

The Board's proposed implementation of a long-term incentive plan in accordance with (A) and hedging arrangements in respect thereof in accordance with (B) or (C) (item 15)

Background

The Board of Directors proposes that the Annual General Meeting 2020 resolves on the implementation of a long-term incentive plan (the “**Plan**”) under (A) below and hedging arrangements in respect thereof under (B) or (C) below. The proposed Plan corresponds to the long-term incentive plan that was adopted by the Annual General Meeting 2019. The intention of the Board of Directors is to propose long-term incentive plans ahead of future Annual General Meetings as well.

The proposed Plan gives all permanent employees of the SAS Group the opportunity to become shareholders in SAS, provided that certain future conditions are fulfilled.

SAS has and will continue to invest in the renewal of the aircraft fleet, which means that the invested capital increases considerably. This entails increased profit requirements to secure return on the invested capital («ROIC») exceeding 12 percent, which is SAS' average total cost of capital. In this context SAS wishes to create an incentive plan with a clear link to value creation and alignment of the employees' and the shareholders' interests.

All employees contribute and are key for SAS' future development and success. In an increasingly competitive market, SAS must continue to be an attractive employer. SAS wishes to create an incentive plan that in principle includes all employees and that together with other measures to create engagement in the Company, contributes to SAS' success by creating shareholder engagement among the employees. According to the Board of Directors' assessment, an incentive plan, with the principal terms and conditions set out below, will create value for the Company's shareholders and contribute to SAS' long-term development as a company.

Making the SAS employees shareholders in the Company will have a positive impact on the employees' engagement and will make the employees feel more involved with the Company and the Company's performance, and thereby increasing their willingness and incentive to work and remain within SAS. The Board of Directors finds it important and in all shareholders' interest that employees of the group have a long-term interest of the Company having a good share price performance. The Board of Directors of SAS is confident that increased engagement through the proposed Plan will have a positive impact on both the financial performance and the culture within SAS. The combination of engagement and ownership among the employees will provide a strong foundation for the journey towards sustainable profitability to the benefit of all stakeholders.

The Board of Directors' proposal regarding the Plan has been prepared by the Board of Directors and its Remuneration Committee in consultation with major shareholders.

A. Resolution on implementation of the Plan

The Board of Directors proposes that the Annual General Meeting 2020 resolves on the implementation of the Plan in accordance with the principal terms and conditions set out below.

Terms and conditions for the Plan

- (a) It is proposed that the Plan be open to all full-time and part-time employees (with the exception of senior executives) as per 29 February 2020 within the SAS Group, approximately 13,000 individuals¹ (the “**Participants**”).
- (b) Under the Plan, each Participant will, as soon as practically possible after the Annual General Meeting 2020, receive a certain number of rights (“**Performance Rights**”) that each may entitle the Participant to receive not more than one (1) common share (the “**Share Component**”) and a certain maximum cash amount (the “**Cash Component**”) free of charge following the expiration of the vesting period of approximately three years, which expires on the date of the announcement of the interim report for the first quarter November 2022 – January 2023 (the “**Vesting Period**”), provided that the conditions under item (d) and (e) below are fulfilled. The total nominal value of the Performance Rights that each Participant will receive, will initially amount to approximately SEK 20,000 (evenly distributed between the Share Component and the Cash Component). The number of Performance Rights that each Participant receives will be calculated as SEK 10,000 divided by the volume weighted average price paid for the SAS common share on Nasdaq Stockholm during the 5 trading days immediately preceding SAS’ Annual General Meeting 2020. The amount to be paid under the Cash Component will correspond to the value of the Share Component under each Performance Right when the Share Component is delivered to the Participant (in order to compensate for the tax effect that the Participant may be subject to upon delivery of common shares under the Share Component of the Plan). Participants that are part-time employees will receive a reduced number of Performance Rights in proportion to the level of employment.
- (c) The number of common shares and the cash amount that each Performance Right entitles to after the expiry of the Vesting Period will depend on to which extent the conditions under item (d) and (e) below are fulfilled, and may be subject to reduction or adjustment under items (g), (i), (j) and (m) below.
- (d) The number of common shares that the Share Component in each Performance Right entitles to after the expiry of the Vesting Period will: (i) depend on to which extent the below performance target, linked to SAS’ return on invested capital (“**ROIC**”),² is fulfilled during the financial year 2019/20 (i.e. 1 November 2019 – 31 October 2020) (the “**Performance Period**”); and (ii) require that the Annual General Meeting 2021 resolves that a cash dividend is to be paid to holders of common shares. To which extent the performance target under (i) above is fulfilled, is determined by the Board of Directors when the year-end report for the financial year 2019/20 is announced.

