

**norwegian** 



## Norwegian Air Shuttle ASA

Investor presentation

2 September 2019

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# Norwegian offers unsecured bondholders slot backed security in exchange for extension

- On 2 September 2019, Norwegian summoned to bondholders' meetings
- To ensure successful operations and adequate liquidity headroom, NAS is asking its bondholders to extend the maturities of NAS07 and NAS08
- Offering the unsecured bondholders with a share pledge over Norwegian Air Norway AS, which will encompass attractive take-off and landing slots at Gatwick Airport, transforming the bonds to secured bonds
- Compensation through early bird fee, amendment fee and 105% redemption at maturity
- Timeline:
  - 2 September: Summons to bondholders' meetings
  - 11 September: Early Bird Fee deadline
  - 16 September: Bondholders' meetings



# Delivering on initiatives as presented in Q2

**Q2 2019 Presentation**

**Bond maturity in December 2019**

Potential sources to finance the bond maturity:

- A** Improved operational performance
- B** Increase acquirer capacity
- C** Shareholding in Bank Norwegian (NOFI)
- D** Joint venture
- E** Divestment of aircraft
- F** Value in slots

Source	Status	
<b>A</b> Improved operational performance	✓	<ul style="list-style-type: none"> <li>→ Guided NOK 6 to 7bn EBITDAR for 2019</li> <li>→ Improving on-time performance</li> <li>→ On track with cost reductions of NOK 2bn</li> </ul>
<b>B</b> Increase acquirer capacity	No short-term relief	<ul style="list-style-type: none"> <li>→ Working to shorten working capital cycle through new technology and further capacity</li> <li>→ Working on B2C payment arrangements with several P2P payment providers to reduce dependency on new acquirer capacity</li> </ul>
<b>C</b> Shareholding in NOFI	✓	<ul style="list-style-type: none"> <li>→ Agreement to sell entire NOFI shareholding for NOK 2.2bn (NOK 68 per share)</li> <li>→ Total positive impact of NOK 934m on net cash</li> </ul>
<b>D</b> Joint venture	In process	<ul style="list-style-type: none"> <li>→ Aircraft ownership joint venture discussions are still progressing</li> </ul>
<b>E</b> Divestment of aircraft	Delayed by MAX issues	<ul style="list-style-type: none"> <li>→ Sold aircraft with net cash proceeds of USD 127m in 2019</li> <li>→ On hold until all aircraft are back in operations to avoid costly wet-lease</li> </ul>
<b>F</b> Value in slots	Proposal presented	<ul style="list-style-type: none"> <li>→ Share pledge in company controlling Gatwick slots offered as security to bondholders</li> </ul>

**Additional ongoing discussions with key suppliers and lessors to strengthen liquidity through e.g. improved payment terms and reduced lease payments**

