

# **Norwegian Air Shuttle ASA (NAS)**

## **Q4 2003 and FY 2003**



24-26 February 2004

# Agenda

- Introduction
- Financials Q4 2003 and FY 2003
- Norwegian low-fare operation
- Going forward 2004



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# Management introduction



## **Bjørn Kjos, CEO, founder**

- Founded Norwegian Air Shuttle in 1993.
- Former managing partner of the law firm Vogt & Wiig.
- Aviation experience from RNOAF 334 squadron



## **Frode E. Foss, CFO**

- Ex. Ernst & Young and Arthur Andersen experience
- Masters in Business Administration



## **Ola Krohn-Fagervoll, Deputy CEO**

- Ex. Concordia, A.T. Kearney, Saga Petroleum and British Petroleum
- Masters in Business Administration



# Highlights

## Financials Q4 2003 and FY 2003

- NAS is becoming a pure low-fare airline
- The low-fare operation is turning profitable
- NAS overall profit margins have improved from FY 2002 to FY 2003
- NAS has established a strong financial position

## Norwegian low-fare operation

- Revenue is up, partly offset by pressure on yield
- Growing passenger volume, mainly driven by price campaigns on the internet
- Costs are down from increased production and lower distribution costs

## Going forward 2004

- Strong market position going forward
- Strong focus on top line growth and cost efficiency
- Yield and cost in first half 2004 lower from increased average sector length
- Continued high load factor expected for first half 2004



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# NAS is becoming a pure low-fare airline

## Highlights Q4 2003

- Total revenue increased 40 % to MNOK 276 compared to Q4 2002 (MNOK 197).
- Total operating expense increased 21 % to MNOK 265 compared to Q4 2002 (MNOK 219)

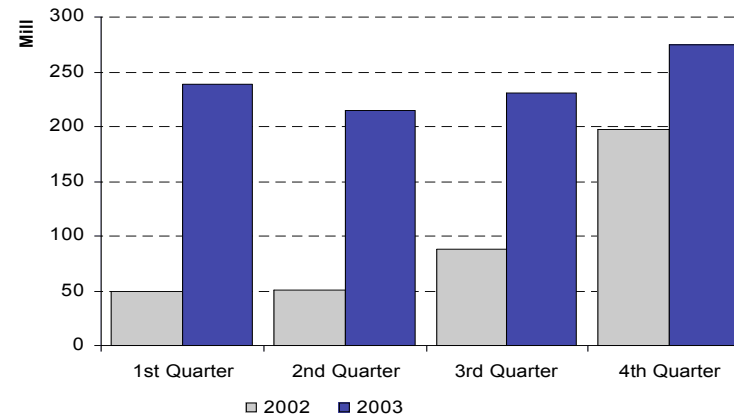
NAS (MNOK)	Q4 2003	Q4 2002
EBITDAR	11	-22
EBITDA	-10	-34
EBT	-18	-36
Income after tax MNOK	-12	-25

- Norwegian low-fare operation on track with break-even result in Q4 (EBITDA)
- Loss of MNOK 8.5 from discontinued Fokker F-50 commuter operation in Q4 2003

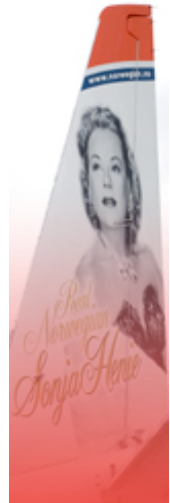
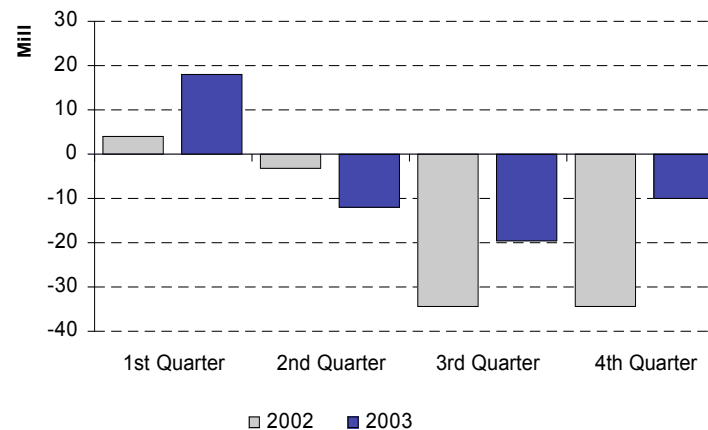
### Special items Q4 2003

