

SAS

ANNUAL REPORT 1973-74



SCANDINAVIAN AIRLINES SYSTEM ANNUAL REPORT 1973-74

KNUT HAGRUP

**PRESIDENT
SCANDINAVIAN AIRLINES SYSTEM
DENMARK • NORWAY • SWEDEN**

STOCKHOLM

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Highlights

		1973/74	1972/73	Change
Available Tons-Kms, total	(mill.)	1 863.5	1 931.6	- 4%
Available Tons-Kms, scheduled services	(mill.)	1 814.9	1 822.5	0
Revenue Ton-Kms, scheduled services	(mill.)	1 024.0	958.8	+ 7%
Total Load Factor, scheduled services	(%)	56.4	52.6	+ 3.8 points
Available Seat-Kms, scheduled services	(mill.)	13 842	14 166	- 2%
Revenue Passenger-Kms, scheduled services	(mill.)	7 477	7 275	+ 3%
Passenger Load Factor	(%)	54.0	51.4	+ 2.6 points
Number of Passengers Carried	(000)	6 325	6 242	+ 1%
Traffic Revenue	(MSKR)	2 479.6	2 057.2	+ 21%
Profit	(MSKR)	77.0	84.0	
Number of Employees as of September 30		15 068	15 034	

Glossary

AVAILABLE TON-KILOMETERS

Number of tons of capacity available for carriage of passengers, cargo and mail, multiplied by number of kilometers flown.*)

REVENUE TON-KILOMETERS

Total tonnage of paid traffic carried, multiplied by number of kilometers flown.*)

LOAD FACTOR

Percentage of total available capacity utilized (passenger, cargo and mail).

AVAILABLE SEAT-KILOMETERS

Total number of seats available for passengers, multiplied by number of kilometers flown.*)

REVENUE PASSENGER-KILOMETERS

Number of paying passengers carried, multiplied by number of kilometers flown.*)

PASSENGER LOAD FACTOR

Percentage of total passenger capacity actually utilized.

*) Kilometers flown are based on IATA Great Circle distances.

Report by the Board

Scandinavian Airlines System reports a profit of 77.0 million Swedish crowns (MSKR) for the financial year ending September 30, 1974. This compares with a profit of MSKR 84.0 recorded during the 1972 – 1973 financial year.

SAS does not pay taxes on the results of the financial year. Taxes on the profits are always paid by the parent companies of the SAS Consortium in their respective countries.

The SAS accounts incorporate the entire results of the Consortium and its wholly-owned subsidiaries.

Total operating revenue increased from MSKR 3,035 to MSKR 3,568 or 18 per cent. Operating expenses rose from MSKR 2,679 to MSKR 3,245 or 21 per cent. Depreciation amounted to MSKR 232 compared with MSKR 226 the previous year.

The results of the 1973 – 1974 financial year and the financial status of the Consortium as of the end of the year are presented in the Consolidated Profit and Loss Statement and Balance Sheet included in this report.

General Review

The airline industry experienced the most troublesome year in its history in 1974. In December of 1973, the airline industry was hit by the world-wide fuel crisis. The price of fuel tripled in the course of 1974. The full impact was felt towards the end of the financial year. Fuel costs now constitute as much as 25 per cent of total operating expenses of the scheduled airline industry. A year ago, the corresponding figure was about 10 per cent. The shortage of fuel and the quotas introduced in most parts of the world aggravated the situation and made capacity reductions inevitable. At the peak of the crisis, it was feared that capacity reductions could amount to as much as 20 per cent, which would have completely undermined the economy of the carriers.

The energy crisis reversed the previous encouraging trends in the business cycle. The dramatic increases in crude oil prices contributed to soaring global inflation. Economic expansion has been considerably slowed down while the inflationary impact on wages and other important costs remains. SAS was as vulnerable to the far-ranging consequences of the fuel crisis as the rest of the airline industry. In the beginning of the financial year, fuel shortages affected a large part of the SAS network. However, with the gradual improvement in the supply of fuel, SAS was able to maintain scheduled capacity equal to the previous year. As with other carriers, SAS's fuel costs practically tripled during the year.

Under the impact of the crisis, the carriers learned a new measure of cooperation, both within and outside the IATA framework, which saved the industry from even more serious consequences. IATA unanimously adopted a more cost-oriented

price policy, fought vigorously to improve the supply of fuel, and to overcome arbitrary discrimination between carriers.

In 1974, the airline industry experienced the smallest traffic growth in recent history. SAS increased its overall revenue traffic by seven per cent. This included a three per cent increase in passenger traffic, a 16 per cent growth in cargo, and a seven per cent rise in mail.

The reasons SAS recorded a profit under the prevailing circumstances are mainly the following: in recent years, SAS has pursued a policy of restricted capacity increases while at the same time modernizing the fleet as evidenced by the substitution of DC-9s for Caravelles in 1974. Consequently, SAS could adapt itself to capacity reductions with less difficulty than many other carriers. Furthermore, the strong discipline exercised in the employment of personnel and in the strict control of investments and costs has been maintained. Decreases in traffic on both intercontinental and European routes affected SAS less than what has been the average for the industry. The sale of aircraft has contributed to the profit but, on the other hand, weak results recorded in the associated activities represented by SAS subsidiaries had a negative influence.

The coming years will be filled with uncertainties. The Board feels that SAS must face the fact that traditional traffic growth may well be substantially dampened. Carriers must approach the changing world conditions realistically in order to retain their profitability. A cost-oriented pricing policy within IATA will be necessary. It is vital, also, to counteract the disturbing nationalistic tendencies towards protectionism in the air.

The new situation will require new thinking and

revision of many established industry philosophies. In the Board's opinion, the main problem will be to combine a generally cautious approach to capacity increases with efficient service to route areas justifying expansion. This flexibility should be accom-

panied by a vigilant preparedness to exploit improvements in traffic potential as they appear on the horizon. The Board believes SAS will be able to demonstrate its ability to cope with this situation as well.

The Fleet

There were 74 aircraft in the SAS fleet at the end of the 1973 – 1974 financial year. The 1974 calendar year alone represents the largest re-equipment program in SAS history. Twenty new jetliners are being added to the fleet while 19 other aircraft are being sold or phased out.

One DC-8-63 was added to the SAS fleet. Three were sold to THAI International.

Thirteen DC-9-41 jetliners were delivered during the financial year. Another four are due for delivery by the end of the 1974 calendar year. This will bring the number of SAS DC-9 medium-range jets to 52, the largest fleet of its kind owned and operated outside North America.

The 13 Caravelles in the SAS fleet at the start of the year were scheduled to be retired by the end of 1974. With the advent of the fuel crisis, however, it was decided to accelerate the retirement of these first-generation, medium-range jets. They have a higher fuel consumption per available ton-kilometer than the 120-passenger DC-9s that replace them.

SAS had been the first airline in the world to put the Caravelle into scheduled operation, in 1959. At its peak, the SAS Caravelle fleet numbered 21

aircraft. The 94-seat jetliners carried 13.5 million passengers during their 15 years in the SAS fleet.

During the year, preparations were made for the introductions of the first two DC-10-30s in the SAS fleet. The DC-10-30 is a wide-cabin, intercontinental three-engine jetliner for 267 passengers in SAS's configuration. The first two will be delivered in October and November of 1974, initially serving Tokyo on the North Pole route, New York and the U.S. West Coast. Two more DC-10s will be delivered at the end of 1975 and a fifth will join the fleet in 1976. SAS holds an option on three additional DC-10s.

Three of SAS's nine Metropolitan are being withdrawn from service at the end of the year. The six remaining propeller aircraft will serve the short feeder route between Copenhagen and Malmö and be leased to Danair for Danish domestic services.

Wide-cabin aircraft will gradually play an increasingly important role in the composition of the SAS fleet. They will replace DC-8s on intercontinental routes while the DC-8s will be used on high-density routes in Europe for the time being.

Aircraft Fleet and Orders

Aircraft	In operation	On order for delivery during		
	Sept. 30, 1974	1974/75	1975/76	1976/77
Boeing 747-B	2			
DC-10-30		2	2	1
DC-8-63	7			
DC-8-62	8 ¹⁾			
DC-8-55	2 ²⁾			
DC-9-41	37	4		
DC-9-33AF	2			
DC-9-21	9			
Caravelle SE-210	8 ³⁾			
Metropolitan CV-440	9			
	84	6	2	1

1) 2 combined version (CF) and 1 all-cargo version (AF). 2) Leased to Scanair. 3) To be unregistered in 1974/75.

The Network

At the peak of the 1973 – 1974 financial year, SAS served 96 cities in 48 countries around the world. With affiliated carriers, the joint network embraced 165 cities in 56 countries.

There was only one new city – Delhi – added to SAS's own network since the previous year. A new passenger express route to the Far East was inaugurated, serving Frankfurt, Delhi, Bangkok, Kuala Lumpur and Singapore. Buenos Aires received a second weekly service April 1. All-cargo jetliners were introduced twice a week between Copenhagen and Chicago, and once a week between Copenhagen and Bangkok-Singapore.

The 747-B was introduced on the North Pole route between Copenhagen and Tokyo via Anchorage twice a week, as an interim measure until the DC-10 starts in November, 1974, providing greatly needed expansion in seating and palletized cargo capacity.

The twice-weekly 747-B service between Copenhagen and Chicago was dropped as a result of the fuel shortage. Furthermore, the daily 747-B service to New York was replaced by DC-8s as a fuel conservation measure, loads permitting, during the winter. The second New York service, from Bergen and Stockholm six days a week, was completely dropped during the fuel shortage. By May, New York services were back to normal.

New DC-9s gradually took over remaining Caravelle services in Europe and within Scandinavia by the end of the year.

A government traffic committee in Norway recommended that SAS serve Haugesund on the southwest coast when a new airport is ready next spring. The committee also proposed SAS for scheduled operations to Spitzbergen when a new year-round airport opens there in September of 1975.

