

Dear Shareholders

2010 was another year of substantial growth for Norwegian which had one of the highest passenger growth rates among European airlines, up 21 percent from last year to 13.0 million passengers. On the financial side we posted net profits for the fourth consecutive year, but we did not land the profit margins we were hoping for at the beginning of the year.

Capacity in terms of available seat kilometers increased by 31 percent, and we operated 56 new routes in the three Scandinavian countries: 20 in Denmark, 14 in Sweden and 20 in Norway. Revenues rose by 18 percent to MNOK 8 598 and more than 13 million passengers chose to travel with Norwegian, up 21 percent from last year.

Combined with a 5 percent reduction of the unit cost, we managed to deliver a pre-tax profit of MNOK 243. Return on equity (ROE) came in at 10 percent.

Overall financial performance

We ended 2009, a year in which most airlines' profits went into reverse, with Norwegian's best ever financial result. With prospects for a continuously decreasing unit cost and a strengthening in demand for air travel, we hoped for an even better result in 2010.

While the spot jet fuel price increased by 29 percent in 2010, the increase was more than offset by a 5 percent lower unit cost. The negative earnings effect of MNOK 160 in relation to Icelandic volcanic ash was offset by compensation of MNOK 180 from Scandinavian Airlines after they were convicted of industrial espionage against Norwegian.

The reduction in operating margin was driven by lower ticket prices exceeding the 5 percent decrease a lower unit cost allowed us to sustain. Gross unit revenue was down 10 percent in 2010 despite passenger traffic exceeding Norwegian's increase in production.

The primary culprit was price pressure within the Scandinavian market. Our primary competitor, which has close to twice our cost level, has priced its tickets at levels not supported by its cost level. The practice which caused a SEK 3 billion loss in 2010 alone is financed by the largesse of the taxpayer through two equity issues of SEK 11 billion within 12 a month period.

Cost focus

A strong cost focus has enabled Norwegian to persistently reduce its unit cost, from NOK 0.85 in 2003 to NOK 0.46 in 2010, down from NOK 0.49 in 2009. Despite the positive performance, 2010 was a year of substantial expansion, which is both costly and challenging. However, expansion creates greater potential for economies of scale, enabling us to distribute our fixed costs across more passengers.

This attention to the cost base has made Norwegian the cost leader in its primary markets. A streamlined cost structure is imperative for posting positive results given the stiff competition in the industry.

There are more efficient players in the European short to medium-haul market, which we eventually will meet head-on, and we already operate in markets characterized by some degree of government-funded distortion of competition, which in itself requires a substantial cost advantage.

In response to the market in which we operate, we must continue to reduce our unit cost. The isolated effect of switching to a uniform fleet of new Boeing 737-800s from a pure Boeing 737-300 fleet will be a 20 percent reduction in the unit cost, which is expected to make Norwegian Europe's most cost-efficient operator out of primary airports in the not too distant future.

Fleet renewal

The fleet renewal process is now well under way. One of the major milestones achieved last year was the arrival in September of the 27th Boeing 737-800 aircraft, which made the proportion of 800s larger than that of 300s for the first time. By year-end 2010 Norwegian had 30 Boeing 737-800 and 23 Boeing 737-300 in its fleet. By the end of 2012 our target is to have a uniform fleet of Boeing 737-800 aircraft.

In July we increased the Boeing order from 48 to 63 Boeing 737-800 aircraft by exercising 15 of our original 42 purchase rights.

Fuel and hedging

We are less sensitive to spiking oil prices than before owing to fuel efficient aircraft. Fuel consumption is down 7 percent per seat since last year alone, and 9 percent since 2008 when the oil price spiked last time. Our business model of promoting high load factors and space efficient all-economy seating provides Norwegian with further fuel slack. Our closest competitors consumed as much as 25 percent more fuel per passenger per kilometer in 2010.

While we do hedge both jet fuel and currency to increase predictability and reduce volatility in earnings, we do so modestly and at lower relative volumes compared to our primary competitors. The result is that Norwegian's hedging gains are smaller in times of increasing commodity prices. But it also means that our hedging losses, if any, will be much smaller than those of our more adventurous competitors if commodity prices fall.

