

The Board of Directors' Annual Report

Norwegian Air Shuttle ASA is a publicly owned airline listed on the Oslo Stock Exchange. The Group operates scheduled services with additional charter services. Low-cost flight operations started in 2002 following nine years as a regional airline flying on behalf of the Braathens airline. The Company has expanded the scope of its business into related areas, leveraging the Company's Internet platform, Internet sales experience and customer base.

Norwegian Air Shuttle ASA owns 100% of the shares in Norwegian Air Shuttle Sweden AB, Norwegian Air Shuttle Polska Sp.zo.o, Call Norwegian AS and NAS Asset Management Norway AS. The Company holds 20% of the shares in Norwegian Finans Holding ASA and 99.9% of the shares in NAS Asset Management. The remaining shares in NAS Asset Management are owned by the fully owned company NAS Asset Management Norway AS.

The Group is headquartered at Fornebu outside Oslo. In addition, the Group has offices at Oslo Airport Gardermoen and in Tromsø. The technical department is located at Oslo Airport Gardermoen and Stavanger Airport Sola. Norwegian Air Shuttle Sweden AB has offices at Stockholm Airport Arlanda; Norwegian Air Shuttle Polska Sp.zo.o is based at Warsaw Airport Fredric Chopin, Poland. Call Norwegian AS and NAS Asset Management Norway AS have office addresses at Fornebu. Norwegian Finans Holding ASA has its offices in Oslo. NAS Asset Management has its office address in Dublin, Ireland.

Flight Safety

No incidents that represent significant risk were registered in 2010.

The Group has not registered any serious accidents or incidents to either passengers or crew involving aircraft operations since the Group was founded in 1993.

The Company's flight safety office is integrated in the quality department, which reports directly to the Accountable Manager. The department's main task is to work proactively to promote flight safety throughout the organization. Flight safety is covered in the crew's training programs, together with training in security related issues. The Civil Aviation Authority approves all programs, examinations and qualification requirements.

The Company is continuously analyzing information from the Flight Data Recorders installed in the Company's aircraft. The analysis is performed to ensure that the aircraft are handled and flown according to existing regulations and limitations.

Crew members, maintenance personnel and handling agents are also required to utilize a web-based reporting system in which irregularities are logged. These reports are a valuable tool for statistical analysis and trend monitoring.

The aircraft are subject to a stringent maintenance program based on the manufacturers' recommendations and existing rules and regulations.

Organization, Working Conditions and the Environment

At the end of 2010 the Group employed a total of 2,137 FTEs (full-time equivalents) including apprentices and temporary staff. The number of employees is expected to increase in 2011 in accordance with the Group's planned expansion in Norway and abroad. The company is in the process of opening new bases abroad.

The apprentice program in Norway was continued in 2010, and by the end of the year consisted of 110 apprentices. The apprentices have during the training, which also contains a stay in Berlin, had internships working abroad in countries Norwegian operates in. A further intake of apprentices is planned for 2011. All candidates graduating in 2010 successfully completed and passed their exams which were carried out in conjunction with Akershus County Council. The labor unions involved in departmental training programs are actively included in planning the apprentices' syllabus.

Many graduates who passed the examination in 2010 have now secured positions in the Company. Several have chosen to become a part of the cabin crew team while others now work in areas such as marketing and customer care. Graduates of the program also visit schools and colleges, and promote the program and help recruit new apprentices. This has been a focus area in 2010 and the program now provides a steady stream of candidates to fill permanent positions.

The important HES activities (Health, Environment and Safety) continue in compliance with labor law and the Group's guidelines. The new personnel and salary management system implemented in 2010 has made HES activities more efficient and has helped the Company better manage its rapid growth. The HES Manager is responsible for HES partners along with the team leaders and management team to make sure that Norwegian's working practices and conditions are fully up to speed in this area.

The Company has acquired corporate health insurance which provides access to professionals in an effort to address sick leave and get employees back to work quickly.

