NORWEGIAN AIR SHUTTLE ASA

Result announcement for the three-month period ended on 31 March 2020

28 May 2020

Norwegian Air Shuttle ASA reports on its consolidated pre-tax results for the three-month period that ended on 31 March 2020. The company is currently in hibernation mode and at the same time is conducting significant restructuring of the organization, including establishing a new strategy and updated business plans.

The company reported on 13 February 2020 that it was targeting a positive net profit for 2020 after taking significant actions in 2019 to optimize the route network, cut costs and create financial headroom. The guidance was withdrawn in a stock market notice on 6 March 2020 due to the drop in demand and government-imposed travel restrictions following the COVID-19 outbreak. The first week of March, the company started to experience reduced demand on future bookings as a result of the COVID-19 outbreak. Consequently, the company announced 3,000 cancellations and temporary layoffs of more than 5,000 employees on 10 March 2020, for travel from mid-March to mid-June. The number of cancellations was gradually ramped up as demand stagnated and travel restrictions were enforced by governments across the world. On 16 March 2020, the company canceled 85 percent of planned flights and announced temporary layoffs of approximately 7,300 employees. In the following weeks, Norwegian maintained as many schedules flights as possible to help customers return to their home destinations. The company also worked closely with the authorities to arrange repatriation flights.

As both society in general and the aviation industry in particular, suffer from the consequences of the COVID-19 pandemic, Norwegian has gone into hibernation after taking drastic measures to preserve liquidity. With a total fleet of 147 aircraft at the end of March, only seven aircraft are now in operation offering a reduced state-subsidized schedule domestically in Norway. Around 7,650 employees (equaling approximately 80 percent of workforce) have been temporarily laid off and 1,571 pilots and 3,134 cabin crew have been affected by cancellation of the OSM crew agreements.

Since entering hibernation mode, the company has successfully completed a substantial financial restructuring and announced on 20 May 2020 the conversion of NOK 12.7 billion debt to equity and NOK 400 million in new cash and equity through a public offering. With the restructuring in place, the company fulfilled the conditions to access the Norwegian government's guarantee scheme for the aviation industry; NOK 3 billion has subsequently been made available to the company. Under the guarantee scheme, the government will guarantee 90 percent of the loans granted to Norwegian and the private sector supports with the remaining 10 percent. One of the conditions was to achieve a pro forma adjusted equity ratio at 31 December 2019 of at least 8 percent. Based on the financial restructuring, the company achieved a pro forma adjusted equity ratio of 17 percent, based on reported equity ratio in the company's fourth quarter 2019 interim financial statements adjusted by the mentioned public offering and debt conversions.

The company also announced that agreements are made to further lower aircraft lease payments through a power-by-the-hour arrangement with lessors, expected to reduce lease payments by approximately USD 250 - 285 million until March 2021.

At the same time as carrying out the financial restructuring, the company has seized this time as an opportunity to develop a new strategy and business plan for a strengthened airline to re-emerge. The strategy is built on the pillar of delivering attractive returns to investors supported by plan "New Norwegian".

"*The first quarter figures are as expected and indicated to the market on several occasions severely affected by the COVID-19 crisis. The coming months will be challenging for Norwegian and the industry, but our goal is to ensure that Norwegian has a strong position in the future airline industry with a clear direction and strategy. This will ensure sustainable operations and a structure that will be to the benefit of both shareholders, customers and colleagues. As soon as the world returns to normalcy, we will be prepared to return with improved service to our customers*," said CEO Jacob Schram.

TRAFFIC FIGURES AND RATIOS

(unaudited ratios in NOK)	Q1 2020	Q1 2019	*Change*	Full Year 2019
Yield	0.41	0.33	*25 %*	0.41
Unit revenue	0.33	0.27	*22 %*	0.35
Unit cost	0.53	0.44	*22 %*	0.44
Unit cost excl fuel	0.41	0.32	*29 %*	0.31
Ancillary revenue per passenger	229	167	*37 %*	184
Share of sale own channels	82 %	82 %	*0 pp*	81 %
ASK (million)	15,226	23,457	*-35 %*	100,031
RPK (million)	12,005	18,995	*-37 %*	86,616
Passengers (million)	5.08	8.12	*-37 %*	36.20
Load factor	78.8 %	81.0 %	*-2.2 pp*	86.6 %
Average sector length (km)	1,745	1,822	*-4 %*	1,876
Fuel consumption (1,000 mt)	294	444	*-34 %*	1,918
CO_2 per RPK	77	74	*5 %*	70

Due to the effects of the COVID-19 outbreak, production (ASK) was 40 percent lower than planned in March, which impacts the traffic figures for the first quarter of 2020. 5.08 million passengers traveled with Norwegian in the first quarter of 2020, compared to 8.12 million in the first quarter of 2019. Production (ASK) decreased by 35 percent and passenger traffic (RPK) decreased by 37 percent. The load factor was 78.8 percent, a decrease of 2.2 p.p. compared to the first quarter 2019.

