Note 1 – Summary of Significant Accounting Policies

1.1 General information

Norwegian Air Shuttle ASA and its subsidiaries (henceforth referred to as 'the Group') are a low-cost airline incorporated in Norway and headquartered at Fornebu outside of Oslo. Norwegian Air Shuttle ASA is a public limited liability company and listed on the Oslo Stock Exchange.

The consolidated financial statements of Norwegian Air Shuttle ASA for the year ended 31 December 2013 were authorized for issue by the Board of Directors on 26 March 2014.

1.2 Basis of preparation

The consolidated financial statements of Norwegian Air Shuttle ASA have been prepared in accordance with the International Financial Reporting Standards (IFRS) and IFRIC interpretations, as adopted by the EU. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

In order to prepare financial statements in conformity with IFRS, it is necessary to apply certain critical accounting estimates. It also requires the management to exercise its judgment when applying the Group's accounting policies. The areas which involve a greater degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed below. See paragraph 1.23.

The Group is in a strong financial position and there are no indications that the Group is in breach of the going concern convention. The Group continues to adopt the going concern convention in preparing its consolidated financial statements.

1.2.1 Changes in accounting policies and disclosures

<u>Standards, amendments and interpretations</u>

The following new or amended/revised IFRS or IFRIC interpretations approved by the EU and effective at the start of the financial year, beginning on or after 1 January 2013, have been implemented, but have not had any material impact on the Group other than minor disclosure changes related to some of the standards.

- IFRS 13, 'Fair Value Measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs.

- IAS 19, 'Employee Benefits', was amended in June 2011.

- Amendment to IAS 1 - 'Financial statement presentation' regarding other comprehensive incomes.

- IFRS 7, 'Financial Instruments: Disclosures'. Implementation did not have any material impact on the financial statements.

- Annual Improvements to IFRSs 2009-2011 Cycle.

A number of new standards and amendments to standards and interpretations approved by the EU are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

	Effective for periods beginning on or after
- IFRS 10 'Consolidated Financial Statements';	1 January 2014

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The group is yet to assess IFRS 10's full impact and intends to adopt IFRS 10 no later than the accounting period beginning on or after 1 January 2014.

- IFRS 11 'Joint Arrangements';	1 January 2014

IFRS 11 replaces IAS 31 'Interests in Joint Ventures' and SIC-13, and removes the option to account for jointly controlled entities using proportionate consolidation, thus all such entities must be accounted for using the equity method. The group is yet to assess IFRS 11's full impact and intends to adopt IFRS 11 no later than the accounting period beginning on or after 1 January 2014.

- IFRS 12, 'Disclosures of interests in Other Entities'	1 January 2014

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2014.

- IAS 27 'Separate Financial Statement' (revised as a consequence of the issuance of IFRS 10, 11 and 12)	1 January 2014
- IAS 28 'Investments in Associates and Joint Ventures'	
(Revised as a consequence of the issuance of IFRS 11 and 12)	1 January 2014
- Amendments to IFRS 10, 11 and IFRS 12 – Transition guidance	1 January 2014
- IAS 32 'Financial Instruments: Presentation'	
1 January 2014	
- IAS 36 'Impairment of Assets' (Amendment)	1 January 2014
- IAS 39 'Financial Instruments: Recognition and Measurement (Amendment)	1 January 2014

These standards, amendments and interpretations are not expected to have material impact on the financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

1.3 Basis of consolidation

The Group's consolidated financial statements comprise Norwegian Air Shuttle ASA, and its subsidiaries, presented in note 25. Additionally, the Group has consolidated Special Purpose Vehicles (SPVs) according to SIC 12. The SPVs are solely established for aircraft financing purposes. The Group does not own the shares in those SPVs nor does it have control over the management of those SPVs, but the Group has accepted all risks and rewards related to the assets, liabilities and operations of the SPVs.

The financial statements of the subsidiaries and SPVs are prepared for the same reporting period as the parent company, using consistent accounting policies.

The acquisition method is applied when accounting for business combinations. Companies acquired or sold during the year are included in the consolidated financial statements from the date when control was achieved until the date when control ceased.

The consideration that is transferred for the acquisition of a subsidiary, consists of the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The transferred consideration includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Acquired identifiable assets and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interests of the acquiree either at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The excess of the consideration transferred and the amount of the non-controlling interest over the fair value of the Group's share of the identifiable net assets acquired are recorded as goodwill. If, in the case of a bargain purchase, the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

All intra group balances, transactions and unrealized gains and losses on transactions between Group companies are eliminated.

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control ceased, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities.

