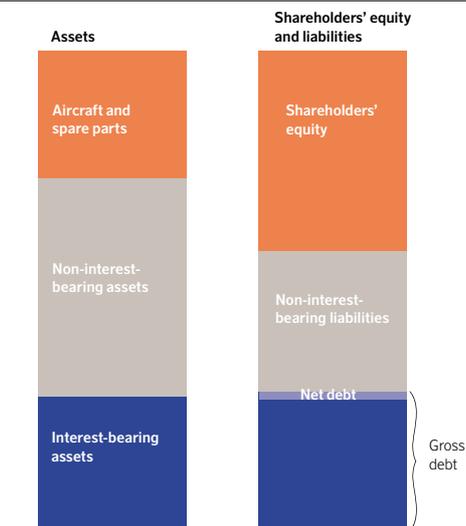
The currency composition of the net debt is revised on an ongoing basis against a rolling 12-month cash flow forecast. The size of the net debt in relation to total assets is shown in the diagram to the right.

Net operating outflow currencies are mainly DKK and USD. Between 60 and 90% of the anticipated deficits in these currencies are hedged on an ongoing basis for the next 12 months. Currency hedging is conducted in proportion to forecast operating surplus currencies. A summary of the effect of the exchange rate on earnings is provided on page 72.

Distribution of net operating cash flow in 1999, MSEK

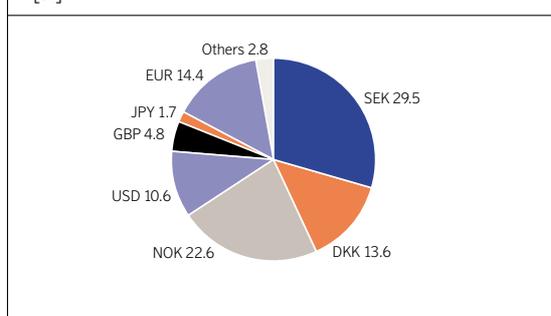
Surplus currencies		Deficit currencies	
NOK	1,900	DKK	-2,300
SEK	1,500	USD	-1,900
EUR	1,800	Others	-150
GBP	600		
JPY	350		
Others	400		
Total net cash flow		2,200	

The SAS Group's Balance Sheet, 1999

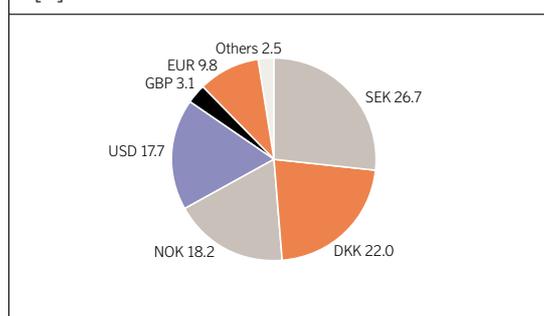


Currency and interest rate risks arise on the net debt, which comprises a small part of the interest-bearing liabilities. These risks are limited and relate to operational activities.

Currency composition, revenues for the SAS Group, 1999 [%]



Currency composition costs for the SAS Group's costs, 1999 [%]



Interest rate risks

The interest rate risk is controlled by matching the interest rate composition of liquid assets against interest-bearing gross liabilities.

The interest rate risk is spread to match the percentage share of the operating surplus currencies according to the cash flow forecast.

The fixed interest rate period on the net debt is kept between 1 and 6 years. Various types of derivative instruments such as long-term interest rate swaps, FRAs (Forward Rate Agreements) and futures are used to adjust fixed interest terms. The average fixed interest term varied in 1999, but averaged around 3.5 years.

Price risks for jet fuel

SAS's policy for hedging the price of jet fuel is that between 40 and 60% of the coming twelve-month period's anticipated consumption shall be hedged with the help of financial instruments. The cost for this hedging is included in SAS's total jet fuel costs.

Credit risks

Credit risks are attributable to the investment of liquid assets and the use of derivative instruments and arise because of the risk that a counterparty will not fulfil his/her part of a concluded agreement. For investments, the size of the credit risk consists of the nominal amount, and for derivative instruments, a valuation is made in accordance with international market practice.

The financial policy stipulates that transactions should mainly be made with organizations whose credit worthiness is high. Counterparty limits are determined individually, and are monitored and revised on an ongoing basis. ISDA agreements (a form of netting agreement) are made with most counterparties, thus substantially reducing the counterparty risk. Derivative instruments are mainly used to create the desired currency and interest rate exposure for the net debt. SAS has developed the monitoring of counterparty risks on the basis of mathematical probability calculations regarding anticipated credit losses.

Liquidity and borrowing risks

The term liquidity and borrowing risks refers to the risk that sufficient liquidity is not available, and that the refinancing of loans due for repayment will be costly or problematic. When raising new loans, the maturity profile shall be spread evenly over future terms. In order to reduce liquidity risks, the objective is for liquid assets and agreed credit lines to amount to 25% of one year's fixed costs for the SAS Group. This is equivalent to SEK 7.5 billion, 75% of which must be in liquid assets. This is equivalent to SEK 5.6 billion in actual liquidity. On December 31, 1999, the SAS Group's liquid assets totalled MSEK 8,335 (8,011), and together with binding credit lines, current liquidity is SEK 16.5 billion. These liquid assets shall primarily be invested in highly

liquid instruments or instruments with a short remaining term.

The table below shows the existing restricted credit facilities for SAS on December 31, 1999. Altogether, SAS has unused credit lines of MUSD 960.

Facility	Amount MUSD	Utilized on Dec. 31 1999	Un- utilized	Expiry of validity period
Revolving Credit Facility	700	150	550	May 2004
Multi Option Credit Facility	310	0	310	Nov 2000
European Investment Bank	400	300	100	Feb 2002
Total	1,410	450	960	

Financing

Financing mainly takes the form of syndicated bank loans, bond loans, direct loans, subordinated loans and financial leasing. The term for the interest-bearing gross debt was around 4.2 years at the end of the year. On December 31, 1999, the SAS Group's interest-bearing liabilities totalled MSEK 12,396 (11,859). A specification of the long-term liabilities may be found in notes 23-26 on pages 85-86.

As part of its efforts to raise capital, SAS is evaluating and implementing operating leases. The operating lease rental market is constantly developing and the range of products and investors has grown during the year.

Credit worthiness

SAS's credit worthiness is good. The equity/assets ratio has improved in recent years and on December 31, 1999 it was 41%. SAS's rating with the US rating institute Moody's is A3 for long-term liabilities and P-1 (the best possible) for short-term liabilities. In addition, SAS is also given a credit rating by the Japanese rating institute Japan Rating and Investor Information, Inc. For 1999, their long-term rating for SAS was AA for long-term liabilities and A-1+ (the best possible rating) for short-term liabilities.

Short and long-term ratings in the airline industry (Moody's)*

	Short-term	Long-term
American Airlines	P-2	A2
British Airways	-	A2
Lufthansa	-	A2
SAS	P-1	A3
Qantas	P-2	Baa1
Delta Air Lines	P-3	Baa1
United Airlines	-	Baa1
All Nippon Airways	-	Baa3
Japan Airlines	-	Baa3
Air Canada	-	Ba3

* On January 20, 2000



Developments and trends in the airline industry

Civil aviation policy and infrastructure

Civil aviation policy factors

Some 85% of SAS's total net revenues come from European routes, including Scandinavian domestic traffic, which means that European civil aviation policy developments are crucial to SAS. In Europe, the '90s have seen a gradual deregulation of air traffic. The most recent development occurred in 1997, when EES-based airlines were permitted to service national routes in all EES member countries.

Negotiations are under way between the EU and ten Eastern and Central European countries aimed at including these countries in the EU's deregulation starting in 2001. Transitional regulations will apply, however, which will mean certain capacity restrictions. A civil aviation agreement between the EU and Switzerland is currently awaiting ratification.

Where non-EU/EES traffic is concerned, bilateral agreements still apply, which are determined by the governments of the countries concerned. In many cases, such agreements are protectionist by nature and include strong market-regulatory features for safeguarding the interests of the countries' own airlines.

The European airline industry believes that discussions should be initiated between the EU and the US concerning the creation of a joint deregulated market. Agreements on so-called "open skies" (i.e. deregulated markets) already exist at a bilateral level between many European countries and the US, including Denmark, Norway and Sweden. The EU Commission maintains that these agreements are in breach of the Treaty of Rome.

The new round of negotiations within the World Trade Organisation (WTO) due to commence in 2000 (the General Agreement on Trade in Services, GATS 2000) will address air traffic issues to a greater extent than previously.

Alliances and competition issues

Since bilateral air traffic agreements with nationality clauses form the basis of non-European international air traffic, cross-border mergers or acquisitions between airlines offering services to and from other continents are now formally impossible. On the other hand, alliances and Joint Venture structures have been formed that resemble mergers to varying extents. Various international collaboration organizations, however, including the European Civil Aviation Conference, ECAC, and GATS, are increasingly expressing a wish for a relaxation of the traditional nationality requirement. In time, merger and acquisition

possibilities within the airline industry are therefore expected to increase.

Traditionally, the larger European airlines have been wholly or partly state-owned, which has led to a certain amount of protectionism. This has included, for example, discriminatory and competition-distorting capital injections to certain airlines. There is a clear tendency towards reduced state ownership through privatization and stock market listings.

To create global traffic systems and improve overall offerings to customers, airlines are increasingly forming alliances. One problem in this context is the different anti-trust and competition authorities' ways of addressing alliances and collaboration. The US authorities, for example, see the advantages of the current alliance developments, provided that they occur in open markets, whilst the EU Commission and the national anti-trust and competition authorities in Europe have a more restrictive approach.

Infrastructure

The rapid expansion of scheduled air traffic has not been followed by a corresponding expansion of airports and related infrastructure, such as railway connections, roads and car parks. The airline industry's future growth projections entail an average volume increase in traffic in Europe of 4-5% annually, which is equivalent to around 50% in less than ten years. Since the lead-time for the construction of new airports and runways is around ten years, capacity shortage will soon become very apparent.

The low rate of airport expansion has both economic and political aspects. It is thought that future financing solutions will include more traits of incorporation and private capital. Political considerations mainly relate to negative environmental impact and strong public opinion against air traffic expansion, with the ensuing prioritization of other traffic modes.

In Europe, air space crowding has become an increasingly serious problem. Despite EU membership, each country safeguards the sovereignty of its own air space, making flight routes longer and complicating air traffic control. The opening up of European air space would go a long way towards remedying the problem of overcrowding. This would require joint European air traffic control. Shortcomings in the European infrastructure also limit the opportunities of new players to commence operations at major established airports, which in turn curbs free competition.

For SAS, the situation in the domestic Scandinavian market is still relatively favorable as regards infrastructure. In Norway, the new Gardermoen airport outside Oslo has provided significant additional capacity. In Sweden, the expansion of Stockholm's Arlanda airport is now under way with a third runway and new terminals. It is estimated that the new runway will be complete in 2002. The express Stockholm City railway link was launched in November 1999. In Denmark, significant infrastructure investments have been made to improve access to Copenhagen airport.

Environmental issues

In its "Special Report on Aviation and the Global Atmosphere", dated May 1999, the United Nations climate panel predicts a global annual growth in air traffic of 5% until the year 2015 and that the industry can manage environmental improvements of 2%. This means an increase in total environmental impact of 3% per year. An environmental improvement rate of 2% per year until 2015 for air traffic requires significant technological developments and a renewal of world aircraft fleets, as well as major investments.

The EU Commission has expressed its concern about this development and clearly states in its report "Air Transport and the Environment" that it will be forced to take the initiative should there be a lack of progress internationally with regard to environmental efforts. Until the ICAO summit in 2001, the ICAO will be working both on tightening requirements regarding new aircraft certification and on a framework for new measures such as taxes/fees, trading in emission quotas, etc.

SAS's view in principle on this development of the business conditions governing the industry is that the rules must be framed in a similar way for all forms of transportation and apply in a similar way internationally, to avoid unfair competitive conditions.

Traffic policy issues

Over recent years the traffic policy debate in Scandinavia has gained new momentum. Some important reasons for this include environmental protection and concerns about the environmental impact of different modes of traffic. The debate has, however, been characterized by shortcomings in the source material used, particularly as regards a holistic view of the total costs and revenues for society involved in the different transport modes. The result has been that trains and boats/ferries have emerged as better alternatives to the automobile and aircraft as regards the environment. This is reflected in regional infrastructure investments. At the same time, the western world has expressed its willingness to allow each mode of traffic to bear its own costs. This is also in line with the EU's traffic policy ambitions.

In 1998, SAS commissioned the Danish consultancy company, COWI, and the Norwegian Institute of Trans-

port Economics (Transportøkonomisk Institutt) and INREGIA of Sweden to analyse civil aviation conditions in Scandinavia. The aim was to provide a balanced account of the total effect of air traffic on the national economy compared with other modes of transport. The parameters analysed included costs for energy, air pollution, noise, accidents, crowding and infrastructure. These costs were compared with national revenues in the form of taxes and fees for the following transport modes: air, automobile, train and ferry traffic.

The investigation shows that cars and automobile traffic provide a significant surplus for the national economy, that air services cover their own costs for both infrastructure and environmental impact, and that the environmental competitive advantages of air traffic increase with distance. Trains and ferry traffic, on the other hand, cover a very small proportion of their respective national economic costs.

Globalization

Globalization is one of the dominant trends in the world economy. New cross-border relationships are being established, and collaboration between companies and industries, institutions and authorities is intensifying. This places increased demands on international airlines to offer global traffic systems for transporting passengers and freight.

Competition

Deregulation has led to much fiercer air traffic competition over the past ten years on the national, international and global levels alike. The cost advantages to customers are significant, and air travel has become accessible to new customer groups. There are three main categories of airlines operating in the air travel market:

- Established international airlines with well-developed traffic systems, modern aircraft fleets, effective distribution channels and customer programs, and strong brands. This category comprises a number of US, Asian and European companies including SAS.
- Regional companies that serve smaller markets such as domestic air traffic and/or geographical regions – Scandinavia and the Baltic region, for example. These companies often conduct relatively stable, effective and hence profitable operations in their defined markets. Several regional airlines intend to join international alliances in order to be in a position to offer more comprehensive product and frequent flyer programs, etc.
- Niche operators that streamline their business to specific routes or customer segments. Examples of such operators are companies that offer budget flights with no in-flight or other services, between a limited number of secondary airports.

SAS
Business Class

STAR ALLIANCE

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SAS's markets

1999 was a weak year for SAS in terms of traffic development.

- SAS was affected by a sharp downturn in the Business Class segment.
- There was considerable excess capacity in the Norwegian domestic market, in North Atlantic traffic and in parts of the European network.
- Unit revenues fell due to the general downward pressure on prices and the considerable increase in capacity in Scandinavia among SAS's main competitors.

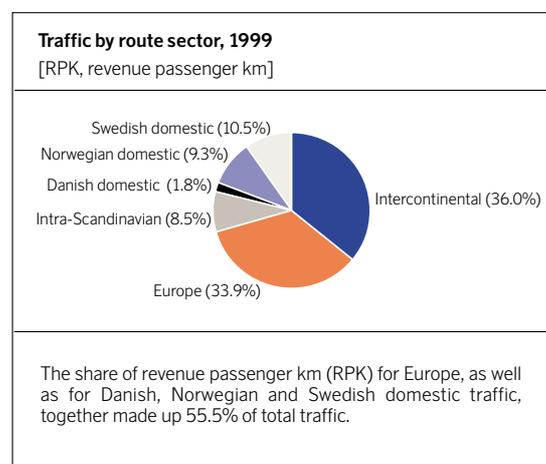
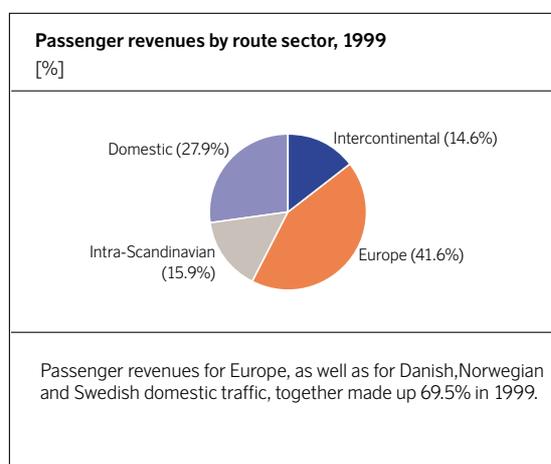
SAS's traffic systems offer air connections to, from, between and within the Scandinavian countries. Besides the principal market, which is Scandinavia, other regions, such as Northern Europe and the Baltic region, are gaining importance.

Scandinavia is an intensive air traffic market. This has both geographic, topographic and demographic reasons. Scandinavia also lies on the perimeter of the map and is sparsely populated. It also has a significant export trade. This creates an important market for air transport to, from, within and between the countries. In many cases, for example in the northernmost regions of Norway and Sweden, air travel is the only realistic alternative for fast, effective transport. Norway has the highest per capita consumption of air travel in Europe. In the light of this, the region also constitutes an attractive market for other airlines than the domestic Scandinavian ones.

All major European airlines serve Scandinavia, and competition for the attractive destinations has increased significantly in recent years. Several European airlines have greatly expanded their air services, establishing more comprehensive feeder networks to their hubs in Europe. This is due partly to the fact that the major alliances want a comprehensive traffic network, but also to the fact that the Scandinavian countries form a good base for feeder traffic to intercontinental routes that use European cities as their hubs.

SAS's air traffic operations can be divided into six route sectors: intercontinental routes, European routes, intra-Scandinavian routes, Danish domestic traffic including Greenland, Norwegian domestic traffic and Swedish domestic traffic.

In 1999, SAS increased its capacity with the aim of regaining its market share and securing a future competitive edge. SAS also continued its development of partnerships, both individually and within the Star Alliance framework. SAS has also capitalized on the opportunities opened up by the alliance collaboration of increased expansion through shared risk in Joint Ventures. SAS currently has Joint Venture collaborations with Air Canada, Lufthansa and Spanair. In November 1999, a Joint Venture agreement was signed between British Midland, Lufthansa and SAS regarding all traffic to and from London Heathrow and Manchester. The agreement is currently subject to examination by the EU Commission.



SAS's traffic and income development in 1999 was poorer than the previous year. Business Class traffic decreased significantly as a result of sharp downturns in important markets such as Norway, as well as a general trend in business and industry towards less Business Class travel. SAS's traffic development has also been affected by the increased competition in Scandinavia, and by the fact that SAS's capacity increase in recent years has been much lower than the average for other European companies.

Intercontinental traffic

Intercontinental destinations at the end of 1999 were: New York, Chicago, Seattle, Tokyo, Beijing, Bangkok, Singapore and New Delhi. The number of intercontinental destinations served by SAS itself fell during the year from nine to eight due to the closure of SAS's route to Hong Kong. At the same time, SAS increased the number of its departures to both Beijing and New York. In May, SAS commenced a Joint Venture with Air Canada on the Copenhagen-Toronto route.

Over the past two years, most intercontinental operators have shifted capacity from Asia to North America, resulting in excess capacity and considerable pricing pressure on North American traffic. SAS's cabin factors on North American routes were heavily affected by this in 1999. Business Class traffic fell dramatically, whilst there was a modest increase in Economy Class traffic.

Towards the end of the year, the Asian routes showed signs of recovery, and the negative trend following the Asian crisis lost some of its momentum. Passenger numbers improved, and the Asian market is now seeing an upswing. Adjusted for the closure of the Hong Kong route, the overall trend for Asian routes has been good. Business Class traffic has, however, lagged behind, as it has in other areas.

European traffic

The six largest geographical areas served by SAS in Europe in terms of RPK are the UK, Germany, France, Switzerland, Italy and Finland. Traffic to the UK accounts for 29% of SAS's total European traffic.

Expansion in 1999 has been very modest. There has been a great deal of traffic restructuring in 1999. Capacity has been moved from routes with little or no profitability potential to routes with a better outlook. SAS has opened a new Polish destination and has started up a few new European routes and increased the number of departures for a large number of existing destinations.

Four destinations have been closed – Zagreb, Arkhangelsk, Rotterdam and Venice – as have a number of routes, for example Gothenburg-Brussels, Stockholm-Budapest, Billund-Frankfurt, Aarhus-London and Oslo-Zurich.

A number of routes have been taken over by partners, for example Oslo-Helsinki, Copenhagen-Riga, Stockholm-

Uleåborg, Stockholm-Manchester, Copenhagen-Växjö/Kalmar and Copenhagen-Tallinn.

The trend has been the same for European traffic as for the intercontinental routes, with a dramatic downturn in Business Class travel. The weak economic performance in Russia has affected traffic figures on Russian routes and routes to adjacent markets.

SAS's passenger traffic trend, 1999

	1999	1998	Change, %
Total for SAS			
Number of passengers, (000s)	21,991	21,499	+2.3
RPK, millions	21,160	20,821	+1.6
ASK, millions	33,205	31,704	+4.7
Cabin factor, %	63.7	65.7	-1.9*
Yield adjusted for currency effects, SEK	1.32	1.35	-2.4
Business Class, % of RPK	29.1	31.0	-1.9*
Intercontinental routes			
Number of passengers, (000s)	1,128	1,076	+4.8
RPK, millions	7,625	7,475	+2.0
ASK, millions	10,088	9,620	+4.9
Cabin factor, %	75.6	77.7	-2.1*
Yield adjusted for currency effects			-6.0
European routes			
Number of passengers, (000s)	7,104	7,233	-1.8
RPK, millions	7,162	7,229	-0.9
ASK, millions	12,163	12,211	-0.4
Cabin factor, %	58.9	59.2	-0.3*
Yield adjusted for currency effects			-3.3
Intra-Scandinavian routes			
Number of passengers, (000s)	4,232	4,166	+1.6
RPK, millions	1,801	1,751	+2.9
ASK, millions	3,154	2,956	+6.7
Cabin factor, %	57.1	59.2	-2.1*
Yield adjusted for currency effects			+1.2
Danish domestic including Greenland			
Number of passengers, (000s)	1,031	1,152	-10.5
RPK, millions	380	422	-10.0
ASK, millions	603	674	-10.6
Cabin factor, %	63.0	62.5	+0.4*
Yield adjusted for currency effects			-0.3
Norwegian domestic			
Number of passengers, (000s)	3,802	3,607	+5.4
RPK, millions	1,960	1,911	+2.5
ASK, millions	3,698	3,049	+21.3
Cabin factor, %	53.0	62.7	-9.7*
Yield adjusted for currency effects			-4.2
Swedish domestic			
Number of passengers, (000s)	4,694	4,265	+10.1
RPK, millions	2,233	2,033	+9.9
ASK, millions	3,499	3,194	+9.5
Cabin factor, %	63.8	63.6	+0.2*
Yield adjusted for currency effects			-1.3

* Change in percentage units.

For definitions and concepts, see page 114.

Intra-Scandinavian traffic

Intra-Scandinavian traffic is important to SAS's traffic system, partly in order to meet the local market's transportation requirements, and partly to ensure an efficient feeder-system to SAS's international destinations, generating more European and intercontinental traffic. Capacity on the intra-Scandinavian routes has been expanded to get rid of previous bottlenecks in the traffic system. This capacity expansion has mainly focused on the capital city routes in 1999, such as Stockholm-Copenhagen and Oslo-Copenhagen.

The decline in the Norwegian market was clearly felt on the intra-Scandinavian routes. The move to Gardermoen, the airport about 50 km outside the centre of Oslo, also affected this traffic, particularly on short intra-Scandinavian routes, such as Stockholm-Oslo and Gothenburg-Oslo.

Traffic between Sweden and Denmark developed well, partly due to the positive trend for Business Class travel from secondary points in Sweden.

Domestic traffic

In Denmark the connection over the Store Bælt strait led to a loss of market share for air traffic to other means of transport. Many domestic destinations have been discontinued. In 1999, SAS discontinued its service to Karup. SAS's two remaining domestic destinations are expected to continue to be profitable, partly due to planned changes to the aircraft fleet. As of 2000, the greater part of Danish domestic flights will use deHavilland Q400 turbo propeller aircraft, which are smaller and more cost efficient to operate than the Douglas DC-9/MD-80s that are currently used.

Grønlandfly's entrance onto to the Denmark-Greenland route has had a very positive impact on the market. The broader range has generated greater demand.

Competition in the Norwegian domestic market has been fierce for many years and intensified even more as a result of the increased capacity generated by the new airport, Gardermoen. After the move, players in the Norwegian domestic market increased their capacity to and from Oslo by a total of 25%. Combined with the fact that the full-price segment decreased approximately 10% during 1999, this resulted in significantly lower profitability for all airlines servicing the Norwegian domestic market. Color Air ceased operations in September 1999, and both SAS and Braathens reduced their capacity during the autumn of 1999. Norwegian domestic air traffic has now entered a consolidation phase designed to help raise income levels. Total capacity was 15% lower for Norwegian domestic traffic at the beginning of 2000 than it was at the end of September 1999.

The total domestic traffic in Sweden increased 5.2 % to 7.2 million passengers due to the economic upswing, approaching the record levels set in 1990. There was a slow but steady increase in the number of business travellers, and "ticketless travel" using "Travel Passes"

has become increasingly common. SAS increased the number of departures to Malmö, Gothenburg and Umeå to meet the growing demand. On 28 November, Braathens/Malmö Aviation ceased its domestic flights from Arlanda. SAS captured Braathens' passengers for the stretches Stockholm-Luleå and Stockholm-Umeå by increasing capacity.

SAS's market position

Geographic location and market conditions are crucial to shaping an airline's traffic system. SAS currently occupies a healthy position in the Scandinavian air traffic market. At all three principal airports in Scandinavia, SAS's share of the total number of arrivals and departures is 40-50%.

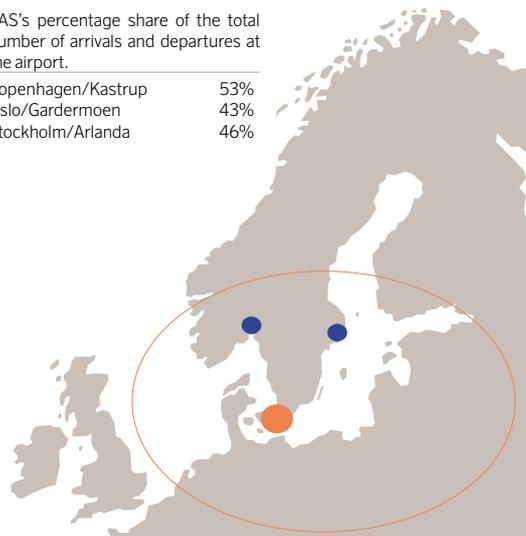
With its geographical location and its population, Copenhagen is the SAS hub best suited to offering a large number of competitive connections. SAS has an extensive network of feeder routes to and from Copenhagen in addition to its long-haul routes. The larger long-distance aircraft, ordered in 1999, will have a positive impact on SAS's entire traffic system. SAS's ability to meet increased demand for intercontinental routes will lead to an increase in the demand for connecting routes.

SAS is expanding its non-stop connections from Stockholm and Oslo at a pace that allows it to maintain profitability. SAS is also channeling passengers through Copenhagen. Stockholm and Oslo handle the primary traffic flows between destinations located to the north of the capital cities, as well as the region's own traffic to and from the rest of the world.

There are 80 million people living within the Copenhagen catchment area.

SAS's percentage share of the total number of arrivals and departures at the airport.

Copenhagen/Kastrup	53%
Oslo/Gardermoen	43%
Stockholm/Arlanda	46%



SAS Cargo

Fiercer competition in Scandinavia, Europe and the US, fluctuations in international business cycles, the running-in of new freight terminals at Gardermoen in Norway and Kastrup in Denmark, and rising fuel costs have all had a negative impact on SAS Cargo's earning capacity in 1999.

Traffic revenues were unchanged compared with 1998. They account for around 7% of the revenues of the SAS Group. Air Mail, which accounts for 12% of SAS Cargo's operating revenue, ended 1999 with an income that exceeded expectations. This was partly due to a renewed 2-year contract with the Norwegian postal administration for domestic transportation.

SAS Cargo needs to extend its partnership with the members of Star Alliance's freight section, Cargo Alliance, such as United Airlines and Air Canada. SAS Cargo signed an agreement with these airlines in the latter part of 1999 about collaborating on freight capacity to the US from London and Copenhagen.

At the beginning of April 1999, SAS Cargo and Lufthansa Cargo AG decided to step up the collaboration between the sales and market functions of the two companies. This means that employees have been relocated to joint premises in Scandinavia and Finland as of January 1, 2000.

Despite some major teething problems, the quality of the freight handling at the new freight terminal at Gardermoen has exceeded the best level ever recorded at the old freight terminal at Fornebu. Furthermore, the quality of Kastrup's new freight terminal is now satisfactory.

SAS Cargo intends to certify all its operations according to ISO 9000, and all its Scandinavian operations according to ISO 14001.

Increasing competition

SAS Cargo returned a leased Boeing 747-200F all-round cargo aircraft to Atlas Air at the end of April. Instead, SAS Cargo is leasing a more fuel-saving MD-11F, including personnel, from Lufthansa Cargo AG. The plane was deployed on the Gothenburg-Sharjah-Hong Kong route during the summer. The route has twice weekly services, and is showing a positive trend. SAS Cargo's freight routes between Europe, Scandinavia and Japan have also performed well during the year. SAS Cargo signed a three-party agreement with Lufthansa Cargo AG and Japan Airlines in 1998 about sharing freight capacity for a Boeing 747-200F. On this route, traffic increased in 1999 from one to three flights per week.

SAS Cargo's markets in Scandinavia and Finland, the Baltic countries, Europe, the US and the Far East are expanding. Fiercer competition has also put pressure on the company's earning capacity, especially between the US and Scandinavia/Europe. This has not affected SAS Cargo's high quality requirements. In April, SAS Cargo won the "Cargo Airline of the Year to/from Scandinavia/Europe" award given by the UK trade magazine, Air Cargo News.

