

## NORWEGIAN AIR SHUTTLE ASA QUARTERLY REPORT – THIRD QUARTER 2006

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

### THIRD QUARTER IN BRIEF

- The operating revenue increased by 49 % this quarter, compared to last year, to MNOK 877.8 (589.9).
- The total quarterly earnings before depreciation and leasing costs (EBITDAR) was MNOK 100.1 (95.9).
- The total quarterly earnings before depreciation (EBITDA) was MNOK 53.8 (63.9).
- Norwegian Air Shuttle ASA had earnings before tax of MNOK 38.3 (60.9) in the third quarter.
- The quarterly earnings after tax was MNOK 27.5 (43.8).
- The total number of passengers transported in the third quarter was 1,503,141, which is an increase in passenger traffic (RPK) by 61 %.
- The passenger load factor was 85 % (86 %) this quarter.
- The total production (ASK) increased by 64 % to 1,693 million this quarter.
- The company had a cash reserve of MNOK 387.5 at the end of the third quarter, and an equity ratio of 26.7 %.
- The total quarterly unit cost was NOK 0.49 (0.51).

TRAFFIC STATISTICS	Third Quarter			Accumulated		
	2006	2005	Change	2006	2005	Change
<b>Norwegian</b>						
Internet bookings	87 %	77 %	10 pp	83 %	72 %	11 pp
ASK (mill)	1 693	1 033	64 %	3 950	2 541	55 %
RPK (mill)	1 434	892	61 %	3 199	2 009	59 %
Cabin factor	85 %	86 %	(1) pp	81 %	79 %	2 pp
Passengers	1 503 141	947 089	59 %	3 806 269	2 365 382	61 %
<b>Domestic</b>						
ASK (mill)	456	344	32 %	1 304	1 013	29 %
RPK (mill)	382	280	36 %	1 042	752	39 %
Cabin factor	84 %	81 %	3 pp	80 %	74 %	6 pp
Passengers	711 474	478 379	49 %	2 010 913	1 371 259	47 %
<b>International</b>						
ASK (mill)	1 238	689	80 %	2 646	1 528	73 %
RPK (mill)	1 052	612	72 %	2 157	1 257	1 %
Cabin factor	85 %	89 %	-4 pp	82 %	82 %	0 pp
Passengers	791 667	468 710	69 %	1 795 356	994 123	81 %

## TRAFFIC DEVELOPMENT

A total of 1,503,141 passengers travelled with Norwegian Air Shuttle in the third quarter of 2006, compared to 947,089 in the third quarter of 2005. This equals an increase of 59 % in the number of passengers. The company had a passenger load factor of 85 % this quarter, compared to 86 % in 2005. The production (ASK) has increased by a total of 64 % since the same period last year, and the passenger traffic (RPK) has increased by 61 %.

The growth is related to the company's expansion throughout the year. At the end of the third quarter of 2006, the company operated 19 aircraft, compared to 13 in the same period last year. The utilization of the aircraft has improved as a consequence of the expansion, and in the third quarter every aircraft were utilized 11.5 block hours a day, compared to 9.7 block hours in the same period last year.

The share of Internet sale has increased to 87 %, compared to 77 % in the same period last year.

## COMMENTS TO THE ACCOUNTS

### *PROFIT AND LOSS STATEMENT*

The company's total turnover in the third quarter was MNOK 877.8 (589.9), an increase of 49 %. The company had an accumulated turnover of MNOK 2,181.5 (1,440.9) in 2006. MNOK 856.0 (576.9) of the revenues is related to ticket revenues, while the remaining 21.8 (13.0) are related to other freight, fees, and third-party products. The increase in ticket revenues is related to an increase in passenger traffic, but negatively affected by lower yield.

The operating costs (including leasing and excluding depreciation and write-downs) were MNOK 824.0 (526.0) this quarter, and the accumulated operating costs were 2,145.4 (1,390.4). The cost increase is mainly related to the increase in production (ASK) by 64 % compared to last year. In addition, the company has utilized in average 18.4 aircrafts this quarter compared to 13 the same quarter last year. The average operating cost per ASK (unit cost) was NOK 0.49 (0.51) this quarter. The quarterly cost of jet fuel has increased from MNOK 116.6 last year to MNOK 227.0 this year. The increase is partly related to the increased production; however, approximately MNOK 36 is related to the jet fuel price increase. The company has in October hedged 25 % of the expected fuel consumption through April 2007. The company has term contracts on 20 % of expected exposure in USD from august through February 2007. Incidentally, there is a relative reduction in 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. This is partially offset by increased handling costs in connection with the termination of the contract with Servisair and irregularities in the summer period.

