



Scandinavian Airlines System

DENMARK NORWAY SWEDEN

SFr.200,000,000

5¾% Subordinated Bonds 1986ff

- Denominations: SFr.5,000 and SFr.100,000.
- Issue Price: 100% (+ 0.30% tax on negotiation of securities).
- Maturity: At the latest two days after the resolution of the liquidation of Scandinavian Airlines System.
- Interest: 5¾%, payable annually in arrears on 14 January of each year, beginning on 14 January, 1987 and until and including 14 January, 1996.
- For subsequent ten year periods the interest will be based on the arithmetical mean of the Swiss Bank Corporation's Index of the overall yield to maturity of foreign bonds on the Swiss stock exchanges and the new foreign Bond Issue Index (other than States or Provinces) of Pictet & Cie., Geneva, rounded up if necessary to the nearest ⅛% (see page 3).
- Optional Redemption for the Issuer: On the 5th anniversary of the payment date and on the 5th anniversary following each interest refixing date thereafter at 102.5%.
On each interest refixing date at par.
For tax reasons at any time following the first interest payment at par.
- Settlement Date: 14 January, 1986
- Delivery of Bonds: As soon as possible.

The Institutions named below have purchased these Bonds and offer them for public subscription until 10 December, 1985, noon.

Citicorp Bank (Switzerland)

Banque Scandinave en Suisse

Banca del Gottardo
Bank Heusser & Cie. AG
Bank in Liechtenstein Aktiengesellschaft
Banque Kleinwort Benson SA
Manufacturers Hanover (Suisse) S.A.
Morgan Guaranty (Switzerland) Ltd.
Soditic S.A.
Chase Manhattan Bank (Switzerland)
Chemical Bank (Suisse)
Credit Lyonnais Finanz AG Zürich
First Chicago S.A.
Nomura (Switzerland) Ltd.
The Royal Bank of Canada (Suisse)
Wirtschafts- und Privatbank

Kredietbank (Suisse) S.A.

Nordfinanz-Bank Zürich

Clariden Bank

Lloyds Bank International Ltd.

Amro Bank und Finanz

Banque CIAL (Schweiz)

— Crédit Industriel d'Alsace et de Lorraine AG —

Armand von Ernst & Cie. AG

Banco di Roma per la Svizzera

Banque Générale du Luxembourg

(Suisse) S.A.

Banque Indosuez, Succursales de Suisse

Banque Morgan Grenfell en Suisse S.A.

Caisse d'Epargne du Valais

Fuji Bank (Schweiz) AG

Gewerbebank Baden

Handelsfinanz Midland Bank

Hypothekar- und Handelsbank

Winterthur

Macrki, Baumann & Co. AG

Sparkasse Schwyz

Based on a decision passed by the Board of Directors of SCANDINAVIAN AIRLINES SYSTEM Denmark-Norway-Sweden ("SAS"), dated 24 October, 1985 and pursuant to a Public Subordinated Bond Issue Agreement dated as of 5 December, 1985, (the "Agreement"), with Citicorp Bank (Switzerland), Geneva, ("CIBS") and Kredietbank (Suisse) S.A., Geneva, and a consortium of banks (hereinafter altogether referred to as the "Banks"), SAS (the "Consortium") undertakes to offer a public issue of its 5¾ per cent. Subordinated Bonds 1986 (the "Bonds") in the aggregate amount of SFr. 200,000,000.

The Bonds have not been and will not be registered under the United States Securities Act of 1933 (the "Securities Act") and may during the period of public subscription not be offered or sold, directly or indirectly, in the United States or to any U.S. person, as part of the distribution of the Bonds. Offers and sales of Bonds in the United States or to U.S. persons would constitute a violation of United States law unless made in compliance with the registration requirements of the Securities Act or pursuant to an exemption therefrom. As used herein, "United States" means the United States of America, its territories and possessions, and all areas subject to its jurisdiction and "U.S. person" means a citizen or resident of the United States, a corporation, partnership or other entity created or organised under the laws of the United States or any political subdivision thereof and any estate or trust which is subject to United States federal income taxation regardless of the source of its income.

U.S. persons holding the Bonds will be subject to limitations under the United States income tax laws, including limitations provided in Sections 165(j) and 1287(a) of the United States Internal Revenue Code of 1954, as amended.

Payment of interest and principal, plus premium (if any), shall be made in freely convertible Swiss francs without deduction of any taxes, imposts or duties, present or future, which are required to be withheld at source by the Consortium, which are levied or imposed to be levied in Denmark, Norway or Sweden, or any political sub-division of or taxing authority of or within Denmark, Norway or Sweden, to the extent provided in the Bonds.

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TERMS OF THE BONDS

The terms of the Bonds, which shall be an integral part of the Agreement and which govern the Bonds are the following (hereinafter called the "Terms of the Bonds"):

1. Form and Denomination

The Bonds will be issued in bearer form in the denominations of Swiss Francs 5,000.— and Swiss Francs 100,000.— nominal amount each.

2. Interest

2.1. The Bonds will bear interest from 14 January, 1986 (the "Closing Date") at a fixed rate (the "Interest Rate") payable annually in arrears on 14 January of each year (the "Coupon Date"). The first payment shall be made on 14 January, 1987. The Interest Rate for the first ten years shall be $5\frac{3}{4}$ per cent. and thereafter an Interest Rate will be fixed for each subsequent period of ten years on each tenth business day prior to each tenth anniversary of the Closing Date (the "Interest Determination Date").

2.2. On each "Interest Determination Date" Citicorp Bank (Switzerland) (hereinafter called "CIBS" and the expression CIBS shall also mean in the event of its incapacity any other appointed principal paying agent (Section 6.2 hereof)) shall determine the annual Interest Rate for the subsequent ten year period. The Interest Rate shall be the arithmetic mean of the SBC-Foreign Bond Index and the Pictet-new foreign Bond Issue Index (rounded upwards if necessary to the nearest $\frac{1}{8}$ per cent.) provided that such index is not older than two weeks on the relevant Interest Determination Date.

"SBC-Foreign Bond Index" means the overall yield to maturity of bonds issued by non resident borrowers (Gesamtrendite) determined by Swiss Bank Corporation, Basle, Switzerland, as presently published in the newspaper Finanz und Wirtschaft, Zurich;

"Pictet-new foreign Bond Issue Index" means the yield of new foreign bond issues other than of states and provinces as determined and published by Pictet & Cie., Geneva, Switzerland.

2.3. If on any Interest Determination Date only one of the indices is ascertainable (for any reason whatsoever including that only one of the indices is published in the relevant period or that the Principal Paying Agent for the time being determines, in consultation with SAS but in its absolute discretion that the composite factors of one of the indices have been substantially changed so that they are not any longer comparable to the former composition factors), then the Interest Rate shall be equal to the index ascertainable (rounded upwards if necessary to the nearest $\frac{1}{8}$ per cent.).

2.4. If on any Interest Determination Date none of the indices are ascertainable (for any reason whatsoever as determined in consultation with SAS but in its sole discretion by the Principal Paying Agent), then the applicable Rate of Interest for the next ten year period shall be determined by CIBS as being the Reserve Interest Index. The "Reserve Interest Index" shall correspond to the average yield to maturity plus a margin of $\frac{1}{8}$ per cent. (rounded upwards if necessary to the nearest $\frac{1}{8}$ per cent.) of all, to be at least a major number of issues as determined by CIBS, Swiss Franc bonds issued by non Swiss residents and listed on the stock exchanges of Zurich, Basle and Geneva determined as of the last common trading day at all of the stock exchanges in the week prior to the relevant Interest Determination Date. If no paid price is available for any bond listed, then the bid price is to be used in such calculation.

2.5. If on any Interest Determination Date a Reserve Interest Index is not ascertainable SAS and CIBS shall determine the applicable Rate of Interest for the next ten years by agreement whereby the Rate of Interest shall not be less than the average yield to maturity of the outstanding public issues of the Swiss Federal Government (rounded upwards if necessary to the nearest $\frac{1}{8}$ per cent.) plus a margin of one per cent. If, however, SAS and CIBS cannot reach an agreement the Bonds shall fall due and payable 60 days after the respective Interest Determination Date and the last Rate of Interest shall be payable by SAS up to such repayment of the Bonds. CIBS shall notify the Bondholders of such repayment pursuant to Section 11.

- 2.6. The amount of interest payable on presentation and surrender of each coupon shall be rounded to the nearest legal coin, but at least five centimes.
- 2.7. The establishment of the Interest Rate and the coupon amount by CIBS shall (in the absence of manifest error) be final and binding on all concerned. The Interest Rate so determined and the coupon amount so calculated shall be published by CIBS pursuant to Section 11 as soon as possible.
- 2.8. In this Section, "Business Day" means a day when banks are open for the whole day in Zurich and Geneva.

3. Repayment

SAS undertakes to repay the principal amount of the Bonds without any previous notice not later than two business days after a resolution has been passed by Det Danske Luftfartselskab A/S, Copenhagen, Denmark, Det Norske Luftfartselskap A/S, Oslo, Norway and Aktiebolaget Acro-transport, Stockholm, Sweden (the "Constituent Companies") of SAS to liquidate SAS (the "Repayment Date"). Each and every holder of a Bond (the "Bondholder") hereby agrees expressly that, subject to Section 9 hereof, he waives any right to terminate the indebtedness under the Bond prematurely.

4. Status and Subordination to Senior Indebtedness

SAS, for itself and its successors and assignees, agrees with each Bondholder or holder of any coupons (a "Couponholder") that the payment on the Bonds and coupons is hereby expressly subordinated to the extent and in the manner set out below in right of payment to the prior payment in full of all "Senior Indebtedness" (as defined below).

The term "Senior Indebtedness" shall mean the principal, premium, if any, and unpaid interest (including interest accrued after the commencement of any reorganization or bankruptcy proceeding), fees, expenses, costs of collection and costs of preserving, protecting, policing or foreclosing on any real or personal property that has been pledged, hypothecated, mortgaged or in which a security interest may have been granted, and any other present and future indebtedness which is not expressly subordinated to or ranking *pari passu* with the Bonds. "Senior Indebtedness" shall not include other subordinated indebtedness.

Upon any distribution of assets of SAS upon any dissolution, winding up, liquidation or reorganisation of SAS, whether in bankruptcy, insolvency, reorganization or receivership proceedings or upon an assignment for the benefit of creditors or any other sequestering of the assets and liabilities of SAS or otherwise,

- a) the holders of all Senior Indebtedness shall be entitled to receive payment in full (including payment of provision for any unmatured, contingent or unliquidated Senior Indebtedness) before the holders of Bonds or coupons are entitled to receive any payment thereon; and
- b) any payment or distribution of assets of SAS of any kind whether in cash, property or securities, to which the holders of Bonds or coupons would be entitled except for the provisions of this Section 4 shall be paid by the liquidating trustee or agent or other person making such payment or distribution, whether a trustee in bankruptcy, a receiver or liquidating trustee or otherwise, directly to the holders of Senior Indebtedness or their representative or representatives or to the trustee or trustees under any indenture under which any instruments evidencing any of such Senior Indebtedness may have been issued, ratably according to the aggregate amounts remaining unpaid on account of the principal of, premium, if any, and interest on the Senior Indebtedness held or represented by each, to the extent necessary to make payment in full of all Senior Indebtedness remaining unpaid, after giving effect to any concurrent payment or distribution to the holders of such Senior Indebtedness; and

- c) in the event that, notwithstanding the foregoing, any payment or distribution of assets of SAS of any kind or character, whether in cash, property or securities, shall be received by the holders of Bonds or coupons before all Senior Indebtedness is paid in full, such payment or distribution shall be paid over to the holders of such Senior Indebtedness or their representative or representatives or to the trustee or trustees, under any indenture under which any instruments evidencing any of such Senior Indebtedness may have been issued, ratably as aforesaid, for application to the payment of all Senior Indebtedness remaining unpaid until all such Senior Indebtedness shall have been paid in full, after giving effect to any concurrent payment or distribution to the holders of such Senior Indebtedness. The consolidation of SAS with, or the merger of SAS into, another corporation or the liquidation or dissolution of SAS following the sale or conveyance of its property or assets as an entirety or substantially as an entirety, to another corporation upon terms and conditions approved by CIBS shall not be deemed a dissolution, winding up, liquidation or reorganization of SAS for the purpose of this Section 4 if such other corporation shall, as a part of such consolidation, merger, sale or conveyance, comply with the conditions approved by CIBS.

Subject to the payment in full of all due Senior Indebtedness, holders of Bonds or coupons shall be subrogated pro rata based on respective amounts paid over in full and no such payments or distributions to the holders of Bonds or coupons of cash, property or securities otherwise distributable to the holders of Senior Indebtedness shall, as between its creditors other than the holders of Senior Indebtedness, and the holders of Bonds or coupons be deemed to be a payment by SAS to the holders of Bonds or coupons, or for their account. It is understood that the provisions of this Section 4 are intended solely for the purpose of defining the relative rights of the holders of Bonds or coupons and the holders of other pari passu indebtedness, on the one hand, and the holders of Senior Indebtedness, on the other hand.

Nothing contained in this Section is intended to or shall impair, as between SAS its creditors other than the holders of Senior Indebtedness, and the holders of Bonds or coupons, the obligations of SAS which is unconditional and absolute, to pay to the holders of Bonds or coupons as and when the same shall become due and payable in accordance with the terms hereof, or to affect the relative rights of the holders of Bonds or coupons and creditors of SAS other than the holders of Senior Indebtedness and of other pari passu indebtedness, nor shall anything in this Section 4 prevent the holders of Bonds or coupons from exercising all remedies otherwise permitted by applicable law upon default under the Bonds, subject to the rights, if any, under this Section 4 of the holders of Senior Indebtedness in respect of cash, property or securities of SAS received upon the exercise of any such remedy. Upon any payment or distribution of assets of SAS referred to in this Section 4, the holders of Bonds or coupons shall be entitled to rely upon any order or decree of a court of competent jurisdiction in which such dissolution, winding up, liquidation or reorganization proceedings are pending or upon a certificate of the liquidating trustee or agent or other person making any distribution to the holders of Bonds or coupons for the purpose of ascertaining the persons entitled to participate in such distribution, the holders of Senior Indebtedness and other indebtedness of SAS, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Section 4.