The Group considers transactions with non-controlling interests that do not result in loss of control, as transactions with equity owners of the Group. Any difference between considerations paid and the relevant share acquired from the carrying value of net assets are recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

An associate is an entity where the Group holds a significant influence but does not control the management of its finances and operations (i.e. typically when the Group owns 20%-50% of the voting rights of the company). The consolidated financial statements include the Group's share of the profits/losses from associates, accounted for using the equity method, from the date when a significant influence is achieved until the date when such influence ceases. The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dilution gains and losses arising in investments in associates are recognized in the income statement.

When the Group's share of a loss exceeds the Group's investment in an associate, the amount carried in the Group's statement of financial position is reduced to zero and further losses are not recognized unless the Group has an obligation to cover any such losses. Unrealized gains on transactions between the Group and its associates are eliminated in proportion to the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dilution gains and losses arising in investments in associates are recognized in the income statement.

All other investments are recognized in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*, and additional information are provided in note 20.

1.4 Foreign currency translation
The Group's presentation currency is Norwegian Krone (NOK). Norwegian Air Shuttle ASA's functional currency is NOK. Each entity of the Group determines its own functional currency and items that are included in the entities' financial statements are measured in that functional currency. For consolidation purposes, the results and financial position of all the Group's entities that have a functional currency other than NOK are translated to the closing rate at the reporting date of each month. Income and expenses for each income statement are translated to the average exchange rate for the period, this being a reasonable approximation for estimating actual rate. Exchange differences are recognized in comprehensive income and specified separately in equity.

Transactions in foreign currencies are initially recorded at the functional currency rate using the exchange rates prevailing of the dates of the transactions or valuation where items are re- estimated. Monetary assets and liabilities denominated in foreign currencies are translated to the functional currency exchange rate of the reporting date. Any differences are recognized in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates of the dates of the initial transactions.

Foreign currency gains and losses on operating activities are recognized within operating profit. Foreign currency gains and losses on financing activities are recognized within net financial items.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Any differences in exchange are recognized in other comprehensive income.

1.5 Tangible assets
Tangible assets are carried at historical cost, less accumulated depreciation and impairment losses. When assets are sold or disposed of, the gross carrying amount and accumulated depreciation and impairment losses are derecognized. Any gain on the sale is recognized in the income statement as other income and any loss on the sale or disposal is recognized in the income statement as other losses/ (gains)-net.

The gross carrying amount of non-current assets is the purchase price, including duties/taxes and direct acquisition costs relating to making the non-current asset ready for its intended use. Subsequent costs, such as repair and maintenance costs, are normally recognized in profit or loss as incurred. When increased future economic benefits are the result of verified repair and maintenance work, these costs will be recognized in the statement of financial position as additions to non-current assets. Borrowing costs are capitalized on qualifying assets.

Non-current assets are depreciated on a straight-line basis or by airborne hours and cycles over the estimated useful life of the asset beginning when the asset is ready for its intended use. Residual values, where applicable, are reviewed annually against prevailing market rates at the reporting date for equivalently aged assets and depreciation rates adjusted accordingly on a prospective basis. The carrying value is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

An aircraft is recognized as two components for depreciation purposes in order to consider different useful lives of the aircraft components. The first aircraft component is defined as maintenance components. In accordance with official requirements, the aircraft must be maintained which means significant components must be changed after a specific number of take-offs or airborne hours. These components are identified as two heavy maintenance checks of the aircraft body, power restoration and life limited parts for the two engines on each plane, as well as maintenance on landing gears and APU. The maintenances and overhauls of these components occur on a defined interval, and the value is depreciated based on the number of take-offs or airborne hours until the next maintenance is conducted. Completed maintenance and overhaul are capitalized and depreciated until the next relevant maintenances and overhauls. The second aircraft component is defined as the remainder of the aircraft and depreciated over the estimated useful life.

Investments in leased aircraft including cabin interior modifications are depreciated over their useful lives, but not exceeding the remaining leasing period.

Rotable spare parts are carried as non-current assets and depreciated over their useful lives.

Buildings are carried at acquisition costs, less accumulated depreciation.

The Group capitalizes prepayments on the purchase contracts of aircraft. The prepayments are classified as tangible assets as presented at the face of the statement of financial position. The prepayments include capitalized borrowing costs. On the delivery of the aircraft, the prepayments are included in the acquisition costs of the aircraft and reclassified as aircraft in the statement of financial position.

Financial lease assets are initially recognized at the lower of acquisition cost or future minimum lease payments. The assets are carried as non-current assets and depreciated on a straight-line basis over their expected useful lives.

