



Annual Report 1998

The SAS Group

SAS Danmark A/S • SAS Norge ASA • SAS Sverige AB





A strong traffic system

SAS offers its customers a global traffic system. This is a network which provides them with convenient and efficient travel connections between continents, countries and towns, and which enables SAS to continue to be successful in an increasingly competitive market.

SAS participates actively in the creation and development of Star Alliance™, the world's strongest airline alliance involving the partnership of SAS, Air Canada, Lufthansa, Thai Airways International, United Airlines and Varig Brazilian Airlines. Air New Zealand and Ansett Australia become active members from March 28; All Nippon Airways later in 1999.

In the Scandinavian market, SAS offers an unbeatable network together with its regional partners Cimber Air, Widerøe, Skyways, Air Botnia and Maersk.

SAS is able, via Star Alliance, regional partners and British Midland, Spanair and airBaltic, all three of which are partly owned by SAS, to offer more than 8,000 departures daily to over 800 destinations in 114 countries.

Table of contents

Important events during 1998	1	SAS assets	49
Comments from the President	2	SAS's brand	50
A presentation of SAS	4	The aircraft fleet	51
SAS and the capital market	5	Risk management and credit ratings	54
SAS International Hotels	12		
Data per share		Financial reports	57
SAS Danmark A/S	13	The structure of the SAS Group	58
SAS Norge ASA	14	Comments from the Chairman	59
SAS Sverige AB	15	Report by the Board of Directors	60
Ten-year financial overview	16	SAS Group's Statement of Income	62
		SAS Group's Balance Sheet	64
		SAS Group's Statement of Changes	
		in Financial Position	66
The international market situation	19	Accounting and valuation principles	69
International trends	20	Notes	71
Development of the industry	22	Auditors Report	77
Customer needs and preferences	25	SAS's Board of Directors	78
		SAS's Management	80
		The Parent Companies	82
		SAS Danmark A/S	82
		SAS Norge ASA	91
		SAS Sverige AB	99
Markets and traffic	27	Assembly of representatives,	
Markets	28	auditors and addresses	110
Operational key indicators,		Financial Calendar	111
ten-year summary	31	Definitions	112
		SAS sponsoring activities	inside back cover
Business concept and goals	33		
SAS's goals	34		
Strategies for improving profitability	36		
SAS 2000+	39		
SAS and the environment	40		
The program of change, SAS 2000+	43		
Customer treatment	44		
Key role for employees	46		

Important events during 1998

January

Launch of SAS Pleasure, with focus on leisure travel.

SAS acquires 100%-ownership of Finnish airline Air Botnia.

After evaluation, SAS decides to keep and develop its hotel operations (SIH).

April

JAR-OPS 1, a new regulatory system for civil aviation operations, introduced by the Scandinavian Civil Aviation authorities.

SAS acquires 25% of the shares of Swedish airline Skyways Holding AB.

May

Industrial disputes in Denmark and Norway paralyze a major part of SAS's air traffic during the months of April and May.

SAS concludes agreement to acquire 26% of the shares of the Danish airline Cimber Air A/S.

July

SAS Commuter increases by two its firm order for deHavilland Q400. SAS Commuter now has 17 firm orders and options for 18 aircraft.

SAS increases its firm order for Boeing 737-600 to 55 aircraft. In addition, SAS has options on 40 aircraft.

August

SAS introduces a new brand strategy and logotype in new design.

SAS's new Boeing 737-600 is shown in new design.

September

The new SAS corporate identity is presented.

SAS sells its last 20 DC-9-41 aircraft and a Boeing 767. The aircraft are leased back over a fixed period.

SAS experiences traffic irregularities during September at Stockholm-Arlanda because of manning problems in air traffic control.

October

Gardermoen opens for scheduled traffic.

New airways introduced in Scandinavia as the first step in "Air-space 98". SAS adjusts its traffic program in the difficult running-in period, with major problems in traffic execution.

SAS and Maersk Air enter into a cooperation agreement.

SAS and Singapore Airlines enter into a cooperation agreement.

All Nippon Airways is adopted as a future new member of Star Alliance.

SAS opens new route between Stockholm and Chicago.

SAS experiences severe problems involving flight delays and cancellations caused by running-in problems at Gardermoen and the introduction of new airways in Scandinavia during the period October to December.

December

SAS and All Nippon Airways enter into cooperation agreement.

SAS commences operations serving Kristiansand and Ålesund.

SAS and Air Canada enter an agreement regarding cooperation on the Copenhagen-Toronto route from 1999.

SAS acquires an additional 34.3% of the shares of the Norwegian airline Widerøe's Flyveselskap ASA. SAS now owns a total of 63.2% of the shares of the company.

Key indicators SAS Group, SAS and SAS International Hotels

	SAS Group		SAS		SAS International Hotels	
	1998	1997	1998	1997	1998	1997
Operating revenue, MSEK	40,946	38,928	38,211	36,769	2,786	2,304
Income after financial items, MSEK	2,829	2,231	2,588	2,067	233	160
Gross margin, %	10	11	10	10	33	32
Investments, MSEK	6,112	3,256	5,554	2,938	557	318
Return on capital employed (ROCE), %	13	12	12	11	14	12
Average employees	27,071	25,057	23,992	22,524	3,041	2,494

Key indicators SAS share (local currency)

	SAS Danmark A/S		SAS Norge ASA		SAS Sverige AB	
	1998	1997	1998	1997	1998	1997
Earnings per share	11,60	8,28	11,51	9,36	12,77	10,13
Market price at year-end	72,80	100,00	64,00	103,00	74,50	115,00
Dividend (1998 proposed)	3,15	3,50	3,70	3,70	4,00	4,00

Definitions, see page 112.

Comments from the President

A platform for new efforts

In my comments on last year's Annual Report, I forecast that 1998 would be a good year for SAS. We had set a number of goals that we considered achievable with the means at our disposal. In retrospect, I can only say that things did not go entirely our way. This was partly due to us, and partly to developments in the international arena that were beyond our control.

The year got off to a good start, as shown by our first quarter report. After that, we were hit by industrial disputes in Denmark and Norway resulting in decreased travel volumes. The autumn began with protest actions by air traffic controllers in Sweden, and problems were aggravated by changes in the airways in Scandinavia. This affected all airlines with traffic to and from Sweden and Norway, but being the largest of them, we felt the consequences more.

The move from Fornebu to Gardermoen was necessary, but it was certainly not without its trials. The difficulties we encountered in the autumn included delays in the deliveries of our new Boeing 737 aircraft.

We believe that the cost of these largely unexpected events was approximately MSEK 800.

Goals achieved

Our goal is to achieve a 14% annual return as measured over an economic cycle. Over the 1990-1998 period, the average return to shareholders was 16.1%. This means that we have achieved our goal and given our shareholders a competitive return.

In the context of internal goal management, the level set for the return on capital employed has been 12%, measured over an economic cycle. For 1998, the figure was 13.2% and the average for the 1994-1998 period was 12.3%.

The operating income of the SAS Group for 1998 was MSEK 2,957, an increase of 24% compared with the previous year. This includes capital gains of MSEK 1,014 (83). Our operating income thus fell by more than MSEK 500, but this should be seen in the context of the increased costs mentioned above.

The good news for the year includes the performance within the hotel operations which more than lived up to our expectations both in terms of operating revenue and income/earnings.

Unfavorable cost trend

In recent years, we have succeeded in maintaining the yield despite fiercer competition. The unit cost trend is however unfavorable. The ambition for 1998 was to break the negative trend and reduce unit cost. We did not succeed in doing so, and remained at the same level as the previous year. In addition, productivity continued to fall.

Compared with our major competitors, our productivity is low and our payroll costs are high, particularly for cabin personnel. We are involved in ongoing discussions with our union representatives, to achieve more efficient traffic scheduling within the framework of existing agreements and reduce our unit costs. I believe that they understand our position and that conditions are favorable for solutions based on mutual understanding.

We are now facing a period of reduced market growth and continued heavy competition. We have also entered an intensive investment phase requiring an improved gross margin to compensate for rising capital costs. We have therefore adopted a program to improve our gross margin by three % over the coming two-year period. This will lead to a reduction in costs of around MSEK 3,000 and involve both revenues and costs.

Industry problems

Developments in 1998, however, are an indication of serious problems facing commercial aviation in general. Like many other major airlines, SAS fails in many ways to live up to customer requirements for high basic quality. Punctuality is a good example. By tradition, SAS is one of Europe's most punctual airlines. Despite this fact, we do not live up to our customers' expectations. When standards in general are low, being top of the class is nothing much to boast about. The increasing number of players, airspace and airport crowding, insufficient and poorly coordinated air traffic control in many places – are confirmation that expansion is not keeping up with growth in the airline industry.

Europe's best airline

Our goal is for SAS to be regarded as Europe's best airline. Customer surveys in 1998 show that we maintained the same position as in 1997, which is unsatisfactory.

We now plan to advance our positions. In 1998, we launched the most extensive program of changes in SAS's history. We have tried carefully and systematically to gain the support of all our employees for this process, which has received an enthusiastic reception. Its external symbols are the new identity program, as manifested in the new design of our aircraft and uniforms. Internally, we are working on our attitude towards our customers and our approach to travel on the customer's terms.

Regional strategy and alliances

In 1998, we achieved the goal of our regional strategy, which is based on cooperation with regional airlines in the Nordic countries and Baltic region. This gives us a

competitive traffic program and an efficient feeder organization, with the effect of increasing our cabin factors on European and intercontinental routes alike.

Our participation in Star Alliance is progressing well. The earnings contribution for 1998 is equivalent to approx. MSEK 500, which is in line with our plans. Within the alliance, we aim to pursue the issues which improve customer value to increase our attractiveness and thus create the right conditions for further improvements in earnings.

Major investment program

A new type of aircraft, the Boeing 737-600, is now being phased into our fleet. During approx. five years, we will be taking 55 aircraft into operation, representing a total investment of SEK 12 billion. SAS has chosen the best engines the market has to offer in environmental terms for its new aircraft. That we are the first to use this new engine underlines our ambition to be at the cutting edge of environmental developments.

As the Boeing 737s are delivered, we will be selling parts of our short and medium-haul fleet, thus exploiting the surplus value accumulated through the use of conservative depreciation regulations. This year, we have also studied the conditions for a new intercontinental fleet. Our existing fleet consists of 13 Boeing 767s which are on average eight years old. The fleet is not optimal in relation to our present traffic program either as regards load capacity or range. We have also met with particular success in respect of several destinations in 1998. This applies particularly to traffic over the North Atlantic, which is important in terms of volumes. This has led to capacity problems.

A new intercontinental fleet would mean some 10-13 aircraft with around 275 seats, and represent a total investment of SEK 9-11 billion over a period of four years. This estimate is highly dependent on our success in reducing unit cost and improving gross margin.

The timing of the investment decision and its effectuation are extremely important. Commercial aviation lies early in the business cycle and there was a clear tendency towards a slow down in the final quarter of 1998. Many airlines have already started postponing planned investments, which is probably necessary to avoid substantial overcapacity in the market. I believe that we will be making a decision on the long-distance fleet sometime during the spring of 1999.

In closing, I would like to mention our employees, who have had a particularly difficult and demanding autumn. I admire their loyalty and willingness to always make a wholehearted effort, even when times are hard.

Stockholm, March 1999

Jan Stenberg
President and CEO of the SAS Group



A presentation of SAS

SAS was formed in 1946. It is a consortium consisting of the three national airlines SAS Danmark A/S, SAS Norge ASA and SAS Sverige AB. The Danish and Norwegian Parent Companies each compose 2/7 of the consortium and the Swedish Parent Company makes up the remaining 3/7. The Parent Companies are listed on the Stock Exchanges in Copenhagen, Oslo and Stockholm respectively. Half of the shares in each Parent Company are owned by the respective state, and half by private interests.

SAS's main task is to offer competitive air connections within, between, to and from each of the three Scandinavian countries, partly using its own aircraft, and partly together with selected partners.

SAS's vision is to make Scandinavians proud of their airline.

The business concept is to offer the Scandinavian market a broad and profitable range of airline based services, focusing particularly on business travel. SAS prioritizes absolute safety, maximum punctuality and excellent personal service.

The traffic system is built up around nonstop routes to and from the Scandinavian capitals. Copenhagen is the main hub of international traffic, in those cases passenger figures fail to motivate nonstop traffic from Oslo and or Stockholm.

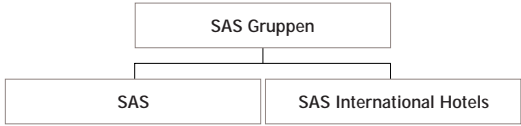
In 1998, SAS embarked on a comprehensive program of changes designed to strengthen SAS's competitiveness and profitability over coming years. The external manifestation of the program of change comprises a new identity, new design and new aircraft. The internal work focuses on developing customer relations. The key words are consideration, warmth and openness.

During 1998, SAS flew 21.7 million passengers to 101 destinations in 31 countries, nine of which were outside Europe, six in Asia and three in the US. SAS had more than 1,000 daily departures and transported almost 280,000 tonnes of freight.

Together with regional partners in Star Alliance (Air Canada, Lufthansa, Thai Airways International, United Airlines and Varig Brazilian Airlines), as well as other cooperation partners, SAS offers its customers over 8,000 departures every day to just over 800 destinations in 114 countries.

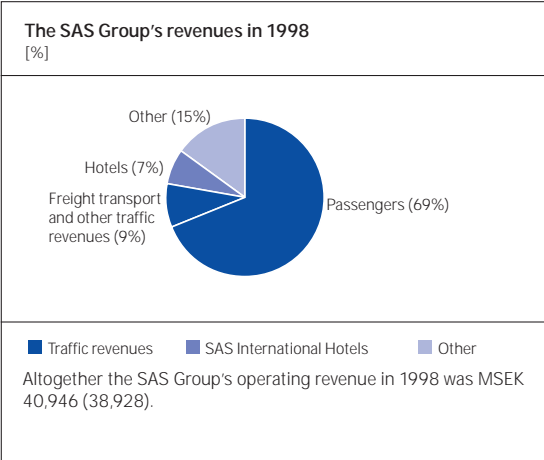
In 1998, the SAS Group's operating revenue was SEK 40.9 billion and its income after financial items was MSEK 2,829.

At the end of the year, the average number of employees was 27,071.



The SAS Group

The SAS Group covers SAS's air transport operations, including freight transport (SAS Cargo), sales on board the aircraft and at the airports (SAS Trading), and SAS International Hotels, which runs a hotel business under the name Radisson SAS Hotels Worldwide.



SAS and the capital market

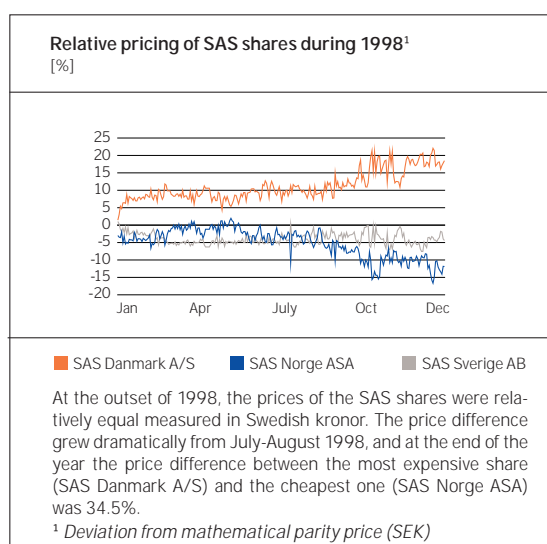
Performance of the SAS shares during 1998*

1998 was a turbulent year on the international capital market. After rising prices up to the month of July, the SAS shares were, like other shares, hard-hit by the general stock market unrest and the financial problems that followed in the wake of the crises in Asia and Russia.

The process of harmonization of SAS's three parent companies that was carried out in 1996 had a positive effect on both the liquidity and pricing of the shares and on increased international ownership during 1997 and the first half of 1998. As a result of the financial unrest, the positive trend has changed slightly with:

- diverging share prices on the three stock exchanges towards the end of 1998
- slightly reduced international ownership
- slightly lower trading volume

As the chairman of SAS points out under "Chairman's statement", the activities carried out during 1996 for continued harmonization are not sufficient from the viewpoint of the capital market. The widening price gap between the three shares translated to Swedish kronor is not in line with fundamental conditions in the companies. SAS Norge ASA had the lowest valuation at year-end 1998. The table, above right, shows the price differences between the three shares with SAS Norge ASA as a base. The graph below shows the relative prices of the three shares during 1998.



* Definitions, see page 112.

Dec. 31, 1998	Price in local currency	Price in SEK	Deviation
SAS Danmark A/S	72.80	92.35	+34.5%
SAS Norge ASA	64.00	68.67	–
SAS Sverige AB	74.50	74.50	+8.5%

Dissimilarities in the tax treatment of the three companies can explain a "normal" price difference with regard to SAS Norge ASA of around 5-10%.

As far as SAS Danmark A/S and SAS Sverige AB are concerned, there are no fundamental reasons for the differences in the share price given the relatively harmonious tax legislation in the two countries. Differences in the liquidity of the shares are, on the other hand, deemed to have a negative effect.

It can also be noted that:

- The SAS Group is valued with a discount of around 20–25% against the rest of the European airline sector based on the key ratio AV/EBITDAR.
- The division of the SAS shares among three companies reduces the market capitalization and trading volume of each company, which in turn diminishes liquidity.

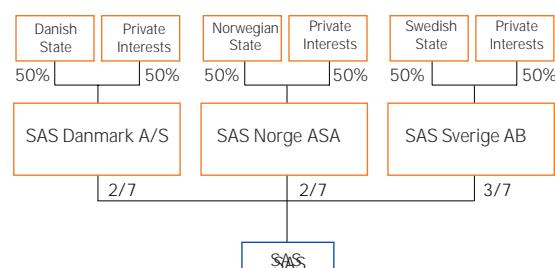
Share ownership structure

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

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

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

SAS's ownership structure



Price trend of SAS shares during 1998

The SAS shares rose sharply in price during the first half of 1998, while the second half of the year was characterized by sharp price falls. During 1998, SAS Danmark A/S fell by 27.2%, SAS Norge ASA by 37.9% and SAS Sverige AB by 35.2%.

SAS's total market capitalization

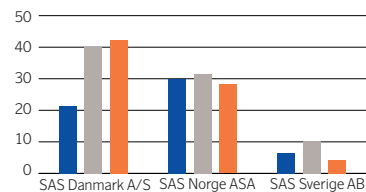
Altogether, the aggregate market value of the SAS shares fell from MSEK 18,723 (Dec. 31, 1997) to MSEK 12,820 (Dec. 31, 1998), a decline of 31.5%. The highest value, MSEK 24,351, was noted on July 21. Total dividends paid in 1998 for the fiscal year 1997 amounted to MSEK 658, equal to SEK 4 per share. The dividend corresponds to a dividend yield of 3.5% based on the market value as per December 31, 1997. Taking into account the dividend, SAS's market capitalization fell by 28% in 1998.

Trading volume

A total of 75.8 million SAS shares changed hands on the three Scandinavian stock exchanges during 1998, which was 9% less than in 1997. This is equivalent to a turnover of 46 (50)% of the total outstanding shares.

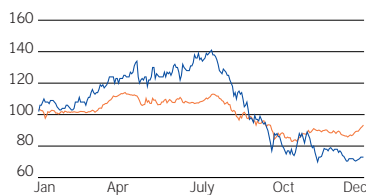
Adjusted for the state's 50 % stake in SAS, this is equivalent to an annual turnover of 92 (100)% of the total number of shares. The trading volume in 1997 was affected by several major ownership changes. The 1998 trading volume was distributed among the three shares as follows: 42 (40) million for SAS Danmark A/S, 28 (31.5) million for SAS Norge ASA and 5 (10) million for SAS Sverige AB.

Number of shares traded 1996–1998
[millions]



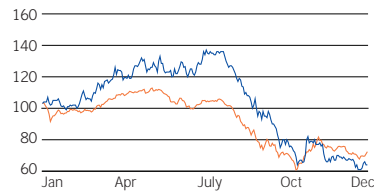
Altogether, 75.8 million shares were traded in 1998, which is a decrease of 9% compared with 1997.

Share price trend SAS Danmark A/S 1998 against index
[DKK]



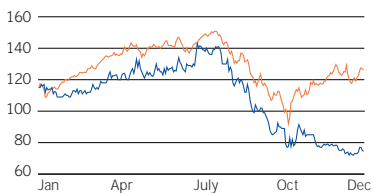
Up to July-August, SAS Danmark A/S performed better than the Copenhagen Stock Exchange Share Index, but the share finished 21% lower than the index.

Share price trend SAS Norge ASA 1998 against index
[NOK]



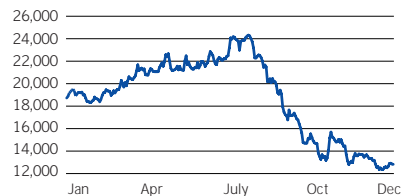
Up to August, SAS Norge ASA performed better than the Oslo Stock Exchange Total Index. Towards the end of the year, however, its performance was weaker, and the SAS share finished 11% lower than the index.

Share price trend SAS Sverige AB 1998 against index
[SEK]



Up to October, SAS Sverige AB performed broadly in line with Affärsvärldens General Index. At the end of the year, however, the share was 43% lower than the index.

SAS shares' total market capitalization 1998
[MSEK]



The graph shows the total aggregate market capitalization of the SAS shares in 1998.

SAS's largest shareholders

66% of the 164.5 million shares are distributed among six investors. The proportion of international investors declined slightly during 1998. The total shareholding among international investors was about 10% at year-end, a decline of about 2 percentage points compared with last year.

The six largest holders of SAS shares as per Dec. 31, 1998 (Total 164.5 million shares)

Stake, %	SAS Danmark A/S	SAS Norge ASA	SAS Sverige AB	Total	Acc.
Swedish State			50	21.4	21.4
Danish State	50			14.3	35.7
Norwegian State		50		14.3	50.0
Investor AB			18.8	8.0	58.0
Robur Aktiefonder			11.2	4.8	62.8
Odin Fondene (N)		8.2	1.9	3.2	66.0

Return on SAS shares over a business cycle

The airline industry's business cycles generally follow the fluctuations in GDP on each market. While the general business cycles have had a shorter periodicity, since 1980 the cycles in the airline industry on SAS's main market have lasted eight to nine years between the troughs. One period extends from 1982 to 1990 and one from 1990 onward. In calculating the change in value of the SAS shares over a business cycle, the point of departure is the eight-year period 1990–1998.

Performance of SAS shares 1990–1998

The SAS shares have had an average total return (based on internal rate of return measure) of 16.1% from the end of the last cycle up to the present date. Total return includes dividend reinvested at the yield of the share.

Compared with the rest of the airline industry, the SAS shares have performed broadly in line with European airline stocks during the same period. (See graph at bottom of page.)

Total return incl. reinvested dividend 1990–1998

Share	Average annual rate of return
SAS Danmark A/S	+15.1%
SAS Norge ASA	+17.8%
SAS Sverige AB	+15.7%
Total (SAS)	+16.1%

The table shows average return (based on internal rate of return), per year for the SAS shares during the period Dec. 1990 – Dec. 1998, including reinvested dividend.

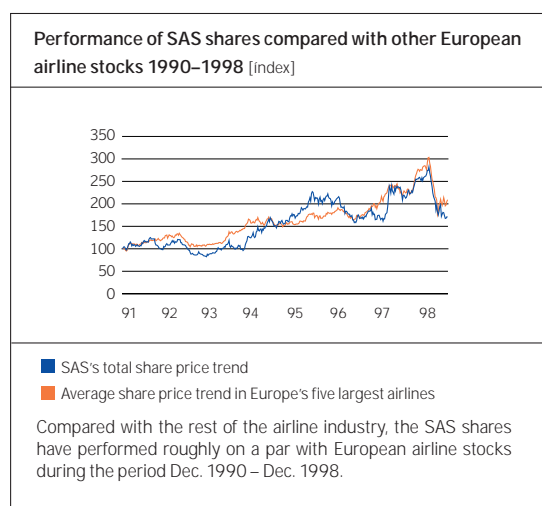
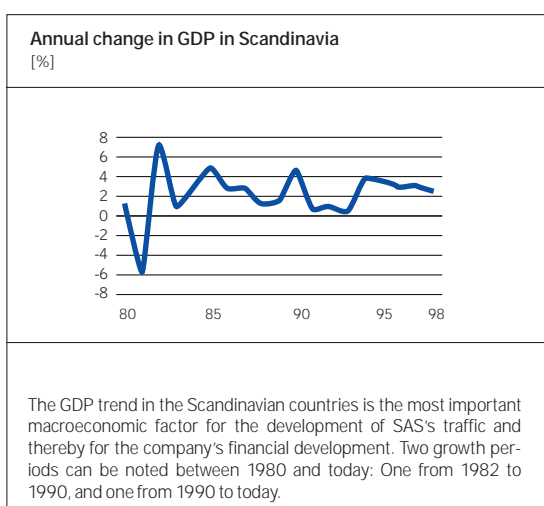
Dividend policy

It is the ambition of the boards of SAS's parent companies to pursue a common dividend policy so that the dividends for the different SAS shares are equally large when translated to the same currency.

The annual dividend is determined in consideration of the SAS Group's earnings performance, financial standing and capital requirement, and relevant macroeconomic conditions.

The goal of the dividend policy is that the dividend over an economic cycle should be in the order of 30–40% of the SAS Group's income after deduction for estimated taxes.

A dividend of SEK 4.00 per share has been proposed for 1998, which is equivalent to a dividend yield of 5.1% based on the closing price as per Dec. 31, 1998, and 3.5% based on the average price of the shares during fiscal 1998. The proposed dividend represents 32% of the SAS Group's income after deduction for standard corporate tax.



Rate-of-return metrics*

The SAS Group's goal is to give their shareholders a competitive rate of return, comprising the sum of the annual share price change plus the dividend. The goal is to give the shareholders a rate of return of 14% per annum figured as an average over a business cycle. SAS has previously translated this goal into an internal financial goal, ROCE (return on capital employed). The ROCE goal is based on EBIT (earnings before interest and tax) including interest income in relation to booked total capital less non-interest-bearing liabilities. The goal of the SAS Group is to achieve an average ROCE of 12%. The ROCE goal is linked to prevailing interest rate and inflation levels and will therefore vary with them. The goal is further based on a debt/equity ratio (net debt:shareholders equity) of 1:1 as an average over an investment cycle.

As a consequence of the investment program and the resultant changes in SAS's capital structure, a far-reaching analysis of SAS's capital structure has been set in motion in order to achieve optimal capital allocation.

SAS has refined the most important key values for measurement of current rate of return and value development so that the financial management and follow-up of the financial performance of the operations in terms of rate of return will be as market-based as possible and in line with the consensus of the capital market. The capital concept is therefore systematically adjusted to include hidden values in the aircraft fleet and the net present value of the operating lease costs for the aircraft fleet.

The following financial rate-of-return goals are being introduced:

- CFROI: Cash Flow Return on Investment
- Market-based ROCE: Return on capital employed based on the market value of the aircraft fleet and the capitalized operating lease costs for the aircraft fleet.

CFROI

SAS has defined the primary rate-of-return concept as CFROI. The primary focus is the cash flow from operations before operation lease costs (EBITDAR) related to the adjusted capital concept. In this way, the effects of book depreciation are avoided, which for SAS are much greater than the actual value loss of the aircraft fleet.

This key indicator best reflects the return in relation to the actual allocated capital. In capital market terminology, this rate-of-return metric reflects the key value driver AV/EBITDAR, which is considered to be among the most important value indicators for airlines internationally. This key value, which shows the value development of the operation, takes into account the market value of the own aircraft fleet and the net present value of the cost of operating aircraft leases.

ROCE, market-based

The market-based ROCE metric is calculated on the basis of:

Earnings components

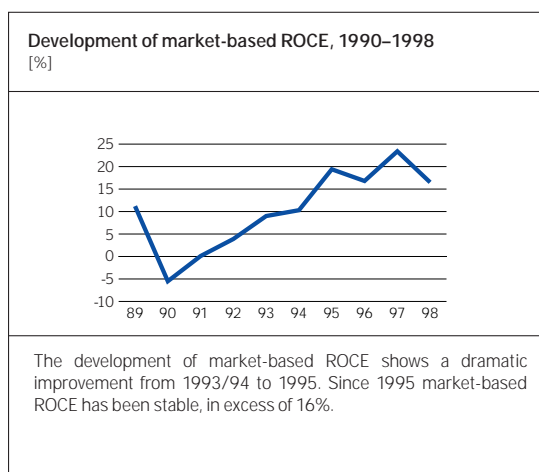
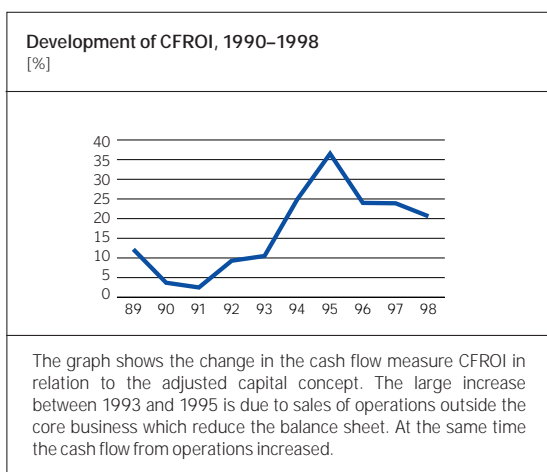
- EBIT (earnings before interest and tax)
- Interest portion of lease costs
- Change in surplus values (aircraft)

Adjusted capital concept

- Total assets
- Surplus values (aircraft)
- Net present value of operating lease cost (NPV)

Weighted average cost of capital (WACC)*

SAS's average cost of capital consists of the total average cost for debt (liabilities), shareholders' equity and aircraft operating leases. The cost of shareholders' equity is calculated with a base in an expected inflation rate of 1–2% and SAS's historical beta value for shareholders' equity. SAS's costs for debt are assumed to be



* Definitions, see page 112.

5.5% and the lease cost is based on market-level rates of interest and depreciation. The financing sources are calculated and weighted in accordance with the current market value for shareholders' equity and the net present value of operational lease cost.

Based on this, SAS's present WACC is calculated to be 10% before tax, based on a debt/equity ratio of 1:1. This rate-of-return requirement is used as an absolute minimum requirement in evaluating new investment projects. An investment that gives a return in excess of the WACC will increase the value of the operation and thereby increase the shareholder value. In capital market terminology, the WACC reflects a market-based ROCE if the growth factor is taken into account.

Aircraft operating leases

Operating lease contracts are taken into account in calculating the above-described market-related key ratios. Operating leasing is an element in a systematic strategy for optimal financial and operational composition of the aircraft fleet and its financial structure. Operating leases are mainly used for the following purposes:

- to create operational flexibility for adapting to business-cycle and demand fluctuations
- control of residual value risks. This mainly pertains to that portion of the aircraft fleet with short or medium-long expected use in the operation.

Capital tied up in operating leases is therefore limited to the net present value of future lease rentals. Extension and premature cancellation of lease contracts for aircraft is a continuous process, and the status at any given time is expressed for the current capital allocation.

The table on the right above shows SAS's annual costs with regard to operating leasing and aggregate net present value based on a discounting factor equal to the average loan cost used in the WACC, 5.5%. Other obligations outside the balance sheet, such as pension commitments or rental of real property etc. besides aircraft, have not been taken into account. SAS will develop a framework

around aircraft operational leasing that is in line with the described rate-of-return goals and that better enables the market to understand the true amount of capital tied up in leasing.

Contracted operating aircraft leasing 1999– 2002 >

Dec. 31, 1998	MUSD				
	Total	1999	2000	2001	2002 >
Commuter	58.9	22.2	22.7	10.5	3.5
Short/Medium-haul	72.9	40.1	19.6	10.8	3.0
Long-haul	163.0	71.7	58.1	25.7	7.5
Total	294.8	134.0	100.4	47.0	14.0

Net present value (NPV) at 5.5%.	MUSD				
	Total	1999	2000	2001	2002 >
	270.0				

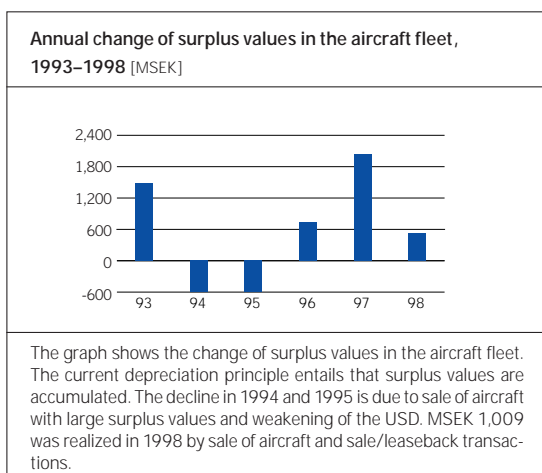
	Number of aircraft			
	1999	2000	2001	2002 >
Commuter	15	15	6	2
Short/Medium-haul	42	31	17	8
Long-haul	10	9	7	3
Total	67	55	30	13

SAS's depreciation policies and surplus values*

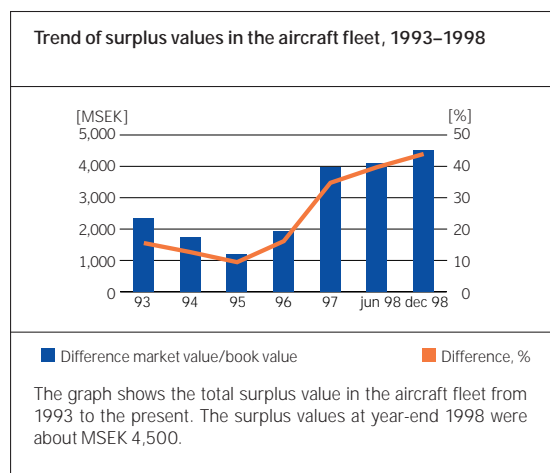
SAS uses 6% annual book depreciation to a residual value of 10% after 15 years. The previous principle used during the period 1988–1993 was based on progressive depreciation over a period of about 20 years. After the change of depreciation principle, the effective annual depreciation rate for the SAS MD-80 and Boeing 767 fleets is about 7%.

Several analyses show that a "normal" depreciation in the value of aircraft is about 4% per annum. SAS's depreciation principles thus entail an extra charge of about 2–3% or MSEK 400–500 per year against EBIT. Owing to the high depreciation amounts, surplus values are steadily accumulated in the aircraft fleet. The surplus values as per December 31 were MSEK 4,500, see the graph below. MSEK 1,009 was realized in 1998 by means of sale of aircraft and sale/leaseback transactions.

Most American airline companies use a depreciation rate of 4–4.6%, which is more in line with the economic life of the assets, which is about 25 years.



* Definitions see page 112.



SAS' investment cycles

SAS has had a cyclical investment pattern that has been more pronounced than for most of its main rivals. A large investment peak arose in the period 1968–1971. During the remainder of the 1970s and the first half of the 1980s, investment activity was relatively low. The next period with high investments came 1985–1986, and then 1989–1992.

At year-end 1998, the average age of the total aircraft fleet in the operation was 11.3 years, and 9.1 years for the owned portion of the fleet. 51 old DC-9s and F28s are being phased out over the next one–three years, while 47 Boeing 737-600/700/800s and 17 deHavilland Q400s will be delivered under firm orders during 1999 and the next two to three years.

Furthermore, the possibility of replacing the 13 current long-haul planes (Boeing 767s) with a larger aircraft type is being assessed. An evaluation is also underway of a new and larger medium-haul fleet intended for European destinations in order to cope with future expansion. Due to severe slot time limitations at European airports, larger aircraft types are the only way to expand.