If holders of Bonds or coupons do not file a proper claim or proof of debt in the form required in any proceeding referred to above prior to 30 days before the expiration of the time to file such claim in such proceeding, then the holder of any Senior Indebtedness is hereby authorized, and has the right, but shall not be required, to file an appropriate claim or claims for or on behalf of the holders of Bonds and coupons.

No payment by SAS on the Bonds and coupons (whether at maturity, upon redemption or repurchase, or otherwise) shall be made if, at the time of such payment or immediately after giving effect thereto, (a) there shall exist a default in the payment of principal, premium, if any, sinking fund or interest with respect to any Senior Indebtedness or (b) there shall have occurred an event of default (other than a default in the payment of principal, premium, if any, sinking fund or interest), with respect to any Senior

Indebtedness, as defined therein or in the instrument under which the same is outstanding, permitting the holders thereof or any trustee under any such instrument to accelerate the maturity thereof, and such event of default shall not have been cured or waived or shall not have ceased to exist (except payments made if the Bonds are redeemed or acquired prior to the happening of such default or event of default).

Nothing contained in the Bonds shall affect the obligation of SAS to make, or prevent SAS from making, at any time, except as provided in Section 4, payments on the Bonds and coupons.

5. Purchase of Bonds and early redemption of Bonds

5.1. Nothing herein shall be deemed to prohibit SAS or any subsidiary from acquiring any of the Bonds in the open market, in private transactions or otherwise.

- 5.2. i) SAS is entitled to redeem all, but not part of, the Bonds on (a) the fifth anniversary of the Closing Date and thereafter on each fifth Interest Payment Date following the last Interest Determination Date at a price of 102.5 per cent. of the principal amount of the Bonds, and (b), each tenth anniversary of the Closing Date, the first time as of 14 January, 1996 at a price of 100 per cent. of the principal amount of the Bonds,
- ii) SAS shall be obliged to give to CIBS a notice of its intention to redeem the Bonds at least 60 but not more than 90 days prior to the date for redemption. If CIBS has not received such notice of redemption 60 days prior to the next relevant Coupon Due Date, the Bonds may not be called by SAS, irrespective of whether such notice has been sent by SAS.

Any such notice shall be published by CIBS pursuant to Section 11 hereof as soon as practicable.

6. Payments and exchange of coupon sheets

- 6.1. SAS undertakes to pay to CIBS for the benefit of the Bondholders when due, principal and interest on the Bonds, in freely disposable legal currency of the Swiss Confederation, without cost to the Bondholders or Couponholders, without any limitations and under all circumstances notwithstanding any transfer restrictions, regardless of any bilateral or multilateral payment or clearing agreement in existence between Denmark, Norway and Sweden and the Swiss Confederation, irrespective of the nationality, residence or domicile of any of the Bondholders and without requiring any affidavit or the fulfillment of any formalities.

The funds required for the payment of principal, interest and any additional sums payable pursuant to Section 7 hereof, shall be made available to CIBS in Switzerland by SAS in good time before each due date. The receipt of the funds by CIBS on behalf of the Bondholders shall release SAS from its obligations in respect of the payments due at the respective dates for principal, premium (if any), interest and additional sums payable pursuant to Section 7 hereof.

CIBS will arrange for payment of such funds as and when due to the holders of Bonds and coupons. Bonds and coupons may be presented and surrendered for payment and talons may be presented in exchange for new coupon sheets only at the counters of the following banks and their offices throughout Switzerland and the Principality of Liechtenstein:

Citicorp Bank (Switzerland)
 Kredietbank (Suisse) S.A.
 Amro Bank und Finanz
 Armand von Ernst & Cie. AG
 Banca del Gottardo
 Banco di Roma per la Svizzera
 Bank Heusser & Cie. AG
 Bank in Liechtenstein Aktiengesellschaft
 Banque CIAL (Schweiz)
 – Crédit Industriel d'Alsace et de Lorraine AG –
 Banque Générale du Luxembourg (Suisse) S.A.
 Banque Indosuez, Succursales de Suisse
 Banque Kleinwort Benson SA
 Banque Morgan Grenfell en Suisse S.A.
 Banque Scandinave en Suisse
 Caisse d'Epargne du Valais
 Chase Manhattan Bank (Switzerland)
 Chemical Bank (Suisse)
 Clariden Bank
 Credit Lyonnais
 Fuji Bank (Schweiz) AG
 Gewerbebank Baden
 Handelsfinanz Midland Bank
 Hypothekar- und Handelsbank Winterthur
 Lloyds Bank International Ltd.
 Maerki, Baumann & Co. AG
 Manufacturers Hanover Trust Company, Zürich branch
 Morgan Guaranty Trust Co. of New York, Zürich office
 Nordfinanz-Bank Zürich
 The Royal Bank of Canada (Suisse)
 Sparkasse Schwyz
 Wirtschafts- und Privatbank

The Bonds will be paid at the principal amount printed on the Bonds and the amount printed on the coupons, respectively, or in case of redemption with a premium at the amounts stated in Section 5 hereof including the additional amounts mentioned in Section 7 hereof.

- 6.2. If at any time during the life of the Bonds, CIBS shall at any time be incapable, for any reason, of accepting funds for the payment of interest or principal, and any additional amounts payable pursuant to Section 7 hereof, or of acting as agent of the Bondholders as contemplated by the terms and conditions of the Bonds, the Bondholders expressly agree that CIBS may be replaced by a decision of the institutions other than CIBS mentioned in this Section 6 whereby the votes in such decision shall be counted based upon the principal amount of the Bonds initially subscribed by such institutions and such institutions shall, after consultation with SAS, appoint one of these institutions to replace CIBS in these functions. If the institutions shall fail to appoint another institution to replace CIBS within 30 days after demand of SAS, then SAS shall appoint the replacement. In the event of any replacement of CIBS hereunder, all reference to CIBS shall be deemed to refer to such replacement for the purposes of the Bonds. The appointment of the replacement shall be published in accordance with Section 11.

- 6.3. No payments on the Bonds or coupons will be made outside of Switzerland.

7. Tax Status

All payments of principal, premium (if any), and of interest shall be made without withholding or deduction for, or on account of any present or future taxes, imposts, duties, assessments or governmental charges at source (hereinafter individually referred to as "Taxes"), which are required to be withheld (including, without limitation, back-up withholding) by SAS, which are levied or imposed or to be levied or imposed in Denmark, Norway and Sweden, including areas subject to its jurisdiction or any political subdivision of or taxing authority of or within one of the foregoing (hereinafter referred to as a "Taxing Jurisdiction").

In the event that any such Taxes should at any future time be imposed or levied by any such Taxing Jurisdiction, SAS shall remit to CIBS for the account of the holders of any Bond or coupon such additional amounts as may be necessary to ensure that after deduction of any such Taxes of a Taxing Jurisdiction, but before any deduction made pursuant to Swiss law, every net payment of the principal (or amounts in respect thereof) and interest on such Bond will be not less than the face amount of any coupon and the principal amount of any Bond or amounts in respect thereof that may be due and owing at the time of payment thereof, plus premium (if any). SAS' obligation to remit such additional amounts shall not be subject to the fulfilment of any disclosure or certification requirement with respect to the nationality, status or identity of the recipient of the payment or the beneficial owner of the Bond in question.

The foregoing provisions, however, do not exempt a holder of a Bond or coupon from any Taxes imposed or levied in a Taxing Jurisdiction, and SAS shall not be obligated to remit funds and pay additional amounts on account of such Taxes, if the holder of the Bond or coupon is subject to taxation in a Taxing Jurisdiction for reasons other than his ownership of the Bond or coupon, nor shall SAS be obligated to remit funds and pay additional amounts, in the event any such Taxes are imposed by reason of one or more of the following:

- i) any tax, assessment or governmental charge that is payable otherwise than by withholding or deduction from payments of principal (or amounts in respect thereof), premium (if any) and/or interest on the Bonds;
- ii) any gift, estate, inheritance, sales, transfer or personal property tax or any tax, assessment or governmental charge similar to any of the foregoing.

If, at any time, SAS furnishes evidence to CIBS that SAS has paid or will have to pay or if SAS has determined that there has been a substantial increase in the likelihood that SAS will become obligated to pay on the next due date any additional amount in respect of the Bonds or the coupons or SAS has withheld or has been requested by the relevant Taxing Jurisdiction to withhold amounts from any payment due, SAS shall have the right to redeem all (but not a part only) of the then outstanding Bonds at any time after 14 January, 1987 and such Bonds will become due 30 days after receipt by CIBS of notice to this effect, without a premium.

Bonds called or deposited for redemption shall cease to bear interest from the date fixed for such redemption, unless SAS shall default in providing for the payment of such Bonds. The Bonds must be presented for repayment with all unmaturing coupons and the coupon sheet talon attached. An amount equal to any missing unmaturing coupon shall be deducted from the amount due for repayment. Such coupons will, however, be paid upon subsequent presentation provided they shall not have become barred pursuant to Section 10 hereof.

Interest on the Bonds is in accordance with Swiss law at present in force not subject to the Swiss Federal Anticipatory tax.

8. Authorisations

SAS has confirmed to the Banks that any authorisations or approvals which are required for performance of its obligations hereunder have been obtained.

9. Events of Default

CIBS shall have the right but not the obligation, on behalf of the Bondholders, to declare the then outstanding Bonds, plus accrued interest, to be due and payable if any of the following events shall have occurred, or to take any other measures, including the amendment of the Terms of the Bonds by agreement with SAS, to protect the interests of the Bondholders:

- a) if SAS is in default in the payment of principal, premium (if any) or, for a continuous period of 30 days, in the payment of interest on the Bonds or additional amounts payable pursuant to Section 7 above; or
- b) if SAS is in default in the performance, or is in breach, of any covenant or agreement of SAS in the Bonds and such default or breach continues unremedied for a period of 60 days after notice thereof has been given by CIBS, by cable or telex, to SAS; or

- c) if (i) any indebtedness for borrowed money of SAS in excess of USD250,000 aggregate principal or the equivalent thereof shall become prematurely payable following a default and payment thereof is validly demanded or steps are validly taken to enforce any security thereof; or (ii) SAS defaults in the payment or repayment of any such indebtedness on the maturity thereof as extended by any applicable grace period; or (iii) SAS defaults in the performance of any guarantee for borrowed money in excess of USD250,000 or the equivalent thereof; or
- d) in the case of the commencement by SAS of any bankruptcy or other action or proceeding for any relief under any law affecting creditors' rights generally or seeking the appointment of a trustee, receiver, liquidator or similar official for it or any substantial part of its properties, or the commencement against SAS of any bankruptcy or other such action or proceeding, if such action or proceeding shall not be dismissed or stayed within 60 days following the commencement thereof; or
- e) if SAS is involuntarily wound up or dissolved; or
- f) if any of the following agreements or permits cease to be in full force and effect or being amended which amendments in the opinion of CIBS will materially adversely affect SAS' ability to perform its obligations hereunder:
 - (i) the Consortium Agreement between the Constituent Companies dated 8 February, 1951, as amended;
 - (ii) The Operating Permits of SAS to operate regular air traffic;
 - (iii) The Inter-Government Agreement dated 20 December, 1951, as amended concerning cooperation with respect to air traffic.

In any one of the above events CIBS shall have the right but not the obligation to call for a meeting of the Bondholders to decide on the immediate repayment or on an amendment with the consent of SAS of the Terms of the Bonds. Notice of such a meeting shall be given at least 10 days prior to the date of the meeting by way of one announcement in the newspapers mentioned in Section 11 hereof. The meeting shall pass its resolutions by the absolute majority in principal amount of the Bonds which are represented at the meeting. The Bondholders will exercise their voting rights in proportion to the principal amount of Bonds held. The exclusive contractual remedies of the Bondholders under the Bonds against SAS for any default shall be as set forth in this paragraph, and no Bondholder shall have the right under the Bonds otherwise to declare a default and demand payment of the Bonds or to bring suit for enforcement of any Bond or coupon.

In the event the Bonds are declared due and payable pursuant to this Section 9, the then outstanding principal amount of the Bonds plus interest accrued thereon shall become due and payable at the date communicated in writing to SAS by CIBS.

10. Statute of Limitations

In accordance with the Swiss Statute of Limitations, the coupons will become barred five years and the Bonds ten years after their respective due dates.

11. Notices and Publications

All notices to the Bondholders regarding the Bonds shall be published by CIBS and shall be deemed to have been validly given if published in the Feuille Officielle Suisse du Commerce and in a daily newspaper in Geneva, Basle and Zurich.

12. Listing of the Bonds

Application will be made for the admission and quotation of the Bonds on the Stock Exchanges of Zurich, Basle and Geneva for the entire duration of the Bonds.

13. Replacement of the Bonds

If any Bond, coupon or talon is defaced, mutilated, destroyed, stolen or lost, it may be renewed or replaced at the offices of CIBS on payment of such costs as may be incurred in connection therewith and on such evidence and indemnity as SAS may require. Defaced or mutilated Bonds, coupons or talons must be surrendered before new ones may be issued.

14. Currency Indemnity

If any sum due from SAS under the Bonds has to be converted from Swiss Francs (the "first currency") into another currency (the "second currency") for the purpose of (i) making or filing a claim or proof against SAS, (ii) obtaining an order or judgment in any court or other tribunal or (iii) enforcing any order or judgment given or made in relation hereto SAS shall indemnify and hold harmless the Bondholders from and against any loss suffered as a result of any discrepancy between (a) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (b) the rate or rates of exchange at which CIBS on behalf of the Bondholders may in the ordinary course of business purchase the first currency with the second currency on the date of receipt of a sum paid to them in satisfaction in whole or in part of any such order, judgment, claim or proof.