The Company's new human resources management system simplifies much of the human resources back-office work. The system provides a skills database covering all employees, providing the Company with a tool for matching jobs with qualifications. The system also allows employees to add information as well as log attendance and vacations.

Absence due to sick leave in 2010 was 6.4%, a slight decrease compared to 2009. Actively monitoring HES, corporate health insurance and continued cooperation with protective services will ensure absence due to sick leave remains a prioritized area of focus.

In 2010 the Group employed 51.6% men and 48.4% women. The majority of pilots and technical personnel are men. The majority of cabin personnel are still women, but the number of men is increasing. Recruitment in 2010 led to an increase in women in different leadership roles compared to 2009.

Norwegian aims to be an attractive employer. Its human resources policy is intended to be equitable, neutral and non-discriminatory, regardless of ethnicity and national background, gender, religion and age.

The company has reviewed and updated its ethical guidelines, which emphasize the Company's personnel policies.

Norwegian Air Shuttle ASA is a member of NHO Aviation, which is a member of NHO (Confederation of Norwegian Enterprise).

All the local labor unions in the Group are members of central unions which negotiate directly with NHO Aviation and NHO. The 2010 collective salary review was conducted through negotiations centrally and locally with most unions. Moderate changes in wages and efficiency were achieved with these unions. Resolving the base situation for crew employees in Sweden was a priority for 2010. It was resolved in October 2010 for the pilots. For crew, technical unions and personnel the settlement for 2010 will be finalized at the start of 2011.

External Environment

Flight operations are inherently dependent on fossil fuels and also generate noise. However, the Group's current aircraft fleet operates within the levels and restrictions imposed by national and international regulations. During 2010 the Group consumed approximately 423,683 tons of Jet A-1 fuel which is equivalent to 97 grams of CO₂ per passenger per kilometer or 75 grams of CO₂ per seat per kilometer, a reduction of 7 % from last year.

The Company is in the process of renewing the aircraft fleet, replacing its Boeing 737-300 aircraft with Boeing 737-800s which will further reduce emissions per passenger per kilometer.

The Boeing 737-800 is among the most environmentally friendly aircraft available; the 737-300s which are being replaced emit approximately 23% more CO₂ per seat. By year-end 2014 Norwegian will have a total of 73 Boeing 737-800s in its fleet. By year-end 2010, 30 of these had already been delivered.

The Company's business model promotes high load factors and higher capacity per flight, which makes Norwegian's operations more environmentally sustainable as emissions per passenger are lower. The Company's emissions per passenger kilometer are well below the industry average and less than many forms of land and – sea-based transportation.

The Board believes the Group has complied with all requirements and recommendations with respect to its impact on the external environment, and that the Group takes all possible steps to minimize emissions and other negative effects on the environment.

Aircraft Maintenance

The Group runs its maintenance operation from its technical base at Oslo Airport Gardermoen.

Line maintenance is performed at Oslo Airport Gardermoen, Stavanger Airport Sola, Bergen Airport Flesland, Trondheim Airport Værnes, Moss Airport Rygge, Stockholm Airport Arlanda and Copenhagen Airport Kastrup.

Major airframe as well as workshop maintenance is performed by external sources subject to approval by the European Aviation Safety Agency (EASA).

Airframe maintenance is currently carried out by ATC Lasham in the U.K. and Aeroplex Central Europe Ltd in Hungary. Engine and component workshop maintenance is undertaken by Lufthansa Technik, MTU and Boeing.

All maintenance and follow-up activities, both internal and external, are performed in accordance with both manufacturers' and additional internal requirements, and in full compliance with international authority regulations. The Company carries out initial quality approval and also continuously monitors all maintenance suppliers.

All supplier contracts are subject to approval and monitoring by the national aviation authorities.

Significant Changes in Accounting Principles

There have been no changes in the adopted accounting principles. The IFRS accounting principles, as adopted by the EU, have been followed in preparing the financial statements for 2010.