Outlook

Despite stiffening competition for air freighting, SAS Cargo's performance has exceeded expectations. A new growth basis was established during the year with in-house operations and new terminals in Newark/New York, Copenhagen, Oslo and most recently Malmö. The company still considers that an extended working partnership with other freight companies would improve SAS Cargo's outlook.

Key indicators, 1999/1998

	1999	Percentage change	1998
Revenues, MSEK	2,109	2.7	2,053
Freighted tonnes	284,675	1.7	279,927
Tonne km (000)	907,286	3.5	876,848
Cargo Yield, SEK/tonne km	2.29	1.3	2.26

Freight and mail traffic, 1999/1998

	1999				1998			
	Freight		Mail		Freight		Mail	
	Million tonne km	Change in %, 1998	Million tonne km	Change in %, 1998	Million tonne km	Change in %, 1997	Million tonne km	Change in %, 1997
Intercontinental	775,273	4.9	26,329	9.5	739,360	3.9	24,055	-7.4
Europe	37,738	-27.4	14,388	4.5	51,995	-7.4	13,762	-3.9
Intra-Scandinavian	26,214	19.9	1,672	6.0	21,861	5.0	1,577	3.0
Total international	839,225	3.2	42,389	7.6	813,216	3.1	39,394	-5.8
Denmark	6,800	-9.3	1,805	13.2	7,500	1.1	1,594	-29.2
Norway	5,928	-4.8	7,954	17.1	6,229	-5.1	6,793	4.9
Sweden	3,185	50.1	0	0.0	2,122	-6.5	0	0.0
Total domestic	15,913	0.4	9,759	16.4	15,851	-2.5	8,387	-3.9
Total	855,138	3.1	52,148	9.1	829,067	3.0	47,781	-5.5

Alliances and partnerships

Collaboration and customer benefits

High demands, mainly from frequent travellers, for smooth, effective global travel have led to the establishment and development of alliances and collaboration agreements between a large number of international airlines. By jointly capitalizing on the resources, competence and market presence of the individual airlines, the airlines concerned are able to offer their customers a better, more extensive range of products and services.

The international air traffic industry is dominated today by three to four global alliances. Through the alliances, member airlines endeavor to achieve economies of scale, thereby enhancing their market position and profitability. Cost reductions can be achieved by co-ordinating production and by joint purchasing and IT development, for example.

The extent of collaboration and integration varies from working together in code-sharing, check-in and other passenger services, marketing and product and systems development to Joint Ventures and mergers.

Customer benefits include the flexibility of being able to choose between and combine the traffic systems of several partners. The customer travels in a single system, thereby capitalizing on the advantages and privileges to which he/she is entitled through the Frequent Flyer program of the alliance of which he/she is a member.

The world's largest airline alliances in terms of operating revenue and passenger numbers

	Operating revenue 1998 (USD billion)	Passenger numbers 1998 (millions)	RPK share of world total (%)
Star Alliance	59.0	250.9	18.4
Oneworld	51.1	208.8	17.9
KLM/Northwest group	28.9	133.2	10.9

Source: *Airline Business*, September 1999

Members of airlines' frequent flyer programs can acquire air miles on all routes in the alliance's total traffic system. Entitled members are also offered a range of exclusive services within the alliance, including access to airport lounges, special check-in, waiting list priority, etc. "Through Check-In" (to the final destination) is being developed and improved to include all destinations in the alliance's traffic system, and transit times are cut by co-ordinating timetables, airport facilities and procedures.

To achieve a higher level of efficiency and improved profitability, vertical collaboration is also increasing with service providers outside of the airlines' real core business – passenger and freight transport. Such services include, for example, catering, aircraft and passenger handling at airports, information technology, etc.

The alliances are

- Star Alliance™ was established in May 1997. Besides the five founding members of the alliance – SAS, Lufthansa, United Airlines, Air Canada and Thai – the alliance now also comprises Ansett Australia, Air New Zealand, All Nippon Airways and Varig. During the first half of 2000, Singapore Airlines, Austrian Airlines Group (with Lauda Air and Tyrolean) and Mexicana will also be joining the alliance. British Midland is also negotiating Star Alliance membership in 2000.
- Oneworld™ was launched in September 1998 by British Airways, American Airlines, Canadian Airlines, Cathay Pacific and Qantas. In September 1999, Finnair and Iberia joined the alliance.
- KLM/Northwest group was introduced in 1993 as a close collaboration, including co-ownership, between KLM and Northwest Airlines. The group subsequently expanded with the collaboration between Northwest and Continental Airlines, and between KLM and Alitalia. Braathens of Norway is also a member of the alliance, which goes by the name of 'Wings'.
- Air France/Delta Airlines was announced in the summer of 1999. It is expected that the alliance will in practice be marketed during the first half of 2000. Besides Air France and Delta Airlines, Aeromexico is today the only future member of the alliance.

SAS's global partner strategy

Star Alliance™

Star Alliance is the cornerstone of SAS's partnership strategies. The Star Alliance collaboration commenced in May 1997 and has gradually expanded since then. Besides the Star Alliance founders (Air Canada, Lufthansa, SAS, United and Thai Airways), four more companies have joined. At the turn of the year 1999/2000, the alliance comprised nine members.

Star Alliance Mission

To ensure the long-term profitability of its members, Star Alliance's mission is to develop, operate and market a highly competitive, global air travel system, offering comprehensive, reliable, efficient and seamless air travel services through its caring and competent employees.

Five new members are due to join the alliance in 2000 – Austrian Airlines Group (including Lauda Air and Tyrolean), Mexicana and Singapore Airlines. British Midland is currently negotiating membership. A number of joint projects have been carried out to achieve Star Alliance's vision, which is to become "The Airline Network for Earth". The most important areas are the development of a global traffic system and the development of customer-oriented, effective and reliable products of high, consistent quality. Throughout Star Alliance's almost three-year history, it has gained a considerable advantage over competitors who have established similar collaborations in recent years.

Star Alliance Vision

Star Alliance is perceived as the superior global airline network by business and leisure travellers worldwide. Star Alliance is the preferred choice of corporations and frequent business travellers in its members' home markets, as well as in strategic third markets. Star Alliance is primarily recognized for its innovative development in the areas of global coverage, customer-oriented, reliable, efficient and seamless air travel services, easy accessibility, genuine customer recognition and caring and competent employees. "The airline network for Earth".

In 1999, income contribution from the Star Alliance collaboration was MSEK 800, which is in line with SAS's plans.

Income contribution from Star Alliance, 1997-1999

1997	MSEK 325
1998	MSEK 500
1999	MSEK 800

The majority of the income contributions from partnerships come from increased revenues. The cost component for synergies is expected to increase over the coming years. Projects relating to the cost side are time-consuming to implement and are expected, within the IS/IT area amongst others, to generate effects in the future.

The alliance has established a formal organization aimed at co-ordinating, structuring and formalizing the different projects carried out within the alliance.

Regional partnership strategy

As an extension of SAS's global partnership strategy, a regional partner strategy has been developed. The aim is to complement SAS's traffic program by broadening the number of slots on existing routes and/or serving new routes that are only profitable for smaller aircraft. SAS's whole or partial ownership shall ensure the long-term nature of such projects, and their stability.

Regional Partners

Air Botnia

Air Botnia is wholly owned by SAS. The company operates 11 aircraft. The company is developing quickly to become a Nordic regional airline designed to support SAS's traffic system. The collaboration between SAS and Air Botnia also means that customers can be offered an efficient route network within Finland. This also strengthens Helsinki as a connection point, and it is expected that a close connection between Air Botnia's domestic routes and SAS's international route network will be established.

Cimber Air

SAS owns 26% of Cimber Air, which is a significant regional airline in Denmark. Cimber Air also flies certain German domestic routes. The company operates 15 aircraft and serves 14 destinations. Cimber Air serves as a complement to SAS's traffic system on the Copenhagen-Luxembourg and Copenhagen-Berlin routes.

Grønlandsfly

SAS owns 37.5% of Grønlandsfly, which operates traffic to and from Greenland, as well as within Greenland.

Skyways

SAS owns 25% of Skyways Holding. Skyways operates some 40 aircraft and serves a total of 35 destinations.

Skyways flies both domestic and international routes, and complements SAS's traffic system, for example on the Stockholm-Manchester, Linköping-Copenhagen and Västerås-Oslo routes. In 1999, Skyways commenced regional jet operations when an Embraer 145 was deployed on the Stockholm-Zurich and Stockholm-Manchester routes.

Widerøe's Flyveselskap

SAS owns 63.2% of Widerøe's Flyveselskap. The company is the largest regional airline in Norway. Widerøe's Flyveselskap operates around 26 aircraft and serves 35 Norwegian domestic destinations. Widerøe complements SAS's traffic systems on the Sandefjord/Torp-Stockholm and Copenhagen, Bergen-Stavanger, Stavanger-Glasgow and Stavanger-Aberdeen routes, amongst others.

European partners

airBaltic

SAS owns 34.2% of airBaltic, which is based in Riga, Latvia. airBaltic forms part of SAS's Baltic hub strategy, and flies to destinations that SAS has no possibility of serving today.

British Midland

SAS owns 40% of British Midland PLC. The airline serves over 30 destinations with 6 million passengers. British

Midland is the second largest operator at London Heathrow airport.

In December 1999, SAS entered into an agreement concerning the sale of half of its holding in British Midland to Lufthansa. The agreement is subject to the EU Commission's approval, which is expected in 2000. British Midland, SAS and Lufthansa will be working together on traffic to and from Germany, Scandinavia and the UK in a Joint Venture agreement.

Spanair

Spanair, of which SAS owns 49%, transports 3 million passengers and serves over 22 destinations. Spanair is the second largest airline in Spain. A Joint Venture agreement has been established on Spanair's routes between Scandinavia and Spain. Spanair has a similar Joint Venture agreement with Lufthansa for routes between Spain and Germany.

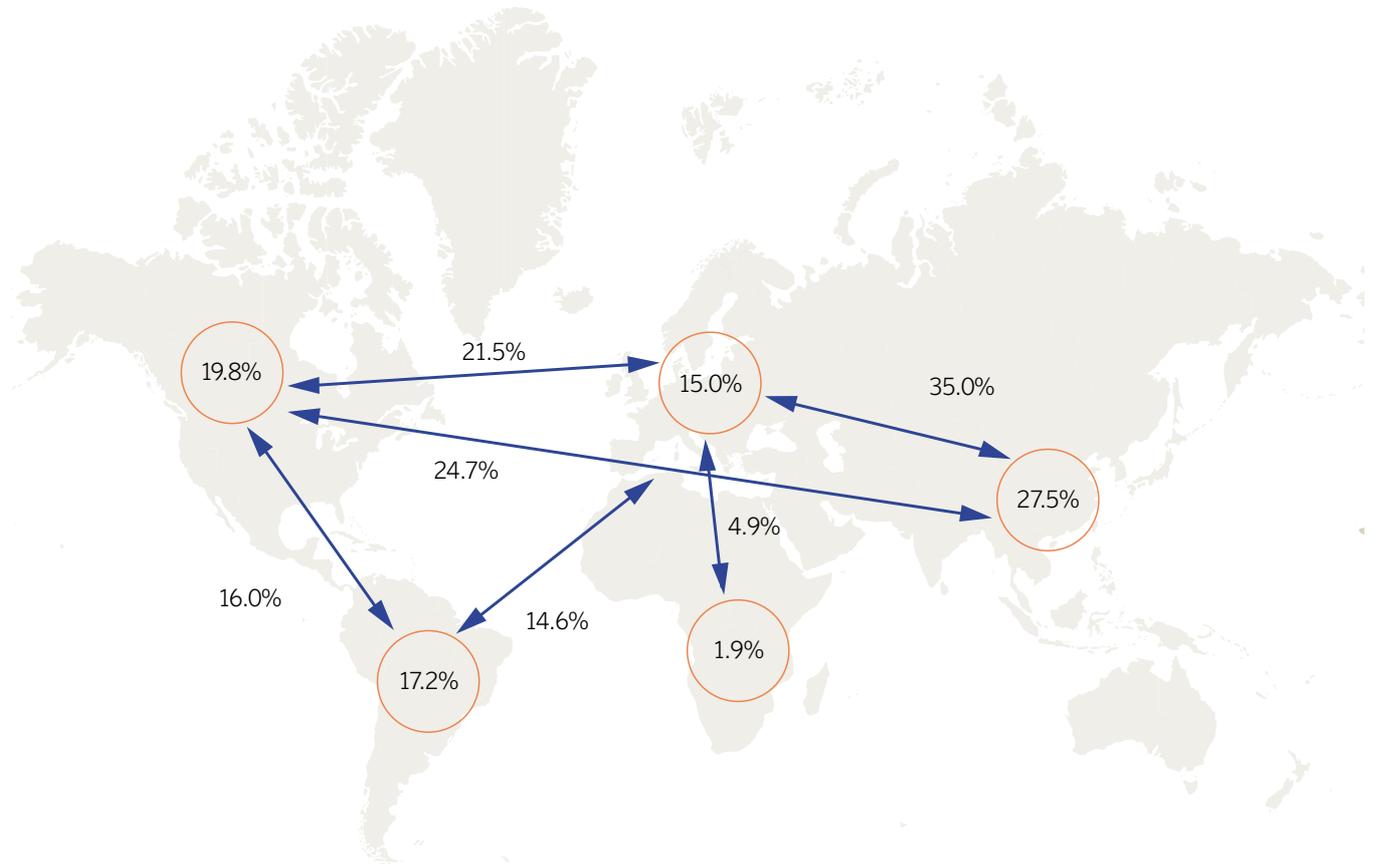
Key figures for Star Alliance, 1998-1999

	Passengers/year (million)	Destina- tions	Countries	Aircraft	Daily departures	RPK (billion)	Annual operating revenue (USD billion)	Employees
Air Canada	15.0	120	26	244	1,200	37.3	4.0	23,000
Ansett Australia	12.0	64	6	102	504	16.3	2.4	16,000
Lufthansa	40.5	301	89	325	1,800	74.7	12.9	55,000
All Nippon Airways	41.8	65	14	144	610	54.4	8.9	14,500
Air New Zealand	6.4	50	15	80	470	17.9	1.8	9,800
SAS	22.2	105	32	190	1,100	21.2	5.2	25,700
Thai Airways International	15.2	74	35	80	120	33.0	2.5	24,500
United Airlines	86.8	320	27	600	2,400	200.6	17.6	99,000
Varig	11.0	120	20	90	450	27.1	3.7	18,000
Star Alliance	250.9	760+	112+	1,855	8,654	482.5	59.0	285,500

Regional and European partners traffic development 1999

	RPK
Regional partners	+25%
European partners	+29%
SAS	+1.6%
SAS incl. regional and European partners	+9%

Star Alliance capacity shares
in the global traffic flow



Traffic flow as a percentage
of total world traffic

Inter North America	30.8
Inter Asia	15.6
Inter Europe	13.1
Europe – North America	12.4
Europe – Asia	5.6
North America – Asia	4.0
North America – South America	3.7
Inter South America	2.8
Europe – South America	2.8
Europe – Africa	2.7
Inter Africa	1.0
Other traffic	5.5
	<u>100.0</u>



Star Alliance™ has a capacity share of 19.8% in North America. Air traffic within North America constitutes 30.8% of total world traffic.

Operational key figures

Ten-year review

Traffic/Production	1999	1998	1997	1996	1995	1994	1993	1992 ¹	1991	1990
Number of cities served	105	101	98	101	100	102	104	98	82	85
Number of flights, scheduled	343,611	328,327	320,410	309,636	295,028	297,688	314,940	*	*	*
Kilometers flown, scheduled (million)	261.1	251.9	244.3	235.7	218.5	217.2	225.6	202.9	190.7	188.4
Total airborne hours, scheduled (000)	417.2	403.6	390.4	375.5	352.6	350.2	367.9	326.0	286.6	298.3
Number of passengers carried, total (000) ²	22,225	21,699	20,797	19,828	18,835	18,823	18,619	16,808	13,949	14,962
Available tonne kilometers, total (million)	4,621.3	4,501.1	4,346.0	4,130.8	3,586.2	3,514.0	3,576.4	3,389.8	3,074.4	3,278.4
Available tonne kilometers, scheduled	4,560.9	4,459.0	4,290.6	4,092.6	3,546.2	3,500.8	3,566.6	3,345.0	3,066.9	3,266.4
Available tonne kilometers, other	60.4	42.1	55.4	38.7	40.0	13.2	9.8	44.8	7.5	12.0
Revenue tonne kilometers, scheduled (million)	2,834.5	2,680.0	2,571.5	2,392.2	2,172.7	2,163.2	2,106.9	1,929.9	1,847.2	2,002.9
Passengers and excess baggage	2,041.9	1,877.1	1,827.7	1,754.6	1,670.4	1,666.8	1,637.3	1,488.0	1,394.5	1,514.5
Freight	741.4	755.7	693.7	590.4	452.8	445.9	420.4	391.7	406.4	429.8
Mail	51.2	47.2	50.1	48.2	49.5	50.5	49.2	50.2	46.3	58.6
Total load factor, scheduled (%)	62.1	60.1	59.9	58.5	61.3	61.8	59.1	57.7	60.2	61.3
Available seat kilometers, scheduled (million) ²	33,288	31,766	31,333	30,646	28,447	28,154	28,581	26,396	24,317	25,475
Revenue passenger kilometers, scheduled (million) ²	21,243	20,883	20,339	19,487	18,506	18,466	18,138	16,554	15,416	16,493
Cabin factor, scheduled (%)	63.8	65.7	64.9	63.6	65.1	65.6	63.5	62.7	63.4	64.7
Business Class, share of revenue passenger kilometers (%)	29.1	31.0	31.7	31.5	32.0	30.7	28.7	27.5	31.9	20.1
Average passenger trip length, scheduled (km)	966	971	986	990	989	983	976	990	1,108	1,102
Traffic revenue/revenue tonne kilometer (SEK)	11.28	11.90	11.94	11.77	12.91	12.07	11.24	10.48	10.52	9.26
Passenger revenue/revenue passenger kilometer, scheduled (SEK)	1.33	1.35	1.34	1.31	1.39	1.29	1.21	1.06	1.10	*
Passenger revenue/available seat kilometers, scheduled (SEK)	0.85	0.89	0.87	0.83	0.90	0.85	0.77	0.66	0.70	*
Airline operating expense/available tonne kilometer, scheduled (SEK)	7.39	7.17	6.73	6.53	7.17	7.21	6.69	6.18	6.22	*
Revenue tonne kilometer/employee, scheduled (000)	125.5	127.6	129.4	119.6	119.1	115.9	108.4	93.5	99.3	99.0
Revenue passenger kilometer/employee, scheduled (000)	940.7	994.1	1,023.6	1,025.9	1,014.0	989.5	933.1	802.0	828.8	815.3
Fuel price (cents/gallon)	60	66	75	78	67	66	71	76	82	90
Punctuality (% within 15 minutes)	83.5	82.7	88.0	87.8	87.6	91.3	90.0	90.6	91.5	89.4
Regularity (%)	97.8	98.1	99.0	98.7	97.5	98.7	98.7	99.0	99.2	98.4
Break-even load factor (%)										
SAS	65.5	60.3	56.4	55.5	55.5	59.7	59.5	61.6	61.8	63.7
AEA	*	63.8	64.8	64.0	63.9	65.7	65.5	63.8	62.8	66.6
IATA	*	60.1	61.1	60.8	59.5	61.0	61.8	61.0	62.3	61.5
US Majors	*	51.8	53.1	53.7	52.2	54.6	53.5	56.0	55.8	55.8

¹ Figures include 7 months of Linjeflyg's traffic and production data.

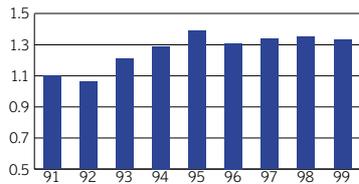
² Including other traffic/production.

* Figures not available.

For definition and concepts, see page 114.

Unit revenue, 1991-1999

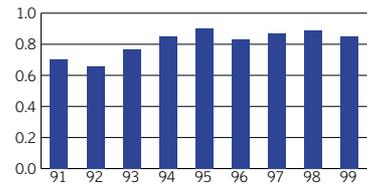
[Passenger revenue/revenue passenger km, scheduled, SEK]



Unit revenue (yield) increased between 1991 and 1995. This is mainly due to shorter flying distances.

Passenger revenue, 1991-1999

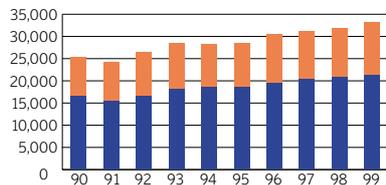
[Passenger revenue/available seat km, scheduled, SEK]



The columns show revenue per available seat kilometer and represent both capacity utilization and yield development.

Production and traffic, 1990-1999

[seat kilometers]

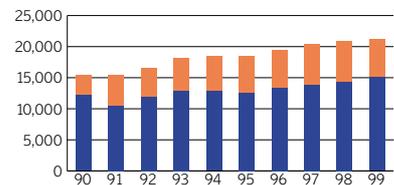


■ Revenue seat kilometers ■ Unsold seat kilometers

The number of available seat kilometers has increased 31% over the last ten-year period. The share of revenue seat kilometers in relation to the total number of seat kilometers was 63.8% in 1999.

Revenue passenger kilometers, 1990-1999

[passenger kilometers, million]



■ Economy Class ■ Business Class

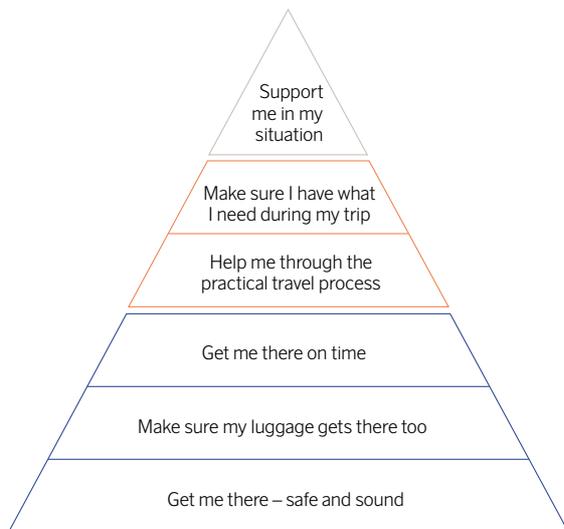
The number of revenue passenger kilometers has increased 29% over the last ten-year period. The Business Class share of revenue passenger kilometers was 29.1% in 1999.



Principal processes

SAS's process work adopts a customer perspective and affects all aspects from product development and marketing, through sales, technical service and in-flight service to business planning. A standardized method developed at SAS is used in this work, which is currently being intensified, the purpose being to:

- increase the level of quality and value for the customer
- enhance productivity and reduce unit costs
- increase employee satisfaction
- improve the environmental profile.



The pyramid of customer needs

The entire structure of airline passengers' needs rests on the need for safe and reliable transportation, which means that all journeys should maintain maximum security levels and follow the timetable.

The service that makes up the superstructure has so far focused on comfort, the serving of meals and refreshments, as well as entertainment, while less has been done to help the passenger through the process itself, making things easier and providing support. SAS's ambition is to create a travel process that is wholly controlled by the customer.

The processes

The processes are divided into three levels. These are the Customer Service Delivery Process, the Management Process and the Support Processes. Within these levels, ten processes have been identified as crucial to SAS's success.

Most of these principal processes are included in the Customer Service Delivery Process and cover all aspects from sales (Sell SAS Products and Services), airport functions (Passenger Ground Service Delivery), ensuring that the aircraft are ready (Aircraft Handling) and have been given all the service they require (Technical Services), and extending to in-flight service (Cabin Safety and Service), the flight itself (Fly Aircraft) and traffic control and execution (Traffic Execution). The Business Planning process is also one of the principal processes, as are Product Development and Traffic Planning.

The customer has direct contact with SAS's personnel in the Sell Products and Services, Passenger Ground Service Delivery and Cabin Safety and Service processes.

Sell SAS Products and Services

The sales process is designed to contribute to selling products and services so as to maximize revenues for SAS and increase the inclination of passengers to repurchase. Factors critical to optimal performance at the following stages are correct bookings, customer awareness of the checking in regulations and ensuring that customers are carrying the correct travel documents. The process also provides important data about the journeys sold and about customers' express demands, expectations or wishes.

Passenger Ground Service Delivery

The task here is to guide the passengers to/from the aircraft and provide a service level that ensures that passengers will regard SAS as the best choice at every airport.

The work includes all destinations serviced by SAS. This allows internal comparisons to be made and contributes to the creation of an optimal and unified treatment given to all SAS passengers.

Objective

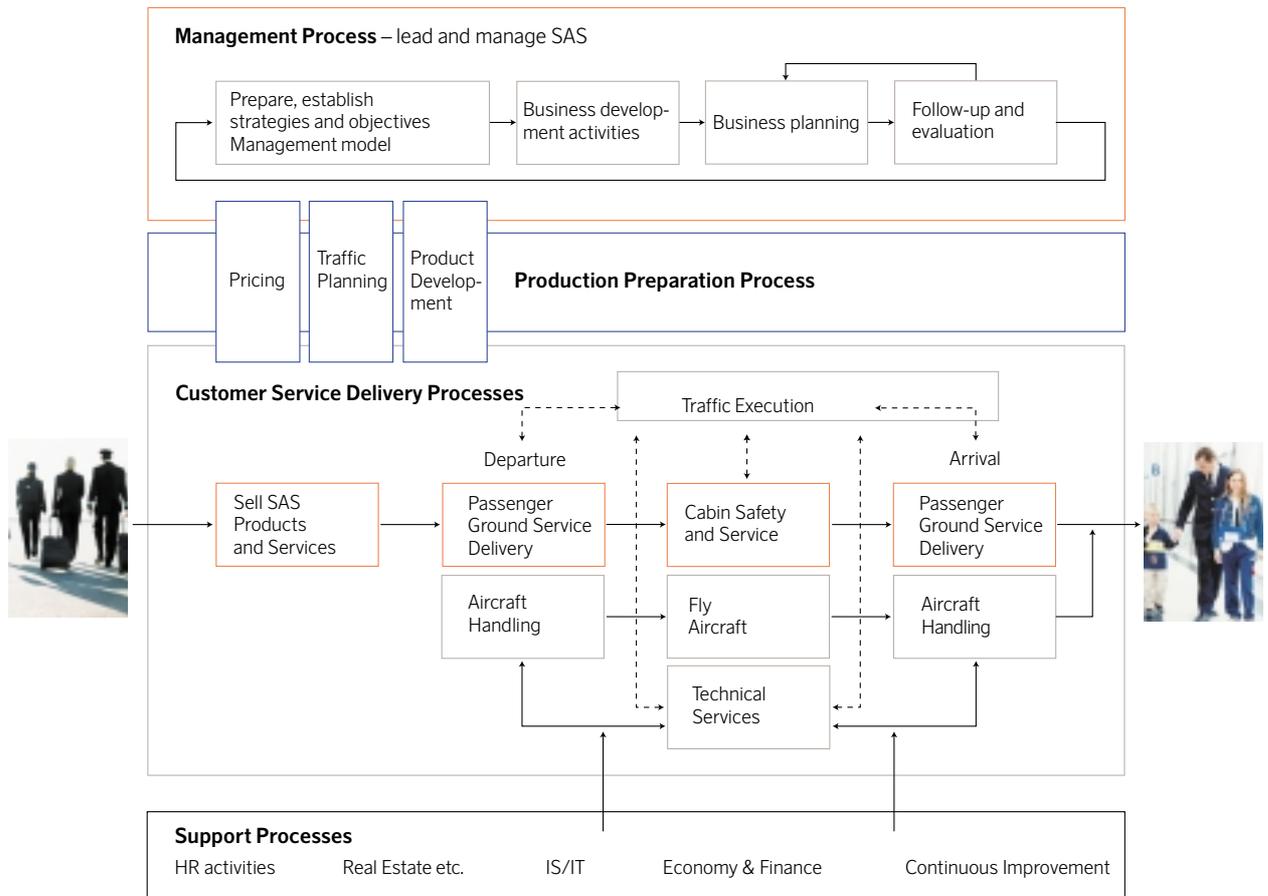
The measures implemented are designed to:

- improve customer treatment
- simplify the process of getting the customer to the aircraft
- simplify the internal work.

The increased automation at Copenhagen Airport's domestic terminal has resulted in increased productivity, i.e. higher volumes that require fewer resources while maintaining service levels. At London Heathrow, an extensive training campaign has resulted in a marked improvement in customer perceived quality, as well as lower costs.

Cabin Safety and Service

The Cabin Safety and Service process is designed to ensure that passengers receive excellent service and relevant information, and that in-flight safety is optimized. The key to success is efficient traffic planning and check-in systems that work smoothly and efficiently. The goal is for SAS crews to be perceived as the best in Europe by 2001 at the latest.



SAS's employees

SAS's employees and customer contacts

Each time an SAS employee meets a customer, he or she represents SAS.

In order to be able to give the customer a safe, efficient and pleasant journey, close collaboration is required between many highly competent SAS employees. This in turn requires the right level of expertise, insight into SAS's business, goals that are able to inspire employees, a healthy working environment and highly functional processes and tools.

Exercising leadership at SAS means creating the right conditions for this high-level collaboration. This is achieved by maintaining an active dialogue between management and employees, in which goals, requirements and demands are adapted to create a competitive product.

SAS's personnel vision

SAS's personnel vision is based on the view that the employees are the company's chief competitive asset.

Profitability and success are achieved by creative, involved employees and a supportive leadership, working together in an atmosphere of mutual trust and flexibility. Both are also able to seize the opportunities offered to them and to accept responsibility.

- Trust implies that all relations should be based on honesty, loyalty, consideration and respect.
- Flexibility requires understanding and acceptance of the ongoing development process and a genuine desire to be part of it.
- The ability to seize opportunities involves creating the right conditions for performing the tasks at hand, and for influencing and enhancing the operations, as well as for developing one's own expertise to match the goals of the company.
- All employees are responsible for their own development, as well as the company's.

SAS's personnel vision is largely based on Scandinavian cultural traditions. It also assumes a labor force with a high standard of education and a labor market with a long-standing tradition of co-determination and consensus.