# A

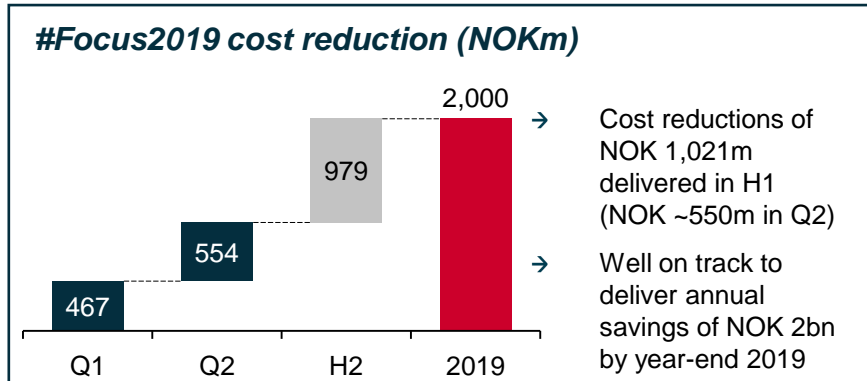
# Improved operational performance

## Norwegian set for profitability

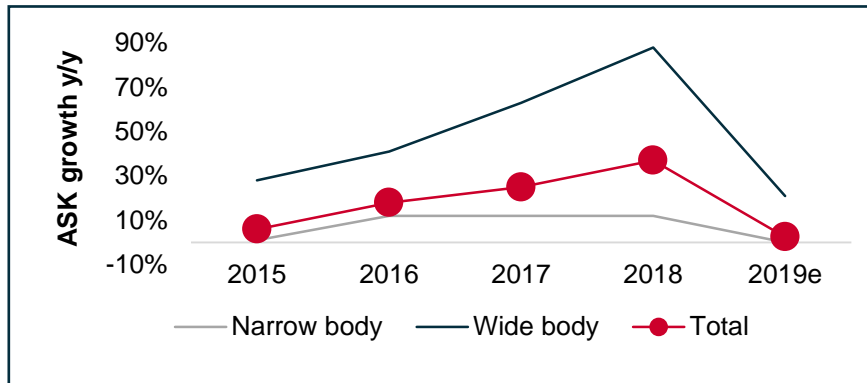
### Strong operational performance

### Set for profitability going forward

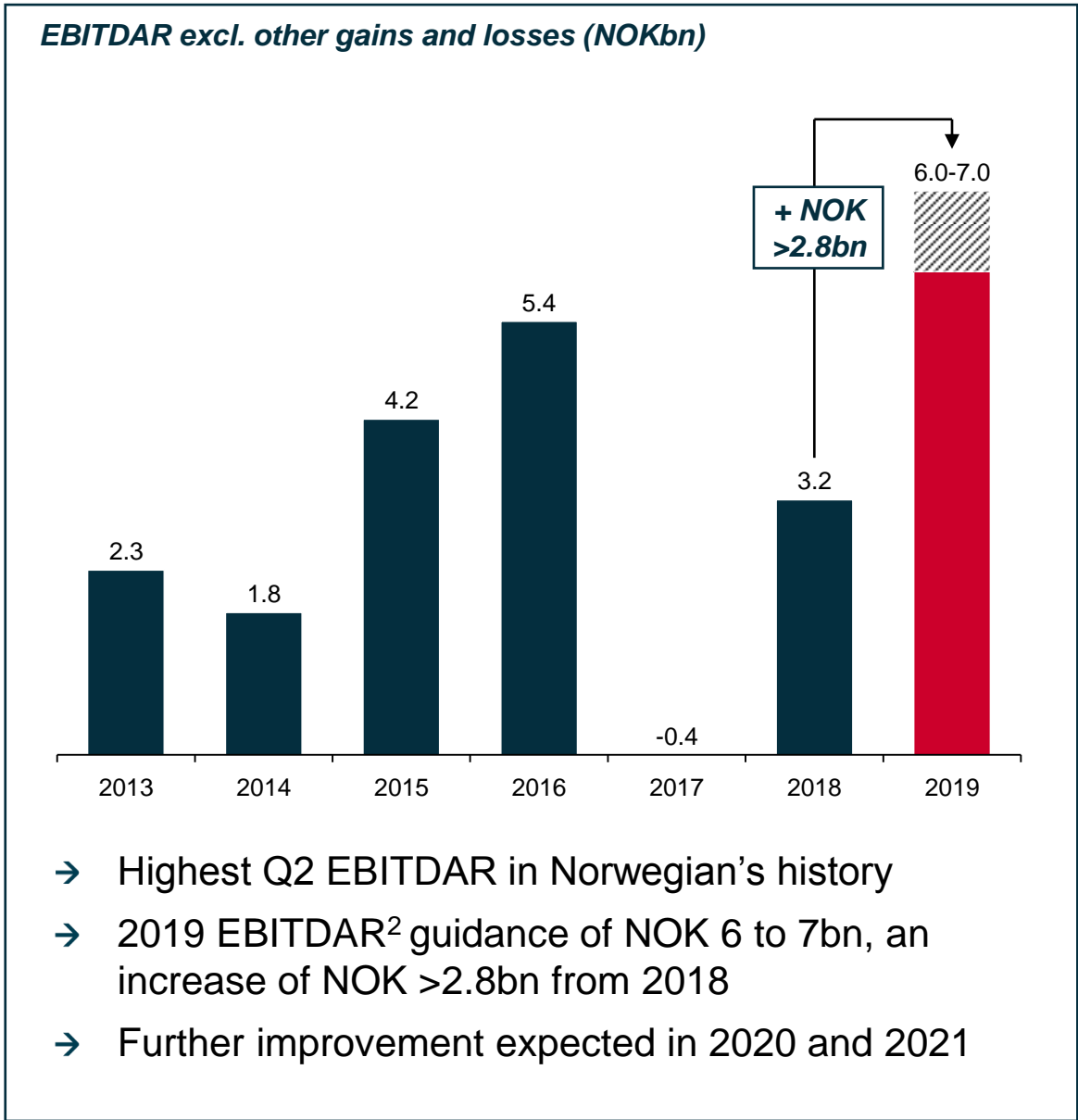
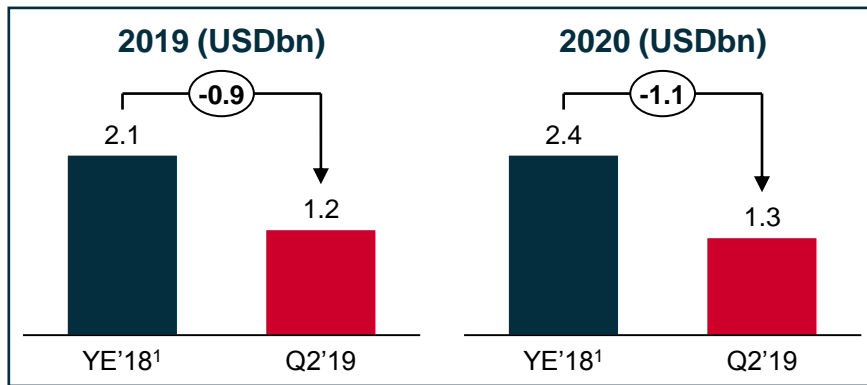
**1**  
On track with cost reductions



