

**The SAS Group's
overall goal is satisfied
customers and
competitive growth
in shareholder value.**

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1997 Summary

- **THE SAS GROUP'S INCOME** before taxes amounted to MSEK 2,231 (1,817).
- **THE SAS GROUP'S OPERATING REVENUE** increased to MSEK 38,928 (35,189). Taking exchange differences into account, operating revenue increased by MSEK 2,684, or 7.6%.
- **PASSENGER TRAFFIC**, measured in RPK, revenue passenger kilometers, rose by 4.4%. For the second consecutive year, yield adjusted for currency effects (average yield), remained unchanged compared with the previous year.
- **THE STAR ALLIANCE** was launched during the year. SAS also extended its cooperation with regional partners to strengthen its position in the Scandinavian home market.
- **SAS'S PARENT COMPANIES** report income before taxes as follows:
 SAS Danmark A/S MDKK 540 (407)
 SAS Norge ASA MNOK 466 (423)
 SAS Sverige AB MSEK 939 (678)
 Earnings per share, on a pro forma basis, were SEK 9.57 for SAS Danmark A/S, SEK 10.11 for SAS Norge ASA, and SEK 10.13 for SAS Sverige AB.
- **PROPOSED DIVIDEND PER SHARE:** SAS Danmark A/S DKK 3.50 (2.60), SAS Norge ASA NOK 3.70 (2.80), SAS Sverige AB SEK 4.00 (3.00).

KEY FIGURES, SAS GROUP, SAS AND SAS INTERNATIONAL HOTELS

	SAS Group		SAS		SAS International Hotels	
	1997	1996	1997	1996	1997	1996
Operating revenue, MSEK	38,928	35,189	36,769	33,480	2,304	1,868
Income before taxes, MSEK	2,231	1,817	2,067	1,746	160	65
Gross profit margin, %	11	10	10	10	33	31
Investments, MSEK	3,256	4,202	2,938	4,132	318	70
Return on capital employed (ROCE), %	12	11	11	10	12	8
Number of employees	25,057	23,607	22,524	21,348	2,494	2,222

KEY FIGURES, SAS SHARE (LOCAL CURRENCY)

	SAS Danmark A/S		SAS Norge ASA		SAS Sverige AB	
	1997	1996	1997	1996	1997	1996
Earnings per share	8.28	6.96	9.36	8.08	10.13	9.42
Market price at year-end	100.00	73.00	103.00	69.00	115.00	86.00
Dividend (1997 proposed)	3.50	2.60	3.70	2.80	4.00	3.00

Goal for shareholder returns

The SAS Group's goal is to provide its shareholders with a competitive return. This refers to yearly rise in the share price plus dividends. The aim is to give shareholders a return of 14% per year, calculated as an average over a business cycle.

SAS Group's financial target

The target for shareholder returns is translated into an internal financial target, return on capital employed (ROCE). The present ROCE target is 12% per year, calculated as an average over a business cycle.

Dividend policy

The boards of SAS's parent companies intend to apply a coordinated dividend policy, so that dividends for each SAS share are the same size when translated into one and the same currency.

Clear goals and action plans for continued success

SAS established a new corporate governance and a new share structure in 1997. These are now so similar to those of other listed Scandinavian companies that for all practical purposes they meet the justified requirements of the market with regard to simplicity and transparency.

The three parent companies of the Consortium no longer constitute an obscuring filter between SAS and the stock market. Each share in the three companies represents an equally large share in SAS and in this sense equivalence is achieved. Minor differences in tax legislation in the three countries may over time lead to marginal differences in value. The market has reacted positively to the new structure and the share prices of the three parent companies have clearly converged.

It is still desirable that further steps towards refinement of SAS's equity structure be tested. In this context it is important to continue with one SAS share in view.

The air transport market is now largely deregulated in all areas served by SAS. Competition has heightened to the extent where the basic conditions for airline operations have changed radically, from having been protected by regulation to functioning in the same manner as any other market-driven and freely competitive industry. This has led to rationalization measures and efficiency improvements which benefit customers, owners and in the long term even employees and other interests associated with the company. Another obvious effect is the emergence of alliances, with the purpose of achieving synergy gains. The cooperation between SAS and Lufthansa must be one of the most highly developed and profitable examples of this. Star Alliance has the prospect of developing along a similar path.

In my judgement we have as yet only seen the beginning of the restructuring measures induced by a tougher competitive climate and globalization. I also consider that those com-

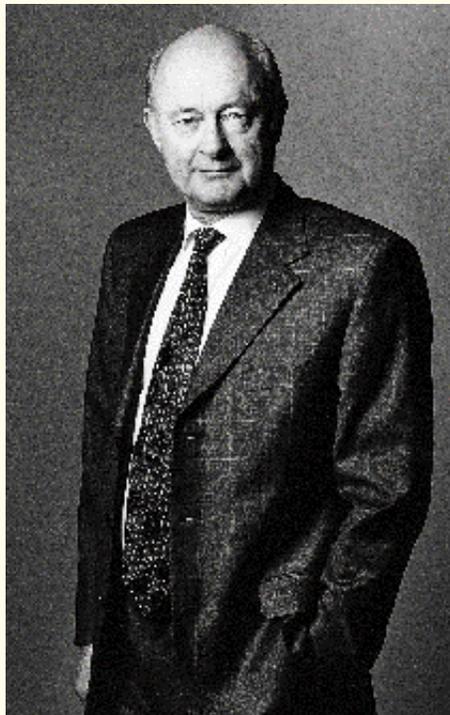
panies which are prepared to actively participate in this restructuring process and have the preconditions to do so can have the best possibilities for a prosperous future. The main preconditions are an established position of strength in the market, a sound financial position and good profitability. Other preconditions are a board and management, employees and shareholders, who are prepared to take on the challenge of positive change with a favorable basic approach. After the

developments of recent years, most of these preconditions already exist in SAS.

Despite the strong increase in competition the development of SAS has been relatively positive. This applies to the financial result as well as certain traffic-related key indicators. As a company in a highly competitive environment, SAS must naturally continue to work on its cost levels. During this period of dynamic change, the value increment for shareholders, which is the ultimate purpose of every company, has fully met the justified demands of investors.

Based on what has been described in brief above, the SAS board has approved a development plan which sets clear business goals as well as tangible action plans for the achievement of

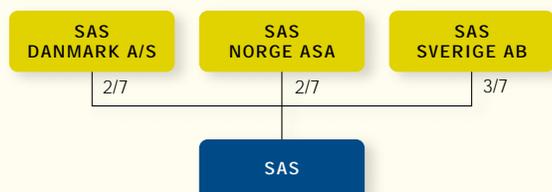
them. SAS management is not only characterized by forcefulness and devotion to purpose but also a large measure of realism. On behalf of the board I would like to extend a sincere thank you to the president and management team, as well as all the other SAS employees for their devoted and successful efforts during 1997.



STOCKHOLM, MARCH 1998

BO BERGGREN
CHAIRMAN OF THE BOARD

Greater market confidence



The process of harmonizing SAS's three parent companies, to give SAS a more distinct profile in the capital market through three comparable parent companies continued in 1997. The harmonization of SAS's three parent companies has been well received in Scandinavian and international capital markets. This can be seen through:

- Increased international ownership
- Rising trading volume
- Harmonization of share prices

SAS shares are listed on the stock exchanges in Copenhagen, Oslo and Stockholm respectively. The total number of outstanding shares is 164.5 million. These are distributed in accordance with SAS's ownership structure with 2/7 for SAS Danmark A/S, 2/7 for SAS Norge ASA and 3/7 for SAS Sverige AB.

SAS'S LARGEST SHAREHOLDERS

A total of nine shareholders own more than 5% of the shares in one of the three SAS parent companies. Together they own 78% of the total 164.5 million shares. Increased interest from international investors was noted in 1997. At year-end, international investors owned a total of more than 12%, representing an increase of approximately 50% over the previous year.

NUMBER OF SHARES

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

SAS'S LARGEST SHAREHOLDERS¹

DEC. 31, 1997, %	SAS Danmark A/S	SAS Norge ASA	SAS Sverige AB	No. of total	Accumul. of total
Swedish State	–	–	50	21.4	21.4
Danish State	50	–	–	14.3	35.7
Norwegian State	–	50	–	14.3	50.0
Investor AB (Sweden)	–	–	18.6	8.0	58.0
State Street Bank and Trust (nominees) ²	11.6	3.8	3.6	5.9	63.9
Föreningssparbanken mutual funds (Sweden)	–	–	11.1	4.8	68.7
Janus Capital Corporation (USA)	5.1	4.3	3.9	4.4	73.0
Odin Fondene (Norway)	–	7.4	1.1	2.6	75.6
Fred. Olsen & Co-selskapene (Norway) ³	–	8.6	–	2.4	78.1

¹ Shareholders with more than 5% of the shares in one of SAS's three parent companies at December 31, 1997. Distribution based on total number of shares in the SAS parent companies (164.5 million shares).

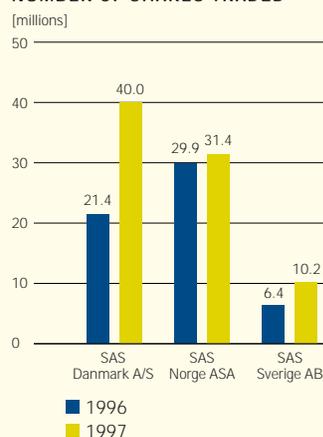
² Figures unconfirmed in the event of hidden statistics relating to foreign shareholders.

³ Fred. Olsen & Co-selskapene Bonheur ASA and Ganger Rolf ASA sold their entire shareholding on February 19, 1998.

TRADING VOLUME

A total of 81.6 million shares were traded on the three Scandinavian exchanges in 1997, an increase of 40% compared with 1996. A trading volume of 81.6 million shares in 1997

NUMBER OF SHARES TRADED

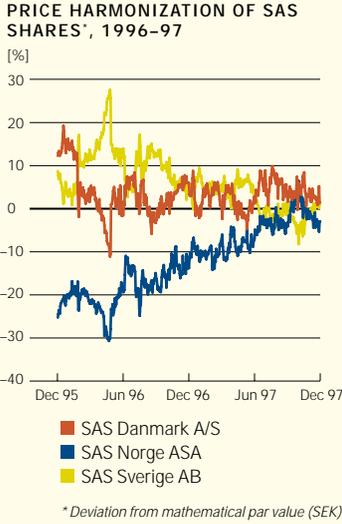


corresponded to a total turnover of 50% of total outstanding shares. Adjusted for state ownership in SAS, this corresponds to a total annual turnover rate of 100%.

The biggest increase in trading volume was noted on the Copenhagen Stock Exchange where trading rose by 87%. Rising trading volume could also be noted on the Stockholm Stock Exchange where turnover rose by 60%. The trading volume on the Oslo Stock Exchange was slightly higher than in 1996.

HARMONIZATION OF SHARE PRICES

The harmonization of the SAS parent companies in 1996 has led to a considerable adjustment of the parent companies' share prices. This trend started in 1996 and the share prices have converged further in 1997.



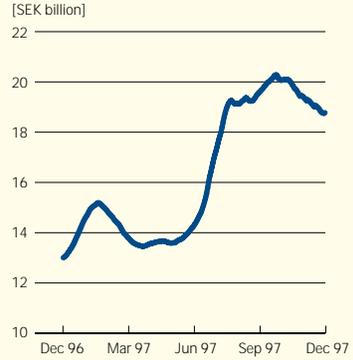
SAS SHARE PRICE TREND

SAS share prices rose sharply in 1997. SAS Danmark rose by 37%, SAS Norge by 49%, and SAS Sverige by 34%. The total market capitalization of the SAS shares rose from



MSEK 13,483 to MSEK 18,723, which corresponds to a 39% increase in market value in 1997. Dividends for the 1996 fiscal year were paid in 1997 totaling MSEK 493.5, corresponding to SEK 3 per share. This dividend corresponds to a dividend yield of 3.7% based on market value at December 31, 1996.

SAS SHARES TOTAL MARKET CAPITALIZATION, 1997



RETURN ON SAS SHARES OVER THE PAST 10 YEARS

SAS shares have provided an average annual return of 19% over a ten-year period (arithmetical average over 10 years). This return consists of changes in share prices and dividends. Return over this ten-year period is 20% for SAS Danmark, 24% for SAS Norge, and 16% for SAS Sverige.

SHARE PRICE TREND, SAS DANMARK A/S, 1988-97



SHARE PRICE TREND, SAS NORGE ASA, 1988-97



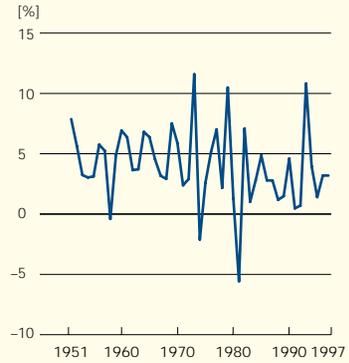
**SHARE PRICE TREND,
SAS SVERIGE AB, 1988-97**



MACROECONOMIC IMPLICATIONS

Growth in air traffic depends on economic growth and is therefore susceptible to economic fluctuations. Historically, a business cycle lasts for approximately five years.

**ANNUAL GDP GROWTH
IN SCANDINAVIA**



GOAL FOR SHAREHOLDER RETURNS

The SAS Group's goal is to provide its shareholders with a competitive return. This refers to yearly rise in the share price plus dividends. The aim is to give shareholders a return of 14% per year calculated as an average over a business cycle.

FINANCIAL TARGET

The target for shareholder returns is translated into an internal financial target, return on capital employed (ROCE). The present ROCE target is 12% per year, calculated as an average over a business cycle. The ROCE target is linked to prevailing interest rate and inflation levels and will therefore vary in line with these levels. Based on a debt/equity ratio (net debt: shareholders' equity) of 1:1 as an average over an investment cycle, this enables the target for shareholder returns to be met.

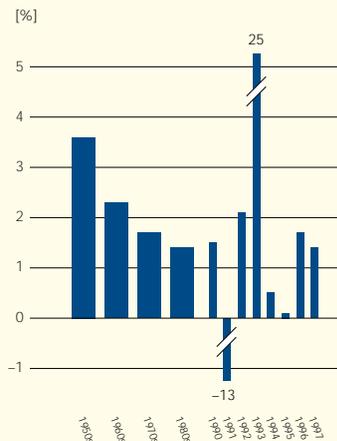
DIVIDEND POLICY

The boards of SAS's parent companies intend to apply a coordinated dividend policy, so that dividends for each SAS share are the same size when translated into one and the same currency.

The yearly dividend is decided taking the SAS Group's earnings trend, capital requirement and relevant economic factors into account.

Annual growth in the airline industry has historically averaged twice the growth in GDP, although this trend has abated in the 1980s and '90s. Given current macroeconomic prospects in markets relevant to SAS, this implies market growth for air traffic of 5-7% per year.

**INCREASE IN AIR TRAFFIC
IN RELATION TO GDP GROWTH**



AIRCRAFT ORDERS AND OPTIONS

FIRM ORDERS	1998	1999	2000	2001	2002
Boeing 737-600	10	17	10		5
Dash 8-400		7	8		
OPTIONS					
Boeing 737-600		2	5	16	11
Dash 8-400		2	16		

FUTURE INVESTMENTS

Investments in the next few years will mainly comprise a planned yearly expansion of approximately 4–5% and renewal of the existing aircraft fleet.

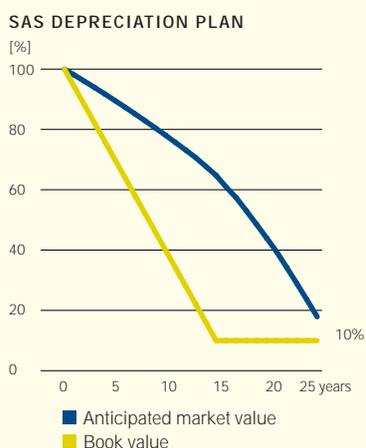
In 1998, SAS will start to renew its short and medium-haul fleet. Today the aircraft used in SAS's operations include DC-9-21/41s and Fokker F-28s. These will be replaced by B 737-600s, an investment program that will start in 1998 and continue through the year 2002. SAS's contract with Boeing totals 42 firm orders and 34 options.

Parts of the SAS Commuter fleet will also be replaced in 1999–2000. This investment program comprises firm orders for 15 Dash 8-400s and 18 options. At year-end there were 57 aircraft on firm order. The value of these, including spare parts, amounted to USD 1.5 billion.

DEPRECIATION METHOD FOR AIRCRAFT

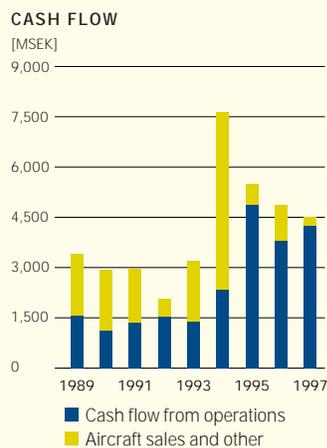
Since 1994 SAS has applied a depreciation method for aircraft where the acquisition value is depreciated over 15 years down to a residual value of 10%. The economic life of an aircraft is approximately 25 years. As a result of the change implemented in 1994 yearly depreciation of aircraft constitutes 6% of acquisition value. (The present depreciation accounting method used for aircraft follows the norm for the European airline industry.)

Since this depreciation method leads to a systematic difference between an aircraft's book value and anticipated market value, income from the sale of aircraft is regarded as an ordinary part of the company's cash flow.



CASH FLOW

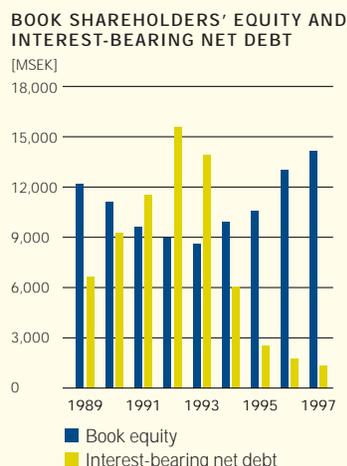
The trend for the SAS Group's cash flow during the past 10 years is shown below. The financial targets require a cash flow to be generated that covers expansion, renewal of the fleet, and dividends to shareholders.



FINANCIAL STABILITY

The investment program over the next five years is intended to be financed via cash flow from operations and through loans. SAS's present capital structure and development provides scope for increased loan financing within the limits of the stated debt/equity ratio.

In view of the financial stability of the SAS Group and expectations with regard to cash flow in future years, no need for additional share capital from the owners is anticipated over the next 3–5 years.



SAS Danmark A/S

Price Trend and Trading Volume

The price trend was highly positive during the year. At year-end 1997 the share price was DKK 100, a rise of 37%. The share price fluctuated between DKK 65 and DKK 119. A total of 40 million shares were traded during the year, an increase of 87% compared with 1996.

Distribution of Shares

The Danish Companies Act requires disclosure of shareholders who own 5% or more of the shares in a company. The Danish State owns 50% of the shares and Janus Capital Corporation (USA) owns 5.1%.

CHANGES IN SHARE CAPITAL

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

SHARE PRICE TREND, 1993–97



DATA PER SHARE¹

AMOUNTS IN DKK	1993	1994	1995	Pro forma ²	
				1996 IAS	1997 IAS
Key data per share					
Earnings (SAS Group)	-3.27	12.34	7.08	6.96	8.28
Cash earnings ³	–	–	–	18.81	18.72
Dividend (1997 proposed)	–	0.51	2.46	2.60	3.50
Dividend as % of earnings	–	4	35	37	42
Price-related data					
Market price at year-end	29	63	99	73	100
Low/high market price during the year	25/31	30/72	64/112	61/111	65/119
Average price during the year	31	55	86	82	90
Market capitalization/Shareholders' equity, % at year-end	68	155	194	118	148
Dividend yield ⁴ , %	–	0.9	2.9	3.2	3.9
P/E ratio ⁴	neg	4.5	12.2	11.8	10.9
P/CE ratio ⁴	–	–	–	4,4	4.8
Market capitalization, Dec. 31, MDKK	1,163	2,514	3,934	3,431	4,700
Yearly trading volume, millions	10.4	28.4	18.9	21.4	40.0

¹ Company accounts 1993–95, Group (IAS adjustment) pro forma accounts 1996–97.

² For information about pro forma accounts, see Harmonization of SAS's parent companies (IAS adjustment).

³ Cash from operations less paid tax.

⁴ Based on average price during the year.

Sources: Findata, Datastream, SAS.

SAS Norge ASA

Share Price Trend and Trading Volume

The share price trend was highly positive during the year. At year-end 1997, the share price was NOK 103, an increase of 49%. A total of 31.4 million shares were traded during the year, which was slightly higher than trading in 1996.

Shareholders

At the end of 1997, there were 2,447 shareholders 20 of whom own 89% of the share capital. The proportion of foreign shareholders decreased from 18% to 16%.

CHANGES IN SHARE CAPITAL

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

DISTRIBUTION OF SHARES

DEC. 31, 1997	Number of share-holders	% of all av share-holders	Number of shares	% of share-capital
1–500	1,877	76.7	235,267	0.50
501–1,000	221	9.0	165,270	0.35
1,001–10,000	241	9.9	754,894	1.61
10,001– 50,000	47	1.9	1,161,084	2.47
50,001–100,000	30	1.2	2,223,364	4.73
100,001–	31	1.3	42,460,121	90.34
Total	2,447	100.0	47,000,000	100.0

DATA PER SHARE¹

AMOUNTS IN NOK	1993	1994	1995	Pro forma ²	
				1996 IAS	1997 IAS
Key data per share					
Earnings (SAS Group)	–3.64	3.74	7.94	8.08	9.36
Cash earnings ³	–	–	–	19.63	19.74
Dividend (1997 proposed)	–	1.87	3.35	2.80	3.70
Dividend as % of earnings	–	50	42	35	40
Price-related data					
Market price at year-end	24	57	75	69	103
Low/high market price during the year	12/42	25/66	56/89	57/89	65/123
Average price during the year	24	52	71	72	88
Market capitalization/Shareholders' equity, % at year-end	38	89	109	101	139
Dividend yield ⁴ , %	–	3.6	4.7	3.9	4.2
P/E ratio ⁴	neg	13.9	8.9	8.9	9.4
P/CE ratio ⁴	–	–	–	3.7	4.5
Market capitalization, Dec. 31, MNOK	1,145	2,680	3,511	3,243	4,841
Yearly trading volume, millions	73.8	68.4	32.7	29.9	31.4

¹ Group accounts 1993–95, Group (IAS adjustment) pro forma accounts 1996–97.

² For information about pro forma accounts, see Harmonization of SAS's parent companies (IAS adjustment).

³ Cash from operations less paid tax.

⁴ Based on average price during the year

Sources: Findata, Datastream, SAS.

SHARE PRICE TREND, 1993–97



Source: SIX Findata

THE 10 LARGEST SHAREHOLDERS IN SAS NORGE ASA

DEC. 31, 1997	Number of shares	% of share capital
The Norwegian State	23,500,000	50.00
Fred. Olsen & Co-selskapene ¹	4,021,649	8.56
State Street Bank and Trust (nominees)	3,810,927	8.11
Odin Norden Aksjefondet	2,129,250	4.53
Storebrand Livforsikring	1,729,226	3.68
Odin Norge Aksjefondet	1,342,600	2.86
Morgan Guaranty Trust	1,332,751	2.84
Chase Manhattan Bank	645,806	1.37
Citibank, N.A., General Depot (nominees)	443,640	0.94
Verdipapirfondet Avanse	334,658	0.71

¹ Fred. Olsen & Co-selskapene Bonheur ASA and Ganger Rolf ASA sold their entire shareholding on February 19, 1998.

SAS Sverige AB

Share Price Trend and Trading Volume

The share price trend was highly positive during the year. At year-end 1997, the share price was SEK 115, an increase of 34%. A total of 10.2 million shares were traded during the year, an increase of 60% compared with 1996.

Shareholders

At the end of 1997, there were 2,847 shareholders 25 of whom own 93% of the share capital. The proportion of foreign shareholders rose from a small proportion to approximately 7%. The proportion of institutional investors was 80%.

CHANGES IN SHARE CAPITAL

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

DISTRIBUTION OF SHARES

DEC. 31, 1997	Number of shareholders	% of all shareholders	Number of shares	% of share capital
1–500	2,433	85.4	334,981	0.5
501–1,000	216	7.6	187,968	0.3
1,001–10,000	126	4.4	336,845	0.5
10,001–50,000	26	1.0	686,715	1.0
50,001–100,000	9	0.3	664,676	0.9
100,001–	37	1.3	68,288,815	96.8
Total	2,847	100.0	70,500,000	100.0

DATA PER SHARE¹

AMOUNTS IN SEK	1993	1994	1995	Pro forma ²	
				1996 IAS	1997 IAS
Key data per share					
Earnings (SAS Group)	2.75	13.79	13.32	9.42	10.13
Cash earnings ³	–	–	–	22.30	23.15
Dividend (1997 proposed)	–	2.50	3.00 ⁴	3.00	4.00
Dividend as % of earnings	–	18	23 ⁴	32	39
Price-related data					
Market price at year-end	35	80	120	86	115
Low/high market price during the year	25/48	36/86	70/119	80/145	83/125
Average price during the year	39	63	92	101	102
Market capitalization/Shareholders' equity, % at year-end	56	108	127	118	143
Dividend yield ⁵ , %	–	4.0	3.3	3.0	3.9
P/E ratio ⁵	14.2	4.6	6.9	10.7	10.1
P/CE ratio ⁵	–	–	–	4.5	4.4
Market capitalization, Dec. 31, MSEK	2,468	5,640	8,460	6,063	8,108
Yearly trading volume, millions	1.7	0.7	0.3	6.4	10.2

¹ Group accounts 1993–95, Group (IAS adjustment) pro forma accounts 1996–97.

² For information about pro forma accounts, see Harmonization of SAS's parent companies (IAS adjustment).

³ Cash from operations less paid tax.

⁴ One-time dividend of SEK 24.30 not included, remains here in equity respectively.

⁵ Based on average price during the year.

Sources: Findata, Datastream, SAS.

SHARE PRICE TREND, 1993–97



Source: SIX Findata

THE 10 LARGEST SHAREHOLDERS IN SAS SVERIGE AB

DEC. 31, 1997	Number of shares	% of share capital
The Swedish State	35,250,000	50.0
Investor AB	13,132,980	18.6
Föreningsparbanken mutual funds	7,844,200	11.1
State Street Bank and Trust (nominees)	2,564,109	3.6
LO	1,805,500	2.6
Trygg Hansa Försäkring	1,286,947	1.8
SPP	1,141,660	1.6
SHB's mutual funds	789,174	1.1
Odin Fondene	775,300	1.1
Skandia AB	709,000	1.0

Continued harmonization of SAS 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. Previously, such valuations were made difficult and affected by a complex corporate and ownership structure, and differences in the parent companies' operations, equity, tax situation, and accounting principles. A harmonization program was implemented in 1996 to improve comparability between the parent companies, and facilitate an effective valuation of them and thus, indirectly, of SAS as well. The ultimate aim is to strengthen SAS's position in the capital market.

Basic Structure of SAS

The activity of the parent companies is to manage their participations in SAS.

The earnings of the SAS Consortium and the SAS Commuter Consortium are taxed in the three parent companies in proportion to their participations in the consortia. Each parent company makes provisions 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 apply different accounting principles. As a result of these circumstances, the parent companies report different earnings and shareholders' equity.

Harmonization of SAS's Parent Companies

To reduce differences and increase comparability between SAS's parent companies, facilitate effective valuation of their shares, and improve SAS's ability to attract risk capital on attractive terms, the following program was mostly completed in 1996:

- Harmonization of accounts.
- Harmonization of equity and share capital structure.
- Joint dividend policy.
- Harmonization of company names and management.
- Streamlining of parent companies' operations

This gives SAS a more distinct value, which facilitates analysis and valuation of the shares in the parent companies.

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.

Joint Accounting Documents

SAS and the parent companies issue joint annual reports and interim reports.

In addition to the official accounts, these documents also contain calculations of how the financial statements would have appeared if they had been prepared applying the same accounting principles (pro forma accounts).

PRO FORMA ACCOUNTS FOR SAS'S PARENT COMPANIES

Shareholders' equity on a pro forma basis is derived from the respective parent company's equity in the company accounts and shall reflect their participations in the entire SAS Group. Summary balance sheets and statements of income and on a pro forma basis (participation in the entire SAS Group, joint principles and in Swedish kronor) are then as shown below.

Assets comprise participations in SAS and liquid assets (which are placed in SAS). Liabilities mainly comprise tax liabilities and equity. The differences between the parent companies are mainly attributable to the tax situation in the respective company and are an effect of differences in national tax legislation.

PRO FORMA SHAREHOLDERS' EQUITY, DEC. 31, 1997

	SAS Danmark A/S MDKK	SAS Norge ASA MNOK	SAS Sverige AB MSEK
Shareholders' equity according to company accounts	2,984	3,571	1,622
Share in SAS subsidiaries/ affiliated companies	186	200	322
Equity portion of untaxed reserves	–	–	3,648
Revaluation of aircraft	–	–276	–
Timing differences	–	–	73
Pro forma shareholders' equity, local currency	3,170	3,495	5,665
Pro forma shareholders' equity, MSEK	3,673	3,747	5,665

PRO FORMA BALANCE SHEETS, DEC. 31, 1997

MSEK	SAS Danmark A/S	SAS Norge ASA	SAS Sverige AB
Liquid assets, etc.	832	331	1,511
Other current assets	17	–	–
Participation in the SAS Group	4,069	4,069	6,103
Other fixed assets	–	2	1
Total assets	4,918	4,402	7,615
Taxes payable	–	129	248
Other current liabilities	190	192	334
Long-term liabilities	–	–	23
Deferred tax	1,055	334	1,345
Shareholders' equity	3,673	3,747	5,665
Total shareholders' equity and liabilities	4,918	4,402	7,615

Differences in earnings are mainly attributable to interest income as a result of different cash in hand (an effect of differences in deferred tax). Taxes pertain both to estimated taxes payable and increase in deferred tax, while negative tax indicates a counter item to previously reported tax liabilities, or alternatively a tax receivable to be offset against taxes on future profits.

PRO FORMA STATEMENTS OF INCOME, JAN.–DEC. 1997

	SAS Danmark A/S	SAS Norge ASA	SAS Sverige AB
Share of the SAS Group's income (before tax), MSEK	637	637	957
Share of the SAS Group's income (before tax), local currency	551	590	957
Other income items	-4	-4	-7
Net financial items	19	2	46
Income before taxes	566	588	996
Taxes	-177	-148	-282
Net income, local currency	389	440	714
Net income, MSEK	450	475	714

KEY FIGURES

	SAS Danmark A/S	SAS Norge ASA	SAS Sverige AB
Earnings per share, local currency	8.28	9.36	10.13
Earnings per share, SEK	9.57	10.11	10.13
Equity per share, local currency	67.45	74.36	80.35
Equity per share, SEK	78.15	79.72	80.35

Joint Dividend Policy

The three listed parent companies apply a joint dividend policy, which results in dividends per share of the same amount following translation to a common currency. Dividends from the 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, certain changes have also been made in the parent companies' management structure and in the function and composition of the SAS Assembly of Representatives.

- The President and CEO of SAS is also president of each one of the parent companies.
- The Assemblies of Representatives in SAS Danmark and SAS Norge have been abolished.
- The board of each parent company has been reduced to four regular members, with the chairman and vice chairman of each board constituting the SAS Board.

- Members of the SAS Assembly of Representatives are directly appointed by the parent companies' annual general meetings. These members cannot be members of the SAS Board or the parent companies' boards at the same time. In this manner, shareholders in the parent companies, through the SAS Assembly of Representatives, acquire a more real control over SAS's operations corresponding to that exercised by the shareholders' meeting of a limited liability company.

TAX CONDITIONS

General

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 Denmark in 1997 is 29%. The essential differences in taxation are described below.

Denmark

Tax deductions are allowed for depreciation of machinery and equipment of 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, provided delivery takes place after four years at the latest. Advance depreciation may be accumulated to a maximum of 30% of acquisition value and in a maximum of 15% per year.

Capital gains on the sale of machinery and equipment are taxed through lower future depreciation.

Pension costs may not be deducted until payment is made. Provisions for aircraft maintenance may not be deducted for tax purposes until such maintenance has been carried out.

Norway

In Norway, a deduction for tax purposes may be made for aircraft of 12% of fiscal residual value and for other machinery and equipment by 20–30%. 20% of capital gains from the sale of aircraft is recognized as income in the year of the sale. In future years, 20% of the remaining balance is recognized as income. Pension costs and aircraft maintenance may only be deducted for tax purposes at payment/implementation.

Sweden

In Sweden, deductions for tax purposes for depreciation on machinery and equipment are based on a yearly estimate of the lowest fiscal residual value:

- According to the 30% rule (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% rule (supplementary rule) the lowest residual value is calculated as acquisition value minus 20% depreciation on this in each year of possession.

These methods may be exchanged between years.

Provisions to a so-called tax allocation reserve may be made of 20% of taxable income for the year. This provision must be reversed within five years.

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

Financial key figures

SAS GROUP, MSEK

INCOME STATEMENTS	1997	1996	1995	1994	1993
Operating revenue	38,928	35,189	35,403	36,886	39,122
Operating income before depreciation	4,118	3,668	4,761	3,404	2,032
Depreciation	-1,880	-1,851	-1,840	-2,000	-1,782
Shares of income of affiliated companies	61	-15	72	-13	-1
Income from the sale of shares in Group and affiliated companies	1	-	6	869	511
Income from the sale of aircraft and buildings	83	100	83	12	45
Operating income	2,383	1,902	3,082	2,272	805
Net financial items	-152	-85	-448	-668	-1,313
Income after financial items	2,231	1,817	2,634	1,604	-508

BALANCE SHEETS

Fixed assets	23,000	20,784	19,345	20,904	24,566
Current assets, excl. liquid assets	4,812	4,036	3,477	3,670	9,973
Liquid assets	9,817	11,050	10,078	10,725	9,318
Shareholders' equity	14,241	13,030	10,588	9,355	8,631
Long-term liabilities and provisions ¹	12,209	13,218	11,750	15,971	22,741
Current liabilities	11,179	9,622	10,562	9,973	12,485
Total assets	37,629	35,870	32,900	35,299	43,857

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Net financing from the year's operations	4,256	3,814	4,881	2,338	1,377
Investments	-3,256	-4,202	-1,399	-1,391	-1,141
Sale of fixed assets, etc.	252	1,066	619	5,305	1,852
Funds paid to parent companies	-844	-1,150	-591	-	-
Capital contribution from parent companies	-	1,400	-	-	-
Financing surplus	408	928	3,510	6,252	2,088
External financing, net	-1,641	44	-4,157	-3,872	-2,469
Change in liquid assets	-1,233	972	-647	2,380	-381
Liquid assets in sold companies	-	-	-	-973	-130
Change in liquid funds according to balance sheets	-1,233	972	-647	1,407	-511

¹ Including minority interests.

FIVE-YEAR-SUMMARY

KEY RATIOS, %	1997	1996	1995	1994	1993
Gross profit margin	10.6	10.4	13.5	9.2	5.2
Return on capital employed (ROCE)	11.6	10.6	15.6	10.5	8.7
Return on equity after standard tax	11.4	10.9	18.5	10.0	–
Equity/assets ratio	38	37	32	27	21
OTHER FINANCIAL DATA, MSEK	1997	1996	1995	1994	1993
Financial income	674	745	1,011	933	2,402
Financial expenses	-826	-830	-1,459	-1,601	-3,715
Interest income	648	740	1,002	904	1,550
Interest expenses	-790	-859	-1,287	-1,623	-2,839
Interest-bearing assets	10,763	11,622	10,391	11,363	10,515
Interest-bearing liabilities	12,108	13,376	12,935	17,417	24,403
Net debt	1,345	1,744	2,544	6,054	13,888
Interest expenses/average gross debt, %	6.1	6.6	8.3	7.7	9.9
Interest coverage ratio	3.7	3.2	2.8	2.0	0.9
Debt/equity ratio	0.1	0.1	0.2	0.6	1.6

A successful offensive in a tough competitive climate

The year 1997 was very much a year in which we took the offensive, in which SAS showed itself capable of operating successfully in a fully competitive environment.

Competition certainly intensified during the course of the year. Our established European colleagues considerably increased their production on Scandinavia, while at the same time new local competitors and international low-fare airlines entered the arena on our most profitable routes. We succeeded in meeting all this competition with a very strong timetable with optimal connections in our partner network, with an offensive approach to pricing and major as well as minor product innovations.

The most important business event of the year was without doubt the formation of Star Alliance. SAS began an intensive strategic cooperation with Lufthansa, United Airlines and THAI back in 1996 which was extended in 1997 to include Air Canada. In May, 1997, the cooperation was formalized under the name Star Alliance and was further extended in October with the Brazilian airline, Varig.

STRATEGIC ALLIANCE PROVIDES MAJOR EARNINGS BOOST

Star Alliance is the world's most highly developed airline alliance. Together we offer more than 600 destinations in an unequalled traffic system. During the year, our customers have enjoyed a constantly improving traffic program, a number of practical benefits in connection with their travel – such as comprehensive lounge privileges for our most frequent customers – and a fully integrated frequent flyer program in which points can be earned and redeemed with the same conditions as on SAS.

The alliance and frequent flyer program are undoubtedly two of our most important competitive advantages.

SAS has played an active and dynamic role in the formation and development of the alliance. When we evaluated the question of partnership in our strategic analysis, our aim from the outset was a highly developed, global cooperation. Amid several possible alternatives, with its strategic partners, Lufthansa was considered by far the best. The cooperation with Lufthansa was approved by the European Commission in January 1996, and the United/Lufthansa/SAS constellation was granted antitrust immunity in the U.S in November of the same year.