Recruitment

There is no shortage of applicants in the categories required in most of SAS's operational areas. Nowadays, however, all categories of applicants are increasingly aware of their own development requirements, and they also make more demands than before as regards challenging and interesting tasks. SAS has also begun to make new demands on its employees. SAS currently

needs to employ people who are able to work in several fields and whose tasks can be allowed to change as the company develops.

SAS is also keen to develop cultural and ethnic diversity in its operations and is consciously striving to fulfil this goal in its recruitment work. Personnel turnover in 1999 was 7.3% (5.0%).

Development

Each employee is responsible for his/her own competence development, together with the management.

The need for competence development is partly based on formal qualification requirements, specified requirements and knowledge needs, and partly on discussions of employees' own wishes and needs when it comes to development.

A sharper business focus requires ongoing development of both management and employees at SAS. This takes the form of special training program and new IS/IT tools and aids, specially designed to develop more efficient working and learning methods.

Change

There is a slightly different attitude to change processes among new and more established employees. They also make different demands on SAS as an employer, as well as on management. It is crucial for human resources work to utilize the skills of new employees while developing the expertise of more experienced colleagues.

The most important tool in this context is the individual development discussion held with all employees once a year by their immediate superiors. This discussion should relate not only to the individual employee, but also to the things that need to be changed so as to optimize the collaboration between each employee and the group to which he/she belongs.

In addition, an annual survey of all SAS employees is also performed. It is known as PULS, and provides answers to the question of how well each section and the company as a whole are able to achieve the goals they set themselves when it comes to their employees.

A planning tool (Management Planning Process) has been developed to ensure a balanced form of internal recruitment of talented managers, who are aware of the SAS challenges and are able to communicate the need for ongoing adaptation and change.

Apart from this, SAS has been actively involved in 1999 in its career development project for flight personnel. The

framework used has been the JOB+ project, which focuses on career planning, professional specialization, alternative professional options, etc. Considerable interest has been shown by the cabin crews in participating in the project. The project will be continued as required by the operations. The work of the project is in keeping with SAS's personnel goals.

Occupational injuries

Occupational injuries and consequent sick-leave have decreased at SAS in Denmark and Sweden, both in terms of numbers and in terms of the total number of hours worked. At SAS in Norway, however, there has been a slight increase, due to better reporting routines.

Improvements to the working environment

SAS has decided to improve the medical equipment available on board its aircraft. SAS is also planning to introduce occupational aids designed to help with heavy lifts, and to develop its working environment training program for managers.

Sick leave

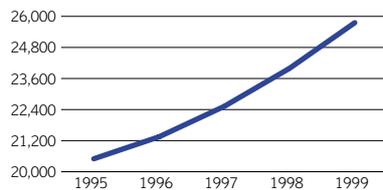
%	1999	1998
Operational employees	6.9	6.6
Salaried employees	4.8	4.1
Cabin employees	7.9	8.3
Pilots	3.0	2.7
Total	5.8	5.3

Distribution of average number of employees at SAS, 1999

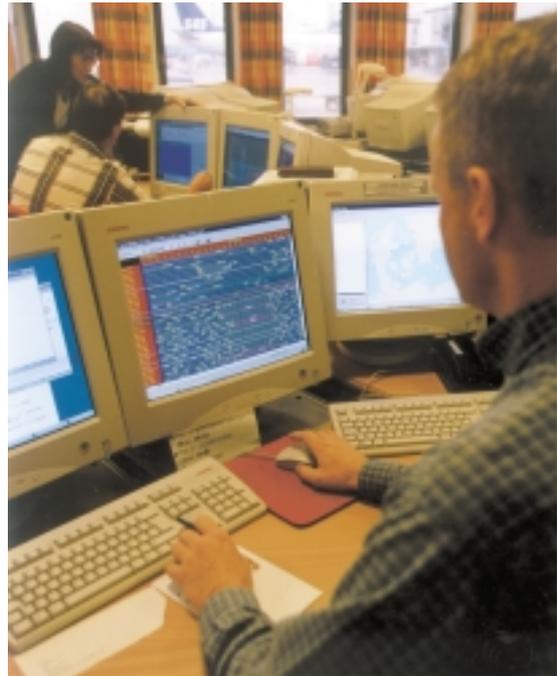
%	
	Marketing & Sales Division
13.7	Operation Division
23.9	Station Services Division
23.8	Technical Division incl. SAS Component
14.5	Business Systems Divisions excl.
	SAS Cargo and SAS Trading
2.6	SAS Cargo
4.8	SAS Trading
2.5	Staffs
3.8	SAS's subsidiaries
10.4	Total
100.0	

Average number of employees at SAS, 1995-1999

[average number of employees]



The average number of employees increased 7.3% in 1999 to reach a total of 25,754. The average number of employees at the SAS Group as a whole was 28,863.



The SAS brand and new distribution channels

The importance of brands is increasing to keep up with information flows and intensifying competition. In industries where product ranges and product attributes are increasingly similar, the importance of brands is growing. This applies particularly to the airline industry, where competition is making it more and more difficult to remain the sole supplier in the market of a particular product, service or travel concept, at least for any length of time.

Positioning the brand

A strong brand evokes positive associations. But a company must live up to the expectations of its existing and potential customers if the brand is to continue to be positively charged. The crucial success factor is how well the promises implied by a particular brand coincide with the ability to deliver the right product/service.

Brand theory attaches considerable importance to the ability to find a unique position, a position that cannot be questioned or challenged by competitors. As part of its 1999 improvement work, SAS has chosen a profile that fits its slogan "It's Scandinavian".

There are many positive associations inherent in the Scandinavian concept. SAS's tradition and its ability to represent these values forms the basis for a unique position in the industry with which customers and employees find it easy to identify.

SAS has profiled itself by supporting a number of cultural projects such as the National Museum in Stockholm and the opera houses in Copenhagen, Oslo and Stockholm. SAS also has a long-term collaboration with the Save the Children Organization in the three Scandinavian countries.

Alliances

The airline industry, like many other industries, has started to form alliances. In order to benefit maximally from its membership of Star Alliance, SAS is focusing much of its attention on the issue of the brand. This applies to SAS's

own brand, as well as the brands of other alliance members and the alliance's own brand. The stronger the initial value of a brand, the stronger the alliance.

The development of new distribution channels

The customer's need for time-saving, easily accessible and value-for-money products has created a demand for new distribution channels which in most cases are electronically based. This development requires an eye-catching brand. A well-established brand has much greater potential than a new one that needs to be consolidated.

In 1999, SAS implemented an important campaign aimed at developing its multi-channel strategy.

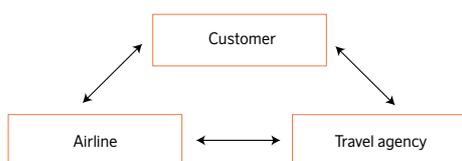
The current trend is for customers increasingly to attend to their bookings and reservations themselves, and to make payments via electronic media. SAS has therefore set up a technical platform for the distribution of new products, such as those aimed at companies/private travellers, via in-house sales channels such as the Internet/extranets. On-line bookings and sales started in November 1999.

The development of "ticketless travel"

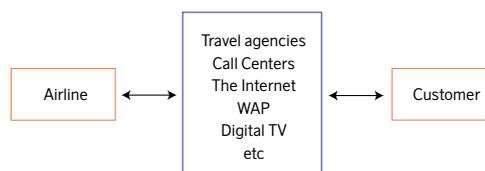
The concept of "ticketless travel" is another focus area and SAS is investing heavily in E-TIX, Travel Pass and Travel Pass Corporate. In 1999, this type of "ticketless" travel accounted for just under 4% of total sales in Scandinavia, but it is estimated that this figure will increase substantially over the next few years.

A total overhaul has been under way at SAS's telephone booking offices, SAS Direkt, since September 1999. A new organization has been established focusing on sales, and a new process-oriented working method has been introduced, with new tools in the form of telephone systems, staffing plans and PC based sales systems. The changes are expected to lead to a 50% improvement in efficiency. The "Lost Calls" quality

Traditional distribution of airline tickets



Distribution in 2000





indicator developed positively during the autumn, reaching an average level of 13% at the end of the year. In addition, a new store concept is being studied, Branded Retail, based both on sales and brand exposure.

SAS EuroBonus voted best international bonus program – again

The airlines' bonus programs have acquired an increasingly important strategic role now that the market has deregulated and competition has stiffened. Customer loyalty has become vital to the profitability of airlines.

The overall strategy for SAS EuroBonus is to establish long-term relationships with frequent flyers.

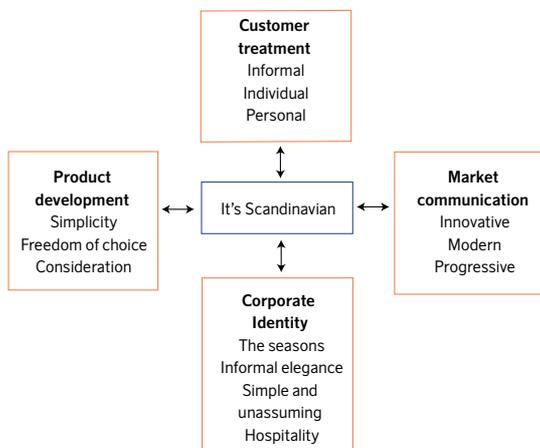
The development of SAS EuroBonus has, during 1999, focused on exposing and developing the advantages of Star Alliance.

By developing the SAS customer database, SAS is able to learn more about the needs of its customers. This knowledge is then used to improve the level of service and the dialogue with the customer.

Accessibility and service level for members have increased since SAS EuroBonus expanded its on-line service functions.

SAS EuroBonus has received top rankings in a variety of customer surveys. In February 2000, SAS EuroBonus won the Freddie Award for Best Frequent Flyer Program. SAS EuroBonus also won first prize for best customer magazine, best Internet page and best bonus promotion.

SAS Positioning



Key figures for EuroBonus

	1999	1998
Total number of members	1,806,952	1,537,179
– of whom in Denmark	286,658	246,939
– of whom in Norway	578,072	480,641
– of whom in Sweden	395,688	333,692
– of whom internationally	546,534	475,907
Proportion of Gold members	3.4%	3.9%
Proportion of Silver members	9.0%	10.7%

The aircraft fleet

New intercontinental aircraft

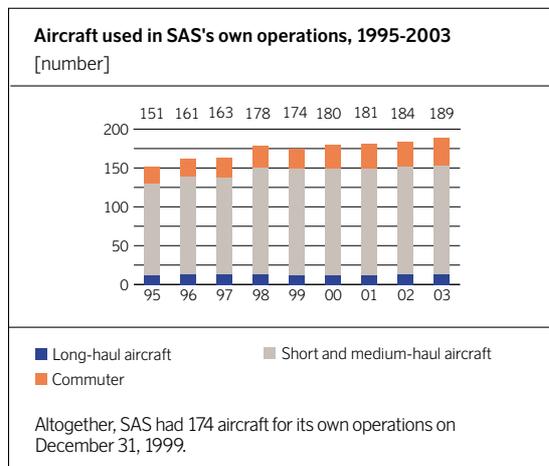
On December 15, SAS's Board of Directors decided to acquire new aircraft for SAS's intercontinental routes. The Airbus A330-300 and A340-300 will be replacing the Boeing 767-300ERs that have been part of the aircraft fleet since 1989. The new aircraft will be phased in during the second half of 2001.

The Airbus aircraft will be equipped to improve passenger comfort compared with today's standards. The A330-300s and A340-300s have identical fuselages and their passenger cabins are essentially the same. The main distinction between them is the number of engines they have and their range. The A340-300 has four engines and is built to fly very long distances with a full load. The A330-300 has two engines and is optimized for shorter intercontinental flights. The flight crews are trained to fly both types, which simplifies the allocation of flight personnel.

The A330-300s and A340-300s provide an increase of around 45% in the number of seats from approx. 189 in the 767-300ER to approx. 275 in the new aircraft. Freight capacity will also be increased once the 767s are replaced. The effective increase will be 40-45% in most cases, but may be even more in cases where 767s have had a limited range.

Aircraft orders and deliveries

When delivery of the Boeing 737 started in the fourth quarter of 1998, certain individual deliveries were up to two months late. All deliveries have been on time since



February 1999, however. SAS phased in 22 Boeing 737s in 1999, twenty-one 737-600s and one 737-700. At the end of the year, the fleet of 737s comprised 30 units, and there were 26 aircraft on order. The ordered 737s will be delivered over the period 2000-2003 and will replace the remaining DC-9s. SAS has 38 options with fixed delivery positions.

SAS has the right to convert its orders for the 737-600 to any other 737 model, providing a certain period of notice is given. SAS converted eight 737-600 orders to orders for 737-800s in 1999.

SAS Commuter ordered 15 deHavilland Q400s in 1997. These new 70-seater turbo propeller aircraft have a low noise level, and passenger comfort will be greatly increased once they replace the F50s. This order was increased by two units in 1998 and by a further 5 units in 1999. The replacement of the F50s with deHavilland Q400s was due to start in 1999 but delivery was not made until January 2000. In addition to the ordered planes, SAS has 15 options and 16 purchase rights, i.e. options without fixed delivery positions.

The aircraft fleet

	Owned Dec 98	Total Dec 98	Owned Dec 99	Leased in	Total Dec 99	Leased out	Order
Airbus A340/330-300							10 ⁴
Airbus A321-100							12 ⁴
Boeing 747-200		1		0	0		
Boeing 767-300	5	15	5	9	14		
Douglas MD-81	19	19	9	10	19		
Douglas MD-82	28	28	13	15	28		
Douglas MD-83	2	2	2		2		
Douglas MD-87	16	18	11	7	18		
Douglas MD-90-30	8	8	8		8		
Boeing 737-300QC		2		0	0		
Boeing 737-500	1	1	0		0		
Boeing 737-600	8	8	20	9	29		8
Boeing 737-700			1		1		5
Boeing 737-800							13
Douglas DC-9-21		4		4	4		
Douglas DC-9-41		22		20	20		
Douglas DC-9-81		9		8	8		
Fokker F28	11	16	11	0	11	6 ¹	
Fokker F50	13	22	13	9	22	2 ²	
deHavilland Q400							22
SAAB 2000		6		5	5		
SAAB 340	4	4	1		1	1 ³	
Total	115	185	94	96	190	9	70

¹ Air Botnia ² airBaltic ³ Air Nelson ⁴ A letter of intent was signed with Airbus Industrie in December 1999.

Aircraft owned including financial leasing.

The development of the aircraft fleet in 1999

SAS's aircraft fleet grew by five units in 1999, totalling 190 aircraft at the end of the year. At the time, nine aircraft were leased out, three more than the previous year. 17 aircraft were phased out of the fleet during the year, while 22 Boeing 737s were phased in. Of the aircraft that were phased out, nine were sold: one 737-500, five F28-4000s and three SAAB 340s. Leasing agreements for eight aircraft were terminated, including one 747 all-cargo, one 767-300ER, two 737-300QCs, one DC-9-81, one SAAB 2000 and two DC-9-41s.

In October, SAS stopped using F28-4000s in its own operations. Of the sixteen F28-4000s in the fleet at the beginning of 1999, six have been leased out and five have been sold. The remaining five are expected to be sold during the first half of 2000.

SAS has completed sale/leaseback deals this year for 38 aircraft: eight 737-600s, ten MD-81s, fifteen MD-82s and five MD-87s. SAS now owns 49% of the aircraft in its fleet as a result of these transactions.

Current projects and studies

As part of the "Configuration 2000" project, SAS will be rebuilding seventy-three MD-80s and MD-90s so that they can accommodate more seats. By moving the lavatories and storage spaces and improving packing routines, current stowing space can be reduced without



having a negative impact on customer service. New materials also allow the seats to be made slightly thinner without diminishing comfort.

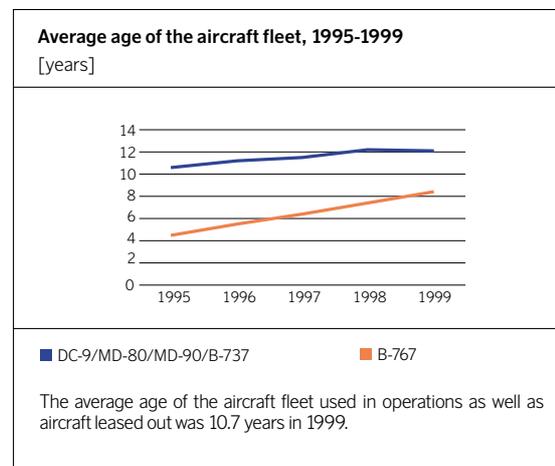
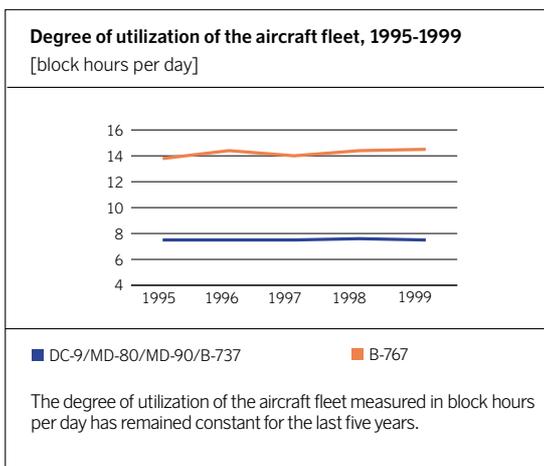
New hatracks will be installed and in some cases new lavatories as well. The idea is to create a product which is at least as good as today's product, while also reducing SAS's unit costs. The project will start in the middle of 2000.

Despite "Configuration 2000", studies show that there is a need for larger aircraft on SAS's European routes. SAS's largest aircraft on its European routes, the MD-90, has 141 seats (147 after "Configuration 2000"), and in many cases, there are simply not enough seats. This is the background to the decision by the Board of SAS on February 17, 2000 concerning the acquisition of 12 aircraft of the type Airbus A321-100. Another area that is currently being studied is a 70-seat jet aircraft for long-distance routes with little traffic.

Reduced environmental impact

SAS no longer uses Chapter II (non-noise-dampened) aircraft in its operations. SAS's aircraft fleet had 11 Chapter II aircraft (F-28s) in December 1999, of which 6 were leased out to Air Botnia and 5 taken out of operation. Aircraft that do not fulfil ICAO's Chapter III may not be used in Europe after April 1, 2002.

Given that the Boeing 737 is now replacing the F28 and DC-9-41, fuel consumption in relation to production is reduced, which means reduced emissions per seat kilometer. Although the Boeing 737 is a new aircraft which meets all environmental requirements with a healthy margin, SAS has invested around USD 500,000 per aircraft to improve the combustion chambers. As a result, emissions of nitrogen oxides will be cut by around 40% compared with the planes that are being replaced. Given the existing environmental charge system, this will also lead to reduced costs.



SAS's aircraft fleet



Boeing 737-600/700

Number of aircraft: 29/1
 Number of seats: 91-101
 Number of seats (domestic): 116/137
 Max. take-off weight: 57.6 - 59.9/61.7 tonnes
 Max. load: 13.0 - 14.0 tonnes
 Length: 31.2 meters, 33.6 meters
 Wingspan: 34.3 meters
 Cruising speed: 800 km/h
 Range: 1,900-2,500/1,400 km
 Fuel consumption: 0.042 liters/seat kilometer
 Engine: CFM56-7B



MD-87

Number of aircraft: 18
 Number of seats (SAS version): 110-125
 Max. take-off weight: 63.5 tonnes
 Max. load: 14.8 tonnes
 Length: 39.8 meters
 Wingspan: 32.9 meters
 Cruising speed: 815 km/h
 Range: 3,500 km
 Fuel consumption: 0.047 liters/seat kilometer
 Engine: P&W JT8D-217C



SAAB-2000

Number of aircraft: 5
 Number of seats (SAS version): 47
 Max. take-off weight: 22.8 tonnes
 Max. load: 4.9 tonnes
 Length: 27.3 meters
 Wingspan: 24.8 meters
 Cruising speed: 685 km/h
 Range: 1,600 km
 Fuel consumption:
 0.049 liters/seat kilometer
 Engine: Allison AE2100A



Boeing 767-300 ER

Number of aircraft: 14
 Number of seats (SAS version): 188-241
 Max. take-off weight: 188.9 tonnes
 Max. load: 37.4 tonnes
 Length: 54.9 meters
 Wingspan: 47.6 meters
 Cruising speed: 860 km/h
 Range: 10,500 km
 Fuel consumption: 0.038 liters/seat kilometer
 Engine: P&W 4060



DC-9-21/41

Number of aircraft: 4/20
 Number of seats (SAS version): 75/105-122
 Max. take-off weight: 44.5 tonnes/51.7 tonnes
 Max. load: 11.4 tonnes/12.5 tonnes
 Length: 31.9 meters/38.3 meters
 Wingspan: 28.5 meters
 Cruising speed: 815 km/h
 Range: 2,600 km
 Fuel consumption:
 0.068/0.054 liters/seat kilometer
 Engine: P&W JT8D-9/-11



Flying Cat

Number: 2
 Number of seats (SAS version): 180
 Max. take-off weight: 122.0 tonnes
 Max. load: 21.0 tonnes
 Length: 40.0 meters
 Cruising speed: 34 knots
 Range: 12 hours
 Engine: MTU diesel with water-jet



MD-90-30

Number of aircraft: 8
 Number of seats (SAS version): 141
 Max. take-off weight: 70.8 tonnes
 Max. load: 17.0 tonnes
 Length: 46.5 meters
 Wingspan: 32.9 meters
 Cruising speed: 815 km/h
 Range: 2,800 km
 Fuel consumption:
 0.041 liters/seat kilometer
 Engine: IAE V2525-D5



MD-81/82/83

Number of aircraft: 19/28/2
 Number of seats: (SAS version)
 130-162/130-156/136
 Max. take-off weight: 63.5/67.8/72.6 tonnes
 Max. load: 14.6/17.1/16.4 tonnes
 Length: 45.1 meters
 Wingspan: 32.9 meters
 Cruising speed: 815 km/h
 Range: 2,600/3,200/4,300 km
 Fuel consumption:
 0.045/0.047/0.045 liters/seat kilometer
 Engine: P&W JT8D-217C/-219



Fokker F50

Number of aircraft: 22
 Number of seats (SAS version): 46 - 50
 Max. take-off weight: 20.8 tonnes
 Max. load: 4.9 tonnes
 Length: 25.3 meters
 Wingspan: 29.0 meters
 Cruising speed: 520 km/h
 Range: 1,400 km
 Fuel consumption: 0.038 liters/seat kilometer
 Engine: P&W 125 B



deHavilland Q400

Number of aircraft: Delivery from January 2000
 Number of seats: 72
 Max. take-off weight: 29.0 tonnes
 Max. load: 7.3 tonnes
 Length: 32.8 meters
 Wingspan: 28.4 meters
 Cruising speed: 660 km/h
 Range: 1,000 km
 Fuel consumption: 0.045 liters/seat kilometer
 Engine: P&W 150A

SAS's environmental work

New aircraft improve ecoefficiency

The trend in the airline industry is towards a rising share of environmental charges and taxes. For SAS these rose by 26% to 1,096 (872) MSEK in 1999, corresponding to 2.8% (2.3) of turnover. During 2000–2001, SAS's total environmental taxes and charges as part of the regulatory framework of the airline industry are expected to exceed 1,000 MSEK per year.

SAS is prepared to pay for its share of the environmental impact arising from operations according to the "polluter pays principle", provided that the other transport types also bear their costs for environmental impact, infrastructure, accident risks and land use. SAS is active in both national and international forums to establish a regulatory framework of predictable long-term and internationally competitively neutral conditions.

Environment and economy

Flight operations

SAS's aggregate ecoefficiency is measured with the help of a weighted environmental index using 1996 as the base year. In 1999 this index improved by seven percentage points from 96 to 89, mainly due to higher ecoefficiency in flight operations.

In flight operations, where the absolute bulk of SAS's environmental impact arises, the environmental index improved during 1999 by nine percentage points, from 95 to 86. This was mainly attributable to higher efficiency in cargo operations and the ongoing modernization of the aircraft fleet.

Despite production growth of 6.5% measured in RTK, fuel consumption (and therefore also carbon dioxide emissions) was largely on par with 1998. Fuel efficiency thus improved by 6% to 46.7 (47.9) kg/100 RTK.

1999 was the first full year with several of SAS's new Boeing 737s with nitrogen oxide-reducing DAC engines in traffic. The phase-in of these aircraft enabled SAS to reduce its nitrogen oxides emissions to 14.52 (15.32) ktonnes despite higher production. Hydrocarbon emissions also decreased, to 1.84 (2.14) ktonnes.

The phase-in of the remaining ordered Boeing 737s during 2000-2001 is expected to further reduce fuel consumption and emissions relative to production, thereby limiting costs at airports with nitrogen oxide-based environmental charges.

In 1999 SAS withdrew the remaining Chapter II aircraft from traffic, resulting in lower noise charges, and has thus fulfilled the EU's noise requirements for traffic after April 1, 2002.

During the period 2000–2004, SAS plans to purchase a total of 110 aircraft and phase out around 90. The decision in late 1999 to purchase ten new longhaul Airbus A330s and A340s, with a larger capacity than the Boeing 767s they will replace, will reduce emissions per seat by 10-20% compared with the 767. In negotiations with the aircraft and engine manufacturers, SAS has ensured that the best possible environmental technology will be available on delivery. This could place the aircraft in a better category than the Boeing 767 in the Swedish charge system.

In February 2000, the Executive Board passed a decision to purchase 12 Airbus A321s for use on heavily trafficked European routes. This model is considered environmentally advanced in its class, and will contribute to lower environmental relative impact.

The decision to rebuild existing aircraft so they can accommodate 8-9% more passengers will also result in a reduced relative environmental impact.

Cabin operations

In 1999 the environmental index for cabin operations improved by seven percentage points, from 101 to 94, thanks to ongoing environmental activities in SAS's catering supplier Gate Gourmet and environmental improvements in SAS 2000+.

Over one hundred suppliers to SAS Products & Services have signed an environmental agreement with SAS in which they undertake to start at least one environmental project and report on its progress yearly. Since 1996, this has led to some 600 environmental and cost-cutting projects in collaboration with the suppliers.

During the year SAS won the 1998 Mercury Award, the airline catering industry's most prestigious distinction. The environmental program in cabin operations was one of the components in SAS's winning concept.

Ground operations

The environmental index in ground operations deteriorated by seven percentage points in 1999, from 96 to 103. The reasons for this are increased energy consumption due to larger premises after the move to Oslo's new airport and increased use of glycol.

The technical base at Arlanda opened a new purification plant for process water during the year. The facility is expected to receive final approval from the environmental court during the first half of 2001.

SAS Commuter decided in 1999 to build a purification plant for waste water at the new hangar in Copenhagen.

The facility is scheduled for completion in May 2000.

During 2000 all airline operators at Copenhagen airport must solve the problem of heavy metals in waste water from aircraft washing. SAS launched this project in 1999.

Infringements, incidents, disputes

Infringements, incidents

A few minor incidents during the year led to emissions that require reporting, such as fuel jettisoning for safety reasons on two occasions. None of the incidents has given rise to any significant financial or environmental consequences. In 1999 SAS complied with all applicable concessions in its operations.

Disputes

Legal proceedings launched by the Danish Civil Aviation Authority in 1997 for suspected infringement of local regulations on the use of jet engines for braking are expected to begin in spring 2000.

Complaints against SAS from local residents disturbed by noise, primarily from MD-80s, are under investigation at several airports.

In 1999 the Swedish government revoked the ban on landing Chapter II aircraft in Karlstad at the request of the EU.

SAS's opponent appealed to the Danish Supreme Court in a dispute over a land cleanup at Copenhagen airport, where SAS has built a new component workshop. The dispute between SAS and the former land owner concerns liability for necessary decontamination of the site. SAS's opponent was defeated in national court during spring 1999.

Other than the above, no disputes regarding SAS's operations are underway.

Insurance, preparedness, preventive measures

SAS's insurance covers the company's liability for environmental damage in the event of accidents and sudden occurrences. SAS has contingency plans and is prepared for crashes, accidents and incidents that could lead to contamination, in certain cases jointly with the airport operator. SAS conducts operations and carries out systematic maintenance in a manner designed to prevent and minimize the risk of contamination.

Changes in environmental charges, taxes and regulations

The general trend in the airline industry is an increase and shift in taxation towards environmentally related taxes and charges. In SAS's Scandinavian home market, the increase in environmental levies during 2000 is expected to be limited.

On January 1, 1999, Norway was the first country to impose a combined charge on emissions of carbon dioxide and sulfur of SEK 0.30 per liter of aviation fuel. On

The environment in the 1999 income statement and balance sheet

Items affecting the income statement			
[MSEK]	1999	1998	1997
Environmentally related earnings and cost reductions	58	19	40
Environmentally related cost increases	61	61	70
Environmentally related charges and taxes	1,094	872	532
Items affecting the balance sheet			
[MSEK]	1999	1998	1997
Environmentally related investments and costs	92	112	25
Environmentally related contingent liabilities	–	–	–

For reasons of space, the related definitions, abbreviations and limitations are provided only in the separate environmental report for 1999.

June 1, 1999, the charge was limited to domestic routes. In order to compensate for the lost revenue on international traffic, the Norwegian government raised seat charges on both international and domestic traffic. EFTA's supervisory agency ESA ruled in December 1999 that the differentiated passenger charge was contrary to EU law and ordered Norway to introduce uniform environmental passenger charges on domestic and international traffic. However, since the decision contained a number of unclear points, the economic consequences for SAS are difficult to foresee.

In Sweden, the 3% discount on noise charges for Chapter III aircraft is expected to be revoked by 2002 at the latest. For SAS this will lead to a cost increase of 10 MSEK per year compared with 1999.

The Swedish Civil Aviation Authority plans to implement a new noise charge system based on the model developed within the European cooperative agency ECAC. The economic consequences for SAS are difficult to assess.

During 1999, SAS and the Swedish Civil Aviation Authority negotiated on emissions classification of the new Boeing 737s and Bombardier deHavilland Q400s. In early 2000, these aircraft were placed in a category SAS considers justified. With the aircraft fleet currently on firm order, this will reduce charges by 11 MSEK per year.

