ATLANTIC AIRWAYS

Annual Report 2017

www.atlantic.fo

1.1 Company Information

P/F Atlantic Airways, Faroe Islands
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Faroe Islands
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Established 1987
Reg. no. 1223
VAT number 379778

Domicile municipality: Sørvágur
Website: www.atlantic.fo
Email: administration@atlantic.fo

Board of directions
Niels Mortensen, *Chairman*
Kaj Johannessen, *Vice Chairman*
Laila Hentze
Fróði Magnussen
Janus P. Rein
Hanna Svabo

Management
Jóhanna á Bergi, *CEO*
Marius Davidsen, *CFO*

Auditor
P/F Januar
State Authorized Public Accountants

Associated companies
P/F Duty Free
P/F Greengate
P/F Gjáargarður

1.2 **Atlantic Airways in Brief**

ATLANTIC AIRWAYS

Our origin and objective

Atlantic Airways was established in order to develop the Faroese airline industry and airline services, and through this establish a competent aviation environment in the Faroe Islands.

Since the company's establishment in 1987, it has grown from a small company with one aircraft and limited capabilities to a company, which operates several aircraft and helicopters. At year-end 2017, Atlantic Airways had 180 full-time equivalent employees, and operated 3 aircraft and 2 helicopters.

In 2017, the airline updated its goals and objectives. Atlantic Airways exists to connect the Faroe Islands to the world, to tie the islands closer together and for safety. Atlantic Airways operates a regular, flexible and diverse route network from the Faroe Islands with competitive prices. The airline uses state of the art technology and equipment, and it uses fully modern communication services. The customer is at the centre of all our activities. We work closely with customers and the community to better our services and experiences.

For Atlantic Airways safety comes first, regularity is a constant goal, the customer is at the centre of all matters, the employees are skilled and service-minded, and the results create value. The company's field of activities is scheduled flights and helicopter flights with the Faroe Islands as our cornerstone, as well as charter flights using excess capacity. In addition, the field of activities are developed from the airline's core competences and we participate in the development of the tourism industry, cargo transportation and other forms of transportation.

In the airline's stated objectives, the scheduled flights are divided into Denmark, NORTH and SUN routes and the number of low-price tickets has increased significantly, both on the Denmark routes and on the NORTH routes. The NORTH routes have improved connection between the Faroe Islands and the neighbouring countries of Iceland, Norway and Scotland significantly. Helicopter rescue services and scheduled services are today conducted with modern helicopters, which has increased the service level significantly for the remoter parts of the islands, as well as for sailors and other travellers.

Atlantic Airways also prioritizes to be a valued and respected member of our local society, creating value, competences and jobs for the Faroese community.

The history of Atlantic Airways in brief

Atlantic Airways was formed in 1987 shortly after the Faroese government finalized negotiations with the Danish government to allow a Faroese operator to provide air services in competition with Danish operators, who previously had monopoly on flights between the Faroe Islands and Denmark.

Atlantic Airways has continually developed airline travel to and from the Faroe Islands since the first operation in 1988 on 28 March. The number of departures to Copenhagen has increased to three per day during high season, and the company offers flight connections both morning and evening. Since 1995, the company has stepwise established flight connections to the neighbouring countries Iceland, Norway and UK as well as high season connections to southern Europe. This continued development has increased passenger numbers at the Vágar Airport from around 90,000 in 1994 to more than 341,000 in 2017. Additionally, the company has been at the forefront in promoting the Faroe Islands abroad as a tourist destination, as well as in developing local tourism.

The company has provided domestic helicopter services in the Faroe Islands since 1994 and Search and Rescue (SAR/HEMS) since 2001. In addition, Atlantic Airways has assisted all oil companies involved in oil exploration in Faroese waters.