Production and Traffic

Scheduled services	Total system	Intercontinental	Europe & M. East	Domestic routes
Available Ton-Kms (mill.)				
1973/74	1815	1 108	500	207
1972/73	1823	1 118	500	205
Change %	- 0.4	- 0.9	0.0	+ 1.1
Distribution %	100.0	61.0	27.6	11.4
Revenue Ton-Kms (mill.)				
1973/74	1 024	659	253	112
1972/73	959	608	243	108
Change %	+ 6.8	+ 8.4	+ 4.3	+ 3.5
Distribution %	100.0	64.4	24.7	10.9
Load Factor (%)				
1973/74	56.4	59.4	50.6	54.3
1972/73	52.6	54.3	48.5	53.1

SAS's total production for 1973 – 1974, including both scheduled and charter operations, was four per cent below last year, measured in available ton-kilometers. Capacity reductions were most apparent on intercontinental services. Some cuts were made in Europe in cooperation with other carriers, while other reductions were necessitated in the eastern Mediterranean area because of hostilities. For much of the year, long-haul services were reduced on North Atlantic routes where capacity on passenger flights was 18 per cent below 1972 – 1973. All-cargo routes, on the other hand, had a

49 per cent capacity increase on the North Atlantic. The service to West Africa was suspended while that to the West Indies was halved. Extensions beyond Bangkok on most Southeast Asian routes were temporarily withdrawn until the fuel supply in that area was restored.

Charter capacity was reduced to only 45 per cent of the previous year. Domestic scheduled capacity was least affected by the fuel crisis.

Total scheduled traffic (including passenger, cargo and mail) was seven per cent above last year in terms of revenue ton-kilometers, but five percent-

age points below the growth rate originally planned. Due to general cutbacks by all scheduled carriers, load factors did improve on the North Atlantic but declined in other areas such as the Far East. Traffic in some areas as Germany, France and Great Britain continued to develop as expected. As a result, the overall load factor increased from 52.6 to 56.4 per cent. The intercontinental load

factor was 59.4 per cent (54.3 per cent last year); North Atlantic passenger routes showed a load factor of 58.0 per cent (50.4 per cent last year), while the load factor on Far East services was 57.4 per cent (64.8 per cent last year). Intercontinental all-cargo routes recorded an improvement from 67.2 per cent last year to 70.9 per cent in 1973 – 1974.

Passenger Traffic

SAS carried a total of 6,324,500 passengers systemwide during 1973 – 1974, an increase of 82,500 passengers. Overall scheduled passenger capacity decreased two per cent in terms of available seat-kilometers. Traffic as measured in revenue passenger-

kilometers showed an increase of three per cent. The systemwide cabin factor rose 2.6 percentage points to 54.0 per cent. The improvement was to some extent attributed to the reduction of capacity.

Cargo and Mail Traffic

While passenger traffic growth was slight, the reverse trend appeared in cargo traffic which was 16 per cent above last year in freight ton-kilometers. The growth is partially due to the expansion of all-cargo routes to more intercontinental destinations such as Southeast Asia and the American Midwest.

In contrast to last year, there was more substantial cargo growth on all intercontinental routes than on European and inter-Scandinavian cargo routes. Cargo revenue improved 27 per cent, mainly due to rate increases to cover rising fuel costs. Systemwide air mail traffic recorded a normal increase, seven per cent over last year.

Foreign Affairs

Increasing protectionism continued to affect SAS's intercontinental operations during the year. A new, two-year-long round of negotiations with the British government to obtain traffic rights at Hong Kong terminated in 1973 with no progress for the Scandinavian side despite statistics clearly documenting the need for direct service between the British Crown Colony and Scandinavia. The Scandinavian Governments took up negotiations with the Soviet Union to obtain overflying rights for an SAS route between Scandinavia and the People's Republic of China. The discussions also concerned the right for SAS to add a second weekly flight via Siberia to Tokyo, and traffic rights between Moscow and Tokyo. Another subject raised for consideration was the possibility for SAS to introduce the DC-10 on the Trans-Asian Express via Tashkent in the spring of 1975. Negotiations on these matters are still in progress. After having held a temporary permit for a second weekly flight to Brazil for two years, SAS was forced to give up traffic rights at Rio on its second service in the summer of 1974, despite a sharp growth in traffic between Scandinavia and Brazil. SAS continues to serve points beyond Rio twice a week.

Government negotiations have been initiated with the German Democratic Republic in order to conclude a civil air transport agreement which could form a permanent basis for operating commercial air services to, from and via the respective countries. After years of preparations, negotiations were held at the end of September between the Governments of Canada and the Scandinavian countries in an effort to obtain traffic rights for SAS in Toronto. The initial outcome was negative, but discussions will continue on a company level and be resumed by the Governments at a later date. During the year it became clear that important changes in U.S. aviation policy could affect the future of SAS's intercontinental operations. At an early stage in the development of SAS, the airline was able to obtain significant traffic rights in the U.S. Today, air agreements between the U.S. and Scandinavian Governments grant SAS the right to fly its present services to New York, Chicago, Los Angeles, Seattle and Anchorage. To avoid a policy of government subsidies, the U.S. authorities have turned their attention towards foreign carriers, especially in Europe, in an effort to

reduce their capacity over the North Atlantic in order to improve the traffic potential of the U.S. airlines.

The U.S. Government has requested consultations with the Scandinavian Governments regarding SAS's and other carriers' capacity on services to the U.S. The consultations have been scheduled to take place at the end of November, 1974.

With the growing problems facing international scheduled airlines, the activities of IATA and AEA (Association of European Airlines) have become increasingly more important as active forums to solve short-term problems and to make long-term plans.

During the year, it was noted that the EEC increased its interest in aviation policy, among other things with regard to coordination of aircraft acquisi-

tions, preferably from manufacturers within the EEC countries. Several meetings have been held among EEC-member airlines, with the EEC Secretariat initiating debate on a number of air political questions. As Denmark is the only Scandinavian country in the EEC, SAS will participate in these meetings as an observer.

At the Annual General Meeting of IATA in September, 1974, it was agreed to revise the Articles of Association to allow non-scheduled airlines to join as full members, under the condition their votes pertain only to charter matters. This action will make it possible to negotiate charter agreements within IATA, in the first instance on the North Atlantic, but later on routes covering the rest of the world.

Fares and Rates

In 1972 - 1973, currency instability was the dominant problem within IATA in coming to agreements on fares and rates. The main question was how to compensate for losses sustained from currency depreciations. This year the major concern has been the consequences of the fuel crisis and accelerated world inflation.

At the Annual General Meeting of IATA in November of 1973 it was already clear how serious an effect the fuel price increases were to have on the airlines. A general increase of six per cent on all passenger fares and cargo rates was decided upon, to be effective from January 1, 1974. The situation was followed by IATA and as the shortage became more critical with even higher prices, another general increase of seven per cent was voted for April 1, 1974.

Since these increases barely covered the initial fuel price rises, it was already decided by the end of April that a third general raise in fares and rates should be effective from June 1. Unfortunately, this latter increase was opposed by some carriers. Thus, it became effective only in Europe, the Middle East and Africa as a start. The increases finally went into effect also on the North Atlantic and on the Far East routes during the summer.

The first three general price increases during the year were aimed at covering higher fuel costs. Even as the third increase was being discussed within IATA, it was clear that the world inflationary trend called for further adjustments of fares and rates. Thus, the fourth general increase was attributed to both fuel costs and general inflation. These latter increases were in effect by the autumn of 1974.

Against the background of an assumed agreement between scheduled and non-scheduled carriers on minimum charter rates across the North Atlantic, the IATA carriers agreed during the summer of 1974 on a new North Atlantic fares agreement for the period November 1, 1974, through March 31, 1976. In the autumn of 1974, it became apparent that there would be no agreement on minimum charter rates. Consequently, the IATA fares agreement for November 1, 1974, was revoked. A revised agreement was subsequently reached for a three-month period ending January 31, 1975. Further negotiations will take place within IATA to establish an agreement for the period after this date.

An IATA Traffic Conference took place in San Diego in the autumn of 1974 to establish agreements for fares and rates in other parts of the world for the period between April 1, 1975, through March 31, 1976. Agreements were reached in San Diego for fares across the South Atlantic, across the Pacific, within the American continent and within the Far East. Unfortunately the areas of direct interest to SAS such as within Europe, and from Europe to the Middle East, to Africa and to the Far East were not settled in San Diego and further meetings will be necessary.

The question of pricing within Europe will hopefully be settled in the near future. But it is expected to be especially difficult to reach an agreement on pricing between Europe and the Far East where there has, in fact, been no agreement for the past three years. Airlines and governments have during this period introduced numerous discounts, to the point where the situation is becoming chaotic.

Profitability on Europe-Far East routes has dropped sharply in this period, and it is possible that initiatives from government levels may be neces-

sary to solve the problem which otherwise could put the airlines in the same money-losing situation they have been subjected to on the North Atlantic.

Charter Developments

The Scandinavian charter market underwent a dynamic expansion every year through 1972 – 1973. The current year is the first to show a reverse. Since the beginning of the 1974 calendar year, demand has declined in comparison to the previous year. The decline was caused by the price increases related to the fuel situation. Inclusive-tour charters on the Scandinavian market in the summer of 1974 were priced an average of 22 per cent higher than the previous summer. The market as a whole declined some 15 per cent during the year, even before taking into account the unrest in the eastern Mediterranean.

Nevertheless, inclusive-tour charters have become a well-established institution in Scandinavia. As long as the market concentrates on traditional vacation destinations that do not erode the traffic base for scheduled operations, SAS has no objections and will continue to participate through affiliated companies. It is expected that, after the market adjusts itself to new inclusive-tour charter

price levels, there will be a new period of expansion in another year or two. However, future rates of expansion are not expected to equal those experienced in the 1960s.

The European Civil Aviation Conference (ECAC) is currently preparing for a multilateral charter agreement on the North Atlantic. Several tripartite meetings among ECAC, Canada and the U.S. have been held where the principal elements of the agreement have been discussed. Any agreement eventually reached will tend to change the established charter policy of the Scandinavian Governments and thus affect the commercial activities of SAS. In the interests of SAS, the Scandinavian authorities have thus far refrained from applying some of the charter concepts generally used by ECAC-member states. Indications are, however, that both Advance Booking Charters (ABC) and Special Events Charters may be introduced in Scandinavia in the not too distant future.

Data Services

In early 1974 SAS introduced a completely new electronic reservations system, PNR, an acronym for Passenger Name Record. The system is built around video-screen terminals for ticket agents, enabling them to report the passenger's name to the computer system as soon as a reservation is made. In addition to improving customer service, the PNR system opens the field to numerous future applications including catering planning, automated ticketing and fare quotations, further automation of airport passenger service, revenue accounting and passenger statistics.

First installed in ticket offices in the Scandinavian

capitals, the PNR system will be extended throughout Scandinavia and to many other parts of the world in the next three years.