The medium-haul fleet of MD-80s and MD-90s comprises a total of 75 aircraft that have been delivered during the period 1985 to 1997. Replacement of this fleet can be expected to start in the second half of the next decade. As a consequence, the average expected age varies depending on aircraft type. As the table below shows, the average age in the short and medium-haul fleet, as well as the commuter fleet, will decrease sharply in the future. The age of the owned aircraft is consistently lower, due to the fact that most operating leases are short-term sale/leasebacks of aircraft that will be phased out.

Average expected age of SAS's aircraft fleet, years

	1998	1999	2000
Owned aircraft			
Long-haul	8.3	7.4	4.7
Short/Medium-haul	9.1	6.8	7.9
Commuter	9.4	4.3	3.1
Average age, total owned	9.1	6.3	6.7
Total number of aircraft			
Long-haul	9.0	9.6	6.0
Short/Medium-haul	12.4	8.4	7.9
Commuter	7.7	4.3	3.1
Average age, total	11.3	7.7	6.8

The table below shows the planned investments based on firm orders for Boeing 737s and deHavilland Q400s. Besides the investments in flight equipment, other investments have been made in the range of MSEK 800–900 per year. In 1997 and 1998, extensive infrastructural investments of a non-recurring nature were also made.

Investments, firm orders (CAPEX) for the period 1999–2002>

	Total	1999	2000	2001	2002>
MUSD	1,500	640	710	75	75
Number of aircraft	64	29	29	3	3

SAS's ambitions in dialog with the capital market

In 1997, SAS intensified its work for improved contacts with the global capital market by means of a developed Investor Relations program. One goal of the program is to sustain and strengthen the interest of current and future investors in SAS shares by furnishing relevant and up-to-date information. The second goal is to provide investors and capital market players with good and relevant information to enable them to understand the business and ways in which the share value can be enhanced. The target group includes investors, analysts, stockbrokers and the financial business press. Dedicated web pages were created for Investor Relations in 1998, and a large number of meetings were arranged with analysts and investors.

The number of analysts who actively follow SAS has grown steadily. This is particularly true of international industry analysts, among which 8–9 brokerage houses follow SAS shares systematically today. They include institutions such as Goldman Sachs, SG Securities, Morgan Stanley Dean Witter & Co, Crédit Agricole Indosuez Cheuvreuz Int. Ltd., BNP, Merrill Lynch, HSBC Securities, Salomon Smith Barney and SBC Warburg Dillon Read. The number of Scandinavian analysts is relatively stable at around 15. SAS now has good and broad coverage from the capital market viewpoint.

SAS's parent companies

The business of the parent companies is to manage their participations in SAS. Earnings are taxed in the three parent companies in proportion to their ownership stakes and are taxable in the countries where they are registered.

Differences in earnings between the parent companies are mainly attributable to interest income as a result of different amounts of cash in hand (an effect of differences in deferred tax). Taxes pertain to both estimated taxes payable and increase in deferred tax.

Assets comprise participations in SAS and liquid assets invested in SAS. Liabilities mainly comprise tax liabilities and shareholders' equity. The differences between the parent companies are mainly attributable to differences in national tax legislation.

The parent companies' dividend policy and proposed dividend are described on page 7. The accounts of the different parent companies are found on pages 82 to 109.

Key indicators, 1998

	SAS Danmark A/S	SAS Norge ASA	SAS Sverige AB
Earnings per share, local currency	11.60	11.51	12.77
Earnings per share, SEK	13.78	12.13	12.77
Cash flow per share, local currency	16.02	19.06	19.49
Cash flow per share, SEK	19.03	20.08	19.49
Equity per share, local currency	70.62	81.96	89.77
Equity per share, SEK	90.11	87.94	89.77

Tax situation

General

The corporate tax rate in Norway and Sweden is 28% and in Denmark 34% (32% as of January 1, 1999). Denmark has special rules for foreign operations (udlandslempelse) under which the tax rate for SAS Danmark for 1998 is 30%.

Denmark

- Tax deductions are allowed for depreciation of plant and equipment by up to 30% of the residual value for tax purposes.
- Advance depreciation for tax purposes on aircraft may take place starting in the year a binding purchase agreement has been concluded, providing delivery takes place no more than four years thereafter. Advance depreciation on contracts may be accumulated to a maximum of 30% of the acquisition value, and no more than 15% per year.

Norway

- Tax deductions are allowed for depreciation of aircraft by up to 12% of the residual value and of other plant and equipment by 20–30%. 20% of gains from the sale of aircraft is recognized as income in the year of sale. 20% of the remaining balance is recognized in the following years.

Sweden

In Sweden, tax deductions are allowed for depreciation of plant and equipment based on an annual determination of the lowest residual value for tax purposes:

- According to the 30% rule (main rule), the residual value is calculated as not less than 70% of the opening balance plus purchases less the amount received from sale.
- According to the 20% rule (supplementary rule), the lowest residual value is calculated as the acquisition value less 20% depreciation every following year of possession.

SAS's tax situation today and in the future*

Taxes payable affects different key ratios such as operating cash flow per share and other measures where taxes payable are taken into account. Total taxes paid for all parent companies including SAS's subsidiaries was MSEK 635 in 1998.

Based on the SAS Group's EBIT of MSEK 2,957 for 1998, this gives an effective aggregate tax rate of 21.5% for the whole SAS Group.

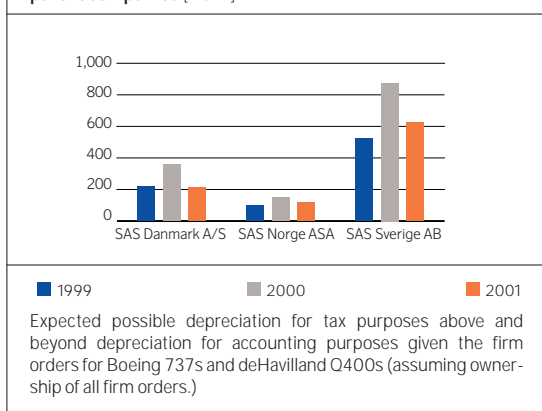
With the investments that have been decided on, Boeing 737s and deHavilland Q400s, SAS's parent companies will, as from 1999, be able to take further tax deductions for depreciation. The effective tax rate will thereby be affected from 1999 onward. The tax situation for the period 2001 onward is dependent on decisions regarding changes in the intercontinental fleet and on the proportions of owned and leased aircraft.

Total depreciation for tax purposes, above and beyond depreciation for accounting purposes, is the sum of the depreciation on a declining value base and that made possible by the new investments in progress. See graph below at left and table below.

Taxable residual values for SAS's parent companies

		Jan. 1, 1998	Dec. 31, 1998
SAS Danmark A/S	MDKK	264	58
SAS Norge ASA	MNOK	2,212	2,058
SAS Sverige AB	MSEK	1,343	1,349

Expected possible depreciation for tax purposes for SAS's parent companies [MSEK]



* Definitions, see page 112.

SAS International Hotels

Excellent growth in operating revenue and earnings

SAS International Hotels (SIH) conducts hotel operations under the name Radisson SAS Hotels Worldwide. Income after financial items was MSEK 233 (160) in 1998, equivalent to a return on capital employed of 14.3 (11.5) %. Over the past six years, SIH has thus improved its earnings level by MSEK 340 from a loss after financial items of MSEK 110 in 1993. Cash earnings (EBITDA) increased by 37% in 1998 to MSEK 477 (349). Operating revenue increased by 21% during the year to MSEK 2,786 (2,304). Two thirds of this increase can be attributed to an increased number of hotels, while the remainder is an effect of improved occupancy, higher rates and more efficient revenue management. The rate for available rooms increased by 7% to SEK 565, and the gross profit margin to 32.9 (31.6) %. The average number of employees at SIH was 3,041 (2,494).

Investments in 1998 were MSEK 557 (318), of which MSEK 252 related to the construction of the new Radisson SAS Hotel Manchester, opened in November 1998.

Objective, vision and goal

SIH's objective is to create high value for customers, shareholders and employees, and the overall goal is to become the most attractive full-service hotel chain to stay at, work for and invest in. Specific goals have been set for customer satisfaction, the work environment, financial performance and development of relationships with the property owners. Regular surveys will be carried out to monitor our goal fulfilment.

SIH's business concept is to operate hotels under management contracts or franchise agreements, rather than to own and manage hotel properties. At the end of

the year, SIH owned 6 (6) hotel properties. In the long term, SIH will become a purely operative hotel business.

Trend in hotel business

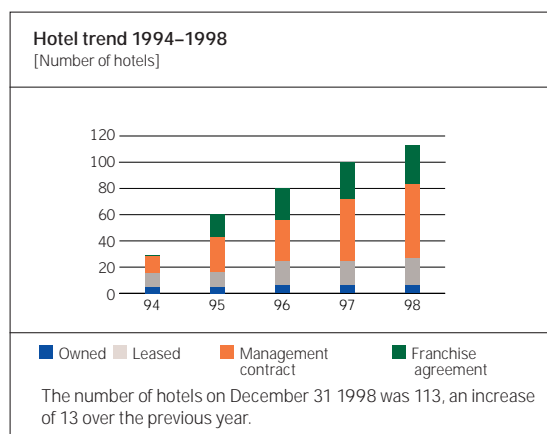
The number of hotels – in operation and with effective agreements – was 113 (100) at year-end. In 1999, another 25–30 hotels are expected to be included in the chain. The goal is to operate some 200 hotels under the name Radisson SAS by the year 2000. This rapid growth has great strategic importance. The objective is to reach a critical mass in terms of brand awareness, geographical coverage and economies of scale. It is also to expand the domestic market from Scandinavia to Germany, and to establish ourselves in all major cities in Europe, the Middle East and North Africa, where SIH has exclusive rights to the Radisson name. SIH previously concentrated its hotel operations to important cities and airport areas, focusing on business travel. In recent years this strategy has changed to include combined conference and leisure hotels. At the end of 1998, there were 18 such hotels.

100% Guest Satisfaction Guarantee

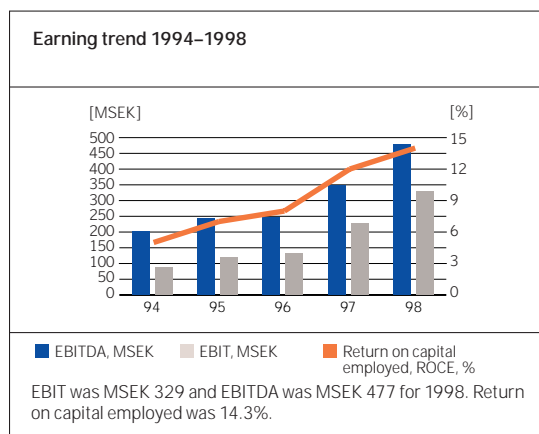
SIH's goal is 100% guest satisfaction. The guarantee it gives provides the customer with a refund for unsatisfactory service which the hotel has not put right. All personnel have undergone special training in 1998 to help to implement the program.

Trend for 1999

The market for hotel operations was generally favorable in 1998. A positive trend is also expected in 1999. Together with the planned expansion, this means that SIH anticipates a continued favorable trend in earnings in 1999.



Definitions, see page 112.



Data per share

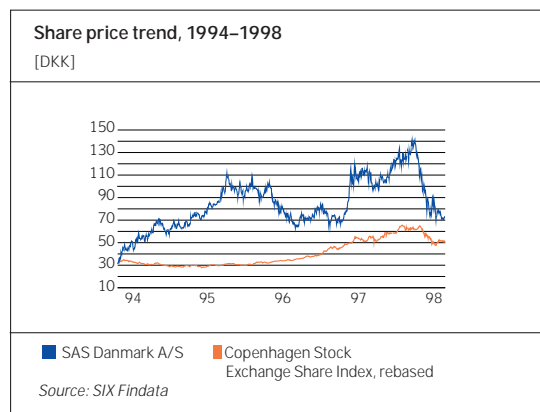
SAS Danmark A/S

Share Price Trend and Trading Volume

The price trend was negative during the year. At year-end 1998, the share price was DKK 72.80, a drop of 27.2%. The share price fluctuated between DKK 70 and DKK 141. A total of 42 million shares were traded during the year, an increase of 5% compared with 1997.

Shareholders

The Danish Companies Act requires disclosure of shareholders who own 5% or more of the shares in a company. Danmarks Hypotekbank (the Danish State) owns 50% of the shares. The PFA Group owns 5.3% of the shares. At the end of 1998 there were approximately 6,200 listed shareholders, representing 81% of share capital.



Change in share capital

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

Data per share¹

Key data per share, DKK	1998 IAS	1997 IAS	1996 IAS	1995	1994
Earnings	11.60	8.28	6.96	7.08	12.34
Cash flow from operations ²	16.02	18.72	18.81	–	–
Dividend (1998 proposed)	3.15	3.50	2.60	2.46	0.51
Dividend as % of earnings	27	42	37	35	4
Price-related data, DKK					
Market price at year-end	72.80	100	73	99	63
Highest market price during the year	141	119	111	112	72
Lowest market price during the year	70	65	61	64	30
Average price during the year	104	90	82	86	55
Market capitalization/Shareholders' equity, % at year-end	103	148	118	194	155
Dividend yield, average price, %	3.0	3.9	3.2	2.9	0.9
P/E ratio, average price*	9.0	10.9	11.8	12.2	4.5
P/CE ratio, average price*	6.5	4.8	4.4	–	–
Market capitalization, 31 Dec., MDKK	3,422	4,700	3,431	3,934	2,514
Yearly trading volume, million shares	42.20	39.96	21.37	18.92	28.35

¹ Group accounts, 1994–95. Group accounts with IAS adjustment 1996–98.

² Cash from operations less paid tax.

* Definitions, see page 112.

Source: SIX Findata, Datastream, SAS

Data per share

SAS Norge ASA

Share Price Trend and Trading Volume

The share price trend was negative during the year. At year-end 1998, the share price was NOK 64.00, a drop of 37.9%. A total of 28.2 million shares were traded during the year, which was 10% less than during 1997.

Shareholders

At the end of 1998, there were 2,788 shareholders, 20 of whom own 83% of the share capital. The proportion of foreign shareholders increased from 16% to 18% (of the privately owned part).

Change in share capital

MNOK	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
1995	62.9	–	–	377.5	30	12,582
1996	92.6	1:3	–	470.0	10	47,000

Distribution of shares

31 Dec. 1998	Number of shareholders	% of all shareholders	Total number of shares	% of share capital
1–500	2,064	74.0	270,333	0.6
501–1,000	269	9.7	203,920	0.4
1,001–10,000	303	10.9	925,577	2.0
10,001–50,000	84	3.0	2,162,403	4.6
50,001–100,000	33	1.1	2,473,823	5.3
100,001–	35	1.3	40,963,944	87.1
Summa	2,788	100.0	47,000,000	100.0

Data per share¹

Key data per share, NOK	1998 IAS	1997 IAS	1996 IAS	1995	1994
Earnings	11.51	9.36	8.08	7.94	3.74
Cash flow operations ²	19.06	19.74	19.63	–	–
Dividend (1998 proposed)	3.70	3.70	2.80	3.35	1.87
Dividend as % of earnings	32	40	35	42	50

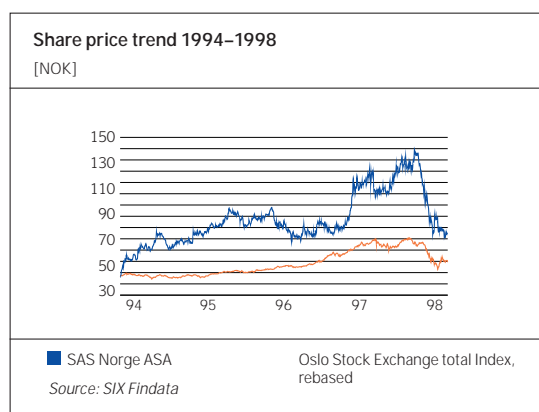
Price-related data, NOK	1998	1997	1996	1995	1994
Market price at year-end	64	103	69	75	57
Highest market price during the year	137	123	89	89	66
Lowest market price during the year	61	65	57	56	21
Average price during the year	100	88	72	71	52
Market capitalization/Shareholders' equity, % at year-end	78	139	101	109	89
Dividend yield, average price, %	3.7	4.2	3.9	4.7	3.6
P/E ratio, average price*	8.7	9.4	8.9	8.9	13.9
P/CE ratio, average price*	5.2	4.5	3.7	–	–
Market capitalization, 31 Dec., MNOK	3,008	4,841	3,243	3,511	2,680
Yearly trading volume, million shares	28.20	31.35	29.85	32.72	68.40

¹ Group accounts, 1994–95. Group accounts with IAS adjustment 1996–98.

² Cash from operations less paid tax.

Source: SIX Findata, Datastream, SAS

* Definitions, see page 112.



The ten largest shareholders in SAS Norge ASA

31 Dec. 1998	Number of shares	% of share capital
The Norwegian State	23,500,000	50.0
Aksjefondet Odin Norden	2,533,410	5.4
State Street Bank (nominees)	1,947,034	4.1
Aksjefondet Storebrand Livsforsikring	1,734,926	3.7
Bankers Trust Company (nominees)	1,702,861	3.6
Aksjefondet Odin Norge	1,335,900	2.8
Kommunal Landspensjonskasse	1,034,100	2.2
Swedbank Markets (nominees)	1,009,494	2.2
UBS AG	819,904	1.7
Morgan Guaranty Trust (nominees)	452,626	1.0

Data per share

SAS Sverige AB

Share Price Trend and Trading Volume

The share price trend was negative during the year. At year-end 1998, the share price was SEK 74.50, a drop of 35.2%. A total of 5.5 million shares were traded during the year, a decrease of 46% compared with 1997.

Shareholders

At the end of 1998, there were 3,239 shareholders, an increase of 14%. 15 shareholders own 95.3% of the share capital. The proportion of institutional investors was 79.4 %.

Change in share capital

MSEK	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 (according to VPC)

31 Dec. 1998	Number of shareholders	% of all shareholders	Total number of shares	% of share capital
1–500	2,624	81	376,140	0.5
501–1,000	338	10.4	291,500	0.4
1,001–10,000	202	6.3	557,277	0.8
10,001–50,000	30	0.9	829,732	1.2
50,001–100,000	9	0.3	659,500	0.9
100,001–	35	1.1	67,762,451	96.1
Total	3,239	100.0	70,476,600*	100.0

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

Data per share¹

Key data per share, SEK	1998 IAS	1997 IAS	1996 IAS	1995	1994
Earnings	12.77	10.13	9.42	13.32	13.79
Cash flow from earnings ²	19.49	23.15	22.30	–	–
Dividend (1998 proposed)	4.00	4.00	3.00	3.00 ³	2.50
Dividend as % of earnings	31	39	32	23 ³	18
Price-related data, SEK					
Market price at year-end	74.50	115	86	120	80
Highest market price during the year	143	125	145	119	86
Lowest market price during the year	77	83	80	70	36
Average price during the year	106.50	102	101	92	63
Market capitalization/Shareholders' equity, % at year end	83	143	118	127 ³	108
Dividend yield, average price, %	3.8	3.9	3.0	3.3	4.0
P/E ratio, average price*	8.3	10.1	10.7	6.9	4.6
P/CE ratio, average price*	5.5	4.4	4.5	–	–
Market capitalization, 31 Dec., MSEK	5,252	8,108	6,063	8,460	5,640
Yearly trading volume, millions	5.50	10.25	6.42	0.30	0.70

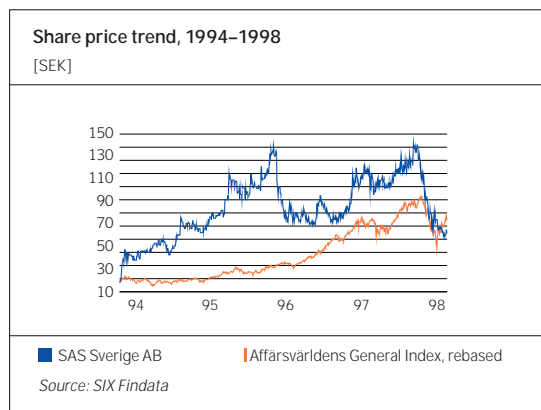
¹ Group accounts, 1993–95. Group accounts with IAS adjustment 1996–98.

² Cash from operations less paid tax.

³ Extraordinary dividend of SEK 24.30 not included, and remaining here in shareholders' equity.

Source: SIX Findata, Datastream, SAS

* Definitions, see page 112.



The ten largest shareholders in SAS Sverige AB

31 Dec. 1998	Number of shares	% of share capital
The Swedish State	35,250 000	50.0
Investor	13,228,080	18.8
Roburs aktiefonder	7,867,700	11.2
State Street Bank and Trust (nominees)	2,292,134	3.3
Trygg-Hansa Försäkring	1,318,097	1.9
Odin Fondene Oslo	1,316,700	1.9
Landsorganisationen (LO)	1,305,500	1.9
SPP	1,151,660	1.6
Skandia	821,900	1.2
SHB's mutual funds	615,874	0.9

Ten-year financial overview

SAS GROUP, MSEK

Income statements	1998	1997	1996	1995	1994
Operating revenue	40,946	38,928	35,189	35,403	36,886
Operating income before depreciation	4,115	4,118	3,668	4,761	3,404
Depreciation	-2,125	-1,880	-1,851	-1,840	-2,000
Share of income in affiliated companies	-48	61	-15	72	-13
Income from sale of shares in subsidiaries and affiliated companies	1	1	-	6	869
Income from sale of aircraft and buildings	1,014	83	100	83	12
Operating income	2,957	2,383	1,902	3,082	2,272
Net financial items	-128	-152	-85	-448	-668
Income after financial items	2,829	2,231	1,817	2,634	1,604

Balance sheets

Fixed assets	26,489	23,000	20,784	19,345	20,904
Current assets, excl. liquid assets	5,949	4,812	4,036	3,477	3,670
Liquid assets	8,011	9,817	11,050	10,078	10,725
Shareholders' equity	16,110	14,241	13,030	10,588	9,355
Long-term liabilities and provisions ¹	9,819	12,209	13,218	11,750	15,971
Current liabilities	14,520	11,179	9,622	10,562	9,973
Total assets	40,449	37,629	35,870	32,900	35,299

Statements of changes in financial position

Net financing from operations	4,137	4,256	3,814	4,881	2,338
Investments	-6,112	-3,256	-4,202	-1,399	-1,391
Sale of fixed assets, etc.	2,360	252	1,066	619	5,305
Disbursements to parent companies	-1,141	-844	-1,150	-591	-
Capital contribution from parent companies	-	-	1,400	-	-
Financing deficit/surplus	-756	408	928	3,510	6,252
External financing (net)	-1,050	-1,641	44	-4,157	-3,872
Change in liquid assets	-1,806	-1,233	972	-647	2,380
Liquid assets in sold companies	-	-	-	-	-973
Change in liquid assets according to balance sheets	-1,806	-1,233	972	-647	1,407

Key ratios, %

Gross profit margin	10.1	10.6	10.4	13.5	9.2
Return on capital employed (ROCE)	13.2	11.6	10.6	15.6	10.5
Return on equity after standard tax	12.9	11.4	10.9	18.5	10.0
Equity/assets ratio	40	38	37	32	27

Market-based profitability measures

CFROI	20.6	23.9	24.0	36.5	24.9
Return on capital employed (ROCE, market-based)	16.5	23.4	16.8	19.4	10.3
Market value of aircraft fleet	14,691	15,284	13,662	13,354	15,304
Book value of aircraft fleet	10,204	11,314	11,732	12,170	13,554
Surplus value in aircraft fleet	4,487	3,970	1,930	1,184	1,750
Annual change in surplus value in aircraft fleet	517	2,040	746	-566	-583

Other financial data, MSEK

Financial income	634	674	745	1,011	933
Financial expenses	-762	-826	-830	-1,459	-1,601
Interest-bearing assets	9,780	10,763	11,622	10,391	11,363
Interest-bearing liabilities	11,859	12,108	13,376	12,935	17,417
Net debt	2,079	1,345	1,754	2,544	6,054
Interest expenses/average gross debt, %	5.9	6.1	6.6	8.3	7.7
Interest coverage ratio	4.7	3.7	3.2	2.8	2.0
Debt/equity ratio	0.1	0.1	0.1	0.2	0.6

¹Including minority interests.

Definitions, see page 112.

	1993	1992	1991	1990	1989
	39,122	34,445	32,286	31,883	28,786
	2,032	2,930	2,591	1,092	2,658
	-1,782	-1,532	-1,338	-1,362	-1,414
	-1	-8	-2,109	-382	83
	511	7	148	0	0
	45	83	375	694	1,037
	805	1,480	-333	42	2,364
	-1,313	-2,329	-942	-805	-158
	-508	-849	-1,275	-763	2,206
	24,566	28,790	24,854	24,265	21,245
	9,973	6,849	6,289	6,362	7,590
	9,318	9,829	9,371	11,388	6,892
	8,631	8,958	9,639	11,097	12,177
	22,741	24,797	20,404	18,113	12,042
	12,485	11,713	10,471	12,805	11,508
	43,857	45,468	40,514	42,015	35,727
	1,377	1,444	1,362	1,130	1,550
	-1,141	-3,338	-5,197	-5,651	-9,922
	1,852	552	1,591	1,791	1,877
	-	-	-	-	-
	-	-	-	305	1,750
	2,088	-1,342	-2,244	-2,425	-4,745
	-2,469	1,584	227	6,921	3,804
	-381	242	-2,017	4,496	-941
	-130	216	-	-	-
	-511	458	-2,017	4,496	-941
	5.2	8.5	8.0	3.4	9.2
	8.7	7.8	3.3	2.5	14.3
	-	-	-	-	15.2
	21	21	25	27	36
	10.5	9.3	2.5	3.7	12.2
	9.0	3.9	0.1	neg.	11.2
	17,049	18,374	15,817	12,165	10,810
	14,716	17,524	14,728	11,360	8,246
	2,333	850	1,089	805	2,564
	1,483	-239	284	-1,759	841
	2,402	1,138	1,398	704	853
	-3,715	-3,467	-2,340	-1,509	-1,011
	10,515	11,240	10,109	12,543	8,951
	24,403	26,830	21,645	21,790	15,618
	13,888	15,590	11,536	9,247	6,667
	9.9	10.4	9.6	8.4	9.2
	0.9	0.8	0.5	0.5	3.2
	1.6	1.7	1.2	0.8	0.5

SAS 1989-1998

When SAS is regarded over a ten-year period, a number of factors must be taken into consideration. At the outset of the period, the airline market in Scandinavia had not yet been deregulated and SAS looked different than it does today. After an expansive phase the company owned many more subsidiaries and affiliated companies than it did in 1998, for example SAS Service Partner, SAS Leisure and Diners Nordic.

Operating income

Operating income has developed negatively on three occasions during the ten-year period. The first year was 1990. After a strong upswing at the end of the 1980s, SAS suffered a downswing in the early 1990s, which led to lower passenger and freight volumes. The downturn came in a situation when SAS was in the process of expanding its capacity by making large investments in the aircraft fleet. The Kuwait crisis then followed on top of this. The economic slump continued and the number of revenue tonne kilometers decreased by about 8% between 1990 and 1991. Traffic revenues increased, but that was due in part to inflation and in part to the fact that deregulation had not yet been completely implemented. Only after deregulation in 1992 did prices come under pressure.

The decline in operating income in 1993 stemmed from the downward pressure on prices following deregulation and a continued decline in travel due to weak purchasing power. With the economic slump and the weakening of the krona in 1992, price became more important than ever for the traveler. After several years of losses, the Board of Directors decided in 1993 to focus on the core business and SAS began to divest its holdings in a large number of subsidiaries, which affected operating revenue negatively in 1994 and 1995, while operating income improved. The economy recovered and flying began to increase in 1994. At that time the company had also implemented a far-reaching restructuring program while eliminating unprofitable routes.

The decline in operating income in 1996 was primarily due to increased costs. When the economy turned up, salary demands increased, and in 1995 SAS began hiring flight personnel for the first time in five years after becoming worried that the cutbacks made previously had damaged quality. On top of that, the fuel cost increased by 18%. The trend over the past two years has been positive for SAS.

Investments

Investments totaling MSEK 20,784 or nearly SEK 7 billion per year were made during the period 1989 to 1991, to be compared with an average of MSEK 3,000 annually during the rest of the period. The fleet was renewed during the period, in addition to which SEK 3.2 billion was invested in 1989 in the acquisition of 40% of Inter-Continental Hotels. The high investment level meant that financial expenses increased sharply. Long-term liabilities increased from SEK 8 billion in December 1988 to SEK 25 billion in December 1992. When the exchange rate of the krona fell sharply in 1992, this caused a sharp decrease in net financial items, from having been positive during most of the 1980s to a net expense of SEK 2.2 billion in 1992. The sell-off of operations outside the core business reduced indebtedness in 1993, so that after continued restructuring in 1995 it was down to the same level as in 1989, i.e. around SEK 12 billion, where it has remained for the rest of the period.

Not until 1996, after two relatively good years, did the investment level increase again through the acquisition of MD-90 aircraft, investments in a new airport at Gardermoen, and the acquisition of Boeing 737-600s in 1998.



The international market situation

International trends

The demand for air travel follows general trends in economic growth and is sensitive to business cycle fluctuations.

The development of the industry

The transition from highly regulated market to free competition has characterized the development of European airlines in the 1990s.

The customer's needs and wishes

As a complement to its traditional customer survey, SAS has made an anthropological study which provides many ideas for new ways of meeting customers' needs.

"The product offer in relation to air travel has increased substantially during the 1990s. Today, travelers have a wide choice of destinations, departures and fares. Alliances and loyalty programs have substantially made travel simpler and cheaper. In this market, winners are the discerning traveler and the airlines which are best able to combine both hard and soft values into individually customized solutions."

International trends

The airline industry is a global, high-profile business working in a growth market.

The development of air traffic is dependent on a number of factors, which individual airlines and the airline industry as a whole can influence to a greater or lesser extent.

Follows GDP

Historically speaking, the development of air traffic has followed general economic trends. On average, the annual growth rate has been more than double GDP growth. This trend has however been less marked during the 1980s and 1990s. The forecast for the coming three-year period is a weak increase in the demand for air travel. There is however considerable uncertainty about growth in air traffic, especially as regards business travel. Europe is the market with the greatest passenger volumes, while the growth rate in Asia, due to the events of 1998, is expected to decline. A clear trend is for private travel to increase more rapidly than business travel throughout the world.

Regional growth may display much greater variation. This applies e.g. to traffic in the Baltic region, which is increasingly important to SAS, as well as to developments in the former East European countries. The relative increase is substantial, but starting from a lower level.

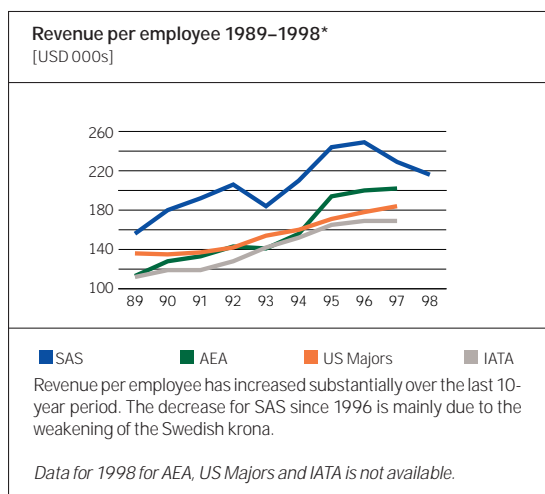
The relationship between air traffic and general economic development means that the demand for air travel is cyclical, with cycles of an average of six to eight years.

Deregulation

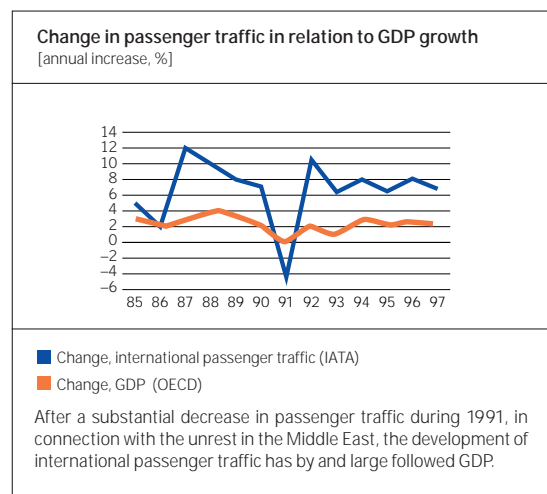
Air traffic used to be strictly regulated throughout the world. Deregulation in the US began at the end of the 1970s. In Europe, it was implemented gradually as the European internal market came into being. The final stage was completed in 1997, when EES-based airlines were allowed to operate national routes in all EES countries. At present negotiations are being held between the EU and the Central and East European countries. The purpose is for European deregulation to include these countries as well. Alongside the EU, Norway is holding parallel negotiations with the Central and East European countries.

For air traffic outside the EU, bilateral agreements still apply, regulating air traffic between the countries. These agreements will continue to give national carriers preference wherever there is only room for one company.

Open Skies treaties cover bilaterally deregulated markets, which, however, do not include domestic traffic. Such agreements already exist between the US and between a large number of European countries, including the Scandinavian countries. Over the past year, the Scandinavian countries have signed Open Skies agreements with a number of other countries. Outside Europe, these bilateral agreements with nationality clauses will form the basis for international air traffic. Deregulation was a prerequisite for the formation of the alliances which are becoming increasingly common in today's air transport industry. It has also contributed



*Definitions, see page 112.



greatly to the emergence of new airlines, improving the range of choice for the consumer, increasing competition and reducing prices.

Infrastructure

The rapid expansion of air traffic has not been followed by a corresponding adjustment in the infrastructure vital to air traffic, i.e. airports, airways, access roads, communications etc. The reason for the time-lag often lies in problems with getting political decisions approved. Other problems include extended periods of testing regarding the direct and indirect environmental impact of air traffic, amongst other things. This stagnation has led to a constant capacity shortage at almost all large airports in Europe.

Some of the bottlenecks will be solved by technological development and increased investments. Another solution is to utilize smaller airports in densely populated regions.

Over the last few years, however, considerable progress has been made in Denmark, Norway and Sweden, and this will have an impact on the potential of Scandinavian air traffic.

Copenhagen airport has undergone an extensive modernization and expansion program during the latter part of the 1990s. The high-speed railway line from Copenhagen's central station was also taken into operation in 1998.

In the autumn of 1998, Oslo's international airport, Gardermoen, was opened with a substantial increase in its capacity. There is also a high-speed railway line from Oslo.

At Stockholm's international airport, Arlanda, the building of a third runway has been started. It will be completed in 2002. 1998 also saw the initiation of a process designed to make European airways more direct. In the Scandinavian countries, the work was completed during the autumn. The new arrangement means that air traffic can choose the straightest and shortest airways to a greater extent than before, which means decreased fuel consumption and less negative impact on the environment.

Information technology

The Internet, improved telecommunications, image transfer etc., will all have an impact on travel, but how? Some people maintain that travel will decrease as a result of a declining need for personal meetings, others believe the opposite.

Information technology is a strong driving force behind increased globalization, which clearly benefits air traffic. Countries with substantial foreign trade usually generate substantial passenger traffic flows. This connection may benefit the Scandinavian countries when what was formerly Eastern Europe opens its borders and adapts to a market economy.

Operations within the air travel industry are both a service industry and a highly developed production system. This means that information technology is part of every link in the chain from purchase, operation and maintenance of material to the reservations, payment and consumption of the customer. As regards distribution of airline product offers, information technology has already led to a minor revolution, since it has enabled radical changes to be made to previous agents' agreements. This means lower costs for the airlines, and makes it easier to reach rational agreements with major purchasers of air travel, i.e. companies and the public sector. Leisure travelers have constant access via the Internet to the airlines' current range of products in relation to destinations, prices and conditions, and are able to book and pay directly via the net.

Environmental aspects

Environmental issues will continue to occupy a central position in the development of aviation for the foreseeable future.

