

# SAS will be Europe's best airline in 1998

In 1996, SAS worked intensively on a comprehensive strategic project designed in the short term to re-establish the high quality associated with SAS since the early 1980s, and in the slightly longer term to earn SAS recognition as a quality leader in the airline industry.

The sights have been set very high. By 1998 SAS will be the best airline in Europe in terms of basic quality and perceived customer satisfaction with the onboard product and service content of the entire trip.

The background to this is that at the end of 1995 and in the first quarter of 1996 SAS suffered from quality problems in the form of impaired regularity (carrying out all flights in the timetable) and punctuality (measured as taking off on schedule). There were several reasons for this poorer quality. Among other things, a number of savings programs had put an increasing strain on resources.

In terms of safety, where SAS had set the toughest standards in the industry, performance never faltered. The uncompromising priority given to safety could even cause canceled flights and delays.

## THE FIRST STEP – FOCUS ON BASIC QUALITY

Work on regularity and punctuality was carried out during most of the year. Cross-divisional groups were formed to create a common approach to quality and identify problems across the entire company. Obstacles to satisfactory quality

were identified – in the traffic program, human resources planning, supply logistics, system response times, information and other procedures. Some forty problem areas were identified for action with the aim of restoring and in the long term improving basic quality.

To improve regularity SAS has increased the number of stand-by aircraft, put in more technicians at the bases, and re-allocated resources so that more aircraft technicians work at night, when the majority of aircraft are on the ground. New routines have been introduced for pilots who now report any errors they discover to the base stations during the flight, to enable the right resources to be put in place more quickly.

Punctuality has been improved by adjustments to the traffic program, having SAS's own teams handling critical routes and departures, and placing tougher demands on boarding – starting no later than 20 minutes and closing the gate no later than ten minutes prior to departure.

Regularity and punctuality had improved by the second quarter of 1996. In the second half of the year regularity was above standard and SAS recaptured its position as one of the most punctual airlines in Europe.

Making sure baggage arrives is also a key part of basic quality. The "Qualibag" project, launched at the beginning of 1996, is designed to ensure and develop the quality of baggage handling at SAS.

This has led to improved systems and a greater emphasis on simple control routines. These include accurate reading of tags, registering tag numbers, removing old tags, and rationalizing procedures for handling baggage which, despite everything, goes astray.

## CONTINUOUS IMPROVEMENTS

SAS has been conducting ongoing quality work according to TQM (Total Quality Management) principles since 1995. This work is based on continuous improvements coordinated with a high level of cost awareness.

In order to assess the development of this quality work, SAS has been applying the EFQM (European Foundation for Quality Management) model since the beginning of 1996. More than 30 internal quality assessors have been trained. Starting in 1996, an annual description of operations is drawn up based on EFQM's nine main criteria, against which SAS is evaluated. This is done to identify priority areas for improvement. SAS's goal is to win EFQM's European quality award.

## FOCUS ON SERVICE QUALITY

How customers experience quality at SAS is regularly documented in opinion polls. CPQ (Customer Perceived Quality) values are compiled for a large number of service elements – from how the customer perceives telephone response times and



## FOLLOW THE LEADER

The encounter with an airport environment is often chaotic. Information is inadequate and stress means that the signals that are provided are badly assimilated.

In high-pressure, chaotic situations we tend to do what everyone else does, we imitate. If someone shouts "fire" in a movie theater and a few people start running in one direction, nearly everyone else will follow, even if it's the wrong way.

At airports there are often totally unnecessary lines. A line is simply a far stronger signal than a sign. Ah, that's where we should be standing. Everyone else is there. After standing in line for a while we sometimes review the situation, see other opportunities, and get out of line.

Imagine if there was simpler, clearer and more logical information and active assistance which could help the passenger find the right way through the system from the start.

check-in to the newspaper service and comfort onboard. Check-in and treatment onboard receive ongoing high ratings, and the low grades for punctuality early in 1996 are now improving.

A new type of survey was also introduced in 1996. It shows, among other things, the importance for customer satisfaction of the various service elements. This list is headed by punctuality and care onboard.

The conduct and attitude of our employees is a fundamental part of the customer's perception of a SAS product. One tangible project in 1996 was "Cabin Quality," which worked on improving opportunities for cabin crews to provide an even better service. Employees' motivation and how they experience their situation are measured once a year.

SAS is now focusing on a fundamental

development of its service, which covers the entire trip – from reservations to the end of the journey. Large parts of this program will be carried out in 1997 and 1998.

### UNDERSTANDING THE PASSENGERS

In 1996, SAS carried out an extensive research and analysis project which provides the new platform for the company's product and service development.

Most opinion polls use a question and answer technique, which always has its limitations and errors. In this project SAS has used anthropological methods based on observations of passenger behavior at various stages of the trip. This method provides a greater understanding of how passengers experience their trip and of problems in different situations. The

method also picks up a number of concrete problems which would never come to light in other polls.

Some of the problems identified in the entire travel process are described in boxes on the following pages.

It is by finding solutions to these problems that SAS will become the best airline in Europe.

# Empowering the passengers

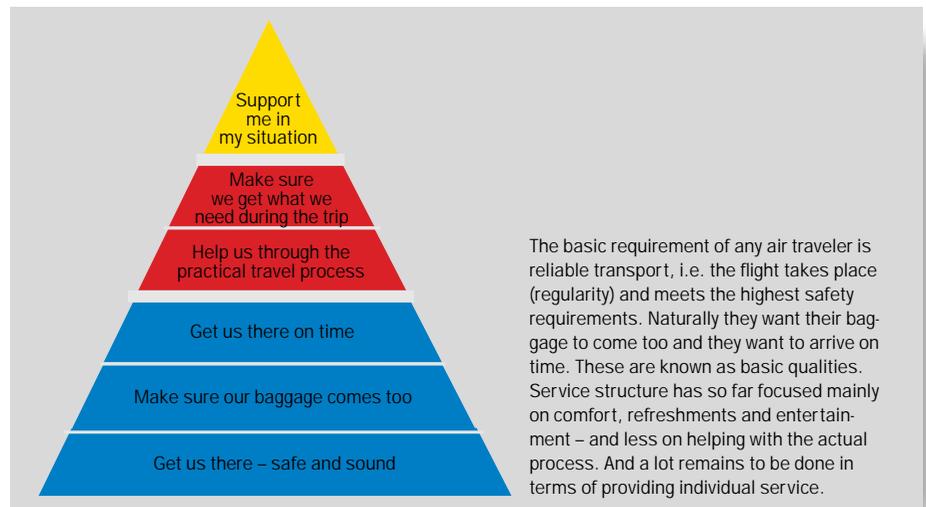
Traveling by air is a process, the basic components and patterns of which have not changed very much over the past 30 years. On the other hand, almost every stage has become more complicated. Today an international journey by air is an unwieldy procedure conducted on terms dictated by producers and the system – not by the customer.

Curiously enough travelers have accepted many of the clumsy elements of the system, which has naturally helped make these a permanent feature. People who in every other case have considerable control over their situation, when traveling by air become passive and anonymous objects who, sometimes with considerable effort, are forced to play their part in rituals which have not been made effective for their end users – the passengers.

If we could start with a clean sheet, how should air travel preferably be from the passenger's viewpoint? It is this question SAS has been working on recently.

SAS only controls a small part of the total environment in which the trip takes place. But SAS intends to change this part dramatically in future years. And this transformation has already started. SAS can also influence other parts of the travel environment.

Naturally, as a single carrier SAS cannot reinvent the entire travel process – but SAS is not a single carrier. Together with its partners in the world's largest partnership, SAS can do a lot to give passengers a better travel experience all the way.



The basic requirement of any air traveler is reliable transport, i.e. the flight takes place (regularity) and meets the highest safety requirements. Naturally they want their baggage to come too and they want to arrive on time. These are known as basic qualities. Service structure has so far focused mainly on comfort, refreshments and entertainment – and less on helping with the actual process. And a lot remains to be done in terms of providing individual service.

## UNDERSTANDING PASSENGERS

Almost all customer surveys conducted by the airline industry are based on traditional questionnaire and interview techniques. But if passengers have accepted the basic pattern of air travel, the real problems will not emerge from such surveys.

That's why SAS, as a complement to regular opinion polls, is also using anthropological techniques to obtain a better grasp of passengers' experiences and problems during the trip.

What do passengers actually do during a typical journey by air? SAS has documented this in 1,500 hours of video recordings from check-in, lounges, gates, onboard and baggage claim. By studying passenger behavior during different travel phases, SAS has been able to identify

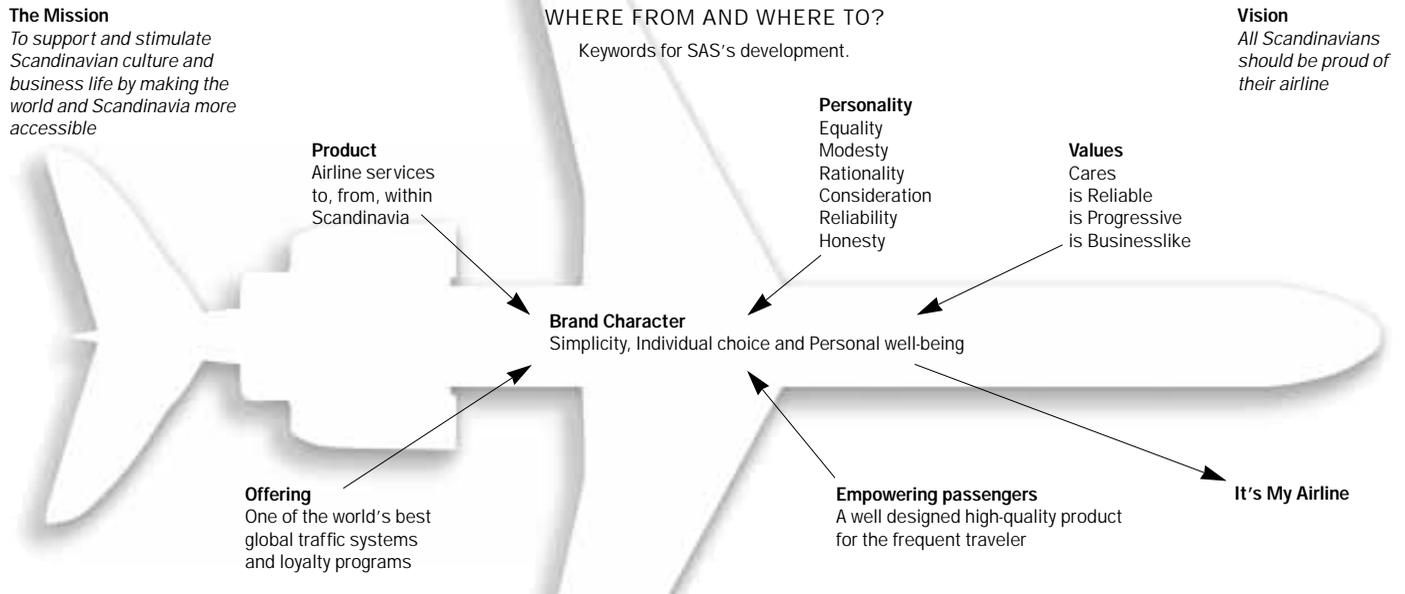
some forty problems during the trip which justify "drastic product development," i.e. a basic rethink for various stages. SAS has also acquired unique information for some fifty minor improvements.

In their efforts to provide a good air travel product SAS and the other airlines have concentrated on the basic product – on fundamentals such as safety and punctuality – as well as on personal service. Less effort has been made to help passengers cope with all the purely practical details of the trip.

## MORE POWER TO THE PASSENGERS

The basic philosophy of SAS's future focus is that passengers must be given greater control of their own trip. There

## FUNCTIONAL PRODUCT DEVELOPMENT AT SAS



must be a better balance between the system's requirements and the user's needs throughout the entire process. Passengers will not need to "serve" the system to the same extent, but the system will do more to serve the passengers.

Simplicity and choice are the keywords here. It must be easy to take a trip. The passenger should not, as today, have to wrestle with a number of practical

problems which the system can be redesigned to cope with. And the passenger should be able to choose to carry out various stages of the trip as he or she prefers, simply have greater freedom to design their travel experience.

SAS already offers fourteen alternative ways to check in, from SAS Airline Check-in at a number of hotels to auto-

mated Express Check-in at airports. The Bistro concept in the EuroClass lounges means passengers can choose to eat while still on the ground or in the air – or both.

SAS will provide attractive new alternatives for several stages of the trip through a new, functional design based on passengers' perceptions.

If passengers are to be given more control and be able to exercise their choice, the entire travel process must be visible and its various alternatives clear. This places totally new requirements on information right through the trip – from reservation to final destination.

### FEELING GOOD ON THE TRIP

The third concept on which SAS's product development is based is care. The system and service element must be designed so that the customer feels that SAS cares. Passengers must feel a greater sense of well-being with SAS than with other airlines. Care can only be accomplished in the encounter between staff and customers. It is essential that front-line staff be given more authority in the system – not only to provide individual service and personal care – but also in the final analysis to give more power to the passengers.



### ROLES IN CONFLICT

When traveling by air passengers are expected to be able to handle a number of different roles at the same time.

On the one hand, they are rendered passive and treated as if they are stupid. At times incomprehensible rules and routines must be followed by everyone. Go over there, wait here. On the other hand, they have to try to keep control over their own situation and position. Keep an eye on flight and gate information, their hand baggage, on accompanying passengers on the loose, and so on.

Imagine if a more harmonious process could be created, where the traveler can always keep control – and his dignity.

# Significant rise in competitive pressure

Deregulation of the air transport market in Europe will be completed on April 1, 1997, when throughout the EEA (EU plus Norway and Iceland) EEA companies will be free to operate domestic air services as well. Air traffic between Scandinavia and the U.S. has been deregulated since 1995 under an Open Skies Agreement. International air transport is otherwise controlled through bilateral agreements, where the status of national carrier remains highly significant.

## FAVORABLE BUT UNEVEN MARKET GROWTH

Both in a global and Scandinavian perspective, growth in air transport services continues to outpace the economy as a whole. Leisure travel is increasing more than business travel.

In 1996 traffic in Europe increased by a total of 6.1% (8.3%). Growth for SAS's European services was 6.9% (4.7%). Traffic on the route sectors in which SAS operates, however, increased more than average European traffic and SAS's traffic. This meant that SAS lost market shares on services to and from Scandinavia. This trend was especially noticeable in the second half when competitors increased their production in Scandinavia considerably.

The European airlines increased their total intercontinental traffic by 8.1% (7.6%) while the increase for SAS was 5.5% (1.8%).

The downturn in the Swedish domestic market in recent years was reversed in 1996 and SAS had more or less the same traffic and market share as in the previous year. Norwegian domestic services, on the other hand, had a dynamic year with growth of approximately 10%. SAS increased its production by 13% and market share rose to 41.3% (40.4%). In the Danish domestic market, SAS lost market share, 51.4% (57.3%), in the face of intensified competition.

## TOUGHER COMPETITION

In 1996, competition in the Scandinavian market intensified. Eight new competitors started services in or to SAS's home market, and the major European rivals increased their production in Scandinavia to a far greater extent than SAS. This increased competition led to considerable pressure on fares and SAS's yield stagnated for the first time in three years.

What is known as the capital triangle, traffic between Copenhagen-Stockholm-Oslo, also started to be exposed to tough competition. Braathens SAFE opened an Oslo-Stockholm route in November 1996 with seven daily departures and an aggressive fare structure. At the end of 1996, Braathens SAFE accounted for 30% of production (available seats) on the route, but with a market share (sold seats) that was considerably lower.

SAS's policy is to compete with both proactive fare structures and attractive bonus offers, and with product improvements. To meet the competition on the Oslo-Stockholm route, SAS launched an entirely new product, SAS Express (see page 65), a prototype for SAS's short-haul flights or shuttle services. SAS Express has 15 daily departures.

In the Scandinavian home market and services to it, SAS's high frequencies are a major advantage.

## INCREASED FARE PRESSURE

In spite of overcapacity in the industry, competition over fares increased in 1996. The year began with aggressive price moves from the major players on North Atlantic routes, which SAS has largely matched.

British budget operators have also entered the competitive arena in Scandinavia. Virgin Express has operated a twice daily service between Brussels and Copenhagen since autumn 1996. Debonair started flying London-Copenhagen and Copenhagen-Munich in the autumn. The main breakthrough for these new operators has been in the tourist class segment.

Nordic European opened a service between Stockholm and Brussels in autumn 1996, although this had closed by year-end.

Competitive pressure will intensify further in 1997 with new competitors on

many routes. For example, Maersk and Finnair have announced their intention to start operating between Copenhagen and Stockholm with four daily departures beginning on April 28.

ALLIANCES  
AND FRANCHISES

The global air transport industry continues to restructure by forming alliances, usually between European, North American and Asian carriers.

Two of the world's largest and most successful airlines, American Airlines and British Airways, have agreed to start a strategic alliance beginning in the second half of 1997, but are still waiting for official approval.

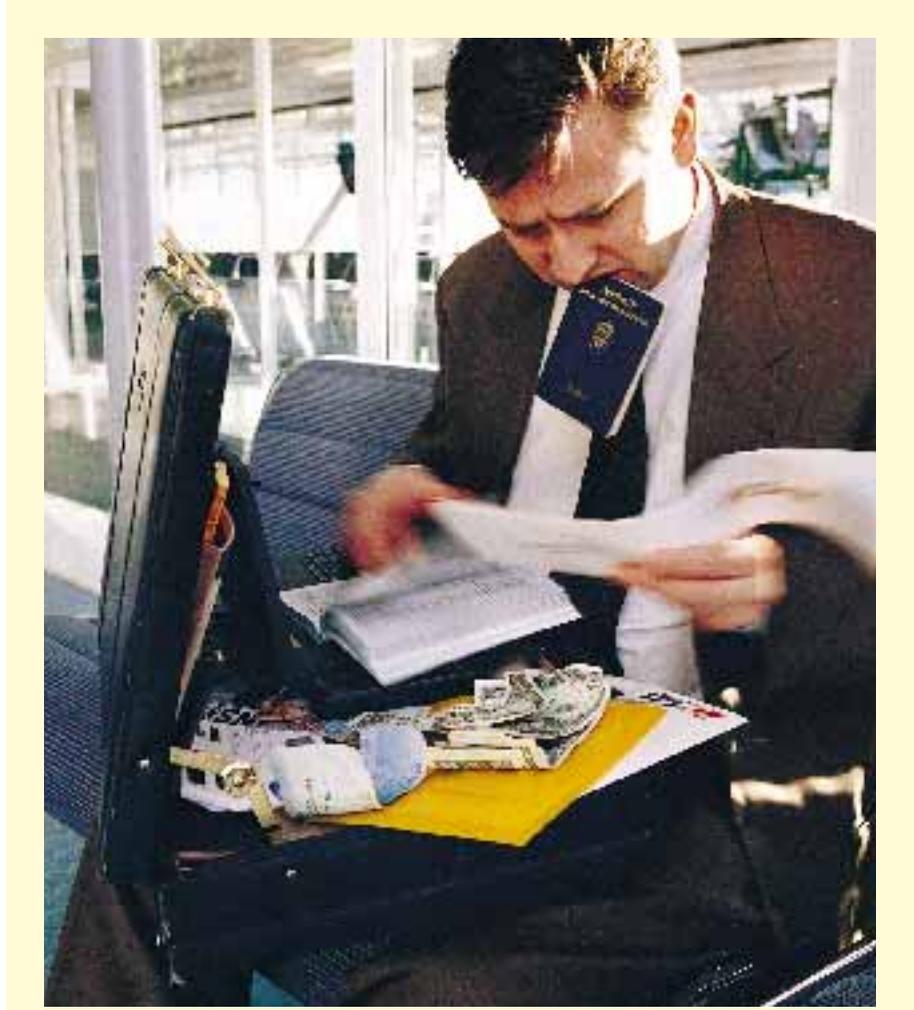
SAS belongs to what is currently the world's most extensive airline alliance with Lufthansa, United Airlines and Thai Airways International. In the autumn, SAS signed a letter of intent regarding an alliance with Air Canada as well.

At the end of 1996, SAS, Lufthansa and United Airlines obtained the American authorities' permission to cooperate more closely, an antitrust immunity. This means the companies can now operate joint routes and coordinate capacity, fares and marketing.

The airline industry has also started to use franchising in order to obtain traffic programs with the widest possible coverage at the lowest possible cost. Sunair's former operations are now operated in the Danish domestic market under the name British Airways Express in a franchise arrangement. SAS has met this competition with extended cooperation with Cimber Air, including new routes to Aalborg and Aarhus.

HEAVY STATE SUBSIDIES  
CONTINUE IN MANY COUNTRIES

A number of airlines within the EU still received state support in 1996. Thus far into the 1990s more than USD 11 billion has been granted in government support. State subsidies will be paid to Air France, Iberia, Olympic Airways, and TAP-Air Portugal in 1997. In addition, support for Alitalia is currently being examined



UNDERSTANDING THE DOCUMENTS

Travel includes a number of transactions where documents and "receipts" are exchanged at different stations so that the trip can continue. These documents undergo a number of transformations which are not always easy to understand.

The ticket is exchanged for a boarding card. Parts of the ticket are torn off and placed in the pocket of the boarding card, others remain in the folder. Did I get two boarding cards – one for the immediate flight and a transit card for

the next one? What happened to the baggage receipt? Is the ticket really still tucked into the boarding card, or did it fall out when the boarding card was being stamped in the duty free shop? Really, that wasn't the boarding card, it was the receipt on the ticket. What do they tear off and what do I have left? Didn't they just tear off the bit with the baggage receipt attached to it? What can I throw away and when?

Imagine if there was a simpler, perhaps even ticket-free, way to travel!

by the EU Commission.

Due to the distorting effect subsidies have on competition, SAS is an active participant in various forums trying

either to prevent this support or impose conditions which mitigate its impact.

# SAS has launched its new offensive

Competitive pressure has increased in SAS's markets and this trend will continue. As market leader in Scandinavia, SAS welcomes free competition. It favors SAS which is forced to improve its performance to the benefit of both customers and shareholders.

A strong position in the home market and traffic to and from that market is the foundation of SAS's existence. SAS will do its utmost to defend and develop its central market positions. SAS is financially strong and this provides the necessary endurance and flexibility for selective efforts to meet new competitive situations.

In 1996 SAS started a broad-based and aggressive program that includes intense competition in the world's most extensive global alliance, a joint venture with Lufthansa covering services between Scandinavia and Germany, ongoing enlargement of the bonus program, the already started renewal of the fleet, the launch of a number of new products and concepts, and preparations for even greater changes.