The cooperation within Star Alliance provided an earnings contribution of MSEK 325 for SAS in 1997. This includes

both increased transfer revenues and the effects of efficiency improvements, until now mainly derived from the joint sales and ground service organizations set up by SAS and Lufthansa in their respective home markets. Over a 3–5 year period, the participation in Star Alliance should generate an earnings improvement equivalent to 5% of SAS's operating revenue. For 1998, we expect increased transfer traffic to have a positive effect on earnings of at least MSEK 500.

FIRM GRIP ON THE LOCAL MARKET

The most important thing an airline takes with it into an alliance is its position in the home market. During the past year SAS has consolidated and developed its position in the local market – Scandinavia and the Baltic region.

1997 was the first year in which SAS faced serious competition on the so-called Capitals Triangle (Copenhagen–Oslo–Stockholm). We have been very successful in meeting the new competitors, and have a much higher market share (paid utilized capacity) than production share (total capacity offered). On the Capitals Triangle, our traffic has increased during 1997 but our market share has naturally decreased, since we started with almost 100%.

We have greatly increased our operations on Finland, which we

now consider part of our home market. During the year a new commuter base was established in Stockholm. Operations from this base include services to a number of smaller destinations in Finland with the new SAAB 2000.

We have also strengthened the local networks through an extended cooperation with regional partners – Cimber Air in Denmark, Widerøe in Norway, Skyways in Sweden. Air Botnia in Finland and part-owned airBaltic in Latvia. Late in 1997 SAS became a part-owner of Widerøe (29% with an option for an additional 34.2%) and in January 1998, acquired Air Botnia.

To be able to expand commuter traffic, SAS ordered 15 turboprop aircraft of the completely new type Dash 8-400 during the year, with an option for an additional 18 aircraft.

PROFITABILITY GOAL ACHIEVED

The earnings trend for the SAS Group during recent years shows that the goal of 12% return on capital employed (ROCE) is a realistic profitability goal. It has been formulated



to be feasible in the long term and is calculated as an average for a business cycle. In 1997 ROCE was 12%, compared with 11% for 1996 and 16% for 1995.

As always, a positive end result is achieved through optimization of revenues and costs. This is not as trivial as it sounds.

During 1995 we carried out a comprehensive cost rationalization program, which although it led to a very favorable result for the year in question, affected product quality. This in turn had a negative impact on customer service and thereby revenue generation. During 1996 we strengthened our resources again, which increased our total costs.

During 1997 we have achieved a good balance, and appear to be on the right path in relation to long-term development.

Group operating revenue increased by 7.6%, while total operating expenses increased by 7.1% (both adjusted for currency effects). The gross profit margin rose from 10.4% to 10.6%.

Both operating areas of the SAS Group – airline and hotels – were successful in 1997. The pre-tax profit of the SAS Group in 1997 was MSEK 2,231 (1,817).

UNCHANGED YIELD, BETTER CAPACITY UTILIZATION

The operating efficiency of the airline business is achieved by optimizing unit revenue (yield), i.e. what we receive in payment per flown passenger kilometer, and unit cost, i.e. what it costs to produce a seat kilometer – in relation to conditions in the market.

In 1997 we succeeded in retaining our yield, which is quite a feat considering the tough competitive and pricing situation during the year. At the same time we showed a slight negative development in unit cost. This increased by 1.6%, which is, however, a reduction in real terms. The cost increase is mainly associated with strategic product development projects and personnel costs. On the other hand, the cost increase has been compensated by a higher cabin factor, which rose by 1.3 percentage points to 64.9%.

The maintained yield and increased cabin factor show that SAS has largely handled the intensifying competitive situation very well, but this has had its price.

The average number of employees in the SAS Group increased during the year by 6.1% to 25,057. In the airline operation, the close on 1,200 new employees contributed to our ability to deliver a higher level of service quality to our customers. On the other hand, the increased personnel costs mean that we did not achieve the productivity improvements which were our goal for the year.

A comprehensive rationalization program was initiated during the year. Within distribution and technical maintenance, the changes are of a structural nature. These will give tangible gains through increased efficiency during 1998.

CONCERTED EFFORT TO SECURE MUTUAL UNDERSTANDING

1997 was in many ways a fateful year for SAS – mainly because the full effect of deregulation made itself felt. The Company would naturally not have performed so well had it not been for the favorable climate of close mutual understanding between management, trade union organizations and employees regarding goals and resources. The mutual understanding model contributed to the almost total absence of conflicts during the year, and to a high level of self-confidence throughout the organization. Our internal surveys show that the working climate has been significantly improved. That employees feel contented and are highly motivated is a prerequisite for product quality in every service company.

Our actual quality improved considerably during 1997. But despite the fact that SAS continues to be one of Europe's most punctual airlines, punctuality has not met our high goals for the second half of the year. This was mainly due to capacity problems at Stockholm-Arlanda and in the European airspace, but to some extent also to ourselves. We have therefore set up a new Traffic Execution Department, in which the necessary resources have been gathered to enable us to perform 1,000 flights a day with a high degree of precision.

THE OFFENSIVE CONTINUES

We are aiming very high in 1998, with the goal of performing so well during the year that we can be assessed as Europe's best airline. At the beginning of the year we launched our new leisure travel concept – SAS Pleasure. This is a comprehensive and varied program, partly aimed at providing our customers with a complete range of air travel products, partly aimed at filling unutilized capacity in our aircraft.

Several major projects will be undertaken during the year, not least the opening of new terminals in Oslo and Copenhagen and renewal of the aircraft fleet, which will really gain momentum during the autumn. The fact is that 1998 will be the most eventful and offensively oriented year in SAS for some time. We therefore see a need to manifest and underline the new SAS in a way which confirms and unifies all the product improvements to be successively introduced. A manifestation of this kind will therefore be made.

All in all, the general outlook for 1998 is positive and gives favorable conditions for continued positive development. The two first months have lived up to these expectations, and despite the fact that many projects and investments are being made during the year, the operating result is expected to be on a par with 1997.

“The cooperation within Star Alliance has provided an earnings contribution of MSEK 325 for SAS during 1997.”

STOCKHOLM, MARCH 1998

JAN STENBERG
PRESIDENT AND CEO SAS GROUP

Customer goals in focus 1998

The SAS business concept is to serve the Scandinavian market profitably with a wide choice of airline-based travel products that will be preferred in the market, with special emphasis on business travel.

VISION – ALL SCANDINAVIANS SHOULD BE PROUD OF THEIR AIRLINE

Visions are usually expressed in terms of “biggest, best and leading.” We have chosen to create one based on how our customers and the market perceive us, and the relationship we want them to have to the SAS brand.

The SAS vision is that “all Scandinavians should be proud of their airline – SAS”.

SAS OVERALL CUSTOMER GOAL

The customer goal is that “all customers should want to travel with SAS again.”

Inclination to repurchase – the expressed intention of customers to travel with SAS again next time – is measured on a continuous basis against an index. Inclination to repurchase increased during the year from 75 to 79 (see pages 48–49 for more information). We can say, then, that we are moving in the right direction, but still have a way to go before our long-term goals have been achieved.

We measure the way SAS is perceived and judged by customers on a continuous basis (see also Brand Equity, pages 48–49) – partly through a Customer Satisfaction Index (CSI). This index has increased from 65 to 70 during the year. This means that SAS achieved its CSI goal for 1997. The goal for 1998 has been set at 74.

The customer goal shall be achieved through constantly improving performance in two main areas:

- things should always run smoothly on SAS (basic quality),
- traveling with SAS should always be a pleasure (service product).

We have translated the aim that things should always run smoothly on SAS into some of the toughest internal goals for basic quality in the industry:

- No accidents or serious incidents.
1997 result: goal achieved.
- Maximum 1% canceled flights.
1997 result: 1%. Goal achieved.
- Maximum 7% flights delayed by more than 15 minutes.
1997 result: 12%. Goal not achieved.
- Maximum 25% flights delayed by more than 2 minutes.
1997 result: 36%. Goal not achieved.
- Maximum 5% of our customers should wait for an answer from our telephone reservations for so long that the call is lost. 1997 result: 10%. Goal not achieved.
- Maximum 0.4% of baggage should be delayed/damaged.
1997 result: 0.58%. Goal not achieved.

It is a fact that SAS has not achieved several of its internal goals with regard to basic quality.

We have translated the aim that traveling with SAS should

BUSINESS CONCEPT

The SAS business concept is to serve the Scandinavian market profitably and provide a wide choice of airline-based travel products that will be preferred in the market, with special emphasis on business travel.

VISION

To make all Scandinavians proud of their airline – SAS.

OVERALL GOALS

- The customer goal is that “all customers shall want to travel with SAS again”.
- The marketing goal is that SAS should be the clear market-leading airline in each Scandinavian country.
- The personnel goal is that all the positive resources of employees should be released in the realization of SAS.
- The profitability goal is that SAS should be operated with a level of profitability that satisfies the requirements of its owners with regard to return on capital.

always be a pleasure into a number of qualitative goals for customer perception. Some of these are also measured in our customer surveys.

In general, we can state that during the year we have succeeded in improving customer perceived quality in many areas, e.g. inflight meal service, even in comparison with competing airlines, but that much remains to be done before the goal is achieved.

Achievement of our customer goals is fundamental to long-term profitability in SAS and customer goals have therefore been given the highest priority during 1998.

THE OVERALL MARKET GOAL

The market goal is that SAS should be the clear market-leading airline in each Scandinavian country.

During the year we have largely been successful in defending our position on the home market – i.e. the share of total airline operations to, from and within Scandinavia.

A new system for the measurement of SAS's market shares was introduced during the year, to enable improved follow-up of marketing goals.

THE OVERALL PERSONNEL GOAL

The personnel goal is that all the positive resources of employees should be released in the realization of SAS, with the result that employees develop and feel satisfaction in their work.

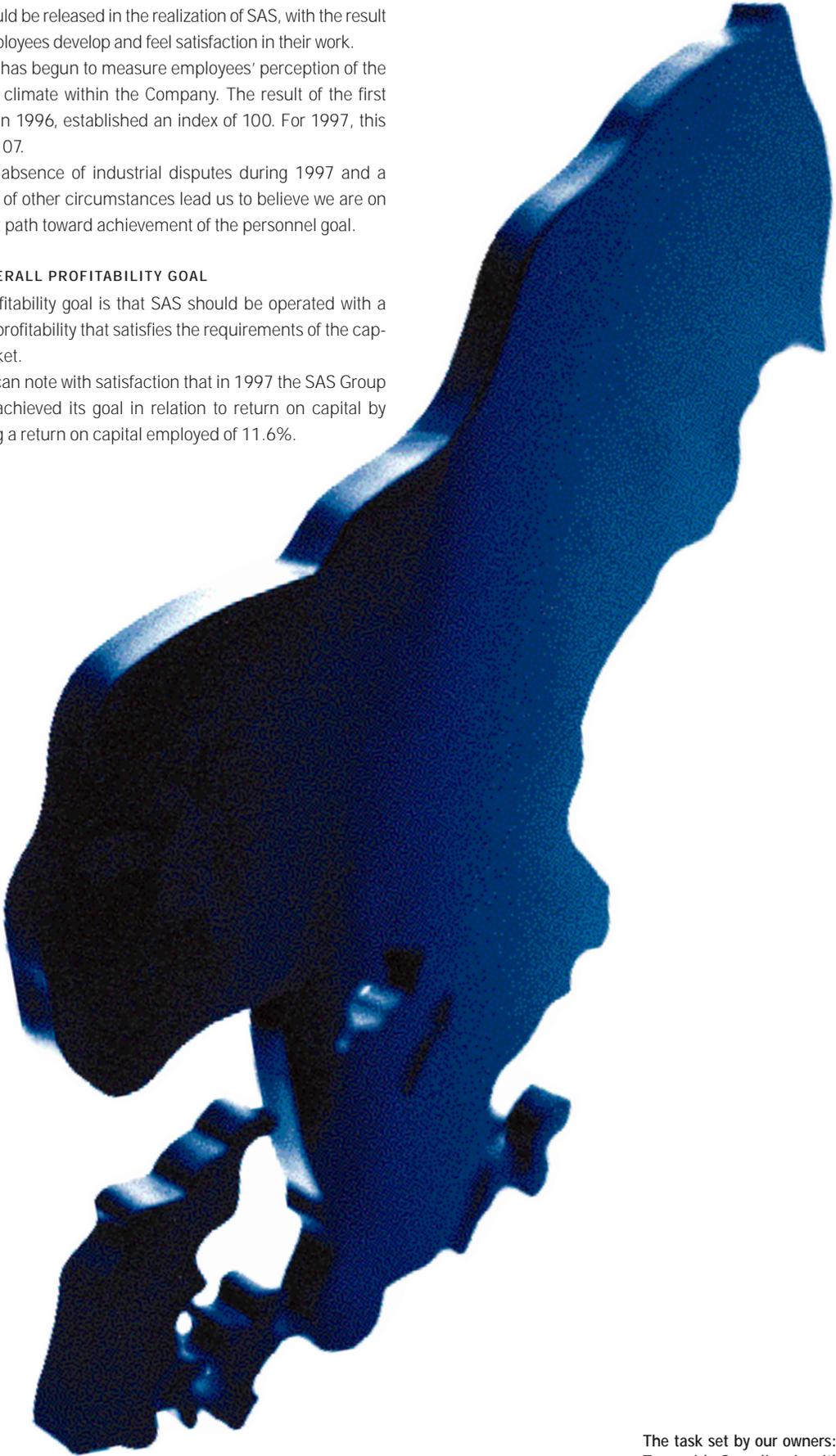
SAS has begun to measure employees' perception of the working climate within the Company. The result of the first survey, in 1996, established an index of 100. For 1997, this rose to 107.

The absence of industrial disputes during 1997 and a number of other circumstances lead us to believe we are on the right path toward achievement of the personnel goal.

THE OVERALL PROFITABILITY GOAL

The profitability goal is that SAS should be operated with a level of profitability that satisfies the requirements of the capital market.

We can note with satisfaction that in 1997 the SAS Group largely achieved its goal in relation to return on capital by securing a return on capital employed of 11.6%.



The task set by our owners:
To provide Scandinavia with
air services, profitably.

Severe competition on one of Europe's most intensive airline markets

The deregulation of the airline market in Europe became complete in April, 1997, with the introduction of total freedom for EES airlines (EES = EU plus Norway and Iceland) to operate even domestic traffic anywhere in the EES.

The airline market was dynamic during 1997, with total traffic growth within the AEA (Association of European Airlines) of 9.3%.

The global economic conditions for the airline industry are largely favorable for the period 1998–2001. Historically, there is a clear correlation between airline traffic and general economic development, with airline traffic growing at a faster rate than the rest of the economy. Another clear trend is that leisure travel is increasing at a faster rate than business travel.

SAS is heavily dependent on the domestic economic situation in the Scandinavian countries. The forecast for the coming years is favorable.

Developments in the Far East will have a dampening effect on air traffic in general and international crises can have a serious negative influence on the airline market.

SCANDINAVIA IS A VERY INTENSIVE AIRLINE MARKET

Scandinavia covers a vast area with partially difficult terrain and a great deal of water. This, together with a geographical situation on the perimeter of Europe, create a need for air transportation services to and from as well as between and within the Scandinavian countries and makes flying competitive in relation to alternative means of transport. Strong trading traditions and people who are used to flying makes Scandinavia an intensive and attractive airline market despite having what in European terms is a relatively small population.

– which specialize on selected routes and often compete with low fares.

Attention in the media focuses mainly on new, small competitors. But the major threat towards SAS comes from the established airlines, who have increased their operations on Scandinavia dramatically in recent years.

We thus face competition from three sides. The major, international airlines who can compete on a broad front with global networks, good inflight products and their own effective frequent flyer programs. The low-fare airlines and new local players respectively, who enter selected, attractive routes.

SAS faces increased competition on traffic to and from Scandinavia, mainly from British Airways and Finnair, which entered into a cooperation during the year and from KLM, which acquired a 30% stake in Braathens during the year. Competition became much tougher on the routes to London through the expansion of low-fare airlines such as Ryanair, which commenced operations on Scandinavia during 1997. This development will continue during 1998 through British Airways' planned launch of a low-fare airline under the name "Go".

The Capitals Triangle – Copenhagen–Oslo–Stockholm – is the heart of the SAS traffic system and was exposed to considerably tougher competition during the year.

Braathens commenced operations on the Stockholm–Oslo route at the end of 1996 and Maersk opened frequent services on the Stockholm–Copenhagen route in cooperation with Finnair at the end of April 1997. SAS has met this competition successfully through a mix of product innovations, such as SAS Express, and pricing measures. SAS accounted for 75% of the production (ASK) on these routes during the year but gained 85% and 90% of the traffic (RPK) respectively.

POPULATION (MILLIONS)		NUMBER OF AIRLINES WITH SCHEDULED SERVICES	
Germany	82	Scandinavian	26
United Kingdom	58	British	22
Italy	58	French	21
France	57	German	15
Spain	40	Spanish	10
Scandinavia	18	Dutch	8
Netherlands	15	Italian	7

MAJOR CHANGES IN INFRASTRUCTURE

Changes in infrastructure influence the development of SAS. A continued expansion of the high speed train network, as well as improved bridge links primarily within Denmark and between Denmark and Sweden, will divert traffic from air travel. The bridge across the Great Belt will open for road traffic in 1998, which means that road transportation will become a much more significant competitor to domestic air routes in Denmark.

The new rail terminal at Copenhagen Airport will be inaugurated at the end of September 1998, and in connection with this SAS will open new check-in facilities and lounges. The bridge across the Ore Sound will be completed during the year 2000, with among other things a rail link between Malmö and Copenhagen. This will influence air traffic be-

INTENSE COMPETITIVE PRESSURE

All the major European airlines now operate on Scandinavia, and also a number of minor airlines – local and international

tween Malmö and Copenhagen, which in turn influences air traffic in southern Sweden. SAS's own new terminal will be inaugurated in the year 2002.

In October 1998, Oslo's new main airport, Gardermoen, will be opened. This will have a positive effect on traffic development, since Fornebu airport has had capacity problems. Stockholm-Arlanda airport has also faced capacity problems, which have led to limitations on production and interruptions of traffic – one result of this for SAS has been a negative effect on punctuality. Arlanda's third runway will open in 2002, at the same time as the planned closure of Bromma Airport.

INCREASED SAFETY

Capacity in the European airspace represents another problem. Airspace is heavily trafficked and the communications system is old, which leads to delays. Despite virtually unlimited space in the air, aircraft queue in "motorways" and navigate using ground-based beacons in order to maintain a high level of safety.

Together with the Scandinavian civil aviation authorities and Lufthansa, SAS has developed a new navigation system, CDTI (Cockpit Display of Traffic Information), which can revolutionize utilization of airspace and also increase air safety. The new system, which is based on a Swedish invention, permits aircraft to fly a straighter path between destinations. A computer screen placed between the pilots on the flight deck indicates other aircraft within a radius of 250 nautical miles. The fact that the pilots can monitor the traffic around them at all times and communicate efficiently with air traffic control and other aircraft increases safety. The technology can also shorten flying times and thus save fuel and reduce environmental impact.

INDUSTRY TRENDS

The most important trend in the industry is the establishment of close strategic alliances, linking European, American and often Asian airlines in global traffic networks, in which the positive effects of synergy within marketing, revenue generation and production costs are sought and realized. The antitrust authorities in Europe and the USA are holding back part of this development.

Global competition is heightened, when a number of very powerful constellations invest major resources in the battle for customers. Increased competition leads to pressure on prices. The general trend in the airline industry for a number of years now has been that unit revenues have increased at a slower rate than inflation, which means that air fares are going down in real terms.

The importance of the frequent flyer program as a competitive means is steadily increasing (see page 36).

New production forms such as franchising, often through a regional airline flying on behalf of a larger airline – e.g. Sunair for British Airways in Denmark – also represent an industry trend which must be watched carefully.

Environmental charges and/or environmental taxes will play an increasing part in the business conditions of the airlines (see page 54). Increased passenger fees in Denmark from January 1, 1998, will cause additional traffic dilution from domestic air services to other forms of transportation. Duty-free sales will cease within the EU on July 1, 1999, which influences the business of SAS Trading (see page 40).

LARGEST AIRLINE ALLIANCES IN THE WORLD

	Operating revenue (MUSD)	Employees
Star Alliance		
SAS – Lufthansa – United Airlines – THAI – Air Canada – Varig	46,000	231,000
BA/American Group		
British Airways – American Airlines – Qantas – Iberia/Aviaco and others	45,400	247,000
Air France Group		
Air France – Alitalia – Continental – America West Airlines	24,100	116,000
Swissair Group		
Swissair – Sabena – Austrian Airlines – Delta and others	23,500	96,000
KLM/Northwest Group		
KLM – Northwest – Martinair – Air UK and others	17,600	83,000

Source: Airline Business September 1997

12 MOST PROFITABLE AIRLINES IN THE WORLD, 1996

Reported operating income	Reported profit	Operating income as % of operating revenue
American Airlines	American Airlines	Singapore Airlines
United Airlines	British Airways	Cathay Pacific
Northwest	Singapore Airlines	Northwest
British Airways	Northwest	American Airlines
Federal Express	United Airlines	Southwest
Singapore Airlines	Cathay Pacific	SAS
Delta	Lufthansa	Continental
Continental	Continental	United Airlines
Cathay Pacific	Federal Express	British Airways
SAS	US Airways	Federal Express
US Airways	Delta	US Airways
Southwest	SAS	Qantas

Source: Airline Business September 1997

Favorable development on the main markets

During 1997 SAS transported 20.8 (19.8) million revenue passengers. The traffic – i.e. the sold capacity, measured in RPK – on all SAS routes increased during 1997 by 4.4% (5.3). Production – i.e. the capacity offered, measured in ASK – increased by a mere 2.2% (7.7).

This means that SAS cabin factor increased during the year by 1.3 percentage points to 64.9%.

EuroClass traffic increased by 4.8% (3.6) and Tourist Class traffic by 4.2% (6.1). The EuroClass share, measured in share of RPK as a percentage, thus represents 31.7% (31.6).

1997 began with a weak first quarter, but the development was much stronger in the later part of the year. The total growth in SAS traffic has been somewhat lower than growth in the market, as a result of a moderate increase in production compared with other European airlines.

SAS demonstrates its strongest traffic growth on the intra-Scandinavian routes (+10%) and in European traffic (+9%).

Unit revenue – yield (average passenger revenue per passenger kilometer) showed a nominal increase of 3% but remained at the same level – SEK 1.34 – after adjustment for currency effects. SAS has for some years now had one of the highest levels of yield in the European airline industry and a relatively low cabin factor – both to a large extent the consequence of a concentration on the business traveler.

THE INTERCONTINENTAL ROUTES

The intercontinental routes showed positive development during 1997. The cabin factor increased by 2.8% and the share of business travelers has become greater. The development on the USA routes has been especially favorable as a result of a high level of demand, which has made fare increases possible. Yield increased by 4%. The route to Delhi was still in the building-up stage during the early part of the year, but has developed very well during 1997. Because of the Asian crisis, the route to Hong Kong has experienced weaker development than anticipated.

Production calculated in ASK was somewhat lower than in 1996 because the route to Osaka was discontinued at the beginning of the year and the number of seats in EuroClass was reduced through an increase in seat pitch from 41 inches to 47 inches.

The frequency of flights to Chicago, Seattle, Beijing, Delhi and Hong Kong was increased during the year. A late evening flight between Copenhagen and New York was introduced in May and performed well. In November, the twice weekly departures from Stockholm to Tokyo and Bangkok/Singapore were moved to Copenhagen. During the summer of 1998 it is planned to increase the frequency of the late departure from Copenhagen to New York to daily. An expansion is also planned on China routes.

EUROPEAN ROUTES

The routes between Scandinavia and Europe have shown very favorable traffic development from the summer of 1997 and into the autumn. SAS's initiative with regard to pricing, with attractive new business and leisure fares (Eurosaver, Stop Europe and large discounts on Jackpot fares) gave better than expected results. On European routes, despite a modest increase in capacity, SAS has achieved growth levels on a par with the market.

During the year, we have discontinued flights from Copenhagen to Newcastle, Lyon, Athens, Borlänge and Minsk. Newcastle, Lyon and Borlänge have been taken over by partners of SAS and are flown in cooperation with them in the form of a code-share.

During 1997 four new destinations have been opened: Oulu in Finland is served from Stockholm, Szczecin in Poland and Cologne are served from Copenhagen. Billund is served with flights to/from Frankfurt (and Oslo). The capacity has been increased substantially on Finland and on the feeder network to and from the hubs of SAS and Lufthansa.

Traffic development in general has been very favorable both in EuroClass and Tourist Class. Growth has been particularly strong on the routes where capacity has been increased, e.g. Finland, Poland and Germany.

SAS is now concentrating its efforts in relation to the traffic system on the home markets, including improved connections and expansion of services on the intra-Scandinavian feeder network, Finland and to and from the Baltic states and Poland.

THE INTRA-SCANDINAVIAN ROUTES

The intra-Scandinavian routes have shown very good traffic development during 1997, despite the fact that this was the first year of real competition from other Scandinavian airlines.

The competition and lower fare levels have resulted in market growth. Through expansion of schedules, product and service improvements and competitive pricing, SAS has maintained a very strong position on the routes between the capitals. Competitors' share of traffic during 1997 was 10–15% with a capacity share of 25–30%. The competitors' share has fallen during the later part of the year.

New routes were opened Billund–Oslo and Copenhagen–Trondheim. Additional flights were introduced on the Stockholm–Copenhagen route and the routes from Copenhagen to Stavanger and Karlstad.

During 1998 operations on the feeder network between Copenhagen and regional points in Sweden will be considerably strengthened. The major increase in traffic during 1997 has led to a shortage of capacity on several routes.



Good cooperation with regional partners is important if SAS is to have a strong position in the home market.

DANISH DOMESTIC ROUTES

The market for Danish domestic air services has been exposed to severe competition from the railways during 1997 and the market has therefore diminished by 4%. The opening of rail services across the Stora Bält (Great Belt) has greatly reduced train travel times and DSB has considerably increased the number of its rail departures. This development accentuated during the latter part of 1997.

Together with its regional partner in Denmark, Cimber Air, SAS has expanded operations on Aalborg and Århus. Sun Air, a franchise of British Airways, stopped flying on SAS routes during the year.

NORWEGIAN DOMESTIC ROUTES

Domestic travel in Norway has shown growth of approx. 3% (calculated on the basis of trunk routes). SAS's increase was 4%, which represents a marginal increase in market share.

The traffic increased heavily in EuroClass, while leisure travel shows the same level as that in 1996. Furthermore, 1996 was a year with particularly large volumes of leisure traffic because of the 50th anniversaries of SAS and Braathens with very attractive fare offers for leisure travelers.

Minor changes only have been made to the traffic program during the year. In 1998 a substantial increase in the services offered by SAS, when Gardermoen opens for scheduled services and the existing capacity limitation (at Fornebu) become a thing of the past.

SWEDISH DOMESTIC ROUTES

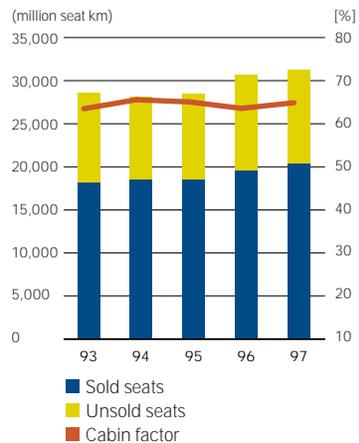
The domestic market in Sweden recovered during 1997 and (according to statistics published by the Swedish Civil Aviation Board) grew by 4%. SAS traffic remains at the same level as for 1996, which means a reduction in our own market share. The explanation for this is expanded cooperation with partners and increased competition.

In the early part of the year, Falcon Aviation took over half of the departures on the Stockholm–Umeå route in cooperation with SAS, representing 4% of the total traffic.

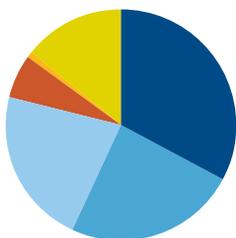
Competition was accentuated by the entry of Malmö Aviation on the Bromma–Ängelholm route and Transwede's take over and expansion of Nordic European's operations on the Stockholm–Östersund route.

Two SAAB 2000 aircraft were introduced in the spring of 1997 to increase the number of departures and improve the timetable on a large number of destinations. The number of flights with jet aircraft was also increased on routes exposed to competition – Stockholm–Malmö, Ängelholm and Sundsvall.

PRODUCTION AND TRAFFIC



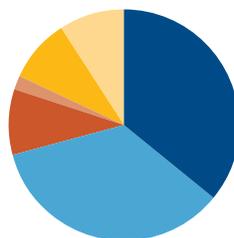
SAS REVENUES



- Passenger traffic 79%
- International full fare (33%)
- International discount fare (24%)
- Domestic (22%)
- Freight 5%
- Mail 1%
- Other 14%

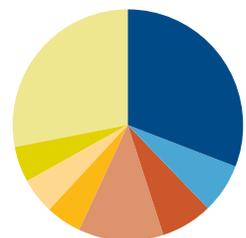
TRAFFIC PER ROUTE SECTOR

RPK (revenue passenger km), 1997



- Intercontinental 36%
- Europe 35%
- Intra-Scandinavian 9%
- Denmark/Greenland 2%
- Norway 9%
- Sweden 9%

SAS EXPENSES



- Personnel 31%
- Fuel 7%
- Commissions 7%
- Government fees 12%
- Catering 5%
- Spare parts 5%
- Depreciation 5%
- Other expenses 28%

SAS TOTAL PASSENGER TREND

	1997	1996	Change %
No. of passengers, 000s	20,797	19,828	4.9
ASK, millions	31,333	30,646	2.2
RPK, millions	20,339	19,487	4.4
Cabin factor, %	64.9	63.6	1.3*
Yield adjusted for currency effects, SEK	1.34	1.35	0.0
EuroClass, % of RPK	31.7	31.6	0.1*

INTERCONTINENTAL ROUTES

	1997	1996	Change %
No. of passengers, 000s	1,070	1,055	1.4
ASK, millions	9,447	9,723	-2.8
RPK, millions	7,502	7,441	0.8
Cabin factor, %	79.3	76.5	2.8*

EUROPEAN ROUTES

	1997	1996	Change %
No. of passengers, 000s	7,066	6,371	10.9
ASK, millions	12,209	11,572	5.5
RPK, millions	7,005	6,407	9.3
Cabin factor, %	57.3	55.4	1.9*

INTRA-SCANDINAVIAN ROUTES

	1997	1996	Change %
No. of passengers, 000s	4,049	3,721	8.8
ASK, millions	2,877	2,597	10.8
RPK, millions	1,723	1,566	10.0
Cabin factor %	59.9	60.3	-0.4*

DANISH DOMESTIC AND GREENLAND

	1997	1996	Change %
No. of passengers, 000s	1,294	1,411	-8.3
ASK, millions	789	782	0.9
RPK, millions	464	478	-3.0
Cabin factor, %	58.8	61.1	-2.3*

NORWEGIAN DOMESTIC

	1997	1996	Change %
No. of passengers, 000s	3,476	3,379	2.9
ASK, millions	2,993	2,965	0.9
RPK, millions	1,827	1,756	4.0
Cabin factor, %	61.0	59.2	0.8*

SWEDISH DOMESTIC

	1997	1996	Change %
No. of passengers, 000s	3,842	3,891	-1.3
ASK, millions	3,018	3,007	0.4
RPK, millions	1,818	1,839	-1.1
Cabin factor, %	60.2	61.1	-0.9*

*Change in percentage points

Active management of revenues and expenses

The SAS route network has been systematically developed to fulfil the needs of the Scandinavian business traveler regarding nonstop flights with frequent departures to business destinations of importance to the Scandinavian market. This has meant that SAS has shorter average flight distances than most European airlines, a higher share of full-fare passengers and traffic operations which are subject to peaks.

The shorter average distances have a strong influence on some of the key indicators associated with the financial efficiency of the operations, mainly the yield or unit revenue (revenue per paid passenger kilometer) and unit cost (the cost of producing an available seat kilometer). In both of these indicators, the average flight distance is the base factor. For SAS's total traffic system, the average flight distance in 1996 was 751 km against an average of 1,269 km for European airlines (AEA) in 1997.

For many years, SAS has been one of the airlines with the highest yield in the European industry. The figure for 1996 was 19 US cents/RPK, compared with the AEA average of 11. Yield development is dependent on a number of factors such as fare levels and fare structures, the competitive situation, route network development, currency exchange rates and development of travel in business and tourist class. Most of these are open to influence, and SAS has for many years operated an advanced form of yield management, which has contributed to the high level of yield.

As is the case with all transport businesses, airline costs become lower as the transportation distance increases – a fact reflected in the fares.

When comparisons are made with other airlines, SAS's short average flight distance means it has a relatively high unit cost: 12 US cents/ASK against 8 for AEA. But another factor to consider in this context is that SAS's large share of full-fare passengers involves higher costs for service.

SPECIAL MEASURES INCREASE THE CABIN FACTOR

SAS's cabin factor is lower than that of most of its competitors in Europe. This, too, is a result of the chosen strategy of placing emphasis on the business segment. Business travel is naturally subject to peaks during the day and many flights are therefore "off peak". Neither has SAS made an effort to fill its tourist class cabin "at any cost".

SAS's strategy has been revised in pace with the deregulation of the market. New players have entered practically all of SAS's most profitable routes, with aggressive pricing both in the business and tourist segments. This not only means that unit revenue is put under heavy pressure, but that new competitors are able to establish themselves on the market through low fares and gain a general hold on many customers, which in the long term can jeopardize SAS's position even in the business segment.

During the year SAS has applied a differentiated fares structure in the business segment, through the introduction of EuroSaver (with certain booking restrictions) and various forms of volume discounts, mainly SAS TravelPass. This helped to achieve an increase in SAS's cabin factor in Euro-Class and market share in the full-fare segment in 1997. It also contributed to an overall increase in the cabin factor.

SAS was more active than ever on the price side during the year with some fifty special fare offers. This contributed to traffic growth and an improved cabin factor.

In the early part of 1998, SAS Pleasure was introduced. This is a very comprehensive leisure program, aimed at providing the SAS customer with a more complete air travel product; thereby strengthening SAS's total position in the market and increasing total revenue and profitability by filling empty seats. The program has met a very favorable response. This means that SAS has complemented its earlier strategy with the inclusion of leisure travel – from "Business only" to "Business and Pleasure".

The goal for 1998 is to maintain the high level of yield while at the same time continue to improve the cabin factor.

REVENUE MANAGEMENT – A NEW FUNCTION IN SAS

For many years SAS has been in the forefront in the airline industry when it comes to analyzing and exploiting the room for maneuver to be found in yield management.

An intensive effort was set in motion in 1997 to better coordinate capacity, pricing and sales. This included the formation of a new function, Revenue Management.

The function has the task of optimizing revenues in daily operations based on the total travel with all airlines involved. This includes taking into account where the ticket was sold and on which legs SAS provides the transport.

Fares are a local commodity and must be set in their respective markets. SAS works in four Revenue Management Teams which have overall responsibility for strategic, tactical and operative pricing in their respective geographical markets. This includes meeting the market's need of different fares, reacting to competitors' pricing moves, working with the sales organization and supporting them with regard to pricing matters, initiating campaigns and following up campaigns and pricing activities.

The possibilities for efficient monitoring of competitors, quick reactions to and availability on the market have been considerably increased by this method of working.

Increased efforts are being made to think creatively in relation to the fares structure and to find new possibilities for utilizing a possible production surplus.

SAS Pleasure is a comprehensive strategic measure, which to a very great extent is based on the new principles of active revenue management.

COST EFFICIENCY AND PRODUCTIVITY

Operating expenses in SAS's airline business, adjusted for currency effects, increased during 1997 by 6.3% (12.1). The unit cost increased by 1.6% as a result of increased personnel costs and product improvement measures.

The explanation for this is that SAS has chosen to meet the new, intensified competition not only with pricing measures but also through quality improvements and offensively-aimed product concepts.

Personnel productivity was only marginally improved during 1997, mainly because of the effect on the whole year of the recruitment carried out in 1996 to improve basic and service quality. The average number of employees in the airline increased during 1997 by 5.5% to 22,524 persons, which is at the same level as the increase in traffic.

SAS carried out structural changes in 1997 within the field of distribution, with increased emphasis on electronic sales channels and a new commission structure for agents (September 1997). This will provide substantial cost reductions already in 1998.

Efficiency improvement activities aimed at increasing

productivity and reducing the unit cost are in progress within all fields, for example:

- the distribution field, through continued automation and new cost-efficient channels,
- more efficient maintenance programs for aircraft,
- labor negotiations dialog with the union organizations with a view to achieving better utilization of resources,
- restructuring of processes in cargo operations, when new terminals in Copenhagen and Oslo enter service,
- coordination of the organization and operations at stations outside Scandinavia with primarily Lufthansa but also other partners within Star Alliance,
- coordination of purchasing through Star Alliance.

However, the major infrastructure developments during 1998 will involve considerable costs of a one-off nature. This includes the introduction of SAS's new flagship, Boeing 737-600, the new passenger and cargo terminals at Oslo/Gardermoen and Copenhagen, and new set of regulations governing flight operations (JAR OPS).

The goal for 1998 is a nominal reduction in the unit cost.



Strong global and local constellations

The major international airlines continue to form and develop strategic alliances in order to meet the demands of an increasingly globalized market, while seeking production synergies.