**2**  
Reduced growth – focus on profitability



**3**  
Postponed capital commitments



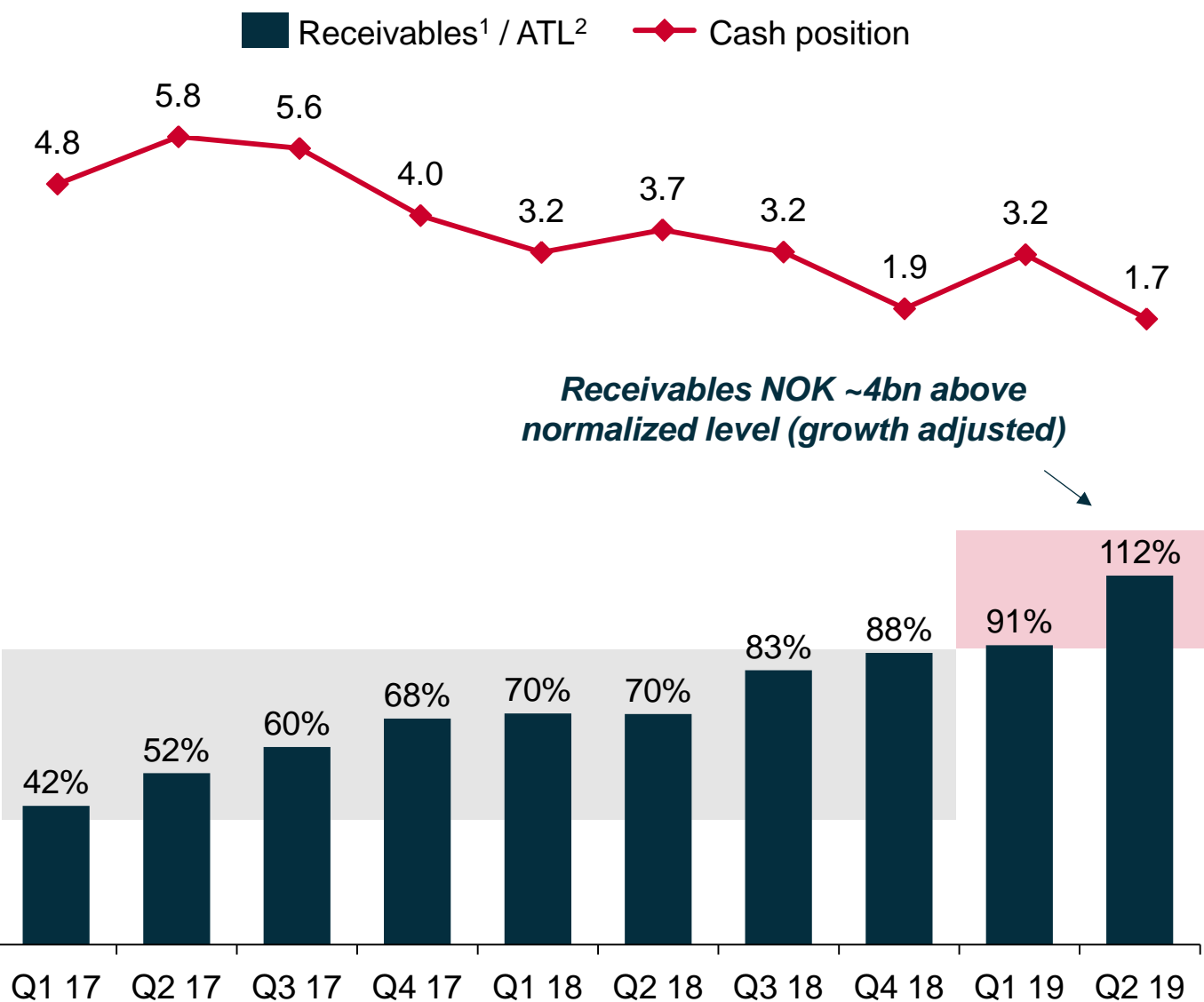
NOTES:  
1) Capital commitments guiding in Annual Report 2018  
2) Excl. other gains and losses

# B

## Increase acquirer capacity

### Deterioration trends affecting short term working capital

Working capital and cash development – Q1'17 - Q2'19 (NOKbn)



### Comments

- Terms in the credit card acquirers market have tightened by increasingly holding back payment until travel has been completed
- This has negatively impacted Norwegian's working capital by more than NOK 4bn compared to Q2 2018
- With hold-backs near maximum level, potential for similar negative balance sheet impact going forward is limited
- At existing production levels, receivables are expected to remain elevated until additional acquirer capacity is secured or previous capacity is reinstated or replaced
- Norwegian is actively working with new payment technologies to get in place agreements with peer to peer (P2P) payment providers

NOTES:

1) Including accounts receivables, pre-paid costs and other receivables 2) Air traffic settlement liabilities

# Shareholding in NOFI

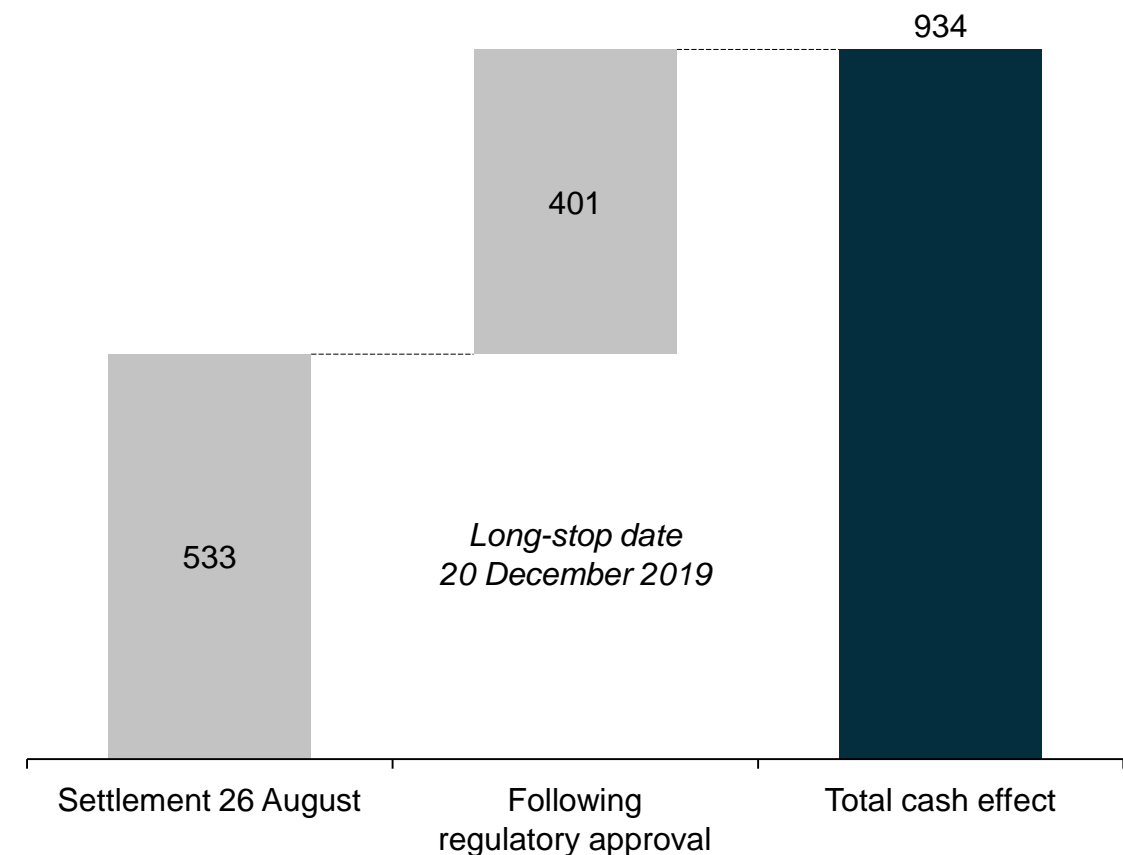


All shares sold, but proceeds required to finance negative cash flow in winter season

