Scandinavian Airlines
SE-195 87 Stockholm
Telephone: +46(0)8 797 0000
Fax: +46(0)8 797 1515

A STAR ALLIANCE MEMBER

**Press release**
7 February 2014

*Not for release, publication or distribution, directly or indirectly, in or into the United States, Canada, Japan, Australia or any other jurisdiction where such action would be prohibited.*

# SAS AB announces preference share issue and considers additional financing measures

The Board of Directors of SAS ("SAS" or "the Company") has resolved to offer institutional investors and the general public in Denmark, Norway and Sweden to subscribe for preference shares in SAS AB for a total amount of approximately SEK 2 billion ("the Offer"). The proceeds raised will primarily be used for the continued renewal of the aircraft fleet and to strengthen the financial preparedness.

The company also intends to issue convertible bonds of up to SEK 2 billion in close connection with or shortly after, the Offer, provided that the market conditions are deemed advantageous, as described below. In addition, the company has entered into a financing agreement with UBS totalling MEUR 150.

**Summary of the Offer**

- The Offer, consisting of approximately 4 million preference shares, is carried out at a subscription price of SEK 500 per preference share
- Annual dividend yield for the first five years amounts to 10% given the subscription price above and provided that the annual dividend of SEK 50 per preference share is distributed during the entire five year period
- The subscription period runs from 10 February 2014 until 20 February 2014 for institutional investors and from 10 February 2014 until 19 February 2014 for the general public in Denmark, Norway and Sweden
- Estimated first day of trading of the preference shares on NASDAQ OMX Stockholm is 7 March 2014

The Offer is conditional on, *inter alia*, that the AGM approves the proposed changes to the Articles of Association and authorises the Board of Directors to resolve on the issuance of preference shares.

**Background and reasons**

SAS operates in a highly competitive industry characterized by price pressure and fluctuating demand, while operations are capital intensive due to recurring investments in the aircraft fleet. In order to meet the increasingly intense competition, manage the effects of the revised accounting policies related to pensions, which threatened to dilute SAS book equity, and to create the conditions necessary for long-term financing SAS initiated, in the autumn of 2012, the restructuring program 4Excellence Next Generation ("4XNG").

4XNG focuses on three subareas – costs, flexibility and liquidity/equity. Under 4XNG, SAS has implemented a renegotiation of employee collective agreements that has led to market adjustment of salary, working and pension benefits as well as centralized

Scandinavian Airlines
SE-195 87 Stockholm
Telephone: +46(0)8 797 0000
Fax: +46(0)8 797 1515





administrative operations. Furthermore, SAS has carried out substantial savings within IT operations through procurement of new IT-systems and through the reduction of applications. SAS has increased the flexibility of its cost base through outsourcing of certain customer service and administrative operations and the commenced outsourcing of ground handling services. The flexibility has been increased further through increased possibility of using so called wet-lease production as a complement to own production. SAS's liquidity was strengthened through disposal of assets.

New financial targets were adopted by SAS in conjunction with the launch of 4XNG. These new targets aim to reflect an operation that has reduced its fixed costs, improved its profitability and strengthened its cash flow. The financial targets are to reach an operating margin of a minimum 8%, an equity/assets ratio in excess of 35% and a financial preparedness of over 20%. At the end of the 2012/2013 fiscal year, the market was characterized by reduced growth and significantly increased capacity in parallel with a decline in the Norwegian Krona against the Swedish Krona. These conditions are expected to continue and, accordingly, SAS now expects that the financial targets that were originally intended to be reached in 2014/2015 will now not be reached until the end of 2015/2016.

Since SAS's operations are very capital-intensive, SAS works continuously with optimizing its capital structure to maintain and create the requisite conditions for the recurring investments in line with maintaining a modern aircraft fleet. SAS has over the past years completed the fastest modernization of the aircraft fleet in its history. SAS has phased out aircraft models such as the MD80 and B737 Classic and phased in Airbus A320 and B737NG, which has led to the SAS aircraft fleet having increased from 80% to 100% so called next generation aircraft. SAS has also entered into agreement to purchase additional new aircraft. Over the next seven years, SAS will invest in a total of 42 new aircraft comprising 12 long-haul aircraft and 30 short-haul aircraft.