The depreciation period and method are assessed annually to ensure that they reconcile with the substance of the non-current asset. Additional details on tangible assets are outlined in note 11.

1.6 Intangible assets

1.6.1 Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to obtain and apply the specific software. These costs are amortized over their estimated useful lives.

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs which are directly associated with the development of identifiable software products controlled by the Group, and which are estimated to generate economic benefits, are recognized as intangible assets. The costs of computer software developments recognized as assets are amortized over their estimated useful lives. The depreciation of the software commence as each module is completed.

1.6.2 Goodwill and other intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Other intangible assets are related to identifiable assets from business combinations and investments in other intangible assets.

Intangible assets which are determined as having indefinite useful lives, are not amortized, but subject to annual impairment testing. The determination of indefinite useful lives is based on Management's assessment as to whether there is any foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

See note 1.7 for details of impairment testing of non-financial assets and note 10 for additional details on intangible assets.

1.7 Impairment of non-financial assets

Intangible assets with indefinite useful lives are not subject to amortization, and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of impairment testing, assets are grouped at the lowest levels of separately identifiable cash flows (cash-generating units). The allocation is made to those cash-generating units that are expected to benefit from the assets. The management has assessed the Group as one segment and the Group's total operations as its cash generating unit. The determination of cash generating units is based on how the management operates and assesses the Group's performance, profit and cash flow. The aircraft fleet is operated as one unit and the route portfolio is administered and diversified as one unit generating the Group's profit and cash flow, hence goodwill and other non-current assets are reallocated to the entire Group for the purpose of impairment testing.

Non-current assets other than goodwill that have suffered impairment are reviewed for a possible reversal of the impairment at each reporting date. Impairment losses on goodwill are not reversed.

1.8 Financial assets

Financial assets are classified according to the following categories; as fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale. The Group holds financial instruments that are classified as fair value through profit or loss, available-for-sale and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. The management determines the classification of its financial assets at initial recognition.

Financial assets that are categorized as fair value through profit or loss are financial assets held for trading. A financial asset is classified as in this category if it was principally acquired for the purpose of selling on a short-term basis. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise trade and other payables/receivables, and cash and cash equivalents in the statement of financial position (See note 1.12 and 1.13 respectively).

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified as being in any of the other categories. They are included in non-current assets unless the management intends to dispose of the investments within 12 months of the reporting date.

Regular purchases and sales of financial assets are recognized on the trade-date; the date which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss, are initially recognized at fair value and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has substantially transferred all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other losses/ (gains) – net' of the period in which they occur. Gains or losses that occur from changes in the fair value of the 'available-for-sale' category are presented in equity within other comprehensive income in the period in which they occur. Interests on available-for-sale securities which are calculated using the effective interest method, is recognized in the income statement as part of other income. Dividend income from financial assets at fair value through profit or loss and available- for- sale financial assets are recognized in the income statement as a part of other income when the Group's right to receive payments is established.

1.8.1 Impairment of financial assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. The fair values of quoted investments are based on current mid prices at the reporting date. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. The valuation hierarchy for financial assets is detailed in note 3 where the techniques are making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment losses of financial assets measured at amortized cost are incurred only if there is objective evidence of impairment as a result of one or more events which occur after initial recognition. Impairment losses are recognized in the consolidated income statement if the losses have had an impact on the estimated future cash flows and that the impact can be reliably estimated.
For the loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

Impairment losses of available-for-sale financial assets are incurred if evidence exists of a prolonged or significant decline in the fair value of the security below its initial cost. If any such evidence exists, the cumulative loss (measured as the difference between the initial cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss) is removed from equity and comprehensive income and recognized in the income statement. If an increase in the fair value of available-for–sale financial assets occur in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

1.9 Derivative financial instruments and hedging activities
Derivatives are initially recognized at fair value on the transaction date and subsequently measured at their fair value. Derivatives are classified within the category 'financial assets at fair value through profit or loss' as long as the derivatives are not designated as hedging instruments for accounting purposes.

The Group has not designated any derivatives as hedging instruments for accounting purposes in 2013 or 2012.

1.10 Inventory
Inventory of spare parts are carried at the lower of acquisition cost and net realizable value. Cost is determined using the first in – first out (FIFO) method. Obsolete inventory has been fully recognized as impairment losses. Inventory is consumed during maintenance and overhaul of the aircraft, and is expensed when consumed.

1.11 Trade receivables
Trade receivables are amounts due from customers for services performed and goods sold in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

Receivables from credit card companies are classified as trade receivables in the statement of financial position.