- Lower than expected revenues from discontinued Fokker F-50 operation
- Write down of 3 Fokker F-50 financial leases with MNOK 5 (Sale has taken longer than planned)
- MNOK 1,5 cost allocated to reorg. compensation
- Higher sales commission for low-fare operation due to higher than expected sales

Total revenue (Mill NOK)



EBITDA (Mill NOK)

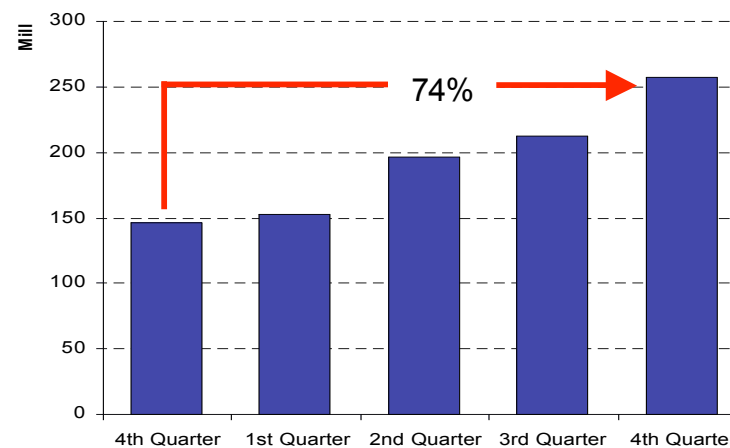


# The low-fare operation is turning profitable

## Revenue development (B-737)

- The low-fare operation is becoming a 1 billion NOK business, with 258 MNOK in turnover for Q4 2003
- High revenue growth throughout the period, 74% increase from Q4 2002 to Q4 2003
- Growth in revenue mainly driven by rapid capacity expansion and increased load factor

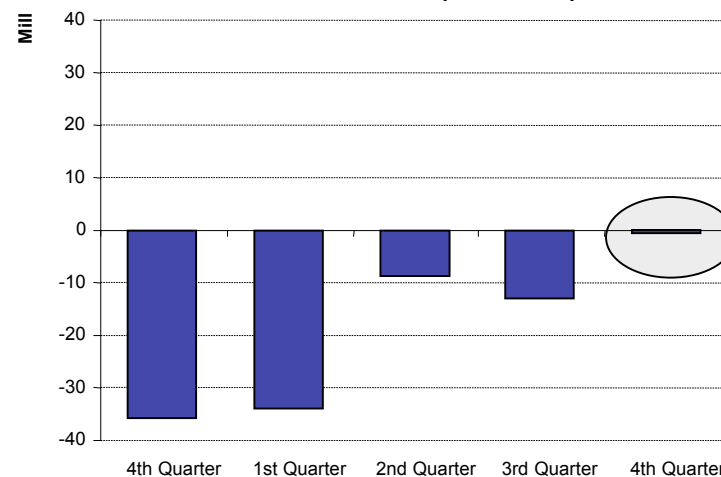
Total revenue (Mill NOK)



## EBITDA development

- Low-fare operation was break-even in Q4 (EBITDA)
- Both October and November showed positive EBITDA results, while December was negative

EBITDA (Mill NOK)





# NAS overall profit margins have improved from FY 2002 to FY 2003

## P&L FY 2003

Norwegian Air Shuttle ASA (MNOK)

	Q1 03	Q2 03	Q3 03	Q4 03	2003	2002 (1)
<b>B-737</b>						
Revenues	218 127	218 127	218 127	218 127	818 109	185 628
EBITDA	10 452	10 452	10 452	10 452	-55 183	-49 316
<b>NAS TOTAL</b>						
Revenues	218 127	218 127	218 127	218 127	958 613	386 483
EBITDA	10 452	10 452	10 452	10 452	-23 822	-67 981
EBIT	10 452	10 452	10 452	10 452	-58 190	-73 786
EBT	10 452	10 452	10 452	10 452	-59 017	-71 749
AFTER TAX	10 452	10 452	10 452	10 452	-42 746	-51 860

### B-737

- Total revenue increased 342 % to MNOK 818 compared to 2002
- Improved EBITDA on an annualized basis

### NAS TOTAL

- Total revenue increased 139 % to MNOK 922 compared to 2002 (adjusted for 36 MNOK in restructuring compensation)
- Substantial improvement of EBITDA