To handle the growing volume of messages, a new telecommunications network with computerized message switching, TELCON, also went into service during the year.

The expanded data services of SAS handle technical and operations control – the loading and disposition of SAS aircraft around the world, maintenance and spare parts records, cargo handling – as well as many phases of accounting and personnel administration.

Airport Development

During the year the fuel crisis and negative economic developments resulted in Denmark postponing development of the island of Saltholm as the new international airport for the greater Copenhagen area. SAS supports this delay in view of the current tenuous position of the economy of the airline industry and the stagnation in airline travel. Danish authorities have meanwhile allo-

cated some 350 million Danish crowns to improvements of the present Copenhagen airport at Kastrup. These improvements include new charter and cargo facilities and more parking ramps for wide-cabin aircraft.

In the Stockholm area, construction began during the year for a new international terminal at Arlanda airport to replace the temporary building that has

been in use since the facility opened in 1962. The new building is due for completion in 1976.

At the same time, the Swedish Government has been considering the location of a new domestic airport for the Stockholm area since current plans are to close Bromma by 1978.

Near Gothenburg, a new airport named Landvetter is taking shape. Located 29 kilometers east of the city, the airport is due to open October 1, 1977. It will be able to handle large, four-engine jetliners which are unable to operate from the current Torslanda airport.

No further developments have been noted in the discussion of a new airport for greater Oslo in the course of the year.

SAS is building a new catering kitchen at Bergen, which has become the second largest intercontinental gateway in Scandinavia. SAS has also increased utilization of Stavanger as a transatlantic gateway. Thus far, only eastbound flights use Stavanger, but it is hoped that because of the city's growing importance to the North Sea oil industry, runway improvements will be made to enable intercontinental jetliners to takeoff with a full load.

Hotel Activities

SAS owns, operates or has a partial interest in nine hotels in Scandinavia and on Greenland. There are three in Copenhagen, two in Oslo, and one each in Bodø, Stavanger, Tromsø and Narssarssuak.

The hotels were affected by the reduced traffic growth during the year. Their results were also influenced by wage inflation and other cost increases.

The 473-room Hotel Scandinavia in Oslo is nearly completed and is due to open in June, 1975.

Due to the present adverse financial climate, a planned hotel in Bergen has been postponed. It was intended to open 1977.

Associated Companies

In Norway, Widerøe continued expansion of Twin Otter short takeoff and landing operations along the coast. In August, the airline began services to five new airports across the top of North Norway, feeding into trunk airports served by SAS. The latest expansion stage brought to 33 the number of airports served by Widerøe.

In Denmark, domestic carrier Danair continued to serve all but the three trunk routes which are operated by SAS. Traffic increased according to expectations.

Sweden's domestic airline, Linjeflyg, added a new destination, Kramfors in the north, bringing the number of airports served to 24. Linjeflyg, in its first full year with jets included in its fleet, recorded satisfactory traffic growth.

SAS Catering was reorganized into three national companies in Denmark, Norway and Sweden in 1974. Headquarters for the wholly-owned subsidiary remain in Copenhagen. SAS Catering's results for the year were also affected by traffic reductions caused by the fuel crisis. SAS Catering is building new flight kitchens in Bergen, Gothenburg and London, and expanding its non-airline activities such as restaurants, party services, and catering for North Sea oil rigs. The subsidiary also coordinates SAS hotel activities.

Vingresor/Club 33 AB, a wholly-owned subsidiary that is Sweden's largest inclusive tour producer, felt the effects of the fuel crisis. Business was slightly less than the 204,000 inclusive tours sold last year. After a long study of the market, SAS decided to terminate its engagement in Scandinavian Star Tour Corp., an inclusive tour producer in which the airline held the majority interest. The company subsequently closed operations, with losses to the participants.

Scanair, owned by the parent companies of SAS, noted somewhat fewer inclusive-tour charter passengers than the previous year.

At the end of the financial year, Scanair served notice on its lease contract for three Boeing 727-100 jetliners, effective September 30, 1975.

At the same time, Scanair terminated its contract with Transair Sweden AB, also with one year's notice, covering the operations and maintenance of the three 727s.

Scanair plans to compensate for the 727 capacity by increasing utilization of its present DC-8s leased from SAS and by leasing additional capacity and crews from SAS.

THAI International

For the past 15 years SAS has cooperated with Thai Airways Company Ltd. (TAC) in the ownership and development of THAI International which has become a prominent and respected worldwide carrier. TAC owns 70 per cent while SAS has 30 per cent of the shares in THAI International. The co-

operation has been most successful, with THAI International continuing to produce an impressive record of route expansion, traffic growth and financial results. The present agreement of cooperation is due to expire in 1977. Discussions have begun for a new agreement covering the years thereafter.

Personnel

	Flight-deck Personnel			Cabin Personnel			Other Personnel			Total Personnel ¹⁾		
	1974	1973	1972	1974	1973	1972	1974	1973	1972	1974	1973	1972
Denmark	385	380	361	734	727	644	4 114	4 108	4 038	5 233	5 215	5 043
Norway	355	359	350	398	381	331	2 002	2 005	1 930	2 755	2 745	2 611
Sweden	547	556	529	490	404	317	2 662	2 688	2 690	3 699	3 648	3 536
Head Office	—	—	—	—	—	—	1 009	951	965	1 009	951	965
Abroad	—	—	—	27	22	24	2 345	2 453	2 482	2 372	2 475	2 506
Total	1 287	1 295	1 240	1 649	1 534	1 316	12 132	12 205	12 105	15 068	15 034	14 661

1) Not including SAS subsidiaries and affiliates.

There were 15,068 employees in SAS as of September 30, 1974, representing no increase over the previous year.

Through increased rationalization, SAS has been able to raise its production consistently in recent years without a substantial addition of personnel. During this particularly difficult year, it has been of special importance to maintain personnel numbers at the lowest possible limits.

The Board met with representatives of SAS personnel in the autumn of 1974 in order to explore possible participation in the SAS Board and Assembly of Representatives.

The Board wishes to express its appreciation for the skills and dedication demonstrated by SAS personnel in making 1973 – 1974 a profitable year despite the problems confronting the industry.