Air transport has an impact on the environment, mainly due to noise, emissions of gases which affect the climate and lead to acidification, and the use of non-renewable fuels. The focus on environmental aspects will gradually increase, which means that more modern aircraft and engines will be required. This will probably also affect competition. The "eco-conscious" consumer takes environmental aspects into account when choosing an airline.

Awareness of a negative influence on the environment puts air transport at a disadvantage in relation to other means of transport, particularly rail traffic. High-speed train routes between major towns located as far apart as 500 km therefore present a strong competitive threat to airlines.

External disruptions

The air travel industry is sensitive to external disruptions such as natural disasters, conflicts and similar phenomena.

In recent years, a number of incidents have contributed to temporary and local declines in travel. A huge increase in the focus on safety measures before and during journeys is gradually reducing the vulnerability of air traffic. Wars and the threat of war, particularly in the Middle East, have periodically led to decreases in the demand for air travel to and around this region.

As an important part of a country's infrastructure, air traffic is sensitive to labor market conflicts, regardless of whether or not the airlines are directly involved.

Development of the industry

There are approximately 150 airlines with international traffic systems. Many of them are national carriers, i.e. they are given priority in their domestic markets and often have preferential rights as regards foreign traffic, which is regulated by air traffic policy agreements.

There are also a large number of small and medium-sized airlines with national and regional operations. Their number has grown with worldwide deregulation. Generally speaking, the industry is characterized by a growing number of new players, often concentrated on a niche market and with a different cost structure, than the established airlines.

In terms of operating revenue, the major airline companies are those in the US, with American Airlines at the top of the list, closely followed by United Airlines. Lufthansa is the leader in Europe, again in terms of operating revenue, and comes sixth in the world. SAS comes sixteenth, which means that SAS clearly maintains a prominent position in the global arena.

Competition

Over the last ten-year period, competition has intensified dramatically between the airlines. This benefits the consumer and makes air transport more accessible to new categories of travelers. Traffic systems, timetables and prices, as well as service and loyalty programs, are the most important competitive means.

The airlines can be divided into three categories

- *The major established companies* with international operations and a high profile in the market. This category comprises a number of American, Asian and European airlines, including SAS. They have highly developed traffic networks, efficient distribution channels, modern fleets, excellent products and high quality in their airline and associated services, as well as attractive bonus programs. Their weakness is that they generally suffer from an inability to adapt swiftly to the transition required by their deregulated environment, where these major monopolies now have to become flexible players.

The 15 most profitable airlines in the world 1997

Reported operating income	Reported profit	Operating income as % of operating revenue
American Airlines	US Airways	China Southern Airlines
Delta Air Lines	American Airlines	Alitalia
United Airlines	United Airlines	Southwest Airlines
Northwest Airlines	Delta Air Lines	Singapore Airlines
Federal Express	British Airways	Northwest Airlines
Lufthansa	Singapore Airlines	Delta Air Lines
British Airways	Northwest Airlines	Thai Airways International
Alitalia	Federal Express	SAS
Continental Airlines	Lufthansa	American Airlines
Singapore Airlines	Continental Airlines	Continental Airlines
US Airways	Southwest Airlines	Cathay Pacific
SAS	Air France Group	United Airlines
Southwest Airlines	Air Canada	Lufthansa
Swissair	SAS	US Airways
Air France Group	Alitalia	Federal Express

Source: Airline Business, September 1998

The largest airline alliances in the world and their main members

	Operating revenue 1997 (MUSD)	Number of passengers, 1997 (millions)
Star Alliance¹ SAS, Air Canada, Lufthansa, Thai Airways International, United Airlines, Varig	46,100	188.4
Oneworld British Airways, Canadian Airlines, American Airlines, Cathay Pacific, Finnair, Qantas	46,500	159.2
KLM/Northwest Group KLM, Northwest, Continental Airlines, Alitalia	29,200	134.0
Total	121,800	481.6
Global total	291,000	1,448.0
Share of global total in %	41.9	33.3

¹ Air New Zealand and Ansett Australia will become active members as of March 28 and All Nippon Airways later in 1999.

Source: IATA, June 1998

In addition to the major companies, there are a number of smaller airlines, often national, which occupy a stable position in their main market. One typical example is British Midland in the UK.

- *Low-fare airlines*, which concentrate on a few routes with a large number of passengers, often operate shuttle traffic between major cities. Their organizations are small, and they have no on-board products. They include Virgin Express and Ryan Air. Traditional airlines, such as British Airways, have started their own low-fare operators.
- *Extreme niche airlines*, often flying only on one or two domestic routes.

Alliances

Greater awareness among customers and demands for global and cost-efficient travel have led to the formation and development of alliances between international airlines. At the same time, companies are constantly striving for economies of scale and synergy effects, mainly in the fields of production and marketing.

Intensifying domestic competition has hastened the emergence of alliances. Today almost all the major airlines are part of some kind of alliance. The airlines in these alliances guide passengers from one system to another, simplifying travel and increasing cabin factors.

The glue that holds these systems together is made up of loyalty programs, with customer benefits being continuously enhanced by the addition of products and services over and above the journey itself.

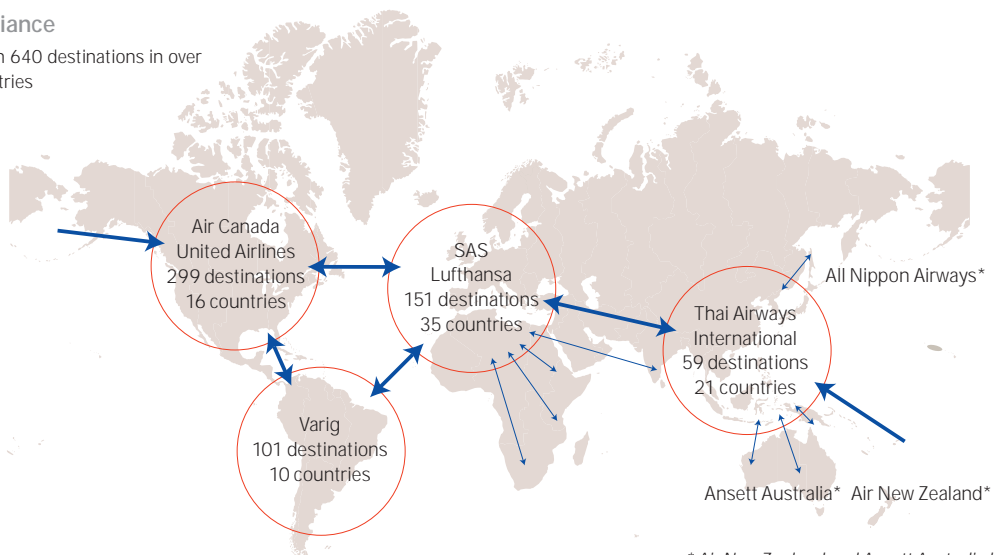
The degree of integration varies, ranging from cooperation involving so-called code-sharing, check-in and handling, through product development, joint standards and sales, to joint ventures and joint ownership.

The international air travel industry is dominated by three alliances. Their total number of passengers accounted for approximately a third of global travel in 1998.

- *Star Alliance*, which at year-end 1998 consisted of SAS, Air Canada, Lufthansa, Thai Airways International, United Airlines and Varig. Air New Zealand, Ansett Australia and All Nippon Airways are also joining in the alliance, and will become active members in 1999.
- In September 1998, another global alliance was launched, *oneworld*, consisting of British Airways, American Airlines, Canadian Airlines, Cathay Pacific, Finnair and Qantas.
- Up to and including 1997, KLM and Northwest Airlines had a cooperation based on cross-holdings. This was dissolved in 1998 and replaced by a ten-year joint venture. The current cooperation also includes Alitalia, Braathens and Continental Airlines, among others.

Star Alliance

More than 640 destinations in over 100 countries



* Air New Zealand and Ansett Australia become active members as of March 28, and All Nippon Airways later in 1999.

In addition, there exists formalized cooperation between various airlines mainly based on code-sharing. Such a cooperation exists between Swissair, Sabena, Austrian Airlines and Delta Air Lines.

Star Alliance

Altogether, Star Alliance offers more than 640 destinations in more than 100 countries. This is a highly competitive program and is the only one which fully meets Scandinavian travel requirements. By combining and adapting the route networks and timetables of the alliance members, Star Alliance creates a flexible, comfortable and reliable worldwide air transport service for its approximately 190 million customers.

The collaboration also extends to all the airlines' loyalty programs. For SAS EuroBonus customers, this means they can earn and redeem bonus points throughout the entire partner system.

For SAS, the main benefits of its membership of Star Alliance are related to revenues. The boost to income in 1998 was equivalent to approximately MSEK 500. The goal is MSEK 1,500 over a period of five years, commencing with the year in which Star Alliance was founded, 1997.

The alliance makes it possible to cut costs in production and distribution. Experience shows, however, that cost reductions are much harder to achieve, but will have a positive impact on SAS's income in the long term.

State ownership

Traditionally, the major European airlines have been state-owned to varying extents. This has accentuated protectionist tendencies. There is now a clear trend towards decreasing state influence by listing the companies on the stock market or in some other way privatizing them. In recent years, this has been the case for Lufthansa and KLM, among others. Listed airlines in the Nordic countries include SAS and Finnair, which are partly state-owned.

Other companies which, like SAS, have a high level of state ownership, include Air France, Alitalia, Iberia and Olympic Airways. According to EU regulations, no state subsidies are permitted. In spite of this, several European companies have on more than one occasion received substantial injections of capital to avoid insolvency.

Concentrating on core operations

Over the years, the airlines have focused to varying extents on expanding their concepts and customer offers. Some run hotel businesses and catering operations, as well as handling services and sales on board the aircraft and at airports. This further emphasizes the complexity of the air transport industry, with its strong elements of service and industrial production.

Now all the signs are pointing towards identifying and concentrating on core operations. But how much should be kept inside the organization, and how much can/should be outsourced or offered to other airlines?

SAS has gradually sold off business units the ownership of which was considered unnecessary to the core business. These include forwarding, catering, restaurants, and some technical maintenance. An example of cutting-edge competence offered to other airlines is pilot training in simulators at SAS Flight Academy.

Star Alliance, 1997/1998

	SAS	Lufthansa	United Airlines	Air Canada	Varig	THAI	Star Alliance
Passengers/year/millions	21.7	40.0	84.2	21.0	10.7	15.0	192.6
Air freight/tonne/millions	280	1,703	635	259	317	446	3,640
Countries	31	91	29	21	20	35	108
Destinations	101	294	136	118	70	71	642
Daily departures	1,050	1,630	2,290	1,100	390	232	6,692
Aircraft	179	326	579	240	89	76	1,489
Operating revenue (MUSD)	5,150	13,354	17,378	4,024	3,151	3,120	46,177
Employees	27,071	58,250	92,400	26,000	18,000	24,100	245,821

Customer needs and preferences



The pyramid of customer needs

The foundation of the structure of air travelers' needs is dependable transportation, i.e. that the journey takes place (regularity) and is performed with absolute safety. Baggage must come too and the flight must be on time. This is what is referred to as basic quality.

The service that makes up the superstructure has until now been focused on comfort, meal service and entertainment. Less has been done to help the traveler through the process itself, by making things easier and giving support. SAS intends to create a travel process that is completely customer-controlled.

The traveler as an individual

Air travel involves a process that, in its fundamental components, has changed very little over the past 30 years. This means that international air transportation takes place on the terms of the producer and the system rather than on the terms of the consumer.

The increased scope of product offers has brought tougher competition, as well as an expansion of the market. Increased awareness, new generations of travelers and changing attitudes regarding collective solutions have led to changing demands. Present and future travelers want to be treated as individuals and want their expectations to be realized.

The production and technology oriented organizations of the airlines are now being replaced by customer focus and process orientation. But the cultural "baggage" remains.

Who, other than the discerning traveler, will be the winner in a market with a broad product offer and large quantities of information, as well as easily identifiable products that are also equivalent in relation to content and basic quality? It will be those airlines who can properly interpret the needs of the customer and provide individualized products and services at a competitive cost.

Understanding the traveler

Practically all customer surveys in the airline business are carried out using traditional questionnaire and interview techniques. Provided the traveler accepts the basic patterns involved in air travel, the real problems are not revealed through the question and answer method.

Since 1996, SAS has therefore used behavioral studies as a complement to ordinary surveys to try to gain an understanding of the experiences and problems of travelers before, during and after the journey.

By studying passenger behavior in the various phases of travel, SAS has been able to identify some 40 or more problem complexes that form the basis of SAS's continued strategic positioning and product development.

The underlying philosophy is that passengers must be given greater control over their travel. This requires a better balance between the needs of the system and requirements of the traveler. The task of the system is to serve the customer, not the opposite. For this to be achieved, the whole travel process must be made more visible and the various alternatives be more clearly defined. Only then will customers be able to express their wishes and take advantage of the variety of choices open to them.



The markets

SAS's markets

SAS's main markets are Scandinavia, northern Europe and North America. The development of these markets within the near future will govern SAS's financial results and financial standing.

SAS has chosen to divide its airline operations into the following six segments and route sectors:

- Intercontinental routes
- European routes
- Intra-Scandinavian routes
- Danish domestic traffic including Greenland
- Norwegian domestic traffic
- Swedish domestic traffic

It is estimated that during the coming three-year period demand will increase by 4–5% annually. However, variations between countries and regions could be considerable and there is a great deal of uncertainty regarding growth in the industry.

Scandinavia is an intensive airline market. The reason for this is that the region covers a vast surface area comprised partly of difficult terrain and with a great deal of water. Scandinavia is also located at the perimeter of Europe and is scarcely populated. This creates a need of air transportation to and from, within and between its constituent countries.

All the major European airlines operate to Scandinavia. To this can be added a number of smaller airlines specialized in a few routes and destinations. They compete mainly on price.

Intercontinental traffic

At the close of 1998, SAS maintained own operations to nine destinations in its intercontinental network. Three of these are in the USA. Other major routes are Scandinavia-Tokyo and Scandinavia-Bangkok/Singapore.

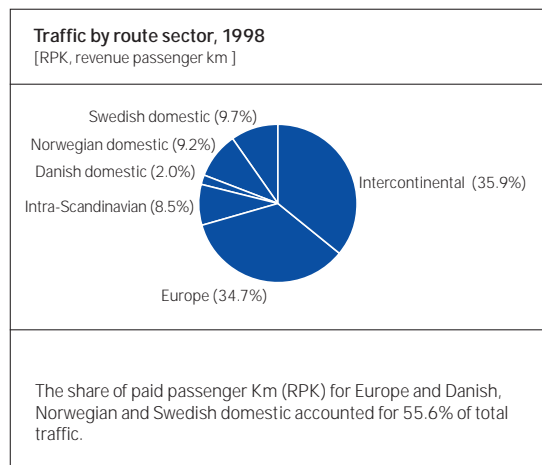
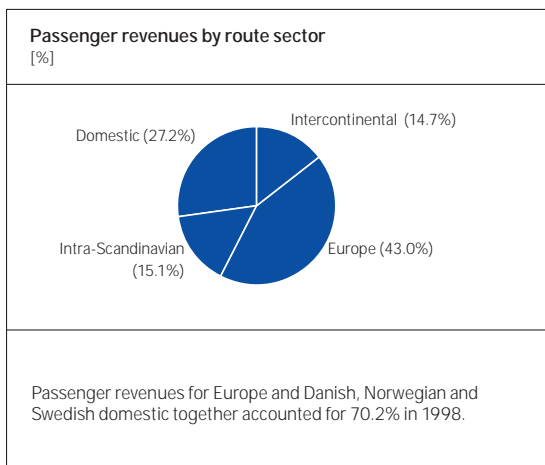
The market for air travel to the destinations concerned has enjoyed a positive development in recent years. During 1998, the demand for travel and the fare levels to Asia were influenced by the economic setbacks in the region. Because of lack of traffic volume, SAS has decided to close its route to Hong Kong. It is probable that the events in Asia will influence the air travel market directly and indirectly for several years to come. In the long term, however, the possibilities for high growth levels are very favorable.

SAS uses 13 Boeing 767 in its intercontinental traffic, an aircraft with 190 seats.

SAS's earning ability is therefore limited in the present situation by a lack of capacity. The cabin factor was on average almost 80% per flight during 1998, which in practice means fully booked. SAS is therefore evaluating the future composition of its intercontinental fleet and the investment requirements involved.

European traffic

The main destinations for SAS European traffic are London, Brussels, Paris, Amsterdam, Frankfurt and Helsinki. Scandinavia-London is still SAS's biggest European route area despite intensified competition, primarily from British Airways.



Intra-Scandinavian traffic

By tradition, SAS holds a completely dominant position with regard to traffic within the capitals triangle, Copenhagen-Oslo-Stockholm. Competition has led to increased capacity and reduced fares, which in turn has attracted new groups of travelers. Up until now, the capacity offered by competitors has not given rise to lower market shares for SAS.

SAS continues to expand its traffic program between the Scandinavian countries both in relation to departures and destinations. During 1998 feeder traffic to Copenhagen from several points in Sweden was increased.

Domestic traffic

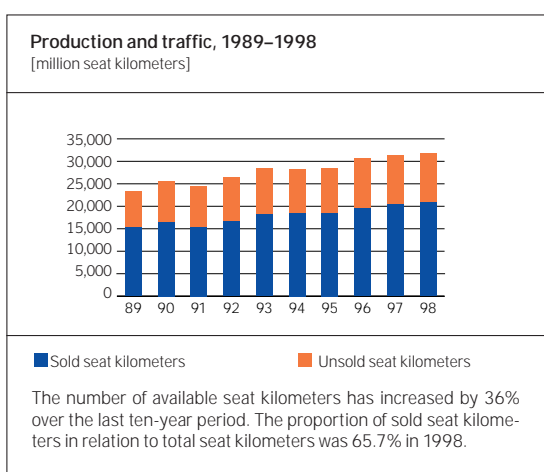
SAS operates domestic traffic in its homelands, Denmark, Norway and Sweden. SAS has a very strong position in these countries, although its market shares fell somewhat during the 1990s as a result of deregulation and increased competition.

The three countries are in different situations with regard to future expansion potential.

In Denmark the infrastructure in respect of bridges and roads has undergone considerable development over recent years, which means that the possibilities for air travel to compete with road and rail traffic are worsened.

Economic growth in Norway has been very favorable during the greater part of the 1990s, which has had a positive affect on airline traffic. This trend was broken in 1998, when the Norwegian economy began to stagnate. Looking farther ahead, however, the long-term possibilities are good. In Norway, SAS has a very powerful competitor in the Norwegian airline Braathens, which is now beginning to expand its market to other parts of Scandinavia and Europe.

Demand on the Swedish domestic market suffered a decline in the early 1990s and has subsequently sustained slight growth. Towards the end of 1997 there was a significant recovery that was strengthened even further during 1998.



Market segments

SAS has two classes on its international routes, Business Class and Economy Class. SAS products for the leisure traveler are marketed under the brand name SAS Pleasure. This covers attractive products for the leisure traveler, ranging from highly affordable fares to complete packages.

SAS's main target group is the frequent business traveler. The same group also represents an important part of its leisure travel.

The main principle applied to determining the categories is that passengers in Business Class pay a higher

SAS's passenger traffic trend, 1998

	1998	1997	Change, %
Total for SAS			
Number of passengers, 000s	21,499	20,608	4.3
RPK, millions	20,821	20,265	2.7
ASK, millions	31,704	31,257	1.4
Cabin factor, %	65.7	64.8	0.9*
Yield adjusted for currency effects, SEK	1.35	1.34	0.7
Business Class, % of RPK	31.0	31.7	-0.7*
Intercontinental routes			
Number of passengers, 000s	1,076	1,063	1.2
RPK, millions	7,475	7,437	0.5
ASK, millions	9,620	9,380	2.6
Cabin factor, %	77.7	79.3	-1.6*
Yield adjusted for currency effects			-2.0
European routes			
Number of passengers, 000s	7,233	6,892	4.9
RPK, millions	7,229	6,996	3.3
ASK, millions	12,211	12,200	0.1
Cabin factor, %	59.2	57.3	1.9*
Yield adjusted for currency effects			3.1
Intra-Scandinavian routes			
Number of passengers, 000s	4,166	4,049	2.9
RPK, millions	1,751	1,723	1.6
ASK, millions	2,956	2,877	2.7
Cabin factor, %	59.2	59.9	-0.6*
Yield adjusted for currency effects			-0.5
Danish domestic and Greenland			
Number of passengers, 000s	1,152	1,292	-10.9
RPK, millions	422	464	-9.1
ASK, millions	674	789	-14.5
Cabin factor, %	62.5	58.8	3.7*
Yield adjusted for currency effects			-8.8
Norwegian domestic			
Number of passengers, 000s	3,607	3,472	3.9
RPK, millions	1,911	1,827	4.6
ASK, millions	3,049	2,993	1.9
Cabin factor, %	62.7	61.0	1.7*
Yield adjusted for currency effects			2.3
Swedish domestic			
Number of passengers, 000s	4,265	3,840	11.1
RPK, millions	2,033	1,818	11.8
ASK, millions	3,194	3,018	5.8
Cabin factor, %	63.6	60.2	3.4*
Yield adjusted for currency effects			-6.7

* Change in percentage units.

Definitions, see page 112.

fare for a higher quality product, especially regarding flexibility in relation to changing reservations (flight and departure date). Economy Class offers a good product at a competitive fare, but with some restrictions.

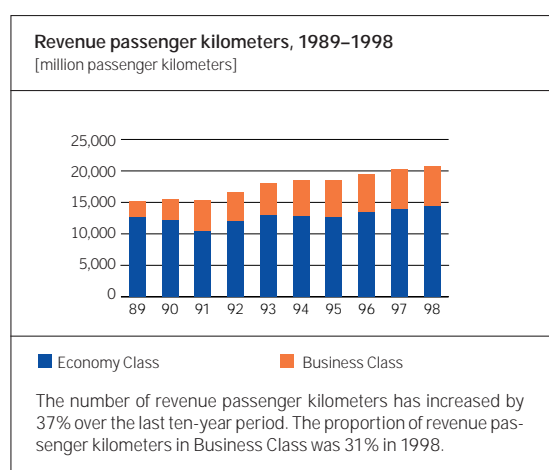
The economics of each flight is dependent on the available capacity, the cabin factor and the mix between full-fare and discount fare travel. The more full-fare, the better the outcome. In the historical perspective, to fill the remaining seats the airline industry has offered the market discount fares with conditions that have often been difficult to interpret.

Airline seats are like a perishable commodity that today can be offered directly via the Internet and be taken up via a travel agent or by the end customer. At any time, the traveler can evaluate the product offers and is able to book and pay via the Internet. This creates new opportunities both for customers and for the airlines.

SAS works in a determined way to optimize revenues in its daily operations in each geographic market. This involves working proactively to meet the needs of the market for various fares, react to competitors' marketing ploys, develop the sales organization and follow up on campaigns.

Cargo

SAS Cargo's business concept is to meet the needs of commerce and industry for fast, reliable air cargo transportation to, from and within Scandinavia, Finland and the Baltic states. The main strategy is for SAS Cargo to offer complete transport solutions through active cooperation with other airlines, forwarders and end-users. The partnership with Lufthansa Cargo AG has been strengthened. During the autumn a tripartite agreement was also concluded with Lufthansa Cargo and Japan Airlines regarding freight capacity on a Boeing 747 cargo aircraft between Europe, Scandinavia and Japan. A cooperation with DHL exists in relation to freight between Copenhagen and the Baltic region.



Traffic revenues within SAS Cargo increased with 1.2% during 1998 compared with 1997. SAS Cargo's revenues represent approx. 7% of the total traffic revenues of SAS. Growth on the international air freight market was weaker than in previous years, which has resulted in overcapacity and a tougher competitive situation, as well as pressure on prices.

New freight terminals

1998 was in many ways an historic year for SAS Cargo with substantial investments in new terminals. To strengthen its position on the North American market, SAS Cargo opened a new freight terminal in Newark, New York in January. A new freight terminal came into operation at Gardermoen in October and in December a new high-tech freight terminal of 27,000 m² was opened in Copenhagen. Capacity in Copenhagen is 350,000 tonnes of freight per year, which is some 50% more than in the old terminal. The expansion of terminal capacity has also been undertaken in consideration of the future increase in freight operations in cooperation with partners.

Future prospects for SAS Cargo

It is expected that the development of the freight market will continue to be weak during 1999. Competition has increased while at the same time a large share of the freight capacity to Asia has moved to the North Atlantic, where prices have been forced down through overcapacity. Partnerships with forwarders and other airlines are therefore an important factor in strengthening SAS Cargo's competitiveness.

Key data for SAS Cargo, 1998

	1998	Change in % compared with 1997
Revenues, MSEK	2,053	1.2
Flown tonnes	279,927	0.4
Tonne kilometers (000s)	876,848	3.3
Cargo Yield, SEK/tonne km	2.26	-0.6

Freight and mail traffic, 1998

	Freight		Mail	
	Million tonne km	Change, in %, 1997	Million tonne km	Change, in %, 1997
Intercontinental	739,360	3.9	24,055	-7.4
Europe	51,995	-7.4	13,762	-3.9
Intra-Scandinavian	21,861	5.0	1,577	3.0
Total International	813,216	3.1	39,394	-5.8
Denmark	7,500	1.1	1,594	-29.2
Norway	6,229	-5.1	6,793	4.9
Sweden	2,122	-6.5	0	0
Total Domestic	15,851	-2.5	8,387	-3.9
Total	829,067	3.0	47,781	-5.5

Operational key figures, ten year review

Traffic/Production	1998	1997	1996	1995	1994	1993	1992 ¹	1991	1990	1989
Number of cities served	101	98	101	100	102	104	98	82	85	81
Number of flights, scheduled	328,327	320,410	309,636	295,028	297,688	314,940	*	*	*	*
Kilometers flown, scheduled (millions)	251.9	244.3	235.7	218.5	217.2	225.6	202.9	190.7	188.4	169.4
Total airborne hours, scheduled (000s)	403.6	390.4	375.5	352.6	350.2	367.9	326.0	286.6	298.3	268.3
Number of passengers carried, total (000s) ²	21,699	20,797	19,828	18,835	18,823	18,619	16,808	13,949	14,962	14,005
Available tonne kilometers, total (millions)	4,501.1	4,346.0	4,130.8	3,586.2	3,514.0	3,576.4	3,389.8	3,074.4	3,278.4	3,060.4
Available tonne kilometers, scheduled	4,459.0	4,290.6	4,092.6	3,546.2	3,500.8	3,566.6	3,345.0	3,066.9	3,266.4	3,050.2
Available tonne kilometers, others	42.1	55.4	38.7	40.0	13.2	9.8	44.8	7.5	12.0	10.2
Revenue tonne km, scheduled (millions)	2,680.0	2,571.5	2,392.2	2,172.7	2,163.2	2,106.9	1,929.9	1,847.2	2,002.9	1,876.5
Passengers and excess baggage	1,877.1	1,827.7	1,754.6	1,670.4	1,666.8	1,637.3	1,488.0	1,394.5	1,514.5	1,396.0
Freight	755.7	693.7	590.4	452.8	445.9	420.4	391.7	406.4	429.8	423.1
Mail	47.2	50.1	48.2	49.5	50.5	49.2	50.2	46.3	58.6	57.4
Total load factor, scheduled (%)	60.1	59.9	58.5	61.3	61.8	59.1	57.7	60.2	61.3	61.5
Available seat km, scheduled (millions) ²	31,766	31,333	30,646	28,447	28,154	28,581	26,396	24,317	25,475	23,320
Revenue seat km, scheduled (millions) ²	20,883	20,339	19,487	18,506	18,466	18,138	16,554	15,416	16,493	15,229
Cabin factor, scheduled (%)	65.7	64.9	63.6	65.1	65.6	63.5	62.7	63.4	64.7	65.3
Business Class, share of revenue seat km (%)	31.0	31.7	31.5	32.0	30.7	28.7	27.5	31.9	20.1	17.3
Average passenger trip length (km)	971	986	990	989	983	976	990	1,108	1,102	1,087
Traffic revenue/Revenue tonne km (SEK)	11.90	11.94	11.77	12.91	12.07	11.24	10.48	10.52	9.26	8.82
Passenger revenue/Revenue passenger km, scheduled (SEK)	1.35	1.34	1.31	1.39	1.29	1.21	1.06	1.10	*	*
Airline operating expense/Available tonne km, scheduled (SEK)	7.17	6.73	6.53	7.17	7.21	6.69	6.18	6.22	*	*
Revenue tonne km/Employee, scheduled (000s)	127.6	129.4	119.6	119.1	115.9	108.4	93.5	99.3	99.0	90.0
Revenue passenger km/Employee, scheduled (000s)	994.1	1,023.6	1,025.9	1,014.0	989.5	933.1	802.0	828.8	815.3	730.4
Fuel price (cents/gallon)	66	75	78	67	66	71	76	82	90	66
Punctuality (% within 15 minutes)	82.7	88.0	87.8	87.6	91.3	90.0	90.6	91.5	89.4	88.2
Regularity (%)	98.1	99.0	98.7	97.5	98.7	98.7	99.0	99.2	98.4	98.5
Break-even load factors (%)										
SAS	60.3	56.4	55.5	55.5	59.7	59.5	61.6	61.8	63.7	62.4
AEA	*	64.8	64.0	63.9	65.7	65.5	63.8	62.8	66.6	64.7
IATA	*	61.1	60.8	59.5	61.0	61.8	61.0	62.3	61.5	60.7
US Majors ²	*	53.1	53.7	52.2	54.6	53.5	56.0	55.8	55.8	53.8

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

² Including other traffic/production.

* Figures not available.

For definitions, see page 112.



Business concept and goals

Overall goals

The overall goal of SAS is satisfied customers and a competitive growth in shareholder value.

Customer goal

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

The quality goal

In relation to basic quality SAS has set the toughest goal in the airline industry. Things should always run smoothly when travelling with SAS.

The personnel goal

The personnel goal is that all the positive resources of employees should be released.

Strategies for increased profitability

The SAS financial goal is 12% return on capital employed, calculated as an average over a business cycle.

“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.”

SAS's goals

Overall goal

The overall goal of SAS is satisfied customers and a competitive development of the value to shareholders. This has been broken down into two parts, one of which relates to shareholder returns and the other to the financial development of SAS.

The SAS goal for shareholder returns is 14% on the annual rise in share price plus dividend, calculated as an average over a business cycle. SAS's financial goal is an average 12% return on capital employed over a business cycle. This goal is dealt with in more detail on page 36.

Customer goal

The SAS customer goal is that all customers shall want to travel with SAS again.

Inclination to repurchase – the expressed intention of customers to travel with SAS again – is measured on an annual basis against an index. This index has risen from 75 to 80 during the period 1996-1998.

The Customer Satisfaction Index (CSI) measures how SAS is perceived and assessed by its customers. The measurement indicates how satisfied customers are with SAS, to what extent SAS is perceived to fulfil customers' expectations and how close to/far from the "ideal" airline SAS is considered to be.

CSI is an index with a maximum value of 100. The method provides SAS with key figures for customer satisfaction totally and in respect of important performance areas. SAS thus gains a clear indication of where special efforts need to be applied.

The factors of greatest significance for customer satisfaction are:

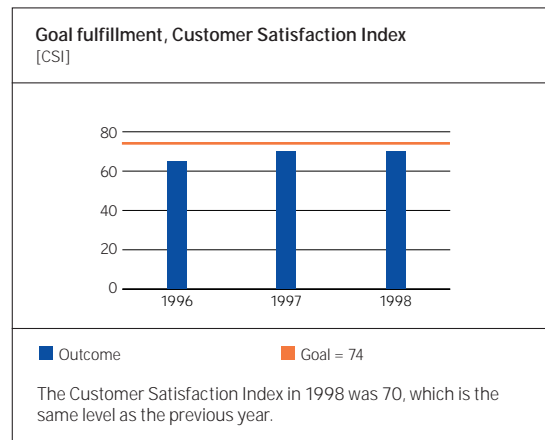
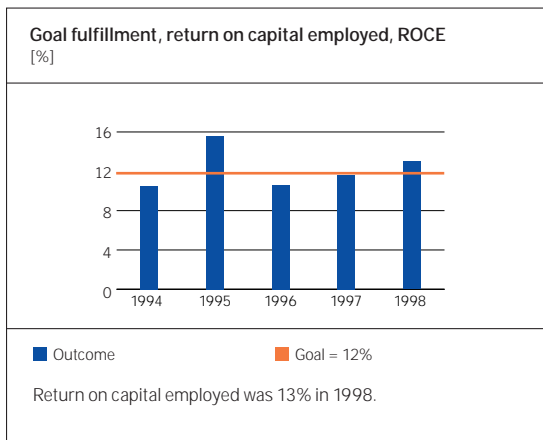
- friendly treatment and efficient service
- punctuality and regularity
- quality and coverage in the traffic system.

The CSI measurements commenced in 1996. The goal for 1998 was 74 and the result 70 (70). For 1999 the goal is again set at 74. To ensure a steady increase in customer satisfaction, SAS concentrates on two main areas. These are basic quality – "things should always run smoothly on SAS", and service products – "travelling with SAS should always be a pleasure."

The SAS quality goal

In relation to basic quality SAS has set the toughest goal in the airline industry. It should, however, be stated that several of SAS's internal goals in relation to quality were not achieved during 1998. This was partly due to the conflict on the Danish labor market during April and May, the strike of air traffic control personnel in Norway in June, the industrial dispute involving air traffic control personnel in Sweden in September, the opening of Oslo's new airport, Gardermoen, and the restructuring of airways in Scandinavia during October 1998. The two latter factors in particular led to problems in production and a shortage of aircraft capacity and flight crew as a result.

In addition, the air space above Europe is still crowded and there is a shortage of capacity at Europe's major airports. This is a structural problem affecting the entire industry and affects all airlines, which means that in gen-



eral SAS has a level of punctuality that ranks with the best in Europe.

Despite the lack of achievement of goals, SAS was one of Europe's most punctual airlines during 1998. This illustrates one of the most serious problems in the airline industry at present. Customers consider punctuality to be a very important factor in relation to basic quality but the airlines are unable to meet these demands.

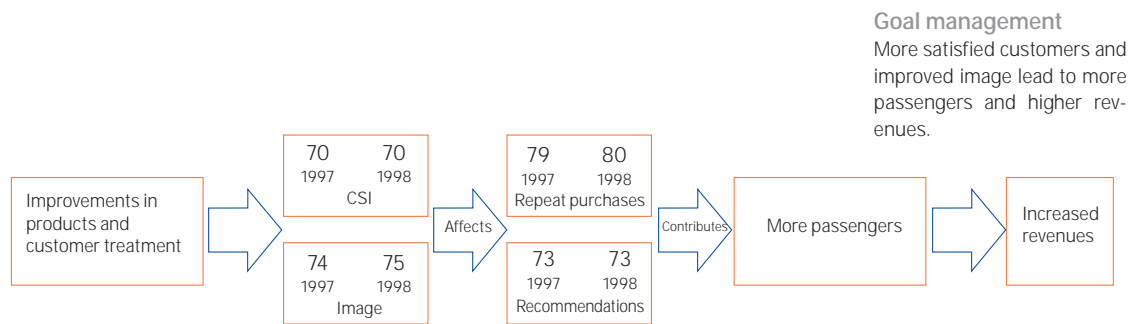
Personnel goal

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.

The personnel concept is based on the conviction that employees are the Company's main competitive resource through their skills, creativity, ability and will to deliver

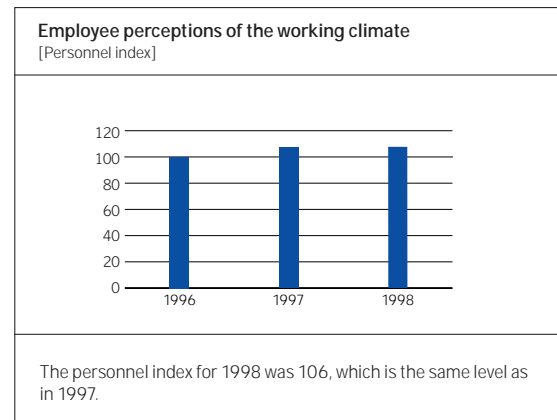
service to the customer in accordance with the customer's own desires.