The revised IAS 19 will be applied for fiscal years starting from 1 January 2013 and onwards. As a result of the changes to the Group's fiscal year, the Group applies the amended standard for the fiscal year starting 1 November 2013. The consequences of this mean, amongst other things, that it is no longer permitted to defer recognition of certain deviations in estimates (the "corridor" approach has been eliminated) and all deviations in estimates are to be immediately recognized in other comprehensive income.

Accordingly, the carrying amount of the Group's book equity at 1 November 2013 declined, in total, by about SEK 7 billion, from about SEK 11 billion to slightly more than SEK 4 billion. After adjustment for the above, the equity/assets ratio would have amounted to approximately 15% as of 31 October 2013, which can be compared with the reported equity/assets ratio for the same date of slightly more than 31%. This nonrecurring effect – which has been long known – will however not have any significant impact on liquidity.

Scandinavian Airlines
SE-195 87 Stockholm
Telephone: +46(0)8 797 0000
Fax: +46(0)8 797 1515





Based on the accounts as of 31 October 2013, after adjustment for the negative nonrecurring effect on the Group's shareholders' equity from the unrecognized pension deviations described above and after adjustment for the capital injection of SEK 2 billion, the equity/assets ratio would be strengthened by about 7 percentage points.

In light of the above and conditional on, *inter alia*, the Annual General Meeting's approval of the proposed amendments of the Articles of Association and the authorization for the Board of Directors to resolve on the issuance of preference shares, the Board of Directors of SAS has resolved to offer preference shares of approximately SEK 2bn in total.

By issuing preference shares, SAS's equity position will be strengthened. The capital injected will primarily be used to strengthen SAS financial ability for continued renewal of the aircraft fleet with the aim of creating an optimized fleet for more profitable production, but also to strengthen SAS financial preparedness and to reduce its dependence on bank financing.

**The Offer**

The Offer, which includes approximately 4 million preference shares, is divided into two parts: an offer to the general public in Denmark, Norway and Sweden, which includes the Company's current shareholders in these countries (the "Offer to the Public"), and an offer to institutional investors ("Institutional Offer"), at an issue price of SEK 500 per preference share[1]. The outcome of the Offer is intended to be published on 24 February 2014. Payment can only be effected in SEK. Brokerage commission will not be charged.

The Offer to the Public in Denmark, Norway and Sweden consists of approximately 800,000 preference shares and the Institutional Offer consists of approximately 3,200,000 preference shares. The final allocation between the categories may deviate from the intended distribution due to reasons including interest from current holders of ordinary shares in SAS within the Offer to the Public in Denmark, Norway and Sweden, and the ability to facilitate efficient trading on NASDAQ OMX Stockholm. In the case of over-subscription current owners of SAS's ordinary shares may be prioritised. In such an event, the minimum allotment to SAS's ordinary shareholders will be 20 preference shares.

Application for subscription of preference shares shall be made during the period from 10 February to 20 February 2014 for institutional investors and 10 February to 19 February 2014 for the public in Sweden, Denmark and Norway. If the Offer is fully subscribed SAS will raise approximately SEK 2 billion in total, before issue costs which are estimated to amount to approximately MSEK 50.

[1] The subscription price in the Offering has been determined by the Company's Board of Directors, in consultation with and by recommendation from Carnegie, Nordea and SEB, based on the assessed demand from institutional investors after a form of book-building carried out during the period from 27 January to 4 February 2014.

Scandinavian Airlines
SE-195 87 Stockholm
Telephone: +46(0)8 797 0000
Fax: +46(0)8 797 1515





Following a fully subscribed Offer of approximately 4,000,000 preference shares the number of shares in the Company will increase by approximately 4,000,000 to approximately 333,000,000 and the number of votes by approximately 400,000 to approximately 329,400,000, corresponding to a dilution of approximately 1.2% of the shares and approximately 0.1% of votes.

