

## **NORWEGIAN AIR SHUTTLE ASA** **QUARTERLY REPORT – FOURTH QUARTER 2005**

[This document is a translation from the original Norwegian version]

### **FOURTH QUARTER IN BRIEF**

- The company's quarterly earnings before tax (EBT) was MNOK 3.3 (-43.2). The accumulated earnings before tax (EBT) in 2005 was MNOK 37.2 (-152.5).
- The operating revenue increased by 61 % this quarter, compared to last year, to MNOK 531.4 (330.9). Annual sales was MNOK 1 972.2 (1 210.1), an increase of 63% compared to last year.
- The total quarterly earnings before depreciation and leasing costs (EBITDAR) was MNOK 38.6 (-13.8). The accumulated EBITDAR was MNOK 181 (-32.7) in 2005.
- The total quarterly earnings before depreciation (EBITDA) was MNOK 4.6 (-43.1) and MNOK 55.1 (-140.6) accumulated in 2005.
- The quarterly earnings after tax was MNOK 2.3 (-31.2), and MNOK 26.8 (-109.8) accumulated in 2005.
- The total number of passengers transported in the fourth quarter was 924 387 (554 223), and the accumulated number of passengers in 2005 was 3 289 769 (2 073 736). The total passenger traffic (RPK) increased by 75 % this quarter, and 76 % accumulated in 2005.
- The passenger load factor was 75 % (65 %) this quarter, and 78 % (67 %) accumulated in 2005.
- The total production (ASK) increased by 52 % to 922 (607) million this quarter, and the total increase in 2005 was 51 %.
- The company had a cash reserve of MNOK 261.5 at the end of 2005, and a equity ratio of 25%.
- The total quarterly unit cost (cost per ASK) was NOK 0.57 (0.62), and NOK 0.55 (0.59) accumulated in 2005.

### **TRAFFIC DEVELOPMENT**

A total of 924 387 (554 223) passengers travelled with Norwegian Air Shuttle in the fourth quarter of 2005, an increase of 67 %. The company carried approximately 3.3 million passengers in 2005, compared to approximately 2.1 million passengers in 2004. The company had a passenger load factor of 75 % (65 %) this quarter, and a total passenger load factor of 78 % (67%) in 2005. The production increased by 52 % to 922 million (607 million) ASK this quarter. The increase in production is related to the increase in the number of aircraft; from 11 aircraft in the fourth quarter last year to 13 this year. In addition, the utilization of the aircraft has increased from 7.6 block hours a day in the fourth quarter to 9.5 block hours this quarter. On average the aircraft has been utilized a total of 9.1 block hours a day in 2005. The passenger traffic (RPK) has increased by 75% this quarter, compared to last year. The total increase in passenger traffic was 76 % in 2005.

The international production is a growing part of the company's operation, making 59 % of the total production in the fourth quarter, compared to 43 % last year. The share of international passengers transported by Norwegian Air Shuttle was 43 % this quarter, compared to 26 % last year. The share of Internet sale was 77% (61 %) this quarter, compared to 75% (63 %) last year.

TRAFFIC STATISTICS	Fourth Quarter			Accumulated		
	2005	2004	Change	2005	2004	Change
<b>Norwegian</b>						
Internet bookings	77 %	61 %	16 pp	75 %	63 %	12 pp
ASK (mill)	922	607	52 %	3 464	2 301	51 %
RPK (mill)	694	397	75 %	2 703	1 538	76 %
Cabin factor	75 %	65 %	10 pp	78 %	67 %	11 pp
Passengers	924 387	554 223	67 %	3 289 769	2 073 736	59 %
<b>Domestic</b>						
ASK (mill)	382	347	10 %	1 396	1 325	5 %
RPK (mill)	271	216	26 %	1 023	877	17 %
Cabin factor	71 %	62 %	9 pp	73 %	66 %	11 pp
Passengers	529 209	412 383	28 %	1 900 468	1 588 160	20 %
<b>International</b>						
ASK (mill)	540	260	108 %	2 068	976	112 %
RPK (mill)	423	181	134 %	1 680	661	154 %
Cabin factor	78 %	69 %	9 pp	81 %	68 %	13 pp
Passengers	395 178	141 385	180 %	1 389 301	485 576	186 %

## COMMENTS TO THE ACCOUNTS

### PROFIT AND LOSS STATEMENT

The company's total turnover in the fourth quarter was MNOK 531.4 (330.9), an increase of 61 %. The company had an accumulated turnover of MNOK 1 972.2 (1210.1) in 2005. Compared to last year the company's total turnover growth was 63 %. MNOK 520.5 (326.1) of the revenues are related to ticket revenues, while the remaining 10.8 (4.8) are related to other freight, fees, and third-party products. The increase in ticket revenues is related to an increase in passenger traffic by 75 %, but is negatively influenced by the 9 % decrease in the yield. The yield reduction is mainly a consequence of an increase in the average sector length.