Based on bilateral cooperation agreements between SAS, Lufthansa, United Airlines, Thai Airways International (THAI), and Air Canada, the five airlines launched Star Alliance in May 1997. This was the first real global airline alliance in the world, with more than 550 destinations in its joint traffic system. Varig Brazilian Airlines, the largest carrier in Latin America, joined Star Alliance in October 1997.

MAJOR ADVANTAGES FOR THE CUSTOMER

In total, the alliance offers nearly 6,800 daily departures to 642 destinations in 108 countries. This is an unbeatable traffic program which increasingly allows us to coordinate timetables to give our customers convenient connections without long stopovers on longer trips (seamless travel).

The strongest traffic system in the world has been established by combining and gradually harmonizing the route networks of the six alliance members. This has provided close to 200 million customers with a flexible, comfortable and reliable air travel service worldwide.

Harmonization of the six airlines' frequent flyer programs also guarantees SAS EuroBonus members recognition and advantages throughout the entire partner system. Members of one of the airline's bonus programs can earn and redeem

points with all the companies. These points are also included for upgrading to higher membership levels and new service benefits, which are continuously introduced. Gold members have full access to all the airlines' lounges, nearly 200 worldwide, while EuroClass passengers can use the companies' Business Class lounges.

MAJOR PRODUCTION SYNERGIES

The areas of operating cooperation within Star Alliance include joint venture operations, code-share flights via partners' hubs, marketing and sales, customer and agent programs, taking care of passengers at airports, handling air cargo, and aircraft maintenance.

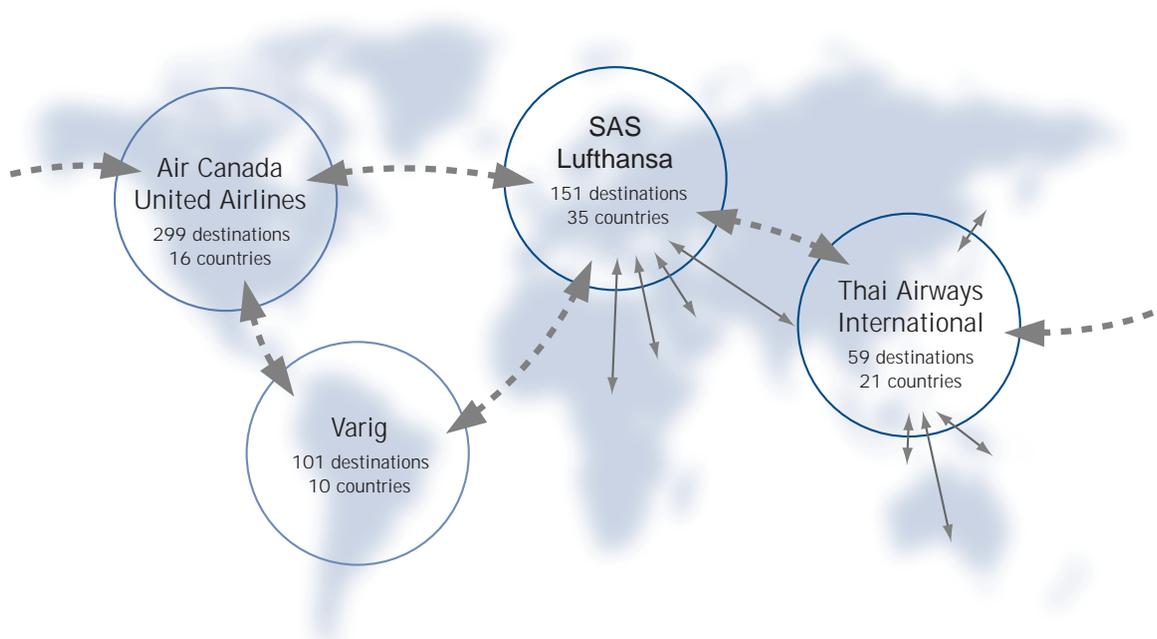
Ongoing integration and joint utilization of resources will allow the six Star Alliance companies to streamline customer service while raising their internal efficiency. Joint purchases of goods, equipment, IT systems, etc., will also help to reduce costs.

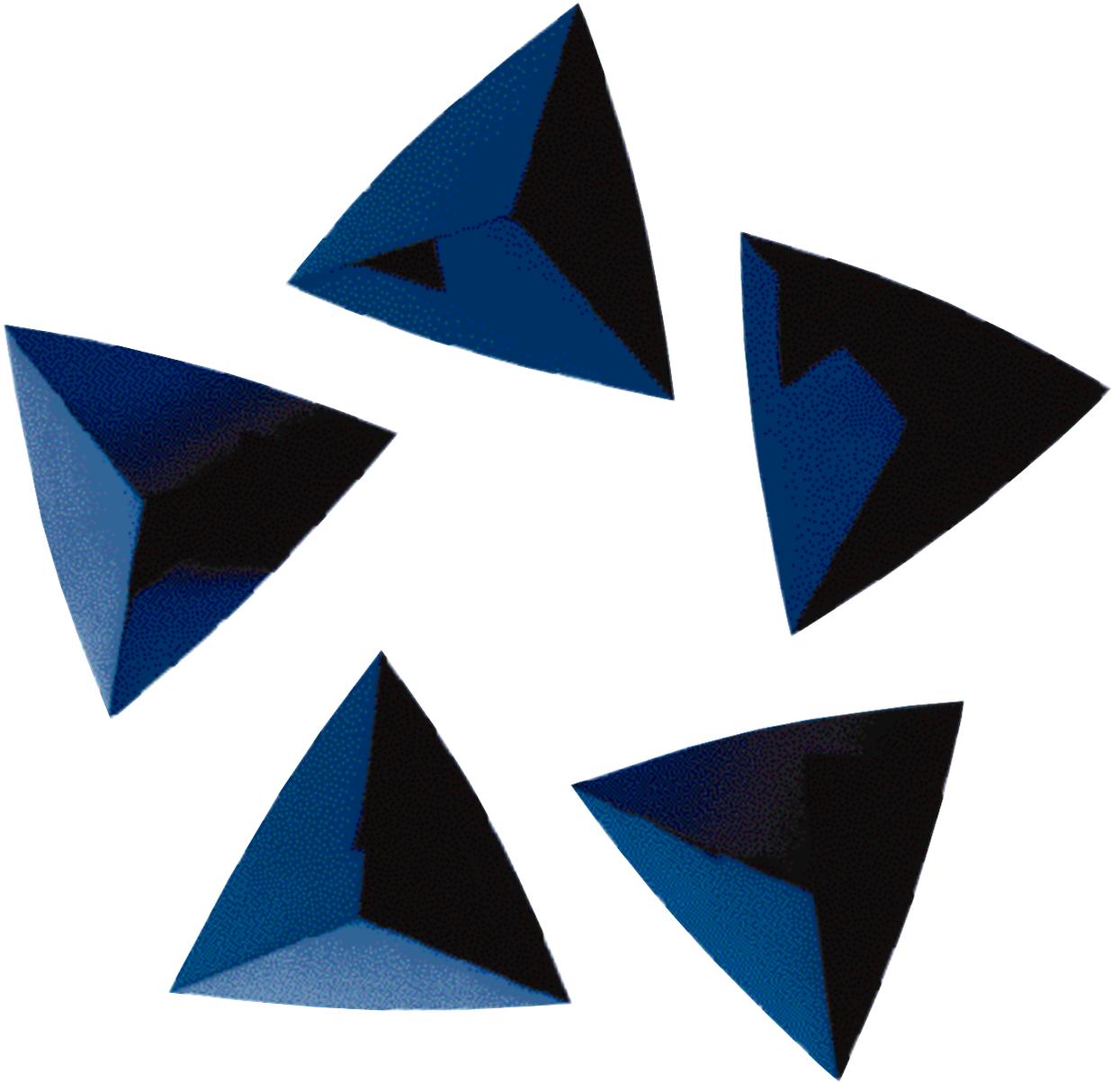
SAS'S COOPERATION PARTNER FOR PARTNER

SAS's cooperation with Lufthansa started in May 1995 and since the beginning of 1996 has included a totally integrated joint venture operation between Scandinavia and Germany. This joint operation was a huge success from the start and approximately 2 million passengers were transported in 1997, an increase of around 10% over 1996.

The two airlines also operate code-shares from each

STAR ALLIANCE – THE STRONGEST TRAFFIC SYSTEM IN THE WORLD





The Star Alliance symbol, five pyramids in a star formation, is based on the five founder airlines. The symbol will be a common signal for the alliance, to be used at points of sale, airports, and lounges, and on bonus cards.

other's hubs, i.e. SAS carries out flights for Lufthansa and vice versa, with the flights also having the partner company's flight number.

In 1997, Lufthansa's employees in Scandinavia were taken over by SAS. A similar integration with Lufthansa of SAS's employees in Germany has been started. Cooperation on the ground, and in marketing and sales work, was also intensified in 1997.

During the year SAS also concluded a cooperation agreement with Lufthansa on dividing work and expenditure for component maintenance of the new Boeing 737-600 aircraft. Deliveries of SAS's aircraft of this type will start in autumn 1998.

The cooperation with United Airlines, the largest carrier in the U.S., began in April 1996 with code-share flights and full integration of bonus programs. Since this cooperation started, SAS's traffic at Chicago, United Airlines' main hub, has a record of strong growth, and the same applies to transfer traffic from United Airlines to SAS.

Intensified marketing cooperation is planned between SAS and United Airlines, as well as cooperation over the development of customer programs.

The cooperation with THAI, which started in its present form in May 1996, also includes code-share flights between Scandinavia and Thailand and on from the two airlines' hubs. Today SAS and THAI have 14 flights a week between Scandinavia and Thailand.

The cooperation with Air Canada, Canada's largest airline, started in May 1997 with a number of code-share flights that link Scandinavia with the major Canadian cities. This code-share cooperation is extended continuously and now also includes connections from SAS's transatlantic routes to Newark and Seattle. The bonus programs are now fully integrated.

The latest Star Alliance member, Varig Brazilian Airlines, has cooperated with SAS for many years in traffic between Scandinavia and Brazil. This cooperation has now intensified through better coordination of traffic programs, cooperation within marketing and station operations.

STATUS AND PROSPECTS

Less than one year since the formal establishment of Star Alliance, SAS and its partners are engaged in intensive efforts to develop, harmonize and integrate travel service in almost all areas, while marketing and production synergies are discovered and utilized on an ongoing basis.

The six airlines will retain their individual and unique character so that they can draw advantage from their own merits, while all the advantages in the alliance provide a strong platform for growth. This will ensure that each one of the six airlines becomes the preferred choice in their home market and out in the world, each separately and jointly in the alliance.

Cooperation in the Star Alliance had an MSEK 325 effect on SAS's earnings in 1997, compared with MSEK 100 in 1996. This means that the short-term expectations have been met by a wide margin. The impact on SAS's earnings of the Star Alliance cooperation is targeted at MSEK +1,500 within three to five years.

OTHER INTERNATIONAL PARTNERS

The six airlines in the Star Alliance also have a number of partners outside the alliance.

SAS cooperates extensively with a number of partly owned airlines: airBaltic mainly flies between the Baltic countries and Scandinavia. British Midland is primarily a strong domestic carrier in the U.K., but also serves destinations in Europe and Scandinavia. Spanair is now rapidly expanding its route network within and to and from Spain, in addition to its traditional charter operations. Grønlandsfly operates domestic services on Greenland.

SAS also has commercial cooperation with Icelandair and South African Airways, as well as with Qantas and Air New Zealand through SAS EuroBonus.

A STRONG NETWORK OF REGIONAL PARTNER

In the local Scandinavian markets, SAS has established cooperation with Cimber Air in Denmark, Widerøe in Norway, and Skyways in Sweden.

In November 1997 an agreement was concluded under which SAS acquires a 29% stake in Widerøe and an option for a further 34.2%. In a similar manner, so as to acquire a stronger presence in Finland, SAS acquired a 100% interest in the Finnish domestic carrier Air Botnia in January 1998.

Cooperation with regional partners includes code-share flights on key routes, feeder and complementary routes, participation in SAS EuroBonus, as well as sales and baggage handling at airports.

STAR ALLIANCE

	SAS	Air Canada	Lufthansa	THAI	United Airlines	Varig	Star Alliance
Pass./year, millions	20.8	16.5	44.4	14.3	82	9.7	183.9
Countries/Destinations	34/98	25/125	86/258	35/73	32/320	24/122	108/642
Hubs	Copenhagen Oslo Stockholm	Montreal Toronto Vancouver	Frankfurt Munich	Bangkok Chiang Mai Phuket Hat Yai	Chicago Denver Washington DC San Francisco	Rio de Janeiro Sao Paulo	5 in Europe 7 in North America 2 in South America 4 in Southeast Asia
Aircraft	163	231	314	76	579	82	1,446
Daily departures	1,050	1,100	1,630	232	2,290	390	6,692
Employees	22,500	24,000	57,400	24,000	86,500	18,100	231,000
Operating revenue (MUSD)	5,300	3,600	13,900	3,400	16,400	3,400	46,000



A VERY STRONG TRAFFIC SYSTEM

SAS served 166 (164) destinations at the end of 1997, of which 98 (101) were operated by SAS itself. Other destinations were served using code-shares with one of SAS's partner airlines.

Integration of traffic systems in Star Alliance – SAS, Lufthansa, United Airlines, THAI, Air Canada, and Varig, was already extensive in 1997. SAS operated 47 (35) code-share routes for these partners at year-end, while the partners operated 50 (48) code-share routes for SAS.

Other SAS partners in 1997 were jointly owned British Midland, Spanair and airBaltic, as well as South African Airways.

With all its partners SAS can offer more than 700 (553) destinations. Never before has SAS been able to offer such a strong traffic system.

SAS DESTINATIONS INCL. CODE-SHARES 1997 (96)

OPERATORS FOR SAS							
SAS	Lufthansa	United Airlines	THAI	Air Canada	Varig	Others	Net ¹
98 (101) ²	32 (35)	8 (11)	0 (0)	8 (0)	2 (2)	18 (15)	166 (164)

¹ Excluding destinations also served by SAS with its own aircraft.

² Of 98 (101) destinations served by SAS with its own aircraft, 47 (35) were also code-shares for other companies.





The major renewal of SAS's fleet starts in the autumn with the first deliveries of the Boeing 737-600s. SAS has signed contracts for 76 such aircraft, firm orders for 41 and 35 options.

SAS in its most assertive phase for ten years

SAS considers that the strategic foundation stones are now in place ahead of the 21st century and that there is now a strong platform for sharper performance and continuing assertive action.

Strategic work in 1997 was very much concentrated on the traffic system. The main focus in 1998 and 1999 will be on the actual air travel product.

In 1997, SAS established and intensified strategic cooperation at global and regional levels. Star Alliance and other forms of cooperation are naturally designed to strengthen SAS's offering to the customers – in terms of traffic system and other customer benefits. In spite of all this cooperation, including joint flights with Lufthansa between Scandinavia and Germany, more than 90% of traffic is located in the unique SAS system.

SAS's grip on the home market has largely been consolidated. New competition on the intra-Scandinavian and domestic routes has naturally led to lost market shares, but nevertheless SAS's traffic strengthened in 1997 and the home market was redefined to include Baltic rim traffic. We now refer to the Nordic home market.

During the year, SAS intensified its strategic cooperation with regional partners – Cimber Air in Denmark, Widerøe in Norway, and Skyways in Sweden, all with strong local brands. In contrast to the global cooperations, where we are not seeking joint ownership, we consider that joint ownership with regional partners can be advantageous. In 1997, SAS concluded an agreement on becoming part-owner of Widerøe, and the acquisition of Finnish Air Botnia at the beginning of 1998 was in line with this strategy. SAS is also part-owner of airBaltic which, among other things, flies between the Baltic countries and Scandinavia.

POSITIONING PRODUCTION RESOURCES

During the year SAS also focused on extension of the commuter fleet and has established a new commuter base in Stockholm, from where services to the Baltic market have been successively intensified.

Its smaller aircraft, Fokker F50s and SAAB 2000s, give SAS Commuter a better cost structure than SAS. The regional partners in their turn are even more cost effective. In this manner SAS has positioned its production resources to optimize profitable services on routes and frequencies with a varying passenger base. One example is that the Stockholm–Arkhangelsk route became profitable with the start of services using SAAB 2000s.

ASSERTIVE OWN PRODUCTION IN 1998

In 1998 SAS will increase its own production by 4–5%.

We will open new nonstop routes from our three base stations. We will increase frequencies to the major European busi-

ness destinations. In the intercontinental sector we are considering moving resources from the Far East routes to the North Atlantic routes, where there is very good demand growth.

The joint traffic system with Lufthansa between Scandinavia and Germany will be extended to include Finland.

TOUGHEST STANDARDS IN THE INDUSTRY

To achieve our customer goals we have set some of the airline industry's toughest internal standards in terms of basic quality.

In 1997 SAS achieved its goals with regard to safety (no accidents or serious incidents) and regularity (maximum 1% canceled flights). On the other hand, SAS failed to meet its departure punctuality goal, with 12% of flights delayed for more than 15 minutes (target 7%).

Punctuality improved considerably in the first half of 1997, but deteriorated again particularly in the final quarter. This was mostly due to capacity problems at Stockholm-Arlanda and in European air space, where problems with Air Traffic Control (ATC) accounted for half of SAS's 12% delays. ATC problems affect the entire European airline industry and their credibility as reliable suppliers.

When it comes to baggage handling SAS is best among all major airlines in Europe, even though the target was not fully reached in 1997 – 0.58% of baggage delayed against the 0.4% target. Starting in February 1998, we have a totally new baggage sorting unit at Copenhagen, with twice the capacity of the old one. 8,200 suitcases can pass through in an hour with the aid of electronic bar code reading.

SAS FIRST PASSENGER AIRLINE TO RECEIVE ISO CERTIFICATION

Quality work continued on a broad front at SAS in 1997 using the TQM method. Conducting change in process dimensions has been developed gradually with good results.

Some fifty management groups at SAS, including Group Management, evaluated their entire operation against EFQM's Business Excellence Model. This defined and pragmatized the TQM process at SAS and integrated operational planning for 1998. Potential improvements are identified and action started. Systematic work on target definition was started at three management levels at SAS in 1997.

In 1997, SAS was the first international passenger airline in the world to have its Flight Operations certified according to ISO 9001.

ACCESSIBILITY TO SAS PRODUCTS IMPROVED

In September 1997, SAS introduced a new commission structure for agents for domestic and intra-Scandinavian travel, where commission was reduced from 8% and 9% respectively to 5% of the price of the ticket. Initially this resulted in a

marginal reduction in reservations via agents, and the majority of competitors have now followed SAS's example.

Regardless of how the trip is booked, the process must be fast and simple. This is why SAS is developing new, modern reservations routines, including self-reservation products, often combined with ticketless travel.

The focus on the Internet as an additional distribution channel will make SAS more accessible and make it simpler for the customer. SAS has already placed a number of products on the Net. These include the ticketless TravelPass products that can be booked via the Internet, as well as Jackpot and EuroBonus award trips.

CONTINUED DEVELOPMENT OF TICKETLESS TRAVEL

Customers appreciate ticketless travel for its simplicity and at the same time it raises the efficiency of SAS's operations. The E-ticket, an abbreviation of Electronic Ticket, was launched in autumn 1997. This means that the customer books the trip as usual via SAS or a travel agent but can elect not to receive the actual ticket. On arriving at the airport, the customer uses his EuroBonus card as identification. The "ticket" is in the computer system.

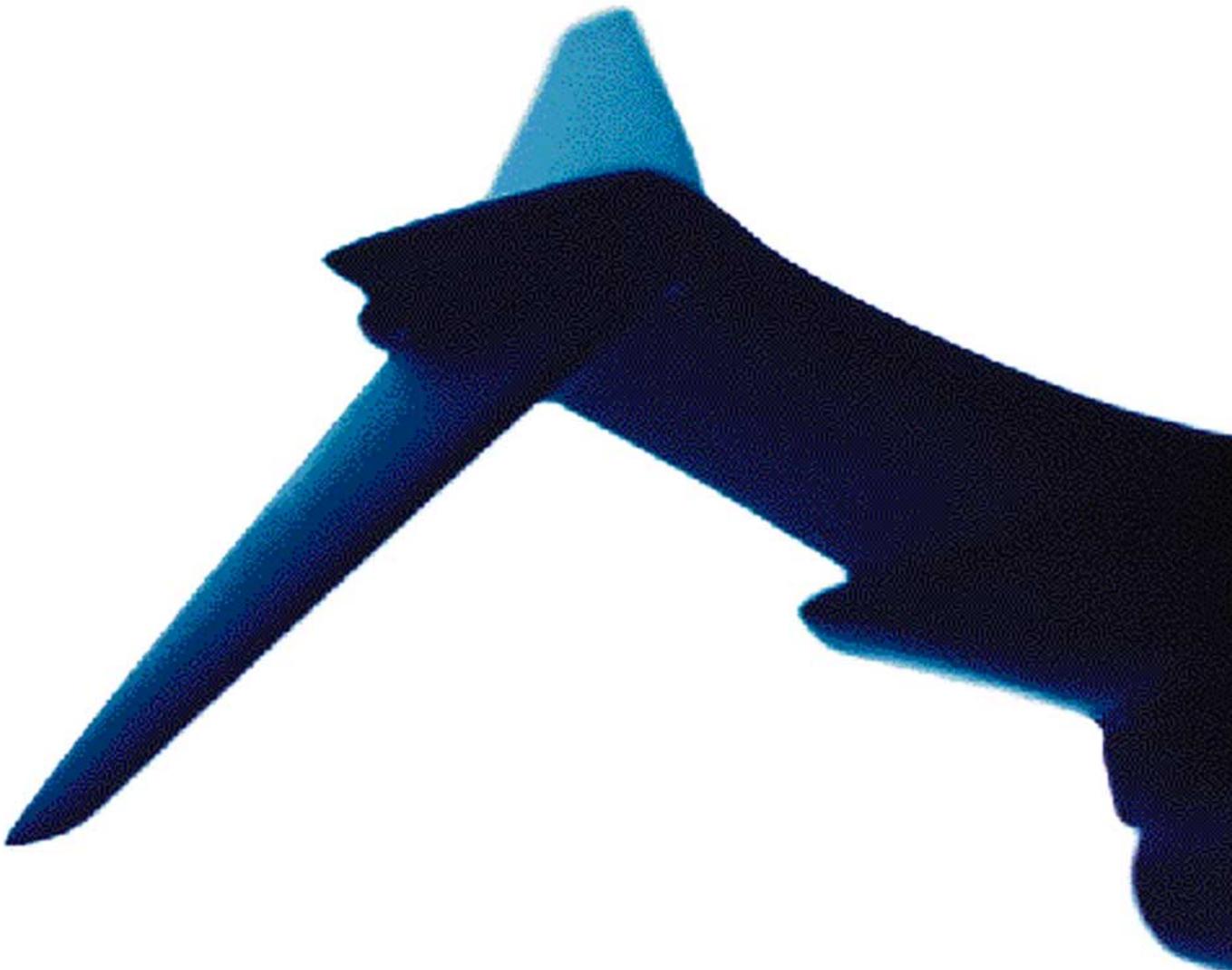
The ticketless product family, SAS TravelPass, is being continuously expanded. At the end of 1997 ticketless travel

was available within Scandinavia as well as to Amsterdam, Brussels, Helsinki, London, Madrid, and Milan.

A corporate concept for ticketless travel was launched in spring 1998 – TravelPass Corporate. SAS and the client company negotiate an agreement which allows several people to travel without a ticket using their own TravelPass card linked to an account at the company. SAS TravelPass Corporate is very much a volume and self-service concept, which allows SAS to give good discounts. The trip is billed in arrears and on the basis of the actual flights. Both the company and the individual traveler receive a bonus.

Reservations are made via the Internet, voice response, PC OnLine or in a machine using a PIN code that accompanies the card. The trip is completely rebookable within the SAS traffic system and is in EuroClass. In the future, this card will provide identification at every stage of the trip – security control, duty-free and gate.

Corporate customers are placing increasing demands on their travel companies to provide follow-up information. Previously, such information was mainly obtained from the credit card companies. A SAS Card, with a broad function as a means of payment, ticket for ticketless travel, EuroBonus identification and bearer of TravelPass functions, will be launched in 1998. Credit card charges are high and paid by





Business & Pleasure. Business travelers are SAS's most important customer category, but we no longer refer to the "Businessman's Airline." One reason is that we are also very much the businesswoman's airline. SAS is also focusing strongly on leisure travel – particularly since it is business travelers who travel most for pleasure.

the airline. By introducing the SAS Card, SAS will reduce these costs while at the same time providing the client companies with the travel information they require.

Work is under way to handle any computer problems that may arise in the year 2000. In some cases SAS has taken this opportunity to completely renew or upgrade its systems. Otherwise, the necessary modifications are being made. Since SAS plans well ahead, most computer systems are already adapted. For example, it is now possible to book a trip the other side of the new millennium.

STRONG FOCUS ON LEISURE TRAVELERS

For a couple of years now, leisure travel has been increasing faster than business travel. SAS's main target group – business travelers – also account for most of the leisure travel.

In January 1998, SAS launched a new leisure travel concept – SAS Pleasure. This is a big program of attractive leisure products, covering everything from the cheapest possible seat on the aircraft to a complete travel package.

The main competitive advantage SAS has compared with traditional charter and tour operators is of course the basic quality and the security that a large airline can offer.

Some of the leisure travel program is provided in cooperation with SAS's partners in the Star Alliance, such as round-the-world trips at unbeatably low prices. The cooperation with Lufthansa includes an auction on the Internet of trips to more than 40 cities.

SAS expects its focus on the leisure travel sector in 1998 to boost operating revenue by approximately SEK 1 billion and contribute to continued favorable development of the cabin factor.

INTENSIVE PRODUCT DEVELOPMENT HAS STARTED

A number of major and minor product innovations were launched in autumn 1996 and in 1997. One major innovation is SAS Express, a new concept for SAS's intra-Scandinavian product, which includes the provision of meals at the gate rather than on board. The launch of Scandinavian World Cooking with lighter, healthier food created by leading Scandinavian chefs is one example of SAS's product development on board. In international comparisons, this has led to customers' appreciation of SAS's meal service now showing the biggest improvement of all European airlines (together with Lufthansa).

SAS's new lounge concept, which was fully implemented during the year in the new lounge at Stockholm-Arlanda, has also been highly praised by customers and gained attention in the international press. New lounges were also opened in Gothenburg and Malmö. Comfort on board was improved, including more legroom in EuroClass on Boeing 767s on intercontinental routes and in tourist class on MD-83s.

The renewal of SAS's air transport product, both at stations and on board was intensified in 1998.

A number of innovations, designed to make the travel process smoother, were introduced during the year at check-in, gate, on board, transfer and arrival. Examples include "fast tracks" for EuroClass travelers and EuroBonus Gold members, through security checks for example, as well as new solutions for transfer and baggage information.

EuroBonus Gold members will as far as possible have their favorite seat booked automatically next to an empty seat. Furthermore, their baggage will be first on the conveyor belt – Priority Baggage.

A new concept for individualized "infotainment" (information and entertainment) is now being implemented on intercontinental flights, partly based on a new generation Video Walkman, which will be installed in EuroClass.

Major destinations will increasingly have their "own" staff at the gates, a team specialized in that particular route. 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 authority to decide on individual treatment of passengers.

Scandinavian World Cooking will be implemented throughout the SAS system and new dishes will be created by Scandinavia's leading chefs.

Perhaps the most important project, which will be given top priority throughout the year, is related to service attitudes at SAS, primarily among the approximately 12,000 employees with ongoing customer contact. The purpose of this project is to take an in-depth look at the question of what customers perceive as good treatment and a good service-minded attitude, and how we can provide conditions for the individual service-provider to give this treatment.

A NEW DESIGN, IDENTIFIES THE NEW SAS

Many of SAS's product innovations will be introduced in the autumn and in the first half of 1999, when a large number of events provide a natural platform for a new start. Phase 1 of the new SAS terminal in Copenhagen will be inaugurated, including a new check-in area and a new 3,000 sq. m. lounge. Oslo's totally new airport, Gardermoen, will also open in the autumn. At the same time deliveries of SAS's new aircraft type the Boeing 737-600 will start.

SAS has lived with its present design program for 17 years. SAS's current design fails to reflect the airline we are today, and above all the one we intend to become. A totally new design program will identify the new SAS both internally and externally.

The design project will be implemented in stages over the next few years.

The activities in September/October 1998 will in many ways be a launch of the SAS we have created for the 21st century.

Winner of best international bonus program award yet again

Airlines' bonus programs are growing in strategic importance in a deregulated market characterized by intensive competition.

The importance of customer loyalty for an airline can hardly be overestimated. An average business traveler in Scandinavia travels for MSEK 4–5 during his or her working life. This makes the individual customer big business for SAS.

Today there is no doubt that a good bonus program is a powerful competitive tool, which makes a significant contribution to creating preference for and loyalty to specific airlines and partner constellations. Various surveys show that more than 80% of frequent travelers who are members of a bonus system say that this influences their choice of airline.

SAS EuroPlus is therefore pivotal for profitability at SAS. This applies in both the short and long term and from an offensive and defensive perspective. When SAS has had problems with quality, the bonus system has made a vital contribution to keeping up traffic volume.

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

NEARLY ONE AND A HALF MILLION MEMBERS

In December 1997, the number of SAS EuroPlus members was close to one and a half million, which represents a 22% increase over the previous year. The number of members in Denmark totaled 210,000, in Norway 376,000, and in Sweden 280,000.

4% of members are Gold Members and 11% are Silver Members.

EuroPlus members accounted for half of SAS's total passenger revenues, and 75% of these in turn, were attributable to the 25% most frequent travelers.

MEMBERS CAN EARN AND REDEEM POINTS IN THE LARGEST BONUS SYSTEM IN THE WORLD

In 1997 development of SAS EuroPlus focused on exposing the advantages of Star Alliance and increasing the benefits to the most frequent travelers.

Together with its partners in Star – Lufthansa, United Airlines, THAI, Air Canada and Varig – SAS EuroPlus offers a global traffic system in which bonus points can be earned and redeemed. This is the most extensive, totally integrated bonus system in the world. Points earned within the alliance count for qualification towards higher membership levels in SAS EuroPlus. SAS participates in the bonus programs of its airline partners in a similar way.

In addition to the Star Alliance, ten airlines participate in

EuroPlus both for earning and redeeming points. However, these trips with these partners do not count for qualification to higher membership levels in SAS. In addition, thirty other companies participate, mainly hotels and car rental firms.

NEW MEMBER BENEFITS

In 1997 membership benefits were harmonized between the various bonus systems within the Star Alliance. Gold Members now have access to nearly 200 first-class and business lounges worldwide. Gold Members are entitled to take an extra 20 kg of baggage and have designated check-in desks at SAS and Star Alliance base stations. Starting in May 1998, additional service benefits will be introduced for Gold Members within the framework of the Star Alliance. These will include priority on waiting lists and at stand-by. Silver Members are entitled to 10 kg extra baggage and can check in at EuroClass desks regardless of type of ticket.

SAS will strengthen its relationship with Silver and Gold Members by further development of service benefits throughout the product chain, such as a "Fast Track" through security checks at the base stations and "Priority Baggage," i.e. first on the conveyor belt.

Further development of the SAS customer base will make important customer information available to key functions in the front line, for example at check-in desks and gates. This will allow a more individualized service and give frequent customers more of the service for which they have stated a preference.

SIMPLER ACCESS AND CLEARER MEMBER IDENTIFICATION

In order to raise access and the level of service provided to its members, EuroPlus has extended its service functions on the Internet. Members can, for example, key in their own chosen code to obtain the latest status on their account or browse among all the SAS destinations and book their bonus trips. In the longer term this channel offers unique, cost-effective opportunities to carry on a highly target-oriented dialog with the customer.

The SAS EuroPlus statement was streamlined during the year, providing more scope for an individualized dialog with members. The design of the EuroPlus cards was changed at the beginning of 1998 in order to provide clearer membership identification. The cards are now entirely blue, silver or gold, and also carry the Star Alliance logotype to facilitate identification, not only at SAS but out in the whole partner system.

EuroPlus News is published in special editions for the different membership levels and contains a number of

attractive offers, which are also adapted to the different membership levels.

“WINNER TAKES IT ALL”

SAS EuroBonus receives very high ratings from customers in various surveys. In December 1997, SAS EuroBonus received The Freddy Award – Best International Frequent Flyer Program of the Year – the “Oscar” of the bonus programs, for the second consecutive year.

In addition to this major award, SAS EuroBonus also won awards for best customer newspaper, best customer service, best elite level (EuroBonus Gold) and best Internet site.

These awards are issued by the American magazine Inside Flyer. The nomination process involves members of different bonus programs voting for different programs. These awards are genuine proof that SAS’s loyalty program is appreciated by customers and makes a key contribution in terms of preference.



The carnival in Venice – or why not in Rio?
Loyalty takes you a long way. 40,000 points (tourist class) takes the bonus traveler from Scandinavia to Venice and all the way to Rio for 110,000 points (tourist class).

Fruitful cooperation in a dynamic freight market

SAS Cargo is operated as an area with commercial responsibility within SAS, but is not fully a business area, since it does not have complete control of its own resources.

SAS is what is known as a "belly carrier" and freight operations are mainly conducted as a complement in SAS's route system. All relevant costs are not divided between passenger and freight traffic. However, SAS Cargo has had its own Boeing 747 freighter in intercontinental traffic since the beginning of 1996.

SAS Cargo's mission is to provide the business community with fast and reliable air freight transport to, from and within Scandinavia. The main strategy is that SAS Cargo offers complete transport solutions through active cooperation with other airlines, forwarders and end-users. SAS Cargo's transport solutions must be characterized by security, high quality and simplicity.

The products are General Cargo, SAS Priority, Jetpak and Airmail.

SAS Cargo's revenues exceeded SEK 2 billion in 1997, following an increase of 14% or more than MSEK 300.

INCREASED CAPACITY IN OWN TONNAGE AND PARTNER COOPERATION

Demand for air freight is rising strongly as a result of business globalization. Customers are placing higher demands on the quality of transport services and increasingly seeking integrated transport solutions.

The competition is increasing, both from other airlines and from companies that work with integrated third-party logistics. As a result, price pressure remains intense.

Today SAS Cargo has good capacity with many frequencies for transport in Europe. The introduction of the Boeing 747 freighter has strengthened SAS's intercontinental offering considerably.

Capacity utilization on SAS's intercontinental routes is very high, which means that SAS is unable to fully meet market requirements on some destinations. Different solutions

are under way so that SAS can provide its freight customers with a complete product to these destinations as well.

SAS Cargo has cooperated closely with the biggest freight airline in the world, Lufthansa Cargo, since May 1, 1997. This cooperation means that destinations in the Far East, India, and the Middle East can be included in the intercontinental offering.

Lufthansa Cargo has taken over handling of SAS Cargo's freight in Frankfurt. In a similar manner, the airlines will cooperate closely in SAS's new terminals in Copenhagen, Gardermoen and Newark.

In addition to the cooperation with Lufthansa Cargo, SAS Cargo has concluded cooperation agreements with the freight divisions in United Airlines, Thai Airways, Air Canada and Varig. One result of this important step is that SAS Cargo is included in a global traffic system which means it can offer customers more destinations, more frequencies and greater capacity. In freight handling at our terminals it is easier to find effective and customer-oriented solutions together with our partners. On the IT side we are seeking joint solutions to reduce costs and raise the customer value of our information systems. This has led, among other things, to SAS Cargo's decision to withdraw from its own development of a totally new computer system.

GREATER PRECISION AND NEW TERMINALS

During the year SAS Cargo invested major resources in quality improvement measures, and this has been successful. There has been a marked improvement in the regularity and punctuality of the Boeing 747 freighter and delivery precision has increased. This quality work will continue unabated in 1998.

Quality aspects have been the mainstay of design work on the new terminals in Copenhagen, Oslo and New York. The new 6,000 m² freight terminal in New York was completed at the end of the year and went into operation on January 10, 1998. Construction of freight terminals in Oslo and Copenhagen, 21,000 m² and 32,000 m² respectively, is going according to plan. The new terminals are expected to strengthen SAS Cargo's position in the market, provide additional quality enhancement, and reduce unit costs and process times.

FREIGHT AND MAIL TRAFFIC

	Freight		Mail	
	Million tonne km	Change %	Million tonne km	Change %
12 months				
Intercontinental	708.4	21	25.8	6
Europe	52.2	8	14.2	1
Intra-Scandinavian	20.9	9	1.5	2
International	781.5	20	41.5	4
Denmark	7.3	2	2.3	-6
Norway	6.4	0	6.3	0
Sweden	1.9	48	0.0	0
Domestic	15.6	5	8.6	-2
Total	797.1	20	50.1	3

KEY DATA FOR SAS CARGO (12 MONTHS)

	1997	Index 97/96
Revenues (MSEK)	2,028	119
Flown tonnes	278,369	113
Tonne km (000)	847,199	119
Cargo yield (SEK/tonne km)	2.30	100

In the Scandinavian sales organization the "Selling Cargo" project, designed to improve the marketing of these operations, was completed during the year. Various tangible results will be implemented in 1998.