SAS has also dealt selectively with price moves in different markets and market segments, and with new competition, using both proactive pricing and new products.

## PRICING POLICY

Price transparency is considerable in today's market. SAS must have a structure that meets market requirements,

gives the user good value, reflects differences in value between various products, and optimizes SAS's profitability in a highly competitive market.

SAS works primarily with proactive pricing, which means taking the initiative and changing fare competition, rather than imitating competitors.

SAS will be simplifying and clarifying its fare structure, and creating new competitive products at different levels where price plays a central role.

Continued simplification of distribution and the use of new media and automation in reservations, ticketing, check-in and some service elements, are a key to new products and fares offering high value for money.

## ADDITIONAL FOCUS ON LEISURE

Business travelers have been SAS's main target group since 1981 and the company's development must primarily reflect changes in their requirements.

In the 1990s, however, the leisure travel market has experienced higher growth than the business travel market, and this trend is expected to continue. The priority given by SAS to the business segment has led to lost market shares in tourist traffic in the 1990s. Today this is an area with attractive growth potential.

The leisure travel market is elastic in terms of fares, and volume can be dimensioned to meet cyclical downturns

in the business segment. SAS will focus on the leisure travel market in 1997, in order to sell empty seats, broaden the customer base, and offer business travelers a better leisure travel product. In addition to general products such as Jackpot, specific segments in the leisure market will be cultivated with new travel products with different levels of value added.

These new leisure products will be flexible and based on actively offering empty seats. From an economic viewpoint, the intention is to raise capacity utilization to destinations and on departures where there is scope for this.

## ASSERTIVE CUSTOMER-DRIVEN PRODUCT DEVELOPMENT

SAS intends to acquire and retain an advantage in terms of the actual air transport product. This will be based on ongoing renewal of various products and services.

Product development is customer-driven and the new products must give the customer added value, at the same time as restructuring reduces SAS's costs.

Using prototypes, i.e. trying out and refining new concepts on a smaller scale prior to full-scale launching, is part of SAS's new product development philosophy. SAS Express, which was launched on the Oslo-Stockholm route at the end of the year, and is a very large and complicated project, can be regarded as a strategic prototype in terms of product

and process. The time between decision and inauguration was only four months. This shows that SAS can act fast.

#### RATIONALIZED DISTRIBUTION

SAS is now gradually introducing a new distribution strategy designed to simplify the entire reservations and ticketing process for the customer, while giving SAS lower distribution costs. Eventually, this will also benefit the customer in the form of lower fares than would otherwise have been possible.

The trend towards increased automation of ticket handling is now moving fast throughout the industry, and SAS was the first airline in Europe to introduce ticketless travel. Here a card, SAS Travel-Pass, replaces the traditional ticket. Ticketless travel has many advantages. It is simple and flexible for the customer. A number of trips are purchased which provides a discount. Reservations are made in new media such as voice response and online through a PC. All

processing takes place in computer systems instead of on paper. Card readers are used at check-in and gates.

Automation has started in other areas as well. The first external check-in machine was installed at Ericsson Radio Systems in Kista outside Stockholm during the year.

In the second half of 1997, SAS will launch the E ticket, an individual electronic ticket. It can be used throughout SAS's partnership system and in the future will also be valid for other airlines.

In 1997 it will also be possible to buy and reserve SAS tickets via the Internet.

Starting in September 1997, SAS is changing its remuneration to agents for domestic and intra-Scandinavian travel, where commissions to travel agents will be reduced from 8% and 9% respectively to 5% of the price of the ticket.

This reflects basic changes in the division of effort between the traveler, the airline and the agents. The work of the travel agents has been reduced

through simpler reservation routines, increased automation and customers' desire to make their own reservations. This applies primarily to the simpler trips, domestic and intra-Scandinavian.

SAS's principle is to pay for work carried out. The agent has to make more effort for travel outside Scandinavia. Here the old commission rates will remain unchanged. SAS also pays 9% on all transfer traffic, for the whole distance on a Luleå-Stockholm-London ticket, for example.

Of the total volume of SAS tickets in 1996, 80% were sold by agents. This proportion was lower for intra-Scandinavian and domestic tickets. Although agents' shares are expected to gradually decrease, since more and more reservations are being made by customers themselves, the travel agents will continue to be SAS's most important distribution channel.

SAS's alliance partner Lufthansa has introduced a similar system for agents, and similar changes have been carried out in the Netherlands and the U.S.

#### HOTEL COOPERATION

Being able to offer customers a good hotel product attached to the trip is a key competitive tool. SAS Radisson Hotels, which is Europe's fastest growing first-class hotel chain and now has 80 hotels in 23 countries, forms the foundation of SAS's hotel offering. SAS also cooperates with more than 200 other hotels worldwide.

In 1996, SAS arranged more than 150,000 hotel nights for its passengers. SAS can offer EuroClass passengers special rates at 130 hotels and tourist class passengers can obtain favorable rates at 155 hotels.

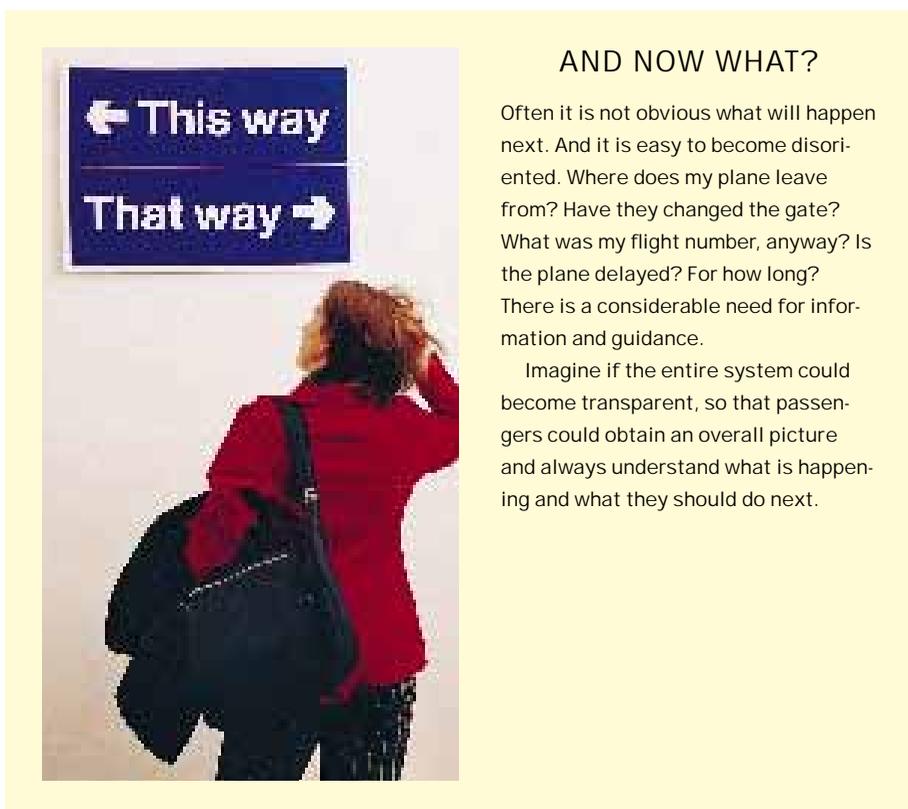
At 25 hotels SAS passengers can check-in at the hotel lobby using the SAS Airline Check-in service.

A number of Fly SAS/Stay SAS campaigns were conducted, to and from Scandinavia in 1996. These offered free hotel stays to SAS EuroClass passengers.

#### AND NOW WHAT?

Often it is not obvious what will happen next. And it is easy to become disoriented. Where does my plane leave from? Have they changed the gate? What was my flight number, anyway? Is the plane delayed? For how long? There is a considerable need for information and guidance.

Imagine if the entire system could become transparent, so that passengers could obtain an overall picture and always understand what is happening and what they should do next.



# The year of alliances

The global air transport industry is now structured in a number of alliances. These are designed to provide economies of scale and synergies in the market and production, thus increasing competitiveness.

In the short term it is a matter of increasing revenues, among other things through larger and more harmonized traffic systems and strong programs for frequent flyers. In the slightly longer term, it is also about cost synergies from cooperation in sales and production.

## THE MOST EXTENSIVE PARTNERSHIP IN THE WORLD

In 1995, SAS and Lufthansa reached agreement on extensive strategic cooperation. This cooperation started at the beginning of 1996. In addition to its traditional components, the agreement includes a substantial structural element, a joint venture for all traffic between the two companies' home markets.

SAS also reached agreements on alliances with United Airlines and THAI in 1995. These came into force in the first half of 1996. In addition, a letter of intent was signed concerning an alliance with Air Canada. This cooperation will take effect during the first half of 1997.

SAS, Lufthansa, United and THAI have now joined together in what is at present the largest and closest global constellation in the market, with a total of nearly 150 million passengers in 1996

and 535 destinations (net, i.e. not counted twice) in the system.

In its first year this cooperation has included a large number of flights under common flight numbers, carried out by either company (code-shares) and gradual integration of loyalty programs. Starting in 1996, SAS EuroBonus members could also earn and redeem points in programs offered by Lufthansa, United Airlines and THAI.

Access to each other's lounges is also part of this arrangement. EuroClass passengers have access to Lufthansa's Frequent Traveler Lounges, United Airline's Red Carpet Lounges and THAI's Royal Executive Class Lounges. A SAS EuroBonus RVC Gold Card and a valid ticket also provides access to United's Red Carpet Lounges, Lufthansa's Senator Lounges, and THAI's Royal First-Class Lounges.

The four carriers also have a number of alliances outside the joint structure,

SAS with jointly owned British Midland, Spanair and AirBaltic, as well as with Icelandair and Varig. In the local Scandinavian market, SAS cooperates with Cimber Air of Denmark, Norwegian Widerøe and Swedish Skyways.

Air New Zealand and Qantas also participate in SAS EuroBonus.

## ALLIANCES ALREADY BEARING FRUIT

For SAS the partnership with Lufthansa forms the core of this alliance system, extensive cooperation without joint ownership and with no loss of identity.

Since the beginning of 1996, SAS and Lufthansa have conducted joint air transport operations between Scandinavia and Germany, a market totaling some 2 million passengers. All traffic from Germany is handled by Lufthansa's station organization, and all traffic from Scandinavia is handled by SAS. This joint operation has been high-

### SAS's Partners

All information below pertains to air transport operations under own trade name.

1996	SAS	Lufthansa	United Airlines	THAI	Air Canada
Number of destinations/countries	104/34	243/89	139/30	75/36	73/20
Number of passengers (000s)	19,828	31,760	81,639	14,300	12,600
Production (million ASK)	30,646	88,453	269,760	42,099	48,700
No. of employees	21,348	25,000	85,936	22,136	19,900
Number of aircraft in operation	161	220	564	73	139
Operating revenue (USD million)	5,000	9,850 <sup>1</sup>	16,400	3,000	3,800 <sup>1</sup>

<sup>1</sup> Preliminary figure.

ly successful. SAS/Lufthansa captured market shares during the year and joint traffic increased more than 10%. Surveys show that customers are also very satisfied with the joint product.

Otherwise, the alliance with Lufthansa resulted in a large number of code-shares during the year, as well as coordination of timetables and procedures. All designed so that travelers feel the same airline carried out the entire trip. The bonus programs have been integrated so that SAS EuroBonus customers can earn and redeem points when they travel with Lufthansa. The airlines' lounges now welcome each other's customers. Furthermore, the companies' fare structure within the EU has been harmonized.

In 1997, SAS and Lufthansa will launch "mixed awards," which will allow passengers to take an outward bonus flight with one company and return with the other.

The impact on SAS's earnings of the alliance with Lufthansa can be estimated at more than MSEK 100 in 1996, mainly in the form of additional revenues.

The cooperation with United Airlines, the largest carrier in the U.S., started in April 1996 with code-shares and full integration of bonus programs. Even in 1996, this cooperation gave SAS a greater inflow of traffic over the Atlantic than the earlier cooperation with Continental Airlines. SAS's services to Chicago, United Airline's main hub, showed very strong growth during the year.

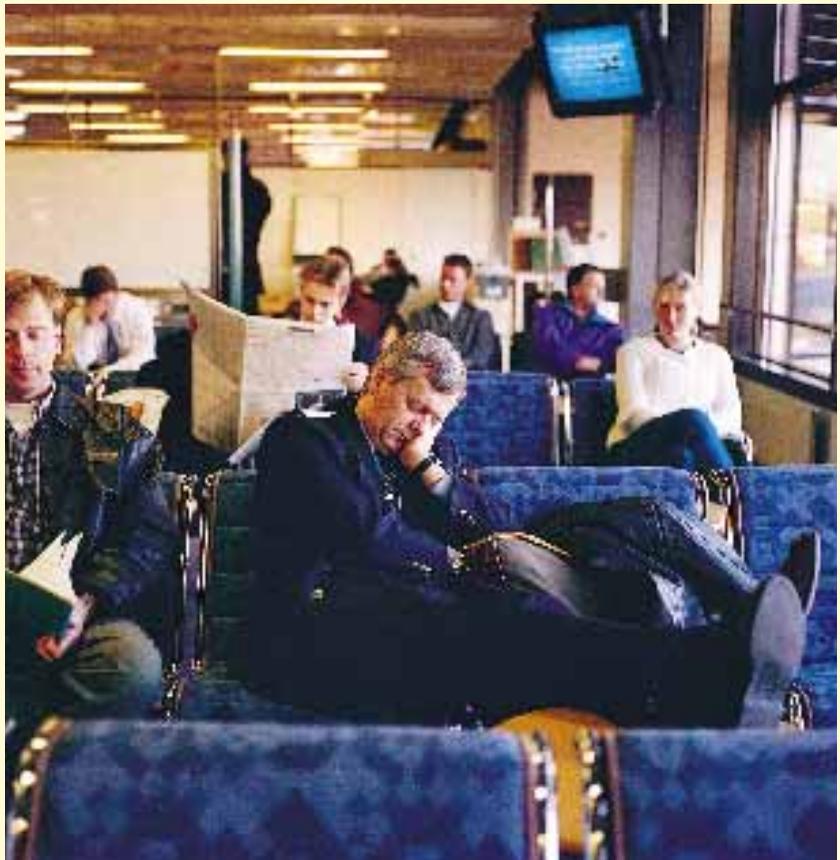
The new cooperation with THAI, which started in May 1996, represents the revival of a very old alliance. SAS took part in the company's formation in 1958, and was a joint owner until 1977. This new cooperation includes code shares and loyalty program integration. SAS and THAI now have daily flights to Bangkok from Copenhagen and Stockholm, operated alternately by each company.

#### INTENSIFIED COOPERATION

The cooperation between SAS, Lufthansa, United Airlines and THAI has been intensified still further in 1997. The intention is that continued cooperation,

also including Air Canada, will result in a more distinct joint presence at marketing and sales levels. Plans also include ongoing integration of production, where there are considerable economies of scale to be won, as well as increased customer satisfaction in the form of integrated traffic and bonus programs.

The intention is not, on the other hand, to harmonize the products completely. The airlines will retain their special characteristics, while shared elements will be built in, in terms of procedures, standards of comfort, service level in the lounges, compensation for downgrading, special meals, etc.



#### MAKING YOUR OWN SPACE

People adapt to the various environments encountered during a trip, but they also try to adapt these environments to suit them.

Many people try to create their own space in which to work, rest or read while they are waiting. They mark their territory by laying out a piece of clothing, hand baggage, etc., on the chairs around them.

Added to that, the airport surroundings are for the most part inharmonious and contradictory. Lots of hurry and stress

combined with a lot of waiting around.

There are many ordinary rules of behavior that have to be broken on a trip. Sleeping in public with our clothes on is not something most of us normally do, but particularly on long journeys it can be essential to try to have a nap in a chair somewhere.

Imagine if there was greater flexibility so that the traveler could find it easier to organize these things without any loss of dignity.

# SAS's strongest-ever traffic program

SAS served 142 destinations at the end of 1996, 104 of them operated by SAS itself. Services to other destinations take the form of code-shares with one of SAS's partners.

## SAS DESTINATIONS INCL. CODE-SHARES

	Operator					
For	SAS	LH	UA	TG	Others	Net*
SAS	104	35	11	1	16	142
Partner	35**					

\* excluding destinations also served by SAS with its own aircraft.

\*\* (of 104)

Integration of traffic systems in the four-way partnership – SAS, Lufthansa, United Airlines and THAI – made considerable progress in the very first year. SAS operated 35 code-share routes for its partners at the end of the year, while they operated 47 code-share routes for SAS. The total number of destinations (net) in the group of four partners was 535 at year-end.

Other SAS partners during 1996 were jointly owned British Midland, Spanair and AirBaltic, as well as Varig and Icelandair.

With all its partners SAS can offer 553 destinations. Never before has SAS been able to offer such a powerful traffic system.

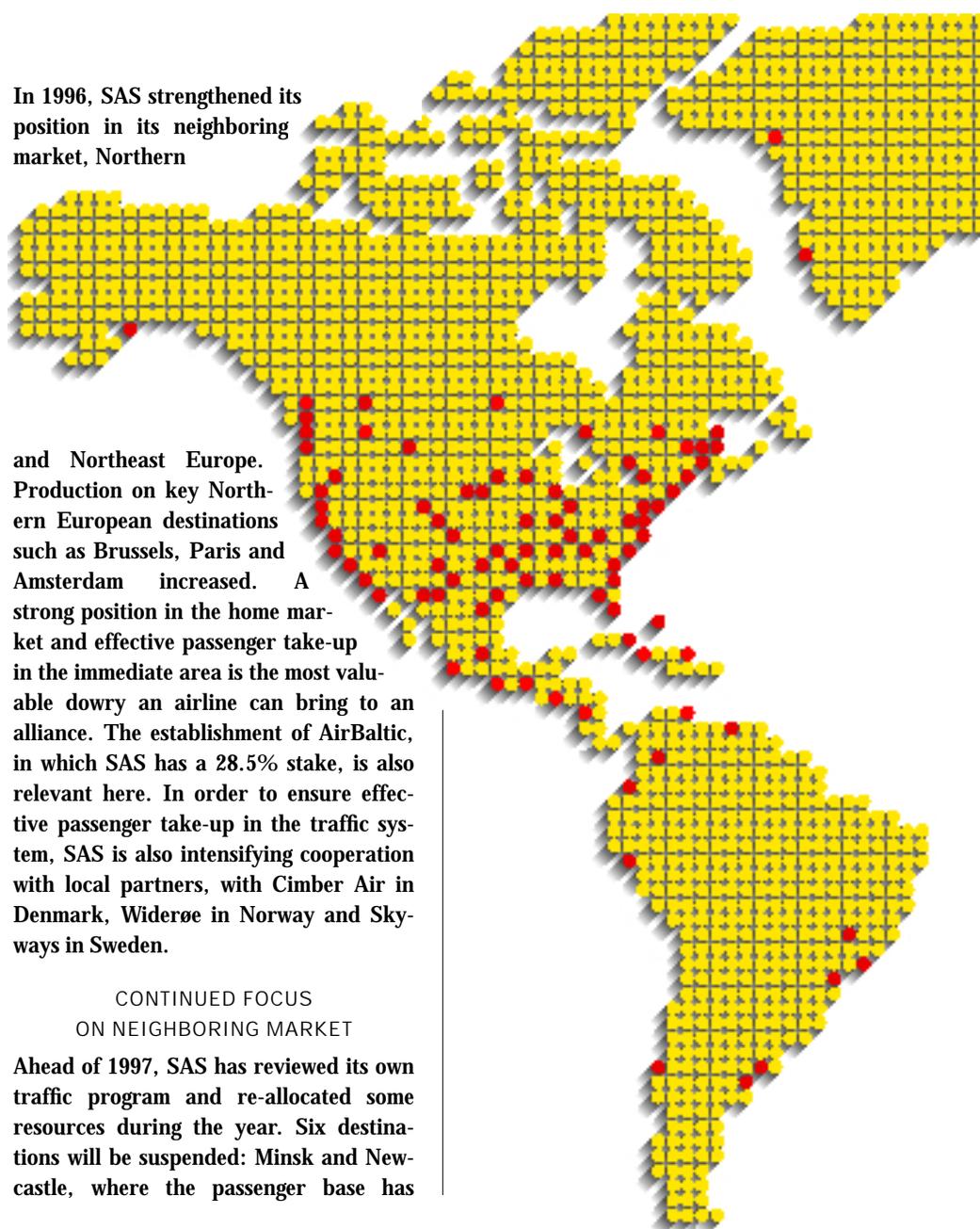
In 1996 SAS added six new destinations to its program: Bologna, Minsk, Newcastle, Arkhangelsk, Edinburgh and Lisbon. Services to Turin were suspended.

In 1996, SAS strengthened its position in its neighboring market, Northern

and Northeast Europe. Production on key Northern European destinations such as Brussels, Paris and Amsterdam increased. A strong position in the home market and effective passenger take-up in the immediate area is the most valuable dowry an airline can bring to an alliance. The establishment of AirBaltic, in which SAS has a 28.5% stake, is also relevant here. In order to ensure effective passenger take-up in the traffic system, SAS is also intensifying cooperation with local partners, with Cimber Air in Denmark, Widerøe in Norway and Skyways in Sweden.

## CONTINUED FOCUS ON NEIGHBORING MARKET

Ahead of 1997, SAS has reviewed its own traffic program and re-allocated some resources during the year. Six destinations will be suspended: Minsk and Newcastle, where the passenger base has



failed to meet expectations, and Osaka, which has been served from both Copenhagen and Stockholm but whose traffic base weakened after the earthquake in Japan. Services to Lyons and Athens will also be suspended, as well as the Copenhagen-Borlänge route. The suspended routes correspond to 2% of production and some of the freed capacity will be redistributed. SAS's total production for the year is expected to rise by 3%.