Atlantic Airways has from day one focused on qualifying the work force in the Faroe Islands to conduct a range of jobs within the aviation industry. Atlantic Airways has trained hundreds of people as engineers, pilots, cabin crew as well as other jobs within the field of aviation

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1.3 Financial highlights and key ratios

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INCOMESTATEMENT(DKK1.000)	2017	2016	2015	2014	2013
Net sales	508.181	518.413	501.540	573.736	541.314
Other income	6.932	5.120	3.486	0	0
Result before depr., amort. and impairm. (EBITDA)	68.998	84.222	79.399	78.476	81.532
Result before financial items (EBIT)	13.242	38.249	21.042	26.103	18.890
Result before tax (EBT)	4.074	34.137	21.516	20.150	8.702
Result after tax	**3.341**	**27.993**	**17.643**	**16.523**	**7.085**
BALANCESHEET(DKK1,000)					
Non-current assets	627.748	670.818	439.827	296.035	331.828
Current assets	172.247	158.033	88.291	141.976	152.051
Total assets	**799.995**	**828.850**	**528.118**	**438.011**	**483.878**
Equity	232.384	223.754	189.974	183.663	248.487
Provisions	39.758	37.863	30.448	31.061	30.058
Long-term debt	407.770	436.386	169.764	96.594	111.406
Current liabilities	120.083	130.847	137.932	126.693	93.927
Total equity and liabilities	**799.995**	**828.850**	**528.118**	**438.011**	**483.878**
CASH FLOWS (DKK 1,000)					
Net cash flow from operating activities	51.162	106.329	55.041	88.654	73.898
Net cash flow used in investing activities*	-11.206	-274.044	-199.786	-14.786	-24.043
Net cash flow from financing activities	-31.096	254.598	85.183	-87.309	-30.978
Cash flows for the period	**8.861**	**86.883**	**-59.561**	**-13.441**	**18.877**
**Of this purchase of property, plant and equipment*	*-13.396*	*-284.648*	*-214.132*	*-18.219*	*-33.527*
FINANCIAL RATIOS					
EBITDAR (DKK 1,000)	82.502	107.559	107.226	108.274	94.354
EBITDAR (%)	16%	21%	21%	19%	17%
Return on investment (%)	2%	5%	4%	6%	4%
Current ratio (%)	143%	121%	64%	112%	162%
Solvency ratio (%)	29%	27%	36%	42%	51%
Return on equity after tax (%)	1%	13%	9%	9%	3%
TRAFFIC STATISTICS					
Number of passengers - scheduled services	280.344	282.062	267.126	237.028	225.200
Number of passengers - fixed wing	375.109	328.001	309.534	349.827	299.782
Block hours - fixed wing	7.742	7.005	6.903	8.406	7.754
Capacity - scheduled flight (ASK) (1,000)	527.684	502.670	485.281	430.019	396.348
Traffic - scheduled flight (RPK) (1,000)	356.502	355.504	338.585	307.112	292.070
Load factor - scheduled services (%)	68%	71%	70%	71%	74%
OTHER STATISTICS					
Number of full-time employees	180	173	171	182	181
Aircraft operated as at 31 December	3	3	3	3	4
Helicopters operated as at 31 December	2	2	2	2	2

2.1 Management's Review

Operations 2017
The financial year 2017 yielded a lower result good for Atlantic Airways than the previous year. The full- year result for 2017 after tax was DKK 3.3 million compared to 28.0 million in 2016. The annual result was particularly affected by lower average ticket prices in scheduled services. However, increase in charter activities, sale of the RJ-100 aircraft and spare parts had a positive effect on the full-year result. The result before tax was DKK 4.1 million in 2017 compared to DKK 34.1 million in 2016, a decrease of DKK 30 million. Earnings before interest, depreciation and amortization (EBITDA) were DKK 69 million in 2017 compared to DKK 84.2 million the previous year, a decrease of 18%. Total revenue for the year 2017 was DKK 515.1 million compared to DKK 523.5 million in 2016, an increase of 2%.

30 years on Faroese Wings
On 28 March it will be 30 years since the first Atlantic Airways aircraft embarked on its maiden voyage on the Vágar to Copenhagen route. Transportation by air between the Faroe Islands and the world has developed immensely these 30 years. In 2018, the airline maintains direct routes to 11 travel destinations throughout Europe using the most modern fleet in all of Europe. Atlantic Airways thanks the people of the Faroe Islands and foreigners for supporting the airline and its travel destinations.

