

THE SAS GROUP

SAS DANMARK A/S SAS NORGE ASA SAS SVERIGE AB

The SAS Group's income before taxes amounted to MSEK 1,815 (2,632) in 1996. Return on capital employed was 10%. The equity/assets ratio strengthened to 37% (32%).

An extensive strategic cooperation was started with Lufthansa, United Airlines and Thai Airways International with integration of traffic and bonus programs. This cooperation will be intensified continuously. A letter of intent regarding an alliance was signed with Air Canada.

SAS transported 19,828,000 fare-paying passengers, an increase of 5.3%, to 104 destinations. Together with its strategic partners, SAS offered 535 destinations.

The comprehensive renewal of SAS's fleet began with delivery of six new McDonnell Douglas MD-90s. This aircraft has a very good environmental performance, in line with SAS's ambitious environmental program.



ANNUAL REPORT

1996

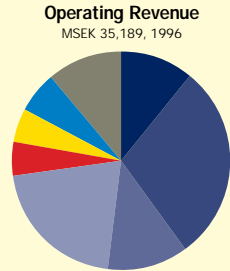


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The SAS Group in Brief

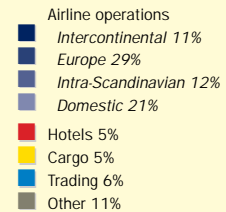
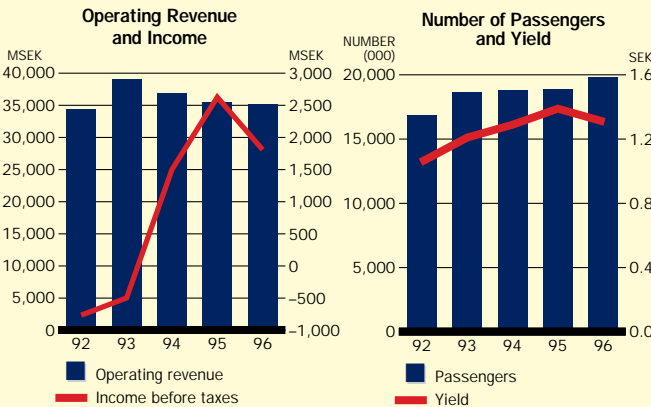
OPERATIONS

The SAS Group conducts passenger air transport operations, freight operations (SAS Cargo), inflight and airport sales (SAS Trading), and hotel operations (SAS International Hotels). SAS offers air services within, to and from Scandinavia, in the form of domestic, intra-Scandinavian, European and intercontinental services. The SAS Group's operating revenue totaled MSEK 35,189 in 1996.



CUSTOMIZED TRAVEL PRODUCTS

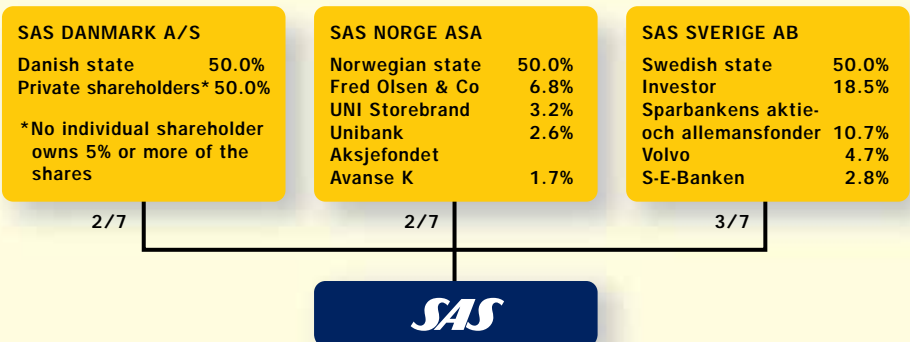
Business travelers are SAS's key target group and the airline's development shall primarily reflect the needs of the business traveler. The EuroBonus bonus program has more than a million members and helps to strengthen customer loyalty. SAS has developed competitive products such as Jackpot to meet the strong expansion in the leisure market. Other specific segments in the leisure travel market will be cultivated with new travel products.



The SAS Group's 1996 income before taxes was MSEK 1,815. Operating revenue decreased to MSEK 35,189. Taking into account exchange rate fluctuations and comparable units, operating revenue rose by 6.8%. The decline in yield was caused by the strengthening of the Swedish krona. Adjusted for currency effects, yield was unchanged compared with 1995.

OWNERSHIP STRUCTURE

SAS is jointly owned by the three companies SAS Danmark A/S, SAS Norge ASA and SAS Sverige AB, whose shares are listed on the stock exchanges in their respective countries. The diagram below shows the five largest shareholders in each company (December 31, 1996).



THE TRAFFIC SYSTEM

SAS has more than 1,000 daily departures to a total of 104 destinations in 34 countries. Cooperation with strategic partners allows SAS to offer competitive and effective transport connections to 535 destinations worldwide.



STRATEGIC ALLIANCES
Lufthansa
United Airlines
Thai Airways International

COOPERATION PARTNERS
AirBaltic
Air New Zealand
British Midland
Icelandair
Qantas Airways
Spanair
Varig

LOCAL PARTNERS
Cimber Air
Widerøe
Skyways

INTERNATIONAL HUBS
The development of SAS's traffic program is dictated by the routes and departures that meet the needs of Scandinavian business travelers. Copenhagen is used as the main hub. Stockholm and Oslo have nonstop routes when this is motivated by demand. Cooperation with Lufthansa makes Frankfurt a strong complement. Other international hubs are London, New York, Chicago, Bangkok and Munich.

FLEET
SAS's fleet comprises a total of 178 aircraft, of which 161 are used in SAS's own operations. 81% are so-called Chapter III aircraft with low environmental impact. SAS ordered 41 Boeing 737-600s in 1995 which will gradually replace older aircraft during the period 1998-2002. More detailed information is provided on page 36.

KEY FIGURES SAS GROUP, SAS AND SAS INTERNATIONAL HOTELS

	SAS Group		SAS		SAS International Hotels	
	1996	1995	1996	1995	1996	1995
Operating revenue (MSEK)	35,189	35,403	33,480	33,819	1,868	1,729
Income before taxes (MSEK)	1,815	2,632	1,744	2,592	65	34
Gross profit margin (%)	10	14	10	13	31	29
Investments (MSEK)	4,202	1,399	4,132	1,289	70	107
Return on capital employed (%)	10	15	10	15	8	7
Number of employees	23,607	22,731	21,348	20,499	2,222	2,201
- of whom women	9,432	8,780	8,171	7,677	1,238	1,117

FINANCIAL INFORMATION FROM SAS

Year-End Report Feb. 17, 1997, Annual Report April 11, 1997
Interim Report I May, Interim Report II August, Interim Report III November
Further information: SAS Public Relations, +46 8 797 00 00. Internet. <http://www.sas.se>

Important Events in 1996



The cooperation with Lufthansa was approved by the European Commission in January. During the year SAS also entered strategic cooperation with United Airlines and revitalized the cooperation with THAI. The companies integrated their traffic and bonus programs. *See page 58.*



Between April and June a number of actions were carried out within SAS's parent companies designed to give SAS a more distinct profile in the capital market. *See page 76.*



On August 1, 1996, it was 50 years since SAS was founded. SAS's 50th anniversary was celebrated on a grand scale during the autumn with numerous activities for employees, former employees, and for customers including special fare and bonus offers.



SAS started a product offensive, including SAS Express ticketless travel, a new commuter product for intra-Scandinavian routes, a new lounge concept, and a new food program – Scandinavian World Cooking. *See page 64.*



The first of eight new McDonnell Douglas MD-90s were delivered in October. The new aircraft are not only the quietest in their class, they are also among the aircraft with least environmental impact in operation today. *See page 36.*



In October a letter of intent regarding an alliance was signed between Air Canada and SAS. This cooperation will come into force in 1997 and will improve air services between Canada and Scandinavia.

A more distinct profile on the stock market

In 1996 SAS's parent companies changed their names to SAS Danmark A/S, SAS Norge ASA and SAS Sverige AB as part of an extensive streamlining and harmonization of SAS's ownership structure. The purpose was to give SAS a more distinct profile in the capital market through three easily comparable parent companies, listed on the stock exchanges in the three countries.

In Sweden there were previously two owner companies, ABA and listed SILA, which made comparisons and valuations difficult. These companies have now been merged to form the new SAS Sverige. In order to make the three SAS shares of equal value, the parent companies have also discontinued all other operations except their participations in the SAS Consortium and the SAS Comuter Consortium. In addition, a uniform share and capital structure has been created through a new issue in SAS Danmark, and a one-time dividend to shareholders in SAS Sverige.

The next step, which is expected to be taken in spring 1997, is to harmonize the management structure, whereby SAS and the parent companies will have an integrated management. This will be done by simplifying the SAS Assembly of Representatives and the boards of the three parent companies, and by SAS's chief executive officer also being appointed president of the three companies. At the same time, the SAS Assembly of Representatives will be given an extended role as a monitoring agency above the SAS Board.

A leveling of valuation of the SAS shares can already be noted following harmonization, particularly between the Danish and Swedish shares. However, there are a number of background factors which prevent complete equality. International investors can have a preference for different national stock exchanges. Specific taxation rules and differences in the liquidity of the three shares can have an impact. There are also variations in general price trends on the three exchanges, which can have an impact

on the SAS share at local levels.

The SAS share developed well in 1995. In 1996 the price trend was below average. This reflects disappointment over the earnings trend. Return on capital employed in SAS decreased from 15% to 10% and return on equity from 18% to 11%.

The negative earnings trend was a result of falling revenues and rising costs, both mainly due to intensified competition in nearly all SAS's markets. SAS chose to meet this new competition on a broad front – primarily by focusing on quality and new products, but also through aggressive fare strategies. We now expect competition to intensify still further in 1997, particularly in SAS's home markets.

SAS intends to have a leading position in Scandinavia. This is not only in line with SAS's original assignment, but also a precondition for being a strong alliance partner and a good investment. Management has been tasked and given a full mandate by the Board to balance short and long-term measures designed to defend and develop this position.

This new situation places extremely high demands on management and on all SAS employees. When revenues are determined by free competition, costs cannot be held as in a monopoly. This is a reality that everyone at SAS must respect. There are also signs today of a willingness to cooperate to achieve this necessary goal.

Finally, I would like to thank management and employees for a job well done during the past year and to encourage them to continue to cooperate and develop a SAS that can stand with the best in every area.



*Copenhagen, March 1997
Hugo Schröder
Chairman of the Board*

Priority for productivity

Following a very good year in 1995, the SAS Group's income before taxes fell to MSEK 1,815 (2,632) in 1996.

Naturally, as President, I cannot be satisfied with this result, but I would like to put the earnings trend in its proper perspective.

The final phase of a multiyear restructuring and cost rationalization program at SAS was concluded in 1995. The effect of this was visible in the record earnings for that year. Unfortunately, the action taken also had an impact on the product – air transport – with essential basic quality such as punctuality deteriorating significantly in the second half of 1995.

The rationalization program involved a reduction in the workforce while production remained at about the same level for several years. We increased production in 1995 in order to meet growth in the market, while carrying out the final phase of the rationalization program at the same time. Hardly surprisingly, this placed a heavy burden on the organization and on individual employees.

A restrained wage trend in 1991–94, combined with the increased workload brought about by rationalization, led to considerable demands for compensation. The result was tough wage negotiations and several labor conflicts at the end of 1995. This made a significant contribution to the quality problems that SAS wrestled with at the end of 1995 and the beginning of 1996.

SAS ON THE OFFENSIVE

To solve the problems related to quality and make expansion possible, SAS increased the average number of employees in 1996 by 4.1% to 21,348 and flight personnel were recruited for the first time in five years.

Other efforts have also proved costly. Following several years of consolidation, SAS has taken action involving a number of investments – in the fleet, systems, product development, marketing and personnel.

A strengthening of personnel and other resources was

essential in 1996 to enable SAS to regain, and raise, the level of service and quality demanded in today's intense competition.

In other words, SAS must maintain a delicate balance. Product quality and therefore competitiveness become threatened when resources are dimensioned below certain critical levels. At the same time, competitiveness is put at risk if costs are allowed to exceed certain critical levels.

The solution to this difficult equation is increased productivity. In 1997 productivity will be given top priority at SAS.

CUSTOMER SATISFACTION THROUGH RATIONALIZATION

Increased production will be achieved, among other things, through more efficient utilization of human resources and by product development which rationalizes and to some extent automates certain aspects of sales and travel production, while focusing on new customer values. Some of the innovations in 1996, such as SAS Express between Oslo and Stockholm, are designed along these lines.

New distribution channels with lower costs, combined with a new commission structure for travel agents based on actual work carried out, are also part of this rationalization process.

In 1996 SAS started cooperating with Lufthansa, United Airlines and THAI, an alliance which will include Air Canada in 1997. The parties are determined to exploit the rationalization potential that exists in traffic systems, marketing and sales, technology and operations. The cooperation with Lufthansa includes a joint airline operation between Germany and Scandinavia, in which ground services have been coordinated. Although its full impact has not yet been achieved, this joint operation contributed at least MSEK 100 to earnings for the

year, which indicates the potential of these alliances.

I am convinced that significant improvements in productivity can be achieved as a result of the broad consensus which has emerged between management and the unions during the year. Today we are in total agreement that productivity and profitability must be improved. The measures planned will be introduced in stages during the year.

A new atmosphere among all personnel was particularly obvious during SAS's 50th anniversary, which was celebrated with a number of internal and external activities during the year. There was unmistakable pride in having successfully carried out for half a century our founders' mission, to provide Scandinavia with effective air services. The willingness to continue to do just that was equally obvious. Personally, I find a very strong determination throughout the organization to cope with the tough challenges that undoubtedly lie ahead.

DETERMINED
COMPETITION HAS ITS PRICE

In 1996, competition intensified on almost all the route sectors served by SAS. Increased seat availability puts pressure on fares and cuts capacity utilization. At SAS the number of fare-paying passengers increased by 5% and the trend was the same for passenger revenues, adjusted for currency effects. This meant that yield adjusted for currency effects remained unchanged compared with the previous year. However, capacity utilization, the cabin factor, fell to 63.6% (65.1%).

Ever since the early 1980s, when SAS adopted its "Businessman's Airline" strategy, SAS has put yield before capacity utilization. In other words, destinations, frequencies and flight times, have been planned to satisfy the main target group, the full-fare passengers, rather than to fill the last seat on the aircraft. A confirmation that the Businessman's Airline strategy is correct, is the positive yield trend over the years. Inevitably, this strategy has given SAS a comparatively low cabin factor.

In recent years, the leisure travel market has grown faster than the market for business travel. Businessmen are also choosing discount travel to a growing extent. This, combined with the new competitive scenario with a sharp increase in services in Scandinavia, is putting pressure on yield. SAS will compensate for this by active sales of empty seats in various ways, in other words by complementing the main strategy with a stronger product for the leisure traveler.

A determination such as SAS's to meet this competition not only with price, but also with improved quality and an assertive focus on products, will have an effect on costs. In the airline operations unit costs, adjusted for currency effects, rose 2.4% during the year. This figure

includes costs outside the company's control, such as aviation fuel prices, which increased by 18% in 1996.

Competition has continued to intensify in the first quarter of 1997, and it is clear that the fight this year will be particularly tough in the capital triangle Copenhagen-Oslo-Stockholm. I wish to make it entirely clear that SAS intends to defend its home market with every means at its disposal, and that we will do this aggressively.

SAS WILL ADOPT A
LONG-TERM APPROACH

SAS is therefore facing major commitments and we have the operational and financial resources to succeed. SAS's equity/assets ratio is 37% and we have SEK 11 billion in the kitty and the means to raise additional capital.

In the present market situation, SAS cannot promise an immediate improvement in earnings. Competing effectively in the coming year will put some pressure on profitability. But SAS's strong financial position provides scope for assertive action in the market which will provide the basis for sustained profitability in the slightly longer term.

We can actually afford a long-term approach to our thoughts and actions – in the best interests of our customers, our shareholders, and our employees.

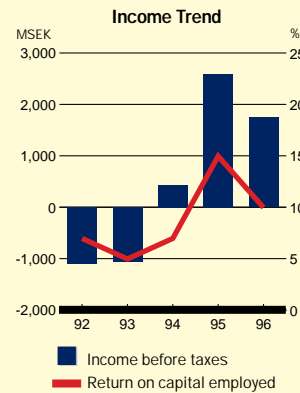


Stockholm, March 1997
Jan Stenberg
President and CEO

Fierce competition and increased costs reduce the impact of increased traffic

SAS

Statement of Income (MSEK)	1996	1995
Passenger revenue	25,390	25,646
Freight and mail revenue	1,841	1,734
Other traffic revenue	929	669
Total traffic revenue	28,160	28,049
Leasing revenue	238	382
Other operating revenue	5,082	5,388
Total operating revenue	33,480	33,819
Operating expenses	-30,054	-29,302
Operating income before depreciation	3,426	4,517
Depreciation, etc.	-1,761	-1,652
Income after depreciation	1,665	2,865
Net financial items	-19	-358
Income after net financial items	1,646	2,507
Income before taxes	1,744	2,592



SAS comprises SAS's airline operations, SAS Cargo and SAS Trading, including subsidiaries related to these operations, SAS Commuter and joint-Group costs.

SAS's 1996 operating revenue amounted to MSEK 33,480 (33,819), a reduction of 1% compared with the previous year. Adjusted for currency effects and comparable units, operating revenue rose by 5.9%. Passenger revenue adjusted for currency effects increased by 5.2%. This increase is related entirely to rising traffic volume since yield was unchanged compared with 1995. The number of fare-paying passengers rose to 19,828,000 (18,835,000).