1.12 Cash and cash equivalents
Cash and cash equivalents include cash in hand and in the bank, as well as short term deposits with an original maturity of three months or less. Cash and cash equivalents in the statement of financial position include restricted funds from withheld employee tax, guarantees and deposits pledged as collateral to suppliers (note 24).

The Group holds investments in money market funds. These investments are classified as either cash equivalents or financial assets available-for-sale depending on the maturity of the investments.

1.13 Equity
Share capital comprises the number of shares multiplied by their nominal value, and are classified as equity.

Transaction costs directly attributable to an equity transaction are recognized directly in equity net of tax.

Acquisition of own shares are recognized in share capital and retained earnings. The number of shares purchased multiplied by the nominal value is deducted from outstanding share capital. The share premium paid is recognized in other equity. The sale of own shares is booked accordingly, with nominal value as increase of share capital, and share premium in other equity.

1.14 Liabilities

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost; difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.
Trade payables are obligations to pay for goods or services purchased from suppliers in accordance with general course of business. Accounts payables are classified as current liabilities if payment is due within the next 12 months. Payables due after the next 12 months are classified as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

1.15 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

1.16 Employee benefits

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

1.16.1 Defined benefit plans

The Group operated a defined benefit pension plan until 1 December 2012, when the plan was closed and all employees were transferred to a defined contribution plan (see 1.16.2). In November 2013, the Group issued a new defined benefit pension plan, according to the Collective Agreement with the Norwegian Pilot Union

The cost of providing benefits under the defined benefit plan is determined using the projected unit credit actuarial valuation method. The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits are 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 at 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.

In addition, the Group participates in an early retirement plan (AFP) for all employees in Norway. 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 actuarial gains/losses to the members of the AFP pension plan as of 31 December 2013.

Provisions for pension costs are detailed in note 18 and note 1.5.

1.16.2 Defined contribution plans

In addition to the defined benefit plan described above, the Group operates a defined contribution plan. A defined contribution plan is a pension plan under which the Group pays fixed contributions to a separate entity. The Group has no legal or constructive obligations to pay further contributions should the fund 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 expenses when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

1.16.3 Share-based payments

The Group operates a number of equity-settled, share-based compensation plans under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grants of the options is recognized as an expense over the vesting period. The total amount to be expensed is determined by referring to the fair value of the options granted.

The fair value of the options to be settled in equity instruments is estimated at the grant date. The fair value is determined by an external part by applying the Black and Scholes option-pricing model. The assumptions underlying the number of options expected to vest are adjusted to reflect conditions prevailing at the reporting date. For further details see note 17.

The social security contributions payable in connection with the grant of the share options is considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

1.16.4 Employee share purchase savings program

Bonus shares and employer's contribution are measured at fair value using the Black and Scholes option pricing model. Expenses for bonus shares are included in payroll expenses. The fair value of the bonus shares and the estimated employer's contribution are distributed as expenses over the expected period until settlement. Changes in estimates affecting employer's contribution are expensed over the remaining expected period. For further details see note 17.

1.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent when it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

1.17.1 Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws that are used to compute the amount are those which are enacted or substantively enacted at the reporting date.

1.17.2 Deferred income tax

Deferred income tax is determined by 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 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 which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected in the year when the assets are realized or when the liabilities are settled, based on tax rates (and tax laws) which have been enacted, or substantively enacted, at the reporting date.

Deferred income tax assets and deferred income tax liabilities are offset to the extent that:

- the Group has a legal and enforceable right to offset the recognized amounts and
- if deferred tax assets and tax liabilities relates to income tax from the same tax authorities and the same taxable entity in the Group, or if different taxable entities in the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

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

1.18 Contingent assets and liabilities

A contingent asset is not recognized in the annual financial statements, but disclosed in the notes where an inflow of economic benefits is probable.

Contingent liabilities are defined as possible obligations arising from past events the existence of which depends on future events, or for which it is improbable that they will lead to an outflow of resources, or which cannot be measured with sufficient reliability

Contingent liabilities are not recognized in the annual financial statements, but significant contingent liabilities are disclosed in the notes to the financial statements, with the exception of contingent liabilities where the probability of the liability occurring is remote.

1.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the general course of the Group's activities. Revenue is shown net of value-added tax and discounts. The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

1.19.1 Passenger revenue

Passenger revenue is reported as traffic revenue when the air transport has been carried out. The value of tickets sold and which are still valid but not used 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 Group or another airline completes the transportation or when the passenger requests a refund.