Based on SAS's knowledge, no other changes in environmental regulations such as concessions, dispensations or permits are expected to have any material effect on the company's operations.

Environmental management

Fully integrated management systems are one of the cornerstones of SAS's operational control. Every manager with decision-making authority and budget responsibility is required to include an environmental impact assessment in all decision data.

In 1999 SAS continued its pilot project to adapt the company's environmental management system to ISO 14001. The technical division is leading the way with its target for all of its operations to have fully integrated environmental management systems by 2003, which meet the requirements for ISO 14001 certification. Although the business situation in 1999 delayed this process for SAS Cargo, the goal to obtain ISO 14001 certification in Scandinavia stands firm.

In 1999, the new position of environmental coordinator was created in SAS's marketing department in order to integrate environmental aspects in all market communication when appropriate.

Preparation of SAS's environmental report involves the compilation of large volumes of data from the entire organization. As of 1999 this process is supported by a relational database that facilitates both collection and auditing of data.

Like several of its predecessors, SAS's environmental report for 1998 won the year's highest points in the accounting firm of Deloitte & Touche's ranking of Swedish environmental reports, and received honorable mention in the "Environmental Report of the Year" competitions in Norway and Sweden.

Further details about development of SAS's ecoefficiency and environmental work, and their effects on the financial results, are provided in the separate environmental report for 1999, in the environmental section of SAS's web site (www.scandinavian.net) and in special brochures directed to various target groups.

Key environmental statistics

	1999	1998	1997
Environmental index [1996=100] ¹	89	96	97
Share of Chapter III aircraft in traffic [%]	100³	89	88
Fuel efficiency [kg/100 RPK]	6.1	6.2	6.2
Cabin factor [%] ²	64.0	65.7	64.9
Emissions of carbon dioxide (CO ₂) [1,000 tonnes]	4,164	4,167	4,021
[g/RTK]	1,470⁴	1,510	1,517
Emissions of nitrogen oxide (NO _x) [1,000 tonnes]	14.5	15.3	14.8
[g/RTK]	5.1⁴	5.6	5.6
Packaging in cabin operations [g/passenger]	55	53	58
Magazines/newspapers in cabin operations [g/passenger]	222	225	210
Volume collected [tonnes]	1,512	1,351	1,573
Share collected [%]	31	28	36
Energy efficiency in managed installations [kWh/m ²]	349	354	409
Environmentally related taxes and charges [MSEK]	approx. 1,096	approx. 872	approx. 532

¹ The lower the figure, the higher the ecoefficiency.

² The figure includes paying passengers over a certain payment limit ("revenue passengers"). The total number of passengers is around 8% higher. Including all passengers, SAS's cabin factor for 1999 is 70.1%.

³ The figure for the entire SAS fleet is 94%. None of the eleven remaining Chapter II aircraft, however, are used in SAS's own operations.

⁴ Does not include the RTK purchased from Lufthansa Cargo.



SAS International Hotels

Continued strong growth for operating revenue and income

SAS International Hotels (SIH) conducts hotel operations under the Radisson SAS Hotels & Resorts brand. The vision is to become the most attractive hotel company for customers, employees and investors alike. Customer satisfaction and employee satisfaction are measured on an ongoing basis to help follow up on how well this vision is being fulfilled. The inclination to repurchase continues to be very high, reaching 93.0% (92.8) during the year. Employee satisfaction increased in 1999 to 77.0 (76.1) on a scale from 0 to 100.

The company reported income before taxes in 1999 of MSEK 544 (233), equivalent to a return on capital employed of 13.1% (14.5). The result includes capital gains on property sales of MSEK 286. This is equivalent to a return on capital employed of 13.1% (14.5), excluding capital gains.

In 1994, SIH established a partnership with Radisson Hospitality Worldwide (the Carlson Group), which gave SIH the exclusive right to develop Radisson's brand in Europe, the Middle East and North Africa. The hotel base was then 29 hotels, and the goal the company set itself was to run 100 hotels by the end of 2000. This milestone was passed as early as 1998 and the goal was therefore adjusted.

Focus on management

The operations focus on hotel management. The number of properties owned has been gradually cut.

At the end of the year, SIH owned 4 (6) hotel properties. The properties in the city of London and in central Amsterdam were sold at a price of MSEK 780 and MSEK 320 respectively, while Radisson SAS continues to run the hotels via management agreements. The total capital tied up in properties decreased over the year to MSEK 1,717 (2,750) and will be further reduced during 2000. In the long term, SIH is developing into a purely operative hotel business without property commitments.

Investments during the year totalled MSEK 150 (557).

Rapid growth

SIH's operating revenue was MSEK 2,963 (2,786) during the year, an increase of 6.4%. Around 3% of the increase is attributable to an increased number of hotels, while the rest is an effect of higher occupancy and more efficient pricing.

Occupancy throughout the system (including hotels

under management contracts) increased to 69% (68) and the gross margin to 33.1% (32.9).

The rapid growth in the number of hotels continued during the year. 22 new hotel contracts were signed. The number of hotels – in operation or with signed agreements – totalled 125 (113) at the end of the year. During 2000, another 30-50 hotels are expected to be incorporated into the chain.

The rapid growth has considerable strategic significance. The purpose is to achieve a critical mass in terms of brand recognition, geographical coverage and economies of scale. The strategy is also to expand the domestic market – which at the end of the year and in addition to Scandinavia and Finland also included Germany and the UK – to include France as well as the BeNeLux countries and Italy. Hotels in strategically important cities such as Athens, Barcelona, Cairo, Lyon, Madrid, Rome, Warsaw and Zurich will also be included.

Radisson SAS also increased its market area during 1999 to cover South Africa, where a Joint Venture agreement has been reached with a local partner (TBB Leisure Africa of Cape Town) about hotel management operations under the Radisson SAS brand. At the end of 1999, three hotels were contracted in the new market, of which two in Cape Town and one in Pretoria.

Leisure and health

In addition to city hotels and airport hotels, Radisson SAS has expanded in the private travel market, investing in leisure and recreation hotels and facilities using the concept of "Wellness". The expansion has been particularly strong in Germany. A close marketing collaboration is now under way with SAS Pleasure.

Loyalty program

During 1999, the customer program "Reserved for You" was introduced, whereby loyal customers who specify their preferences for various aspects of service receive this service without specifically requesting it. This is part of our efforts to increase customer satisfaction and "delight" our customers, thus increasing loyalty. A new logotype was introduced at the beginning of 2000.

Broader environmental work

During the year, work began at SIH on adopting a broader perspective to environmental efforts, a "responsible enterprise" perspective. The company's responsibilities in relation to the various interested parties have been

clarified, and an extensive program has been initiated to ensure a responsible business attitude.

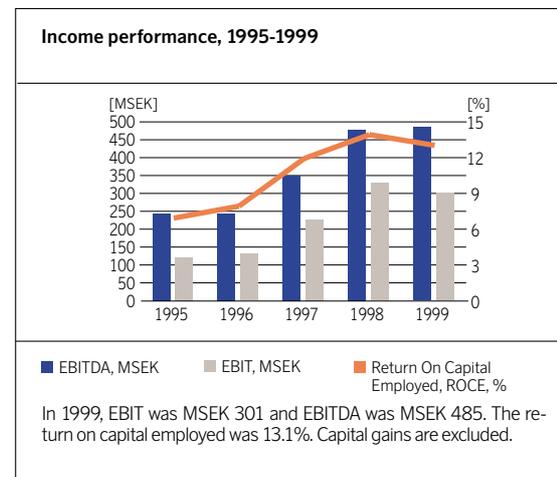
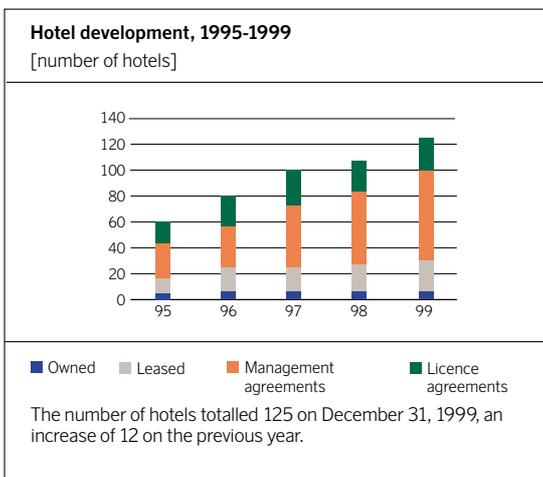
Employees

The average number of employees at SIH increased 1% to 3,071. There was a total of 12,600 (9,400) yearly employees, including hotels run via management and licence agreements.

Outlook for the future

The markets in which Radisson SAS operates saw a favorable development in 1999. The Norwegian and UK markets however performed poorly. The market as a whole is expected to continue to perform well in 2000. Together with the planned expansion, this means that SIH forecasts continued healthy income performance.

The geographic expansion of the hotel operations





The legal structure of the SAS Group

The SAS Group includes the SAS Consortium, including wholly and partly owned subsidiaries. Subsidiaries in which SAS has more than a 50% holding are consolidated in the SAS Group's accounts. Affiliated companies in which SAS owns holdings of 20-50% are reported in accordance with the equity method.

The SAS Consortium conducts passenger and freight traffic, as well as in-flight and airport sales.

SAS includes the SAS Consortium and its subsidiaries, with the exception of SAS International Hotels.

SAS also includes the sister consortium SAS Commuter and its subsidiaries and affiliated companies, whose task is to operate regional air traffic in Scandinavia and northern Europe.

SAS International Hotels includes wholly and partly owned subsidiaries and affiliated companies.

The SAS Consortium

The three stock market listed companies SAS Danmark A/S, SAS Norge ASA and SAS Sverige AB are parent companies in the SAS Consortium and the Consortium SAS Commuter. The first consortium agreement was signed in 1946 and applied to air traffic over the North Atlantic. The current agreement is valid until 2020.

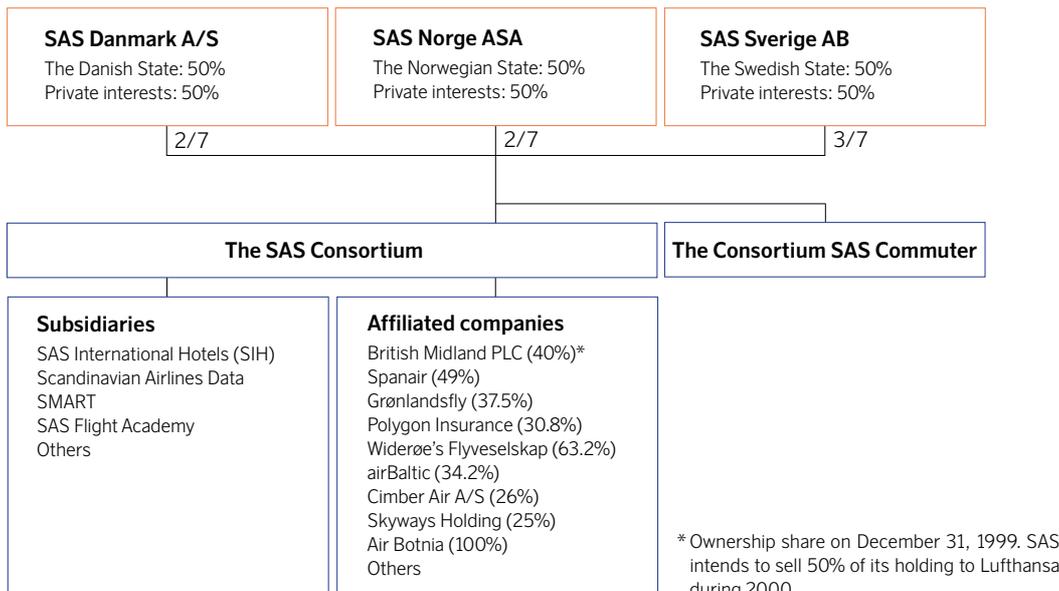
SAS Danmark A/S and SAS Norge ASA have a 2/7 share each in the Consortium, while SAS Sverige AB has

a 3/7 share. The parent companies have transferred the traffic rights and responsibility for the actual flight operations to SAS. At the end of each financial year, the consortia's income, as well as their assets and liabilities in the three parent companies are reported in the proportions 2-2-3.

The Consortium's supreme decision-making body is the Assembly of Representatives. The parent companies are represented by two members each on the Board of SAS. In addition, the trade unions in each country each appoint their own ordinary representative, together with personal deputies.

Subsidiaries and affiliated companies

The SAS Group also includes a number of subsidiaries and affiliated companies in which SAS has strategic holdings designed to support and develop its own airline operations. These include British Midland, which conducts regional traffic from, to and within Great Britain, and Spanair, which conducts domestic scheduled traffic in Spain, as well as international traffic to and from Spain. In order to underline its ambition to continue to be the leading airline company around the Baltic sea, SAS has holdings in airBaltic, Grønlandsfly, Cimber Air, Skyways and Widerøe's Flyveselskap and owns the Finnish company Air Botnia.



Comments from the Chairman of the Board

1999 was a difficult year for everyone in the European airline industry – SAS too reported weak results

1999 was a demanding year for the entire European airline industry. There was considerable excess capacity throughout the industry and profitability declined. The SAS Group's operating income was significantly lower than the previous year. In terms of capacity, supply exceeded demand in SAS's markets, and some displayed weaker growth than in previous years. Competition in a situation of excess capacity led to downward pressure on prices and weak revenue performance. SAS shares performed poorly in terms of prices compared with the stock market indices in Copenhagen, Oslo and Stockholm. The three shares rose 8% on average over the year. Comparable European airline shares fell an average of 4% in 1999.

The airline industry is sensitive to cyclical business and industrial fluctuations. Last year, it was the latter that had the greatest impact on income and share price performance.

The autumn brought a dramatic fall from the top level recorded in the summer of 1998, when SAS shares had a market value of around SEK 24 billion. At the turn of the year 1998/99, the market value was around SEK 13 billion, increasing during 1999 to a level of around SEK 14 billion at year-end.

Activities are under way to arrange for a single SAS share that will be listed on our three Scandinavian stock exchanges. This is crucial to SAS's success in the capital market and to the company's future strategic development opportunities. The process is taking place in a dialogue with the relevant government ministries in Scandinavia. I sincerely hope it will soon materialize.

SAS's Board of Directors decided in December 1999 to invest in new aircraft for long-haul routes. This is a substantial investment and entails an expansion of the operations, which will also have a positive impact on connecting traffic to the intercontinental routes. The idea is to promote growth and improve the conditions for profitability and shareholder value growth.

SAS's collaboration with the member airlines of Star Alliance developed well and is providing a valuable contribution to the business.

I am pleased to report that our customers' perception of SAS's service, product and quality improved in 1999. The increase in the Customer Satisfaction Index as reflected in systematically performed surveys was highly satisfactory. In the framework of the SAS 2000+ program, substantial investments have been made in quality, design and the concept of employees as service providers, which have now yielded a return.

Cost developments at the company were positive in 1999. Unit costs fell by around 1%, which is an expression of the fact that the current improvement program is having the desired effect. The goal is to improve the efficiency of the operations in coming years so that competitiveness is enhanced.

SAS International Hotels had an excellent year with a return on capital that exceeded the SAS Group's goals. The capital tied up in hotel operations is decreasing gradually and the operations will in future be focusing on hotel management operations with favorable growth, profitability and value appreciation.

SAS is currently working on a profitability goal that will secure a competitive return on the owners' capital. The investments of coming years also mean that the performance of the operations has to improve. The plans for developing the operations that are now being followed by the Board and the management also support this ambition.

In closing, I would like to thank all employees for the commendable efforts they have put in during the year.

Hugo Schröder
Chairman of the Board



Report by the Board of Directors

Report by the Board of Directors and the President of the SAS Group for the 1999 financial year, January 1 – December 31, 1999.

The SAS Group's financial statements are prepared in accordance with International Accounting Standards (IAS). (Figures in brackets refer to 1998).

Since the SAS Consortium and the Consortium SAS Commuter report their holdings in subsidiaries and affiliated companies according to the equity method as of 1998, the combined income and shareholders' equity for both the consortia and the SAS Group coincide. There is therefore no reason to report on the consortia separately in the annual report.

Market and competition

The air traffic growth to and from Scandinavia is undergoing relatively strong growth. International traffic between Scandinavia and the rest of the world increased around 6% in 1999. This increase occurred mainly in traffic to and from Sweden and Denmark, whilst the traffic volume to and from Norway remained unchanged.

SAS's traffic trend for 1999 deteriorated compared with the previous year. Passenger traffic increased 1.6% (2.7%). SAS has been affected negatively by a sharp downturn in the Business Class segment through a reduction in the proportion of Business Class travellers of 1.9 percentage units to 29.1%.

Increased competition within Scandinavia, significant excess capacity on the domestic Norwegian market, in North Atlantic traffic and in parts of the European network have, combined with pricing pressure, led to reduced unit revenues.

In 1999, air traffic within the Association of European Airlines (AEA) increased 4.6% in Europe. SAS's European traffic including intra-Scandinavian traffic decreased 0.2%.

Swedish domestic traffic has continued to develop well in 1999. SAS and its partners have increased their market share during the year to 69% (64%). The total market grew 5.2% and SAS's traffic increased 9.9% compared to the previous year.

The Norwegian domestic market increased 6.6%. SAS's traffic increased 2.5%. Danish domestic traffic decreased 10%.

In 1999, SAS increased capacity by 4.7% with a view to regaining market shares and securing a continued competitive edge. The partnership development both within the Star Alliance and with non-alliance partners continued throughout the year.

Air New Zealand, Ansett Australia and All Nippon Airways joined the global alliance of which SAS is a member,

Star Alliance, in 1999. Five more airlines intend to become members of the alliance in 2000.

In November 1999, a joint venture agreement was signed by SAS, Lufthansa and British Midland, whereby British Midland will become a member of Star Alliance. The agreement also means that SAS is to sell half of its current shareholding in British Midland, 40%, to Lufthansa, with a capital gain of approximately 1,000 MSEK. SAS will then have a 20% ownership holding. The agreement is subject to EU Commission approval.

SAS and year 2000

There were no disruptions to SAS's operations during the transition to the new millennium.

Preparations for year 2000 commenced in 1996. An audit was performed until November 1999, and modifications were made systematically and as needed in the IT support and processes of the operations. This was to ensure that no year 2000-related problems would affect operations.

Around New Year's Eve 1999, a support unit was established whose task was to provide the ordinary operations with source material for decision-making based on all the tests carried out throughout the operations.

In 2000, leap day February 29 and New Year's Eve December 31 will be monitored with extra preparedness.

On the basis of SAS's experiences to date, there are no indications that any year 2000-related disruptions will arise either in 2000 or thereafter.

SAS and the euro

On January 1, 1999, the euro was introduced as the official currency for eleven of the European Union member states, together forming the EMU. The remaining European Union countries (Greece, Denmark, the UK and Sweden) did not participate from the start. SAS operates in all EMU countries.

Since EMU countries account for just over 14% of SAS's operating revenue, as well as 10% of its costs, the euro accounts for only a limited part of nominal cash flow, although the number of currencies has been reduced by 11 since SAS introduced a euro cash-pool in which to gather these flows.

In the autumn of 1997, SAS commenced its euro preparations to clarify the opportunities presented by the European internal market and the introduction of a common currency, and to ensure that the SAS Group is well prepared. The first phase of the work was geared

towards ensuring that SAS was able to use the euro as its business currency as of January 1, 1999.

The second phase was geared to the business and financial adaptation. The vision is for SAS to be perceived as a euro-friendly company with a proactive approach. Uncertainty about whether or not Denmark and Sweden will join the EMU and if so, when, complicates the business adaptation tasks.

Commercial effect

The euro is being introduced successively within the airline industry and in 1999, commercial usage was very limited. SAS monitors the price trend in Europe very carefully, and is prepared to implement new pricing strategies at the appropriate time.

IT

Converting a national currency to the euro requires major IT resources. SAS has audited its information systems, and is currently mapping out system adaptation requirements necessitated by the euro. It is thought that SAS's own ability to carry out the necessary measures is good.

Currency risks

Where SAS is concerned, the establishment of the EMU meant lower costs for currency hedging and transactions. The positive effects come from lower interest rate differentials and greater currency stability in the EMU, fewer currencies that have to be hedged, and the fact that buy and sell rates will be disappearing. During the convergence process of recent years, SAS has experienced a significant reduction in currency hedging costs due to smaller interest rate differentials and the greater stability of EMU currencies.

Accounting

SAS is involved in preparations designed to ensure that it is able to make the transition from using SEK as its base currency to using the euro. SAS has not taken a decision to switch to the euro as its accounting and reporting currency. The point in time at which the transition takes place will depend on Swedish legislation and the prevailing business climate. Should demand arise, a stock market listing of SAS's shares in euro on the Stockholm and Copenhagen stock exchanges will be considered.

Environment impact

Airline operations account for the largest and most significant part of SAS's environmental impact. The consumption of jet fuel – a non-renewable energy source – produces exhaust fumes that have a global effect on the climate and the ozone layer (see "Special Report on Aviation and the Global Atmosphere", from the UN climate committee IPCC 1999). The significant environmental impact of cabin, ground and hotel operations is caused by water and energy consumption and by refuse.

SAS has been measuring its environmental impact for several years with the help of the environmental efficiency index. The index uses 1996 as a base year and shows that SAS's relative environmental impact is improving.

The greatest potential for environmental improvement lies in continuous renewal of the aircraft fleet. This is why environmental aspects are crucial in SAS's choice of aircraft and engines. The main potential of the cabin activities lies in the new eco-friendly, Scandinavian-built catering kitchens. Ground and hotel operations are systematically working towards reducing water and energy consumption, as well as refuse amounts.

SAS's airline operations are based on internationally type-approved aircraft and environmental approval is an integral part of the Scandinavian registration system. Environmentally based national and local licences, rules and regulations constitute the framework for the use of the aircraft. Cabin, ground and hotel operations adapt to licences, rules and regulations and/or concessions.

There is a development towards more stringent environmental framework conditions within the airline industry. However, SAS is not aware of any changes in these that could have significant operational and financial consequences for the operations.

SAS has not caused any notifiable pollution emissions during the year nor been the cause of any pollution incidents of significant financial or environmental consequence.

For more in-depth information about the environmental concessions and licences for SAS's operations and the development of environmental data, please refer to the section about SAS's environmental impact on pages 57-59, to SAS's separate environmental report for 1999 and to the environment page of the SAS web site (www.scandinavian.net).

Affiliated companies

Affiliated companies are companies in which the SAS Group has a stake of between 20% and 50%. These include British Midland PLC (40%), Spanair S.A. (49%), Commercial Aviation Leasing Ltd (47%), Polygon Insurance Company Ltd (30.8%), airBaltic (34.2%), Skyways (25%), and Cimber (26%). In addition, Widerøe's Flyveselskap (63.25%) and Air Botnia (100%) are also reported as affiliated companies since SAS clearly intended at the time of acquisition to reduce its stake in these companies, in accordance with its strategy, to less than 50%.

British Midland's traffic increased 10% during the year. The production increase was 13%, and unit costs were cut by 7%. The load factor thus fell just under 2 percentage units, although this was counterbalanced by a reduced break-even load factor. The net income was MGBP 9 (8). After amortization for goodwill in the amount of MSEK 23 (24) and a correction from the previous year, SAS share of income was MSEK 39 (20).

Air Botnia's aircraft fleet consists of six Fokker F28s

and five SAAB 340s. Production capacity rose by more than 300% compared with 1998 and traffic growth was just over 350%. The substantial upgrade of the company and the rapid expansion have resulted in substantial start-up costs. This has meant that income for the year is MFIM -117, or MSEK -184 (-91). Air Botnia expects to report a positive income in 2000.

airBaltic reported a negative income for the year, mainly due to the economic crisis in Russia and to the fact that the company has replaced its SAAB 340s with Fokker F50s, which led to start-up costs. A series of income-enhancing measures were therefore initiated in the second half of the year, partly in the form of a consolidation of the traffic program, including the discontinuation of flights to Moscow, and partly in the form of a cost-reduction program. Income for the year was MLVL -4.5. SAS's share is MSEK -23.

The income trend for Widerøe in 1999 was negative, due partly to fierce competition and greater supply, as well as reduced prices on Norwegian domestic routes, and partly to an unprofitable commission-based service in northern Norway. The commission from the Norwegian State is being transferred to a new agreement with better profitability from March 2000. Income for 1999 was MNOK -88, of which SAS's share was MSEK -67.

Spanair S.A.'s income was MSEK 29 (69), of which SAS's share was MSEK 14 (34).

SAS's share of Polygon Insurance Company Ltd's income was MSEK -7 (-10).

The SAS Group's operating income includes shares in affiliated companies' income before taxes totalling MSEK -175 (-20), of which amortization for goodwill

accounts for MSEK -41 (-43). Equity in affiliated companies was MSEK 1,018 (1,447).

Work of the Board of Directors

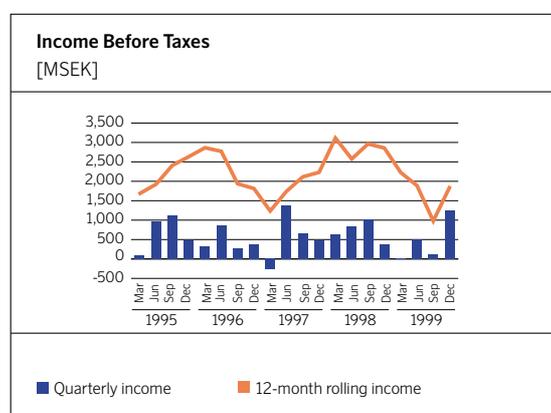
The SAS Consortium's Board of Directors consists of nine members, six of whom have one personal deputy each. They are elected by the Parent Companies' Annual General Meetings. There are also three members with two deputies appointed by the employees. The President attends board meetings in a reporting capacity. SAS's Chief Financial Officer always attends, as do certain other senior management staff at SAS when they have matters of significance to report to the Board. The company's chief legal counsel serves as the Board of Directors' secretary. The Board normally meets six times a year, and more often if required. During the 1999 financial year, the Board held seven meetings. The work of the Board follows an annual reporting calendar with special themes and fixed decision points, e.g. approval of the year-end report, interim reports and budget. The Board is further called upon to take a position on matters of principle or major financial importance, such as the company's overall strategy, extensive structural and organizational changes and major investments. The work of the Board is otherwise governed by the rules of procedure for the Board of Directors and the instruction for the President established by the Board.

Special themes dealt with by the Board in 1999 included SAS's strategy for improving the efficiency of capital utilization, SAS's improvement program and investments in new long-haul aircraft.

The SAS Group's summary of income

Quarterly figures

MSEK	1998					1999				
	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Full year Jan-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Full year Jan-Dec
Operating revenue	9,469	10,323	10,245	10,909	40,946	9,621	11,114	9,877	10,896	41,508
Personnel costs	-3,060	-3,194	-3,231	-3,595	-13,080	-3,469	-3,690	-3,427	-3,469	-14,055
Other operating expenses	-5,552	-5,749	-5,947	-6,503	-23,751	-6,058	-6,458	-5,884	-6,288	-24,688
Operating income before depreciation	857	1,380	1,067	811	4,115	94	966	566	1,139	2,765
Depreciation	-536	-530	-522	-537	-2,125	-455	-488	-519	-480	-1,942
Share of income in affiliated companies	16	5	-28	-13	-20	15	3	-23	-170	-175
Income from sale of shares in subsidiaries and affiliated companies	0	0	0	1	1	150	2	134	-3	283
Income from the sale of aircraft and buildings	297	2	538	177	1,014	16	44	43	628	731
Operating income	634	857	1,055	439	2,985	-180	527	201	1,114	1,662
Income from other shares and participations	0	0	0	1	1	221	0	0	196	417
Net financial items	-15	-12	-40	-62	-129	-51	-21	-96	-65	-233
Income before taxes	619	845	1,015	378	2,857	-10	506	105	1,245	1,846



The SAS Group's Income Statement

(Note 1)

MSEK	Note	1999	1998
Operating revenue	2	41,508	40,946
Personnel costs	3	-14,055	-13,080
Other operating expenses	4	-24,688	-23,751
Operating income before depreciation and amortization		2,765	4,115
Depreciation and amortization	5	-1,942	-2,125
Share of income in affiliated companies	6	-175	-20
Income from the sale of shares in subsidiaries and affiliated companies		283	1
Income from the sale of aircraft and buildings	7	731	1,014
Operating income		1,662	2,985
Income from other shares and participations	8	417	1
Interest income and similar income items	9	446	633
Interest expenses and similar income items	10	-679	-762
Income before taxes		1,846	2,857
Subsidiaries' and affiliated companies' tax expense	11	-159	-141
Minority shares		-1	0
Income before taxes relating to the SAS Consortium and the Consortium SAS Commuter		1,686	2,716

Income per business area

MSEK	1999	1998
SAS		
Income before depreciation and amortization	2,310	3,644
Depreciation and amortization	-1,757	-1,974
Share of income in affiliated companies	-201	-35
Income from the sale of shares in subsidiaries and affiliated companies	-3	1
Income from the sale of aircraft and buildings	729	1,014
Income from other shares and participations	417	1
Net financial items	-188	-35
SAS total	1,307	2,616
SAS International Hotels	544	233
Other operations/Group eliminations	-5	8
Income before taxes	1,846	2,857

Currency effects on the SAS Group's income

Operating revenue as well as operating expenses and financial items are greatly affected by exchange rate fluctuations. Only approximately 30% of operating revenue and 27% of operating expenses are denominated in Swedish kronor.

The aggregate effect of changes in exchange rates on the SAS Group's operating income for 1999 compared with 1998 was negative and amounted to MSEK 54. This is mainly a consequence of the weakening of the Swedish krona, and of the fact that the Danish krona weakened in relation to SAS's income currencies. The difference between the years as regards the effect of exchange rate differences on the net financial debt was negative, amounting to MSEK 26. The total effect on income before taxes was thus negative, amounting to MSEK 80.