Total costs amounted to MSEK 30,054 (29,302), an increase of 2.6%. Excluding currency effects and comparable units, the increase was 9.7%.

Adjusted for currency effects of approximately MSEK 700, payroll costs increased to MSEK 9,543 as a result of new employees, new wage agreements and a wage drift due to seniority. The average number of employees totaled 21,348, an increase of 4.1% over the previous year.

As a result of a substantial increase in aviation fuel prices, fuel costs rose by MSEK 357 to MSEK 2,109. This increase was compensated to some extent however, by positive currency effects.

Gain on the sale of aircraft and other fixed assets, as well as minority shares, amounted to MSEK 98 (85).

Income before taxes was MSEK 1,744 (2,592). The gross profit margin, calculated on operating income before depreciation, amounted to 10.2% (13.4%).

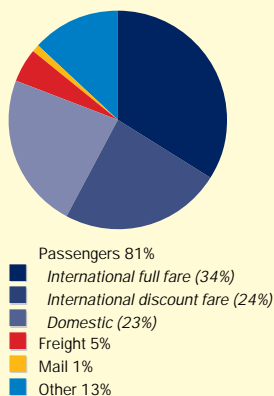
PASSENGER TRAFFICTREND

Traffic measured in RPK increased 5% on all SAS's routes during the year. The increase was 3% in EuroClass and 6% in tourist class. Available capacity, measured in ASK, rose by 8% at the same time, which led to a reduction in the cabin factor to 63.6% (65.1%).

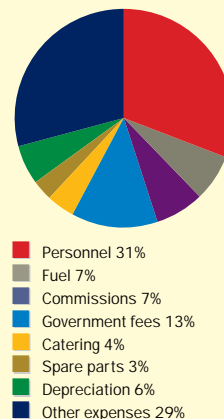
The strongest growth was noted on Norwegian domestic routes, with an increase of 11% in EuroClass and 9% in tourist class. Strong growth was also noted on intra-Scandinavian routes, while traffic volume decreased for Danish domestic services, due to reduced EuroClass traffic.

OPERATIONS

SAS Revenues, 1996



SAS Expenses, 1996



INTERCONTINENTAL ROUTES

The cooperation with Continental Airlines ceased at the beginning of the year and a new cooperation was started with United Airlines in April. Cooperation with Thai Airways International began in June and includes code-sharing on each company's Bangkok-Scandinavia routes. Fierce competition meant that profitability failed to reach the excellent level of the previous year.

Traffic on North Atlantic routes developed slightly less favorably than expected, although the Stockholm-New York route had a good result due to a high proportion of EuroClass passengers and a positive yield trend. Fare competition on other New York routes was intense. Growth in volume was less than anticipated since SAS did not choose to meet its competitors' often extremely low fares. Traffic to both Chicago and Seattle developed well.

Asian services encountered difficulties, mainly attributable to the Osaka routes which were suspended on March 1, 1997. Routes to Bangkok and Singapore were under pressure in the tourist segment, mainly in services to Indonesia and Australia. A fifth frequency will be introduced to Hong Kong in 1997. The route to Delhi developed increasingly well in the latter part of 1996. The traffic trend to Peking is positive and SAS plans to open a fifth frequency in 1997.

EUROPEAN ROUTES

New frequencies were started during the year on the Stockholm-Manchester, Copenhagen-Newcastle, Stockholm-Amsterdam and Stockholm-Vilnius routes. A second Boeing 767 has been put in on the London route which made a positive contribution to improving the position in relation to British Airways. The competitive situation was further aggravated during the year, among other things on the London and Brussels routes. SAS succeeded, however, in maintaining both traffic and market shares.

Services to both Finland and Austria are facing

greater competition from Finnair. The cooperation started with Lufthansa has had a very positive impact on both profitability and traffic in Germany, particularly in tourist class. Transfer traffic via Frankfurt and Munich developed very well: the number of transfer passengers doubled during the year.

A shortage of pilots had a negative impact on traffic in Southern Europe, particularly Istanbul, Rome and Athens, which led to canceled flights.

In Central and Eastern Europe, positive development was noted on services to Moscow, Poland and Hungary. Kaliningrad did not develop as planned and services to Minsk were suspended during the year.

INTRA-SCANDINAVIAN ROUTES

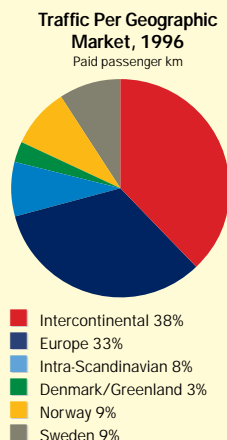
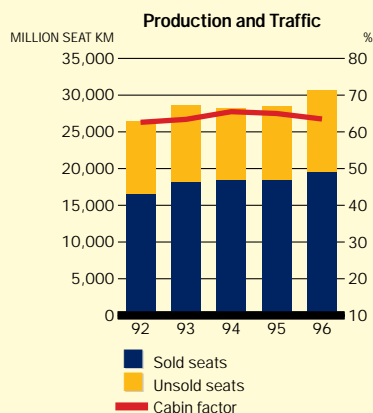
A general shift among business travelers from EuroClass to tourist class and fare competition contributed to a slight decline in yield and to a less satisfactory result in this traffic area.

Services within the triangle formed by the three capitals was 5% up on the previous year in spite of mounting competition, from Braathens on Norwegian routes and from a number of players on the Stockholm-Copenhagen route. Very favorable development was noted for traffic on the Copenhagen-Bergen and Copenhagen-Stavanger routes, with increases of 18% and 16% respectively over the previous year. The Copenhagen-Karlstad route is going very well.

DANISH DOMESTIC AND GREENLAND

Traffic developed less well than planned and decreased by 2% due to increased competition and unsatisfactory regularity and punctuality. The cooperation with Cimber Air was extended during the year to include all three of SAS's Danish domestic destinations. This gave SAS a stronger competitive position, particularly against British Airways Express.

OPERATIONS



NORWEGIAN DOMESTIC

Measured in number of passengers the Norwegian domestic market increased by 12% in 1996. SAS increased its production by 13% and could thus recapture the market shares that were lost in 1995. Regularity and punctuality improved during the year. SAS's market share on the main route network rose to 41.3% during the year and to 44.5% on routes to and from Oslo.

SWEDISH DOMESTIC

The total domestic market increased by 0.5% in 1996 to 6.6 million passengers. SAS's share of the total domestic market decreased somewhat, from 64% to 63%, as an effect of continued tough competition from X2000 and new operators such as Nordic European. In general, however, fare pressure has eased.

OPERATIONS

TOTAL PASSENGER TRAFFIC TREND

SAS total	1996	1995	Change, %
No. of passengers (000s)	19,828	18,835	5.3
ASK (millions)	30,646	28,447	7.7
RPK (millions)	19,487	18,506	5.3
Cabin factor (%)	63.6	65.1	-1.5*
Yield (not adjusted for currency effects)	1.31	1.39	-5.8
EuroClass (% of passengers)	31.6	32.1	-0.5*

To meet anticipated growth in travel, SAS increased its available production capacity, ASK, by 7.7% in 1996. Growth in revenue passenger kilometers amounted to 5.3%, mainly attributable to intercontinental and European routes. The strongest growth occurred on Norwegian domestic routes, with an 11% increase in EuroClass and 9% in tourist class. Yield adjusted for currency effects was unchanged compared with 1995.

INTERCONTINENTAL ROUTES

Intercontinental	1996	1995	Change, %
No. of passengers (000s)	1,055	1,005	5.0
ASK (millions)	9,723	9,140	6.4
RPK (millions)	7,441	7,112	4.6
Cabin factor (%)	76.5	77.8	-1.3*

Traffic on intercontinental routes rose by 4.6% during the year, with a 7% increase in EuroClass and 3% in tourist class. Fierce fare competition characterizes the North Atlantic routes and towards the end of the year the competitive climate had also intensified on Asian routes. Capacity utilization remained high. The majority of passengers fly tourist class. Yield adjusted for currency effects rose by 1%.

EUROPEAN ROUTES

Europe	1996	1995	Change, %
No. of passengers (000s)	6,371	5,908	7.8
ASK (millions)	11,572	10,672	8.4
RPK (millions)	6,407	6,005	6.7
Cabin factor (%)	55.4	56.3	-0.9*

Total traffic on European routes increased by almost 7% during the year. Available capacity increased slightly more, which led to a lower cabin factor. West European traffic increased by 8% in EuroClass and 6% in tourist class. The corresponding figures for Central and Eastern European traffic were unchanged in EuroClass and a 10% increase in tourist class. Yield adjusted for currency effects was unchanged compared with 1995.

INTRA-SCANDINAVIAN ROUTES

Intra-Scandinavian	1996	1995	Change, %
No. of passengers (000s)	3,721	3,461	7.5
ASK (millions)	2,597	2,444	6.3
RPK (millions)	1,566	1,449	8.1
Cabin factor (%)	60.3	59.3	1.0*

Intra-Scandinavian traffic increased by 8%, representing an increase in EuroClass of 6% and 10% in tourist class. Summer campaigns contributed to the increase in tourist class and a higher cabin factor. Yield adjusted for currency effects decreased by 2%.

DANISH DOMESTIC AND GREENLAND

Danish Domestic	1996	1995	Change, %
No. of passengers (000s)	1,411	1,470	-4.0
ASK (millions)	782	768	1.8
RPK (millions)	478	488	-2.0
Cabin factor (%)	61.1	63.6	-2.5*

In 1996, Danish domestic traffic decreased by 2%. In EuroClass traffic decreased by 9%, while the trend in tourist class was highly positive compared with 1995, an increase of 10%, due among other things to marketing campaigns.

A small increase in traffic was noted for services to Greenland with EuroClass developing particularly well. Yield adjusted for currency effects decreased by 2%.

NORWEGIAN DOMESTIC

Norwegian Domestic	1996	1995	Change, %
No. of passengers (000s)	3,379	3,014	12.1
ASK (millions)	2,965	2,615	13.4
RPK (millions)	1,756	1,606	9.3
Cabin factor (%)	59.2	61.4	-2.2*

Norwegian domestic traffic had strong growth in both EuroClass and tourist class with an increase over 1995 of 11% and 9% respectively. The greatest increase was in southern Norway with 16%, an effect of more frequencies on the Oslo-Trondheim route since year-end 1995. Yield adjusted for currency effects decreased by 1% compared with 1995.

SWEDISH DOMESTIC

Swedish Domestic	1996	1995	Change, %
No. of passengers (000s)	3,891	3,977	-2.2
ASK (millions)	3,007	2,808	7.1
RPK (millions)	1,839	1,846	-0.1
Cabin factor (%)	61.1	65.7	-4.6*

Traffic in tourist class increased by 6% over 1995, due among other things to the extended traffic program in April and the introduction of a new fare concept. Business travel decreased during the year by 5% (excluding the suspension of the Stockholm-Visby route on October 1) but a clear improvement has been noted since the autumn.

In spite of the reduced number of EuroClass passengers, total revenues rose by 2% compared with 1995. Yield adjusted for currency effects increased by 3%.

* Change in percentage points.

Definition of Terms

ASK, AVAILABLE SEAT KILOMETERS. The total number of seats available for passengers multiplied by the number of kilometers they are flown.

RPK, REVENUE PASSENGER KILOMETERS. The number of fare-paying passengers multiplied by the number of kilometers they are flown.

CABIN FACTOR. Relation between RPK and ASK expressed as a percentage. Describes the utilization level of available seats. Also called capacity utilization.

YIELD. Average amount of revenue received per RPK.

SAS CARGO

STRONG PRICE PRESSURE

SAS Cargo conducts air freight operations and works with four main products: SAS General Cargo, SAS Priority, Jetpak and Air Mail.

Operating revenue increased by 6.6% in 1996 but the earnings trend was negative due to extremely tough competition. An increase of available freight capacity has led to price pressure and SAS Cargo is also experiencing intensifying competition from integrated operators and truck systems.

Work on the new terminal at Newark Airport in New York is progressing as planned. SAS Cargo has concluded agreements for new freight terminals in Copenhagen and Oslo.

During the year SAS Cargo signed an agreement for the development of a modern computer system for the entire freight operations which will be implemented in 1997 and 1998. The design and increased functionality of this system is expected to place SAS Cargo in a better competitive position.

SAS has taken a number of measures designed to

Freight and Mail Traffic

	Freight		Mail	
	Million tonne	Change %	Million tonne	Change %
12 months				
Intercontinental	561.8	43	24.8	0
Europe	41.3	0	14.2	-9
Intra-Scandinavian	6.0	2	1.5	-21
International	609.1	38	40.4	-4
Denmark	4.0	-4	2.4	9
Norway	4.8	-3	5.1	7
Sweden	2.4	-9	0.2	-23
Domestic	11.2	-5	7.8	6
TOTAL	620.3	37	48.2	-3

improve capacity utilization and create growth in both volume and yield. One example is a more extensive cooperation with Lufthansa Cargo aimed at improving position and product range in the Scandinavian market. Efficiency will be enhanced through better capacity utilization and administrative savings. SAS Cargo also started a freight cooperation with United Airlines in 1996.

SAS TRADING

AMONG THE LEADERS IN DUTY FREE

SAS Trading is one of the leading operators in duty-free sales and conducts operations in some 40 stores at 29 airports in five countries. SAS Trading also handles inflight sales on SAS and Spanair's aircraft and conducts purchasing cooperation with other operators, including Silja Line and Premiair.

Revenues totaled MSEK 2,161 (2,495) during the year. Profitability was good. The main part of operations is concentrated to Sweden and Norway.

The year was characterized by intensive marketing activities. The rebuilding of the duty-free store at Fornebu Airport led to a substantial increase in sales and earned international recognition. This included one of the most prestigious awards in the industry, the Frontier Award, for the best perfume store. The customer loyalty program, taxfree Plus, was also launched in Norway.

The development of a concept to strengthen the airports as marketplaces was intensified through the development of the EGO drugstore concept and the BRANDS clothes concept. SAS Trading has also started to launch its own ready-to-wear product line under the "Captain's

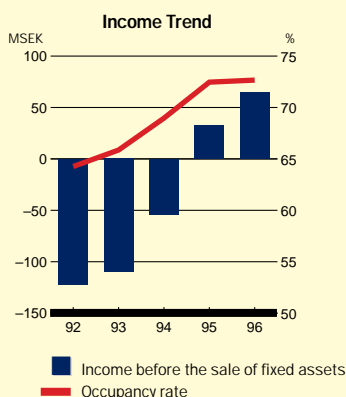
Choice" brand name.

Sales onboard developed favorably on intercontinental routes and continued rationalization took place through the installation of more point-of-sale terminals.

SAS Trading is now on the Internet where customers can obtain information and order most of the range carried by the stores. The visiting frequency is high.

Intensive lobbying is taking place among various stakeholders to try to reverse the decision to end duty-free sales within the EU or have the final date postponed. SAS Trading's strategic work is focused on handling either an extension of duty-free trading or its cessation on July 1, 1999.

SAS INTERNATIONAL HOTELS



16 NEW HOTELS

SAS International Hotels operates first-class hotels for business and leisure travelers, primarily in Europe, the Middle East and North Africa. These operations are conducted under the name Radisson SAS Hotels Worldwide (RSH), Europe's fastest growing chain in its category.

Operating revenue totaled MSEK 1,868 (1,729) in 1996, representing an increase of 8%. Adjusted for currency effects, the increase was 14%, mainly attributable to increased capacity and improved sales in the hotels. The number of hotels rose by 16 during the year. Including hotels operated under management contracts and franchise agreements, revenues amounted to MSEK 5,350 (3,630).

Income after net financial items doubled to MSEK 65 (34). In addition to the positive revenue trend and improved net financial items, a strong focus on cost efficiency contributed to this improvement in earnings. The gross profit margin rose to 31%, a high level in the competitive North European market, where most of the hotels are located.

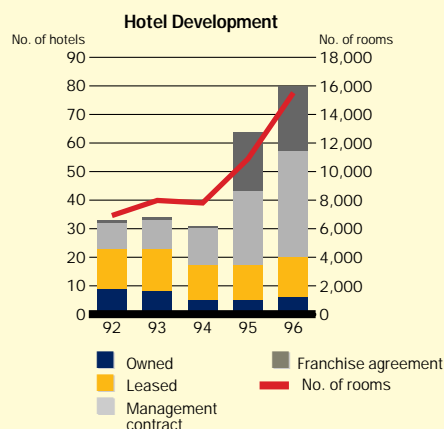
The occupancy rate in the hotels was 72.7%, the highest since 1985.

FAVORABLE MARKET CONDITIONS

Market conditions mainly developed favorably for RSH in 1996. There was no marked increase in availability of hotel rooms in any of the markets and demand was high, particularly in the Scandinavian countries, the U.K. and the Netherlands. Demand in Germany, and in countries whose economies have links with Germany, remains weak although some improvement was noted towards year-end.

STRONG POSITION

RSH continued its expansion in Scandinavia, Southern Europe and the Middle East in 1996 and the number of



hotels rose to 80 in 23 (20) countries. Nine of these hotels will open in 1997 and 1998.

In Norway, hotels opened in Trondheim, Stavanger (2), Bergen, Kristiansand and Oslo/Gardermoen (opening 1998). A hotel will be added in Manchester, England, in 1998 and a hotel will open in Vilnius, Lithuania, in 1997. Three new hotels were added to the chain in Germany: in Merseburg, Lübeck and Dresden (opening 1997). Two new hotels were opened in Southern Europe in Milan and Lisbon. Finally, two hotels in Jordan, in Amman and Aqaba, joined the chain. Due to the new hotel in Trondheim, the management contract with SAS Grand Hotel Trondheim was terminated during the year.

