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## SAS Announces Further Details on the SAS FORWARD Plan including a Financial Outlook

*SAS AB (“SAS” or the “Company”) announces further details on its SAS FORWARD plan, including a financial outlook for the present fiscal year as well as a mid- to long-term financial outlook. The SAS FORWARD plan consists of two primary parts: a new business plan and a restructuring plan. The new business plan includes leveraging the SAS brand, achieving unit cost competitiveness, rightsizing the fleet, and building a sustainable future. Through the restructuring plan, SAS aims to reach agreements with key stakeholders, restructure the Company’s aircraft and non-aircraft debt obligations, reconfigure its aircraft fleet, and convert SEK 20 billion of debt, hybrid securities, and certain other claims into equity. Those debt-to-equity conversions, together with an expected capital raise of at least SEK 9.5 billion of new equity, will likely result in a dilution to existing SAS shareholders substantially greater than 95 percent. Assuming successful completion of the restructuring plan, SAS expects to attain a strong financial position and targets to be near net debt-free at the end of fiscal year 2026. SAS is dedicated to continue connecting Scandinavia to the world and the world to Scandinavia, by offering our customers attractive travel options and services.*

This announcement is part of the Company’s chapter 11 process in the U.S., where SAS agreed to share certain financial and operational information with key creditors and prospective capital providers, subject to non-disclosure agreements that obligate SAS to announce such information by way of a press release. To fulfill those disclosure obligations, SAS hereby announces further details on the SAS FORWARD plan, comments on market demand and the competitive landscape, and provides a financial outlook for the present fiscal year as well as a mid- to long-term financial outlook.

### **Demand Recovery and Competitive Landscape**

The Covid-19 pandemic outbreak has been the most challenging in the history of the aviation industry. Demand for air travel declined sharply, and the recovery since the outbreak of the pandemic has been slower than expected. Additionally, the recovery has been adversely affected by Russia’s invasion of Ukraine in February 2022 and its consequences.

SAS’ air travel demand, in terms of passenger numbers, is currently expected to recover to around 90 percent of pre-Covid levels by the end of the first half of fiscal year 2023.

SAS expects that short-haul leisure air travel demand will return to pre-Covid levels in fiscal year 2024, whereas short-haul business air travel demand is expected to flatten out at around 80 percent of pre-Covid levels. Similarly, demand for longer-haul leisure air travel is expected to rebound more rapidly than long-haul business air travel.

The Scandinavian air travel market can be divided into three customer segments: 1) customers who focus primarily on the price of the offering, 2) customers who want a high-quality offering but who are price sensitive, and 3) customers who ascribe high value to the quality of the offering. From this perspective, SAS has historically operated primarily in the third segment (“premium segment”). In



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recent years, the premium segment's share of the total market has declined, and SAS expects this trend to continue in the coming years. Conversely, the other two lower-cost segments have seen a more positive development, driven by an expansion of several low-cost carriers into Scandinavian bases. This development began prior to the Covid-19 pandemic and is expected to continue. This means that the competition in the Scandinavian market has increased, and SAS needs to reduce its cost per available seat kilometers ("CASK"), adjusted for fuel price changes, to remain competitive.

### **SAS FORWARD: Key Elements**

In February 2022, SAS announced its comprehensive business transformation plan SAS FORWARD aimed at transforming its business, including its network, fleet, labor agreements, and other cost structures. The plan consists of two primary parts: A new business plan and a restructuring plan.

### **New Business Plan**

The new business plan includes:

- *reduced annual costs by SEK 7.5 billion* – see “Annual Cost Reductions of SEK 7.5 billion” below;
- *redesigned fleet, network, and product offerings* – SAS is adopting new network principles and adjusting its fleet and product offerings to position SAS for the future and to enhance the customer experience. SAS will redesign its short-haul network and fleet to drive significant benefits while maintaining the premium brand in this network, allowing the Company to compete with low-cost carriers. The short-haul route mix will be adapted towards the relatively increased leisure travel demand. For example SAS will increase its focus on southern European sun destinations. Joint venture solutions will be explored to enhance long-haul and connecting business travel in order to increase customer choices;
- *digital transformation* – SAS will undergo a major digital transformation, delivering substantial improvement in customers' experiences and delivering financial benefits both on the cost side but also in the form of ancillary revenues such as new in-flight services;
- *positioning SAS as the leader in sustainable aviation* – SAS will invest in modern fuel-efficient aircraft, sustainable aviation fuels, emerging technologies, and sustainable products and services with incentivized customer behavior change;
- *operating platform acceleration* – SAS will improve flexibility and efficiency, and facilitate adapting to changed market demand and competition; and
- *strengthen SAS' balance sheet by deleveraging and raising new capital* – see “Restructuring Plan” below.