The Board of Directors may decide to increase the Offer to include up to 7 million preference shares in total. In such case, the company could raise up to another approximately SEK 1.5 billion as part of the Offer.

**The preference shares in summary**

In accordance with the proposal for the amendment to the company's Articles of Association that the Annual General Meeting, which is held on 18 February 2014, is to resolve on, preference shares will have preferential rights, ahead of common shares (and any subordinated shares), to an annual dividend of SEK 50 per preference share ("Annual Dividend") from the issue date. After five years, the annual preference share dividend will increase by an equivalent one (1)% of the subscription price per preference share and year until the annual preferential right to a preference share dividend will total an amount corresponding to SEK 50 plus an additional amount of five (5)% of the subscription price. Dividends require a resolution by a General Meeting, and that the Parent Company SAS AB has distributable unrestricted equity. Holders of bonds issued by SAS in September 2013 have by way of a bondholders' decision on 6 February 2014 approved an amendment to the original terms and conditions pursuant to which SAS may propose and pay dividends on preference shares in accordance with their terms, provided that no event of default is outstanding under the terms and conditions.

The dividend is paid quarterly by one quarter (25%) of the Annual Dividend, with the first record date scheduled for 5 May 2014, and is accumulated in the event that the dividend paid were to fall below the preferential rights entitled by the preference shares. The preference shares do not carry any other entitlement to dividends. Each preference share entitles the holder to one tenth of a vote compared with SAS common shares.

Following a decision by the Board of Directors, the preference shares can be redeemed, wholly or in part, at an amount per preference share corresponding to 120% of the subscription price until the payment date immediately following the record date on 5 February 2018 and 105% of the subscription price thereafter, in both cases with the addition of any amount outstanding per preference share ("Redemption Price") and the accrued portion of preference share dividends. In order for preference shares to be redeemed, the company must have unrestricted equity to the extent that the Redemption Price exceeds the quota value (Sw. "kvotvärde") of the shares.

SAS will apply for listing of the preference shares on NASDAQ OMX Stockholm. The first day of trading of the preference shares is expected to be on or about 7 March 2014.

Scandinavian Airlines
SE-195 87 Stockholm
Telephone: +46(0)8 797 0000
Fax: +46(0)8 797 1515





**Preliminary timetable for the Offer**

| | |
|---|---|
| Prospectus made public | 7 February 2014 |
| Subscription period for the public in Denmark, Norway and Sweden | 10 – 19 February 2014 |
| Subscription period for institutional investors | 10 – 20 February 2014 |
| Annual general meeting | 18 February 2014 |
| Announcement of outcome | 24 February 2014 |
| Settlement date | 28 February 2014 |
| First day of trading on NASDAQ OMX Stockholm | 7 March 2014 |

**Convertible bonds**
In addition to the proposals aimed at facilitating the Offer, the Board of Directors has proposed that the Annual General Meeting authorize the Board of Directors to resolve on a convertible bond issue, with deviation from shareholders' preferential rights, for a maximum amount of SEK 2 billion, which may not exceed 130 million common shares upon conversion, aimed at refinancing the outstanding convertible bond amounting to SEK 1.6 billion.

Provided that the authorization is obtained, the Board of Directors intends to carry out an issue of five year unsecured convertible bonds in close connection with or shortly after the Offer, at a rate of interest and conversion premium to be set at market terms and determined through a book-building carried out at launch. The final decision to launch a convertible bond is subject to favourable market conditions.

**Bilateral facility with UBS and cancellation of RCF**
SAS has entered into a EUR 150 million financing agreement with UBS AG, London Branch. This financing agreement will be made available for utilisation on 28 February 2014 and will be available to SAS until January 2017. The interest rate is variable and based on prevailing market conditions including SAS's creditworthiness. This agreement is subject to, amongst other things, customary undertakings (including negative undertakings) and terms.

Following completion of the Offer, the current revolving credit facility due 2015 will be cancelled.