EXPANSION STRATEGY

RSH has been in a phase of very strong growth for a number of years. Since 1994 the number of hotels in the chain, including those yet to open, has increased by 158%, from 31 to 80. Since this increase is mainly attributable to hotels operated under management contracts or franchise agreements, this has been achieved with limited capital investment. Of the some 50 hotels added in recent years, only 11 were financed by RSH. The strategy for RSH is based on expansion in Europe, the Middle East and North Africa. The link with SAS EuroBonus and other associated customer loyalty programs provide excellent opportunities to attract hotel guests.

Continued growth will take place with a special focus on the U.K., Germany, Eastern and Central Europe, as well as major cities such as Paris, Frankfurt and Madrid.

RSH expects brand name recognition to improve still further, among other things due to the hotels recently added to the chain. In combination with a favorable market trend, 1997 should be a successful year for RSH.

Board of Directors' Report

Report by the Board of Directors and the President for the fiscal year January 1 – December 31, 1996.

THE SAS GROUP 1996

The SAS Group's financial statements are prepared in accordance with International Accounting Standards (Figures in parentheses refer to 1995.)

In 1996, SAS made considerable efforts to improve the basic quality of its service and the delivery level of its operations. Measures such as strengthening resources and adjustments to the traffic program meant that improvements could be noted by the second quarter. In the second half of the year, SAS's regularity was above standard and SAS was once again one of the most punctual airlines in Europe.

MARKET

Deregulation of the civil aviation market in Europe will be completed on April 1, 1997, when airlines throughout the EEA (EU plus Norway and Iceland) will have full access to domestic markets as well. Both in Scandinavia and worldwide air travel has enjoyed stronger growth than the economy as a whole. Leisure travel is increasing more than business travel.

In 1996 air traffic in Europe within the Association of European Airlines, AEA, increased by 6%. SAS's traffic growth in Europe was 7%.

Increased available capacity, on the other hand, exceeded the traffic base. This led to overcapacity and put pressure on the cabin factor (capacity utilization).

The Swedish domestic market stagnated in 1996. SAS had largely the same traffic as in the previous year but a reduced market share of 63% (64%). The growth in Norwegian domestic services, on the other hand, was approximately 10%. SAS increased its production by 13% and market share rose to 41.3% (40.4%). In the Danish domestic market, SAS's market shares fell to 51.4% (57.3%) in intensifying competition.

In 1996 competition intensified considerably in the Scandinavian market. Eight new competitors introduced services in or to SAS's home market. This increased competition led to considerable pressure on fares and SAS's yield stagnated, adjusted for currency effects, for the first time in three years.

In the so-called capital triangle, Copenhagen-Stockholm-Oslo, services started to be exposed to competition.

ALLIANCES

In 1995 SAS and Lufthansa concluded an agreement on an extensive strategic cooperation, which started at the beginning of 1996. The cooperation with Lufthansa has been highly successful and has strengthened the profitability of traffic to and from Germany, while both parties have provided each other's traffic systems with considerable transfer traffic.

In the first half of 1996, the alliances with United Airlines and Thai Airways International came into force. A letter of intent regarding an alliance with Air Canada was signed in the autumn. This cooperation will take effect in 1997.

There are also several alliances outside this common structure. SAS with partly owned British Midland, Spanair and AirBaltic, as well as with Icelandair and Varig. In line with this strategy, SAS increased its stake in AirBaltic to 28.5% in 1996. Locally in Scandinavia, SAS cooperates with Danish Cimber Air, Norwegian Widerøe, and Swedish Skyways.

Radisson SAS Hotels Worldwide, which is Europe's fastest growing first-class hotel chain and has 80 hotels in 23 countries, is the cornerstone of SAS's hotel cooperation. SAS also cooperates with more than 200 other hotels worldwide.

HARMONIZATION OF SAS'S PARENT COMPANIES

In order to reduce the differences and increase comparability between SAS's three parent companies, facilitate effective valuation of their shares, and improve SAS's ability to attract venture capital on competitive terms, a number of transactions were decided and implemented during 1996 in order to achieve the desired streamlining and harmonization.

All the parent companies' properties were sold to SAS on April 1 for a total purchase price of MSEK 1,551, broken down with MDKK 158 for SAS Danmark A/S, MNOK 207 for SAS Norge ASA, and MSEK 1,140 for SAS Sverige AB.

SAS's capital account was increased by a total of MSEK 1,400 on June 20, 1996, with SAS Danmark A/S and SAS Norge ASA each providing MSEK 400, and MSEK 600 from SAS Sverige AB.

PERSONNEL

The average number of employees in the various business units of the SAS Group in 1996 was 23,607 (22,731). Of this total, 21,348 (20,499) were employed at SAS and 2,222 (2,201) at SAS International Hotels.

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

The average number of employees in the SAS Consortium amounted to 19,463 (18,710), including 6,886 (6,216) in Denmark, 4,338 (4,113) in Norway, and 6,752 (6,959) in Sweden.

The SAS Group's total payroll costs, including payroll-related costs, amounted to MSEK 10,027 (9,711). Corresponding costs for the SAS Consortium amounted to MSEK 8,483 (8,185) (see also Note 3).

Average number of employees – 1996 SAS Group	1996		1995	
	Men	Women	Men	Women
Denmark	5,252	2,816	4,867	2,436
Norway	3,409	2,167	3,475	1,878
Sweden	4,647	3,286	4,743	3,354
U.K.	187	285	183	232
Germany	183	184	208	248
France	29	62	26	49
Finland	40	72	37	68
Belgium	38	33	36	33
USA	93	170	85	132
Japan	29	14	29	11
Other	268	343	262	339
Total	14,175	9,432	13,951	8,780

BENEFITS PAID TO SENIOR EXECUTIVES

In 1996, SEK 2,076,000 was paid to members of the SAS Consortium's Board of Directors, of which SEK 347,000 to the Chairman of the Board, a total of SEK 575,000 to the two Vice Chairmen, and a total of SEK 1,154,000 to other Board members including employee representatives. In addition, a total of SEK 384,000 was paid to deputy members of the Board. These fees are decided by SAS's Assembly of Representatives.

During 1996 no member of the Board was employed by 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 carried out in the SAS's Group's finance committee.

The salary and value of benefits paid to the SAS Consortium's president, who also serves as chief executive officer, totaled SEK 6,914,549 in 1996, of which SEK 1,079,500 pertained to a bonus for 1994.

The president's retirement age is 62. Pension is based on salary at retirement date and between the age of 62 and 65 comprises 41.6% of pensionable salary expressed at the 1996 level, and 38.3% from the age of 65. Other senior executives in the Consortium earn entitlement to pension at 60 years of age, and earn on a straight-line basis up to retirement age a pension of up to 70% of pensionable salary up to 30 base amounts (SEK 1,089,000). Alternatively, a plan is provided based on premiums paid on salaries up to 30 base amounts.

Severance pay is payable to the president and other senior executives in the Consortium, in the event employment is terminated by SAS for reasons other than breach of contract or disregard of responsibilities. The amount corresponds to two annual salaries of which up to 50% shall be 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 ownership interests or cooperation.

SAS AND THE ENVIRONMENT

The first six of SAS's order for a total of eight McDonnell Douglas MD-90s were delivered in the autumn. These aircraft are among the best in their class in terms of environmental performance, particularly with regard to noise. Fuel consumption and therefore carbon dioxide emissions are 30% less than the DC-9s the new aircraft are replacing. Noise level is below the requirements for Chapter III aircraft – the lowest for any jet aircraft of this size.

Extensive environmental projects were also carried out in the cabin and ground operations designed to combine a reduction in emissions, lower consumption of raw materials, energy and water, and lower waste volumes, to give an improved total economy.

SAS is an active participant in a number of international forums engaged in drawing up guidelines for air transport. In the Scandinavian countries SAS has an ongoing dialog with civil aviation administrations and environment ministries about future environmental control of air traffic.

SAS has emergency procedures to deal with crashes, accidents or incidents which lead to contamination, and performs regular preventive maintenance on tanks, containers, pipes, etc., in order to limit the risk of contamination.

A detailed account of goals, strategies, organization and

performance within environmental work is provided in SAS's separate environmental report for 1996.

AFFILIATED COMPANIES

Affiliated companies are those in which the SAS Group's ownership stake is between 20% and 50%. They include Airlines of Britain Holding PLC (40%), Spanair S.A. (49%), Polygon Insurance Company Ltd (30.8%), and AirBaltic (28.5%).

Airlines of Britain Holdings PLC's earnings developed favorably during the year. This applies particularly to both British Midland Airways and British Regional Airlines. The number of passengers increased and the cabin factor improved over the previous year. Airlines of Britain Holdings PLC's income after taxes amounted to MGBP 6 (4). SAS's share of this result, including a MSEK 27 (29) amortization of goodwill and a MSEK 8 (22) adjustment to the 1995 result, amounted to MSEK 5 (2).

Spanair had 3.4 million (3.1) passengers in 1996. The traffic system covers approximately 100 destinations in Europe, the U.S. and Central America. The airline also conducts domestic services from both Madrid and Barcelona with a total of 14 routes. Income after taxes amounted to MSEK -28 (16). SAS's share was MSEK -14 (8).

AirBaltic Corporation SIA, Latvia's national carrier with the Latvian state as majority owner, extended its organization and route network as planned during the year. The costs for this were charged to income for the year. This expansion phase, however, coincided with a weaker traffic trend in Latvia, due among other things to the bank crisis, than was anticipated when the company was established. Income for the year was a loss totaling MUSD 18. SAS's share amounted to MSEK -45.

SAS's share of income in Polygon Insurance Company Ltd was MSEK 25 (21).

The SAS Group's income after depreciation, etc., includes shares of affiliated companies' income after taxes of MSEK -15 (72). Equity in affiliated companies amounted to MSEK 653 (586).

THE SAS
CONSORTIUM

The SAS Consortium is formed by the three national airlines, SAS Danmark A/S, SAS Norge ASA and SAS Sverige AB. The SAS Consortium comprises SAS excluding subsidiaries and the SAS Commuter Consortium.

The SAS Consortium's assets, liabilities and earnings are divided among the parent companies, at the end of each fiscal year, according to their respective ownership shares: SAS Danmark A/S 2/7, SAS Norge ASA 2/7, and SAS Sverige AB 3/7.

The Consortium's operating revenue amounted to MSEK 32,408 (32,559).

Financial items totaled MSEK 35 (-206) and include dividends from subsidiaries and other companies of MSEK 16 (55).

Income after financial items amounted to MSEK 1,572 (2,310). No sales of flight equipment and shares took place during the year. Capital gains in 1995 amounted to MSEK 56. Income before taxes was MSEK 1,568 (2,365).

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

THE SAS COMMUTER
CONSORTIUM

The SAS Commuter Consortium has the same ownership and legal status as the SAS Consortium and is consolidated in the SAS Group within the SAS business unit.

SAS Commuter is a production company which conducts air transport on behalf of SAS in Scandinavia and Northern Europe, using Fokker F-50 aircraft. The total fleet comprises 22 aircraft, 17 of which were used in 1996 in EuroLink, a southern traffic system based in Copenhagen. The remaining five aircraft were used in NorLink, a northern system based in Tromsø, Norway.

Approximately 50,000 (53,000) flights carrying a total of 1.4 (1.5) million passengers were made during the year.

SAS Commuter's income before taxes amounted to MSEK 22 (47) in 1996.

Statement of Income (MSEK)	1996	1995
Operating revenue	621	644
Operating expenses	-524	-528
Operating income before depreciation	97	116
Depreciation	-68	-70
Operating income after depreciation	29	46
Financial items, net	-7	-15
Income after financial items	22	31
Capital gains, etc.	0	16
Income before taxes	22	47

Balance Sheet (MSEK)	1996	1995
Liquid funds	8	35
Other current assets	32	16
Total current assets	40	51
Fixed assets	653	720
Total assets	693	771
Current liabilities	55	76
Long-term liabilities	122	202
Equity	516	493
Total liabilities and equity	693	771

SAS Group Statement of Income (Note 1)

MSEK	1996	1995
Operating revenue – <i>Note 2</i>	35,189	35,403
Operating expenses – <i>Note 3</i>	-31,521	-30,641
Operating income before depreciation, etc.	3,668	4,762
Depreciation – <i>Note 4</i>	-1,851	-1,840
Shares of income in affiliated companies – <i>Note 5</i>	-15	72
Income after depreciation, etc.	1,802	2,994
Dividends	1	2
Financial items, net – <i>Note 7</i>	-136	-302
Translation differences, net – <i>Note 7</i>	50	-151
Income after financial items	1,717	2,543
Minority shares of income after financial items	-2	-2
Income before the sale of flight equipment and shares, etc.	1,715	2,541
Gain on the sale of flight equipment – <i>Note 8</i>	100	81
Gain on the sale of shares, etc. – <i>Note 9</i>	-	10
Income before taxes	1,815	2,632
Taxes payable by subsidiaries – <i>Note 11</i>	-39	-84
Income before taxes relating to the SAS Consortium and the SAS Commuter Consortium	1,776	2,548

Income By Business Unit (MSEK)	1996	1995
SAS		
Income after depreciation, etc.	1,664	2,865
Financial items, net	-74	-205
Exchange rate differences, net	56	-153
Minority shares	-2	-2
SAS total	1,644	2,505
SAS International Hotels	65	34
Other operations/Group eliminations	6	2
Income before the sale of flight equipment and shares, etc.	1,715	2,541
Gain on the sale of flight equipment and shares, etc.	100	91
Income before taxes	1,815	2,632

CURRENCY EFFECTS ON THE SAS GROUP'S EARNINGS

Both operating revenue and operating expense, and financial items are affected to a considerable extent by exchange rate fluctuations. Only approximately 34% of operating revenue and 30% of operating expenses are in Swedish kronor.

The total effect of changed exchange rates on the SAS Group's operating income for 1996 compared with 1995, was a loss of MSEK 248. On the other hand, the difference between the years in exchange rate differences on the financial net debt provided a gain of MSEK 201.

The total effect on income before taxes was therefore an exchange loss of MSEK 47.

	MSEK
Operating revenue	-2,146
Operating expenses including translation of working capital	+1,898
Operating income before depreciation	-248
Financial items	+201
Income before taxes	-47

Comments on the Statement of Income

The SAS Group's operating revenue decreased by MSEK 214 or 0.6%. Adjusted for currency effects between the years, MSEK -2,146, and comparable units, operating revenue rose by 6.8%. This increased revenue was mainly attributable to higher passenger revenues. SAS's passenger traffic measured in RPK, revenue passenger kilometers, rose 5.2% over 1995. Adjusted for currency effects, yield was unchanged compared with the previous year.

Operating expenses rose by MSEK 880 or 2.9%. Adjusted for currency effects, MSEK 1,898, and comparable units, expenses rose by 10.8%. In SAS's airline operations operating expenses increased by MSEK 1,094 or 4.0%. Adjusted for currency effects, the corresponding increase was 10.3%. Taking into account the rise in volume due to increased production, unit costs increased by 2.4%. One-third of the increase in unit costs was attributable to an 18% increase in the average fuel price compared with 1995. The remainder was due to increased payroll costs and increased costs related to improvements in basic quality.

Operating expenses were also affected by reduced pension costs, due to changed accounting principles for Swedish defined-benefit collective pension plans and changed pension agreements in Denmark in a net amount of MSEK 165 (see Note 24). Pension costs are expected to decrease still further in 1997.

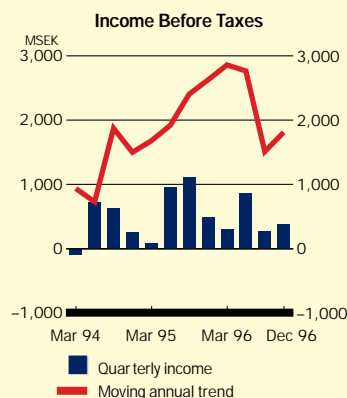
Operating income decreased by MSEK 1,094, of which MSEK 248 was attributable to exchange rate fluctuations. The gross profit margin fell from 13.5% to 10.4%.

Depreciation was at the same level as in 1995. Increased depreciation due to property acquisitions and aircraft investments was offset by reduced depreciation in connection with sales, primarily of aircraft.

Shares of income in affiliated companies declined by MSEK 87 to MSEK -15. This includes the earnings decline in Spanair S.A. and the MSEK 45 loss in Air-Baltic. The latter was due to start-up costs for these operations.

The SAS Group's net financial items amounted to MSEK -136 (-302). In addition, net exchange rate differences totaled MSEK 50 (-151).

The trend on the foreign exchange market was rela-



tively stable in 1996. An increased focus on EMU contributed to a general decrease in interest rates in Europe. It is mainly Europe's high-interest currencies which experienced the greatest decline in interest rates. These currencies include the SEK and the Central Bank of Sweden reduced the repo rate from 8.9% to 4.1%.

The SAS Group's net interest income represents a MSEK 166 improvement over the previous year. This difference comprises capital gains realized in SAS's bond portfolio and lower interest expenses on an average net debt that was itself lower than in the previous year.

The price trend for the Swedish krona was favorable in 1996. The SEK index strengthened by approximately 2% during the year. This strengthening occurred mainly in the first half, 6%, while the index weakened by 4% in the second half of the year. Taken as a whole, this development led to a positive currency effect on the SAS Group's net financial items of MSEK 50 in 1996.

The minority share comprises a 5% interest in Scandinavian Multi Access Systems AB.

The MSEK 100 (81) gain on the sale of flight equipment includes MSEK 89 from the sale during 1996 of seven Boeing 737s to British Midland, and MSEK 11 from the sale of two of SAS Flight Academy's flight simulators.