Comments to the Consolidated Income Statement

The Group had total operating revenue and income of MNOK 8,597.7 (7,309.2) in 2010. Compared to last year, the Group's total growth in revenue was 18%. MNOK 7,210 (6,389) of the revenues is related to ticket revenues, MNOK 1,034 (789) is other passenger-related revenue, while MNOK 162 (131) is related to freight, third-party products and other income. MNOK 191 is related to damage payment from SAS for unlawful use of Norwegian's trade secrets and gains from sales of tangible assets. The increase in sales is mainly related to the 31% growth in production from 2009 to 2010. The load factor is reduced by 2 p.p. compared to the same period last year. The ticket revenue per available seat kilometer (RASK) for 2010 was NOK 0.40, compared to NOK 0.47 last year. Ancillary revenue was NOK 79 per PAX (73) in 2010, an increase of 8% from 2009.

Operating costs (including leasing and excluding depreciation and write-downs) were MNOK 8,201 (6,588) in 2010. The unit cost was NOK 0.46 in 2010 compared to NOK 0.49 last year. The unit cost for fuel increased by 13% while the unit cost excluding fuel was reduced by 10%. The unit cost excluding fuel was NOK 0.34 in 2010 compared to NOK 0.38 last year. Net profit before depreciation and write-downs (EBITDA) for the Group was MNOK 397 (720) in 2010, resulting in an EBITDA margin of 4.6%.

Financial items in 2010 ended up with a gain of MNOK 27 (48). In relation to accounting for the prepayments on the purchase contract with Boeing, MNOK 73.9 (33,5) in interest costs were capitalized in 2010.

In 2007 the Group started Bank Norwegian, which is 100% owned by Norwegian Finans Holding ASA, in which the Group has a 20% stake. The Group's share of the bank's net profit resulted in a net gain of MNOK 6.3 in the consolidated profit and loss.

Earnings before tax in 2010 were MNOK 243 (623) and earnings after tax were MNOK 171 (446). Earnings per share were NOK 4.98 per share (NOK 13.01).

Comments to the Consolidated Balance Sheet and Cash Flow Statement

The Group's total assets had increased by MNOK 1,599 to MNOK 6,621 at year-end 2010. The book value of the aircraft increased by MNOK 1,117 during the year; while prepayments and capitalized interest on the Boeing purchase contract contributed MNOK 592 to the increase in assets.

At the balance sheet date, the Group had a cash balance of MNOK 1,178 (1,408).

The Group's cash flow from operations was MNOK 804 (914) in 2010. The net cash flow from operating activities consists of the profit before tax of MNOK 243; add back of depreciation and other expenses without cash effects of MNOK 203. Changes in working capital mainly due to traffic growth amounted to MNOK 410. During 2010 the Group paid MNOK 110 in taxes.

The net cash flow used for investment purposes was MNOK -1,847 (-1,300), of which the prepayments for the Boeing contract constituted MNOK -1,362. Purchases of new Boeing 737-800s and other tangible assets amounted to MNOK -428.

The net cash flow from financing activities in 2010 was MNOK 813 (1,188). During 2010 Norwegian issued a MNOK 200 senior unsecured bond issue with an expected maturity date of 17 December 2012. The remaining proceeds from long-term debt are related to financing new aircraft and PDP financing. Included in the payment of long-term debt is a repayment of a bond issue of MNOK 163 in the second quarter 2010.

The Group has a strong focus on liquidity planning and the Board is confident in the Group's financial position at the beginning of 2011.

Capital structure

The Group's total equity was MNOK 1,796 (1,602) at 31 December and its equity ratio 27% (32%). Equity increased by MNOK 194 due to profit for the period of MNOK 171 and a share issue of MNOK 20 related to the employees' option programs. Other changes in equity amounted to MNOK 3.

