Note 1 – Accounting Policies

The financial statement of Norwegian Air Shuttle ASA is prepared in accordance with the Norwegian Accounting Act of 1998 and the Generally Accepted Accounting Principles in Norway.

In the preparation of the accounts, estimates and assumptions used are influencing reported numbers. The final result may deviate from applied estimates.

General valuation rules and classification of assets and liabilities
The assets which the Company intends to own or use are classified as non-current assets. All other assets are classified as current assets. Receivables which are due for payment within 12 months are classified as current assets. The equivalent criteria are applied to the classification of short-term liabilities and long-term liabilities.

Fixed assets are recognized at acquisition costs. Borrowing costs are capitalized as a part of the investment and is included in the acquisition costs. Fixed assets are depreciated using the straight-line method over the estimated economic life of the assets. If fair value of fixed assets is lower than their book value, and the decline is expected to be permanent, the asset will be written down to fair value.

Aircraft is decomposed into two components for depreciation purposes. In accordance with official requirements, aircraft must be maintained and significant components must be changed after a specific number of takeoffs or airborne hours. These components are identified as C check and D check on the aircraft body and include power restoration and life limited parts for the two engines on each plane, as well as maintenance on landing gears and the APU. The maintenance and overhaul of these components occur on a defined interval, and the value is depreciated based on the number of takeoffs or airborne hours until the next maintenance occurs. Completed maintenance and overhauls are capitalized and depreciated until the next relevant maintenance and overhaul. The second aircraft component is defined as the remainder of the aircraft and depreciated over the economic useful life.

Current assets are valued at the lower range of the acquisition cost and fair value.

Borrowings are valued at amortized cost using the effective interest method.

Changes in accounting principles
There have been no changes in accounting principles during the year.

Revenues
Revenues from sales of services are recognized in the income statement once rendered services have taken place and most of the risk has been transferred. Sales revenues are presented net of value added tax and discounts.

Passenger revenues
Ticket sales are reported as traffic revenue when the air transport has been conducted. The value of tickets sold which are still valid, but not consumed by the reporting date (amounts sold in excess of revenue recognized) is reported as air traffic settlement liability. This liability is reduced either when the Company or another airline completes the transportation or when the passenger requests a refund.

Ancillary revenues
Ancillary revenue comprises sales of ticket-related products and services, e.g; excess baggages and fees. Revenue gained from such products and services at the time of transport is recognized in the same manner as passenger revenue. Revenue from other products and services are registered at the time of purchase and immediately recognized in the income statement.

Amounts paid by "no show" customers are recognized as revenue when the booked service is provided. "No show" customers with low fare tickets are not entitled to change flights or apply for refunds once a flight has departed.

Other revenues
Other revenues comprise third party revenue and is recognized when the service has been rendered, fees are reliably measurable, collections are probable and when other significant obligations have been fulfilled.

Customer loyalty program – Norwegian Reward
Customers earn "CashPoints" of the following circumstances;

- Bank Norwegian Customer; 1% of the payment is earned on all purchases. CashPoints are also earned on all `low fare' and 'full flex' tickets purchased from Norwegian Air Shuttle ASA and which are paid with the `Bank Norwegian' credit card, with 5% and 20% of the purchase price, respectively, except for tickets for long distance and domestic travel in Norway and Sweden, which earn 2% on low fare tickets and 10% on full flex tickets.
- Norwegian Air Shuttle ASA; My Reward Customer; 2% on all low fare tickets and 10% on all full flex tickets.
- Corporate Reward Customer; 3% on all low fare tickets and 7% on all full flex tickets.
- Talkmore; 5% on all mobile usage.
- World Medical Card; 20% on the membership fee.
- Helly Hansen; 10% on Helly Hansen Brands Stores in Oslo.
- Opplysningen 1881; 2% on calls and SMS to 1881.
- NorgesEnergi; 500 cash points for signing up or 100 cash points if already a member in addition to 200 cash points yearly.
- Euroflorist Europe B.V.; 10% on all purchases.

- Revy & Teaterservice; up to 10 % on selected shows/concerts.
- Flygbusserna Airport Coaches AB; 8% on tickets purchased online.
- Affinion; Cash points, different percentages, on all purchases from the Reward eShop.

Customer CashPoints gained from purchased airline tickets are recognized as a liability in the statement of financial position and deducted from the value of the purchase at the date of purchase. The customer Cashpoints liability is derecognized from the statement of financial position and recognized as income when customers utilize their CashPoints.

All other earned customer CashPoints are recognized as a liability in the statement of financial position and immediately expensed. When the customers use their collected CashPoints, the liability is derecognized and cash payment on the Group's services is reduced.

CashPoints are valid throughout the year, in which they were earned, plus two years. Unused CashPoints after this period are derecognized from the statement of financial position. The liability is measured at fair value and classified as short term, as available statistics as of 31 December 2013 indicate that customer CashPoints are utilized within one year. Hence, the carrying value of the liability is estimated as the fair value of the liability.

Assets and liabilities denominated in foreign currency.
Monetary items denominated in foreign currency are converted using the exchange rates of the reporting date. Income statement items are converted by using the exchange rates prevailing at the time of the transactions. Changes in exchange rates are recognized in the income statement as they occur during the accounting period.

Foreign currency gains and losses on operating activities are recognized in operating profits. Foreign currency gains and losses on financing activities are recognized in the net financial items.