MSEK	
Operating revenue	464
Operating expenses including currency effect on working capital	-518
Operating income	-54
Financial items	-26
Income before taxes	-80

Comments on the Income Statement

The SAS Group's operating revenue increased by MSEK 562 or 1.4%. MSEK 95 of this is increased passenger revenues, and MSEK 467 is increased operating revenue within other areas of the operations. SAS's passenger traffic, measured in RPK (revenue passenger kilometers), increased 1.6% compared with 1998. Yield, or unit revenue, adjusted for currency effects, decreased 2.4%.

Operating expenses rose MSEK 1,912 or 5.2%. The number of employees at the SAS Group grew 6.6%, and personnel costs were MSEK 975, or 7.5% higher than the previous year. Other operating expenses rose 3.9%. In SAS's airline operations, operating expenses increased by MSEK 1,642, or 5.3%. The production increase was 4.7%, and the net unit cost, adjusted for currency effects, decreased 1.1%.

In June, the European Court found in favor of the airlines as regards the Swedish environmental fee introduced in 1995 and 1996. MSEK 158 has therefore been taken up as revenue corresponding to fees paid in 1995 including accrued interest. This has had a positive effect on the unit cost. Oil prices were, on average, lower in 1999 than the previous year. SAS's fuel costs were, taking volume and currency effect into account, 10% lower than in 1998. In addition, reduced selling expenses in the form of changed commissions to travel agents compared with 1998 also reduced the unit cost. Costs for aircraft leasing rose 22% due to sale and leaseback transactions.

Operating income before depreciation and amortization decreased by MSEK 1,350. Changes in exchange rates had a negative impact on operating income in the amount of MSEK 54. The gross profit margin decreased from 10.0% to 6.7%.

Depreciation fell MSEK 183 to MSEK 1,942. This change is the net of reduced depreciation due to the changed depreciation plan for aircraft, and increased investments. Since 1994, SAS has been depreciating aircraft according to plan at 6% annually, i.e. linear depreciation over 15 years with a residual value of 10%. As of January 1999, the depreciation plan was changed to 4.5% annually. This means depreciation over 20 years with a 10% residual value. The positive impact on income for the whole of 1999 of the changed depreciation plan totals approximately MSEK 400.

Share of income in affiliated companies totalled MSEK -175 (-20). The decreased income mainly arose in Air Botnia, where it was due to start-up costs, and in Widerøe. Goodwill amortization is included in the total amount of MSEK 41 (43).

Income from the sale of shares in subsidiaries and affiliated companies, MSEK 283, comes mainly from the capital gain on the sale in March of SAS Hotels NV, which owned the hotel property in Amsterdam, MSEK 152, and the sale in August of the Portman Hotel in London, MSEK 134.

Aircraft sales have been completed during the year with capital gains of MSEK 829 (1,009). This includes the sale of five Fokker F28s, MSEK 65, three SAAB 340s, MSEK 27 and a Boeing 737-500, MSEK 79. In addition, there is the sale and leaseback in the form of operating lease rental of eight Boeing 737-600s, MSEK 227, and of 30 Douglas MD-80s, MSEK 431.

In cooperation with General Electric Capital Aviation Services (GECAS), SAS has established a company, Commercial Aviation Leasing Limited in Ireland, in which SAS has an ownership holding. The sale and leaseback agreement provides SAS with access to the aircraft for 10 years, but also permits earlier return, as well as extensions. Provision for internal profit has been made in the amount of MSEK 396, reducing the capital gain.

In the previous year, one Douglas MD-83, one Boeing 737, three Boeing 767s and twenty-four Douglas DC-9s were sold.

Capital gain from the sale of buildings totals MSEK -98 (5). This includes a loss on the sale of buildings at Fornebu, Oslo's previous airport, of MSEK 100.

SAS has holdings in SITA Foundation which, in turn, owns shares in the data network provider Equant N.V. Following a decision of the SITA Foundation to list Equant N.V. shares, 55.8% of SAS's holding was sold in February and December, generating a total capital gain of MSEK 417. SAS's remaining holding corresponds to 0.25% of shares in Equant N.V. which, on December 31, 1999, had a market value of around MUSD 55.

The SAS Group reported net financial items of MSEK -233 (-129). Net interest income was MSEK -196 (-80) as a consequence of a higher average net debt compared with 1998. The currency effect was MSEK -40 (-14). The Japanese yen strengthened during the second half of the year, and towards the end of the year the Swedish krona weakened against the euro, leading to negative exchange rate effects.

Income before taxes was MSEK 1,846 (2,857).

MSEK 28 (26) of the subsidiaries' total tax expense constituted provisions for deferred tax.

The SAS Group's Balance Sheet

ASSETS

MSEK	Note	1999	1998
Fixed assets			
Intangible fixed assets	12	481	166
Tangible fixed assets	12		
Buildings and land		5,823	6,624
Aircraft		9,930	10,179
Spare engines and spare parts		1,367	1,160
Workshop and aircraft servicing equipment		290	236
Other equipment and vehicles		2,053	2,075
Construction in progress		294	414
Prepayments for tangible fixed assets	13	2,539	2,317
		22,296	23,005
Financial fixed assets			
Equity in affiliated companies	14	1,018	1,447
Long-term receivables from affiliated companies	15	536	110
Shares and participations	16	81	86
Pension funds, net	21	2,443	1,223
Other long-term receivables		713	452
		4,791	3,318
Total fixed assets		27,568	26,489
Current assets			
Expendable spare parts and inventories	17	1,015	958
Prepayments to suppliers		2	2
		1,017	960
Current receivables			
Accounts receivable		2,936	2,720
Receivables from affiliated companies		112	63
Other receivables	18	1,155	1,033
Prepaid expenses and accrued income		1,337	1,173
		5,540	4,989
Short-term investments	19	7,056	7,043
Cash and bank balances		1,279	968
Total current assets		14,892	13,960
TOTAL ASSETS		42,460	40,449

SHAREHOLDERS' EQUITY AND LIABILITIES

MSEK	Note	1999	1998
Shareholders' equity			
Capital account	20	15,179	14,435
Other equity		1,882	1,675
		17,061	16,110
Minority interests			
		25	19
Provisions			
Pensions and similar commitments	21	129	161
Deferred tax liability		226	193
		355	354
Long-term liabilities			
Subordinated debenture loan	22	772	854
Bond issues	23	226	767
Other loans	24	7,557	7,120
Other liabilities	25	903	705
		9,458	9,446
Current liabilities			
Current portion of long-term loans		1,253	2,369
Loans	26	2,442	588
Prepayments from customers		56	42
Accounts payable		2,221	2,196
Liabilities to affiliated companies		101	16
Taxes payable		55	58
Unearned transportation revenue	27	2,073	2,012
Proposed transfer to parent companies		770	957
Other liabilities		1,436	1,462
Accrued expenses and prepaid income		5,154	4,820
		15,561	14,520
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		42,460	40,449
Pledges to secure own liabilities and provisions	28	343	819
Other pledges and collateral	29	62	68
		405	887
Contingent liabilities	30	1,237	1,226
Leasing commitments	31		

Comments on the Balance Sheet

Assets

The SAS Group's total assets have increased 5.0% to MSEK 42,460.

The increase in intangible assets stems from IT development costs.

Buildings and land have decreased by MSEK 801, mainly due to the sale of hotel properties in Amsterdam and London.

The book value of aircraft has decreased by MSEK 249. The change includes an increase due to investment in Boeing 737-600s, including previously made prepayments totalling MSEK 3,966. Deductible items are depreciation for the year at MSEK 835 and residual value of sold aircraft, etc, at MSEK 3,380.

Long-term prepayments to suppliers of flight equipment increased during the year by MSEK 222. Advance payments to Boeing of MSEK 1,081 were utilized in conjunction with deliveries during the year. In addition, a further MSEK 81 was utilized. Prepayments of MSEK 1,133 were made for future deliveries of, among other things, Boeing 737s and deHavilland Q400s. Capitalized financial expenses and translation differences were added in the amount of MSEK 205 and MSEK 46 respectively.

Equity shares in affiliated companies decreased by MSEK 429 to MSEK 1,018. Investments totalling MSEK 152 were made during the year. Shares of income after taxes, for the year, were negative at MSEK 180. Provision for internal profit reserve in conjunction with the sale of aircraft to Commercial Aviation Leasing Ltd reduced the asset item by MSEK 396. Furthermore, equity shares decreased by MSEK 6 due to exchange rate fluctuations, etc.

Since 1996, SAS has treated all defined-benefit collective pension plans in accordance with IAS, which means that the pension commitments are calculated based on PBO (Projected Benefit Obligation), and that all funded means are taken into consideration. Application of these principles, amongst others, resulted on December 31, 1999 in the creation of an asset item called pension funds, net in an amount of MSEK 2,443 (1,223), see further Accounting and valuation principles on pages 79-80 and Note 21.

Short-term liquid assets at year-end amounted to MSEK 8,335 (8,011) or 19.6 (20)% of total assets.

Total capital employed amounted to MSEK 29,482 (27,854) at year-end. Average capital employed during

the year was MSEK 28,936 (27,124). Return on capital employed was 9 (13)%.

Liabilities

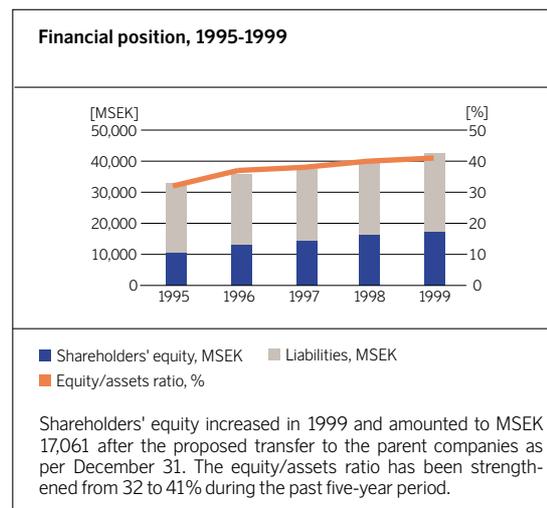
Of the total liabilities, MSEK 12,396 (11,859) were interest-bearing.

The interest-bearing net debt on December 31, 1999 totalled MSEK 529 (2,079). The SAS Group's average net debt during the year was MSEK 4,295 (1,950). The debt/equity ratio on December 31, 1999 was 0.03 (0.13).

The SAS Group has loan facilities, signed 1996-1998, of MUSD 1,085 available. In addition, SAS has unutilized commercial paper programs of MSEK 1,590, MDKK 1,500 and MUSD 184 at its disposal.

Shareholders' equity

After the proposed transfer to SAS's parent companies of MSEK 770 (957), shareholders' equity increased by MSEK 951 (1,869) to MSEK 17,061 (16,110). Apart from income for the year after taxes, this change was due to negative translation differences in foreign subsidiaries and affiliated companies and changes in equity in affiliated companies. The equity/assets ratio, after the proposed transfer to the parent companies has been booked as a liability, was 41 (40)% at year-end, whilst return on shareholders' equity after standard tax amounted to 8 (13)%.



The SAS Group's Cash Flow Statement

MSEK	1999	1998
THE YEAR'S OPERATIONS		
Income before taxes	1,846	2,857
Depreciation	1,942	2,125
Income from the sale of fixed assets	-1,431	-1,016
Adjustment for items not included in cash flow, etc	-130	-159
Cash flow from operations	2,227	3,807
Change in:		
Expendable spare parts and inventories	-57	-179
Operating receivables	-702	-848
Operating liabilities	464	1,357
Change in working capital	-295	330
Net financing from the year's operations	1,932	4,137
INVESTMENTS		
Aircraft	-2,885	-1,148
Spare parts	-324	-363
Buildings, inventories and other equipment	-1,038	-2,275
Shares and participations, goodwill, etc	-490	-875
Prepayments for flight equipment	-1,133	-1,451
Total investments	-5,870	-6,112
Sales of fixed assets	6,385	2,372
Translation differences, etc	54	-12
Net investments	569	-3,752
Payments to parent companies	-957	-1,141
Financing surplus/deficit	1,544	-756
EXTERNAL FINANCING		
Borrowing, amortization and premature redemption including translation differences – net	569	-172
Other financial receivables/liabilities - net	-1,794	-878
Change in minority interest	5	0
External financing – net	-1,220	-1,050
CHANGE IN LIQUID ASSETS ACCORDING TO BALANCE SHEET		
	324	-1,806
Liquid assets at beginning of year	8,011	9,817
Liquid assets at year-end	8,335	8,011

Comments on the Cash Flow Statement

The SAS Group's cash flow before changes in working capital and investments amounted to MSEK 2,227 (3,807). Working capital increased by MSEK 295 (-330). Both operating receivables and operating liabilities increased during the year. The previous year, working capital decreased by MSEK 330.

Investments including prepayments to aircraft suppliers amounted to MSEK 5,870 (6,112). Of these investments, SAS accounted for MSEK 5,720 (5,554) and SAS International Hotels for MSEK 150 (557). This includes delivery payments of MSEK 2,885 related to twenty-one Boeing 737s.

Investments in shares and participations include the affiliated companies airBaltic and Commercial Aviation Leasing Ltd, MSEK 155. Furthermore, MSEK 335 was invested in intangible assets during the year.

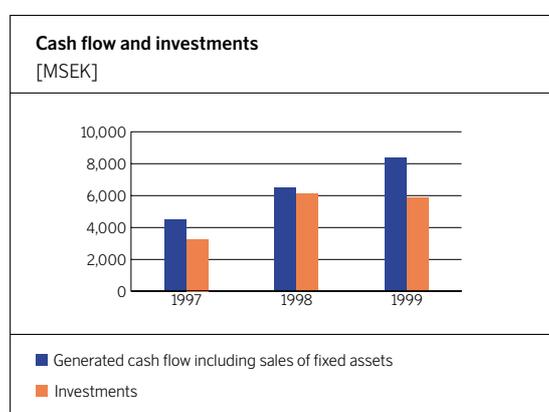
The sale of fixed assets generated MSEK 6,385

(2,372) and consists of receipts from the sale of aircraft, MSEK 4,824 (2,354). The sale of shares and participations gave MSEK 1,533 (4), including hotel properties, MSEK 1,114. Other buildings have been sold for MSEK 28 (14).

Cash flow after net investments thus amounted to MSEK 2,501 (385). After the payment of MSEK 957 (1,141) to the parent companies, the financing surplus was MSEK 1,544 (deficit 756).

Financial liabilities increased by MSEK 569 in 1999, and consisted mainly of a net of just over MSEK 4,000 in new borrowing and of amortization and redemption of loans at MSEK 3,300. Other financial assets increased by MSEK 1,794 due to increased long-term investments in pension plans and increased lending to affiliated companies.

Altogether, the SAS Group's liquid assets increased by MSEK 324.



Transfer to the parent companies

The Board of Directors and the President propose to the SAS Assembly of Representatives that the amount of MSEK 770 be transferred to the parent companies. The amount is booked as a liability in the SAS Group's Balance Sheet on December 31, 1999.

Outlook for 2000

After a weak 1999, it is deemed that the SAS Group's operating income for 2000 will be considerably better.

The economic development in important markets is expected to be stronger than in 1999 and provides the basis for increased growth in airline traffic. Excess capac-

ity continues to exist in several markets but restraint in establishing new capacity is expected to characterize the entire industry. At the same time the significant excess capacity in the Norwegian market has now been reduced.

The development of expenses in SAS is expected to show a further positive trend due to the current program of improvement. It is expected that the unit cost for the year 2000 will be lower than it was for 1999.

The most uncertain elements are the future growth in demand and the development of prices which continue to be pressed due to over capacity.

Stockholm
February 17, 2000

Hugo Schröder	Bo Berggren	Bjørn Eidem
Anders Eldrup	Urban Jansson	Harald Norvik
Helmuth Jacobsen	Leif Kindert	Ingvar Lilletun
	Jan Stenberg	
	<i>President and CEO</i>	

Accounting and valuation principles

General

The SAS Group's financial statements are prepared in accordance with the recommendations of the International Accounting Standards Committee (IASC). See Note 1 for details of amended accounting principles.

Consolidated accounts

Definition of Group and affiliated companies:

The financial statements of the SAS Group include the SAS Consortium, its subsidiaries and affiliated companies, and the Consortium SAS Commuter.

Revenues and expenses in companies acquired or sold during the year are included in the SAS Group's income statement only for the time they belonged to the SAS Group.

Holdings in major affiliated companies in which the SAS Group's ownership is at least 20% and no more than 50% are reported according to the equity method. In the event that the SAS Group's ownership stake exceeds 50% and, in accordance with SAS's strategy, there was a clear intention already at the time of acquisition to reduce the holding to a stake of less than 50%, then such a company is also reported according to the equity method.

Principles of consolidation

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

The book value of shares in major affiliated companies is reported in accordance with the equity method. This means that the SAS Group's share of the affiliated companies' equity comprises its share of shareholders' equity, taking into account deferred taxes according to the tax rates in the countries concerned and any residual surplus or deficit values.

The SAS Group's share of affiliated companies' income before taxes, adjusted for any depreciation or dissolution of acquired surplus or deficit values, is reported in the SAS Group's statement of income as shares of income.

Translation of the financial statements of foreign subsidiaries

The financial statements of foreign subsidiaries are translated into Swedish kronor using the current method.

This entails all subsidiaries' assets and liabilities being translated at the rates of exchange applying on the balance sheet date, while all income statement items are translated at the average rate of exchange for the year. Translation differences are posted directly to the SAS Group's shareholders' equity.

Receivables and liabilities in foreign currencies and financial instruments

Current and long-term receivables and liabilities in currencies other than the consolidation currency (SEK) are stated in the balance sheet, translated at the rates of exchange applying on the balance sheet date. Both realized and unrealized exchange rate gains and losses on receivables and liabilities are posted to income. See also Note 10.

SAS uses various financial instruments to manage the company's total currency and interest-rate exposure. The use of these instruments must be seen in the context of the aforementioned receivables and liabilities. The following accounting and valuation principles are applied:

Forward Exchange Contracts: Financial forward exchange contracts are valued at their market value on the balance sheet date. Unrealized exchange rate gains or losses are posted to income. The difference between the forward rate and the current rate on the date the contract is entered into (forward premium) comprises an interest rate difference which is reported under net interest items. This item is accrued over the term of the contract.

Currency Swap Contracts: Currency swap contracts are valued at market exchange rates on the balance sheet date. Unrealized exchange gains or losses are posted to income. The net income effect of interest income and interest expenses associated with the currency swap contract is accrued over the term of the contract and included in income.

Currency options: Financial currency options are valued at the market value on the balance sheet date. Unrealized exchange rate gains or losses are posted to income.

Interest Rate Swap Contracts: The net effect of interest income and expenses under interest rate swap contracts is posted to income as incurred.

See further Note 26 – Financial Instruments.

Expendable spare parts and inventories

Expendable spare parts and inventories are booked at the lower of acquisition or actual value. Appropriate deduction has been made for obsolescence.

Fixed assets and depreciation

Fixed assets are booked at acquisition cost less accumulated depreciation. Depreciation is carried out according

to plan based on the estimated useful economic life of the asset.

A straight-line depreciation method over 20 years with 10% residual value is applied to aircraft as of January 1, 1999. Straight-line depreciation over 15 years with 10% residual value was previously applied.

Interest expenses on prepayments for aircraft not yet delivered are capitalized. If it is decided to postpone deliveries of aircraft for which prepayments have been made, capitalization of interest expenses ceases. On commissioning of the aircraft, depreciation of the capitalized interest begins, in accordance with the main principle for aircraft.

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

Substantial amounts in the IT field are capitalized and depreciated over 3 to 5 years.

Amortization of goodwill attributable to long-term investments of strategic importance to SAS' operations takes place from 1998 over a period of up to 20 years. Previous acquisitions are depreciated over 10 years. Depreciation of other intangible assets occurs over the estimated economic lifetime of the asset.

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

Investments in own and leased premises are in principle amortized over their estimated economic lives, but not over a period exceeding the leasing period for leased premises.

Pension commitments

SAS's pension commitments are mainly secured through various pension plans, which vary considerably due to different legislation and agreements regarding occupational pension systems in the individual countries.

For pension plans where SAS has accepted responsibility for premium-based solutions, the obligation to the employees ceases when the contractual premiums have been paid. For other pension plans where benefit-based pensions have been agreed upon, the commitments do not cease until the contractual pensions have been paid. SAS makes a calculation of the pension commitments for the benefit-based pension plans based on the method defined in FASB87 and supported in IAS19. Calculations are made of both the Accumulated Benefit Obligation (ABO) and the Projected Benefit Obligation (PBO). Under ABO, the commitments are based on current salary, while under PBO the commitments are calculated based on estimated final salary. An estimate of accumulated pension assets is made at the same time. The commitments are accounted for on the basis of PBO.

This year's pension costs comprise the current value of

the year's pension earnings, plus interest on the commitment at the beginning of the year, less returns on reserved funds. The amortization of estimate discrepancies and changes to plan for certain pension plans is added to this total. The said calculation differences are amortized in accordance with two different methods. Changes to plan are amortized over the average remaining earning period for those still occupationally active who are comprised by the pension plan. SAS also uses an alternative method of periodizing discrepancies between anticipated and actual results for calculated pension commitments and reserved funds. Accumulated estimate discrepancies of up to 10% of whichever is the larger of the pension commitment and the pension funds are exempted. When the accumulated discrepancy exceeds this 10% limit, amortization of the excess amount over five years begins.

During 1999, an allocation in the form of so-called company-related pension funds in the insurance group SPP in Sweden of MSEK 2,959 was identified on behalf of the SAS Group. This allocation has not in itself affected the SAS Group's income for 1999, as SAS has reported pension commitments in accordance with IAS since 1996.

Traffic revenue

Ticket sales are reported as traffic revenue on completion of the air journey.

The value of tickets sold and still valid but not yet used on the balance sheet date is reported as unearned transportation revenue. This item is reduced either when SAS or another airline completes the air journey or when the passenger has requested a refund.

A portion of unearned transportation revenue covers tickets sold that are expected to remain unutilized. An estimate of the unutilized tickets' anticipated share of the unearned transportation revenue liability is produced annually. This reserve is reported as revenue the following year in accordance with established principles.

EuroBonus

SAS makes ongoing provisions as EuroBonus points are earned for the marginal costs associated with the provision of free travel in exchange for redemption of the points earned by EuroBonus members.

Maintenance costs

Routine aircraft maintenance and repair costs are charged to income as incurred.

Accrual accounting is carried out for future external costs for heavy maintenance including engine maintenance of the Douglas MD-80 aircraft type. This maintenance is carried out on average every ten years. Provisions for future engine maintenance are made for Boeing 767s, Boeing 737s and Douglas MD-90s, and provisions for future maintenance costs are made for Fokker F50s.

Exchange rates for certain key currencies are shown below:

			Rate on balance sheet date		Average rate	
			1999	1998	1999	1998
Denmark	DKK	100	115.05	126.85	118.52	118.81
Norway	NOK	100	106.05	107.30	106.01	105.38
USA	USD		8.53	8.07	8.26	7.95
UK	GBP		13.80	13.52	13.37	13.17
Switzerland	CHF	100	533.60	590.10	550.71	549.41
Japan	JPY	100	8.34	7.00	7.28	6.10
EMU countries	EUR		8.56	9.47	8.82	8.93

Notes

Expressed in millions of Swedish kronor (MSEK) unless otherwise stated.

Note 1 – Amended accounting principle

As of 1999, shares in the income of affiliated companies are reported before taxes. The 1998 figures have accordingly been adjusted to achieve comparability. These adjustments led to an improvement in the share of income in affiliated companies of MSEK 28, and the corresponding amount has been charged to subsidiaries' and affiliated companies' taxes.

Note 2 - Operating revenue

	1999	1998
Traffic revenue:		
Passenger revenue	28,335	28,240
Freight	2,058	1,997
Mail	269	243
Other traffic revenues	1,315	1,407
Other operating revenue:		
Technical maintenance	797	733
Ground services	752	592
Distribution system services	889	786
Other operating revenue	1,868	1,608
SAS Trading	2,347	2,606
SAS total	38,630	38,212
SAS International Hotels	2,963	2,786
Other subsidiaries	64	69
Group eliminations	-149	-121
Operating revenue	41,508	40,946

Passenger revenues per geographic area

	1999	1998
Intercontinental	4,126	4,140
Europe	11,791	12,144
Intra-Scandinavian	4,504	4,274
Domestic	7,914	7,682
Total	28,335	28,240

Note 3 – Personnel costs

The average number of employees in the SAS Group's different business areas in 1999 was 28,863 (27,071), of whom 25,754 (23,992) were employed in SAS and 3,071 (3,041) in SAS International Hotels.

A breakdown of the average number of employees per country is provided in the table above to the right.

The average number of employees in Denmark was 9,320 (9,208), in Norway 7,763 (7,177), and in Sweden 9,476 (8,452).

The SAS Group's total payroll costs amounted to MSEK 12,984 (12,005), of which social security expenses comprised MSEK 1,739 (1,569) and pensions MSEK 389 (667).

Cont. Note 3

Average number of employees

	1999		1998	
	Men	Women	Men	Women
Denmark	5,907	3,413	5,836	3,372
Norway	4,390	3,373	4,097	3,080
Sweden	5,251	4,225	4,917	3,535
UK	288	429	208	352
Germany	180	172	178	174
France	28	60	20	54
Japan	26	39	54	13
Finland	77	212	71	171
Belgium	41	32	38	33
USA	105	161	95	166
Other countries	176	278	247	360
Total	16,469	12,394	15,761	11,310
Total men and women	28,863		27,071	

Remuneration to senior executives

In 1999, SEK 2,672,000 was paid to members of the SAS Consortium's Board of Directors, of which SEK 357,000 to the Chairman of the Board, a total of SEK 636,000 to the two Vice Chairmen and a total of SEK 1,286,000 to other Board members, including employee representatives. In addition, a total of SEK 393,000 was paid to deputy members of the Board. These fees are determined by SAS's Assembly of Representatives.

During 1999, no member of the Board was employed in the SAS Group, with the exception of the employee representatives and their deputies. Two members of the Board received consultancy fees as remuneration for work in the SAS Group's finance committee.

Salary and the value of benefits paid to the President of the SAS Consortium, who also serves as chief executive officer, totalled SEK 7,548,000, of which SEK 1,750,000 related to a bonus for 1998.

The President's retirement age is 62. The pension is based on salary at retirement and comprises 39.03% of pensionable salary expressed at the 1999 level between the ages of 62 and 65, and 36.67% from the age of 65. Other senior executives at SAS are entitled to a pension at the age of 60 and earn on a straight-line basis up to retirement age. The pension level for a Swedish employee with fully earned entitlement amounts to 70% of pensionable salary up to 30 times the base amount (SEK 1,092,000) and 35% of salary in excess of that amount. Alternatively, a pension plan is provided based on premiums paid. The same basic pension system structure applies to Danish and Norwegian senior executives, adjusted to Danish and Norwegian conditions, respectively.

Severance pay is payable to the President and other senior SAS executives in the event employment is terminated by SAS for reasons other than breach of contract or neglect of duty. The amount corresponds to two annual salaries, and up to 50% is reduced by the remuneration received from a new employer during the same period.

Neither the President nor other senior executives are entitled to fees for directorships in the SAS Group or in companies in which SAS has proprietary interests or with which SAS cooperates.

Note 4 – Other operating expenses

	1999	1998
Leasing costs	1,291	1,059
Selling expenses	1,597	2,072
Aircraft fuel	2,181	2,322
Civil aviation fees	3,486	3,558
Catering costs	1,711	1,596
Handling costs	1,862	1,700
Technical aircraft maintenance	2,063	1,741
Other operating expenses	10,497	9,703
Total	24,688	23,751

Note 5 – Depreciation and amortization

	1999	1998
Goodwill and intangible assets	23	15
Aircraft	835	1,254
Spare engines and spare parts	130	116
Workshop and aircraft servicing equipment	63	42
Other equipment and vehicles	567	442
Prepayments, fixed assets	–	3
Buildings and improvements	323	252
Land improvements	1	1
Total	1,942	2,125

Note 6 – Share of income in affiliated companies¹

	1999	1998
British Midland PLC ²	39	20
Widerøe's Flyveselskap ASA	–67	7
Polygon Group Ltd ³	–7	–10
Cimber Air A/S	9	7
Spanair S.A. ⁴	14	34
Skyways Holding AB	6	5
Grønlandsfly A/S	8	5
Oy Air Botnia Ab	–184	–91
airBaltic Corporation SIA	–23	–16
Airnet I/S	3	3
Casinos Denmark A/S / Casino Copenhagen K/S	15	15
Others	12	1
Total⁵	–175	–20

¹ Shares of income in affiliated companies are reported before taxes.

² Share of income includes depreciation of goodwill by MSEK 23 (34) and correction of last year's income figure by MSEK 19 (18).

³ Share of income includes correction of last year's income figure by MSEK 3 (–13).

⁴ Based on annual financial statements on October 31, 1999.

⁵ Includes depreciation of goodwill (incl. British Midland PLC) totalling MSEK 41 (43).

In some cases, SAS's share of income in affiliated companies is based on preliminary unaudited accounts from the companies.

