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SAS to Acquire Majority Ownership in Spanair

- SAS is increasing its ownership from 49 percent of Spanair to a level representing 74 percent
- The increase in ownership involves the conversion of existing loans amounting to €60.1 million into equity and a cash payment of €52.0 million
- The transaction will ensure the successful execution of Spanair's measures to improve profitability and thus capture Spanair's long term potential

- Spanair is taking forceful measures to offset the adverse conditions in the airline industry, through capacity reductions, cuts in lease and other expenses as well as price increases
- Fundamentally, Spanair is a strategically important asset through its attractive position in the high growth Spanish market
- The ambition is for Spanair to become a Star Alliance associated member in the near future

Transaction

SAS has agreed with Spanair's principal shareholder, Teinver, to increase SAS' ownership in Spanair to a level representing 74 percent. The increase in ownership involves the conversion of existing loans amounting to €60.1 million from SAS to Spanair into equity and a cash payment of €52.0 million.
The total investment is expected to be accretive from 2003.

SAS and the principal shareholders of Teinver will continue to jointly develop the business of Spanair. For this purpose, a joint Spanish holding company that will hold 51 percent of Spanair will be established. SAS will own 49 percent of the holding company, in addition to its direct 49 percent holding in Spanair. An earn-out incentive structure for Teinver has been put in place whereby an additional purchase price for the shares sold may be payable based on the market value development of Spanair.

Fundamental rationale

Through the transaction, SAS will secure its investment in Spanair with an objective to ensure the successful execution of Spanair's measures to improve profitability and thus capture Spanair's long term potential. Spanair is a strategically important asset through its attractive position in the Spanish market. The domestic Spanish market ranks second in Europe in terms of passengers, and is expected to grow more rapidly than the other European markets. Spanair is the main alternative carrier in the market. With an approximately 25 percent market share in operated domestic routes and attractive slots in Madrid, Barcelona and Palma, Spanair is in a strong position to capture a significant part of the future growth in the market through its investments in slots and capacity during the last two years. In addition, Spanair has a highly competitive cost position

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relative to other European airlines while there continues to be room for yield improvement by increasingly targeting business segments.

President & CEO, SAS Group, Jørgen Lindegaard says:

“The transaction will further strengthen SAS’ position in the Star Alliance. SAS has the ambition for Spanair to become an associated member of the Star Alliance in the near future, combined with an invitation to the Star Alliance partners to further develop their co-operation with Spanair as a platform for their Spanish ambitions.”

Measures to improve Spanair’s profitability

The airline industry is currently experiencing very difficult trading conditions, but the events of September 11 have had a relatively limited effect on Spanair. Traffic (RPK) on domestic routes in October is significantly less affected than other international routes.. A number of forceful measures to offset the adverse conditions in the airline industry have been initiated.

Spanair is reducing capacity (ASK) compared to last year with 12 percent for the winter season, and 7 percent for the summer season. The focus for Spanair’s operations will be on the domestic segment, with increased frequencies on the main city pairs, whereas selected other destinations and frequencies have been discontinued. Spanair has decided to close down its remaining long haul operation during 2002. The surplus capacity will be handled through flexible leases with lower fixed lease costs. Further cost reductions are expected in all areas of the company including distribution and personnel costs. Spanair has implemented fare increases in October and will closely monitor the possibility for further revenue enhancing measures. SAS has recently and will further transfer management skills and system capabilities, while keeping the local nature and cost structure of the operations.

Status and Preliminary timetable

The boards of SAS and Teinver have approved the transaction. The transaction is subject to EU competition approval and is expected to close mid-December 2001.

Morgan Stanley & Co. Limited acts as financial advisor to SAS in connection with this transaction.

For further information, contact

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