The increase in depreciation is caused by the purchase of own airplanes in 2006.

Earnings before depreciation and write-down (EBITDA) in the third quarter were MNOK 53.8 (63.9), and 36.1 (50.5) accumulated. The earnings before tax was MNOK 38.3 (60.9) in the third quarter, and 3.2 (33.9) accumulated.

### *BALANCE SHEET*

Intangible assets include a deferred tax asset of MNOK 74.6 and capitalised expenses related to the development of IT-systems and brand name of MNOK 37.1. Purchased aircrafts are valued to 166.0 in the balance sheet. In addition, the total investments in intangibles and fixed assets were MNOK 11.3 this quarter, mainly related to IT systems, upgrades on aircraft and spare parts, and start up costs in Poland.

The stock of consumable goods increased by 8.1 in the third quarter. The stock of consumable goods was MNOK 36.7 by the end of the quarter, including MNOK 23.5 related to the purchase of parts to be used in engine overhaul in the future. Short term receivables are MNOK 408.4 at the end of the quarter, compared to MNOK 267.7 at the end of the third quarter of 2005. The increase is mainly related to reimbursement in connection with heavy maintenance, open accounts of code share

partners, and 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 reimbursements of VAT.

Accruals for future maintenance liabilities increased with 37.1 MNOK to 47.9 MNOK in the quarter.

The traffic settlement debt related to tickets sold, but not used, was MNOK 335.6 by September 30<sup>th</sup> 2006, which is a decrease of MNOK 148.2 for the quarter. This is due to higher travel activity than sales activity in the quarter.

By September 30<sup>th</sup> 2006, the company's cash reserve was MNOK 387.5, a reduction of MNOK 148.0 during the quarter. Operating activities this year has given a positive cash flow of MNOK 197.5, while investments in the period have reduced the cash flow by MNOK 211.4. Finance activities have given a positive cash flow of 139.9. The company had book equity of MNOK 314.3, by the end of the quarter, equivalent to an equity ratio of 26.7 %.

#### *ACCOUNTING PRINCIPLES*

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.

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 requirement addresses consolidated accounts. Oslo Stock Exchange has announced an exception from the rule for companies without consolidated accounts. Norwegian established a subsidiary company in Poland during the second quarter of 2006 and is from this point registered as a corporation. As a consequence Norwegian Air Shuttle will report the annual accounting for 2006 according to the accounting principles in the IFRS standard. 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.

Earlier, the company entered into a code share agreement with Sterling and Fly Nordic, and in 2006 the company has entered into a co-operation with Polkovo Airlines on the Oslo-St.Petersburg route. 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 demand for travelling with Norwegian and the advanced bookings has been good entering the fourth quarter of 2006. Previous experience shows that it takes time to incorporate new routes in markets with strong competition, especially in markets with a high percentage of business travellers. The many new routes launched during the summer have had a positive development and have achieved good load factors. Some of the new routes will need further building with respect to both load factors and achieved pricing.

From the fourth quarter the company is operating 2 aircrafts from the Warsaw base which shall serve a total of 12 routes to and from Scandinavia and other European destinations. The advanced bookings for the routes out of Warsaw have been strong and show a relatively good demand for low fares. Previous experience shows that it takes time to incorporate new routes, and with the expansion in Poland the company is entering into a new market which will present the company with new challenges. The company is planning a considerable strengthening and increase in the marketing activities in Poland. The base in Warsaw is not expected to be profitable in the first year of operation.

Ongoing initiatives to reduce costs are on track. Additional efficiency gains have been achieved due to the switching of handling agents at Oslo Airport on the first of October. Additionally, parts of the

Amadeus initiative have been completed and significant cost reductions are already in effect. The company's apprentice program is receiving resistance from the central unions despite local and internal support. The resistance from the central unions has caused "Lærlingnemnda" in Akershus to temporarily freeze the program. A resolution regarding this is expected during the fourth quarter.