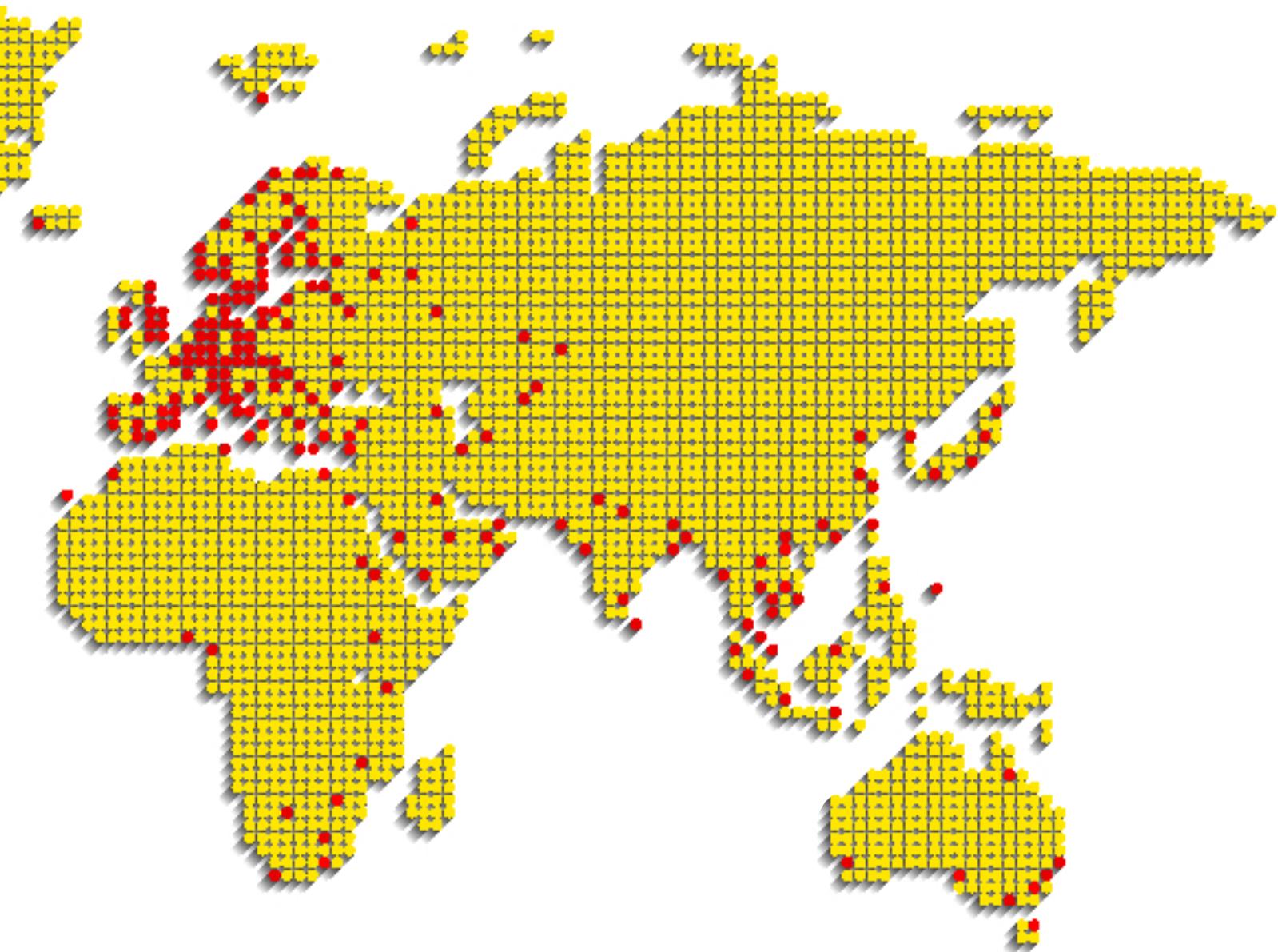
The focus on the neighboring market

continues. Above all, SAS will increase its production in Finland, a market where the airline is experiencing strong growth. Oulu will become a new destination with two daily departures from Stockholm, while the number of flights to Tampere, Vaasa and Turku will be doubled. Several of these destinations will be served by smaller aircraft, mainly the new Saab 2000. These airplanes will also be used on Swedish domestic routes when capacity utilization is low.

SAS is also opening Stettin as a new destination, as part of the development of the Baltic Hub strategy.

At the beginning of 1997, SAS also started services to Billund on Jutland, Denmark. Billund's airport has become a secondary hub for Danish and northern German routes.

Other new routes in 1997 include Copenhagen-Trondheim and Copenhagen-Tromsø, the latter only in the summer months.



# Over one million members

The strategic importance of airlines' bonus and loyalty programs is clearly visible in the face of increased deregulation and rising competition. Today there is no doubt that bonus programs help to create preferences for and loyalty to specific airlines and/or alliances. Surveys, both international and those carried out by SAS, show that more than 80% of frequent travelers who belong to a bonus system are influenced in their choice of airline.

SAS EuroBonus is therefore of decisive importance for sustained profitability at SAS. This applies in both the short and the long term. When SAS experienced problems with quality in the winter of 95/96, the bonus system played an essential role in maintaining traffic volumes.

The overriding strategy for SAS EuroBonus is to establish long-term profitable relationships with frequent travelers by paying them special attention and rewarding them.

## CONTINUED HIGH GROWTH

In December 1996, the number of SAS EuroBonus members was more than 1 million, which represents an increase of 29% over the previous year. These members accounted for approximately 50% of SAS's total passenger revenues, and 75% of these, in turn, were attributable to the 25% most frequent travelers. The number of members in Denmark totaled 174,000, in Norway 283,000, and in Sweden 236,000. 5% of SAS EuroBonus

members are RVC Gold members and approximately 15% are Silver members.

## DEVELOPMENT OF THE PROGRAM

In 1996 development of SAS EuroBonus focused on exposing the advantages of the traffic system SAS is establishing with its alliance partners, and increasing the benefits to the most frequent travelers. In addition, the program was made more accessible through the establishment of new channels for dialog with members.

SAS's alliance partners THAI and United Airlines have been included in the program. In addition, cooperation with Lufthansa was developed by points earned on flights between Scandinavia and Germany being counted for qualification towards membership of EuroBonus Silver or RVC Gold. This means that SAS EuroBonus, together with its partners, offers a worldwide traffic system in which points can be earned and redeemed. A total of eight airline partners are now included in the program. SAS participates in its partners' bonus programs in a similar manner. A natural next step in 1997 will be to harmonize the benefits between the different bonus programs so that Gold members have access to more benefits within the alliance.

SAS will work to strengthen its relationship with Silver and RVC Gold members. Further development of SAS's customer database will make essential cus-

tomers information available to key functions in the front line, such as check-in and gate. In this way the offering to the most valuable customers can be extended even more to include services outside the bonus program which make travel easier. From a marketing viewpoint the customer database will also make it possible to target SAS's marketing communications to an even greater extent than today.

## GREATER AVAILABILITY, NEW MEDIA

In order to raise availability and the level of service provided to members, SAS EuroBonus has made selected services available via the Internet. This service will be extended still further in 1997, to include statements, own-reservations and confirmations. In the longer term technologies such as the Internet also offer unique, cost-effective opportunities to carry on a highly target-oriented dialog with the customer, and to offer services such as own-reservations and electronic payment. The Internet gives the customer availability around-the clock, 365 days a year.

In order to further strengthen and individually adapt the dialog with the customer, in 1996 SAS EuroBonus also launched an enhanced statement that offers individual communication with SAS. This channel will be further refined in 1997.

## RECOGNITION AND AWARDS

Ratings from customers have been high



## DIFFERENT NEEDS

People are different and have different needs in different situations. In spite of this, everyone is expected to behave identically in environments that have to cater for everything and everybody.

In actual fact a number of different activities take place in parallel during the trip, often in total conflict with each other. Someone is trying to sleep, while the person alongside is attempting to keep in touch with the outside world via the telephone. Someone else is trying to work, while a neighbor is trying to keep a fretful baby happy.

Imagine if the various environments encountered on the trip could be designed with greater variation to suit different needs.

in various surveys. In December 1996 SAS EuroBonus received the Best International Frequent Flyer Program of the Year award, which can be said to be the Oscar of the bonus programs. The award is issued by the American magazine Inside Flyer. Nominations are made by members of various bonus programs voting for different programs. In a supplementary award SAS EuroBonus received a prize for best customer magazine, best customer service, best elite level (RVC Gold) and best Internet page.

### CHANGED TAX RULES IN SWEDEN

The Swedish Parliament decided to abolish the tax exemption on so-called

“loyalty discounts” starting January 1, 1997. This decision is intended to prevent an employee from receiving a tax exempt private benefit in the form of a bonus earned on goods or services for which the employer has paid.

The new tax rules apply to all forms of bonus program and application will be the same regardless of which program the customer belongs to. Parliament has also decided that the employer must submit a statement to the tax authorities and pay payroll tax on this type of benefit. The employee is obliged to give the employer written details of any bonuses earned.

As a supplier of bonus services, SAS is not obliged to submit any information.

# Bold new concepts

Product development at SAS is dictated by the key concepts “simplicity, choice, care”. Simplicity means that a trip with SAS must be as easy as possible to book, pay for, and take. Choice means that the range of destinations, frequencies, products and services offered by SAS must be wide enough to allow the customer to take control of and influence the design of his or her trip. Care means that every aspect of a product and service must be designed with the greatest possible understanding and perception of the individual customer’s situation.

Working with prototypes, i.e. testing and refining new concepts on a small

scale before a full-scale launch, is part of SAS’s product development philosophy. This means that teething troubles can be dealt with, and the product is completely ready and quality assured when it is introduced throughout the SAS system.

SAS Express was launched on the Oslo-Stockholm route at the end of the year. It is a very large and complicated project and can be regarded as a strategic prototype for SAS’s short-haul routes.

Very frequent travelers who commute between a limited number of destinations, are among SAS’s most important customers. They want a simple and effective product. Several of the year’s new

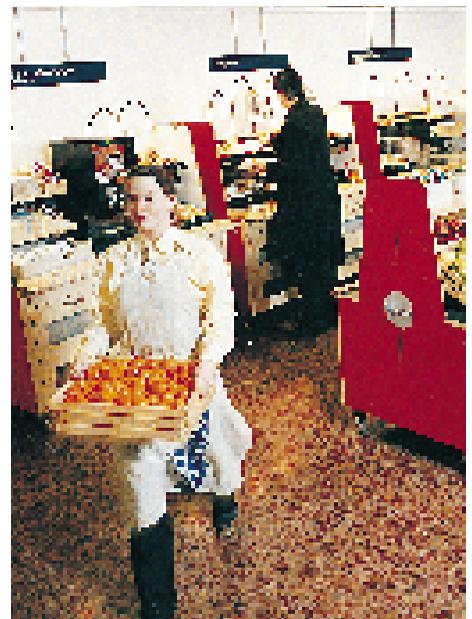
products were developed for this target group, including ticketless travel, SAS Express with GateCafé, and GateBuffet at some domestic stations. These new concepts will increase customer satisfaction, while the restructuring involved will reduce SAS’s costs.

## PRODUCT DEVELOPMENT IN THE ALLIANCE SYSTEM

Together with its partners, SAS is developing a joint functional platform. Routines and standards will be harmonized so that travel in the partner system will, as far as possible, be a trip with several companies in the group which in practi-



SAS’s product development work is dictated by the key concepts “simplicity, choice and care”. Concepts from which products such as SAS Express with GateCafé and GateBuffet have emerged. SAS Scandinavian World Cooking can be enjoyed in EuroClass onboard. Ticketless travel is also undergoing rapid development with the SAS TravelPass and other products.



cal terms is perceived as a trip with the same company. Coordination includes check-in routines, free baggage allowances (40 kg for EuroBonus Silver and 50 kg for RVC Gold), handling of irregularities (delays, canceled flights, etc.).

But this also means coordinating information about passengers during the trip in the interests of worldwide recognition. A valuable customer for one of the partners is valuable for everyone.

Apart from the joint functional platform, products must not be identical. Within the alliance SAS is focusing on a strong own identity and a number of high-profile products.

FAST DEVELOPMENT OF  
TICKETLESS TRAVEL

Ticketless travel was first tested in 1995 in the form of the SAS TravelPass for Swedish domestic services. In 1996 it was time to launch the SAS TravelPass on the Stockholm-Oslo route as well. The SAS TravelPass will be introduced in Danish and Norwegian domestic traffic early in 1997. A SAS TravelPass is a card that can be loaded with various travel contents – ranging from one year's unlimited travel to ten one-way trips. Trips can be easily booked via voice response and PCs. At security checks and gates, the card is put into a reader.

New forms of ticketless travel will be tested in 1997, including a SAS TravelPass with new functions and individual SAS E-Tickets.

SAS EXPRESS REVOLUTIONIZES  
SHORT-HAUL FLIGHTS

SAS Express was launched on the Oslo-Stockholm route in October 1996. This is a prototype for simple travel with SAS. The intention is to introduce this concept on the major intra-Scandinavian routes. In the future it may also be introduced on other short-haul routes with extensive commuter-type travel.

This project includes some hundred sub-projects, from departure structures to range of services. The timetable will be reworked so that a SAS flight is always available. SAS increased its frequencies



PRESERVING INTEGRITY

Travelers have a hard time finding space for and having access to all their possessions during a flight. And as if that was not enough, they often feel their personal space is invaded. This is not only a question of purely physical space, which can be hard to defend in certain situations, but also activities and information. Is it right to read that secret memorandum now

that there is finally time?

Sometimes passengers are forced to share really private matters with complete strangers: "Excuse me, I must go to the lavatory!"

Just imagine there were ways to create more screened off space during the trip, where people did not need to feel their integrity is threatened.

to 15 daily departures on the Oslo-Stockholm route. New types of ticket and travel documents were introduced, including the SAS TravelPass.

In SAS Express the focus is on the ground product and the concept is based on designated gates with a new, functional design. The effective service time onboard on this route is just over 20 minutes, which makes it very difficult to

serve an adequate meal. The stress factor is high for both passengers and crew. The meal service has therefore been moved from the air to the ground. The GateCafé offers EuroClass passengers a generous buffet, with plenty of delicacies to choose from, thus allowing passengers to eat as much or as little as they please. Tourist class passengers are given a ready-packed picnic bag to take with them. Hot



"Scandinavian Home" is the new lounge concept that feels like being welcomed into a Scandinavian home. SAS launched SAS Travel Navigator on the Internet. The site is under constant development and can soon be used for reservations, etc. The eight new McDonnell Douglas MD-90 aircraft have the lowest environmental impact in their class and an extremely high level of comfort.

and cold drinks are served onboard.

Customers are taken care of at the gate by teams especially trained in this concept.

SAS Express has been very well received, both by customers and media that have compared the SAS product with the competition.

SCANDINAVIAN WORLD COOKING –  
A NEW EXCITING FOOD CONCEPT

SAS has one of the largest restaurant operations in Scandinavia with more than 20 million guests a year, of whom more than half come from Denmark, Norway and Sweden. The food served onboard is not only a central element of SAS's service, it is also a key part of the company's image.

Customer surveys have given the food onboard low grades, particularly among frequent travelers on intra-Scandinavian routes, who among other things would like more variation. A new requirement profile emerged from those canvassed – for more delicious, more imaginative, fresher, lighter and healthier food, and by all means larger portions.

The goal was to create a new, modern, profiled food concept which "appealed to as many people as possible," rather than the former "as many people as possible could accept."

SAS Scandinavian World Cooking was developed in cooperation with leading, innovative chefs in Denmark, Norway and Sweden and could be launched in

EuroClass throughout the SAS system in June 1996. The concept is multi-cultural – Scandinavian raw materials and traditions are combined with international, exotic flavors, recipes and preparation methods. SAS is the first airline to serve this modern "cross cooking" with its focus on appearance, taste and aroma, innovation and nutritional benefits.

Scandinavian classics in imaginative new interpretations, such as saffron-marinated halibut, and fine Scandinavian raw materials in exotic form, such as sushi made from fish and shellfish from the Norwegian coast, are just some of the dishes that have given Scandinavian World Cooking very high ratings in customer surveys conducted in the autumn.

Food in tourist class is also being gradually given a new look along similar lines.

WELCOME TO "SCANDINAVIAN HOME"

SAS opened new EuroClass lounges in Oslo, New York (Newark), Helsinki and Paris in 1996. Their design follows the concept already found in Copenhagen designed in the modern Scandinavian tradition with separate areas for relaxation and work. Work modules have equipment for electronic communications. A breakfast buffet is laid out in the mornings and a delicatessen buffet is available throughout the day. Smokers have separate rooms or areas.

All EuroClass lounges have staff who can help with ticket, hotel, and car rental reservations.

In Oslo a new RVC lounge was also opened, a high-profile prototype for the new lounge concept "Scandinavian Home" which is designed to almost feel like being welcomed into a Scandinavian home with a comfortable sitting room, interesting library and well equipped bar kitchen. This concept has been highly appreciated and will open in Stockholm in 1997.

Updated EuroClass lounges will be opened in Stockholm, Gothenburg and Malmö in 1997. Planning work has started on a new 3,000 m<sup>2</sup> lounge in Copenhagen. This concept will also be introduced in the new airport at Gardermoen.

GateBuffet was introduced at a number of Swedish domestic stations and will be set up at a number of Norwegian stations in 1997. The ground product at Norwegian domestic was given a facelift in 1996.

INTERACTIVE IT

At the beginning of 1996, SAS launched SAS Travel Navigator on the Internet. In its first version this was an information channel with timetables, product and partner information, including current campaigns and special offers, and press information. Customers could also provide feedback on SAS's performance.

A number of services were added to SAS Travel Navigator during the year, for SAS EuroBonus and SAS Trading. This service will be expanded considerably in 1997, when it will become possible to book and pay for tickets via the Internet, and to book bonus trips.

In 1996 a multimedia prototype for passenger use, developed in cooperation with Microsoft and ICL, was tested in the domestic lounge at Stockholm's Arlanda Airport. It includes PC functions, CD-ROM, the Internet and PowerPoint. This service will be introduced in lounges in Copenhagen, Oslo, Gothenburg and Malmö in 1997.

70% of SAS's aircraft, including those in the intercontinental fleet, are now equipped with telephones, usually in the armrest.

#### NEW AND UPGRADED AIRCRAFT

The first part of SAS's order for a total of eight McDonnell Douglas MD-90 aircraft was delivered during the autumn. All MD-90s will go into operation in 1997 on SAS's intra-Scandinavian and European routes. The MD-90 will offer passengers a new and greater level of comfort, including comfortable new seats with more opportunities for individual adjustment, more space for hand baggage, larger, well equipped lavatories and a quieter cabin. Power outlets for PCs are provided for passengers who wish to work onboard.

During the year SAS also upgraded its Fokker F-28 fleet in Europe, to provide greater passenger comfort and better service, including hot meals.

#### OTHER INNOVATIONS IN 1997

A number of innovations designed to facilitate the travel process will be introduced during the year. New information units will be installed for transfer and baggage information.

SAS is establishing a number of fast lines, e.g. through security controls for EuroClass passengers, starting in Copenhagen, Stockholm and Oslo, where EuroBonus Silver and RVC Gold members will also be offered quick check-out in duty free shops. RVC passengers will also be offered a manned express parking service, their own line for Swedish domestic flights, and Priority Baggage handling – always first on the conveyor belt.

Comfort onboard will be increased, among other things through more legroom in EuroClass on Boeing 767s on interconti-

mental flights. Seating comfort will be improved in several other types of aircraft. A new comfort kit will be introduced on long-haul flights, with different contents for men and women. A number of improvements will be made for children, including a playroom in Oslo and a more enjoyable onboard kit.

Scandinavian World Cooking will be further developed in a next stage with

higher quality control and new dishes from Scandinavian's leading culinary masters.

Gates at additional major destinations will be manned by SAS's own employees. Gate staff will also be given better information about passengers, their EuroBonus status and wishes via the SAS customer database. They will also be given greater powers to decide on individual treatment of passengers.



#### ON WHOSE TERMS?

On a flight, people who are used to getting their own way, suddenly become the victims of systems and routines. Customers have to adapt to the system, instead of the other way round.

"Sorry, you can't visit the lavatory right now, we are serving meals and the trolley is in the way."

"Sorry, we finished serving refreshments while you were in the lavatory, and we are about to land."

Imagine if the entire system could be made a little more flexible and passengers were allowed to choose when, where and how they want the various service aspects.

# One of the most ambitious environmental programs in the industry

Of all the activities of an airline, it is the flight operations themselves that account for the most significant environmental impact. This makes it natural for the main focus of SAS's environmental work to be on these operations.

Due to SAS's increased production in 1996, total fuel consumption rose by 8.6% to 1,533,191 m<sup>3</sup>. Together with a lower cabin factor, and the addition of SAS's Boeing 747 freighter, SAS's fuel efficiency therefore fell by 5.2% to 7.32 liters/100 passenger kilometers.

Carbon dioxide emissions increased in proportion to fuel consumption to 3,815 million tonnes. However, due to ongoing modernization of the fleet, the increase in nitrogen oxide and hydrocarbon emissions could both be limited to 7.5% and 7.5% respectively (14,352 and 3,588 tonnes respectively).

## CLEANER AIRCRAFT

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 carbon dioxide emissions are 30% lower than the DC-9s they are replacing. Noise level is 9 EPNdB below the requirements for Chapter III aircraft – the lowest for any jet aircraft of this size. This means the MD-90 can be used with unlimited flexibility in SAS's traffic system, while noise charges will be minimized.

The new aircraft and the ongoing hushkitting program for SAS's DC-9s (to be completed in 1997) reduced the proportion of Chapter II aircraft in SAS's fleet from 29% to 19%. The goal is that all Chapter II aircraft will have been phased out/hushkitted by the end of the year 2000, in good time before the EU's total ban comes into force on April 1, 2002.

Extensive environmental projects were also carried out in the cabin and ground operations. These were 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. The total volume of waste from cabin and ground operations decreased by 3.2% in 1996 from 13,405 to 12,976 tonnes. Costs for handling waste were therefore reduced by SEK 400,000.

## ENVIRONMENTAL MANAGEMENT AT SAS

Environmental work at SAS is part of total quality work according to the TQM model. SAS's environmental philosophy states, among other things: "Every manager with decision-making authority and budget responsibility is obliged to include an environmental assessment as part of material on which decisions are based." TQM work includes an evaluation of future adoption of international standards for environmental management and audits (EMAS and ISO 14000).

A partner forum for environmental

issues was established during the year in which SAS cooperates with Lufthansa, THAI, United, Air Canada, South African and Varig. Initially this cooperation will involve the development of common environmental key ratios and an inventory of possible synergy gains.

SAS's environmental report for 1995, our first, received awards for best environmental report of the year in both Norway and Sweden.

## ENVIRONMENT AND FINANCE

SAS can report the following environment-related revenues, cost reductions, charges, taxes, investments and expenses for 1996:

- Environment-related revenues and cost reductions: approximately MSEK 125 (approximately 115), primarily from reduced noise charges due to continued phasing out of Chapter II aircraft (> MSEK 110).
- Environment-related charges and taxes: MSEK 600 (485), mainly environment-related passenger fees in Norway (MSEK 324) and environmental taxes in Sweden (MSEK 116<sup>1</sup>).
- Environment-related investments and expenses: Approximately MSEK 420 of SAS's total environment-related investments and expenses pertained to 1996. MSEK 335 were budgeted costs for the ongoing hushkitting of the older McDonnell Douglas DC-9s, and MSEK 60 of the estimated environment-related extra costs for the six new McDonnell Douglas MD-90s delivered during the year.