15. Applicable Law and Jurisdiction

The terms, conditions and form of the Bonds, coupons and talons of these Bonds (the English language version of which shall prevail in all instances) shall be subject to and governed by Swiss law.

Any dispute which might arise between the Bondholders, on the one hand, and SAS on the other hand, in respect of the Bonds, the coupons and talons of this issue shall fall within the jurisdiction of the ordinary courts of the Canton of Geneva, venue being in Geneva, with the right to appeal, as provided by law, to the Swiss Federal Court in Lausanne, whose judgment shall be final. Solely in connection with matters relating to the Bonds and the coupons and for the process of execution in Switzerland, SAS elects legal and special domicile at the office of Citicorp Bank (Switzerland), 16, Quai Général-Guisan, 1204 Geneva, Switzerland or in the event of its incapacity at the principal office in Geneva of any other appointed principal paying agent. The aforementioned jurisdiction shall also be valid for the cancellation and replacement of lost, stolen, defaced, mutilated or destroyed Bonds, coupon sheets and talons.

Payment effected to a Bondholder who has been identified as a creditor of SAS by a judgment of a Swiss court shall release SAS from its payment obligation under the respective Bond or Bonds.

Subject to the provisions of Section 9 hereof, a Bondholder shall have the right to bring any legal action against SAS with respect to the Bonds, the coupons and talons and all covenants contained therein in any competent court in Denmark, Norway and Sweden which has jurisdiction, in which case Swiss law shall also be applicable.

To the extent that SAS is or becomes entitled to any immunity in any jurisdiction in respect of its obligations under these Bonds, it irrevocably agrees not to claim and hereby irrevocably waives such immunity to the full extent permitted by the Laws of such jurisdiction.

The Terms of the Bonds set forth in Sections 1 to 15 hereof shall be printed in the English language on the reverse side of the Bonds.

USE OF PROCEEDS

The net proceeds to the Consortium from the sale of the Bonds will be used for general corporate purposes.

INTRODUCTION

History, Legal Structure, Duration and Objectives

Scandinavian Airlines System Denmark-Norway-Sweden ("SAS"), the designated international air carrier of Denmark, Norway and Sweden, is a consortium established through a Consortium Agreement originally dated 8 February, 1951, as subsequently amended (the "Consortium Agreement"), among the three limited companies Det Danske Luftfartselskab A/S ("DDL"), Copenhagen, Denmark, Det Norske Luftfartselskap A/S ("DNL"), Oslo, Norway, and Aktiebolaget Aerotransport ("ABA"), Stockholm, Sweden (the "Constituent Companies").

The Constituent Companies are owned 50 per cent. by the states of Denmark, Norway and Sweden, respectively, and 50 per cent. by private interests. The voting power is divided in the same proportions among state and private interests. It has been the policy of the states of Denmark, Norway and Sweden to maintain their 50 per cent. share in the Constituent Companies, however the ownership can be changed at any point of time.

SAS, as a consortium, is regarded as a legal entity under the laws of Denmark, Norway and Sweden with legal power and authority to own, lease and dispose of its properties, to sue and be sued, and to carry on its designated business. Under the Consortium Agreement the Constituent Companies are jointly and severally liable as against third parties for the obligations and liabilities of SAS. The business purpose of SAS, its management structure and the rights and obligations of the Constituent Companies are governed by the terms of the Consortium Agreement.

Under the laws of Denmark, Norway and Sweden, SAS is not a separate taxable entity and its profits and losses are deemed to be the profits and losses of the Constituent Companies in proportion to their respective capital interests in SAS. Each Constituent Company is taxable, under the tax laws and regulations applicable to it, on its proportionate share of the profits of SAS, whether or not distributed to it.

The first Scandinavian Airlines System was formed on 1 August, 1946 by DDL, DNL and Svensk Interkontinental Lufttrafik Aktiebolag ("SILA"), a Swedish intercontinental carrier, for the purpose of operating intercontinental air services. This consortium commenced North Atlantic service in September 1946, South American service in November 1946 and Far Eastern service in 1949. Although in 1948 another organisation was formed by DDL, DNL and ABA for the coordination of European traffic, each of the Constituent Companies continued to operate domestic services for its own account.

In order fully to consolidate the intercontinental, European and domestic activities of the five existing organisations, SAS as now constituted, was formed by the Constituent Companies (ABA being the successor to SILA) in 1951, pursuant to the Consortium Agreement. The Consortium Agreement was approved by the parliaments of Denmark, Norway and Sweden.

The Consortium Agreement, the validity of which has been extended at certain intervals, is presently effective through 30 September, 1995. Not later than one year before expiration of the Agreement, the parties shall commence negotiations for continued co-operation.

Under the terms of the Consortium Agreement, the business of SAS is to carry on commercial air traffic for the joint account of the Constituent Companies, which have ceded to SAS their air carrier operations. Their participation in SAS is their most significant business activity.

The Constituent Companies among themselves share in the assets, profits and losses of SAS in the ratio of 2/7 (DDL), 2/7 (DNL) and 3/7 (ABA). The aircraft constituting the SAS fleet are registered with the Constituent Companies, and such aircraft are registered under their respective national laws, in approximately the same ratio. Under the terms of the Consortium Agreement, however, all such aircraft are considered to be owned by SAS, which may exercise all powers of ownership of the aircraft, including the power to operate, lease and sell.

Any of the Constituent Companies may withdraw if it is unwilling to participate in a decision by the two other parties relating to either an extension of SAS' activity requiring additional capital contributions from the Constituent Companies or a substantial reduction of SAS' activity. The Consortium Agreement also provides for the involuntary withdrawal from SAS of one of the Constituent Companies, upon the joint request of the other Constituent Companies, in the event that the former party has failed to perform its significant obligations under the Consortium Agreement or has become so financially weakened that the liabilities against third parties of the other Constituent

Companies have become considerably more onerous. In each of the foregoing cases, the withdrawal is to take place six months after notice has been given under the Consortium Agreement, and the withdrawing party is entitled to receive its share of the net assets of SAS, determined in accordance with the principles of the Consortium Agreement. Any Constituent Company which withdraws from the Consortium Agreement remains jointly and severally liable with the other Constituent Companies for obligations of SAS incurred prior to its withdrawal.

In the event of withdrawal from SAS of one of the Constituent Companies, the other Constituent Companies are entitled to continue their activities under the Consortium Agreement and are entitled to the exclusive use of the names and insignia of "Scandinavian Airlines System" and "SAS".

In addition to the withdrawal of one of the Constituent Companies, the Consortium Agreement provides for liquidation of SAS by agreement of the Constituent Companies or by arbitration in accordance with the provisions of the Consortium Agreement.

Governmental Relations

In order to facilitate the functioning of SAS the three governments concerned have coordinated exercise of their regulatory authority. The measures to attain this end are set forth in an Inter-Government Agreement (the "Inter-Government Agreement"), governing the activities of the civil aviation authorities with respect to SAS through practically uniform regulations, and in nearly identical operating permits ("Operating Permits") to the Constituent Companies. The Inter-Government Agreement, originally dated 20 December, 1951, as subsequently amended, and the Operating Permits are presently effective through 30 September, 1995.

The Inter-Government Agreement provides for general cooperation between the respective civil aviation authorities, and specifically provides for cooperation in assuring the registration of the aircraft in the names of the respective Constituent Companies, for the mutual validation of crew member licences and for elimination, to the extent possible, of import and export restrictions or duties on the movement of aircraft and related equipment among the three countries. In addition, in the event of war or national emergency, the Inter-Government Agreement provides for mutual assistance in withdrawal and repatriation of flight equipment, spare parts, maintenance equipment and personnel.

In connection with the formation of SAS, the three governments entered into an agreement which provided for certain governmental payments to the Constituent Companies in respect of losses which they might suffer as a consequence of their respective participations in SAS. The present agreement (the "Guarantee Agreement") covers the period from 1 October, 1982 through 30 September, 1987, and provides that the Constituent Companies are entitled to receive from their respective governments coverage for such losses up to the respective maximum annual amounts of DKK 53.0 million for DDL, NOK 42.0 million for DNL and SEK 60.0 million for ABA. The Guarantee Agreement provides that the payment of guarantee amounts by the Governments of Denmark or Norway to DDL or DNL, respectively, may be requested only to the extent that losses of SAS cause the share of DDL or DNL in the capital of SAS to fall below DKK 254 million or NOK 200 million, respectively.

Amounts paid to the Constituent Companies pursuant to the Guarantee Agreement are to be repaid out of later profits or other funds supplied by SAS, but, under the terms of the Guarantee Agreement, amounts not repaid by 1 October, 1995, may be waived if the financial condition of SAS and the relevant Constituent Company so warrants.

Description of Constituent Companies

In addition to its 3/7 share in SAS and Scanair, which is an SAS charter affiliate, ABA is owner of certain real estate such as office buildings, hangars, cargo terminals and workshops, which are mainly on long-term lease to SAS. ABA has a 50 per cent. interest in the Swedish domestic airline, Linjeflyg AB. ABA owns a printing company and also holds certain other investments. As of 1 October, 1984, its share capital amounted to SEK 352.5 million. ABA and its predecessors have been engaged in air transportation since the date of their incorporation, 2 June, 1924.

In addition to its 2/7 share in SAS and Scanair, DDL is owner of a storehouse, a workshop and a hangar designed for wide bodied aircraft usage at Copenhagen Airport, Copenhagen. These premises are leased to SAS under long-term contracts. DDL has been engaged in air transportation since 1919 after having been incorporated on 29 October, 1918. As of 1 October, 1984, its share capital amounted to DKK 85.8 million.

In addition to its 2/7 share in SAS and Scanair, DNL is owner of an office building, a cargo terminal, a hangar and workshop facilities located at Fornebu Airport, Oslo. The property is leased to SAS under a long-term agreement. DNL was incorporated during and has been engaged in air transportation since 1927. As of 1 October, 1984, its share capital amounted to NOK 195.0 million.

Registered and Principal Offices

SAS' principal office is at Ulvsundavägen 193, S-161 87 Stockholm-Bromma, Sweden, DDL's registered principal office is at H.C. Andersens Boulevard 18, DK-1553 Copenhagen V, Denmark. DNL's registered and principal office is at Fornebuveien 40, Fornebu, Norway (Mailing Address, N-1330 Oslo Lufthavn, Fornebu, Norway). ABA's registered and principal office is at Vretenvägen 6, Solna, Sweden (Mailing Address, S-161 87 Stockholm-Bromma, Sweden).

ORGANISATION

The SAS Group consists of a number of business sections, of which the airline, operating as the Consortium, is the largest and represents approximately 80 per cent. of total revenue. Two of the others, SAS Service Partner and the hotels, have developed to complement and support the airline. SAS Leisure, represented by, among others, Vingresor and the independent consortium Scanair, is of vital importance to balance the seasonal variations of scheduled air travel. All operating sectors are managed with great independence and with profitability requirements to ensure a positive development over the short as well as long term. At the same time all opportunities for synergy and cooperation between the airline and the other units of the Group are utilised in full.

The Airline

The airline, which is operated in the SAS Consortium, is organised in six divisions. The Commercial Division is closest to the market and responsible for the development, marketing and sale of products to the passenger and cargo markets. To identify the individual characteristics of each market, the Division is itself divided into six route sectors, including three for the domestic traffic in each of the Scandinavian countries, and one each for European traffic, intercontinental routes and cargo. The route sectors translate the needs of the market into products which, in turn, guide production and resource dimensioning in the other five divisions. The route sectors therefore have great influence over investments in new capacity and are responsible for efficient fleet utilisation.

Commercial Division

In 1983/84 Commercial Division sales amounted to Swedish Kronor 12,347 million, an increase of 11 per cent. compared to the previous financial year. The major part of the division's sales consisted of external traffic revenue which amounted to Swedish Kronor 11,577 million.

Domestic Routes

SAS operates domestic services in Denmark, Norway and Sweden. In 1983/84, domestic passenger revenue accounted for 19 per cent. of total airline traffic revenues.

In *Denmark*, SAS cooperates with Maersk Air and Cimber Air within the Danair subsidiary. The longer routes from Copenhagen to Aarhus, Aalborg and Karup are served by SAS.

In *Norway* SAS shares domestic trunk-route traffic with Braathens SAFE, on about a 60/40 ratio. SAS operates the trunk routes which connect the southern and northern parts of the country. SAS cooperates with Widerøe's Flyveselskap for operation of the feeder services.

In *Sweden* SAS serves the routes linking Stockholm with Gothenburg, Malmö, Luleå and Kiruna. The remainder of the domestic network is served mainly by Linjeflyg in which SAS holds a 50 per cent. interest.

European Routes

During 1983/84 SAS flew between Scandinavia and 31 destinations in 18 European countries. The market represents approximately 10 million passengers annually, of which SAS commands a share of just over 50 per cent.

SAS continued to improve its market position during 1984. Total passenger revenue from European traffic amounted to Swedish Kronor 4,758 million, an increase of 13 per cent. compared to 1982/83. Thus the European network accounted for 44 per cent. of the airline's total traffic revenue. The result showed continued improvement.

Intercontinental routes

Competition in fares and product quality is very tough on all routes operated by SAS to North and South America, the Middle East, Asia and Africa.

In 1983/84 intercontinental passenger traffic accounted for Swedish Kronor 3,002 million, 26 per cent. of total traffic revenue.

Cargo

In 1983/84 cargo revenue was Swedish Kronor 1,303 million including Swedish Kronor 61 million for ground transport, Earnings, which had been weak over an extended period, improved substantially. One contributing factor was SAS Cargo's introduction of a new product concept, Priority Cargo, which is patterned on full-fare passenger services. Priority Cargo is a normal price product with the best possible service and without a surcharge. The cargo is flown according to timetable and SAS offers a money-back guarantee if the cargo is not delivered on time. Timetables were also adjusted for all-cargo traffic to fulfill better the market's requirements, all of which had a positive effect on the result.