The prices for jet fuel have decreased somewhat, but at the same time the NOK has weakened. With the current fuel price and exchange rates and with the planned production, the unit cost for 2006 is expected to be approximately NOK 0.54.

With the expansion in Poland the fleet has increased to 20 aircrafts, with 19 in operation. The company is planning further expansion in 2007 based on market developments and route portfolio performance.

Fornebu, October 25th 2006

Bjørn Kjos  
CEO

PROFIT AND LOSS ACCOUNT (KNOK)	Third Quarter		Accumulated		31. December 2005
	2006	2005	2006	2005	
<b>OPERATING REVENUE</b>					
Total operating revenue	877 783	589 904	2 181 488	1 440 880	1 972 247
<b>TOTAL REVENUE</b>	<b>877 783</b>	<b>589 904</b>	<b>2 181 488</b>	<b>1 440 880</b>	<b>1 972 247</b>
<b>OPERATING EXPENSES</b>					
Operating expenses	640 819	393 760	1 621 331	994 596	1 381 147
Personell expenses	105 780	75 442	296 012	221 820	299 023
Other operating expenses	31 124	24 775	98 872	82 120	111 090
<b>TOTAL OPERATING EXPENSES</b>	<b>777 723</b>	<b>493 977</b>	<b>2 016 215</b>	<b>1 298 536</b>	<b>1 791 261</b>
<b>OPERATING PROFIT / LOSS BEFORE LEASING &amp; DEPR (EBITAR)</b>	<b>100 060</b>	<b>95 927</b>	<b>165 273</b>	<b>142 344</b>	<b>180 986</b>
Leasing	46 259	32 034	129 206	91 851	125 907
<b>OPERATING PROFIT / LOSS BEFORE DEPR (EBITDA)</b>	<b>53 801</b>	<b>63 894</b>	<b>36 067</b>	<b>50 493</b>	<b>55 079</b>
Depreciation	15 418	7 640	38 358	21 813	30 237
Write-down					
<b>OPERATING PROFIT / LOSS (EBIT)</b>	<b>38 383</b>	<b>56 253</b>	<b>-2 291</b>	<b>28 680</b>	<b>24 842</b>
NET FINANCIAL ITEMS	-108	4 634	5 483	5 216	12 387
<b>PROFIT / LOSS BEFORE TAX (EBT)</b>	<b>38 275</b>	<b>60 887</b>	<b>3 192</b>	<b>33 896</b>	<b>37 229</b>
TAX	10 744	17 048	921	9 491	10 478
<b>PROFIT / LOSS FOR THE PERIOD</b>	<b>27 531</b>	<b>43 839</b>	<b>2 271</b>	<b>24 405</b>	<b>26 751</b>

BALANCE SHEET (KNOK)	Accumulated		Per. 31.12 2005
	2006	2005	
<b>FIXED ASSETS</b>			
Intangible assets	111 665	108 229	109 118
Tangible fixed assets	206 354	39 302	36 820
Fixed assets investment	24 696	19 578	27 271
<b>TOTAL FIXED ASSETS</b>	<b>342 714</b>	<b>167 109</b>	<b>173 210</b>
<b>CURRENT ASSETS</b>			
Consumable goods	36 688	12 085	36 764
Investments	1 462		
Receivables	408 373	250 405	200 174
Cash in bank and in hand etc.	387 456	249 633	261 464
<b>TOTAL CURRENT ASSETS</b>	<b>833 980</b>	<b>512 123</b>	<b>500 965</b>
<b>TOTAL ASSETS</b>	<b>1 176 694</b>	<b>679 232</b>	<b>674 175</b>
<b>EQUITY</b>			
Called-up and fully paid equity	285 233	143 249	159 332
Retained earnings	29 098	24 405	11 093
<b>TOTAL EQUITY</b>	<b>314 331</b>	<b>167 654</b>	<b>170 425</b>
<b>LIABILITIES</b>			
Provisions for liabilities and charges	47 870	32 765	34 779
Other long term liabilities			
Current liabilities	814 493	478 812	468 971
<b>TOTAL LIABILITIES</b>	<b>862 363</b>	<b>511 578</b>	<b>503 750</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1 176 694</b>	<b>679 232</b>	<b>674 175</b>
No. Of shares	19 669 196	18 069 196	18 085 696
Face value	0,1	0,1	0,1

