

Operating Costs

As a low-cost airline, the cost base of the Group is under constant scrutiny by the management. The airline sector is capital intensive, but there are innumerable cost drivers that are company-specific and if managed well can provide a competitive advantage. Activities not strategically relevant to the business will be actively outsourced.

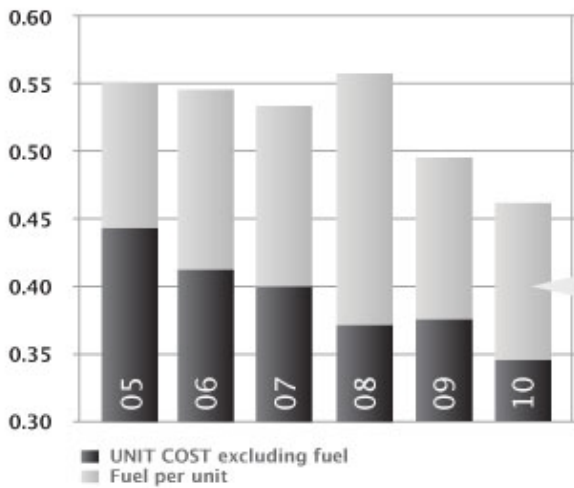
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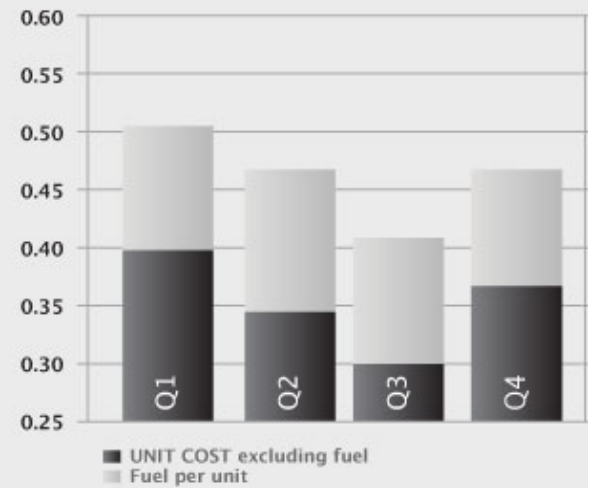
A significant unit cost-reducing measure is large-scale operations and high asset utilization. Increasing size not only enables the Group to exploit economies of scale, but also increases bargaining power and the potential for bulk discounts from external parties such as handling agents, maintenance providers and aircraft manufacturers. The low-cost model promotes increased capacity per aircraft and high load factors which reduce both fixed and variable unit costs.

The continuous cost focus has resulted in a lower unit cost. In 2010 the operating cost per ASK (CASK/ unit cost) was down 5 percent to NOK 0.46 (NOK 0.49 in 2009). The unit cost excluding fuel decreased 10 percent to NOK 0.34 (NOK 0.38 in 2009).

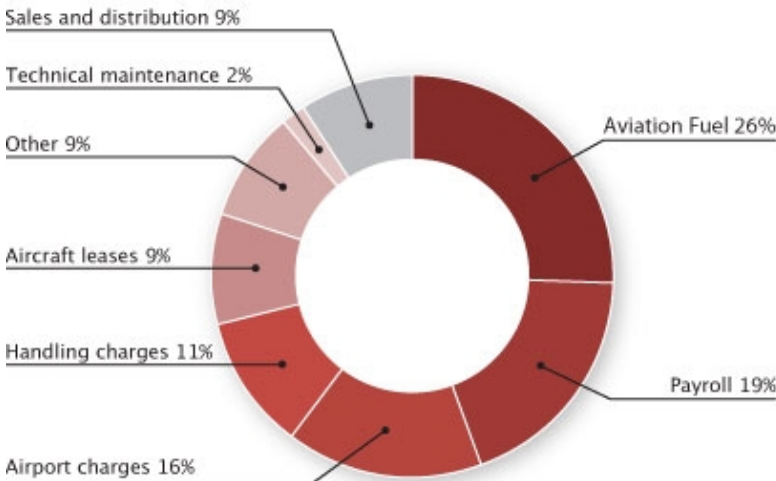
OPERATING COSTS PR ASK (NOK) - YEARLY



OPERATING COSTS PR ASK (NOK) - QUARTERLY 2010



OPEX BREAKDOWN



ITEM	% OF OPEX	PER ASK	% CHG PR ASK
Aviation Fuel	26%	0.12	12%
Payroll	19%	0.09	-11%
Airport charges	16%	0.07	-5%
Handling charges	11%	0.05	-9%
Aircraft leases	9%	0.04	-4%
Other	9%	0.04	-12%
Technical maintenance	2%	0.04	-20%
Sales and distribution	9%	0.01	-14%
SUM	100%	0.46	-5%