Goals and objectives
Atlantic Airways exists to connect the Faroe Islands to the world for the benefit of the Faroese people and Faroese society, all the while providing foreigners with more opportunities to visit the Faroe Islands, and to tie the islands closer together, as well as for safety. Atlantic Airways operates a regular, flexible and diverse route network from the Faroe Islands with competitive prices. The airline uses state of the art technology and equipment, and it uses fully modern communication services. The customer is at the centre of all our activities. We work closely with customers and the community to better our services and experiences.

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Continuos developments
The airline is constantly working to make necessary improvements for the benefit of our customers and the airline in a sensible manner. We will continue this in 2018.

The lack of accommodation is a bottleneck at the moment for the development of the Faroese aviation industry and tourism. That is why Atlantic Airways in collaboration with life insurance company, Tryggingarfelagið LÍV, have initiated a hotel project in Tórshavn. The new hotel will have approx. 130 rooms. It will be named "Hotell Atlantic" and will be taken into use in the first half of 2020. Atlantic Airways alone will manage operations of the hotel.

Number of seats has never been higher than it is now and it will increase further in the spring of 2019 when the airline welcomes its new Airbus A320neo aircraft into the fleet. The aircraft has 174 seats and lower fuel consumption and lower CO_2 emission than the current aircraft but leads to higher lease expenses.

Sveiggj for young people and students
In 2017, the airline announced a new campaign to connect young people studying abroad closer to the Faroe Islands and it will make it more interesting for young people to live and get an education in the Faroe Islands. The name of the new line of tickets is SVEIGGJ and it can be purchased by young people under the age of 26 as well as fulltime students on the Faroe Islands over the age of 26.

Frequent flyer benefit scheme
In March of 2017, Atlantic Airways initiated a new frequent flyer benefit scheme and corporate customer discount after the main competitor cancelled the Eurobonus agreement with the airline. Travelers can collect súlu-points every time they fly with Atlantic Airways. When they have gathered enough points, they can use the points to purchase flights on all Atlantic Airways route networks. The airline intends to expand the súlu benefit scheme in 2018.

Competition
The new competition on the route to Copenhagen had a negative effect on the airline's operations in 2017, particularly due to lower average ticket price. 1% fewer passengers travelled on the airline's route network in 2017 compared to 2016, while the number of total travellers through Vagar airport increased by 17%.

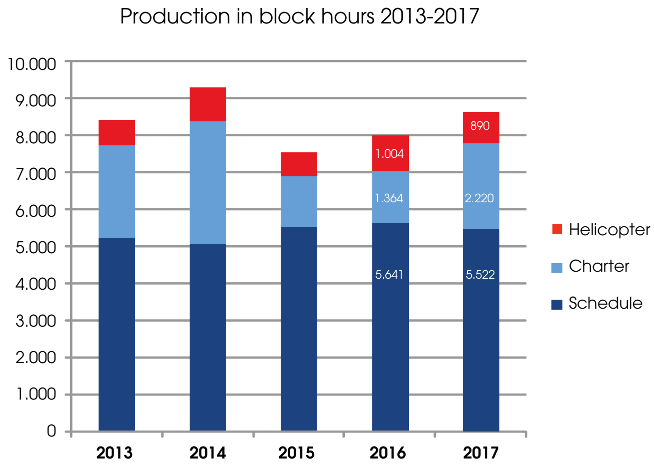
On-time performance improved
In 2017, departure punctuality, measured as scheduled departures within 15 minutes of scheduled departure time, was 87%. The airline's investment in the navigational system RNP AR 0.1 has been a main cause of the 12 percentage points improvement in departure punctuality these last 3 years. Using the most advanced airspace technology in Europe, all of Atlantic Airways' aircraft are capable of landing safely in significantly lower visibility than any other airline.

Financial Outlook 2018
As a result of the market competition, the airline expects the result for 2018 to be in the same range as 2017.

2.2 **Operational Review**

The total number of passengers on the company's scheduled services decreased in 2017 from 282,062 passengers in 2016 to 280,344 passengers in 2017. The decrease is 1%. The fixed-wing fleet was airborne for 7,742 block hours compared to 7,005 block hours in 2016. A production increase of 11%.

The total fleet production (the number of block hours) increased by 8% in 2017 compared to 2016 because of increased charter activity. Fixed-wing and rotor-wing aircraft were airborne for a total of 8,632 block hours in 2017 compared to 8,009 block hours in 2016.