(1) 2002 = 4 months of B-737 operation



# NAS has gained a strong financial position

## Balance Sheet FY 2003

- Total Assets MNOK 524
  - IPO MNOK 250 (MNOK 235)
  - Equity ratio of 50 %
- Cash 31.12.03 MNOK 314
- Positive working capital
  - Receivables reduced MNOK 60
  - Prepaid tickets reduced MNOK 26
- Fokker F-50 valued at MNOK 25
  - Long term debt of MNOK 21
- Provisions MNOK 43
  - Maintenance
  - Pensions

Norwegian Air Shuttle ASA		BALANCE SHEET		
	Q3	Pr 31.12		
	2003	2003	2002	
<b>FIXED ASSETS</b>				
Intangible assets	52 093	62 861	32 418	
Tangible fixed assets	48 503	49 557	56 383	
Financial fixed assets	14 166	14 038	14 354	
<b>TOTAL FIXED ASSETS</b>	<b>114 761</b>	<b>126 457</b>	<b>103 155</b>	
<b>CURRENT ASSETS</b>				
Material and consumables	1 042	2 435	8 823	
Receivables	143 708	81 439	45 159	
Cash at bank deposits	58 389	314 036	63 237	
<b>TOTAL CURRENT ASSETS</b>	<b>203 140</b>	<b>397 911</b>	<b>117 219</b>	
<b>TOTAL ASSETS</b>	<b>317 901</b>	<b>524 367</b>	<b>220 374</b>	
<b>EQUITY</b>				
Paid-in equity	71 157	306 583	71 157	
Retained earnings	-30 467	-42 746		
<b>TOTAL EQUITY</b>	<b>40 690</b>	<b>263 837</b>	<b>71 157</b>	
<b>LIABILITIES</b>				
Provisions	33 280	42 775	9 729	
Other long-term liabilities	22 785	20 652	32 050	
Current liabilities	221 145	197 104	107 438	
<b>TOTAL LIABILITIES</b>	<b>277 211</b>	<b>260 531</b>	<b>149 216</b>	
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>317 901</b>	<b>524 367</b>	<b>220 374</b>	
No of shares	79 021	18 085 230	79 021	
Nominal share value	10	0,1	10	

# Agenda

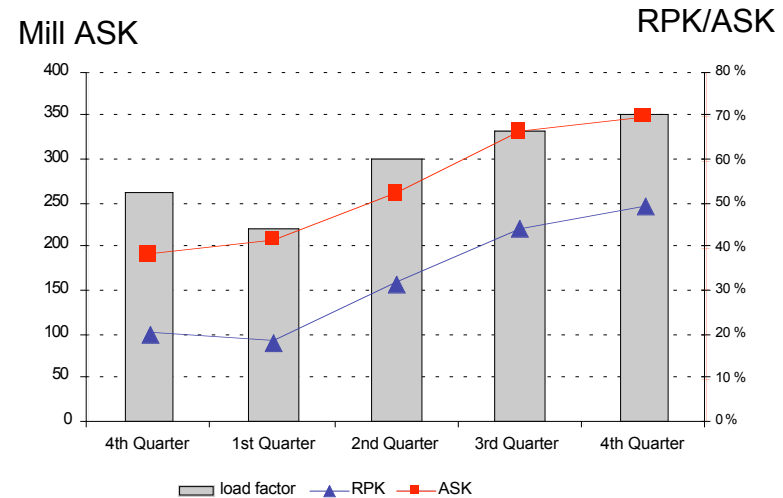
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# Load factor is up, revenue growth dampened by pressure on Yield

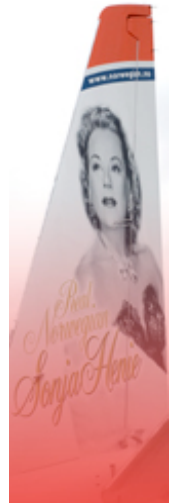
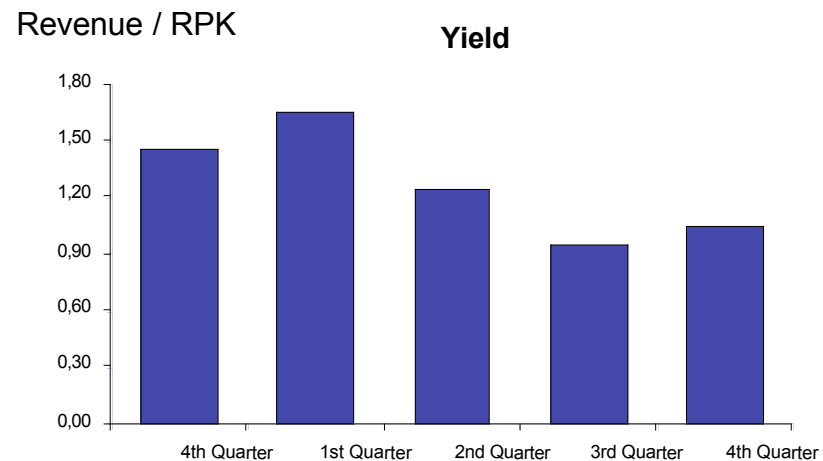
## Load factor development