A third factor in the improvement was the change in total cargo capacity in Scandinavia. Previously, a large number of European airlines operated on the Scandinavian market, resulting in highly depressed prices. When US dollar exchange rates rose, exports from Europe to the United States increased. These airlines responded by withdrawing capacity from Scandinavia, using it instead where they could find more profitable traffic. This trend, which is expected to continue, has helped improve SAS' cargo capacity utilisation. In the meantime, SAS Cargo's products are becoming better established and stronger in a highly competitive market.

Traffic Services Division

The Traffic Services Division is responsible for a large part of SAS' customer service program. It includes ground transportation as well as check-in and inflight services and arrival assistance.

Operations Division

The Operations Division is responsible for the crews on all SAS flights and for insuring that all SAS flights are being operated according to the civil aviation authorities' regulations.

Technical Division

The Technical Division maintains and services the SAS fleet at the Scandinavian bases and at most major destinations abroad. Responsibilities include the aircraft themselves, engines, instrumentation and components. A basic organisation of a certain size and competence is needed to cover these requirements. To utilise this organisation efficiently, the Division serves additional external customers.

Business Services Division

The Division provides administrative, financial accounting, revenue accounting, real estate management and similar services within the organisation.

Data Services Division

The Division is responsible for the planning, programming, operation and maintenance of SAS' central data processing system for the airline. Its customers are the other divisions, other SAS companies and other airlines.

Other Units

In addition, two other units have been organised, the Commuter Operations Department and External Enterprises. The latter is, among other things, responsible for the sale of duty free goods and limousine services.

BUSINESS

Regulations and Tariffs

Operating Permits

When SAS was founded, the governments of the three Scandinavian countries agreed that the operation of international scheduled air routes concerned should be concentrated in SAS and that permits to operate these routes should be granted only to the Constituent Companies, excepting only permits for routes that SAS could not or did not want to operate. Such permits have been granted for a few secondary routes.

The granting of permits for domestic scheduled routes is based on the principle of the prior right of each of the Constituent Companies to operate such routes in its own country.

All existing operating permits are issued in the name of the respective Constituent Company and contain, in addition to customary airline concession conditions, provisions permitting the Constituent Companies, during the term of the Consortium Agreement, to cause the services to be carried out by SAS.

Traffic Rights

Few countries accept the principle of unrestricted traffic rights but impose restrictive regulations to protect their own traffic potential against foreign competition. Thus, in order to operate air carrier services to other countries, authorisation of the foreign government concerned is necessary. Such authorisations are generally granted reciprocally and are normally based on bilateral government air agreements. An advantage to SAS has been the ability of the three governments of Denmark, Norway and Sweden to act jointly in negotiations regarding traffic rights.

Tariffs

Passenger fares and freight rates on international routes, including related regulations, are generally established after coordination at the Tariff Coordination Conferences of the International Air Transport Association (IATA), of which SAS is a member. Agreements of such Conferences require the consent of the IATA members operating in the territories to which the fares, rates and regulations apply. After coordination, the airlines submit their tariffs to the governments concerned for approval. The IATA conferences are not always able to reach complete agreement on all matters. The airlines are then free to pursue their own tariff policies, which are still, however, subject to the approvals of the governments concerned.

Tariffs for domestic Scandinavian services must be approved by the respective government concerned.

Aircraft Fleet

As of November 1985	Aircraft type	Owned	Leased	Total	Leased out	On order
	Boeing 747	1	4	5 ¹	1 ²	
	Douglas DC-10-30	8		8		1
	Airbus A300 B4	3		3	3 ³	
	Douglas DC-8-63	5		5	3 ³	
	Douglas DC-8-62	4		4	1 ⁴	
	Douglas DC-9-41	49		49		
	Douglas DC-9-33	2		2		
	Douglas DC-9-21	9		9		
	Douglas DC-9-81/82	4		4		10
	Douglas DC-9-51					5
	Fokker F-27	7		7		1
		92	4	96	8	17

Notes:

1 3 in passenger and 2 in combi version.

2 1 passenger version leased to Gulfair.

3 Leased to Scanair.

4 1 leased to Aero Peru.

None of the aircraft owned by SAS is mortgaged. The average aircraft fleet insurance value for the financial year 1985/86 amounts to USD 1,411 million.

Ground Facilities

SAS leases most of its ground facilities, including airport station premises, hangar and workshop buildings, passenger and cargo terminals, training and office buildings, etc. in Denmark, Norway and Sweden from its Constituent Companies and the civil aviation authorities of those countries. In other countries SAS has entered into various leases covering its use of necessary facilities in the cities served. SAS has constructed at its own expense a number of buildings on long-term leased land and, in some cases, such buildings will become the property of the lessor upon expiration of the lease.

Personnel

The approximate average number of employees in 1984/85 in the SAS Group was 28,700 and in the Consortium 18,500.

In the financial year ending 30 September, 1984 the Consortium's cost of salaries, wages and employee benefits, including pensions, insurance and other social costs, was approximately 30 per cent. of the total operating expenses incurred in SAS transportation activities.

THE CONSORTIUM'S HOLDINGS OF STOCKS AND PARTICIPATIONS

30 September, 1984

	Number of shares held	Per cent. holding	Par Value in Thousands	Book Value in mill. SEK
Subsidiaries directly included in the accounts of the Consortium				
SAS Cargo Center A/S, Copenhagen	48	100	DKK 300	0.2
Scandinavian Airlines of North America Inc., New York	1,750	100	USD 175	0.9
SAS France S.A., Paris	2,000	100	FRF 200	0.2
Sundry				0.0
				1.3

Subsidiaries consolidated with the Consortium in the SAS Group

SAS Service Partner A/S, Denmark, Copenhagen	16,000	100	DKK 16,000	11.3
SAS Service Partner A/S, Norway, Oslo	8,000	100	NOK 8,000	6.0
SAS Service Partner AB, Sweden, Stockholm	160,000	100	SEK 16,000	16.0
Vingresor AB, Stockholm	200,000	100	SEK 20,000	20.0
AB Olson & Wright, Stockholm	3,000	100	SEK 3,000	33.0
Hotel Scandinavia K/S, Copenhagen	Share in capital	97	DKK 197,000	7.1
Scandinavia Hotel Invest A/S, Copenhagen	8	93	DKK 2,500	—
SAS-Invest A/S, Copenhagen	4,110	100	DKK 10,000	7.2
SAS Tours AB, Stockholm	10,000	100	SEK 1,000	1.0
Gamla Vingresor AB, Stockholm	10,000	100	SEK 1,000	1.0
Nordair ApS, Copenhagen	200	100	DKK 300	0.2
InterSAS B.V., Amsterdam	104	100	NLG 104	0.2
SAS Royal Hotel A/S, Oslo	10,000	100	NOK 10,000	66.9
Danair A/S, Copenhagen	1,710	57	DKK 1,710	1.2
A/S Dansk Rejsebureau, Copenhagen	49	50	DKK 400	0.3
SAS Medical AB, Stockholm	2,500	100	SEK 250	0.3
SAS Oil A/S, Copenhagen	300	100	DKK 300	0.3
Other				0.4
				172.4

Other companies

Linjeflyg AB, Stockholm	500,000	50	SEK 50,000	53.0
Scandinavian Multi Access System AB, Stockholm	5,000	33	SEK 500	0.5
Helikopter Service A/S, Oslo	130,500	10	NOK 13,050	20.1
Polygon Insurance Co. Ltd., Guernsey	665,668	33	GPB 666	4.4
Bennett Reisebureau A/S, Oslo	20,880	31	NOK 2,088	1.1
Grønlandsfly A/S, Godthåb	146	25	DKK 6,000	0.4
Widerøe's Flyveselskap A/S, Oslo	26,622	22	NOK 2,662	1.1
Arctic Hotel Corp. A/S Narssarssuaq	2,000	33	DKK 2,000	1.6
Copenhagen Excursions A/S, Copenhagen	23	17	DKK 210	0.5
Malmö Flygfrakttterminal A/B, Malmö	1,455	40	SEK 146	0.0
Scanator A/B, Stockholm	500	50	SEK 50	0.1
Other				0.5
				83.3

UNAUDITED: THE CONSORTIUM'S HOLDINGS OF STOCKS AND PARTICIPATIONS

30 September, 1985					
	Number of shares held	Per cent. holding		Par Value in Thousands	Book Value in mill. SEK
Subsidiaries directly included in the accounts of the Consortium					
SAS Cargo Center A/S, Copenhagen	48	100	DKK	300	0.2
Scandinavian Airlines of North America Inc., New York	1,750	100	USD	175	0.9
SAS France S.A., Paris	5,000	100	FRF	500	0.5
Other					0.0
					1.6
Subsidiaries consolidated with the Consortium in the SAS Group					
AB Olson & Wright, Stockholm	3,000	100	SEK	3,000	33.0
A/S Dansk Rejsebureau, Copenhagen	49	50	DKK	400	0.3
Business Travel System AB, Stockholm	500	100	SEK	50	0.1
Danair A/S, Copenhagen	1,710	57	DKK	1,710	1.2
Gamla Vingresor AB, Stockholm	10,000	100	SEK	1,000	1.0
Inter SAS B.V., Amsterdam	104	100	NLG	104	0.2
Nordair ApS, Copenhagen	200	100	DKK	300	0.2
SAS International Hotels A/S, Oslo	50,000	100	NOK	50,000	49.0
SAS Oil A/S, Copenhagen	300	100	DKK	300	0.3
SAS Service Partner A/S, Copenhagen	90,000	100	DKK	90,000	70.5
SAS Tours AB, Stockholm	10,000	100	SEK	1,000	0.0
Scandinavian Multi Access System AB, Stockholm	30,000	75	SEK	3,000	3.0
Vingresor AB, Stockholm	700,000	100	SEK	70,000	70.0
Other					0.5
					229.3
Other companies					
AB Resdab, Stockholm	2,000	20	SEK	200	0.2
Arctic Hotel Corp. A/S Narssarssuaq	4,000	33	DKK	4,000	3.1
Bennett Reisebureau A/S, Oslo	20,880	31	NOK	2,088	1.1
Copenhagen Excursions A/S, Copenhagen	23	17	DKK	210	0.4
Dar-es-Salaam Airport Handling Co. Ltd., Dar-es-Salaam	27,000	15	TAS	2,700	1.4
Grønlandsfly A/S, Godthåb	146	25	DKK	6,000	0.4
Helikopter Service A/S, Oslo	130,500	10	NOK	13,050	26.2
Københavns Lufthavnsforretningscenter K/S, Copenhagen	Share of capital	40	DKK	4,000	3.2
Linjeflyg AB, Stockholm	500,000	50	SEK	50,000	53.0
Malmö Flygfrakttterminal A/B, Malmö	1,455	40	SEK	146	0.0
Polygon Insurance Co. Ltd., Guernsey	1,664,668	33	GPB	1,665	14.1
Scanator A/B, Stockholm	500	50	SEK	50	0.1
Travel Management Group Sweden AB, Stockholm	75,000	50	SEK	7,500	7.5
Widerøe's Flyveselskap A/S, Oslo	26,622	22	NOK	2,662	1.1
Other					1.8
					113.6

EXECUTIVE BODIES AND MANAGEMENT

Assembly of Representatives

Under the terms of the Consortium Agreement SAS' affairs are managed by an Assembly of Representatives, a Board of Directors and a President and Chief Executive Officer. The Assembly of Representatives consists of the members of the Boards of Directors of the Constituent Companies. Furthermore, the Assembly includes nine representatives of SAS personnel as non-voting members. Unless the Assembly unanimously decides otherwise, the offices of the Chairman and the First and Second Vice-Chairman of the Assembly rotate yearly among the Constituent Companies.

Board of Directors

The Board of Directors consists of six members and six deputy members elected yearly by the Assembly, two members and two deputy members being proposed to the Assembly by each of the Constituent Companies. In addition thereto, the Board of Directors includes three members and six deputy members as representatives of the SAS personnel. By the Consortium Agreement essentially the same general authority and duties are delegated to the Board of Directors as to the board of directors of a limited company. The Board of Directors elects, from among its members, a Chairman of the Board, a First Vice-Chairman and a Second Vice-Chairman. As with the corresponding offices of the Assembly, these offices rotate on a yearly basis among the Constituent Companies, unless otherwise unanimously decided by the Board of Directors.

Directors of SAS	Principal occupation	Place of residence
Curt Nicolin, Chairman of the Board (1)	Chairman of ASEA	Stockholm, Sweden
Tor Moursund, First Vice Chairman (1)	President of Christiania Bank og Kreditkasse	Oslo, Norway
Haldor Topsøe, Second Vice Chairman (1)	Chairman of Haldor Topsøe A/S	Copenhagen, Denmark
Krister Wickman	Managing Director of the National Swedish Pension Insurance Fund	Stockholm, Sweden
Inge Johannesson	Personnel Representative, Manager, Finance Department SAS	Stockholm, Sweden
Bjørn Eidem	Senior Vice President, Fred Olsen & Co.	Oslo, Norway
Ingvar Lilletun	Personnel Representative, Tariff Consultant, SAS	Oslo, Norway
Jørgen L. Halck	Permanent Under Secretary, Ministry of Public Works	Copenhagen, Denmark
Per Espersen	Personnel Representative, Purser, SAS	Copenhagen, Denmark

Management

The President and Chief Executive Officer and the principal officers of SAS are appointed by the Board of Directors. The Consortium Agreement provides that the President and Chief Executive Officer of SAS has the same powers and duties held by the general manager of a limited company.

The Group Management

President and Chief Executive Officer

Jan Carlzon	Stockholm, Sweden
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President's Office

Frede Ahlgreen Eriksen, Deputy President and Executive Vice President	Copenhagen, Denmark
Helge Lindberg, Executive Vice President	Stockholm, Sweden
Per-Axel Brommesson, Executive Vice President	Stockholm, Sweden

Finance, Planning and Control

Nils G. Molander, Executive Vice President	Stockholm, Sweden
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Personnel and Organisation

Björn Gadd, Vice President	Stockholm, Sweden
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(1) Offices rotate yearly as described above.