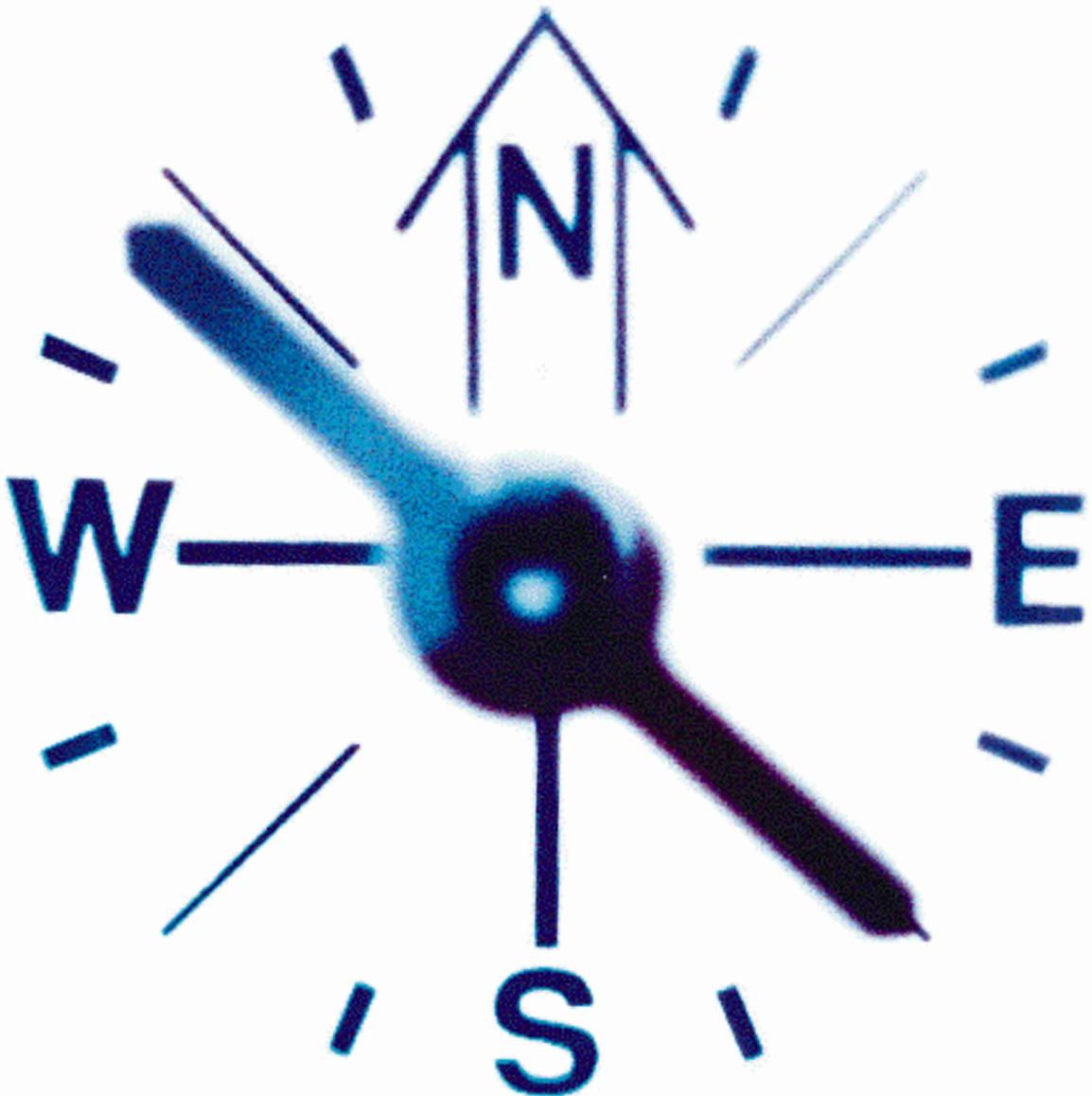
Extensive training of staff with direct customer contact was started during the year and this program will be completed in 1998.

FUTURE PROSPECTS

SAS Cargo believes future prospects to be good. Demand is expected to rise still further, although the economic trend in

the Far East is a major uncertain factor and it is difficult to judge the effects this will have on the freight operations. Exports from these markets will probably rise since the competitiveness of these countries will increase as the value of their currencies falls. At the same time, Scandinavian industry will find it more difficult to sell its products in these markets.

SAS Cargo will launch new products in 1998 and freight capacity will gradually be extended in cooperation with our partners. This cooperation will also provide increased competitiveness in other respects.



Together with its partners,
SAS Cargo offers a global
freight product.

Increasing focus on taxed goods

SAS Trading has been operated as a SAS business area since 1988. The business concept is to satisfy, with consideration and price advantages, the air traveler's demand for goods. SAS Trading is one of the leading duty-free operators in the world and had a turnover of MSEK 2,475 (2,161) in 1997. In addition to sales in some 40 stores at 30 airports in five countries, travelers meet SAS Trading's operations on board SAS and Spanair's aircraft. SAS Trading also has a purchasing cooperation with Silja Line and Premair.

The earnings trend remained favorable in 1997.

During the year SAS Trading participated successfully in an international competitive tender for duty-free concessions in the Swedish and Norwegian airports.

In 1997, SAS Trading won 13 out of 14 concessions in Sweden, and in February 1998 it won all the Norwegian concessions, including Gardermoen, until the year 2004.

RESTRUCTURING AHEAD OF THE END OF DUTY-FREE TRADING IN THE EU

SAS Trading's inflight sales are among the highest in the industry. An extended destination-related range has had positive impact on inflight sales on intercontinental routes. Rationalization of inflight sales has continued with the installation of more point-of-sale terminals, which facilitate payment with cards and follow-up of operations.

It has been decided that duty-free trading will cease within the EU on July 1, 1999. Lobbying is taking place among various stakeholders in Europe to reverse the EU decision or have the final date postponed. At present, the outlook is regarded as uncertain.

Duty-free trading will remain, however, for trips between the EU and other countries, between Sweden and Norway for example.

Sales of taxed goods are becoming increasingly important for retailers at airports. Taxed goods probably already account for 20–25% of total trading at Europe's airports. At SAS Trading sales of taxed goods account for a lower portion of total sales but are rising steadily.

SAS Trading has a strong market position at airports in Sweden and Norway. Our customer loyalty program (tax free Plus) has been very well received in these countries.

INTENSIVE CONCEPT DEVELOPMENT

The stores at Arlanda airport were rebuilt at the end of 1996 and opened in January 1997. This has provided considerable additional sales during the year, partly due to greater choice and partly because permission has been obtained to sell taxed and untaxed goods in the same store. Concept development and the introduction of strong brand names to strengthen the airports as a marketplace intensified during the year.

New stores were opened in Sweden during the year, in Borlänge, Kiruna, Karlstad, Skellefteå and Sundsvall. A combined BRANDS (clothes concept) and EGO store was opened at Stavanger airport.

The EGO drugstore concept, with its main focus on perfumes, cosmetics, hygiene and health food products, has been developed and established with two stores in city locations in the local market in Sweden – one at the central station in Gothenburg, one in the subway station at Hötorget in Stockholm. The intention is to include OTC pharmaceuticals in the product range when the Swedish retail pharmaceutical monopoly ends. It is planned to open additional stores in 1998.

SAS Trading has gone out on the Internet with most of its store range, where passengers can also order goods. The visiting frequency has been high and this move has received positive mention in industry media.

Other marketing has focused on profiling stores and concepts under the joint name SAS Euroshop.

SAS Trading continued to work with Total Quality Management (TQM) in its efficiency enhancement work.

PROSPECTS FOR 1998

SAS Trading expected continued favorable development in 1998, although earnings will be lower than in 1997. This is because the new concession agreements for stores in Sweden and Norway include higher concession fees.



Focus on personal needs – EGO is the name of SAS Trading's new drugstores in city locations. The product range will feature mainly perfumes, cosmetics, hygiene and health food products, but the plan is to extend this with light pharmaceuticals.

Continued strong growth - 100 hotels at year- end 1997

In 1997, SAS performed an evaluation of the hotel operations and the subsidiary SAS International Hotels (SIH), which are conducted under the brand name Radisson SAS Hotels Worldwide. The result of the evaluation is that SAS will keep SIH. As well as management and franchising of hotels, the company also has some property activities since six of the hotel buildings are owned by SIH.

The goal for the future is that SIH will concentrate its operations to hotel management and franchising. A substantial reduction in capital tied up in properties is planned in 1998 and 1999.

SIH's agreement with the American hotel chain Radisson Hotels International gives SIH exclusive rights to use the Radisson brand in Europe, the Middle East and North Africa until the year 2024. Under the agreement SIH is also guaranteed access to one of the most advanced reservations systems in the hotel industry.

In 1997 SIH received a silver medal in the "Favorite Deluxe Hotel Chain in Europe" category in a poll conducted by the "Official Hotel Guide."

BEST YEAR YET

SIH's operating revenue totaled MSEK 2,304 (1,868) in 1997, an increase of 23% compared with

1996. Nearly half of this increase is attributable to the increased number of hotels, while the rest is related to a positive sales trend for the other hotels.

Market development was highly positive during the year. The favorable trend from previous years continued throughout Scandinavia and the U.K. Some improvements were also noted in 1997 in Germany, Benelux and Austria. Taken as a whole this provided a record year for occupancy in the hotels which rose to 74%. Rates have risen substantially more than inflation in these countries.

The trebling of the number of hotels between 1994-1997 to the present 100, has increased awareness of the hotel chain and the Radisson SAS product name considerably. This is reflected in increased market shares and therefore higher operating revenue.

Income before taxes amounted to MSEK 160 (65) in 1997 and return on capital employed rose to 12% (8%). In

addition to the strong sales trend, earnings were also affected by high cost efficiency. Investments totaled MSEK 318 (70), of which MSEK 211 was attributable to construction of Radisson SAS Hotel at Manchester Airport, which will open in autumn 1998. The average number of employees at SIH increased by 12% during the year to 2,494. This increase is related to the higher number of hotels.

INCREASED NUMBER OF HOTELS

In 1997, SIH continued its strategic expansion by concluding 20 new management contracts and franchise agreements for hotels in Europe and the Middle East. At year-end the company had a total of 100 hotels in 26 countries.

An important milestone for SIH in 1997 was the establishment of the first hotels in France. Radisson SAS Hotel in Nice was taken over on May 1, 1997. Later in the year a hotel adjacent to Charles de Gaulle Airport was acquired under a franchise agreement and a management contract was concluded for a hotel in Cannes, which is expected to open in 1999.

A strategic agreement was signed during the year with Finland's largest hotel and restaurant company, SOKOS. The agreement, which represents a breakthrough for SIH in the Finnish market, includes SIH taking over management of some of SOKOS's best hotels.

On October 1, 1997, SIH took over management of Hotel Hesperia in Helsinki. With its 383 rooms, the Hesperia is one of the largest hotels in Finland. An agreement was also concluded for management of a hotel in Vaasa and another hotel in Helsinki, which means that SIH will operate three hotels in Helsinki.

The expansion in Germany continued in 1997. SIH now operates a total of 11 hotels and agreements have been signed for management of five hotels scheduled to open in 1998 and 1999.

Expansion also continued in Eastern Europe and the Baltic countries, with two new contracts. A hotel in the Lithuanian capital Vilnius opened at the beginning of 1998. Radisson SAS Hotel, Prague, with 210 rooms, is planned to open in summer 1998.

The Middle East is another area of strategic importance for SIH. In 1997 contracts were signed for management of



two hotels in Egypt, both of which are scheduled to open in 1999. A management contract has also been concluded for a hotel in Muscat, Oman, which is expected to open early in 1999. Two hotels in Jordan have been renovated during the past year and will soon be ready to use the Radisson SAS brand.

Mainly in view of the fact that SIH with its 100 hotels has now reached a critical mass, growth in the number of hotels is expected to continue at least at the same level in future years. This continued expansion will focus on major cities in Europe and complement and strengthen SIH's market position in key markets.

STRONGER MARKET POSITION

Surveys showed a customer loyalty of 93% in 1997. The goal is to achieve 100% customer loyalty within a few years. A stronger focus on customers as individual guests is the most important factor for achieving this goal. All marketing, IT development, recruitment and staff training will be carried out with this goal in mind. This development will also further strengthen SIH's market position in Europe, the Middle East, and North Africa.

HUMAN RESOURCES DEVELOPMENT

The big increase in the number of hotels offer the company's employees good career opportunities. At the same time, this has made SIH an attractive employer in the industry. One of

SIH's most important human resource strategies is to make sure that guests experience that all the employees with whom they come into contact have a "Yes I can" attitude. For this reason a large part of training resources will be used in seminars to create and further develop such an approach and attitude among employees.

SIH conducted an annual work environment survey among all employees including franchise hotels. Approximately 7,000 employees replied to the questionnaire in 1997 which showed a clear improvement in the work environment in the majority of hotels compared with the previous year.

CONTINUED FAVORABLE PROSPECTS

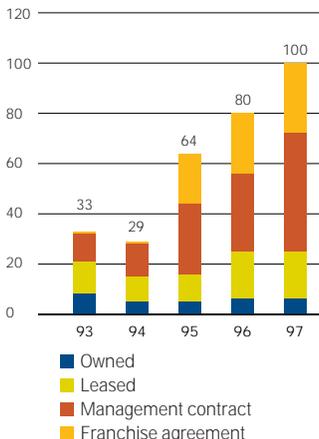
The market situation is expected to remain favorable in 1998. The negative situation in the Far East had little impact on operations in 1997. It is unclear to what extent this will affect the hotels in 1998.

In autumn 1998, SIH will open a new hotel with 350 rooms at Manchester Airport, U.K, and a hotel of a similar size adjacent to the new Gardermoen Airport outside Oslo.

Further expansion is expected on at least the same scale as previously and SIH therefore expects continued financial success through a favorable earnings trend in 1998.

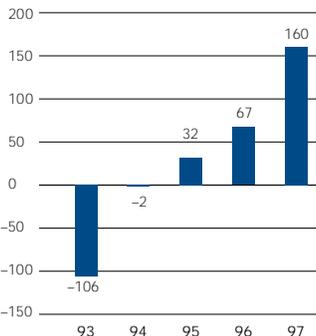
HOTEL TREND

[Number of hotels]



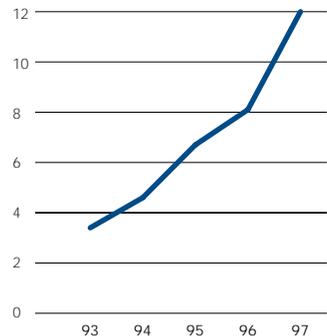
INCOME AFTER FINANCIAL ITEMS

[MSEK]



RETURN ON CAPITAL EMPLOYED - ROCE

[%]



Aircraft for USD 1.5 billion on firm order

The total number of aircraft in the SAS fleet was 178 at both the beginning and end of the year. Leased aircraft increased by four units, and owned aircraft decreased by the same number.

The number of owned aircraft (including finance leases) in SAS's fleet decreased from 141 units to 137 units in 1997. Two MD-90s were phased into the fleet, while six older aircraft were phased out. Three Fokker F-28-1000s were scrapped and two leased out aircraft were sold to their respective tenants: one MD-83 to Spanair, and one DC-9-51 to Hawaiian Airlines. A SAAB 340 was also sold to airBaltic. Another leased out MD-83 was sold to Spanair in January 1998.

The number of leased DC-9s remained unchanged, since a leased DC-9-41 was returned and replaced by leasing a DC-9-81. The entire increase in leased aircraft is attributable to the leasing of four SAAB 2000s. At year-end the number of leased aircraft totaled 41 units. An additional two SAAB 2000s were leased in the first quarter of 1998. Between December 1996 and December 1997, the number of leased out aircraft decreased by a net amount of one unit. Two leased out aircraft were sold and one 767-300 was leased out to Aeromexico.

DELIVERY OF FIRST NEW BOEING 737-600 IN AUTUMN 1998

In 1995, SAS signed a contract for a total of 76 Boeing 737-600s, comprising 41 aircraft on firm order and 35 options. The aircraft will be delivered during the period 1998–2002 and primarily be used to replace F-28s and DC-9s. According to the contract, the first aircraft will be delivered in autumn 1998.

In 1997 a decision was made regarding the purchase of a total of 16 new aircraft. SAS Commuter signed contracts for 15 Dash 8-400s, while the SAS Consortium exercised a 737-600 option.

At year-end there were 57 aircraft on firm order. The order value of these aircraft, together with spare parts, totaled USD 1.5 billion.

Studies are currently being carried out within SAS to de-

cide how the intercontinental routes will be served in the future.

The Dash 8-400 is a recently developed turboprop airplane which has just over 70 seats in the SAS version. This aircraft will be used, among other things, to replace SAS Commuter's Fokker 50s, and will provide considerable improvements with respect to comfort. Deliveries will start in

STATUS OF AIRCRAFT FLEET

	Owned/ Fin.lease. Dec. 96	Owned/ Fin.lease. Dec. 97	Leased/ Oper. lease.	Total	Leased out	Order
Boeing 747-200			1	1		
Boeing 767-300ER	7	7	8	15	1 ¹	
Boeing 767-200ER	1	1	1	1	1 ²	
Douglas MD-81 (Note A)	31	19		19		
Douglas MD-82 (Note A)	16	28		28	4 ³	
Douglas MD-83	4	3		3	1 ⁴	
Douglas MD-87	16	16	2	18		
Douglas MD-90-30	6	8		8		
Boeing 737-500	2	2		2	2 ⁵	
Boeing 737-600						42
Douglas DC-9-21	4	4		4		
Douglas DC-9-41	20	20	3	23		
Douglas DC-9-51	1					
Douglas DC-9-81			9	9		
Fokker F-28-4000	14	11	5	16		
Fokker 50	13	13	9	22		
de Havilland Dash 8-400						15
SAAB 2000			4	4		
SAAB 340	6	5		5	5 ⁶	
Total	141	137	41	178	14	57

¹ Aeromexico ² Transbrasil ³ Reno Air ⁴ Spanair ⁵ British Midland
⁶ Air Nelson, Golden Air

NOTE A – MD-81/MD-82

Twelve MD-81s received increased take-off weights during the year, which means they can carry more load on critical routes. As a result of this change, the designation of these aircraft has been changed to MD-82. The total number of MD-81s and MD-82s is unchanged.

DEVELOPMENT OF AIRCRAFT FLEET

	1995	1996	1997	1998	1999	2000	2001
Long-range and Cargo 767-300ER, 747-200	12	13	13	13	13	14	14
Short and medium-haul 767-300, MD-90, MD-81/82/83/87 DC-9-21/41/81, F-28-1000/4000, 737-600	117	126	124	132	132	135	140
Commuter Fokker 50, SAAB 2000, Dash 8-400	22	22	26	28	31	32	32
Total (aircraft in own operation)	151	161	163	173	176	181	186

July 1999 and continue into the second half of the year 2000. In addition to the firm order for 15 aircraft, SAS has options for 18 as well as 20 purchase rights. Under a purchase right the commercial terms have been decided but not the delivery date.

CONTINUED INVESTMENT IN IMPROVED ENVIRONMENTAL PERFORMANCE

During the year, SAS hushkitted a further eight DC-9-41s, an investment that amounted to approximately MSEK 165. This means that there are now only 19 aircraft in the SAS fleet – 16 F-28-4000s, and three leased DC-9-41s that do not meet the "ICAO Chapter III" noise standard. Aircraft that do not meet this standard may not be used within the EU after the year 2002. The SAS aircraft affected, however, will be phased out of the fleet in 1998 and 1999, as the 737-600s are phased in.

Although the Boeing 737-600 meets all set norms for the aircraft of the future, SAS has ordered an improved combustion chamber for its new aircraft at a cost of approximately MUSD 0.5 per plane. This measure will reduce nitrogen oxide emissions by approximately 40%.

FINANCING

The fleet is the largest asset item at SAS and at the end of 1997 it had a book value of MSEK 11,284. Financing of aircraft purchases mainly takes places as follows:

- Through SAS's own funds generated by its operations.
- Borrowing in a bank, issuing bonds or debentures, arranging various forms of commercial paper programs, or securing a

loan commitment. For example, SAS secured a MUSD 700 loan facility in May 1997 to prepare financing for future deliveries of Boeing 737-600s.

- Finance lease: SAS concludes long-term 10–17 year contracts which are in practice on a par with a purchase. The aircraft are booked as assets with SAS.
- Operating lease: short-term leasing contracts of two to five years which SAS concludes in order to meet temporary requirements for or surpluses of aircraft.

When ordering new aircraft, SAS signs both firm orders and options which provide increased opportunities to adjust the fleet to the route structure and traffic trend. The decision to exercise options must be made 18–24 months prior to delivery.

VALUE ADDED IN THE FLEET

At year-end 1997 the estimated market value of the SAS fleet represented a value added of approximately SEK 4 billion above the book value.

STAR ALLIANCE

In the immediate future cooperation within the Star Alliance will not have any major impact on the SAS fleet. The various fleets differ in terms of structure and standard specifications. In the longer term, some harmonization of the fleets may take place, as well as coordinated purchasing.

SAS AIRCRAFT FLEET



Douglas DC-9-21 & DC-9-41

Passengers: 75/105–122
Cruising speed: 815 km/h
Range: 2,600 km
Route specification: Short and medium-haul
Fuel consumption: 0.068/0.054 liters/seat km



Fokker F-28

Passengers: 65–75
Cruising speed: 670 km/h
Range: 1,350–2,150 km
Route specification: Mainly used on domestic routes in Sweden
Fuel consumption: 0.063 liters/seat km



Boeing 767-300ER

Passengers: 198–251
Cruising speed: 860 km/h
Range: 10,500 km
Route specification: The long-range aircraft of the 1990s
Fuel consumption: 0.038 liters/seat km



Douglas MD-80 (81, 82, 83, 87)

Passengers: 110–162
Cruising speed: 815 km/h
Range: 2,600 (81), 3,200 (82), 4,300 (83), 3,500 (87) km
Route specification: Short and medium-haul
Fuel consumption: 0.045/0.047/0.045/0.047 liters/seat km



Douglas MD-90-30

Passengers: 141
Cruising speed: 815 km/h
Range: 2,800 km
Route specification: Short and medium-haul
Fuel consumption: 0.041 liters/seat km



Boeing 737-600

Passengers: 95–123
Cruising speed: 830 km/h
Range: 4,000 km
Route specification: Short and medium-haul
Fuel consumption: 0.036 liters/seat km



Fokker F50

Passengers: 46–50
Cruising speed: 520 km/h
Range: 1,400 km
Route specification: Replaced F-27 on local routes within SAS Commuter
Fuel consumption: 0.038 liters/seat km



SAAB 2000

Passengers: 47
Cruising speed: 685 km/h
Range: 2,200 km
Route specification: Used on domestic routes in Sweden and between Sweden and Finland
Fuel consumption: 0.051 liters/seat km

Clear financial risk management and high international credit ratings

The SAS Group, with its international and capital-intensive operations, is exposed to different types of financial risks – currency risks, interest-rate risks, credit risks, and liquidity and borrowing risks. These risks are managed centrally by SAS Finance within the framework of a finance policy adopted by the Board, which is designed to achieve the maximum possible control and management of financial risks.

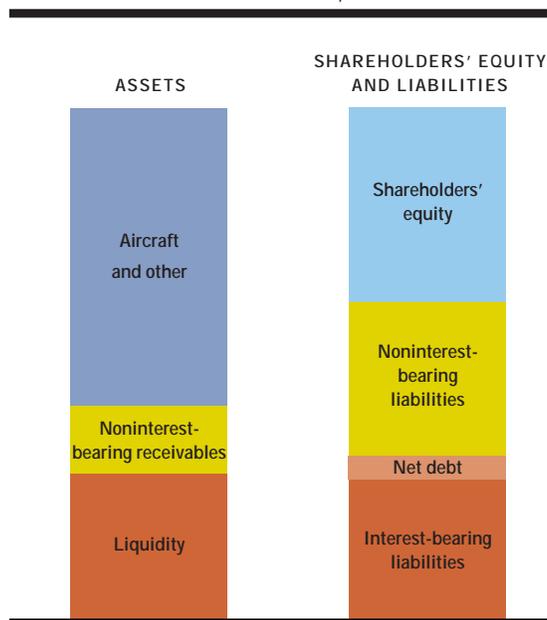
CURRENCY RISKS

The currency composition of liquid assets is spread to match the interest-bearing gross debt in order to reduce currency risks.

The currency composition of the interest-bearing net debt is spread to match the currency composition of the net cash surplus from operations. The major net operational inflow currencies are SEK, NOK, DEM, GBP, FIM, FRF and JPY. The diagrams below show how SAS's revenues and expenses are distributed between the different currencies. The currency composition of the net debt is revised continuously against moving 12-month liquidity forecasts. The size of the net debt in relation to total assets is shown in the diagram on the right.

Net operating outflow currencies are mainly DKK and USD. Between 60–90% of anticipated flows in these currencies are hedged continuously using forward contracts for the next 12 months. Hedging is conducted in proportion to surplus currencies.

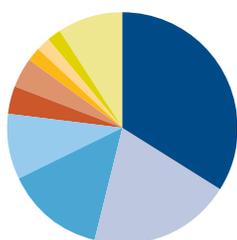
SAS GROUP'S BALANCE SHEET, 1997



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

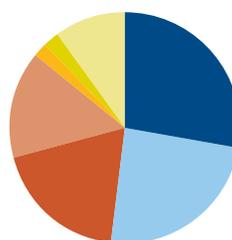
A summary of the effect of exchange rate fluctuations on earnings is provided on page 60.

CURRENCY COMPOSITION, REVENUES



- SEK 34%
- NOK 20%
- DKK 14%
- USD 9%
- DEM 4%
- GBP 4%
- FIM 2%
- JPY 2%
- FRF 2%
- Others 9%

CURRENCY COMPOSITION, EXPENSES



- SEK 28%
- DKK 24%
- USD 19%
- NOK 15%
- GBP 2%
- DEM 2%
- Others 10%

INTEREST-RATE RISKS

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

The fixed-interest period on the net debt is kept between 1–6 years. Various derivative instruments, such as interest-rate swaps, FRAs (forward-rate agreements) and futures are used to adjust fixed-interest terms. The average fixed-interest term varied in 1997, but averaged slightly less than 2.5 years.

CREDIT RISKS

Credit risks are associated with investments of liquid assets and the use of derivative instruments and result from the risk of the counterpart failing to honor his part of the agreement. The size of the credit risk on investments is the nominal amount, the risk of derivative instruments is based on a valuation performed in accordance with international market practice.

The finance policy stipulates that, above all, transactions must be conducted with institutions with very high credit ratings. Set counterpart limits are applied to each counterpart and these are continuously monitored and revised. There are ISDA agreements (a type of netting agreement) with most counterparts. Derivatives are mainly used to achieve the desired currency and interest-rate exposure on the net debt.

LIQUIDITY AND BORROWING RISKS

Liquidity and borrowing risks refer to the risk that refinancing of matured loans will be expensive or rendered difficult. In order to meet such risks, the aim is that liquid assets and committed credit facilities should amount to 25% of one year's fixed costs for the SAS Group. At present, this corresponds to approximately MSEK 7,500. As a result of long-term borrowing on attractive terms at the end of the 1980s and the beginning of the 1990s, SAS's actual liquidity exceeds the target. At December 31, 1997, the SAS Group's liquid assets amounted to MSEK 10,763 (11,050). These liquid assets shall mainly be invested in instruments with high liquidity or a short outstanding time to maturity.

FINANCING

Financing is mainly carried out via syndicated bank loans, bond issues, direct borrowing, subordinated debentures and finance leases. At the end of the year, the period to maturity for interest-bearing gross liabilities was approximately four years. At December 31, 1997, the SAS Group's interest-bearing liabilities amounted to MSEK 12,108 (13,376). A specification of long-term liabilities is provided in Notes 27–29 on page 79.

The size of committed credit facilities, granted by SAS's lenders, increased during the year when SAS signed a MUS\$ 700 credit facility in May 1997. Considerable interest from the bank market and highly competitive terms showed that the market regards SAS as an attractive borrower. This credit facility with a final maturity in the year 2004, provides SAS with additional liquidity reserves to meet future financing requirements and thus also reduces borrowing risks. At year-end 1997, SAS had total unutilized committed credit facilities of MUS\$ 1,010.

CREDITWORTHINESS

SAS's creditworthiness is good. The equity/assets ratio has improved in recent years and amounted to 38% on December 31, 1997. SAS's ratings from the American rating agency Moody's are A3 for long-term debt and P1 (the highest possible rating) for short-term liabilities. In addition, the Japanese rating institute Nippon Investor Services also provides credit ratings and in 1997, they had a long-term rating of SAS of AA for long-term liabilities and A-1+ (the highest possible) for short-term liabilities.

LONG-TERM RATING (MOODY'S)*

British Airways	A2
Lufthansa	A2
SAS	A3
Japan Airlines	A3
All Nippon Airways	A3
Qantas	Baa1
American Airlines	Baa2
United Airlines	Baa3
Delta	Baa3
Air Canada	Ba3

* At January 5, 1998

The brand as strategic asset

The hardware in the airline business – aircraft, lounges, uniforms, food and beverages, information systems, etc. – are more or less the same or can at least be copied among the major airlines. Together with design of the traffic system, it is the soft values – the confidence that has been built up and the values a company stands for – that differentiate airlines.

To an ever-greater degree, it is also the soft values that form the basis of and maintain the relationships between a company and its customers. That is what allows us to view these values as financial assets, called brand equity.

THE STRUCTURE OF BRAND EQUITY

Brand equity at SAS has been built up over a long time and can be viewed as an account in which a company, in its interaction with the market, makes continuous deposits and withdrawals. Each year at SAS, in the direct contact between service providers and service recipients, 200 million such withdrawals/deposits are made (20 million passengers per year with an average of 10 customer contacts per trip).

Brand equity comprises a wealth of different elements. These can essentially be broken down to four main categories:

- Awareness
- General image
- Perceived performance
- Relationship depth

AWARENESS

Awareness about SAS in the Scandinavian countries is virtually 100 percent. Ask Scandinavian business travelers to

name an airline, and nearly 8 out of 10 will spontaneously answer SAS.

In Sweden SAS is the second strongest brand among service companies and 8th among all brands (Swedish Brand Barometer, 1997).

GENERAL IMAGE AND META VALUE

In the airline industry a good safety profile forms the basis of the overall image and therefore also the foundation for the build up of the brand. SAS's longstanding and very good safety reputation and statistics, provide a stable platform for the brand.

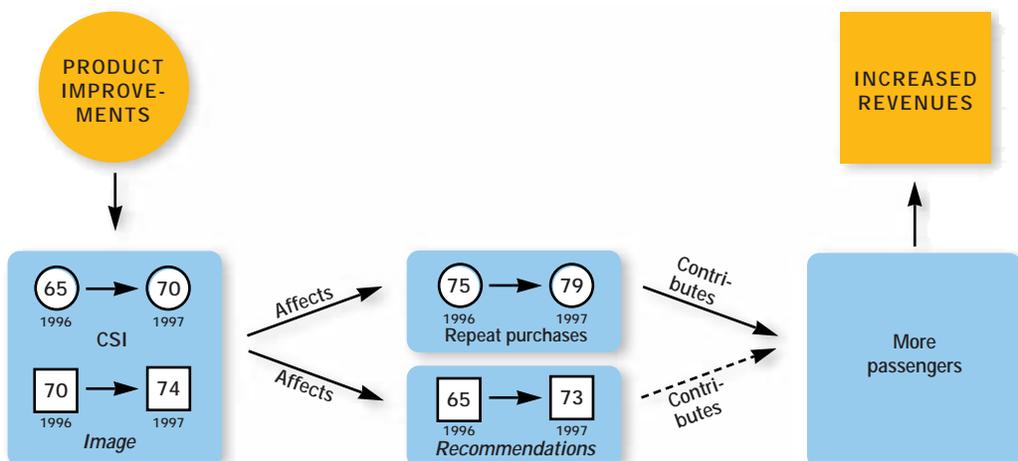
In surveys of the SAS image (TotQ 1996, 1997), we asked our customers about their general opinion of SAS. This has improved during 1997 (from 70 to 74 with a maximum value of 100), but it is still not good enough.

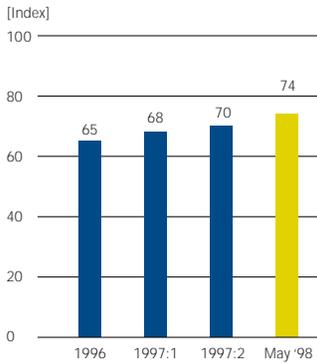
There is a strong connection between image and perceived performance – the image steers or skews perceptions of performance. This influence is called "positive meta" and "negative meta," respectively. Throughout most of the 1980s SAS had a strongly positive meta, i.e., the perception of SAS's performance was higher than its actual performance. Today and in recent years, SAS has had a negative meta, i.e., the actual performance is better than the perceived performance. This applies to punctuality, for instance, which we are continuously measuring relative to both actual and perceived performance.

SAS has one of the best punctuality records among European airlines, while Airtrack, Europe's leading survey of business traveler's attitudes to airlines, show that SAS is perceived to be among the worst.

MORE SATISFIED CUSTOMERS AND IMPROVED IMAGE PROVIDE MORE PASSENGERS AND HIGHER REVENUES

1996 COMPARED WITH 1997



CUSTOMER SATISFACTION (CSI)

The goal for 1998 is to neutralize the meta value, i.e. perceived SAS performance will be on a level with actual performance.

PERCEIVED PERFORMANCE AND CSI

The greatest influence on brand equity is how satisfied our customers are. Customer satisfaction is essential for preference, loyalty and inclination to recommend SAS to others.

To measure this we use the Customer Satisfaction Index (CSI), which answers three questions:

- How satisfied are customers with SAS?
- To what extent is SAS perceived to meet the customers' expectations?
- How far/close from "the ideal airline" is SAS perceived to be?

The CSI has a maximum value of 100. This method provides SAS with key data for overall customer satisfaction and for key performance areas, as well as showing where efforts need to be made.

The most significant factors for satisfied customers are:

- pleasant treatment and efficient service,
- punctuality and regularity,
- the traffic system – the quality and breadth of offered service.

CSI measurements were conducted once in 1996 and twice in 1997. Improved CSI values show progress in important areas such as perceived punctuality, treatment by cabin personnel and the traffic system.

INCREASED RELATIONSHIP DEPTH GROWS REVENUES

Satisfied customers develop preferences and loyalty (the inclination to repeat purchases), and by extension they become ambassadors for the brand, i.e., they recommend that others use SAS. We measure both customers' inclination to repeat purchases and recommend SAS to others.

Naturally, the airlines' bonus programs aim to increase loyalty to their own brands. For the second consecutive year SAS EuroBonus was named as the world's best (see p. 36). Its value for SAS and its brand equity can hardly be overestimated.

The increase in the inclination to recommend SAS to others was very large during the year – from 65 to 73 on a scale of 100 – and this also shows the effects of an improved image.

INVESTMENTS IN THE SAS BRAND

In summary we can say that the SAS brand is one of the company's greatest strategic assets, with a direct impact on revenues and profitability. Consequently, how we manage our brand equity is of utmost importance from the shareholders' perspective.

The SAS brand is inherently very strong. However, due to a lingering negative meta, SAS is not gaining full leverage from improved performance.

Investments will therefore be made in 1998 in a number of "image criticals" in which SAS will improve its performance and convey this in its marketing and in other ways. In September/October 1998 a high-impact program will ultimately confirm the new SAS and its soft values.

Our employees own our most important resources

The average number of employees in the SAS Group in 1997 was 25,057 (23,607), of whom 22,524 (21,348) worked for SAS and 2,494 (2,222) for SAS International Hotels.

SAS's human resources policy is based on the belief that the individual employees are the company's chief competitive resource and advantage.

The focus on the employees as the key to success is obvious – especially in a service company – and SAS has a rich tradition in this area. Nevertheless, our view has developed in recent years.

In the past we maintained that the employees were SAS's most important resource. Today our view is that it is the employees who own SAS's most important resource – the competence, innovativeness and approach to work and the customer. It cannot be taken for granted that this resource is fully and entirely utilized to the company's benefit. The company and management must ensure that this resource is released through supportive leadership.

CREATIVE INVOLVED EMPLOYEES AND SUPPORTIVE LEADERSHIP

At SAS we are working with resolve to create the right conditions for active creative involvement. Mutual trust, the will to change, the ability to take advantage of opportunities and to take responsibility are a few of these.

Creative employees get involved, influence, take responsibility, develop the company and themselves – always based on the customer's need.

Supportive leadership entails creating the conditions that will enable employees to put their resources to effective use in their work. This is accomplished through a sensible organization for how resources are allocated – through dialog and clearly stated objectives, through competence development, and by assuring that effective tools are in place.

CUSTOMER SATISFACTION REQUIRES EMPLOYEE SATISFACTION

A good work climate and sound work environment are fundamental prerequisites for creative, involved employees and good work performance.

In a service company, employee satisfaction can be seen in the product itself. This is extra important in view of the intensity with which we stress quality in our customer contact. SAS's employees express their views on the work climate in a yearly questionnaire. Between 1996 (the base year) and

EMPLOYEES' PERCEPTIONS OF WORK CLIMATE

	1997	1996 (base year)
	106	100

1997, this survey showed a 6% improvement in employee satisfaction. The questionnaire is followed up with a joint effort by employees and management to draft improvement plans, which are integrated with the other business plans.

Employee turnover in 1997 was 6.4% on a full-year basis, calculated as the average number of new employees and terminations in relation to the total number of employees. Due to seasonal, temporary recruitment, employee turnover varied from 4.7% during the winter half-year to 8.1% during the summer half-year.

FOCUS ON WORK ENVIRONMENT

We have set the goal of making SAS an airline industry leader with respect to the work environment. This means that SAS must offer a good, safe work environment which measures up to our values and naturally conforms to the laws and regulations in the countries in which we operate. Work is designed to enable employees to perform their duties optimally.