## Sale of NOFI shareholding

- Agreement announced 19 August to sell entire shareholding in Norwegian Finans Holding ASA for NOK 2,218m to a company indirectly controlled by Nordic Capital and Sampo – as a result of a structured sales process
- Sales price of NOK 68 per share, implying a premium of 15.4% to last close
- Initial sale consisting of 18,619,477 shares with settlement on 26 August – remaining 14,004,262 shares will be sold once regulatory approval has been obtained (long-stop date 20 December 2019)
- Total positive cash effect for Norwegian of NOK 934m

## Timing of cash flows (NOKm)



# D Joint venture

## In process

- Aircraft ownership joint venture discussions are still progressing
- Will be announced when concluded







# Divestment of aircraft

## Delayed due to Rolls-Royce engine issues and MAX grounding

### Rolls-Royce engine reliability issues

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- Operational challenges due to issues with Rolls-Royce engines on Dreamliners
- Increased inspection regime and maintenance resulting in prolonged disruptions across the network
- Scheduled grounding of 4 to 7 aircraft during 2019 – increased costs and operational inefficiency
- Constructive dialogue with Rolls-Royce regarding compensation for losses

### MAX grounding

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- All Boeing 737 MAX aircraft grounded by aviation authorities worldwide
- Grounding of the Boeing 737 MAX fleet has led to postponement of further planned aircraft divestments of Boeing 737-800s
- Constructive dialogue with Boeing regarding compensation for losses

Negative working capital effect by the Rolls-Royce engines issues and MAX grounding:

**Approximately NOK 1.5bn**



# Value in slots

Slots are important operational rights for Norwegian

## Norwegian's slot portfolio at London Gatwick Airport (LGW)

- As per 30 June 2019, Norwegian's Gatwick Airport slot portfolio consisted of on average 171 slots per day, distributed over the summer and winter season
- LGW slots are predominately operated by Norwegian Air UK
- Take-off and landing slots at Gatwick Airport constitute an important part of Norwegian's business model, facilitating feeding of passengers between the European short-haul network and international long-haul flights
- With approx. 5.7m passengers over the last 12 months, Gatwick is Norwegian's fastest growing hub
- Previous transactions in the market demonstrate the ability to monetise the rights of the Gatwick Airport slots, including the Monarch Airlines case from 2017 where administrators were able to raise capital by selling Gatwick Airport slots following Monarch's bankruptcy



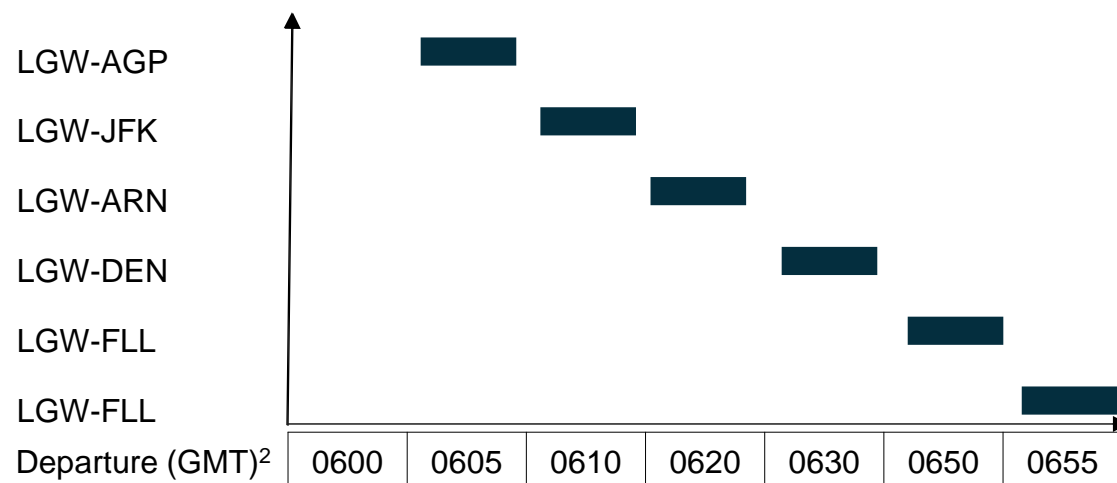


# Value in slots

## Offered as security to NAS07 and NAS08

### Introduction to the departures and landing regime

- A slot is a permission given by a coordinator to use the full range of airport infrastructure necessary to operate an air service at a coordinated airport on a specific date and time for the purpose of landing or take-off as allocated by a coordinator<sup>1</sup>
- Without an approved airport slot, an air carrier cannot land or take-off from the designated airport
- Examples of granted departure slots to Norwegian Air UK in the winter 2018 program is illustrated in the schedule outlined below

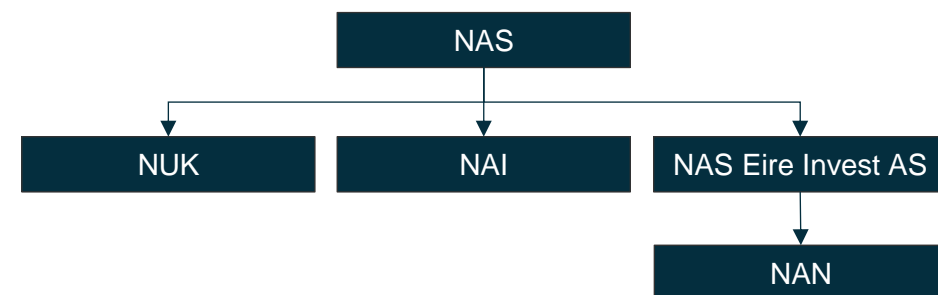


NOTES:

- As defined by both EU Regulation 95/93 & the IATA WSG
- Winter 2018/19 programme
- Approx NOK 235m are pension obligations which are cash collateralised by NAS, the security is reviewed on a regular basis

### Legal structure

- The slots at LGW will be held by Norwegian Air Norway AS (“NAN”)
- NAN currently operates 36 aircraft, whereof 35 will be transferred to other group companies. The LGW slots will subsequently be the most important asset of NAN
- NAN will enter into arm’s length slot usage agreements with group companies
- The bondholders will be offered security over the shares in NAN and pledge over intra-group claims owed by NAN
- At the time the security is implemented, NAN will hold assets of approximately USD 380m, non-current liabilities of NOK 280m<sup>3</sup> and current liabilities of NOK 65m, which will be settled in the ordinary course of business



# Key terms of the proposal

	NAS07	NAS08
Type of Security:	Share pledge(s) in NAN with corresponding negative pledge in slots	Share pledge(s) in NAN with corresponding negative pledge in slots
Undertakings / Covenants:	<p><i>Inter alia:</i></p> <ul style="list-style-type: none"> <li>• Maintenance of business</li> <li>• Minimum liquidity in NAN of USD 2m</li> <li>• Valuation of slots 30 June each year</li> <li>• No swapping of London Gatwick slots for slots at other airports, if such disposal would cause the Slot Owner to own London Gatwick slots with a market value of less than 80% of the market value of the initial London Gatwick slots, by reference to the first-delivered valuation report</li> <li>• All slots relating to Gatwick to be held by NAN</li> </ul>	<p><i>Inter alia:</i></p> <ul style="list-style-type: none"> <li>• Maintenance of business</li> <li>• Minimum liquidity in NAN of USD 2m</li> <li>• Valuation of slots 30 June each year</li> <li>• No swapping of London Gatwick slots for slots at other airports, if such disposal would cause the Slot Owner to own London Gatwick slots with a market value of less than 80% of the market value of the initial London Gatwick slots, by reference to the first-delivered valuation report</li> <li>• All slots relating to Gatwick to be held by NAN</li> </ul>
Minimum Book Equity:	Remedy period of 45 days after delivery of financial statements, provided that the Issuer has summoned a general meeting	Remedy period of 45 days after delivery of financial statements, provided that the Issuer has summoned a general meeting
Current maturity:	11 December 2019	7 August 2020
Proposed new maturity:	11 November 2021	7 February 2022
Coupon:	7.25% p.a. (unchanged)	3mS + 500bps (unchanged)
Call options:	Until 11 December 2020: 101% 12 December 2020 – 7 May 2021: 103% 8 May 2021 – Maturity: 105%	Until 7 February 2021: 101% 8 February 21 – 7 May 2021: 103% 8 May 2021 – Maturity: 105%
Redemption price at maturity:	105%	105%
Amendment Fee <sup>1</sup> :	0.25% flat, calculated on total outstanding amount	0.25% flat, calculated on total outstanding amount
Early Bird Fee <sup>1</sup> :	0.75% flat, payable to pre-consenting bondholders, subject to delivery of a valid Voting Agreement within 7 business days	0.75% flat, payable to pre-consenting bondholders, subject to delivery of a valid Voting Agreement within 7 business days
Amortization:	Bullet	Bullet
Dividend restriction:	No dividends	No dividends
Early redemption restriction:	-	No buy-back or call of NAS08 prior to NAS07 is redeemed in full
Mandatory prepayment:	Net cash proceeds from cash sale of slots in excess of USD 35m to be used for prepayment (pro-rata between NAS07 and NAS08) at prevailing call price	Net cash proceeds from cash sale of slots in excess of USD 35m to be used for prepayment (pro-rata between NAS07 and NAS08) at prevailing call price

NOTES:

1) Amendment fee and early bird fee subject to the approval of the proposed amendments

# Risk factors

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# Risk factors (1/5)

## Description of the Collateral

The Bonds will be secured by way of (i) a share pledge (the “**Share Pledge**”) over 100% of the issued share capital of NAN, (ii) a pledge over the Excess Slot Disposal Proceeds Account, and (iii) an assignment of certain intercompany claims against NAN (the “**Collateral**”), and subject to relevant hardening periods.

The principal asset held by NAN will be the take-off and landing slots (the “**Slots**”) at London Gatwick Airport (“**LGW**”); see “*Framework relating to Slots in constrained airports in the EU and their allocation*” below.

In addition to the Slots, NAN will hold certain assets and liabilities reasonably required to hold an Air Operator Certificate (an “**AOC**”) and an Operating Licence and to maintain its status as an “air carrier” including, following completion of certain internal transactions, one leased aircraft and (through direct employment contracts or by way of intragroup service agreements) sufficient key personnel to maintain the relevant operating licences; see “*Operation and Licensing of NAN*” below.

The Collateral will not include direct security over the Slots, but enforcement of the Share Pledge would enable the Trustee to either (i) sell the shares in NAN (together with all NAN’s assets and liabilities, including the Slots), or (ii) exercise voting and other rights thereunder to replace NAN’s board of directors and, by assuming control of NAN, divest the Slots.

The benefit of the Collateral will be shared rateably between the NAS07 Bonds and the NAS08 Bonds, based on the outstanding principal amount from time to time.

## Description of NAN, its operations and assets and applicable regulatory regimes

### Operation and licencing of NAN

NAN currently operates 36 aircraft. NAN will transfer its aircraft leases (save in relation to one aircraft, which must remain with NAN in order for it to hold a valid Operating Licence) to affiliated companies during September and October. The Slots will be transferred to NAN (and registered in its name on the database with ACL), to be used by NAN and affiliated companies. The use of the Slots will be subject to slot usage agreements with pricing at arm’s length terms, which will be the principal source of revenue for NAN.

NAN holds both an AOC and an Operating Licence.