## CONNECTING FLIGHT

Will I be in time for my connecting flight, after that wait before landing? Which gate is it, how far away and in which direction? And if I only just make it, what about my baggage?

There are seldom any answers when you most need them.

Imagine if there was clear and reliable information, and simple instructions onboard about how I get to my next flight.

SAS's new freight terminal on land owned by Copenhagen Airport, an old contaminated area was discovered which SAS immediately started to decontaminate. Allocation of the cost involved (a total of approximately MSEK 16) is being discussed between SAS and Copenhagen Airport. The decontamination work in Copenhagen, started in 1995, of an area contaminated with heavy metals, was completed in 1996 at a total cost of approximately MSEK 2.

In 1996 the office of the public prosecutor in Sweden decided to take no further action on the suspected violation of an emission concession reported by Sigtuna municipality in 1995. In Norway, SAS exceeded its part of the civil aviation administration's concession for glycol emissions in conjunction with de-icing of aircraft in Bergen, and measures were taken to put this right. Otherwise, SAS remained within all current concession regulations during the year.

Apart from the incidents mentioned above, there are no environment-related disputes connected to SAS's operations. SAS's assessment is that no land owned by the company is polluted in contravention of requirements from national health and environment authorities, and that the company's property holdings are not charged with any environmental debts.

SAS's insurance covers the company's liability for environmental impact in the event of accidents. 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.*

<sup>1</sup> The EU Commission has found that the Swedish environmental tax on domestic air services contravenes community law. Since this requirement therefore had no legal basis, it is not regarded as representing a cost for SAS.

## ENVIRONMENTAL IMPACT ASSESSMENT

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.

Work on development of guidelines for air transport focuses mainly on the following issues:

- The EU will consider the Mineral Oil Directive in 1997. This may result in aviation fuel also becoming subject to energy-/environment charges, which could lead to increased charges for SAS and all other European airlines of several hundred million SEK, unless the entire system of taxes and charges is reworked at the same time.
- Swedish authorities are examining a new system for environmental charges to replace the tax on domestic air services that was abolished on January 1, 1997. They are also considering adjusting the differentiated noise charges. This may lead to new environmental costs for SAS in the short term, although probably not in excess of the recently abolished tax. In the longer term, these new differentiated noise charges should not affect SAS at all since the plan is to have phased out or rebuilt all Chapter II air-

craft to Chapter III standards by the year 2000. SAS is a member of the work group reviewing this matter.

- Stricter environment-based restrictions and charges can be expected in the many European destinations in SAS's traffic system that have such restrictions. In the immediate future, before SAS has phased out all Chapter II aircraft by the year 2000, this may lead to less flexibility in deployment of the fleet. In the longer term, SAS's costs will rise as airports also introduce higher charges for Chapter III aircraft with inferior environmental performance.

Stricter environment-based restrictions, increased differentiation of noise-related landing fees and/or changed certification requirements for new aircraft, may affect SAS's use of the MD-80 fleet and the hush-kitted DC-9s. The secondhand value of these aircraft may also be adversely affected.

SAS is not aware of any additional changes in international and national environmental rules which could have a significant impact on its operations. Nor does SAS expect any significant changes in environmental concessions, dispensations or permits of major significance for operations.

## INCIDENTS, DISPUTES, ETC.

In connection with the construction of

# SAS invests in people

In an airline, it is employee performance which has the greatest impact on customer-perceived quality.

SAS has a well-known history, in which its employees have played a key role. In the early 1990s, when SAS was wrestling with structural and profitability problems, human resources development was not given sufficient priority. This led to problems with quality and labor disputes. In 1996, SAS worked very hard to establish a new climate of cooperation in the company and a new platform from which to process and obtain full yield from its human capital.

Payroll and payroll-related costs account for 31% (32%) of total costs at SAS. This figure is on a par with the major European airlines. Employee productivity measured in RPK/employee rose by nearly 1% during the year. As in every service company, the human capital is extremely important at SAS, and the company must do its utmost to make optimal use of its human resources and to encourage individual employees to make extra efforts. Employee productivity is being given top priority at SAS in 1997.

The basic principle is that SAS is developing an employee role characterized by focusing on the customer and profitability awareness. Participation and responsibility are keywords, and initiative and creativity are encouraged.

The role of manager is being developed in the same way at SAS. The manager must provide conditions in which the

employees can do a good job and encourage them in their work. This relationship is described as "coworker creativity and supportive leadership."

## TRAINING FOR CONSENSUS AND PROFITABILITY

Adequate information about goals and strategies is essential if employees are to be able to carry out their work responsibly and independently. SAS's strategies are updated every year and communicated to all employees. Overall strategies are examined in the units at different levels and translated into tangible goals for the respective unit.

A program designed to develop a broad understanding of profitability issues among all employees has been developed in cooperation with union representatives and went into operation in February 1997.

Training in methodical quality work is being conducted throughout the organization, both as part of ongoing professional training and when employees participate in quality enhancement work at their own workplace.

In 1996, SAS invested more than MSEK 900 in staff training. This includes all employee training, as well as the costs of lost production. Investments were also made in other employee care and stimulation programs, where the internal activities in conjunction with SAS's 50th anniversary played a key role.

During the year SAS defined minimum

requirements for every manager at SAS and complemented the management development program with the Management Academy, a program at strategic level and the Leadership System, a set of management tools. There is now a development program for managers at all levels and all parts of the organization and the program can now be regarded as comprehensive. Management development focuses on changes in attitude and behavior and is closely tied to the individual's work situation, in order to ensure a real impact.

## IMPROVED CLIMATE OF COOPERATION GIVES RESULTS

At year-end 1996 the unions and management reached agreement on implementation of an extensive program designed to improve productivity and profitability throughout the airline.

Both parties have realized that conflicts such as those experienced by SAS at the end of 1995 harm everyone involved, particularly the customers whom the airline is there to serve. A common approach to cooperation, how dialog should be developed and how conflicts should be solved, has emerged in the company. A series of intensive discussions between the boards of the various Scandinavian unions and SAS's management group took place in the first two months of 1996. Two conferences, attended by all union heads and a corresponding number of line managers, a total of 100 people,

have examined internal cooperation linked to how SAS should meet the intensified competition.

A large number of local activities have also taken place. One example is a joint publication issued to employees in Denmark describing the interplay between management and unions. Another is a conference attended by management and elected representatives from SAS and a major industrial group in Norway with a focus on a new climate of cooperation.

AN ALMOST TOTALLY  
CONFLICT-FREE YEAR

New methods and features were tried out in negotiations for collective agreements. Agreement could be reached over revising and concluding new collective agreements in 1996 without any form of labor dispute.

In 1996, SAS suffered from a total of only three strikes, all in Denmark but with a minimal impact on air services. There were a total of 16 strikes in 1995 and the annual average during the period 1990-1994 was 13, the majority of them in Denmark. In 1995 the corresponding figure for Norway was five and four for Sweden. On average in 1990-1994, Norway had one strike per year and Sweden only three in the entire period.

QUALITY IN WORK ENVIRONMENT

A good work environment is an important pre-condition for safety in the entire airline operation and for the quality of production. The development of a safe and healthy work environment is taking place within the framework of SAS's business strategies and national legislation in the three countries in which SAS operates. This work is controlled by a special work environment strategy and is an integrated part of line manager responsibilities.

Each unit draws up obligatory action plans for the development of the work environment and is responsible for ensuring their implementation. Ongoing development is also taking place through specific projects. National HES (Health, Environment, Safety) units have been formed to conduct advisory and preventive work.



THANK-YOU  
AND WELCOME  
BACK

"Thank you for flying Scandinavian Airlines. We hope to see you soon again." Suddenly you're on your own, left to your own devices, often in a strange place. Where should I go now? Where is my baggage? How long will it be before it appears? Arrival can be just as chaotic and frustrating as departure.

Imagine if there was clear information, perhaps even assistance at the destination!

A major cooperation project between management and cabin crew representatives was carried out in 1996. The project identified a number of potential improvements in the work environment which will improve service quality. These are now being implemented.

Methods used in work environment projects are developed continuously. A new method for target-oriented health check-ups has been tried successfully in a medical and psychosocial assessment of employees in Malmö. In an extensive project designed to improve quality and environment in baggage handling in Copenhagen, SAS has already used a method which is part of future official requirements for workplace evaluation in Denmark.

A good work environment plays a central role in the construction of Oslo's new main airport Gardermoen and a new terminal at Copenhagen Airport. SAS's HES units have been heavily involved in an advisory capacity and in follow-up.

In 1996 the possibility to express an opinion about the individual work situa-

tion was extended to include all staff groups at SAS. This is done in an annual employee survey which is part of SAS's planning model. The results are used for concrete action plans in various sub-operations and to establish key indices in quality follow-up.

LOWER SICKNESS-RELATED  
ABSENCE

In 1996, absence due to sickness at SAS decreased in Denmark and Sweden, while a marginal increase was noted in Norway due to current health insurance legislation and the situation in the labor market. One particularly positive factor is that sickness-related absence among Swedish employees in the airline operations fell by more than 10% between 1995 and 1996, from the already low level of 4%.

The predominant part of absence due to sickness at SAS is long term. SAS is therefore working methodically and intensively with rehabilitation and relocation of employees who have problems functioning in their work.

# Reinforced organization and focus on productivity

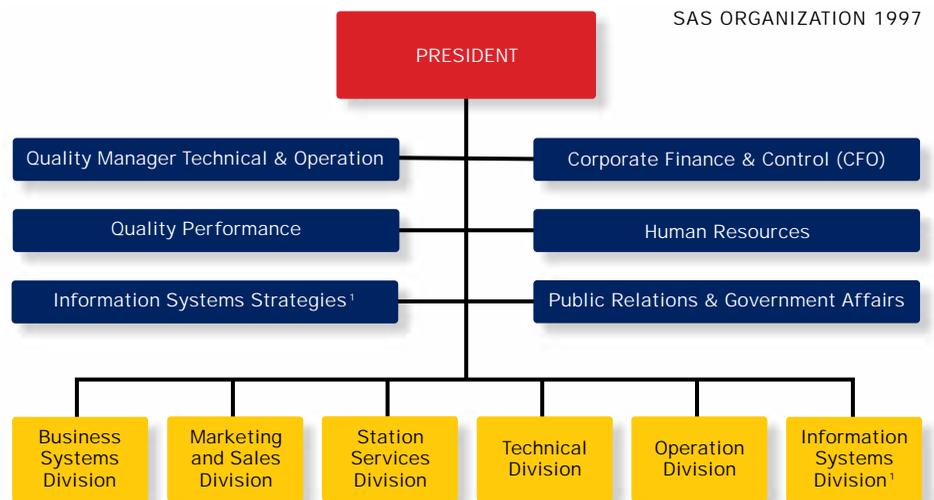
Since 1994, SAS's operations have been conducted in a functional organization on the basis that SAS is and must be operated as one company, owned by its three parent companies in Denmark, Norway and Sweden.

The only major organizational change is that the Production Division has now been divided up into a Technical Division, responsible for aircraft maintenance, and an Operation Division, responsible for carrying out flights and for service onboard.

This reorganization represents a return to an earlier organization. The Production Division was formed in 1994 in order to achieve overall control of production at SAS and implement the final phase of the rationalization program in an efficient manner. This was successful, but at the cost of poorer quality. The new division will provide clearer responsibility within the more cost-effective structure now established. Coordination is guaranteed by a new cooperation agency reporting directly to the president.

After this reorganization SAS has six operational line divisions and six staff functions. The line functions are Business Systems (routes/products, SAS Trading and Cargo), Marketing & Sales, Station Services, Technical, Operation, and Information Systems.

The staff functions are Corporate Finance & Control, Human Resources, Public Relations & Government Affairs, Quality Performance, and Information



¹Joint function and management

Systems Strategies. In addition, a new staff function was set up during the year, Quality Manager Technical & Operation, with special responsibility for quality in airline operations and technical matters.

#### NEW RECRUITMENT WITH FOCUS ON EMPLOYEE PRODUCTIVITY

After four years of redundancies at SAS by 1995 the workforce had been reduced to a level where it was difficult to deliver adequate quality within the present framework of airline operations, particularly since SAS has increased its production by 9% in the past two years.

From a strained workforce situation, the number of employees at SAS increased by 4% in 1996. This has provided a far better work situation for many which has improved motivation and quality.

Perhaps the most important task facing SAS in 1997 is, with its strengthened human resources, to raise productivity at the same time as customer-perceived quality. SAS is planning to increase production in 1997 by 3–4%. At the same time, the entire travel process will be rationalized with more automation of various elements, which will reduce the burden on the employees. This should contribute to higher productivity per employee.

The average number of employees in the SAS Group in 1996 was 23,607 (22,731). The corresponding figure in 1996 at SAS (including SAS Trading) was 21,348 (20,499) and at SAS International Hotels 2,222 (2,201).

SAS'S ORGANIZATION AND MANAGEMENT



**Jan Stenberg**  
President & CEO



**Gunnar Reitan**  
Executive Vice President & CFO



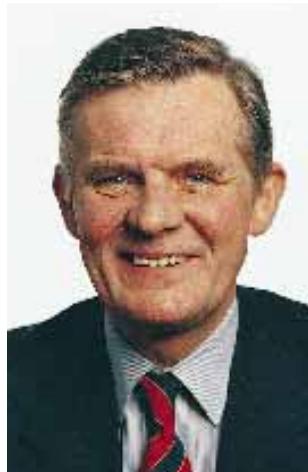
**Björn Boldt-Christmas**  
Senior Vice President  
Information Systems Division



**John S. Dueholm**  
Senior Vice President  
Technical Division



**Jan Forsberg**  
Senior Vice President  
Operation Division



**Peter Forssman**  
Senior Vice President  
Public Relations & Government Affairs



**Bernhard Rikardsen**  
Senior Vice President  
Human Resources



**Erik Strand**  
Senior Vice President  
Marketing & Sales Division



**Hans-Erik Stuhr**  
Senior Vice President  
Station Services Division



**Vagn Sørensen**  
Senior Vice President  
Business Systems Division

# SAS's Board of Directors

**HUGO SCHRØDER** born 1932, Engineer. Chairman of SAS's Board 1996. Danish Chairman of SAS's Board since 1994 and Chairman of the Board of SAS Danmark A/S, as representative of the private Danish owners. Chairman of the Board of DANISCO and Vice Chairman of the Board of Incentive. Member of the Boards of a number of other companies and organizations.

*Personal Deputy: Axel greve af Rosenborg*

**BO BERGGREN** born 1936, Honorary Doctor of Technology. First Vice Chairman of SAS's Board 1996. Swedish Chairman of SAS's Board since 1992 and Chairman of the Board of SAS Sverige AB, as representative of the private Swedish owners. Chairman of the Boards of STORA and ASTRA. Vice Chairman of the Boards of Investor, Skandinaviska Enskilda Banken and the Federation of Swedish Industries. Member of the Boards of a number of companies and organizations.

*Personal Deputy: Erik Belfrage*

**HARALD NORVIK** born 1946, M.B.A. Second Vice Chairman of SAS 1996. Alternating Norwegian Chairman of SAS's Board since 1992. Chairman of the Board of SAS Norge ASA 1996, as representative of the Norwegian government. CEO of Statoil. Member of the Board of Orkla Borregaard AS.

*Personal Deputy: Åshild M. Bendiktsen*

**BJØRN EIDEM** born 1942, Supreme Court Attorney. Alternating Norwegian Chairman of SAS's Board since 1992 and member of SAS's Board since 1983. Vice Chairman of the Board of SAS Norge ASA in 1996, as representative of the private Norwegian owners. Senior Vice President of Fred. Olsen & Co. Chairman of the Boards of Norges Handels og Sjøfartstidene and Widerøe's Airlines. Member of the Boards of Ganger Rolf, Bonheur and Harland & Wolff, among others.

*Personal Deputy: Mads Henry Andenæs*

**ANDERS ELDRUP** born 1948, B.Pol.Sc. Member of SAS's Board since 1993. Vice Chairman of the Board of SAS Danmark A/S, as representative of the Danish government. Secretary of State at the Ministry of Finance. Member of the Board of DONG. Member of DMF (Danish Management Forum) and CIMI.

*Personal Deputy: Sonja Mikkelsen*

**TONY HAGSTRÖM** born 1936, Ph.D. Member of SAS's Board since 1993 and Vice Chairman of SAS Sverige AB, as representative of the Swedish government. Member of the Boards of Dataföreningen i Sverige (Chairman), Svenska IT-Forum (Chairman), ASTRA, SSAB (Vice Chairman), Scandiaconsult. JT Mobile Ltd and AlfaNeth Telecom Inc.

*Personal Deputy: Ingemar Eliasson*

*Employee Representatives:*

**LEIF KINDERT** born 1941. Member of SAS's Board since 1992. Employed in SAS, Sweden.

*Deputies: Ulla Gröntvedt and Bertil Hägg*

**INGVAR LILLETUN** born 1938. Member of SAS's Board since 1979. Employed in SAS, Norway.

*Deputies: Randi Kile and Svein Vefall*

**JENS THOLSTRUP HANSEN** born 1950. Member of SAS's Board since 1995. Employed in SAS, Denmark.

*Deputies: Helmuth Jacobsen and Nicolas Fischer*

SAS'S BOARD OF DIRECTORS



Hugo Schröder



Bo Berggren



Harald Norvik



Bjørn Eidem



Anders Eldrup



Tony Hagström



Leif Kindert



Ingvar Lilletun



Jens Tholstrup Hansen

# Improved comparability between the parent companies

## SUMMARY

### BACKGROUND

SAS's airline operations are capital-intensive and from time to time the company needs to make substantial investments in new aircraft. Financing on favorable terms is then important for SAS's overall competitiveness.

Stock market valuations of SAS are made indirectly through the listed parent companies. Such valuations have been made difficult and been affected by a complex corporate and ownership structure and by differences in the parent companies' operations, equity, tax situation and accounting principles.

A harmonization program was initiated in 1996 in order to improve comparability between the parent companies and facilitate an effective valuation of them and thus, indirectly, of SAS as well.

The ultimate aim of this harmonization is to strengthen SAS's position in the capital market.

### BASIC STRUCTURE OF SAS

The SAS Group ("SAS") comprises the SAS Consortium and its sister consortium SAS Commuter with related subsidiaries.

SAS Danmark A/S (formerly DDL) owns 2/7 of the consortia, SAS Norge ASA (formerly DNL) owns 2/7, and SAS Sverige AB (formerly SILA) owns 3/7 (earlier via its then wholly owned subsidiary Aktiebolaget Aero-transport ABA). SAS Danmark, SAS Norge and SAS Sverige are listed companies in Denmark, Norway and Sweden. The Danish, Norwegian and Swedish states own 50% of the shares in the respective companies.

The main activity of the parent companies is their participations in SAS. In addition, the parent companies

have conducted other operations to a varying extent, primarily management of their own liquid assets, real estate and buildings, which has made it difficult to make comparisons between them.

The earnings of the SAS Consortium and the SAS Commuter Consortium are taxed in the three parent companies in proportion to their shares in the consortia. Each parent company makes allocations for tax purposes in accordance with national fiscal regulations. The consortia's subsidiaries are liable to taxation in the country in which they are registered.

Due to differences in accounting legislation between the countries, the parent companies also apply different accounting principles.

As a result of these circumstances, the parent companies have different earnings and equity.

### HARMONIZATION OF SAS'S PARENT COMPANIES

In order to reduce the differences and increase comparability between SAS's parent companies, facilitate effective valuation of their shares, and improve SAS's ability to attract venture capital on competitive terms, the following program was adopted and in large part completed during 1996:

- Harmonization of company names and management functions
- Streamlining of parent companies' operations
- Harmonization of accounts
- Harmonization of equity and share capital structure in the parent companies
- Merger between SAS Sverige and ABA
- Joint dividend policy

These measures do not include any change in state participation in the parent companies nor any change in the legal structure of SAS or the parent companies, apart from the merger between SAS Sverige and ABA.

STREAMLINING  
THE PARENT COMPANIES'  
OPERATIONS

The intention is that the parent companies' assets shall solely comprise participations in the SAS Consortia and any liquid assets. In this way the value of SAS will become clearer, thus facilitating analysis and pricing of the shares in the parent companies.

All three listed parent companies shall have a direct ownership in SAS. This has been achieved by a merger between SAS Sverige and ABA with SAS Sverige as the remaining company. The merger was carried out in autumn 1996 and resulted in SAS Sverige AB taking over all ABA's rights and obligations, and becoming a party to the consortium agreement in ABA's place.

SALE OF PROPERTIES  
AND BUILDINGS

As part of the streamlining process, the SAS Consortium acquired all properties and buildings owned by the parent companies on April 1, 1996. The properties and buildings were mainly leased to SAS.

TRANSACTIONS

	SAS Danmark	SAS Norge	SAS Sverige
Properties and buildings	Hangars	Administrative buildings	Hangars
	Workshops and storage buildings		Heating units
Land			Freight terminals
			Service buildings
			Land
			Flight kitchens
			Maintenance facilities
Total sales price	MDKK 158	MNOK 207	MSEK 1,140

These properties and buildings were acquired by SAS on market terms and were revalued at the agreed sales price, with deductions for the tax effects of the transactions, in the parent companies' annual reports for 1995.

OTHER STREAMLINING  
MEASURES

The parent companies' other assets and liabilities of material significance were settled in 1996 – with the exception of receivables from the Swedish government in SAS Sverige amounting to MSEK 119.

Assets in the parent companies thereafter in principle solely comprise liquid assets and participations in SAS. Liabilities thereafter mainly comprise tax liabilities and equity.

HARMONIZATION OF ACCOUNTS

HARMONIZATION OF ACCOUNTING PRINCIPLES

The parent companies' official financial statements are based on the accounts of the SAS Consortium and the SAS Commuter Consortium. Complete harmonization of the parent companies' accounts is impossible at present due to differences in accounting legislation in Denmark, Norway and Sweden. However, some coordination of accounting principles has been carried out in the 1996 annual reports while further harmonization is expected to be possible when new accounting legislation, based on EU standards, comes into force in Sweden in 1997 and in Norway probably in 1997/98. Since coordination of the financial statements will mainly take the form of adjustment to EU standards, and since these are already applied by SAS Danmark, no essential changes will be made to SAS Danmark's accounting principles.

A description of the most important changes to accounting principles and the estimated date of their implementation, is provided below.

