

Note 2 – Financial Risks

The Company's activities expose the Company to a variety of financial risks; market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall financial risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to hedge certain financial risk exposures.

Risk management is carried out by a central treasury department (Group treasury) under policies approved by the Board of Directors. Group treasury identifies, evaluates, and hedges financials. The Board provides principles for overall risk management such as foreign currency risk, interest rate risk, credit risk, use of derivative financial instruments and investment of excess liquidity.

Market risks

Market risk is the risk that changes in market prices, such as foreign exchange rates, jet-fuel prices and interest rates will affect the Company's income or value of its holdings of financial instruments.

Foreign currency risks

A substantial part of the Company's income and expenses are denominated in foreign currencies. The Company's leases, aircraft borrowings, maintenances, jet-fuel and related expenses are mainly denominated in USD, and airplane operation expenses are partly denominated in EUR. Foreign exchange risks arise from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. In order to reduce currency risks, the Company has a mandate to hedge up to 100 % of its currency exposure for the following 12 months. The hedging consists of forward currency contracts and flexible forwards. In 2013, the company transferred several aircraft to its subsidiaries, for consideration of lease receivables. The receivable is denominated in USD, and hence the Company's USD exposure has been reduced.

Cash flow and fair value interest rate risks

As the Company has net interest bearing debt, the Company's income and operating cash flows are dependent of changes in market interest rates. The Company's cash flow interest rate risk arises from cash and cash equivalents and floating interest rate borrowings. Floating interest rate borrowings consist of unsecured bond issue, revolving credit facility, aircraft financing from TD Bank, loan facility and financial lease liabilities. Borrowings issued at fixed rates expose the Company to fair value interest rate risk. Fixed interest rate borrowings consist of term financing from PEFCO, guaranteed by the Ex-Im Bank of the United States. Long-term borrowings are denominated in USD and NOK.

Jet-fuel prices

Expenses for jet-fuel represents a substantial part of the Company's operating costs, and fluctuations in the jet-fuel prices influence the projected cash flows. The objective of the jet-fuel price risk management policy is to provide a safeguard from significant and sudden increases in jet-fuel prices whilst retaining access to price reductions. The Company manages jet-fuel price risk using fuel derivatives. The management has a mandate to hedge up to 100 % of its expected consumption for the following 12 month with forward commodity contracts.

Credit risks

Credit risk is managed on group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to travel agencies and commercial customers, including outstanding receivables and committed transactions. The utilization of credit limits is regularly monitored. The Company's policy is to maintain credit sales at a minimum level. Sales to private customers are settled in cash or using major credit card companies.

For a part of the Company's sales, customers pay at the time of booking while the Company receives actual payments from credit card companies or acquires at a later point in time. Delayed payments from credit card companies vary between credit card brands. The risk arising from receivables on credit card companies or credit card acquires are monitored closely.

Credit risk related to bank defaults are closely monitored and partly offset by diversifying the Company's deposit portfolio.

There are re-invoicing of maintenance costs on aircraft to leasing companies, and the Company regularly evaluates and assesses the value of these credits.

Liquidity risks

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

Management monitors rolling forecasts of the Company's liquidity reserve and cash and cash equivalents (note 22) on the basis of expected cash flow. In addition, the Company's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these; monitoring liquidity ratios against internal and external regulatory requirements; and maintaining debt financing plans.

The Company's aircraft fleet consists of leased aircraft (note 10) and owned aircraft (note 9), whereof the Company has 257 aircraft on firm order with future delivery. The table below shows the expected timeline of future deliveries of aircraft at 31 December 2013. Prepayments to aircraft manufacturers on future aircraft deliveries are largely financed by internal funds. The Company has ensured export credit support on all aircraft on order. 55 % of deliveries in 2014 has been financed through the private EETC marked in the US and long term financing guaranteed by export credit agencies. The remaining 2014 deliveries will be financed through commercial financing or export guaranteed financing. The Company is currently in the process of securing pre-delivery

payment financing and term financing according to the Company's financing policy for deliveries in the finance planning of 2014-2015.

Aircraft delivery	2014	2015-2016	2017-	Total
737-800	11	27	19	57
737 Max 8	0	0	100	100
Airbus 320 neo	0	4	96	100
Total	11	31	215	257

The Company's financing policy includes sales and lease backs transactions on several aircraft to diversify its aircraft fleet. In 2013, three aircraft were delivered and financed as sales and lease backs transactions (two in 2012).