At the end of the first quarter 2020, the total fleet including aircraft on maintenance and excluding wet lease comprised 147 aircraft. Included are 18 Boeing 737 MAX aircraft that were grounded throughout the quarter and 3 aircraft on short-term external lease. The company utilized every operational aircraft on average 10.8 block hours per day, compared to 11.9 in the first quarter 2019.

Punctuality, share of flights departing on schedule, was 86.2 percent in the first quarter, increased by 4.9 percentage points compared to 81.3 percent in the same quarter 2019. Punctuality has increased in seven consecutive quarters.

Regularity, share of scheduled flights taking place, was 92.3 percent in the first quarter, compared to 98.7 percent in the same quarter 2019.

CONSOLIDATED FINANCIAL KEY FIGURES

(unaudited in NOK million)	Q1 2020	Q1 2019	*Change*	Full Year 2019
Operating revenue	6,505.3	7,991.6	*-19 %*	43,521.9
EBITDAR	-412.8	87.8	*NM*	7,313.5
EBITDAR excl other losses/(gains)	82.2	-716.2	*NM*	6,467.7
Operating profit (EBIT)	-2,084.1	-1,458.6	*43 %*	856.0
EBIT excl other losses/(gains)	-1,589.0	-2,262.6	*-30 %*	10.2
Profit (loss) before tax (EBT)	-3,281.7	-1,977.5	*66 %*	-1,687.6
EBITDAR margin	-6.3 %	1.1 %		16.8 %
EBIT margin	-32.0 %	-18.3 %		2.0 %
EBT margin	-50.4 %	-24.7 %		-3.9 %
Cash and cash equivalents	2,255.2	3,150.8	*-28 %*	3,095.6
Net interest-bearing debt	66,892.9	61,676.9	*8 %*	58,282.0

CONSOLIDATED PRE-TAX RESULTS

(unaudited in NOK million)	Q1 2020	Q1 2019	Full Year 2019
Passenger revenue	4,979.1	6,298.6	35,216.3
Ancillary passenger revenue	1,161.6	1,358.4	6,651.5
Other revenue	364.6	334.5	1,654.1
Total operating revenue	6,505.3	7,991.6	43,521.9
Personnel expenses	1,518.2	1,659.1	6,817.5
Aviation fuel	1,852.1	2,778.1	12,607.1
Airport and ATC charges	611.3	1,011.9	4,140.3
Handling charges	814.7	1,163.1	5,260.2
Technical maintenance expenses	621.5	813.4	3,379.2
Other operating expenses	1,005.3	1,282.1	4,849.9
Other losses/(gains)	495.1	-804.0	-845.8
Total operating expenses excl lease, depr. and amort.	6,918.1	7,903.8	36,208.5
Operating profit excl lease, depr. and amort. (EBITDAR)	-412.8	87.8	7,313.5
Aircraft lease, depreciation and amortization	1,671.3	1,546.4	6,457.5
Operating profit (EBIT)	-2,084.1	-1,458.6	856.0
Interest income	65.7	16.1	204.5
Interest expense	858.6	705.5	3,074.8
Other financial income (expense)	-396.9	167.5	340.3
Net financial items	-1,189.8	-522.0	-2,530.0
Profit (loss) from associated companies	-7.8	3.1	-13.6
Profit (loss) before tax (EBT)	-3,281.7	-1,977.5	-1,687.6

FINANCIAL REVIEW

The COVID-19 outbreak followed by government-imposed travel restrictions and drop in demand has led to the grounding of most of the company's fleet and temporary layoffs of a significant share of the company's workforce as the company has entered hibernation mode. The consequences for the company and the airline industry are severe, and dependent on when travel restrictions are lifted and demand starts to pick up, certain significant accounting estimates could be affected. If the situation persists, that could impact the company's impairment evaluations, the ability and timing of utilization of carry forward tax losses and the ability to extinguish liabilities in the normal course of business. Currently, the company is adapting to the situation and is in a restructuring process, including establishing a new strategy and updated business plans.

The three-month period ending on 31 March 2020 is heavily affected by the COVID-19 outbreak, including the abrupt drop in demand and reduced production from mid-March, significant effects from currency revaluations and unrealized losses on jet fuel hedge contracts.

The long-term impact from COVID-19 on the global airline industry and thus on the company is highly uncertain and depends on various factors, inter alia, duration and magnitude of the outbreak, containment measures, consumer confidence and economic conditions. The situation is evolving rapidly, and it is unclear how the virus will continue to develop or when the airline industry, and thus the company, will see a recovery to baseline levels.

The latest guiding provided by the company was published together with its Q4 2019 report: The company targeted a unit cost in the range of NOK 0.44 and 0.45 and a unit cost excluding fuel in the range of NOK 0.33 and 0.34 for 2020. Norwegian targeted a positive net profit for 2020. The guidance was withdrawn in a stock market notice on 6 March 2020. The company guided on contractually committed capital expenditures of USD 1.5 billion in 2020, and USD 0.6 billion in 2021.

For the first quarter of 2020, production (ASK) was reduced by 35 percent compared to a planned reduction of approximately 24 percent. The remaining decline is largely attributable to the COVID-19 outbreak.

EBITDAR excl other losses/(gains) was NOK 82 million in the first quarter (negative 716).