In the 1995 annual report (i.e. prior to harmonization) the following changes were made:

- SAS Danmark's share of SAS's income was translated at the average exchange rate.
- SAS's head office in Frösundavik was written down in SAS Norge by MNOK 111, representing a reversal of an earlier revaluation.
- Dividends from SAS to the parent companies were taken up as a liability in SAS and as a receivable in SAS Norge and SAS Sverige.
- Dividends to SAS Sverige's shareholders were booked as a current liability.

The following changes have been made in the 1996 annual report (i.e. after harmonization):

- Consolidated accounting in SAS Norge has ceased and been replaced by corresponding information in the joint accounting documents.
- SAS Sverige's share of SAS's assets and liabilities are reported in full in accordance with the equity method.

When this is allowed under accounting legislation in Sweden with effect from 1997, SAS Sverige's income statements and balance sheets will also be reported according to EU standards. When the anticipated new legislation comes into force in Norway, probably in 1997/98, the following changes in SAS Norge's accounting principles can be expected:

- SAS Norge's share of SAS's income, assets and liabilities will be reported according to the equity method.
- The aircraft fleet and other fixed assets in SAS will be translated at the closing day rate and not as previously at the historic acquisition rate. This will decrease the book value of equity by MNOK 325, calculated at current exchange rates.

- Unrealized exchange gains on long-term receivables and liabilities will be recognized as income.

The accounting principles can thus be harmonized to a considerable extent, but the following differences will remain:

- Unrealized exchange gains on long-term receivables and liabilities will not be recognized as income in SAS Sverige.
- Deferred tax liability in SAS Sverige will be included in untaxed reserves and not reported separately in the formal balance sheet. Equity share and deferred tax liability will be stated separately by way of information.
- In SAS Sverige there will be differences between fiscal and book values, so-called timing differences, which are not included in untaxed reserves. The net effect of these differences would increase equity by MSEK 73 compared with booked equity.

It is currently impossible to judge when or to what extent these differences can be eliminated from the official accounts since this will require changes in Swedish accounting legislation and practice.

#### JOINT ACCOUNTING DOCUMENT

Starting with the 1996 semi-annual report, SAS and the parent companies publish annual reports and interim reports in a joint document.

In addition to the official accounts, these documents also contain calculations of how the accounts would have appeared if they had been prepared entirely according to joint principles (pro forma accounts). The intention here is to strengthen the capital market's impression of SAS and the parent companies as one company and to facilitate analyses and comparisons between the parent companies.

#### HARMONIZATION OF EQUITY AND SHARE CAPITAL STRUCTURE IN THE PARENT COMPANIES

Harmonization includes equity and share capital, the par value of the shares and the number of shares in the parent companies.

- Harmonization of equity has been effected by the parent companies' equity being placed in proportion to the 2-2-3 ownership shares in SAS, with 2/7 owned by SAS Danmark A/S, 2/7 owned by SAS Norge ASA and 3/7 owned by SAS Sverige AB.
- Harmonization of share capital structure will be effected by the number of shares and nominal share capital in local currencies reflecting the parent companies' 2-2-3 relative ownership interests in SAS. As part of this harmonization the division into class A and B

shares in the Swedish parent company has been abolished, following which the shares in each one of the three parent companies carry the same voting rights.

#### HARMONIZATION OF EQUITY

Following implementation of the proposed streamlining measures and application of joint accounting principles, the parent companies' equity will need to be adjusted in order to harmonize this in relation to relative ownership interests in SAS. A new issue was therefore carried out in SAS Danmark of approximately MDKK 555 and a one-time dividend of MSEK 1,713 was paid to SAS Sverige's shareholders.

Due to differences in fiscal regulations and tax rates, and to some extent exchange rate fluctuations, equity will develop differently over time. However, in the short term this is only expected to have limited significance for the relationship between the parent companies' equity.

#### HARMONIZATION OF SHARE CAPITAL STRUCTURE

The parent companies' share capital and share capital structure prior to harmonization are presented in the table below:

##### FORMER SHARE CAPITAL STRUCTURE

Amounts in local currencies	SAS Danmark	SAS Norge	SAS Sverige
Share capital, million kr	203.2	314.5	705.0
Par value per share	25	25	10
Number of shares	8,128,000	12,581,678	70,500,000

Harmonization of the share capital structure means that the number of shares in the Danish and Norwegian parent companies respectively comprises 2/7 of the total number of shares and the number in the Swedish parent company comprises 3/7. Furthermore, the shares in the different companies carry the same voting rights.

Since the par value of the shares, expressed in local currencies, will be the same, the nominal share capital in local currency will reflect the 2/7, 2/7 and 3/7 relationship. Share capital and share capital structure after harmonization are presented in the table below:

##### NEW SHARE CAPITAL STRUCTURE

Amounts in local currencies	SAS Danmark	SAS Norge	SAS Sverige
Share capital, million kr	470.0	470.0	705.0
Par value per share	10	10	10
Number of shares	47,000,000	47,000,000	70,500,000

To achieve this structure, the Danish and Norwegian parent companies both carried out bonus issues and splits. For the same reason, the Danish company also carried out a preferential rights issue and a limited new issue without preferential rights.

ABOLISHMENT OF VOTING RIGHT DIFFERENCES

SAS Sverige's 70,500,000 shares were divided into 35,250,000 A shares and 35,250,000 B shares. The A shares carried entitlement to one vote per share while B shares carried entitlement to one-tenth of a vote per share. In order to eliminate all differences of importance to the capital market, the difference in voting rights has been abolished by merging A and B shares into one class of share. In SAS Sverige the par value of each share is unchanged at SEK 10 and the number of shares is also unchanged 70,500,000.

INCREASE IN CAPITAL ACCOUNT

Following implementation of these various measures the parent companies had substantial liquid assets. This was partly an effect of SAS having acquired the parent companies' properties and buildings for approximately MSEK 1,550.

Since SAS faces major investments in its aircraft fleet in the next few years, it needs to be well prepared financially. The parent companies therefore decided to increase the capital account in the SAS Consortium.

This capital contribution took place to such an extent that the parent companies' own operations, i.e. management of liquid assets, could be minimized. This meant that the SAS Consortium's capital increased by MSEK 1,400, divided into MSEK 400 each from SAS Danmark and SAS Norway and MSEK 600 from SAS Sverige.

The remaining liquid funds in the parent companies will be lent to SAS on market terms.

Any future cash requirements in the parent companies will in the first place be met through the annual disposition of earnings in SAS. In the event of temporary cash requirements, SAS will provide loans on the same terms as those applying to the parent companies' lending to SAS. Such loans will be repaid by the parent companies in conjunction with SAS's annual disposition of earnings.

JOINT DIVIDEND POLICY

The three listed parent companies intend to apply a joint dividend policy, which will result in dividends per share of the same amount following translation to a common currency. Dividends from parent companies are thus only expected to deviate between them due to eventual rounding-off effects and exchange rate fluctuations during the period between the boards' approval of the annual reports and the payment of the dividends.

In order for a joint dividend policy to be maintained, the boards and annual general meetings are expected to decide accordingly at the annual disposition of the parent companies' earnings.

HARMONIZATION OF MANAGEMENT FUNCTIONS

In order to further strengthen SAS's position in the capital market and ensure that SAS and the parent companies are operated as far as possible as one company, proposals have also been drawn up regarding certain changes in the parent companies' management structure and in the function and composition of the Assembly of Representatives. These proposals are as follows:

- SAS's President and CEO be appointed president of each one of the parent companies.
- The assemblies of representatives in SAS Danmark and SAS Norge will be abolished.
- The Board of each parent company to be reduced to four regular members.
- Members of the SAS Assembly of Representatives will be appointed directly by the shareholders' meetings of the parent companies. These members shall not be able to be members of the board of SAS or the parent companies' boards at the same time. In this manner, shareholders in the parent companies, through the SAS Assembly of Representatives, will acquire a more real control over SAS's operations corresponding to that exercised by the shareholders' meeting of a limited liability company.

It is intended to carry out these proposals at one and the same time. The majority of them require changes to the parent companies' articles of association and of SAS's consortium agreement. Changes to the consortium agreement must be coordinated with the Ministries of Transport in Denmark, Sweden and Norway, and to some extent be presented to parliament in the respective country. Only then can the proposals be put forward for approval by the parent companies' shareholders' meetings in spring 1997.

TAX CONDITIONS

GENERAL

The earnings in the SAS Consortium and the SAS Com-muter Consortium are taxed in the three parent companies in proportion to their ownership shares in the consortia. Allocations for tax purposes are made in each parent company in accordance with national tax regulations. The consortia's subsidiaries are taxable in the countries in which they are registered.

Nominal tax rates differ between the three countries. The tax rate in Norway and Sweden is 28%, while it is 34% in Denmark. In Denmark, however, there are special rules for operations abroad (udlandslempelse). These mean that the tax rate for SAS Danmark in 1996 is 27% but it will be increased in increments: 1997 29%, 1998 30%, 1999 32%, 2000 34%.

The most significant opportunities to make allocations for tax purposes in each country which are of relevance here, are described below.

In contrast to conditions in Denmark and Norway, there is a fairly strict link between the accounts and taxation in Sweden.

#### DENMARK

In the accounts, machinery and equipment are dealt with in the same way as in the consortia, both with regard to ongoing depreciation and capital gains.

In Denmark, tax deductions are allowed for depreciation of machinery and equipment, including aircraft, by up to 30% of the residual tax assessment value.

Advance depreciation for tax purposes on aircraft may take place starting in the year a binding purchase agreement has been concluded. Delivery of the airplane must take place at the earliest in the year after signing of the contract and at the latest in the fourth year following such signature. Advance depreciation may be accumulated to a maximum of 30% of acquisition value and annual advance depreciation may amount to a maximum of 15% of this amount.

Capital gains on the sale of machinery and equipment, including aircraft, are not taxed in the year the sale takes place, instead the sum received from the sale reduces the residual tax assessment value of the remaining machinery and equipment.

Pension costs may not be deducted until payment is made to cover commitments. Allocations for periodic aircraft maintenance may not be deducted for tax purposes until such maintenance has been carried out.

#### NORWAY

In Norway, as in Denmark, no change of depreciation carried out or of capital gains reported in the consortia can in principle be made in the accounts.

In a tax context, deduction may be made in Norway for aircraft by up to 12% of fiscal residual value and for other machinery and equipment by 20-30% of fiscal residual value.

There is no opportunity for advance depreciation.

Only 20% of capital gains from the sale of aircraft needs to be recognized as income in the year of sale. In future years 20% of the remaining balance on a gain not recognized as income is recognized as income. This means that for tax purposes capital gains are recognized as income over a long period. For sales of other machinery, the amount received is deducted from the fiscal residual value.

In common with SAS Denmark, SAS Norge may only deduct pension costs for tax purposes when they are paid and for periodic maintenance once it has been carried out.

#### SWEDEN

In Sweden deductions for tax purposes for depreciation on machinery and equipment, including aircraft, is based on the depreciation actually recorded in the accounts provided it does not exceed the maximum allowed. This means that an estimate of the lowest fiscal residual value is made at each year-end.

- According to the 30% method (the main rule) residual value is calculated as not less than 70% of opening balance plus purchases minus the amount received from sale.
- According to the 20% method (supplementary rule) the lowest residual value is calculated as acquisition value minus 20% depreciation on this in each year of possession. Residual value thus amounts to a maximum of 80, 60, 40, 20 and 0%, respectively, of the acquisition value of remaining machinery and equipment acquired during the past five fiscal years.

These methods may be exchanged between years. Advance depreciation is not allowed.

Allocations to a so-called tax allocation reserve may be made every year in the amount of 25% of taxable income for the year. This allocation must be dissolved no later than five years after the year the allocation was made.

Provisions for pension commitments carry entitlement to tax deductions under certain conditions. Tax deductible provisions for future maintenance costs for owned aircraft may not be made.

#### PRO FORMA ACCOUNTS

The statements of income for 1996 and the balance sheets at December 31, 1996, include the effects of all streamlining measures carried out during the year such as one-time dividend, new issues, sale of properties, and increase in SAS's capital account. As a complement to this the pro forma accounts contain the adjustments made to reflect a complete harmonization of accounting principles.

Equity on a pro forma basis is derived from the respective parent company's equity in the company accounts and shall reflect their shares in the entire SAS Group. This allows reconciliation of equity as set out in the table on the next page.

PRO FORMA EQUITY

Dec. 31, 1996	SAS Danmark (MDKK)	SAS Norge (MNOK)	SAS Sverige (MSEK)
<b>Equity, according to company accounts</b>	<b>2,772</b>	<b>3,396</b>	<b>1,214</b>
Share in SAS subsidiaries/ associated companies	129	140	224
Equity portion of untaxed reserves	n.a.	n.a.	3 640
Revaluation of air craft	n.a.	-325	n.a.
Timing differences (not booked)	n.a.	n.a.	73
Proforma equity	2,901	3,211	5,151
Pro forma equity (MSEK)	3,359	3,421	5,151
Equity per share (SEK)	71.47	72.79	73.06

The minor variances between the parent companies' pro forma equity and the goal of a 2-2-3 relationship, are primarily due to exchange rate fluctuations and different returns on liquid funds from those assumed when the decision on harmonization was made. Such variances will continue to arise but should not, for the time being, disturb comparability to any great extent.

Summary proforma balance sheets (share in the entire SAS Group, joint accounting principles and in Swedish kronor) are therefore as follows:

PRO FORMA BALANCE SHEETS

Dec. 31, 1996	SAS Danmark (MSEK)	SAS Norge	SAS Sverige
Liquid funds, etc.	842	281	1 310
Other current assets	3	0	123
Participation in the SAS Group	3,723	3,723	5,584
Other fixed assets	0	2	1
Total assets	4,568	4,006	7,018
Taxes payable	67	146	231
Proposed dividends	141	141	211
Other current liabilities	2	0	60
Deferred tax	999	297	1 342
Other long-term liabilities	0	1	23
Equity	3,359	3,421	5,151
Total liabilities and equity	4,568	4,006	7,018
Equity per share (SEK)	71.47	72.79	73.06

As can be seen, the companies' balance sheets have been trimmed and largely contain no assets other than participations in SAS and liquid funds. In SAS Sverige, however, there is still a receivable of MSEK 119 which falls due in autumn 1997. The liquid funds are invested in SAS on

market terms and constitute an "external" source of financing for the SAS Group. Considerable differences in liquid funds will remain due to the effects of the companies' different deferred tax liabilities.

On the liabilities side, the differences between the parent companies are primarily attributable to the tax situation which will continue to be a separate issue for each parent company to handle according to their national regulations. The differences relate to both deferred and payable tax. SAS Norge, under Norwegian tax regulations, has continuously paid tax to a greater extent than SAS Danmark and SAS Sverige and therefore has a distinctly lower tax liability. This difference is also reflected in the fact that SAS Norge has far less cash in hand than the other two parent companies.

Pro forma statements of income are as follows:

PRO FORMA STATEMENTS OF INCOME

January-December 1996	SAS Danmark (MDKK)	SAS Norge (MNOK)	SAS Sverige (MSEK)
Share of the SAS Group's income before taxes (MSEK)	519	519	777
Share of income in local currency	448	499	777
Other income items	-2	-1	1
Financial items, net	16	12	168
Income before taxes	462	510	946
Taxes	-135	-130	-282
Net income for the year	327	380	664
<b>Net income (MSEK)</b>	<b>379</b>	<b>395</b>	<b>664</b>
<b>Earnings per share (SEK)</b>	<b>8.06</b>	<b>8.40</b>	<b>9.42</b>

Differences in earnings levels are due partly to the fact that the parent companies also conducted other operations (primarily property management) during parts of 1996, as well as the fact that the companies had considerable liquid funds (primarily SAS Sverige). Differences in interest income will continue as a result of different cash in hand. Taxes pertain to a full tax burden, i.e. both payable and (increase in) deferred tax.

# SAS Danmark A/S

ASSEMBLY OF REPRESENTATIVES, BOARD OF DIRECTORS AND MANAGEMENT BOARD .....	83
FIVE-YEAR SUMMARY .....	84
ANNUAL REPORT .....	85
SIGNATURES FOR THE FINANCIAL STATEMENTS .....	86
ACCOUNTING POLICIES .....	87
STATEMENT OF INCOME .....	88
BALANCE SHEET .....	89
STATEMENT OF CHANGES IN FINANCIAL POSITION .....	90
NOTES TO THE FINANCIAL STATEMENTS .....	91

## DATE OF ANNUAL MEETING OF SHAREHOLDERS

**The Annual Meetings of Shareholders in SAS's three parent companies, SAS Norge ASA, SAS Sverige AB and SAS Danmark A/S, will be held on the same date this year. Proposals will be presented to the Annual Meetings regarding changes to the parent companies' management structure. These changes must first be approved by the parliaments in the**

**three countries together with certain other changes in SAS's consortium agreement. Since the dates when the parliaments will consider these matters have not been decided, a date for the Annual Meeting cannot be given.**

**The time and place of the Annual General Meeting of Shareholders will be announced in Statstidende and the generally circulated daily press and a written invitation will be sent to shareholders registered by name.**

SAS DANMARK A/S  
Hedegårdsvej 88, 2300 København S  
A/S reg. no. 4556

## ASSEMBLY OF REPRESENTATIVES

**Niels Brockenhuus-Schack**, M.Sc. (Chairman)  
**J.K. Hansen**, former Minister\* (Vice Chairman)  
**Niels Bach**, Managing Director  
**Karen-Elisabeth Seest Friis**, Chief Executive Officer  
**Henning Grove**, former Minister, MP\*  
**Svend Aage Heiselberg**, Director, MP\*  
**Anders Knutsen**, Managing Director  
**Kurt Lykstoft Larsen**, Head of Department\*  
**Arne Melchior**, former Minister, MP\*  
**Jens Kramer Mikkelsen**, Lord Mayor\*  
**Sonja Mikkelsen**, Head of Section, MP\*  
 (until January 15, 1997)  
**Bent Pedersen**, Managing Director  
**Helge Sander**, Journalist, MP\*  
**Cato Sverdrup**, Director  
**Ole Thomsen**, former member of the  
 Board of Governors of Danmarks Nationalbank\*  
**Uffe Torp-Pedersen**, High Court Attorney,  
 Director  
**Jørgen Vorsholt**, Managing Director  
**Hans Würtzen**, Managing Director

## BOARD OF DIRECTORS:

**Hugo Schrøder** (Chairman) Director  
 Chairman of the Board of Directors of:  
 Danisco A/S  
 Vice Chairman of the Board of Directors of:  
 Incentive A/S  
 Member of the Board of Directors of:  
 Chr. Augustinus Fabrikker A/S  
**Anders Eldrup** (Vice Chairman)\*  
 Permanent Under-Secretary,  
 Ministry of Finance  
 Vice Chairman of the Board of Directors of:  
 Dansk Olie og Naturgas A/S  
**Poul Andersen**\* (until January 15, 1997)  
 Telephone Fitter, MP,  
 None  
**Axel Count of Rosenborg**  
 Managing Director of Calkas A/S  
 Chairman of the Board of Directors of:  
 Rationel Vinduer A/S  
 A/S Caminus  
 Member of the Board of Directors of:  
 Colas Danmark A/S

**Peter Duetoft**\* Consultant, MP

Member of the Board of Directors of:  
 Alfred Berg Bank A/S

**Jørgen L. Halck**\* Chief Adviser, former  
 Permanent Under-Secretary,  
 Ministry of Transport  
 None

**Svend Jakobsen**

Former Minister and Speaker of  
 the Danish Folketing

Chairman of the Board of Directors of:  
 Bjørnskov & Co. Børsrådgivningselskab A/S

Bus Danmark A/S, N.P. Utzon A/S

Member of the Board of Directors of:

DFDS A/S, Rasmussen og Schiøtz A/S

Dansk Portefølje Holding A/S, Kuben A/S

Ejendomsaktieselskabet "Hermes"

Refshaleøens Ejendomsselskab A/S

J.H. Schultz Holding A/S

**Sonja Mikkelsen**\* (from January 15, 1997)

Head of Section, MP

None

**Torben Rechendorff**\*

Former Minister, MP

None

**Erik Sørensen**, Managing Director of

Chr. Hansen Holding A/S

Member of the Board of Directors of:

ISS-International Service System A/S

Mærsk Medical A/S

**Ole Trolle**

Group Managing Director of FLS Industries A/S

Chairman of the Board of Directors of:

Dansk Træemballage A/S

Bates Emballage A/S, RM Industrial Group A/S

ICEA A/S. Member of the Board of Directors of:

Danish Aerotech A/S

The Copenhagen Stock Exchange A/S

Nykredit A/S, Nykredit Holding A/S

## MANAGEMENT BOARD:

**Gunnar Tietz**, Managing Director

None

\* Appointed by the Ministry of Transport

# Five-Year Summary

MDKK	1996	1995	1994	1993	1992
<b>Statement of income</b>					
Share of net income from the business operations of SAS, Scanair and SAS Commuter <sup>1</sup>	393	535	515	-149	-163
Income/Loss before taxes	407	545	525	-130	-168
<b>Net income/Loss for the year</b>	<b>300</b>	<b>281</b>	<b>490</b>	<b>-130</b>	<b>-168</b>
<b>Balance sheet, December 31</b>					
Fixed assets	3,087	2,625	2,137	1,748	2,069
Current assets	731	322	135	39	23
<b>Assets</b>	<b>3,818</b>	<b>2,947</b>	<b>2,272</b>	<b>1,787</b>	<b>2,092</b>
Equity	2,772	2,024	1,622	1,717	2,017
Long-term debt and provisions	864	730	563	65	70
Current liabilities	182	193	87	5	5
<b>Total equity and liabilities</b>	<b>3,818</b>	<b>2,947</b>	<b>2,272</b>	<b>1,787</b>	<b>2,092</b>
<b>Per share and share price data</b>					
Dividends	122	98	81	0	0
Market value at year end <sup>2</sup>	73	483	4,950	2,340	1,480
Equity value <sup>2</sup>	590	996	3,193	2,327	2,691
Quick ratio	4.0	1.7	1.6	7.8	4.6
Equity/assets ratio	72.6	68.6	71.4	66.1	65.3
Return on capital employed %	12.0	21.0	26.1	-	-
Return on equity %	12.0	14.1	31.0	-	-

<sup>1</sup> Scanair's air transport operations ceased at year -end 1993.

<sup>2</sup> In 1995, the share capital was increased from MDKK 50.8 nominal value to MDKK 203.2 through a bonus share issue. At the same time, a share split was made to reduce the denomination of the company's shares to DKK 25 per share. In 1996, it was agreed to make a 3:5 bonus share issue and a concurrent share split to reduce the denomination of the shares from DKK 25 to DKK 10 per share. Following this, a 4:9 rights issue was made. Finally a minor market price offering was made, which brought the company's nominal share capital to MDKK 470.