Passengers	2017	2016	Change	Change
Scheduled services	280.344	282.062	-1.718	-1%
Helicopter services	13.089	11.804	1.285	11%

Block hours	2017	2016	Change	Change
Scheduled services	5.522	5.641	-119	-2%
Charter operations	2.220	1.364	856	63%
Total fixed wing	**7.742**	**7.005**	**737**	**11%**
Helicopter operations	890	1.004	-114	-11%
Total production	**8.632**	**8.009**	**623**	**8%**

Scheduled services accounted for 64% of fleet production in 2017, ACMI/charter operations for 26% and helicopter services accounted for 10%. In the 2016, scheduled services accounted for 70% of fleet production in 2016, ACMI/charter operations for 17% and helicopter services accounted for 13%.

Scheduled services decreased by 2% from 5,641 block hours in 2016 to 5,522 block hours in 2017.

ACMI/charter operations increased by 63% from 1,364 block hours in 2016 to 2,220 block hours in 2017.

Helicopter activity decreased in 2017 from 1,004 block hours in 2016 to 890 hours in 2017.

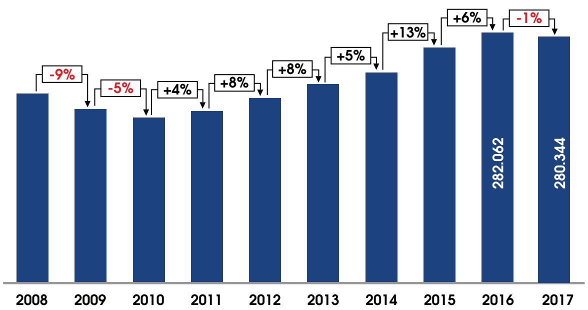
2.2 **Operational Review**

Scheduled Services

The total number of passengers carried on scheduled services decreased by 1% in 2017 to 280,344 passengers. The decrease was 1,718 passengers, which is a result of the new competition on the route to Copenhagen. Excess capacity on the Copenhagen route negatively affects average ticket price and load factor. The increase at Vágar airport in 2017 was 49,000 passengers, or 17%.

The seasonal fluctuations in scheduled traffic remains high. Frequencies to Danish airports vary from 15 per week during the traditionally low-activity winter season to 30 per week during high season in the summer season.

Scheduled Services: **Numbers of passangers**

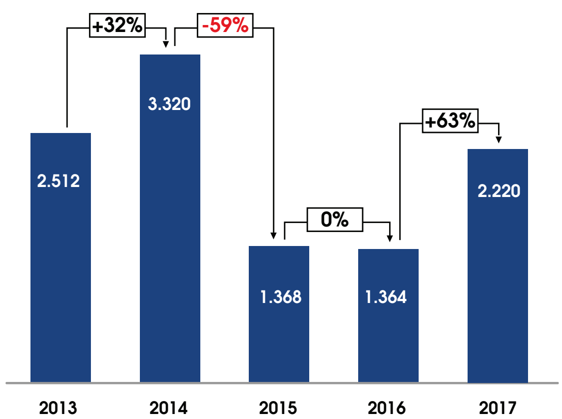


Charter operations

Charter/ACMI activity increased from 1,364 block hours in 2016 to 2,220 block hours in 2017.

In accordance with the airline's new objectives, only excess capacity not needed for scheduled services is sold to Charter/ ACMI activity in order to improve profitability. In 2017, the airline provided services such as charter series for various tour operators in Denmark and ad hoc flights in Europe, in addition to some block hours ACMI flights. The majority of the Charter activity has been for the popular Danish tour operators FolkeFerie.dk regarding charter tours from Denmark to various destinations in the south using part of the excess capacity 2017-2022.