Absence due to sickness in Denmark and Sweden was stable in 1997, while it increased among our employees in Norway. Most absence due to sickness pertains to chronic afflictions. SAS works systematically and methodically on rehabilitating and relocating employees.

The trend in sickness-based absence is unsatisfactory. Therefore an intensified review has been initiated of the work environment, both the physical and psychological. Action plans are being drafted in the formal internal control work (IK) in Norway and Sweden, and in workplace evaluations (APV) in Denmark.

The Health, Environment and Safety (HES) functions are currently being restructured in the aim of ensuring that preventive work is an integrated part of leader support. Transnational activities are being devised to an increasing degree in order to benefit from competencies and develop them effectively. Safety labeling of uniforms, work environment analy-

EMPLOYEE TURNOVER

%	1997
On full-year basis	6.4
For the period April–September 1997, recalculated to full-year basis	8.1
For the period January–March and October–December 1997, recalculated to full-year basis	4.7

ABSENCE DUE TO SICKNESS

%	1997	1996
Operational employees	6.0	6.6
Salaried employees and cabin personnel	4.3	4.3

ses in connection with investments in new aircraft, and installation of workplaces in new airport terminals are a few examples.

SAS'S COOPERATION MODEL

Close cooperation is a prerequisite for running SAS efficiently and competitively. Customers suffer immediately from labor conflicts in service companies. Cooperation at SAS is based on structured, efficiently working relations between and among leaders, employees and elected representatives.

Involving the employees in business development is a critical success factor. Therefore, quality improvement work and process development are conducted jointly by employees and leaders.

Relations between leaders and the unions at SAS are characterized by deepening cooperation on goals, strategies and implementation. Conferences were held during the year with all the union leaders to review and discuss SAS's strategic plans. A joint evaluation process was initiated for a new collective bargaining model.

As in 1996, no work stoppages occurred in Sweden in 1997. In Norway, a half-hour protest strike was held together with other companies against the planned public transport offer to Gardermoen. In Denmark a small number of work stoppages lasting a few hours each occurred during the year, which had minimal impact on air traffic.

CONTINUED COMPETENCE DEVELOPMENT

SAS is a learning organization, one in which we learn from each other, from the customers, and from our competitors. Ongoing competence development is a prerequisite for being able to compete successfully.

Ongoing employee training in the form of both maintaining and developing new competence continued in 1997 at the same high level as in 1996 with an investment of approximately MSEK 950 (including loss of production).

Developing supportive leadership requires a new approach and increased quality in management activities. Leadership development efforts are being changed in favor of direct management based on operational development needs. New, comprehensive programs will be launched in spring 1998.

BREAKDOWN OF AVERAGE NUMBER OF EMPLOYEES AT SAS, 1997

	%
Station Services Division	25.4
Operations Division	22.7
Technical Division incl. SAS Component	15.6
Marketing & Sales Division	13.0
Subsidiaries	9.0
SAS Cargo	5.0
Staffs	3.4
SAS Trading	2.7
Information Systems Division	1.8
Business Systems Division excl. SAS Cargo and SAS Trading	1.4
	100





Our environmental targets for the year 2001

- Only Chapter III aircraft
- Eco-labeling for SAS's main products
- Recognition for SAS as an environmental leader in the airline industry

Continued development of SAS's environmental program

SAS was one of the first airlines to raise its environment work to the highest management level and make it a strategic issue. This took place in 1995 and now, after three years, we consider that our environmental efforts have started to have a noticeable impression on the development of the company's business position.

Our environmental strategy is, within the framework of SAS's financial, safety and quality goals, to conduct our operations in such a way as to cause the least possible environmental impact. Environmental aspects must always be included in documentation for decision-making and SAS will utilize and introduce methods that minimize energy consumption, have recycling potential, and lead to minimal emissions.

SAS's purchasing policy has been revised and now places clear environmental demands on suppliers of goods and services.

Environmental work is part of TQM work at SAS. SAS has also decided to develop its environmental management systems with the aim of future EMAS registration and/or certification according to ISO 14001.

The SAS Environment Report for 1997 has been examined by external verifiers who have expressed themselves positive. In 1997, SAS received an award for the best environmental report in Denmark, and a number of other honorable mentions, and was once again nominated for the ACCA's 1997 environmental award.

EMISSIONS FROM FLIGHT OPERATIONS

SAS works continually to raise the efficiency of its resource and energy consumption and to reduce the environmental impact of its flight and ground operations. Flight operations account for most of SAS's total environmental impact – including resource consumption through the use of non-renewable energy sources (jet fuel), emissions of exhaust fumes (CO₂ and NO_x) that affect climate and cause acidification, and local environmental impact through noise.

The renewal of the fleet is a deciding factor for how much SAS's relative emissions can be reduced, while total emissions are determined both by the rate of renewal of the fleet and the development of the total traffic volume.

SAS's total production (ATK) increased by 5.8% in 1997 compared with 1996 and fuel consumption rose 5.4% to 1,615,683 m³. Since carbon dioxide emissions are proportional to fuel consumption, these rose from 3,815 Mtonne to 4,019 Mtonne.

SAS's average fuel consumption in 1997 was 6.2 kg (corresponding to 6.1 liters) per 100 passenger kilometers.

A positive development was noted for SAS's cabin factor, from 63.6% to 64.9%.

Emissions of nitrogen oxides are estimated to have increased by 3.2% to 14,835 tonnes in absolute numbers,

while relative emissions fell by 1%.

The trend for emissions of hydrocarbons (HC) was positive in both relative and absolute terms. Total emissions fell by 0.7% to 2,069 tonnes.

FLEET RENEWAL WITH ENVIRONMENTAL EFFECTS

SAS is in a period of renewal and growth of its aircraft fleet. The environmental criterion is formulated as the principle that "the best available technology" will apply to every decision and order.

In 1997 the remaining two McDonnell Douglas MD-90s (of a total of 8) were delivered to SAS. These aircraft are among the best in their class in terms of environmental performance, particularly with regard to noise.

SAS has also completed the hushkitting program for its own DC-9 fleet, an environmental investment of MSEK 165 in 1997.

The proportion of Chapter II aircraft in the SAS fleet therefore decreased from 19% to 12%. SAS expects all its Chapter II aircraft will have been phased out in 1999, in good time before the EU's total ban comes into force on April 1, 2002.

From autumn 1998 through the year 2002, SAS will phase in 41 Boeing 737-600 aircraft with an extra combustion chamber, which leads to 40% lower emissions of nitrogen oxides and 20% less carbon dioxide. The environmental investment in the engines alone amounts to MSEK 159.

ENVIRONMENT AND FINANCE

There is a general trend throughout Europe to sharpen environment-related charges and/or environmental controls. SAS works in national and international forums and enters into discussions with the relevant authorities in order to bring about predictable, long-term, internationally binding guidelines for environmental matters in the transport sector. SAS's main attitude is that all forms of transport should cover the costs of their infrastructure and environmental impact based on the "Polluter Pays" principle.

SENSITIVITY ANALYSIS

The EU's work on changes to the Mineral Oil Directive may result in jet fuel becoming subject to energy/environmental charges. The suggested charges would impose increased costs on SAS in the order of several hundred million SEK, unless the entire system of taxes and charges is reworked.

The EU is also working on a draft directive to reduce emissions of nitrogen oxides from aircraft engines. Based on what is known about this draft proposal, SAS expects that the company's fleet will comply with these more stringent rules.

ECAC is working on a proposal for dividing Chapter III aircraft into several classes, including the introduction of differentiated noise classes. Such a classification, could have consequences for the MD-80 fleet.

In the short term, environmental charges and restrictions may lead to decreased flexibility in the use of the SAS fleet and increased costs in the traffic system. This may also have a negative impact on the secondhand value of parts of the SAS fleet in future phase-outs.

Changes in Environment-Related Charges in Scandinavia

- Starting on April 1, 1998, Norway is changing passenger charges to a seat charge. On a full-year basis this will represent an increase of MNOK 250 over the 1997 charge level.
- The Swedish change in the emission tax, effective on January 1, 1998, which is based on nitrogen oxides (NOx) will lead to a net increase of environmental charges of MSEK 10–20.
- The Danish authorities have introduced an environment-based passenger charge from January 1, 1998. This will increase the budgeted charge level by MDKK 208.
- Noise regulations at the new main Norwegian airport Gardermoen are in breach of the ICAO's principle not to introduce operational restrictions on Chapter III aircraft. SAS is of the opinion that this may have consequences for other environmental regulations in the future.
- The new concession requirements for SAS's technical bases, and other concession requirements for operations at Gardermoen, are not expected to have any significant consequences for SAS.
- As far as SAS is aware, other changes in ground-related environmental charges/rules such as concessions, permits and exemptions, will not have a significant impact on SAS's operations.

ENVIRONMENTAL DEBTS AND DISPUTES

Environment-related costs in the Group's statement of income for 1997 include MSEK 9 for decontamination of polluted land at Kastrup Airport. The total restoration cost was MSEK 16, of which Copenhagen Airport paid MSEK 7. Both parties are adherents of the principle that the polluter should pay the costs of repairing environmental damage (Polluter Pays Principle). Since there was uncertainty in this case surrounding to what extent each party contributed to the damage and how the concept of operator should be interpreted between them, this sharing of the costs is the result of negotiations between the parties. There may be a risk that similar damage has occurred in connection with refueling and maintenance work on properties now used, or previously used, by SAS at other airports. The possible existence of such damage has not yet been investigated and no claims for compensation have been submitted to SAS.

SAS has twice informed the National Pollution Authority that it has touched but not exceeded the concentration limit on discharges to water in accordance with concession requirements.

SAS has a dispute with the Swedish Board of Civil Aviation over a Chapter II ban at the new Karlstad airport. This matter will proceed as a dispute between EU and Swedish authorities, while for the time being SAS has adapted its traffic on Karlstad to meet current regulations. SAS also has an ongoing dialog with Swedish authorities regarding environmental restrictions at Umeå airport.

Otherwise, 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 authorities.

The question of responsibility for environmental damage is currently under discussion within the European Commission (DG XI). The Commission intends to present a "white book" on this matter in April 1998. Under a proposal from the Commission, which was discussed at a meeting of national experts in November 1997, responsibility shall rest with the polluter. If several polluters are responsible, the responsibility will be joint and several, although it will be possible for the party that can show he has contributed to a certain part of the damage, to only bear responsibility for that part. Since there is no directive on the division of responsibility for environmental damage and a decision has not been reached in this matter, it is impossible at present to express an opinion as to how any such ruling on this matter within the EU will affect SAS. Against the background of existing environmental legislation in the three Scandinavian countries, the proposal from the European Commission is only expected to change the existing division of responsibility to a limited extent.

SAS's insurance covers the company's liability for environmental impact in the event of serious incidents and accidents. SAS has emergency procedures to deal with crashes, accidents or incidents that may lead to contamination. SAS applies a systematic management, operating and maintenance program to prevent and limit the risks of pollution.

A more complete and detailed account of SAS's environmental work and status is provided in SAS's separate environmental report for 1997 or SAS's Internet website: <http://www.sas.se>

ENVIRONMENT-RELATED REVENUES AND/OR COST REDUCTIONS

Reduced costs in connection with improved waste management, reduced energy and resource consumption, packaging charges	c. MSEK 15
Cost reduction from phasing out of Chapter II fleet (-7%)	c. MSEK 25

ENVIRONMENT-RELATED INVESTMENTS/COSTS

2 MD-90s (environmental investment MSEK 10 per aircraft)	MSEK 20
Hushkitting DC-9s	MSEK 165
Additional cost from use of Chapter II aircraft	MSEK 50
Environmental proportion of Gardermoen project	MSEK 25
Environmental proportion of costs of investment in cabin/ground operations	MSEK 34

ENVIRONMENT-RELATED TAXES/CHARGES

Seat/passenger charges in Norway	MSEK 475 (469)
Noise charges	MSEK 6.5 (15)

(Emissions tax in Sweden has been paid for 1997, pending a new emissions charge introduced on January 1, 1998.)

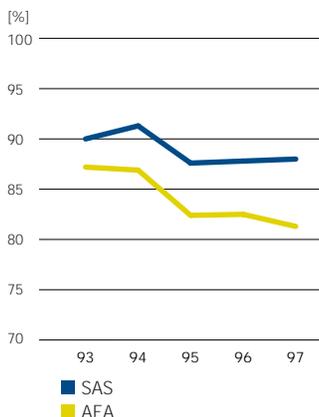
Operational key figures and graphs

TRAFFIC/PRODUCTION		1997	1996	1995	1994	1993
Number of cities served		98	101	100	102	104
Number of flights, scheduled		320,410	309,636	295,028	297,688	314,940
Kilometers flown, scheduled	(millions)	244.3	235.7	218.5	217.2	225.6
Total airborne hours, scheduled	(000)	390.4	375.5	352.6	350.2	367.9
Number of passengers carried, total	(000)	20,797	19,828	18,835	18,823	18,619
Available tonne kilometers ² , total	(millions)	4,346.0	4,130.8	3,586.2	3,514.0	3,576.4
Available tonne kilometers, scheduled		4,290.6	4,092.6	3,546.2	3,500.8	3,566.6
Available tonne kilometers, charter		55.4	38.7	40.0	13.2	9.8
Revenue tonne km ² , scheduled	(millions)	2,571.5	2,392.2	2,172.7	2,163.2	2,106.9
Passengers and excess baggage		1,827.7	1,754.6	1,670.4	1,666.8	1,637.3
Freight		693.7	590.4	452.8	445.9	420.4
Mail		50.1	48.2	49.5	50.5	49.2
Total load factor ² , scheduled	(%)	59.9	58.5	61.3	61.8	59.1
Available seat km ² , scheduled	(millions)	31,333	30,646	28,447	28,154	28,581
Revenue seat km ² , scheduled	(millions)	20,339	19,487	18,506	18,466	18,138
Cabin factor ² , scheduled	(%)	64.9	63.6	65.1	65.6	63.5
Average passenger trip length, scheduled	(km)	986	990	989	983	976
Traffic revenue/Revenue tonne km	(SEK)	11.94	11.77	12.91	12.07	11.24
Passenger revenue/Revenue passenger km, scheduled (SEK)		1.34	1.31	1.39	1.29	1.21
Airline oper. expense/Available tonne km, scheduled (SEK)		6.73	6.53	7.17	7.21	6.69
Revenue tonne km/Employee	(scheduled)	129,517	127,565	119,052	115,920	108,388
Revenue passenger km/Employee	(scheduled)	1,023,603	1,025,902	1,014,027	989,532	933,053
Fuel price	(cents/gallon)	75	78	67	66	71
Punctuality	(% within 15 minutes)	88.0	87.8	87.6	91.3	90.0
Regularity ²	(%)	99.0	98.7	97.5	98.7	98.7
Break-even load factor ²	(%)					
SAS		57.2	56.0	56.4	58.6	59.5
AEA		¹	66.6	66.2	65.2	65.5
IATA		¹	59.9	59.0	60.4	61.2
US Majors		¹	53.7	52.2	54.6	53.5

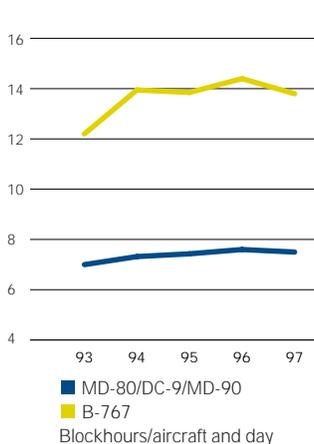
¹ Figures not available.

² For definitions, see page VII.

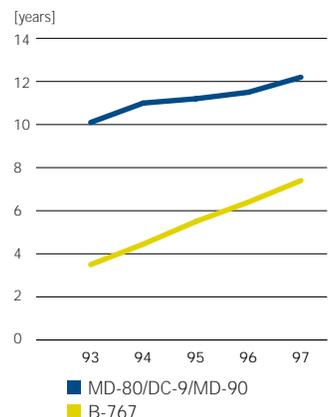
PUNCTUALITY



SAS'S AIRCRAFT FLEET CAPACITY UTILIZATION

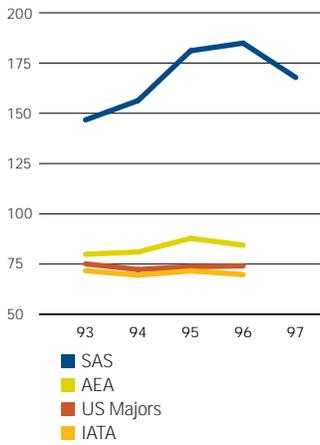


SAS'S AIRCRAFT FLEET AVERAGE AGE

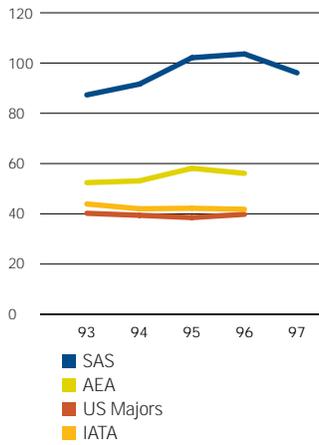


FIVE-YEAR SUMMARY

YIELD*



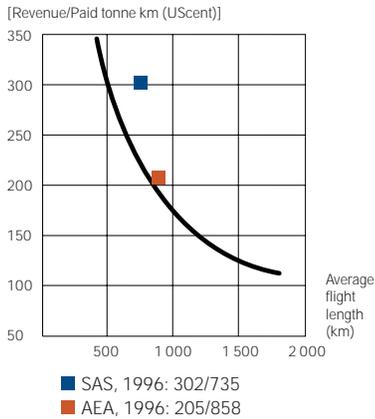
UNIT COSTS*



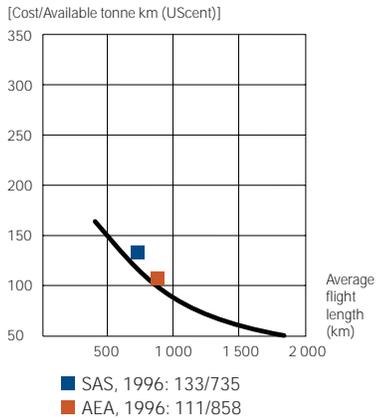
OPERATING MARGIN



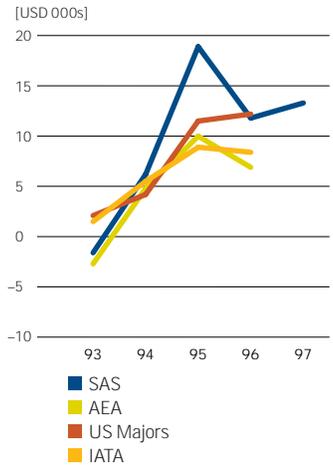
UNIT REVENUE* VARIATION BY FLIGHT LENGTH, EUROPE



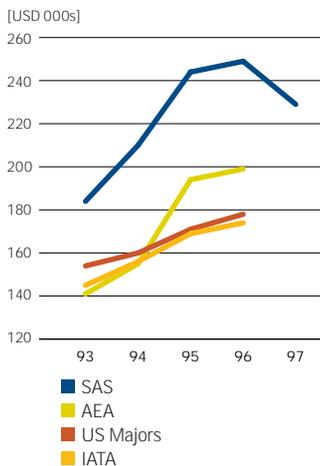
UNIT COST* VARIATION BY FLIGHT LENGTH, EUROPE



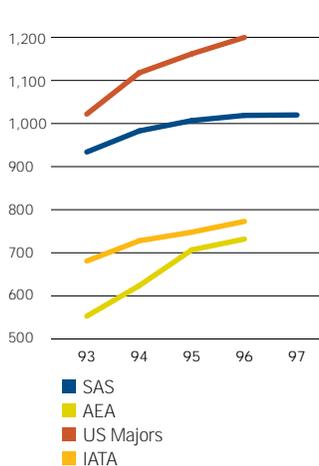
OPERATING INCOME PER EMPLOYEE



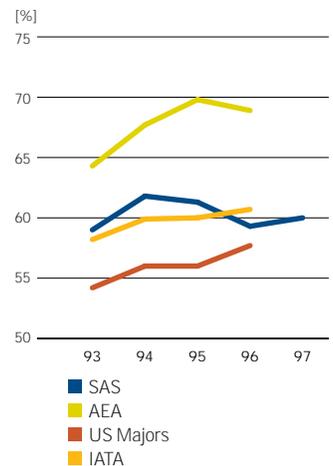
REVENUE/EMPLOYEE



PASSENGERS/EMPLOYEE



LOAD FACTOR*



*For definitions, see page VII.



Board of Directors' Report

Report by the Board of Directors and the President for the fiscal year January 1–December 31, 1997.

THE SAS GROUP 1997

*The SAS Group's financial statements are prepared in accordance with International Accounting Standards.
(Figures in parentheses refer to 1996.)*

MARKET

SAS's traffic development was positive compared with the previous year. 1997 got off to a weak start, but total passenger traffic increased by 4.4% over the previous year due to favorable traffic growth in the latter part of the year. There was increased growth in the business segment in the second half of 1997. Total traffic growth was slightly lower than market growth due to a lower increase in production than most other European airlines.

In 1997, air traffic in Europe within the Association of European Airlines, AEA, increased by 10%. SAS's traffic growth in Europe was 9%.

The Swedish domestic market increased by 4% in 1997. SAS's traffic, including the cooperation with Falcon Air, rose 3% over the previous year while market share fell to 60% (63%). The growth for Norwegian domestic services was approximately 3%. SAS's traffic increased by 4% and market share, including partners, rose by 0.3 percentage points to 48.6%. SAS's Danish domestic traffic decreased by 3%. The Danish domestic air services market experienced a sharp rise in competition as a result of the new train service over the Great Belt. Including partners, market share increased by 2.4 percentage points to 65.8%.

In 1997, competition in SAS's home market intensified still further. The increased competition led to continued fare pressure and SAS's yield, adjusted for currency effects, remained unchanged for the second consecutive year.

ALLIANCES AND COOPERATION PARTNERS

Star Alliance, a global alliance between SAS, Lufthansa, United Airlines, Thai Airways International, and Air Canada, was launched in May 1997. Varig Brazilian Airlines joined the alliance in October 1997. The present Star Alliance covers 642 destinations in 108 countries.

In order to strengthen its position in the Scandinavian home market, SAS extended its cooperation with regional partners during the year. As part of this strategy, an agreement was concluded between Bonheur ASA and Ganger Rolf ASA and SAS with respect to SAS's acquisition of 29% of the shares in Widerøe's Flyveselskap ASA. This transaction is subject to approval from the competition authorities. The acquisition will not be included in SAS's financial statements until 1998. In addition, an option agreement has been concluded between the parties regarding SAS's purchase of a further 34% of the shares. The option runs until December 28, 1998. To strengthen SAS's presence in Finland, all the shares in OY Air Botnia AB were acquired in January 1998.

SAS AND THE ENVIRONMENT

Flight operations with consumption of non-renewable energy sources, exhaust emissions of carbon dioxide and nitrogen oxides, and noise that affects the environment close to airports, account for the main part of SAS's environmental impact. This makes planning a changeover of the aircraft fleet important for the reduction of relative emissions. SAS is now in a period of renewal, changeover and extension of its fleet. Environmental aspects are one of the most important criteria when decisions are made on investments in new aircraft.

Environmental issues are an integral part of SAS's decision-making process and will be further strengthened in SAS's purchasing policy which makes demands on suppliers of goods and services.

SAS participates in a new environmental forum within the Star Alliance where work is focused on setting joint environmental objectives and an undertaking on the part of each company to continually improve environmental work. A detailed account of objectives, strategies, organization and environment-related investments, etc., is provided in SAS's separate environmental report for 1997.

AFFILIATED COMPANIES

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

British Midland PLC's earnings developed very favorably during the year, particularly on international routes. The number of passengers increased and the cabin factor improved compared with the previous year. British Regional Airlines was sold during the year. British Midland PLC's income after taxes amounted to MGBP 11 (6). SAS's share of this result, including a MSEK 32 (27) amortization of goodwill and a MSEK -14 (8) adjustment to the 1996 result, amounted to MSEK 9 (5).

airBaltic Corporation SIA, Latvia's national carrier, developed according to plan. The cabin factor rose to 48%. The company's planned service to Moscow was unable to start for political reasons concerning civil aviation. Income for the year totaled MUSD -5 (-18). SAS's share amounted to MSEK -10 (-45).

Spanair S.A.'s income after taxes amounted to MSEK 60 (-28) and SAS's share was MSEK 30 (-14). SAS's share of income in Polygon Insurance Company Ltd was MSEK 14 (25).

The SAS Group's operating income includes shares of affiliated companies' income after taxes of MSEK 61 (-15). Equity in affiliated companies amounted to MSEK 756 (653).

SAS Group Statement of Income

(Note 1)

MSEK	1997	1996
Operating revenue – Note 2	38,928	35,189
Payroll costs – Note 3	-10,994	-10,184
Other operating expenses – Note 4	-23,816	-21,337
Operating income before depreciation	4,118	3,668
Depreciation – Note 5	-1,880	-1,851
Share of income of affiliated companies – Note 6	61	-15
Income from the sale of shares in Group and affiliated companies	1	-
Income from the sale of aircraft and buildings – Note 7	83	100
Operating income	2,383	1,902
Result from other shares and participations – Note 10	15	1
Interest income and similar income items – Note 11	659	744
Interest expenses and similar income items – Note 12	-826	-830
Income after financial items	2,231	1,817
Taxes payable by subsidiaries – Note 13	-71	-39
Minority shares	0	-2
Income before taxes relating to the SAS Consortium and the SAS Commuter Consortium	2,160	1,776

INCOME BY OPERATING AREA

MSEK	1997	1996
SAS		
Income before depreciation	3,772	3,426
Depreciation	-1,755	-1,736
Share of income of affiliated companies	49	-26
Income from the sale of shares in affiliated companies	2	0
Income from the sale of flight equipment and buildings	83	100
Income from the sale of other shares	15	0
Net financial items	-99	-18
SAS total	2,067	1,746
SAS International Hotels	160	65
Other operations/Group eliminations	4	6
Income before taxes	2,231	1,817

CURRENCY EFFECTS ON THE SAS GROUP'S EARNINGS

Both operating revenue and operating expenses, and financial items are affected to a considerable extent by exchange rate fluctuations. Only approximately 34% of operating revenue and 28% of operating expenses are in Swedish kronor.

The total effect of changed exchange rates on the SAS Group's operating income for 1997 compared with 1996, was a gain of MSEK 73. On the other hand, the difference between the years in exchange differences on the financial net debt provided a loss of MSEK 51.

The total effect on income before taxes was therefore an exchange gain of MSEK 22.

MSEK

Operating revenue	1,055
Operating expenses including translation of working capital	-982
Operating income	73
Financial items	-51
Income before taxes	22

Comments on the Statement of Income

The SAS Group's operating revenue increased by MSEK 3,739 or 10.6%. Adjusted for currency effects between the years, MSEK 1,055, operating revenue increased by 7.6% or MSEK 2,684. MSEK 1,079 of this increase was increased passenger revenues, MSEK 617 other traffic revenues and the remaining MSEK 988 increased volumes within other operating areas. SAS's passenger traffic measured in RPK, revenue passenger kilometers, increased by 4.4% compared with 1996. Adjusted for currency effects, yield was unchanged compared with the previous year.

Total operating expenses rose by MSEK 3,289 or 10.4%. Adjusted for currency effects of MSEK -982, expenses increased by 7.1%. In SAS's airline operations, operating expenses increased by MSEK 2,637 or 9.6%. Adjusted for currency effects, the corresponding increase was 6.3%. Taking increased volume into account, unit costs increased by 1.6%. This increase in unit costs was mainly due to increased payroll costs, maintenance costs, and investments in product improvements.

Operating income increased by MSEK 481, of which MSEK 73 is attributable to changed exchange rates. The gross profit margin increased from 10.4% to 10.6%.

Depreciation was at the same level as in 1996. For the MD-90s acquired in 1996 the acquisition cost was reported gross with the financing discount received booked separately as a liability. This liability item will be dispersed over the term of the loan, approximately 10 years. In 1997 a similar approach was applied to earlier acquisitions of MD-80s and Boeing 767s. This has reduced depreciation for 1997 by MSEK 184. In connection with the changeover from a diminishing-balance depreciation method to a straight-line depreciation method at January 1, 1994, a difference in book values between the two methods was noted. This has been periodized through raised annual depreciation, which amounted to just over MSEK 180 in 1997.

Shares of income of affiliated companies improved by MSEK 76 to MSEK 61, mainly due to a positive earnings trend in Spanair S.A. and airBaltic.

The MSEK 83 (100) income from the sale of flight equip-

ment includes the sale during 1997 of one MD-83 to Spanair S.A., MSEK 53, and the sale of one DC-9-51, MSEK 17.

The SAS Group's net financial items amounted to MSEK -167 (-86).

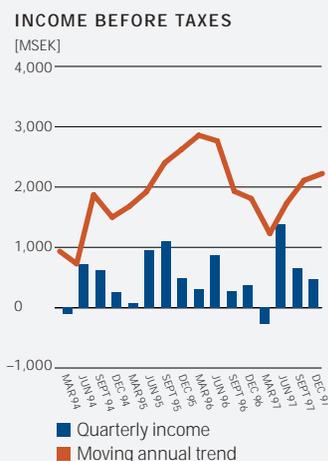
The trend on the financial markets was on the whole relatively stable in 1997. Increased uncertainty in the autumn, led to greater mobility in all markets.

The SAS Group's net interest income remained at the previous year's level at MSEK -140 (-135).

The price trend for the Swedish krona during 1997 had a moderate effect on the net debt. In total, a negative currency effect of MSEK -1 is reported in the SAS Group's net financial items. In the previous year, the exchange difference was positive in the amount of MSEK 50.

Income after financial items amounted to MSEK 2,231 (1,817).

Of subsidiaries' total tax liability, MSEK 27 was provision for deferred tax. 1996 included a utilization of MSEK 23.



SAS Group Balance Sheet

(Note 1)

ASSETS, MSEK

	1997	1996
FIXED ASSETS		
Intangible		
fixed assets – Note 14, 15	36	24
Tangible		
fixed assets – Note 15		
Buildings and land	4,910	4,966
Aircraft	11,284	11,739
Spare engines and spare parts	964	869
Workshop and service equipment for aircraft	111	92
Other equipment and vehicles	1,385	1,261
Construction in progress	1,332	458
Prepayments for tangible fixed assets – Note 16	1,094	369
	21,080	19,754
Financial fixed assets – Note 15		
Equity in affiliated companies – Note 17	756	653
Long-term receivables from affiliated companies – Note 19	98	88
Shares and participations – Note 20	62	63
Pension funds, net – Note 25	530	–
Other long-term receivables	438	202
	1,884	1,006
Total fixed assets	23,000	20,784
CURRENT ASSETS		
Inventories, etc.		
Expendable spare parts and inventories – Note 21	774	636
Prepayments to suppliers	5	3
	779	639
Current receivables		
Accounts receivable	2,307	1,862
Receivables from affiliated companies	52	15
Other receivables – Note 22	758	883
Prepaid expenses and accrued income	916	637
	4,033	3,397
Short-term investments – Note 23	9,113	10,333
Cash and bank balances	704	717
Total current assets	14,629	15,086
TOTAL ASSETS	37,629	35,870

SHAREHOLDERS' EQUITY AND LIABILITIES, MSEK

	1997	1996
SHAREHOLDERS' EQUITY – Note 24		
Capital account	12,976	11,992
Other equity	1,265	1,038
	14,241	13,030
Minority interests	19	18
Provisions		
Pensions and similar commitments – Note 25	214	436
Deferred tax	163	137
	377	573
Long-term liabilities – Note 26		
Subordinated debenture loan – Note 27	784	737
Bond issues – Note 28	2,351	2,843
Other loans – Note 29	7,840	8,140
Other liabilities	838	907
	11,813	12,627
Current liabilities		
Current portion of long-term loans	634	950
Loans – Note 31	284	271
Prepayments from customers	33	14
Accounts payable	1,680	1,401
Liabilities to affiliated companies	13	13
Taxes payable	45	43
Unearned transportation revenue – Note 32	1,953	1,645
Proposed dividend to parent companies	1,141	844
Other liabilities	1,143	982
Accrued expenses and prepaid income	4,253	3,459
	11,179	9,622
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	37,629	35,870
Pledges to secure own liabilities and provisions – Note 33	806	546
Other pledges and equivalent collateral – Note 33	71	82
	877	628
Contingent liabilities – Note 34	978	1,276
Leasing commitments – Note 35		

Comments on the Balance Sheet

ASSETS

The SAS Group's total assets have increased by 5% to MSEK 37,629.

The book value of aircraft has decreased by MSEK 455. This change includes investment in MD-90s including earlier prepayments of MSEK 452 and a MSEK 317 transfer from construction in progress, mainly comprising hushkits for DC9-41s. Deductible items are depreciation for the year of MSEK 1,102 and residual values of sold aircraft.

Construction in progress includes MSEK 835 attributable to SAS's involvement in Oslo's new airport Gardermoen. Also included are a new freight terminal at Copenhagen Airport and the construction of a hotel in Manchester, England.

Long-term prepayments to suppliers of flight equipment increased by MSEK 725 during the year. Advance payments to McDonnell Douglas have been utilized of MSEK 112 in connection with deliveries of two MD-90s during the year. In addition, a further MSEK 156 was utilized. Prepayments of MSEK 993 have been made for future deliveries of, among other things, Boeing 737-600s and Dehavilland Dash 8s.

Equity in affiliated companies increased by MSEK 103 to MSEK 756. Shares of income for the year were positive in an amount of MSEK 61. In addition, equity shares increased due to exchange rate fluctuations, etc., by MSEK 42.

In 1996, SAS changed its method for managing defined-benefit collective pension plans in Sweden. Application of these principles resulted in an asset called pension funds, in a net amount of MSEK 530 at December 31, 1997 (see further Accounting and Valuation Principles on page 70 and Note 25).

At year-end 1997, liquid assets amounted to MSEK 9,817 (11,050) or 26% (31) of total assets. This decrease is mainly explained by repayment of loans.

Total capital employed amounted to MSEK 26,368 (27,268) at year-end. Average capital employed during the year was MSEK 26,311 (25,004). Return on capital employed was 12% (11).

LIABILITIES

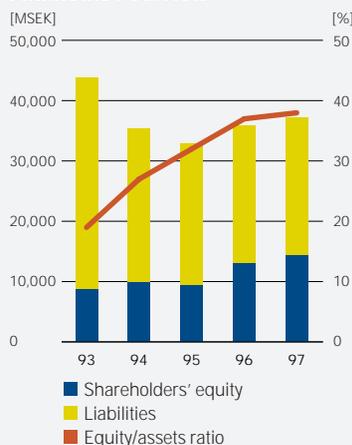
MSEK 12,107 (13,376) of total liabilities was interest-bearing. This includes pension liabilities of MSEK 35 (184).

The interest-bearing net debt was MSEK 1,345 (1,754) at December 31, 1997. The SAS Group's average net debt during the year was MSEK 1,880 (2,420). A new loan facility of MUSD 700 was signed during the year. As a result, including the loan facility signed in 1996, MUSD 1,010 is available. In addition, SAS has unutilized commercial paper programs of MSEK 2,000, MDKK 1,500 and MUSD 200. The debt/equity ratio was 0.1 (0.1) on December 31, 1997.

SHAREHOLDERS' EQUITY

Equity increased, after proposed dividend to SAS's parent companies of MSEK 1,141, by MSEK 1,211 to MSEK 14,241. Apart from net income for the year after taxes, this increase was due to positive translation differences in foreign subsidiaries and affiliated companies. The equity/assets ratio, after the proposed dividend has been booked as a liability, was 38% (37) at year-end, and return on equity after tax amounted to 11% (11).

FINANCIAL POSITION



SAS Group Statement of Changes in Financial Position

MSEK	1997	1996
THE YEAR'S OPERATIONS		
Income before taxes	2,231	1,815
Depreciation	1,880	1,851
Revaluations, write-downs, etc.	6	66
Income from the sale of fixed assets	-100	-63
Other, net	-63	-31
Funds provided by the year's operations	3,954	3,638
Change in:		
Expendable spare parts and inventories	-146	-34
Operating receivables	-1,039	-200
Operating liabilities	1,487	410
Change in working capital	302	176
Net financing from the year's operations	4,256	3,814
INVESTMENTS		
Aircraft	-452	-1,126
Spare parts	-215	-476
Buildings, improvements and other equipment	-1,566	-2,313
Shares and participations, goodwill, etc.	-30	-35
Prepayments for flight equipment, net	-993	-252
Total investments	-3,256	-4,202
Sale of fixed assets	235	1,039
Translation differences, etc.	17	27
Net investments	-3,004	-3,136
Payments to parent companies	-844	-1,150
Capital contribution from parent companies	-	1,400
Financing surplus	408	928
EXTERNAL FINANCING		
Borrowing, amortization and early redemption, incl. translation differences, net	-1,047	715
Other financial receivables/liabilities, net	-594	-669
Change in minority interest	0	-2
External financing, net	-1,641	44
CHANGE IN LIQUID ASSETS		
According to Balance Sheet	-1,233	972
Liquid assets at beginning of year	11,050	10,078
Liquid assets at year-end	9,817	11,050

Comments on the Statement of Changes in Financial Position

The SAS Group's cash flow before changes in working capital and investments amounted to MSEK 3,954 (3,638). Working capital decreased by MSEK 302 (176). Both operating receivables and operating liabilities increased during the year, generally due to increased volumes in operations.