Income before taxes amounted to MSEK 1,815 (2,632).

Of subsidiaries' total tax liability, MSEK 23 (-31) was deferred tax.

SAS Group Balance Sheet (Note 1)

MSEK	1996	1995	MSEK	1996	1995
ASSETS			LIABILITIES AND EQUITY		
Current assets			Current liabilities		
Liquid funds – <i>Note 12</i>	11,050	10,078	Accounts payable	1,414	1,424
Accounts receivable	1,877	1,705	Taxes payable	43	53
Prepaid expenses and accrued income	637	714	Accrued expenses and prepaid income	3,463	3,104
Other accounts receivable	883	567	Unearned transportation revenue, net – <i>Note 21</i>	1,645	1,573
Expendable spare parts and inventories – <i>Note 13</i>	636	487	Prepayments from customers	14	29
Prepayments to suppliers	3	4	Current portion of long-term debt	950	1,953
Total current assets	15,086	13,555	Proposed dividend to parent companies	844	1,150
Fixed assets			Other current liabilities	1,253	1,276
Restricted accounts – <i>Note 14</i>	0	10	Total current liabilities	9,626	10,562
Shares and participations – <i>Note 15</i>	63	83	Long-term liabilities		
Equity in affiliated companies – <i>Note 16</i>	653	586	Bond issues – <i>Note 22</i>	2,843	3,459
Other long-term accounts receivable	290	238	Other loans – <i>Note 23</i>	8,140	5,436
Goodwill and other intangible assets – <i>Note 18</i>	24	35	Other long-term liabilities – <i>Note 24</i>	1,476	1,999
Long-term prepayments to suppliers – <i>Note 19</i>	369	781	Total long-term liabilities	12,459	10,894
Fixed assets: – <i>Note 20</i>			Subordinated debenture loan – Note 25	737	838
Investments in progress	458	112	Minority interests	18	18
Aircraft	11,739	12,170	Equity – Note 27		
Spare engines and spare parts	869	652	Capital account	11,902	9,868
Maintenance and aircraft servicing equipment	92	60	Other equity	1,038	720
Other equipment and vehicles	1,261	1,145	Total equity	13,030	10,588
Buildings and improvements	4,794	3,317	TOTAL LIABILITIES AND EQUITY	35,870	32,900
Land and land improvements	172	156	Contingent liabilities – <i>Note 29</i>	1,276	1,226
Total fixed assets	20,784	19,345	Leasing commitments – <i>Note 30</i>		
TOTAL ASSETS	35,870	32,900			
Assets pledged, etc. – <i>Note 28</i>	628	719			

	1996	1995
Liquid funds	11,050	10,078
Other interest-bearing assets	572	313
Aircraft	12,608	12,822
Other assets	11,640	9,687
Total assets	35,870	32,900
Operating liabilities	9,446	9,359
Interest-bearing liabilities	12,639	12,097
Subordinated debenture loan	737	838
Minority interests	18	18
Equity	13,030	10,588
Total liabilities and equity	35,870	32,900

Comments on the Balance Sheet

ASSETS

The SAS Group's total assets have increased by 9% to MSEK 35,870.

At year-end 1996, liquid funds totaled MSEK 11,050 (10,078) or 31% (31%) of total assets. This increase was mainly due to a corresponding financing surplus.

In November 1995, SAS took the initiative, together with Transwede, Malmö Aviation and Skyways, to report Swedish environmental tax legislation to the EU Commission as contravening the EU's Mineral Oil Directive. The Commission expressed its support for SAS's opinion. A government bill proposing that this legislation be abolished with effect from January 1, 1997, was adopted by parliament in December 1996. SAS is now engaged in litigation demanding a refund of charges paid in 1995 and 1996, totaling MSEK 229. In view of the above, environmental taxes paid and reserved for 1996, MSEK 116, have been taken up as a receivable.

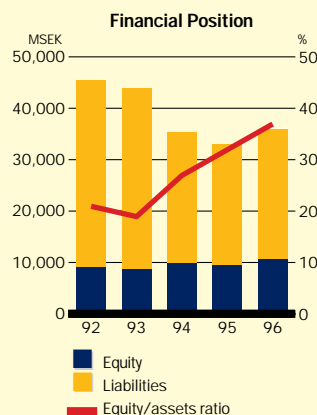
Equity in affiliated companies has increased by MSEK 67 to MSEK 653. Shares of income for the year were negative in an amount of MSEK 15. Equity shares, on the other hand, increased by MSEK 46 due to exchange rate fluctuations and investments primarily in AirBaltic, MSEK 36.

Long-term prepayments to suppliers of flight equipment decreased by MSEK 412 during the year. MSEK 594 of the advance to McDonnell Douglas was utilized in conjunction with delivery of six MD-90s during the year. In addition, a further MSEK 70 was utilized. Advances have been paid on future deliveries, including Boeing 737-600s, amounting to MSEK 252.

Investments in progress include MSEK 190 attributable to SAS's involvement in Oslo's new airport Gardermoen, and a new freight terminal at Copenhagen Airport.

The book value of aircraft has decreased by MSEK 431. This change comprises investment in MD-90s including earlier advance payments of MSEK 1,476, as well as MSEK 244 for hushkits for DC9-41s and landing gear for Boeing 767s. Deductible items are depreciation for the year of MSEK 1,211 and sold Boeing 737s, etc., MSEK 940.

The increase in the SAS Group's buildings is primarily attributable to the takeover of properties from SAS's



parent companies for a total of MSEK 1,551.

Total capital employed was MSEK 27,268 (23,542) at year-end. Average capital employed during the year was MSEK 25,004 (26,278). Return on capital employed was 10% (15%).

LIABILITIES

MSEK 13,376 (12,935) of total liabilities was interest-bearing. This includes pension provisions of MSEK 184 (582).

The interest-bearing net debt was MSEK 1,754 (2,544) at December 31, 1996. The SAS Group's average net debt during the year was MSEK 2,420 (4,750). A new MUSD 310 loan facility to finance deliveries of Boeing 737s with effect from autumn 1998, was signed during the year. In addition, SAS has unutilized commercial paper programs of MSEK 2,000, MDKK 1,500 and MUSD 200. The debt/equity ratio was 0.1 (0.2) on December 31, 1996.

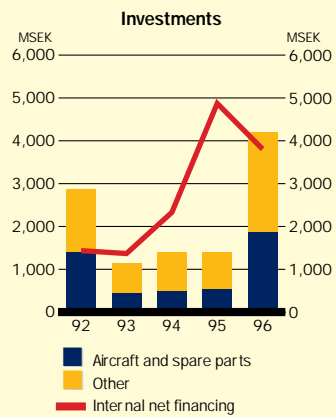
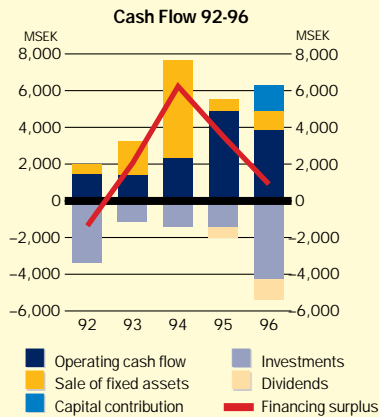
EQUITY

Equity increased by MSEK 2,442 to MSEK 13,030. Apart from net income for the year after taxes, this increase was due to a capital contribution from SAS's parent companies of MSEK 1,400 and positive translation differences in foreign subsidiaries and affiliated companies. In addition, the proposed dividend to SAS's parent companies of MSEK 844 is deducted. At year-end 1996 the equity/assets ratio was 37% (32%) and return on equity after tax amounted to 11% (18%).

SAS Group Statement of Changes in Financial Position

MSEK	1996	1995
THE YEAR'S OPERATIONS		
Income before taxes	1,815	2,632
Depreciation	1,851	1,840
Revaluations, write-downs, etc.	66	26
Gain on the sale of fixed assets	-63	-95
Other, net	-31	-88
Funds provided by the year's operations	3,638	4,315
Change in:		
Expendable spare parts and inventories	-34	19
Operating receivables	-200	228
Operating liabilities	410	319
Change in working capital	176	566
Net financing from the year's operations	3,814	4,881
INVESTMENTS		
Aircraft	-1,126	-199
Spare parts	-476	-30
Buildings, improvements and other equipment	-2,313	-579
Shares and participations, goodwill, etc.	-35	-291
Prepayments for flight equipment, net	-252	-300
Total investments	-4,202	-1,399
Sale of fixed assets	1,039	565
Translation differences, etc.	27	54
Net investments	-3,136	-780
Payments to parent companies	-1,150	-591
Capital contribution from parent companies	1,400	0
Financing surplus	928	3,510
EXTERNAL FINANCING		
Amortization and early redemption, incl. translation differences	305	-4,481
Other financial receivables/liabilities, net	-259	325
Change in minority interest	-2	-1
External financing, net	44	-4,157
CHANGE IN LIQUID FUNDS		
according to Balance Sheet	972	-647
Liquid funds at beginning of the year	10,078	10,725
Liquid funds at year-end	11,050	10,078

Comments on the Statement of Changes in Financial Position



The SAS Group's cash flow before changes in working capital and investments amounted to MSEK 3,638 (4,315). Working capital decreased by MSEK 176 (566). Both operating receivables and operating liabilities increased somewhat during the year, generally due to increased volumes in operations.

Investments including prepayments to aircraft suppliers amounted to MSEK 4,202, an increase of MSEK 2,803 compared with 1995. Of these investments SAS accounted for MSEK 4,132 (1,289), and SAS International Hotels for MSEK 70 (107). This includes MSEK 882 for six MD-90s delivered during the year and MSEK 232 related to hushkits for DC9-41s. Investments in buildings and land totaled MSEK 1,845, of which MSEK 1,551 comprised properties taken over from SAS's parent companies.

Sale of fixed assets generated MSEK 1,039 (565) and mainly comprise revenues from the sale of seven Boeing

737s to British Midland. One Boeing 767 and six Saab 340s were sold in 1995.

Cash flow after net investments was therefore MSEK 678 (4,101). After payment of funds to the parent companies of MSEK 1,150 (591) and capital contribution received of MSEK 1,400 (-), the financing surplus was MSEK 928 (3,510).

Financial liabilities increased by MSEK 305 during 1996. Amortization, repurchase of bond issues, and a reduction of the pension liability amounted to approximately MSEK 2,900. New borrowing in the form of finance leases related to aircraft deliveries amounted to MSEK 1,629. SAS's parent companies have also placed their surplus liquidity with SAS, which amounted to MSEK 1,566 at December 31, 1996.

Taken as a whole, the SAS Group's liquid funds increased by MSEK 972.

SAS Consortium Statement of Income (Note 1)

MSEK	1996	1995
Operating revenue – <i>Note 2</i>	32,408	32,559
Operating expenses – <i>Note 3</i>	-29,457	-28,732
Operating income before depreciation	2,951	3,827
Depreciation – <i>Note 4</i>	-1,414	-1,311
Income after depreciation	1,537	2,516
Dividends – <i>Note 6</i>	16	55
Financial items, net – <i>Note 7</i>	-41	-57
Translation differences, net – <i>Note 7</i>	60	-204
Income after financial items	1,572	2,310
Gain on the sale of flight equipment – <i>Note 8</i>	-	45
Gain on the sale of shares, etc. – <i>Note 9</i>	-	11
Unusual items – <i>Note 10</i>	-4	-1
Income before taxes¹	1,568	2,365

¹Taxes are the responsibility of the SAS Consortium's parent companies.

SAS Consortium Balance Sheet (Note 1)

MSEK			MSEK		
ASSETS	1996	1995	LIABILITIES AND EQUITY	1996	1995
Current assets			Current liabilities		
Liquid funds – <i>Note 12</i>	10,819	9,820	Accounts payable, subsidiaries	823	687
Accounts receivable, subsidiaries	460	780	Accounts payable, suppliers	1,086	1,074
Accounts receivable	1,602	1,469	Accrued expenses and prepaid income	3,030	2,738
Prepaid expenses and accrued income	473	555	Unearned transportation revenue, net – <i>Note 21</i>	1,645	1,573
Other accounts receivable	725	454	Current portion of long-term liabilities	874	1,862
Expendable spare parts and inventories – <i>Note 13</i>	507	349	Proposed dividend to parent companies	844	1,150
Prepayments to suppliers	3	3	Other current liabilities	1,084	1,050
Total current assets	14,589	13,430	Total current liabilities	9,386	10,134
Fixed assets			Long-term liabilities		
Shares and participations in subsidiaries – <i>Note 15</i>	1,396	1,351	Bond issues – <i>Note 22</i>	2,825	3,441
Other shares and participations – <i>Note 15</i>	591	556	Other loans – <i>Note 23</i>	7,313	4,374
Long-term accounts receivable, subsidiaries and affiliated companies – <i>Note 17</i>	645	1,313	Other long-term liabilities – <i>Note 24</i>	1,342	1,771
Other long-term accounts receivable	205	112	Total long-term liabilities	11,408	9,586
Intangible assets – <i>Note 18</i>	22	32	Subordinated debenture loan – <i>Note 25</i>	737	838
Long-term prepayments to suppliers – <i>Note 19</i>	296	737	Equity – <i>Note 27</i>		
Fixed assets: – <i>Note 20</i>			Capital account		
Investments in progress	442	106	SAS Danmark A/S	3,426	2,819
Aircraft	10,864	10,052	SAS Norge ASA	3,426	2,819
Spare engines and spare parts	845	614	SAS Sverige AB	5,140	4,230
Maintenance and aircraft servicing equipment	92	60	Total equity	11,992	9,868
Other equipment and vehicles	374	314	TOTAL LIABILITIES AND EQUITY	33,595	30,426
Buildings and improvements	3,131	1,664			
Land and land improvements	103	85	Contingent liabilities – <i>Note 29</i>	1,174	1,124
Total fixed assets	19,006	16,996			
TOTAL ASSETS	33,595	30,426			
Assets pledged, etc. – <i>Note 28</i>	28	34			

SAS Consortium Statement of Changes in Financial Position

MSEK	1996	1995
THE YEAR'S OPERATIONS		
Income before taxes	1,568	2,365
Depreciation	1,414	1,311
Revaluations, write-downs, etc.	30	22
Gain on the sale of fixed assets	0	-60
Funds provided by the year's operations	3,012	3,638
Change in:		
Expendable spare parts and inventories	-42	14
Operating receivables	-280	157
Operating liabilities	281	387
Change in working capital	-41	558
Net financing from the year's operations	2,971	4,196
INVESTMENTS		
Aircraft	-1,269	-199
Spare parts	-476	-102
Buildings, improvements and other equipment	-2,064	-361
Shares and participations, goodwill, etc.	-35	-283
Prepayments for flight equipment, net	-169	-290
Total investments	-4,013	-1,235
Sale of fixed assets	13	454
Net investments	-4,000	-781
Payments to parent companies	-1,150	-591
Capital contribution from parent companies	1,400	0
Financing surplus/deficit	-779	2,824
EXTERNAL FINANCING		
Amortization and early redemption, incl. translation differences	934	-3,803
Other financial receivables/liabilities, net	844	391
External financing, net	1,778	-3,412
CHANGE IN LIQUID FUNDS		
according to Balance Sheet	999	-588
Liquid funds at beginning of the year	9,820	10,408
Liquid funds at year-end	10,819	9,820

FINANCIAL REVIEW

1997 FORECAST

In 1997, growth in the total market for air transport services in SAS's markets is expected to be between 5% and 7%.

Competition in the airline industry, however, is expected to intensify still further in 1997. This may lead to greater overcapacity and pressure on fares and revenues.

In order to avoid a weakening of the 1997 result in comparison with 1996, a number of measures designed to improve earnings are under way.

DISPOSITION OF EARNINGS IN THE SAS CONSORTIUM

SAS's parent companies, SAS Danmark A/S, SAS Norge ASA and SAS Sverige AB, all pay taxes in their respective countries on their share of the SAS Consortium's income.

The Board of Directors and the President propose to the SAS Assembly of Representatives that of the income before taxes in the SAS Consortium for the fiscal year, an amount of MSEK 844 be transferred to the parent companies. The remaining amount, MSEK 724, will be transferred to the SAS Consortium's capital account which will thereafter total MSEK 11,992.

Stockholm, February 17, 1997

Hugo Schrøder

Bo Berggren

Harald Norvik

Anders Eldrup

Tony Hagström

Bjørn Eidem

Jens Tholstrup Hansen

Leif Kindert

Ingvar Lilletun

Jan Stenberg

President and Chief Executive Officer

Accounting and Valuation Principles

GENERAL

Changed accounting principles, see Note 1.

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

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

CONSOLIDATED FINANCIAL STATEMENTS

Definition of Consolidated and Affiliated Companies:

The consolidated financial statements of the SAS Group include the SAS Consortium, its wholly owned subsidiaries and those partly owned companies in which the SAS Consortium has a controlling interest, as well as the SAS Commuter Consortium. Certain wholly owned subsidiaries which are closely connected with the business of the SAS Consortium are directly included in the accounts of the SAS Consortium. For further information see Note 15, the specification of shares and participations.

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

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

PRINCIPLES OF CONSOLIDATION

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

The book value of shares in major affiliated companies is reported in accordance with the equity method. This

means that the SAS Group's share of the affiliated companies' equity amounts to the share of equity taking into account deferred taxes according to the tax rates in the countries concerned and any residual values of surpluses/deficits.