Employees express their opinion of the working climate in an annual survey called PULS. The base year of the index in the survey is 1996. The index for 1998 was 106, the same level as the previous year. The explanation for this is that 1998 has been characterized by numerous difficulties that have influenced the working conditions of employees and thereby performance. These difficulties include the major industrial disputes in Scandinavia, problems in connection with the introduction of new airways and problems associated with the opening of new airports.



SAS's quality goals

	1998	1997	Goal
No accidents or serious incidents	0	0	0
Cancelled flights	2%	1%	max. 1%
Flights delayed more than 15 minutes	17%	12%	max. 7%
Flights delayed more than 2 minutes	44%	36%	max. 25%
Proportion of customers who have to wait for an answer in SAS's telephone reservations so long that the call is lost	23%	10%	max. 5%



Strategies for increased profitability

Profitability goal

SAS's financial goal is 12% return on capital employed, calculated as an average over a business cycle.

During the period 1994–98, the average rate of return was 12.3%, with 10.5% as the lowest in 1994, and 15.6% as the highest in 1995. The goal was thus achieved. A dampening in the growth rate was noted in 1998, which could indicate a break in the positive demand trend. Since the air travel industry lies early in the business cycle, this could be a sign of an economic downturn. It is too early to say anything about the breadth and depth of this downturn.

The trend in the rate of return shows that SAS must find a way to correct imbalances in the relationship between revenues and costs. Some of these imbalances are structural and are shared with the entire industry. Others are specific for SAS and are related to the traffic network, the balance between full-fare and discount tickets, the unit cost and the flight distances.

Yield/unit cost

SAS's route network has been developed to satisfy the needs of Scandinavian travelers for efficient air transport. As a result, compared with most European airline companies, SAS has:

- shorter average flight distances with more take-offs and landings
- a higher proportion of full-fare passengers, and
- a strong concentration of traffic to morning and evening peaks.

The short average flight distance affects the yield, i.e. the revenue per revenue passenger kilometer, and the unit cost, which is the cost per available seat kilometer.

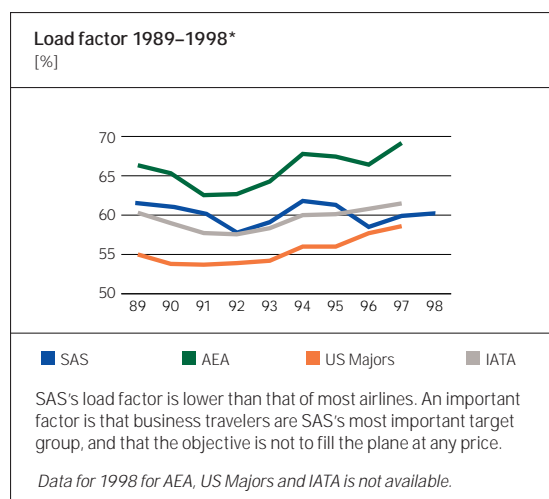
SAS's average flight distance in the European traffic system was 725 km during 1997, compared with about 860 km for the European traffic of European airlines.

Compared with the industry as a whole, SAS has a high yield. This is due to such factors as fare levels and fare structures, the competitive situation, the development of the route network, currency exchange rates, and the trend of travel in business versus tourist class. Most of these factors can be influenced, and SAS's successes are therefore the result of advanced yield management.

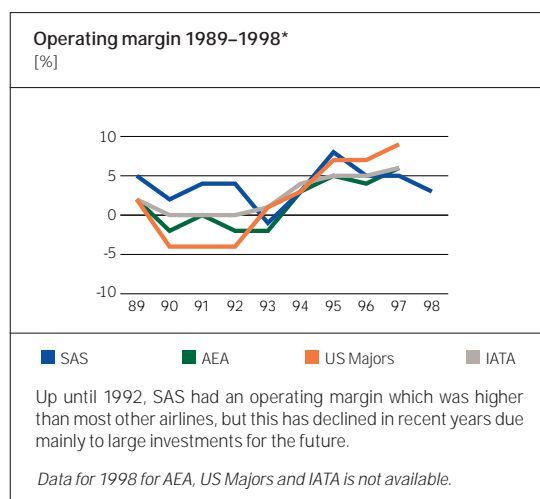
At the same time, SAS has a higher unit cost, mainly attributable to short average distances, but also in some measure to a higher average salary level in combination with shorter employment periods. The high proportion of full-fare passengers also requires a high level of service, which is reflected in the cost level.

The average yield is not expected to increase to the desired degree in the future. The profitability goal will therefore be met primarily through lower costs and more efficient aircraft with a lower cost per seat kilometer. SAS must therefore concentrate on raising productivity in order to improve profitability.

Furthermore, SAS is making considerable investments in new equipment, leading to higher capital costs and making higher demands on gross margin. On the other hand, capacity is increasing, allowing room for higher revenues provided SAS can improve its market positions.



* Definitions see page 112.



Most of SAS's change program, SAS 2000+, is therefore being concentrated on measures to increase the number of travelers and thereby the yield from each flight. A description of the change program SAS 2000+ is found on page 43.

Cabin factor

SAS's cabin factor is lower than that of most of its competitors in Europe on the European routes. This is also a consequence of the strategy of focusing on the business travel segment. Business travel has its peaks in the morning and evening and on weekdays. Many flights go at other times of the day and need to be filled. This is done by means of differentiated pricing. In early 1998, SAS introduced a new concept for leisure travel, SAS Pleasure, the purpose of which is to help SAS strengthen its position on the market and increase its total revenues.

SAS's cabin factor is very high on the intercontinental routes, and the operation is currently suffering from a shortage of capacity. This has led to an improved relationship between yield and unit cost, since SAS has not had to discount tickets to the same extent as before.

Trend in 1998

Yield remained at the previous year's level during 1998, while the net unit cost rose by 0.4%, adjusted for currency effects. At the same time, productivity fell by 3.7%, which reinforced the earlier negative trend in this respect.

Earnings for 1998 were affected by a number of structural changes and temporary problems. These included:

- labor market conflicts in Denmark and Norway
- the opening of Oslo's new airport Gardermoen, and the transfer of traffic from Fornebu, which required a reduction of traffic during the transition

- a new passenger terminal in Copenhagen and new freight terminals in Copenhagen and Oslo also led to traffic disruptions
- the introduction of the new aircraft type Boeing 737 required considerable training activities, causing temporary manpower shortages
- the introduction of new airways over Scandinavia led to large temporary traffic problems.

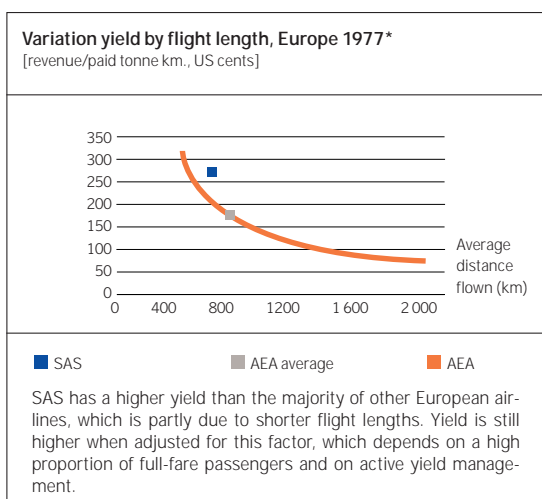
Altogether, these disruptions gave rise to costs of about MSEK 800.

Improvement program

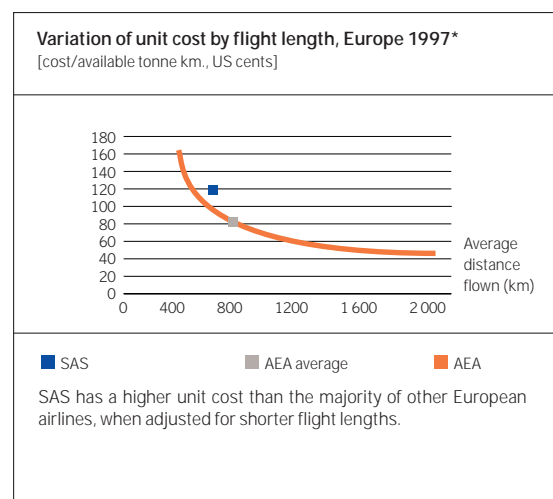
The airline industry is entering a period characterized by great uncertainty regarding the prospects for development of traffic and revenues in the next few years. During the second half of 1998, SAS has noted a general downturn in economic conditions and falling demand in the business travel segment. This trend can be expected to continue during 1999 and contribute towards continued downward pressure on yield.

In response to these problems, SAS is pursuing a restructuring and improvement program. The improvement program will, over a two-year period (1999 and 2000), result in cost improvements representing savings of MSEK 3,000. The goal of this program is to improve profitability by three percentage points in the gross margin equivalent to an improvement in net income of MSEK 1,200.

The program is based on gap analyses and benchmarks and will strengthen competitiveness in every part of the operation. Restructuring efforts will continue within the distribution and sales channels, which will greatly improve earnings. The improvement program is aimed at strengthening the rate of return to a level considered necessary and competitive.



* Definitions see page 112.



Scandinavian

Scandinavian

WARNING
STAND CLEAR OF
HAZARD AREAS WHILE
ENGINE IS RUNNING



SAS 2000+

SAS and the environment

SAS was the first airline to lift environmental efforts up to top management level and make them a question of strategy.

The program of change, 2000+

A new identity, new design and new aircraft.

Customer treatment

The process of change is based on the customer and the customer's needs in connection with travel.

A key role for employees

The important factors are the approach to working duties and the relationship with customers.

"SAS 2000+ is a program of radical change intended to strengthen the competitiveness and profitability of SAS. The program is based on the requirements and needs that SAS has identified in relation to future travelers and involves all functions within the SAS organization and all employees of SAS around the world."

SAS and the environment

Growing impact on income and expenses

The airline industry's strong expansion shows that society highly values the benefits of air transport. But one imperative condition for growth is that the industry works closely with the rest of society to deal with environmental problems. SAS's vision is to be a forerunner in finding a place for the airline industry in society's striving for environmentally sustainable development.

Since we began working according to the environmental strategy which was adopted in 1995, we have seen tangible positive effects on our business position. Costs are falling as we successively reduce our use of raw materials, energy consumption and waste volumes. Well managed environmental activities create opportunities to boost revenue now that environmental considerations have become an important aspect of the customer's purchasing behavior.

Environmental charges account for a growing share of operating expenses – 2.3% of turnover in 1998 – at the same time that environmentally related traffic restrictions are increasingly stringent. SAS is prepared to pay for the share of environmental impact its operations create, according to the Polluter Pays Principle, on the condition that other types of transport also bear their costs for environmental impact, infrastructure, accidents and land use. SAS is active in both national and international forums to create a framework of long-term predictable and competitively neutral conditions.

SAS's total environmental charges and taxes in 1998 amounted to MSEK 872 (532), an increase of 64%. This increase is attributable to the new passenger charge in Denmark of MSEK 215, the new emissions charge in Sweden of MSEK 49 and a higher environmentally related seat charge in Norway which led to a cost increase of MSEK 126.

Environmental impact

SAS's overall ecoefficiency is measured by a weighted environmental index using 1994 as the base year. In 1998 this index improved from 104 to 105.

The ecoefficiency of *flight operations* is largely equal to the environmental index for total SAS. In 1998 SAS's fuel consumption and emissions were unchanged compared with 1997 measured in both RPK and RTK. Expressed in absolute figures, fuel consumption and emissions increased as a result of higher production. The phase-in of new aircraft which was started in autumn 1998 is anticipated to show lower emission levels for nitrogen oxides and carbon dioxide in 1999. The environmental investment in

specialized engines amounts to approx. MSEK 5 per aircraft, allowing for a favorable position in countries which have nitrogen oxide-based environmental charges.

The proportion of Chapter II aircraft in SAS's fleet fell during the year from 12% to 11%. In the winter program for 1999/2000 SAS will phase out the remaining Chapter II aircraft and will have thus fulfilled the EU noise requirements well ahead of the deadline on April 1, 2002.

The environmental index for *cabin operations* improved during 1998 by two units, from 108 to 110. SAS's goal for cabin operations by the year 2001 is to reduce energy and water consumption per meal served by 20% and waste volumes per meal served by 30% compared with 1997. SAS's assessment based on the progress made in 1998 is that this goal will be reached within the stipulated time period.

In 1998 the environmental index for *ground operations* deteriorated to 121 (126), but is still above the 1996 index (107). The goal in ground operations is to reduce energy consumption per m² for electricity and heating by 10% compared with 1997. Although this goal was exceeded in 1998, due to SAS's move to Oslo's new airport the underlying data is uncertain and SAS prefers to wait a year before considering the goal to have been met.

1998 saw the completion of several large-scale construction projects in which SAS has had high demands on environmental adaptations. At Oslo's new Gardermoen Airport, SAS has built its own premises covering over 90,000 m², for which the total investment included an environmental investment of approx. MSEK 25. During the year SAS inaugurated its new cargo terminal in Copenhagen, where environmental investments are estimated at MSEK 20–30.

Replacement and upgrading of materials are governed by stringent environmental requirements, an ambition to changes in scheduled maintenance to save money and resources, and a policy to seek opportunities for reuse of all replaced materials.

Infringements, incidents and disputes

In 1998, SAS complied with all applicable concession stipulations for operations.

Six environmentally related incidents occurred during the year. SAS fulfilled its responsibilities in connection with these, which did not lead to any significant cost for the company.

Three environmentally related disputes arose during the year.

- The Danish Civil Aviation Authority's 1997 complaint against SAS for suspected infringement of local

regulations on use of jet engines for braking during landing on some 15 occasions is under legal investigation. The case may come up in spring 1999.

- In 1997 a ban was imposed on landing with Chapter II aircraft at the new airport in Karlstad. SAS reported the ban to the EC, since the restriction was implemented before the EU ban goes into effect on April 1, 2002. The EU has ordered the Swedish government to comply with the EU Community law and revoke the ban by March 1999 at the latest.
- SAS is in disagreement with the previous airport operator with regard to decontamination of land at Copenhagen Airport, where SAS has built a new component workshop. The dispute, which involves costs of MSEK 16, is expected to be resolved during spring 1999.

SAS's insurance covers the company's liability for environmental impact in the event of accidents and sudden occurrences. SAS has contingency plans for crashes, accidents and incidents which could lead to contamination, in certain cases in collaboration with the airport operator. SAS conducts operations and carries out systematic maintenance in order to prevent and limit risks for contamination.

Changes in environmental charges, taxes and regulations

The general trend is towards rising environmental charges and taxes and more stringent related traffic restrictions.

In Scandinavia the environmentally related taxes and charges remain at the same level in 1999 as in 1998. However, one new factor is the CO₂ charge imposed by Norway on January 1, 1999. It initially applied to both international and domestic flights, which is contrary to ICAO guidelines and Scandinavian civil aviation agreements with other countries. The charge was quickly revised to apply only to domestic traffic. It is a combined sulfur and CO₂ charge of SEK 0.30 plus VAT per liter. There is some uncertainty about what the elimination of CO₂ fuel tax on international routes will mean. The government's expressed opinion is that the state treasury must be compensated for the loss of approx. MSEK 80 through increases in other taxes/charges on flight traffic. The differentiated Norwegian seat charge is being reviewed by Efta's regulatory authority ESA, as it is not allowed to have different charges on international and domestic flights.

In Sweden, the 3% discount on the noise charge for

Chapter III aircraft is expected to be eliminated in the near future, by 2002 at the latest.

The EU's efforts to adapt the so-called mineral oil directive could result in the imposition of environmental charges on aviation fuel. This could lead to extra costs for all large airlines in the range of several hundred million crowns, unless the entire system of taxes and charges is redistributed.

The ECAC is formulating a proposal for noise classification of Chapter III aircraft to be used at airports which apply noise-related charges. This could have consequences for SAS's MD-80s. In the short term other environmental charges could also lead to impaired flexibility and rising costs, and could adversely affect the resale value in parts of the SAS fleet.

The ICAO is working on altered certification requirements and guidelines for taxes and charges. There is some uncertainty as to whether this will have any significance for SAS.

Environmentally related income and/or cost reductions

[MSEK]	1998	1997	1996
Reduced landing charges through the phase-out of Chapter II aircraft	appr. 11	appr. 25	-
Reduction in costs through decreased volumes, improved waste management and increased recycling	8	15	14-19

Environmentally related charges and taxes

[MSEK]	1998	1997	1996
Passenger charge (Denmark)	215	-	-
Seat and passenger charge (Norway)	601	475	469
Environmental charge on emissions (Swedish domestic)	49	-	116
Noise charges	7	6.5	15

Environmentally related investments and costs

[MSEK]	1998	1997	1996
Boeing 737-600	40	-	-
Extra cost for use of remaining Chapter II aircraft	39	50	-
Investments and costs in construction and ground operations – environmentally related share	72	25	5
Management of waste and hazardous waste, operation of waste treatment plants and oil separators, etc. – environmentally related share	19	17	10-20
Environmental report, environmental profiling, environmental sponsorship	3	3	3

Due to lack of space for definitions, explanations and limitations, see the notes in the separate Environmental Report for 1998.

The AEA is drawing up binding environmental goals which could eventually be incorporated into negotiatory agreements with the authorities. These goals should be within the limits of what we have already achieved.

Trading in emissions quotas is undergoing rapid international development. SAS is following this process and believes that such a system could have consequences for the industry. This could be in line with SAS's espousal of the Polluter Pays Principle, depending on how the system is structured.

The introduction of special rules for night flights at Gardermoen which differentiate between various Chapter III aircraft types is contrary to ICAO principles. SAS believes that this may have a prejudicial effect for other airports in SAS's traffic system.

At its meeting in March 1999, the EU Council of Ministers is expected to make a decision to stop EU registration of hushkitted aircraft after April 1, 1999, and to impose a ban on traffic after April 1, 2002. For SAS this will have no immediate consequences since the previously hushkitted DC-9s have been sold and leased back. All aircraft which are affected by the decision will be phased out before this deadline. The ban on operation of hushkitted aircraft is contrary to ICAO guidelines and indicates that the EU is not awaiting widespread consensus in this matter.

The EU directive on stricter requirements for nitrogen oxide emissions from new engines is not expected to have any significance for SAS's planned aircraft fleet.

Circumstances after the opening of Oslo's new Gardermoen Airport indicate that limitations on deicing of both aircraft (glycol) and runways (acetate) can be expected. This could lead to lower capacity and restricted use of the runway system. Future modifications to prevent leakage into the ground water are anticipated.

In 1998 the EC presented a "white paper" on responsibility for environmental damage. The report contains the proposals anticipated by SAS regarding the Polluter Pays Principle. However, since Scandinavian legislation already incorporates requirements of this type, the white paper will not entail any change for SAS.

The UN's Intergovernmental Panel on Climate Change, the IPCC, will present its report in April 1999. On its own initiative, air transport will be the first industry to undergo special examination. The document will carry substantial weight in the debate on air transport and the environment, and can be influential for the formulation of environmentally related taxes and charges.

Based on SAS's knowledge, no other changes in environmental regulations, such as concessions, permits and dispensations, are expected to be of significance for the company's operations.

Development of environmental management

One cornerstone of SAS's operational control is for management systems to be fully integrated. In our experience, companies that conduct environmental improvement processes as isolated phenomena run a major risk of failure. Every SAS manager with decision-making and budget responsibility is obligated to include an environmental assessment in decision data.

In 1998 SAS conducted a number of pilot studies to facilitate the Group's development of a certifiable environmental management system. During the year SAS's central environmental department was reinforced with an Environmental Advisor, with special responsibility for the environmental management system.

SAS's Environmental Report for 1997 was voted as the year's best by both Företagsekonomiska Institutet and the weekly business magazine Affärsvärlden, and received honorable mention in the corresponding Norwegian evaluation. In Deloitte & Touche's ranking of Swedish environmental reports, SAS received the year's highest points.

Additional information about the development of SAS's environmental impact, activities and their effects on financial results is provided in a separate environmental report for 1998, in the environmental section of SAS Internet site (www.sas.se) and in special brochures which are directed to a variety of target groups, such as suppliers and the general public.

Key statistics

	1998	1997	1996	1995	1994
Environmental index [higher index = better ecoefficiency]	105	104	100	98	100
Share of Chapter III aircraft [%]	89	88	81	71	67
Fuel efficiency [kg/100 RPK]	6,2	6,2	6,1	5,8	5,8
Cabin factor [%] ²	65,7	64,9	63,6	65,0	65,5
Emissions of carbon dioxide (CO ₂) [1,000 tonnes]	4,167	4,021	3,815	3,528	3,397
[g/RTK]	1,510	1,517	1,540	1,559	1,540
Emissions of nitrogen oxide (NO _x) [1,000 tonnes]	15,3	14,8	14,4	13,4	- ¹
[g/RTK]	5,6	5,6	5,8	6,0	- ¹
Packaging in cabin operations [g/passenger]	53	58	59	60	- ¹
Newspapers/magazines in cabin operations [g/passenger]	225	210	239	222	- ¹
Collected [tonnes]	1,351	1,573	1,038	- ¹	- ¹
Proportion collected [%]	28	36	22	- ¹	- ¹
Energy efficiency in managed facilities [kWh/m ²]	354	409	452	458	- ¹
Environmentally related taxes and charges [MSEK]	appr. 872	appr. 532	appr. 600	appr. 480	appr. 200
Environmentally related taxes and charges in relation to turnover [%]	2,3	1,4	1,8	1,4	0,6
Income in relation to CO ₂ -emissions [SEK/tonne]	620	510	460	730	130

¹ Data not available.

² Includes paying passengers over a certain payment limit ("revenue passenger"). The total number of passengers is approximately 9% higher. Including all passengers, SAS's cabin factor for 1998 is 71.7%.

The program of change, SAS 2000+

SAS 2000+ is a program of radical change designed to strengthen SAS's competitiveness and profitability into the new century. Carrying out major changes in the airline is complicated by the fact that the business is largely driven by functions and systems – necessary since flight operations must be conducted with the the highest possible safety standards in a technically advanced environment. The business is also extremely service-oriented.

The program penetrates all SAS functions and involves all employees around the world.

SAS 2000+ is based on the needs identified by SAS in relation to future travelers, mainly concerning better control over their travel and greater appreciation of the "soft" aspects of service before, during and after the journey.

SAS 2000+ also concerns the kind of relation SAS has with the traveler in everything from product development to introduction of new systems and routines. In SAS 2000+ the old systems-oriented process is replaced by one that is customer-oriented. This will take time to implement and requires a comprehensive change of attitude throughout the entire organization. Short term, it involves improved products, investments in training and a new corporate identity as the symbol for the process of change. In the long term these investments will give returns in the form of greater customer satisfaction and repurchase levels, increased market shares and greater efficiency throughout the organization.

New identity

The external identity of airlines is often associated with the design of the aircraft, lounge interiors, uniforms etc. The inner identity conveys feelings, values and culture. Previously the external symbols dominated the airline's image. Now there is a predominance of the "softer" values. It is in the contact between SAS employees and the customer that the product is created and consumed. This contact determines if SAS achieves its marketing and customer goals.

A new identity is the external manifestation that shows SAS has entered a period of change. The previous SAS identity dates from the 1980s and has come to symbolize the transformation from production orientation to market orientation with focus on the business traveler.

In the ensuing 15 or so years values, preferences and behavior in the marketplace have changed considerably. Each individual has more roles, especially as a traveler. One day a full-fare business traveler, then a tourist with a backpack. Knowledge and substance will be the watchwords of the new millennium.

The new identity of SAS takes inspiration from what is typically Scandinavian, meaning the common ground in relation to history, language, culture and lifestyle. There is a Scandinavian manner and behavior that SAS will emphasize.

The watchwords of the new design are:

- simplicity and unpretentiousness
- informal elegance
- hospitality
- the seasons.

The design reflects SAS's values and priorities: SAS cares, can be relied on, is assertive and professional. SAS stands for simplicity, freedom of choice and personal well-being, but also insists on absolute safety and punctuality. Against this background it is natural to let the aircraft exterior radiate security and technical expertise while the interior creates a feeling of intimacy, hospitality and warmth.

New design

In the spring of 1999 SAS employees will change uniform. The new design is adapted to functional and environmental requirements in line with the new identity. The Scandinavian influence dominates and the uniform differs in many ways from those of other airlines. It should be easy to identify an SAS employee.

New aircraft

The introduction of SAS's identity coincides with introduction of new aircraft on medium-haul routes. As of January 1, 1999, SAS has a firm order for 47 Boeing 737 aircraft and options on an additional 40. Deliveries began in autumn 1998 and the final aircraft will arrive in early 2003.

The new aircraft have wider and more comfortable seats with "wings" and adjustable footrest. A PC outlet is available for working onboard. Preparation has been made for sending faxes. The lavatories are larger with a more functional interior design.

The pilots will have access to state of the art electronic equipment; another confirmation of SAS' emphasis on maximum safety in flight operations.

The aircraft has a clear pro-environmental profile. SAS is the first airline to choose the Boeing 737 with DAC engines. These engines have twin combustion chambers, which drastically reduces emissions that impact the environment. The DAC engines represent an additional cost of more than MSEK 250 and are solely an investment in the environment.

Customer treatment

What benefits does SAS's process of change involve for customers?

The entire process is based on the customer and customer needs in connection with travel. This means that the customer experience will be related to the treatment they receive from SAS personnel through the entire journey and will be evaluated on the same basis. SAS defines good customer treatment as care, warmth and openness – as between friends. The concept “as between friends” embodies the keywords “individual”, “personal” and “informal”. The essence lies in the approach and attitude of employees, not the customer experience.

SAS's present situation with regard to the relationship with customers is that its strengths lie in the “hard” aspects of the service concept yet it still holds a somewhat dubious status in relation to the perceptions of the market. SAS's basic quality is perceived as lower than many of the competitors.

What does SAS want to achieve?

To improve customer satisfaction and increase the inclination to repurchase it is necessary for:

- SAS service to be experienced as having a quality at least on a par with the best competitors
- SAS to succeed in building an image combining Scandinavian service with the keywords individual, personal and informal
- SAS to gain more self-confident employees through clear goals, knowledge and improved tools.

Customer benefits lie in improved basic quality, in the product and its content, and in customer treatment.

The product

The process of change involves a number of new product features, large and small, that penetrate every phase of the travel process. It is important to establish that developing the range of products and services offered is a continuous process. This means that new elements are added and that others, which do not contribute towards enhancing the customer experience, are removed.

At the airport

SAS is working intensively to simplify procedures at the airport. These efforts include ticketless travel, new check-in routines, speedier flows through security control and automatic “turnstyles” at the gate.

The SAS Gate Café allows the business traveler to enjoy a bite to eat in a relaxed atmosphere while waiting for departure. Those who prefer to eat onboard can take the food and beverages with them.

Onboard

Individual service onboard will be further developed. This means greater freedom in relation to eating, sleeping, being entertained or working. This involves a number of details ranging from improved earphones, PC outlet and the possibility of making a telephone call and sending a fax, to a spectacles holder at each seat. All to make sure the customer feels welcome and at ease.

Food

It is the ambition of SAS that the meals served onboard should be something to look forward to. Together with leading Scandinavian chefs, SAS has created a new concept: Scandinavian World Cooking. High quality fresh ingredients, preferably of Scandinavian origin, combined with and inspired by the ethnic cuisine of other countries, creates tastier and healthier meals than before.

Lounges

SAS lounges for the business traveler will be given a facelift and adapted to the Scandinavian concept of informal elegance and well-being. The predominant features of the interior design will be natural materials, light colors and a warm, inviting atmosphere. The furniture and use of space will provide for seclusion or socializing, according to the traveler's own wishes.

The cabin

The cabin interior is based on the use of natural materials, in colors that harmonize with the Scandinavian countryside and nature. Blue, green and white are the base colors and the ambition is to change them in pace with the seasons.

Porcelain and cutlery

The design of the meal tray and its various components is another example of good Scandinavian design. Simplicity and modern materials in combination with functionality and elegance have created a user-friendly milieu for meals onboard.

Customer treatment

The development of customer treatment will be focused on six areas.

Attitude

First impressions are often decisive. The customer wants to be treated with respect. SAS employees must therefore create an atmosphere in which safety and security are vital but where warmth and the personal touch are always present.

Involvement

By putting themselves in the customer's situation and understanding the customer's problems, SAS employees will be able to take initiatives, try out ideas of their own and seek out the factors that can make the difference between a positive and less positive experience for the customer. This also involves communicating to the customer one's own knowledge of the various elements of travel. The more customers know about their journey, the greater the probability of them becoming satisfied.

Solution

An important task for the SAS employee is to solve problems customers might face during their travel. This is mainly a question of listening to the customer, identifying the problem and adapting the solution to the customer's situation.

Experience

The primary task of the SAS employee is to contribute towards the well-being and satisfaction of the customer. This means creating an informal and relaxed atmosphere, as personal as the situation and the customer permits. It is also important for employees to make their presence known to the customer. To show competence and pride when carrying out working duties and in contacts with the customer. This also means that the SAS employee must utilize every opportunity to enhance the customer experience and preferably exceed the customer's expectations.

Responsibility

The person who owns the problem should be responsible for solving it. This means that each SAS employee must be prepared to take responsibility for a customer situation and solve the actual problem.

Reflection

To develop and continuously improve the relationship with the customer requires continuous training of SAS employees. An important factor in this respect is that employees themselves reflect over their actions and the value they represent to the customer.

SAS guidelines for customer treatment



Area	Guideline
Attitude	I treat the customer with respect, friendliness and care.
Involvement	I understand and can relate to the customer's situation.
Solution	I solve the customer's problem.
Experience	I'll make sure the customer is satisfied and feels good.
Responsibility	I accept my responsibility in my contact with the customer.
Reflection	Did I do the right thing?

"... it isn't as forced on SAS as on foreign carriers where they have been told how they should be. On SAS things are more natural"

"... you are treated by some in the same way you yourself try to treat your friends, while others simply look on you as an unidentifiable person"

"... I think you must communicate with the customer, look at the customer and ask if he is enjoying the meal"

"... they treat everyone in the same way, a lot could be gained through more individualization"

"... it's better with honest information, even if it is negative information. I think they would gain by it"

Quotes from a customer focus group

Key role for employees

How does SAS intend to create a better work environment and more highly motivated employees, able to deliver better service to the customer?

SAS carries out annual surveys covering the well being and motivation of employees. These surveys are supplemented by personnel development dialogues, to discuss subjects such as recruitment, career planning, training and the content of working duties. The purpose of these efforts is to develop motivated employees, which is an important pre-condition for gaining satisfied customers.

The SAS 2000+ project started with an initial phase to gain the fundamental support and understanding of personnel. More than 20,000 employees participated in a number of whole and half-day meetings held during the spring 1998, at which personnel were split into groups of 50–100 persons to review and examine the entire change process.

This is the first time in the history of SAS that such a radical measure has been carried out prior to a major program of renewal. Previous launches during the 1980s were based on an element of surprise for both the customer and personnel. This time, on the other hand, the theme has been one of dialogue, mutual understanding and acceptance before the process is made public and launched in the market. Despite this openness towards so many employees, nothing was leaked publicly prior to the official launch on September 24, 1998.

Each of the messages are both harsh and optimistic.

Much of the work was devoted to bringing about changes in the SAS environment in order to create understanding for the necessary measures and the need for renewal. The point was also driven home that SAS's previous position as a leading airline in relation to basic quality and service was now severely threatened. The task is therefore to ensure that SAS regains its position as one of Europe's the most attractive airlines. SAS employees have a key role in this respect.

The initial phase has now been completed. During 1999, the execution phase will be set in motion. This phase largely concerns more clearly defining SAS products, the attitude of personnel to working duties and customer treatment. The visible attributes will be new uniforms and redesigned aircraft. It is, however, the responsibility of each individual employee to give the process content and substance.

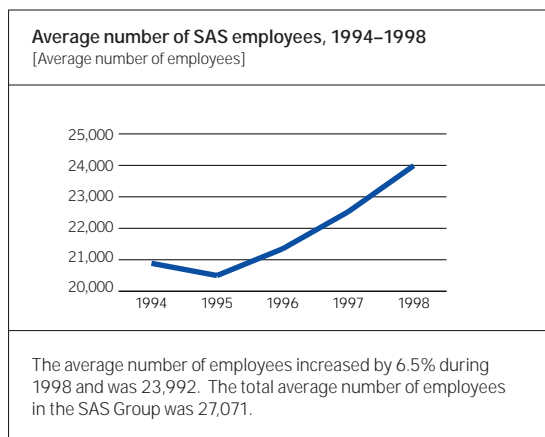
The execution phase is expected to take at least two years. This will be followed by a third phase, designed to maintain the level of involvement and motivation.

The surveys made by SAS in connection with the initial phase show that employees are very satisfied with the information they have received and the dialogue with their company on matters concerning the future.

SAS human resources policy

SAS's human resources policy is based on the idea that employees are the Company's main competitive edge.

Profitability and success in free competition are



Breakdown of average number of SAS employees, 1998

	%
Marketing & Sales Division	13.5
Operation Division	23.0
Station Services Division	24.6
Technical Division, including SAS Component	15.0
Business Systems Division excluding	
SAS Cargo and SAS Trading	2.7
SAS Cargo	4.9
SAS Trading	2.8
Staff functions	3.8
SAS subsidiaries	9.7

achieved through creative, involved employees and supportive leadership in an organization characterized by trust, the will to change and the ability to take advantage of opportunities and accept responsibility.

- *Trust* means that all relationships shall be based on honesty, loyalty, care, consideration and respect
- *Change* means a work environment characterized by an understanding for, an acceptance of, and the will to carry out continuous development
- *Possibilities* means creating the basic conditions for performing duties, influencing and improving the organization and developing one's own skills in harmony with the goals of the Company.
- *Responsibility* which every individual must accept for his/her own development and that of the Company.

SAS's human resources policy is in many respects built up around Scandinavian culture in relation to the labor market, which is based on a high and even level of training and a long tradition of co-determination.

Career

A number of sub-projects will be realized within the framework of the SAS 2000+ process. One concerns improved career planning, particularly for cabin personnel.

The average age of those who work in the cabin is 46 years, which is very high in an international context. Added to this, the fact that the principles applied with regard to seniority mean that the elder employees fly intercontinental routes that exert the highest strain on the body as a result of the constant change of time zone.

From 1998 a newly-created function exists with responsibility for the development of cabin personnel. This covers a variety of aspects ranging from improving internal communication to proper career planning aimed at making various career paths within SAS available to cabin personnel. Heavy emphasis will be placed on the purser's duties as a supervisor.

Redesigned training

Several of the SAS leadership programs are being fundamentally revised. The purpose of this is to be able to better coordinate and utilize Scandinavian know-how and skills. This covers everything from training courses for first-time leaders to advanced leadership programs. The focus is on SAS's customers and business activities. Another focus is on how SAS creates and develops an organization that is conducive to learning and utilizes the skills and abilities of all SAS employees to enable them to deliver the best possible service to our customers. In the longterm this will mean that training will be more flexible and adapted to the changed situations which will occur due to increased competition.

Employee turnover

Employee turnover in 1998 was 5.0 (6.4)% on a yearly basis. This is calculated as an average of the number of new recruits and the number of departing employees in relation to the total number of employees. During the summer half of the year, however, personnel turnover is much higher than in the winter half due to seasonal temporary recruitment.