### **Annual Cost Reductions by SEK 7.5 billion**

A key challenge to SAS' competitiveness is its cost structure, with SAS' CASK excluding fuel costs (“ex-fuel CASK”) being significantly higher than those of typical low-cost carriers. In order to address this and achieve an ex-fuel CASK that is competitive in relation to both low-cost carriers and other full-service carriers, SAS needs to pursue significant reductions in annual costs. SAS FORWARD builds on the cost reduction plan presented in 2020, which targeted annual cost reductions of SEK 4



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billion, of which approximately SEK 2.0 billion had been achieved prior to commencement of this latest SAS FORWARD restructuring effort.

SAS FORWARD expands on the 2020 plan to include another SEK 3.5 billion, to a total of SEK 7.5 billion in cost savings between fiscal years 2019 and 2026, as compared to the annual cost base for fiscal year 2019. Once the new business plan is implemented and the cost reductions are achieved, SAS believes that it will be financially and operationally well-positioned to compete with both other full-service carriers as well as with low-cost carriers.

The cost reductions (expressed as savings in cash amounts) are split into five main categories:

- *Operational model and planning* – include expected cost reductions of approximately SEK 2.3 billion. A new operational model with several production platforms intends to improve flexibility and efficiency, whereas planning aims at improving SAS' execution performance and resource utilization by improving quality in SAS' planning process.
- *Fleet and maintenance* – include expected cost reductions of at least SEK 1.35 billion. Fleet improvements will be achieved by phasing out older, larger and less fuel-efficient aircraft, by replacing widebodies with narrowbodies on some long-haul routes, and by focusing on only three types of aircraft to simplify operations. Contract improvements and concentration of maintenance aim to reduce maintenance costs. Cost reductions of at least SEK 850 million to 1.0 billion are expected to be achieved in reduced aircraft lease and capital costs, with a further SEK 0.5 billion savings to be achieved in maintenance operations.
- *Airport services* – include expected cost reductions of approximately SEK 1.2 billion. Cost reductions driven by increased productivity through improvements in scheduling flexibility, service level agreement adjustments, a new planning system, union negotiations, and digitalization of customer touchpoints. In addition, decreasing spend on charges and supplier contracts, coupled with review of other internal processes, aim to further reduce airport costs.
- *Administration, finance, IT and distribution costs* – include expected cost reductions of approximately SEK 1.7 billion. These costs will be lowered through a combination of changed practices and new technologies. Furthermore, the conversion of debt into equity will eliminate significant annual interest expense.
- *Commercial and other costs* – include expected cost reductions of approximately SEK 0.9 billion. On the commercial side, costs related to external suppliers, lounges, and onboard services will be targeted, and the overall efficiency in these areas will be improved. Various facilities currently in use reflect pre-Covid needs and will be renegotiated and/or abandoned.


If the effects of the SAS FORWARD cost savings (intended to be achieved by fiscal year 2026) would have been fully implemented in fiscal year 2019, the ex-fuel CASK for the aircraft family A320 (excluding the long range types), which currently constitutes approximately 72 percent of SAS' fleet (excluding wet leased aircraft), would have been around 30 percent lower than the actual outcome for fiscal year 2019.



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## The Restructuring Plan

The restructuring component of the SAS FORWARD plan encompasses raising at least SEK 9.5 billion in new equity capital as well as reducing or converting SEK 20 billion of debt into common equity (of which a majority is on-balance sheet debt), including state hybrid notes, commercial hybrid notes, Swiss bonds, term loans from states, aircraft lease and debt obligations, maintenance contract obligations, and other executory contract obligations.

The contemplated debt restructuring and new equity capital raise are likely to be significantly dilutive events. For example, in previous airline chapter 11 restructurings, the resulting shareholder dilution has often times exceeded 95 percent and in individual cases left shareholders with very little or no recovery. Given the substantial debt-to-equity conversions anticipated combined with the need for substantial new equity capital, the Company currently expects that the recovery, if any, to unsecured creditors (including holders of commercial hybrid notes and Swiss bonds) will result in significant impairment, and that the resulting dilution to shareholders will likely be substantially greater than 95 percent. These illustrative recoveries are subject to material uncertainties, factors and assumptions affecting the final outcomes for the Company's voluntary restructuring – including the enterprise value of the Company in connection with emergence from the chapter 11 proceeding and the outcomes of negotiations with third parties – and actual recoveries could differ materially from the information above.

The Company intends to conduct a competitive capital raising process to secure the best available terms and conditions for new equity capital in the first half of 2023. SAS targets to complete its court-supervised process in the U.S. within 12 months from the commencement of the chapter 11 process in July 2022.

## Financial Outlook

SAS expects that revenues will reach approximately SEK 32 billion in fiscal year 2022 and approximately SEK 40 billion in fiscal year 2023 and return to pre-Covid levels in fiscal year 2025. In fiscal year 2026, revenue is expected to reach approximately SEK 49 billion.

Furthermore, SAS expects to reach an adjusted EBT<sup>1</sup> of approximately SEK 8 billion loss in fiscal year 2022 and approximately SEK 4-5 billion loss in fiscal year 2023. The Company expects to reach positive EBT in fiscal year 2024, increasing to approximately SEK 3-4 billion in fiscal year 2026, corresponding to an EBT margin of approximately 6-8 percent, when the SAS FORWARD plan is expected to have been fully implemented.