For any allotment of common shares to be made under the Share Component after the expiry of the Vesting Period, the ROIC must exceed 12 percent during the Performance Period. Maximum allotment (corresponding to one (1) common share per each Performance Right when the Plan is launched) will be received at a ROIC during the Performance Period of 15 percent or higher. If the ROIC outcome is

¹ Approximately 10,000 FTE.

² ROIC is currently defined as SAS’ EBIT plus the standard interest portion corresponding to 33 percent of net operating leasing costs in relation to average shareholders’ equity, net financial debt and net capitalized leasing costs (x7).

between 12 percent and 15 percent a proportionally reduced allotment of common shares under the Share Component will be made.

Since the amount to be paid under the Cash Component is to correspond to the value of the Share Component, this amount will be subject to change accordingly.

- (e) A condition for the Performance Rights to entitle the Participant to allotment of the Share Component and the Cash Component is, with certain specific exceptions, that the Participant has been employed full-time or part-time within the SAS Group for the duration of the whole Vesting Period, and that the Participant has not terminated his/her employment.
- (f) Allotment of the Share Component and the Cash Component for each Performance Right may be made only after the expiry of the Vesting Period, unless the Board of Directors in an individual case decides otherwise.
- (g) If the combined value of the Share Component and the Cash Component for the Performance Rights an individual Participant has received under the Plan exceeds SEK 60,000 following the expiration of the Vesting Period, the allotment of common shares under the Share Component (and thereby also the Cash Component) shall be reduced to such extent that the value amounts to maximum SEK 60,000 per Participant (depending on employment rate).
- (h) The Board of Directors shall be entitled to decide that the Performance Rights shall in whole or in part be cash-settled for all or some Participants, e.g. if it is deemed to be justified by administrative or regulatory purposes.
- (i) If significant changes in the SAS Group or in the market occur which, in the opinion of the Board of Directors, would result in a situation where the conditions for allotment of the Share Component and/or the Cash Component under the Plan becomes unreasonable, the Board of Directors shall be entitled to make adjustments to the Plan, including, among other things, be entitled to resolve on a reduced allotment of the Share Component and/or the Cash Component, or that no Share Component and/or Cash Component shall be allotted at all.
- (j) Based on the share price in connection with the announcement of the notice, the Plan is expected to comprise approximately 6,429,000 common shares in SAS under the Share Component. The Plan shall however comprise no more than 7,142,857 common shares in SAS under the Share Component. In addition, the Cash Component of the Plan comprises of a value equivalent to the same number of common shares in SAS, which is intended to be hedged by an equity swap agreement with a third party. The equity swap agreement is intended to be entered in order to cover the cash flow effects associated with the Plan which, besides the Cash Component, primarily is social security charges. The total dilution effect of the Plan (i.e. which is related to the Share Component) is in any case limited to a maximum of 1.83 percent (corresponding to 7,142,857 shares based on the number of issued shares as per the day of this notice). If the total allotment of common shares to the Participants would exceed this, a proportionally reduced allotment will be made so the dilution does not exceed this limit.
- (k) The Board of Directors shall be entitled to resolve on the detailed terms and conditions for the Plan. The Board of Directors may, in that regard, make necessary adjustments to satisfy certain regulations or market conditions outside Sweden.

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- (l) Participation in the Plan presupposes that such participation is legally possible in the various jurisdictions concerned and that the administrative costs and financial efforts are reasonable in the opinion of the Board of Directors. The Board of Directors may resolve on the implementation of an alternative incentive solution for employees in countries where participation in the Plan is not appropriate, for example for employees outside of Sweden, Norway or Denmark. Such alternative incentive solution shall to the extent practically possible and appropriate be designed to correspond to the terms of the Plan.
- (m) The number of common shares under the Share Component of each Performance Right will be subject to recalculation as a result of intervening bonus issues, splits, dividends, preferential rights issues and/or other similar corporate events. Since the amount to be paid under the Cash Component shall correspond to the value of the Share Component, this amount will change accordingly.
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Costs for the Plan etc.

The costs for the Plan, which are charged in the profit and loss account, are calculated according to accounting principles for share-based payments (IFRS 2 and for synthetic share programs) and are distributed over the Vesting Period. The calculation has been made based on the following assumptions: (i) an unchanged value of the Share Component of the Performance Rights of SEK 14.00 (based on the closing price for the SAS common share as of 4 February 2020) during the term of the Plan, (ii) fulfilment of the performance target of 50 percent, (iii) a total employee turnover of 10 percent during the Vesting Period and (iv) average social security charges of 20 percent.