The operating costs (including leasing and excluding depreciation and write-down) was MNOK 526.8 (374) this quarter, and the accumulated operating costs were MNOK 1 917.2 (1 350.7) in 2005. The cost increase is mainly related to the increase in production (ASK) by 52 % compared to last year. In addition, the company has utilized 13 aircraft this quarter compared to 11 in the same quarter last year. The average operating cost per ASK (unit cost) was NOK 0.57 (0.62) this quarter, and NOK 0.55 (0.59) accumulated in 2005. The quarterly cost of jet fuel has increased from MNOK 67.7 last year to MNOK 115.7 this year. The increase is partly related to the increased production; however, approximately MNOK 12.8 is related to the jet fuel price increase. The company has had no fuel hedging contracts effective this period, and has no contract on future deliveries at the end of 2005. Despite the increased fuel price, the company has reduced costs due to better utilization of material and personnel, more advantageous agreements, more efficient sale- and distribution channels, in addition to other cost reducing measurements. The company has term contracts on 20-25% of expected exposure in USD for the first-half year of 2006. The value of the term contracts have been recognized as a financial asset as of December 31<sup>st</sup> 2005, making a positive impact on the company's financial earnings of MNOK 2.6.

Earnings before depreciation and write-down (EBITDA) in the fourth quarter was MNOK 4.6 (-43.1), and MNOK 55.1 (-140.6) accumulated in 2005. The accumulated earnings before tax in 2005 was MNOK 37.2 (-152.5) and accumulated earnings after tax was MNOK 26.8 (-109.8). Hence, 2005 is the first year Norwegian Air Shuttle has had a profit after starting up the low-cost operation in the fall of 2002.

### BALANCE SHEET

Intangible assets include a deferred tax asset of MNOK 75.5 and capitalised expenses related to the development of IT-systems and brand name of MNOK 33.6. The total investments in intangibles and

fixed assets were MNOK 7.7 this quarter, and 38.4 accumulated in 2005, mainly consisting of investments on leased aircraft upgrades, spare parts and IT system developments.

The stock of consumable goods has increased by MNOK 25 during the year to a total of MNOK 36.8 mainly due to the purchase of parts to be used in engine overhaul this spring. Short term receivables are MNOK 202.7 at the end of 2005, compared to MNOK 81.7 at the end of 2004. The increase is mainly related to the general increase in activity and sales, leading to higher receivables on travel agents and credit card companies. In addition, receivables are affected by open accounts of code share partners, reimbursements of heavy maintenance and reimbursements of VAT.

The traffic settlement debt related to tickets sold, but not used, was MNOK 218.7 by December 31<sup>st</sup> 2005, which is an increase of MNOK 109.7 throughout 2005. This increase is due to the general increase in activity, and the increase of international operations with a higher degree of advance purchase than the domestic segment.

By December 31<sup>st</sup> 2005, the company's cash reserve was MNOK 261.5, strengthening the liquidity by MNOK 66.3 in 2005. Operating activities this year has given a positive cash flow of MNOK 120.4, while investments in the period have reduced the cash flow by MNOK 38.4. During 2005, the company has had some minor equity issues related to employee's options. In addition, the company has bought 300 000 of its own shares, in which the cost price and the transaction cost has been recorded as an equity reduction. The transaction has reduced the cash flow by MNOK 15.7. At the end of the quarter, the company had a book equity of MNOK 170.4, equivalent to an equity ratio of 25%.

#### *ACCOUNTING PRINCIPLES*

From the first quarter in 2005 public listed companies are required to follow the IFRS standards in the financial reporting as the main rule. However, the requirements address consolidated accounts. Oslo Stock Exchange has announced an exception from the rule for companies without consolidated accounts. Norwegian Air Shuttle ASA is a single company and does not have consolidated accounts. Due to changed regulations and the company's implementation of new financial and accounting systems, the company has decided to postpone the adoption of IFRS. The IFRS adoption process so far has revealed that the main differences from the current GAAP are related to the recognition of deferred tax asset, accounting for pension liabilities, and provisions for future maintenance of aircraft.