Copenhagen, Oslo and Stockholm, November, 1974

Jens Chr. Hauge

Haldor Topsøe

Curt Nicolin

Per M. Backe

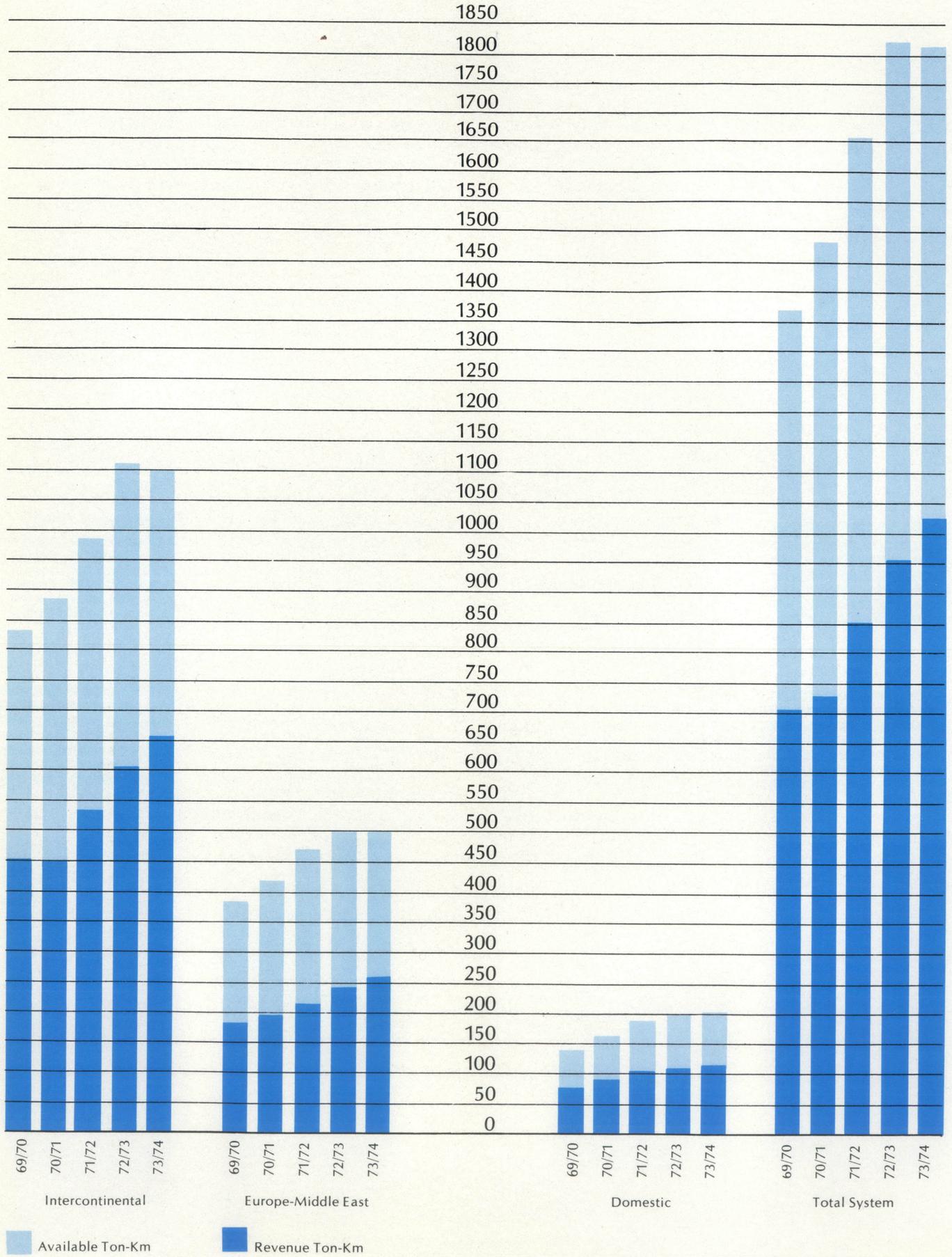
Palle Christensen

Krister Wickman

Knut Hagrup

President

Mill.
Ton-Km



Comparative Statistics 1964/65 – 1973/74

Production and Traffic		73/74	72/73	71/72	70/71	69/70	68/69	67/68	66/67	65/66	64/65
Size of Network	(km 000)	258	245	243	224	205	208	206	190	158	158
Number of Countries Served		48	51	50	48	48	45	45	41	42	41
Number of Cities Served		96	97	94	96	92	90	90	84	87	81
Kilometers Flown	(mill.)	114.0	118.4	109.9	107.0	101.7	97.7	88.7	75.8	69.4	65.9
Hours Flown (airborne)	(000)	176.5	183.4	172.8	172.4	162.6	168.3	164.6	147.0	136.3	129.0
Available Ton-Kms, total	(mill.)	1 863.5	1 931.6	1 745.6	1 546.0	1 431.5	1 286.9	1 075.1	834.8	724.8	668.0
Available Ton-Kms, scheduled services	(mill.)	1 814.9	1 822.5	1 664.1	1 480.8	1 371.7	1 239.3	1 047.5	818.5	701.6	649.8
Revenue Ton-Kms, scheduled services	(mill.)	1 024.0	958.8	857.0	738.5	710.1	658.3	554.7	480.7	415.9	391.2
Passenger		662.9	645.3	558.6	493.4	469.3	417.0	380.1	337.7	295.3	283.1
Freight		325.4	280.2	267.5	215.8	213.4	214.5	149.4	119.8	97.5	86.7
Mail		35.7	33.3	30.9	29.3	27.4	26.8	25.2	23.2	23.1	21.4
Total Load Factor, scheduled services	(%)	56.4	52.6	51.5	49.9	51.8	53.1	53.0	58.7	59.3	60.2
Number of Passengers Carried	(000)	6 325	6 242	5 826	5 688	5 058	4 588	4 155	3 734	3 241	2 999
Revenue Passenger Kms	(mill.)	7 477	7 275	6 305	5 584	5 297	4 707	4 287	3 805	3 304	3 166
Passenger Load Factor	(%)	54.0	51.4	49.8	49.0	50.3	47.7	50.2	54.5	52.6	54.3
Average Passenger Trip Length	(kms)	1 197	1 192	1 102	997	1 061	1 036	1 038	1 024	1 029	1 064
Traffic Revenue/Revenue Ton-Km	(SKR)	2.42	2.12	2.07	2.18	2.06	2.05	2.11	2.12	2.15	2.20
Operating Expenses/Available Ton-Km (based on calculated depreciation, excl. interest)	(SKR)	1.31	1.04	1.02	1.03	1.00	1.01	1.04	1.16	1.18	1.19

Personnel		73/74	72/73	71/72	70/71	69/70	68/69	67/68	66/67	65/66	64/65
Number of Employees as of September 30		15 068	15 034	14 661	14 694	14 560	14 466	13 619	13 284	13 081	12 709
Available Ton-Kms/Employee (scheduled services)		120 500	123 100	114 000	101 700	95 000	88 100	78 200	62 500	54 800	52 200
Revenue Ton-Kms/Employee (scheduled services)		68 000	64 800	58 700	50 700	49 200	46 800	41 400	36 700	32 500	31 400

Financial	(Mill. Swedish Crowns)	73/74	72/73	71/72	70/71	69/70	68/69	67/68	66/67	65/66	64/65
Operating Revenue		3 567.6	3 035.3	2 591.8	2 237.0	1 905.3	1 709.9	1 494.3	1 319.0	1 166.6	1 096.6
Operating Expense		3 244.6	2 679.3	2 311.9	1 972.6	1 654.7	1 493.5	1 296.1	1 151.8	1 017.5	941.6
Depreciation		231.9	226.2	201.7	174.2	167.9	154.0	103.7	92.4	85.6	82.5
Operating Result		+ 91.1	+ 129.8	+ 78.2	+ 90.2	+ 82.7	+ 62.4	+ 94.5	+ 74.8	+ 63.5	+ 72.5
Financial Items (net)		- 44.8	- 63.7	- 52.3	- 47.1	- 45.7	- 37.0	- 16.5	- 3.6	- 1.5	- 3.1
Other Items (net)		+ 30.7	+ 17.9	+ 9.1	+ 28.3	+ 51.9	+ 57.9	+ 8.1	+ 12.8	+ 2.8	+ 5.5
Consolidated Profit before Income Taxes payable by Parent Companies		77.0	84.0	35.0	71.4	88.9	83.3	86.1	84.0	64.8	74.9
Balance Sheet (total)		3 460.4	2 998.4	2 791.7	2 528.8	2 262.2	1 850.9	1 538.3	1 253.8	1 046.9	963.2
Current Assets		1 316.4	1 190.8	1 027.7	805.6	749.2	561.0	507.4	585.5	523.3	539.8
Non-Current Assets		166.5	78.7	81.9	76.1	42.1	35.5	26.2	24.2	23.6	24.8
Property and Equipment		1 977.5	1 728.9	1 682.1	1 647.1	1 470.9	1 254.4	1 004.7	644.1	500.0	398.6
Current Liabilities		1 191.9	1 003.2	926.7	870.1	711.6	554.0	484.4	422.6	364.7	331.9
Non-Current Liabilities		1 191.9	893.2	914.6	814.0	732.9	526.4	393.7	215.1	137.1	136.0
Currency Adjustment and General Valuation Reserve		113.3	162.9	68.6	16.5	16.5	16.5	16.5	16.5	16.5	16.5
Subordinated Debentures		121.8	132.6	141.8	157.5	157.5	157.5	157.5	157.5	157.5	157.5
Capital including Profit of the Year		841.5	806.5	740.0	670.7	643.7	596.5	486.2	442.1	371.1	321.3

Consolidated Profit and Loss Statement October 1, 1973 – September 30, 1974 (including wholly-owned subsidiary companies) In millions of Swedish Crowns

	1973/74	1972/73
Passenger	1 992.0	1 638.0
Cargo and mail	461.5	373.6
Charter	26.1	45.6
Other revenue (Note 1)	1 088.0	978.1
OPERATING REVENUE	3 567.6	3 035.3
OPERATING EXPENSES (Note 2)	3 244.6	2 679.3
OPERATING RESULT BEFORE DEPRECIATION	+ 323.0	+ 356.0
DEPRECIATION (Note 3)	231.9	226.2
OPERATING RESULT	+ 91.1	+ 129.8
Financial income (Note 4)	70.6	37.6
Financial expense (Note 4)	115.4	101.3
PROFIT BEFORE OTHER ITEMS	46.3	66.1
Gain on retirement of equipment (net) (Note 5)	35.2	14.6
Extraordinary items (net) (Note 6)	- 4.5	3.3
CONSOLIDATED PROFIT BEFORE INCOME TAXES PAYABLE BY PARENT COMPANIES (Note 7)	77.0	84.0

Copenhagen, Oslo and Stockholm, November, 1974

Jens Chr. Hauge

Haldor Topsøe

Curt Nicolin

Per M. Backe

Palle Christensen

Krister Wickman

Knut Hagrup
President

/C.E. Lindh

"Notes to Financial Statements" on pages 17 – 19 refer to the above Profit and Loss Statement.

Consolidated Balance Sheet

September 30, 1974 (including wholly-owned subsidiary companies)
In millions of Swedish Crowns

Assets	Sept. 30, 1974	Sept. 30, 1973	Liabilities and Capital	Sept. 30, 1974	Sept. 30, 1973
Current Assets			Current Liabilities (Note 15)	1 191.9	1 003.2
Cash and bank balances including temporary cash investments (Note 8)	696.8	682.4	Non-Current Liabilities		
Short-term accounts receivable and prepayments	545.8	422.4	Debtenture loan (Note 16)	127.6	126.0
Sundry stores (Note 9)	73.8	86.0	Mortgage loans (Note 17)	43.8	51.0
Total Current Assets	1 316.4	1 190.8	Other loans (Note 18)	1 020.5	716.2
Non-Current Assets			Total Non-Current Liabilities	1 191.9	893.2
Long-term accounts receivable and prepayments	113.1	30.4	Currency Adjustment (Note 19)	113.3	146.4
Goodwill (Note 10)	11.7	13.1	General Valuation Reserve (Note 9)	—	16.5
Shares and bonds (Note 11)	34.9	27.5	Subordinated Debentures (Note 20)	121.8	132.6
Discount, etc., on debenture loans	6.8	7.7	Capital (Note 21)		
Total Non-Current Assets	166.5	78.7	ABA (3/7)	327.7	309.6
Property and Equipment			DDL (2/7)	218.4	206.4
Aircraft (Note 12)			DNL (2/7)	218.4	206.4
At cost	2 224.7	1 920.4	Consolidated profit before income taxes payable by parent companies	77.0	84.0
Depreciation and valuation reserves	844.8	761.1	Total Capital	841.5	806.5
Spare engines and spare parts (Note 12)			Total Liabilities and Capital	3 460.4	2 998.4
At cost	423.4	410.3	Contingent liabilities and guarantees (Note 22)	67.7	84.0
Depreciation and valuation reserves	199.6	188.9	Furthermore, SAS has assumed certain liabilities in respect of pensions, and in connection with ticket sales according to pay-later plans		
Advance payments on flight equipment and simulators on order	112.4	94.0	Pledges		
Buildings and improvements (Note 13)			Mortgages on real estate	78.3	77.3
At cost	217.1	213.4	Sundry pledges	9.8	11.2
Depreciation and valuation reserves	52.9	44.9		88.1	88.5
Workshop and aircraft servicing equipment					
At cost	83.6	80.6			
Depreciation and valuation reserves	67.7	62.4			
Other equipment and vehicles					
At cost	219.3	189.1			
Depreciation and valuation reserves	138.0	121.6			
Total Property and Equipment (Note 14)	1 977.5	1 728.9			
Total Assets	3 460.4	2 998.4			

Copenhagen, Oslo and Stockholm, November, 1974.

Jens Chr. Hauge
Per M. Backe
Haldor Topsøe
Palle Christensen
Knut Hagrup
President

/C.E. Lindh

The above Profit and Loss Account and Balance Sheet are in accordance with the books of the Consortium, which have been examined by the undersigned Auditors, as set forth in our Auditors' Report dated January, 1975.

Stockholm, January, 1975
Centralanstalten for Revision

Viking Bergman Authorized Public Accountant	Erik Sivertsen Authorized Public Accountant	Christian Blom Authorized Public Accountant
Sten Nackstad Authorized Public Accountant	Hugo Engman	Tor Storhaug Authorized Public Accountant

"Notes to Financial Statements" on pages 17 – 19 refer to the above Balance Sheet.