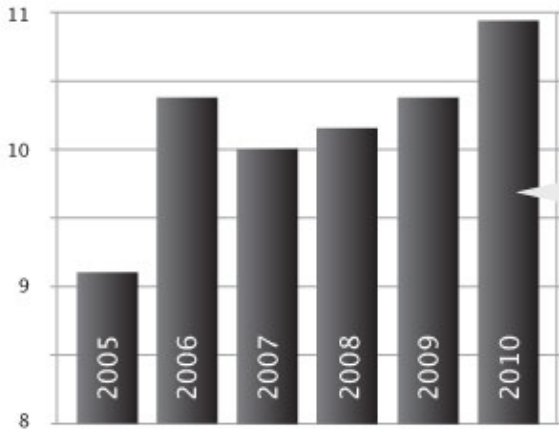
Fixed Operating Costs

A large share of the Group's costs is driven by fixed or interval-fixed production costs. Major cost drivers include leasing, fleet insurance, cabin crew and, increasingly, depreciation as the Group owns a constantly larger share of its fleet. The Group emphasizes increased utilization of crew and assets in order to reduce the share of fixed operating costs as much as possible.

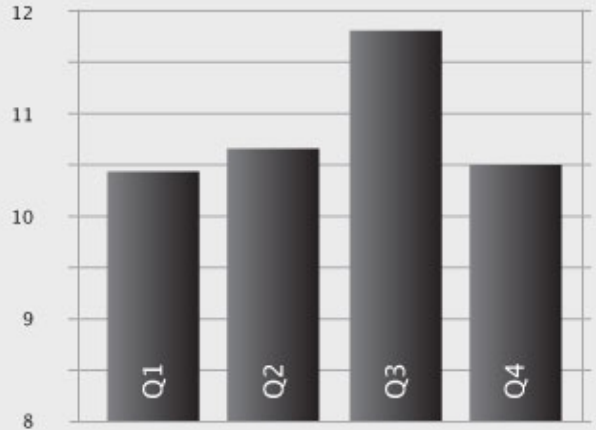
Fleet Utilization

An important element in the Group's cost strategy is to focus on a uniform fleet of Boeing 737 aircraft. At the end of 2010 the Group had 53 such aircraft; 30 of these were 737-800's. A uniform aircraft fleet results in lower costs due to less complex maintenance operations, lower crew training costs, reduced need for spares inventory, reduced variation in the type of tools, equipment and infrastructure needed, and a more streamlined and focused administration. The Group utilized every operational aircraft on average 10.9 hours per day (block hours) during the year, compared to 10.4 hours in 2009.

BLOCK HOURS PR. PLANE PR. DAY

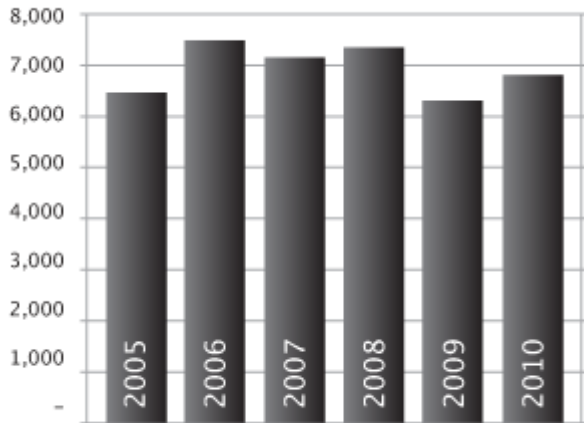


BLOCK HOURS PR DAY 2010



Staff Utilization and Efficiency

PASSENGERS PR EMPLOYEE



One of the largest single cost components of the Group is personnel costs. The Group is therefore focused on effective staff utilization and high efficiency. Optimization is to a large extent dependent on route- and crew-planning efforts as well as employee union agreements. Optimization is done well within the boundaries set forth by legislation applicable to civil aviation both within Norway and in Europe in general.

