Note 2 – Financial Risk

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

Financial 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 financial risk in close co-operation with the Group's operating units. 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.

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

2.2 Foreign exchange risk
A substantial part of the Group's expenses are denominated in foreign currencies. The Group's leases, aircraft borrowings, maintenance, jet-fuel and related expenses are mainly denominated in USD, and airplane operation expenses are partly denominated in EUR. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations. In order to reduce currency risk, the Group 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 Group transferred several aircraft from parent company Norwegian Air Shuttle ASA to newly established asset company in Ireland with USD functional currency. Hence, the Groups total USD exposure has been reduced.

If NOK had weakened/strengthened by 1% against USD in 2013, with all other variables held constant, post-tax profit and post-tax equity effect for the year would have been NOK 3.1 million (2012: NOK 1.7 million) lower/higher, mainly as a result of foreign exchange losses/gains on receivables, payables, derivative financial instruments, cash and cash equivalents and long term borrowings denominated in USD at 31 December.

If NOK had weakened/strengthened by 1% against EUR with all other variables held constant, post-tax profit and post-tax equity effect for the year would have been NOK 3.8 million (2012: NOK 1.7 million) higher/lower, mainly as a result of foreign exchange losses/gains on receivables, payables, derivative financial instruments and cash and cash equivalents.

The Group has investments in operations in Sweden and Ireland, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations is regarded as immaterial for the Group, and currency variances are not hedged.

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

If the floating interest rate in 2013 had been 1% higher/lower with all other variables held constant, post-tax profit and post-tax equity effect for the year would have been NOK 9.6 million (2012: NOK 2.9 million) higher/lower, mainly as a result of higher/lower interest income on floating rate cash and cash equivalents and borrowings.

The sensitivity analysis of interest rate risk is calculated based on amortized cost of floating rate borrowings, cash and cash equivalents.

The Group measures borrowings at amortized cost. No changes in fair value of fixed rate interest rate borrowings would be accounted for. Fair value calculations of fixed interest rate borrowings are detailed in note 22.

2.4 Jet-fuel prices
Expenses for jet-fuel represents a substantial part of the Group'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 safeguard against significant and sudden increases in jet-fuel prices whilst retaining access to price reductions. The Group manages jet-fuel price risk using fuel derivatives. The management has a mandate to hedge up to 100% of its expected consumption over the next 12 months with forward commodity contracts.

The Group holds forward commodity contracts to hedge jet-fuel price risk. Such derivative contracts affect the financial statements through unrealized gains/losses from jet-fuel prices. At 31 December 2013, the Group holds no such derivative contracts.

2.5 Credit risk
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 Group'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.

A portion of the Group's sales, are paid for by the customers at the time of booking and Norwegian receive the actual payments from the credit card companies, or acquires are received 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 is closely monitored and partly offset by diversifying the Group's deposit portfolio.

There is re-invoicing of maintenance costs on aircraft to leasing companies, and Norwegian regularly evaluates and assesses the value of these credits. See note 20 for further disclosure on credit risk.

2.6 Liquidity risk
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 Group's liquidity reserve, cash and cash equivalents (see note 24) on the basis of expected cash flow. The Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to monitor liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

The Group's aircraft fleet consist of leased aircraft (note 12) and owned aircraft (note 11), whereof the Group has 259 owned 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 Group has ensured export credit support on all aircraft on order. 55 % of deliveries in 2014 have 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 Group is currently in the process of securing pre-delivery payment financing and term financing according to the Group's financing policy for deliveries in the finance planning for 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
787-8 Dreamliner	1	1	0	2
Total	**12**	**32**	**215**	**259**

The Group'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).

The table below analyses the maturity profile of the Group's financial liabilities at the reporting date. The amounts disclosed are the contractual undiscounted cash flows;

At 31 December 2012 (NOK 1,000)	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	1,359,672	457,543	1,759,652	2,185,347
Financial lease liability	4,396	4,396	6,457	0
Derivative contracts - payments	190,356	0	0	0
Trade and other payables	1,564,955	0	0	0
Interest on borrowings *)	157,642	132,129	246,445	150,760
Total financial liabilities	**3,277,021**	**594,068**	**2,012,554**	**2,336,108**

*) Calculated interests on borrowings

At 31 December 2013 (NOK 1,000)	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	764,772	1,222,261	1,753,446	3,090,608
Financial lease liability	3,629	2,756	5,053	
Derivative contracts - payments	0	0	0	0
Trade and other payables	1,949,693	0	0	0
Interest on borrowings *)	194,347	176,391	308,727	228,113
Total financial liabilities	**2,912,441**	**1,401,408**	**2,067,226**	**3,318,721**

*) Calculated interests on borrowings

2.7 Capital risk management

The Group's capital management policy is to have a capital structure which meets the demands of operations, reduces cost of capital and complies with financial covenants and future investments planned by the Group. The Group will at all times adjust debt and equity to maintain and secure an optimal capital structure by continuously monitoring the equity ratio of the Group. This ratio is calculated as equity divided by total assets as presented in the consolidated statement of financial position and consolidated statement of changes in equity. Equity ratio is an important factor in financial covenants as detailed in note 22. The management monitors these externally imposed financial covenants closely as a part of the Group's capital risk management policy.

The Board of Directors has imposed an internal liquidity target which is closely monitored by the management.

The equity ratios at 31 December were as follows;

(NOK 1,000)	2013	2012
Equity	2,749,827	2,420,652
Total assets	14,762,744	11,919,058
Equity ratio	**18.6%**	**20.3%**