**CASH FLOW STATEMENT (KNOK)**

	Third Quarter		Accumulated		31. December 2005
	2006	2005	2006	2005	
Net cash flows from operation activities	-136 733	37 524	197 486	100 794	120 359
Net cash flows from investments	-11 311	-5 636	-211 359	-30 635	-38 369
Net cash flows from financial activities		-15 686	139 864	-15 682	-15 682
<b>Net change in cash and cash equivalents</b>	<b>-148 043</b>	<b>16 202</b>	<b>125 991</b>	<b>54 476</b>	<b>66 308</b>
Cash and cash equivalents in beginning of period	535 501	233 431	261 464	195 157	195 157
Cash and cash equivalents in end of period	387 458	249 633	387 456	249 633	261 464

**SALES REVENUE (KNOK)**

	Third Quarter		Accumulated		31. December 2005
	2006	2005	2006	2005	
<u>Per activity</u>					
Passenger revenue	856 022	576 889	2 134 445	1 411 127	1 931 663
Other revenue	21 761	13 015	21 761	29 753	40 583
<b>Total</b>	<b>877 783</b>	<b>589 904</b>	<b>877 783</b>	<b>1 440 880</b>	<b>1 972 247</b>
<u>Per geographical market</u>					
Norway	352 958	222 591	1 068 143	748 933	1 047 992
Other EU states	524 825	367 313	1 113 345	691 947	924 255
<b>Total</b>	<b>877 783</b>	<b>589 904</b>	<b>2 181 488</b>	<b>1 440 880</b>	<b>1 972 247</b>

**Equity (KNOK)**

	Third Quarter		Accumulated		31. December 2005
	2006	2005	2006	2005	
Equity - Beginning of period	286 036	139 502	170 425	158 274	158 274
Share issue	81		114 966	661	661
Equity change on employee options	684		1 696		424
Purchase own shares			24 898		
Profit/loss	27 531	43 839	2 271	24 405	26 751
Equity - End of period	314 332	167 654	314 331	167 654	170 425

**COST BREAKDOWN (KNOK)**

	Third Quarter		Accumulated		31. December 2005
	2006	2005	2006	2005	
Personell costs	105 780	75 442	296 012	221 820	299 023
Sales/ distribution costs	18 712	18 685	75 221	57 164	75 114
Aviation fuel	226 974	116 548	525 039	268 730	384 394
Aircraft leases	46 259	32 034	129 206	91 851	125 907
Aiport charges	119 475	75 074	303 936	206 668	281 252
De-icing	-2 749	253	13 342	11 238	21 952
Handling charges	96 991	53 234	230 930	144 070	200 296
Technical maintenance costs	83 189	60 331	233 088	152 829	207 785
Depr. / write-down	15 418	7 640	38 358	21 813	30 237
Other costs	129 350	94 411	338 648	236 017	321 444
<b>Sum operating costs</b>	<b>839 400</b>	<b>533 651</b>	<b>2 183 779</b>	<b>1 412 200</b>	<b>1 947 405</b>

**FINANCIAL KEY FIGURES**

	Third Quarter		Accumulated		31. December 2005
	2006	2005	2006	2005	
Operating margin (%)	4 %	10 %	0 %	2 %	1 %
Earnings per share (NOK) (calculated on average no. Of shares)	1,4	2,4	0,1	1,3	1,5
Book equity per share (NOK)			16,0	9,3	6,9
Equity ratio (%)			27 %	25 %	22 %
No. Of shares at the end of the period	19 669 196	18 069 196	19 669 196	18 069 196	18 085 696
Adjusted no. of shares at the end of the period	19 669 196	18 332 932	19 188 093	18 351 010	18 284 451
Average no. of shares and options in the period	19 809 196	18 332 932	19 328 093	18 357 338	18 317 257

**SENSITIVITY ANALYSIS**

	Effect on P/L MNOK
1 % increase in jet fuel price	-5,4
1 % weakening of NOK against USD	-5,6
1 % weakening of NOK against EUR	-1,5

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

**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