**PRELIMINARY RESULTS AND COMMENTS
FOR THE FINANCIAL YEAR 1 OCTOBER, 1984-30 SEPTEMBER, 1985**

SAS Group income before allocations and taxes for the fiscal year 1984/85 (1 October, 1984 to 30 September, 1985) amounted to 1,017 million Swedish Kronor (MSEK), compared to MSEK 968 for 1983/84.

Total revenue increased during the fiscal year by 10 per cent. to MSEK 19,790, compared to MSEK 18,005 in 1983/84.

SAS Group income before extraordinary items came to MSEK 1,018 in 1984/85, a 28 per cent. increase over 1983/84 (MSEK 792).

The SAS Group comprises the airline, catering, restaurants, hotels, leisure sector and forwarding.

The SAS Board has proposed to the SAS Assembly of Representatives that MSEK 280 be transferred to the Constituent Companies.

Airline (Consortium) income before extraordinary items increased from MSEK 729 to MSEK 811, or 11 per cent. Airline revenue increased by 9 per cent. from MSEK 14,151 the year before to MSEK 15,434 in 1984/85.

Labour market conflicts in Denmark and Sweden during the spring of 1985 reduced airline income by about a quarter of a billion Swedish Kronor.

The improved 1984/85 income is due primarily to a continued positive development of European traffic, Scandinavian traffic and cargo. Strong contributions were also made by SAS International Hotels, SAS Service Partner and Vingresor. Net financial income also improved.

On the European network, SAS traffic increased by 4 per cent. with full-fare passengers increasing by 8 per cent.

Domestic traffic increased 11 per cent. in Norway, 7 per cent. in Sweden and 4 per cent. in Denmark, despite the industrial conflicts.

On intercontinental routes, the number of passengers remained unchanged, and income development was not completely satisfactory. Intercontinental cargo, on the other hand, progressed positively.

All told, SAS carried 10.7 million passengers in 1984/85, an increase of 7 per cent. The growth occurred both in the full-fare and tourist fare sectors of the market.

The production increase corresponded to the increase of 2 per cent. in passenger traffic expressed in revenue ton-kilometers.

SAS' International Hotels improved its income before extraordinary items to MSEK 67 (MSEK 21).

A marked improvement was recorded by SAS Service Partner with an increase in the income before extraordinary items from MSEK 15 in 1983/84 to MSEK 81 in 1984/85.

Vingresor has continued to strengthen its share of the leisure travel market in Norway and Sweden. Income before extraordinary items amounted to MSEK 81 (MSEK 46).

During 1984/85, SAS placed orders for four Fokker F-27s, three DC-10s and eight DC-9-80s. Over the past two years, total aircraft orders have amounted to more than four billion Swedish Kronor.

The first months of the new fiscal year have been encouraging, and SAS anticipates that the positive trend will continue for the rest of 1985/86.

Unaudited: Statement of Income

	1 October, 1984–30 September, 1985			
	Consolidated		Consortium	
	1984/5	1983/4	1984/5	1983/4
	<i>(in millions of Swedish Kronor)</i>			
Total revenue	19,790	18,005	15,434	14,151
Change from previous year (%)	9.9%	12.7%	9.1%	12.3%
Operating expense	–18,256	–16,415	–14,227	–12,791
Operating income before depreciation	1,534	1,590	1,207	1,360
In per cent. of revenue	7.8%	8.8%	7.8%	9.6%
Depreciation	–574	–545	–447	–438
Operating income after depreciation	960	1,045	760	922
Net interest income	161	122	164	138
Financial items, misc.	–103	–375	–113	–331
Income before extraordinary items	1,018	792	811	729
Extraordinary items	–1	176	–4	189
Income before allocations and taxes	1,017	968	807	918

Note:

SAS accounts are kept in Swedish Kronor (SEK), conversions to other currencies are based on the bank rate of this final day of the fiscal year, 30 September. The following rates apply:

	30 September, 1985	30 September, 1984	30 September, 1983
1 USD =	8:06 SEK	8:70 SEK	7:83 SEK
100 DKK =	82:90 SEK	78:10 SEK	82:40 SEK
100 NOK =	101:30 SEK	98:05 SEK	106:45 SEK
100 SFR =	368:25 SEK	343:35 SEK	368:00 SEK
100 FRF =	98:85 SEK	92:00 SEK	98:00 SEK
100 DEM =	300:80 SEK	281:80 SEK	296:00 SEK
1 GBP =	11:32 SEK	10:72 SEK	11:70 SEK
100 FIM =	140:10 SEK	135:95 SEK	138:00 SEK

FINANCIAL DATA

Capitalisation (Unaudited)

The following table sets out the unaudited capitalisation of SAS (Consolidated and Consortium) as at 30 September, 1985.

	SAS Consolidated	SAS Consortium
	<i>(in millions of Swedish Kronor)</i>	
Debenture loans	1,439.7	1,439.7
Mortgage loans	396.3	13.9
Other loans	1,242.3	1,060.2
Other non-current liabilities	192.2	116.0
Provision for pension liabilities	51.0	—
Long-term debt (1)	3,321.5	2,629.8
Reserves	896.9	608.9
Equity	2,722.1	2,556.2
TOTAL	<u>6,940.5</u>	<u>5,794.9</u>

Notes:

- (1) These obligations do not include amounts due within one year. Particulars of long-term debt as at 30 September, 1984 appear in Notes 12–16 to Financial Statements. Not included in the long-term debt are USD 150,000,000 10 year Notes to be issued in December, 1985 at an exchange rate of USD 1.00 = SEK 7.6450 as at 29 November, 1985, and the current issue of SFR 200,000,000 subordinated Bonds at an exchange rate of SFR 1.00 = SEK 3.6720 as at 29 November, 1985 and a USD 50,000,000, three year loan to be drawn in April 1986.

Long-term debt of SAS (Unaudited)

The table below describes the long-term debt as at 30 September, 1985 of the SAS Consortium, in form of bonds, notes or other similar types of securities.

Loans	Outstanding amounts (in local currency)		Outstanding amounts (in millions of Swedish Kronor)
5.5%	SFR 61.6 mill.,	due 1985-1992	226.8
10.75%	SEK 90.0 mill.,	due 1984-1994	90.0
11.625%	NOK 200.0 mill.,	due 1991	202.6
10.125%	NOK 250.0 mill.,	due 1993	253.3
9.0%	ECU 100.0 mill.,	due 1995	667.0
TOTAL			<u>1,439.7</u>

Since 30 September, 1985, SAS has issued 10 year Notes in the amount of USD150 mill., which will be drawn in December 1985 and this current issue of SFR 200 mill. subordinated Bonds, which will be drawn in January 1986.

Debt Service (Unaudited)

The table below describes the debt service for SAS (Consortium only) as at 30 September, 1985. It includes debenture loans, mortgage loans and other loans of the Consortium as of that date.

Year Maturity (Fiscal Year)	Principal and Interest ¹ (in millions)						Total Princ.	Total Int.	Total in
	USD	SFR	FRF	NOK	ECU	DKK	SEK	in SEK	in SEK
1985/86	69.0	7.5	21.3	48.6	9	3.1	49.1	505.4	248.4
1986/87	32.8	7.3	20.1	48.6	9	3.0	45.2	244.5	217.5
1987/88	66.3	7.1	18.9	48.6	9	3.1	41.1	553.1	167.8
1988/89	14.4	6.9	17.7	48.6	9	3.0	36.7	150.9	153.5
1989/99	7.9	6.6	16.5	48.6	9	2.6	32.3	106.2	139.8
1990 ff	11.4	50.2	7.8	550.3	145	9.7	108.0	1,458.3	454.2
									1,912.5

Note:

- (1) The amount of floating rate debt depends on market conditions.
- (2) The following exchange rates for Swedish Kronor were used in above table: USD 7.90, SFR 3.67, FRF 0.99, NOK 1.00, ECU 6.65, DKK 0.83.
- (3) Not included in the long-term debt are USD 150,000,000 10 year Notes to be issued in December, 1985 at an exchange rate of USD 1.00 = SEK 7.6450 as at 29 November, 1985, and the current issue of SFR 200,000,000 subordinated Bonds at an exchange rate of SFR 1.00 = SEK 3.6720 as at 29 November, 1985 and a USD 50,000,000, three year loan to be drawn in April 1986.

Long-term Debt of Consolidated Subsidiaries

None of the consolidated subsidiaries has so far borrowed long-term in the form of bonds, notes or other similar types of securities in its own name.

CONSOLIDATED STATEMENT OF INCOME

	1 October–30 September,		
	1983/4	1982/3	1981/2
	<i>(in millions of Swedish Kronor)</i>		
Traffic revenue (Note 1)	11,577.2	10,463.1	8,585.9
Other operating revenue (Note 2)	6,428.0	5,509.4	4,221.1
Operating revenue	18,005.2	15,972.5	12,807.0
Operating expense (Note 3)	16,415.5	14,695.7	11,895.6
Operating income before depreciation	1,589.7	1,276.8	911.4
Depreciation (Note 4)	544.6	483.1	473.7
Operating income after depreciation	1,045.1	793.7	437.7
Dividend income	2.8	1.1	0.8
Interest income, net (Note 5)	122.3	6.1	–0.3
Exchange rate differences (Note 6)	–364.1	–224.3	–141.3
Other financial items	–14.0	6.8	–4.9
Income after financial items	792.1	583.4	292.0
Gain on sales and retirement of equipment etc. (net) (Note 7)	103.2	18.0	68.6
Extraordinary income (Note 8)	580.2	14.0	100.2
Extraordinary expense (Note 9)	–507.4	–14.4	–12.8
Income before allocations and taxes	968.1	601.0	448.0
Allocations in subsidiaries (net)	–37.4	–64.0	–30.7
Income before subsidiaries' taxes	930.7	537.0	417.3
Taxes of subsidiaries	–34.0	–39.0	–35.6
Minority interests	5.0	–1.5	–3.1
INCOME BEFORE TAXES relating to the Consortium (payable by its Constituent Companies in Denmark, Norway and Sweden) but after taxes payable by subsidiaries	901.7	496.5	378.6

CONSORTIUM: STATEMENT OF INCOME

	1 October–30 September,		
	1983/4	1982/3	1981/2
	<i>(in millions of Swedish Kronor)</i>		
Traffic revenue (Note 1)	11,577.2	10,463.1	8,442.3
Other operating revenue (Note 2)	2,573.4	2,137.3	1,559.7
Operating revenue	14,150.6	12,600.4	10,002.0
Operating expense (Note 3)	12,791.0	11,583.7	9,277.2
Operating income before depreciation	1,359.6	1,016.7	724.8
Depreciation (Note 4)	438.3	398.8	408.6
Operating income after depreciation	921.3	617.9	316.2
Dividend income	23.6	22.7	8.1
Interest income, net (Note 5)	137.8	20.4	7.8
Exchange rate differences (Note 6)	–341.5	–207.4	–135.2
Other financial items	–12.1	7.3	–4.2
Income before extraordinary income and expense	729.1	460.9	192.7
Gain on sales and retirement of equipment etc. (net) (Note 7)	111.4	11.2	59.8
Extraordinary income (Note 8)	580.1	—	95.8
Extraordinary expense (Note 9)	–502.8	–10.3	–12.3
INCOME BEFORE ALLOCATIONS AND TAXES (taxes are payable by the Constituent Companies of the SAS Consortium)	917.8	461.8	336.0

Note:

Allocations related to the Consortium are accounted for by the Constituent Companies.

CONSOLIDATED BALANCE SHEET

	As at 30 September,		
	1984	1983	1982
	<i>(in millions of Swedish Kronor)</i>		
ASSETS			
Cash and bank balances including short-term investments	4,010.8	2,595.2	1,989.6
Bills receivable	2.1	1.8	1.9
Due from parent companies	23.6	97.3	46.0
Accounts receivable	1,840.9	1,739.2	1,309.8
Prepaid expenses and accrued income	521.3	365.7	322.1
Tax refund receivable	6.9	2.8	0.2
Other accounts receivable	521.7	327.7	258.4
Expendable spare parts and inventory (Note 10)	322.7	271.4	212.6
Prepayments to suppliers	40.8	27.3	31.4
Current Assets	7,290.8	5,428.4	4,172.0
Restricted accounts	26.6	6.6	4.2
Stocks and participations	88.4	75.7	63.2
Bonds and other securities	53.9	14.5	17.3
Long-term accounts receivable, parent companies	3.4	3.7	3.1
Long-term accounts receivable, other	98.8	64.5	57.3
Goodwill	9.3	12.3	15.9
Capitalised development costs	2.4	5.3	0.5
Discount on debenture loans	2.7	3.5	4.9
Long-term prepayments to suppliers	189.2	2.9	2.6
Construction in progress	52.4	20.6	30.4
Aircraft (Note 11)			
<i>Atcost</i>	<i>3,642.3</i>	<i>3,652.8</i>	<i>3,563.1</i>
<i>Depreciation</i>	<i>1,888.7</i>	<i>1,938.7</i>	<i>1,756.5</i>
	1,753.6	1,714.1	1,806.6
Spare engines and spare parts			
<i>Atcost</i>	<i>776.4</i>	<i>689.3</i>	<i>637.4</i>
<i>Depreciation</i>	<i>460.4</i>	<i>390.6</i>	<i>319.6</i>
	316.0	298.7	317.8
Workshop and aircraft servicing equipment			
<i>Atcost</i>	<i>249.4</i>	<i>221.7</i>	<i>209.8</i>
<i>Depreciation</i>	<i>188.1</i>	<i>169.5</i>	<i>150.8</i>
	61.3	52.2	59.0
Other equipment and vehicles			
<i>Atcost</i>	<i>1,241.2</i>	<i>1,029.8</i>	<i>922.8</i>
<i>Depreciation</i>	<i>711.6</i>	<i>535.9</i>	<i>491.0</i>
	529.6	493.9	431.8
Buildings and improvements			
<i>Atcost</i>	<i>1,304.7</i>	<i>1,224.2</i>	<i>883.1</i>
<i>Depreciation</i>	<i>515.1</i>	<i>424.1</i>	<i>337.0</i>
	789.6	800.1	546.1
Land and improvements			
<i>Atcost</i>	<i>80.7</i>	<i>86.3</i>	<i>66.7</i>
<i>Depreciation</i>	<i>1.5</i>	<i>1.3</i>	<i>1.5</i>
	79.2	85.0	65.2
Fixed Assets	4,029.8	3,647.0	3,421.7
TOTAL ASSETS	11,347.2	9,082.0	7,597.9