Intangible assets
Intangible assets, including development expenses, are capitalized when it is likely that the future financial benefits related to the assets will benefit the Company and the acquisition cost can be measured reliably.

Intangible assets are depreciated using the straight line method. Intangible assets are subject to write-down if the expected financial benefits from the asset are less than book value and remaining development expenses.

Leasing agreements for tangible assets
Assets which are leased on terms where major risk and control is transferred to the Company (financial lease) are capitalized as tangible assets. Future lease obligations are calculated as the net present value of future lease payments and are recognized as other long term liabilities. The tangible assets are depreciated systematically, and the lease obligations are reduced with lease payments reduced for calculated interest expense.

The lease agreements where most of the risk lies with the contracting party are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term. Payments for the lease and payments for other elements are recognized separately.

Deposits made at the inception of operating leases are carried at amortized cost. The difference between the nominal value of a deposit paid, carried at less than market interest and its fair value, is considered as an additional rent payable to the lessor and is expensed on a straight-line basis over the lease term.

Periodic maintenance on tangible assets that are recognized in the statement of financial position is reflected through the assets depreciation plan. For assets which are subject to operational lease, the Company's obligation to perform periodic maintenances is recognized as a provision.

Sale-and-lease-back transactions are treated as financial leases and operational leases depending on the nature of the lease. The Company has completed three sales and lease backs transactions during 2013 (two in 2012) with regards to the sales of aircraft and leasing back the same asset. All sales and lease backs transactions are defined as operating leases established at fair value and any profit or loss is recognized immediately in the income statement as other income.

Investments in subsidiaries and associates
Subsidiaries are valued at cost in the Company accounts. The investment is valued as cost of acquiring shares in the subsidiary, providing they are not impaired. Write down to fair value will be carried out if the impairment is not considered temporary, and a write down is deemed necessary according to the Generally Accepted Accounting Principles. Impairments are reversed when the indication no longer exist.

An associate is an entity in which the Company holds a significant influence but does not control the management of its finances and operations (usually when the company owns 20 % - 50 % of the Company). The financial statements include the Company's share of the profits or losses from associates, which is accounted by using the equity method, from the date when a significant influence is achieved and until such influence ceases. Dilution gains and losses from investments in associates are recognized in the income statement.

When the accumulated share of a loss exceeds the Company's investment in an associate, the amount carried in the statement of financial position is reduced to zero and further losses are not recognized unless the Company has an obligation to cover any such loss.

Financial instruments
Financial instruments are initially recognized at cost and subsequently measured at the lower range of cost and fair value. Impairment losses arising from fair value lower than initial cost are recognized as loss under 'other losses/(gains)- net' of the income statement.

Forward foreign currency contracts are initially recognized at fair value at the date when the contract was entered, and are subsequently measured at fair value through profit or loss. Any changes in fair value are recognized in the income statement under 'other losses/(gains) –net'.

Other receivables classified as fixed assets
Other receivables are recognized at the acquisition cost. Other receivables are written down to market value if a decline in value is considered to be permanent.

Inventory
Inventory consists of consumables and is valued at the lower of acquisition cost and net realizable value considering obsolescence.

Accounts receivable
Accounts receivable and other receivables are recognized at nominal value less allowances for doubtful debts. Allowances for doubtful debts are calculated on the basis of individual assessments.

Cash and cash equivalents
Cash and cash equivalents includes cash, bank deposits and other liquid assets with maturity dates less than three months from the date of acquisition.

Pensions
The Company operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations.

Defined benefit plan
The Company operates defined benefit pension plans which requires contributions to be made to a separately administered fund. In addition, the Company participates in an early retirement plan (AFP). This is also a defined benefit plan. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting year exceed 10 % of the greater of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plans.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The defined benefit obligation is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service costs not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly. If such aggregate is negative, the asset is measured at the lower of such aggregate or the aggregate of cumulative unrecognized net actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The AFP pension plan is a multi-employer defined benefit plan. However, the plan is recognized in the income statement as a defined contribution plan as the plans administrator has not allocated the actuarial gains/losses to the members of the AFP pension plan as of 31 December 2012.

The defined benefit plan was closed 1 December 2012 and all employees were transferred to the contribution plan. Provisions for pension costs are detailed in note 16.

Defined contribution plans
In addition to the defined benefit plan described above, the Company operates a defined contribution plan. A defined contribution plan is a pension plan under which the Company pays fixed contributions to a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction of the future payments is available.

Stock options
Stock options are accounted for in accordance with IFRS 2 and the Norwegian Accounting Act § 5 – 9a. Stock options are recognized at fair value and expensed over the stock option period; the contra is entered in other paid-in equity. Provisions for employer's contributions are made.

Taxes
Tax expenses consist of the aggregate of tax payable and changes in net deferred tax.
Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities
Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses which can be utilized.

Deferred income tax asset
Deferred income tax assets and deferred income tax liabilities are offset to the extent that the Company has a legal and enforceable right to offset the recognized amounts and the deferred tax assets and tax liabilities related to income tax from the same tax authority.

Deferred income tax is provided on temporary differences which occur on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Cash flow statement
The cash flow statement is prepared in accordance with the indirect method. Cash and cash equivalencies consist of cash, bank deposits and short term investments in money market funds.