Based on the assumptions above, the accounting effect of the program during the Vesting Period is estimated to total MSEK 108 (costs related to share-related remuneration of MSEK 90 and social security charges of MSEK 18), which is estimated to only have a marginal effect on key performance indicators such as the EBIT margin and the equity/assets ratio.

If the cap of SEK 60,000 per FTE is met, the highest level for the performance target is reached, all Participants remain in the Plan and the SAS share price has increased with 200 percent, the total maximum accounting effect during the Vesting Period is MSEK 720 (share-related remuneration of MSEK 600 and social security charges of MSEK 120).

Depending on which hedging alternative used (if any), the cash flow effect is calculated according to the following: The cash flow effect totals MSEK 100 for 2020 if series C shares are issued in combination with an equity swap agreement. The cash flow effect totals MSEK 200 for 2020 if only an equity swap agreement is used. If no hedging is made, the maximum effect on cash flow totals MSEK 600 and arises when the Vesting Period expires (in 2023). Notwithstanding the hedging alternatives, a cash flow effect for social security charges of not more than MSEK 120 will also apply when the Vesting Period expires.

Based on the assumptions above and that the highest level for the performance target is reached, the annual costs for the Plan over three years, including social security charges, corresponds to approximately 2.4 percent of SAS' total annual employee costs. In addition to the abovementioned costs, the Plan is expected to result in costs for external advice and administrative costs related to transfer of shares. These costs combined are expected not to exceed MSEK 8.

Hedging arrangements

The Board of Directors has considered different methods for hedging the financial exposure and for transfer of shares to the Participants under the Plan, in order to implement the Plan in a cost-effective and flexible manner. The Board of Directors has found the most cost-effective alternative to be a combination of arrangements, which also limits the dilution as far as possible, and thus proposes that the Annual General Meeting as a main alternative for the hedging of the Share Component resolves on (i) an authorization for the Board of Directors to resolve on directed issue of redeemable and convertible series C shares and (ii) an authorization for the Board of Directors to resolve on repurchase of all issued redeemable and convertible series C shares, as well as (iii) on transfers of own common shares free of charge to Participants. For the hedging of the financial exposure of the Cash Component it is proposed, as a main alternative, that the Annual General Meeting resolves on (iv) for SAS to enter into an equity swap agreement with a third party, whereby the third party in its own name acquires common shares in SAS and allocates a cash amount corresponding to the share price when common shares under the Share Component are allotted to the Participants. For the purpose of minimizing the dilution which the Plan results in, the equity swap agreement, to the extent it is not required to be used for delivery of the Cash Component, shall also enable transfers of common shares to the Participants and to cover the cash flow effects associated with the Plan, which, besides the Cash Component, consist primarily of social security charges. SAS will in such case keep the corresponding number of repurchased shares until they are required for delivery obligations under future incentive Plans. The detailed terms and conditions for the Board of Directors' main alternative are set out in item B. below.

Since the Plan, in principle, is not expected to give rise to any initial social security payments for the SAS Group, the Board of Directors has decided not to propose to the Annual General Meeting 2020 to resolve on transfers of own common shares on a regulated market in order to cover the cash flow effects in respect of social security payments. However, prior to the transfers of common shares to the Participants, the Board of Directors intends to propose to the Annual General Meeting 2022 that transfers be made of own common shares on a regulated market in order to cover such costs.

Should the majority required under item B. below not be reached, the Board of Directors proposes that SAS shall be able to enter into an equity swap agreement with a third party in respect of both the Share Component and the Cash Component, in accordance with item C. below.

B. Hedging arrangements in respect of the Plan

I. Authorization for the Board of Directors to resolve on directed issue of redeemable and convertible series C shares

The Board of Directors proposes on authorization for the Board of Directors to resolve on issue of redeemable and convertible series C shares, on one or several occasions, until the next Annual General Meeting.

The issue shall be effected on the following terms:

- (a) An increase of the SAS share capital with no more than MSEK 100.

- (b) The number of series C shares that may be issued may amount to no more than 7,142,857 shares.
- (c) The new shares shall – with deviation from the shareholders’ preferential right to subscribe for shares – be subscribed for only by an external party who has been informed in advance.
- (d) The price to be paid for each new share shall correspond to the higher of the quotient value and the market value of the share at the time of the subscription of the shares.
- (e) The new shares shall be subscribed for during the period 15 March – 30 June 2020, with a right for the Board of Directors to extend the subscription period. Oversubscription is not permitted.
- (f) Payment for shares subscribed for shall be effected at subscription of the shares.
- (g) The new shares shall be entitled to dividends from and including the financial year 2020/21.
- (h) The new shares will be subject to restrictions as set forth in Chapter 4, Section 6 (conversion provision) and Chapter 20, Section 31 (redemption provision) of the Swedish Companies Act (SFS 2005:551).