Note 7 – Income from the sale of aircraft and buildings

	1999	1998
SAS – sale of Boeing 767	–	536
SAS – sale of Douglas MD-80	431	33
SAS – sale of Douglas DC-9	–	378
SAS – sale of SAAB 340	27	–
SAS – sale of Boeing 737	306	62
SAS – sale of Fokker F28	65	–
SAS – sale of buildings	–100	5
SIH – sale of buildings	2	–
Total	731	1,014

Note 8 – Income from other shares and participations

	1999	1998
Capital gain from the sale of shares	417	–
Dividend	0	1
Total	417	1

Note 9 – Interest income and similar income items

	1999	1998
Interest income	409	622
Other financial income	37	11
Total	446	633

Note 10 – Interest expenses and similar income items

	1999	1998
Interest expenses	605	702
Exchange rate differences, net	40	14
Other financial expenses	34	46
Total	679	762

Note 11 – Subsidiaries' and affiliated companies' tax expense

	1999	1998
Subsidiaries' current tax expense	126	87
Affiliated companies' current tax expense	5	28
Deferred tax expense in subsidiaries in respect of temporary differences	28	26
Total	159	141

Note 12 – Fixed assets

Intangible and tangible fixed assets									
	Intangible fixed assets	Buildings and land	Aircraft ¹	Spare engines and spare parts	Workshop & servicing equipment for aircraft	Other equipment and vehicles	Construction in progress	Prepayments fixed assets	Total tangible fixed assets
Opening acquisition value	457	8,402	17,256	1,897	741	5,242	414	2,345	36,297
Investments	335	34	2,885	324	120	453	431	1,133	5,380
Capitalized interest	–	–	–	–	–	–	–	145	145
Sales/disposals	–28	–1,095	–6,727	–55	–22	–421	–8	–28	–8,356
Reclassifications	–7	351	1,068	9	–1	141	–544	–1,102	–78
Exchange rate differences	–	–74	–	–	–	–84	1	55	–102
Closing accumulated acquisition value	757	7,618	14,482	2,175	838	5,331	294	2,548	33,286
Opening depreciation	–291	–1,778	–7,077	–737	–505	–3,167	–	–28	–13,292
Depreciation for the year	–23	–324	–835	–130	–63	–567	–	–	–1,919
Sales/disposals	28	255	3,318	30	22	389	–	22	4,036
Reclassifications	10	15	42	29	–2	11	–	–3	92
Exchange rate differences	–	37	–	–	–	56	–	–	93
Closing accumulated depreciation	–276	–1,795	–4,552	–808	–548	–3,278	–	–9	–10,990
Closing residual value 1999 acc. to plan 481³	5,823	5,823	9,930²	1,367	290	2,053	294	2,539	22,296
Closing residual value 1998 acc. to plan	166	6,624	10,179	1,160	236	2,075	414	2,317	23,005

¹ The insured value of aircraft on December 31, 1999 amounted to MSEK 33,619. This includes the insured value of leased aircraft in the amount of MSEK 15,029.

² Estimated market value, excluding options, in Swedish kronor exceeded the book value by MSEK 3,271 (4,512) at year-end 1999.

³ Includes MSEK 320 in capitalized costs during the year for IT development.

Financial fixed assets

	Equity affiliated companies	Long-term receivables from affiliated companies	Shares & participations	Pension funds, net	Other long-term receivables	Total financial fixed assets
Opening acquisition value	1,447	110	167	1,223	745	3,692
Contributions	152	446	3	1,220	381	2,202
Share of income	–179	–	–	–	–	–179
Sales	–	–	–1	–	–	–1
Amortization	–	–24	–	–	–26	–50
Dividend	–31	–	–	–	–	–31
Reclassifications	–	–	–	–	7	7
Exchange rate differences	–26	4	–14	–	–29	–65
Other	–345	–	–	–	–	–345
Closing accumulated acquisition value	1,018	536	155	2,443	1,078	5,230
Opening depreciation	–	–	–78	–	–	–78
Reclassifications	–	–	–	–	–	–
Exchange rate differences	–	–	7	–	–	7
Closing accumulated depreciation	–	–	–71	–	–	–71
Opening write-down	–	–	–3	–	–293	–296
Write-down for the year	–	–	–	–	–74	–74
Reclassifications	–	–	–	–	–7	–7
Exchange rate differences	–	–	–	–	9	9
Closing write-down	–	–	–3	–	–365	–368
Closing residual value 1999	1,018	536	81	2,443	713	4,791
Closing residual value 1998	1,447	110	86	1,223	452	3,318

Of previous years' aircraft acquisitions, 19 Douglas MD-80s, 1 Boeing 767, 6 Douglas MD-90s and 2 Fokker F28s were acquired, formally via financial lease contracts, with terms of 10–17 years.

On behalf of SAS, a number of banks have agreed to pay all accruing leasing fees and an agreed residual value for 4 of the Douglas MD-80s and 2 Fokker F28s aircraft at the expiry of each leasing period. SAS has irrevocably reimbursed the Banks in an amount corresponding to full settlement for these payments. The total nominal value of the banks' payment commitment on behalf of SAS on December 31, 1999 was MSEK 607 (1,295).

With regard to other leased aircraft, the terms of the leasing contracts (particularly pertaining to SAS's call options during the contract

period and at the expiry of the leasing contract, as well as the economic risk SAS has regarding the value of the aircraft) are such that the agreements, from SAS's point of view, are comparable to a purchase.

The 28 (36) aircraft are reported in the balance sheet in the amount of MSEK 3,089 (4,234).

SAS's aircraft holdings can be specified as follows:

	1999	1998
Owned	6,841	5,945
Financially leased (prepaid)	262	759
Other financially leased	2,827	3,475
Book value	9,930	10,179

Note 13 – Prepayments for tangible fixed assets

	1999	1998
Boeing 737	1,321	1,416
deHavilland Q400	1,204	858
McDonnell Douglas	–	22
Others	14	21
Total	2,539	2,317

Note 14 – Equity in affiliated companies

	SAS Group holdings %	1999	1998
British Midland PLC	40.0	461	437
Widerøe's Flyveselskap ASA	63.3	351	361
Polygon Group Ltd	30.8	213	219
Cimber Air A/S	26.0	122	131
Spanair S.A.	49.0	130	128
Skyways Holding AB	25.0	114	111
Grønlandsfly A/S	37.5	70	72
Oy Air Botnia Ab	100.0	-151	31
airBaltic Corporation SIA	34.2	6	-9
Commercial Aviation Leasing Ltd	47.0	115	–
Elimination of internal profit for			
Commercial Aviation Leasing Ltd		-396	–
Airnet I/S	50.0	12	13
Casinos Denmark A/S / Casino			
Copenhagen K/S	50.0	22	20
Others		29	13
Shareholding reserve		-80	-80
Total		1,018	1,447

Equity in affiliated companies includes acquired surplus value of MSEK 76 (97) in British Midland PLC, MSEK 19 (22) in Oy Air Botnia Ab, MSEK 21 in airBaltic Corporation, MSEK 163 (209) in Widerøe's Flyveselskap ASA, MSEK 82 (87) in Skyways Holding AB, and MSEK 74 (86) in Cimber Air A/S.

Note 15 – Long-term receivables from affiliated companies

	1999	1998
airBaltic Corporation SIA	74	106
Oy Air Botnia Ab	176	4
Commercial Aviation Leasing Ltd	286	–
Total	536	110

Note 16 – Shares and participations

	Domicile	Number of shares/participations	%	Nominal value in 000s	Book value, MSEK
Shares and participations					
Copenhagen International Hotels K/S	Copenhagen	1,343	11.3	DKK 134	48.3
Feri Otelcilik Ve Turizm AS	Istanbul	270,000	10.0	TRL 500	19.7
Oslo Plaza Hotel AS	Oslo	3,100	10.0	NOK 3,100	7.4
SITA Foundation	Amsterdam	520,101	0.3		1.0
Dar-es-Salaam Airport Handling Co Ltd	Dar-es-Salaam	27,000	15.0	TZS 2,700	1.4
SAS Royal Viking Hotel AB	Stockholm	20,000	25.0	SEK 2,000	1.0
Vimich Hotel Kg	Hamburg	1	5.0	DEM 150	0.7
Airline Tariff Publishing Company	Washington D.C.	17,737	4.2	USD 18	0.4
Others					1.2
Total shares and participations					81.1

Note 17 – Expendable spare parts and inventories

	1999	1998
Expendable spare parts, flight equipment	651	638
Expendable spare parts, other	141	94
Inventories	223	226
Total	1,015	958

Note 18 – Other receivables

Tax receivables amounting to MSEK 19 (19) are included among other receivables in the SAS Group.

Note 19 – Short-term investments

On December 31, 1999, short-term investments consisted for the most part of special bank deposits and investments in government securities. Investments in government securities have been valued at the lower of acquisition value and actual value. Short-term investments also include MSEK 123 (134) in blocked deposits in a tax deduction account in Norway.

Note 20 – Shareholders' equity

January 1, 1999	16,110
Change in translation differences	-108
Change in ownership stake in affiliated companies etc.	143
Income after taxes 1999	1,686
Proposed transfer to parent companies	-770
December 31, 1999	17,061

Note 21 – Pension funds, net/Provisions for pensions and similar obligations

	1999	1998
Pension funds, net	2,443	1,223
Total	2,443	1,223
Provision for pensions, PRI	20	19
Pension liability, other	20	20
Other pension and employee commitments	89	122
Total provision for pensions and similar commitments	129	161

SAS reports pension commitments according to PBO (Projected Benefit Obligation).

When calculating SAS's pension commitments, the year's pension earnings and returns, the following long-term economic assumptions have been established as applying to the SAS Group and thereby representing a weighted average:

Discount rate	6.8%
Long-term rate of return	8.8%
Inflation rate	3.0%
Future salary adjustments	3.0%
Future adjustments of current pensions	3.0%

In the financial statements, the commitments in the SAS Group are included in the manner set forth in the table below. The item "amounts not booked as revenues/expenses" contains deviations from estimates and actuarially calculated differences, together with changes to pension plans. These are accrued using two methods. Changes to pension plans are accrued over the average remaining earning period for active employees who are comprised by the pension plan. Deviations from estimates are amortized over five years when they exceed 10% of the largest of either pension commitment or pension funds.

Most of the pension plans in Scandinavia are benefit-based, with the majority of the pension plans secured through insurance companies. The collective pension plans for salaried employees in Sweden and for personnel in Norway are secured through benefit-based pension plans with insurance companies. For personnel in Denmark, SAS has primarily established premium-based solutions.

The normal retirement age for SAS flight personnel is 60. According to agreements with SAS pilots in Denmark, Norway and Sweden, and with cabin staff in Sweden and Norway, voluntary early retirement with pension is allowed from the age of 55 at the earliest. SAS has also undertaken to pay a pension up to normal retirement age, 60, to pilots who have lost their licenses. The retirement age for cabin personnel insured in Sweden is 65, but once they reach the age of 50, the retirement age is reduced to 60. The probable present value of all these obligations is included in SAS's estimated total pension commitments.

	1999	1998
Pensions earned during the year	-1,651	-1,601
Return on reserved funds for the year	1,686	1,389
The year's amortization of deviations from estimates and changes in plans	205	145
Impact on income for the year, net pertaining to benefit-based plans	240	-67
Status on December 31	1999	1998
Reserved funds	20,982	17,877
Pension commitments according to PBO	-15,898	-15,269
Difference between reserved funds and PBO	5,084	2,608
Amounts not booked as revenues/expenses: changes in plans and deviations from estimates including actual return	-2,641	-1,385
Booked assets	2,443	1,223

Several of SAS' pension plans include excess assets. This has contributed to the fact that this year's return on reserved funds exceeds the cost of pension earnings, calculated in accordance with applicable parameters. The actual return in certain pension plans has, furthermore, exceeded SAS' calculated long-term rate of return of 8.8%, which is reflected in the item "deviations from estimates not booked as revenues/expenses".

Provision for other pension/employee obligations, MSEK 89 (122), includes long-term commitments undertaken by SAS in connection with action programs in previous years.

Note 22 – Maturity of long-term liabilities

Long-term liabilities that fall due more than five years after the balance sheet date.

	1999	1998
Subordinated debenture loans	772	854
Bond issues	0	202
Other loans	3,300	1,634
Other liabilities	40	89
Total	4,112	2,779

Note 23 – Subordinated debenture loans

A subordinated debenture loan of 200 million Swiss francs was issued during the 1985/86 fiscal year. There is no set maturity date for this loan. SAS has an exclusive right to call in this loan every fifth year. The interest rate is fixed for 10-year periods and amounts to 3.625% per annum from 1996. In previous years, SAS has repurchased bonds for a nominal value of 55.3 million Swiss francs, after which the loan amounts to 144.7 million Swiss francs.

Note 24 – Bond issues

SAS's bond issues amounted to MSEK 755 (2,302), of which the current portion is MSEK 529 (1,535).

Specification of individual loans:

Issued amount	Interest rate	Term	Outstanding debt in MSEK
50 M US dollars	10.650%	88/08	383
500 M Danish kroner	9.000%	90/00	87
200 M Swedish kronor	14.000%	90/00	59
10,000 M Japanese yen	6.100%	91/01	226
Total			755
Less amortizations in 2000			-529
Total			226

The majority of the above loans have been switched to other currencies and other fixed-interest periods through currency and interest-rate swap agreements and forward exchange contracts. The currency exposure of the debt has thereby been changed so that the debt primarily consists of exposure in European currencies, see Note 26.

None of SAS's own bonds were repurchased during 1999. Repurchases of MSEK 57 were made the previous year.

Note 25 – Other loans

	1999	1998
Loans from SAS's parent companies*	1,445	1,583
Financial leases	3,912	4,992
Other loans	2,910	1,357
Total prior to amortization	8,267	7,932
Less amortization, 2000 and 1999	-710	-812
Other loans according to the balance sheet	7,557	7,120

* The underlying loan agreements regarding loans from SAS's parent companies are long-term. However, each parent company is free to utilize these funds during the term of the loan.

Currency exposure, see Note 26.

Note 26 – Financial instruments

On December 31, 1999, the SAS Group had outstanding currency swap contracts for a nominal value equivalent to MSEK 560. Valuation at market exchange rates gives a net exchange rate gain of MSEK 274.

Outstanding financial forward exchange contracts amount to a gross nominal value equivalent to MSEK 8,700. Market valuation gives a net gain of MSEK 102. All exchange rate gains/losses for the above valuations are posted to income.

Outstanding forward exchange contracts and options intended to secure future commercial flows and investments amount to a nominal value of MSEK 10,000. The income effect is reported on the payment date of each contract. A valuation at market exchange rates on December 31, 1999 shows a negative net value of MSEK 44, which is not included in income.

Financial currency exposure takes into account exposure from all liquid asset investments, short and long-term borrowing, and the above-mentioned financial instruments, with the exception of forward exchange contracts for commercial flows. Currency exposure is subject to constant change.

On December 31, 1999, the SAS Group's approximate net financial currency exposure against the consolidation currency SEK was as follows:

	Value in MSEK
Euro	-300
Norwegian kroner	-400
British pounds	-200
Japanese yen	-100
Swedish kronor	500
Total net debt	-500

Note 27 – Short-term loans

Overdraft facilities amount to MSEK 132 (245), of which MSEK 30 (70) has been utilized.

Note 28 – Unearned transportation revenue, net

Unearned transportation revenue consists of tickets sold and still valid but unutilized, see the accounting principles section, page 80.

The estimated reserve in the unearned transportation revenue liability on December 31, 1999 amounted to MSEK 418 (324).

Note 29 – Assets pledged, etc.

	1999	1998
Pledges to secure own liabilities and provisions:		
Real estate mortgages	334	810
Chattel mortgages	2	1
Receivables	7	8
Other assets pledged:		
Chattel mortgages	3	3
Receivables	59	65
Total	405	887

Note 30 – Contingent liabilities

	1999	1998
Contingent liabilities, other	1,237	1,226
Total	1,237	1,226

SAS enters into currency and interest rate contracts on an ongoing basis, and the contingent liabilities include a gross amount of MSEK 392 (342) attributable to swap transactions. The value shown here is attributable to loans after swap transactions whose book value on the balance sheet date was lower than the value of the original loans and the accrued value of currency and interest rate contracts.

SAS International Hotels AS has issued a guarantee on behalf of Radisson SAS Palais Hotel, Vienna for the fulfilment of the lease, as well as for rebuilding and renovation at the expiry of the lease. The tenant of Radisson SAS Palais Hotel, Vienna has issued a counter-guarantee that covers these commitments.

Under the management contracts for 18 hotels, the SAS International Hotel Group guarantees a minimum annual cash flow until 2005-2024. For several of the contracts, the guarantee is limited to a maximum sum over the contract period, and in certain cases also to a maximum amount per annum. Guarantee payments of MSEK 8 were remitted in 1999.

Due to its size, the SAS Group is in addition involved in disputes, some of which will be settled in court. In cases where a probable risk of loss is judged to exist, provisions are made on an ongoing basis.

Note 31 – Leasing commitments

The different business areas in the SAS Group have entered into the following leasing commitments, with specification of the total annual rent for:

	2000	2001	2002	2003	2004	2005-->
Aircraft	1,423	953	671	551	544	2,240
Hotel properties	485	518	534	532	545	6,476
Other properties	372	352	281	252	233	1,868
Machinery and equipment	13	9	4	2	0	0
Total	2,293	1,832	1,490	1,337	1,322	10,584

The lease contracts run for between one and thirty years, and individual assets with an annual leasing cost in excess of MSEK 0.5 have been included.

The above table includes the following major items:

The sale and leaseback agreement involving 30 Douglas MD-80 aircraft concluded with GECAS in December 1999 is expected to yield an annual leasing cost of approximately MSEK 370.

In conjunction with the sale and leaseback of Boeing 767-300s, six aircraft are leased back on an operating lease under the terms of lease contracts that run for 12-30 months with an option to extend for one to two years. The cost for 2000 is MSEK 381. The leasing cost for 2001 is MSEK 135.

SAS and Linjeflyg AB ("SAS") on the one hand and the Swedish Civil Aviation Administration on the other hand concluded an agreement in March 1988 regarding full compensation to the Civil Aviation Administration in conjunction with the construction of Terminal 2 at Arlanda. The preconditions for this agreement were changed by the deregulation of domestic aviation on June 30, 1992. An agreement in principle between SAS and the Civil Aviation Administration was reached on November 25, 1992, under which SAS will pay a fixed charge to the Civil Aviation Administration during the period 1993-2005, in addition to a variable charge per passenger. The total leasing commitment for the period 1997-2005 amounts to MSEK 258. SAS claims that all airlines should bear their share of the Civil Aviation Administration's capacity costs for Terminal 2 in a competitively neutral manner, i.e. that all airlines should pay the same cost per passenger. Attempts to renegotiate this agreement have so far been fruitless. SAS has therefore taken legal action. A ruling by the Norrköping District Court in December 1999 supported in full SAS' claims. This ruling has, however, been appealed by the Civil Aviation Authority.

Auditors' Report

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

We have audited the Annual Report, the consolidated financial statements and the accounts of SAS for 1999. These accounts are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion of the Annual Report and the consolidated financial statements, based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Sweden. These Standards require that we plan and perform the audit to obtain reasonable assurance that the Annual Report and the consolidated financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes

assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating their overall presentation of information in the Annual Report and the consolidated financial statements.

The Annual Report for the SAS Group and the SAS Consortium is based on the accounting principles set forth in the section of the Annual Report entitled "Accounting and valuation principles".

In our opinion, the Annual Report presents a true and fair picture of the financial position of the SAS Group and the SAS Consortium at December 31, 1999, and of the income for the financial year ending then, in keeping with the principles set forth above.

Stockholm
February 29, 2000

Jan Åke Magnuson

Olav Revheim
Authorized Public Accountants

Stig Enevoldsen

SAS Danmark A/S

The Board of Directors' Report

In collaboration with SAS Norge ASA and SAS Sverige AB, SAS Danmark A/S (corporate identity no. 56 99 49 12) conducts air traffic operations within the SAS and SAS Commuter (the SAS Group) consortia. The ownership stakes are 2/7, 2/7 and 3/7 respectively. Information about the SAS Group's operations is provided on pages 68 to 78.

SAS Danmark A/S's invested capital within the SAS Group is booked in Swedish kronor. In the year-end report, the invested capital is translated into Danish kroner at the exchange rate prevailing on the balance sheet date. Exchange rate differences, both positive and negative, are posted to the balance sheet and impact on both fixed assets and shareholders' equity.

The Swedish krona exchange rate against the Danish krona on December 31, 1999 was DKK 86.95, compared with DKK 78.62 the previous year. This has led to an increase of MDKK 395.7 in SAS Danmark A/S's booked invested capital within the SAS Group.

Business concept

SAS Danmark A/S's business concept is to exercise active ownership in the SAS Group.

The overall goal is the long-term development of SAS through the active participation of the Board of Directors.

Operations

SAS Danmark A/S's operations cover administration and management of the company's ownership interests in the SAS Group.

Accounting principles

The accounting principles are unchanged from last year. The share of income in the SAS Group is reported, as of 1999, both as a share of income before taxes and tax, whereas previously only the share of income in the SAS Group after taxes was reported. The comparative figures for 1998 have been adjusted accordingly.

Earnings

The 2/7 share of income before taxes of the SAS Group was MDKK 445.1 (687.5).

SAS Danmark A/S's operating expenses were MDKK 4.8 (4.3). The financial net was MDKK 18.0 compared with MDKK 22.1 in 1998. The change is mainly due to reduced financial income.

SAS Danmark A/S's other operations reported income of MDKK 13.2 compared with MDKK 17.8 in 1998.

SAS Danmark A/S's total income before taxes was MDKK 458.3 (705.3).

SAS Danmark A/S's income after taxes was MDKK 345.0 (544.7).

Environmental report

For information about the company's environmental work, please refer to SAS Group's Annual Report and the SAS Group's separate environmental report.

Shareholders

At the end of 1999, there were around 6,700 listed shareholders, accounting for 81% of the share capital.

The following shareholders are covered by the Danish Companies Act, § 28 a and b:

- The Danish state, 23,500,000 shares, or 50% of the share capital.
- The PFA Group, 2,491,776 shares, or 5.3% of the share capital.

Dividend policy

It is the ambition of the Boards of SAS's parent companies to pursue a common dividend policy so that the dividend for each SAS share is the same when translated to the same currency.

When the annual dividend is determined, account is taken of the SAS Group's income performance, financial position and capital requirements, as well as relevant macroeconomic conditions.

The goal of the dividend policy is that the dividend over a business cycle should be in the region of 30-40% of the SAS Group's income after deductions for estimated taxes.

Proposed dividend

At the upcoming Annual General Meeting, the Board will propose a dividend of DKK 3.50 (3.15) per share (nominal value DKK 10). The increase compared with 1998 is due solely to the change in value of the Swedish krona. The dividend will be paid on April 18, 2000.

Outlook for 2000

Regarding the outlook for 2000, the reader is referred to the information furnished by the SAS Group.

Discharge from liability

SAS's Assembly of Representatives has discharged the Board of Directors and the President of the SAS Consortium from liability for the 1999 financial year.

Statement of Income

MDKK	Note	1999	1998
Share of income in the SAS Group ¹	1	445.1	687.5
Other operations			
Operating expenses		2.3	1.8
Personnel costs	2	1.7	1.7
Contribution to DDL's Hjælpefond		0.8	0.8
Total costs		4.8	4.3
Income from other operations before financial items			
		-4.8	-4.3
Financial income	3	19.3	23.7
Financial expenses	4	-1.3	-1.6
Net financial items		18.0	22.1
Income for the year from other operations			
		13.2	17.8
Total income before taxes		458.3	705.3
Taxes	5	113.3	160.6
Net income for the year		345.0	544.7

¹ Share in the SAS Group before subsidiaries' and affiliated companies' taxes.

Cash Flow Statement

MDKK	1999	1998
Income before taxes	458.3	705.3
Value adjustments	0.3	0.5
Change in working capital	-48.6	-34.8
Internally contributed funds prior to tax	410.0	671.0
Tax paid	-32.6	-97.4
Funds from the year's operations	377.4	573.6
Share of income in the SAS Group	-445.1	-687.5
Transfer from the consortia	214.3	281.8
Investments, net	-230.8	-405.7
Dividend	-148.1	-164.5
External financing, net	-148.1	-164.5
Change in liquid assets	-1.5	3.4
Liquid assets, January 1	4.5	1.1
Liquid assets, December 31	3.0	4.5

Balance Sheet

ASSETS

MDKK	Dec. 31, 1999	Dec. 31, 1998
Fixed assets		
Financial fixed assets		
Equity in the SAS Group, Note 6	4,238.4	3,618.8
Total fixed assets	4,238.4	3,618.8
Current assets		
Pre-paid tax, Note 7	92.0	4.1
Balances, Note 8	708.4	682.6
Securities, Note 9	1.0	1.3
Liquid assets, Note 10	3.0	4.5
Total current assets	804.4	692.5
TOTAL ASSETS	5,042.8	4,311.3

SHAREHOLDERS' EQUITY AND LIABILITIES

MDKK	Dec. 31, 1999	Dec. 31, 1998
Shareholders' equity		
Share capital	470.0	470.0
Share premium reserve	411.2	411.2
Other reserves	2,922.8	2,437.1
Total shareholders' equity, Note 11	3,804.0	3,318.3
Provisions		
Deferred tax liability, Note 12	1,073.0	844.0
Total provisions	1,073.0	844.0
Current liabilities		
Other liabilities	1.3	0.9
Dividend	164.5	148.1
Total current liabilities	165.8	149.0
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	5,042.8	4,311.3

Accounting principles

SAS Danmark A/S's financial statements are prepared in accordance with the Danish Annual Accounts Act, applicable Danish accounting standards and the requirements made by the Copenhagen Stock Exchange regarding annual reports for Danish listed companies.

The accounting principles are unchanged from the previous year. As of 1999, the share of income in the SAS Group is reported separately as a share in income, before taxes and tax, whereas before it was previously reported as a share in the SAS Group's income after tax. The comparative figures for 1998 have been adjusted accordingly.

SAS Danmark A/S's participation in the SAS Group is reported in accordance with the equity method which means that the participation is reported in the balance sheet in the amount of SAS Danmark A/S's relative share of the SAS Group's equity and that SAS Danmark A/S's share of the SAS Group's income is included in the income statement as share of income in the SAS Group before taxes and share of taxes in the subsidiaries and affiliated companies. The share of capital and income is calculated against the background of the SAS Group's financial statements that are prepared in accordance with the recommendations of the International Accounting Standards Committee (IASC). SAS Danmark A/S's

share of income in the SAS Group is translated at the average exchange rate for the year. The average exchange rate for the Swedish krona in 1999 was SEK 100 = DKK 84.40 (84.23). SAS Danmark A/S's share of the SAS Group's equity is translated at the balance sheet date's rate where SEK 100 = DKK 86.95 (78.62). The translation differences are included in shareholders' equity.

Securities are booked at the official stock exchange listed prices on the balance sheet date. Exchange rate gains or losses are reported under financial items.

Debts are stated as nominal amounts.

Assets and liabilities in foreign currencies are translated into Danish kroner at the rate applying on the balance sheet date. Exchange rate differences are reported in the income statement.

Corporate taxes are charged to income in the amount attributable to income for the year. The booked tax includes tax payable on the year's taxable income and revaluation of deferred tax.

The calculation for the provision for deferred taxes is based on temporary differences due to the fact that revenue and expenses are not reported in the income statement and taxable income over the same period. Deferred tax is calculated on current and fixed assets using the tax rate of 32%.

Five-year summary¹

MDKK	1999	1998	1997	1996	1995
Income					
Share of income in the SAS Group	445	688	552	448	591
Income before taxes	458	705	567	462	601
Net income for the year	345	545	389	346	319
Balance Sheet					
Fixed assets	4,239	3,619	3,513	3,215	2,520
Current assets	804	692	733	731	322
Total assets	5,043	4,311	4,246	3,946	2,842
Shareholders' equity	3,804	3,318	3,170	2,900	1,919
Long-term liabilities and provisions	1,073	844	911	864	730
Current liabilities	166	149	165	182	193
Total shareholders' equity and liabilities	5,043	4,311	4,246	3,946	2,842
Share data					
Dividend, total	165	148	165	122	98
Market price at year-end, DKK ²	76.7	72.8	100	73	99
Shareholders' equity per share, DKK ²	80.9	70.6	67.4	61.7	40.8
Liquidity ratio	4.8	4.6	4.4	4.0	1.7
Equity/assets ratio, % ³	75.4	77.0	74.7	73.5	67.5
Return on capital employed, %	6.5	10.9	9.4	9.6	16.8
Return on shareholders' equity, %	9.3	16.0	12.2	13.7	16.9

¹ The five-year summary has been adjusted in accordance with the changed accounting principles which are being applied as of 1998.

² Market price at year-end and shareholders' equity per share are based on the current nominal value of the company's shares, DKK 10.

³ Shareholders' equity in relation to total assets.

Notes

Note 1 – Share of income in the SAS Group

MDKK	1999	1998
Income from 2/7 of MSEK 1,846	445.1	687.5

Note 2 – Number of employees and personnel costs

MDKK	1999	1998
SAS Danmark A/S has had 2 employees		
Salaries	1.0	1.0
Social security expenses and pension costs	0.1	0.1
Fees to the Board	0.3	0.3
Fees to the SAS Consortium's Assembly of Representatives (Danish members)	0.3	0.3
Total personnel costs	1.7	1.7

Note 3 – Financial income

MDKK	1999	1998
Interest income from SAS	19.1	22.1
Exchange rate gain on transfer from SAS	0	0.4
Other interest income	0.2	0.3
Income from unredeemed securities shares	0	0.9
Total financial income	19.3	23.7

Note 4 – Financial expenses

MDKK	1999	1998
Liquidation Scanair	0	0.5
Other financial expenses	1.3	1.1
Total financial expenses	1.3	1.6

Note 5 – Taxes

MDKK	1999	1998
Tax on income for the year	33.0	151.0
Correction of previous year's tax expenses	-7.3	-1.3
Change in deferred tax	49.0	28.0
Change in deferred tax due to tax rate change	0	-51.0
Taxes for subsidiaries	38.6	33.9
Total	113.3	160.6

Note 6 – Equity share in SAS Group

MDKK	Dec. 31, 1999	Dec. 31, 1998
Invested capital	3,618.8	3,512.9
Translation difference	392.1	-288.7
Income for the year	MSEK 1,686	
To be transferred to parent companies	MSEK 770	
Not paid	MSEK 916	227.5
Loss – Scanair	0	-0.5
Invested capital at year-end	4,238.4	3,618.8

Note 7 – Prepaid tax

MDKK	Dec. 31, 1999	Dec. 31, 1998
Pre-paid tax 1999	125.0	155.1
Tax on income for the year	-33.0	-151.0
Pre-paid tax at year-end	92.0	4.1

Note 8 – Balances on hand

MDKK	Dec. 31, 1999	Dec. 31, 1998
Settlement with SAS Finance	191.1	214.3
Capital account with SAS Finance (per agreement)	516.1	467.5
Other balances	1.2	0.8
Total balances	708.4	682.6

Note 9 – Securities

MDKK	Dec. 31, 1999	Dec. 31, 1998
Shares in København Lufthavne A/S	1.0	1.3

Note 10 – Liquid assets

MDKK	Dec. 31, 1999	Dec. 31, 1998
Bank balances	3.0	4.5
Total liquid assets	3.0	4.5

Note 11 – Shareholders' equity

MDKK	Dec. 31, 1999	Dec. 31, 1998
Share capital		
Outstanding shares 47,000,000 at nominal value DKK 10		
Total share capital	470.0	470.0
Share premium reserve	411.2	411.2
Other reserves		
January, 1	2,437.1	2,288.5
Translation difference, share of SAS Group	404.2	-333.0
Translation difference in deferred tax	-99.0	85.0
Transfer from income	180.5	396.6
Total other reserves	2,922.8	2,437.1
Total shareholders' equity	3,804.0	3,318.3

Note 12 – Deferred taxes

MDKK	Dec. 31, 1999	Dec. 31, 1998
Deferred tax, January, 1	844.0	911.0
Translation difference, on deferred tax	99.0	-85.0
Increase in deferred tax according to income statement	130.0	18.0
Total provisions	1,073.0	844.0

Note 13 – Fee to auditors elected by Annual General Meeting

Fees expensed for auditing by Deloitte & Touche in 1999 for auditing amounted to DKK 30,000 and for other services DKK 445,000. Expensed fees for KPMG C. Jespersen in 1999 for auditing amounted to DKK 30,000 and for other services DKK 20,000.