In order to continue to hold its AOC, NAN must demonstrate that it has *inter alia* the systems, competency, personnel resources, insurances and financial viability to ensure safe operation and maintenance of its aircraft in accordance with all applicable regulations. The minimum requirement in respect of personnel resources depends on the size of the operation of the carrier. Given that NAN will lease one aircraft, NAN will need access to, *inter alia*, an Accountable Manager, a Director Flight Operations, a Technical Director/Director Part-M, a Director Ground Operations, and a Quality Director. The required personnel usually hold multiple functions, and often hold the same role in NAS and NSE in addition to NAN. The necessary personnel are currently available to NAN, and the Issuer shall covenant that no employment or intragroup service agreements in relation to such personnel will be terminable on less than three months’ notice, providing a transitional period in any enforcement scenario.

NAN is an existing group company and is not a special purpose vehicle incorporated for the purpose of holding the Slots. Consequently, it will retain certain historical and operational assets and liabilities, including (but not limited to) the above intragroup services arrangements. At the time of the implementation of the Collateral, NAN will hold assets of approximately USD 380m, non-current liabilities of NOK 280m and current liabilities of NOK 65m, which will be settled in the ordinary course of business. The non-current liabilities are partly pension obligations in the amount of NOK 235 million as of 31.12.18 and cash collateralised by NAS. The extent of the obligations are reviewed on a regular basis.

# Risk factors (2/5)

In order to be granted an Operating Licence an air carrier must, inter alia, provide a 3-year business plan which is monitored on an ongoing basis through financial reporting of the air carrier. The requirements are tested by the relevant national aviation authority (in the case of NAN, being the Norwegian Civil Aviation Authority) (the “**Relevant Aviation Authority**”). The Relevant Aviation Authority may at any time require more in-depth information concerning the financial performance of the carrier (including liquidity forecasts and/or a revised business plan), and will do so if it suspects the carrier is experiencing financial difficulties. The Operating Licence requires that the carrier is more than 50% EU/EEA-owned. Thus, a change of control that jeopardizes this requirement may lead to revocation of an Operating Licence. Please note that the EU Licencing Regulation (as defined below) provides that a change of ownership of more than 10% of the shares in the air carrier (as would occur on enforcement over the shares) would trigger an obligation to submit a revised business plan.

## **Framework relating to Slots in constrained airports in the EU and their allocation**

The allocation of slots at LGW is regulated by: (i) Council Regulation (EEC) No 95/93 on common rules for the allocation of slots at Community airports, as amended by Regulation (EC) No 894/2002 of 27 May 2002, Regulation (EC) No 1554/2003 of 22 July 2003, Regulation (EC) No 793/2004 of 21 April 2004 and Regulation (EC) No 545/2009 of 18 June 2009 and as further amended from time to time (the “**Slot Regulation**”), (ii) the (technically non-binding) Worldwide Slot Guidelines (developed by the air transport industry and published by IATA) and (iii) the EUACA Guidelines.

The Slot Regulation defines a slot as a permission given by the relevant coordinator to use a coordinated airport (of which LGW is one) on a specific date at a specific time for the purposes of landing or take-off as allocated by the coordinator. Slots are allocated (or reallocated) annually for the separate summer and winter scheduling seasons each year. The coordinator in relation to LGW is currently Airport Coordination Limited (“**ACL**”) (<https://www.acl-uk.org/>).

Slots are allocated each year without charge by ACL based on a set of allocation priorities and criteria in scheduling seasons: the summer season, starting in late March, and the winter season, starting in late October. One such priority is historic rights and another, where slots become available from the slot pool, is the preference given to new entrants in the allocation of 50% of the slot pool in order to promote competition.

Slots may only be allocated (or reallocated) to transport undertakings which constitute “air carriers” at the relevant slot allocation deadline for the relevant scheduling season for the purposes of the Slot Regulation. This requires airlines to hold a valid Operating Licence (which in turn, requires a valid AOC) at such time. In addition, ACL has the authority to take control of an airline’s slots in the event that its Operating Licence is suspended or withdrawn, and ultimately return such slots to the pool if, prior to the requisite deadline, there is no clear evidence that a valid Operating Licence will be re-instated or a formal takeover of the airline’s activities by another air carrier may occur.

## **The Slot Usage Rule**

The Slot Regulation provides that an airline can earn historic rights to a “series of slots” provided that it operates the slots as allocated by the co-ordinator at least 80% of the time during a season (the “**Slot Usage Rule**”). If an airline meets this requirement, it will be entitled to the same series of slots in the next relevant scheduling season. In the case of LGW, ACL will require an airline to return a series of slots to the slot pool if, over the relevant scheduling period, that airline’s usage rate did not comply with the Slot Usage Rule.

Under Article 10(4) of the Slot Regulation, the non-utilisation of slots can be justified (and the relevant slots do not need to be returned to the pool) in certain circumstances, including serious financial damage to an airline with, as a result, the granting of a temporary operating licence (a “**TOL**”), pending financial reorganisation of the airline.

## **Trading of Slots**

Slots at LGW may be traded between air carriers by way of slot exchange in accordance with Article 8a of the Slot Regulation (with or without monetary consideration). Any proposed transfer or exchange must be notified to ACL and will not take effect prior to express confirmation by ACL. Exchanges of slots may be facilitated by ACL allocating “dummy slots” to an acquiring air carrier in order to be in a position to exchange those dummy slots for the target slots from another airline in exchange for monetary consideration.

# Risk factors (3/5)

## **Suspension, revocation or withdrawal of Operating Licences and issue of Temporary Operating Licences**

The rules governing the grant, revocation and suspension of Operating Licences and TOLs in the EU are set out in Regulation (EC) No 1008/2008 of the European Parliament and of the Council of 24 September 2008 on the common rules for the operation of air services in the Community (the “**EU Licencing Regulation**”).