- 2 more planes, 14 new routes and adjustments on established routes, brought total production (ASK) up 82% in Q4 2003, compared with Q4/02
- Passenger traffic (RPK) increased by 145 %, resulting in a load factor increase by 18 percentage points up to 71% in Q4 2003, compared with Q4/02
- Load factor seemingly “unaffected” by seasonality and approaching “low-fare carrier range”



## Yield development

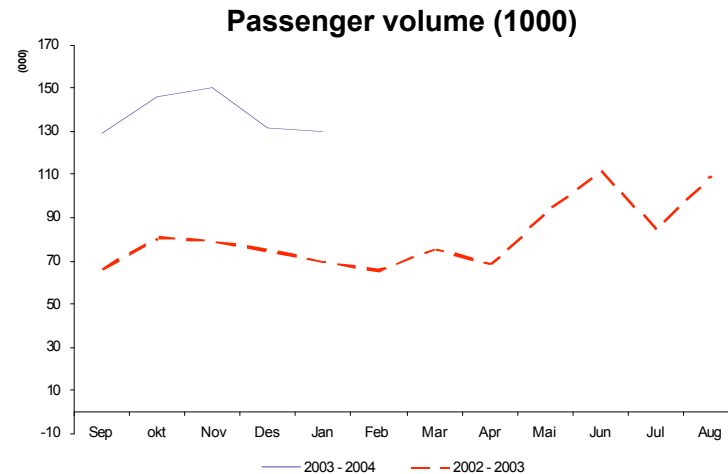
- The average yield has gradually been falling since the start-up, mainly due to new and longer routes and domestic price competition
- A lower yield in Q3 is “normal” due to summer vacation with longer flights and a substantially lower business volume
- Yield improved in Q4 2003



# Growing passenger volume, mainly driven by price campaigns on the internet

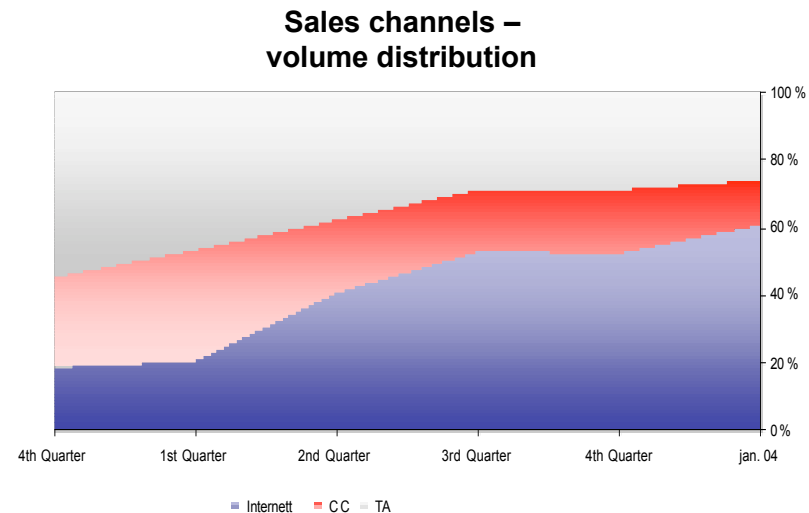
## Passenger (PAX) development

- In order to increase market penetration, pricing campaigns has been executed for "low season" and off peak periods in November / December and on specific routes
- PAX volume has been steadily increasing during Q4 with a "natural" fall in desember where business slows down before and during the Christmas holidays



## Distribution Channels

- The distribution volume through [www.norwegian.no](http://www.norwegian.no) reached an all time high with a 60 % share in January 2004
- Internet's share of "traffic" is three times higher than start-up Q4 2002
- 75% of total sales were direct sales in Q4 2003 (call-center constituted 15%)