Notes to Financial Statements

The consolidated profit and loss statement and the consolidated balance sheet of SAS include wholly-owned subsidiaries such as SAS Catering A/S, Denmark, SAS Catering A/S, Norway, SAS Catering AB, Sweden, SAS-Invest A/S, Nyman & Schultz/Nordisk Resebureau AB, Vingresor/Club 33 AB and Globetrotter AB.

In this report a new format for the profit and loss statement and the balance sheet has been adopted. The figures for the financial year ending September 30, 1973, have been rearranged accordingly, for purposes of comparison.

In the consolidation of the profit and loss statements of SAS and its wholly-owned subsidiaries, revenue and expense items related to internal transactions have been eliminated.

Note 1 – Other revenue

"Other revenue" comprises revenue from sundry activities, such as shop work, ground handling, interline sales, etc., performed for other airlines, income from sales on board and in gateway stores, as well as revenue earned by wholly-owned subsidiaries from customers other than SAS.

Note 2 – Operating expenses

"Operating expenses" comprise expenses related to the operations of SAS, MSKR 2,688.3 (1972/73, MSKR 2,222.0), cost for the liquidation of Scandinavian Star Tour Corporation, MSKR 7.8, and expenses incurred by the wholly-owned subsidiaries, MSKR 548.5 (1972/73, MSKR 457.3). For a distribution of operating expenses incurred in SAS' transportation activities, see graph on page 19.

Note 3 – Depreciation

The depreciation charges are apportioned as follows (MSKR):

	1973/74	1972/73
Aircraft, spare engines and spare parts	190.5	189.9
Buildings and improvements	8.5	7.5
Ground equipment and vehicles	31.1	27.0
Goodwill	1.8	1.8
	<u>231.9</u>	<u>226.2</u>

SAS' flight equipment is depreciated over 10 years with a 10 per cent residual value except for Boeing 747-B equipment, which is depreciated over 12 years with a 10 per cent residual value.

For the Caravelle fleet no depreciation has been provided in 1973/74 as it has earlier been depreciated below the residual value. The Metropolitan aircraft have been fully depreciated as of September 30, 1974.

Note 4 – Financial income and expense

"Financial income" includes mainly interest derived from temporary cash investments.

"Financial expense" represents mainly interest expenses for long-term debt.

Note 5 – Gain on retirement of equipment (net)

"Gain on retirement of equipment (net)" includes the excess of sales proceeds and salvage values over book value, etc., for aircraft sold and retired (one DC-8-63 and five Caravelles), MSKR 28.3. Additionally, sales proceeds and salvage values realized from the retirement of spare engines and other parts have contributed MSKR 6.9.

Note 6 – Extraordinary items (net)

"Extraordinary items (net)" include income taxes paid by the wholly-owned subsidiaries, MSKR 0.5, and a provision of MSKR 4.9 representing SAS' share in the accumulated loss of Hotel Scandinavia K/S, Copenhagen.

Note 7 – Consolidated profit

The 1973/74 accounts of the wholly-owned subsidiaries show before consolidation with SAS an aggregate net loss of MSKR 7.9 (1972/73, a net profit of MSKR 3.7).

The consolidated profit of SAS contains no provision for corporate income taxes on transportation activities payable in Denmark, Norway and Sweden, such liability resting upon the parent companies of SAS.

Note 8 – Cash and bank balances including temporary cash investments

Own debentures acquired for redemption on June 15, 1975 have been included under this heading in the amount of MSKR 2.3.

Note 9 – Sundry stores

"Sundry stores" comprise expendable spare parts and raw materials, stores for sale and non-operating stock of spare parts as well as shop work in progress. The valuation reserve deducted from cost, including depreciation on non-operating stock transferred to this account, amounts to MSKR 77.8 after transfer of MSKR 16.5 from the "General Valuation Reserve".

Note 10 – Goodwill

"Goodwill" includes the remaining book value MSKR 10.5 of the consideration paid in excess of par value for the stock of Vingresor/Club 33 AB.

Note 11 – Shares and bonds

"Shares and bonds" include shares in the amount of MSKR 12.0 in Linjeflyg AB, MSKR 6.9 in Thai Airways International Ltd., MSKR 2.0 in Hotel Scandinavia K/S, Copenhagen and MSKR 4.5 in SAS Royal Hotel A/S, Oslo.

Note 12 – Aircraft, spare engines and spare parts

During the year SAS took delivery of one DC-8-63 and 13 DC-9-41 aircraft. Five Caravelle aircraft and one DC-8-63 were sold or retired.

Changes during the year in total acquisition values and total depreciation and valuation reserves of aircraft, spare engines and spare parts are specified below (MSKR):

Acquisition value

As of September 30, 1973		2,330.7
DC-8 flight equipment delivered in 1973/74		
Payments etc. made before October 1, 1973 (transferred from account for advance payments)	5.0	
Investments during 1973/74	<u>57.2</u>	62.2
DC-9 flight equipment delivered in 1973/74		
Prepayments etc. made before October 1, 1973 (transferred from account for advance payments)	41.1	
Investments during 1973/74	<u>321.4</u>	362.5
Other flight equipment delivered during 1973/74		
Investments during 1973/74		9.6
Flight equipment sold and retired in 1973/74, etc.	<u>- 116.9</u>	
As of September 30, 1974		<u>2,648.1</u>

Depreciation and valuation reserves

As of September 30, 1973		950.0
Depreciation 1973/74		190.5
Accrued depreciation on flight equipment sold and retired in 1973/74, etc.	<u>- 93.8</u>	
As of September 30, 1974		<u>1,046.7</u>

Note 13 – Buildings and improvements

Investments in buildings and improvements during the year amounted to MSKR 36.2. This includes investments in SAS' new administration building in Copenhagen, MSKR 8.6; in flight kitchens owned by SAS Catering A/S, Denmark, MSKR 3.6; SAS Catering A/S, Norway, MSKR 2.3; SAS Catering AB, Sweden, MSKR 0.7, and in hotel projects of Vingresor/Club 33 AB, MSKR 10.4.

Note 14 – Insurance values

As of September 30, 1974, flight equipment and buildings of SAS and its wholly-owned subsidiaries were insured as follows (MSKR):

	1974	1973
Aircraft	2,163.5	1,622.3
Buildings and improvements	<u>344.3</u>	<u>290.7</u>
	<u>2,507.8</u>	<u>1,913.0</u>

Spare engines, spare parts and technical stores, workshop and aircraft servicing equipment and tools, other equipment, vehicles and sundry stores were insured to the full reacquisition value. The insurance value of non-operating stock of spare parts is related to the current market value of such assets.

Equipment, vehicles and stores of the wholly-owned subsidiaries are insured in such amounts and against such risks as are usually carried by corporations engaged in the same or similar business.

Note 15 – Current liabilities

"Current liabilities" in the balance sheet include current maturities of long-term debt totalling MSKR 169.6.

For practical reasons, the various clearing accounts for traffic revenue are, as hitherto, included as a net balance under "Current liabilities" (MSKR 304.9).

Note 16 – Debenture loan

This item represents the 8% debenture loan raised in June 1972, US\$ 30.0 mill., out of which current maturities in the amount of US\$ 1.0 mill. are included under "Current liabilities".

Note 17 – Mortgage loans

"Mortgage loans" include MNKR 25.9 relating to the Globetrotter Hotel and the flight kitchen in Oslo owned by SAS Catering A/S, Norway, and MDKR 17.2 relating to the Royal Hotel in Copenhagen owned by SAS-Invest A/S.

Note 18 – Other loans

"Other loans" amount as of September 30, 1974 to MSKR 1,020.5 as follows (MSKR):

	Sept. 30, 1974	Sept. 30, 1973
Loans in USA	523.4	428.9
Loans in Switzerland	314.4	139.2
Loans from KSSU-partners	93.8	80.4
Sundry loans	<u>88.9</u>	<u>67.7</u>
	<u>1,020.5</u>	<u>716.2</u>

As of September 30, 1974 loans in USA totalled US\$ 141.3 mill., out of which current maturities amounting to US\$ 22.3 mill. are included under "Current liabilities". During the year draw-downs under the loan agreements amounted to US\$ 70.9 mill., of which US\$ 52.5 mill. were for the financing of new DC-9-41 equipment. Amortizations, including prepayments of US\$ 31.9 mill., totalled US\$ 69.1 mill.

Loans in Switzerland amounted to SFR 229.8 mill., out of which current maturities SFR 22.3 mill. are included under "Current liabilities". During the year new loans were raised in the amount of SFR 140.6 mill., of which SFR 10.8 mill. were amortized.

Loans from KSSU-partners, drawn for the purpose of financing Boeing 747-B spare engines and engine spare parts held by SAS on behalf of KLM and Swissair under the KSSU-arrangements, are stated under this heading in the amount of US\$ 21.3 mill.

"Sundry loans" include mainly reborrowing of pension fees in Sweden and Denmark, MSKR 33.2, and bank loans of Vingresor/Club 33 AB, MSKR 15.4.

Note 19 – Currency adjustment

SAS' accounts are kept in Swedish crowns. During the year SAS has used, for accounting purposes, the following rates of exchange between Swedish crowns and the other two Scandinavian currencies, the United States dollar as well as the Swiss franc:

Period	100 Danish crowns	100 Norw. crowns	1 US dollar	100 Swiss francs
Oct. – Nov. 1973	72.59	76.24	4.20	140.00
Dec. 1973		80.05	4.40	139.20
Jan. 1974			4.60	
Feb. – March 1974				143.50
April – May 1974				148.00
June – Aug. 1974			4.35	
Sept. 1974			4.50	
As of Sept. 30, 1974	72.59	80.05	4.40	151.50

The item "Currency adjustment" in the balance sheet, MSKR 113.3, represents mainly the net adjustment of long-term debt, translated into Swedish crowns, following from changes in the accounting rates of exchange. Because of the present volatile international foreign exchange markets no part of the currency adjustment has been credited to income.

Note 20 – Subordinated debentures

"Subordinated debentures" represent SAS' two Scandinavian subordinated debenture loans maturing in 1982. Current maturities amounting to MSKR 17.4 are included under "Current liabilities".