Efficiency can be measured either as the number of passengers per employee or the number of block hours per employee. There is evidence of a positive correlation between the number of passengers per employee and profitability. Staff utilization and efficiency levels were hampered by the need to accommodate the increased number of Boeing 737-800s in 2010. New crew and ground personnel were hired, and parts of the existing staff were inoperative for training purposes.

Assuming a constant average sector length, the Group expects an increase in staff efficiency along with the introduction of new aircraft and an increasing scale of operation. With increasing stage length, the number of rotations and therefore number of passengers is reduced in relative terms. This influences the efficiency ratio negatively without affecting profitability. Decreasing stage length has the opposite effect

Variable Operating Costs

Frequency-Based Variable Operating Costs

Frequency-based aircraft operating costs, such as take-off fees, de-icing, maintenance* and ground handling are significantly reduced per ASK when stage length is increased. A longer stage length implies a lower unit cost as the same frequency-based cost base is divided over more ASKs.

Time-Based Variable Operating Costs

Typical time-based operating costs such as fuel and maintenance* also tend to be reduced per ASK with increasing stage length, however, not to the same extent as frequency-based operating costs. The reason for the reduction is particularly due to the fact that take-offs are fuel intensive, driving up fuel cost per ASK for short flights and increasing fuel efficiency for flights with a longer cruise distance.

Apart from increased stage length, bulk discounts, and bargaining power as identified above, new equipment is the most obvious cost-reducing measure. New equipment significantly reduces maintenance costs, fees at airports with a differentiated fee model based on emissions, and, most notably, fuel costs.

** Maintenance costs are in part frequency based and in part time based, depending on the aircraft component in question*

Overhead Costs

Overheads are to a large extent attributable to the administration. The Group makes widespread use of information technology in order to increase efficiency through automation and reduce the need for manpower and administration

Seasonality

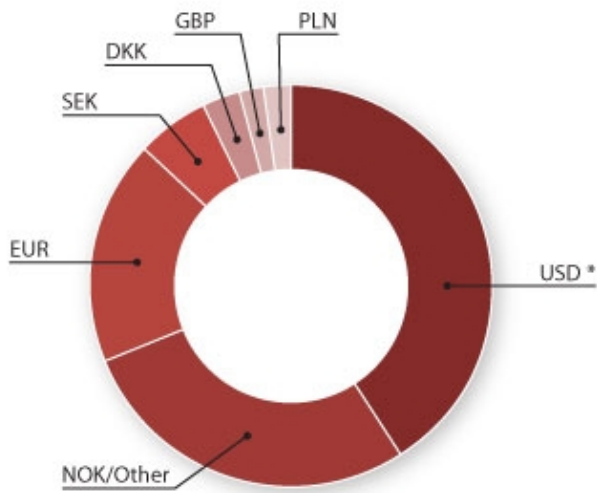
The airline industry is inherently affected by seasonal fluctuations. These variations are driven by demand, but significantly affect the cost base as production is adjusted to demand during the course of the year. During the seasonally weak winter months production typically drops as demand slows. The unit cost is higher during these months as utilization is lower and interval-fixed and overhead costs cannot be scaled down. To reduce these effects, heavy maintenance is planned for the slower months when possible.

External Cost Drivers

The most significant external cost drivers are fuel prices and foreign exchange rates. In 2010 the average spot price for Jet-A1 fuel increased by 29 percent compared to 2009 price levels. High fuel prices have a milder impact on low-cost airlines than legacy carriers due to higher passenger capacity on each aircraft and higher load factors. The 76 new Boeing 737-800 aircraft which will be delivered between 2008 and 2016 will reduce unit fuel consumption by around 20-25 percent compared to the 737-300 fleet. The unit fuel consumption is down 7 percent from last year and 14 percent since 2007.

The most significant items in terms of foreign exchange exposure are aircraft leasing costs, fuel costs, air navigation fees, landing fees and handling charges.

OPEX BY CURRENCY



<p>USD Jet Fuel * Aircraft leasing Maintenance</p>	<p>NOK Personnel Handling Airport & ATC Maintenance Sales & distrib. Other</p>	<p>EUR Handling Airport & ATC Sales & distrib.</p>
<p>SEK Personnel Handling Airport & ATC Sales & distrib.</p>	<p>DKK Personnel Handling Airport & ATC Sales & distrib.</p>	<p>GBP Handling Airport & ATC</p>
<p>PLN Personnel Handling Airport & ATC Sales & distrib.</p>		

* Jet Fuel reflects the spot price and does not include hedging gains/losses