Charter operations: **Block hours**

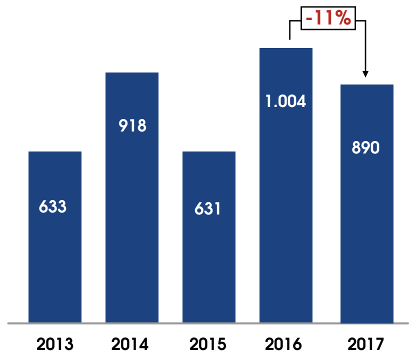


The contribution from ACMI/charter to the company's overall result is in general related to the number of hours sold and the average yield per hour, while turnover is significantly influenced by the type of charter operations. ACMI operations generate lower turnover as the customer (airline) carries a large proportion of flight expenses.

Helicopter operations

In 2017, helicopter operations were predominantly Search-and-Rescue (SAR) on behalf of the Faroese Ministry of Fishery and domestic transport to the most remote islands on behalf of SSL, the National Faroese Transport Company using two new AW 139 helicopters. The helicopters have been prepared for Search-and- Rescue (SAR) coverage 24 hours a day. The company's helicopters were airborne for 890 block hours in 2017 compared to 1,004 block hours in 2016. The contribution in this segment is primarily reflected in the level of provided helicopter capacity agreements in terms of search and rescue and domestic flights.

Helicopter operations: **Block hours**



There is a ten-year contract with the Faroese Ministry of Fishery and the Ministry of Transport, Infrastructure and Labor to provide helicopter Search and Rescue (SAR) and domestic transport to the most remote islands. The contract is in effect from 2016-2025. The service has improved significantly with these two new AW 139 helicopters, which can reach the 200 nautical mile limit of Faroese territorial waters, where they can perform rescue operations for 30 minutes. The helicopters have 14 seats, compared with 9 seats on the old Bell 412 helicopters.

The SAR service was called out on 62 occasions in 2017 compared to 96 occasions in 2016. The company has provided domestic helicopter services in the Faroe Islands since 1994 and SAR operations since 2001.

Since 2001, the company has assisted all oil companies involved in oil exploration in the Faroe Islands. The last oil exploration took place in 2014.

2.2 **Operational Review**

ATLANTIC AIRWAYS

Other income areas

Together with Vágar airport, Atlantic Airways has established the company P/F Duty Free, which operates duty-free sales in the airport. Atlantic Airways also operates cargo and mail transportation between the Faroe Islands and the world on its scheduled flights.

The Fleet

Three fixed-wing aircraft were in service at year-end 2017. One Airbus A320 and two Airbus A319. Two of them are in the company's ownership and one of the Airbus A319 is on lease contract. The A320 carries 168 passengers and the two A319 each carry 144 passengers. The average age of the fixed wing fleet is approx. 5 years.

An agreement was reached that would have entailed that another Airbus A320 would have been leased from the summer of 2017. However, the parties agreed to annul this agreement because repairs would have taken too long. Instead, the parties agreed to extend the lease of one of the Airbus A319 until April of 2019, when it will be redelivered.

In addition, the company has had an Avro RJ-100 in the company's ownership from August 2014 to January 2017 when it was sold.

In February of 2018, Atlantic Airways signed a leasing agreement with American company Air Lease for the long-term lease of a new Airbus A320neo. The aircraft is being built in the Airbus factory and will be delivered to the airline in the first quarter of 2019. This aircraft will predominantly service the Faroes/Copenhagen route.
The A320neo will have 174 seats, lower fuel consumption and lower CO_2 emissions than the current Airbus aircraft. The new aircraft will therefore seat more passengers than the current aircraft.

Atlantic Airways flies the most advanced airspace technology in Europe, according to manufacturer Airbus. The company has since 2014 operated the world's first RNP AR 0.1 approach combined with ILS. Atlantic Airways is using this advanced navigation technology at Vágar Airport with all the three aircraft and as a result Atlantic Airways can land safely in Vágar airport in significantly poorer weather conditions than any other airline. The RNP AR 0.1 procedures have enabled significantly higher on-time performance and flight regularity for the benefit of the customers compared to the previous years.