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

TRANSLATION OF FOREIGN SUBSIDIARIES' FINANCIAL STATEMENTS

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

RECEIVABLES AND LIABILITIES IN FOREIGN CURRENCIES AND FINANCIAL INSTRUMENTS

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

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

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

CURRENCY SWAP CONTRACTS: Foreign currency swap contracts are valued at market exchange rates at year-

end. Unrealized exchange gains or losses are reported above income. The net income effect of interest income and interest expense connected to a currency swap contract is accrued over the term of the contract and included in income.

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

INTEREST RATE SWAP CONTRACTS: Interest rate swap contracts' net income effect on interest income and interest expense is taken to income as accrued. For further information, see Note 26 – Financial Instruments.

EXCHANGE RATES TO SEK FOR SOME
PRINCIPAL CURRENCIES:

Currency	Year-end rate		Average rate	
	1996	1995	1996	1995
Denmark DKK 100	115.55	120.00	115.72	127.39
Norway NOK 100	106.55	105.20	103.86	112.64
USA USD	6.87	6.67	6.70	7.13
U.K. GBP	11.60	10.33	10.46	11.26
Switzerland CHF 100	509.75	579.60	543.78	604.02
Germany DEM 100	442.05	464.45	446.06	498.28
Japan JPY 100	5.93	6.48	6.17	7.63
European Currency Unit XEU	8.53	8.54	8.40	9.23

EXPENDABLE SPARE PARTS
AND INVENTORY

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

FIXED ASSETS
AND DEPRECIATION

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

A straight-line depreciation method over 15 years with 10% residual value applies to aircraft.

Interest expenses on prepayments for aircraft not yet delivered, are capitalized. If it is decided to postpone delivery of aircraft for which prepayments have been made, capitalization of interest expenses ceases. Once the aircraft in question goes into operation, depreciation starts on the capitalized interest, in accordance with the main principle for aircraft. Maintenance and aircraft servicing equipment and other equipment and vehicles are

depreciated over a period of 5 years. The annual depreciation of buildings varies between 2% and 20%.

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

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

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

PENSION COMMITMENTS

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

For pension plans where SAS has accepted responsibility for defined contribution solutions, the obligation to employees ceases once the agreed premiums have been paid.

For other pension plans where defined benefit pensions have been agreed, obligation does not cease until the agreed pension has been paid. SAS calculates pension commitments for defined benefit pension plans according to FASB87. Calculations are made of both the Accumulated Benefit Obligation (ABO) and the Projected Benefit Obligation (PBO). Under ABO commitments are based on current salary, while under PBO commitments are calculated based on estimated final salary. An estimate of funds invested is made at the same time. PBO forms the basis of accounting for these commitments.

TRAFFIC REVENUE

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

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

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

EUROBONUS

SAS makes ongoing allocations in pace with points earned for the marginal costs associated with the provi-

sion of free travel in exchange for redemption of points earned by EuroBonus members.

MAINTENANCE COSTS

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

Accrual accounting is carried out for future costs for heavy maintenance of aircraft of the MD-80 type. This maintenance is carried out on average every tenth year and the annual allocation per aircraft is MSEK 1.5. Allocations for future engine maintenance are made for Boeing 767s and allocations for future maintenance costs are made for Fokker F-50s (belonging to the SAS Commuter Consortium).

SAS CONSORTIUM

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

DEFINITIONS OF TERMS USED IN THIS ANNUAL REPORT:

AVAILABLE SEAT KILOMETERS (ASK). The total number of seats available for the transportation of passengers multiplied by the number of kilometers which these are flown.

AVAILABLE TONNE-KILOMETERS (ATK). 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.

BREAKEVEN LOAD FACTOR. The load factor at which operating revenues will cover operating costs.

DEBT/EQUITY RATIO. Interest-bearing liabilities minus interest-bearing assets in relation to equity.

EQUITY/ASSETS RATIO. Equity plus deferred taxes and minority interests in relation to total assets.

GROSS PROFIT MARGIN. Operating income before depreciation, etc., in relation to operating revenue.

INTEREST COVER. Income after depreciation, etc., plus financial income in relation to financial expenses.

NET DEBT. Interest-bearing liabilities minus interest-bearing assets.

NET FINANCING FROM OPERATIONS. Funds provided internally including change in working capital.

NET PROFIT MARGIN. Income after financial items in relation to operating revenue.

OVERALL LOAD FACTOR. The percentage of total capacity available for passengers, freight and mail which is actually sold and utilized. Total RTK divided by ATK.

PASSENGER CABIN FACTOR. RPK divided by ASK.

REGULARITY. The percentage of flights completed to flights scheduled, excluding flights cancelled for commercial reasons.

RETURN ON CAPITAL EMPLOYED. Income after depreciation, etc., plus financial income in relation to average capital employed. Capital employed equals total assets as specified in the balance sheet less noninterest-bearing liabilities.

RETURN ON EQUITY. Income after taxes in relation to average equity. Tax on the earnings of the SAS Consortium and the SAS Commuter Consortium is thus calculated using a standard tax rate of 29.7% (weighted average tax rate for Denmark, Norway and Sweden).

REVENUE PASSENGER KILOMETERS (RPK). The number of revenue passengers multiplied by the kilometers they are flown.

REVENUE TONNE-KILOMETERS (RTK). Total revenue traffic transported multiplied by the number of kilometers this traffic is flown.

UNIT COST. The average operating cost incurred per available tonne kilometer (ATK).

YIELD. The average amount of revenue received per revenue tonne kilometer (RTK).

Notes to the Financial Statements

All amounts in MSEK
unless otherwise stated.

Note 1 – Changed Accounting Principles

SAS Group

To allow comparability between the 1996 and 1995 financial statements, certain items pertaining to the 1995 fiscal year have been reclassified.

Note 2 – Operating Revenue	1996	1995
Traffic revenues: Passengers	25,390	25,647
Freight	1,481	1,378
Mail	225	259
Other	965	670
Other operating income	4,347	4,605
SAS Consortium operating revenue	32,408	32,559
Subsidiaries' operating revenue	3,015	3,051
Group eliminations	-234	-207
SAS Group operating revenue	35,189	35,403

SAS's traffic revenues are reported after deducting discounts, which amounted to 2,343 (2,081).

Note 3 – Operating Expenses

SAS Group	1996	1995
Personnel/payroll costs	10,184	10,115
Cost of sales	2,112	2,047
Aviation fuel	2,109	1,752
Government-user fees	3,746	3,967
Catering costs	1,311	1,207
Handling costs	1,419	1,401
Other operating expenses	10,640	10,152
Total	31,521	30,641

SAS Consortium	1996	1995
Personnel/payroll costs	8,585	8,527
Cost of sales	2,112	2,047
Aviation fuel	2,114	1,756
Government-user fees	3,744	3,965
Catering costs	1,311	1,207
Handling costs	1,419	1,401
Other operating expenses	10,172	9,829
Total	29,457	28,732

The Consortium's other operating expenses comprise purchased services, supplies, etc.

Note 4 – Depreciation

SAS Group	1996	1995
Goodwill and intangible assets	11	29
Aircraft	1,211	1,215
Spare engines and spare parts	52	64
Maintenance and air craft servicing equipment	25	33
Other equipment and vehicles	359	354
Buildings and improvements	192	144
Land improvements	1	1
Total	1,851	1,840

SAS Consortium	1996	1995
Intangible assets	10	10
Aircraft	1,052	989
Spare engines and spare parts	53	58
Maintenance and air craft servicing equipment	25	33
Other equipment and vehicles	144	137
Buildings and improvements	129	83
Land improvements	1	1
Total	1,414	1,311

Note 5 – Shares of Income in Affiliated Companies

SAS Group	1996	1995
Airlines of Britain Holdings PLC (ABH) ¹	5	2
Spanair S.A.	-14	8
Grønlandsfly A/S	2	7
Polygon Insurance Company Ltd	25	21
AirBaltic Corporation SIA	-45	-
Københavns Lufthavns Forretningscenter K/S	-	25
Casinos Denmark A/S /Casino Copenhagen K/S	11	10
Others	1	-1
Total	-15	72

¹ Share of income includes write-down of goodwill totaling 27 (29) and adjustment to 1995 earnings of 8 (22).

SAS's share of income in affiliated companies is based in certain cases on the companies' preliminary, unaudited results.

Note 6 – Dividends

SAS Consortium	1996	1995
Dividends from:		
SAS Trading Holding A/S	10	48
SAS Media Partner AB	2	5
Dividends from subsidiaries	12	53
Dividends from other companies	4	2
Total dividends	16	55

FINANCIAL REVIEW

Note 7 – Financial Items

SAS Group	1996	1995
Interest income	740	1,002
Interest expenses	-859	-1,287
Interest, net	-119	-285
Other	-17	-17
Translation differences, net	50	-151
Total financial items, net	-86	-453

SAS Consortium	1996	1995
Interest from subsidiaries	120	242
Other interest income	734	1,003
Total interest income	854	1,245
Interest paid to subsidiaries	-84	-114
Other interest expenses	-798	-1,178
Total interest expenses	-882	-1,292
Interest, net	-28	-47
Other	-13	-10
Translations differences, net	60	-204
Total financial items, net	19	-261

Note 8 – Gain on the Sale of Flight Equipment

SAS Group	1996	1995
SAS – sale of seven Boeing 737s	89	-
SAS – sale of one Boeing 767	-	52
SAS – sale of six Saab 340s	-	29
SAS Flight Academy – sale of flight simulators	11	-
Total	100	81

SAS Consortium	1996	1995
SAS – sale of one Boeing 767	-	52
SAS – sale of one Saab 340	-	-7
Total	-	45

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

SAS Group	1996	1995
Reversal of reserve for guarantee commitments	-	4
Proper ties	-	1
Shares	-	5
Total	-	10

SAS Consortium	1996	1995
Reversal of reserve for guarantee commitments	-	4
Proper ties	-	3
Shares	-	4
Total	-	11

Note 10 – Unusual Items

SAS Consortium	1996	1995
Shareholders' contribution to subsidiaries and affiliated companies	-45	-1
Reversal of write-down of receivables in subsidiaries	41	-
Total	-4	-1

Note 11 – Subsidiaries' Taxes

SAS Group	1996	1995
Taxes payable by subsidiaries	-62	-54
Minority share in subsidiaries' taxes	0	1
Allocation(-)/reversal(+) of deferred tax attributable to untaxed reserves	23	-31
Minority share of reversed deferred tax	0	-
Total	-39	-84

The SAS Group's statement of income and balance sheet only include taxes payable by subsidiaries and affiliated companies, since the tax liability in Denmark, Norway and Sweden related to the activities of the Consortia lies with their parent companies.

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

Note 12 – Liquid Funds

SAS Group	1996	1995
Cash and bank accounts	717	648
Short-term investments	10,333	9,430
Total liquid funds	11,050	10,078

SAS Consortium	1996	1995
Cash and bank accounts	524	450
Short-term investments	10,295	9,370
Total liquid funds	10,819	9,820

On December 31, 1996, short-term investments comprised primarily special bank deposits and investment in government securities. The bond holding is reported at the lower of cost or market value. Short-term investments also include 88 (82) in blocked funds on a tax deduction account in Norway.

Uncompleted interest arbitrage transactions are reported net and amounted to 0 (67) on December 31, 1996. No assets have been pledged.

Note 13 – Expendable Spare Parts and Inventories

SAS Group	1996	1995
Expendable spare parts, flight equipment	380	248
Expendable spare parts, other	26	65
Inventories	230	174
Total	636	487

SAS Consortium	1996	1995
Expendable spare parts, flight equipment	377	242
Expendable spare parts, other	20	65
Inventories	110	42
Total	507	349

Note 14 – Restricted Accounts

SAS Group	1996	1995
Investment reserves	-	10
Total	-	10

FINANCIAL REVIEW

Note 15 – Shares and Participations

	Number of shares	%		Par value in 000s	Book value MSEK
SAS Consortium					
<i>Subsidiaries</i>					
SAS International Hotels AS, Oslo	7,000,000	100	NOK	700,000	775.0
Linjeflyg AB, Stockholm	2,000 000	100	SEK	200,000	341.4
SAS Flight Academy Holding AB, Stockholm	20,000	100	SEK	2,000	100.0
Linjeflyg Leasing HB, Stockholm		79	SEK		73.6
Scandinavian Airlines Data Holding A/S, Copenhagen	25,000	100	DKK	25,000	44.6
Scandinavian Multi Access Systems AB, Stockholm	190,000	95	SEK	19,000	19.5
SAS Media Partner AB, Stockholm	5,000	100	SEK	500	12.3
SAS Ejendom A/S, Copenhagen	20,000	100	DKK	20,000	11.0
SAS Capital B.V., Rotterdam	501	100	NLG	2,500	7.7
Jetpak AB, Stockholm	50,000	100	SEK	5,000	7.5
SAS Trading Holding A/S, Copenhagen	300	100	DKK	300	0.9
Jetpak A/S, Copenhagen	500	100	DKK	500	0.5
SAS Flight Support AB, Stockholm	5,000	100	SEK	500	0.5
SAS Oil Denmark A/S, Copenhagen	500	100	DKK	500	0.5
SAS Cargo Center A/S, Copenhagen	500	100	DKK	500	0.4
Others					1.0
Total shares and participations in subsidiaries					1,396.4

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

	Number of shares	%		Par value in 000s	Book value MSEK
<i>Affiliated companies</i>					
Airlines of Britain Holdings PLC (ABH), Derby	26,035,317	40.0	GBP	6,509	337.8
Polygon Insurance Company Ltd, Guernsey	15,407,316	30.81	GBP	15,407	86.2
Spanair S.A., Mallorca	1,519,000	49	ESP	1,519,000	88.1
AirBaltic Corporation SIA, Riga	68,200	28.5	USD	6,822	48.9
Grønlandsfly A/S, Nuuk	286	37.5	DKK	9,000	22.6
Copenhagen Excursions A/S, Copenhagen	106	25	DKK	300	1.2
Aviation Holdings PLC	31,799,124	26.78	USD	3,180	0.0
Others					0.5
Total affiliated companies					585.3
<i>Other companies</i>					
SITA Telecommunications Holding N.V., Amsterdam	66,272	1.3	NLG	7	2.1
Dar-es-Salaam Airport Handling Co Ltd, Dar -es-Salaam	27,000	15	TZS	2,700	1.4
Amadeus Marketing S.A., Madrid	17,800	7.9	ESP	178,000	1.0
Airline Tariff Publishing Company, Washington D.C.	17,737	4.2	USD	18	0.4
Others					0.5
Total other companies					5.4
Total other shares and participations					590.7

FINANCIAL REVIEW

Note 15, continued

SAS Group

Shares and participations

Copenhagen International Hotels K/S, Copenhagen	1,343	11.3	DKK	134	48.5
Oslo Plaza, Oslo	3,100	10	NOK	3,100	7.5
Others					1.5
SAS Consortium's holdings in other companies					5.4
Total shares and participations					62.9

Book
value
in SAS
Group

Affiliated companies owned by other Group companies

Airnet I/S	–	50	DKK	4,000	14.1
Casinos Denmark A/S/Casinos Copenhagen K/S	1,000	50	DKK	1,000	5.8
European Aviation College S.A.	34,300	49	ESP	34,300	1.7
Förvaltningsaktiebolaget Terminalen AB	376	50	SEK	38	1.0
LTS Flygtaxi AB	4,750	50	SEK	475	0.5

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

Note 16 – Equity in Affiliated Companies

SAS Group	1996	1995
Airlines of Britain Holdings PLC (ABH)	388	349
Polygon Insurance Company Ltd	185	142
Grønlandsfly A/S	62	64
Spanair S.A.	62	80
AirBaltic Corporation SIA	3	–
Airnet I/S	14	9
Casinos Denmark A/S /Casino Copenhagen K/S	8	17
Others	11	5
Shareholding reserve	–80	–80
Total	653	586

Equity in affiliated companies includes acquired surplus value in ABH, amounting to 143 (154).

Note 17 – Long-Term Accounts Receivable, Subsidiaries and Affiliated Companies

SAS Consortium	1996	1995
Linjeflyg Leasing HB	0	909
SAS Commuter Consortium	88	178
SAS Flight Academy AB	75	100
Scandinavian Airlines Data Denmark A/S	81	–
SAS International Hotels AS	269	5
SAS Oil Denmark A/S	18	21
Scandinavian Multi Access Systems AB	50	50
Scandinavian Airlines Data Sweden AB	50	50
SAS Flight Support AB	14	–
Total	645	1,313

Note 18 – Goodwill and Other Intangible Assets

SAS Group	1996	1995
Consolidated goodwill	2	3
Other intangible assets	22	32
Total	24	35
SAS Consortium	1996	1995
Other intangible assets	22	32
Total	22	32

Other intangible assets include the net book values of the nonrecurring payment made for SAS's access to and user-rights for the terminal at Newark Airport outside New York, amounting to 22 (32).

Note 19 – Long-Term Prepayments to Suppliers

SAS Consortium	1996	1995
Boeing (B-737)	156	–
Boeing (B-767)	–	62
McDonnell Douglas (MD-90)	140	651
Other (engine equipment)	–	24
Total	296	737

In addition, long-term prepayments to subsidiaries of 73 (44) are included in the SAS Group.