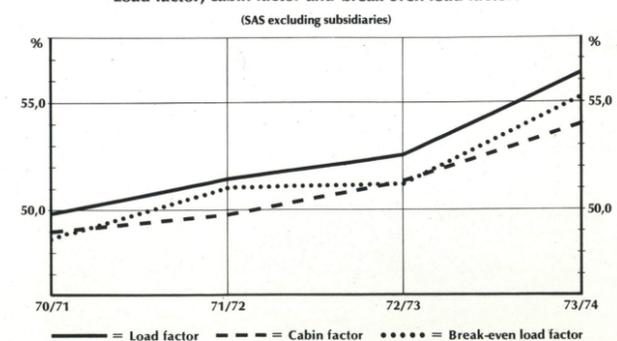
Note 21 – Capital

The capital of SAS was increased in 1973/74 by MSKR 42.0, retained by SAS out of the profit for the year 1972/73, and amounts as of September 30, 1974 to MSKR 764.5 excluding the profit for the year 1973/74. The capital includes reserves and retained earnings in the wholly-owned subsidiaries to the amount of MSKR 25.3, out of which statutory reserves represent MSKR 2.2, and other reserves and retained earnings MSKR 23.1.

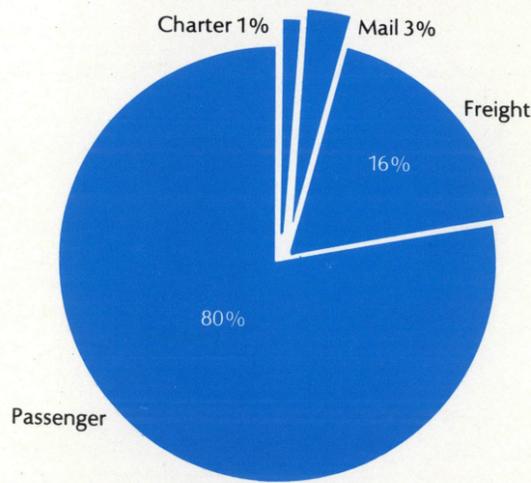
Note 22 – Contingent liabilities and guarantees

Contingent liabilities and guarantees as of September 30, 1974 show a decrease of MSKR 16.3 compared with last year, mainly due to reductions in the loans guaranteed. This item includes guarantees by SAS of 50 per cent of the loans raised by Linjeflyg AB to finance three F-28 aircraft.

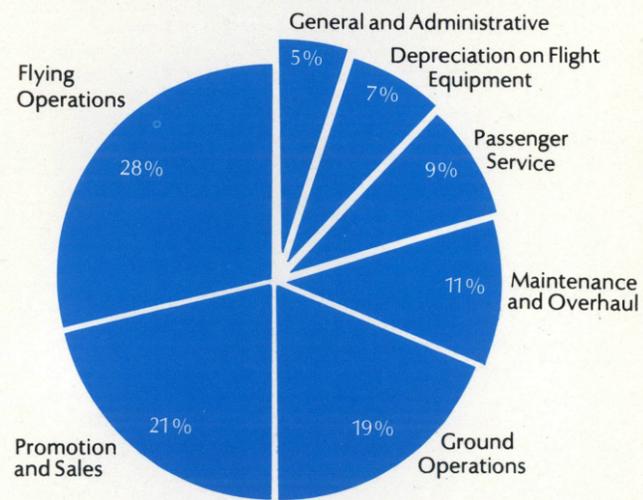
Load factor, cabin factor and break-even load factor.



SAS Traffic Revenue 1973/74

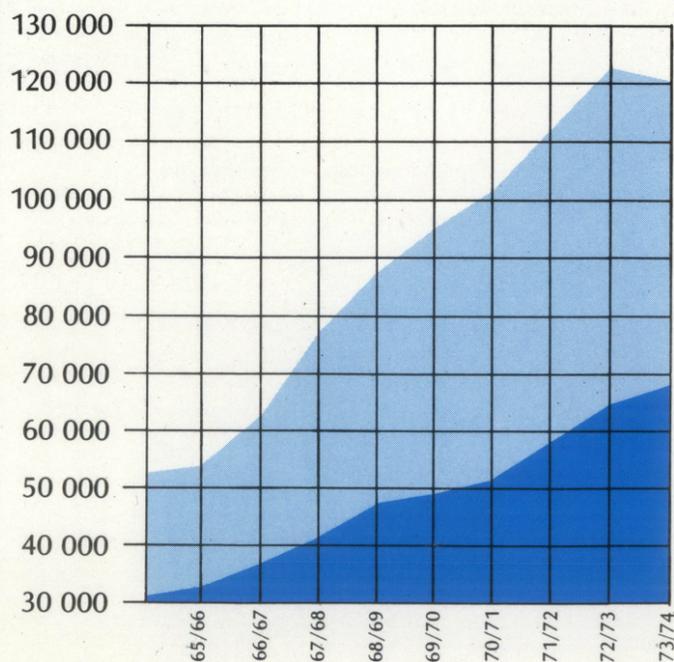


Operating expenses incurred in SAS transportation activities 1973/74

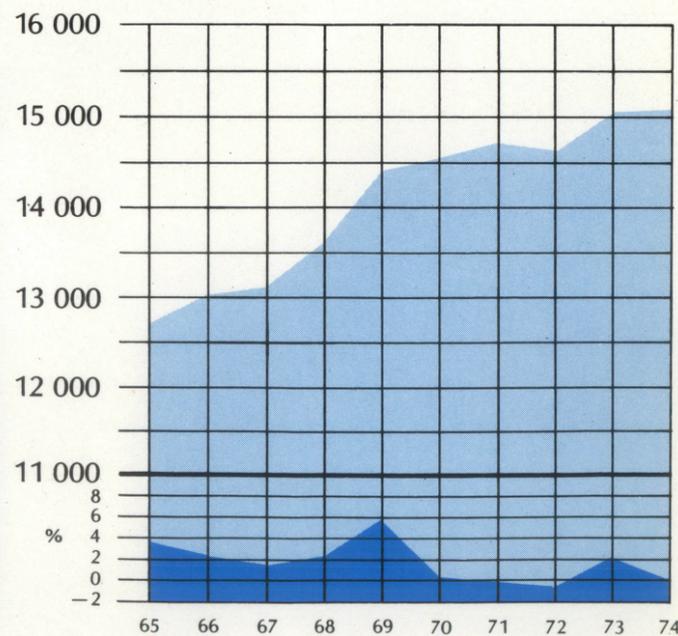


Production and Traffic per Employee

■ Production (avail. ton-kms) per employee
■ Traffic (revenue ton-kms) per employee



Number of Employees and Annual Change in per cent as of Sept. 30



Funds Statement

(in millions of Swedish crowns)

	1973/74	1972/73	1971/72	1970/71	1969/70
Source of funds					
Profit	77.0	84.0	35.0	71.4	88.9
Depreciation	231.9	226.2	201.7	174.2	167.9
Book value of assets sold and retired	38.8	21.5	11.7	26.4	80.0
Other (net)	8.3	11.2	7.7	-4.9	-0.7
From operations	356.0	342.9	256.1	267.1	336.1
New capital from parent companies			70.0		
Borrowing	570.2	256.3	327.8	180.2	392.8
Loans from KSSU-partners	14.6	15.3	16.4	87.0	
Short-term liabilities	179.5	88.6	70.0	106.0	82.8
Long-term lending		2.5	7.8		
Other	22.2	12.2	10.0	10.1	16.1
Sub-total	1 142.5	717.8	758.1	650.4	827.8
Use of funds					
Aircraft, spare engines, spare parts	393.5	126.8	199.4	277.7	365.7
Prepayments on aircraft and flight simulators	61.3	86.6	21.6	45.4	67.4
Loans to KSSU-partners	6.0	1.1	5.1	6.7	
Buildings, etc.	36.2	57.1	23.9	32.2	15.1
Other equipment, supplies, etc.	45.7	44.1	30.7	38.2	25.6
Shares and goodwill	9.0	0.7	15.6	21.5	6.5
Discount on debenture loan			6.6		
Long-term lending	58.1			4.2	5.5
Total investments	609.8	316.4	302.9	425.9	485.8
Accounts receivable and prepayments, etc	117.8	48.7	79.9	19.1	29.9
Amortization on long-term debt	358.5	211.0	183.7	159.5	135.9
Paid to parent companies out of last year's profit	42.0	17.5	35.7	44.4	41.7
Other		13.6	7.9		
Sub-total	1 128.1	607.2	610.1	648.9	693.3
Change in cash and bank balances (including temporary cash investments)	+ 14.4	+ 110.6	+ 148.0	+ 1.5	+ 134.5

Investments in Flight Equipment

	Amounts (in millions of Swedish Crowns)					Total
	No. of aircraft Delivered	No. of aircraft On order	Deliveries 1966/67- 1973/74	Advance payments Sept. 30, 1974	To be paid 1974/75- 1976/77	
747-B	2		454.6		14.7	469.3 ¹⁾
DC-10-30		5	8.9	64.0	575.2	648.1 ¹⁾
DC-8-63	7	}	839.6		3.3	842.9
DC-8-62	8					
DC-9-41	37	}	1 180.1	43.1	71.3	1 294.5
DC-9-33AF	2					
DC-9-21	9					
Total	65	9	2 483.2	107.1	664.5	3 254.8

¹⁾ Includes spare engines and spare parts, as the case may be, held by SAS on behalf of the other partners to the KSSU arrangements as well as loans by SAS to these partners to finance spare engines and spare parts held by them on behalf of SAS.

Auditors' Report

We, the undersigned, appointed in accordance with Article 11 of the Consortium Agreement between AB Aerotransport (ABA), Det Danske Luftfartselskab A/S (DDL) and Det Norske Luftfartselskap A/S (DNL) as auditors of

SCANDINAVIAN AIRLINES SYSTEM
Denmark – Norway – Sweden

having completed our assignment, herewith submit to the Parent Companies our report for the financial year October 1, 1973 – September 30, 1974.

We have examined the Annual Report, which includes the wholly-owned subsidiary companies. To the required extent we have studied the accounting records, minutes and other documents which give information about the economy and administration of the Consortium and have, moreover, taken those measures of inspection which we have considered necessary.

The Internal Auditing Department of SAS, acting in accordance with instructions approved by us, has conducted a continuous check of the accounting records of the Consortium and we have, in the course of the financial year and in connection with the closing of the accounts, received reports on the examination thus conducted.

The accounting records are properly kept.

As is seen from the Report for the financial year there is declared, after depreciation, a profit of 77.0 million Swedish Crowns.