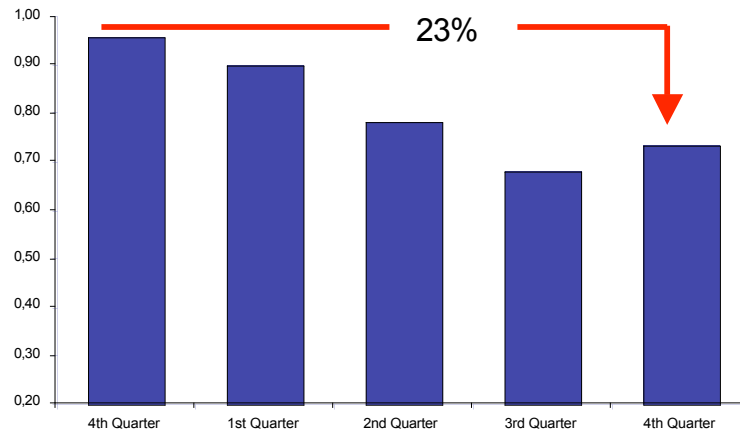


# Costs are down from increased production and lower distribution costs

## Operational costs per ASK

- Unit cost down 23 % compared to Q4 2002
- Q4 compared to Q3 2003 - slightly higher due to:
  - decreased production in December
  - Increased maintenance costs due to shorter sector lengths
  - Deicing costs during winter season

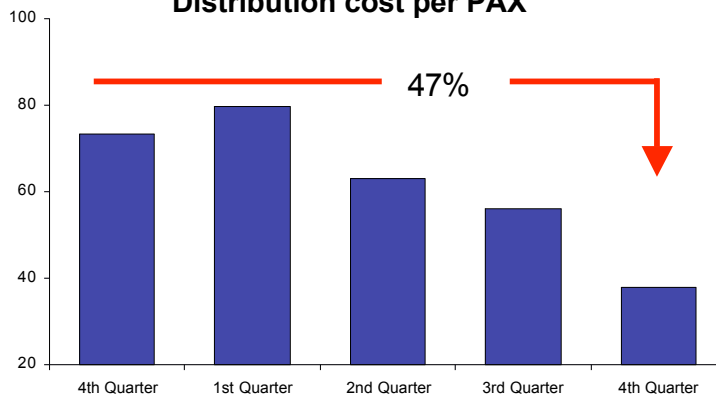
Cost per ASK



## Distribution costs per PAX

- Distribution costs per passenger has gone down with 47 % since Q4 2002
- Distribution costs per passenger has mainly been reduced due to higher internet penetration

Distribution cost per PAX



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# Strong market position going forward

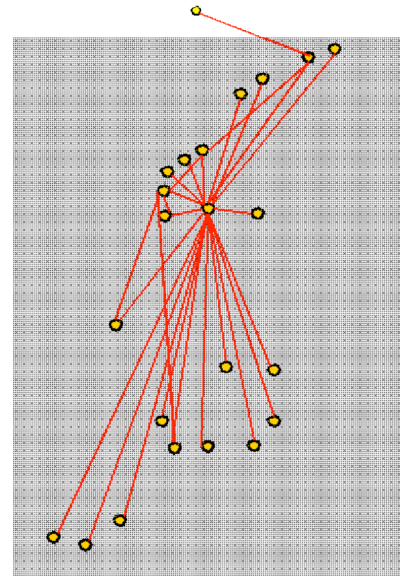
## Market penetration

- Market share of 20 % on largest routes domestically, and increasing
- 60 % internet sales
- Added new distribution channels: "Bedriftsportal", Narvesen and SMS
- Established 3rd party services on [www.norwegian.no](http://www.norwegian.no) (hotels and rental cars)

Route	Market share 2003	Δ Q3-Q4
Bergen	21,7 %	↗
Trondheim	22,2 %	↗
Stavanger	19,7 %	↗
Tromsø	21,0 %	↗
Harstad/Narvik	18,5 %	↗

## Timetable improvements

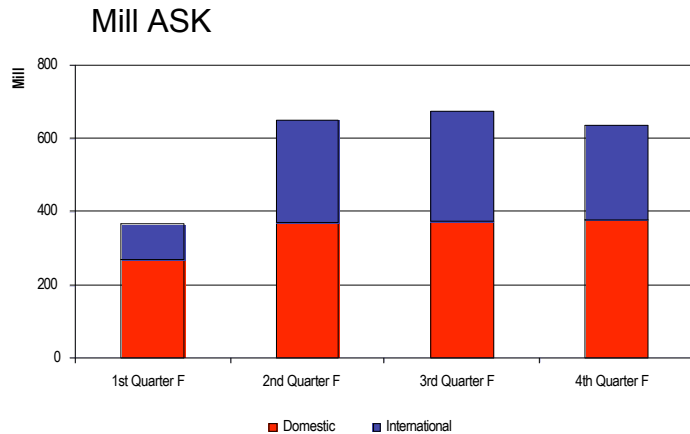
- 3 new planes and crew on schedule for production increase from March onward
- Focus is on improving the domestic timetable
- Start-up of new International routes are "opportunistic" utilization of excess capacity