Net debt is expected to amount to approximately SEK 36 billion by fiscal year end 2022. During fiscal year 2023, debt or debt-like items of SEK 20 billion are expected to be converted or reduced through the chapter 11 process. Assuming successful completion of the SAS FORWARD plan, SAS expects to attain a strong financial position and targets to be near net debt-free by fiscal year end 2026.

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<sup>1</sup> Earnings before tax, excluding gains or losses related to the emergence of the chapter 11 process.



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SAS also expects to achieve a liquidity level<sup>2</sup> exceeding 15 percent by the end of fiscal year 2023, increasing to 25-30 percent by the end of fiscal year 2025 and beyond.

SAS will release its year-end report for fiscal year 2022 (November 2021-October 2022) on November 30, 2022, in accordance with its financial calendar.

The financial information set forth above is not a guarantee of future performance. Even though the financial information reflects SAS' current beliefs and expectations, it is subject to material uncertainties and factors, e.g., fuel prices, foreign exchange rates, inflation, demand recovery, supply chain instability, that could cause actual results to differ materially from the financial information above. The financial information is premised upon a successful progression and execution of the SAS FORWARD plan, and a demand recovery in line with expectations as described above. Furthermore, the financial information is based on the following foreign exchange assumptions: an exchange rate of 10.67 SEK/USD through the end of fiscal year 2023, 9.20 SEK/USD for fiscal year 2024, and 8.75 SEK/USD for fiscal year 2025 and beyond; and, the following fuel price assumption: 1,140 USD/MT (metric tons) gradually reducing till the end of fiscal year 2025 in which it is assumed to remain constant at 676 USD/MT for fiscal year 2026 and beyond. All numbers are presented on a consolidated basis for the SAS group.

#### **Additional information about the chapter 11 process**

Additional information about the Company's voluntary chapter 11 process is available on the Company's dedicated restructuring website, <https://sasgroup.net/transformation>. Court filings and other documents related to the chapter 11 process in the U.S. are available on a separate website administered by SAS' claims agent, Kroll Restructuring Administration LLC, at <https://cases.ra.kroll.com/SAS>. Information is also available by calling (844) 242-7491 (U.S./Canada) or +1 (347) 338-6450 (International), as well as by email at [SASInfo@ra.kroll.com](mailto:SASInfo@ra.kroll.com).

#### **Advisors**

Weil, Gotshal & Manges LLP is serving as global legal counsel and Mannheimer Swartling Advokatbyrå AB is serving as Swedish legal counsel to SAS. Seabury Securities LLC and Skandinaviska Enskilda Banken AB are serving as investment bankers, Seabury is also serving as restructuring advisor, and FTI Consulting is serving as financial advisor to SAS.

#### **For further information, please contact:**

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This is information that SAS AB is obliged to make public pursuant to the EU Market Abuse Regulation. The information was submitted for publication by Louise Bergström at 4:15 p.m. CEST on September 30, 2022.

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<sup>2</sup> Cash and cash equivalents divided by revenue (rolling 12 months).



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*SAS, Scandinavia's leading airline, with main hubs in Copenhagen, Oslo and Stockholm, is flying to destinations in Europe, USA and Asia. Spurred by a Scandinavian heritage and sustainable values, SAS aims to be the global leader in sustainable aviation. We will reduce total carbon emissions by 25 percent by 2025, by using more sustainable aviation fuel and our modern fleet with fuel-efficient aircraft. In addition to flight operations, SAS offers ground handling services, technical maintenance and air cargo services. SAS is a founder member of the Star Alliance™, and together with its partner airlines offers a wide network worldwide. Learn more at <https://www.sasgroup.net>*

## **ADDITIONAL INFORMATION**

The press release does not constitute an offer to sell or issue, or the solicitation of an offer to buy or acquire, or subscribe for, shares or any other financial instruments in SAS.

This press release contains forward-looking statements that reflect SAS' current view of future events as well as financial and operational development. These statements may include, without limitation, any statements preceded by, followed by or including words such as "intend", "assess", "expect", "may", "plan", "estimate", and other expressions involving indications or predictions regarding future development or trends and other words and terms of similar meaning or the negative thereof. These forward-looking statements have been prepared for illustrative purposes only, are not based on historical facts, are not guarantees of future performance, reflect SAS' beliefs and expectations, and are subject to known and unknown risks, uncertainties and assumptions, and other factors that could cause actual events and performance to differ materially from any expected future events or performance expressed or implied by such forward-looking statements. As a result of these risks, uncertainties, assumptions, and other factors, you should not place undue reliance on these forward-looking statements as a prediction of actual future events or otherwise. The information contained in this press release is subject to change without notice and, except as required by applicable law, SAS does not assume any responsibility or obligation to update publicly or review any of the forward-looking statements contained in it, whether as a result of new information, future events, or otherwise. Nothing in this press release constitutes or should be construed as constituting a profit forecast.