CONSOLIDATED BALANCE SHEET

	As at 30 September,		
	1984	1983	1982
	<i>(in millions of Swedish Kronor)</i>		
LIABILITIES AND EQUITY			
Accounts payable	1,201.8	937.8	774.4
Taxes payable	38.4	50.6	30.4
Accrued expenses and prepaid income	1,767.6	1,417.4	1,122.2
Unearned transportation revenue (net)	1,167.5	1,009.7	849.7
Prepayments from customers	244.1	193.6	171.3
Current portion of long-term debt	977.2	444.7	358.6
Other current liabilities	708.4	497.7	325.9
Current liabilities	6,105.0	4,551.5	3,632.5
Debenture loans (Note 12)	515.8	469.8	428.6
Mortgage loans (Note 13)	408.7	420.9	240.6
Other loans (Note 14)	1,130.4	1,681.9	1,620.9
Other long-term debt (Note 15)	238.7	195.6	158.0
Provision for pension liabilities (Note 16)	46.4	43.1	37.8
Deferred currency losses (Note 17)	—	-511.9	-338.4
Long-term debt	2,340.0	2,299.4	2,147.5
Minority interests	6.1	13.9	17.1
Depreciation reserves	499.4	535.1	502.2
Other reserves	283.3	237.3	184.9
Reserves (Note 18)	782.7	772.4	687.1
Capital ABA (3/7)	476.3	368.4	299.3
DDL (2/7)	317.5	245.6	199.6
DNL (2/7)	317.5	245.6	199.6
Total capital	1,111.3	859.6	698.5
Legal reserve	38.6	28.0	22.4
Revaluation reserve	20.0	22.7	20.8
Retained earnings	41.8	38.0	-6.6
Net income for the year	901.7	496.5	378.6
Equity (Note 19)	2,113.4	1,444.8	1,113.7
TOTAL LIABILITIES AND EQUITY	11,347.2	9,082.0	7,597.9
Mortgages on real estate	591.5	581.0	320.8
Sundry pledges	168.0	154.3	128.7
Assets pledged	759.5	735.3	449.5
Guarantees and other contingent liabilities	125.2	89.1	124.7
Pension commitments	63.7	62.9	60.0
Contingent liabilities	188.9	152.0	184.7

CONSORTIUM: BALANCE SHEET

	As at 30 September,		
	1984	1983	1982
	<i>(in millions of Swedish Kronor)</i>		
ASSETS			
Cash and bank balances including short-term investments	3,442.5	1,992.8	1,553.9
Due from subsidiaries	173.2	121.3	89.7
Due from parent companies	23.6	97.3	46.0
Accounts receivable	1,311.8	1,310.5	981.8
Prepaid expenses and accrued income	446.9	285.8	265.4
Other accounts receivable	468.5	284.7	208.0
Expendable spare parts and inventory (Note 10)	233.0	184.3	144.6
Prepayments to suppliers	9.8	8.1	10.5
Current Assets	6,109.3	4,284.8	3,299.9
Stocks and participations in subsidiaries	172.4	229.5	132.4
Other stocks and participations	83.3	68.5	59.1
Bonds and other securities	9.1	9.3	8.4
Long-term accounts receivable, subsidiaries	4.1	5.1	4.3
Long-term accounts receivable, parent companies	3.4	3.7	3.1
Long-term accounts receivable, other	69.9	42.2	33.4
Discount on debenture loans	2.7	3.5	4.9
Long-term prepayments to suppliers	189.2	2.6	2.6
Construction in progress	15.9	0.9	25.7
Aircraft (Note 11)			
<i>At cost</i>	3,642.3	3,652.8	3,563.1
<i>Depreciation</i>	1,888.7	1,938.7	1,756.5
	1,753.6	1,714.1	1,806.6
Spare engines and spare parts			
<i>At cost</i>	776.4	689.3	637.4
<i>Depreciation</i>	460.4	390.6	319.6
	316.0	298.7	317.8
Workshop and aircraft servicing equipment			
<i>At cost</i>	249.4	221.7	209.8
<i>Depreciation</i>	188.1	169.5	150.8
	61.3	52.2	59.0
Other equipment and vehicles			
<i>At cost</i>	801.6	653.2	625.7
<i>Depreciation</i>	498.6	378.5	357.1
	303.0	274.7	268.6
Buildings and improvements			
<i>At cost</i>	420.8	357.0	291.2
<i>Depreciation</i>	255.8	187.5	159.4
	165.0	169.5	131.8
Land and improvements			
<i>At cost</i>	8.6	8.7	8.6
<i>Depreciation</i>	0.4	0.3	0.3
	8.2	8.4	8.3
Fixed Assets	3,157.1	2,882.9	2,866.0
TOTAL ASSETS	9,266.4	7,167.7	6,165.9

CONSORTIUM: BALANCE SHEET

	As at 30 September,		
	1984	1983	1982
	<i>(in millions of Swedish Kronor)</i>		
LIABILITIES AND EQUITY			
Accounts payable, subsidiaries	47.9	53.7	30.6
Accounts payable, suppliers	882.5	651.3	491.6
Accrued expenses and prepaid income	1,487.5	1,190.5	947.7
Unearned transportation revenue (net)	1,167.5	1,009.7	849.6
Prepayments from customers	16.4	15.7	20.6
Current portion of long-term debt	905.2	395.0	333.7
Other current liabilities	469.3	319.5	187.6
Current liabilities	4,976.3	3,635.4	2,861.4
Loans from subsidiaries	0.6	0.5	0.2
Debenture loans (Note 12)	515.8	469.8	428.6
Mortgage loans (Note 13)	13.6	15.7	14.5
Other loans (Note 14)	970.4	1,497.5	1,470.0
Other long-term debt (Note 15)	214.4	169.7	141.5
Deferred currency losses (Note 17)	—	-511.9	-338.4
Long-term debt	1,714.8	1,641.3	1,716.4
Depreciation reserve	499.4	535.1	502.2
Other reserves	46.8	34.5	51.4
Reserves (Note 18)	546.2	569.6	553.6
Capital ABA (3/7)	476.3	368.4	299.3
DDL (2/7)	317.5	245.6	199.6
DNL (2/7)	317.5	245.6	199.6
Total capital	1,111.3	859.6	698.5
Net income for the year	917.8	461.8	336.0
Equity (Note 19)	2,029.1	1,321.4	1,034.5
TOTAL LIABILITIES AND EQUITY	9,266.4	7,167.7	6,165.9
Mortgages on real estate	15.8	17.7	16.0
Sundry pledges	15.2	15.6	9.0
Assets pledged	31.0	33.3	25.0
Guarantees and other contingent liabilities for subsidiaries	330.8	316.9	163.4
For others	77.2	62.4	94.4
Pension commitments	63.7	62.9	60.0
Contingent liabilities (Note 20)	471.7	442.2	317.8

Note:

Furthermore, the Consortium has assumed lease obligations in connection with an 18-year lease of a Boeing 747-Combi in February, 1981, and a similar lease of a Boeing 747B in October, 1981. Lease obligations have also been assumed with respect to a 5-year agreement for a Boeing 747B in January 1982, and a 4-year agreement for a Boeing 747B in October, 1983. The Consortium also has certain liabilities in connection with ticket sales according to pay-later plans.

NOTES TO THE FINANCIAL STATEMENTS of the year 1 October, 1983 to 30 September, 1984

SUMMARY OF ESSENTIAL ACCOUNTING PRINCIPLES

Consolidated Financial Statements

The financial year of the SAS Group is 1 October to 30 September.

The consolidated financial statements of the SAS Group include the SAS Consortium, its wholly-owned subsidiaries and those partly-owned subsidiaries in which the Consortium has a controlling interest. Some wholly-owned subsidiaries, closely connected with the operations of the Consortium, are directly included in the accounts of the Consortium. See further in the specification of stocks and participations as of 30 September, 1984.

The accounts of Scanair, another consortium owned by the parent companies of the SAS Consortium, are not included in the consolidated financial statements of the SAS Group.

Companies acquired in the financial year are included in the SAS Group's statement of income for the period during which they belonged to the SAS Group.

The consolidated financial statements of the SAS Group are prepared in accordance with the purchase method of accounting which means that subsidiary income is included in the Group's disposable funds only to the extent that they were earned after the date of acquisition. The equity in a subsidiary at the time of acquisition, including 50 per cent. of acquired untaxed reserves, is eliminated against the acquisition value of the corresponding stocks in the accounts of the Consortium.

Inter-company profits and transactions within the SAS Group are eliminated.

The financial statements of the SAS Group are expressed in millions of Swedish Kronor.

Financial statements of subsidiaries directly included in the accounts of the Consortium are translated into Swedish Kronor using the monetary/non-monetary method. The statements of income are thus translated at the average exchange rate during the financial year, with the exception of the depreciation which is translated at the exchange rate prevailing at the time of acquisition. In the balance sheets, fixed assets (excluding long-term accounts receivable) are translated at the investment rate of the year of acquisition. Long-term accounts receivable, current assets and liabilities are translated at the exchange rate in force at the end of the financial year.

Translation according to the above principles creates a difference between the income according to the balance sheet and the income according to the statement of income. The total net difference is included in the statement of income.

The financial statements of the subsidiaries, in currencies other than Swedish Kronor are, for the purpose of consolidation, translated into Swedish Kronor using the current-rate method. Assets and liabilities are thus translated to Swedish Kronor at financial year-end rates of exchange, while the year's result is translated at the average rate of exchange for the year.

The translation differences are transferred directly to equity of the SAS Group to the extent that they refer to SAS' share in such subsidiaries. Translation differences relating to minority interest in the subsidiaries are included under the heading "Minority interest" in the consolidated balance sheet.

Valuation of monetary assets and liabilities in currencies other than Swedish Kronor

Monetary assets and liabilities expressed in currencies other than the respective accounting currency are stated in the balance sheet at financial year-end market rate of exchange. Long-term debt, however, is never translated at an exchange rate lower than that valid when a loan was disbursed.

Long-term liabilities in foreign currency (excluding next year's instalments, which are reported among current liabilities) have been restated using the higher of the rates prevailing at the time of disbursement and the financial year-end market rate. For each loan, exchange losses are spread over the duration of the loans. That part of the loss, attributable to repayments due within one year, is charged to income as a financial expense. Until and including fiscal 1982/83, the remaining currency loss was reported as a separate deduction item among the long-term liabilities of the Consortium. For fiscal 1983/84 all currency losses have been charged to earnings—that part, which would have been deferred under the previously applied accounting principles, has been charged to earnings as an extraordinary expense.

Unrealised currency gains on long-term debt and long-term accounts receivable are credited to the currency adjustment account in the balance sheet of the Consortium, while currency gains/losses resulting from the translation of other monetary assets and liabilities into Swedish Kronor are credited/charged directly to income and are reported as exchange rate differences among the financial items.

Exchange rates for some of SAS' significant currencies are:

Exchange rates, 30 September, 1984

<i>Currency</i>		
Denmark	DKK 100	78.10
Norway	NOK 100	98.05
USA	USD	8.70
Switzerland	SFR 100	343.35
France	FRF 100	92.00

Valuation of Expendable spare parts and sundry stores

Expendable spare parts and sundry stores are stated at the lower of cost or market value. The necessary deduction for obsolescence has been made.

The expendable spare parts included under this heading comprise 2/3 of the total stock of such parts, the remaining 1/3 being treated as fixed assets.

Fixed assets and depreciation

Owned fixed assets are carried in the balance sheet at cost less accumulated depreciation.

In accordance with its policy, the Consortium depreciates its flight equipment, i.e. aircraft and engines including spare parts:

Type of aircraft	Depreciation period	Residual value
Boeing 747	12 years	10%
Douglas DC-10	12 years	10%
Airbus A300	12 years	10%
Douglas DC-8	10 years	10%
Douglas DC-9	10 years	10%
Fokker F-27	5 years	10%

In the reports that the SAS Consortium submits under most of its loan agreements with U.S. lenders, flight equipment is depreciated over 12 years to a residual value of 10 per cent. for Douglas DC-8, over 14 years to a residual value of 10 per cent. for Douglas DC-9 and over 16 years to a residual value of 10 per cent. for Airbus A300, Boeing 747 and Douglas DC-10/30.

The above mentioned rules are applied by the Consortium to compute the amount of depreciation to be deducted from flight equipment cost. Depreciation charged in the SAS Statement of Income in excess of thus reported depreciation is added to the depreciation reserve of the Consortium.

Leased fixed assets are not capitalised in the Balance Sheet. Leasing costs are charged to earnings.

Workshop and aircraft servicing equipment and other equipment and vehicles are depreciated over 5 years, with the exception of flight simulators for A300 and DC-10, for which the depreciation period is 12 years. The annual depreciation for building varies between 2 per cent. and 20 per cent. Depreciation periods for goodwill and capitalised development costs varies between 5 and 10 years.

The depreciation period for computer equipment has been reduced from 7 years to 5 years. Improvements to own and rented premises are, in principle, depreciated over the rental period or over estimated life.

Maintenance costs

Routine aircraft maintenance and repairs costs are charged to earnings as incurred.

Major modifications and improvements are capitalised and depreciated over the remaining life of the assets.

Allocations are not made for future maintenance costs with respect to owned aircraft and other assets.