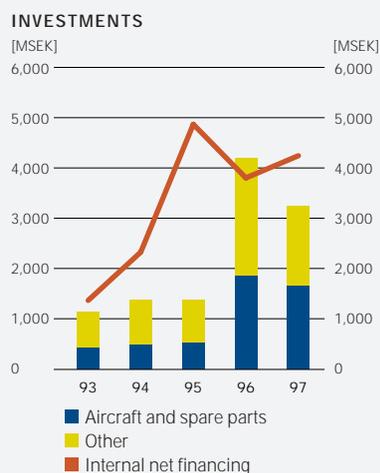
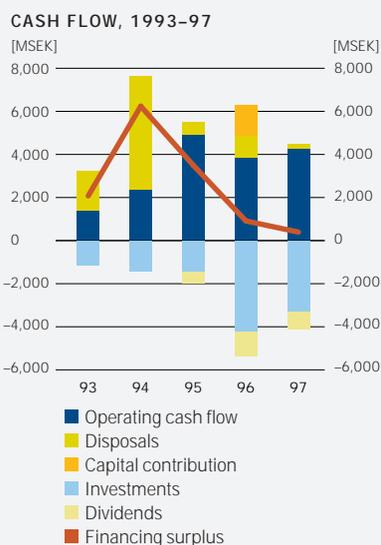
Investments including prepayments to aircraft suppliers amounted to MSEK 3,256, a decrease of MSEK 946 compared with 1996. Of these investments, SAS accounted for MSEK 2,938 (4,132) and SAS International Hotels for MSEK 318 (70). This includes MSEK 451 for two MD-90s delivered during the year. Investments in building and land totaled MSEK 1,060 and mostly comprised Gardermoen, a freight terminal in Copenhagen and a hotel property in Manchester, England.

Sale of fixed assets generated MSEK 235 (1,039) and mainly comprised revenues from the sale of one MD-83 and one DC9-51. Seven Boeing 737s were sold in the previous year.

Cash flow after net investments thus amounted to MSEK 1,252 (678). After payment of funds to the parent companies of MSEK 844 (1,150), and capital contribution received MSEK – (1,400), the financing surplus was MSEK 408 (928).

Financial liabilities decreased by MSEK 1,047 in 1997, mainly due to amortization and redemption of loans. No new borrowing took place during the year.

Taken as a whole, the SAS Group's liquid assets decreased by MSEK 1,233.



The SAS Consortium

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

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

The SAS Consortium's financial statements are prepared according to the same principles as the SAS Group, except for accounting for subsidiaries and affiliated companies. See the section "Accounting and Valuation Principles."

The Consortium's operating revenue amounted to MSEK 35,611 (32,408).

Income from the sale of aircraft and buildings amounted to MSEK 81 (-).

Operating income was MSEK 1,958 (1,537).

Result from participations in Group companies includes dividends from subsidiaries of MSEK 83 (12) and a reversed provision to cover loss relating to Swedair of MSEK 112.

Result from participations in affiliated companies includes dividends of MSEK 31 (4).

Income before taxes amounted to MSEK 2,125 (1,568).

SAS Consortium Statement of Income

(Note 1)

MSEK	1997	1996
Operating revenue – Note 2	35,611	32,408
Payroll costs – Note 3	-9,047	-8,585
Other operating expenses – Note 4	-23,246	-20,872
Operating income before depreciation	3,318	2,951
Depreciation – Note 5	-1,441	-1,414
Income from the sale of aircraft and buildings – Note 7	81	-
Operating income	1,958	1,537
Result from participations in Group companies – Note 8	196	19
Result from participations in affiliated companies – Note 9	33	-7
Result from other shares and participations – Note 10	16	-
Interest income and similar income items – Note 11	723	857
Interest expenses and similar income items – Note 12	-801	-838
Income before taxes¹	2,125	1,568

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

SAS Consortium Balance Sheet

(Note 1)

ASSETS, MSEK

	1997	1996
FIXED ASSETS		
Intangible fixed assets – Note 14, 15	13	22
Tangible fixed assets – Note 15		
Buildings and land	3,136	3,234
Aircraft	10,534	10,864
Spare engines and spare parts	940	845
Workshop and service equipment for aircraft	111	92
Other equipment and vehicles	352	374
Construction in progress	1,052	442
Prepayments for tangible fixed assets – Note 16	710	296
	16,835	16,147
Financial fixed assets – Note 15		
Shares and participations in Group companies – Note 20	1,405	1,396
Long-term receivables from Group companies – Note 18	819	1,001
Shares and participations in affiliated companies – Note 20	591	585
Long-term receivables from affiliated companies – Note 19	98	88
Other shares and participations – Note 20	4	6
Pension funds, net – Note 25	488	–
Other long-term receivables	279	117
	3,684	3,193
Total fixed assets	20,532	19,362
CURRENT ASSETS		
Inventories, etc.		
Expendable spare parts and inventories – Note 21	635	507
Prepayments to suppliers	3	3
	638	510
Current receivables		
Accounts receivable	1,976	1,587
Receivables from Group companies	1,283	981
Receivables from affiliated companies	52	15
Other receivables	599	725
Prepaid expenses and accrued income	713	473
	4,623	3,781
Short-term investments – Note 23	9,072	10,295
Cash and bank balances	429	524
Total current assets	14,762	15,110
TOTAL ASSETS	35,294	34,472

SHAREHOLDERS' EQUITY AND LIABILITIES

	1997	1996
SHAREHOLDERS' EQUITY – Note 24		
Capital account		
SAS Danmark A/S	3,708	3,426
SAS Norge ASA	3,708	3,426
SAS Sverige AB	5,560	5,140
	12,976	11,992
Provisions		
Pensions and similar commitments – Note 25	179	448
	179	448
Long-term liabilities – Note 26		
Subordinated debenture loan – Note 27	784	737
Bond issues – Note 28	2,351	2,825
Other loans – Note 29	7,094	7,313
Liabilities to Group companies	77	357
Liabilities to affiliated companies	0	0
Other liabilities	862	897
	11,168	12,129
Current liabilities		
Current portion of long-term loans	555	874
Loans – Note 31	228	250
Prepayments from customers	25	12
Accounts payable	1,295	1,076
Liabilities to Group companies	1,139	1,343
Liabilities to affiliated companies	12	10
Unearned transportation revenue – Note 32	1,953	1,645
Proposed dividend to parent companies	1,141	844
Other liabilities	902	822
Accrued expenses and prepaid income	3,721	3,027
	10,971	9,903
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	35,294	34,472
Pledged assets – Note 33	29	28
Contingent liabilities – Note 34	934	1,174
Leasing commitments – Note 35		

SAS Consortium Statement of Changes in Financial Position

MSEK	1997	1996
THE YEAR'S OPERATIONS		
Income before taxes	2,125	1,568
Depreciation	1,441	1,414
Revaluations, write-downs, etc.	4	30
Income from the sale of fixed assets	-99	0
Funds provided by the year's operations	3,471	3,012
Change in:		
Expendable spare parts and inventories	-137	-42
Operating receivables	-850	-280
Operating liabilities	1,363	281
Change in working capital	376	-41
Net financing from the year's operations	3,847	2,971
INVESTMENTS		
Aircraft	-451	-1,269
Spare parts	-213	-476
Buildings, improvements and other equipment	-1,069	-2,064
Shares and participations, etc.	-6	-35
Prepayments for flight equipment, net	-525	-169
Total investments	-2,264	-4,013
Sale of fixed assets	234	13
Net investments	-2,030	-4,000
Payments to parent companies	-844	-1,150
Capital contribution from parent companies	-	1,400
Financing surplus/deficit	973	-779
EXTERNAL FINANCING		
Borrowing, amortization and early redemption, incl. translation differences, net	-675	1,300
Other financial receivables/liabilities, net	-1,616	478
External financing, net	-2,291	1,778
CHANGE IN LIQUID ASSETS		
According to Balance Sheet	-1,318	999
Liquid assets at beginning of year	10,819	9,820
Liquid assets at year-end	9,501	10,819

THE SAS COMMUTER CONSORTIUM

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

SAS Commuter is a production company which conducts air transport on behalf of SAS in Scandinavia and northern Europe using Fokker F-50 and SAAB 2000 aircraft. The total fleet comprises 26 aircraft, 17 of which were used in 1997 in EuroLink, a southern traffic system based in Copenhagen; five aircraft are used in NorLink, a northerly system based in Tromsø, Norway; and four aircraft provide services in SweLink based in Stockholm.

Approximately 60,000 (50,000) flights carrying a total of 1.9 million (1.4) passengers were made during the year.

The SAS Commuter Consortium's income before taxes amounted to MSEK -2 (22) in 1997.

STATEMENT OF INCOME

MSEK	1997	1996
Operating revenue	780	621
Operating expenses	-708	-524
Income before depreciation	72	97
Depreciation	-72	-68
Operating income	0	29
Net financial items	-2	-7
Income before taxes	-2	22

BALANCE SHEET

MSEK	1997	1996
Fixed assets	984	653
Current assets	36	32
Liquid assets	25	8
Total assets	1,045	693
Shareholders' equity	514	516
Long-term liabilities	438	122
Current liabilities	93	55
Shareholders' equity and liabilities	1,045	693

DISPOSITION OF EARNINGS IN THE SAS CONSORTIUM

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

The Board of Directors and the President propose to the SAS Assembly of Representatives that of the income before taxes in the SAS Consortium for the fiscal year, an amount of MSEK 1,141 be transferred to the parent companies. The remaining amount, MSEK 984, to be transferred to the SAS Consortium's capital account which will thereafter total MSEK 12,976.

1998 FORECAST

The prospects for 1998 are generally good and provide conditions for continued positive development. There is some concern, however, about the effects of the Asian crisis and the situation in the Middle East is also uncertain. Although SAS will incur extra costs in 1998 of approximately MSEK 400, when new infrastructure goes into place in several locations and a new aircraft type is phased in, operating income for 1998 is expected to be on a level with the 1997 result.

STOCKHOLM, FEBRUARY 16, 1998

BO BERGGREN

BJØRN EIDEM

HUGO SCHRÖDER

TONY HAGSTRÖM

HARALD NORVIK

ANDERS ELDRUP

LEIF KINDERT

INGVAR LILLETUN

JENS THOLSTRUP HANSEN

JAN STENBERG

PRESIDENT AND CHIEF EXECUTIVE OFFICER

Accounting and Valuation Principles

GENERAL

The accounting principles are unchanged with the exception of what is stated in Note 1.

The SAS Group's financial statements are prepared in accordance with the recommendations of the International Accounting Standards Committee (IASC). The same accounting principles are applied by the SAS Consortium with the exception that shares in affiliated companies, which are reported according to the equity method by the SAS Group, are reported at cost, adjusted for any revaluations and write-downs, by the SAS Consortium. The SAS Consortium also reports shares in subsidiaries in the same way.

CONSOLIDATED FINANCIAL STATEMENTS

Definition of Consolidated and Affiliated Companies:

The consolidated financial statements of the SAS Group include the SAS Consortium, its wholly owned subsidiaries and those partly owned companies in which the SAS Consortium has a controlling interest, as well as the SAS Commuter Consortium. Certain wholly owned subsidiaries which are closely connected with the business of the SAS Consortium are directly included in the accounts of the SAS Consortium. For further information see Note 20, the specification of shares and participations.

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

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

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements are prepared according to the purchase method, whereby subsidiaries' assets and lia-

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

The book value of shares in major affiliated companies is reported in accordance with the equity method. This means that the SAS Group's share of the affiliated companies' equity amounts to the share of equity taking into account deferred taxes according to the tax rates in the countries concerned and any residual values of surpluses/deficits.

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

TRANSLATION OF FOREIGN SUBSIDIARIES' FINANCIAL STATEMENTS

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

RECEIVABLES AND LIABILITIES IN FOREIGN CURRENCIES AND FINANCIAL INSTRUMENTS

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

EXCHANGE RATES FOR KEY CURRENCIES

		Year-end rate		Average rate	
		1997	1996	1997	1996
Denmark	DKK 100	115.45	115.55	115.61	115.72
Norway	NOK 100	107.20	106.55	108.00	103.86
USA	USD	7.87	6.87	7.64	6.70
U.K.	GBP	13.12	11.60	12.50	10.46
Switzerland	CHF 100	542.10	509.75	526.18	543.78
Germany	DEM 100	439.75	442.05	440.42	446.06
Japan	JPY 100	6.06	5.93	6.33	6.17
European Currency Unit	XEU	8.70	8.53	8.62	8.40

bilities are reported above income. (See also Note 12.)

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

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

Currency Swap Contracts: Foreign currency swap contracts are valued at market exchange rates at year-end. Unrealized exchange gains or losses are reported above income. The net income effect of interest income and interest expense connected to a currency swap contract is accrued over the term of the contract and included in income.

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

Interest Rate Swap Contracts: Interest rate swap contracts' net income effect on interest income and interest expense is taken to income as accrued. (For further information, see Note 30 – Financial Instruments.)

EXPENDABLE SPARE PARTS AND INVENTORY

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

FIXED ASSETS AND DEPRECIATION

Fixed assets are booked at acquisition cost less accumulated depreciation. Depreciation is carried out according to plan based on the estimated useful economic life of the asset.

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

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

Workshop and aircraft servicing equipment and other equipment and vehicles are depreciated over a period of 5 years. The annual depreciation of buildings varies between 2% and 20%. Goodwill and other intangible assets are depreciated over their estimated useful lives, whereby long-term investments of strategic importance for SAS's operations are depreciated for up to 10 years, and other investments over a 5-year period.

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

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

PENSION COMMITMENTS

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

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

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

TRAFFIC REVENUE

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

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

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

EUROBONUS

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

MAINTENANCE COSTS

Routine aircraft maintenance and repairs are charged to income as incurred. Accrual accounting is carried out for future external costs for heavy maintenance including engine maintenance of aircraft of the MD-80 and MD-90 type. This maintenance is carried out on average every tenth year and the annual provision per aircraft is MSEK 1.5. Provisions for future engine maintenance are made for Boeing 767s and provisions for future maintenance costs are made for Fokker F-50s (belonging to the SAS Commuter Consortium).

SAS CONSORTIUM

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

Notes

All amounts in MSEK unless otherwise stated.

NOTE 1 – Changed Accounting Principles

In order to adapt the annual accounts of the SAS Group and the SAS Consortium to the applicable EU directive the layout of the statements of income and balance sheets have been changed. In this connection SAS has, among other things, chosen to present a statement of income classified according to type of cost.

To allow comparability between the 1997 and 1996 financial statements, certain items pertaining to the 1996 fiscal year have been reclassified.

With effect from 1997, minority shares in subsidiaries are reported based on income after taxes.

NOTE 2 – Operating Revenue

	1997	1996
Traffic revenue:		
Passengers	27,259	25,390
Freight	1,805	1,481
Mail	238	225
Other	1,269	965
Other operating revenue	5,040	4,347
SAS Consortium operating revenue	35,611	32,408
Subsidiaries' operating revenue	3,529	3,015
Group eliminations	-212	-234
SAS Group operating revenue	38,928	35,189

SAS's traffic revenue is reported after deducting discounts, which amounted to 3,023 (2,343).

Passenger revenue by geographic area:

Intercontinental	4,232	3,744
Europe	11,261	10,288
Intra-Scandinavian	4,228	4,084
Domestic	7,538	7,274
Total passenger revenue	27,259	25,390

NOTE 3 – Payroll Costs

The average number of employees in the SAS Group's operating areas in 1997 was 25,057 (23,607). Of this total, 22,524 (21,348) were employed at SAS and 2,494 (2,222) at SAS International Hotels.

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

The average number of employees in the SAS Consortium amounted to 20,388 (19,463), including 7,163 (6,886) in Denmark, 4,931 (4,338) in Norway, and 6,839 (6,762) in Sweden.

The SAS Group's total payroll costs, including social security expenses, etc., amounted to MSEK 10,822 (10,057). Corresponding costs for the SAS Consortium amounted to MSEK 8,955 (8,513).

AVERAGE NUMBER OF EMPLOYEES – SAS CONSORTIUM

	1997		1996	
	Men	Women	Men	Women
Denmark	4,647	2,516	4,467	2,419
Norway	3,164	1,767	2,839	1,499
Sweden	4,009	2,830	3,990	2,772
U.K.	97	207	103	215
Germany	57	66	49	77
France	22	53	29	62
Japan	29	14	29	14
Finland	51	82	40	72
Belgium	19	18	20	17
USA	105	163	93	170
Other	193	279	199	288
Total	12,393	7,995	11,858	7,605
Total men and women	20,388		19,463	

Note 3, cont.

NUMBER OF EMPLOYEES – SUBSIDIARIES AND SAS COMMUTER CONSORTIUM

	1997		1996	
	Men	Women	Men	Women
Denmark	827	405	785	397
Norway	643	790	570	668
Sweden	777	584	657	514
U.K.	123	82	84	70
Germany	139	136	134	107
Belgium	18	17	18	16
Other	66	62	69	55
Total	2,593	2,076	2,317	1,827
Total men and women	4,669		4,144	
Total SAS Group	14,986	10,071	14,175	9,432
Total SAS Group men and women	25,057		23,607	

SALARIES, OTHER REMUNERATION AND SOCIAL SECURITY EXPENSES

	1997		1996	
	Salaries and other remuneration	Soc. security expenses (pensions)	Salaries and other remuneration	Soc. security expenses (pensions)
SAS Consortium	7,362	1,593 (375)	6,665	1,848 (734)
Subsidiaries	1,508	359 (152)	1,275	269 (106)
SAS Group total	8,870	1,952 (527)	7,940	2,117 (840)
SAS Group total	10,822		10,057	

REMUNERATION TO SENIOR EXECUTIVES

In 1997, SEK 2,111,000 was paid to members of the SAS Consortium's Board of Directors, of which SEK 300,000 to the Chairman of the Board, a total of SEK 673,000 to the two Vice Chairmen, and a total of SEK 1,138,000 to other Board members including employee representatives. In addition, a total of SEK 388,000 was paid to deputy members of the Board. These fees are decided by SAS's Assembly of Representatives.

During 1997 no member of the Board was employed by the SAS Group, with the exception of the employee representatives and their deputies. Two members of the Board received consultancy fees as remuneration for work carried out in the SAS's Group's finance committee.

The salary and value of benefits paid to the SAS Consortium's president, who also serves as chief executive officer, totaled SEK 6,708,000 in 1997, of which SEK 1,250,000 pertained to a bonus for 1996.

The president's retirement age is 62. Pension is based on salary at retirement date and between the age of 62 and 65 comprises 39.9% of pensionable salary expressed at the 1997 level, and 37.2% from the age of 65. Other senior executives in the Consortium earn entitlement to pension at 60 years of age, and earn on a straight-line basis up to retirement age. The pension level for a Swedish employee with fully earned entitlement amounts to 70% of pensionable salary up to 30 base amounts (SEK 1,089,000) and 35% of salary in excess of that amount. Alternatively, a plan is provided based on premiums paid. The same basic structure of pension system applies to Danish and Norwegian senior executives in the Consortium, adjusted to Danish and Norwegian conditions respectively.

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

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

NOTE 4 – Other Operating Expenses

SAS GROUP	1997	1996
Leasing costs	859	871
Selling expenses	2,212	2,112
Jet fuel	2,440	2,109
Government-user fees	3,969	3,746
Catering costs	1,482	1,311
Handling costs	1,546	1,419
Technical aircraft maintenance	1,727	1,160
Other operating expenses	9,581	8,609
Total	23,816	21,337

SAS CONSORTIUM	1997	1996
Leasing costs	750	685
Selling expenses	2,209	2,112
Jet fuel	2,442	2,114
Government-user fees	3,966	3,744
Catering costs	1,482	1,311
Handling costs	1,546	1,419
Technical aircraft maintenance	1,727	1,160
Other operating expenses	9,124	8,327
Total	23,246	20,872

Other operating expenses include purchased services, advertising, rental costs, etc.

NOTE 5 – Depreciation

SAS GROUP	1997	1996
Goodwill and intangible assets	11	11
Aircraft	1,102	1,211
Spare engines and spare parts	112	52
Workshop and service equipment for aircraft	34	25
Other equipment and vehicles	395	359
Buildings and improvements	225	192
Land improvements	1	1
Total	1,880	1,851

SAS CONSORTIUM	1997	1996
Intangible assets	10	10
Aircraft	977	1,052
Spare engines and spare parts	108	53
Workshop and service equipment for aircraft	34	25
Other equipment and vehicles	152	144
Buildings and improvements	159	129
Land improvements	1	1
Total	1,441	1,414

NOTE 6 – Shares of Income of Affiliated Companies

SAS GROUP	1997	1996
British Midland PLC ¹	9	5
Spanair S.A.	30 ²	-14
Grönlandsfly A/S	1	2
Polygon Group Ltd	14	25
airBaltic Corporation SIA	-10	-45

Note 6, cont.

SAS Casinos Denmark A/S/ Casino Copenhagen K/S	12	11
Airnet I/S	5	5
Others	0	-4
Total	61	-15

¹ Share of income includes depreciation of goodwill totaling 32 (27) and adjustment to 1996 earnings of -14 (8).

² Based on closing accounts for period ended October 31, 1997.

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

NOTE 7 – Income From the Sale of Aircraft and Buildings

SAS GROUP	1997	1996
SAS – sale of MD83	53	-
SAS – sale of DC9-51	17	-
SAS – sale of SAAB340	5	-
SAS – sale of Hover Craft	4	-
SAS – sale of Boeing 737	-	89
SAS Flight Academy – sale of flight simulators	-	11
SAS – sale of buildings	4	-
Total	83	100

SAS CONSORTIUM	1997	1996
SAS – sale of MD83	53	-
SAS – sale of DC9-51	17	-
SAS – sale of SAAB340	3	-
SAS – sale of Hover Craft	4	-
SAS – sale of buildings	4	-
Total	81	-

NOTE 8 – Result From Participations in Group Companies

SAS CONSORTIUM	1997	1996
Dividend from:		
SAS Flight Academy Holding AB	50	-
SAS Trading Holding A/S	12	10
Scandinavian Multi Access Systems AB	9	-
SAS Media Partner AB	6	2
Jetpak AB	6	-
Income from the sale of shares in NJP Norden AB	1	-
Reversal of provision to cover loss relating to Swedair AB	112	-
Reversal of write-down of receivables	-	41
Shareholders' contribution	-	-34
Total	196	19

NOTE 9 – Result From Participations in Affiliated Companies

SAS CONSORTIUM	1997	1996
Dividend	31	4
Capital gain on sale	2	-
Shareholders' contribution	-	-11
Total	33	-7

NOTE 10 – Result From Other Shares and Participations

SAS GROUP	1997	1996
Capital gain on sale	15	–
Dividend	–	1
Total	15	1
SAS CONSORTIUM	1997	1996
Capital gain on sale	16	–
Total	16	–

NOTE 11 – Interest Income and Similar Income Items

SAS GROUP	1997	1996
Interest income	648	740
Other financial income	11	4
Total	659	744
SAS CONSORTIUM	1997	1996
Interest received from subsidiaries	84	133
Other interest income	629	721
Other financial income	10	3
Total	723	857

NOTE 12 – Interest Expenses and Similar Income Items

SAS GROUP	1997	1996
Interest expenses	–790	–859
Exchange differences, net	–1	50
Other financial expenses	–35	–21
Total	–826	–830

NOTE 15 – Fixed Assets**INTANGIBLE AND TANGIBLE FIXED ASSETS**

	Intangible fixed assets	Buildings and land	Air-craft ¹	Spare engines and spare parts	Workshop and service equipment for aircraft	Other equipment and vehicles	Construction in progress	Prepay-ments for fixed assets	Total intangible and tangible fixed assets
SAS Group									
Opening acquisition value	315	6,318	18,152	1,346	569	4,053	458	391	31,287
Investments	22	12	452	215	0	192	1,362	993	3,226
Capitalized interest	–	–	–	–	–	–	37	–	37
Sales/disposals	–	–12	–342	–30	–15	–214	–	–	–613
Reclassifications	10	82	317	–6	54	335	–524	–265	–7
Exchange differences	–3	113	–	–	1	13	–1	–	126
Closing accumulated acquisition value	344	6,513	18,579	1,525	609	4,379	1,332	1,119	34,056
Opening depreciation	–291	–1,352	–6,413	–477	–477	–2,792	0	–22	–11,533
Depreciation for the year	–11	–226	–1,102	–112	–34	–395	–	–	–1,869
Sales/disposals	–	3	220	9	13	203	–	–	448
Reclassifications	–9	–9	0	19	0	13	0	–3	20
Exchange differences	3	–19	–	0	0	–23	–	–	–42
Closing accumulated depreciation	–308	–1,603	–7,295	–561	–498	–2,994	0	–25	–12,976
Opening write-down	–	–	–	–	–	–	–	–	–
Reclassifications	–	–1	–	–	–	–	–	–	–1
Exchange differences	–	1	–	–	–	–	–	–	1
Closing accumulated write-down	–	0	–	–	–	–	–	–	0
Closing planned residual value 1997	36	4,910	11,284²	964	111	1,385	1,332	1,094	21,080
Closing planned residual value 1996	24	4,966	11,739	869	92	1,261	458	369	19,754

¹ The insured value of aircraft in the SAS Group at December 31, 1997, amounted to 24,967. This includes the insured value of leased aircraft in the amount to 6,619.

² Estimated market value, excluding options, in Swedish kronor exceeded the book value by 4,000 on the closing date, December 31, 1997.

Note 12, cont.

SAS CONSORTIUM	1997	1996
Interest paid to Group companies	–63	–91
Other interest expenses	–744	–791
Exchange differences, net	20	60
Other financial expenses	–14	–16
Total	–801	–838

NOTE 13 – Subsidiaries' Taxes

SAS GROUP	1997	1996
Taxes payable by subsidiaries	–44	–62
Provision(–)/reversal(+) of deferred tax attributable to untaxed reserves	–27	23
Total	–71	–39

Taxes during the period are calculated as paid taxes plus estimated tax on tax allocations made during the period.

NOTE 14 – Intangible Fixed Assets

SAS GROUP	1997	1996
Consolidated goodwill	16	2
Other intangible assets	20	22
Total	36	24

SAS CONSORTIUM	1997	1996
Other intangible assets	13	22
Total	13	22

Of other intangible assets, 13 (22) comprises the net book value of the nonrecurring amount paid for SAS's access to and user-rights for the terminal at Newark Airport outside New York.

Note 15, cont.

FINANCIAL FIXED ASSETS

	Equity in affiliated companies	Long-term receiv- ables from affiliated companies	Shares and parti- cipations	Pension funds, net	Other long-term receiv- ables	Total financial fixed assets
SAS Group						
Opening acquisition value	653	88	138	–	372	1,251
Contribution	6	46	–	530	292	874
Adjustment of earnings in previous year	17	–	–	–	–	17
Share of income	42	–	–	–	–	42
Sale	–	–	–1	–	–	–1
Amortization	–	–22	–	–	–18	–40
Dividend	–42	–	–	–	–	–42
Reclassifications	–	–27	–2	–	–2	–31
Exchange differences	62	13	1	–	4	80
Other	18	–	–	–	–	18
Closing accumulated acquisition value	756	98	136	530	648	2,168
Opening depreciation	–	–	–73	–	–	–73
Exchange differences	–	–	2	–	–	2
Closing accumulated depreciation	–	–	–71	–	–	–71
Opening write-down	–	–	–2	–	–170	–172
Write-down for the year	–	–	–	–	–40	–40
Exchange differences	–	–	–1	–	–	–1
Closing write-down	–	–	–3	–	–210	–213
Closing residual value 1997	756	98	62	530	438	1,884
Closing residual value 1996	653	88	63	–	202	1,006

INTANGIBLE AND TANGIBLE FIXED ASSETS

	Intangible fixed assets	Buildings and land	Air- craft	Spare engines and spare parts	Workshop and service equipment for aircraft	Other equip- ment and vehicles	Construct- ion in progress	Prepay- ments for fixed assets	Total intang- ible and tangible fixed assets
SAS Consortium									
Opening acquisition value	249	3,885	16,249	1,312	569	1,420	442	318	24,195
Investments	0	0	451	213	0	0	1,069	525	2,258
Sales/disposals	–	–11	–223	–30	–14	–83	0	–	–361
Reclassifications	–	79	316	–7	54	136	–476	–108	–6
Capitalized interest	–	–	–	–	–	–	18	–	18
Exchange differences	1	1	–	–	0	0	–1	–	0
Closing accumulated acquisition value	250	3,954	16,793	1,488	609	1,473	1,052	735	26,104
Opening depreciation	–227	–651	–5,385	–467	–477	–1,046	0	–22	–8,048
Depreciation for the year	–10	–160	–977	–108	–34	–152	–	–	–1,431
Sales/disposals	–	2	103	9	13	75	–	–	202
Reclassifications	–	–10	–	18	0	1	0	–3	6
Exchange differences	–	1	–	–	0	1	–	–	2
Closing accumulated depreciation	–237	–818	–6,259	–548	–498	–1,121	0	–25	–9,269
Closing planned residual value 1997	13	3,136	10,534	940	111	352	1,052	710	16,835
Closing planned residual value 1996	22	3,234	10,864	845	92	374	442	296	16,147

Note 15, cont.

FINANCIAL FIXED ASSETS

	Shares and participations in Group companies	Long-term receivables from Group companies	Shares and participations in affiliated companies	Long-term receivables from affiliated companies	Other shares and participations	Pension funds, net	Other long-term receivables	Total financial fixed assets
SAS Consortium								
Opening acquisition value	1,800	1,001	585	88	6	–	237	3,717
Contribution	9	–	6	46	–	488	203	752
Sale	0	–	0	–	–1	–	–	–1
Amortization	–	–182	–	–22	–	–	–13	–217
Reclassifications	0	–	–	–27	–1	–	–5	–33
Exchange differences	–	–	–	13	–	–	4	17
Closing accumulated acquisition value	1,809	819	591	98	4	488	426	4,235
Opening write-down	–404	–	–	–	–	–	–120	–524
Write-down for the year	–	–	–	–	–	–	–27	–27
Closing write-down	–404	–	–	–	–	–	–147	–551
Closing residual value 1997	1,405	819	591	98	4	488	279	3,684
Closing residual value 1996	1,396	1,001	585	88	6	–	117	3,193

Of previous years' aircraft acquisitions, 30 Douglas MD-80s, 5 Boeing 767s and 6 Douglas MD-90s were acquired, formally through finance leasing contracts, with 10–17 year terms.

On behalf of the SAS Consortium, a number of banks have agreed to pay all accruing leasing fees and an agreed residual value for 15 of the Douglas MD-80s at the expiry of each leasing period. The Consortium has irrevocably reimbursed the banks in an amount corresponding to full settlement for these payments. The total nominal value of the banks' payment commitment on behalf of the Consortium amounted to 1,506 (1,671) on December 31, 1997.

With regard to other leased aircraft, the terms of the leasing contracts (particularly pertaining to SAS's call options during the contract period and at the expiry of the leasing contract, as well as the economic risk SAS has regarding the value of the aircraft) are such that the agreements, from SAS's point of view, are comparable to a purchase.

The 41 (41) aircraft are reported at 5,487 (5,777) in the balance sheet.

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

	1997	1996
Owned	5,047	5,087
Formally leased (paid)	1,211	1,289
Other leased	4,276	4,488
Book value	10,534	10,864

In addition the following aircraft in the SAS Group are:

	1997	1996
Owned	583	679
Formally leased (paid)	20	30
Other leased	147	166
Book value	750	875

NOTE 16 – Prepayments for Tangible Fixed Assets

SAS GROUP	1997	1996
Bell	–	35
Boeing (B-737)	691	194
Bombardier	378	–
McDonnell Douglas	25	140
Total	1,094	369

SAS CONSORTIUM

Boeing (B-737)	685	156
McDonnell Douglas	25	140
Total	710	296

NOTE 17 – Equity in Affiliated Companies

SAS GROUP	1997	1996
British Midland PLC	424	388
Polygon Group Ltd	223	185
Grønlandsfly A/S	63	62
Spanair S.A.	91	62
airBaltic Corporation SIA	–3	3
Airnet I/S	13	14

Note 17, cont.

Casinos Denmark A/S / Casino Copenhagen K/S	12	8
Others	13	11
Shareholding reserve	–80	–80
Total	756	653

Equity in affiliated companies includes acquired surplus value in British Midland PLC of 128 (143).

NOTE 18 – Long-Term Receivables From Group Companies

SAS CONSORTIUM	1997	1996
SAS Capital B.V.	76	356
SAS Commuter Consortium	407	88
SAS Flight Academy AB	141	75
Scandinavian Airlines Data Holding A/S	131	131
SAS International Hotels AS	1	269
SAS Oil Denmark A/S	15	18
Scandinavian Multi Access Systems AB	20	50
SAS Ejendom A/S	14	0
SAS Flight Support AB	14	14
Total	819	1,001

NOTE 19 – Long-Term Receivables From Affiliated Companies

SAS GROUP	1997	1996	SAS CONSORTIUM	1997	1996
airBaltic Corporation SIA	98	88	airBaltic Corporation SIA	98	88
Total	98	88	Total	98	88

NOTE 20 – Shares and Participations

SAS CONSORTIUM	Domicile	Reg. no.	Number of shares	%	Par value in 000s	Book value MSEK
Subsidiaries						
SAS International Hotels AS	Oslo	956281792	7,000,000	100	NOK 700,000	775.0
Linjeflyg AB	Stockholm	556062-8454	2,000,000	100	SEK 200,000	341.4
SAS Flight Academy Holding AB	Stockholm	556397-3378	20,000	100	SEK 2,000	100.0
Linjeflyg Leasing HB	Stockholm	916644-1080		79	SEK	82.1
Scandinavian Airlines Data Holding A/S	Tårnby	111.275	25,000	100	DKK 25,000	44.6
Scandinavian Multi Access Systems AB	Stockholm	556051-4571	190,000	95	SEK 19,000	19.5
SAS Media Partner AB	Stockholm	556175-9183	5,000	100	SEK 500	12.3
SAS Ejendom A/S	Tårnby	105.786	20,000	100	DKK 20,000	11.0
SAS Capital B.V.	Rotterdam	167071	501	100	NLG 2,500	7.7
Jetpak Nordic AB	Stockholm	556415-6650	50,000	100	SEK 5,000	7.5
SAS Trading Holding A/S	Tårnby	33.398	500	100	DKK 500	0.9
Jetpak A/S	Tårnby	104.712	500	100	DKK 500	0.6
SAS Flight Support AB	Stockholm	556278-5864	5,000	100	SEK 500	0.5
SAS Oil Denmark A/S	Tårnby	66.335	500	100	DKK 500	0.5
SAS Cargo Center A/S	Tårnby	37.530	500	100	DKK 500	0.4
Others						0.5
Total shares and participations in subsidiaries						1,404.5

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

SAS CONSORTIUM	Domicile	Reg. no.	Number of shares	%	Par value in 000s	Book value MSEK
Affiliated companies						
British Midland PLC	Derby	2107441	26,035,317	40.0	GBP 6,509	337.8
Polygon Group Ltd	St Peter Port, Guernsey	4786	15,407,316	30.8	GBP 15,407	86.2
Spanair S.A.	Mallorca	–	1,519,000	49.0	ESP 1,519,000	88.1
airBaltic Corporation SIA	Riga	40003245752	68,220	28.5	USD 6,822	55.0
Grønlandsfly A/S	Nuuk	30.672	286	37.5	DKK 9,000	22.6
Copenhagen Excursions A/S	Copenhagen	15.199	106	25.0	DKK 300	1.2
Others						0.5
Total shares and participations in affiliated companies						591.4

SAS CONSORTIUM	Number of shares	%	Par value in 000s	Book value MSEK	SAS GROUP	Number of shares	%	Par value in 000s	Book value MSEK
Other companies					Shares and participations				
SITA Telecommunications Holding N.V.	66,272	1.3	NLG 7	2.1	Copenhagen International Hotels K/S, Copenhagen	1,343	11.3	DKK 134	48.5
Dar-es-Salaam Airport Handling Co Ltd,					Oslo Plaza, Oslo	3,100	10	NOK 3,100	7.5
Dar-es-Salaam	27,000	15	TZS 2,700	1.4	Others				1.7
Airline Tariff Publishing Company,					SAS Consortium's holdings in other companies				4.3
Washington D.C.	17,737	4.2	USD 18	0.4	Total shares and participations				62.0
Others				0.4					
Total shares and participations in other companies									4.3

Note 20, cont.

SAS GROUP	Domicile	Reg. no.	Number of shares	%		Par value in 000s	Book value MSEK SAS Group
Affiliated companies owned by other Group companies							
Airnet I/S	–	–	–	50	DKK	4,000	13.3
Casinos Denmark A/S/ Casino Copenhagen K/S	Copenhagen	180.862	1,000	50	DKK	1,000	12.2
European Aviation College S.A.	Salamanca	A-37290269	34,300	49	ESP	34,300	1.7
Oslo Lufthavns Tankanlegg AS	Oslo	877166082	15	20	NOK	1,500	1.6
Förvaltningsaktiebolaget Terminalen AB	Stockholm	556162-6366	376	50	SEK	38	1.0
LTS Flygtaxi AB	Stockholm	556329-3074	4,750	50	SEK	475	0.5

Affiliated companies owned by other Group companies are not included in the SAS Group's book values of shares and participations. These are reported together with the Consortium's affiliated companies as participations in affiliated companies, see Note 17.