FINANCIAL REVIEW

Note 20 – Fixed Assets

	Acquisition value		Accumulated depreciation		Book value	
	1996	1995	1996	1995	1996	1995
SAS Group						
Investments in progress	458	112	–	–	458	112
Aircraft ¹	18,152	17,648	6,413	5,478	11,739 ²	12,170
Spare engines and spare parts	1,346	953	477	301	869	652
Maintenance and aircraft servicing equipment	569	518	477	458	92	60
Other equipment and vehicles	4,053	4,052	2,792	2,907	1,261	1,145
Buildings and improvements	6,138	4,533	1,344	1,216	4,794	3,317
Land and land improvements	180	162	8	6	172	156
Total	30,869	27,978	11,511	10,366	19,385	17,612
SAS Consortium						
Investments in progress	442	106	–	–	442	106
Aircraft	16,249	14,385	5,385	4,333	10,864	10,052
Spare engines and spare parts	1,312	900	467	286	845	614
Maintenance and aircraft servicing equipment	569	518	477	458	92	60
Other equipment and vehicles	1,420	1,159	1,046	845	374	314
Buildings and improvements	3,775	2,197	644	533	3,131	1,664
Land and land improvements	110	92	7	7	103	85
Total	23,877	19,357	8,026	6,462	15,851	12,895

¹ The insured value of aircraft in the SAS Group as per December 31, 1996, amounted to 24,671. This includes the insured value of leased-in aircraft in the amount of 6,226.

² Estimated market value in Swedish kronor exceeded the book value by 1,500 on the closing date, December 31, 1996.

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

Acquisition value:

December 31, 1995	14,385	
Investments	1,864	
Sales 1996	–	16,249

Accumulated depreciation:

December 31, 1995	4,333	
Depreciation 1996	1,052	
Reversal of depreciation upon sale	–	5,385

Book value:

December 31, 1996	10,864
-------------------	--------

Of previous years' aircraft acquisitions, 30 Douglas MD-80s and 5 Boeing 767s were acquired, formally through finance leasing contracts, with 10–17 year terms. The 1996 acquisition of 6 McDonnell Douglas MD-90s also belongs to this category.

On behalf of the SAS Consortium, a number of banks have agreed to pay all accruing leasing fees and an agreed residual value for 15 of the Douglas MD-80s at the expiry of each leasing period. The Consortium 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 the Consortium amounted to 1,671 (1,911) on December 31, 1996.

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 financial 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 41 (35) aircraft are reported at 5,777 (4,738) in the balance sheet.

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

	1996	1995
Owned	5,087	5,314
Formally leased (paid)	1,289	1,442
Other leased	4,488	3,296
Book value	10,864	10,052

In addition the following aircraft in the SAS Group are:

	1996	1995
Owned	679	1,767
Formally leased (paid)	30	42
Other leased	166	309
Book value	875	2,118

Note 21 – Unearned Transportation Revenue, Net

Unearned transportation revenue consists of sold unutilized tickets, see Accounting Principles, page 25.

The estimated reserve for unearned transportation revenue on December 31, 1996, amounted to 412 (443) in both the SAS Group and the SAS Consortium.

Note 22 – Bond Issues

The SAS Consortium's bond issues totaled 3,249 (4,578). Specification of individual issues:

Issued amount	Interest rate, %	Term	Outstanding debt in MSEK
50 M U.S. dollars	10.650	88/08	343
700 M French francs	9.250	89/99	424
200 M U.S. dollars	10.000	89/99	677
200 M U.S. dollars	9.125	89/99	737
500 M Danish kroner	9.000	90/00	124
200 M Swedish kronor	14.000	90/00	181
10,000 M Japanese yen	6.921	90/97	424
10,000 M Japanese yen	6.100	91/01	339
Total			3,249
Less repayments 1997			-424
Total			2,825

In addition, in the SAS Group:

15 M Danish kroner	11.000	87/98	18
Total			2,843

The majority of the above issues 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 thus been changed so that the debt primarily comprises exposure in European currencies, see Note 26.

SAS's own bonds totaling 157 (702) were repurchased and are netted under this balance sheet item.

Note 23 – Other Loans

SAS Group	1996	1995
Loan from SAS's parent companies*	1,566	-
Finance leases	5,944	4,731
Other loans	1,147	1,514
Total prior to repayments	8,657	6,245
Less repayments 1997 and 1996, respectively	-517	-809
Other loans according to the balance sheet	8,140	5,436
SAS Consortium	1996	1995
Loan from SAS's parent companies	1,566	-
Finance leases	5,720	4,330
Other loans	466	750
Total prior to repayment	7,752	5,080
Less repayment 1997 and 1996, respectively	-439	-706
Other loans according to the balance sheet	7,313	4,374

* The underlying loan agreement related to loans from SAS's parent companies is long-term. The respective parent company is able, however, to utilize these funds during the period.

Note 23, continued

Currency exposure, see Note 26.

Loans for the Consortium fall due for payment as follows:

1997	439
1998	511
1999	781
2000 and thereafter	6,021
Total	7,752

Note 24 – Other Long-Term Liabilities

SAS Group	1996	1995
PRI	18	18
Pension provisions	166	564
Other obligations to employees	252	264
Deferred taxes	137	161
Other liabilities	903	992
Total	1,476	1,999
SAS Consortium	1996	1995
Pension provisions	196	549
Other obligations to employees	252	264
Other liabilities	894	958
Total	1,342	1,771

SAS reports pension provisions according to PBO (Projected Benefit Obligation). The differences which arise on transfer to this accounting principle are called "Implementation differences."

When calculating SAS's pension commitments the following long-term economic assumptions have been adopted as applying to the SAS Group, and thus representing a weighted average:

Discount rate	6.8%
Long-term return	8.0%
Inflation	3.0%
Future salary adjustments	3.0%
Future adjustments of pensions in payment	3.0%

In the financial statements, commitments in the SAS Consortium are included in the manner set out in the table below. Implementation differences and deviations from estimates are accrued over the average remaining period of service for employees. The item "Non-amortized deviations from estimates" contains actuarial calculation differences. The item "Non-amortized changes in plans" contains changes resulting from changes to pension plans.

MSEK	1996	1995
Pensions earned during the year	-1,673	-1,106
The year's return on invested funds	1,350	-681
The year's amortization of implementation differences, deviations from estimates and changes in plans	-160	-96
	-483	-521

In 1995 premiums paid for defined-benefit collective pension plans in Sweden were charged to income.

In 1996 this cost is included in pensions earned during the year as stated above	-	-195
Pension cost for the year, net, related to defined-benefit plans	-483	-716

Note 24, continued

The change in this cost is a consequence of changed treatment of Swedish collective pension plans.

In Denmark additional premiums are paid for defined contribution plans.

Status at December 31	1996	1995
Invested funds	14,398	12,889
Pension commitments according to PBO	-13,905	-13,181
Difference between invested funds and PBO	493	-292
Amounts not taken to income:		
Implementation differences not included as revenue	-1,058	-810
Deviations from estimates not included as expenses	288	468
Changes in plans not included as expenses	81	85
Booked pension commitments	196	549

Most pension plans in Scandinavia are defined-benefit plans. Most of the pension plans are secured through insurance companies or own pension funds.

Figures pertaining to status at December 31, 1995, have been changed to allow comparisons with 1996. The largest plan in Denmark, pension commitments for ground staff, has changed character. The part of the plan which has been changed to a defined contribution plan has been removed from the above table for 1995. In addition, comparable figures for 1995 for defined-benefit based collective pension plans in Sweden have been included in the table. Previously, the latter were treated as defined contribution since information on which calculations could be based was unavailable. Information could be obtained in 1996 and the plan has thus been included in the table for both years.

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. Cabin staff employed in Sweden are insured with 65 as retirement age, once they reach the age of 50, retirement age is reduced to 60. The probable current value of these commitments is reported in SAS's total pension commitments as specified above.

Other obligations to employees include long-term commitments made by SAS in connection with action programs carried out in previous years.

Deferred taxes are attributable to subsidiaries' untaxed reserves and are calculated in accordance with the full-tax method (estimated tax on year-end provisions).

Note 27 – Equity

	Paid-in capital SAS Consortium	Paid-in capital SAS Commuter Consortium	Restricted reserves	Unrestricted reserves	Equity SAS Group
January 1, 1996	9,868	493	388	-161	10,588
Shareholders' contribution	1,400				1,400
Transfer between restricted and unrestricted reserves			61	-61	
Change in translation differences		1	17	92	110
Income 1996	1,568	22		186	1,776
Proposed dividend for 1996	-844				-844
December 31, 1996	11,992	516	466	56	13,030

Note 25 – Subordinated Debenture Loan

A perpetual 200 million Swiss franc subordinated debenture loan was issued in the 1985/86 fiscal year. There is no set maturity date for this loan. The SAS Consortium has an exclusive right to terminate the loan once every five years. The interest rate is fixed for periods of 10 years and with effect from 1996 is 3.625% per year. In previous years, SAS repurchased bonds for a nominal 55.3 million Swiss francs, following which the loan amounts to 144.7 million Swiss francs.

Note 26 – Financial Instruments

As per December 31, 1996, the SAS Group had currency swap contracts for a nominal value corresponding to 2,000. Valuation at market exchange rates provides a net exchange gain of 308.

Outstanding financial forward exchange contracts amount to a gross nominal value corresponding to 8,900. Market valuations provide a net gain of 80. All exchange gains/losses for the above valuations are taken into account in income.

Outstanding forward exchange contracts raised to hedge future commercial flows amount to a nominal value of 3,600. The effect on income is reported on the due date of the contract concerned. A valuation at market exchange rates on December 31, 1996, shows a net value of 2, which is not included in income.

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

As per December 31, 1996, the SAS Group's approximate financial currency exposure (net) against the consolidation currency SEK was as follows:

	Value in MSEK
Norwegian kroner	-200
Danish kroner	0
French francs	-100
Belgian francs	-100
Spanish pesetas	0
Finnish marks	-200
Swiss francs	-100
British pounds	-200
Japanese yen	-100
Other currencies	0
Swedish kronor or currencies without exposure	-750
Total net debt	-1,750

FINANCIAL REVIEW

Note 27, continued

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

Equity	
Equity in the SAS Consortium	11,992
Difference between equity/Consortium's book value of shares in subsidiaries	484
Difference between equity share/acquisition value of affiliated companies owned directly by the Consortium	38
Equity in the SAS Commuter Consortium	516
Total equity in the SAS Group	13,030
Income	
Income before taxes in the SAS Consortium	1,568
Reversal of provisions for subsidiaries and dividends from subsidiaries, net	-12
Income in subsidiaries before taxes, net	268
Shares of income in affiliated companies owned directly by the Consortium	-31
Income in the SAS Commuter Consortium	22
Income before taxes in the SAS Group	1,815
Subsidiaries' taxes	-39
Income before taxes attributable to the SAS Consortium	1,776

Note 28 – Assets Pledged, etc.

	SAS Group		SAS Consortium	
	1996	1995	1996	1995
Mortgages in real estate	541	592	-	-
Corporate mortgages	15	15	-	-
Receivables	72	112	28	34
Total	628	719	28	34

Note 30 – Leasing Commitments

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

	1997	1998	1999	2000	2001	2002 and thereafter
Aircraft	866	810	395	182	97	13
Hotel properties	358	391	395	371	349	3,231
Other properties	176	179	162	149	137	587
Machinery and equipment	1	2	1			
Total	1,401	1,382	953	702	583	3,831

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

The above table includes large items as specified below:

In conjunction with the sale and leaseback transaction for Boeing 767-300s, six aircraft are leased back on an operational lease according to a leasing contract which runs for 18–30 months and can be extended for one to two years. For 1997, the cost will be 344. The leasing cost for 1998 is 317 and 83 for 1999.

Linjeflyg Leasing HB leases 5 Fokker F-28s on an operational lease. The annual leasing cost for these is 27. The contract has been extended until October 1999.

SAS and Linjeflyg AB (SAS) on the one part and the Swedish Board of Civil Aviation (Lufftrassverket) on the other part, con-

Note 29 – Contingent Liabilities

	SAS Group		SAS Consortium	
	1996	1995	1996	1995
Contingent liabilities for subsidiaries	-	-	578	275
Total contingent liabilities for subsidiaries	-	-	578	275
Contingent liabilities, other	1,276	1,226	596	849
Total	1,276	1,226	1,174	1,124

Contingent liabilities include a gross amount of 351 (656) attributable to swap transactions in foreign currencies for swapped loans the value of which on the closing date was lower than the value of the original loans. 141 (97) is also included attributable to the difference between accrued debt and income interest for swap transactions.

SAS International Hotels AS has issued a guarantee on behalf of Radisson SAS Palais Hotel, Vienna, for the performance of the leasing contract, as well as for rebuilding and renovation at the end of the contract period. A bank has provided a counter-guarantee which covers these commitments.

Under the management contracts for Radisson SAS Palais Hotel, Vienna, Radisson SAS Hotel, Hamburg, Radisson SAS Hotel, Brussels and Radisson SAS Scandinavia Hotel, Milan, SAS International Hotels AS guarantees a minimum annual cash flow until the year 2006, 2007 (Brussels) and 2011 (Milan).

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

Auditors' Report

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

We have audited the Financial Statements of the SAS Group and the SAS Consortium for 1996. Our audit was performed according to generally accepted auditing standards.

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

In our opinion the Financial Statements present a true picture of the financial position of the SAS Group and the SAS Consortium on December 31, 1996, and the results of operations for the fiscal year then ended, in accordance with the principles described above.

Stockholm, March 4, 1997

Arne Brendstrup

Bernhard Lyngstad

Roland Nilsson

Ole Koefoed

Olav Revheim

Jan Åke Magnuson

Authorized Public Accountants

THE SAS FLEET

The size of SAS's fleet at the end of 1996 was an unchanged 178 aircraft, of which 15 were leased out to third parties. SAS owned or had finance leases for 141 of the aircraft and leased 37.

The first six MD-90s from McDonnell Douglas were delivered at the end of 1996. The total order for eight MD-90s will be completed in July and August 1997. SAS has options to order another six. After this, SAS will not take delivery of any new airplanes until August 1998 when delivery of the Boeing 737-600s will start. In addition to the contract for 41 units, SAS has options for a further 35.

Other changes in the fleet during the year included the sale of seven, previously leased out, Boeing 737-500s to British Midland, and the return of six leased aircraft. In addition, seven airplanes were leased and the number of leased out aircraft was reduced by 11. See table.

ENVIRONMENTAL CONSIDERATION
AND FUEL EFFICIENCY

When choosing an aircraft type, high demands are made on passenger comfort, safety, total operating economy, secondhand value, and suitability for the route structure. Great importance is attached to the environmental performance and fuel efficiency of the aircraft. By purchasing Douglas MD-90s and Boeing 737-600s, SAS has access to the aircraft that have the lowest environmental impact in their class. SAS expects to be able to reduce fuel consumption per RPK by approximately 10% by the year 2005. More detailed information about the total environmental impact of flight operations is provided in SAS's environmental report.

OPTIMIZED FLEET STRUCTURE

Most of SAS's air services are conducted on European, intra-Scandinavian and national routes. The average flight distances are relatively short and frequencies are high. The main focus of the fleet is therefore on medium-sized aircraft with between 100 and 150 seats. The average age of the fleet today is about ten years and it is

expected to remain at that level until the year 2000.

Long-term planning of the size of the fleet and its division into different aircraft types is done using advanced computer simulations of existing and planned routes. Economic growth forecasts, slot restrictions at the destination, and required departure and arrival frequencies are some of the factors that are considered. In the short term the structure of the fleet can be optimized by leasing out and leasing.

FINANCING

The fleet is the largest asset item at SAS and at the end of 1996 it had a book value of MSEK 11,739. Financing of aircraft purchases is done in different ways:

- Through SAS's own funds generated by its operations.
- Borrowing in a bank, issuing bonds or debentures, arranging various forms of commercial paper programs, or securing a loan commitment. For example, SAS secured a MUSD 310 loan facility in January 1996 to prepare financing for the Boeing 737-600s.
- Finance leasing: SAS concludes long-term 10–17-year leasing contracts which are in practice on a par with a purchase. The aircraft are booked as assets with SAS.
- Operational leasing: short-term leasing contracts for 2–5 years which SAS concludes in order to meet temporary requirements for or surpluses of aircraft. These aircraft are normally not booked as an asset at SAS.

When ordering new aircraft, SAS signs both firm orders and options which provide increased opportunities to adjust the fleet to the route structure and traffic trend. The decision to exercise options must be made 1.5 to 2 years prior to delivery.

THE ALLIANCE
WITH LUFTHANSA

In the short term SAS's strategic alliance with Lufthansa will not have a major impact on the structure of the fleet and level of investment. The fleets differ both in structure and standard specifications, the design of the cock-



Douglas DC-9-21 & DC-9-41
Passengers: 75/105–122
Cruising speed: 815 km/h
Range: 2,600 km
Route specification: Short and medium-haul



Fokker F-28
Passengers: 65–75
Cruising speed: 670 km/h
Range: 1,350–2,150 km
Route specification: Mainly used on domestic routes in Sweden



Boeing 767-300ER
Passengers: 198–251
Cruising speed: 860 km/h
Range: 10,500 km
Route specification: The long-range aircraft of the 1990s



Douglas MD-80 (81, 82, 83, 87)
Passengers: 110–162
Cruising speed: 815 km/h
Range: 2,600 (81), 3,200 (82), 4,300 (83), 3,500 (87) km
Route specification: Short and medium-haul

BASIS FOR ANALYSIS

pit, for example. In the longer term, however, SAS anticipates some harmonization of the fleets and studies have been initiated to identify opportunities for extended cooperation.