We recommend that the Annual Accounts as of September 30, 1974 which have been submitted and which have been signed by us, be adopted, and that the Members of the Board and the President be discharged from responsibility for their administration in respect of the financial year.

Stockholm, January, 1975

Centralanstalten for Revision

Viking Bergman
Authorized Public Accountant

Erik Sivertsen
Authorized Public Accountant

Stig-Erik Schaumburg-Müller
Authorized Public Accountant

Christian Blom
Authorized Public Accountant

Sten Nackstad
Authorized Public Accountant

Hugo Engmann

Tor Storhaug
Authorized Public Accountant

Aircraft Fleet		No.	30/9-74 Fleet at the end of the year	1974/75 Order	1975/76 Order	1976/77 Order
	747-B	2	☆☆			
	DC-10-30			☆☆	☆☆	☆
	DC-8-63	7	☆☆☆☆ ☆☆☆☆			
	DC-8-62	8	☆☆☆☆☆☆ ☆☆ 1) ☆ 2)			
	DC-8-55	2	☆☆			
	DC-9-41	37	☆☆☆☆☆☆ ☆☆☆☆☆☆ ☆☆☆☆☆☆ ☆☆☆☆☆☆ ☆☆☆☆ ☆☆	☆☆☆☆		
	DC-9-33AF	2	☆☆			
	DC-9-21	9	☆☆☆☆☆☆ ☆☆☆☆			
	CARAVELLE	8	☆☆☆☆☆☆ ☆☆			
	METROPOLITAN	9	☆☆☆☆☆☆ ☆☆☆☆		1) Combined version (CF) 2) All cargo version (AF)	
		84				



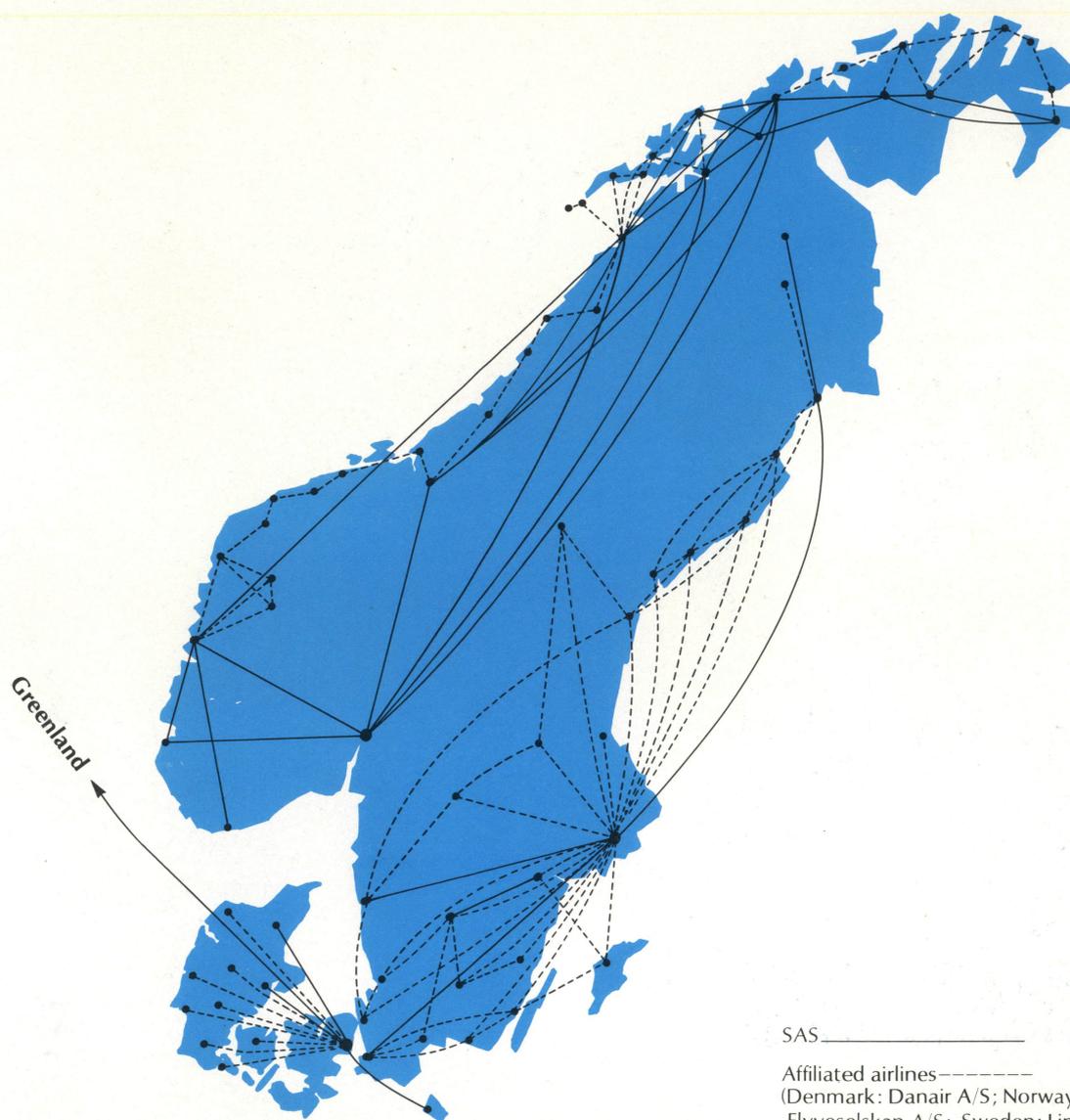
Intercontinental Routes

Scheduled services (Mill.) Last year's figures in brackets	Passenger		Cargo		Mail		Load Factor %	Cabin Factor %
	Pass.- Kms	Change %	Ton- Kms	Change %	Ton- Kms	Change %		
North Atlantic	2 623 (2 664)	- 2	177.7 (156.1)	+ 14	10.8 (10.2)	+ 6	60.6 (52.3)	57.8 (50.5)
Other Intercontinental Routes	1 479 (1 365)	+ 8	84.5 (63.6)	+ 33	10.8 (9.5)	+ 14	57.3 (59.0)	49.4 (51.8)
Total Intercontinental Traffic	4 102 (4 029)	+ 2	262.2 (219.7)	+ 19	21.6 (19.7)	+ 10	59.4 (54.3)	54.4 (51.0)



European (incl. Middle East) and Inter-Scandinavian Routes

Scheduled services (Mill.) Last year's figures in brackets	Passenger		Cargo		Mail		Load Factor %	Cabin Factor %
	Pass.- Kms	Change %	Ton- Kms	Change %	Ton- Kms	Change %		
Middle East	121 (129)	- 6	2.4 (2.7)	- 11	0.5 (0.6)	- 5	46.9 (44.8)	43.9 (42.3)
European Routes	1661 (1607)	+ 3	43.7 (42.0)	+ 4	6.4 (6.2)	+ 1	51.8 (49.9)	53.2 (50.6)
Inter-Scandinavian Routes	426 (383)	+ 11	10.7 (9.5)	+ 12	0.8 (0.7)	+ 23	47.3 (44.6)	49.1 (46.6)
Total Europe, Middle East and Inter-Scandinavian Traffic	2 208 (2 119)	+ 4	56.8 (54.2)	+ 5	7.7 (7.5)	+ 2	50.6 (48.5)	51.4 (49.2)



Scandinavian Domestic Routes

Scheduled services (Mill.) Last year's figures in brackets	Passenger		Cargo		Mail		Load Factor %	Cabin Factor %
	Pass.- Kms	Change %	Ton- Kms	Change %	Ton- Kms	Change %		
Denmark	254 (258)	- 2	1.6 (1.6)	- 3	1.6 (1.5)	+ 15	59.1 (57.0)	60.8 (60.8)
Norway	500 (485)	+ 3	2.7 (2.6)	+ 4	2.3 (2.3)	0	53.0 (53.5)	56.9 (57.7)
Sweden	413 (384)	+ 8	2.1 (2.1)	- 1	2.5 (2.3)	+ 5	53.2 (50.2)	58.0 (55.6)
Total Domestic Traffic	1 167 (1 127)	+ 4	6.4 (6.3)	+ 1	6.4 (6.1)	+ 6	54.3 (53.1)	58.1 (57.6)



The first two of five DC-10-30s on order join the SAS fleet in the autumn of 1974, initially serving Tokyo, New York and the U.S. West Coast.

When delivery of the new DC-9-41s has been completed at the end of 1974, SAS will have a fleet of 52 of these twin-jets in short-range, medium-range and all-cargo versions.



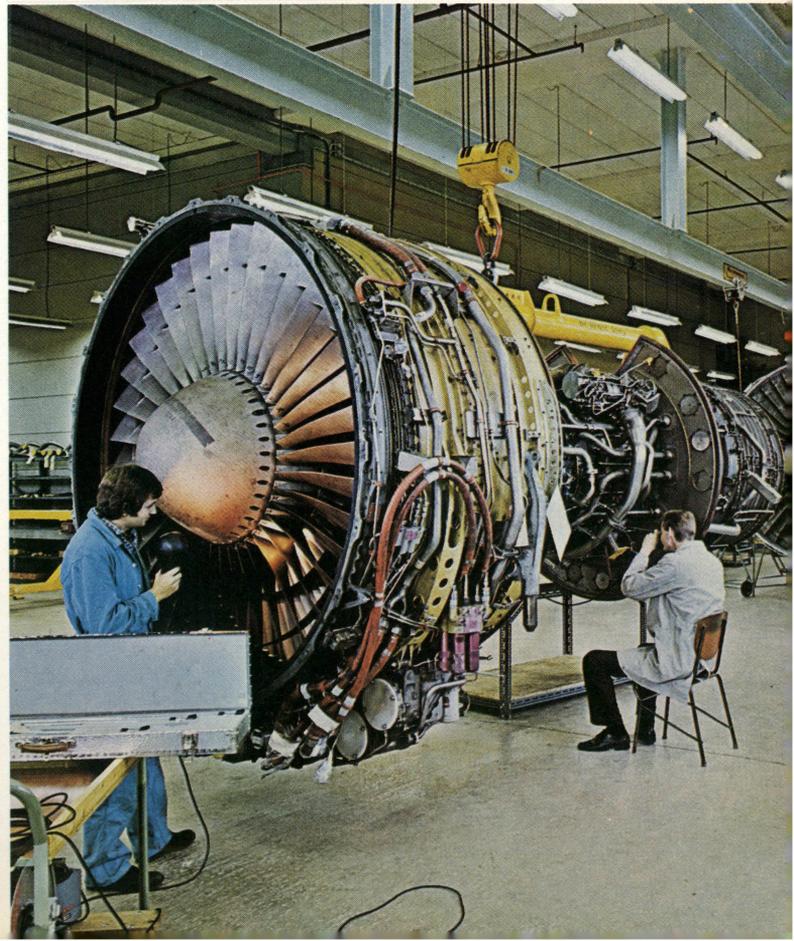


The gigantic hangar built for the SAS 747-B wide-cabin jet is now in use at Arlanda Airport, Stockholm.