In sum, the hedge-related losses can be partially offset against the budget price for unhedged volumes, and vice versa. The underlying rationale is simple: Our core aim is to run a lean airline.

Product and ancillary revenue

All Norwegian aircraft delivered after December 2010 will be fitted with the all-new Boeing SKY aircraft interior which uses dynamic LED lighting and architecture to create a more open and comfortable cabin. The overhead stow bins are 50 percent larger, but, owing to a pivoting design, occupy less of the cabin volume. Add that to a 2dB cabin noise reduction and we believe the passenger experience will be substantially enhanced.

We are in the process of installing in-flight high speed Wi-Fi internet access on our aircraft. Wi-Fi will be available on all Norwegian aircraft by the end of 2012 and the first 20 during 2011. Passengers will be provided with Wi-Fi free of charge during a trial period, but the service will be included in Norwegian's ancillary offering in the medium term.

Ancillary revenues have become an important item in Norwegian's revenue generation. Ancillary revenues are income from the sale of products and services to passengers other than the ticket itself, such as checked-in baggage and seating.

Norwegian's customers benefit from freedom of choice when traveling with us. While there are no compulsory fees or charges in addition to the advertised ticket price, the ticket price itself does not subsidize the added cost of individual choices made by fellow passengers. Passengers who choose to send baggage, drink coffee, surf the Internet, or enjoy other services not directly related to flying the aircraft from A to B, are individually charged for these extra services. Fair and simple.

The environment

New aircraft supercharge our cost efficiency and significantly enhance the passenger experience. However, the largest beneficiary of our fleet renewal efforts is the environment. In 2010, CO2 emissions per passenger per kilometer were only 97 grams, a 6 % year-on-year reduction. Air travel's reputation as an environmental "bad boy" is unmerited. There are few other sectors which can point to as comprehensive advances in energy efficiency. Today, emissions per airline passenger are approaching those per train passenger in many countries.

But the choice of aircraft is pivotal when it comes to aviation and emissions. The environmentally progressive Boeing 737-800 significantly enhances Norwegian's environmental contribution. On the other hand, the Boeing 737-600, also a "next generation" aircraft in the same family as the -800 and commonly seen at Scandinavian airports, is nowhere near as environmentally progressive. The latter consumes 35 - 40 % more fuel per seat, which is almost as fuel intensive as a 20-year-old MD-80.

In this Annual Report we have dedicated an entire section to the environmental effects of what we do and how we are seeking to minimize our environmental footprint. We have added a comprehensive benchmark between aircraft types as well as between alternative modes of transportation.

Aircraft financing

Of the 63 direct-buy aircraft we have ordered from Boeing, nine were delivered by year-end. Seven are on Norwegian's own books, 85 percent financed by the US lender Private Export Funding Corporation (PEFCO) with the Export-Import Bank of the United States (Ex-Im) acting as guarantor. The remaining two were financed through sale and lease back transactions, which is part of our long-term strategy to diversify the financing of the fleet. Sale and leaseback transactions are different from ordinary market leases as the market for such transactions was particularly attractive in 2010. From a cost perspective, the sale and lease back transactions last fall were comparable to owning the aircraft. We have closed sale and leaseback agreements for an additional four aircraft with delivery in first quarter 2011.

The 15 percent equity shares of the aircraft directly owned by Norwegian, which have already been delivered, were paid in 2008 and 2009 as equity forms part of the pre-delivery payments. Pre-delivery payments are usually due over a two-year period ahead of delivery. Equity for 2011 and part of 2012 deliveries has therefore already been paid. The aircraft acquisition program has been partially financed by raising MNOK 621 in equity and by issuing a bond of MNOK 600. In addition Norwegian has retained earnings through four consecutive years of positive net financial results.

Going forward

Norwegian has a well-proven business model and maintains a constant focus on reducing costs. With new, modern aircraft and efficient operations our unit cost will continue to decrease while the product offered to the customers will improve. We believe we have a product with a high value-for-money ratio, which we are confident is a winning formula under any market conditions.

Bjørn Kjos // CEO