In order to continue to hold a valid Operating Licence, an air carrier must be able to demonstrate that, amongst other things, it can meet and comply with (at any time) its actual and potential obligations for a period of 12 months. A failure to do so may result in the revocation or suspension of the Operating Licence by the Relevant Aviation Authority.

If an airline’s Operating Licence is under threat of being revoked or suspended as a result of its financial distress, the airline may apply for a TOL, with the aim of completing a financial restructuring. A TOL may not be granted for more than 12 months. Certain events (including, as mentioned above, a change of ownership of more than 10% of the shares in an airline), trigger an obligation to submit a revised business plan. Based on the revised business plan, the Relevant Aviation Authority may grant a TOL provided that, amongst other things, safety is not at risk and there is a realistic prospect of a satisfactory financial recovery of the operator within 12 months. If a TOL is granted, the Slot Usage Rule is temporarily suspended. Ultimately, if the airline’s Operating Licence were to be revoked and no TOL was granted, the airline’s slots would be returned to the slot pool for no monetary or other compensation.

There is case law in the UK that the commencement of the process to revoke an Operating Licence as at the relevant slot reallocation deadline (or the likelihood of revocation at a later time) does not automatically result in the relevant carrier losing its entitlement to be reallocated slots in relation to the relevant scheduling season, prior to such licence formally being suspended or revoked (*Monarch Airlines Ltd (in administration) v Airport Co-ordination Ltd 2017 EWCA Civ 1892*). In the event of financial difficulties or insolvency, therefore, NAN may be able to sell its LGW slots, provided such sale were conducted in an efficient and timely manner and, in any event, prior to an actual suspension or revocation of its Operating Licence and the next allocation deadline of slots under the Slot Regulation.

NAN’s ability to conduct its business, to maintain its separate AOC and Operating Licence, to apply for a TOL and to preserve its rights to the Slots is independent to that of the other Norwegian group companies and is not legally affected by the operations, financial condition or solvency of other Norwegian group companies. NAN’s right to the Slots and its ability to maintain the requisite licences is primarily a function of, amongst other things, its own financial condition and solvency. NAN’s own position could, however, be indirectly and consequentially affected by the financial distress or insolvency of affiliated parties if, as a result, the relevant affiliated party was no longer able to provide any services to NAN required in order for NAN to continue to operate as an air carrier and/or the continued usage of the Slots and payment therefor pursuant to the slot usage agreements and, in each case, NAN was not able to enter into suitable alternative arrangements.

# Risk factors (4/5)

## Risk Factors

**Indirect nature of the Collateral with respect to the Slots:** The Collateral only comprises security over the shares in NAN and certain intra-group claims owed against NAN. No security will be granted in favour of the Bondholders over the Slots. In order to realise the value of the Slots, the Trustee would need to exercise its rights under the Share Pledge and either sell the shares in NAN or, through its appointed directors, seek to sell the Slots. In seeking to sell the Slots, the directors must act in accordance with their general duties as directors under relevant law and the proceeds thereof applied first to satisfy claims of all secured or unsecured creditors of NAN, prior to any distribution to Bondholders. The Issuer will be subject to a covenant to procure that NAN does not incur financial indebtedness other than in relation to certain ordinary course intra-group indebtedness.

**Validity of the Slot transfers and grant of Collateral:** The transfer of the Slots to NAN and the grant of the Collateral, in each case by the relevant entities, will be subject to relevant local insolvency laws in relation to antecedent transactions in the event that there is an insolvency of the relevant entity with certain specified time periods of such transfer or grant (as applicable) (so called “hardening periods”). If an insolvency procedure were to occur within the relevant hardening period and certain conditions were satisfied, the relevant Slot transfer or grant of Collateral (as applicable) could be set aside and/or declared void.

**Effective Date may not occur prior to the original maturity date of the NAS07 Bonds:** The Effective Date shall occur only when certain conditions precedent, including the grant of the Collateral, are satisfied, and there is no long stop date by which the Effective Date must occur. There can be no guarantee that such conditions precedent shall be satisfied prior to the original maturity date of the NAS07 Bonds. If the Effective Date does not occur prior to the original maturity date of the NAS07 Bonds, such bonds shall become payable in full on that date as an unsecured obligation, which may have a material adverse effect on the financial position of the group and/or the Issuer’s ability to repay the NAS07 and NAS08 Bonds.

**Realisable value of the Collateral:** The value of the Collateral securing the Bonds may not be sufficient to satisfy in full the obligations under the Bonds. The actual realisable value of the Collateral for Bondholders will not be identical to the value of the Slots, due to, amongst other things, the effective structural subordination of the Bonds and the prior rights of any secured or unsecured creditors of NAN.

**Value of Slots:** The initial value of the Slots is based on a recent appraisal by a reputable third-party adviser in the slot valuation field (the “Initial Valuation Report”) and is subject to a number of assumptions, methodologies, limitations and risks which may not reflect current or future market conditions that could affect the value of the Slots. An appraisal is only an estimate of value and is not an assurance of the true or realisable value of the Slots as at the date thereof or at any future date. The value of the Slots may fluctuate, and the value in the secondary market may be less or more. The value of the Slots at any given time will depend on various factors, including, amongst other things: (i) market, economic and airline industry conditions, including current conditions in the global (and in particular US and UK) economies, demand and capacity for international air travel and cost of fuel risk (increased costs may lessen the profitability of flying routes, lessening demand for the Slots), (ii) market and economic conditions that may be unique to local and regional markets, including competitive risk (secondary slot trades by competitors in a given market having an impact on the value of the Slots in such market), (iii) any changes to the capacity of an airport and the availability of and demand for similar slots or slots in general, (iv) the availability of buyers, (v) whether the Slot is sold separately or in conjunction with other Slots as part of a series of slots, (vi) the time period in which the Slots are to be sold, including whether the seller is in a distressed state and is under time pressure to divest the Slots; and/ or (vii) regulatory and political risks.