Sick leave

%	1998	1997
Operational employees	6.6	6.6
Salaried employees	4.1	4.0
Cabin employees	8.3	7.6
Pilots	2.7	2.5
Total	5.3	5.2



SAS's assets

SAS's brand

The brand equity can be compared to an account in which the company, in its interaction with the market, makes deposits and withdrawals every day.

The aircraft fleet

At the end of the year, SAS had 64 aircraft on firm order. Their market value, including spare parts, was approximately USD 1.5 billion.

Risk management and creditworthiness

Because of its international and capital-intensive operations, the SAS Group is exposed to various types of financial risk.

"It is also the soft values which create and maintain the relationships between the company and its customers. These values may be regarded as a financial asset and are then referred to as brand equity."

SAS's brand

The hardware in the air transport product, i.e. aircraft, lounges, uniforms, meals, information systems etc., are becoming increasingly alike and easy to copy among major airlines with substantial resources. Alongside the development of the traffic system, it is the soft values which contribute to the confidence that individual airlines succeed in building up on their market. The soft values also create and maintain the relationships between the company and its customers. These values may be regarded as a financial asset and are then referred to as brand equity.

Brand equity structure

SAS's brand has been built up since SAS was formed over 50 years ago. The brand equity can be compared to an account in which the company, in its interaction with the market, makes deposits and withdrawals every day. The direct contact with the passengers leads to almost 220 million such deposits/withdrawals every year, based on 22 million passengers who are in contact with SAS's personnel on at least 10 occasions.

Brand equity consists of many components. In principle, they can be divided into four main groups.

Awareness

Public awareness of SAS in the Scandinavian countries is virtually 100%. In Sweden, SAS is the second strongest brand among service companies and the eighth among all companies. SAS occupies a similar position in Denmark and Norway.

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 building the brand. SAS's longstanding and excellent safety statistics constitute a stable platform for the brand.

In the 1998 survey of the SAS image among customers, their general opinion is unchanged compared with 1997.

There is a strong connection between image and perceived performance. The image affects the perception of the performance. This influence is known as positive or negative meta. Throughout most of the 1980s, SAS had a strong positive meta, i.e. the company's performance was perceived as considerably better than it was. During the 1990s the reverse applies. The goal is to improve the meta value so the perception of SAS's performance is in line with what SAS actually achieves.

SAS surveys confirm that the overall picture of SAS is fair-

ly positive. SAS is perceived as secure and safe, modern, innovative and open, inviting and informal. It is also perceived as somewhat dull and impersonal. It is these perceptions on which the process of change within SAS is based.

Perceived performance

The Satisfied Customer Index (SCI) is used to measure perceived performance. The SCI values have improved as regards punctuality, treatment by cabin crew, and traffic system.

Increased relationship depth

Satisfied customers develop preferences and loyalty. This reinforces positive attitudes, such as flying with SAS more frequently and recommending others to do so. The airlines' bonus programs are naturally an important aspect in their efforts to improve and maintain brand loyalty. For several years now, SAS's bonus program, EuroBonus, has been one of the top-rated programs in the world. There has been a substantial increase in customers' tendency to recommend the airline. This figure has risen from 65 when first measured in 1996 to 73 in 1998.

Brand concentration

Over the last 10-15 years, SAS has invested in a number of brands, e.g. Jackpot, EuroClass and EuroBonus. In 1998, SAS's communication strategy changed and SAS will now communicate with one voice and use one brand, SAS. This master brand strategy entails an organizational concentration on the SAS master brand and the values that SAS wishes to communicate. This concentration will create a clearer image of SAS in the minds of its customers.

As a consequence of this strategy, the classes on board the aircraft were changed during the year to SAS Business Class and SAS Economy Class. The name EuroClass Lounge was replaced by SAS Business Class Lounge and the RVC lounges will be called SAS Scandinavian Lounges.

Key data EuroBonus

	1998	1997
Total number of members	1,537,179	1,269,138
– of whom in Denmark	246,939	210,143
– of whom in Norway	480,641	376,246
– of whom in Sweden	333,692	280,110
– of whom internationally	475,907	402,639
Proportion of Gold members	3.9%	4.0%
Proportion of Silver members	10.7%	11.2%

The aircraft fleet

The development of the aircraft fleet in 1998

SAS's aircraft fleet increased by seven units in 1998, and included 185 aircraft at the end of the year. Twelve aircraft – ten 737s and two SAAB 2000s – were phased into the fleet, while five were phased out. One of the five aircraft phased out of the fleet was a leased DC-9-41 which was returned to its owner. The other four were aircraft which were sold after having been leased out for a long period. The aircraft that were sold and phased out of the fleet during the year were: one 767-200, one MD-83, one 737-500, and one SAAB 340.

Sale/leaseback transactions

Sale/leaseback transactions were made involving 26 aircraft in 1998. These aircraft were 20 DC-9-41s, four DC-9-21s, and two 767-300s. The DC-9-21 will have been phased out of the fleet by the end of 1999 or the first half of 2000. The phase-out of remaining DC-9-41s will begin at the end of 2000 according to current plans.

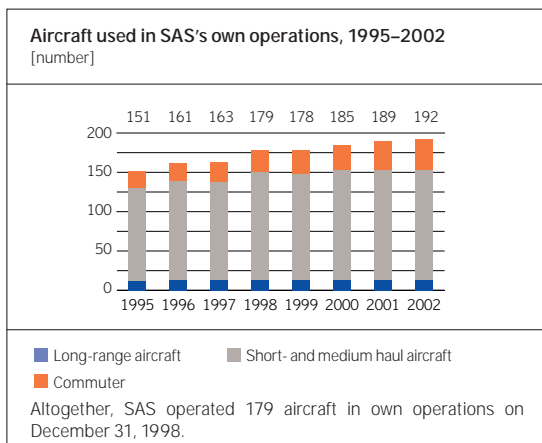
Owned, leased and leased out aircraft

A total of 30 aircraft were sold during the year (26 in sale/leaseback transactions), while eight were purchased.

The number of *aircraft owned* (including aircraft on financial leasing schemes) therefore decreased by 22 units net. In addition to the increased leasing in connection with sale/leaseback transactions, SAS also leased another two SAAB 2000s and two 737-300QCs during 1998. The increase in leased aircraft for the year was thus 29 units net. The *leasing out of aircraft* decreased from 14 to six units. In addition to the four leased out aircraft which were sold, leasing out also decreased when Reno Air returned four MD-82s to SAS.

Aircraft orders

In September 1995, SAS ordered 41 Boeing 737-600s. At the end of 1997, an option was taken up, and in the first half of 1998, the order was increased by another 13 aircraft. Before deliveries began, the order thus amounted to a total of 55 units. The first delivery of 737-600s took place in September, one month later than stipulated by the contract. According to the contract, Boeing was to deliver 10 aircraft during 1998, but production problems led to Boeing only being able to deliver eight aircraft during the year. Boeing has invested massive resources into catching up on the delay, and has advised



The aircraft fleet

	Owned ¹ Dec. 97	Owned ¹ Dec. 98	Leased ² in	Total Dec. 98	Leased out	Order
Boeing 747-200			1	1		
Boeing 767-300	7	5	10	15	1 ³	
Boeing 767-200	1	0		0		
Douglas MD-81	19	19		19		
Douglas MD-82	28	28		28		
Douglas MD-83	3	2		2		
Douglas MD-87	16	16	2	18		
Douglas MD-90-30	8	8		8		
Boeing 737-300QC			2	2		
Boeing 737-500	2	1		1	1 ⁴	
Boeing 737-600		8		8		36
Boeing 737-700						6
Boeing 737-800						5
Douglas DC-9-21	4	0	4	4		
Douglas DC-9-41	20	0	22	22		
Douglas DC-9-81			9	9		
Fokker F28	11	11	5	16		
Fokker F50	13	13	9	22		
deHavilland Q400						17
SAAB 2000			6	6		
SAAB 340	5	4		4	4 ⁵	
Total	137	115	70	185	6	64

¹ Including financial leasing ² Including operational leasing

³ Aeromexico ⁴ British Midland ⁵ Air Nelson

clients that there will be no further delays after the end of the first quarter of 1999 at the latest. At the end of the year, the number of 737 aircraft ordered was 47 units, and these will be delivered over the period 1999–2003. According to the contract, the final delivery will be in February 2003. The aircraft will primarily be used to replace the F28 and the DC-9. In addition to the aircraft ordered, SAS has options on 40 units.

On condition that a certain period of notice is observed, SAS has the right to convert its 737-600 orders to other 737 models. At the end of the year, six orders had been converted to 737-700s, and five to 737-800s.

SAS Commuter increased its order of deHavilland Q400s by two units in 1998. The 17 aircraft now on firm order will be delivered during 1999 and 2000. The first delivery is planned for October 1999, and the final delivery for September 2000. Passenger comfort will be considerably improved when these new 70-seater turbo-prop aircraft replace the F50. SAS also has options on 18 units and “purchase rights” on 18 units. The concept “purchase right” means that the commercial terms have been determined, but not the delivery time.

At the end of the year, SAS had 64 aircraft on firm order. The order value of these aircraft, including spare parts, was around USD 1.5 billion.

Current projects and studies

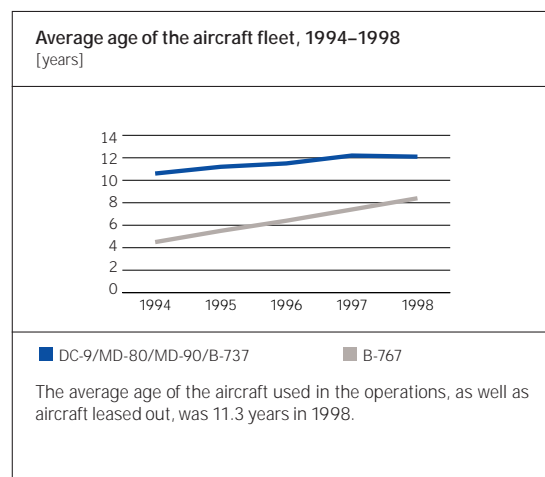
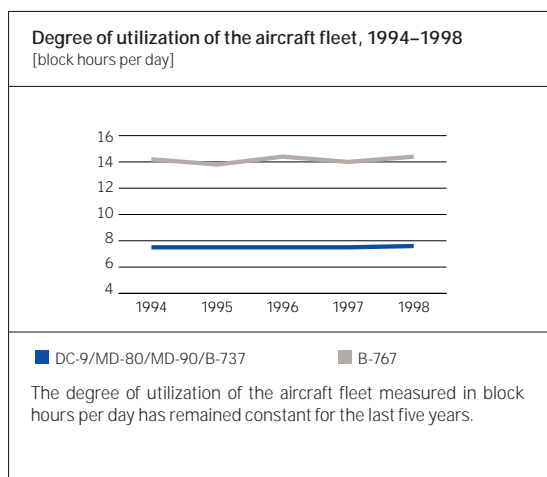
During 1998, extensive studies were made of how SAS’s intercontinental routes should be served in the future. A decision is expected during 1999 regarding the direction that SAS plans to take.

There is a need for a larger type of aircraft for short and medium-haul operation. The need is mainly apparent on SAS’s European routes, where today’s largest aircraft, the MD-90, has a capacity of 141 passengers. Another area which needs to be studied more closely is the need for a small jet with approximately 70 seats for long routes with low passenger volume.

Decreased environmental impact

At the turn of the year, there were 18 aircraft in SAS’s aircraft fleet which did not meet the noise requirements in “ICAO Chapter III”. Aircraft which do not meet these requirements may not be used inside the EU after April 1, 2002. During 1999, SAS will be phasing out these aircraft, i.e. 16 Fokker F28s, and two leased DC-9-41s. This measure will ensure that the entire SAS fleet then meets the noise requirements.

Despite the fact that the 737-600 is a new aircraft which meets all requirements with a healthy margin, SAS has taken steps to decrease its emissions of nitrogen oxides by around 40%. The investment in improved combustion chambers is worth almost USD 0.5 million per aircraft.



SAS aircraft fleet



Boeing 737-600

Number of aircraft: 8
 Number of seats (Europe): 91-103
 Number of seats (domestics): 116
 Max. take-off weight: 57.6 tonnes
 Max. load: 13.0 tonnes
 Length: 31.2 m
 Wing span: 34.3 m
 Cruising speed: 800 km/h
 Range: 1,900 km
 Fuel consumption: 0.045 litres/
 seat kilometre
 Engine: CFM56-7B



MD-87

Number of aircraft: 18
 Number of seats: SAS version 110-125
 Max. take-off weight: 61.2 tonnes
 Max. load: 14.8 tonnes
 Length: 39.8 m
 Wing span: 32.9 m
 Cruising speed: 815 km/h
 Range: 3,500 km
 Fuel consumption: 0.047 litres/
 seat kilometre
 Engine: P&W JT8D-217C



SAAB-2000

Number of aircraft: 6
 Number of seats: SAS version 47
 Max. take-off weight: 22.8 tonnes
 Max. load: 4.9 tonnes
 Length: 27.3 m
 Wing span: 24.8 m
 Cruising speed: 685 km/h
 Range: 1,600 km
 Fuel consumption: 0.051 litres/
 seat kilometre
 Engine: Allison AE2100A



Boeing 767-300

Number of aircraft: 14
 Number of seats: SAS version 188-242
 Max. take-off weight: 185 tonnes
 Max. load: 37.4 tonnes
 Length: 54.9 m
 Wing span: 47.6 m
 Cruising speed: 860 km/h
 Range: 10,500 km
 Fuel consumption: 0.038 litres/
 seat kilometre
 Engine: P&W 4060



DC-9-41/21

Number of aircraft: 22/4
 Number of seats: SAS version 105-122/75
 Max. take-off weight: 51,7/44.5 tonnes
 Max. load: 12.5/11.4 ton
 Length: 38.3/31.9 m
 Wing span: 28.5 m
 Cruising speed: 815 km/h
 Range: 2,600 km
 Fuel consumption: 0.054 litres/
 seat kilometre
 Engine: P&W JT8D-9/-11



Flying Cat

Number: 2
 Number of seats: SAS version 180
 Max. weight: 122.0 tonnes
 Max. load: 21.0 tonnes
 Length: 40.0 m
 Cruising speed: 34 kts
 Range: 12 h
 Engine: MTU diesel with water-jet
 propulsion



MD-90-30

Number of aircraft: 8
 Number of seats: SAS version 141
 Max. take-off weight: 70.8 tonnes
 Max. load: 16.0 tonnes
 Length: 46.5 m
 Wing span: 32.9 m
 Cruising speed: 815 km/h
 Range: 2,800 km
 Fuel consumption: 0.041 litres/
 seat kilometre
 Engine: IAE V2525-D5



F28 Mk 4000

Number of aircraft: 16
 Number of seats: SAS version 67-75
 Max. take-off weight: 33.1 tonnes
 Max. load: 11.0 tonnes
 Length: 29.6 m
 Wing span: 25.1 m
 Cruising speed: 700 km/h
 Range: 2,150 km
 Fuel consumption: 0.063 litres/
 seat kilometre
 Engine: RR SPEY 555-15 P



747-200 SF Cargo

Number of aircraft: 1
 Load volume: 740 m³
 Max. take-off weight: 378 tonnes
 Max. load: 100 tonnes
 Length: 70.5 m
 Wing span: 60 m
 Cruising speed: 920 km/h
 Range: 7,400 km
 Fuel consumption: 0.068 litres/seat
 kilometre
 Engine: General Electric CF6-50E2

MD-81/82/83

Number of aircraft: 19/28/2
 Number of seats: SAS version
 130-162/130-156/136
 Max. take-off weight: 63.5/67.8/72.6 tonnes
 Max. load: 14.6/17.1/16.4 tonnes
 Length: 45.1 m
 Wing span: 32.9 m
 Cruising speed: 815 km/h
 Range: 2,600/3,200/4,300 km
 Fuel consumption:
 0.045/0.047/0.045 litres/
 seat kilometre
 Engine: P&WJT8D-217C/-219

Fokker 50

Number of aircraft: 22
 Number of seats: SAS version 46-50
 Max. take-off weight: 20.8 tonne
 Max. load: 4.9 tonnes
 Length: 25.3 m
 Wing span: 29.0 m
 Cruising speed: 520 km/h
 Range: 1,400 km
 Fuel consumption: 0.038 litres/
 seat kilometre
 Engine: P&W 125 B

Risk management and credit ratings

Financial risk management

Due to its international and capital intensive operations, the SAS Group is exposed to various types of financial risks – currency risks, interest rate risks, credit risks and liquidity and borrowing risks. These risks are managed centrally by SAS Finance within the framework of a financial policy determined by the Board and designed as far as possible to control and steer the financial risks.

Currency risks

To decrease the currency risk, the currency composition of the liquid assets is matched with the interest-bearing gross debt.

The currency composition of the interest-bearing net debt is spread to match the currency composition of the net cash surplus from operations. The major net operational inflow currencies in 1998 were NOK, SEK, DEM, GBP, FIM, FRF and JPY.

The diagrams below provide an outline of how SAS's revenues and costs were distributed between the different currencies over the year, and of what the distribution would have been, based on a recalculation in EUR for the currencies which went over to EUR at the turn of the year. The introduction of EUR means that the number of currencies handled in 1999 will decrease, which means a smaller number of transactions with much larger average amounts.

The currency composition of the net debt is revised on an ongoing basis against rolling 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 and 90% of the anticipated flows in these currencies are hedged continuously using forward

contracts for the next 12 months. Hedging is conducted in proportion to surplus currencies.

A summary of the effect of exchange rate fluctuations on earnings is provided on page 62.

Interest-rate risks

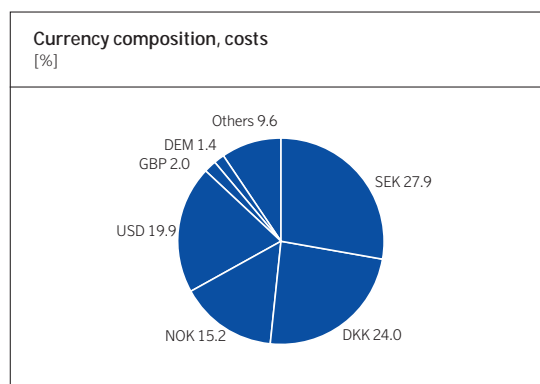
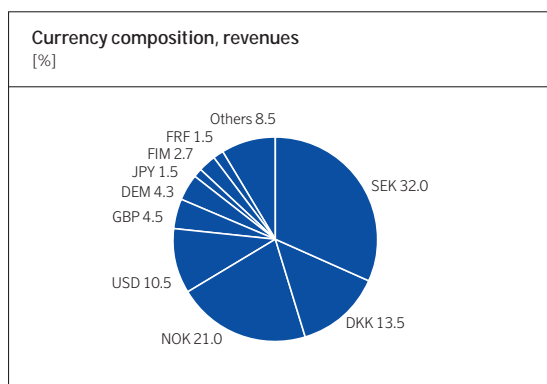
The interest-rate risk is controlled by matching the interest rate composition of liquid assets against interest-bearing gross liabilities.

The fixed-interest period on the net debt is kept between 1 and 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 1998, 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 counterparty failing to honour his part of the agreement. The size of the credit risk on investments is the nominal amount, and 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 limits are applied to each counterparty and these are continuously monitored and revised. There are ISDA agreements (a type of netting agreement) with most counterparties, which considerably reduces counterparty risks. Derivatives are mainly used to achieve the desired currency and interest-rate exposure on the net debt.



The Scandinavian currencies and USD are major revenue and expense currencies. On a net basis, NOK and SEK are the major inflow currencies and USD and DKK the major outflow currencies.

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. On December 31, 1998, the SAS Group's liquid assets amounted to MSEK 8,011 (9,817). 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 debenture

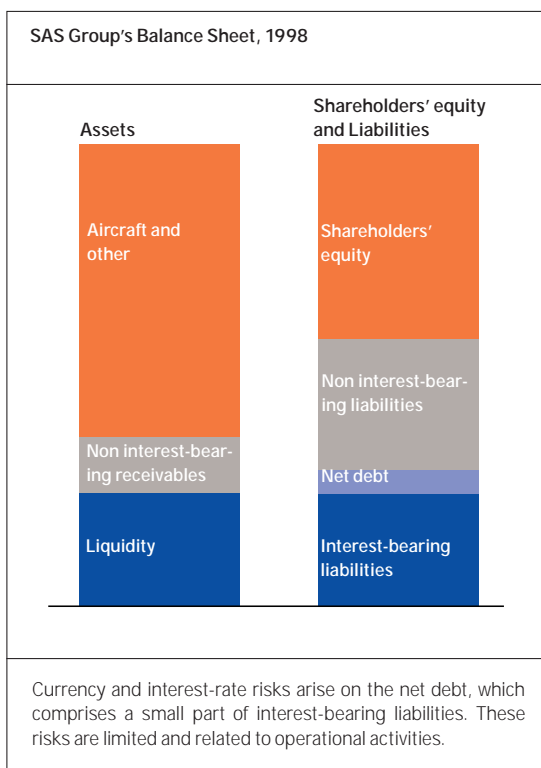
loans and financial leases. At the end of the year, the period to maturity for interest-bearing gross liabilities was approximately 3.5 years. On December 31, 1998, the SAS Group's interest-bearing liabilities amounted to MSEK 11,859 (12,108). A specification of long-term liabilities is provided in Notes 23–26 on page 75–76.

SAS increased its committed credit facilities during the year with a loan agreement from the European Investment Bank of MUSD 400. This facility can be used until the beginning of 2002 and allows loans with a maximum average period to maturity of up to 8 years.

Together with credit facilities previously granted, SAS has excellent liquidity reserves to meet future financing requirements. At the end of 1998, SAS had total unutilized committed credit facilities of MUSD 1,350.

Creditworthiness

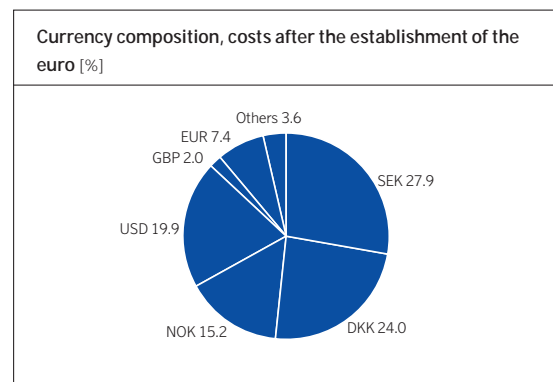
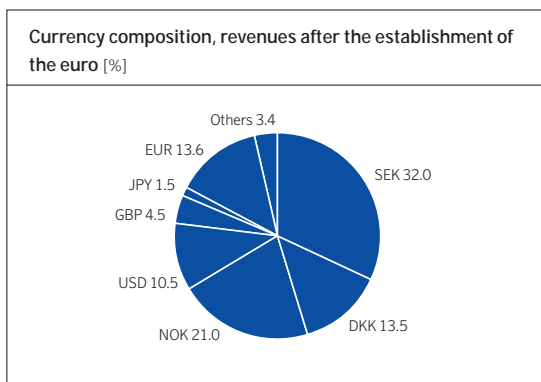
SAS's creditworthiness is good. The equity/assets ratio has improved in recent years and amounted to 40 % on December 31, 1998. SAS's ratings from the American rating agency Moody's are A3 for long-term debt and P1 (the highest possible rating) for short-term liabilities. The Japanese rating institute Japan Rating and Investor Information, Inc. also provide credit ratings. In 1998, these institutions gave SAS a long-term rating 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
American Airlines	Baa1
Qantas	Baa1
All Nippon Airways	Baa3
Delta Air Lines	Baa3
Japan Airlines	Baa3
United Airlines	Baa3
Air Canada	Ba3

* On January 5, 1999



After the introduction of the euro, EUR is the third largest revenue currency and the fifth largest expense currency. In net terms, the euro is the third largest inflow currency.



Financial reporting

The structure of the SAS Group
Comments from the Chairman
The Board of Directors' Report
The SAS Group's Statements
The SAS Group's Balance Sheet
The SAS Group's Statement of Changes
in Financial Position
Accounting and valuation principles
Notes
The Auditors' Report
SAS's Board of Directors
SAS's Management
The Parent Companies
 SAS Danmark A/S
 SAS Norge ASA
 SAS Sverige AB
SAS's Assembly of Representatives
Auditors
Addresses
Financial calendar
Definitions

The structure of the SAS Group

The SAS Group comprises the SAS Consortium including wholly or partly owned subsidiaries. Subsidiaries which are more than 50% owned are consolidated in the SAS Group's accounts. Affiliated companies, of which SAS owns between 20 and 50%, are reported according to the equity method.

The SAS Consortium's operations involve passenger and freight traffic, as well as trade, particularly in tax-free goods on board aircraft and at airports.

SAS comprises the SAS Consortium with subsidiaries, excluding SAS International Hotels. It also includes the sister consortium SAS Commuter with subsidiaries and affiliated companies, whose task is to operate regional air traffic in Scandinavia and Northern Europe.

SAS International Hotels comprises wholly or partly owned subsidiaries and affiliated companies.

The SAS Consortium

The three listed companies, SAS Danmark A/S, SAS Norge ASA and SAS Sverige AB, are Parent Companies in the SAS Consortium and the SAS Commuter Consortium. The first consortium agreement was reached in 1946 and applied to North Atlantic air traffic. The current agreement applies until 2020.

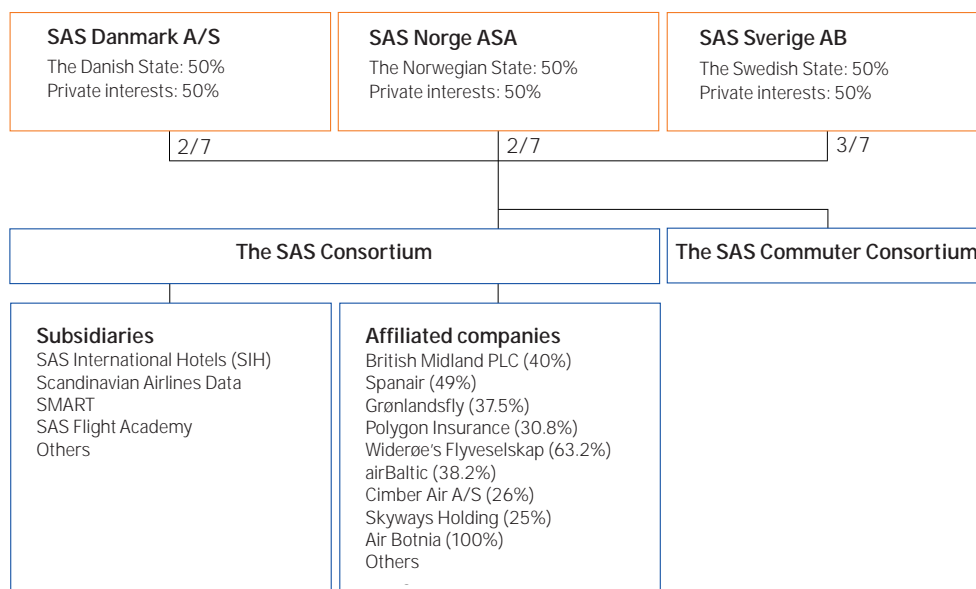
SAS Danmark A/S and SAS Norge ASA participate in the Consortium, each with a share of 2/7, while SAS

Sverige AB has a share of 3/7. The Parent Companies have transferred the traffic rights and the responsibility for the operational air traffic activities to SAS. At the end of every accounting year, the consortium's income, assets and liabilities are included in the three Parent Companies' accounts in the proportions 2-2-3.

The supreme decision-making body of the consortium is the Assembly of Representatives. The Parent Companies are represented by two members each on SAS's Board. In addition, the trade unions in each country appoint one ordinary representative each with personal deputies.

Subsidiaries and affiliated companies

The SAS Group includes a number of subsidiaries and affiliated companies, in which SAS has strategic holdings designed to support and develop its own air traffic operations. These include British Midland, which operates regional traffic from, to and within the UK, as well as Spanair, with traffic from Scandinavia to Spain. In order to emphasize its ambition to remain the leading airline around the Baltic Sea, SAS owns interests in airBaltic, Grønlandsfly, Cimber Air, Skyways and Widerøe's Flyveselskap. SAS also acquired all the shares in the Finnish company Air Botnia at the beginning of 1998.



Comments from the Chairman

Improved profitability will secure continued expansion and development. SAS needs to move towards one share.

The financial crises in Asia, Russia and later South America caused considerable concern and uncertainty in industrial and business circles around the world. The airline industry is sensitive to economic fluctuations and during 1998 SAS, like the entire international airline business, had a turbulent year. It can be noted that there was a reversed trend with weaker demand for business travel during autumn 1998. This has continued into 1999.

The entire airline industry was hit by heavy falls in share value during the latter half of 1998. This was partly due to the above-mentioned financial crises but the share value has also been influenced negatively by the downward trend in the business cycle.

SAS's position in core markets is strong, particularly in relation to business travel. The global airline industry is increasingly characterized by alliances as a strategic tool for gaining market synergies as well as improved operational conditions. SAS is favorably positioned in the world's biggest airline alliance, Star Alliance™. The regional partnerships in Scandinavia established during 1998 are also important for the market position of SAS and its development potential in home markets.

SAS has a profitability goal that will provide the necessary conditions for a competitive shareholder value over a business cycle. The goal places strict demands on adjustment and restructuring of the business, in pace with the developments taking place within the international airline industry. SAS's ambition is to improve profitability over a two-year period through structural changes within several areas.

The harmonization of the SAS parent companies completed during 1997 has been positive for SAS. Several prominent players on the capital market, particularly internationally, now make systematic analyses and monitoring of SAS shares. The transparency and simplification brought by harmonization have met with a positive response. It is clear, however, that the structure of SAS is still regarded as complicated and as representing an obstacle to the development of an efficient capital structure.

The trend of SAS's share value, in relation to the performance of the SAS Group over the current business cycle, involves a continued significant discount when set against comparable airlines in Europe. There are several reasons for this. The most important is the division into three shares with limited size and liquidity for each share and the high level of state ownership. There is a clear trend in Europe towards privatization of the traditionally state-owned national carriers completely or partially.

Examples of this in recent years are British Airways, KLM, Lufthansa, Air France, Alitalia and Iberia, all of which are or are on the way to becoming wholly or partly privatized.

The ever-increasing competition in an airline industry that is globally more deregulated makes it important to be able to attract risk capital on competitive terms. It is necessary to intensify efforts to create a corporate structure in which the three SAS shares are brought together into one listed share. This would create a size of the company as an investment object and a level of liquidity that better meets the requirements normally set by international investors. In this context, better conditions would also be created for an effective pricing of the SAS share. At the same time it is necessary to initiate the question of state ownership in light of the continued development of deregulation in the airline industry.

1998 was a demanding year. There were several far-reaching problems affecting operations for long periods. In closing, I would like to thank all personnel for their considerable efforts on behalf of SAS during the year.

Stockholm, March 1999

Harald Norvik
Chairman of the Board of Directors



Report by the Board of Directors

Report by the Board of Directors and the President for the SAS Group for the fiscal year January 1-December 31, 1998.

The SAS Group's financial statements are prepared in accordance with International Accounting Standards (IAS). (Figures in parentheses refer to 1997).

When the SAS Consortium and the SAS Commuter Consortium report their holdings in subsidiaries and affiliated companies according to the equity method starting in 1998, income and shareholders' equity for both of the consortia and the SAS Group agree. Therefore, there is no reason to report for the consortia on a separate basis in the printed annual report.

Market and competition

The climate on the market has grown increasingly tough and competitive during 1998, with aggressive price policies and low-fare initiatives stemming from new competition from European operators on Scandinavian routes. Under pressure on their domestic markets due to lower demand, Asian airlines are wielding the price weapon as a means of competition. The competition within Scandinavia has intensified. In the intercontinental field, Delta has introduced a daily Stockholm-New York route. SAS has opened a new route between Stockholm and Chicago and cut back on its production to Asia. Cooperation within Star Alliance, and particularly with Lufthansa, has made a positive contribution.

SAS's traffic for the whole of 1998 showed rather weak growth. Passenger traffic increased by 2.7% compared with last year. Growth during the first quarter was strong, but was dampened during the rest of the year by labor conflicts, the consequences of the restructuring of the airways over Scandinavia, the move from Fornebu to Gardermoen in Oslo, and in some measure delays in the delivery of new aircraft.

Air traffic in Europe within the Association of European Airlines, AEA, increased by 8% in 1998. SAS's traffic in Europe grew by 3.3%.

Due to a negative trend in Business Class during the latter part of the year, most of the traffic growth has occurred in the low-price segment. The yield has nevertheless remained unchanged.

The strategy of strengthening SAS's position on the Scandinavian home market by cooperating with regional partners begun in 1997 was carried to completion in 1998.

All shares in Oy Air Botnia, Finland, were acquired in January. 25% of the shares in Skyways Holding were acquired in April, and an agreement was concluded to acquire a 26% stake in Cimber Air, Denmark. A total of

63.2% of the shares in Widerøe's Flyveselskap, Norway, were acquired during the year.

On the Swedish domestic market, SAS and its partners increased their market share to 64 (61)% during the year. The total market increased by 6% and SAS's traffic by 12% compared with last year.

The Norwegian domestic market grew by nearly 5% during the year. SAS's traffic increased by 4%, while the market share for SAS and its partners remained unchanged at 48.5%. Danish domestic traffic decreased by 9%.

The Danish labor conflict during the spring, and a Norwegian labor conflict involving the air traffic controllers, exerted a negative effect of 3% on traffic. Moreover, the new airport in Oslo, plus the restructuring of the airways in Scandinavia during October and November, created considerable traffic disruption and cancelled flights at the end of the year. Together with the investment in the far reaching program for change, SAS 2000+, these factors have had a negative effect of approximately MSEK 800 on net income for 1998.

During the year, Air New Zealand, Ansett Australia and All Nippon Airways were added to the global alliance of which SAS is a member, Star Alliance. They will become active members during 1999.

The year 2000 and the euro

SAS has been working with IT related issues due to the millennium problem since 1996. The objective is business as usual, but with preparedness for possible disruptions.

All of the computer systems have been tested and approximately 600 have been found to be in need of modifications. These modifications are currently under implementation.

For machines, components and buildings containing embedded systems, in addition to all aircraft components, an inventory is being made. Modifications will take place as required.

Efforts are being undertaken in close cooperation with government authorities, organizations, business partners, suppliers and other parties to safeguard the smooth continuance of operations into the next millennium.

SAS's expenses due to the year 2000 adjustments are charged on an ongoing basis. Expected further expenses in relation to the year 2000 adjustments are not anticipated to be of issue to the SAS Group's economic position.

Adjustments to the new European currency, the euro,

have also required extensive measures. During the year, plans have been drawn up and the adjustment work has been intensified both to enable SAS to handle business transactions in euros and in preparation for possible future financial accounting in euros.

SAS and the environment

Flight operations – with consumption of non-renewable energy sources, exhaust gases such as carbon dioxide and nitrogen oxides, and noise that impacts the environment around airports – account for most of SAS's environmental impact. This makes planning a replacement of the aircraft fleet important for reducing the negative environmental effects. SAS is currently in the midst of a period of renewal, replacement and expansion of its fleet of aircraft. The environmental aspect is 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 given an even stronger influence in SAS's purchasing policy, which imposes demands on suppliers of goods and services.

The environment is also a natural and integral part of the SAS 2000+ program for change. SAS's environmental logotype has been introduced and is being used on the new Boeing 737 aircraft. The environment-related work will be important in the years to come.

A detailed account of objectives, strategies, organization, environment-related investments, etc. is provided in SAS's separate environmental report for 1998.

Affiliated companies

Affiliated companies are companies in which the SAS Group has an ownership stake of between 20% and 50%. They include British Midland PLC (40%), Spanair S.A. (49%), Polygon Insurance Company Ltd (30.8%), airBaltic (38.2%), Skyways (25%) and Cimber Air (26%). Widerøe's Flyveselskap (63.2%) and Air Botnia (100%), which were acquired during 1998, are also accounted for as affiliated companies. This is due to the fact that according to SAS's strategy there was already at acquisition the clear intention to reduce SAS's share to less than 50%.