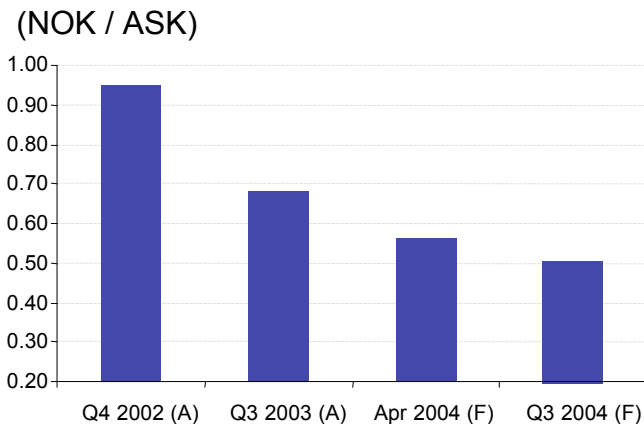
# Strong focus on top line growth and cost efficiency

## Production Programme



- Route expansion and plane additions in 2004 will increase revenue substantially
- Positive sales development, particularly for new international leisure routes
- 3rd party sales and "add-ons" are expected to increase revenues

## Operational costs per ASK



- Nearly double production capacity compared to current level will decrease costs / ASK substantially during 2004
- Longer sector lengths and scale benefits will also contribute in reducing cost per ASK
- Implementation of new distribution channels with lower distribution costs
- Except for crew and cabin personnel, limited need for new manpower.
- Favorable leases on 3 new planes

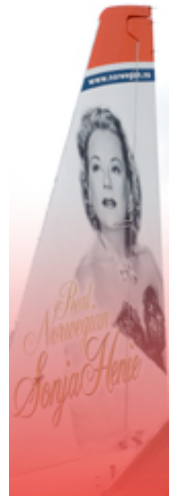
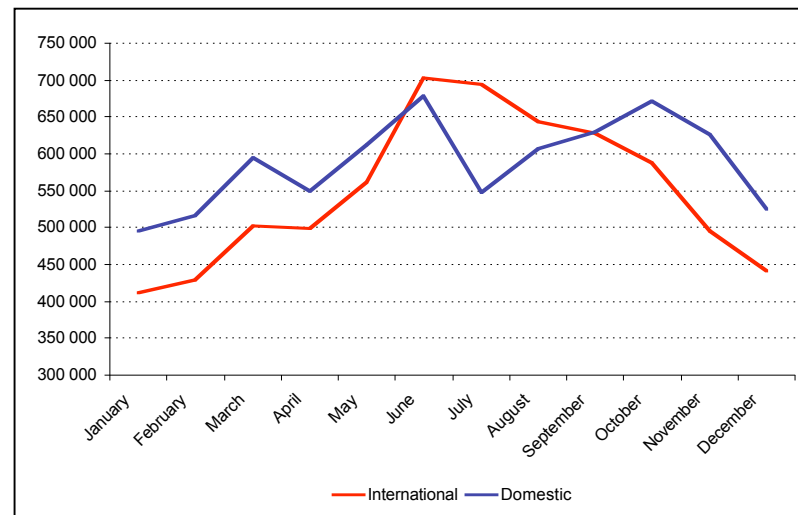


# Continued high load factor expected for first half 2004

## Expected load factor development

- Domestic load factor of 69% for January 2004
- Domestic passenger volume expected to increase in first half 2004
- International load factor of 56% for January 2004
- Average international load factor last twelve months of 71%
- Expected increase in domestic and international load factor due to seasonal variations

Total PAX Volume OSL 2003



# Lower yield and cost in first half 2004, due to increased flight sector length

## Expected yield development

- Expected average sector length to increase from 60 minutes in January to an average of 75 minutes for 2004
- Increased sector length mainly coming from longer flights to leisure destinations
- Yield expected to decrease with increased sector length
- Domestic yield expected to remain fairly stable