The company entered into a code share agreement with Sterling in the first quarter of 2005, and has a previous similar agreement with Fly Nordic. This agreement gives Norwegian the right to sell an agreed upon number of seats on flights that Norwegian operate, and correspondingly buy a fixed number of seats on flights the partner operates. In accordance with current GAAP the sold capacity on Norwegian flights is recorded as gross revenue, and bought capacity is recorded at gross cost. Accordingly, all operational key figures (ASK, RPK and load factor) are reported using the gross principle.

#### **FUTURE PROSPECT**

The market demand for travel with Norwegian has been good so far in the first quarter of 2006. The load factor for January was 72 % (64 %) with a yield of approximately NOK 0.72. The company had an all time high percentage of sales over the internet with 86% due to the New Year sale. The company expects a unit cost for the first quarter of 2006 in the same range as the first quarter of 2005.

The company has recently launched new routes from Oslo to Düsseldorf and Munich, and will also establish a base in Bergen with three aircraft. Preparations are made for the delivery of two additional aircraft to handle an approximately 50 % growth in capacity. This will bring the fleet to a total of 18 aircraft, whereof 17 will be operative at all times.

Based on the current fuel price and exchange rates, and ongoing cost reducing initiatives, the company expect to reach a targeted unit cost of NOK 0.52 during the summer half of 2006. For the first quarter of 2006 the company expects a loss due to the season variations.

Fornebu, February 8th 2006  
Bjørn Kjos  
CEO

**PROFIT AND LOSS ACCOUNT (KNOK)**

	Fourth Quarter		Accumulated	
	2005	2004	2005	2004
<b>OPERATING REVENUE</b>				
Total operating revenue	531 367	330 916	1 972 247	1 210 059
<b>TOTAL REVENUE</b>	<b>531 367</b>	<b>330 916</b>	<b>1 972 247</b>	<b>1 210 059</b>
<b>OPERATING EXPENSES</b>				
Operating expenses	386 551	259 246	1 381 147	940 638
Personell expenses	77 203	55 997	299 023	228 887
Other operating expenses	28 971	29 514	111 090	73 221
<b>TOTAL OPERATING EXPENSES</b>	<b>492 725</b>	<b>344 758</b>	<b>1 791 261</b>	<b>1 242 745</b>
<b>OPERATING PROFIT / LOSS BEFORE LEASING &amp; DEPR (EBITAR)</b>	<b>38 642</b>	<b>-13 843</b>	<b>180 986</b>	<b>-32 686</b>
Leasing	34 057	29 286	125 907	107 912
<b>OPERATING PROFIT / LOSS BEFORE DEPR (EBITDA)</b>	<b>4 585</b>	<b>-43 129</b>	<b>55 079</b>	<b>-140 598</b>
Depreciation	8 423	4 923	30 237	17 960
Write-down		1 042		1 042
<b>OPERATING PROFIT / LOSS (EBIT)</b>	<b>-3 838</b>	<b>-49 093</b>	<b>24 842</b>	<b>-159 600</b>
NET FINANCIAL ITEMS	7 171	5 905	12 387	7 143
<b>PROFIT / LOSS BEFORE TAX (EBT)</b>	<b>3 333</b>	<b>-43 188</b>	<b>37 229</b>	<b>-152 458</b>
TAX	987	-12 020	10 478	-42 616
<b>PROFIT / LOSS FOR THE PERIOD</b>	<b>2 346</b>	<b>-31 167</b>	<b>26 751</b>	<b>-109 842</b>

**BALANCE SHEET (KNOK)**

	December 31st	
	2005	2004
<b>FIXED ASSETS</b>		
Intangible assets	109 118	114 228
Tangible fixed assets	36 820	33 971
Fixed assets investment	23 218	19 035
<b>TOTAL FIXED ASSETS</b>	<b>169 157</b>	<b>167 235</b>
<b>CURRENT ASSETS</b>		
Consumable goods	36 764	11 791
Receivables	202 737	81 724
Cash in bank and in hand etc.	261 464	195 157
<b>TOTAL CURRENT ASSETS</b>	<b>500 965</b>	<b>288 671</b>
<b>TOTAL ASSETS</b>	<b>670 122</b>	<b>455 906</b>
<b>EQUITY</b>		
Called-up and fully paid equity	143 674	158 274
Retained earnings	26 751	
<b>TOTAL EQUITY</b>	<b>170 425</b>	<b>158 274</b>
<b>LIABILITIES</b>		
Provisions for liabilities and charges	34 779	12 573
Current liabilities	464 918	285 059
<b>TOTAL LIABILITIES</b>	<b>499 697</b>	<b>297 632</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>670 122</b>	<b>455 906</b>
No. Of shares	18 069 196	18 333 403
Face value	0,1	0,1