Earnings growth in British Midland PLC slowed down during the year, due to the fact that increased production could not be fully sold. An increase in the number of available seats due to a gradual changeover from smaller aircraft to the Airbus 321 has affected the cabin factor negatively. British Midland PLC's income after taxes amounted to MGBP 5 (11). SAS's share of this income, including amortization of goodwill by MSEK 34 (32) and correction of last year's income by MSEK 18 (-14), amounts to MSEK 10 (9).

airBaltic began flying to Moscow during the year and plans to expand its routes to Copenhagen and

Stockholm during 1999. Prague, Budapest and Brussels will be introduced as new destinations. To support this expansion, SAS will participate in a new share issue. The income for the year amounted to MUS\$ -6 (-5). SAS's share amounted to MSEK -16 (-10).

Spanair S.A.'s income after taxes amounted to MSEK 44 (60), of which SAS's share was MSEK 26 (30).

Air Botnia reports an income of MFIM -60 for 1998, most of which is attributable to build-up of the company by the introduction of the SAAB 340 and start-up costs in preparation for the introduction of jet service. The route network has expanded both domestically and regionally within Scandinavia. Additional regional expansion and the opening of international routes are planned during 1999. The income amounted to MSEK -91.

SAS's share of income in Polygon Insurance Company Ltd was MSEK -10 (14).

The SAS Group's operating income includes shares of affiliated companies' income after taxes of MSEK -48 (61), of which amortization of goodwill comprises MSEK -43 (-32). Equity in affiliated companies according to the balance sheet amounted to MSEK 1,447 (756).

Work of the Board of Directors

The Board of Directors of the SAS Consortium consists of six members, with six personal deputies, elected by the annual general meetings of the parent companies, plus three members, with six deputies, appointed by the employees. The Board appoints among its own members a chairman, a first vice chairman and a second vice chairman. The President takes part in the meetings of the Board in a reporting capacity. SAS's chief legal counsel serves as secretary. The Board normally meets six times a year and otherwise when necessary. The Board had six meetings in fiscal year 1998. The work of the Board follows an annual calendar with special themes and set decision points, e.g. approval of the year-end report, interim reports and budget. The Board is further called upon to take a position on matters of principle or of great economic importance, such as the company's overall strategy, extensive structural and organizational changes and major investments. The work of the Board is otherwise governed by the rules of procedure for the Board of Directors and the instruction for the President established by the Board.

SAS Group Statement of Income

MSEK	Note	1998	1997
Operating revenue	1	40,946	38,928
Payroll costs	2	-13,080	-11,739 *
Other operating expenses	3	-23,751	-23,071 *
Operating income before depreciation		4,115	4,118
Depreciation and amortization	4	-2,125	-1,880
Share of income in affiliated companies	5	-48	61
Income from the sale of shares in subsidiaries and affiliated companies		1	1
Income from the sale of aircraft and buildings	6	1,014	83
Operating income		2,957	2,383
Income from other shares and participations	7	1	15
Interest income and similar income items	8	633	659
Interest expenses and similar income items	9	-762	-826
Income after financial items		2,829	2,231
Taxes payable by subsidiaries	10	-113	-71
Minority shares		0	0
Income before taxes relating to the SAS Consortium and the SAS Commuter Consortium		2,716	2,160

* MSEK 745 has for purposes of comparison been reclassified from other operating expenses to payroll costs.

Income per business area

MSEK	1998	1997
SAS		
Income before depreciation and amortization	3,644	3,772
Depreciation and amortization	-1,974	-1,755
Share of income in affiliated companies	-63	49
Income from the sale of shares in affiliated companies	1	2
Income from the sale of aircraft and buildings	1,014	83
Income from other shares and participations	1	15
Net financial items	-35	-99
SAS total	2,588	2,067
SAS International Hotels	233	160
Other operations/ Group eliminations	8	4
Income before taxes	2,829	2,231

Currency effects on the SAS Group's earnings

Operating revenue, as well as operating expenses and financial items, are affected to a considerable degree by exchange rate fluctuations. Only approximately 32% of operating revenue and 28% of operating expenses are denominated in Swedish kronor.

The aggregate effect of changes in exchange rates on the SAS Group's operating income for 1998, compared with 1997, was negative and amounted to MSEK 336. This is mainly a consequence of the weakening of the Norwegian krone, the depreciation of most Asian currencies, and the weakening of the Swedish krona. The difference between the years in the effect of exchange rate differences on the net financial debt was negative and amounted to MSEK 13. The total effect on income before taxes was therefore an exchange loss of MSEK 349.

MSEK	
Operating revenue	53
Operating expenses including currency effect on working capital	-389
Operating income	-336
Financial items	-13
Income before taxes	-349

Comments on the Statement of Income

Operating revenue

The SAS Group's operating revenue increased by MSEK 2,018 or 5.2%. MSEK 982 of this is increased passenger revenues, MSEK 203 is other traffic revenue and the remaining MSEK 833 is increased volumes within other areas of operation. SAS's passenger traffic, measured in RPK (revenue passenger kilometers), increased by 2.7% compared with 1997. The yield increased by 0.8%. Adjusted for currency effects, the increase was 0.7%.

Operating expenses

Operating expenses rose by MSEK 2,021 or 5.8%. In SAS's airline operations, operating expenses increased by MSEK 1,363, or 4.4%. Adjusted for currency effects, the net unit cost increased by 0.4% due mainly to costs of a non-recurring nature.

Operating income before depreciation and amortization decreased by MSEK 3. Changes in currency exchange rates had a negative effect on operating income amounting to MSEK 336. The gross profit margin declined from 10.6% to 10.0%.

Depreciation

Depreciation increased by MSEK 245 to MSEK 2,125. The increase is due mainly to higher investments during 1998, but also to the fact that depreciation was reduced by MSEK 184 in 1997 as a result of a change in the accounting of the financing discount for financial leasing in connection with aircraft acquisition.

Share of income in affiliated companies

Share of income in affiliated companies declined by MSEK 109 to MSEK -48, mainly as a consequence of the loss in Air Botnia, which was acquired in January 1998.

Income from the sale of aircraft and buildings

The MSEK 1,014 (83) income from the sale of aircraft and buildings includes the sale during 1998 of one MD-83, MSEK 33 one Boeing 737, MSEK 62 one Boeing 767, MSEK 136 and the sale and leaseback of two Boeing 767s, MSEK 400 and 24 DC-9s, MSEK 378. Buildings were sold with a capital gain of MSEK 5.

Net financial items

The SAS Group recorded net financial items of MSEK -129 (-167).

The financial markets have been turbulent during 1998. For the purpose of stabilizing the financial markets and stimulating the global economy, several reductions of official key interest rates were carried out in both Europe and in the USA.

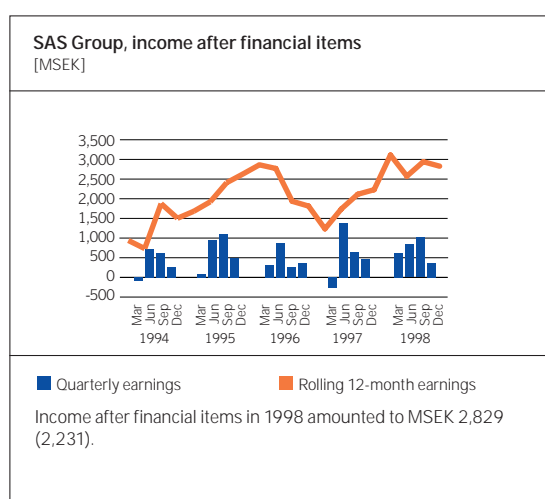
Despite a higher net debt, the SAS Group's net interest income, MSEK -80, is therefore lower than last year's (-142).

The trend in the exchange rate for the Swedish krona in 1998 had a moderate effect on the SAS Group's net debt. Altogether, a negative currency effect of MSEK -14 (-1) is reported on the SAS Group's net financial items.

Income and taxes

Income after financial items amounted to MSEK 2,829 (2,231).

MSEK 26 (27) of the subsidiaries' total tax cost was provision for deferred tax.



SAS Group Balance Sheet

ASSETS

MSEK	Note	1998	1997
Fixed assets			
Intangible fixed assets	11	166	36
Tangible fixed assets	11		
Buildings and land		6,624	4,910
Aircraft		10,179	11,284
Spare engines and spare parts		1,160	964
Workshop and aircraft servicing equipment		236	111
Other equipment and vehicles		2,075	1,385
Construction in progress		414	1,332
Prepayments for tangible fixed assets	12	2,317	1,094
		23,005	21,080
Financial fixed assets	11		
Equity in affiliated companies	13	1,447	756
Long-term receivables from affiliated companies	14	110	98
Shares and participations	15	86	62
Pension funds, net	20	1,223	530
Other long-term receivables		452	438
		3,318	1,884
Total fixed assets		26,489	23,000
Current assets			
Expendable spare parts and inventories	16	958	774
Prepayments to suppliers		2	5
		960	779
Current receivables			
Accounts receivable		2,720	2,307
Receivables from affiliated companies		63	52
Other receivables	17	1,033	758
Prepaid expenses and accrued revenues		1,173	916
		4,989	4,033
Short-term investments	18	7,043	9,113
Cash and bank balances		968	704
Total current assets		13,960	14,629
TOTAL ASSETS		40,449	37,629

SHAREHOLDERS' EQUITY AND LIABILITIES, MSEK

MSEK	Note	1998	1997
Shareholders' equity,			
Capital account	19	14,435	12,976
Other equity		1,675	1,265
		16,110	14,241
Minority interests			
		19	19
Provisions			
Pensions and similar commitments	20	161	214
Deferred tax		193	163
		354	377
Long-term liabilities			
Subordinated debenture loan	21	854	784
Bond issues	22	767	2,351
Other loans	23	7,120	7,840
Other liabilities	24	705	838
		9,446	11,813
Current liabilities			
Current portion of long-term loans		2,369	634
Loans	26	588	284
Prepayments from customers		42	33
Accounts payable		2,196	1,680
Liabilities to affiliated companies		16	13
Taxes payable		58	45
Unearned transportation revenue	27	2,012	1,953
Proposed transfer to parent companies		957	1,141
Other liabilities		1,462	1,143
Accrued expenses and prepaid revenues		4,820	4,253
		14,520	11,179
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		40,449	37,629
Pledges to secure own liabilities and provisions	28	819	806
Other pledges and collateral	28	68	71
		887	877
Contingent liabilities	29	1,226	978
Leasing commitments	30		

Comments on the Balance Sheet

Assets

The SAS Group's total assets have increased by 7.5% to MSEK 40,449.

The increase in intangible assets stems mainly from system development costs.

MSEK 1,485 has been posted to buildings and land and other equipment, taking into account a transfer from construction in progress. This amount is largely attributable to the completion and commissioning of Gardermoen, a new freight terminal in Copenhagen and a new hotel at Manchester Airport.

The book value of aircraft has decreased by MSEK 1,105. The change includes an increase due to investment in Boeing 737-600 aircraft, including previously made prepayments totaling MSEK 1,466. Deductible items are depreciation for the year of MSEK 1,254 and residual values of sold aircraft of MSEK 1,317.

Long-term prepayments to suppliers of flight equipment increased by MSEK 1,223 during the year. Advance payments of MSEK 318 to Boeing were utilized in conjunction with deliveries during the year. In addition, a further MSEK 30 was utilized. Prepayments of MSEK 1,451 were made for future deliveries of, among other things, Boeing 737-600 and deHavilland Q400 aircraft. Capitalized financial expenses were added in the amount of MSEK 120.

Equity shares in affiliated companies increased by MSEK 691 to MSEK 1,447. Investments totaling MSEK 714 were made during the year. Shares of income for the year were negative at MSEK 48. Furthermore, equity shares increased by MSEK 25 due to currency rate changes etc.

Since 1996, SAS has treated all defined-benefit collective pension plans in accordance with IAS/US-GAAP, which means that the pension commitments are calculated based on PBO (Projected Benefit Obligation). Application of these principles, among others, resulted in the creation of an asset item called pension funds, net in an amount of MSEK 1,223 as per December 31, 1998 (see further Accounting and Valuation Principles on page 70 and Note 20).

Liquid assets at year-end amounted to MSEK 8,011 (9,817) or 20 (26)% of total assets. The decrease is mainly explained by negative cash flow following investments.

Total capital employed amounted to MSEK 27,854 (26,368) at year-end. Average capital employed during the year was MSEK 27,124 (26,311). Return on capital employed was 13 (12)%.

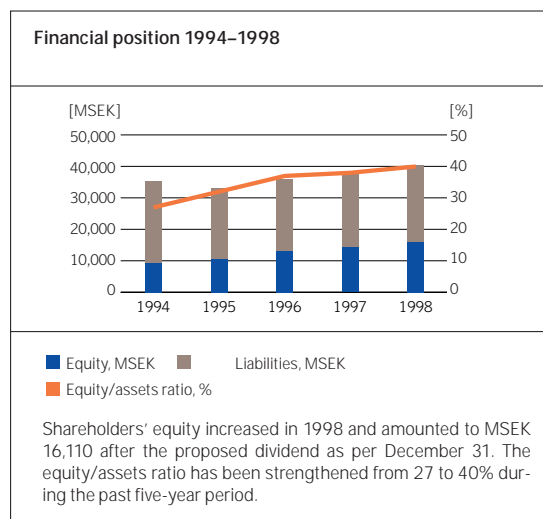
Liabilities

Of the total liabilities, MSEK 11,859 (12,107) were interest-bearing.

The interest-bearing net debt as per December 31, 1998 totaled MSEK 2,079 (1,345). The SAS Group's average net debt during the year was MSEK 1,950 (1,880). A new loan facility of MUSD 400 was signed during the year, of which MUSD 60 has been utilized. Including the loan facilities signed in 1996 and 1997, there is a total loan facility amount of MUSD 1,350 available. In addition, SAS has unutilized commercial paper programs of MSEK 2,000, MDKK 1,500 and MUSD 200 at its disposal. The debt/equity ratio as per December 31, 1998 was 0.1 (0.1).

Shareholders' equity

After the proposed dividend to SAS's parent companies of MSEK 957, shareholders' equity increased by MSEK 1,869 to MSEK 16,110. 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 transfer to the parent companies has been booked as a liability, was 40 (38)% at year-end, while return on equity after standard tax amounted to 13 (11)%.



SAS Group Statement of Changes in Financial Position

MSEK	1998	1997
THE YEAR'S OPERATIONS		
Income after financial items	2,829	2,231
Depreciation	2,125	1,880
Revaluations, write-downs, etc.	-66	6
Income from the sale of fixed assets	-1,016	-100
Other – net	-65	-63
Cash flow provided by the year's operations	3,807	3,954
Change in:		
Expendable spare parts and inventories	-179	-146
Operating receivables	-848	-1,039
Operating liabilities	1,357	1,487
Change in working capital	330	302
Net financing from the year's operations	4,137	4,256
INVESTMENTS		
Aircraft	-1,148	-452
Spare parts	-363	-215
Buildings, improvements and other equipment	-2,275	-1,566
Shares and participations, goodwill etc.	-875	-30
Prepayments for flight equipment	-1,451	-993
Total investments	-6,112	-3,256
Sale of fixed assets	2,372	235
Translation differences, etc.	-12	17
Net investments	-3,752	-3,004
Payments to parent companies	-1,141	-844
Financing deficit/surplus	-756	408
EXTERNAL FINANCING		
Borrowing, amortization and premature redemption, incl. translation differences – net	-172	-1,047
Other financial receivables/liabilities – net	-878	-594
Change in minority interest	0	0
External financing – net	-1,050	-1,641
CHANGE IN LIQUID ASSETS		
According to Balance Sheet	-1,806	-1,233
Liquid assets at beginning of year	9,817	11,050
Liquid assets at year-end	8,011	9,817

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 3,807 (3,954). Working capital decreased by MSEK 330 (302). Both operating receivables and operating liabilities increased during the year, generally due to increased volumes in the business.

Investments including prepayments to aircraft suppliers amounted to MSEK 6,112, an increase of MSEK 2,856 compared with 1997. Of these investments, SAS accounted for MSEK 5,554 (2,938) and SAS International Hotels for MSEK 557 (318). This includes delivery payment of MSEK 1,099 relating to eight Boeing 737-600s. Investments in buildings and land totaled MSEK 1,077 and related mainly to Gardermoen.

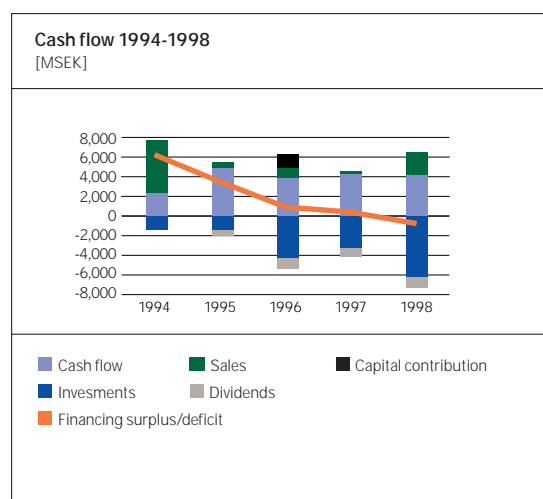
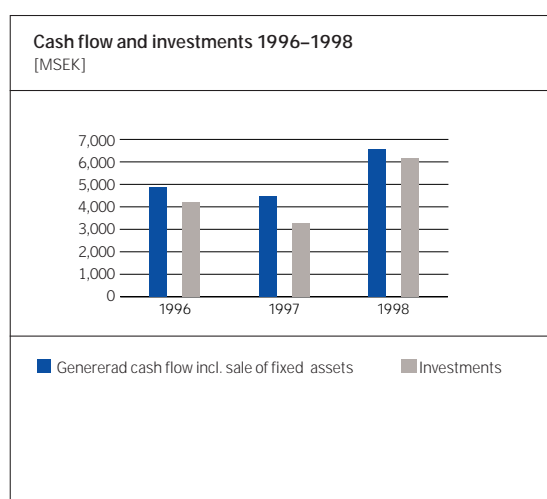
Investments in shares and participations mainly pertain to the affiliated companies Air Botnia, Widerøe's, Skyways and Cimber Air. Furthermore, MSEK 142 was invested in intangible assets.

Sale of fixed assets generated MSEK 2,372 (235) and consisted mainly of receipts from the sale of three Boeing 767s, one Boeing 737-500, one MD-83, four DC-9-21s and twenty DC-9-41s. Last year, one MD-83, one DC-9-51 and one SAAB 340 were sold.

Cash flow after net investments thus amounted to MSEK 385 (1,252). After disbursement of MSEK 1,141 (844) to the parent companies, the financing deficit was MSEK 756 (surplus: 408).

Financial liabilities decreased by MSEK 172 in 1998, consisting mainly of close to MSEK 500 in new borrowing and of amortization and redemption of loans.

Altogether, the SAS Group's liquid assets decreased by MSEK 1,806.



Transfer to parent companies

The Board of Directors and the President propose to the SAS Assembly of Representatives that an amount of MSEK 957 be transferred to the parent companies. The amount is booked as a liability in the SAS Group's balance sheet as per December 31, 1998.

Outlook for 1999

Great uncertainty exists regarding the prospects for traffic and revenue performance in 1999.

SAS has noted poorer general economic conditions and falling demand in the business travel segment dur-

ing the second half of 1998. This trend is continuing in 1999 and is putting pressure on revenue development.

SAS is pursuing a restructuring and improvement program with the goal of strengthening profitability by 3 percentage points in gross margin. The improvement program will, over a two-year period (1999 and 2000), result in cost reductions of MSEK 3,000.

Despite this, the Board expects that income before taxes for 1999 will be considerably lower than in 1998.

Stockholm, February 18, 1999

Harald Norvik Hugo Schrøder Bo Berggren

Bjørn Eidem Anders Eldrup Tony Hagström

Ingvar Lilletun Helmuth Jacobsen Leif Kindert

Jan Stenberg

President and Chief Executive Officer

Accounting and valuation principles

General

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

Consolidated accounts

Definition of Group and Affiliated Companies:

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

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

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

Principles of consolidation

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

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

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

Translation of financial statements of foreign subsidiaries

The financial statements of foreign subsidiaries are translated into Swedish kronor using the current method. This entails that all subsidiaries' assets and liabilities are translated into 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 posted directly to the SAS Group's shareholders' equity.

Receivables and liabilities in foreign currencies and financial instruments

Current and long-term receivables and liabilities in currencies other than Swedish kronor (SEK) are stated in the balance sheet translated at year-end rates of exchange. Both realized and unrealized exchange gains and losses on receivables and liabilities are posted to income. (See also Note 9.)

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

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

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

Currency options: Financial currency options are valued at the year-end market value. Unrealized exchange gains or losses are posted to income. The option premium is capitalized and accrued over the term of the option.

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

See further Note 25 – Financial Instruments.

Expendable spare parts and inventories

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

Fixed assets and depreciation

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

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

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

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

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

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

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

Pension commitments

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

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

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

Traffic revenue

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

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

A portion of unearned transportation revenue covers tickets sold that are expected to remain unutilized. A reserve against the unearned transportation revenue liability is assessed annually. This reserve is reported as revenue the following year in accordance with established principles.

EuroBonus

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

Maintenance costs

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

Accrual accounting is carried out for future external costs for heavy maintenance including engine maintenance of the aircraft type MD-80. This maintenance is carried out on average every ten years. Provisions for future engine maintenance are made for Boeing 767s, Boeing 737s and MD-90s, and provisions for future maintenance costs are made for Fokker F-50s.

Exchange rates for key currencies

			Year-end rate		Average rate	
			1998	1997	1998	1997
Denmark	DKK	100	126,85	115,45	118,81	115,61
Norway	NOK	100	107,30	107,20	105,38	108,00
USA	USD		8,07	7,87	7,95	7,64
UK	GBP		13,52	13,12	13,17	12,50
Switzerland	CHF	100	590,10	542,10	549,41	526,18
Germany	DEM	100	484,19	439,75	452,46	440,42
Japan	JPY	100	7,00	6,06	6,10	6,33
European Currency Unit	XEU		9,47	8,70	8,93	8,62

Notes

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

Note 1 – Operating revenue

	1998	1997
Traffic revenue:		
Passengers	28,240	27,259
Freight	1,997	1,973
Mail	243	238
Other traffic revenues	1,407	1,232
Other operating revenue:		
Technical maintenance	733	791
Ground services	592	585
Distribution system services	786	616
Other operating revenue	1,608	1,600
SAS Trading	2,606	2,475
SAS total	38,212	36,769
SAS International Hotels	2,786	2,304
Other subsidiaries	69	67
Group eliminations	-121	-212
Operating revenue	40,946	38,928

Passenger revenues per geographic area

	1998	1997
Intercontinental	4,140	4,232
Europe	12,144	11,261
Intra-Scandinavian	4,274	4,228
Domestic	7,682	7,538
Total	28,240	27,259

Note 2 – Payroll costs

The average number of employees in the SAS Group's different business areas in 1998 was 27,071 (25,057), of whom 23,992 (22,524) were employed in SAS and 3,041 (2,494) in SAS International Hotels.

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

The average number of employees in Denmark was 9,208 (8,395), in Norway 7,177 (6,364) and in Sweden 8,452 (8,200).

The SAS Group's total payroll costs amounted to MSEK 12,005 (10,822), of which social security expenses were MSEK 1,569 (1,425) and pensions MSEK 667 (527).

Cont. Note 2

Average number of employees

	1998		1997	
	Men	Women	Men	Women
Denmark	5,836	3,372	5,474	2,921
Norway	4,097	3,080	3,807	2,557
Sweden	4,917	3,535	4,786	3,414
UK	208	352	220	289
Germany	178	174	196	202
France	20	54	22	53
Japan	54	13	29	14
Finland	71	171	51	82
Belgium	38	33	37	35
USA	95	166	105	163
Other countries	247	360	259	341
Total	15,761	11,310	14,986	10,071
Total men and women	27,071		25,057	

Remuneration to senior executives

In 1998, SEK 2,499 thousand was paid to members of the SAS Consortium's Board of Directors, of which SEK 323 thousand to the Chairman of the Board, a total of SEK 617 thousand to the two Vice Chairmen and a total of SEK 1,169 thousand to other board members, including employee representatives. In addition, a total of SEK 390 thousand was paid to deputy members of the board. These fees are determined by SAS's Assembly of Representatives.

During 1998, no member of the board was employed in the SAS Group, with the exception of the employee representatives and their deputies. Two members of the board received consultancy fees as remuneration for work in the SAS Group's finance committee.

Salary and the value of benefits paid to the President of the SAS Consortium, who also serves as chief executive officer, totaled SEK 7,678 thousand, of which SEK 2,000 thousand related to a bonus for 1997.

The President's retirement age is 62. Pension is based on salary at retirement and comprises 39.7% of pensionable salary expressed at the 1998 level between the ages of 62 and 65, and 37.1% from the age 65. Other senior executives in SAS are entitled to a pension at the age of 60 and earn on a straight-line basis up to retirement age. The pension level for a Swedish employee with fully earned entitlement amounts to 70% of pensionable salary up to 30 base amounts (SEK 1,092 thousand) and 35% of salary in excess of that amount. Alternatively, a pension plan is provided based on premiums paid. The same basic structure of the pension system applies to Danish and Norwegian senior executives, adjusted to Danish and Norwegian conditions, respectively.

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

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

Note 3 – Other operating expenses

	1998	1997
Leasing costs	1,059	859
Selling expenses	2,072	2,212
Jet fuel	2,322	2,440
Government fees	3,558	3,969
Catering costs	1,596	1,482
Handling costs	1,700	1,546
Technical aircraft maintenance	1,741	1,727
Other operating expenses	9,703	8,836
Total	23,751	23,071

Note 4 – Depreciation

	1998	1997
Goodwill and intangible assets	15	11
Aircraft	1,254	1,102
Spare engines and spare parts	116	112
Workshop and aircraft servicing equipment	42	34
Other equipment and vehicles	442	395
Prepayments, fixed assets	3	–
Buildings and improvements	252	225
Land improvements	1	1
Total	2,125	1,880

Note 5 – Share of income in affiliated companies

	1998	1997
British Midland PLC ¹	10	9
Widerøe's Flyveselskap ASA	4	–
Polygon Group Ltd ²	–10	14
Timber Air A/S	4	–
Spanair S.A. ³	26	30
Skyways Holding AB	3	–
Grønlandsfly A/S	4	1
Oy Air Botnia Ab	–91	–
air Baltic Corporation SIA	–16	–10
Airnet I/S	3	5
Casinos Denmark A/S/Casino Copenhagen K/S	15	12
Others	0	0
Total⁴	–48	61

¹ Share of income includes depreciation of goodwill by MSEK 34 (32) and correction of last year's income figure by MSEK 18 (–14).

² Share of income includes correction of last year's income figure by MSEK –13 (–).

³ Based on annual accounts as per October 31, 1998.

⁴ Includes depreciation of goodwill (incl. British Midland PLC) totaling MSEK 43 (32).

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

Note 6 – Income from the sale of aircraft and buildings

	1998	1997
SAS – sale of Boeing-767	536	–
SAS – sale of MD-83	33	53
SAS – sale of DC-9	378	17
SAS – sale of SAAB 340	–	5
SAS – sale of Hover Craft	–	4
SAS – sale of Boeing-737	62	–
SAS – sale of buildings	5	4
Total	1,014	83

Note 7 – Income from other shares and participations

	1998	1997
Capital gain from the sale of shares	–	15
Dividend	1	–
Total	1	15

Note 8 – Interest income and similar income items

	1998	1997
Interest income	622	648
Other financial income	11	11
Total	633	659

Note 9 – Interest expenses and similar income items

	1998	1997
Interest expenses	702	790
Exchange rate differences, net	14	1
Other financial expenses	46	35
Total	762	826

Note 10 – Taxes payable by subsidiaries

	1998	1997
Taxes payable by subsidiaries	87	44
Provision for deferred tax attributable to untaxed reserves	26	27
Total	113	71

Taxes during the period are calculated as taxes paid plus estimated tax on appropriations for tax purposes made during the period.

Note 11 – Fixed assets

Intangible and tangible fixed assets									
	Intangible fixed assets	Buildings and land	Aircraft ¹	Spare engines and spare parts	Workshop & servicing equipment for aircraft	Other equipment and vehicles	Con- struction in progress	Prepay- ments fixed assets	Total tangible fixed assets
Opening acquisition value	344	6,513	18,579	1,525	609	4,379	1,332	1,119	34,056
Investments	142	256	1,148	363	156	961	902	1,451	5,237
Capitalized interest							55	76	131
Sales/disposals		-138	-2,789	-77	-38	-371			-3,413
Reclassifications	-32	1,649	318	86	14	194	-1,861	-323	77
Exchange rate differences	3	122	0	0	0	79	-14	22	209
Closing accumulated acquisition value	457	8,402	17,256	1,897	741	5,242	414	2,345	36,297
Opening depreciation	-308	-1,603	-7,295	-561	-498	-2,994		-25	-12,976
Depreciation for the year	-15	-253	-1,254	-116	-42	-442		-3	-2,110
Sales/disposals	-	114	1,472	32	35	339			1,992
Reclassifications	35	0	0	-92	0	-3			-95
Exchange rate differences	-3	-36	0	0	0	-67			-103
Closing accumulated depreciation	-291	-1,778	-7,077	-737	-505	-3 167		-28	-13,292
Closing planned residual value 1998	166³	6,624	10,179²	1,160	236	2,075	414	2,317	23,005
Closing planned residual value 1997	36	4,910	11,284	964	111	1,385	1,332	1,094	21,080

¹ The insured value of aircraft as per December 31, 1998, amounted to MSEK 28,992. This includes the insured value of leased aircraft in the amount of MSEK 8,016.

² Estimated market value, excluding options, in Swedish kronor exceeded the book value by MSEK 4,512 (4,000) at year-end.

³ Includes MSEK 100 in capitalized costs during the year for system development.

Financial fixed assets

	Equity affiliated companies	Long-term receivables from affiliated companies.	Shares & particip.	Pension funds, net	Other long-term receivables	Total financial fixed assets
Opening acquisition value	756	98	136	530	648	2,168
Contribution	714	126	19	693	139	1,691
Share of income	-48					-48
Amortization		-2			-36	-38
Dividend	-23					-23
Reclassifications		-122	12		-21	-131
Exchange rate differences	57	10			15	82
Other	-9					-9
Closing accumulated acquisition value	1,447	110	167	1,223	745	3,692
Opening depreciation			-71			-71
Exchange rate differences			-7			-7
Closing accumulated depreciation			-78			-78
Opening write-down			-3		-210	-213
Write-down for the year					-83	83
Exchange rate differences						
Closing write-down			-3		-293	-296
Closing residual value 1998	1,447	110	86	1,223	452	3,318
Closing residual value 1997	756	98	62	530	438	1,884

Of previous years' aircraft acquisitions, 25 Douglas MD-80s, 3 Boeing 767s, 6 Douglas MD-90s and 2 F28-4000s were acquired, formally via financial lease contracts, with terms of 10–17 years.

On behalf of SAS, a number of banks have agreed to pay all accruing leasing fees and an agreed residual value for 10 of the Douglas MD-80 and 2 F28-4000s aircraft at the expiry of each leasing period. SAS has irrevocably reimbursed the Banks in an amount corresponding to full settlement for these payments. The total nominal value of the banks' payment commitment on behalf of SAS as per December 31, 1998, was MSEK 1,295 (1,713).

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 36 (41) aircraft are reported in the balance sheet in the amount of MSEK 4,234 (5,654).

SAS's aircraft holdings can be specified as follows:

	1998	1997
Owned	5,945	5,630
Financially leased (paid in advance)	759	1,231
Other financially leased	3,475	4,423
Book value	10,179	11,284

Note 12 – Prepayments for tangible fixed assets

	1998	1997
Boeing (B-737)	1,416	691
Bombardier	858	378
McDonnell Douglas	22	25
Others	21	–
Total	2,317	1,094

Note 13 – Equity in affiliated companies

	SAS Group holdings %	1998	1997
British Midland PLC	40.0	437	424
Widerøe's Flyveselskap ASA	63.2	361	–
Polygon Group Ltd	30.8	219	223
Cimber Air A/S	26.0	131	–
Spanair S.A.	49.0	128	91
Skyways Holding AB	25.0	111	–
Grønlandsfly A/S	37.5	72	63
Oy Air Botnia Ab	100.0	31	–
air Baltic Corporation SIA	38.2	–9	–3
Airnet I/S	50.0	13	13
Casinos Denmark A/S/ Casino Copenhagen K/S	50.0	20	12
Others		13	13
Shareholding reserve		–80	–80
Total		1,447	756

Equity in affiliated companies includes acquired surplus value of MSEK 97 (128) in British Midland PLC, MSEK 22 in Oy Air Botnia Ab, MSEK 209 in Widerøe's Flyveselskap ASA, MSEK 87 in Skyways Holding AB and MSEK 86 in Cimber Air A/S.

Note 14 – Long-term receivables from affiliated companies

	1998	1997
air Baltic Corporation SIA	106	98
Oy Air Botnia Ab	4	–
Total	110	98

Note 15 – Shares and participations

	Domicile	Number of shares/ participations	%	Par value in 000s	Book value MSEK
Shares and participations					
Copenhagen International Hotels K/S	Copenhagen	1,343	11.3	DKK 134	53.3
Feri Otelcilik Ve Turizm AS	Istanbul	270,000	10	USD 621	18.5
Oslo Plaza Hotel AS	Oslo	3,100	10	NOK 3,100	7.5
SITA Foundation	Amsterdam	1,325,440	0.6		2.1
Dar-es-Salaam Airport Handling Co Ltd	Dar-es-Salaam	27,000	15	TZS 2,700	1.4
SAS Royal Viking Hotel AB	Stockholm	20,000	25	SEK 2,000	1.0
Airline Tariff Publishing Company	Washington D.C.	17,737	4.2	USD 18	0.4
Others					1.9
Total shares and participations					86.1

Note 16 – Expendable spare parts and inventories

	1998	1997
Expendable spare parts, flight equipment	638	511
Expendable spare parts, other	94	78
Inventories	226	185
Total	958	774

Note 17 – Other receivables

A tax receivable amounting to MSEK 19 (16) is included among other receivables in the SAS Group. There is no deferred tax receivable.

Note 18 – Short-term investments

As per December 31, 1998, short-term investments consisted for the most part of special bank deposits and investments in government securities. Part of the bond holding has been valued at the lower of acquisition value and actual value, the remainder has been reported as hedging. Short-term investments also include MSEK 134 (100) in blocked deposits in a tax deduction account in Norway.

Note 19 – Shareholders' equity

January 1, 1998	14,241
Change in translation differences	116
Change in ownership stake in affiliated companies	–6
Earnings 1998	2,716
Proposed transfer to parent companies	–957
December 31, 1998	16,110

Note 20 – Pension funds, net/provisions for pensions and similar obligations

	1998	1997
Pension funds, net	1,223	530
Total	1,223	530
Provision for pensions, PRI	19	18
Pension liability, other	20	17
Other pension and employee commitments	122	179
Pensions and similar commitments	161	214

SAS reports pension commitments according to PBO (Projected Benefit Obligation). The differences that arose on changeover 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 thereby representing a weighted average:

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

In the financial statements, the commitments in the SAS Group are included in the manner set forth in the table below. Implementation differences and deviations from estimates are accrued over the average remaining earning period for active employees. The item "deviations from estimates not booked as expenses" contains actuarially calculated differences. The item "changes in plans not booked as revenues/expenses" contains changes due to alterations in pension plans.