The Group's net interest-bearing debt aggregated MNOK 1,306 at 31 December 2010, compared to MNOK 174 in 2009. The Group's gross interest-bearing liabilities of MNOK 2,485 (1,583) mainly consisted of financing for our aircraft of MNOK 1,495, a bond loan with a net book value of MNOK 597 and a Pre Delivery Payment syndicated credit facility of MNOK 367. Other long-term interest-bearing liabilities including financial lease liability amounted to MNOK 25.

Risk

Risk management in the Group is based on the principle that risk evaluation is an integral part of all business activities. Policies and procedures have been established to manage risk. The Group's Board of Directors regularly reviews and evaluates the overall risk management systems and environment within the Group.

The Group faces many risks and uncertainties within the global marketplace. We are facing challenging economic and market conditions and we may not succeed in reducing the unit cost sufficiently to compensate for weakening in consumer and business confidence in our key markets. Price volatility may have a significant impact on the Group's reported and operating results. A deterioration in the Group's financial position could increase our borrowing costs and cost of capital. We face an ongoing risk of counterparty default. The Group's reported results and debt denominated in foreign currency are influenced by developments in currency exchange rates and in particular the US dollar and Euro.

The Group's main strategy for mitigating risk related to volatility in cash flows is to maintain a solid financial position and strong credit rating.

Credit risk is managed on group basis. Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to commercial customers. The Group's policy is to maintain credit sales at a minimum level. Sales to private customers are settled by using credit card companies. The risk arising from receivables on credit card companies or credit card acquirers are monitored closely.

The management monitors rolling forecasts of the Group's liquidity reserve, cash and cash equivalents on the basis of expected cash flow. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to monitor balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

Following the acquisition of 63 Boeing 737-800s with deliveries in the period from 2009 to 2016, the Group will have ongoing financing activities. The Group's strategy is to diversify the financing of the 63 aircraft through sale and leaseback transactions and term loan financing supported by the Export-Import Bank of the United States (EXIM). EXIM has issued a final commitment to support financing of 12 aircraft in the period March 2011 to June 2012.

In order to protect margins against fuel price fluctuations, our expected fuel consumption is hedged to some extent. The Group also uses derivatives to reduce its overall financial and commercial risk exposure. Forward US dollar currency contracts have been used to hedge certain cost positions.

Prospects for 2011

The demand for travelling with Norwegian and advanced bookings has been satisfactory entering the first quarter of 2011. Norwegians capacity increase from introducing larger aircraft (737-800's), with a lower cost level, brings with it lower fares and even higher passenger volumes.

The new base in Helsinki will be operational at the end of the first quarter. 3 aircraft will be based in Helsinki and 13 routes will be operated at the time of start-up. The demand for tickets in Finland is satisfactory.

For 2011 Norwegian guides for a production growth (ASK) in the area of 20 % - 25 % mainly from increasing the fleet by adding 737-800's. The increase in aircraft capacity will mainly be deployed in Finland and Sweden, and in Norway for charter operation. Norwegian may decide to adjust capacity deployment depending on the development in the overall economy and in the marketplace.

Assuming a fuel price of USD 850 pr ton and USD/NOK 6.00 for the year 2011 (excluding hedged volumes) and with the current route portfolio, the company is targeting a unit cost (CASK) of NOK 0.46 for 2011.

The Board confirms that the going concern assumption is valid and the financial statements have been prepared on a going concern basis.

Allocation of the year's result

The net profit for the Group was MNOK 174. The net profit for the Parent Company Norwegian Air Shuttle ASA was MNOK 152, which the Board proposes be transferred to retained earnings.

The Board recommends no dividend distribution for the 2010 operating year in accordance with the Company's corporate governance policies.

As of 31 December 2010, the Company had MNOK 623.2 of free equity.

Fornebu, 30 March 2011

Bjørn H. Kise (Chairman of the Board)

Ola Krohn-Fagervoll (Deputy Chairman)

Liv Berstad

Marianne Wergeland Jenssen

Thor Espen Bråten (Employee Representative)

Kenneth Utsikt (Employee Representative)

Linda Olsen (Employee Representative)

Bjørn Kjos (Chief Executive Officer)