NOTE 21 – Expendable Spare Parts and Inventories

	SAS Group		SAS Consortium	
	1997	1996	1997	1996
Expendable spare parts, flight equipment	511	380	511	377
Expendable spare parts, other	78	26	68	20
Inventories	185	230	56	110
Total	774	636	635	507

NOTE 23 – Short-Term Investments

At December 31, 1997, short-term investments mainly consisted of special bank deposits and investments in government securities. Part of the bond portfolio has been valued at the lower of acquisition value and net realizable value, the remainder has been reported as hedging. Short-term investments also include blocked funds on a tax deduction account in Norway of 100 (88).

NOTE 22 – Other Receivables

A tax receivable amounting to 16 (1) is included among other receivables in the SAS Group. There is no deferred tax receivable.

NOTE 24 – Shareholders' Equity

	Paid-in capital SAS Consortium	Paid-in capital SAS Commuter Consortium	Premium reserve	Statutory reserve	Equity reserve	Other restricted reserves	Unrestricted reserves	Equity SAS Group
January 1, 1997	11,992	516	1	43	127	295	56	13,030
Transfer between restricted and unrestricted reserves	–	–	4	1	49	–66	12	0
Change in translation differences	–	–	–	–	–	29	143	172
Change in ownership interest in affiliated companies	–	–	–	–	–	–	20	20
Earnings 1997	2,125	–2	–	–	–	–	37	2,160
Proposed dividend for 1997	–1,141	–	–	–	–	–	–	–1,141
December 31, 1997	12,976	514	5	44	176	258	268	14,241

The following specifications show the difference between the SAS Consortium's and the SAS Group's Shareholders' equity and Income, respectively, resulting from different accounting principles for subsidiaries and affiliated companies.

SHAREHOLDERS' EQUITY

Equity in the SAS Consortium	12,976
Difference between equity/Consortium's book values of shares in subsidiaries	614
Difference between equity portion/acquisition value of affiliated companies owned directly by the Consortium	137
Equity in the SAS Commuter Consortium	514
Total equity in the SAS Group	14,241

INCOME

Income before taxes in the SAS Consortium	2,125
Reversal of dividends from subsidiaries and affiliated companies, etc.	–235
Income in subsidiaries before taxes, net	299
Shares of income of affiliated companies owned directly by the Consortium	44
Income in the SAS Commuter Consortium	–2
Income before taxes in the SAS Group	2,231
Subsidiaries' taxes	–71
Income before taxes attributable to the SAS Consortium	2,160

NOTE 25 – Pension Funds, Net/Pension Provisions and Similar Commitments

SAS GROUP	1997	1996
Pension funds, net	530	–
Total pension funds, net	530	–
Provisions		
Pension provisions, PRI	18	18
Pension provision, other	17	166
Other pension and employee commitments	179	252
Total pension provisions and similar commitments	214	436
SAS CONSORTIUM		
Pension funds, net	488	–
Total pension funds, net	488	–
Provisions		
Pension commitments	–	196
Other pension and employee commitments	179	252
Total pension provisions and similar commitments	179	448

SAS reports pension commitments according to PBO (Projected Benefit Obligation). The differences that arose on transfer to this accounting principle are called "Implementation differences."

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

Discount rate	6.8%
Long-term return	8.3%
Inflation	3.0%
Future salary adjustments	3.0%
Future adjustments of pensions in payment	3.0%

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

	1997	1996
Pensions earned during the year	–1,536	–1,673
The year's return on invested funds	1,341	1,350
The year's amortization of implementation differences, deviations from estimates and changes in plans	140	–160
Pension cost for the year, net, related to defined-benefit plans	–55	–483

The change in annual cost is mainly attributable to a cost in 1996 in conjunction with conversion of certain Danish pension plans.

STATUS AT DECEMBER 31	1997	1996
Invested funds	18,045	15,243
Pension commitments according to PBO	–15,750	–13,905
Difference between invested funds and PBO	2,295	1,338
Amounts not taken to income:		
Implementation differences not included as revenue	–1,890	–1,903
Deviations from estimates not included as expenses	7	288
Changes in plans not included as expenses	76	81
	–1,807	–1,534
Book asset/liability	488	–196

Note 25, cont.

Most pension plans in Scandinavia are defined-benefit plans. Most of the pension plans, including collective pension plans for salaried employees in Sweden, are secured through insurance companies or own pension funds.

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

Provisions for other pension/employee commitments, 179 (252), consist of long-term commitments undertaken by SAS in connection with action programs in previous years.

NOTE 26 – Due Date of Long-Term Liabilities

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

SAS GROUP	1997	1996
Subordinated debenture loan	784	737
Bond issues	236	240
Other loans	1,360	2,888
Other liabilities	193	163
Total	2,573	4,028

SAS CONSORTIUM	1997	1996
Subordinated debenture loan	784	737
Bond issues	236	240
Other loans	1,074	2,552
Other liabilities	178	143
Total	2,272	3,672

NOTE 27 – Subordinated Debenture Loan

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

NOTE 28 – Bond Issues

The SAS Consortium's bond issues totaled 2,351 (3,249 of which the current portion was 424).

Specification of individual issues:

Issued amount	Interest rate, %	Term	Outstanding debt in MSEK
50 M U.S. dollars	10.650	88/08	394
700 M French francs	9.250	89/99	372
200 M U.S. dollars	10.000	89/99	621
200 M U.S. dollars	9.125	89/99	543
500 M Danish kroner	9.000	90/00	88
200 M Swedish kronor	14.000	90/00	59
10000 M Japanese yen	6.100	91/01	274
Total			2,351
Less repayments 1998			0
Total			2,351

Note 28, cont.

The majority of the above issues have been switched to other currencies and other fixed-interest periods through currency and interest-rate swap agreements and forward exchange contracts. The currency exposure of the debt has thus been changed so that the debt primarily consists of exposure in European currencies, see Note 30.

SAS's own bonds totaling 733 (157) have been repurchased and netted under this balance sheet item.

NOTE 29 – Other Loans

	SAS Group		SAS Consortium	
	1997	1996	1997	1996
Loan from SAS's parent companies*	1,519	1,566	1,519	1,566
Finance leases	6,075	5,944	5,851	5,720
Other loans	865	1,147	264	466
Total prior to repayments	8,459	8,657	7,634	7,752
Less repayments 1998 and 1997 respectively	-619	-517	-540	-439
Other loans according to the balance sheet	7,840	8,140	7,094	7,313

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

Currency exposure, see Note 30.

Loans for the Consortium fall due for payment as follows:

1998	540
1999	653
2000	746
2001 or later	5,695
Total	7,634

NOTE 30 – Financial Instruments

As per December 31, 1997, the SAS Group had currency swap contracts for a nominal value corresponding to 1,900. Valuation at market exchange rates provides a net exchange gain of 207.

Outstanding financial forward exchange contracts and options amount to a gross nominal value corresponding to 9,100. Market valuations provide a net loss of 7. All exchange gains/losses for the above valuations are taken into account in income.

Outstanding forward exchange contracts raised to hedge future commercial flows amount to a nominal value of 6,750. The effect on income is reported on the due date of the contract concerned. A valuation at market exchange rates on December 31, 1997, shows a positive net value of 32, which is not included in income.

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

As per December 31, 1997, the SAS Group's approximate financial currency exposure (net) against the consolidation currency SEK was as follows:

	Value in MSEK
Norwegian kronor	-500
Belgian francs	-100
Finnish marks	-100
British pounds	-100
Italian lire	-100
Japanese yen	-100
Swedish kronor or currencies without exposure	-350
Total net debt	-1,350

NOTE 31 – Short-Term Loans

SAS Group

Overdraft facilities granted amount to 187 (184), of which 12 (13) has been utilized.

SAS Consortium

Overdraft facilities granted amount to 79 (78) of which 12 (13) has been utilized.

NOTE 32 – Unearned Transportation Revenue, Net

Unearned transportation revenue consists of sold unutilized tickets, see Accounting Principles, page 71.

The estimated reserve for unearned transportation revenue on December 31, 1997, amounted to 412 (412) in both the SAS Group and the SAS Consortium.

NOTE 33 – Assets Pledged, etc.

	SAS Group		SAS Consortium	
	1997	1996	1997	1996
Pledges to secure own liabilities and provisions				
Mortgages in real estate	797	541	-	-
Chattel mortgages	1	-	-	-
Receivables	8	5	-	-
Other assets pledged				
Chattel mortgages	3	15	-	-
Receivables	68	67	29	28
Total	877	628	29	28

NOTE 34 – Contingent Liabilities

	SAS Group		SAS Consortium	
	1997	1996	1997	1996
Contingent liabilities for subsidiaries	-	-	572	578
Contingent liabilities, other	978	1,276	362	596
Total	978	1,276	934	1,174

Contingent liabilities include a gross amount of 124 (351) attributable to swap transactions in foreign currencies for swapped loans the value of which on the balance sheet date was lower than the value of the original loans. 114 (141) is also included attributable to the difference between accrued debt and income interest for swap transactions.

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

Under the management contracts for Radisson SAS Palais Hotel, Vienna, Radisson SAS Hotel, Hamburg, Radisson SAS Hotel, Brussels and seven other hotels, SAS International Hotels AS guarantees a minimum annual cash flow until the year 2006, 2007 (Brussels) and for the majority of other hotels until the year 2001–2006.

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

NOTE 35 – Leasing Commitments

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

MSEK	1998	1999	2000	2001	2002	2003 and thereafter
Aircraft	960	469	201	114	24	–
Hotel properties	386	426	423	404	371	4,153
Other properties	248	261	236	217	198	1,380
Machinery and equipment	1	1	–	–	–	–
Total	1,595	1,157	860	735	593	5,533

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

The above table includes large items as specified below:

In conjunction with the sale and leaseback transaction for Boeing 767-300s, six aircraft are leased back on an operating lease according to leasing contracts which run for 18–30 months and can be extended for one to two years. For 1998, the cost will be 357. The leasing cost for 1999 is 93.

SAS and Linjeflyg AB (SAS) on the one part and the Swedish Board of Civil Aviation (Luffartsverket) on the other part, concluded an agreement in March 1988 on full compensation to Luffartsverket in connec-

tion with the construction of Terminal 2 at Arlanda. The prerequisites for this agreement changed with the deregulation of domestic air transport on June 30, 1992. An agreement in principle between SAS and Luffartsverket was reached on November 25, 1992, under which SAS will pay a fixed charge to Luffartsverket during the period 1993–2005, in addition to a variable charge per passenger. The total leasing commitment for the period 1997–2005 amounts to 224. SAS claims that all airlines should bear their share of Luffartsverket's capacity costs for Terminal 2 in a competitively neutral manner, i.e. that all airlines should pay the same cost per passenger. Renegotiation of the agreement has had no effect so far. SAS has therefore taken legal action.

Auditors' Report

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

We have audited the financial statements, the consolidated financial statements and accounts of SAS for the year 1997. These accounts are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Sweden. These Standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the

Board of Directors and the President, as well as evaluating the overall presentation of information in the financial statements.

The financial statements of the SAS Group and the SAS Consortium are based on the accounting principles described in the section of the Annual Report entitled "Accounting and Valuation Principles."

In our opinion the financial statements present a true picture of the financial position of the SAS Group and the SAS Consortium on December 31, 1997, and the results for the fiscal year then ended, in accordance with the principles described above.

STOCKHOLM, MARCH 3, 1998

STIG ENEVOLDSEN

JAN ÅKE MAGNUSON

OLAV REVHEIM

AUTHORIZED PUBLIC ACCOUNTANTS

SAS Board of Directors

BO BERGGREN, Bo Berggren, born 1936, Honorary Doctor of Technology. Chairman of SAS's Board 1997. 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, ASTRA, and the Federation of Swedish Industries. Vice Chairman of the Board of Investor AB. Member of the Boards of a number of companies and organizations.

Personal Deputy: Erik Belfrage

BJØRN EIDEM, born 1942, Supreme Court Attorney. First Vice Chairman of SAS's Board 1997. Alternating Norwegian Chairman of SAS's Board since 1992 and member of SAS's Board since 1983. Chairman of the Board of SAS Norge ASA in 1997, as representative of the private Norwegian owners. Senior Vice President of Fred. Olsen & Co. Chairman of the Boards of Norges Handels og Sjøfartstidende and Widerøe's Airlines. Member of the Boards of Ganger Rolf, Bonheur and Harland & Wolff, among others.

Personal Deputy: Mads Henry Andenæs

HUGO SCHRØDER, born 1932, Engineer. Second Vice Chairman of SAS's Board 1997. 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: Erik Sørensen

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), SSAB (Vice Chairman), ASTRA and AlphaNet Ltd.

Personal Deputy: Ingemar Eliasson

HARALD NORVIK, born 1946, M.B.A. Alternating Norwegian Chairman of SAS's Board since 1992. Vice Chairman of the Board of SAS Norge ASA 1997, as representative of the Norwegian government. CEO of Statoil. Chairman of the Assembly of Representatives of Den Norske Bank, Member of the Board of Orkla Borregaard AS and Nycomed ASA

Personal Deputy: Kari Gjesteby

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

EMPLOYEE REPRESENTATIVES:

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

Deputies: Ulla Grøntvedt and Gunvor Axelsson

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

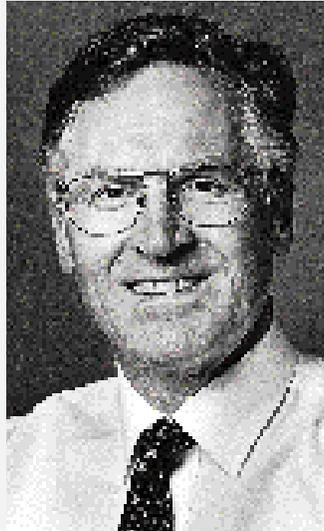
Deputies: Randi Kile and Svein Vefall

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

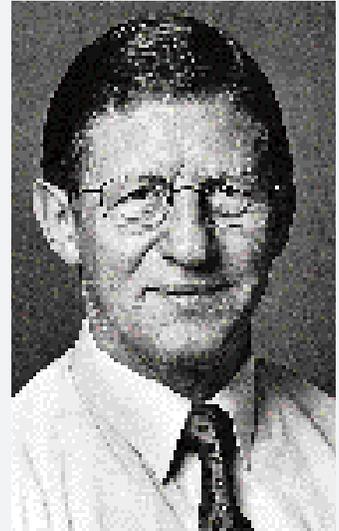
Deputies: Helmuth Jacobsen and Nicolas Fischer



BO BERGGREN



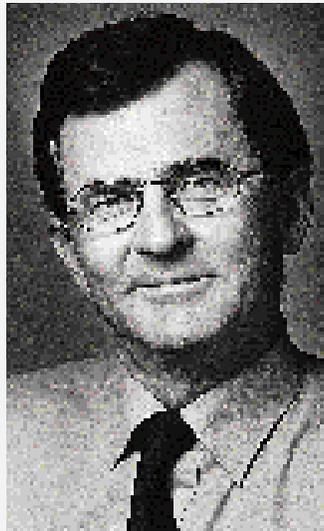
BJØRN EIDEM



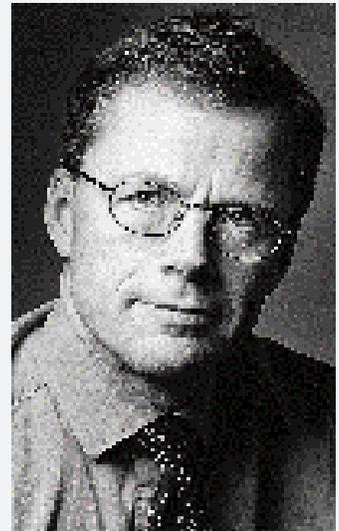
HUGO SCHRÖDER



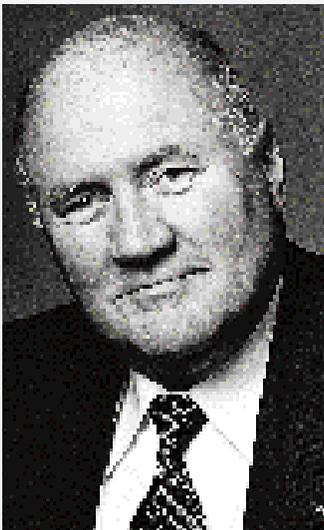
TONY HAGSTRÖM



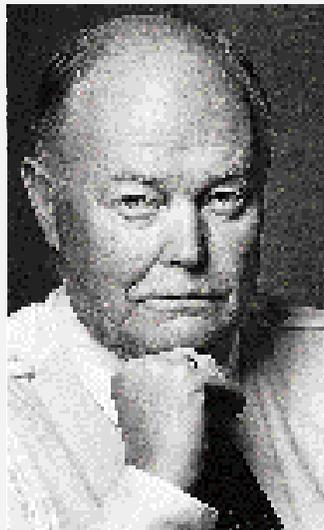
HARALD NORVIK



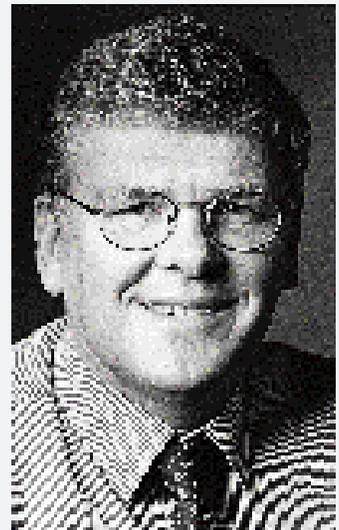
ANDERS ELDRUP



LEIF KINDERT



INGVAR LILLETUN



JENS THOLSTRUP HANSEN

Organization to ensure basic quality

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

Two major organizational changes took place during the year. The first is the formation of the Traffic Execution Department, where all resources that affect the quality of daily traffic operations have been placed. The intention is to provide better opportunities and clear responsibility to ensure that the departure punctuality target and other internal standards within the so-called basic quality are met. This function reports directly to the President.

The second organizational change is the phasing out of the Information Systems Division, which is now established purely as a staff function under the designation Information Strategies & Processes. This function reports directly to the President. Other units in the former division have been transferred to the divisions to which they belong operationally – Revenue

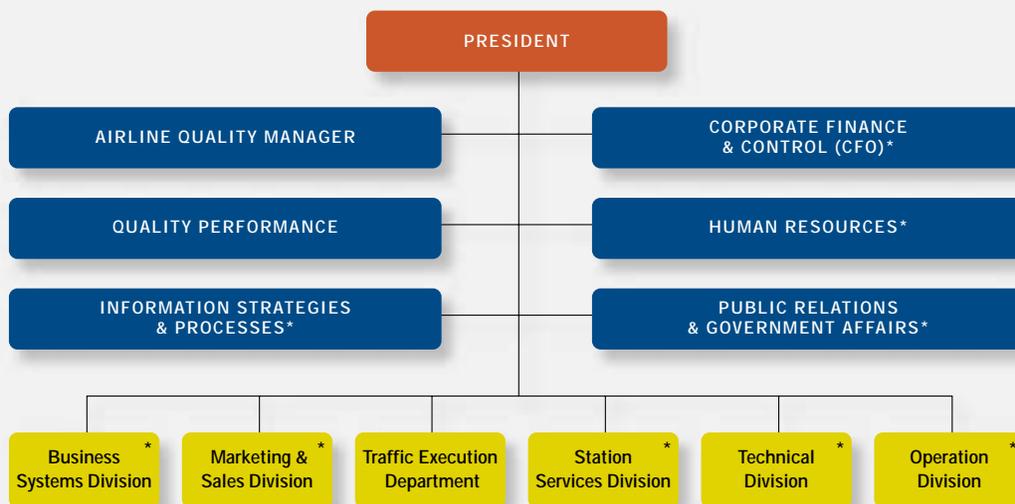
Information and SAS Hosting (sales of reservations systems) were transferred to the Business Systems Division while Distribution Services was transferred to the Marketing & Sales Division.

Following this reorganization, the five operational line divisions at SAS are: Business Systems (routes, products, SAS Trading and SAS Cargo), Marketing & Sales (own sales, agency sales, EuroBonus), Station Services (customer service at airports), Technical (technical maintenance of aircraft), and Operation (pilots and cabin employees).

The staff functions are Corporate Finance & Control, Human Resources, Public Relations & Government Affairs, Quality Performance, Information Strategies & Processes, and Airline Quality Manager with special responsibility for quality in airline operations and technical matters.

A person to be responsible for Information Strategies & Processes is being recruited.

SAS ORGANIZATION 1998



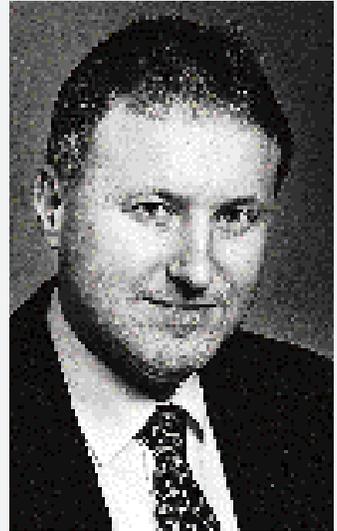
*Member of SAS Management Team



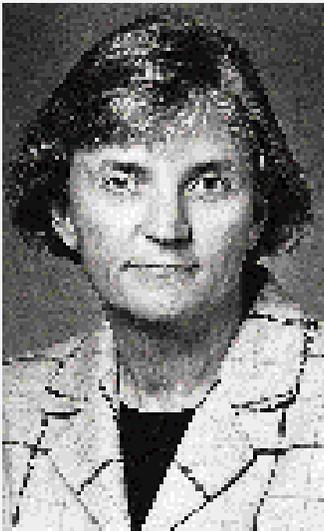
JAN STENBERG
President & CEO



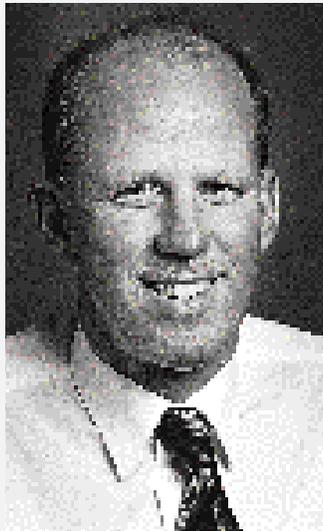
GUNNAR REITAN
Executive Vice President & CFO



JOHN S. DUEHOLM
*Senior Vice President
Technical Division*



MARIE EHRLING
*Senior Vice President
Station Services Division*



JAN FORSBERG
*Senior Vice President
Operation Division*



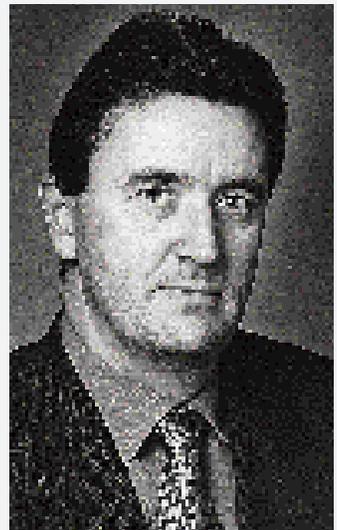
BERNHARD RIKARDBSEN
*Senior Vice President
Human Resources*



HENRY STENSON
*Senior Vice President
Public Relations & Government Affairs*



ERIK STRAND
*Senior Vice President
Marketing & Sales Division*



VAGN SØRENSEN
*Senior Vice President
Business Systems Division*

SAS Danmark A/S

Board of Directors' Report

SAS Danmark A/S's (A/S Reg. No. 4556) airline operations are conducted by the SAS and SAS Commuter Consortia in cooperation with SAS Norge ASA and SAS Sverige AB in the relation 2/7, 2/7 and 3/7 respectively. Information about the air transport operations of the consortia is provided on pages 59 to 69.

As in previous years, SAS Danmark A/S's invested capital in the SAS and SAS Commuter Consortia is stated in Swedish kronor. In the financial statements, the invested capital is translated into Danish kroner at the year-end exchange rate for Swedish kronor. Exchange gains and losses are reported in the balance sheet and included in fixed assets and shareholders' equity.

The Swedish kronor to Danish kroner exchange rate on December 31, 1997, was SEK 100 = DKK 86.31, compared with SEK 100 = DKK 86.37 in the previous year. This resulted in the following decreases in the book value of SAS Danmark's invested capital in the two Consortia:

SAS	MDKK 2.0
SAS Commuter	MDKK 0.1
Total	MDKK 2.1

BUSINESS CONCEPT

SAS Danmark A/S's business concept is to exercise active ownership in the SAS Consortium. The overall goal is the long-term development of SAS through active participation on the board.

OPERATIONS

The operations of SAS Danmark A/S comprise administration and management of the company's ownership interests in the two consortia.

RESULT

SAS Danmark A/S's operating expenses amounted to MDKK 4.4 (5.3). Total financial items was MDKK 19.2 (15.9). This change was mainly attributable to interest income from SAS.

Income from SAS Danmark A/S's other operations then amounted to MDKK 14.8 (14.4). SAS Danmark AS's total income before taxes amounted to MDKK 539.7 (407.2).

As in previous years, SAS Danmark A/S charges higher fiscal depreciation on aircraft ordered and delivered than the finan-

cial depreciation on these assets. Depreciation in 1997 led to an increase in deferred tax of MDKK 47. In connection with the abolition of the special rules on taxation of income from abroad (udlandslempelse) at year-end 1999, the tax rate applying at that date is applied to deferred tax.

SAS Danmark A/S's income after taxes amounted to MDKK 379.6 (299.7).

SHAREHOLDERS

At year-end 1997, approximately 4,000 shareholders were registered by name, corresponding to approximately 84% of the share capital.

The following shareholders are reported pursuant to Section 28a and b of the Danish Companies Act:

- The Kingdom of Denmark, 23,500,000 shares or 50% of the share capital.
- State Street Bank and Trust as nominee, USA, 5,462,833 shares or 11.6% of the share capital.
- Janus Capital Corporation, USA, 2,710,170 shares or 5.77% of the share capital.

DIVIDEND POLICY

The boards of SAS's parent companies intend to apply a coordinated dividend policy, so that dividends for each SAS share are the same size when translated into one and the same currency.

The yearly dividend is decided taking the SAS Group's earnings trend, capital requirement and relevant economic factors into account.

PROPOSED DISPOSITION OF EARNINGS

At the next annual meeting of shareholders the board will propose a dividend of DKK 3.50 (2.60) per share. The dividend will be paid on April 29, 1998.

FORECAST FOR 1998

For the prospects for 1998, please refer to the information provided by SAS.

Statement of Income

SAS DANMARK A/S'S AIRLINE OPERATIONS 2/7 SHARE OF THE SAS AND SAS COMMUTER CONSORTIA, MDKK	1997	1996
SAS		
Operating revenue	8,805.1	8,006.6
Operating expenses	-7,987.6	-7,277.6
Depreciation	-356.3	-349.3
Net financial items	11.8	8.7
Other items	52.4	-1.0
Income for the year	525.4	387.4
SAS Commuter		
Operating revenue	192.9	153.4
Operating expenses	-175.2	-129.5
Depreciation	-17.8	-16.8
Net financial items	-0.4	-1.7
Income for the year	-0.5	5.4
Net income for the year, airline operations	524.9	392.8
SAS DANMARK A/S'S OTHER OPERATIONS		
Rental income	0	3.8
Operating expenses	2.0	2.5
Payroll costs – <i>Note 1</i>	1.7	1.8
Contribution to SAS Danmark A/S's Relief Fund	0.7	1.0
Total expenses	4.4	5.3
Income before financial items	-4.4	-1.5
Financial income – <i>Note 2</i>	23.1	17.1
Financial expenses – <i>Note 3</i>	3.9	1.2
Total financial items	19.2	15.9
Income for the year from SAS Danmark A/S's other operations	14.8	14.4
Total income before taxes	539.7	407.2
Corporation tax – <i>Note 4</i>	160.1	107.5
Net Income For The Year	379.6	299.7

Balance Sheet

ASSETS, MDKK

	1997	1996
FIXED ASSETS		
Financial fixed assets		
Equity interests in the SAS, Scanair and SAS Commuter Consortia – <i>Note 5</i>	3,326.9	3,086.8
Total fixed assets	3,326.9	3,086.8
CURRENT ASSETS		
Tax paid on account – <i>Note 6</i>	15.4	0
Receivable from SAS – <i>Note 7</i>	715.6	727.3
Securities – <i>Note 8</i>	1.3	1.0
Liquid assets – <i>Note 9</i>	1.1	2.9
Total current assets	733.4	731.2
TOTAL ASSETS	4,060.3	3,818.0

SHAREHOLDERS' EQUITY AND LIABILITIES, MDKK

	1997	1996
Shareholders' equity		
Share capital	470.0	470.0
Premium reserve	411.2	411.2
Other reserves	2,102.5	1,890.9
Total shareholders' equity – <i>Note 10</i>	2,983.7	2,772.1
Provisions		
Deferred tax – <i>Note 11</i>	911.0	864.0
Total provisions	911.0	864.0
Current liabilities		
Corporation tax – <i>Note 12</i>	0	58.0
Other liabilities	1.1	1.7
Dividend for the year	164.5	122.2
Total current liabilities	165.6	181.9
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	4,060.3	3,818.0

Statement of Changes in Financial Position

MDKK	1997	1996
Income for the year before taxes	539.7	407.2
Changes in value	-0.4	-0.3
Other differences	-0.6	-9.9
Cash flow from operations	538.7	397.0
Corporation tax paid	-186.5	-72.5
Cash flow from operations	352.2	324.5
Sale of properties	-	158.3
Capital contribution to the SAS Consortium	-	-350.5
Share of income in the SAS Consortium and SAS Commuter Consortium	-524.9	-387.2
Payment from the SAS Consortium	293.1	-243.5
Cash flow from investments	-231.8	-822.9
Capital increase	-	556.1
Dividends paid	-122.2	-97.5
Reduction in long-term liabilities	-	-3.3
Cash flow from financing activities	-122.2	455.3
Change in liquid assets	-1.8	-43.1
Liquid assets, January 1	2.9	46.0
Liquid assets, December 31	1.1	2.9

Accounting and Valuation Principles

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

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

– Subsidiaries and Affiliated Companies:

In the SAS Group, the income of affiliated companies 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 subsidiaries and affiliated companies is not included in the Consortium's financial statements, but dividends received are reported as income.

Shares are reported under fixed assets at the lower of acquisition or written down value. SAS Danmark A/S's financial statements are prepared in accordance with the Annual 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 1996, are as follows:

– SAS Danmark A/S's share of the income of the SAS and SAS Commuter Consortia is translated at the average exchange rate for the year. For 1997, the average exchange rate was: SEK 100 = DKK 86.54 (86.47).

– Financial fixed assets, which comprise equity interests in the SAS and SAS Commuter Consortia, are translated into Danish kroner at year-end exchange rates, SEK 100 = DKK 86.31, compared with SEK 100 = DKK 86.37 last year. Exchange differences are reported under shareholders' equity.

– Securities are stated at the listed official price at year-end. Exchange 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 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 is provided on timing differences between income and expenses reported in the statement of income and taxable income. Deferred tax is calculated on current and fixed assets.

Deferred tax is stated using the current tax rate.

Detailed statements of changes in financial position for the SAS Group and the SAS Consortium are provided on pages 64 and 68.

FIVE-YEAR SUMMARY

MDKK	1997	1996	1995	1994	1993
Statement of income					
Share of net income from the business operations of SAS, Scanair and SAS Commuter ¹	525	393	535	515	-149
Income before taxes	540	407	545	525	-130
Net income for the year	380	300	281	490	-130
Balance Sheet, December 31					
Fixed assets	3,327	3,087	2,625	2,137	1,748
Current assets	733	731	322	135	39
Total assets	4,060	3,818	2,947	2,272	1,787
Shareholders' equity	2,984	2,772	2,024	1,622	1,717
Long-term liabilities and provisions	911	864	730	563	65
Current liabilities	165	182	193	87	5
Total shareholders' equity and liabilities	4,060	3,818	2,947	2,272	1,787
Share and share price data					
Dividends	165	122	98	81	-
Market price at year-end ² DKK	100	73	483	4,950	2,340
Equity value ²	63	59	996	3,193	2,327
Quick ratio	4.4	4.0	1.7	1.6	7.8
Equity/assets ratio, %	73.5	72.6	68.6	71.4	66.1
Return on capital employed, %	13.7	12.0	21.0	26.1	-
Return on equity, %	12.5	12.0	14.1	31.0	-

¹ Scanair's air transport operations ceased at year-end 1993.

² In 1995, the share capital was increased from MDKK 50.8 nominal value to MDKK 203.2 through a bonus issue. At the same time, the par value per share was changed to DKK 25. In 1996, it was agreed to make a 5:3 bonus share issue and a concurrent share split to reduce the par value from DKK 25 to DKK 10 per share. This was followed by a 9:4 rights issue. Finally, a small market price issue was made, which brought the company's nominal share capital to MDKK 470.

Notes to the Financial Statements

NOTE 1 – Number of Employees and Payroll Costs

MDKK	1997	1996
SAS Danmark A/S has 3 employees		
Salaries (including 0.3 to management)	0.9	1.3
Pension and social security contributions	0.2	0.1
Directors' fees	0.4	0.4
Fees to SAS Consortium's Assembly of Representatives (Danish members)	0.2	0
Total payroll costs	1.7	1.8

NOTE 2 – Financial Income

MDKK	1997	1996
Market value adjustment of securities	0.4	0.3
Interest on capital account with SAS	22.5	14.0
Other interest income	0.2	2.8
Total financial income	23.1	17.1

NOTE 3 – Financial Expenses

MDKK	1997	1996
Interest expenses, etc.	3.9	1.2

NOTE 4 – Corporation Tax

MDKK	1997	1996
Tax on income for the year	130.0	58.0
Adjustment of tax in previous year	-17.1	-17.6
Foreign tax	0.2	0.1
Provision to deferred tax	47.0	67.0
Total	160.1	107.5

NOTE 5 – Equity Interests in the SAS, Scanair, and SAS Commuter Consortia

	Dec. 31, 1997		Dec. 31, 1996	
	total MSEK	2/7 MDKK	total MSEK	2/7 MDKK
SAS Consortium				
Invested capital, opening balance	11,992	2,959.3	9,868	2,348.6
Invested June 1996			1,400	350.5
Exchange difference		-2.1		81.5
	11,992	2,957.2	11,268	2,780.7
Income for the year		2,125 MSEK		
To be transferred to parent companies		1,141 MSEK		
Not transferred	984	242.7	724	178.7
Invested capital in SAS	12,976	3,199.9	11,992	2,959.3
Scanair Consortium (liquidated)				
Invested capital, opening balance	2	0.5	2	0.5
SAS Commuter Consortium				
Invested capital, opening balance	515	127.0	493	117.3
Exchange difference	-	0	-	4.3
	515	127.0	493	121.6
Income for the year – not transferred	-2	-0.5	22	5.4
Invested capital in SAS Commuter	513	126.5	515	127.0
Total equity interests in the Consortia	13,491	3,326.9	12,509	3,086.8

NOTE 6 – Tax Paid on Account

MDKK	31/12 1997	31/12 1996
Tax paid on account	145.4	0
Anticipated corporation tax	-130.0	0
Tax paid on account, closing balance	15.4	0

NOTE 7 – Receivables

MDKK	31/12 1997	31/12 1996
Settlement with SAS	281.8	208.3
Capital account with SAS (agreed investment)	433.8	517.5
Other receivables	0	1.5
Total receivables	715.6	727.3

NOTE 8 – Securities

	31/12 1997	31/12 1996
MDKK		
Shares Københavns Lufthavne A/S	1.3	1.0

NOTE 9 – Liquid Assets

	31/12 1997	31/12 1996
MDKK		
Cash at bank	1.1	2.9
Total liquid assets	1.1	2.9

NOTE 10 – Shareholders' Equity

	31/12 1997	31/12 1996
MDKK		
Share Capital		
January 1	470.0	203.2
Bonus share issue	-	121.9
Rights issue	-	144.5
Directed issue at market price	-	0.4
Issued share capital 47,000,000 shares of DKK 10 each		
Total share capital	470.0	470.0
Premium Reserve		
January 1	411.2	0
Premium on issue	-	421.8
Expenses of issue	-	-10.6
Total premium reserve	411.2	411.2
Revaluation Reserve		
January 1	0	138.8
Transfer to bonus share issue	-	-39.8
Transfer to Other Reserves	-	-99.0
Total revaluation reserve	0	0
Other Reserves		
January 1	1,890.9	1,682.1
Transfer from revaluation reserve	-	99.0
Transfer to bonus share issue	-	-82.1
Exchange differences of Consortia	-3.5	85.4
Exchange differences, opening deferred tax	0	-71.0
Transfer from statement of income	215.1	177.5
Total other reserves	2,102.5	1,890.9
Total shareholders' equity	2,983.7	2,772.1

NOTE 11 – Provisions

	31/12 1997	31/12 1996
MDKK		
Deferred tax, January 1	864.0	726.0
Transfer from shareholders' equity	-	71.0
Increase in deferred tax, statement of income	47.0	67.0
Total provisions	911.0	864.0

NOTE 12 – Corporation Tax

	31/12 1997	31/12 1996
MDKK		
Anticipated income tax	130.0	58.0
Paid on account	-130.0	0
Total corporation tax	0	58.0

NOTE 13 – Fees to Auditors Appointed by Annual Meeting of Shareholders

KPMG C. Jespersen was paid an auditors' fee of DKK 50,000 for 1997, and DKK 150,000 for other services (tax advice, etc.). Fees paid to Deloitte & Touche in 1997 amounted to DKK 30,000 for auditing and DKK 50,000 for other services.