	1998	1997
Pensions earned during the year	-1,601	-1,536
Return on plan assets	1,389	1,341
The year's amortization of implementation differences, deviations from estimates and changes in plans	145	140
Net pension cost for the year, pertaining to defined-benefit plans	-67	-55
Status as per December 31	1998	1997
Plan assets	17,877	18,087
Projected Benefit Obligation (PBO)	-15,269	-15,750
Diff. between plan assets and PBO	2,608	2,337
Amounts not charged to income:		
Implementation differences not booked as revenue	-1,769	-1,890
Deviations from estimates not booked as expenses	452	7
Changes in plans not booked as revenues/expenses	-68	76
	-1,385	-1,807
Book asset	1,223	530

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

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

Cont. Note 20

Provision for other pension/employee obligations, MSEK 122 (179), includes long-term commitments undertaken by SAS in connection with action programs in previous years.

Note 21 – Maturity of long-term liabilities

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

	1998	1997
Subordinated debenture loans	854	784
Bond loans	202	236
Other loans	1,634	1,360
Other liabilities	89	193
Total	2,779	2,573

Note 22 – Subordinated debenture loans

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

Note 23 – Bond issues

The SAS Consortium's bond issues amounted to MSEK 2,302 (2,351), of which the current portion was MSEK 1,535 (0).

Specification of individual loans:

Issued amount	Interest rate	Term	Outstanding debt in MSEK
50 M US dollars	10.650%	88/08	403
700 M French francs	9.250%	89/99	409
200 M US dollars	10.000%	89/99	597
200 M US dollars	9.125%	89/99	489
500 M Danish kroner	9.000%	90/00	95
200 M Swedish kronor	14.000%	90/00	59
10,000 M Japanese yen	6.100%	91/01	250
Total			2,302
Less maturities 1999			-1,535
Total			767

The majority of the above loans have been switched to other currencies and other fixed-interest periods through currency and interest-rate swap agreements and forward exchange contracts. The currency exposure of the debt has thereby been changed so that the debt primarily consists of exposure in European currencies, see Note 25.

SAS's own bonds totaling MSEK 57 (733) have been repurchased and netted under this balance sheet item

Note 24 – Other loans

	1998	1997
Loans from SAS's parent companies *)	1,583	1,519
Financial leases	4,992	6,075
Other loans	1,357	865
Total prior to repayments	7,932	8,459
Less repayments 1999 and 1998	-812	-619
Other loans according to the balance sheet	7,120	7,840

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

Currency exposure, see Note 25.

Note 25 – Financial instruments

As per December 31, 1998, the SAS Group had entered into currency swap contracts for a nominal value equivalent to MSEK 1,400. Valuation at market exchange rates gives a net exchange gain of MSEK 299.

Outstanding financial forward exchange contracts and options amount to gross nominal value equivalent to MSEK 7,700. Market valuation gives a net gain of MSEK 152. All exchange gains/losses for the above valuations are posted to income.

Outstanding forward exchange contracts and options intended to secure future commercial flows amount to a nominal value of MSEK 6,900. The earnings effect is reported on the payment date of the contract. A valuation at market exchange rates as per December 31, 1998, shows a positive net value of MSEK 3, which is not included in income.

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

As per December 31, 1998, the SAS Group's approximate net financial currency exposure against the consolidation currency SEK was as follows:

	Value in MSEK
Euros	-300
Norwegian kroner	-600
British pounds	-200
Japanese yen	-100
Swedish kronor or currencies without exposure	-900
Total net debt	-2,100

Note 26 – Short-term loans

Overdraft facilities amount to MSEK 245 (187), of which amount MSEK 70 (12) has been utilized.

Note 27 – Unearned transportation revenue, net

Unearned transportation revenue consists of tickets sold and still valid but unutilized, see the accounting principles section, page 70.

The estimated reserve for unearned transportation revenue as per December 31, 1998, amounted to MSEK 324 (412).

Note 28 – Assets pledged, etc.

	1998	1997
Pledges to secure own liabilities and provisions		
Real estate mortgages	810	797
Chattel mortgages	1	1
Receivables	8	8
Other assets pledged		
Chattel mortgages	3	3
Receivables	65	68
Total	887	877

Note 29 – Contingent liabilities

	1998	1997
Contingent liabilities, other	1,226	978
Total	1,226	978

Contingent liabilities include a gross amount of MSEK 299 (124) attributable to swap transactions in foreign currencies for swapped loans whose value at year-end was lower than the value of the original loans. They also include MSEK 43 (114) attributable to the difference between accrued interest payable and interest income for swap transactions and swapped investments whose value at year-end was higher than the value of the original investment.

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

Under the management contracts for Radisson SAS Hotel, Hamburg, Radisson SAS Hotel, Brussels, Radisson SAS Palais Hotel, Vienna and for eleven other hotels, SAS International Hotels AS guarantees a minimum annual cash flow until 2006 and 2010 (Vienna), and for the majority of the other hotels until 1999–2003. Guarantee payments of MSEK 24 were remitted in 1998.

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

Note 30 – Leasing commitments

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

	1999	2000	2001	2002	2003	2004->
Aircraft	1,113	781	343	92		
Hotels	412	427	431	371	367	4,052
Other properties	302	304	268	236	212	1,989
Plant and equipment	14	10	9	4	2	
Total (MSEK)	1,841	1,522	1,051	703	581	6,041

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

The above table includes the following major items:

In conjunction with the sale and leaseback of Boeing 767-300s, six aircraft are leased back on an operating lease under the terms of lease contracts that run for 18–30 months with an option to extend for one to two years. The cost for 1999 is MSEK 369. The leasing cost for 2000 is MSEK 315.

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

Auditors Report

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

We have audited the Annual Report, the consolidated financial statements, and the accounts of SAS for 1998. These accounts are the responsibility of the Board of Directors and the President. Our responsibility is to express an opinion on the Annual Report and the consolidated financial statements based on our audit.

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

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

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

In our opinion, the Annual Report and the consolidated financial statements present a true and fair picture of the financial position of the SAS Group and the SAS Consortium at December 31, 1998, and the results for the fiscal year then ended, in keeping with the principles set forth above.

Stockholm, March 11, 1999

Stig Enevoldsen

Jan Åke Magnuson

Authorized Public Accountants

Olav Revheim

SAS Board of Directors

Harald Norvik

Born 1946, M.B.A.

Chairman of SAS's Board in 1998. Alternating Norwegian Chairman of SAS since 1992 and Chairman of the Board of SAS Norge ASA in 1998 as representative of the Norwegian State.

CEO of Statoil. Chairman of the Assembly of Representatives of Den Norske Bank, Member of the Board of Orkla ASA and Nycomed ASA.

Shareholding: 0

Personal Deputy: Kari Gjestebø

Hugo Schrøder

Born 1932, Engineer.

First Vice Chairman of SAS's Board in 1998. Danish Chairman of SAS since 1994 and Chairman of the Board of SAS Danmark A/S as representative of the private Danish owners.

Chairman of the Board of Danisco A/S and Vice Chairman of Incentive A/S. Member of the Board of several other companies and organizations.

Shareholding: 925 shares in SAS Danmark A/S, 1,000 shares in SAS Norge ASA

Personal Deputy: Erik Sørensen

Bo Berggren

Born 1936, Hon.D.Eng.

Second Vice Chairman of SAS's Board in 1998. Swedish Chairman of SAS since 1992 and Chairman of SAS Sverige AB as representative of the private Swedish owners.

Chairman of the Board of Astra and the Federation of Swedish Industries and Vice Chairman of Investor AB. Member of a number of other company and organizational boards.

Shareholding: 5,000 shares in SAS Sverige AB

Personal Deputy: Erik Belfrage

Bjørn Eidem

Born 1942, Supreme Court Attorney.

Alternating Norwegian Chairman of SAS since 1992, Member of SAS's Board since 1983. Vice Chairman of the Board of SAS Norge ASA in 1998 as representative for Norwegian private owners.

Partner in the law firm Harboe, Syversen och Eidem AS. Chairman of the Boards of Dagens Næringsliv and Norges Handels- og Sjøfartstidnekonsernet, among others.

Shareholding: 5,861 shares in SAS Norge ASA

Personal Deputy: Mads Henry Andenæs

Anders Eldrup

Born 1948, B.Pol.Sc.

Member of SAS's Board since 1993 and Vice Chairman of the Board of SAS Danmark A/S as representative of the Danish State.

Permanent Secretary, Ministry of Finance. Vice Chairman of Dansk Olie og Naturgas A/S Board and Member of the Board of CIMI.

Shareholding: 0

Personal Deputy: Bjørn Westh

Tony Hagström

Born 1936, Ph.D.

Member of SAS's Board since 1993 and Vice Chairman of the Board of SAS Sverige AB as representative of the Swedish State.

Chairman of the Board of Dataföreningen i Sverige, Svenska IT-Forum and TeleOffice and Member of the Board of SSAB.

Shareholding: 0

Personal Deputy: Ingemar Eliasson

Employee representatives

Ingvar Lilletun

Born 1938.

Member of SAS's Board since 1979. Employed at SAS in Norway.

Shareholding: 0

Deputies: Randi Kile and Svein Vefall

Helmuth Jacobsen

Born 1945.

Member of SAS's Board since 1998. Employed at SAS in Denmark.

Shareholding: 0

Deputies: Nicolas Fischer and Jens Tholstrup Hansen

Leif Kindert

Born 1941.

Member of SAS's Board since 1992. Employed at SAS in Sweden.

Shareholding: 0

Deputies: Ulla Grøntvedt and Gertrud Axelsson



Standing, from left to right: Ingvar Lilletun, Leif Kindert, Bjørn Eide, Helmut Jacobsen, Anders Eldrup, Tony Hagström
Seated, from left to right: Hugo Schröder, Harald Norvik, Bo Berggren

SAS Management

Jan Stenberg

President & CEO

President and CEO of the SAS Group since 1 April 1994. President of SAS parent companies SAS Danmark A/S, SAS Norge ASA and SAS Sverige AB since 1996.

Chairman of the Board of Telia. Member of the Board of the Swedish Royal Opera and of Deutsche Lufthansa AG. Previously Vice President and member of the executive management of the telecommunications company L M Ericsson. President of Ericsson Cables. Responsible for the Public Telecommunications business area and President of Ericsson Telecom AB.

Gunnar Reitan

Executive Vice President & CFO

Member of the SAS Management Team. Joined SAS 1 January 1988 in Oslo as Director of SAS Station Services. Vice President, Finance and Administration for SAS in Norway. Took up his present position in October 1993.

Experience of banking, industry and transportation. Member of the Board of SAS International Hotels and several of the SAS subsidiaries.

Claes Broström

Senior Vice President

Member of the SAS Management Team and since 1998 head of Information Strategies & Processes, CIO. Has main responsibility for IT development and business development. Previously employed as Vice President, Ericsson Infocom Systems, with responsibility for business development and IT.

Previous experience of the computer and engineering industries as marketing manager, production manager and chief designer. Chairman of the Board of SAS Data Holding A/S.

Marie Ehrling

Senior Vice President

Member of the SAS Management Team. Head of the Station Services Division since October 1997. The Division manages customer service at airports, covering areas such as service in connection with check-in, baggage handling and traffic execution.

Experience as a financial analyst for the 4th National Swedish Pension Insurance Fund, information secretary at the Swedish Government departments Education, Finance and Treasury. Joined SAS in 1982 as Manager Economic Planning & Control. Vice President International Routes 1994.

Jan Forsberg

Senior Vice President

Member of the SAS Management Team and head of the Operations Division since January 1997. The Division has the overall responsibility for flight operations including responsibility for SAS cabin personnel and pilots.

Previously Head of Logistics for the international construction company Tour & Andersson. Operations Manager of SAS Service Partner and subsequently President of Gate Gourmet Northern Europe A/S.

Ørnulf Myrvoll

Senior Vice President

Member of the SAS Management Team and responsible for the Technical Division since December 1998. The Division is responsible for the technical maintenance of the SAS fleet.

Previous experience includes that of President of ABB Norsk Kabel, President of ABB Strømmen AB and Division Manager of the Communication Division Tele & Data, and Managing Director of Wessel Kabel AS.

Bernhard Rikardsen

Senior Vice President

Member of the SAS Management Team and head of Human Resources since November 1993. Has main responsibility for SAS personnel matters, personnel policy, leadership development, etc. Joined the personnel department of SAS in Norway in 1981. Personnel Director of SAS Norway 1990.

Chairman of the Board of SAS Flight Academy and board member of the SAS Commuter Consortium.

Henry Sténson

Senior Vice President

Member of the SAS Management Team and, since March 1998, head of Public Relations & Government Affairs, which is responsible for contacts with the media, general public and politicians and internal communications.

Previously employed as Head of Information of Volvo Flygmotor AB, Head of Automotive Communications at AB Volvo, Information Director of Saab Aircraft AB and Information Director of Volvo Car Corporation.

Erik Strand

Senior Vice President

Member of the SAS Management Team. Head of Marketing & Sales since 1 February 1996. The responsibilities of the Division include SAS's own sales, tour operator and travel agent sales, marketing and SAS EuroBonus.

Previous career experience as Sales Director of AB R. Barlach, advertising manager of Nordiska Kompaniet, Head of marketing and business area at DAGAB. President of the Ticket Travel Group AB 1990–1995.

Vagn Sørensen

Senior Vice President

Member of the SAS Management Team and head of the Business Systems Division since January 1993. The Division has overall responsibility for profitability in the SAS traffic system, the product, aircraft fleet, cargo and for commercial strategies. Joined SAS in 1984 as a trainee in the marketing department. Marketing Director for Europe, Middle East and Africa 1989. Vice President, SAS Airline International 1991.



Claes Broström and Henry Sténson



Vagn Sørensen, Erik Strand and Jan Forsberg



Årsredovisning 1998

Bernhard Rikardsen



From left: Jan Stenberg, Gunnar Reitan, Ørnulf Myrvoll, Marie Ehrling

SAS Danmark A/S

Board of Directors' Report

SAS Danmark A/S (A/S Reg. No. 4556) conducts airline operations in cooperation with SAS Norge ASA and SAS Sverige AB in the consortia SAS and SAS Commuter (The SAS Group). The ownership stakes are 2/7, 2/7 and 3/7 respectively. The SAS Group's operations are described on pages 60 to 68.

SAS Danmark A/S's invested capital in the SAS Group is stated in Swedish kronor. In the annual accounts, the invested capital is translated into Danish kroner at the year-end exchange rate. Exchange gains and losses are reported in the balance sheet and affect both fixed assets and shareholders' equity.

The exchange rate for the Swedish krona as per December 31, 1998, was SEK 100 = DKK 78.62 (DKK 86.31). This resulted in a decrease in the book value of SAS Danmark A/S's invested capital in the SAS Group by MDKK 357.

Mission

The mission of SAS Danmark A/S is to exercise active ownership in the SAS Group. The overall goal is the long-term development of SAS through active participation on the board of directors.

Activities

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

Changed accounting principles

As mentioned under "Accounting principles" on page 86, a change has been made in 1998 whereby the company's share of the income and shareholders' equity in the SAS and SAS Commuter consortia is calculated on the basis of the SAS Group's annual accounts. This calculation was previously made on the basis of the consortia's annual accounts. This change affects SAS Danmark A/S's shareholders' equity as per January 1, 1998, by MDKK +186, while income for the year before and after taxes is affected by MDKK +40 (+9).

Earnings

The 2/7 profit share of the SAS Group's income before taxes amounted to MDKK 653.6 (534.1).

SAS Danmark A/S's operating expenses amounted to MDKK 4.3 (4.4). Net financial income was MDKK 22.1 (MDKK 19.2). The change is mainly attributable to reduced financial expenses. SAS Danmark A/S's other operations thereafter report income of MDKK 17.8, compared with MDKK 14.8 in 1997.

SAS Danmark A/S's total income before taxes amounted to MDKK 671.4 (548.9). Due to the change in the corporate tax rate from 34% to 32% as of 1999, the deferred tax at year-end is calculated at 32%. The effect of the tax change was MDKK 51, which is recognized as revenue in the statement of income. The company's total tax expense thereafter amounted to MDKK 126.7.

SAS Danmark A/S's income after taxes thereafter amounted to MDKK 544.7 (388.8).

Shareholders

At year-end 1998, approx. 6,200 shareholders were registered, accounting for 81% 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.
- The PFA Group, 2,491,776 shares or 5.3% of the share capital.

Dividend policy

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

The annual dividend is determined in consideration of the SAS Group's earnings performance and capital requirement, plus relevant macroeconomic conditions.

The goal of the dividend policy is that the dividend over an economic cycle should be in the order of 30-40% of the SAS Group's income after deduction for estimated taxes.

Proposed dividend

At the upcoming annual general meeting of shareholders, the board will propose a dividend of DKK 3.15 (3.50) per share (par value DKK 10). The reduced dividend compared with 1997 is attributable solely to the change in the exchange rate for the Swedish krona. The dividend will be paid on April 19, 1999.

Outlook for 1999

Regarding the outlook for 1999, the reader is referred to the information furnished by the SAS Group.

Discharged from liability

SAS's Assembly of Representatives has discharged the Board of Directors and the President of the SAS Consortium from liability for fiscal year 1998.

Statement of Income

SAS Danmark A/S

MDKK	Note	1998	1997
Share of income in SAS Group ¹	1	653.6	534,1
Other operations			
Operating expenses		1.8	2,0
Payroll costs	2	1.7	1,7
Contribution to DDL:s Hjælpefond		0.8	0,7
Total expenses		4.3	4,4
Income from other operations before financial items		-4.3	-4,4
Financial income	3	23.7	23,1
Financial expenses	4	-1.6	-3,9
Net financial items		22.1	19,2
Income for the year from other operations		17.8	14,8
Total income before taxes		671.4	548,9
Taxes	5	126.7	160,1
Net income for the year		544.7	388,8

¹ Share in the SAS Group after subsidiaries' taxes.

Balance Sheet

SAS Danmark A/S

ASSETS

	Dec. 31, 1998	Dec. 31, 1997
MDKK		
Fixed assets		
Financial fixed assets		
Equity share in SAS Group, Note 6	3,618.8	3,512.9
Total fixed assets	3,618.8	3,512.9
Current assets		
Prepaid tax, Note 7	4.1	15.4
Credit balance on hand, Note 8	682.6	715.6
Securities, Note 9	1.,3	1.3
Liquid assets, Note 10	4.5	1.1
Total current assets	692.5	733.4
TOTAL ASSETS	4,311.3	4,246.3

SHAREHOLDERS' EQUITY AND LIABILITIES

	Dec. 31, 1998	Dec. 31, 1997
MDKK		
Shareholders' equity		
Share capital	470.0	470.0
Share premium reserve	411.2	411.2
Other reserves	2,437.1	2,288.5
Total shareholders' equity, Note 11	3,318.3	3,169.7
Provisions		
Deferred tax, Note 12	844.0	911.0
Total provisions	844.0	911.0
Current liabilities		
Other liabilities	0.9	1.1
Dividend	148.1	164.5
Total current liabilities	149.0	165.6
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	4,311.3	4,246.3

Statement of Changes in Financial Position

SAS Danmark A/S

MDKK	1998	1997
Income for the year before taxes	671.4	548.9
Revaluations	0.5	-0.4
Change in working capital and other adjustments	-34.8	-0.6
Funds provided internally before taxes	637.1	547.9
Corporate tax paid	-97.4	-186.5
Cash flow from the year's operations	539.7	361.4
Share of income in the SAS Group	-653.6	-534.1
Transfer from the consortia	281.8	293.1
Investments, net	-371.8	-241.0
Dividend	-164.5	-122.2
External financing, net	-164.5	-122.2
Change in liquid assets	3.4	-1.8
Liquid assets, January 1	1.1	2.9
Liquid assets, December 31	4.5	1.1

Accounting principles

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

A change of the accounting principles in SAS Danmark A/S was carried out in 1998 whereby the company's share of the income and shareholders' equity in the SAS and SAS Commuter consortia is calculated on the basis of the SAS Group's annual accounts. This calculation was previously made on the basis of the consortia's annual accounts. This change affects SAS Danmark A/S's shareholders' equity as per January 1, 1998, by MDKK +186, while income for the year before and after taxes is affected by MDKK +40 (+9).

These differences arise due to the fact that the SAS Group consolidates subsidiaries and accounts for affiliated companies in accordance with the equity method, where the consortia have previously evaluated subsidiaries and affiliated companies at cost price with deduction for any write-downs and reporting of dividend received as revenue.

Starting in 1998, the accounting principles applied in SAS Danmark A/S are further changed in such a way that the company's share of income in the SAS Group is now recognized in accordance with the equity method. Previously a proportional recognition of the profit shares in the SAS and SAS Commuter consortia was done. This change applies solely to the presentation in the statement of income and has, viewed in isolation, no effect on SAS Danmark A/S's income or shareholders' equity.

The changes are based on an ongoing harmonization of SAS Danmark A/S's accounting principles with the accounting principles employed by the SAS Group. With the changes that have been made, an immediate connection is achieved between SAS Danmark A/S and the Group's accounts.

The comparison figures in the statement of income, the balance sheet and the statement of changes in financial position have been adjusted so that they agree with the new accounting principles. Aside from these

changes, the applied accounting principles are unchanged in relation to recent years.

The applied accounting principles as from 1998 are as follows:

SAS Danmark A/S's participation in the SAS Group is recognized in accordance with the equity method, which means that the equity share is recognized in the balance sheet at SAS Danmark A/S's relative share of the SAS Group's equity, and that SAS Danmark A/S's share of the SAS Group's income is recognized in the statement of income as "Share of income in SAS Group". The share of equity and income is calculated against the background of the SAS Group's accounts, which are prepared in accordance with the recommendations of the International Accounting Standards Committee (IASC).

SAS Danmark A/S's share of income in the SAS Group is translated at the average exchange rate for the year. The average exchange rate for Swedish kronor for 1998 was: SEK 100 = DKK 84.23 (86.54). SAS Danmark A/S's share of the SAS Group's equity is translated at the year-end rate, where SEK 100 = DKK 78.62 (December 31, 1997: SEK 100 = DKK 86.31). Exchange differences are reported under shareholders' equity.

Securities are stated at the listed official price at year-end. Exchange gains or losses 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.

Corporate tax is charged to income in the amount attributable to income for the year. The expensed tax includes tax payable on the year's taxable income and revaluation of deferred tax.

Calculation of provision for deferred tax is based on timing differences between revenue and expenses reported in the statement of income and taxable income. Deferred tax is calculated on current and fixed assets using the future tax rate of 32%.

FIVE-YEAR SUMMARY ¹

MDKK	1998	1997	1996	1995	1994
Statement of income					
Share of income in the SAS Group	654	534	439	573	329
Income before taxes	671	549	453	583	339
Net income for the year	545	389	346	319	304
Balance Sheet					
Fixed assets	3,619	3,513	3,215	2,520	2,179
Current assets	692	733	731	322	135
Total assets	4,311	4,246	3,946	2,842	2,314
Shareholders' equity	3,318	3,170	2,900	1,919	1,664
Long-term liabilities and provisions	844	911	864	730	563
Current liabilities	149	165	182	193	87
Total shareholders' equity and liabilities	4,311	4,246	3,946	2,842	2,314
Per-share data					
Dividend, total	148	165	122	98	81
Market price at year-end, DKK ²	72.8	100	73	99	63
Equity per share, DKK ²	70.6	67.4	61.7	40.8	35.4
Quick ratio	4.6	4.4	4.0	1.7	1.6
Equity/assets ratio, % ³	77.0	74.7	73.5	67.5	71.9
Return on capital employed, %	15.7	13.4	13.3	22.6	14.8
Return on equity, %	16.0	12.2	13.7	16.9	15.4

¹ The five-year summary has been adjusted in accordance with the changed accounting principles, which are being applied from 1998.

² Market price at year-end and equity per share are based on the current par value of the company's shares, DKK 10.

³ Shareholders' equity in relation to total assets.

Notes

Note 1 – Share of income in SAS Group

MDKK	1998	1997
Income for the 2/7 of MSEK 2,716	653.6	534.1

Note 2 – Number of employees and payroll costs

MDKK	1998	1997
SAS Danmark A/S has had 2 employees		
Salaries	1.0	0.9
Social security expenses and pension costs	0.1	0.2
Directors' fees	0.3	0.4
Fees to SAS Consortium's Assembly of Representatives (Danish members)	0.3	0.2
Total payroll costs	1.7	1.7

Note 3 – Financial income

MDKK	1998	1997
Market value adjustment of securities	0	0.4
Interest on capital account with SAS	22.1	22.5
Exchange gain on transfer from SAS	0.4	0
Other interest income	0.3	0.2
Income from non-exchanged paper shares	0.9	0
Total financial income	23.7	23.1

Note 4 – Financial expenses

MDKK	1998	1997
Liquidation Scanair	0.5	0
Other financial expenses	1.1	3.9
Total financial expenses	1.6	3.9

Note 5 – Taxes

	1998	1997
MDKK		
Tax on income for the year	151.0	130.0
Correction of previous year's tax expense	-1.3	-17.1
Foreign taxes	0	0.2
Provision for deferred tax	28.0	47.0
Change in deferred tax due to tax rate change	-51.0	0
Total	126.7	160.1

Note 6 – Equity share in SAS Group

	Dec. 31, 1998	Dec. 31, 1997
MDKK		
Invested capital January 1	3,326.9	3,086.8
Effect of changed accounting principles	186.0	176.8
Invested capital January 1 after changed accounting principles	3,512.9	3,263.6
Exchange difference	-288.7	-2.1
Income for the year	MSEK 2,716.0	
To be transferred to parent companies	MSEK 957.0	
Not transferred	MSEK 1,759.0	395.1
Loss Scanair	-0.5	0
Invested capital at year-end	3,618.8	3,512.9

Note 7 – Prepaid tax

	Dec. 31, 1998	Dec. 31, 1997
MDKK		
Prepaid tax 1998	155.1	145.4
Expected corporate tax	-151.0	-130.0
Prepaid tax at year-end	4.1	15.4

Note 8 – Credit balance on hand

	Dec. 31, 1998	Dec. 31, 1997
MDKK		
Settlement with SAS Finance	214.3	281.8
Capital account with SAS Finance (per agreement)	467.5	433.8
Other balances	0.8	0
Total credit balance	682.6	715.6

Note 9 – Securities

	Dec. 31, 1998	Dec. 31, 1997
MDKK		
Shares in Københavns Lufthavne A/S	1.3	1.3

Note 10 – Liquid assets

	Dec. 31, 1998	Dec. 31, 1997
MDKK		
Cash in bank	4.5	1.1
Total liquid assets	4.5	1.1

Note 11 – Shareholders' equity

	Dec. 31, 1998	Dec. 31, 1997
MDKK		
Share capital		
Outstanding shares 47,000,000 at par value DKK 10		
Total share capital	470.0	470.0
Share premium reserve	411.2	411.2
Other reserves		
January 1, before changed accounting principles	2,102.5	1,890.9
Effect of changed accounting principles	186.0	176.8
January 1, after changed accounting principles	2,288.5	2,067.7
Exchange difference, share of SAS Group	-333.0	-3.5
Exchange difference, opening deferred tax	85.0	0
Transfer from statement of income	396.6	224.3
Total other reserves	2,437.1	2,288.5
Total shareholders' equity	3,318.3	3,169.7

Note 12 – Deferred taxes

	Dec. 31, 1998	Dec. 31, 1997
MDKK		
Deferred tax, January 1	911.0	864.0
Exchange difference, opening deferred tax	-85.0	0
Increase in deferred tax according to statement of income	18.0	47.0
Total provisions	844.0	911.0

Note 13 – Fees to auditors elected by annual general meeting

Fees paid to Deloitte & Touche in 1998 for auditing amounted to DKK 30,000 and for other services DKK 341,000. Fees paid to KPMG C. Jespersen in 1998 for auditing amounted to DKK 30,000 and for other services DKK 20,000.

Proposed disposition of earnings

The Board of Directors of SAS Danmark A/S proposes to the annual general meeting that the company's income after taxes of MDKK 544.7 be allocated as follows:

Dividend	MDKK 148.1
Allocation to other reserves	MDKK 396.6
Total	MDKK 544.7

The Board of Directors hereby presents the annual report for the period January 1 to December 31, 1998, for the approval of the Annual Meeting of Shareholders.

Copenhagen, March 17, 1999

Management

Jan Stenberg

President

Board of Directors

Hugo Schrøder

Erik Sørensen

Anders Eldrup

Bjørn Westh

Auditors' Report

We have audited the annual report for 1998 submitted by the management of SAS Danmark A/S.

Basis of opinion

We have planned and performed our audit in accordance with generally accepted auditing standards as applied in Denmark so as to obtain reasonable assurance that the financial statements are free from material misstatements. Based on an evaluation of materiality and risk, we tested, 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 assets and liabilities, financial position and income for the year.

Copenhagen, March 17, 1999

Deloitte & Touche

State Authorized Public Accountants

Stig Enevoldsen Henrik Z. Hansen

State Authorized Public Accountants

KPMG C. Jespersen

State Authorized Public Accountants

Knud Plenge

State Authorized Public Accountant

Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders will be held on April 13, 1999, at 4 p.m. at Radisson SAS Falconer Center, Falkoner Allé 9, DK-2000, Frederiksberg, Denmark.

Board of Directors and Management

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 Secretary, Ministry of Finance. Vice Chairman of the Board of Dansk Olie og Naturgas A/S.

Bjørn Westh, former minister
Member of the Board of Statens og Kommunernes Indkøbs Service A/S and Dalum Papir A/S.

Management:

Jan Stenberg, President
Chief Executive Officer of Scandinavian Airlines System and president of SAS's parent companies SAS Norge ASA, SAS Sverige AB and SAS Danmark A/S.

SAS Norge ASA

Board of Directors' Report

Under a consortium agreement with SAS Danmark A/S and SAS Sverige AB, SAS Norge ASA conducts air transport business in the Scandinavian Airlines System (SAS) and SAS Commuter Consortia.

The consortias' net income is divided between the parent companies SAS Danmark A/S, SAS Norge ASA and SAS Sverige AB in the proportions 2/7, 2/7 and 3/7, respectively.

Together with SAS Danmark A/S and SAS Sverige AB, SAS Norge ASA is jointly and severally responsible for the commitments of SAS and SAS Commuter.

SAS's financial statements and the comments pertaining to them are an integral part of the annual report for SAS Norge ASA, and the two reports must be seen in one context.

Mission

SAS Norge ASA's mission is to exercise active ownership in the SAS Consortium. The overall goal is the long-term development of SAS through active participation of the board of directors.

Activities

SAS Norge ASA's activities comprise administration and management of the company's ownership interests in the two consortia.

Earnings

Income after taxes amounted to MNOK 541 (440).

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 financial position at year-end.

Information regarding the company's earnings and financial position and trends, important events and uncertainty factors of importance for a valuation of the company is provided in separate sections of the SAS Group's annual report.

As regards environmental information and adaptation to the year 2000, please see the SAS Group's annual report.

Shareholders

As per December 31, 1998, the share capital in SAS Norge ASA amounted to NOK 470,000,000 distributed among 47,000,000 shares at a par value of NOK 10 each.

Half of the shares, class A, are owned by the Norwegian State. As per December 31, 1998, the other half, class B, were owned by 2,787 other shareholders. Only class B shares are listed on the Oslo Stock Exchange. Only the Norwegian State owns more than 20% of the company's share capital. The proportion of foreign shareholders was 18 (16)%.

Shareholdings of board members:

Mads Henry Andenæs, 0
Bjørn Eidem, 5,861 shares
Kari Gjestebø, 0
Harald Norvik, 0

Fees and remuneration

Fees to members of the board and the Assembly of Representatives totaled NOK 490,000. The CEO of SAS is also president of SAS Norge ASA without compensation beyond that paid by SAS.

Fees to the company's auditors have been booked as an expense of NOK 25,000 for auditing and NOK 254,000 for other counseling.

Dividend policy

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

The annual dividend is determined in consideration of the SAS Group's earnings performance and capital requirement, plus relevant macroeconomic conditions.

The goal of the dividend policy is that the dividend over an economic cycle should be in the order of 30–40% of the SAS Group's income after deduction for estimated taxes.

Proposed dividend and disposition of earnings

The SAS Assembly of Representatives has approved the SAS Group's annual report for 1998 and the distribution of surplus which the Board of Directors of the SAS Consortium has proposed.

Against this background, the Board of Directors of SAS Norge ASA proposes to the annual meeting of shareholders that the year's surplus be distributed as follows:

Proposed dividend	MNOK 174
To unrestricted reserve	MNOK 367
	<hr/>
	MNOK 541

The proposed dividend is NOK 3.70 per share, which is the same as last year.

Outlook for 1999

Regarding the outlook for 1999, the reader is referred to the information furnished by the SAS Group.

Bærum
December 31, 1998
March 17, 1999

Mads Henry Andenæs

Kari Gjestebø

Bjørn Eidem
Vice Chairman

Harald Norvik
Chairman

Jan Stenberg
President

Statement of Income

SAS Norge ASA

MNOK	Note	1998	1997*
Share of income in the SAS Group ¹		736.3	571.4
Income from own operations		-3.0	-4.0
Operating income		733.3	567.4
Interest income and similar income items		3.3	3.0
Interest expenses and similar income items		-0.2	0.0
Income before taxes		736.4	570.4
Taxes	2	-195.1	-130.0
Net income for the year		541.3	440.4
Disposition of earnings			
Dividend		173.9	173.9
Allocation to statutory reserve		-	120.7
Allocation to unrestricted reserve		367.4	145.8
		541.3	440.4

¹ Share in the SAS Group after subsidiaries taxes.

* The comparative figures for 1997 are changed, see Comments to the Financial Statements.

Balance Sheet

SAS Norge ASA

ASSETS

MNOK	Dec. 31, 1998	Dec. 31, 1997*
Current assets		
Cash, bank and postgiro balances	1.2	4.6
Short-term investments	21.3	0.0
Credit balances with SAS	254.8	304.1
Total current assets	277.3	308.7
Fixed assets		
Other fixed assets, Note 1	1.9	2.0
Participation in SAS Group	4,289.9	3,795.4
Total fixed assets	4,291.8	3,797.4
TOTAL ASSETS	4,569.1	4,106.1

LIABILITIES AND SHAREHOLDERS' EQUITY

MNOK	Dec. 31, 1998	Dec. 31, 1997*
Current liabilities		
Current liabilities	0.3	0.7
Current liabilities to SAS	0.0	5.0
Taxes payable, Note 2	104.8	120.0
Allocated dividend	173.9	173.9
Total current liabilities	279.0	299.6
Long-term liabilities		
Deferred tax, Note 2	438.5	334.0
Total long-term liabilities	438.5	334.0
Shareholders' equity, Note 3		
Share capital (47,000,000 shares at NOK 10)	470.0	470.0
Statutory reserve	518.8	518.8
Total restricted equity	988.8	988.8
Unrestricted reserve	2,862.8	2,483.7
Total unrestricted equity	2,862.8	2,483.7
Total shareholders' equity	3,851.6	3,472.5
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	4,569.1	4,106.1
Assets pledged	6.4	7.7
Contingent liabilities	307.4	249.1

* The comparative figures for 1997 are changed, see Comments to the Financial Statements.