After 15 years in the SAS fleet, the Caravelle was retired, the last remaining aircraft being handed over to Scandinavian museums.



A DC-10 engine at Copenhagen Airport where periodic maintenance and engine change can take place.





This is part of the SASCO – SAS Computer System – center in Copenhagen. Passengers have come into indirect contact with SASCO through the new PNR booking sets now being installed at SAS and agents' offices.



SAS is now serving the new Charles de Gaulle Airport, Paris.



The new SAS DC-10-30s will further increase the palletized capacity of SAS Cargo.



A new SAS Through-Pallet service, inaugurated to points in America, with connections via J.F. Kennedy Airport (pictured), Chicago and Montreal.



The administrative departments of SAS Region Denmark have moved to a new office building at Hedegårdsvej 88, near the SAS Globetrotter Hotel, Copenhagen.



SAS Catering's wide-ranging activities now include the supply of food and other provisions to oil rigs in the North Sea.

During the year, the SAS Globetrotter Hotel, Copenhagen, was completely refurnished and redecorated.

Now in the final stages of completion, the Hotel Scandinavia, Oslo, is due to be opened in June 1975. Biggest in Norway, this SAS hotel will be operated by the Western International hotel chain.



Wholly-owned Subsidiaries

SAS Catering and Hotels

During the year, SAS Catering A/S was reorganized into separate subsidiary companies in Denmark, Norway and Sweden. These three companies comprise a consortium named SAS Catering and Hotels, with headquarters in Copenhagen. SAS Catering activities encompass 12 flight kitchens around the world as well as the operation of restaurants, cafeterias and home-delivery meal and party services. SAS Catering is also responsible for the coordination of all SAS hotel activities, including the operation of four. SAS Catering's total revenue for the year amounted to MDKR 402.6, an increase of 14 per cent. The subsidiary serves some 50 airlines in addition to SAS. SAS Catering's flight kitchen results were somewhat affected by the worldwide fuel crisis and inflation which resulted in capacity reductions and slower traffic growth. SAS Catering had an average of 2,057 employees during the year.

SAS-Invest A/S

SAS-Invest A/S owns and operates the SAS Royal Hotel in Copenhagen. The hotel had an occupancy rate of 87 per cent, compared with 90 per cent last year. The hotel was affected by wage inflation and the declining growth in airline travel during the year. Total revenue was MDKR 30.2, an increase of seven per cent. The staff averaged 376.

Nyman & Schultz/Nordisk Resebureau AB

Nyman & Schultz/Nordisk Resebureau AB is the largest IATA travel agency in Sweden. Total sales of travel and related services increased by 27 per cent to MSKR 348.1. Business travel accounted for 68 per cent of total sales, pleasure travel for 21 per cent, and other travel for 11 per cent. Operating revenue increased 22 per cent to MSKR 32.2, mainly derived from commissions. The travel agency averaged 337 full-time employees during the year.

Vingresor/Club 33 AB

Vingresor/Club 33 AB is Sweden's largest producer of inclusive tours with a market share of 25 per cent. Due to rising prices attributed to the fuel crisis and inflation, the number of customers declined from 204,000 to 192,000. Total revenue was MSKR 230.2, an increase of five per cent. Employees numbered 891.

Globetrotter

Globetrotter, arranger of intercontinental inclusive tours on scheduled flights, became a wholly-owned SAS subsidiary during 1973/74 as the Consortium acquired all shares held by previous co-owners. The number of inclusive tour passengers increased four per cent to 18,000. Sales, excluding air fares, increased 36 per cent to MSKR 25.0. Globetrotter averaged 71 employees, including tour conductors abroad.

Copenhagen Air Cargo Center A/S

The Copenhagen Air Cargo Center handled 143,000 tons of cargo 1973-1974. This represents an increase of eight per cent over the previous year's volume. The number of employees averaged 261. Plans are being made to expand the Center from 12 700 m² to 20 600 m² to accommodate even greater demands for cargo handling at Copenhagen Airport.

Affiliated Companies

THAI International

Thai Airways International Ltd. is owned 70 per cent by Thai Airways Company and 30 per cent by SAS. THAI International, which recorded another year of expansion and profitability, carried 977,000 passengers, an increase of almost two hundred thousand. Capacity increased 42 per cent while traffic rose 34 per cent. The load factor was 59.3 per cent as compared to 62.9 per cent the previous year. Passenger capacity was up 38 per cent. Although the number of passengers increased 26 per cent, the cabin factor declined from 63.8 to 59.7 per cent. Cargo and mail traffic increased 60 and 29 per cent, respectively.

THAI International's capacity during the year was only slightly below what had originally been planned as fuel supply problems in the main areas served by the airline were quickly solved.

During the year, one leased DC-8-62 was substituted with two DC-8-63 aircraft, one purchased and the other leased. This brought the number of DC-8s in the fleet up to eight. Rome and Frankfurt were added to the network, services to London were doubled, and the airline, in all, served 22 cities in 18 countries. Best load factors were recorded on routes to Europe and Australia and on the regional services to Japan and Indonesia. The staff at the end of the year numbered 3,534.

Danair A/S

In its third year of operation, Danair — owned 57 per cent by SAS, served eight points within Denmark as well as the Faroe Islands. The airline leases aircraft and crews from SAS and the other two parent companies, Maersk Air and Cimber Air. Danair carried 515,000 passengers, an increase of one per cent. The cabin factor rose from 54.0 to 57.0 per cent. Total revenue was up 14 per cent to 82.2 million Danish crowns.

Linjeflyg AB

Linjeflyg, which is owned jointly by SAS and SAS's Swedish parent company ABA, increased capacity 16.4 per cent during the year. Passenger traffic was up 15.2 per cent but the cabin factor was 51.7 per cent compared to 54.2 per cent the previous year. The airline carried 1,001,579 passengers, compared to 900,700 last year. Total revenue increased 32 per cent to MSKR 183.2.

Share capital in Linjeflyg was increased from MSKR 8.7 to MSKR 24.0.

Linjeflyg operated the year with three Fokker F-28 jetliners and 15 Metropolitans. Four Nord 262 turbo-prop airliners were sold. The airline served 24 destinations in Sweden, with Kramfors in the north being added to the network. Linjeflyg also owns half of Crownair, a feeder and taxi airline, together with the Government. Crownair operates some of Linjeflyg's short-haul services. Linjeflyg employed 795 at the end of the financial year.

Greenlandair Inc.

Greenlandair, which primarily provides scheduled helicopter services to 18 airports and heliports in Greenland, is owned 25 per cent by SAS. The airline carried 80,000 passengers, an increase of 14 per cent. Air mail traffic rose 25 per cent, while cargo traffic was unchanged. At the end of the year the Greenlandair fleet consisted of two DC-6s and 10 helicopters. The company had an average of 180 employees.

Widerøe's Flyveselskap A/S

SAS has a 22 per cent interest in Widerøe, which provides local service with Twin Otter short takeoff and landing (STOL) aircraft to 33 airports along the Norwegian coast. Five air-

ports were opened along the top of North Norway during the year, completing the fourth stage in the expansion of the STOL-network. A summer route was also operated to Oslo for the first time, linking the fjord district at Sogndal. Widerøe has a fleet of nine Twin Otters, two of which were added during the year. A tenth is on order. The airline carried 182,500 passengers, an increase of 30 per cent. Widerøe averaged 140 employees during the year.

Scanair

Scanair is the charter Consortium owned by the three parent companies of SAS. Its fleet of two DC-8s and three 727s during the year provided charter aircraft capacity for the Scandinavian inclusive tour market. Under an interchange agreement with SAS, Scanair also flies 747-B wide-cabin jets to the Canary Islands in peak winter holiday periods, and leases other DC-8 and DC-9 capacity from SAS on an ad hoc basis. In all, Scanair served 37 vacation destinations in 24 countries during the

year. The charter airline flew 626,400 one-way passengers, compared to 735,000 last year. Traffic development was negatively affected by the fuel crisis as well as by political unrest and hostilities in the Middle East and eastern Mediterranean during the year. Total revenue was MSKR 176.9, down nine per cent. Scanair's principal traffic was to and from Spain, with 252,000 passengers; the Canary Islands, with 212,000 passengers, and Greece, with 37,000 passengers. Scanair performed 2,532 round trip charters, down from 2,763 the previous year. The average number of employees was 390.

Scandinavian Star Tour Corporation

In February of 1974, it was decided at a meeting of the shareholders of Scandinavian Star Tour Corporation that the inclusive-tour company should go into liquidation. SAS owned 69 per cent in partnership with travel agencies in Denmark, Norway and Sweden. SAS assumed the responsibility for the fulfillment of Star Tour's financial obligations.

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Norway

Sweden

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Palle Christensen

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Helge Bech-Bruun

Svend Horn

Jens Chr. Hauge

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Per M. Backe

Deputies:

Erik Brofoss

Johan Horn

Curt Nicolin

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Krister Wickman

Deputies:

Peter Wallenberg

Nils Hörjel

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Finance

Gunnar Sandberg

Senior Vice President

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Vice President and

General Manager

Region Denmark

Kai Sørtorp

Vice President and

General Manager

Region Norway

Yngve Wessman

Vice President and

General Manager

Region Sweden

SCANDINAVIAN AIRLINES SYSTEM

Scandinavian Airlines System (SAS) is the designated national carrier of three sovereign nations, Denmark, Norway, and Sweden. The owners of SAS are: Det Danske Luftfartselskab A/S (Danish Airlines), Det Norske Luftfartselskap A/S (Norwegian Airlines), AB Aerotransport (Swedish Airlines). These three limited companies are in turn, through shareholdings, owned 50 per cent by private individuals or enterprises, and 50 per cent by their respective national Governments.



SAS
SCANDINAVIAN AIRLINES SYSTEM