Due to the structure of SAS' fleet, with a dominance of DC-9s, maintenance costs are spread fairly evenly over time. For leased aircraft, due allocation is made for accrued maintenance cost based on hours flown.

Traffic revenue

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

The value of tickets sold but not yet used (flown) is reported as unearned transportation revenue among current liabilities. This item is reduced either when SAS or another airline completes the transportation, or after refund to the ticket holder.

Based on statistical estimates, a reserve against the unearned transportation revenue liability is reported annually. The reserve corresponds to that portion of tickets sold which is estimated to remain unutilised.

Reversal of the reserve for unearned transportation revenue is effected in such a way that the reserve accrued in one year is taken up as revenue in the following year.

Note 1 - Traffic Revenue

	Consolidated 1983/4	Consortium 1983/4
Passenger	9,873.4	9,873.4
Freight	1,302.5	1,302.5
Mail	245.4	245.4
Charter	51.9	51.9
Rental	104.0	104.0
	<u>11,577.2</u>	<u>11,577.2</u>

Note 2 - Other Operating Revenue

	Consolidated 1983/4	Consortium 1983/4
Consortium	2,573.4	2,573.4
Subsidiaries	4,804.7	—
Less: Elimination of internal transactions	-950.1	—
	<u>6,428.0</u>	<u>2,573.4</u>

Other operating revenue of the Consortium consists of revenue from maintenance operations, grounds services, interline sales, etc. for other airlines, inflight sales and sales in airport shops, rental of excess capacity and other miscellaneous revenue.

Note 3—Operating Expense	Consolidated	Consortium
	1983/4	1983/4
Consortium	12,791.0	12,791.0
Subsidiaries	4,578.1	—
Less: Elimination of internal transactions	–953.6	—
	<u>16,415.5</u>	<u>12,791.0</u>
Operating expense includes payroll expense as follows:		
	Consolidated	Consortium
	1983/4	1983/4
Payroll	4,071.5	2,978.5
Payroll related expense	1,262.5	963.7
	<u>5,334.0</u>	<u>3,942.2</u>
Note 4—Depreciation	Consolidated	Consortium
	1983/4	1983/4
Goodwill	2.0	—
Development costs	1.0	—
Aircraft	206.3	206.3
Spare engines and spare parts	72.3	72.3
Maintenance and aircraft servicing equipment	23.0	23.0
Other equipment and vehicles	155.5	97.4
Buildings and improvements	84.4	39.3
Land and improvements	0.1	0.0
	<u>544.6</u>	<u>438.3</u>
Note 5—Interest income, net	Consolidated	Consortium
	1983/4	1983/4
Interest from subsidiaries	—	3.0
Other interest income	436.5	359.9
Interest income	<u>436.5</u>	<u>362.9</u>
Interest to subsidiaries	—	–0.2
Other interest expense	–314.2	–224.9
Interest expense	<u>–314.2</u>	<u>–225.1</u>
	<u>122.3</u>	<u>137.8</u>
Note 6—Currency differences, net	Consolidated	Consortium
	1983/4	1983/4
Currency losses on long-term debt (the year's share)	–232.9	–210.3
Other revaluation differences	–131.2	–131.2
	<u>–364.2</u>	<u>–341.5</u>
Note 7—Gain on sale of flight equipment, etc. (net)	Consolidated	Consortium
	1983/4	1983/4
Aircraft	93.4	93.4
Spare engines and spare parts	7.2	7.2
Buildings	0.2	0.1
Other equipment etc.	2.4	4.7
Sale of stock in Nyman & Schultz Resebyråer AB	—	6.0
	<u>103.2</u>	<u>111.4</u>

The selling price for the Boeing 747 aircraft sold during the year for U.S. dollars 27 million (211 million Swedish kronor) exceeded book value by Swedish kronor 199 million. The aircraft was leased back for a period of four years, during which the Consortium repays half of the selling price, Swedish kronor 93 million was reported as revenue at time of the sale, while the remaining amount, after selling expense, has been recorded as long-term debt in order to be credited to income over the lease period.

Note 8—Extraordinary income

	Consolidated 1983/4	Consortium 1983/4
Insurance settlements	580.1	580.1
Other extraordinary income	0.1	—
	<u>580.2</u>	<u>580.1</u>

In November and December, 1983 two planes on lease from SAS to other airlines were lost: One Boeing 747 Combi and one Airbus A300. In February, 1984, a DC-10 operated by SAS was damaged upon landing at Kennedy Airport in New York. All insurance claims were settled during the financial year. The income effect of the insurance claims results from settlements in excess of book value.

Note 9—Extraordinary expenses

	Consolidated 1983/4	Consortium 1983/4
Currency losses on long-term loans due to change in accounting principle	412.7	412.7
Non-recurring depreciation of computer equipment	45.0	45.0
Non-recurring depreciation of improvements/equipment	48.9	30.0
Share in losses/writedown of participation in Hotel Scandinavia K/S, Copenhagen	0.6	14.9
Other extraordinary expense	0.2	0.2
	<u>507.4</u>	<u>502.8</u>

Currency losses

The translation of Consortium long-term debt to Swedish Kronor has resulted in substantial unrealised currency losses, principally resulting from the appreciation in value of the U.S. Dollar and the devaluations of the Swedish Krona. The final outcome of the unrealised currency losses depends on the future development of exchange rates.

Since 1980/81 SAS has spread unrealised currency losses on loans in foreign currency over the duration of the loans. In the accounts for 1983/84 it has been deemed prudent to change the principle for accounting for unrealised currency losses on long-term loans. The year's result has been charged with the entire currency loss and not, as previously, only with the portion of the loss attributed to the operating year.

In order to achieve comparability between the year's result before extraordinary items, this year's share of unrealised currency losses, computed on the basis of the remaining life of the loans, as before, has been recorded as currency differences among financial items. The remaining currency losses, which according to prior accounting principle would have been deferred to later years, SEK 412.7 million, have been charged to earnings as an extraordinary expense.

Writedowns

Against the background of the shorter economic and technological life of computers and related equipment, it has been decided to shorten the depreciation period from 7 to 5 years. In the year's accounts for the Consortium for the period ending 30 September, a one-time writedown of Swedish Kronor 45.0 million has been made against existing equipment. The book value has thereby been reduced from Swedish Kronor 204.5 million to Swedish Kronor 159.5 million.

Effective in 1984/85 SAS introduces a more restrictive principle for capitalisation of improvements to own and rented premises. Costs for repair and maintenance should normally not be regarded as improvements adding value to be included in original cost.

On 30 September, 1984 the SAS Consortium made a writedown of Swedish Kronor 30.0 million against capitalised improvements. The remaining book value then is Swedish Kronor 68.6 million. With respect to SAS Service Partner and SAS Hotels, a one-time writedown of restaurant equipment of Swedish Kronor 8.9 million and Swedish Kronor 10.0 million, respectively, has been made.

Note 10—Expendable spare parts and inventory

	Consolidated 1983/4	Consortium 1983/4
Expendable spare parts	90.8	90.8
Surplus stores	59.7	59.7
Work in progress	12.2	12.2
Raw materials	18.4	18.4
Goods for internal use	19.9	19.9
Inventory	100.6	10.9
Cabin and catering materials, uniforms	21.1	21.1
	<u>322.7</u>	<u>233.0</u>

Note 11 – Book Value of Aircraft

The book value of aircraft has changed as follows:

	<u>Consortium</u>	
At cost		
As of 1 October, 1983	3,652.8	
Modification of DC-10	32.9	
Modification of DC-9 engines	55.8	
Aircraft purchases	509.5	
Aircraft sold and retired	<u>-608.7</u>	<u>3,642.3</u>
Accumulated depreciation		
As of 1 October, 1983	1,938.7	
Aircraft sold and retired	-230.1	
Depreciation 1983/84	<u>180.1</u>	<u>-1,888.7</u>
Book value		1,753.6
Depreciation reserve as of 1 October, 1983	478.5	
Aircraft sold and retired	-74.1	
The year's supplementary depreciation	<u>26.2</u>	<u>-430.6</u>
Net book value		<u>1,323.0</u>

Note 12 – Debenture Loans

	<u>1984</u>
5.5% SFR 68.0 mill., due 1985-1992	233.5
8.0% USD 14.0 mill., due 1985	121.8
10.75% SEK 110.0 mill., due 1984-1994	110.0
11.625% NOK 200.0 mill., due 1991	<u>196.1</u>
	661.4
Less: Current portion included in current liabilities	<u>-145.6</u>
Consortium as of 30 September	<u>515.8</u>
SAS Group as of 30 September	<u>515.8</u>

Note 13 – Mortgage Loans

	<u>1984</u>
6%/10% DKK 16.5 mill., due 1984-2003	12.9
10%/12% NOK 1.8 mill., due 1984-2004	1.7
17.5% ZAR 0.0 mill., due 1984-1997	<u>0.2</u>
	14.8
Less: Current portion included in current liabilities	<u>-1.2</u>
Consortium as of 30 September	<u>13.6</u>
Sundry loans	415.1
Less: Current portion included in current liabilities	<u>-20.0</u>
Subsidiaries as of 30 September	<u>395.1</u>
SAS Group as of 30 September	<u>408.7</u>

Note 14—Other Loans

	1984
6.0% USD 10.6 mill., due 1984-1988	92.7
6.5% USD 1.4 mill., due 1984-1986	11.6
7.5% USD 9.7 mill., due 1985-1987	84.8
7.75% USD 30.4 mill., due 1985-1990	264.4
8.0% USD 2.4 mill., due 1984-1986	21.0
8.5% USD 11.2 mill., due 1985	97.3
8.75% USD 13.2 mill., due 1984-1989	114.7
9.0% USD 3.7 mill., due 1984-1987	32.6
9.25% USD 19.0 mill., due 1984-1993	165.5
9.5% USD 14.9 mill., due 1984-1993	129.6
LIBOR plus 0.625% USD 33.3 mill., multicurrency loan, due 1985 (LIBOR 29 June, 1984 = 12.6875%)	289.4
6.0% SFR 40.0 mill., due 1985	137.4
8.0% FRF 97.5 mill., due 1985-1991	89.7
9.5% NOK 5.5 mill., due 1984	5.4
10.1875% GBP 0.2 mill., due 1987	1.8
Discount rate plus 3% SEK 23.3 mill., due 1984-1989 (Discount rate 30 September, 1984 = 9.5%)	23.3
11.875% SEK 30.2 mill., due 1985-1994	30.2
12.25% SEK 32.0 mill., due 1984-1993	32.0
12.5% SEK 11.8 mill., due 1984-1989	11.8
12.75% SEK 23.8 mill., due 1984-1992	23.8
13.2% SEK 2.8 mill., due 1985-1996	2.8
13.5% SEK 3.2 mill., due 1985-1997	3.2
	1,665.0
Less: Current portion included in current liabilities	-694.6
Consortium as of 30 September	970.4
Sundry loans	211.8
Less: Current portion included in current liabilities	-51.8
Subsidiaries as of 30 September	160.0
SAS Group as of 30 September	1,130.4

Note 15—Other long-term debt

	1984
Other long-term liabilities	278.2
Less: Current portion included in current liabilities	-63.8
Consortium as of 30 September	214.4
Other long-term liabilities	36.0
Less: Current portion included in current liabilities	-0.1
Consolidation adjustment relating to Nordisk Resebureau AB	-13.6
Subsidiaries as of 30 September	22.3
Deferred tax liability on untaxed reserves	2.0
SAS Group as of 30 September	238.7

Note 16—Provision for pension liabilities

	1984
SAS Service Partner AB, Sweden—PRI	7.6
— Other	0.9
Vingresor AB —PRI	12.9
— Other	0.1
Nyman & Schultz Resebyrå AB	1.2
AB Olson & Wright —PRI	21.8
— Other	1.9
Subsidiaries as of 30 September	46.4
SAS Group as of 30 September	46.4

The Pension Registration Institute (PRI) is an organisation that administers employee pension arrangements. Other pension liabilities are covered either by periodic premium payments or are included as a pension liability under contingent liabilities.

Note 17 – Unrealised currency losses

Unrealised currency losses on long-term debt, previously reported as a separate deductible item among the liabilities in the Consortium balance sheet, amounted to Swedish Kronor 511.9 million on 30 September, 1983. The remaining unrealised currency losses on 30 September, 1984 have been charged to earnings as follows:

	1984
Currency losses as of 1 October, 1983	511.9
Currency losses sustained during 1983/84 on long-term debt	111.1
Currency losses on long-term debt charged to earnings in 1983/84 as financial expense (Note 6)	-210.3
Remaining currency losses on 30 September, 1984 have been charged to earnings as an extraordinary expense (Note 9)	-412.7
SAS Group as of 30 September	0

The Consortium's accounting principles with respect to distribution of currency losses on long-term debt are described in the section "Notes to the Financial Statements".

Note 18 – Reserves

	30 Sep. 1983	Allocation 1983/84	Reversal 1983/84	Other	30 Sep. 1984
Inventory reserve	32.6	—	—	—	32.6
Depreciation reserve:					
Aircraft	478.5	26.2	-70.7	-3.4	430.6
Spare materials	56.6	12.2	—	—	68.8
Currency adjustment	1.9	12.3	—	—	14.2
Consortium	569.6	50.7	-70.7	-3.4	546.2
Inventory reserve	7.1	1.7	—	—	8.8
Accumulated supplementary depreciation	83.7	29.2	-20.4	-2.8	89.7
Currency adjustment account	2.3	2.6	—	-0.7	4.2
Investment reserve	36.4	9.5	-4.9	0.2	41.2
District investment reserve	5.7	0.6	-2.9	-0.5	2.9
Profit equalisation reserve	44.9	9.7	—	—	54.6
Other reserves:					
Consolidation reserve	8.9	8.8	—	-1.0	16.7
Allocation to special investment reserve	12.9	7.1	-5.6	0.1	14.5
Emergency reserve	—	4.1	—	-0.2	3.9
Other	0.9	0.4	—	-1.3	—
Subsidiaries	202.8	73.7	-33.8	-6.2	236.5
SAS Group	772.4	124.4	-104.5	-9.6	782.7

The *inventory reserve* relates to expendable spare parts and inventory under current assets see Note 10.