Statement of Changes in Financial Position

SAS Norge ASA

NOK 000s	1998	1997
Cash flow from operating activities		
Payment for goods and services	-2,307	-1,553
Payment to employees, pension societies, payroll tax, tax deductions, etc.	-988	-2,612
Dividend received	13	15
Interest received	3,188	2,788
Interest paid	-229	-47
Taxes paid	-106,212	-130,284
Net cash flow from operating activities	-106,535	-131,692
Cash flow from investment activities		
Disbursements on purchase of short-term investments	-21,171	0
Receipts on sale of short-term investments	0	26,006
Net cash flow from investment activities	-21,171	26,006
Cash flow from financing activities		
Receipts on floating of new long-term debt	0	5,000
Disbursements on repayment of long-term debt	-5,000	0
Dividends paid	-173,900	-131,600
Transferred from SAS	303,151	225,023
Net cash flow from financing activities	124,251	98,423
Reconciliation		
Income before taxes	736,418	570,413
Share of income in SAS Group	-736,346	-571,413
Taxes paid for the period	-106,212	-130,284
Depreciation SAS Norge ASA	84	94
Difference between pension booked as expense and incoming/outgoing payments	-112	-247
Change in accrued expenses	-156	27
Change in other interim items	-211	-282
Net cash flow from operating activities	-106,535	-131,692
Opening balance, liquid assets*	4,608	11,870
Net change in liquid assets	-3,454	-7,262
Closing balance, liquid assets*	1,154	4,608

* Applies to SAS Norge ASA's own operations

Comments to the Financial Statements

Accounting and valuation principles

SAS Norge ASA's accounts are prepared in accordance with Norwegian accounting standards and generally accepted accounting practice. SAS's accounts form an integral part of the annual report for SAS Norge ASA.

The accounting principles applied and the notes that refer to items in SAS's financial statements are not repeated in the following.

Apart from this, the most important accounting and valuation principles are described below.

SAS Norge changed its accounting principles in 1998 regarding the treatment of its 2/7 of the SAS consortium so that it is now the participation in the SAS Group that is reported.

A new Accounting Act went into effect in Norway as of January 1, 1999. SAS Norge ASA has chosen to report its 2/7 according to the equity method. This means that 2/7 of the statement of income and the balance sheet are recorded in the accounts.

Principles of consolidation

SAS Norge ASA's financial statements include 2/7 of the SAS Group and the Company's own business activities.

The Company's participations in the SAS Group are treated in the accounts according to the equity method as ownership interests in joint ventures.

Internal transactions and balances are eliminated on consolidation.

The SAS Group's accounts are booked in Swedish kronor (SEK). The year-end exchange rate is used in translating all balance sheet items. The items in the statement of income are translated at the average rate of exchange. The average rate used for 1998 was SEK 100 = NOK 94.89, compared with NOK 92.59 last year. The year-end rate used for 1998 was SEK 100 = NOK 93.20, as compared with NOK 93.28 at year-end 1997.

The changed accounting principles have the following consequences for 1997 compared with the submitted accounts: Income increases by MNOK 104, deferred tax decreases by MNOK 85, and shareholders' equity decreases by MNOK 99.

FIVE-YEAR SUMMARY

MNOK	1998	1997	1996	1995 ¹	1994 ¹
Statement of income					
Statement of income in the SAS Group	736	571	499	481	306
Income before taxes	736	570	510	491	321
Net income for the year	541	440	380	373	176
Balance sheet					
Fixed assets	277	309	264	4,055	3,705
Current assets	4,292	3,797	3,496	5,376	5,962
Total assets	4,569	4,106	3,760	9,431	9,667
Current liabilities	279	300	269	2,826	2,524
Long-term liabilities and provisions	438	334	280	3,373	4,138
Shareholders' equity	3,852	3,472	3,211	3,232	3,005
Total shareholders' equity and liabilities	4,569	4,106	3,760	9,431	9,667
Key ratios					
Earnings per share, NOK	11.51	9.36	8.08	7.94	3.74
Shareholders' equity per share, NOK	81.90	73.90	68.30	68.80	63.90
Equity/asset ratio, %	84.3	84.6	85.4	34.3	31.1
Return on capital employed, ROCE %	19.1	16.4	15.9	12.6	9.3
Return on equity, %	14.8	13.2	11.6	12.0	5.9

¹ Basis: DNL Group's accounts are consolidated via another method; therefore there is no direct comparability.

Notes

Note 1 – Fixed assets

The item includes, among other things, shares (TNOK 312) and fixed assets (TNOK 1,613) directly owned by SAS Norge ASA.

NOK 000s	Equipment	Land
Acquisition cost		
January 1, 1998	406	1,528
Investments during the year	–	–
Sales during the year	–	–
Accumulated depreciation	–321	–
Book value Dec. 31, 1998	85	1,528
Depreciation for the year	84	–
Depreciation rate	20–30%	

Investments and sales during the past five years

NOK 000s	Investments	Sales
1994	–	1,500
1995	384	175
1996	22	206,800
1997	–	–
1998	–	–

Note 2 – Taxes

In accordance with the interim Norwegian accounting standard for reporting of taxes, negative temporary differences are eliminated against positive differences.

MNOK	1998	1997
Reported income before taxes	736	570
Share of income taxed in other companies	–45	–104
Reported income before taxes	691	466
Permanent differences	6	5
Changes in temporary differences	–	–
Fixed assets	68	66
Gains and losses	–211	–44
Other temporary differences	–179	–64
Taxable income	375	429
Estimated taxes payable (28%)	105	120
Temporary differences as per Dec. 31	1998	1997
Shares	89	89
Fixed assets	875	907
Gains and losses	537	336
Other temporary differences	65	–138
Basis for deferred tax	1,566	1,194
Deferred tax in balance sheet (28%)	438	334
Specification of tax expense	1998	1997
Estimated taxes payable	105	120
Change in deferred tax	104	17
Excess provision in previous years	–14	–7
Tax cost for the year in the statement of income	195	130

The preliminary RISK level per January 1, 1999 is calculated as NOK 2.03 per share. The RISK level per January 1, 1998 has been finalized at NOK 2.12 per share.

Note 3 – Shareholders' equity

MNOK	Share capital	Statutory reserve	Unrestricted reserve	Total
As per Jan. 1, 1998	470	519	2,484	3,473
Income excluding dividend	–	–	367	367
Change in translation difference	–	–	12	12
As per Dec. 31, 1998	470	519	2,863	3,852

Note 4 – Pension commitments

The company's pension commitments are covered by a group pension plan and encompass two employees and two retirees (net pension funds TNOK +627) plus a liability pertaining to one early retiree (TNOK –189).

Auditors' Report

To the Annual General Meeting of Shareholders in SAS Norge ASA

We have audited the annual report for SAS Norge ASA for 1998 showing a profit for the year of MNOK 541. The annual report, comprising the Board of Directors' Report, the Statement of Income, the Balance Sheet, the Statement of Cash Flows and Notes to the Financial Statements, have been submitted by 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 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 examined a selection of evidence sup-

porting the amounts and disclosures in the financial statements. We have also assessed the accounting principles 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 proposed allocation of the surplus for the year satisfies the requirements of the Companies Act.

In our opinion, the company's accounts are prepared in accordance with the provisions of the Companies Act and provide a true and fair picture of the financial position as per December 31, 1998, and the net income for the fiscal year in accordance with generally accepted auditing principles.

Oslo, March 17, 1999

Deloitte & Touche

Olav Revheim

State Authorized Public Accountant (Norway)

Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders will be held on April 12, 1999, at 10.00 a.m. at Radisson SAS Scandinavia Hotel, Oslo, Norway.

Board of Directors

Members appointed by the Norwegian Government

Harald Norvik, Chairman
Kari Gjestebø, Ordinary member

Members elected by the private shareholders

Bjørn Eidem, Vice Chairman
Mads Henry Andenæs, Ordinary member

SAS Sverige AB

Board of Directors' Report

The Board of Directors and the President of SAS Sverige AB (publ), (corporate identity number 556042-5414) hereby submit their annual report for the fiscal year 1998.

Under a consortium agreement with SAS Danmark A/S and SAS Norge ASA, SAS Sverige AB conducts air transport business in the Scandinavian Airlines System (SAS) and SAS Commuter Consortia. SAS conducts operations associated with the airline business in subsidiaries and affiliates. The two consortia with subsidiaries and affiliates form the SAS Group.

Mission

SAS Sverige AB's mission is to exercise active ownership in the SAS Consortium. The overall goal is the long-term development of SAS through active participation of the board of directors.

Activities

SAS Sverige AB's main activities comprise ownership and management of the participation (3/7) in the SAS Consortium.

Work of the board of directors of SAS Sverige AB

SAS Sverige AB's board of directors consists of four members.

The board of directors has had three meetings in 1998. In addition, the board has voted per capsulum on two occasions.

Year 2000

Regarding the Year 2000, the reader is referred to the information furnished in the SAS Group's Report by the Board of Directors (see page 60).

Supplementary accounts

To increase comparability between SAS Sverige AB and the other parent companies, pro forma consolidated financial statements (statement of income, balance sheet and statement of changes in financial position)

have been adopted in SAS Sverige AB. Besides SAS Sverige AB's own operations, these financial statements include 3/7 of the SAS Group with so-called "one-line consolidation". Comparison figures for 1997 have been included according to the same principles.

Earnings

Income after taxes for SAS Sverige AB including 3/7 of the SAS Group amounted to MSEK 900 (714).

Personnel

SAS Sverige AB had an average of 1.5 employees in 1998.

Dividend policy

It is the ambition of the boards of the SAS Group's parent companies to pursue a common dividend policy so that the dividends for the different SAS shares are equally large when translated to the same currency.

The annual dividend is determined in consideration of the SAS Group's earnings performance and capital requirement, plus relevant macroeconomic conditions.

The goal of the dividend policy is that the dividend over an economic cycle should be in the order of 30–40% of the SAS Group's income after deduction for estimated taxes.

Proposed dividend

The proposed dividend for the fiscal year is SEK 4.00 (4.00) per share, for a total distribution of MSEK 282 (282).

Outlook for 1999

Regarding the outlook for 1999, the reader is referred to the information furnished by SAS.

Statement of Income

Proforma
SAS Sverige AB including 3/7 of the SAS Group

MSEK	Note	1998	1997
Share of income in the SAS Group ¹		1,164.0	926.6
Revenue from other operations		1.1	0.8
Total revenue		1,165.1	927.4
Payroll costs		-4.7	-4.9
Other operating expenses		-2.3	-3.3
Operating income		1,158.1	919.2
Financial income		47.3	46.7
Financial expenses		-0.4	0
Income after financial items		1,205.0	965.9
Taxes	1	-305.3	-251.6
Net income for the year		899.7	714.3

¹ Share in the SAS Group after subsidiaries' taxes.

Balance Sheet

Proforma

SAS Sverige AB including 3/7 of the SAS Group

ASSETS

	Dec. 31, 1998	Dec. 31, 1997
MSEK		
Fixed assets		
Tangible fixed assets	0.3	0.5
Financial fixed assets		
Participation in the SAS Group	6,904.1	6,103.3
Other shares	0.0	0.0
Deferred taxes recoverable	73.0	73.0
	6,977.1	6,176.3
Total fixed assets	6,977.4	6,176.8
Current assets		
Current receivables		
Accounts receivable	–	1.0
Receivable from SAS	967.0	1,018.4
Anticipated transfer from SAS	410.3	489.0
Other receivables	3.4	0.0
Prepaid expenses and accrued revenues	1.4	1.7
	1,382.1	1,510.1
Cash and bank balances	2.7	1.3
Total current assets	1,384.8	1,511.4
TOTAL ASSETS	8,362.2	7,688.2

SHAREHOLDERS' EQUITY AND LIABILITIES

	Dec. 31, 1998	Dec. 31, 1997
MSEK		
Shareholders' equity, Note 9		
Restricted capital		
Share capital (70,500,000 shares, par value SEK 10)	705.0	705.0
Revaluation reserve	179.0	179.0
Restricted reserves	4,359.4	4,159.7
Total restricted equity	5,243.4	5,043.7
Unrestricted equity		
Retained earnings	468.2	188.5
Net income for the year	899.7	714.3
Less: Proposed dividend	–282.0	–282.0
Total unrestricted equity	1,085.9	620.8
Total shareholders' equity	6,329.3	5,664.5
Provisions for pensions	0.5	0.5
Long-term liabilities		
Deferred taxes, Note 4	1,478.0	1,418.5
Other long-term liabilities	22.1	22.1
	1,500.1	1,440.6
Current liabilities		
Proposed dividend	282.0	282.0
Tax liabilities	245.7	256.5
Other liabilities	3.1	40.9
Accrued expenses and prepaid revenues	1.5	3.2
	532.3	582.6
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	8,362.2	7,688.2
Assets pledged		
Pledges SAS Group (3/7)	380.1	375.8
Contingent liabilities		
SAS Group (3/7)	525.4	419.1
VPC	1.0	1.1
	526.4	420.2

Statement of Changes in Financial Position

SAS Sverige AB

MSEK	Proforma		1998	1997
	1998	1997		
Source of funds				
Income after financial items	1,205	966	1,085	949
Shares of income	-1,164	-927	-1,044	-910
	41	39	41	39
Transfer received from SAS	489	362	489	362
Depreciation	0	0	0	0
Taxes	-246	-248	-246	-248
	284	153	284	153
Application of funds				
Dividend to shareholders	-282	-211	-282	-211
Change in working capital	2	-58	2	-58
Specification of change in working capital				
Increase(+)/decrease(-) in current receivables	-49	-43	-49	-43
Increase(-)/decrease(+) in current liabilities	50	-9	50	-9
Increase(+)/decrease(-) in liquid assets	1	-6	1	-6
	2	-58	2	-58

Statement of Income and Balance Sheet

SAS Sverige AB

STATEMENT OF INCOME

MSEK	Note	1998	1997
Share of income in consortia	2	1,043.2	910.1
Revenue from other operations		1.1	0.8
		1,044.3	910.9
Payroll costs		-4.7	-4.9
Other operating expenses		-2.2	-3.1
Depreciation according to plan	3	-0.1	-0.2
Income from sale of tangible fixed assets		-	0
Operating income		1,037.3	902.7
Interest income and similar income items		47.3	46.7
Interest expenses and similar income items		-0.4	0
Income after financial items		1,082.2	949.4
Appropriations	4	-212.5	-10.5
Tax on income for the year		-245.9	-248.1
Net income for the year		625.8	690.8

BALANCE SHEET

MSEK	Dec. 31, 1998	Dec. 31, 1997
ASSETS		
Fixed assets		
Tangible fixed assets		
Machinery and equipment, Note 5	0.3	0.5
Total tangible fixed assets	0.3	0.5
Financial fixed assets		
Participations in consortia, Note 6	6,408.3	5,781.8
Shares in Group companies, Note 7	120.4	120.4
Other shares, Note 8	0.0	0.0
Total financial fixed assets	6,528.7	5,902.2
Total fixed assets	6,529.0	5,902.7
Current assets		
Current receivables		
Accounts receivable	-	1.0
Receivable from SAS	967.0	1,018.4
Anticipated transfer from SAS	410.3	489.0
Other receivables	3.4	0.0
Prepaid expenses and accrued revenues	1.4	1.7
Total current receivables	1,382.1	1,510.1
Cash and bank balances	2.7	1.3
Total current assets	1,384.8	1,511.4
TOTAL ASSETS	7,913.8	7,414.1

MSEK	Dec. 31, 1998	Dec. 31, 1997
SHAREHOLDERS' EQUITY AND LIABILITIES		
Shareholders' equity, Note 9		
Restricted equity		
Share capital (70,500,000 shares, par value SEK 10)	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		
Retained earnings	591.0	188.5
Net income for the year	625.8	690.8
Less: Proposed dividend	-282.0	-282.0
Total unrestricted equity	934.8	597.3
Total shareholders' equity	1,959.8	1,622.3
Untaxed reserves, Note 4	5,278.7	5,066.2
Provision for pensions	0.5	0.5
Long-term liabilities		
Other long-term liabilities	22.1	22.1
Total long-term liabilities	22.1	22.1
Current liabilities		
Proposed dividend	282.0	282.0
Liabilities to Group companies	120.4	120.4
Taxes payable	245.7	256.5
Other liabilities	3.1	40.9
Accrued expenses and prepaid revenues	1.5	3.2
Total current liabilities	652.7	703.0
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	7,913.8	7,414.1
Assets pledged		
Pledges SAS Consortium (3/7)	10.3	12.4
Contingent liabilities		
SAS Consortium (3/7)	494.6	400.3
VPC	1.0	1.1
	495.6	401.4

Furthermore, SAS Sverige AB bears joint and several liability with SAS Danmark A/S and SAS Norge ASA for all contingent liabilities entered into by the SAS, SAS Commuter and Scanair consortia.

Comments to the Financial Statements

Accounting principles

Pro forma accosunts for SAS Sverige AB

To increase comparability between SAS Sverige AB and the other parent companies, pro forma consolidated financial statements (statement of income, balance sheet and statement of changes in financial position) have been adopted in SAS Sverige AB. Besides SAS Sverige AB's own operations, these financial statements include 3/7 of the SAS Group with so-called "one-line consolidation". Comparison figures for 1997 have been included according to the same principles.

The SAS Group's accounts are prepared in accordance with the rules of the International Accounting Standards Committee (IASC), entailing that affiliated companies are reported according to the equity method. Further, exchange gains and losses are reported via the statement of income for the period in which they arise. Finance leases are capitalized. Paid and deferred taxes are calculated on income before appropriations, which are later not reported in the statement of income. Untaxed reserves are divided between shareholders' equity and deferred tax liability.

SAS Sverige AB

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

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

The consortia's accounts are prepared in accordance with the rules of the International Accounting Standards Committee (IASC). Special consortium accounts are prepared for SAS Sverige AB in which the consortia's shareholdings in subsidiaries and affiliated companies are reported at acquisition value adjusted for revaluations and write-downs.

Other comments on the financial statements

SAS Sverige AB's subsidiaries did not conduct any operations during the year, and the book value of the shares essentially corresponded to taxed equity. Consolidated accounts were not prepared.

The transfer to the parent companies decided on by SAS of the share of net income for 1998, MSEK 410 for SAS Sverige AB, has been anticipated in the financial statements. At the same time, the proposed dividend from SAS Sverige AB of MSEK 282 has been booked as a liability.

Notes

Note 1 – Taxes

	1998	1997
Taxes in SAS Sverige AB		
Taxes payable	245.9	248.1
Change in deferred tax	59.4	3.5
	305.3	251.6

Note 2 – Share of income in consortia

	1998	1997
SAS Consortium	1,035.0	910.9
SAS Commuter Consortium	8.2	-0.8
Scanair Consortium	-	-
	1,043.2	910.1

Note 3 – Depreciation according to plan

	1998	1997
Machinery and equipment	0.1	0.2
	0.1	0.2

Note 4 – Untaxed reserves

	Opening balance	Provision for the year	Closing balance
Tax allocation reserve, 1994	70.5	-	70.5
Tax allocation reserve, 1995	119.3	-	119.3
Tax allocation reserve, 1996	399.0	-	399.0
Tax allocation reserve, 1997	223.5	-	223.5
Tax allocation reserve, 1998		225.5	225.5
Excess depreciation			
aircraft, machinery and equipment	4,055.8	-13.0	4,042.8
buildings	198.1	-	198.1
Total	5,066.2	212.5	5,278.7
Of which:			
Deferred tax portion (28%)	1,418.5		1,478.0
Equity portion	3,647.7		3,800.7

Note 5 – Machinery and equipment

	1998	1997
Acquisition value	0.4	0.8
Accumulated depreciation	-0.1	-0.3
Book value	0.3	0.5

Note 6 – Participations in consortia

	1998	1997
SAS Consortium	6,186.3	5,561.5
SAS Commuter Consortium	222.0	220.3
Scanair Consortium	0.0	0.0
	6,408.3	5,781.8

Note 7 – Shares in Group companies

	Corp. identity number	Domicile	Number of shares	Holding	Par value	1998	Book value 1997
AB Sila	556137-6764	Stockholm	10,000	100%	1.0	1.0	1.0
ABA Flyg AB	556286-2473	Stockholm	1,000	100%	0.1	119.4	119.4
					1.1	120.4	120.4

The subsidiaries do not conduct any operations.

Note 8 – Other shares

OM Gruppen 17,754 shares at par value SEK 2, book value SEK 32,280.

Note 9 – Shareholders' equity/Change in shareholders' equity

Group	Share	Revaluation	Restricted	Unrestricted	Total
	capital	reserve	reserves	reserves	
At beginning of year	705.0	179.0	4,159.7	902.8	5,946.5
Dividend paid	–	–	–	–282.0	–282.0
After dividend paid	705.0	179.0	4,159.7	620.8	5,664.5
Transfer between restricted and unrestricted reserves			152.6	–152.6	–
Change in translation difference			47.1		47.1
Net income for the year				899.7	899.7
Proposed dividend	–	–	–	–282.0	–282.0
December 31, 1998	705.0	179.0	4,359.4	1,085.9	6,329.3

SAS Sverige AB	Share	Revaluation	Statutory	Unrestricted	Total
	capital	reserve	reserve	equity	
At beginning of year	705.0	179.0	141.0	879.3	1,904.3
Dividend paid	–	–	–	–282.0	–282.0
After dividend paid	705.0	179.0	141.0	597.3	1,622.3
Translation difference				–6.3	–6.3
Net income for the year				625.8	625.8
Proposed dividend	–	–	–	–282.0	–282.0
December 31, 1998	705.0	179.0	141.0	934.8	1,959.8

Note 10 – Number of employees, salaries, other remuneration and social security expenses

	1998	1997
Average number of employees		
women	–	1
men	1.5	2
	1.5	3
All employees work in Stockholm.		
	1998	1997
Salaries and other remuneration paid to present and former		
board members and presidents	1.7	1.3
other employees	0.7	1.0
	2.4	2.3
Social security expenses paid for present and former		
board members and presidents	1.2	1.1
other employees	0.6	0.7
	1.8	1.8
of which pension costs for present and former		
board members and presidents	0.7	0.7
other employees	0.4	0.3
	1.1	1.0

Cont. Note 10

At the 1998 Annual General Meeting it was decided that the members of the board should receive fixed fees totaling SEK 325,000, of which SEK 135,000 goes to the chairman. Fees to the members of the SAS Assembly of Representatives appointed by SAS Sverige AB were set at SEK 275,000.

In conjunction with the changes in the parent companies' management structure decided on in 1997, the former president remained 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. Contractual pension arrangements will commence at the age of 60 with a pension corresponding to 70% of the gross salary.

No salary or other remuneration has been 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 1,216.8 be allocated as follows:

Dividend to shareholders of SEK 4.00 per share for a total of MSEK	282.0
Carried forward to new account MSEK	934.8
	<hr/>
	1,216.8

Stockholm, March 17, 1999

Bo Berggren

Chairman

Erik Belfrage

Ingemar Eliasson

Tony Hagström

Jan Stenberg

President

Our Auditors' Report was submitted on March 22, 1999

Jan Åke Magnuson

Authorized Public Accountant

Gunnar Abrahamson

Authorized Public Accountant

Auditors' Report

To the Annual General Meeting of Shareholders in SAS Sverige AB (publ),
corporate identity number 556042-5414

We have audited the financial statements and the administration of the Board of Directors and the President of SAS Sverige AB for 1998. 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and their application by the Board of Directors and the President, as well as evaluating the overall presentation of information in the financial statements. We examined significant decisions, actions taken and cir-

cumstances of the Company in order to be able to determine the possible liability to the Company of any board member or the President, or whether they have in some other way acted in contravention of the Swedish Companies Act, the Swedish Annual Accounts Act or the Articles of Association. We believe that our audit provides 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 members of the Board of Directors 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 Board of Directors and the President be discharged from liability for the fiscal year.

Stockholm, March 22, 1999

Jan Åke Magnuson

Authorized Public Accountant

Gunnar Abrahamson

Authorized Public Accountant

FIVE-YEAR SUMMARY¹

MSEK	1998	1997	1996	1995	1994
Statement of income					
Statement of income in the SAS Group	1,164	927	761	1,092	605
Income before taxes	1,205	966	930	1,367	765
Net income for the year	900	714	664	939	972
Balance sheet					
Fixed assets ²	6,977	6,177	5,585	5,099	4,349
Current assets	1,385	1,511	1,433	2,869	2,520
Total assets	8,362	7,688	7,018	7,968	6,869
Shareholders' equity	6,329	5,664	5,151	4,564	5,379
Long-term liabilities and provisions	1,501	1,441	1,365	1,360	1,142
Current liabilities	532	583	502	2,044	348
Total shareholders' equity and liabilities	8,362	7,688	7,018	7,968	6,869
Key ratios					
Shareholders' equity per share, SEK	89.77	80.34	73.06	64.74	76.30
Equity/asset ratio, %	93.4	92.1	93.6	73.9	94.1
Return on capital employed, ROCE %	15.6	13.6	14.7	21.3	11.9
Return on equity, %	15.0	13.2	13.7	18.9	19.8

¹ Five Year Summary is adapted to the pro forma accounts.

² Including net share in the SAS Group.

Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders will be held on April 12, 1999, at 4.00 p.m. in Uppropssalen, Stockholm Stock Exchange, Källargränd 2, Stockholm, Sweden. The doors will be opened for registration at 3.30 p.m. and all those desiring to attend must have registered before 4.00 p.m. when the voting list is adopted.

Attendance

Shareholders who wish to attend the Annual General Meeting must

- (i) be listed in the share register maintained by VPC (the Swedish Securities Register Center) as of Thursday, April 1, 1999.
- (ii) notify the company by mail at SAS Sverige AB, c/o SAS Dept. STOUU, SE-195 87 Stockholm, by telephone at +46 8 797 12 93, by telefax at +46 8 85 94 95 or by e-mail at <http://www.sas.se/investor> no later than 4 p.m. on April 8, 1999.

Shares registered in the names of trustees

To be entitled to attend the Annual General 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 1, 1999.

Dividend

Thursday, April 15, 1999 is proposed as the record date. If the Annual General Meeting decides in accordance with the proposal, it is estimated that dividends will be distributed through VPC on Tuesday, April 20, 1999.

Board of Directors and Auditors

Board of Directors

Bo Berggren, ordförande

Born 1936. Elected 1985.

Swedish Chairman of SAS. Chairman of the boards of Astra and the Federation of Swedish Industries and Vice Chairman of Investor AB. Member of the boards of a number of other companies and organizations.

Shareholding: 5,000 in SAS Sverige AB

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 board of SAAB and other companies. Deputy member of the board of SAS. Shareholding: 140 shares in SAS Sverige AB

Ingemar Eliasson

Born 1939. Elected 1992

County Governor of Värmland. Chairman of the boards of the Stockholm Stock Exchange (through March 1998), SBAB, Tidningarnas Telegrambyrå AB, Stiftelsen framtidens kultur (until June 1998) and the Swedish-Norwegian Industrial Fund. 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, Svenska IT-Forum and TeleOffice and member of the board of SAS and SSAB.

Shareholding: 0

Auditors

Jan Åke Magnuson

Born 1942. Elected 1992

Authorized Public Accountant. Deloitte & Touche

Gunnar Abrahamson

Born 1947. Elected 1997.

Authorized Public Accountant. Deloitte & Touche

Lars-Gunnar Nilsson

Deputy. Born 1953. Elected 1997

Authorized Public Accountant. Deloitte & Touche

Dan Phillips

Deputy. Born 1966. Elected 1998.

Authorized Public Accountant. Deloitte & Touche

Assembly of representatives, auditors and addresses

SAS Assembly of representatives	Auditors	Addresses	Parent company
<p>Norwegian members <i>Ordinary members</i></p> <p>Johan Fr. Od fjell <i>Chairman</i></p> <p>Åshild M. Bendiktsen Evy Buverud Pedersen Knut Francke Kaare Granheim Marit Hovding Jan Reinås Svein Sundsbø Erik Tønseth Ragnhild M. Wiborg</p> <p><i>Employee representatives</i></p> <p>Ingvar Lilletun Randi Kile Svein Vefall</p> <p>Swedish members <i>Ordinary members</i></p> <p>Bo Rydin <i>First Vice Chairman</i></p> <p>Georg Andersson Annika Christiansson Gösta Gunnarsson Tom Hedelius Bertil Jonsson Bo Lundgren Tom Wachtmeister Marcus Wallenberg Bosse Wallin</p> <p><i>Employee representatives</i></p> <p>Leif Kindert Ulla Gröntvedt Gertrud Axelsson</p> <p>Danish members <i>Ordinary members</i></p> <p>Svend Jakobsen <i>Second Vice Chairman</i></p> <p>Niels Brockenhuus-Schack Tommy Dinesen, MF Peter Duetoft, MF Jørgen Estrup, MF Svend Aage Heiselberg, MF Anders Knutsen Torben Rechendorff, MF Axel greve af Rosenborg Ole Trolle</p> <p><i>Employee representatives</i></p> <p>Helmuth Jacobsen Nicolas Fischer Jens Tholstrup Hansen</p>	<p>Denmark Stig Enevoldsen State authorized Public Accountant Deloitte & Touche</p> <p>Norway Olav Revheim State authorized Public Accountant Deloitte & Touche</p> <p>Sweden Jan Åke Magnuson State authorized Public Accountant Deloitte & Touche</p>	<p>Head Office SAS SE-195 87 Stockholm Visitors' address: Frösundaviks Allé 1 Solna Telephone: +46 8 797 00 00</p> <p>Denmark SAS Postboks 150 DK-2770 Kastrup Visitors' address: Hedegårdsvej 88 Copenhagen S Telephone: +45 32 32 00 00</p> <p>Norway SAS NO-0080 Oslo Visitors' address: Snarøyveien 57 Fornebu Telephone: +47 64 81 60 50</p> <p>Telex nr. Scandinavian telex 22263 SASXT DK</p> <p>SAS on the Internet http://www.sas.se</p> <p>SAS Investor Relations on the Internet http://www.sas.se/investor</p>	<p>SAS Danmark A/S Hedegårdsvej 88 DK-2300 Copenhagen S Telephone: +45 32 32 45 45</p> <p>SAS Norge ASA NO-0080 Oslo Visitors' address: Fornebu Telephone: +47 64 81 63 98</p> <p>SAS Sverige AB c/o SAS, Dept. STOUU SE-195 87 Stockholm Visitors' address: Frösundaviks Allé 1 Solna Telephone: +46 8 797 12 93</p>

Financial Calendar

Environmental Report 1998	March 1999	Interim Report 2, Jan.–June 1999	Aug. 11, 1999
Annual Meeting, SAS Norge ASA	April 12, 1999	Interim Report 3, Jan.–Sept. 1999	Nov. 11, 1999
Annual Meeting, SAS Sverige AB	April 12, 1999	Year-end Report 1999	February 2000
Annual Meeting, SAS Danmark A/S	April 13, 1999	Annual Report 1999	March 2000
Interim Report 1, Jan.–March 1999	May 6, 1999	Environmental Report 1999	March 2000

SAS's monthly traffic and capacity statistics are published on the sixth working day of each month.

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>

SAS Investor Relations on the Internet

<http://www.sas.se/investor>

e-mail: investor.relations@sas.se

Registration to the Annual General Meetings of the Shareholders of SAS Sverige AB can also be made on the Internet.

Definitions

AEA • The Association of European Airlines. An association of the 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.

AV, Asset Value • Total book value of assets plus surplus values in aircraft and net present value (NPV) of operating lease rental expense for aircraft, less non-interest-bearing liabilities and interest-bearing assets.

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 • Cash flow from operations before change in working capital.

Cash flow per share • Cash flow for a parent company less taxes paid divided by the number of shares.

CFROI • Cash flow return on investment. EBITDAR divided by AV.

Code-share • When two or more airlines state their flight number in the timetable for one and the same flight, while only one of the airlines 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 taxes divided by the number of shares.

EBIT (including capital gains) • Operating income.

EBITDA • Earnings before interest, taxes depreciation and capital gains from sale of aircraft.

EBITDAR • Earnings before interest, taxes, depreciation, amortization, operating lease rental expense and capital gains from sale of aircraft.

Equity/assets ratio • Shareholders' equity plus minority interests and deferred tax liability in relation to total assets.

Equity method • Participations in affiliated companies are taken up at SAS's share of shareholders' equity taking acquired surplus and deficit values into account.

Gross Profit Margin • Operating income before depreciation, in relation to operating revenue.

IATA, International Air Transport Association • A global association of more than 200 airlines.

ICAO, International Civil Aviation Organization • A specialized agency of the United Nations for international civil aviation.

Interest cover • Operating income plus financial income in relation to financial expenses.

Net debt • Interest-bearing liabilities minus interest-bearing assets.

Net financing from operations • See cash flow.

Net profit margin • Income after financial items in relation to operating revenue.

NPV • Net present value. Method used to calculate capitalized future operating lease rental expense for aircraft.

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 standard 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 non-interest-bearing liabilities.

Return on capital employed (ROCE), market-based • EBITR less the depreciation portion of the operating lease rental expense for aircraft plus change in surplus values (aircraft) divided by AV.

Return on equity • Income after taxes in relation to average shareholders' equity. Tax on the earnings of the SAS Consortium and the SAS Commuter 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 • See Return on capital employed.

ROCE, market-based • See return on capital employed, market-based.

RPK, Revenue Passenger Kilometers • The number of paying passengers multiplied by the distance they are flown in kilometers.

RTK, Revenue Tonne Kilometers • The number of tonnes of paid traffic (passengers, freight and mail) multiplied by the distance this traffic is flown in kilometers.

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.

WACC, Weighted average cost of capital • Average cost of liabilities, shareholders' equity and operating lease rental expense for aircraft. The financing sources are calculated and weighted in accordance with the current market value for shareholders' equity and liabilities and the net present value of operational lease rental expense.

Yield • Average amount of traffic revenue received per RPK.

SAS Sponsoring

SAS concentrates its centralized sponsoring activities on a few long-term, strategic projects. Sponsoring projects strengthen the SAS brand and help build the image SAS desires.

The exposure of SAS in positive situations strengthens knowledge of SAS among customers, the general public and personnel, which also leads to increased loyalty, internally and externally.

Environment

SAS in association with Coca-Cola runs a foundation that administers a fund for improvement of the water environment in Scandinavia and the Baltic region, known as the SAS/Coca-Cola Environmental Foundation. Commencing February 1999, the Foundation annually awards five grants.

SAS is also main sponsor of the environmental prize instituted by the Crown Princes of Denmark and Spain, the Princes' Award, presented at a ceremony in Copenhagen once a year.

Culture

Each year SAS invests considerable amounts in cultural sponsoring and the policy is to cooperate with established institutions and organizations. During 1998, for example, there have been cooperations with The Royal Swedish Opera, Modern Museum Stockholm and the National Museum of Fine Arts in Stockholm, with Polar Music Prize and the Gothenburg Symphony Orchestra, with the Nationaltheatret and Norwegian National Opera in Oslo and with the Royal Theater in Copenhagen.

Sports

Within the field of sports, SAS concentrates its involvement on golf and tennis. SAS invests mainly in a few major international tournaments and projects that take place in Scandinavia. In the field of golf, SAS has created the first Scandinavian team event of world class for golf professionals, called SAS Invitational. SAS is involved in all the tennis tournaments held within Scandinavia with ATP status, such as Copenhagen Open, Swedish Open and Stockholm Open. SAS has also during a ten year period had sponsored activities within Norwegian cross country skiing.

Humanitarian sponsoring

Within the field of humanitarian sponsoring, SAS has chosen to cooperate with the Save the Children organizations in Scandinavia. SAS guarantees Save the Children six million crowns per year for three years (1998-2000) to be devoted to various projects under the theme "Children in situations of war and displacement". The Save the Children organizations work on a long-term basis to improve the conditions for children in accordance with the UN convention and have values that are in line with those of SAS. The Save the Children organization is well established and widely known in Scandinavia. Like SAS, its activities are global. Customers and personnel are involved in the project on a regular basis.

Astrid Lindgren's Children's Hospital in Stockholm is the world's most modern hospital for children and is a unique combined center for research, development and training within medical care for children. SAS has chosen to support Astrid Lindgren's Children's Hospital because it is highly respected and well known. SAS has many children among its customers and is therefore a natural partner

Production: SAS and Wildeco.

Photographs: J. Olsson, E-M Rundquist, S. Sundsbø, P. Johansson, G. Johansson samt T. Fahn.

Printing: Arne Löfgren Offset, Stockholm 1999.

The Annual Report is printed on Lessebo Linné natural white, TCF, 120 g and Lessebo Linné natural white, TCF, 250 g (cover) and ecolabeled with the Nordic Swan.