Proposed appropriation of income

The Board of Directors of SAS Danmark A/S proposes to the Annual General Meeting that the company's income after taxes of MDKK 345.0 be allocated as follows:

Dividend	MDKK 164.5
Allocation to other reserves	MDKK 180.5
Total	MDKK 345.0

The Board of Directors hereby presents the financial statements for the period January 1 to December 31, 1999 for the approval of the Annual Meeting of Shareholders.

Copenhagen
March 13, 2000

Management

Jan Stenberg
President

Board of Directors

Hugo Schrøder
Erik Sørensen

Anders Eldrup
Bjørn Westh

Auditors' Report

We have audited the annual report for 1999 submitted by the management of SAS Danmark A/S.

The audit

We have planned and performed our audit in accordance with generally accepted auditing standards as applied in Denmark so as to obtain reasonable assurance that the financial statements are free from material misstatements. Based on an evaluation of materiality and risk we tested, according to the audit, the basis and documentation for the accounts and disclosures in the financial

statements. Our audit included an assessment of the accounting and valuation principles and an evaluation of whether the information contained herein was, on the whole, satisfactory.

Our audit did not result in any qualifications.

Opinion

In our opinion the financial statements have been prepared in accordance with the accounting provisions of Danish legislation and give a true and fair view of assets and liabilities, financial position and income.

Copenhagen
March 13, 2000

Deloitte & Touche

State Authorized Public Accountants

Stig Enevoldsen Henrik Z. Hansen

State Authorized Public Accountants

KPMG C. Jespersen

State Authorized Public Accountants

Knud Plenge

State Authorized Public Accountants

Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders will be held on April 12, 2000 at 10 a.m. at the Tivoli Koncertsal, Copenhagen.

Board of Directors and Management

Board of Directors

Representing private shareholders:

Hugo Schrøder (Chairman), Director
Chairman of the Board of Danisco A/S. Vice Chairman of the Board of Incentive A/S. and of Chr. Augustinus Fabrikker A/S.

Erik Sørensen, Managing Director of Chr. Hansen Holding A/S. Member of the Boards of ISS-International Service System A/S and Maersk Medical A/S.

Representing the Danish Government:

Anders Eldrup (Vice Chairman)
Permanent Secretary, Ministry of Finance, Vice Chairman of the Board of Dansk Olie og Naturgas A/S.

Bjørn Westh, former minister
Member of the Board of Statens og Kommunernes Indkøbs Service A/S and Dalum Papir A/S.

Management

Jan Stenberg, President
Chief Executive Officer of Scandinavian Airlines System and President of SAS's parent companies, SAS Norge ASA, SAS Sverige AB and SAS Danmark A/S.

SAS Norge ASA

The Board of Directors' Report

SAS Norge ASA is a partner in the SAS Group with a share of ownership of 2/7.

Under a consortium agreement with SAS Danmark A/S and SAS Sverige AB, SAS Norge ASA conducts air transport business in the Scandinavian Airlines System (SAS) and SAS Commuter consortia.

The consortia's net income is shared between the parent companies SAS Danmark A/S, SAS Norge ASA and SAS Sverige AB in the proportions 2/7, 2/7 and 3/7 respectively.

Together with SAS Danmark A/S and SAS Sverige AB, SAS Norge ASA is jointly and severally responsible for the commitments of SAS and SAS Commuter.

SAS's Annual Report and financial statements and the notes that accompany them are an integral part of the annual report of SAS Norge ASA and the two reports should be viewed together.

Business concept

SAS Norge ASA's business concept is to exercise active ownership in the SAS Consortium.

Operations

SAS Norge ASA is based in Bærum Municipality and is a pure holding company. The company's operations comprise administration and management of the company's ownership interests in the SAS Group.

Earnings

Income after taxes was MNOK 352, compared with MNOK 541 the previous year.

The financial statements are presented on the assumption that the company will continue to operate.

Information regarding the company's income, financial position, market trends, major events and other factors of importance as regards a valuation of the company, is provided in separate sections of the SAS Group's Annual Report.

For information regarding work environment and external environment, please see the SAS Group's Annual Report and the separate environmental report.

Shareholders

On December 31, 1999 the share capital of SAS Norge ASA amounted to MNOK 470 distributed among 47,000,000 shares with a nominal value of NOK 10 each.

Half of the shares, the class A shares, are owned by the Norwegian State. On December 31, 1999, the remainder of the shares issued, which are class B shares, were owned by 2,752 other shareholders. Only class B shares are listed on the Oslo Stock Exchange. The Norwegian State is the only shareholder who owns more than 20% of the company's share capital. The proportion of foreign shareholders was 14% (18%).

Dividend policy

It is the ambition of the Boards of the SAS's parent companies to pursue a common dividend policy so that the dividend for each SAS share is the same when translated to the same currency.

When the annual dividend is determined, account is taken of the SAS Group's income performance, financial position and capital requirements, as well as relevant macroeconomic conditions.

The goal of the dividend policy is that the dividend over a business cycle should be in the region of 30-40% of the SAS Group's income after deduction for estimated taxes.

Statement of Income

MNOK	Note	1999	1998
Share of income in the SAS Group ¹		497	774
Income from own operations	4	-3	-3
Operating income		494	771
Interest income and similar income items		3	3
Income before taxes		497	774
Taxes	2	-145	-233
Income after taxes		352	541
Appropriation of income			
Dividend		176	174
Allocation to equity method reserve		307	-
Transferred from shareholders' equity		-131	367
		352	541

¹Participation in the SAS Group before subsidiaries' and affiliated companies' taxes.

Cash Flow Statement*

NOK 000s	1999	1998
Operations during the year		
Payment for goods and services	-2,004	-2,306
Remuneration to employees, pension funds, social security contributions, taxes etc.	-1,102	-988
Interest paid	3,896	2,972
Taxes paid	-106,884	-106,212
Funds generated by the year's operations	-106,094	-106,534
Financing		
Balances - SAS	25,100	-26,171
Dividend payment	-173,900	-173,900
Transfer from SAS	254,800	303,151
Net financing	106,000	103,080
Liquid assets on January 1.*	1,154	4,608
Change in liquid assets	-94	-3,454
Liquid assets on December 31*	1,060	1,154

*Refers to SAS Norge ASA's own operations

Balance sheet

ASSETS

MNOK	Dec. 31, 1999	Dec. 31, 1998
Fixed assets		
Other fixed assets, Note 1	2	2
Equity share in the SAS Group	4,597	4,290
Total fixed assets	4,599	4,292
Current assets		
Receivable from SAS	208	255
Short-term investments	-	21
Cash, bank, postal giro	1	1
Total current assets	209	277
TOTAL ASSETS	4,808	4,569

SHAREHOLDERS' EQUITY AND LIABILITIES

MNOK	Dec. 31, 1999	Dec. 31, 1998
Shareholders' equity, Note 3		
Share capital (47,000,000 shares, nominal value NOK 10)	470	470
Total restricted shareholders' equity	470	470
Equity method reserve	307	-
Other shareholders' equity	3,300	3,382
Unrestricted shareholders' equity	3,607	3,382
Total shareholders' equity	4,077	3,852
Provisions		
Deferred tax, Note 2	552	438
Total provisions	552	438
Current liabilities		
Tax payable, Note 2	-	105
Allocated dividend	176	174
Other current liabilities	3	-
Total current liabilities	179	279
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	4,808	4,569

December 31, 1999

Bærum

March 13, 2000

Mads Henry Andenæs

Bjørn Eidem

Kari Gjestebø

Harald Norvik

Jan Stenberg

President

Comments on the year-end report

Accounting and valuation principles

SAS Norge ASA's financial statements are prepared in accordance with Norwegian accounting standards and generally accepted accounting practice. SAS's financial statements form an integral part of the annual report for SAS Norge ASA.

The accounting principles and comments that refer to items in the SAS Group's financial statements are not repeated in the following.

The major accounting and valuation principles are otherwise described below.

Consolidation principles

SAS Norge ASA's financial statements include 2/7 of the SAS Group and the company's own business activities. Since 1998, the company's ownership interests in the

SAS Group are treated in the accounts according to the equity method as ownership interests in joint activities (Joint Ventures). This means that 2/7 of each Income Statement and Balance Sheet is incorporated in the accounts.

Internal transactions and balances are eliminated upon consolidation.

The SAS Group's accounts are booked in Swedish kronor (SEK). The year-end exchange rate is used in translating all balance sheet items. The items in the Income Statement are translated at the average rate of exchange. The average rate used for 1999 was SEK 100 = NOK 94.33 compared with NOK 94.89 the previous year. The year-end rate used for 1999 was SEK 100 = NOK 94.30 compared with NOK 93.20 at year-end 1998.

Five-year summary

MNOK	1999	1998	1997	1996	1995 ¹
Income					
Share of income in the SAS Group	497	736	571	499	481
Income before taxes	497	736	570	510	491
Net income for the year	352	541	440	380	373
Balance sheet					
Fixed assets	4,599	4,292	3,797	3,496	5,376
Current assets	209	277	309	264	4,055
Total assets	4,808	4,569	4,106	3,760	9,431
Shareholders' equity	4,077	3,852	3,472	3,211	3,232
Long-term liabilities and provisions	552	438	334	280	3,373
Current liabilities	179	279	300	269	2,826
Total liabilities and shareholders' equity	4,808	4,569	4,106	3,760	9,431
Key figures					
Earnings per share, NOK	7.5	11.5	9.4	8.1	7.9
Shareholders' equity per share, NOK	86.7	81.9	73.9	68.3	68.8
Equity/assets ratio, %	84.8	84.3	84.6	85.4	34.3
Return on capital employed, ROCE %	12.5	19.1	16.4	15.9	12.6
Return on shareholders' equity, %	8.9	14.8	13.2	11.6	12.0

¹ Basis: DNL Group accounts are consolidated using another method; there is therefore no direct comparability.

Notes

Note 1 – Fixed assets

The item includes, among other things, shares (TNOK 312) and fixed assets (TNOK 1,527) directly owned by SAS Norge ASA.

Note 2 – Taxes

In accordance with the interim Norwegian accounting standard for reporting taxes, negative temporary differences are offset against positive differences.

MNOK	1999	1998	Temporary differences on Dec. 31	1999	1998
Reported income before taxes	497	736	Shares	89	89
Share of income taxed in other companies	-77	-45	Fixed assets	931	875
Reported income before taxes	420	691	Profit and loss account	863	537
Permanent differences	-7	6	Other temporary differences	334	65
Changes in temporary differences			Deferred deficit	-245	-
Fixed assets	-63	68	Basis for deferred tax	1,972	1,566
Profit and loss account	-326	-211	Deferred tax in balance sheet (28%)	552	438
Other temporary differences	-269	-179	Specification of tax expenses	1999	1998
Taxable income	-245	375	Estimated tax payable	0	105
Estimated taxes payable (28%)	0	105	Change in deferred tax	102	104
			Excess provision in previous years	-	-14
			SAS Group's taxes	43	38
			Tax expense for the year in Income Statement	145	233

The preliminary RISK amount January 1, 2000 is calculated as NOK -3.75 per share. The final RISK amount on January 1, 1999 has been set at NOK 2.15 per share.

Note 3 – Shareholders' equity

MNOK	Equity			Total
	Share capital	method reserve	Other reserves	
On Jan. 1, 1999	470	-	3,382	3,852
Income excluding dividend	-	307	-131	176
Translation difference	-	-	49	49
On Dec. 31, 1999	470	307	3,300	4,077

Note 4 – Fees paid to senior executives

NOK (000)	President	Elected representatives*
Salary/remuneration	0	490
Other	0	0

The CEO of SAS is also President of SAS Norge ASA, and does not receive any other emolument than the remuneration which he is paid by SAS.

* Includes emoluments paid to the board of SAS Norge ASA and Norwegian members of the SAS Assembly of Representatives.

Auditors

Fees to the company's auditors have been expensed with TNOK 25 for auditing and TNOK 225 for other services.

Pension commitments

The company's pension commitments are covered by a group pension plan and encompass two employees and two retirees (net pension funds, TNOK 827) plus a liability pertaining to one early retiree (TNOK -30).

Auditors' Report

To the Annual General Meeting of Shareholders of SAS Norge ASA

We have audited the annual report for SAS Norge ASA for the 1999 financial year, which reports income for the year of MNOK 352. We have also audited the information contained in the Director's Report, the prerequisites for continued operation and the proposed appropriation of income. The annual report includes the Board of Directors' Report, Statement of Income, Balance Sheet, Cash Flow Statement and notes. The annual report and the financial statements are submitted by the Board of Directors and the President of the company. Our responsibility is to express an opinion of the annual report, accounts and other circumstances in accordance with the Norwegian Accounting Act.

We have conducted our audit in accordance with current legislation, recommendations and generally accepted auditing practice. Accepted auditing practice requires that we plan and perform the audit so as to attain reasonable assurance that the annual report is free from material misstatements. The audit includes checking a selection of material which supports the amounts and disclosures in the financial statements, an evaluation of accounting principles and estimates stated, and an assessment of the presentation of the

contents of the annual report. To the extent required by generally accepted auditing practice, the audit also includes a review of the company's management of company funds, accounts and internal control systems.

We consider that our audit provides a basis for our statement.

We consider:

- That the annual report has been prepared in accordance with legislation and statutes and provides an accurate picture of the company's financial position and of its income and cash flow for the financial year in accordance with generally accepted auditing practice.
- That the management has fulfilled its duty to supply a thorough and clear registration and documentation of the accounts in accordance with generally accepted auditing practice.
- That the information in the annual report about the annual accounts, the prerequisites for continued operations and the proposal for the appropriation of income are in agreement with the financial statements and follow Norwegian laws and statutes.

Oslo

March 13, 2000

Deloitte & Touche

Olav Revheim

State Authorized Public Accountant

Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders will be held on April 12, 2000, at 4 p.m. at Radisson SAS Scandinavia Hotel Oslo.

Board of Directors

Representing private shareholders

Bjørn Eidem, Chairman

Attorney at Law in lawfirm Harboe, Eidem & Co. A/S
Second Vice Chairman of SAS.
Shareholding in SAS Norge ASA: 5,861

Mads Henry Andenaes, Board Member

Prof. (LLD), Institutt for Privatrett, Oslo University,
Personal Deputy in SAS.
Shareholding in SAS Norge ASA: 0

Representing the Norwegian State

Harald Norvik, Vice Chairman, Business Administration Graduate,
Board Member of SAS.

Shareholding in SAS Norge ASA: 0

Kari Gjestebj, Board Member Director of Norges Bank.

Personal Deputy in SAS.

Shareholding in SAS Norge ASA: 0

SAS Sverige AB

The Board of Directors' Report

The Board of Directors and the President of SAS Sverige AB (publ) (corporate identity no. 556042-5414) hereby submit their annual report for the 1999 financial year.

Under a consortium agreement with SAS Danmark A/S and SAS Norge ASA, SAS Sverige AB conducts air traffic operations in the Scandinavian Airlines System (SAS) and the SAS Commuter consortia. SAS conducts operations related to air traffic in subsidiaries and affiliated companies.

The two consortia and their subsidiaries and affiliated companies form the SAS Group.

Business concept

SAS Sverige AB's business concept is to exercise active ownership in the SAS Consortium.

The overall goal is the long-term development of SAS through the active participation of the Board of Directors.

Operations

SAS Sverige AB's main operations comprise ownership and management of its participation (3/7) in the SAS Consortium. Apart from this and a certain amount of financial management, the company conducts no operations of its own.

The work of the Board of Directors of SAS Sverige AB

SAS Sverige AB's Board of Directors consists of four members, two of whom (the Chairman and the Deputy Chairman) are also members of the Board of Directors of the SAS Consortium. The company's President is also President of the SAS Consortium. As a rule, the company's board meetings are held in conjunction with the SAS Consortium's meetings. The Board's rules of procedure and the instruction to the President specify the distribution of responsibilities between the Board and the President in more detail.

The Board has held four meetings in 1999. In addition, the Board has voted per capsulam on two occasions.

Environmental report

For information about the company's environmental work, please refer to the SAS Group's Annual Report and to the SAS Group's separate environmental report.

Earnings

Income after taxes for SAS Sverige AB including 3/7 of the SAS Group amounted to MSEK 593 (900).

Personnel

SAS Sverige AB had no employees as of February 1999.

Dividend policy

It is the ambition of the Boards of SAS's parent companies to pursue a common dividend policy so that the dividend for each SAS share is the same when translated to the same currency.

When the annual dividend is determined, account is taken of the SAS Group's income performance, financial position and capital requirements, as well as relevant macroeconomic conditions.

The goal of the dividend policy is that the dividend over a business cycle should be in the region of 30-40% of the SAS Group's income after deduction for estimated taxes.

Proposed dividend

The proposed dividend for the financial year is SEK 4.00 (4.00) per share, which means a total distribution of MSEK 282 (282).

Outlook for 2000

Regarding the outlook for 2000, the reader is referred to the information furnished by SAS.

Statement of Income

Pro forma

SAS Sverige AB including 3/7 of the SAS Group

MSEK	Note	1999	1998
Share of income in the SAS Group ¹		791.1	1,224.4
Revenue from other operations		0.0	1.1
Total revenues		791.1	1,225.5
Personnel costs		-5.1	-4.7
Other operating expenses		-1.6	-2.3
Operating income		784.4	1,218.5
Financial revenue		30.9	47.3
Financial expenses		0.0	-0.4
Income before taxes		815.3	1,265.4
Taxes	1	-221.8	-365.7
Net income for the year		593.5	899.7

¹Share in the SAS Group's income before subsidiaries' and affiliated companies' taxes.

Cash Flow Statements

MSEK	Pro forma		1999	1998
	1999	1998		
The year's operations				
Income before taxes	815	1,265	692	1,085
Shares of income	-791	-1,224	-668	-1,044
Depreciation	0	0	0	0
Taxes payable	-155	-246	-155	-246
Cash flow from operations	-131	-205	-131	-205
Change in working capital	1	0	1	0
Net financing from the operations	-130	-205	-130	-205
Transfer received from SAS	410	489	410	489
Dividend to shareholders	-282	-282	-282	-282
Change in liquid assets	-2	2	-2	2
Liquid assets at the start of the financial year	3	1	3	1
Liquid assets at the end of the financial year	1	3	1	3

Balance Sheet

Pro forma

SAS Sverige AB including 3/7 of the SAS Group

ASSETS

MSEK	Dec. 31, 1999	Dec. 31, 1998
Fixed assets		
Tangible fixed assets	0.1	0.3
Financial fixed assets		
Participations in the SAS Group	7,311.8	6,904.1
Other shares	0.0	0.0
	7,311.8	6,904.1
Total fixed assets	7,311.9	6,904.4
Current assets		
Current receivables		
Receivable, SAS	851.0	967.0
Anticipated transfer from SAS	330.0	410.3
Other receivables	0.0	3.4
Prepaid expenses and accrued income	1.3	1.4
	1,182.3	1,382.1
Cash and bank	0.9	2.7
Total current assets	1,183.2	1,384.8
TOTAL ASSETS	8,495.1	8,289.2

SHAREHOLDERS' EQUITY AND LIABILITIES

MSEK	Dec. 31, 1999	Dec. 31, 1998
Shareholders' equity, Note 9		
Restricted equity		
Share capital (70,500,000 shares, nom. value SEK 10)	705.0	705.0
Revaluation reserve	179.0	179.0
Restricted reserves	4,561.4	4,359.4
Total restricted equity	5,445.4	5,243.4
Unrestricted equity		
Retained earnings	899.2	468.2
Net income for the year	593.5	899.7
Less: proposed dividend	-282.0	-282.0
Total unrestricted equity	1,210.7	1,085.9
Total shareholders' equity	6,656.1	6,329.3
Provisions for pensions	0.5	0.5
Long-term liabilities		
Deferred taxes	1,403.6	1,405.0
Other long-term liabilities	22.1	22.1
	1,425.7	1,427.1
Current liabilities		
Proposed dividend	282.0	282.0
Tax liabilities	130.0	245.7
Other liabilities	0.0	3.1
Accrued expenses and prepaid income	0.8	1.5
	412.8	532.3
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	8,495.1	8,289.2
Assets pledged		
Pledges SAS Group (3/7)	173.6	380.1
Contingent liabilities		
SAS Group (3/7)	530.1	525.4
VPC	0.7	1.0
	530.8	526.4

Statement of Income

MSEK	Note	1999	1998
Share of income in consortia	2	667.6	1,043.2
Revenue, other operations		–	1.1
		667.6	1,044.3
Personnel costs	10	–5.1	–4.7
Other external operating costs		–1.6	–2.2
Depreciation according to plan	3	0.0	–0.1
Income from sales of tangible fixed assets		0.0	–
Operating income		660.9	1,037.3
Interest income and similar income items		30.9	47.3
Interest expenses and similar income items		0.0	–0.4
Income before taxes		691.8	1,084.2
Appropriations	4	–259.3	–212.5
Taxes on income for the year	1	–154.6	–245.9
Income for the year		277.9	625.8

Balance Sheet

ASSETS

MSEK	Dec. 31, 1999	Dec. 31, 1998
Fixed assets		
Machinery and equipment, Note 5	0.1	0.3
Total tangible fixed assets	0.1	0.3
Financial fixed assets		
Participations in consortia, Note 6	6,746.7	6,408.3
Shares in Group companies, Note 7	120.4	120.4
Other shares, Note 8	0.0	0.0
Total financial fixed assets	6,867.1	6,528.7
Total fixed assets	6,867.2	6,529.0
Current assets		
Receivables, SAS	851.0	967.0
Anticipated transfer from SAS	330.0	410.3
Other receivables	0.0	3.4
Prepaid expenses and accrued income	1.3	1.4
Total current receivables	1,182.3	1,382.1
Cash and bank	0.9	2.7
Total current assets	1,183.2	1,384.8
TOTAL ASSETS	8,050.4	7,913.8

SHAREHOLDERS' EQUITY AND LIABILITIES

MSEK	Dec. 31, 1999	Dec. 31, 1998
Shareholders' equity, Note 9		
Restricted equity		
Share capital (70,500,000 shares, nom. value SEK 10)	705.0	705.0
Revaluation reserve	179.0	179.0
Restricted reserve	141.0	141.0
Total restricted equity	1,025.0	1,025.0
Unrestricted equity		
Retained earnings	935.7	591.0
Income for the year	277.9	625.8
Less: proposed dividend	–282.0	–282.0
Total unrestricted equity	931.6	934.8
Total shareholders' equity	1,956.6	1,959.8
Untaxed reserves, Note 4	5,538.0	5,278.7
Provisions for pensions	0.5	0.5
Long-term liabilities		
Other long-term liabilities	22.1	22.1
Total long-term liabilities	22.1	22.1
Current liabilities		
Proposed dividend	282.0	282.0
Liabilities to Group companies	120.4	120.4
Tax liabilities	130.0	245.7
Other liabilities	0.0	3.1
Accrued expenses and prepaid income	0.8	1.5
Total current liabilities	533.2	652.7
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	8,050.4	7,913.8
Assets pledged		
Pledges SAS Consortium (3/7)	24.8	10.3
Contingent liabilities		
SAS Consortium (3/7)	495.4	494.6
VPC	0.7	1.0
	496.1	495.6

Furthermore, SAS Sverige AB bears joint and several liability with SAS Danmark A/S and SAS Norge ASA for all contingent liabilities entered into by the SAS and SAS Commuter consortia and Scanair.

Comments on the financial statements

Accounting principles

Pro forma accounts for SAS Sverige AB

To increase comparability between SAS Sverige AB and the other parent companies, a pro forma consolidated income statement, balance sheet and cash flow statement have been included in SAS Sverige. Besides SAS Sverige's own operations, these accounts include 3/7 of the SAS Group with so-called "one-line consolidation".

The SAS Group's accounts are prepared in accordance with the rules of the International Accounting Standards Committee (IASC), which entails affiliated companies being reported according to the equity method. Furthermore, exchange rate gains and losses are reported via the income statement for the period in which they arise. Financial leases are capitalized. Paid and deferred taxes are calculated on income before appropriations, which are subsequently not reported in the income statement. Untaxed reserves are divided between shareholders' equity and deferred tax liability.

SAS Sverige AB

The accounts comprise SAS Sverige AB with 3/7 of the SAS Consortium and the Consortium SAS Commuter.

SAS Sverige AB's balance sheet reports the participa-

tions in each consortium. The company's accounts include provisions to untaxed reserves, which are based on the company's share of income and assets in the respective consortium.

The consortia's own accounts are prepared in accordance with the rules of the International Accounting Standards Committee (IASC). Special consortium accounts are prepared for SAS Sverige AB in which the consortia's shareholdings in subsidiaries and affiliated companies are reported according to the acquisition cost method.

Other comments on the financial statements

SAS Sverige's subsidiaries did not conduct any operations during the year, and the book value of the shares essentially corresponded to taxed shareholders' equity. Formal consolidated accounts for SAS Sverige AB were not prepared.

The transfer to the parent companies determined by SAS of the share of net income for 1999, MSEK 330 for SAS Sverige AB, has been anticipated in the financial statements. At the same time, SAS Sverige AB's proposed dividend of MSEK 282 has been booked as a liability.

Five year summary¹

MSEK	1999	1998	1997	1996	1995
Income					
Share of income in the SAS Group	791	1,225	957	778	1,129
Income before taxes	815	1,265	996	946	1,403
Net income for the year	593	900	714	664	939
Balance sheet					
Fixed assets ¹	7,312	6,904	6,177	5,585	5,099
Current assets	1,183	1,385	1,511	1,433	2,869
Total assets	8,495	8,289	7,688	7,018	7,968
Shareholders' equity	6,656	6,329	5,664	5,151	4,564
Long-term liabilities and provisions	1,426	1,428	1,441	1,365	1,360
Current liabilities	413	532	583	502	2,044
Total shareholders' equity and liabilities	8,495	8,289	7,688	7,018	7,968
Key figures					
Shareholders' equity per share, SEK	94.41	89.77	80.34	73.06	64.74
Equity/assets ratio, %	94.9	93.4	92.1	93.6	73.9
Return on capital employed, %	10.0	16.3	14.0	14.9	21.8
Return on shareholders' equity, %	9.1	15.0	13.2	13.7	18.9

¹ Including net share in the SAS Group

Notes

Note 1 – Taxes

	1999	1998
Taxes in SAS Sverige AB		
Taxes payable	154.6	245.9
Change in deferred tax liability	72.6	59.4
Change in deferred tax receivable	-74.0	-
Tax in SAS's subsidiaries	68.6	60.4
	221.8	365.7

Note 2 – Share of income in consortia

	1999	1998
SAS Consortium	649.3	1,035.0
Consortium SAS Commuter	18.3	8.2
Scanair Consortium	-	-
	667.6	1,043.2

Note 3 – Depreciation according to plan

	1999	1998
Machinery and equipment	0.0	0.1

Note 4 – Untaxed reserves

	Opening balance	Provision for the year	Closing balance
Tax allocation reserve 1994	70.5	-	70.5
Tax allocation reserve 1995	119.3	-	119.3
Tax allocation reserve 1996	399.0	-	399.0
Tax allocation reserve 1997	223.5	-	223.5
Tax allocation reserve 1998	225.5	-	225.5
Tax allocation reserve 1999	-	116.3	116.3
Excess depreciation			
Aircraft, machinery and equipment	4,042.8	143.0	4,185.8
Buildings	198.1	-	198.1
Total	5,278.7	259.3	5,538.0
Of which:			
Deferred tax portion (28%)	1,478.0		1,550.6
Shareholders' equity portion	3,800.7		3,987.4

Note 5 – Machinery and equipment

	1999	1998
Acquisition value	0.2	0.4
Accumulated depreciation according to plan	-0.1	-0.1
Book value	0.1	0.3

Note 6 – Participations in consortia

	1999	1998
SAS Consortium	6,505.4	6,186.3
Consortium SAS Commuter	241.2	222.0
Scanair Consortium	0.0	0.0
	6,746.6	6,408.3

Note 7 – Shares in Group companies

	Corp. identity number	Domicile	Number of shares	Equity share	Nominal value	1999	1998
AB Sila	556137-6764	Stockholm	10,000	100%	1.0	1.0	1.0
ABA Flyg AB	556286-2473	Stockholm	1,000	100%	0.1	119.4	119.4
					1.1	120.4	120.4

The subsidiaries do not conduct any operations.

Note 8 – Other shares

OM Gruppen 17,754 shares at nominal value SEK 2, book value SEK 32,300, market value MSEK 3.3.