STATUS AND DEVELOPMENT OF THE AIRCRAFT FLEET

Fleet, Dec. 31, 1996	Total Dec. 31, 1995	Delivered/ leased 1996	Sold/ Leased out 1996	Returned	Total Dec. 31, 1996	Of which Leased out	Owned/ Finance lease	Operational lease
<i>Chapter II</i>								
Douglas DC-9-41	25			1	12		8	4
Fokker F-28	19				19		14	5
Subtotal	44			1	31		22	9
<i>Chapter III</i>								
Boeing 747-200 BC		1			1			1
Boeing 767-200	1				1	1 ¹	1	
Boeing 767-300ER	13	2			15		7	8
Douglas DC-9-21	4				4		4	
Douglas DC-9-41					12 ⁷		12	
Douglas DC-9-51	1				1	1 ⁵	1	
Douglas MD-81	31				31		31	
Douglas MD-82	16				16	4 ²	16	
Douglas MD-83	4				4	2 ³	4	
Fokker F-50	22				22		13	9
Boeing 737-300QC	2			2				
Douglas DC-9-81	5	3			8			8
Douglas MD-87	17	1			18		16	2
Douglas MD-90-30		6			6		6	
Boeing 737-500	12		7	3	2	2 ⁴	2	
SAAB 340	6				6	5 ⁶	6	
Subtotal	134	13	7	5	147	15	119	28
Total	178	13	7	6	178	15	141	37

1. Transbrazil 2. Reno Air 3. Spanair 4. British Midland 5. Hawaiian Airlines 6. Air Nelson 7. Hushkitted in 1996

Aircraft Operated by SAS	Number 1995	1996	1997	1998	1999	2000
<i>Chapter II</i>						
Douglas DC-9-41	25	12	3			
Fokker F-28	19	19	16	14		
Subtotal	44	31	19	14		
<i>Chapter III</i>						
Boeing 747-200 BC		1	1	1	1	1
Boeing 767-300ER	12	14	14	14	15	16
Douglas MD-81/82/83/87	62	63	63	64	65	65
Douglas MD-90-30		6	8	8	8	8
Douglas DC-9-21 (hushkitted)	4	4	4	4	2	
Douglas DC-9-41 (hushkitted)		12	20	20	20	20
Douglas DC-9-81	5	8	8	8	8	
Boeing 737-300QC	2					
Boeing 737-600				10	26	41
Fokker F-50	22	22	22	22	22	22
SAAB 2000			4	4	4	4
Subtotal	107	130	144	155	171	177
Total	151	161	163	169	171	177



Douglas MD-90-30
 Passengers: 141
 Cruising speed: 815 km/h
 Range: 2,800 km
 Route specification: Short and medium-haul flights



Boeing 737-600
 Passengers: 95-123
 Cruising speed: 830 km/h
 Range: 4,000 km
 Route specification: Short and medium-haul flights



Fokker F-50
 Passengers: 46-50
 Cruising speed: 520 km/h
 Range: 1,400 km
 Route specification: Replaced F-27 on local routes within SAS Com-muter



SAAB 2000
 Passengers: 47
 Cruising speed: 685 km/h
 Range: 2,200 km
 Route specification: Used on domestic routes in Sweden and between Sweden and Finland

FINANCIAL RISK MANAGEMENT

SAS's financial exposure is attributable to currency risks, interest rate risks, liquidity and financing risks, and credit risks. These risks are managed within the framework of a financial policy adopted by the Board.

CURRENCY AND INTEREST RATE RISKS

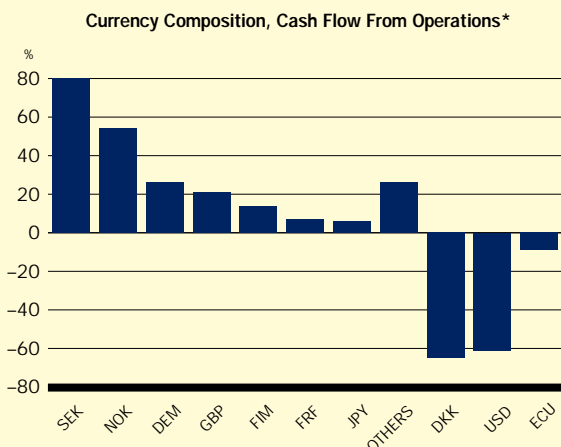
The currency composition of the net debt is spread to match the net cash surplus from operations. Net operating inflow currencies include SEK, NOK, DEM, GBP, FIM, FRF and JPY. The diagram below shows how the cash flow from operations is distributed among the various currencies. The currency composition of the net debt is continuously revised against liquidity forecasts. Its size in relation to total assets is shown in the diagram to the right.

Net operating outflow currencies are DKK, USD and ECU. At least 50% of anticipated flows in these currencies are hedged continuously with forward contracts for the next twelve months. Hedging is conducted in proportion to surplus currencies.

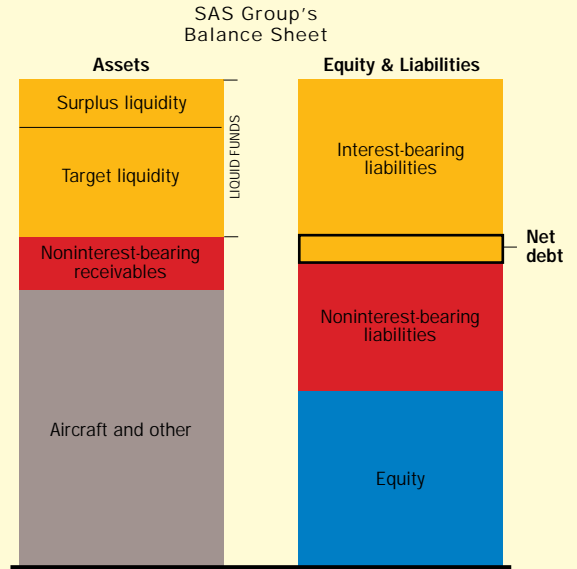
A summary of the effect of exchange rate fluctuations on earnings is provided adjacent to the statement of income on page 14.

The interest rate risk is controlled by matching the interest rate composition on liquid funds with the interest-bearing gross liabilities. The currency composition of liquid funds is handled in a similar manner, which means that the net position for both interest rates and currencies is reflected in the net debt. The character of the net debt also controls periods for which interest rates are fixed.

The financial policy stipulates that SAS shall main-



* Currency composition is stated as net flows per currency. The columns show the respective currency's approximate share of operating income before depreciation.



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

tain an average fixed-interest period on the net debt of approximately 2.5 years. Variances may occur and various derivative instruments, such as long-term interest rate swaps, FRAs (forward-rate agreements), and futures, are used to adjust fixed interest terms. The average period for which interest rates were fixed varied in 1996, but was somewhat lower than 2.5 years.

LIQUIDITY AND FINANCING RISKS

Liquid funds must primarily be placed in instruments with high liquidity or short periods to maturity. The goal is that liquid funds and committed credit facilities shall amount to at least 25% of the Group's costs. This means that the SAS Group has a target liquidity of approximately MSEK 7,500. In addition, there is a surplus liquidity as a result of long-term borrowing on attractive terms at the end of the 1980s and the beginning of the 1990s. The Group's liquid funds amounted to MSEK 11,050 at December 31, 1996.

Borrowing mainly takes the form of bond issues, bank loans, debentures, finance leases and private placements (SAS borrows from an investor directly without using a bank as an intermediary). At the end of the year the period to maturity for the long-term loans was about five years. At December 31, 1996, the Group's interest-bearing liabilities (gross) amounted to MSEK

13,376. A specification of long-term liabilities is provided in Notes 22-25 on page 32.

The size of the committed credit facilities, granted by SAS's lenders, increased during the year since SAS signed an MUSD 310 credit facility in January 1996. This credit facility with final maturity in 2010 provides SAS with a liquidity reserve to meet future financing requirements such as investment in aircraft, and thus also reduces financing risks. Six MD-90s were financed via 10-year finance leases in 1996. This financing amounts to approximately SEK 1.5 billion.

SAS's creditworthiness is good. The equity/assets ratio has improved in recent years and amounted to 37 percent at the end of 1996. SAS's ratings from the American rating agency Moody's are A3 for long-term debt and P1 for short-term debt. The Japanese rating agency Nippon Investor Services raised SAS's long-term rating at the end of 1996 from AA- to AA.

CREDIT RISKS

Credit risks are associated with investment of liquid funds and the use of derivative instruments and result from the risk of the counterpart failing to honor his part

LONG-TERM RATING (MOODY'S) *

British Airways	A2
Japan Airlines	A2
Lufthansa	A2
SAS	A3
All Nippon Airways	A3
American Airlines	Baa2
Qantas	Baa2
United Airlines	Baa3
Delta	Baa3
Air Canada	Ba3

* On January 6, 1997

of the agreement. The size of the credit risk on investments is the nominal amount, the risk on derivative instruments is based on a valuation performed in accordance with international market practice.

The financial policy stipulates that, above all, transactions must be conducted with institutions with very high creditworthiness. Derivatives are mainly used to achieve the desired currency and interest rate exposure on the net debt.

OWNERSHIP STRUCTURE AND SHARE PRICE TREND

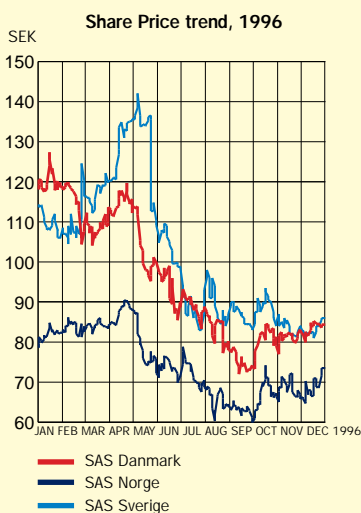
The three national carriers – SAS Danmark A/S, SAS Norge ASA and SAS Sverige AB – together own 100% of the SAS Group.

In 1996 each parent company’s capital structure was harmonized and their operations were streamlined in order to give SAS a more distinct profile in the stock and capital market. The companies’ names were also changed (from the former DDL, DNL and SILA). A more detailed account of these activities and their implications is provided on page 76, immediately followed by the annual reports of the three parent companies.

The shares are listed on the stock exchanges in Copenhagen, Oslo and Stockholm respectively.

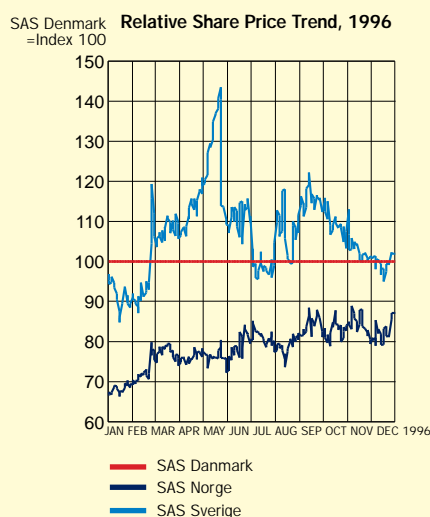
JOINT DIVIDEND POLICY

The SAS Group’s parent companies intend to apply a coordinated dividend policy so that dividends per share from each company are the same size when translated to one and the same currency. Any differences in the parent companies’ dividends are thus only expected to arise as an effect of rounding-off and exchange rate fluctuations during the period between the boards’ approval of the annual reports and the payment of the dividends.



The curves show the 1996 price trend for the three parent companies’ shares, translated to SEK.

Source: Datastream, SAS.



The graph shows the relative price trend for the Norwegian and Swedish share with the Danish share as a base. Since harmonization of the parent companies’ capital structure in June, price differences between the shares have decreased.

Source: Datastream, SAS.

SAS DANMARK A/S

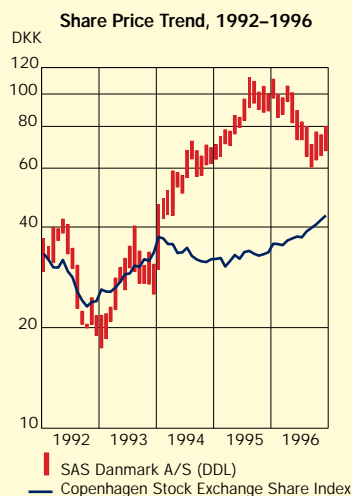
The shares in SAS Danmark A/S are listed on the Copenhagen Stock Exchange. On December 31, 1996, the nominal share capital in SAS Danmark A/S amounted to MDKK 470 divided into 47 million shares, each with a par value of DKK 10. The increase in share capital is attributable to the MDKK 121.9 bonus issue and MDKK 144.9 new issue which took place during the year. The new issue price was DKK 39 which provided a net total of approximately MDKK 555. Half of the shares are owned by the Danish State and the remainder by private shareholders.

Changes in Share Capital

MDKK Year	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

Distribution of Shares

The Danish Companies Act requires disclosure of shareholders who own 5% or more of the shares in a company. The Danish State owns 50% of the shares and no other individual owned 5% or more of the shares as at December 31, 1996.



SHARE PRICE TREND

The share price at the end of 1996 was DKK 73, a fall of 26% compared with December 1995. During the year the price fluctuated between DKK 61 and DKK 111. In 1996 21 million shares were traded, corresponding to 45% of all outstanding shares.

Data per Share ¹ Amounts in DKK	1992	1993	1994	1995	1996	Pro forma 1996 *
KEY DATA PER SHARE						
Earnings	-4.23	-3.27	12.34	7.08	6.38	6.96
Dividend (proposed)	0	0	2.05	2.46	2.60	2.60
Dividend as % of earnings	0	0	17	35	41	37
PRICE-RELATED DATA						
Market price at year-end	18.93	29.29	63.31	99.05	73.00	73.00
Low/high during the year	19/42	25/31	30/72	64/112	61/111	61/111
Market capitalization/Equity, % at year-end	37	68	155	194	124	118
Dividend yield, %	-	-	3.2	2.5	3.6	3.6
P/E ratio at year-end	neg	neg	5.1	14.0	11.4	10.5
P/E ratio, high	neg	neg	5.9	15.8	17.4	15.9
P/E ratio, low	neg	neg	2.4	9.0	9.6	8.8
Market capitalization, Dec. 31 (MDKK)	752	1,163	2,514	3,934	3,431	3,431
Shares traded in % of outstanding shares	36%	61%	61%	41%	45%	45%

¹ Company accounts 1992-1996. Group (IAS adjustment) pro forma accounts 1996.

* For information about pro forma accounts, see Harmonization of SAS's parent companies.

Source: Findata, Datastream, SAS.

SAS NORGE ASA

The shares in SAS Norge ASA are listed on the Oslo Stock Exchange.

On December 31, 1996, the nominal share capital in SAS Norge ASA amounted to MNOK 470 divided into 47 million shares, each with a par value of NOK 10. The increase in share capital is attributable to two bonus issues of MNOK 62.9 and MNOK 92.6 which took place during the year. Half of the shares are class A shares owned by the Norwegian state and half are class B shares owned by private shareholders.

Changes in Share Capital

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

Distribution of Shares

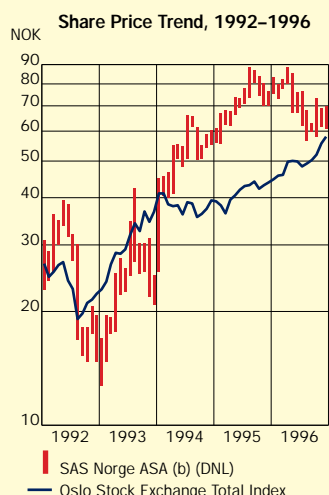
Dec. 31, 1996 Shareholding	Number of share-holders	% of all share-holders	Number of shares	Share of capital, %
1 – 500	1,858	76.0	240,669	0.5
501 – 1,000	219	9.0	154,485	0.3
1,001 – 10,000	222	9.1	698,226	1.5
10,001 – 50,000	73	3.0	1,719,173	3.7
50,001 – 100,000	19	0.8	1,473,629	3.1
100,001 – 999,999	52	2.1	42,713,818	90.9
Total	2,443	100.0	47,000,000	100.0

Data per Share¹

Amounts in NOK	1992	1993	1994	1995	1996	Pro forma* 1996
KEY DATA PER SHARE						
Earnings (SAS Group)	-3.60	-3.64	3.74	7.94	7.55	8.08
Dividend (proposed)	-	-	1.87	3.35	2.80	2.80
Dividend as % of earnings	-	-	50	42	37	35
PRICE-RELATED DATA						
Market price at year-end	14.72	24.36	57.02	74.69	69.00	69.00
Low/high during the year	15/39	12/42	25/66	56/89	57/89	57/89
Market capitalization/Equity, % at year-end	25	38	89	109	92	101
Dividend yield, %	-	-	3.3	4.5	4.1	4.1
P/E ratio at year-end	neg	neg	15.2	9.4	9.1	8.5
P/E ratio, high	neg	neg	17.6	11.2	11.8	11.0
P/E ratio, low	neg	neg	6.7	7.1	7.5	7.1
Market capitalization, Dec. 31 (MNOK)	692	1,145	2,680	3,511	3,243	3,243
Shares traded in % of outstanding shares	69%	157%	146%	70%	62%	62%

¹ Group accounts 1992–1996. Group (IAS adjustment) pro forma accounts 1996.

* For information about pro forma accounts, see Harmonization of SAS's parent companies. Source: Findata, Datastream, SAS



The Ten Largest Shareholders in SAS Norge, Dec. 31, 1996

	Number of shares	Share of capital, %
The Norwegian State	23,500,000	50.00
Fred Olsen & Co-selskapene	3,200,147	6.81
UNI Storebrand	1,514,326	3.22
Unibank A/S	1,201,420	2.56
Aksjefondet Avanse K	814,358	1.73
K-Vekst Aksjefondet	722,000	1.54
Den Danske Bank A/S, CJA	686,468	1.46
Den Danske Bank A/S	626,362	1.33
Citibank, N.A. General Depot	595,399	1.27
Kommunal Landspensjonsk.	583,824	1.24

SAS SVERIGE AB

The shares in SAS Sverige AB are listed on the Stockholm Stock Exchange. On December 31, 1996, the nominal share capital in SAS Sverige AB amounted to MSEK 705 divided into 70.5 million shares, each with a par value of SEK 10. Half of the shares are owned by the Swedish state and the remainder are owned by private shareholders.