**CASH FLOW STATEMENT (KNOK)**

	Fourth Quarter		Accumulated	
	2005	2004	2005	2004
Net cash flows from operation activities	19 140	-24 660	120 359	-90 847
Net cash flows from investments	-7 733	-16 037	-38 369	-11 964
Net cash flows from financial activities	424	902	-15 682	-16 069
<b>Net change in cash and cash equivalents</b>	<b>11 832</b>	<b>-39 796</b>	<b>66 308</b>	<b>-118 879</b>
Cash and cash equivalents in beginning of period	249 633	234 953	195 157	314 036
Cash and cash equivalents in end of period	261 464	195 157	261 464	195 157

SALES REVENUE (KNOK)	Fourth Quarter		Accumulated	
	2005	2004	2005	2004
<b>Per activity</b>				
Passenger revenue	520 537	326 082	1 931 663	1 183 325
Other revenue	10 830	4 831	40 583	26 731
<b>Total</b>	<b>531 367</b>	<b>330 913</b>	<b>1 972 247</b>	<b>1 210 056</b>
<b>Per geographical market</b>				
Norway	299 060	222 513	1 047 992	829 709
Other EU states	232 307	108 400	924 255	380 348
<b>Total</b>	<b>531 367</b>	<b>330 913</b>	<b>1 972 247</b>	<b>1 210 056</b>
<b>Equity (KNOK)</b>				
	Fourth Quarter		Accumulated	
	2005	2004	2005	2004
Equity - Beginning of period	167 654	188 540	158 274	263 532
Share issue		902	661	4 584
Equity change on employee options	424		424	
Purchase own shares			-15 686	
Profit/loss	2 346	-31 167	26 751	-109 842
Equity - End of period	170 425	158 275	170 425	158 274
<b>COST BREAKDOWN (KNOK)</b>				
	Fourth Quarter		Accumulated	
	2005	2004	2005	2004
Personell costs	77 203	55 997	299 023	228 887
Sales/ distribution costs	17 950	21 105	75 114	88 049
Aviation fuel	115 664	67 730	384 394	218 200
Aircraft leases	34 057	29 286	125 907	107 912
Aiport charges	74 584	59 754	281 252	223 099
De-icing	10 715	8 293	21 952	17 636
Handling charges	56 226	42 480	200 296	159 616
Technical maintenance costs	54 956	41 847	207 785	152 249
Depr. / write-down	8 423	5 965	30 237	19 002
Other costs	85 427	47 550	321 444	155 010
<b>Sum operating costs</b>	<b>535 205</b>	<b>380 009</b>	<b>1 947 405</b>	<b>1 369 659</b>
<b>FINANCIAL KEY FIGURES</b>				
	Fourth Quarter		Accumulated	
	2005	2004	2005	2004
Operating margin (%)	-1 %	-15 %	1 %	-13 %
Earnings per share (NOK) (calculated on average no. Of shares)	0,1	-1,7	1,5	-6,0
Book equity per share (NOK)			9,4	8,6
Equity ratio (%)			25 %	35 %
No. Of shares at the end of the period	18 069 196	18 333 403	18 069 196	18 333 403
Adjusted no. of shares at the end of the period	18 069 196	18 323 745	18 279 782	18 224 979
Average no. of shares and options in the period	18 181 504	18 370 825	18 312 588	18 370 825
<b>SENSITIVITY ANALYSIS</b>				
			Effect on P/L	
			MNOK	
1 % increase in jet fuel price			-5,8	
1 % weakening of NOK against USD			-3,6	
1 % weakening of NOK against EUR			-1,6	
The sensitivity analysis reflects the effect on P/L by substantial changes in market prices and exchange rates. The effect on P/L is annualized based on today's level of production, fuelprices and exchange rates				

The quarterly report has been compiled according to the same accounting principles that have been used in the Annual Report, and are in accordance with the Norwegian Accounting Standard no. 11.  
The accounts are not audited.

**Definitions**

ASK: Available Seat Kilometres. Number of available passenger seats multiplied by the flight distance.  
 RPK: Revenue Passenger Kilometres. Number of paying passengers multiplied by the flight distance.  
 CABIN FACTOR: Relationship between RPK and ASK as a percentage. Describes the rate of utilisation of available seats.

EBITDA: Operating profit/loss before financial items, taxes and depreciation

EBITDAR: Operating profit/loss before financial items, taxes, depreciation and leasing costs for aircraft