# Annual Report 1996

## SAS DANMARK A/S OPERATIONS AIRLINE OPERATIONS

SAS Danmark A/S's airline operations are handled by the SAS Consortium and the SAS Commuter Consortium in collaboration with SAS Norge ASA and SAS Sverige AB at the ratios of 2/7, 2/7 and 3/7.

Information about the air transport operations of the consortia is provided on page 11 to 13.

As in previous years, SAS Danmark A/S's invested capital in the SAS Consortium and the SAS Commuter Consortium is stated in Swedish kronor. In the financial statements, the invested capital is translated into Danish kroner at the year-end exchange rate of Swedish kronor. Any exchange rate differences are reported in the balance sheet and included in fixed assets and reserves, respectively.

The exchange rate of Swedish kronor to Danish kroner at December 31, 1996 was SEK 100 = DKK 86.37 compared with SEK 100 = DKK 83.30 the year before. This resulted in the following increases in the book value of SAS Danmark A/S's invested capital in the two Consortia:

SAS	MDKK 81.5
SAS Commuter	MDKK 4.3
<u>Total</u>	<u>MDKK 85.8</u>

## SAS DANMARK A/S OTHER OPERATIONS

With effect from April 1, 1996, the company's hangar and maintenance facilities at Copenhagen Airport, Kastrup and the hotel site of Radisson SAS Royal Hotel, Copenhagen were sold to the SAS Consortium at the book value at December 31, 1995. Therefore, the financial statements for 1996 only include rental income for the first quarter, which explains the great difference between the figures for 1996 and 1995. Total revenue amounted to MDKK 3.8 in 1996 (14.9). SAS Danmark A/S's operating expenses totalled MDKK 5.3 (5.0). Net financial income amounted to MDKK 15.9 against MDKK 0.3 in 1995. This increase can mainly be ascribed to interest received on the capital account with SAS.

Income of MDKK 14.4 was recorded on SAS Danmark A/S's other operations, compared with MDKK 10.2 in 1995.

SAS Danmark A/S's total income before taxes amounted to MDKK 407.2 (545.3).

As in previous years, SAS Danmark A/S charges higher fiscal depreciation on aircraft ordered and delivered than the financial depreciation on these assets. The related deferred tax is provided in the balance sheet.

Thus, SAS Danmark A/S's income after taxes amounted to MDKK 299.7 (281.0).

## PROPOSED ALLOCATION

The Board of Directors recommends to the Annual General Meeting that SAS Danmark A/S's income after taxes of MDKK 299.7 be allocated as follows:

Dividends	MDKK 122.2
Allocation to "Other reserves"	MDKK 177.5
<u>Total</u>	<u>MDKK 299.7</u>

The dividend on a DKK to share will be DKK 2.60.

## THE SHARE CAPITAL OF SAS DANMARK A/S

SAS Danmark A/S's shares are issued to bearer, and 78 per cent of the shares had been registered in the name of the holder at December 31, 1996.

Pursuant to Section 28a of the Danish Companies Act, it is hereby disclosed that the Kingdom of Denmark holds 50 per cent of the share capital, and that no other shareholders had notified SAS Danmark A/S of shareholdings of 5 per cent or more as at December 31, 1996.

The authorization adopted by the company's Annual General Meeting in May 1996 to increase the share capital from MDKK 203.2 nominal value to MDKK 470.0 nominal value and to make a concurrent share split reducing the nominal value of the shares to DKK 10 has been used. The capital increase was made by way of a bonus share issue of MDKK 121.9 nominal value, a 9:4 rights issue of new shares of MDKK 144.5 nominal value at DKK 39 per share, and an offering of new shares of MDKK 0.4 nominal value at market price. The expenses of the capital increase totalled MDKK 10.6.

## SAS DANMARK A/S BOARD OF DIRECTORS

The following changes have been made to the public representatives on the Board:

In January 1997, Sonja Mikkelsen, Head of Section, MP, was appointed to replace Poul Andersen, Telephone Fitter, MP.

## FORECAST FOR 1997

See the forecast made by SAS on page 23.

# Signatures for the Financial Statements

Copenhagen, April 4, 1997

MANAGEMENT BOARD

**Gunnar Tietz**

Managing Director

BOARD OF DIRECTORS

**Hugo Schrøder**

**Anders Eldrup**

**Axel greve af Rosenborg**

**Peter Duetoft**

**Svend Jakobsen**

**Jørgen L. Halck**

**Erik Sørensen**

**Sonja Mikkelsen**

**Ole Trolle**

**Torben Rechendorff**

## AUDITORS' REPORT

We have audited the financial statements of SAS Denmark A/S for the year 1996 presented by the Board of Directors and the Management Board.

## BASIS OF OPINION

We planned and performed our audit in accordance with generally accepted auditing standards as applied in Denmark so as to obtain reasonable assurance that the financial statements are free from material misstatements. Based on an evaluation of materiality and risk, we tested, during the audit, the basis and documentation for the amounts and disclosures in the financial statements. Our

audit included an assessment of the accounting policies applied and estimates made. In addition, we evaluated the overall adequacy of the presentation in the financial statements.

Our audit did not result in any qualifications

## OPINION

In our opinion, the financial statements have been prepared in accordance with the accounting provisions of Danish legislation and give a true and fair view of the assets and liabilities, financial position and income/loss for the year.

**KPMG C. Jespersen**

**Ole Koefoed**      **Knud Plenge**  
State Authorized Public Accountant

**Arne Brendstrup**  
State Authorized Public Accountant

# Accounting Policies

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

The SAS Consortium applies the same accounting policies with the following exceptions:

– Subsidiary and associated undertakings:

In the SAS Group, the operating income of associated undertakings is reported in the Group's financial statements according to the equity method. Shares are reported under fixed assets in accordance with IASC using the equity method. Income of the SAS Consortium's subsidiary and associated undertakings is not included in the SAS Consortium's financial statements, but dividends received are reported as income. Shares are reported under fixed assets at the lower of cost or written down value.

SAS Danmark A/S's financial statements are prepared in accordance with the Danish Company Accounts Act, applicable Danish accounting standards, as well as the Copenhagen Stock Exchange's requirements for Danish listed companies.

The accounting policies, which are unchanged from 1995, are as follows:

- SAS Danmark A/S's share of the income of the SAS Consortium and the SAS Commuter Consortium is translated at the average exchange rate of the year. For 1996, the average exchange rate was: SEK 100 = DKK 86.47 (78.65).
- Intangible fixed assets, which comprise equity interests in the SAS Consortium and the SAS Commuter Con-

sortium, are translated into Danish kroner at year-end exchange rates, SEK 100 = DKK 86.37 against SEK 100 = DKK 83.30 last year. Exchange rate differences are reported under equity.

- Securities are stated at the quoted official price at year-end. Exchange rate differences are reported under financial items in the statement of income.
- Debt is stated at the nominal value.
- Assets and liabilities in foreign currencies are translated into Danish kroner at year-end exchange rates. Exchange rate differences are reported in the statement of income.
- Corporation tax is reported in the amount attributable to income for the year. The reported corporation tax includes tax payable on the year's taxable income as well as adjustment of deferred tax. Deferred tax at the beginning of the year and exchange rate differences thereon are reported under equity in line with exchange differences relating to the equity interests in the SAS Consortium and the SAS Commuter Consortium.

Deferred tax is provided on timing differences between income and expenses reported in the statement of income and taxable income. Deferred tax is provided using the current tax rate. Exchange differences relating to the translation of deferred tax at the beginning of the year are reported under equity in line with exchange differences relating to the equity interests in the SAS Consortium and the SAS Commuter Consortium.

Detailed statements of changes in financial position for the SAS Group and the SAS Consortium are provided on page 18 and 22.

# Statement of Income

MDKK	1996	1995
<b>SAS Danmark A/S's airline operations:</b>		
2/7 shares of the SAS Consortium and the SAS Commuter Consortium		
<b>SAS:</b>		
Operating revenue	8,006.6	7,316.5
Operating expenses	-7,277.6	-6,456.5
Depreciation	-349.3	-294.6
Net financial items	8.7	-53.2
Other items	-1.0	12.3
<b>Total income/Loss</b>	<b>387.4</b>	<b>524.5</b>
<b>SAS Commuter:</b>		
Operating revenue	153.4	144.7
Operating expenses	-129.5	-118.7
Depreciation	-16.8	-15.7
Net financial items	-1.7	-3.3
Realization gains	0	3.6
<b>Total income/Loss</b>	<b>5.4</b>	<b>10.6</b>
<b>Total income/Loss for the year</b>	<b>392.8</b>	<b>535.1</b>
<b>SAS Danmark A/S's other business operations:</b>		
Rental income	3.8	14.9
Operating expenses	2.5	2.3
Payroll expenses – Note 1	1.8	1.7
Contribution to DDL's Relief Fund	1.0	1.0
Total expenses	5.3	5.0
Income before financial items	-1.5	9.9
Financial income – Note 2	17.1	1.6
Financial expenses – Note 3	1.2	1.3
Total financial items	15.9	0.3
<b>Income/Loss from SAS Danmark A/S's other business operations</b>	<b>14.4</b>	<b>10.2</b>
Total income/Loss before taxes	407.2	545.3
Corporation tax – Note 4	107.5	264.3
<b>NET INCOME/LOSS FOR THE YEAR</b>	<b>299.7</b>	<b>281.0</b>

# Balance Sheet

Assets MDKK	Dec. 31 1996	Dec. 31 1995
<b>Fixed assets</b>		
Tangible fixed assets:		
Land and buildings – <i>Note 5</i>	0	158.3
Intangible fixed assets:		
Equity inter ests in the SAS, Scanair and SAS Commuter Consortia – <i>Note 6</i>	3,086.8	2,466.4
<b>Total fixed assets</b>	<b>3,086.8</b>	<b>2,624.7</b>
<b>Current assets</b>		
Receivables – <i>Note 7</i>	209.8	275.3
Securities – <i>Note 8</i>	1.0	0.7
Liquid funds – <i>Note 9</i>	520.4	46.0
<b>Total current assets</b>	<b>731.2</b>	<b>322.0</b>
<b>TOTAL ASSETS</b>	<b>3,818.0</b>	<b>2,946.7</b>
<b>Equity and liabilities</b>		
<b>Equity</b>		
Share capital	470.0	203.2
Premium on issue	411.2	0
Revaluation r eserve	0	138.8
Other reserves	1,890.9	1,682.1
<b>Total equity – <i>Note 10</i></b>	<b>2,772.1</b>	<b>2,024.1</b>
<b>Accruals</b>		
Deferred tax – <i>Note 11</i>	864.0	726.0
<b>Total accruals</b>	<b>864.0</b>	<b>726.0</b>
<b>Long-term liabilities</b>		
Mortgage loans	0	2.6
Deposit	0	0.7
<b>Total long-term liabilities</b>	<b>0</b>	<b>3.3</b>
<b>Current liabilities</b>		
Corporation tax	58.0	90.0
Current portion of long-term liabilities	0	0.2
Other payables	1.7	1.7
Accr ued expenses	0	3.9
Dividend for the year	122.2	97.5
<b>Total current liabilities</b>	<b>181.9</b>	<b>193.3</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>3,818.0</b>	<b>2,946.7</b>

# Statement of Changes in Financial Position

MDKK	1996	1995
Income from the Consortia	+392.8	+535.1
Exchange rate differences	-0.4	+40.5
Transfer to invested capital	-184.1	-300.4
Receivable from SAS	-208.3	-275.2
<b>Total</b>	<b>0</b>	<b>0</b>
Liquid funds, opening	+46.0	0
Capital increase	+556.1	0
Income for the year	+14.4	+10.2
Distribution from SAS	+275.2	+130.4
Dividend to shareholders	-97.5	-81.3
Increase/Reduction of other receivables	-1.4	+4.2
Unrealized capital gain	-0.3	-0.1
Investment in SAS Consortium	-350.6	0
Corporation tax paid	-72.4	0
Norwegian tax paid	-0.1	-0.3
Sale of properties	+158.3	0
<b>Total</b>	<b>+527.7</b>	<b>+63.1</b>
<b>Reduction of loan and other liabilities, etc.</b>	<b>-7.3</b>	<b>-17.1</b>
<b>Liquid funds according to the balance sheet</b>	<b>520.4</b>	<b>46.0</b>

# Notes

## Note 1 – Number of employees and payroll expenses

MDKK	1996	1995
SAS Danmark A/S has 3 employees		
Salaries (including DKK 0.7 to management)	1.3	1.2
Pension and social security contributions	0.1	0.1
Directors' remuneration	0.4	0.4
<b>Total payroll expenses</b>	<b>1.8</b>	<b>1.7</b>

## Note 2 – Financial income

Market value adjustment of securities	0.3	0.1
Interest on capital account with SAS	14.0	0
Other interest income	2.8	1.1
Miscellaneous income	0	0.4
<b>Total financial income</b>	<b>17.1</b>	<b>1.6</b>

## Note 3 – Financial expenses

Interest expenses	1.2	1.3
-------------------	-----	-----

## Note 4 – Corporation tax

Corporation tax	58.0	90.0
Prior-year adjustment	-17.6	0
Tax (income on sale of SAS building in Oslo)	0.1	0.3
Accruals, deferred tax	67.0	174.0
<b>Total</b>	<b>107.5</b>	<b>264.3</b>

Corporation tax paid for the year amounts to MDKK 72.4

## Note 5 – Land and buildings

MDKK		
Acquisition price, January 1, 1995	48.1	
Accumulated depreciation and write-downs, opening	-37.6	
Revaluation in 1995	147.8	
Book value at December 31, 1995	158.3	
Sold in 1996	-158.3	
<b>Total land and buildings</b>	<b>0</b>	

## Note 6 – Equity interests in the SAS, Scanair and SAS Commuter consortia

	Dec. 31, 1996		Dec. 31, 1995	
	total	2/7	total	2/7
	MSEK	MDKK	MSEK	MDKK
<b>SAS consortium</b>				
Invested capital, opening	9,868	2,348.6	8,684	2,022.9
Invested in June 1996	1,400	350.5		
Exchange rate difference		81.5	-31	36.5
	<b>11,268</b>	<b>2,780.6</b>	8,653	2,059.4

## Income for the year 1,568

Transferred to parent companies	844			
Invested capital	724	178.7	1,215	289.2
Invested capital in SAS	<b>11,992</b>	<b>2,959.3</b>	9,868	2,348.6

## Scanair consortium

(ended December 31, 1993)

Invested capital, opening	2	0.5	2	0.5
<b>Income for the year</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Invested capital in Scanair	2	0.5	2	0.5

## SAS Commuter consortium

Invested capital, opening	493	117.3	444	103.5
Exchange rate differences	-	4.3	-	2.2
	<b>493</b>	<b>121.6</b>	444	105.7

## Income for the year – invested

	22	5.4	47	11.2
Currency correction	515	127.0	491	116.9

Invested capital in SAS Commuter	515	127.0	493	117.3
----------------------------------	-----	-------	-----	-------

## Total equity interests in the Consortia

	<b>12,509</b>	<b>3,086.8</b>	10,363	2,466.4
--	---------------	----------------	--------	---------

**Note 7 – Receivables**

	Dec. 31 1996	Dec. 31 1995
MDKK		
Receivable from SAS	208.3	275.2
Receivables (due within one year)	1.5	0.1
<b>Total receivables</b>	<b>209.8</b>	<b>275.3</b>

**Note 8 – Securities**

Listed shares	1.0	0.7
---------------	-----	-----

**Note 9 – Liquid funds**

Capital account with SAS	517.5	0
Cash at bank	2.9	46.0
<b>Total liquid funds</b>	<b>520.4</b>	<b>46.0</b>

**Note 10 – Equity****Share capital**

January 1	203.2	50.8
Bonus share issue	121.9	152.4
Rights issue	144.5	–
Directed issue at market price	0.4	–
Issued share capital 47,000,000 shares of DKK 10 each		
<b>Total share capital</b>	<b>470.0</b>	<b>203.2</b>

**Share premium reserve**

January 1	0	0
Premium on issue	421.8	0
Expenses of issue	–10.6	0
<b>Total premium on issue</b>	<b>411.2</b>	<b>0</b>

**Note 10, continued**

	Dec. 31 1996	Dec. 31 1995
MDKK		
<b>Revaluation reserve</b>		
January 1	138.8	138.8
Transfer to bonus share issue	–39.8	0
Transfer to “Other Reserves”	–99.0	0
<b>Total revaluation reserve</b>	<b>0</b>	<b>138.8</b>

**Other reserves**

January 1	1,682.1	1,571.1
Transfer from revaluation reserve	99.0	0
Transfer to bonus share issue	–82.1	–152.4
Exchange rate differences of the Consortia	85.4	79.9
Exchange rate differences, opening deferred tax	–71.0	0
Transfers from statement of income	177.5	183.5
<b>Total other reserves</b>	<b>1,890.9</b>	<b>1,682.1</b>
<b>Total equity</b>	<b>2,772.1</b>	<b>2,024.1</b>

**Note 11 – Accruals**

Deferred tax, January 1	726.0	543.0
Deferred tax on revaluation of land and buildings	0	9.0
Transfer from equity	71.0	0
Increase in deferred tax, statement of income	67.0	174.0
<b>Total accruals</b>	<b>864.0</b>	<b>726.0</b>

**Note 12 – Fees to auditors appointed by the Annual General Meeting**

KPMG C.Jespersen was paid an auditor's fee for 1996 of DKK 40,000, as well as DKK 420,000 for other services (tax advice and prospectus). Arne Brendstrup, State Authorized Public Accountant was paid an auditor's fee for 1996 of DKK 35,000 and DKK 35,000 for other services (prospectus).

# SAS Norge ASA

ASSEMBLY OF REPRESENTATIVES AND BOARD OF DIRECTORS .....	94
THE 12 LARGEST SHAREHOLDERS AS AT DECEMBER 31, 1996 .....	95
ANNUAL REPORT.....	96
STATEMENT OF INCOME .....	98
BALANCE SHEET .....	99
STATEMENT OF CHANGES IN FINANCIAL POSITION .....	100
NOTES TO THE FINANCIAL STATEMENTS .....	101
NOTES .....	102
AUDITORS' REPORT.....	104
STATEMENT BY THE ASSEMBLY OF REPRESENTATIVES .....	104

## ANNUAL MEETING OF SHAREHOLDERS

**The Annual Meetings of Shareholders in SAS's three parent companies, SAS Danmark A/S, SAS Norge ASA and SAS Sverige AB, will be held on the same date this year.**

**As a result of the proposed changes to SAS's consortium agreement, proposals will be presented to the Annual Meetings of the parent companies regarding changes to the parent companies' management structure.**

**Prior to the Annual Meeting, the proposed changes must be considered by the parliaments of the three Scandinavian countries.**

**Since a date when this matter will be considered by the Norwegian Parliament has not been decided, the date of the Annual Meeting of Shareholders in SAS Norge ASA will be announced later.**

# Assembly of Representatives and Board of Directors

## ASSEMBLY OF REPRESENTATIVES

### **Representatives elected by the private shareholders:**

Øivin Fjeldstad, Chairman  
Bjørn Elvestad  
Truls Nyquist  
Arne Rettedal  
Idar Ulstein  
Knut Francke  
Thorstein Øverland  
Stephen Knudtzon

### **Publicly appointed representatives:**

Evy Buverud Pedersen, Vice Chairman  
Dag Terje Andersen (retired)  
Siri Austeng  
Gudmund Gjengaar  
Leif Arne Heløe  
Sylvi Lem  
Helga Lie  
Anne-Lise Grande Vollan

## BOARD OF DIRECTORS

### **Publicly appointed members:**

Harald Norvik, Chairman  
Åshild M. Bendiktsen  
Kaare Granheim  
Jan Reinås  
Svein Sundsbø

### **Alternates:**

Bjørg Eikum Tang  
Sissel Rønbeck (retired)

### **Members elected by the private shareholders:**

Bjørn Eidem, Vice Chairman  
Mads Henry Andenæs  
Helge Kvamme (deceased)  
Johan Fr. Odfjell  
Fred. Olsen

### **Alternates:**

Marit Høvding  
Erik Tønseth

### **Member by virtue of the Articles of Association:**

Torstein Ljøstad, Managing Director

# The 12 largest shareholders as at December 31, 1996:

	Number of shares	%
1 The Norwegian State	23,500,000	50.00
2 Fred. Olsen & Co. companies	3,200,147	6.81
3 UNI Storebrand	1,514,326	3.22
4 Unibank A/S	1,201,420	2.56
5 Aksjefondet A vanse K	814,358	1.73
6 Aksjefondet K-V ekst	722,000	1.54
7 Den Danske Bank A/S, Clients Joint Account	686,468	1.46
8 Den Danske Bank A/S	626,362	1.33
9 Citibank, N.A.	595,399	1.27
10 Kommunal Landspensjonskasse	583,824	1.24
11 National Westminster S/A	580,000	1.23
12 Morgan Guaranty Trust	537,796	1.14

**SAS Norge ASA's share capital as at December 31, 1996 was NOK 470,000,000 divided into 47,000,000 shares of NOK 10.- each.**

**Half of the shares, Class A, are owned by the Norwegian State. As at December 31 the other half, Class B, was owned by other 2,467 shareholders. These shares are listed on Oslo Stock Exchange. Only the State owns more than**

**20% of the share capital. The percentage of foreign shareholders was 18%.**

**In accordance with the requirements of Section 11-12 of the Norwegian Companies Act, the following information is disclosed as regards the shareholdings of Members of the Board, the auditors and President, including shares owned by spouses, children under the age of majority, etc., cf. Section 1-2 of the Act:**

#### Members of the Board of Directors:

Bjørn Eidem	5,861
Marit Høvdning	186
Johan Fr. Odfjell	10,000
Fred. Olsen	1,867
Torstein Ljøstad	570

#### Members of the Assembly of Representatives:

Øivin Fjeldstad	612
Sylvi Lem	541
Helga Lie	358
Idar Ulstein	747

# Annual Report for 1996

Income before taxes was a profit of MNOK 423 (455).

The Board of Directors proposes a dividend of NOK 2.80 (12.50) per share.

As well as the Company's own business, the Statement of Income comprises 2/7 of the results of the SAS and SAS Commuter consortia. The Statement of Income is translated at the average exchange rate with the exception of depreciation and gains/losses on the sale of fixed assets and other long-term investments, which are translated on the basis of the original cost of the underlying balance sheet items.

Translation differences are charged to equity. For the purpose of translation an average exchange rate of NOK 96.28 to SEK 100 has been applied, compared with 88.78 in the preceding year.

The exchange rate at December 31, has been applied for translating all balance sheet items with the exception of fixed assets and other long-term investments, which are translated at the exchange rate prevailing at the acquisition date. The closing exchange rate as at December 31, 1996 was NOK 93.85 to SEK 100, compared with 95.06 in the preceding year.