The depreciation policy of the Consortium is described in the section on SAS accounting principles.

The depreciation reserve shows a balance of SEK 499.4 million (535.1), whereof the depreciation reserve for aircraft is SEK 430.6 million (478.5).

The relationship between the year's depreciation of aircraft and the change in the depreciation reserve can be described as follows:

Depreciation

Depreciation (12-16 years)	180.1
Supplementary depreciation	26.2
Depreciation (10-12 years)	206.3
Change in depreciation reserve:	
Supplementary depreciation	26.2
Change in the aircraft fleet, etc.	-74.1
	-47.9
Reserve as of 30 September, 1983	478.5
Reserve as of 30 September, 1984	430.6

Note 19–Equity

	Capital	Legal reserve	Revaluation reserve	Retained earnings	Period's result	Total equity
1 October, 1983	859.6	28.0	22.7	38.0	496.5	1,444.8
Consortium income 1982/83	461.8				-461.8	—
Transferred to parent companies	-210.0					-210.0
Adjustment of revaluation reserve			-2.7			-2.7
Subsidiary income 1982/83				66.6	-66.6	—
Allocation to legal reserve		10.6		-10.6		—
Change in translation differences				-20.5		-20.5
Consolidation adjustment				-31.9	31.9	—
Other	-0.1			0.2		0.1
Income 1983/84					901.7	901.7
SAS Group as of 30 September, 1984	1,111.3	38.6	20.0	41.8	901.7	2,113.4

Note 20–Contingent Liabilities

The Consortium's contingent liabilities as of 30 September were as follows:

	1984
Travel guarantees	173.9
Guarantees for pension liabilities	24.3
Loan guarantees	128.5
Other contingent liabilities for subsidiaries	4.1
Total contingent liabilities for subsidiaries	330.8
Guaranty for loan, Linjeflyg AB	25.0
Other contingent liabilities	52.2
Total other contingent liabilities	77.2
Pension liabilities	63.7
Consortium as of 30 September	471.7

STATEMENTS OF CHANGES IN FINANCIAL POSITION

	1 October–30 September,			
	Consolidated 1983/4	Consolidated 1982/3	Consortium 1983/4	Consortium 1982/3
	<i>(in millions of Swedish Kronor)</i>			
The year's operations				
Income before allocations and taxes	968.1	601.0	917.8	461.8
Depreciation	544.6	483.1	438.3	398.8
Exchange rate differences	773.6	209.9	755.7	188.7
Capital gains/losses on assets sold, etc.	–661.9	22.8	–670.1	29.6
Other (net)	–72.8	–94.3	–33.5	–46.6
	1,551.6	1,222.5	1,408.2	1,032.3
Payments made to the parent companies	–210.0	–175.0	–210.0	–175.0
Funds provided by the year's operations	1,341.6	1,047.5	1,198.2	857.3
Increase (–)/decrease (+) inventories	–19.5	–43.8	–10.4	–32.5
Increase (–)/decrease (+) in current receivables	–425.0	–457.0	–353.4	–409.8
Increase (+)/decrease (–) in current liabilities	595.9	697.2	398.6	644.8
Funds used in operations	151.4	196.4	34.8	202.5
Net financing from the year's operations	<u>1,493.0</u>	<u>1,243.9</u>	<u>1,233.0</u>	<u>1,059.8</u>
Investments				
Aircraft	–598.3	–89.6	–598.3	–89.6
Spare parts	–85.0	–53.2	–85.0	–53.2
Buildings, improvements and other equipment	–515.3	–335.1	–314.0	–199.5
Securities	–14.7	–80.8	–14.0	–140.4
Total investments	<u>–1,213.3</u>	<u>–558.7</u>	<u>–1,011.3</u>	<u>–482.7</u>
Advance payments for aircraft	–186.6	—	–186.6	—
Long-term receivables (net)	–34.1	–5.9	–1.0	–4.2
Sale of assets and stocks	242.5	53.5	257.8	39.0
Insurance settlements	885.5	—	885.5	—
Net investments	<u>–306.0</u>	<u>–511.1</u>	<u>–55.6</u>	<u>–447.9</u>
Balance after net investments	<u>1,187.0</u>	<u>732.8</u>	<u>1,177.4</u>	<u>611.9</u>
External financing, etc.				
Repayment of long-term debt	–562.1	–420.1	–510.1	–377.1
Borrowings	860.9	145.5	804.5	49.6
Other	—	–71.1	—	—
Financing—external	<u>298.8</u>	<u>–345.7</u>	<u>294.4</u>	<u>–327.5</u>
Increase in liquid funds				
(Cash, bank balances and short-term investments)	1,485.8	387.1	1,471.8	284.4
Valuation adjustment, liquid funds, etc.	–70.2	218.5	–22.1	154.5
Liquid funds at beginning of year	<u>2,595.2</u>	<u>1,989.6</u>	<u>1,992.8</u>	<u>1,553.9</u>
Liquid funds at year-end	<u>4,010.8</u>	<u>2,595.2</u>	<u>3,442.5</u>	<u>1,992.8</u>

OPINION OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of Scandinavian Airlines System

In our opinion, the accompanying Consolidated Balance Sheet, the Balance Sheet of the Consortium and notes thereto, the Consolidated Statements of Income, the Statements of Income of the Consortium and notes thereto appearing elsewhere in this Prospectus, present fairly the financial position of Scandinavian Airlines System and its consolidated subsidiaries as at 30 September, 1982, 30 September, 1983 and 30 September, 1984, and the results of their operations for those years, based upon the accounting principles described under the heading "Summary of Essential Accounting Principles". Furthermore the figures set forth in the Statements of Income and Balance Sheets in this Prospectus are the same as those appearing in SAS' audited financial reports for the respective years, after allowing for some minor adjustments under financial items.

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Stockholm, 6 December, 1985

Caj Nackstad
*Authorised Public
Accountant*

Ole Kofoed
*Authorised Public
Accountant*

Bernhard Lyngstad
*Authorised Public
Accountant*

Sören Wikström
*Authorised Public
Accountant*

Arne Brendstrup

Jacob Berger
*Authorised Public
Accountant*

UNAUDITED INTERIM CONSOLIDATED STATEMENT OF INCOME

1 October, 1984–30 June, 1985

	<i>(in millions of Swedish Kronor)</i>
Traffic revenue	9,107.1
Other operating revenue	5,165.4
Operating revenue	14,272.5
Operating expense	13,270.8
Operating income before depreciation	1,001.7
Depreciation	427.6
Operating income after depreciation	574.1
Financial income	411.8
Financial expense	–363.7
Income after financial items	622.2
Gain on sales and retirement of equipment etc. (net)	6.9
Extraordinary income	2.6
Extraordinary expense	–13.7
Income before allocations and taxes	618.0
Allocations in subsidiaries (net)	19.2
Income before subsidiaries' taxes	637.2
Taxes of subsidiaries	–12.0
Minority interests	1.8
INCOME BEFORE TAXES relating to the Consortium (payable by its Constituent Companies in Denmark, Norway and Sweden) but after taxes payable by subsidiaries	597.0

CONSORTIUM: UNAUDITED INTERIM STATEMENT OF INCOME

1 October, 1984–30 June, 1985

	<i>(in millions of Swedish Kronor)</i>
Traffic revenue	9,107.1
Other operating revenue	2,061.5
Operating revenue	11,168.6
Operating expense	10,368.2
Operating income before depreciation	800.4
Depreciation	334.7
Operating income after depreciation	465.7
Financial income	343.2
Financial expense	285.2
Income before extraordinary income and expense	523.7
Gain on sales and retirement of equipment etc. (net)	7.2
Extraordinary income	—
Extraordinary expense	-9.0
INCOME BEFORE ALLOCATIONS AND TAXES (taxes are payable by the Constituent Companies of the SAS Consortium)	521.9

Note:

Allocations related to the Consortium are accounted for by the Constituent Companies.

UNAUDITED CONSOLIDATED INTERIM BALANCE SHEET AS AT 30 JUNE 1985

	<i>(in millions of Swedish Kronor)</i>
ASSETS	
Cash and bank balances including short-term investments	3,793.2
Bills receivable	1.4
Due from parent companies	10.4
Accounts receivable	1,710.6
Prepaid expenses and accrued income	461.6
Tax refund receivable	11.9
Other accounts receivable	795.4
Expendable spare parts and inventory	382.9
Prepayments to suppliers	64.2
	<hr/>
Current Assets	7,231.6
Restricted accounts	16.1
Stocks and participations	113.0
Bonds and other securities	55.5
Long-term accounts receivable, parent companies	3.5
Long-term accounts receivable, other	138.3
Goodwill	74.4
Capitalised development costs	1.7
Discount on debenture loans	2.5
Long-term prepayments to suppliers	549.0
Construction in progress	98.5
Aircraft	
<i>At cost</i>	4,020.8
<i>Depreciation</i>	2,015.9
	<hr/>
	2,004.9
Spare engines and spare parts	
<i>At cost</i>	879.9
<i>Depreciation</i>	547.5
	<hr/>
	332.4
Workshop and aircraft servicing equipment	
<i>At cost</i>	279.9
<i>Depreciation</i>	200.1
	<hr/>
	79.8
Other equipment and vehicles	
<i>At cost</i>	1,568.8
<i>Depreciation</i>	818.5
	<hr/>
	750.3
Buildings and improvements	
<i>At cost</i>	1,349.5
<i>Depreciation</i>	567.8
	<hr/>
	781.7
Land and improvements	
<i>At cost</i>	81.9
<i>Depreciation</i>	1.6
	<hr/>
	80.3
	<hr/>
Fixed Assets	5,065.8
	<hr/>
TOTAL ASSETS	12,313.5
	<hr/>

UNAUDITED CONSOLIDATED INTERIM BALANCE SHEET AS AT 30 JUNE 1985

	<i>(in millions of Swedish Kronor)</i>
LIABILITIES AND EQUITY	
Accounts payable	914.9
Taxes payable	50.6
Accrued expenses and prepaid income	1,702.8
Unearned transportation revenue (net)	1,334.7
Prepayments from customers	314.1
Current portion of long-term debt	1,045.2
Other current liabilities	983.3
Current Liabilities	<hr/> 6,345.6
Debenture loans	752.3
Mortgage loans	301.3
Other loans	1,367.7
Other long-term debt	326.7
Provision for pension liabilities	37.1
Long-term debt	<hr/> 2,785.1
Minority interest	5.4
Depreciation reserve	492.2
Other reserves	240.0
Reserves	<hr/> 732.2
Capital ABA (3/7)	749.6
DDL (2/7)	499.8
DNL (2/7)	499.8
Total capital	<hr/> 1,749.2
Legal reserve	43.6
Revaluation reserve	20.0
Retained earnings	35.4
Net income for the period	597.0
Equity	<hr/> 2,445.2
TOTAL LIABILITIES AND EQUITY	<hr/> <hr/> 12,313.5

CONSORTIUM: UNAUDITED INTERIM BALANCE SHEET AS AT 30 JUNE 1985

	<i>(in millions of Swedish Kronor)</i>
ASSETS	
Cash and bank balances including short-term investments	2,980.1
Bills receivable	—
Due from subsidiaries	55.5
Due from parent companies	10.5
Accounts receivable	1,318.1
Prepaid expenses and accrued income	380.9
Other accounts receivable	727.1
Expendable spare parts and inventory	270.7
Prepayments to suppliers	13.2
	<hr/>
Current Assets	5,756.1
Stocks and participations in subsidiaries	230.4
Other stocks and participations	107.6
Bonds and other securities	8.6
Long-term accounts receivable, subsidiaries	57.7
Long-term accounts receivable, parent companies	3.5
Long-term accounts receivable, other	90.9
Discount on debenture loan	2.5
Long-term prepayments to suppliers	549.0
Construction in progress	28.6
Aircraft	
<i>At cost</i>	4,020.8
<i>Depreciation</i>	2,015.9
	<hr/>
	2,004.9
Spare engines and spare parts	
<i>At cost</i>	879.8
<i>Depreciation</i>	547.4
	<hr/>
	332.4
Workshop and aircraft servicing equipment	
<i>At cost</i>	279.9
<i>Depreciation</i>	200.1
	<hr/>
	79.8
Other equipment and vehicles	
<i>At cost</i>	940.6
<i>Depreciation</i>	554.8
	<hr/>
	385.8
Building and improvements	
<i>At cost</i>	514.9
<i>Depreciation</i>	284.9
	<hr/>
	230.0
Land and improvements	
<i>At cost</i>	8.4
<i>Depreciation</i>	0.3
	<hr/>
	8.1
	<hr/>
Fixed Assets	4,119.8
	<hr/>
TOTAL ASSETS	9,875.9
	<hr/>

CONSORTIUM: UNAUDITED INTERIM BALANCE SHEET AS AT 30 JUNE 1985

	<i>(in millions of Swedish Kronor)</i>
Accounts payable, subsidiaries	76.7
Accounts payable, suppliers	574.2
Accrued expenses and prepaid income	1,407.6
Unearned transportation revenue (net)	1,334.7
Prepayment from customers	16.9
Current portion of long-term debt	998.8
Other current liabilities	571.4
Current liabilities	<hr/> 4,980.3
Loans from subsidiaries	0.8
Debenture loans	752.3
Mortgage loans	13.0
Other loans	1,190.9
Other long-term debt	131.5
Long-term debt	<hr/> 2,088.5
Depreciation reserve	492.3
Other reserves	43.7
Reserves	<hr/> 536.0
Capital ABA (3/7)	749.6
DDL (2/7)	499.8
DNL (2/7)	499.8
Total capital	<hr/> 1,749.2
Net income for the period	521.9
Equity	<hr/> 2,271.1
TOTAL LIABILITIES AND EQUITY	<hr/> <hr/> 9,875.9