Proposed disposition of earnings

Provided the SAS Assembly of Representatives approves the SAS Consortium's Annual Report, and the distribution of the surplus proposed by the SAS Consortium's Board, the Board of Directors of SAS Danmark A/S proposes to the annual meeting of shareholders that the company's income after taxes of MDKK 379.6 be allocated as follows:

Dividend	MDKK 164.5
Allocation to Other reserves	MDKK 215.1
Total	MDKK 379.6

The Board of Directors hereby presents the annual report for the period January 1 to December 31, 1997,
for the approval of the Annual Meeting of Shareholders.

COPENHAGEN, APRIL 1, 1998

MANAGEMENT

JAN STENBERG
PRESIDENT

BOARD OF DIRECTORS

HUGO SCHRØDER

ANDERS ELDRUP

ERIK SØRENSEN

SONJA MIKKELSEN

Auditors' Report

We have audited the financial statements of SAS Danmark A/S for the year 1997 presented by the Board of Directors and the Management.

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 for the year.

COPENHAGEN, APRIL 1, 1998

DELOITTE & TOUCHE

STATE AUTHORIZED PUBLIC ACCOUNTANTS

KPMG C. JESPERSEN

STATE AUTHORIZED PUBLIC ACCOUNTANTS

STIG ENEVOLDSEN KLAUS HONORÉ
STATE AUTHORIZED PUBLIC ACCOUNTANTS

KNUD PLENGE
STATE AUTHORIZED PUBLIC ACCOUNTANTS

Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held on April 23, 1998, at 4 p.m. in Radisson SAS Falconer Center, Falkoner Allé 9, 2000 Frederiksberg, Denmark.

Board of Directors and Management

At the Annual Meeting of Shareholders in 1997 it was decided that SAS Danmark A/S's local Assembly of Representatives should cease to exist and that the Board should be limited to four members. The following Board members were elected to the new 4-person Board.

BOARD OF DIRECTORS

Representing the private shareholders:

HUGO SCHRØDER (Chairman). Director. Chairman of the Board of Danisco A/S. Vice Chairman of the Board of Incentive A/S. Member of the Board of Chr. Augustinus Fabrikker A/S.

ERIK SØRENSEN Managing Director of Chr. Hansen Holding A/S. Member of the Boards of ISS-International Service System A/S and Maersk Medical A/S.

Representing the Danish Government:

ANDERS ELDRUP (Vice Chairman). Permanent Under-Secretary, Ministry of Finance. Vice Chairman of the Board of Dansk Olie og Naturgas A/S.

SONJA MIKKELSEN Head of Section, MP.

Management:

JAN STENBERG President. In June 1997, the President & CEO of Scandinavian Airlines System, Jan Stenberg, was appointed as president of SAS Danmark A/S as well as of SAS Norge ASA and SAS Sverige AB.

SAS Norge ASA

Board of Directors' Report

Under a consortium agreement with SAS Danmark A/S and SAS Sverige AB, SAS Norge ASA conducts air transport operations in the Scandinavian Airlines System (SAS) and SAS Commuter Consortia.

The consortia's net income is divided between the parent companies SAS Danmark A/S, SAS Norge ASA and SAS Sverige AB in the relation 2/7, 2/7 and 3/7 respectively.

Together with SAS Danmark A/S and SAS Sverige AB, SAS Norge ASA is jointly and severally responsible for the commitments of SAS and SAS Commuter.

SAS's financial statements and the comments pertaining to them are an integral part of the annual report of SAS Norge ASA and the two reports must be seen in context.

BUSINESS CONCEPT

SAS Norge ASA's business concept is to exercise active ownership in the SAS Consortium. The overall goal is the long-term development of SAS through active participation on the board.

OPERATIONS

SAS Norge ASA's operations comprise administration and management of the company's ownership interests in the two consortia.

RESULT

Income before taxes for 1997 was MNOK 466 (MNOK 423 in the previous year).

It is the opinion of the Board that the statement of income and balance sheet and the notes to the financial statements provide satisfactory information about operations during the year and the position at year-end.

Information regarding the development of the company's earnings and financial position and development trends, important events and prospects that are of significance for a valuation of the company, is provided in a separate section of this combined report for the whole of SAS.

SHAREHOLDERS

SAS Norge ASA's share capital at December 31, 1997, 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. At December 31, the other half, class B, was owned by 2,446 other shareholders. Only class B shares are listed on

the Oslo Stock Exchange. Only the Norwegian State owns more than 20% of the share capital. The proportion of foreign shareholders was 16.3%.

In accordance with the requirements of Section 11–12 of the Norwegian Companies Act, the following information is disclosed as regards shareholding of board members, auditors and president, including shares owned by spouses, children under the age of majority, etc., cf. Section 1–2 of the Act.

Board Member: Bjørn Eidem 5,861.

FEES AND REMUNERATION

Fees to members of the board and assembly of representatives totaled NOK 551,000. Salary and remuneration to the former president until retirement amounted to NOK 235,000. Following an interim period with an interim president, the president of SAS is also president of SAS Norge ASA without further remuneration over and above payment from SAS.

Fees to the company's auditors have been booked as an expense of NOK 100,000 for audit work and NOK 212,000 for other services.

DIVIDEND POLICY

The boards of SAS's parent companies intend to apply a coordinated dividend policy, so that dividends for each SAS share are the same size when translated into one and the same currency.

The yearly dividend is decided taking the SAS Group's earnings trend, capital requirement and relevant economic factors into account.

DIVIDEND PROPOSAL

At the suggestion of the Board of Directors of SAS, the SAS Consortium Assembly of Representatives has decided that MSEK 1,141 should be transferred to the parent companies for 1997. It is proposed that the remaining profit, MSEK 984, be transferred to the capital account in the consortium. Subsequently, the parent companies' total capital account in the consortium will amount to MSEK 12,976 (11,992), of which SAS Norge ASA's share will be MSEK 3,708 (3,426).

PROPOSED DISPOSITION OF EARNINGS

The Board proposes to the Annual Meeting that a dividend of NOK 3.70 be paid to shareholders compared with NOK 2.80

in the previous year, and that the profit for the year of MNOK 336 be distributed as follows:

Dividend	MNOK 174
To restricted reserve	MNOK 121
To unrestricted reserve	MNOK 41
	MNOK 336

FORECAST FOR 1998

For the prospects for 1998, please refer to the information provided by SAS.

BÆRUM DECEMBER 31, 1997
APRIL 1, 1998

MADS HENRY ANDENÆS

KARI GJESTEBY

BJØRN EIDEM
CHAIRMANHARALD NORVIK
VICE CHAIRMANJAN STENBERG
PRESIDENT

Statement of Income

MNOK 000s	1997	1996
Operating revenue	9,422	8,895
Operating expenses	-8,529	-8,057
Depreciation – <i>Note 1</i>	-493	-433
Total operating expenses	-9,022	-8,490
Operating income	400	405
Income from the sale of fixed assets	25	-
Other items	30	-1
Dividends	30	4
Financial income	197	268
Financial expenses	-216	-253
Net financial items	11	19
Income before taxes – <i>Note 2</i>	466	423
Taxes – <i>Note 3</i>	-130	-120
Net income for the year	336	303
Disposition of profit for the year and equity transfers		
Dividend	174	132
Provision to restricted reserve	121	101
Provision to unrestricted reserve	41	189
Transfer from special tax reserve	-	-119

Balance Sheet

ASSETS, MNOK

	1997	1996
CURRENT ASSETS		
Cash, bank deposits and short-term investments	2,543	2,915
Current receivables	1,346	976
Prepaid expenses and accrued income	190	126
Prepayments to suppliers	1	1
Spare parts and inventories	169	136
Total current assets	4,249	4,154
FIXED ASSETS		
Shares and participations	584	581
Long-term receivables – <i>Note 5</i>	341	231
Intangible assets – <i>Note 1</i>	3	6
Prepayments to suppliers	290	79
Construction in progress	285	118
Aircraft – <i>Note 1</i>	3,208	3,405
Spare engines and parts – <i>Note 1</i>	267	243
Workshop and aircraft servicing equipment – <i>Note 1</i>	31	26
Other equipment and vehicles – <i>Note 1</i>	86	92
Buildings and improvements – <i>Note 1</i>	886	911
Land – <i>Note 1</i>	31	32
Total fixed assets	6,012	5,724
TOTAL ASSETS	10,261	9,878

LIABILITIES AND SHAREHOLDERS' EQUITY, MNOK

	1997	1996
Current liabilities		
Accounts payable	348	292
Unearned transportation revenue (net)	521	441
Accrued expenses and prepaid income	992	813
Taxes payable – <i>Note 3</i>	120	137
Dividend	174	132
Current portion of long-term debt	148	234
Other current liabilities	937	746
Total current liabilities	3,240	2,795
Long-term liabilities		
Long-term debt	2,822	3,087
Deferred tax – <i>Note 3</i>	419	402
Subordinated debenture loan	209	198
Total long-term liabilities	3,450	3,687
Shareholders' equity		
Share capital (47,000,000 shares of NOK 10 each)	470	470
Restricted reserve	519	398
Total restricted equity	989	868
Translation difference	475	462
Unrestricted reserve	2,107	2,066
Total unrestricted equity	2,582	2,528
Total shareholders' equity – <i>Note 4</i>	3,571	3,396
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY – <i>Note 2</i>	10,261	9,878
Pledged assets	8	8
Guarantee commitments	249	315

Statement of Changes in Financial Position*

NOK 000s	1997	1996
Cash flow from operating activities		
Payments for goods and services for own use	-1,553	-3,258
Payments to employees, pension institutions, payroll tax, employer tax, etc.	-2,612	-3,384
Dividends received	15	11
Interest received	2,788	16,368
Interest paid	-47	-4,246
Taxes paid	-130,284	-196,118
Net cash flow from operating activities	-131,692	-190,628
Cash flow from investment activities		
Sale of tangible fixed assets	0	206,071
Purchase of tangible fixed assets	0	-23
Purchase of short-term investments	0	-26,006
Sale of short-term investments	26,006	397,397
Net cash flow from investment activities	26,006	577,439
Cash flow from financing activities		
Received from new long-term debt	5,000	0
Deduction of long-term debt	-	-143,770
Capital contribution to SAS	-	-390,625
Dividends paid	-131,600	-157,271
Transferred from SAS	225,023	313,672
Net cash flow from financing activities	98,423	-377,994
Reconciliation		
Income before taxes	465,906	422,945
Share of income of SAS and SAS Commuter Consortia	-960,400	-845,283
Taxes paid for the period	-130,284	-196,118
Depreciation SAS and SAS Commuter Consortia	493,041	432,713
Depreciation SAS Norge ASA	94	90
Settlement SAS	0	-4,512
Difference between pension booked as a liability and incoming/outgoing payments	-247	-687
Change in accrued expenses	27	-272
Change in other interim items	171	496
Net cash flow from operating activities	-131,692	-190,628
Liquid assets, January 1*	11,870	3,052
Change in liquid assets	-7,262	8,818
Liquid assets, December 31*	4,608	11,870

* Applies to SAS Norge ASA's own operations.

Comments to the Financial Statements

ACCOUNTING AND VALUATION PRINCIPLES

The financial statements have been prepared in accordance with Norwegian accounting standards and generally accepted accounting practice. SAS's financial statements 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 financial statements are not repeated in the following. Apart from this, the most important accounting principles applied are described below.

Otherwise, there is a difference between IAS and current accounting rules in accordance with generally accepted Norwegian accounting practice, mainly with regard to the use of the equity method in the company accounts and accounting for unrealized gains and losses connected to long-term assets and liabilities in foreign currencies.

PRINCIPLES OF CONSOLIDATION

SAS Norge ASA's financial statements include 2/7 of the SAS and SAS Commuter Consortia and the company's own business activities.

The company's ownership interest in the consortia is regarded as participation in a jointly controlled enterprise (joint venture) and is included in the accounts gross. Accordingly, SAS Norge ASA's 2/7 of all income, expenses, assets and liabilities in the two consortia is recorded in the accounts (see Note 3).

Internal transactions and balances are eliminated at consolidation.

The accounts of the consortia are recorded in Swedish kronor (SEK). The closing exchange rate 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 average exchange rate for 1997 of NOK 92.59 to SEK 100 was applied compared with NOK 96.28 in the preceding year. A closing rate at December 31, 1997, of NOK 93.28 was applied compared with NOK 93.85 at December 31, 1996.

TANGIBLE FIXED 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 historical cost less depreciation according to plan.

TAXES

Tax expenses comprise taxes payable and changes in deferred tax during the period. The change in deferred tax reflects deferred tax 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 tax rate of 28% has been used for the calculation.

Positive temporary differences are eliminated against negative temporary differences reversed or expected to be reversed in the same period.

Notes

NOTE 1 – Depreciation of Fixed Assets

DEPRECIATION OF THE COMPANY'S PARTICIPATION IN THE SAS AND SAS COMMUTER CONSORTIA, NOK 000s

	Book value Jan. 1, 1997	Net acquisition	Deprec. for year	Book value Dec. 31, 1997
SAS				
Intangible assets	6,050	79	2,540	3,589
Aircraft	3,221,525	170,401	349,343	3,042,583
Spare engines and parts	227,154	53,940	28,650	252,444
Workshop and other aircraft servicing equipment	25,712	13,915	9,021	30,606
Machinery, equipment and vehicles	90,804	34,417	40,211	85,010
Buildings and improvements	911,310	16,345	41,877	885,778
Land and land improvements	30,325	-317	212	29,796
Total	4,512,880	288,780	471,854	4,329,806
SAS Commuter				
Aircraft	183,792	397	19,020	165,195
Spare parts	16,054	661	1,720	14,996
Equipment and vehicles	802	370	450	723
Total	200,648	1,429	21,190	180,914

DEPRECIATION OF FIXED ASSETS FOR SAS NORGE ASA'S OWN OPERATIONS

NOK 000s	Equipment	Land
Acquisition cost, Jan. 1, 1997	406	1,528
Acquisitions during the year	-	-
Disposals during the year	-	-
Accumulated depreciation	-237	-
Book value, Dec. 31, 1997	169	1,528
Depreciation for the year	94	-
Depreciation rate	20-30%	-

OWN INVESTMENTS AND SALES DURING THE LAST 5 YEARS

NOK 000s	Investments	Sales
1993	-	-
1994	-	1,500
1995	384	175
1996	22	206,800
1997	-	-

NOTE 2 – Share of Income and Equity

INCOME, MNOK	1997	1996	BALANCE SHEET	1997	1996
Rental income	-	4	Assets SAS Norge ASA	311	266
Operating expenses and depreciation	-4.0	-6	Share of SAS Consortium ¹	3,816	3,641
Net financial income	2.5	12	Share of SAS Commuter Consortium ¹	160	161
Pre-tax profit on own business	-1.5	10	Total assets	4,287	4,068
Share of income of SAS Consortium	562.0	431	Liabilities SAS Norge ASA	716	672
Share of income of SAS Commuter Consortium	-1.0	6	Shareholders' equity	3,571	3,396
(-) adjustments ¹	-94.0	-24	Total liabilities and shareholders' equity	4,287	4,068
Income before taxes	466.0	423			

¹ Share of income of the SAS and SAS Commuter Consortia comprises MSEK 2,125 and MSEK -2 respectively translated at the average exchange rate for the year. Share of income of SAS's subsidiaries is not included.

² Adjustments mainly arise in connection with translation of the basis for write-downs and gains on sale at historical rates.

¹ Includes share of fixed assets translated at historical rates. Had the shares been translated at the exchange rate at December 31, 1997, book values would have been 360 and 24 lower respectively.

NOTE 3 – Taxes

In accordance with the interim Norwegian accounting standard on processing taxes, negative temporary differences have been eliminated against positive temporary differences.

Temporary differences are based on interim figures/estimates from SAS.

MNOK	1997	1996
Income before taxes	466	423
Permanent differences	5	5
Changes in temporary differences relating to:		
Accounts receivable	1	-3
Inventory	0	1
Long-term receivables	0	-
Fixed assets	66	26
Revaluations	0	111
Gains and losses	-44	-10
Other temporary differences	-65	-65
Taxable income	429	488
Estimated taxes payable (28%)	120	137

**TEMPORARY DIFFERENCES,
DECEMBER 31**

	1997	1996
Accounts receivable	-10	-9
Inventory	-12	-11
Long-term receivables	0	-10
Shares	89	69
Fixed assets	1,207	1,230
Gains and losses	336	405
Other temporary differences	-116	-236
Basis for calculation of deferred tax	1,496	1,437
Deferred tax in the balance sheet (28%)	419	402

SPECIFICATION OF TAX EXPENSE

	1997	1996
Estimated taxes payable	120	137
Change in deferred tax	17	-17
Excess provision 1996	-7	-
Tax cost for the year in the statement of income	130	120

NOTE 4 – Shareholder's Equity

MNOK	Share capital	Restricted reserve	Unrestricted reserve	Translation differences	Total
At Jan. 1, 1997	470	398	2,066	462	3,396
Income excluding dividend	-	121	41	-	162
Change in translation difference	-	-	-	13	13
At December 31, 1997	470	519	2,107	475	3,571

NOTE 5 – Pension Commitments

The company's pension commitments are covered through collective pension insurance and encompass two employees and two retired employees (net pension assets NOK +456,000) and a liability to one employee in early retirement (NOK -301,000).

Auditors' Report

We have conducted the audit of the accounts of SAS Norge ASA for the 1997 accounting year showing a profit for the year of MNOK 336. The financial statements, comprising the Report of the Board of Directors, the Statement of Income, the Balance Sheet, the Statement of Changes in Financial Position 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 administration in general.

We have conducted our 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. We have checked se-

lected parts of the material for amounts and other information. We have also evaluated the accounting principles followed and the valuations and 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 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 provide a fair picture of the financial status at December 31, 1997, and the result of the operations for the 1997 fiscal year in accordance with generally accepted auditing principles.

OSLO, APRIL 1, 1998

DELOITTE & TOUCHE

OLAV REVHEIM

STATE AUTHORIZED PUBLIC ACCOUNTANT (NORWAY)

Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held on April 22, 1998, at 4 p.m. at Radisson SAS Scandinavia Hotel, Oslo.

Board of Directors

**MEMBERS APPOINTED BY
THE NORWEGIAN GOVERNMENT**

HARALD NORVIK Vice Chairman

KARI GJESTEBY Director

**MEMBERS ELECTED BY
THE PRIVATE SHAREHOLDERS**

BJØRN EIDEM Chairman

MADS HENRY ANDENÆS Prof.

SAS Sverige AB

Board of Directors' Report

The Board of Directors and the President of SAS Sverige AB (company registration number 556042-5414) hereby submit their annual report for the fiscal year 1997.

Under a consortium agreement with SAS Danmark A/S and SAS Norge ASA, SAS Sverige AB conducts air transport operations in the Scandinavian Airlines System (SAS) and SAS Commuter Consortia. SAS conducts operations associated to air transport in subsidiaries and affiliated companies (see page IV). These companies form the SAS Group. An account of the operations of the two consortia and their business units is provided on pages 59–69.

SAS's ownership structure in the three countries has been harmonized in recent years (see page 10).

BUSINESS CONCEPT

SAS Sverige AB's mission is to exercise active ownership in the SAS Consortium. The overall goal is to develop SAS in the long term through active participation on the board.

OPERATIONS

The main object of SAS Sverige AB's activities is to own and manage participations (3/7) in the SAS Consortium and to conduct its own asset management.

KEY EVENTS IN 1997

As part of the harmonization of SAS's parent companies, the number of board members has been reduced to four and the President of SAS has also taken office as President of SAS Sverige AB.

The consortium agreement for the SAS Consortium was renewed in 1997 until the year 2020.

An account of key events in the SAS Group is provided on page III.

INCOME

SAS Sverige AB reports income for the year of MSEK 691 (349).

PERSONNEL

In 1997, SAS Sverige had an average of 3 employees, 2 men and 1 woman.

DIVIDEND POLICY

The boards of SAS's parent companies intend to apply a coordinated dividend policy, so that dividends for each SAS share are the same size when translated into one and the same currency.

The yearly dividend is decided taking the SAS Group's earnings trend, capital requirement and relevant economic factors into account.

PROPOSED DIVIDEND

The proposed dividend per share for the fiscal year is SEK 4.00, making a total dividend of MSEK 282.

FORECAST FOR 1998

For the prospects for 1998, please refer to the information provided by SAS.

Statement of Income

MSEK	1997	1996
Share of income in the consortia – <i>Note 1</i>	910.1	681.4
Income from other operations	0.8	30.3
	910.9	711.7
Payroll costs	-4.9	-4.8
Other operating expenses	-3.1	-24.2
Depreciation – <i>Note 2</i>	-0.2	-0.6
Income from the sale of tangible fixed assets	0	155.5
Operating income	902.7	837.6
Interest income and similar income statement items	46.7	181.7
Interest expenses and similar income statement items	0	-13.6
Income after financial items	949.4	1,005.7
Appropriations – <i>Note 3</i>	-10.5	-328.0
Tax on income for the year	-248.1	-328.7
Net income for the year	690.8	349.0

Balance Sheet

ASSETS, MSEK

	1997	1996
FIXED ASSETS		
Tangible fixed assets		
Machinery and equipment – <i>Note 4</i>	0.5	0.8
Total tangible fixed assets	0.5	0.8
Financial fixed assets		
Participations in consortia – <i>Note 5</i>	5,781.8	5,360.8
Shares in Group companies – <i>Note 6</i>	120.4	120.4
Other shares	0.0	0.0
Total financial fixed assets	5,902.2	5,481.2
Total fixed assets	5,902.7	5,482.0
CURRENT ASSETS		
Current receivables		
Accounts receivable	1.0	1.5
Receivable from SAS	1,018.4	940.9
Anticipated transfer from SAS	489.0	361.5
Other receivables	0.0	119.3
Prepaid expenses and accrued income	1.7	2.5
Total current receivables	1,510.1	1,425.7
Cash and bank balances	1.3	7.7
Total current assets	1,511.4	1,433.4
TOTAL ASSETS	7,414.1	6,915.4

SHAREHOLDERS' EQUITY AND LIABILITIES, MSEK

	1997	1996
SHAREHOLDERS' EQUITY – <i>Note 7</i>		
Restricted equity		
Share capital (70,500,000 shares par value SEK 10 each)	705.0	705.0
Revaluation reserve	179.0	179.0
Statutory reserve	141.0	141.0
Total restricted equity	1,025.0	1,025.0
Unrestricted equity		
Profit brought forward	188.5	51.0
Net income for the year	690.8	349.0
Less: Proposed dividend	-282.0	-211.5
Total unrestricted equity	597.3	188.5
Total shareholders' equity	1,622.3	1,213.5
Untaxed reserves – <i>Note 3</i>	5,066.2	5,055.7
Provisions for pensions	0.5	0.6
Long-term liabilities		
Other long-term liabilities	22.1	22.1
Total long-term liabilities	22.1	22.1
Current liabilities		
Proposed dividend	282.0	211.5
Liabilities to Group companies	120.4	120.5
Tax liability	256.5	230.9
Other liabilities	40.9	48.6
Accrued expenses and prepaid income	3.2	12.0
Total current liabilities	703.0	623.5
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	7,414.1	6,915.4
Pledged assets		
Pledges SAS Consortium (<i>3/7</i>)	12.4	12.0
Contingent liabilities – <i>Note 8</i>	401.4	504.8

Statement of Changes in Financial Position

MSEK	1997	1996
Source of funds		
Income before appropriations and taxes	949	1,005
Shares of income	-910	-681
	39	324
Transfer received from SAS	362	493
Depreciation	0	0
Received from the sale of fixed assets	-	596
Gain on the sale of fixed assets	-	-155
Taxes	-248	-329
	153	929
Application of funds		
Dividend to shareholders	-211	-1,925
Increase of capital account in SAS Consortium	-	-600
	-211	-2,525
Change in working capital	-58	-1,596
Specification of change in working capital		
Increase(+)/decrease(-) in current receivables	-43	-90
Increase(-)/decrease(+) in current liabilities	-9	-177
Increase(+)/decrease(-) in liquid assets	-6	-1,329
	-58	-1,596

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.

SAS Sverige AB's 1997 annual report is prepared in accordance with the new Swedish Annual Accounts Act. For the sake of comparability, certain income statement and balance sheet items pertaining to 1996 have been reclassified.

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

The consortia's accounts 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 at cost adjusted for revaluations and write-downs.

OTHER COMMENTS ON THE FINANCIAL STATEMENTS

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

The transfer to the parent companies decided by SAS of a share of net income for 1997, MSEK 489 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

MSEK	1997	1996
SAS Consortium	910.9	672.0
SAS Commuter Consortium	-0.8	9.4
Scanair Consortium	-	-
	910.1	681.4

NOTE 2 – Depreciation according to plan

MSEK	1997	1996
Machinery and equipment	0.2	0.6
	0.2	0.6

NOTE 3 – Untaxed Reserves

MSEK	Opening balance	The year's provisions	Closing balance
Tax allocation reserve, 1994	70.5	-	70.5
Tax allocation reserve, 1995	119.3	-	119.3
Tax allocation reserve, 1996	399.0	-	399.0
Tax allocation reserve, 1997	-	223.5	223.5
Excess depreciation			
aircraft, machinery and equipment	4,268.8	-213.0	4,055.8
buildings	198.1	-	198.1
Total	5,055.7	10.5	5,066.2

Of which:

Deferred tax portion (28%)	1,415.6	1,418.5
Equity portion	3,640.1	3,647.7

NOTE 6 – Shares in Group Companies

MSEK	Registration No.	Domicile	Number of shares	Holding	Nominal value	Book value	
						1997	1996
AB Sila,	556137-6764	Stockholm	10,000	100%	1.0	1.0	1.0
ABA Flyg AB	556286-2473	Stockholm	1,000	100%	0.1	119.4	119.3
					1.1	120.4	120.3
Group companies liquidated during the year					-	-	0.1
					-	120.4	120.4

NOTE 7 – Shareholders' Equity/Change in shareholders' equity

MSEK	Share capital	Revaluation reserve	Statutory reserve	Unrestricted equity	Total
Opening balance	705.5	179.0	141.0	400.0	1,425.0
Dividend provided				-211.5	-211.5
After dividend provided	705.0	179.0	141.0	188.5	1,213.5
Net income for the year				690.8	690.8
Proposed dividend				-282.0	-282.0
December 31, 1997	705.0	179.0	141.0	597.3	1,622.3

NOTE 8 – Other Contingent Liabilities

MSEK	1997	1996
Guarantee commitments		
VPC	1.1	1.7
SAS Consortium (3/7)	400.3	503.1
	401.4	504.8

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

NOTE 9 – Number of Employees, Salaries, Other Remuneration and Social Security Expenses

	1997	1996
Average number of employees		
Women	1	1
Men	2	2
	3	3

All employees work in Stockholm.

MSEK	1997	1996
Salaries and other remuneration		
Present and former		
boards and presidents	1.3	1.7
Other employees	1.0	1.0
	2.3	2.7
Social security expenses		
Present and former		
boards and presidents	1.1	1.2
Other employees	0.7	0.7
	1.8	1.9
Of which, pensions to		
present and former		
boards and presidents	0.7	0.6
Other employees	0.3	0.3
	1.0	0.9

At the 1997 Annual Meeting it was decided that the members of the Board should receive a fixed fee in a total amount of SEK 325,000, of which SEK 135,000 is paid to the Chairman. Fees to the members of the SAS Assembly of Representatives appointed by SAS Sverige AB were set at SEK 275,000.

In connection with the changes in the parent companies' management structure decided in 1997, the former president will remain in service with a salary of SEK 1,100,000 through July 1998. Subsequently, severance pay, corresponding to the sum of two annual salaries, will be paid in monthly installments. Pension arrangements according to agreement will commence at the age of 60 with a pension corresponding to 70% of gross salary. No salary and other remuneration were paid to the current president.

Another person in the company's management will remain in service through January 1999, after which severance pay corresponding to the sum of two annual salaries will be paid.

Proposed Disposition of Earnings

The Board of Directors and the President propose that the parent company's unappropriated earnings of MSEK 879.3 be allocated as follows:

Dividend to shareholders of SEK 4.00 per share utilizing	282.0
Carried forward to new account	597.3
	<hr/>
	879.3

STOCKHOLM, APRIL 1, 1998

BO BERGGREN
CHAIRMAN

ERIK BELFRAGE

INGEMAR ELIASSON

TONY HAGSTRÖM

JAN STENBERG
PRESIDENT

OUR AUDITORS' REPORT WAS SUBMITTED ON APRIL 2, 1998.

JAN ÅKE MAGNUSON
AUTHORIZED PUBLIC ACCOUNTANT

GUNNAR ABRAHAMSON
AUTHORIZED PUBLIC ACCOUNTANT

Auditors' Report

To the Annual Meeting of Shareholders of SAS Sverige AB. Registered Number 556042-5414

We have audited the financial statements, the accounts and the administration of the Board of Directors and the President of SAS Sverige AB for the 12-month period ending on December 31, 1997. These accounts and the administration of the Company are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the financial statements and the administration based on our audit.

We conducted our audit in accordance with Generally Accepted Auditing Standards in Sweden. These Standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the financial statements. We examined significant decisions, actions taken and circumstances of the

Company in order to be able to determine the possible liability to the Company of any board member or the President or whether they have in some way acted in contravention of the Swedish Companies Act, the Swedish Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

In our opinion, the financial statements have been prepared in accordance with the Annual Accounts Act, and, consequently, we recommend

that the statement of income and the balance sheet be adopted, and

that the profit be dealt with in accordance with the proposal in the Board of Directors' Report.

In our opinion, the Board members and the President have not committed any act or been guilty of any omission, which could give rise to any liability to the Company. We therefore recommend that the members of the Board of Directors and the President be discharged from liability for the fiscal year.

STOCKHOLM, APRIL 2, 1998

JAN ÅKE MAGNUSON
AUTHORIZED PUBLIC ACCOUNTANT

GUNNAR ABRAHAMSON
AUTHORIZED PUBLIC ACCOUNTANT

Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held on April 23, 1998, at 11 a.m. in Uppropssalen, Stockholm Stock Exchange, Källargränd 2, Stockholm.

ATTENDANCE

Shareholders who wish to attend the Annual Meeting must

- (i) be listed in the share register maintained by VPC (the Swedish Securities Register Center) as of Thursday, April 9, 1998.
- (ii) notify the company by writing to SAS Sverige AB, c/o SAS, Dept. STOUU, SE-195 87 Stockholm, by telephone +46 8 797 12 93, or by fax +46 8 85 94 95 not later than 4 p.m. on Monday, April 20, 1998.

SHARES REGISTERED IN THE NAMES OF TRUSTEES

In order to be entitled to attend the Annual Meeting, shareholders whose shares are registered in the names of trustees must temporarily register the shares in their own name with VPC. Shareholders wishing such re-registration must inform the trustee in good time prior to April 9, 1998.

DIVIDEND

Tuesday, April 28, 1998, is proposed as the record date. If the Annual Meeting decides in accordance with the proposal, dividends are expected to be paid through VPC on Wednesday, May 6, 1998.

Board of Directors and Auditors

BOARD OF DIRECTORS

BO BERGGREN (Chairman)

Born 1936. Elected 1985. Hon. D.Eng. Swedish Chairman of SAS. Chairman of the Boards of STORA, ASTRA and the Federation of Swedish Industries. Vice Chairman of Investor. Member of the Boards of a number of companies and organizations. Shareholding: 5,000

ERIK BELFRAGE

Born 1946. Elected 1992. Director of Skandinaviska Enskilda Banken. Chairman of the Boards of the Swedish Institute of Management (IFL), the 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

INGEMAR ELIASSON

Born 1939. Elected 1992. County Governor of Värmland. Chairman of the Boards of Stockholms Fondbörs AB, SBAB, Tidningarnas Telegrambyrå AB and Stiftelsen framtidens kultur. Deputy member of the Board of SAS. Shareholding: 0

TONY HAGSTRÖM

Born 1936. Elected 1992. Ph.D. Chairman of the Boards of the Swedish Information Processing Society and IT-Forum. Member of the Boards of AlphaNet Ltd., ASTRA, SAS and SSAB, among others. Shareholding: 0

AUDITORS

JAN ÅKE MAGNUSON

Born 1942. Elected 1992. Authorized Public Accountant. Deloitte & Touche

GUNNAR ABRAHAMSON

Born 1947. Elected 1997. Authorized Public Accountant. Deloitte & Touche

LARS GUNNAR NILSSON

Deputy. Born 1953. Elected 1997. Authorized Public Accountant. Deloitte & Touche

KENNY PALMBERG

Deputy. Born 1953. Elected 1997. Authorized Public Accountant. Deloitte & Touche

SAS ASSEMBLY OF REPRESENTATIVES

Danish members

Members

Svend Jakobsen
Chairman
Niels Brockenhuus-Schack
Tommy Dinesen, MF
Peter Duetoft, MF
Jørgen Estrup, MF
Svend Aage Heiselberg, MF
Anders Knutsen
Torben Rechendorff, MF
Axel greve af Rosenberg
Ole Trolle

Employee representatives

Jens Tholstrup Hansen
Helmuth Jacobsen
Nicolas Fischer

Norwegian members

Members

Johan Fr. Odjell
First Vice Chairman
Åshild M. Bendiktsen
Evy Buverud Pedersen
Knut Francke
Kaare Granheim
Marit Høvdning
Fred. Olsen
Jan Reinås
Svein Sundsbø
Erik Tønseth

Employee representatives

Ingvar Lilletun
Randi Kile
Svein Vefall

Swedish members

Members

Bo Rydin
Second Vice Chairman
Georg Andersson
Annika Christiansson
Gösta Gunnarsson
Tom Hedelius
Bertil Jonsson
Bo Lundgren
Tom Wachtmeister
Marcus Wallenberg
Bosse Wallin

Employee representatives

Leif Kindert
Ulla Grøntvedt
Gertrud Axelsson

AUDITORS

Denmark

Stig Enevoldsen
*State Authorized
Public Accountant*
Deloitte & Touche

Norway

Olav Revheim
*State Authorized
Public Accountant*
Deloitte & Touche

Sweden

Jan Åke Magnuson
*Authorized Public
Accountant*
Deloitte & Touche

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Financial Calendar

Environmental Report 1997	April 1998
Annual Meeting, SAS Danmark A/S	April 23, 1998
Annual Meeting, SAS Norge ASA	April 22, 1998
Annual Meeting, SAS Sverige AB	April 23, 1998
Interim Report 1, Jan.–March 1998	May 12, 1998
Interim Report 2, Jan.–June 1998	August 12, 1998
Interim Report 3, Jan.–Sept. 1998	November 4, 1998
Preliminary Year-End Report 1998	February 1999
Annual Report 1998	April 1999
Environmental Report 1998	April 1999

All reports are available in English, Danish, Norwegian and Swedish and can be ordered from SAS, SE-195 87 Stockholm, telephone +46 8 797 00 00, fax +46 8 797 15 15. The reports are also available on the Internet: <http://www.sas.se>. E-mail: investor.relations@sas.se.

Definitions

AEA The Association of European Airlines. An association of the 26 largest scheduled European airlines.

ASK, Available Seat Kilometers The total number of seats available for transportation of passengers multiplied by the number of kilometers which these are flown.

ATK, Available Tonne Kilometers The total number of tonnes of capacity available for the transportation of passengers, freight and mail multiplied by the number of kilometers which this capacity is flown.

Available seat kilometers, see ASK.

Available tonne kilometers, see ATK.

Breakeven load factor The load factor at which traffic revenues are the same size as operating expenses.

Cash flow from operations Funds provided internally including change in working capital.

Code-share When two or more airlines state their flight number in the timetable for one and the same flight, while only one of the airlines carries out the flight.

Debt/equity ratio Interest-bearing liabilities less interest-bearing assets in relation to shareholders' equity and minority interests.

Earnings per share Profit after tax based on pro forma accounting (harmonized accounting principles) divided by the number of shares.

Equity method Participations in affiliated companies are taken up at SAS's share of shareholders' equity taking acquired surplus and deficit values into account.

Equity/assets ratio Shareholders' equity plus minority interests and deferred tax liability in relation to total assets.

Gross Profit Margin Operating income before depreciation, in relation to operating revenue.

IATA, International Air Transport Association A global association of more than 200 airlines.

Interest cover Operating income plus financial income in relation to financial expenses.

Net debt Interest-bearing liabilities minus interest-bearing assets.

Net financing from operations See cash flow.

Overall load factor The relation between RTK and ATK expressed as a percentage. The proportion of total available capacity that is sold and flown.

Passenger cabin factor Relation between RPK and ASK expressed as a percentage. Describes the capacity utilization of available seats. Also called occupancy rate.

P/CE ratio Average share price divided by cash flow per share after paid tax.

P/E ratio Average share price divided by earnings per share after tax.

Regularity The percentage of flights completed to flights scheduled, excluding flights canceled for commercial reasons.

Return on capital employed (ROCE) Operating income plus financial income in relation to average capital employed. Capital employed equals total assets as specified in the balance sheet less noninterest-bearing liabilities.

Return on equity Income after taxes in relation to average shareholders' equity. Tax on the earnings of the SAS Consortium and the SAS Comuter Consortium is calculated here using a standard tax rate of 29.7 % (weighted average tax rate for Denmark, Norway and Sweden).

Revenue Passenger Kilometers (RPK) See RPK.

Revenue Tonne Kilometers (RTK) See RTK.

ROCE Return on capital employed.

RPK, Revenue Passenger Kilometers The number of paying passengers multiplied by the distance they are flown in kilometers.

RTK, Revenue Tonne Kilometers The number of tonnes of paid traffic (passengers, freight and mail) multiplied by the distance this traffic is flown in kilometers.

Unit cost Airline operations' total operating expenses less non-traffic related income per weighted ASK/RPK.

US Majors Group comprising the largest American scheduled airlines including freight carriers.

Yield Average amount of revenue received per RPK or RTK.



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