As a consequence of the decisions to harmonize SAS's parent companies, it was decided that a number of important changes should be implemented during the period with regard to the Company's operations and capital structure.

The Company has changed its name from Det Norske Luftfartselskap A/S (DNL) to SAS Norge ASA. To ensure that the share capital of the parent companies reflects their ownership stakes in SAS, the Annual General Meeting decided to increase the share capital to MNOK 470. At the same time, the par value of the shares was changed from NOK 25.00 to NOK 10.00.

The Board has decided that the Company should no longer prepare group financial statements. In other words, the income of SAS's subsidiaries and affiliated companies

will no longer be included in the accounts of SAS Norge ASA. This information will instead be provided in the accounts of the SAS Group.

The office buildings at Fornebu were sold to SAS for MNOK 207. These buildings were revalued by MNOK 111 in the 1995 accounts, as a result of which their book value corresponded to the agreed sales price. The transfer took effect on April 1, 1996, and accordingly no capital gain is reported in the accounts for 1996. Since this was the last property to be transferred to SAS and in line with the stated intention of streamlining the operations of the parent companies, the Board decided to redeem all mortgages. These totaled MNOK 142.

SAS Norge ASA decided to contribute MSEK 400 to bring about a total increase in the capital account of the SAS Consortium of MSEK 1,400.

As part of the harmonization of SAS's parent companies, it has been agreed that the size of the Board of SAS Norge ASA will be reduced from ten members with four deputies to four members. The Chairman and the Vice Chairman of the Board of SAS Norge ASA will serve as the Norwegian members of SAS's Board. It has also been decided that the company's Assembly of Representatives will be abolished and that the Annual General Meeting will elect or appoint ten members of SAS's Assembly of Representatives. The latter may no longer serve as members or deputies of SAS's Board or members of the boards of the parent companies. As before, SAS's Board will comprise six representatives elected by the shareholders and three employee representatives. Further proposals are that the number of auditors of SAS should be reduced from six to three and that the President and CEO of SAS should also be appointed president of the parent companies.

The changes in the structure of the Board of Directors and the Assembly of Representatives of SAS Norge ASA and SAS respectively have necessitated changes to

the Articles of Association and the Consortium Agreement. The latter will be extended from October 1, 2005, to September 30, 2020.

After appropriate resolutions by an extraordinary General Meeting, amendments to the Articles of the Company and the Consortium Agreement are expected to be approved by the Ministry of Communication and Transport, having first been reviewed by the Norwegian Government and Parliament.

The election of members of the Board of SAS Norge ASA and the Norwegian members of the SAS Assembly of Representatives will take place when the new Articles of Association have been approved by the Ministry of Communication and Transport.

At the suggestion of the Board of Directors of SAS, the SAS Assembly of Representatives has decided that MSEK 844 should be transferred to the parent companies for 1996. The remaining profit – MSEK 724 – is to be transferred to the capital account, which represents the

equity of the SAS Consortium.

The capital account of the parent companies in the SAS Consortium as at the beginning of 1996 totaled MSEK 9,868. After the aforementioned transfer to the parent companies of MSEK 844, the account will total MSEK 11,992. SAS Norge ASA's share of the capital account will be MSEK 3,426 (2,819).

For the prospects for 1997, please refer to the information published by SAS.

The Board proposes a dividend in the amount of NOK 2.80 per share, and the following disposition of earnings and transfers of equity:

Profit for the year	MNOK	303
To dividend	MNOK	132
To restricted r eserve	MNOK	101
To unrestricted r eserve	MNOK	189
From revaluation r eserve	MNOK	-119

Bærum December 31, 1996  
March 19, 1997

***Mads Henry Andenæs***

***Harald Norvik***  
(Chairman)

***Åshild M. Bendiktsen***

***Kaare Granheim***

***Bjørn Eidem***  
(Vice Chairman)

***Johan Fr. Odfjell***

***Fred. Olsen***

***Jan Reinås***

***Svein Sundsbø***

***Torstein Ljøstad***  
(Managing Director)

# Statement of Income

MNOK	1996	1995
Operating revenue	8,895	8,272
Operating expenses – <i>Note 1</i>	-8,057	-7,260
Ordinary depreciation – <i>Note 2</i>	-433	-403
Total operating expenses	-8,490	-7,663
<b>Operating income</b>	<b>405</b>	<b>609</b>
Gain/loss on sale of fixed assets	-	-5
Write-downs – <i>Note 2</i>	-	-112
Other items	-1	-
Dividends	4	14
Financial income	268	347
Financial expenses	-253	-398
<b>Net financial expenses</b>	<b>19</b>	<b>-37</b>
<b>Income before taxes – <i>Note 3</i></b>	<b>423</b>	<b>455</b>
Taxes – <i>Note 4</i>	-120	-117
<b>Income for the year</b>	<b>303</b>	<b>338</b>
Dividend	132	157
To restricted r eserve	101	144
To unrestricted r eserve	189	237
From revaluation r eserve	-	-80
From special tax r eserve	-119	-120

# Balance Sheet

MNOK			MNOK		
ASSETS	1996	1995	LIABILITIES AND EQUITY	1996	1995
<b>Current assets</b>			<b>Current liabilities</b>		
Cash, bank deposits and short-term investments	2,915	3,075	Accounts payable and other current liabilities	292	294
Short-term receivables	976	733	Transportation revenue (net)	441	427
Prepaid expenses and accrued income	126	151	Accrued expenses and prepaid income	813	747
Prepayments to suppliers	1	1	Taxes payable – Note 4	137	196
Spare parts and inventory	136	95	Dividend	132	157
<b>Total current assets</b>	<b>4,154</b>	<b>4,055</b>	Current portion of long-term liabilities	234	521
<b>Fixed assets</b>			Other current liabilities	746	484
Shares and other securities	581	559	<b>Total current liabilities</b>	<b>2,795</b>	<b>2,826</b>
Long-term receivables	231	339	<b>Long-term liabilities</b>		
Intangible assets – Note 2	6	9	Long-term liabilities	3,087	2,740
Prepayments to suppliers	79	200	Deferred taxes – Note 4	402	419
Construction in progress	118	29	Subordinated loan capital	198	228
Aircraft – Note 2	3,405	3,224	<b>Total long-term liabilities</b>	<b>3,687</b>	<b>3,387</b>
Spare engines and parts – Note 2	243	174	<b>Equity</b>		
Workshop and aircraft servicing equipment – Note 2	26	17	Share capital (47,000,000 shares of NOK 10 each)	470	315
Other equipment and vehicles – Note 2	92	75	Restricted reserve	398	297
Buildings and fittings – Note 2	911	708	Special tax reserve	–	119
Land – Note 2	32	32	<b>Total restricted equity</b>	<b>868</b>	<b>731</b>
<b>Total fixed assets</b>	<b>5,724</b>	<b>5,366</b>	Translation difference	462	445
<b>TOTAL ASSETS</b>	<b>9,878</b>	<b>9,421</b>	Unrestricted reserve	2,066	2,032
			<b>Total unrestricted equity</b>	<b>2,528</b>	<b>2,477</b>
			<b>Total equity – Note 5</b>	<b>3,396</b>	<b>3,208</b>
			<b>TOTAL LIABILITIES AND EQUITY – Note 3</b>	<b>9,878</b>	<b>9,421</b>
			Mortgages	8	153
			Guarantees etc.	315	305

# Statements of Changes in Financial Position

MNOK	1996	1995
<b>SOURCE OF FUNDS</b>		
Income for the year	303	338
Ordinary depreciation	433	403
Write-downs	-	112
Gain on the sale of fixed assets	-	5
Change in translation difference, etc.	18	-37
Change in deferred taxes	-17	-48
Dividend allocation	-132	-157
<b>Total funds provided</b>	<b>605</b>	<b>616</b>
<b>Change in:</b>		
Spare parts, inventory, equipment	-41	-8
Current receivables	-219	-42
Current liabilities	-31	302
<b>Change in working capital</b>	<b>-291</b>	<b>252</b>
<b>Net financing from year's operations</b>	<b>314</b>	<b>868</b>
<b>INVESTMENTS</b>		
Shares, etc.	-22	-72
Fixed assets	-998	-182
<b>Total investments</b>	<b>-1,020</b>	<b>-254</b>
Prepayments	121	-79
Sale of shares, fixed assets, etc.	-	114
Net investments	-899	-219
<b>Financing surplus/deficit</b>	<b>-585</b>	<b>649</b>
<b>EXTERNAL FINANCING</b>		
Long-term receivables, net	108	369
Deduction and repayment of loan	317	-718
<b>External financing, net</b>	<b>425</b>	<b>-349</b>
<b>CHANGE IN LIQUID FUNDS</b>	<b>-160</b>	<b>300</b>
Liquid funds, January 1, 1996	3,075	2,775
Liquid funds, December 31, 1996	2,915	3,075

# Comments to the Financial Statements

## ACCOUNTING PRINCIPLES

The financial statements have been prepared in accordance with Norwegian legislation and generally accepted accounting practice. SAS's accounts form an integral part of the annual accounts of SAS Norge ASA. The principles applied and the notes to the items deriving from SAS's accounts are not repeated in the following. Apart from this, the most important accounting principles applied are described below.

## PRINCIPLES OF CONSOLIDATION

The SAS Norge ASA financial statements encompass the Company's own business activities and 2/7 of the SAS and the SAS Commuter consortia.

The Company's stake in the consortia is regarded as participation in a jointly controlled enterprise and is for this reason processed in the accounts in accordance with the straight-line method of depreciation. Accordingly, 2/7 of the total income, expenses, assets and liabilities of the two consortia is recorded in the accounts (see Note 3).

Internal transactions and amounts payable have been eliminated in the consolidation.

The accounts of the consortia are recorded in Swedish kronor (SEK). The closing rate of exchange as at December 31 was applied when translating all balance sheet items except fixed assets and other long-term investments, which were translated at the rate of exchange at the acquisition date.

The Statement of Income is translated at the average rate of exchange with the exception of depreciation and gains/losses on the disposal of fixed assets and other long-term investments, which are translated on the basis of the original cost of the underlying balance sheet items. Translation differences are charged to equity. An aver-

ge rate of exchange for 1996 of NOK 96.28 to SEK 100 was applied to conversions for 1996 compared with NOK 88.78 in the preceding year. A closing rate of exchange as at December 31, 1996, of NOK 93.85 was applied compared with NOK 95.06 as at December 31, 1995.

## DEPRECIABLE ASSETS

The Company's own fixed assets and its share of the fixed assets of the SAS and SAS Commuter consortia are recorded in the Balance Sheet at original cost less ordinary depreciation.

## TAXES (SEE NOTE 4)

Tax charges comprise taxes payable and changes in deferred taxation during the period. The change in deferred taxation reflects deferred taxes on previous years' operations or taxes payable in the future on the year's activities.

Deferred tax in the Balance Sheet is calculated on the basis of net positive temporary differences between the financial and fiscal accounts deriving from the application of different accrual principles. A nominal rate of taxation of 28% has been utilized for the purpose of calculation.

Positive temporary differences are eliminated against negative temporary differences and carryforward losses that are expected to be reversed during the same period.

## JOINT AND SEVERAL LIABILITY

SAS Norge ASA, SAS Danmark A/S and SAS Sverige AB are jointly and severally liable for the commitments of SAS and SAS Commuter.

# Notes

## Note 1 – Operating Expenses

Remuneration to the Board of Directors and Assembly of Representatives in 1996 totaled NOK 555,000. The salary paid to the Managing Director including taxable benefits totaled NOK 693,000. The auditor's fee totaled NOK 100,000 with the addition of NOK 749,000 in remuneration for consultancy services.

## Note 2 – Depreciation of Fixed Assets

### Depreciation of the Company's stake in SAS and SAS Commuter

NOK 000s	Book value Jan. 1, 96	Net inv.	Deprec. for year	Book value Dec. 31, 96
<b>SAS</b>				
Intangible assets	8,691	–	2,641	6,050
Aircraft	3,021,609	512,595	312,679	3,221,525
Spare engines and parts	156,968	84,821	14,635	227,154
Workshop and other aircraft equipment	16,689	15,873	6,850	25,712
Machinery, equipment and vehicles	74,271	56,173	39,640	90,804
Buildings and fittings	506,172	440,707	35,569	911,310
Land and plant	25,538	5,007	220	30,325
<b>Total</b>	<b>3,809,938</b>	<b>1,115,176</b>	<b>412,234</b>	<b>4,512,880</b>

The buildings were sold to the SAS consortium during 1996. As part of the process of harmonizing the accounts of SAS's parent companies, the buildings were revalued in the 1995 accounts to their sales price. The revaluation was applied to the write-down of the remaining share of an earlier revaluation of the Company's share of SAS's head office at Frösundavik outside Stockholm.

### SAS Commuter

Aircraft	202,788	–28	18,968	183,792
Spare parts	17,072	–83	935	16,054
Equipment and vehicles	857	468	523	802
<b>Total</b>	<b>220,717</b>	<b>357</b>	<b>20,426</b>	<b>200,648</b>
<b>Total</b>	<b>4,030,655</b>	<b>1,115,533</b>	<b>432,660</b>	<b>4,713,528</b>

### Depreciation of fixed assets for SAS Norge ASA's internal operations

NOK 000s	Movables	Buildings	Land
Purchase price			
Jan. 1, 1996	384	118,470	6,081
Revaluation	–	110,761	–
Investment during year	22	–	–
Disposals during year	–	–229,231	–4,553
Total ordinary depreciation	143	–	–
Book value Dec. 31, 1996	263	–	1,528
Ordinary depreciation for the year	90	–	–
Depreciation rate	20 - 30%	2%	–

### Own investments and sales during the last 5 years:

NOK 000s	Investments	Sales
1992	3,067	94,935
1993	–	–
1994	–	1,500
1995	384	175
1996	22	206,800

### Note 3 – Share of Income and Equity

Income	1996	1995
Rental income	4	17
Operating expenses and depreciation	–6	–10
Net financial income	12	3
Pre-tax profit on own business	10	10
Share of income of SAS Commuter	6	12
Share of income of SAS	431	600
(-) adjustments <sup>1</sup>	–24	–55
Write-downs	–	–112
Income before taxes	423	455

<sup>1</sup> Adjustments mainly arise in connection with translation of the basis for write-downs and gains on sale at historical rates.

Balance Sheet	1996	1995
Assets SAS Norge ASA	266	924
Share of SAS <sup>1</sup>	3,641	3,048
Share of SAS Commuter <sup>1</sup>	161	159
<b>Total assets</b>	<b>4,068</b>	<b>4,131</b>
Liabilities SAS Norge ASA	672	923
Equity	3,396	3,208
<b>Total liabilities and equity</b>	<b>4,068</b>	<b>4,131</b>

<sup>1</sup> Includes share of fixed assets translated at historical rates. Had the shares been translated at the rate of exchange as at December 31, 1996, the book values would have been 426 and 23 lower, respectively.

**Note 4 – Taxes**

**Relationship between pre-tax income and income tax payable**

MNOK	1996	1995
Income before taxes	423	456
Permanent differences	5	7
<b>Changes in temporary differences relating to</b>		
Accounts receivable	-3	12
Inventory	1	10
Long-term receivables	-	-2
Fixed assets	26	32
Write-ups	111	114
Gains and losses	-10	84
Other temporary differences	-65	-11
Taxable income	488	701
Calculated taxes payable (28%)	137	196

Temporary differences are calculated on the basis of preliminary figures/estimates received from SAS.

<b>Temporary differences as at December 31</b>	<b>1996</b>	<b>1995</b>
Accounts receivable	-9	-12
Inventory	-11	-10
Long-term receivables	-10	-10
Shares	69	69
Fixed assets	1,230	1,256
Write-ups	-	111
Gains and losses	405	395
Other temporary differences	-236	-301
Basis for calculation of deferred taxes	1,437	1,498
Deferred taxes (28%)	402	419

In accordance with the interim Norwegian accounting standard on processing taxes, negative temporary differences have been eliminated against positive temporary differences which are reversed or may be reversed in the same period.

**Note 4, continued**

**Specification of tax cost in the Statement of Income**

	1996	1995
Calculated taxes payable	137	196
Change in deferred taxes	-17	-48
Adjusted for deferred tax on revaluation	-	-31
Tax cost for the year	120	117

**Note 5 – Equity**

MNOK	Share capital	Restr. res.	Spec. tax res.	Un-restr. res.	Trans. diff.	Total
At Jan. 1, 1996	315	297	119	2,032	445	3,208
Income excluding dividend		101		70		171
Change in spec. tax reserve			-119	119		
Increase in capital	155			-155		
Change in trans. diff.					17	17
As at Dec. 31, 1996	470	398		2,066	462	3,396

**Note 6 – Pension Commitments**

Pension commitments are covered through the Vital insurance company. SAS Norge ASA has its own group pension insurance scheme encompassing five employees and an early retirement pension scheme for one employee. NOK 92,000 has been allocated to cover accrued commitments for these schemes. The year's pension cost totals NOK 11,000.

# Auditors' Report

THE ANNUAL GENERAL MEETING OF SAS NORGE ASA

We have conducted the audit of the accounts of SAS Norge ASA for the 1996 accounting year showing a profit for the year of MNOK 303. The financial statements, comprising the Report of the Board of Directors, the Statement of Income, the Balance Sheet, the Cash Flow Analysis and Notes to the Financial Statements were prepared by the Board of Directors and the President.

Our responsibility is to scrutinize the company's annual accounts, and the handling of its business in general.

We have conducted the audit in accordance with current legislation, regulations and generally accepted auditing standards. We have taken the auditing steps we have considered necessary to confirm that the financial statements do not contain any major errors or omissions. In accordance with generally accepted auditing standards we have checked selected sections of the material on which the items in the accounts are based, and evaluated the accounting principles followed, the assessments made by the management, as well as the content and presentation of the financial statements. To the extent required by generally accepted auditing standards we have examined the company's management of its assets and its internal control.

The Board's proposal as to the allocation of this year's profit and equity transfers is in accordance with the provisions of the Companies Act.

In our opinion, the company's accounts are presented in accordance with the provisions of the Companies Act and present fairly the company's status as at December 31, 1996, and the result of the operations for the 1996 fiscal year in accordance with generally accepted accounting principles.

Oslo, March 19, 1997  
Deloitte & Touche

**Bernhard Lyngstad**

State Authorized Public Accountant (Norway)

# Statement by the Assembly of Representatives

The Assembly of Representatives has today reviewed the Report of the Board of Directors, and the Accounts for 1996, together with the Auditors' Report.

The Assembly of Representatives recommends that the Annual General Meeting adopts the annual accounts as the Annual Accounts for the company, and grants the Board of Directors discharge from liability.

On the assumption that the General Meeting approves the Accounts, the Assembly of Representatives has resolved, in accordance with Article 6 item B of the Articles of Association, that a dividend be declared for 1996 (NOK 2.80 per share) as recommended by the Board of Directors. The Assembly of Representatives has also resolved to adopt the Board of Directors' recommendations for the allocation of the profit.

Bærum (Norway), March 19, 1997

**Øivin Fjeldstad**

Chairman

# SAS Sverige AB

BOARD OF DIRECTORS AND AUDITORS .....	106
BOARD OF DIRECTORS' REPORT .....	108
STATEMENT OF INCOME .....	109
BALANCE SHEET .....	110
STATEMENTS OF CHANGES IN FINANCIAL POSITION .....	111
COMMENTS TO THE FINANCIAL STATEMENTS .....	112
NOTES .....	113
PROPOSED DISPOSITION OF EARNINGS .....	115
AUDITORS' REPORT .....	116

## DATE OF ANNUAL MEETING AND DIVIDEND RECORD DATE

The Annual Meetings of Shareholders in SAS's three parent companies, SAS Danmark A/S, SAS Norge ASA and SAS Sverige, will be held on the same date this year. Proposals will be presented to the Annual Meetings regarding changes to the management structure in SAS's three parent companies as a result of changes to SAS's consortium agreement. Some matters related to the consortium agreement must be approved by the

parliaments of the three Scandinavian countries. Since a date when the parliaments will consider these matter cannot be given, dates for the annual meetings and record day cannot be provided with any certainty.

The time and place of the Annual General Meeting of Shareholders will be announced in Dagens Nyheter and Svenska Dagbladet and notified to shareholders in a letter sent to the addresses registered with the Swedish Securities Register Center (VPC AB).

# Board of Directors and Auditors

## BOARD OF DIRECTORS

**Bo Berggren** Chairman. Born 1936. Elected 1985.

Hon. Dr. Eng. Swedish Chairman of SAS. Chairman of the Boards of STORA and ASTRA.

Vice Chairman of Investor, Skandinaviska Enskilda Banken and the Federation of Swedish Industries.

Member of the Boards of a large number of companies and organizations.

Shareholding: 5,000

**Georg Andersson** Born 1936. Elected 1993.

County Governor of Västerbotten.

Shareholding: 0

**Erik Belfrage** Born 1946. Elected 1992.

Director of Skandinaviska Enskilda Banken.

Chairman of the Boards of TV 4, the Swedish Institute of Management (IFL), the Sigtuna School Foundation and the Centre for European Policy Studies (CEPS). Member of the Boards of Atlas Copco, Investor and Saab, among others. Deputy member of the Board of SAS.

Shareholding: 0

**Annika Christiansson** Born 1946. Elected 1992.

Executive Director Telia AB

Member of the Board of AssiDomän, among others.

Shareholding: 0

**Ingemar Eliasson** Born 1939. Elected 1992.

County Governor of Värmland.

Chairman of the Boards of Stockholm Fondbörs AB, SBAB and Tidningarnas Telegrambyrå AB. Deputy Member of the Board of SAS.

Shareholding: 0

**Sören Gyll** Born 1940. Elected 1992.

President and CEO of Volvo until April 1997.

Member of the Boards of Catena, Pharmacia & Upjohn, Inc., Volvo, the Swedish Employers' Confederation and the Federation of Swedish Industries. Member of the Swedish Academy of Engineering Sciences, the National Board of the Association of Swedish Engineering Industries and the Swedish Engineering Employers' Association.

Shareholding: 0

**Tony Hagström** Born 1936. Elected 1992. Ph.D. Chairman of the Boards of Swedish Information Processing Society and IT-Forum. Member of the Boards of AlphaNet Ltd., ASTRA, SAS, Scandiaconsult and SSAB, among others.

Shareholding: 0

**Tom Hedelius** Born 1939. Elected 1992. Hon. Dr. Econ.

Chairman of the Boards of Svenska Handelsbanken and Bergman & Beving. Vice Chairman of AGA, Ericsson and Industrivärden. Member of the Boards of SCA and Volvo, among others.