Changes in Share Capital

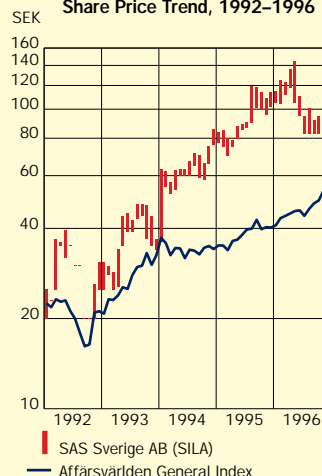
MSEK Year	Bonus issue	Non-cash issue	Nom. share capital	Par value SEK	Number of shares (000s)
1992	-		352.5	10	35,250
1993		352.5	705.0	10	70,500
1996			705.0	10	70,500

Distribution of Shares

Dec. 31, 1996 Shareholders	Number of share-holders	% of all share-holders	Number of shares	Share of capital, %
1 - 500	1,306	82.6	223,310	0.3
501 - 1,000	160	10.1	137,520	0.2
1,001 - 10,000	64	4.0	159,396	0.3
10,001 - 50,000	6	0.4	173,500	0.2
50,001 - 100,000	2	0.1	113,000	0.2
100,001 -	24	1.5	64,987,037	92.2
Swedish nominees	20	1.3	4,702,358	6.6
Others ¹	-	-	3,879	-
Total	1,582	100.0	70,500,000	100.0

¹ Shares with prior repurchase rights, coupon shares, unknown owners and unutilized bonus shares.

Share Price Trend, 1992-1996



The Ten Largest Shareholders in SAS Sverige, Dec. 31, 1996

	Number of shares	Share of capital, %
The Swedish State	35,250,000	50.00
Investor	13,004,780	18.45
Sparbankens aktie- och allemansfonder	7,566,290	10.73
Volvo	3,327,200	4.72
S-E-Banken	1,937,321	2.75
LO	1,805,500	2.56
Nordbanken	1,321,500	1.87
SPP	1,128,660	1.60
Svenska Handelsbanken	803,140	1.14
Skandia	688,000	0.98

Data per Share¹

Amounts in SEK	1992	1993	1994	1995	1996	Pro forma * 1996
KEY DATA PER SHARE						
Earnings (SAS Group)	-9.16	2.75	13.79	13.32	9.42	9.42
Dividend (proposed)	-	-	2.50	3.00 ²	3.00	3.00
Dividend as % of earnings	-	-	18	23 ²	32	32
PRICE-RELATED DATA						
Market price at year-end	29.00	35.00	80.00	113.50	86.00	86.00
Low/high during the year	20/40	25/48	36/86	70/119	80/145	80/145
Market capitalization/Equity, % at year-end	50	56	108	127 ²	119	118
Dividend yield, %	-	-	3.1	2.6	3.5	3.5
P/E ratio at year-end	neg	12.7	5.8	8.5	9.1	9.1
P/E ratio, high	neg	17.5	6.2	8.9	15.4	15.4
P/E ratio, low	neg	9.1	2.6	5.3	8.5	8.5
Market capitalization, Dec. 31 (MSEK)	2,045	2,468	5,640	8,002	6,063	6,063
Shares traded in % of outstanding shares	5%	11%	8%	3%	13%	13%

¹ Group accounts 1992-96. Group (IAS adjustment) pro forma accounts 1996.

² One-time dividend of SEK 24.30 not included, remains here in equity respectively.

* For information about pro forma accounts, see Harmonization of SAS's parent companies.

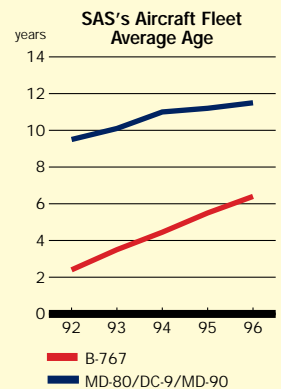
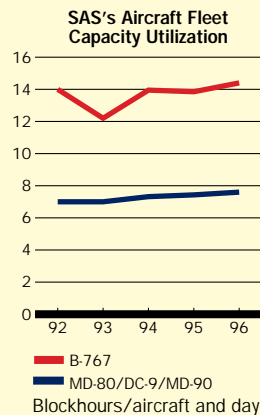
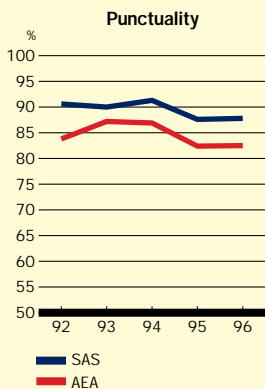
Source: Findata, Datastream, SAS.

Operational Key Figures and Graphs

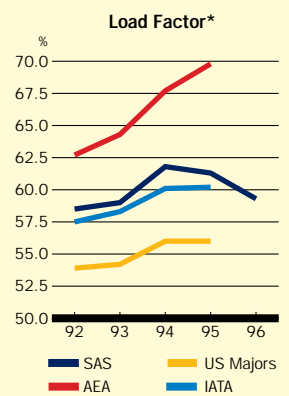
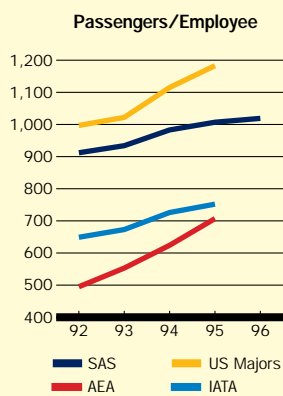
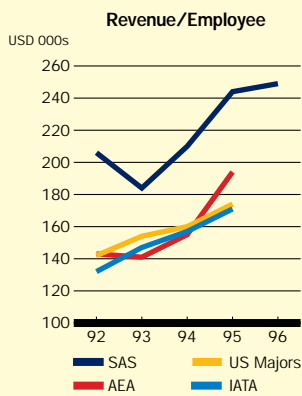
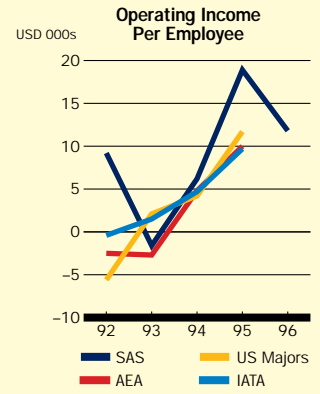
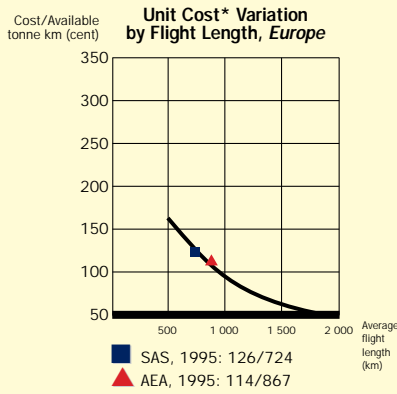
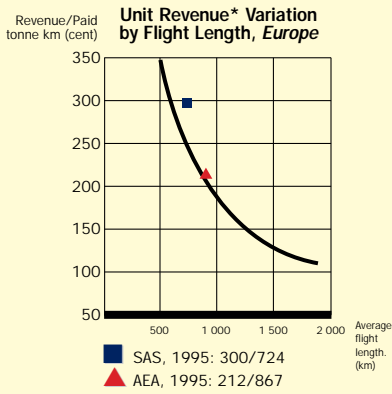
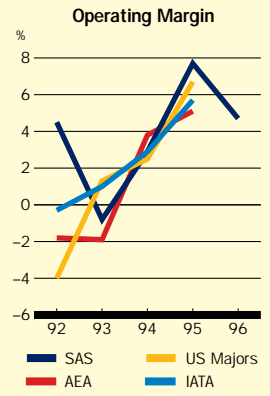
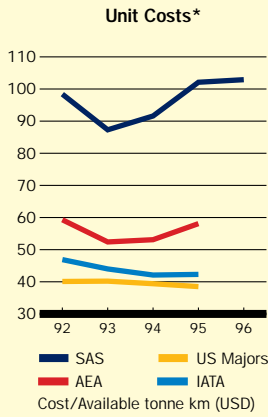
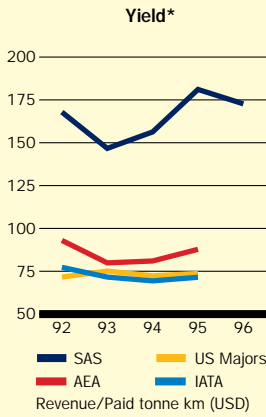
TRAFFIC/PRODUCTION		1996	1995	1994	1993	1992 ¹
Number of cities served		104	106	102	104	98
Kilometers flown, scheduled	(millions)	235.7	218.5	217.2	225.6	202.9
Total airborne hours	(000)	375.5	352.6	350.2	367.9	326.0
Number of passengers carried, total	(000)	19,828	18,835	18,823	18,619	16,808
Available tonne kilometers*, total	(millions)	4,237.8	3,691.6	3,579.4	3,633.4	3,389.8
Available tonne kilometers, charter		153.2	145.4	78.6	66.8	44.8
Available tonne kilometers, scheduled		4,084.6	3,546.2	3,500.8	3,566.6	3,345.0
Revenue tonne km*, scheduled	(millions)	2,423.1	2,172.7	2,163.2	2,106.9	1,929.9
Passengers and excess baggage		1,754.6	1,670.4	1,666.8	1,637.3	1,488.0
Freight		620.3	452.8	445.9	420.4	391.7
Mail		48.2	49.5	50.5	49.2	50.2
Total load factor*, scheduled	(%)	59.3	61.3	61.8	59.1	57.7
Available seat km*, scheduled	(millions)	30,646	28,447	28,154	28,581	26,396
Revenue seat km*, scheduled	(millions)	19,487	18,506	18,466	18,138	16,547
Cabin factor*, scheduled	(%)	63.6	65.1	65.6	63.5	62.7
Punctuality	(% within 15 minutes)	87.8	87.6	91.3	90.0	90.6
Regularity*		98.7	97.5	98.7	98.7	99.0
Average passenger trip length, scheduled	(km)	990	989	983	976	990
Traffic revenue ² /Revenue tonne km	(SEK)	11.57	12.91	12.07	11.24	10.04
Passenger revenue ² /Revenue passenger km	(SEK)	1.31	1.39	1.29	1.21	1.06
Airline oper. expense/Available tonne km	(SEK)	7.32	7.73	7.22	7.19	6.18
Revenue tonne km/Employee	(scheduled)	119,610	119,052	115,920	108,388	93,500
Revenue passenger km/Employee	(scheduled)	1,023,677	1,014,027	989,532	933,053	802,000
Fuel price	(cents/gallon)	78	67	66	71	76
Break-even load factor*	(%)					
SAS		56.9	56.4	58.6	59.5	58.6
AEA		³	66.2	65.2	65.5	63.8
IATA		³	59.2	60.7	61.4	60.7
US Majors		³	52.2	54.6	53.5	56.0

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

² SAS's traffic revenues are reported after deduction of discounts provided. ³Figures not available. *For definitions, see page 26.



FIVE-YEAR SUMMARY



*For definitions, see page 26.

Financial Key Figures

SAS GROUP, MSEK INCOME STATEMENTS	1996	1995	1994	1993	1992
Operating revenue	35,189	35,403	36,886	39,122	34,445
Operating income before depreciation, etc.	3,668	4,762	3,404	2,032	2,930
Depreciation, etc.	-1,851	-1,840	-2,000	-1,782	-1,532
Shares of income in affiliated companies	-15	72	-13	-1	-8
Financial items, net	-85	-451	-668	-1,313	-2,244
Minority shares in income after financial items	-2	-2	-99	16	89
Gain on the sale of flight equipment and shares, etc.	100	66	881	556	5
Income before taxes	1,815	2,632	1,505	-492	-760

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Net financing from the year's operations	3,814	4,881	2,338	1,377	1,444
Investments	-4,202	-1,399	-1,391	-1,141	-3,338
Sale of fixed assets, etc.	1,066	619	5,305	1,852	552
Funds paid to parent companies	-1,150	-591	-	-	-
Capital contribution from parent companies	1,400	-	-	-	-
Financing surplus/deficit	928	3,510	6,252	2,088	-1,342
External financing, net	44	-4,157	-3,872	-2,469	1,584
Change in liquid funds	972	-647	2,380	-381	242
Liquid funds in sold/acquired companies	-	-	-973	-130	216
Change in liquid funds according to balance sheets	972	-647	1,407	-511	458

BALANCE SHEETS

Liquid funds	11,050	10,078	10,725	9,318	9,829
Current assets, other	4,036	3,477	3,670	9,973	6,849
Fixed assets ¹	20,784	19,345	20,904	24,566	28,790
Current liabilities	9,626	10,562	9,973	12,485	11,713
Long-term liabilities ²	13,214	11,750	15,971	22,741	24,797
Equity	13,030	10,588	9,355	8,631	8,958
Total assets	35,870	32,900	35,299	43,857	45,468

KEY RATIOS

Gross profit margin, %	10	13	9	5	9
Return on capital employed, %	10	15	7	5	8
Return on equity after standard tax, %	11	18	10	-	-
Equity/assets ratio, %	37	32	27	21	21

¹Including blocked accounts. ²Including minority interests.

FIVE - YEAR SUMMARY

OTHER FINANCIAL DATA	1996	1995	1994	1993	1992
Income after depreciation	1,802	2,994	1,391	249	1,390
Financial income	791	1,008	933	1,592	1,181
Financial expenses	-876	-1,459	-1,601	-1,905	-2,275 ³
Interest income	740	1,002	904	1,550	1,127
Interest expenses	-859	-1,287	-1,623	-2,839	-2,526
Interest-bearing assets	11,622	10,391	11,363	10,515	11,240
Interest-bearing liabilities	13,376	12,935	17,417	24,403	26,830
Interest coverage ratio	3.0	2.8	1.4	1.0	1.1
Net interest income/average net debt, %	5	6	7	8	11
Debt/equity ratio	0.1	0.2	0.6	1.6	1.7
SAS CONSORTIUM⁴, MSEK					
INCOME STATEMENTS					
Operating revenue	32,408	32,559	31,003	28,509	22,093
Operating income before depreciation, etc.	2,951	3,827	2,256	726	1,739
Depreciation, etc.	-1,414	-1,311	-1,343	-967	-749
Financial items, net	35	-206	136	-225	-1,644
Gain on the sale of flight equipment and shares, etc.		56	1,220	43	20
Unusual items	-4	-1	-88	-203	-131
Income before taxes	1,568	2,365	2,181	-626	-765
STATEMENTS OF CHANGES IN FINANCIAL POSITION					
Net financing from year's operations	2,971	4,196	2,357	979	1,870
Investments	-4,013	-1,235	-1,011	-828	-2,638
Sale of fixed assets, etc.	13	454	4,802	1,172	605
Funds paid to parent companies	-1,150	-591	-	-	-
Capital contribution from parent companies	1,400	-	-	-	-
Financing surplus/deficit	-779	2,824	6,148	1,323	-163
External financing, net	1,778	-3,412	-4,167	-1,798	369
Change in liquid funds according to balance sheets	999	-588	1,981	-475	206
BALANCE SHEETS					
Liquid funds	10,819	9,820	10,408	8,427	8,902
Current assets, other	3,770	3,610	3,579	7,436	4,984
Fixed assets	19,006	16,996	18,041	20,362	22,855
Current liabilities	9,386	10,134	9,329	9,606	7,762
Long-term liabilities	12,217	10,424	14,015	19,556	21,290
Equity	11,992	9,868	8,684	7,063	7,689
Total assets	33,595	30,426	32,028	36,225	36,741
KEY RATIOS					
Gross profit margin, %	9	12	7	3	8
Return on capital employed, %	10	15	9	7	9
Return on equity after standard tax, %	10	18	22	-	-
Equity/assets ratio, %	36	32	27	19	21
PERSONNEL (average)					
Consortium	19,463	18,710	19,139	19,931	18,420
Group	23,607	22,731	28,425	37,330	40,140

³Excluding unrealized exchange losses. ⁴SAS Consortium includes SAS and SAS Trading, both excluding subsidiaries.

“SAS’s stated goal is to be the best airline in Europe in 1998.

We shall develop a product that is based on being better than anyone else at understanding the real needs of the passengers throughout the entire trip.”

Understanding our customers: In addition to asking our passengers, SAS assigned anthropological experts to perform studies and analyses of passenger behavior and problem situations during air travel. The analyses are based on 1,500 hours of video recordings from check-in, lounges, gates, situations onboard and baggage claim. In order to respect the integrity of our customers, the pictures in this annual report are posed.



Gate 1-10

FL	Destination	Time	Status	Gate
12	London	10:00	On Time	12
13	Paris	10:15	Delayed	13
14	Amsterdam	10:30	On Time	14
15	Frankfurt	10:45	On Time	15
16	Brussels	11:00	On Time	16
17	Geneva	11:15	On Time	17
18	Zurich	11:30	On Time	18
19	Basel	11:45	On Time	19
20	St. Gallen	12:00	On Time	20
21	Lucerne	12:15	On Time	21
22	Basel-Mulhouse	12:30	On Time	22
23	Strasbourg	12:45	On Time	23
24	Nice	13:00	On Time	24
25	Marseille	13:15	On Time	25
26	Montpellier	13:30	On Time	26
27	Nantes	13:45	On Time	27
28	Bordeaux	14:00	On Time	28
29	Lyon	14:15	On Time	29
30	Milan	14:30	On Time	30

OBS! Attention! The runway is closed for maintenance. All flights are delayed.

gagelkärnor Bagg