II. Authorization for the Board of Directors to resolve on repurchase of all issued redeemable and convertible series C shares

The Board of Directors proposes on authorization for the Board of Directors to resolve on repurchase of all issued redeemable and convertible series C shares in SAS on the following terms:

- (a) Repurchase may be made through a public offer directed to all owners of series C shares in SAS.
- (b) The authorization is valid and may be exercised on one or several occasions until the Annual General Meeting 2021.
- (c) The number of series C shares permitted to be repurchased shall amount to no more than 7,142,857.
- (d) Repurchase of shares shall be made at a lowest price per share of 100 percent and a highest price of 105 percent of the higher of the quotient value and the market value, applicable at the time of the subscription of shares according to item B.(I) above.
- (e) Payment for shares repurchased shall be made in cash.
- (f) The Board of Directors shall be authorized to establish additional terms for the repurchase.
- (g) Repurchase shall also include a so-called interim share, designated by Euroclear Sweden AB as a “paid subscription share” (Sw. *BTA*) relating to a series C share.

The repurchase of own shares is an integrated part of the hedging arrangements for the Plan. The reason for the proposed possibility to repurchase own shares is that SAS shall be able to

fulfil its obligations pursuant to the Plan in a cost-effective manner. The Board of Directors has issued a statement in accordance with Chapter 19, Section 22 of the Swedish Companies Act.

III. Resolution on transfers of own common shares to Participants

The Board of Directors proposes that 7,142,857 common shares, which have been issued and repurchased in accordance with items B.(I) and B.(II) above, following conversion to common shares, may be transferred under the Plan.

Transfers of SAS' own common shares to the Participants may be made on the following terms:

- (a) Transfers may be made only of common shares in SAS, whereby a maximum of 7,142,857 common shares in SAS may be transferred free of charge to the Participants.
- (b) Right to acquire common shares in SAS free of charge shall – with deviation from the shareholders' preferential rights – be granted to such persons within the SAS Group who are Participants.
- (c) Transfers of common shares in SAS shall be made free of charge at the time and on the other terms that the Participants are entitled to be allotted shares.
- (d) The number of common shares in SAS that may be transferred under the Plan will be subject to recalculation as a result of intervening bonus issues, splits, rights issues and/or other similar corporate events.

IV. Resolution on entering into an equity swap agreement with a third party to primarily hedge the cash amount to be paid under the Cash Component

The Board of Directors proposes that the Annual General Meeting resolves that the expected financial exposure of the Plan shall be hedged by SAS being able to enter into an equity swap agreement with a third party on terms in accordance with market practice, whereby the third party in its own name shall be entitled to acquire and transfer common shares in SAS corresponding to the value of the number of shares that are to be delivered to the Participants under the Share Component, and for the part of the equity swap agreement that does not need to be used for delivery of the Cash Component, to also be used to enable delivery of common shares in SAS to the Participants and in order to cover the cash flow effects associated with the Plan which, besides the Cash Component, primarily is social security charges.

C. Resolution on entering into an equity swap agreement with a third party if required majority for approval of the proposal in item B. is not reached

As main alternative to hedge the expected financial exposure of the Plan, the Board of Directors has proposed item B. (I)-(IV) above, in accordance with the rationale given under *Hedging arrangements* above.

Should the majority required under item B. above not be reached, the Board of Directors proposes that the Annual General Meeting instead resolves that the expected financial exposure of the Plan shall be hedged by SAS being able to enter into an equity swap agreement with a third party on terms in accordance with market practice, whereby the third party in its own name shall be entitled to acquire and transfer common shares in SAS and deliver cash amounts to the Participants.

Majority requirements

The Annual General Meeting's resolution according to item A. above requires a majority of more than half of the votes cast. A valid resolution under item B. above requires that shareholders representing at least nine-tenths of the votes cast as well as of the shares represented at the Annual General Meeting approve the resolution. A valid resolution under item C. above requires a majority of more than half of the votes cast.

Authorization for the CEO

The Board of Directors proposes that the CEO shall be authorized to make the minor adjustments to the above resolution regarding the directed issue of redeemable and convertible series C shares in connection with the registration thereof with the Swedish Companies Registration Office and Euroclear Sweden AB.

Stockholm in February 2020
SAS AB (publ)
The Board of Directors