Shareholding: 0

**Bertil Jonsson** Born 1940. Elected 1994.

Chairman of the Swedish Trade Union Confederation. Chairman of Folksam.

Member of the Boards of Aftonbladet, Allmänna Pensionsfonden fjärde fondstyrelsen and AMF-bolagen.

Shareholding: 0

**Bo Lundgren** Born 1947. Elected 1995. Member of

Parliament, former cabinet minister. Chairman of the Moderate Party in the County of Kristianstad and member of the party's board. Member of the Boards of the Deposit Guarantee Board, the National Debt Office and Vin & Sprit AB, among others.

Shareholding: 0

**Magnus Persson** Born 1957. Elected 1995.

Under-Secretary of State at the Ministry of Transport and Communications.

Shareholding: 0

**Bo Rydén** Born 1932. Elected 1982.

Hon. Dr. Econ. Hon. Dr. Eng. Chairman of the Boards of Graningevarken, Industrivärden and SCA. Vice Chairman of Svenska Handelsbanken and Skanska. Member of the Boards of IBM EMEA Board and Scancem.

Shareholding: 1,000

**Jan-Olof Selén** Born 1944. Elected 1992.

Executive Director of the National Maritime Administration.

Shareholding: 0

**Sven Wallgren** Born 1929. Elected 1991.

Chairman of the Boards of Bosch and Vestmanlands Läns Tidning, among others. Member of the Boards of Guldfynd, Klippans Finpappersbruk, the Federation of Swedish Industries and the General Export Association of Sweden, among others. Member of the Assembly of Representatives of Awilco AS. Member of the Academy of Engineering Sciences.

Shareholding: 0

**Ulf Dahlsten** Born 1946. Elected 1992.

President and CEO of Posten AB. Vice Chairman of Nationalekonomiska Föreningens Styrelse and SNS Förtroenderåd. Member of the Boards of Delfi Företagen and Stena Line AB.

Shareholding: 0

**Gösta Gunnarsson** Born 1938. Elected 1992.

County Governor of Jönköping. Chairman of the Boards of the National Pension Insurance Fund's First Board and Teracom Svensk Rundradio, among others.

Shareholding: 0

**Gunilla Olofsson** Born 1945. Elected 1992.

Director General and Head of the Central Office of the National Land Survey. Member of the Boards of the National Judicial Board for Public Lands and Funds, Swedesurvey and Stattel-delegationen.

Shareholding: 0

**Björn Svedberg** Born 1937. Elected 1981.

CEO of Skandinaviska Enskilda Banken. Chairman of the Board of Ericsson and ABB Sverige AB. Member of the Boards of ABB, ASEA, STORA and Volvo.

Shareholding: 0

**Tom Wachtmeister** Born 1931. Elected 1991.

Vice Chairman of the Board of Atlas Copco. Chairman of the Boards of the Tax Payers' Association and the Sweden-China Trade Council, among others. Vice Chairman of the General Export Association of Sweden. Member of the Boards of Investor, Norsk Hydro (Norway), Scania and STORA, among others.

Shareholding: 2,000

**Marcus Wallenberg** Born 1956. Elected 1992.

Vice Chairman of ASTRA and Saab. Member of the Boards of Incentive, Investor, LM Ericsson, Scania, S-E-Banken and the Knut and Alice Wallenberg Foundation.

Shareholding: 0

## AUDITORS

**Jan Åke Magnuson** Born 1942. Elected 1977.

Authorized Public Accountant. Deloitte & Touche.

**Gunnar Abrahamson** Deputy. Born 1947.

Elected 1992. Authorized Public Accountant.

Deloitte & Touche.

**Roland Nilsson** Born 1943. Elected 1992.

Authorized Public Accountant. KPMG Bohlins.

**Caj Nackstad** Deputy. Born 1945.

Elected 1992. Authorized Public Accountant.

KPMG Bohlins.

# Board of Directors' Report

The Board of Directors and the President of SAS Sverige AB hereby submit their annual report for the fiscal year 1996.

This report contains an account of the operations in SAS Sverige AB, including the merged subsidiary AB Aerotransport (ABA), with 3/7 of the SAS and SAS Commuter consortia.

THE COMPANY'S OPERATIONS AND STRUCTURE  
Under a consortium agreement with SAS Danmark A/S and SAS Norge ASA, SAS Sverige AB conducts air transport operations in the Scandinavian Airlines Systems (SAS) and SAS Commuter consortia. SAS also has commercial responsibility for SAS Commuter. SAS conducts operations associated with air transport in subsidiaries and affiliated companies. These companies together form the SAS Group. An account of the operations of the two consortia and their business units is provided in SAS's annual report.

During the year Svensk Interkontinental Lufttrafik AB (SILA) changed its name to SAS Sverige AB. The class A and B shares were merged into a single class of share. SAS's three parent companies increased the capital account in the SAS Consortium by MSEK 1,400, of which SAS Sverige AB's share amounted to MSEK 600.

In April 1996, the respective boards decided that SAS Sverige AB should merge with its wholly owned subsidiary AB Aerotransport. The merger took place on September 30, when all ABA's rights and obligations, including its shares in SAS and SAS Commuter were transferred to SAS Sverige AB.

On March 31, SAS acquired ABA's entire real estate portfolio, including properties which ABA held an option to buy back from SPP.

During 1996 SAS Sverige AB's operations thereby included participations in the SAS Consortium and the SAS Commuter Consortium, its own asset management, as well as its own real estate management in the first quarter of 1996.

Available liquid funds including the receivable from SAS amounted to MSEK 949 at year-end compared with MSEK 2,278 at the beginning of the year. This change was affected by the decision of the shareholders' meeting on a one-time dividend to shareholders of MSEK 1,713, in addition to the ordinary dividend of MSEK 212, as well as the additional MSEK 600 capital contribution provided to SAS. The sale of real estate provided additional liquidity of MSEK 580.

## 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.

# Statement of Income

MSEK	1996	Pro forma 1995	1995
<b>Shares of income in the consortia – Note 1</b>	<b>681.4</b>	1,032.9	–
<b>Other operations</b>			
Revenues	30.3	113.7	–
Expenses	–29.0	–106.7	–2.4
Depreciation – Note 2	–0.6	–1.9	–
Gain on sale of fixed assets	155.5	29.5	–
Interest income	181.7	230.6	4.2
Interest expenses	–13.6	–7.4	–
Dividend	–	–	1,550.0
Total other operations	324.3	257.8	1,551.8
<b>Income before allocations and taxes</b>	<b>1,005.7</b>	<b>1,290.7</b>	<b>1,551.8</b>
<b>Allocations</b>			
Change in foreign exchange reserve	9.0	–9.0	–
Change in tax allocation reserves – Note 3	–399.0	–119.3	–0.5
Change in excess depreciation at SAS Sverige AB on fixed assets in the consortia – Note 4	62.0	–725.0	–
<b>Income before taxes</b>	<b>677.7</b>	437.4	1,551.3
Taxes	–328.7	–188.9	–0.4
<b>Net income for the year</b>	<b>349.0</b>	<b>248.5</b>	<b>1,550.9</b>

# Balance Sheet

ASSETS	Dec. 31, 96	Pro forma		LIABILITIES AND EQUITY	Dec. 31, 96	Pro forma	
		Jan. 1, 96	Dec 31, 95			Jan. 1, 96	Dec 31, 95
<b>Current assets</b>				<b>Current liabilities</b>			
Cash and bank balances	7.7	3.6	1.0	Accounts payable, suppliers	-	0.5	-
Short-term investments	-	2,274.4	-	Proposed dividend	211.5	1,924.7	1,924.7
Receivable from SAS	940.9	-	-	Payable to Group companies	120.5	120.5	0.0
Receivable from subsidiaries	-	-	1,613.5	Tax liability	230.9	9.7	0.4
Accounts receivable	1.5	28.6	-	Accrued expenses and prepaid income	12.0	50.8	1.2
Anticipated transfer from SAS	361.5	492.9	-	Other current liabilities	48.6	53.5	-
Prepaid expenses and accrued income	2.5	65.1	0.1	<b>Total current liabilities</b>	<b>623.5</b>	<b>2,159.7</b>	<b>1,926.3</b>
Other receivables	119.3	0.1	-				
<b>Total current assets</b>	<b>1,433.4</b>	<b>2,864.7</b>	<b>1,614.6</b>	<b>Long-term liabilities</b>			
				Other long-term liabilities	22.7	23.2	-
<b>Fixed assets</b>				<b>Total long-term liabilities</b>	<b>22.7</b>	<b>23.2</b>	<b>-</b>
Participations in consortia - Note 5	5,360.8	4,440.5	-	<b>Untaxed reserves - Note 11</b>			
Shares in subsidiaries - Note 6	120.4	120.4	1,178.1	Foreign exchange reserve	-	9.0	-
Option	-	417.6	-	Tax allocation reserves - Note 3	588.8	189.8	4.0
Other shares	0.0	0.0	-	Excess depreciation at SAS Sverige AB on fixed assets in consortia - Note 4	4,466.9	4,528.9	-
Long-term receivables	-	119.3	-	<b>Total untaxed reserves</b>	<b>5,055.7</b>	<b>4,727.7</b>	<b>4.0</b>
Machinery and equipment - Note 7	0.8	0.5	0.1				
Buildings	-	16.6	-	<b>Equity - Note 8</b>			
Land	-	7.0	-	Restricted equity			
<b>Total fixed assets</b>	<b>5,482.0</b>	<b>5,121.9</b>	<b>1,178.2</b>	Share capital (70,500,000 shares par value SEK 10 each)	705.0	705.0	705.0
<b>TOTAL ASSETS</b>	<b>6,915.4</b>	<b>7,986.6</b>	<b>2,792.8</b>	Legal reserve	141.0	74.7	74.7
				Revaluation reserve	179.0	179.0	-
Assets pledged				<b>Total restricted equity</b>	<b>1,025.0</b>	<b>958.7</b>	<b>779.7</b>
SAS Consortium (3/7)	12.0	14.6	-	Unrestricted equity			
				Retained earnings	51.0	1,793.5	456.6
				Net income for the year	349.0	248.5	1,550.9
				Less: Proposed dividend	-211.5	-1,924.7	-1,924.7
				<b>Total unrestricted equity</b>	<b>188.5</b>	<b>117.3</b>	<b>82.8</b>
				<b>Total equity</b>	<b>1,213.5</b>	<b>1,076.0</b>	<b>862.5</b>
				<b>TOTAL LIABILITIES AND EQUITY</b>	<b>6,915.4</b>	<b>7,986.6</b>	<b>2,792.8</b>
				Contingent liabilities - Note 9	504.8	483.0	1.3

# Statement of Changes in Financial Position

MSEK	1996	1995
<b>Source of funds</b>		
Income before allocations and taxes	1,005	1,551
Shares of income	-681	
	324	1,551
Transfer received from SAS	493	-
Depreciation	0	-
Received from sale of fixed assets	596	-
Gain on sale of fixed assets	-155	-
Taxes	-329	0
<b>Total funds provided</b>	<b>929</b>	<b>1,551</b>
<b>Application of funds</b>		
Dividend to shareholders	-1,925	-176
Increase of capital account in SAS Consortium	-600	-
<b>Total application of funds</b>	<b>-2,525</b>	<b>-176</b>
<b>Change in working capital</b>	<b>-1,596</b>	<b>1,375</b>
<b>Specification of change in working capital</b>		
Increase (+)/decrease (-) in current receivables	-90	+1,372
Increase (-)/decrease (+) in current liabilities	-177	+3
Increase (+)/decrease (-) in liquid funds including short-term investments	-1,329	0
	<b>-1,596</b>	<b>1,375</b>

# Comments to the Financial Statements

## ACCOUNTING PRINCIPLES

The financial statements comprise SAS Sverige AB with 3/7 of the SAS Consortium and the SAS Commuter Consortium.

Participations in the respective consortium are reported in SAS Sverige AB's balance sheet. The company's accounts include allocations to untaxed reserves which are based on the company's share of the income and assets of the respective consortium.

The consortia's financial statements are prepared in accordance with the International Accounting Standards Committee's (IASC) rules. An exception from these rules is made with regard to the consortia's shareholdings in subsidiaries and affiliated companies which are reported according to the purchase method.

## OTHER COMMENTS ON THE FINANCIAL STATEMENTS

SAS Sverige AB's subsidiaries did not conduct any operations during the year and the book value of the shares corresponds essentially to taxed equity.

Revenues and expenses in AB Aerotransport have been booked in SAS Sverige AB on a retroactive basis since January 1, 1996. Assets and liabilities in AB Aerotransport have been transferred to SAS Sverige AB. The capital gain from the merger, MSEK 214, has been taken direct to equity. During the year the booked gain on sale of properties to the SAS Consortium of MSEK 155.5 has been reserved for tax in its entirety. A pro forma statement of income for 1995 and balance sheet at January 1, 1996 are provided.

The transfer to the parent companies decided by SAS of a share of net income for 1996, MSEK 361.5 for SAS Sverige AB, has been anticipated in the financial statements. At the same time, the proposed dividend from SAS Sverige AB has been booked as a liability.

# Notes

## Note 1 – Shares of Income in Consortia

	1996	Pro forma 1995	1995
SAS Consortium	672.0	1,013.6	–
SAS Commuter Consortium	9.4	20.1	–
Scanair Consortium		–0.8	–
	<b>681.4</b>	1,032.9	–

## Note 2 – Depreciation

	1996	Pro forma 1995	1995
Machinery and equipment	0.6	0.2	–
Buildings, acquisition value	–	1.6	–
Buildings, revaluation	–	0.1	–
	<b>0.6</b>	1.9	–

## Note 3 – Tax Allocation Reserves

	1996	Pro forma 1995	1995
Tax allocation reserve, 1994	70.5	70.5	3.5
Tax allocation reserve, 1995	119.3	119.3	0.5
Tax allocation reserve, 1996	399.0	–	–
	<b>588.8</b>	189.8	4.0

## Note 6 – Shares in Subsidiaries

	Number of shares	Holding	Par value	Book value 1996	Pro forma 1995
AB Sila	500	100%	0.1	0.1	0.1
ABA Fastighetsförvaltning AB	10,000	100%	1.0	1.0	1.0
ABA Flyg AB	500	100%	0.1	0.1	0.1
Förvaltnings AB Vårbrodd	500	100%	0.1	119.3	119.3
			1.3	<b>120.5</b>	120.5

## Note 7 – Machinery and Equipment

	1996	Pro forma 1995	1995
Acquisition value	1.8	4.1	0.1
Accumulated depreciation	–1.0	–3.6	–
Book value	<b>0.8</b>	0.5	0.1

## Note 4 – Excess Depreciation

	Aircraft machinery and equipment	Buildings	Total
January 1, 1996	4,330.9	198.1	4,529.0
Reversal machinery and equipment	–62.0	–	–62.0
December 31, 1996	4,268.9	198.1	4,467.0

## Note 5 – Participations in Consortia

	1996	Pro forma 1995	1995
SAS Consortium	5,139.6	4,229.2	–
SAS Commuter Consortium	221.2	211.3	–
Scanair Consortium	0.0	0.0	–
	<b>5,360.8</b>	4,440.5	–

**Note 8 – Equity  
Change in equity**

	Share capital	Legal reserve	Revaluation reserve	Unrestricted equity	Total
Opening balance	705.5	74.7		2,007.5	2,787.2
Dividend provided				-1,924.7	-1,924.7
After dividend provided	705.0	74.7		82.8	862.5
Allocation to legal reserve		66.3		-66.3	
Capital gain on merger			179.0	34.5 <sup>1</sup>	213.5
Net income for the year				349.0	349.0
Proposed dividend				-211.5	-211.5
	705.0	141.0	179.0	188.5	1,213.5

<sup>1</sup> Of which 27.0 will not be available for dividends until 1998.

**Note 9 – Contingent Liabilities**

	1996	Pro forma 1995	1995
Guarantee commitments	1.7	1.3	1.3
SAS Consortium (3/7)	503,1	481.7	-
	504,8	483.0	1.3

In addition, SAS Sverige AB shares responsibility with SAS Danmark AS and SAS Norge ASA for all obligations undertaken by the SAS, SAS Commuter and Scanair Consortia.

**Note 10 – Salaries and Personnel**

	1996	Pro forma 1995	1995
Salaries and remuneration amounted to Board of Directors and President	1.7	1.6	0.6
Other employees	1.0	1.0	-
	2.7	2.6	0.6
Average number of employees totaled			
Women	1	1	-
Men	2	2	-
	3	3	-

All employees work in Stockholm.

At the 1996 Annual Meeting it was decided that the members of the Board of Directors should receive a fixed fee in a total amount of SEK 625,000, of which SEK 100,000 is paid to the Chairman.

The President has an annual salary of SEK 1,100,000 and a company car benefit. Pension conditions are regulated in an agreement under which it is possible – at the company's or his own initiative – at any time after he has reached the age of 60 to leave the company with a pension corresponding to 70% of gross salary at retirement date. In the event of termination of employment by the company, severance pay will correspond to two annual salaries.

**Note 11 – Untaxed reserves**

	1996	Pro forma 1995	1995
Untaxed reserves as per balance sheet	5,055.7	4,727.7	4.0
of which:			
deferred tax (28%)	1,415.6	1,323.8	1.1
equity	3,640.1	3,403.9	2.9

# Proposed Disposition of Earnings

The Board of Directors and the President propose that the retained earnings of MSEK 400 be disposed as follows:

Dividend to shareholders of SEK 3.00 per share utilizing	211.5
Carried forward to new account	<u>188.5</u>
	400.0

Stockholm, April 4, 1997

***Bo Berggren***

Chairman

***Georg Andersson***

***Erik Belfrage***

***Annika Christiansson***

***Ingemar Eliasson***

***Sören Gyll***

***Tony Hagström***

***Tom Hedelius***

***Bertil Jonsson***

***Bo Lundgren***

***Magnus Persson***

***Bo Rydin***

***Jan Olof Selén***

***Sven Wallgren***

***Christer Nilsson***

President

# Auditors' Report

We have examined the Annual Report, the accounts and the administration by the Board of Directors and the President for the fiscal year 1996. Our examination has been performed in accordance with generally accepted auditing standards.

The Annual Report has been prepared in conformity with the Swedish Companies Act.

We recommend,  
that the Statement of Income and the Balance Sheet be adopted,  
that the earnings be treated as proposed in the Board of Directors' Report, and  
that the members of the Board of Directors and the President be released from  
liability for the fiscal year.

Stockholm, April 4, 1997

**Jan Åke Magnuson**  
Authorized Public Accountant

**Roland Nilsson**  
Authorized Public Accountant

## SAS ASSEMBLY OF REPRESENTATIVES

### Sweden

#### Members

Bo Rydin  
*Chairman*  
Georg Andersson  
Erik Belfrage  
Bo Berggren  
Annika Christiansson  
Ingemar Eliasson  
Sören Gyll  
Tony Hagström  
Tom Hedelius  
Bo Lundgren  
Bertil Jonsson  
Magnus Persson  
Jan-Olov Selén  
Sven Wallgren

### Denmark

#### Members

Svend Jakobsen  
*First Vice Chairman*  
Poul Andersen  
Peter Duetoft  
Anders Eldrup  
Jørgen L. Halck  
Torben Rechendorff  
Axel greve af Rosenborg  
Hugo Schrøder  
Erik Sørensen  
Ole Trolle

### Norway

#### Members

Johan Fr. Odffjell  
*Second Vice Chairman*  
Mads Henry Andenæs  
Åshild M. Bendiktsen  
Bjørn Eidem  
Kaare Granheim  
Torstein Ljøstad  
Harald Nørvik  
Fred. Olsen  
Jan Reinås  
Svein Sundsbø

#### Deputies

Ulf Dahlsten  
Gösta Gunnarsson  
Gunilla Olofsson  
Björn Svedberg  
Tom Wachtmeister  
Marcus Wallenberg

#### Employee representatives

Leif Kindert  
Ulla Grøntvedt (deputy)  
Ber til Hägg (deputy)

#### Employee representatives

Jens Tholstrup Hansen  
Helmuth Jacobsen (deputy)  
Nicolas Fischer (deputy)

#### Deputies

Bjørn Eikum Tang  
Marit Høvdning  
Erik Tønseth

#### Employee representatives

Ingvar Lilletun  
Randi Kile (deputy)  
Svein Vefall (deputy)

## AUDITORS

### Sweden

Jan Åke Magnuson  
*Authorized Public Accountant*  
Deloitte & Touche  
member of Deloitte Touche  
Tohmatsu International

Roland Nilsson  
*Authorized Public Accountant*  
KPMG BOHLINS AB  
member of KPMG

### Denmark

Arne Brendstrup  
*State Authorized Public Accountant*  
Appointed by the Ministry of  
Transport under agreement with  
the National Tax Authority

Ole Koefoed  
*State Authorized Public Accountant*  
KPMG C. JESPERSEN  
member of KPMG

### Norway

Bernhard Lyngstad  
*State Authorized Public Accountant*  
Deloitte & Touche  
member of Deloitte Touche  
Tohmatsu International

Olav Revheim  
*State Authorized Public Accountant*  
Deloitte & Touche  
member of Deloitte Touche  
Tohmatsu International

## ADDRESSES

### HEAD OFFICE

SAS  
S-195 87 Stockholm  
Street address:  
Frösundaviks Allé 1  
Solna  
Telephone: +46 8 797 00 00

### Denmark

SAS  
Postboks 150  
DK-2770 Kastrup  
Street address:  
Hedegårdsvej 88  
Kastrup  
Telephone: +45 32 32 00 00

### Norway

SAS  
N-1330 Oslo Lufthavn  
Street address:  
Snarøyveien 57  
Oslo Lufthavn  
Telephone: +47 67 59 60 50

**SAS's Scandinavian  
telex number is  
22263 SASXT DK**

**SAS on the Internet**  
<http://www.sas.se>

PRODUCTION: SAS Public Relations, SAS Corporate Accounting and Intellecta.

PHOTOGRAPHY: Stefan Borgius/Pressens Bild, Lennart Durehed, Thomas Eriksson Arkitektkontor/Åke E:son Lindman, Johan Olsson, Masterfile Corporation/Pressens Bild, McDonnell Douglas, SAS's archives.

REPRO: KÅPE COMMUNICATION. PRINTING: Arne Löfgren Offset, Stockholm 1997.

This annual report is printed on paper bearing the Swan environmental label: Inside pages on 100 g Cyclus Offset with 100% recycled fibers, and cover on 240 g Takoblanc Natur (TCF).



**SAS DANMARK A/S**  


**SAS NORGE ASA**  


**SAS SVERIGE AB**  