**Slot Loss:** In the event that NAN fails to comply or procure compliance with the Slot Usage Rule in relation to a Slot or series of Slots, or its AOC or Operating Licence is suspended or revoked without the grant of a TOL, whether as a result of operational or financial difficulties or otherwise, the Slots may be returned to the slot pool by ACL and/or NAN may lose its entitlement to use such Slots and its right to be reallocated such Slots in relation to any subsequent scheduling season. In such circumstances, NAN would not receive any monetary or other compensation for the loss of any such Slots. The ability of NAN to continue to satisfy the Slot Usage Rule in relation to the Slots relies on, amongst other things, the ability of the Norwegian group to manage its business and traffic rights and to operate flights utilising the Slots at the requisite levels.

# Risk factors (5/5)

**Ability to procure a Temporary Operating Licence:** The continued ability of NAN to own the rights to the Slots is dependent on it holding a valid Operating Licence or a Temporary Operating Licence. If NAN's Operating Licence is suspended or revoked and NAN does not obtain a Temporary Operating Licence upon such suspension or revocation, then NAN's entitlement to the Slots could be terminated and the Slots may be returned to the slot pool, without monetary or other compensation to NAN. In the event that NAN becomes insolvent, experiences financial difficulties or other circumstances exist such that its Operating Licencing is capable of being suspended or revoked, there are no assurances that NAN will be able to submit a business plan to the Relevant Aviation Authority within the requisite time period, that such business plan will be accepted by the Relevant Aviation Authority or that a TOL will be granted to NAN prior to the loss of any Slots by NAN or at all. The Relevant Aviation Authority has wide discretion to suspend or revoke an Operating Licence and/or to grant a TOL and there can be no assurances that NAN would be able to demonstrate, amongst other things, that there is a realistic prospect of it undergoing a satisfactory financial recovery within 12 months. In such circumstances, there can be no assurances that the Trustee, through exercise of its rights under the Share Pledge, will be able to procure the sale of the Slots prior to a suspension or revocation of NAN's Operating Licence.

**Transferability of Slots:** Although we believe that the Slots will be transferable, the ownership of such Slots and the transfer of such Slots is subject to the rules, regulations and practices applicable at any time which may, *inter alia* impose restrictions on the transferability of the Slots.

**No absolute prohibition of Slot disposals:** Under the Bond Terms, NAN will retain the flexibility to deal with the Slots on arm's length terms in the course of reasonable management of the airline operations of the Group, and there is no absolute prohibition on (i) the disposal, transfer, lease, exchange or substitution of any Slots by NAN, (ii) any ad hoc or operational adjustments to the timing of any such Slots or the temporary return of Slots to the slot pool or (iii) the provision of the usage of Slots to any other affiliated group company or third party. However, the Slots at London Gatwick Airport may only be disposed of: However, the Slots at London Gatwick Airport may only be disposed of: (i) for cash, provided net proceeds in excess of USD 35 million (in aggregate) are placed in an account of series of accounts of NAN irrevocably pledged and blocked in favour of the Bond Trustee, and thereafter only applied to repay the NAS07 and NAS08 Bonds, (ii) on a temporary basis, in the course of reasonable management of the airline operations of the Group, or (iii) for consideration comprising Slots on an airport other than London Gatwick Airport, provided that such disposal would not cause the Slot Owner to own Slots at London Gatwick Airport with an aggregate fair market value of less than 80% of the aggregate fair market value of Slots at London Gatwick Airport owned by it at the time of and by reference to the first-delivered Slot Valuation Report.

**Ability of NAN to continue independent operations:** In order to enable NAN to operate one (or more) aircraft and maintain its Operating Licence, NAN will rely to some extent on agreements with other Group Companies, including with respect to air operations services, crew services and aircraft leasing (all at arm's length terms in accordance with OECD transfer pricing guidelines). However, the Issuer shall be subject to a covenant to procure that no intragroup services agreement (excluding financing arrangements) shall be terminable by the relevant group company counterpart on less than three months' prior written notice.

**Change in law relating to Slots and/or Licencing:** Rights in relation to slots generally, their transfer, usage, allocation and reallocation and the grant, suspension and revocation of AOCs, Operating Licences and Temporary Operating Licences are heavily dependent upon current law and regulations in the EU and other applicable jurisdictions as well as the policies and practices from time to time of the relevant regulatory bodies. No assurance can be given that the relevant law and/or regulations and/or policies and practices will remain unchanged or that, in the event of any change, such change will not adversely affect the existence of the Slots and the rights of NAN in relation thereto, the value of the Slots and/or the ability to sell the Slots in a timely manner or at all.

**Brexit:** The Slot Regulation and the IATA Worldwide Guidelines are the principal regulations governing slots and slot allocation at LGW. If the UK and the EU do not agree on the terms of the UK's participation in the EU's aviation single market after Brexit, and without UK domestic legislation providing for the ongoing allocation of slots at UK constrained airports, slot allocation is most likely to be governed by the Worldwide Slot Guidelines. However, it is widely anticipated that the UK will enact all current EU rules relating to slot allocation "as is" by the time of exiting the EU - the European Union (Withdrawal) Act 2018, provides for the saving both of direct EU legislation (such as the Slot Regulation) and EU-derived domestic legislation (such as UK statutory instruments giving effect to the Slot Regulation). Furthermore, the UK Government recently published an aviation strategy paper which states that the UK's aviation strategy with respect to slot regulation will be guided by overarching principles very similar to those set out in the Slot Regulation. Secondary slot trading has been and continues to be accepted in the UK. Notwithstanding the above, due to the continued uncertainty in relation to the terms of the UK's departure from the EU, there can be no absolute certainty as to the legislative and regulatory regime that will apply in relation to slots at constrained UK airports from and following Brexit. In addition to legislative and regulatory risk, Brexit also poses economic risks including further depreciation of the British Pound, loss of demand from decreased trade and increased economic isolation, and less expansionary economic conditions, all of which may have an adverse effect on the value of the Slots, including due to potential passengers delaying or cancelling travel or seeking alternate forms of transportation.



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