Other losses/(gains) amounted to a net loss of NOK 495 million in the first quarter, compared to a net gain of NOK 804 million 2019.

Operating profit (EBIT) for the first quarter was negative by NOK 2,084 million (negative 1,459). EBIT excluding other gains /(losses) improved by NOK 674 million to negative NOK 1,589 million (negative 2,263). Profit (loss) before tax (EBT) was negative NOK 3,282 million (negative 1,978) in the quarter.

REVENUE

Total revenue in the first quarter was NOK 6,505 million (7,992), a decrease of 19 percent. Norwegian achieved an increase in unit revenue by 22 percent following a yield increase of 25 percent and a decreased load factor by 2.2 percentage points. Average sector length decreased by 4 percent. Unit revenue increased by 16 percent in constant currency.

Passenger revenue was NOK 4,979 million (6,299). Ancillary revenue was NOK 1,162 million (1,358) in the first quarter, and ancillary revenue per passenger increased by 37 percent to NOK 229 (167). Other revenue of NOK 365 million (335) includes cargo revenue of NOK 144 million (217), commissions and third-party products as well as revenue from the loyalty program Norwegian Reward.

OPERATING EXPENSES

Unit cost excluding fuel was NOK 0.41, an increase of 29 percent compared to the same quarter 2019. In constant currency, unit cost excluding fuel increased by 21 percent compared to the same quarter in 2019.

Total operating expenses excluding depreciation and aircraft lease decreased by 12 percent to NOK 6,918 million (7,904) this quarter. Adjusted for other losses /(gains) the decrease was 26 percent from 2019.

Operating expenses decreased mainly due to the 35 percent reduction in production and lower jet fuel prices compared to the same quarter previous year. Unit costs are negatively affected by the unplanned decrease in production following the COVID-19 outbreak.

Other losses/(gains) include effects from foreign currency contracts, forward fuel contracts, losses or gains on translation of working capital in foreign currency and net losses or gains on sale of fixed assets. Current quarter net losses of NOK 495 million include losses from jet fuel hedges of NOK 1,121 million, offset by positive foreign currency effects of NOK 525 million and gains from sale of assets of NOK 101 million.

Net financial items were negative by NOK 1,190 million (negative by 522) in the first quarter. Interest expenses include NOK 450 million in interest expense on lease liabilities recognized according to IFRS 16. Interest on prepayments of NOK 44 million (96) was capitalized during the first quarter. Other financial income (expenses) include net currency losses of NOK 805 million in the first quarter, compared to net currency gains of NOK 179 million in the first quarter 2019. Currency losses are mainly related to the revaluation of borrowings denominated in currencies other than functional currencies of the companies in the group. Revaluation of conversion rights to fair value had a positive effect on Other financial income (expenses) by NOK 432 million during the first three months of 2020.

BASIS OF PREPARATION

This result announcement for the three-month period ended on 31 March 2020 is prepared on the basis of the company's accounting principles, as described in the latest available financial statements and updated in subsequently published interim financial reports, with the exception of certain significant judgmental assessments including potential impairment of fixed assets and the recoverability of deferred tax assets. Such assumptions are contingent on how the COVID-19 pandemic will evolve and the effects it may have and are dependent on the company's revised strategy and business plans currently being laid out. A full set of interim financial statements in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting will be published for the half-yearly report for the first half of 2020.

For definitions refer to the NAS Annual report 2018 and interim financial statements for Q4 2019.

RECENT DEVELOPMENTS

Starting on 10 March, the company has regularly updated the market through stock exchange notices on the effects of the COVID-19 outbreak, with cancellations, layoffs and suspension of service until the current hibernation mode was reached. Below is a high-level summary of significant events occurring after the three-month period covered in this result announcement.

8 April: Norwegian calls for an extraordinary general meeting with the aim to strengthen the balance sheet by converting bond debt and lease obligations to equity to meet the requirements of the Norwegian state guarantee program and create a sustainable platform.

20 April: Norwegian’s pilot and cabin crew companies in Sweden and Denmark file for bankruptcy. Norwegian also notified OSM Aviation that it has canceled the crew provision agreements with several of its jointly owned OSM Aviation subsidiaries.

4 May: The extraordinary general meeting voted in favor of all proposed resolutions, including conversion of bonds and lease debt to shares, as well as the public offering of up to NOK 400 million.

6 May – 14 May: Norwegian completed a public offering of NOK 400 million.

18 May: The bondholders’ meeting in NAS07 formally passed the proposed conversion and amendments to the bond terms. With this approval, bondholders in all the company’s four bonds had approved the restructuring plan.

20 May: Norwegian announced the successful completion of refinancing in which the company converted NOK 12.7 billion of debt to equity, raised NOK 400 million in cash and equity through a public offering and secured access to the NOK 3 billion loan guarantee from the Norwegian government. Following the transaction, the company has 3,069,624,807 shares outstanding, from previously 163,558,377. Further, the company announced that power-by-the-hour arrangements with lessors are expected to lead to a further conversion of debt to equity of approximately USD 250 – 285 million.

20 May: CEO Jacob Schram presented a new organizational structure and management team to be operational from 2 June 2020.