**The Annual General Meeting**
SAS's Annual General Meeting will be held on 18 February 2014 when the Board of Director's proposal for authorisation to issue convertible bonds and preference shares and required amendments to the articles of association, will be considered.

Scandinavian Airlines
SE-195 87 Stockholm
Telephone: +46(0)8 797 0000
Fax: +46(0)8 797 1515

A STAR ALLIANCE MEMBER

**Press release**
7 February 2014

Of SAS's four largest shareholders, the Swedish government, the Danish government and the Knut and Alice Wallenberg Foundation have expressed that they are positive towards voting in favour of the Board of Directors' proposals to the Annual General Meeting. The Norwegian government has declared that it is positive to SAS gaining an increased flexibility to raise hybrid capital (in the form of preference shares and convertible bonds), and have petitioned the necessary authorizations from the Norwegian parliament in order to allow for voting in favour of the proposals at the AGM on 18 February. Together, these four shareholders hold approximately 57.6% of the outstanding shares and votes in the company.

**Advisors**
Carnegie Investment Bank AB (publ), Nordea Bank AB (publ), Markets – Investment Banking and SEB Corporate Finance, Skandinaviska Enskilda Banken AB are acting as financial advisors, Joint Lead Managers and Joint Bookrunners for the Offer.

JP Morgan is financial advisor as regards the potential convertible bond issue.

Mannheimer Swartling is legal advisor.

**Telephone conference**
A telephone conference (in English) will be held today at 10.00 CET. The conference call will be available as a webcast on the SAS website www.sasgroup.net under Investor Relations. A replay of the conference call will be available on www.sasgroup.net under Investor Relations.

**For additional information:**
Press Office telephone: +46 8 797 2944

**SAS Group Investor Relations**
SAS discloses this information pursuant to the Swedish Securities Market Act and/or the Swedish Financial Instruments Trading Act and the corresponding Danish and Norwegian legislations. The information was provided for publication on 7 February 2014 at 07.30 CET.

IMPORTANT INFORMATION

The information in this press release is not an offer to acquire, subscribe or otherwise trade in preference shares or other securities in SAS. Any invitation to the persons concerned to subscribe for preference shares in SAS will only be made through the prospectus that SAS expects to publish on or about 7 February 2014.This press release may not, directly or indirectly, be released or published in or distributed to or within the United States, Canada, Japan, Australia or any other jurisdiction where such action would require additional prospectuses, filings or other measures in addition to those required under Swedish law. The Offer is not made to, and application forms will not be approved from, share subscribers (including shareholders), or persons acting on behalf of share subscribers, in said countries or

Scandinavian Airlines
SE-195 87 Stockholm
Telephone: +46(0)8 797 0000
Fax: +46(0)8 797 1515





persons in any other jurisdiction where applications for the subscription for preference shares would contravene applicable laws or regulations, or would require additional prospectuses, filings, or other measures in addition to those required under Swedish law. Nor may the information in this press release be forwarded or reproduced in any way that would violate such restrictions or would give rise to such requirements. Measures in violation of the restrictions may constitute a breach of relevant securities legislation.

No shares paid and subscribed for nor preference share issued by SAS (“Securities”) have been registered, and will not be registered, under the United States Securities Act of 1933 (the “Securities Act”) or the securities legislation of any state or other jurisdiction in the United States, and may not be offered, pledged, sold, resold, delivered or otherwise transferred, directly or indirectly, within the United States or to U.S. persons as defined in Regulation S under the Securities Act (“Regulation S”). The Securities are being offered outside the United States in reliance on Regulation S. There will not be any public offering of Securities in the United States or to U.S. persons. This press release may contain forward-looking statements that reflect SAS current view of future events as well as financial and operational development. Words such as “intend”, “assess”,”expect”, “may”, “plan”, “estimate” and other expressions involving indications or predictions regarding future development or trends, not based on historical facts, identify forward-looking statements. Forward-looking statements inherently involve both known and unknown risks and uncertainties as they depend on future events and circumstances. Forward-looking statements do not guarantee future results or development and the actual outcome may differ materially from forward-looking statements.