Note 9 – Shareholders' equity/Change in shareholders' equity

Pro forma SAS Sverige AB The Group	Share capital	Revaluation reserve	Restricted reserves	Unrestricted reserves	Total
At beginning of year	705.0	179.0	4 359.4	1 367.9	6 611.3
Dividend paid	–	–	–	–282.0	–282.0
After dividend paid	705.0	179.0	4 359.4	1 085.9	6 329.3
Transfer between restricted and unrestricted reserves			186.7	–186.7	–
Change in translation difference			–46.3		–46.3
Change in SAS's ownership stake in affiliated companies, etc			61.6		61.6
Net income for the year				593.5	593.5
Proposed dividend	–	–	–	–282.0	–282.0
On 31 December 1999	705.0	179.0	4 561.4	1 210.7	6 656.1

SAS Sverige AB

	Share capital	Revaluation reserve	Statutory reserve	Unrestricted equity	Total
At beginning of year	705.0	179.0	141.0	1,216.8	2,241.8
Dividend paid	–	–	–	–282.0	–282.0
After dividend paid	705.0	179.0	141.0	934.8	1,959.8
Translation difference				0.9	0.9
Net income for the year				277.9	277.9
Proposed dividend	–	–	–	–282.0	–282.0
On 31 December 1999	705.0	179.0	141.0	931.6	1,956.6

Note 10 – Number of employees, salaries, other remunerations and social security expenses

As of February 1999, the company has no employees. The previous year, the average staff number was 1.5.

	1999	1998
Salaries and other remunerations paid to current Board members, members of SAS's Assembly of Representatives, former President and other employees	1.7	1.7
	1.8	0.7
	3.5	2.4
Social security expenses paid for current Board members, members of SAS's Assembly of Representatives, former Presidents and other employees	1.5	1.2
	0.6	0.6
	2.1	1.8
Of which pension costs for former Presidents and other employees	0.7	0.7
	0.0	0.4
	0.7	1.1

Cont. Note 10

At the 1999 Annual General Meeting, it was decided that the members of the Board should receive a fixed annual fee totalling SEK 325,000, of which SEK 135,000 goes to the chairman. Fees to the members of the SAS Assembly of Representatives appointed by SAS Sverige AB were set at SEK 275,000.

The former President is receiving monthly severance pay until July 2000. Contractual pension arrangements commence at the age of 60, with a pension corresponding to 70% of gross salary.

No salary or other remuneration has been paid to the current President.

Severance pay corresponding to two annual salaries has been paid to a person in the company's former management during the year.

Note 11 – Auditors' fees

Auditors' fees have been reported as an expense of SEK 43,000 for the audit and SEK 27,000 for other advisory services.

Proposed Disposition of Earnings

The Board of Directors and the President propose that the parent company's unappropriated earnings of MSEK 1,214 be allocated as follows:

Dividend to shareholders of SEK 4.00 per share for a total of MSEK	282
Carried forward to new account MSEK	932
	<hr/>
	1,214

Stockholm
March 13, 2000

Bo Berggren
Chairman

Erik Belfrage

Urban Jansson

Nina Linander

Jan Stenberg
President

Our auditors' report was submitted on March 13, 2000.

Jan Åke Magnuson
Authorized Public Accountant

Gunnar Abrahamson
Authorized Public Accountant

Auditors' Report

To the Annual General Meeting of Shareholders of SAS Sverige AB (publ), corporate identity number 556042-5414

We have audited the Annual Report and accounts and the administration of the Board of Directors and the President of SAS Sverige AB for the year 2000. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion of the Annual Report and the administration based on our audit.

We have conducted our audit in accordance with Generally Accepted Auditing Standards in Sweden. These standards require that we plan and perform the audit to obtain reasonable assurance that the Annual Report is free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the Annual Report. We have examined sig-

nificant decisions, actions taken and circumstances of the company in order to be able to determine the possible liability to the Company of any Board member or the President, or whether they have in some other way acted in contravention of the Swedish Companies Act, the Swedish Annual Accounts Act or the Articles of Association. We believe that our audit provides reasonable grounds for our opinion as set out below.

In our opinion, the Annual Report has been prepared in accordance with the Annual Accounts Act and therefore provides an accurate picture of the company's income and financial status in accordance with good Swedish accounting practice. Consequently we recommend that the Income Statement and Balance Sheet of the parent company be adopted, and that the profit be dealt with in accordance with the proposal in the Board of Directors' Report and discharge the Board of Directors and the President from liability for the financial year.

Stockholm
March 13, 2000

Jan Åke Magnuson
Authorized Public Accountant

Gunnar Abrahamson
Authorized Public Accountant

Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders will be held on April 13, 2000 at 5.00 p.m. in Uppropssalen, Stockholm Stock Exchange, Källargränd 2, Stockholm, Sweden. The doors will be opened for registration at 4.00 p.m. and those wishing to attend must have registered before 5.00 p.m. when the voting list is adopted.

Attendance

Shareholders who wish to attend the Annual General Meeting must

- (i) be listed in the shareholders' register maintained by VPC (the Swedish Securities Register Centre) on Monday, April 3, 2000.
- (ii) and notify the company by mail at SAS Sverige AB, c/o SAS Dept. STOUU, SE-195 87 Stockholm, by telephone on +46 8 797 12 93, by telefax on +46 8 85 94 95 or by e-mail at www.scandinavian.net no later than 4.00 p.m. on Monday, April 10, 2000.

Shares registered in the name of trustees

To be entitled to attend the Annual General Meeting, nominee shareholders whose shares are registered in the names of trustees through a trust department in a bank or an individual unit trust broker must temporarily register their shares in their own name with VPC. Shareholders wishing such re-registration must inform the trustee in good time prior to April 3, 2000.

Dividend

Tuesday, April 18, 2000 is proposed as the record date. If the Annual General Meeting decides in accordance with the proposal, it is estimated that dividends will be distributed through VPC on April 27, 2000.

Board of Directors and Auditors

Board of Directors

Bo Berggren, Chairman

Born 1936. Elected 1985.

Swedish Chairman of SAS. Chairman of the Board of Stenqvist AB. Member of the Boards of Danisco A/S, Robert Bosch GmbH and of a number of other companies and organizations.
Shareholding: 5,000

Erik Belfrage

Born 1946. Elected 1992.

Director of Skandinaviska Enskilda Banken. Chairman of the Boards of the Swedish Institute of Management (IFL), The Swedish Institute of International Affairs (UI), the Sigtuna School Foundation and the Centre for European Policy Studies (CEPS). Member of the Board of SAAB, amongst others. Deputy member of the Board of SAS.
Shareholding: 0

Urban Jansson, Vice Chairman

Born 1945. Elected 1999.

Director. Chairman of the Boards of, amongst others, Perstorp, Proffice and Scandic Hotels. Vice Chairman of the Board of Bure. Member of the Boards of SAS and SEB, amongst others.
Shareholding: 2,000

Nina Linander

Born 1959. Elected 1999.

Director of Vattenfall Energimarknad. Member of the Boards of Hähmen Sähkö OY, Vattenfall Netherland BV and Abonnera i Sverige AB. Deputy member of the Boards of SAS and Ringhals AB.
Shareholding: 0

Auditors

Jan Åke Magnuson

Born 1942. Elected 1992.

Authorized Public Accountant. Deloitte & Touche

Gunnar Abrahamson

Born 1947. Elected 1997.

Authorized Public Accountant. Deloitte & Touche

Lars-Gunnar Nilsson

Deputy. Born 1953. Elected 1997.

Authorized Public Accountant. Deloitte & Touche

Dan Phillips

Deputy. Born 1966. Elected 1998.

Authorized Public Accountant. Deloitte & Touche

The Board of SAS

The Board of Directors consists of nine members and twelve deputy members.

Hugo Schrøder

Born 1932, Engineer.

Chairman of the Board of SAS in 1999. Danish Chairman of SAS since 1994 and Chairman of the Board of SAS Danmark A/S as representative of the private Danish owners.

Chairman of the Board of Danisco A/S and Vice Chairman of Incentive. Member of the Board of several other companies and organizations.

Shareholding: 925 shares in SAS Danmark A/S, 1,000 shares in SAS Norge ASA.

Personal Deputy: Erik Sørensen

Bo Berggren

Born 1936, Hon.D.Eng.

First Vice Chairman of SAS's Board in 1999. Swedish Chairman of SAS since 1992 and Chairman of SAS Sverige AB as representative of the private Swedish owners.

Member of the Board of a number of Swedish and overseas companies and organizations.

Shareholding: 5,000 shares in SAS Sverige AB

Personal Deputy: Erik Belfrage

Bjørn Eidem

Born 1942, Supreme Court Attorney.

Second Vice Chairman of SAS's Board in 1999. Alternating Norwegian Chairman of SAS since 1992, member of SAS's Board since 1983. Chairman of the Board of SAS Norge ASA in 1999 as representative of the private Norwegian owners.

Partner in the law firm of Harboe, Eidem & Co AS. Chairman of the Boards of e.g. TradeWinds, Upstream and Sunnmøre Rederi.

Shareholding: 5,861 shares in SAS Norge ASA

Personal Deputy: Mads Henry Andenæs

Harald Norvik

Born 1946, M.B.A.

Alternating Norwegian Chairman of SAS since 1992 and Vice Chairman of the Board of SAS Norge ASA in 1999 as representative of the Norwegian state.

Chairman of the Assembly of Representatives of Den Norske Bank and member of the Board of Orkla ASA.

Shareholding: 0

Personal Deputy: Kari Gjesteby

Anders Eldrup

Born 1948, B.Pol.Sc.

Member of SAS's Board since 1993 and Vice Chairman of the Board of SAS Danmark A/S as representative of the Danish state.

Permanent Secretary, Ministry of Finance. Vice Chairman of the Board of Dansk Olie og Naturgas A/S and member of the Board of SIMI.

Shareholding: 0

Personal Deputy: Bjørn Westh

Urban Jansson

Born 1945, Director

Member of SAS's Board since 1999 and Vice Chairman of the Board of SAS Sverige AB as representative of the Swedish state.

Chairman of the Board of e.g. Perstorp, Proffice and Scandic Hotels. Vice Chairman of Bure and member of the Board of e.g. SEB.

Shareholding: 2,000 shares in SAS Sverige AB

Personal Deputy: Nina Linander

Six members and six deputies shall represent the three parent companies and be appointed indirectly by the shareholders of the respective parent company by appointing members to the Boards of the parent companies. The members who represent the parent companies in the Board of the SAS Consortium shall comprise the Chairman and Vice Chairman of each parent company's Board. The two other members of the Board in each parent company are deputies on the Board of the SAS Consortium.

The employee groups in Denmark, Norway and Sweden appoint one member and two deputies each in accordance with a specially agreed agenda.

Among the members representing the parent companies, the Board appoints a Chairman, a First Vice Chairman and a Second Vice Chairman. These positions shall as a rule alternate between the Chairmen of the Boards of the parent companies.

The Board of Directors has the same authority and obligations as are normally incumbent on the Board of a limited liability company. The Board shall lead and manage the affairs of SAS. The Assembly of Representatives issues more detailed instructions regarding the operations and authorities of the Board.

The Board appoints a President and determines his/her remuneration. The ongoing administration is conducted by the President, but the Board does however have the right to decide for itself on matters that are part of the ongoing administration. The Board issues more detailed instructions regarding the authorities and obligations incumbent on the President.

The Board forms a quorum when at least four of the six members who represent the parent companies are present and each parent company is represented. Each member present at the Board meeting has one vote. The decision of the Board consists of the view on which the majority of voting members agree, or – if votes have been equally cast – of the view supported by the Chairman and supported by at least four of the members representing the parent companies.

Employee representatives

Helmuth Jacobsen

Born 1945

Member of SAS's Board since 1998. Employed at SAS in Denmark.

Shareholding: 0

Deputies: Nicolas Fischer and Jens Tholstrup Hansen

Leif Kindert

Born 1941

Member of SAS's Board since 1979. Employed at SAS in Sweden.

Shareholding: 0

Deputies: Ulla Gröntvedt and Jouni Ketola

Ingvar Lilletun

Born 1938

Member of SAS's Board since 1979. Employed at SAS in Norway.

Shareholding: 0

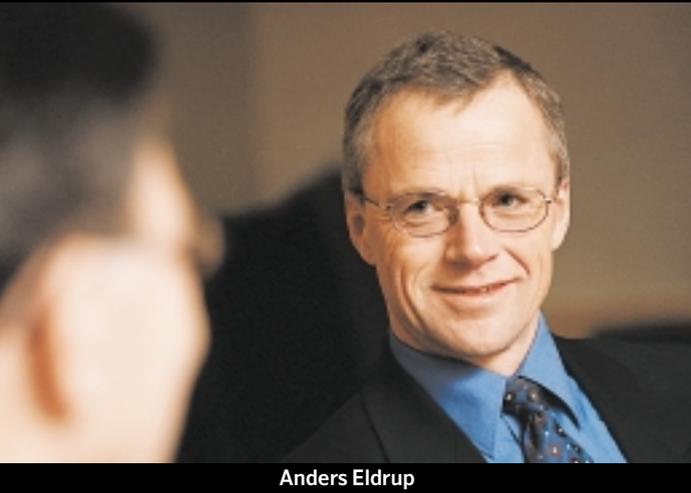
Deputies: John Lyng and Olav Lie



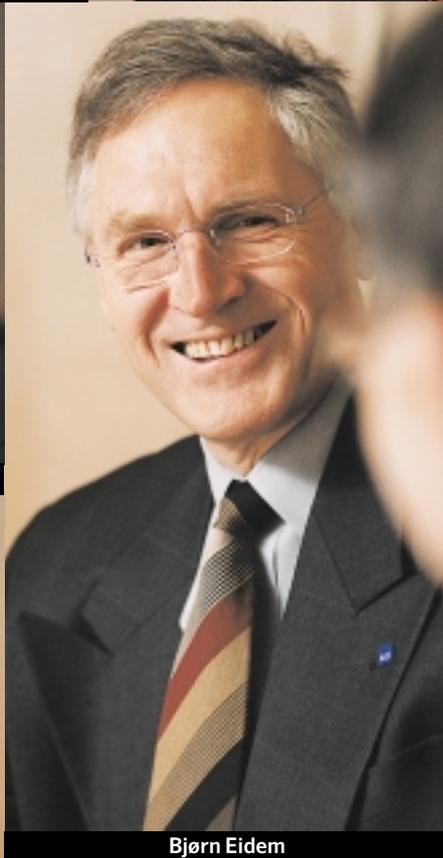
Harald Norvik



Hugo Schröder



Anders Eldrup



Bjørn Eidem



Urban Jansson



Bo Berggren



Ingvar Lilletun



Helmuth Jacobsen



Leif Kindert

SAS's management

Jan Stenberg

President & CEO, born 1939

President and CEO of SAS since April 1994. President of the SAS parent companies SAS Danmark A/S, SAS Norge ASA and SAS Sverige AB since 1996.

Member of the Board of Deutsche Lufthansa AG and of the Board of the Swedish Royal Opera and member of the Swedish Securities Council.

Formerly Vice President of Ericsson and member of the executive management, member of the Board of several of Ericsson's subsidiaries, President of Ericsson Cables, head of the Public Telecommunications Business Area and President of Ericsson Telecom AB.

Gunnar Reitan

Executive Vice President and CFO, born 1954

Member of the SAS Management Team and since October 1993 responsible for staff functions within treasury, finance, property management and other Groupwide staff functions. Also responsible for SAS's external relations in Norway. Employed by SAS in January 1998 in Oslo as Director of SAS Station Services. Later Vice President, Finance and Administration at SAS in Norway. Experience of the banking, industrial and transportation fields.

Member of the Board of SPP Liv AB, Vital Forsikring ASA, Spanair S.A. and Chairman of the Board of the Norwegian airline Widerøe.

Claes Broström

Senior Vice President and CIO, born 1954

Member of the SAS Management Team and responsible since September 1998 for the Information Strategies & Processes staff function. Head of IT development and business development.

Formerly employed as Vice President, Ericsson Infocom Systems, responsible for IT and business development. Previous experience of the computer and engineering industries as marketing manager, production manager and chief designer. Chairman of the Board of SAS Data Holding A/S.

Marie Ehrling

Senior Vice President, born 1955

Member of the SAS Management Team and responsible since October 1997 for Station Services Division. The division handles customer service at airports, which covers such things as service in connection with check-in procedures, luggage handling and traffic execution. In addition, the division is responsible for the development of a new infrastructure at the airports used by SAS and for the charges paid by SAS to airport managers and authorities worldwide.

Employed at SAS in 1982 as Economic Planning & Control Manager. Vice President of International Routes in 1994.

Previous experience as a financial analyst at the 4th National Swedish Pension Insurance Fund, information secretary at the Swedish Education, Finance and Treasury Government Departments. Member of the Board of AB Lindex.

Jan Forsberg

Senior Vice President, born 1951

Member of the SAS Management Team and responsible since January 1997 for the Operation Division. The division has overall responsibility for airline operations, including responsibility for SAS's cabin crew and pilots.

Formerly employed as President at Gate Gourmet Northern Europe A/S, Managing Director of SAS Service Partner Stockholm AB and logistics manager at the international construction company Tour & Andersson AB.

Member of the Board of the Norwegian airline Widerøe.

Ørnulf Myrvoll

Senior Vice President, born 1946

Member of the SAS Management Team and responsible since December 1998 for the Technical Division. The division is responsible for the technical maintenance of SAS's fleet of aircraft.

Previous experience as President of ABB Norsk Kabel, President of ABB Strømmen AB and Division Manager at Communication Division Tele & Data and Managing Director of Wessel Kabel AS.

Vice chairman of the Board of Raufoss ASA.

Bernhard Rikardsen

Senior Vice President, born 1956

Member of the SAS Management Team and responsible since November 1993 for the Human Resources staff function. Executive responsibility for such matters as SAS personnel issues, personnel policy and leadership development. Employed at SAS personnel department in Norway in 1981. Personnel Manager at SAS in Norway in 1990.

Chairman of the Board of the SAS Flight Academy subsidiary.

Henry Sténson

Senior Vice President, born 1955

Member of the SAS Management Team and responsible since March 1998 for the Public Relations & Government Affairs staff function. Principally responsible for contact with the media, the general public and politicians, as well as internal communication.

Formerly head of information at Volvo Flygmotor AB, head of Automotive Communications at AB Volvo, information director at Saab Aircraft AB, and information director at Volvo Car Corporation.

Member of the board of European Centre for Public Affairs.

Erik Strand

Senior Vice President, born 1951

Member of the SAS management team and responsible since February 1996 for the Marketing & Sales division.

The division has overall responsibility for all passenger sales within SAS and for a number of partners. This entails responsibility for relations with travel agencies, companies and SAS's own sales. The division is also responsible for SAS's entire overseas operations and for all market communication including EuroBonus.

Previous experience as Head of Sales at AB R. Barlach, Advertising Manager at Nordiska Kompaniet, Marketing and Business Area Manager at DAGAB and President of Ticket Travel Group AB.

Chairman of the Board of the Swedish Advertising Association and chairman of the subsidiaries SMART AB and SAS Media AB.

Vagn Sørensen

Senior Vice President, born 1959

Member of the SAS Management Team and responsible since January 1993 for the Business Systems division. The division is responsible for the profitability of the SAS traffic systems, pricing, the product, the aircraft fleet, freight, SAS Trading, alliances and commercial strategies. Also responsible for SAS's external relations in Denmark. Employed at SAS in 1984 as a trainee at the marketing department. In 1989, he was Marketing Director for Europe, the Middle East and Africa. In 1991, he was Vice President of SAS Airline International.

Member of the Board of Codan Forsikring A/S, Dansk Industri and Sophus Berendsen A/S. Also member of the Board of Cimber Air A/S, Skyways Holding AB, Vice Chairman of Spanair S.A. and Chairman of the Board of Oy Air Botnia Ab. Senior Advisor to EQT Partners A/S.



Gunnar Reitan and Bernhard Rikardsen



Jan Stenberg and Marie Ehrling



Claes Broström and Vagn Sørensen



Ørnulf Myrvoll and Jan Forsberg



Henry Sténson and Erik Strand

The Assembly of Representatives and auditors

The parties to the SAS Consortium (the parent companies SAS Danmark A/S, SAS Norge ASA and SAS Sverige AB) exercise their direct owner influence on SAS in the Assembly of Representatives.

The Assembly of Representatives consists of thirty people and is appointed by the shareholders of the parent companies at the Ordinary Annual General Meeting of each parent company to exercise supervision and control of the administration of the SAS consortium by the Board and President of SAS. Each parent company's AGM appoints ten members. The members may not be members or deputy members of SAS's Board or of any of the Boards of SAS's parent companies. The Assembly of Representatives annually appoints among its members a Chairman, a First Vice Chairman and a Second Vice Chairman. The employees of SAS have the right to appoint nine members with observer status. These representatives have the right to be present and participate at the meetings of the Assembly of Representatives without voting rights. The employees in Denmark, Norway and Sweden each appoint three representatives. The ordinary meetings of the Assembly of Representatives are held twice a year, one within four months of the end of the financial year and one in October or November.

At the first meeting, the Assembly of Representatives discusses the following issues:

- Adoption of the SAS Consortium's year-end report and consolidated financial statements.
- Allocation of the SAS consortium's profit or loss.
- The question of discharge from liability in relation to the Assembly of Representatives for the members of the Board and the President of the SAS consortium.
- Appointment of auditors.
- Election of the Board of Chairmen of the Assembly of Representatives.

At the second ordinary meeting, SAS's results as at the latest interim report are discussed.

Both ordinary meetings also discuss reports of SAS's operations and financial status and forecasts for the operations over the upcoming period.

The Assembly of Representatives forms a quorum when a majority of the members from each parent company are present. Each member who participates in the meeting and is entitled to vote has one vote. For most issues, decisions are carried by simple majority. If an equal number of votes are cast, the Chairman casts the deciding vote.

SAS's Assembly of Representatives

Danish members

Ordinary members

Svend Jakobsen
First Vice Chairman

Niels Brockenhuus-Schack
Tommy Dinesen, MF
Peter Duetoft, MF
Jørgen Estrup, MF
Svend Aage Heiselberg, MF
Kaj Ilkast
Anders Knutsen
Axel greve af Rosenborg
Ole Trolle

Personnel representatives

Helmuth Jacobsen
Nicolas Fischer
Jens Tholstrup Hansen

Norwegian members

Ordinary members

Johan Fr. Odfjell
Second Vice Chairman

Gunnhill Margi Andreassen
Evy Buverud Pedersen
Knut Francke
Kaare Granheim
Marit Høvding
Jan Reinås
Svein Sundsbø
Erik Tønseth
Ragnhild M. Wiborg

Personnel representatives

Ingvar Lilletun
John Lyng
Olav Lie

Swedish members

Ordinary members

Bo Rydin
Chairman

Georg Andersson
Annika Christiansson
Gösta Gunnarsson
Eva Halvarsson
Tom Hedelius
Bertil Jonsson
Bo Lundgren
Tom Wachtmeister
Marcus Wallenberg

Personnel representatives

Leif Kindert
Ulla Gröntvedt
Jouni Ketola

Auditors

Denmark

Stig Enevoldsen
Authorized Public Accountant
Deloitte & Touche

Norway

Olav Revheim
Authorized Public Accountant
Deloitte & Touche

Sweden

Jan Åke Magnuson
Authorized Public Accountant
Deloitte & Touche

Addresses

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Economy Class
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Discount price
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SAS Business Class Hot Line

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and hotel bookings
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SAS Norge ASA

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Norway
Telephone: +47 64 81 63 98

SAS Sverige AB

c/o SAS, Dept. STOUU
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Sweden
Visiting address:
Frösundaviks Allé 1
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Telephone: +46 8 797 12 93

Definitions and concepts

AEA • The Association of European Airlines. An association of the largest European airlines with scheduled flights.

ASK, Available Seat Kilometers • The total number of seats available for transportation of passengers multiplied by the number of kilometers which they are flown.

ATK, Available Tonne Kilometers • The total number of tonnes of capacity available for the transportation of passengers, freight and mail multiplied by the number of kilometers which this capacity is flown.

AV, Asset Value • Total book value of assets plus surplus value in aircraft and net present value (NPV) of operating lease rental expenses for aircraft, less non-interest-bearing liabilities and interest-bearing assets. Can also be expressed as booked shareholders' equity plus surplus value in aircraft and net present value (NPV) of operating lease rental expenses for aircraft plus net debt.

Available Seat Kilometers • See ASK

Available Tonne Kilometers • See ATK

Break-even load factor • The load factor at which traffic revenues are the same size as operating expenses.

Cabin factor, passengers • The relationship between RPK and ASK expressed as a percentage. Represents the extent to which available space is utilized. Also referred to as occupancy.

Capacity costs • The SAS Group's total depreciation, operating lease rental expenses and interest expenses (net).

Capital employed • Total assets according to the balance sheet less non interest bearing liabilities.

Capital employed, market based • See AV.

Cash flow from the operations • Cash flow from ongoing operations before change in working capital.

Cash flow per share • Cash flow for each parent company, less taxes paid, divided by the number of shares.

CFROI • EBITDAR in relation to AV.

Code-Share • When two or more airlines state their flight number in the timetable for one and the same flight, while only one of the airlines operates the flight.

CSI, Customer Satisfaction Index • The index used to measure how SAS's services are perceived by its customers. The surveys are performed every six months.

Debt/equity ratio • Interest-bearing liabilities less interest-bearing assets in relation to shareholders' equity and minority interests.

Dividend yield, average price • Dividend as a percentage of the average share price during the year.

Earnings per share, EPS • Earnings after taxes divided by the number of shares.

EBIT (including capital gains) • Operating income.

EBITDA • Income before net financial income/expenses, taxes, depreciation, goodwill and capital gains from the sale of aircraft.

EBITDAR • Income before net financial income/expenses, taxes, depreciation, goodwill, capital gains from the sale of aircraft and operating lease rental expenses.

Equity/assets ratio • Shareholders' equity plus deferred tax liability and minority interests in relation to total assets.

Equity method • Participations in affiliated companies are taken up at SAS's share of shareholders' equity, taking account of acquired surplus and deficit values.

Financial leasing • Financial leasing is based on a leasing agreement in which the risks and benefits associated with ownership of the object are for all practical purposes transferred to the lessee. The object is accounted for as a fixed asset in the balance sheet and the commitment to pay future leasing fees is taken up as a debt.

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

IATA • International Air Transport Association – A global association of more than 200 airlines.

ICAO • International Civil Aviation Organization. A specialized agency of the United Nations for international civil aviation.

Interest cover • Operating income plus financial income in relation to financial expenses.

Market value, year-end • Share price multiplied by number of outstanding shares.

Net debt • Interest-bearing liabilities minus interest-bearing assets.

Net financing from operations • See cash flow.

Net profit margin • Income after financial items in relation to operating revenue.

NPV, Net Present Value • Present value, used to calculate capitalized future operating lease rental expenses for aircraft.

Operational leasing • Operational leasing is based on a leasing agreement in which the risks and benefits associated with ownership remain with the lessor and is equivalent of rental. The leasing fees are expensed on a current basis in the statement of income.

P/CE ratio • Average share price divided by cash flow per share after paid tax.

P/E ratio • Average share price divided by earnings per share after standard tax.

PULS • The Swedish abbreviation for SAS's personnel surveys (Personalundersökningar om livet i SAS). Measures the way SAS personnel perceive their working environment. Performed once a year.

Regularity • The number of flights completed in relation to flights scheduled, excluding flights cancelled for commercial reasons.

Return On Capital Employed, ROCE • Operating income plus financial revenue in relation to average capital employed. Capital employed refers to total assets as specified in the balance sheet less non interest bearing liabilities.

Return On Capital Employed, ROCE, market-based • EBITR less the depreciation portion of the operating lease rental expenses for aircraft plus change in surplus value (aircraft) divided by AV.

Return on shareholders' equity • Income after taxes in relation to average shareholders' equity. Tax on the income of the SAS Consortium and the Consortium SAS Commuter is calculated here using a standard tax rate of 29.1% (weighted average tax rate for Denmark, Norway and Sweden).

Revenue Passenger Kilometer, RPK • See RPK.

Revenue Tonne Kilometer, RTK • See RTK

ROCE • See Return On Capital Employed.

ROCE, market-based • See Return On Capital Employed, market-based.

RPK, Revenue Passenger Kilometers • The number of paying passengers multiplied by the distance they are flown in kilometers.

RTK, Revenue Tonne Kilometers • The number of tonnes of paid traffic (passengers, freight and mail), multiplied by the distance this traffic is flown in kilometers.

Total load factor • The relationship between RTK and ATK expressed as a percentage. The share of total available capacity sold and flown.

Total return • The sum of the change in share price and the dividend.

Unit costs • Airline operations' total operating expenses less non traffic related revenue per weighted ASK/RPK.

Unit revenues (yield) • Average amount of traffic revenue received per RPK.

US Majors • Group comprising the largest US airlines with scheduled flights, including freight carriers.

WACC • Weighted average cost of capital. Consists of average cost of liabilities, shareholders' equity and operating lease rental expenses for aircraft. The financing sources are calculated and weighted in accordance with the current market value of shareholders' equity and liabilities and the capitalized present value of operating lease rental expenses.

Yield • See unit revenues.

Financial calendar

Annual General Meeting, SAS Danmark A/S April 12, 2000	Interim Report 3, Jan.-Sep. 2000 ... November 9, 2000
Annual General Meeting, SAS Norge ASA .. April 12, 2000	Preliminary Year-End Report 2000 February 2001
Annual General Meeting, SAS Sverige AB April 13, 2000	Annual Report 2000 March 2001
Interim Report 1, Jan.-Mar. 2000 May 11, 2000	Environmental Report 2000 March 2001
Interim Report 2, Jan.-June 2000 August 11, 2000	

SAS's monthly traffic and production statistics are published on the sixth working day of each month.

All reports are available in English, Danish, Norwegian and Swedish.

These can be ordered from SAS, SE-195 87 Stockholm, telephone: +46 8 797 00 00, fax: +46 8 797 15 15.

The reports are also available on the Internet: www.scandinavian.net

e-mail: investor.relations@sas.se

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