1.19.2 Ancillary revenue

Ancillary revenue comprises sales of ticket-related products and services, e.g.; revenue from baggage sales and seating. Some of the products and services are earned at the time of the transport, and such revenue is recognized in the same manner as passenger revenue. Other products and services are earned 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 seek refunds once a flight has departed.

1.19.3 Other revenue
Other revenue comprises third party revenue, such as wet lease, cargo and revenue from business activities in subsidiaries which are not airlines.

Other airline revenues are recognized when the services have been rendered, fees are reliable measurable, collections are probable, and when other significant obligations have been fulfilled.

Revenue from sales of Wi-Fi products and services comprises traffic fees. Revenue traffic fees are recognized as revenue at the time of consumption.

1.19.4 Customer loyalty program – Norwegian Reward
The Group has implemented a customer loyalty program. Customers earn `CashPoints' in 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.

1.20 Leasing
To determine whether an arrangement is, or contains a lease, it is necessary to assess whether the fulfillment of the arrangement is dependent on the use of a specific asset and whether the arrangement conveys a right to use the asset.

The lease agreements, in which, 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 additional rent, payable to the lessor and is expensed on a straight-line basis over the lease term.

The Group leases tangible assets where the lease agreements transfer all material risks and rewards of the asset to the lessee at the end of the lease term. Such lease agreements are classified as financial leases. Financial leases are recognized at inception to the lowest of acquisition cost and the net present value of minimum lease payments. Financial lease assets are depreciated on a straight-line basis over the lease period if such is shorter than the useful life of the financial lease asset. Financial lease assets are included in the statement of financial position as tangible assets.

Each lease payment under financial leases is split between the lease liability and finance cost to amortize the financial costs related to such leases for the duration of the lease period. The lease liability is classified as borrowings, see note 22 for details.

Sale and lease back transactions are treated as financial leases and operating leases depending on the nature of the lease. The Group has entered into sales and lease back transactions with regards to selling 3 aircraft and leasing back the same assets in 2013 (two in 2012). All sales and lease back 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 or other losses/(gains)-net.

1.21 Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker who is responsible for allocating resources and assessing the performance of the operating segments. The chief operating decision maker has been identified as the Board of Directors and the Executive Management. The Group has one operating segment, which is low cost air passenger travel. The Group has one geographical segment which is the route portfolio. See note 4 for further details.

1.22 Events after the reporting date
New information regarding the Group's positions at the reporting date is taken into account in the preparation of the annual financial statements. Events occuring after the reporting date which do not affect the Group's position at the reporting date, but which will affect the Group's position in the future, are disclosed if significant.

1.23 Critical accounting estimates and judgments
In preparing the consolidated financial statements, the management are required to assess judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. The critical judgments and key sources of estimation uncertainty that have been made in preparing the consolidated financial statements are detailed below. These judgments involve assumptions or estimates in light of future events that can differentiate from what is expected.

The lease contracts require the aircraft to be returned at the end of the lease in accordance with the specific redelivery conditions stated in the lease contracts. To meet this requirement, the Group must conduct maintenance on these aircraft, both regularly and at the expiration of the leasing period. Provisions are made based on the estimated costs of overhauls and maintenances. In order to estimate these conditions, the management must make assumptions regarding expected future maintenances. For sensitivity analysis, see note 19.

Non-current assets are depreciated on a straight-line basis or by airborne hours and cycles over the estimated useful lives, taking expected residual value into consideration. An aircraft is decomposed into two components for depreciation purposes in order to consider different useful lives of the aircraft components, in accordance with official requirements. The depreciation period and method are assessed annually to ensure that they reconcile with the substance of the non-current asset, and the residual value is estimated at each year end. The assessments require management to make assumptions regarding expected useful lives and residual values.

Deferred tax assets are recognized for all unused tax losses to the extent that taxable profits are probable. Significant management judgment is required to determine the amounts of deferred tax assets that can be recognized, based on the anticipated timing and level of future taxable profits together with future tax planning strategies. See note 9 for further details.

The Group tests annually whether goodwill and other intangible assets with indefinite useful lives, have suffered any impairment in accordance with the accounting policy stated in note 1.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (see note 10).

Bad debt provisions for credit card receivables are based on actual historical loss percentage and actual withdrawal for payments from credit card companies.

Fair value of financial instruments is determined using fair value estimation techniques. Valuation techniques and details on financial instruments are outlined in note 3.

The Group has closed its defined benefit plan, see note 1.16.1. Provisions for pension cost and conversion cost were recognized at 31 December 2012. In November 2013, the Group issued a new defined benefit plan. Significant management judgment was required to determine the estimates for such provisions (see note 19).