Aircraft fleet as of **Desember 31, 2017**

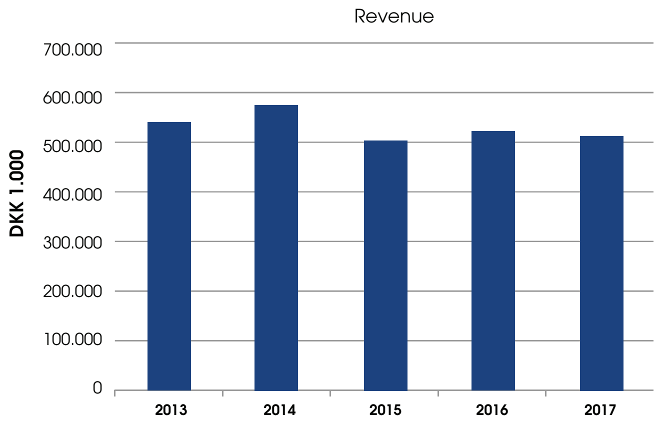
Fleet in service, excluding aircraft leased out	No.	Owned	Manufact.
A320	1	1	2016
A319	2	1	2009-2012
AW139	2	2	2015-2016

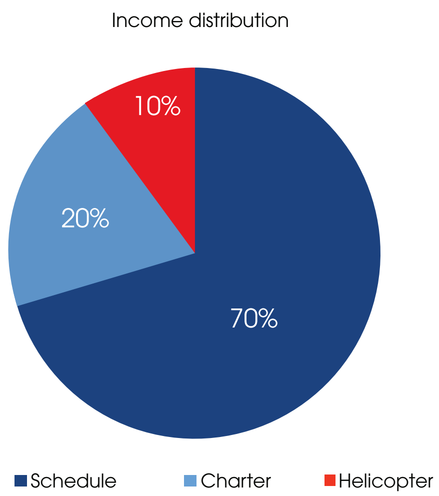
At year-end 2017, the helicopter fleet consisted of two Agusta Westland AW 139 helicopters. The average age of the rotor wing fleet is approximately 2 year.

Financial statement, 1 January – 31 December 2017

Revenue

Atlantic Airways total revenues was DKK 515.1 million in 2017 compared to DKK 523.5 million in 2016. The decrease was DKK 8.4 million. Passenger revenue has decreased due to lower ticket prices and income from charter activities increase because of increased activities in ACMI/charter.





Operations expenses

Operating expenses increased by DKK 4.2 million in 2017 to DKK 336.8 million compared to 2016. The increase is primarily due to higher charter activities.

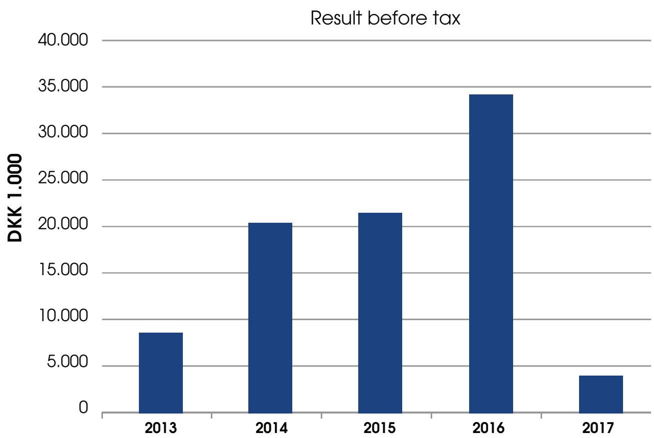
Fuel is one of the main operating expenses in aviation. In 2017, fuel costs accounted for 18% of the total operating expenses, compared with 17% in 2016. Changes in jet fuel price have a delayed effect on costs due to the airline's hedging policy.

Employee costs

Employee costs amounted to DKK 109.3 million in 2017 compared with 106.7 million in 2016. The number of full-time equivalent employees was 180 in 2017, compared with 173 in 2016. The increase is primarily due to increased staff for charter activities.

Depreciations

Depreciation and impairment amounted to DKK 56 million in 2017 compared with DKK 46 million in 2016.



Financial items

Net financial items amounted to DKK 15.7 million in 2017 compared with DKK 9.5 million in 2016. The increase is from fleet renewal. One new A320 aircraft and two new AW139 helicopters.

The result before tax was a profit of DKK 4.1 million in 2017 compared with DKK 34.1 million in 2016.

The result after tax for the year was a profit of DKK 3.3 million in 2017 compared with DKK 28.0 million in 2016. Return on equity before tax in in 2017 was 1 per cent compared with 13 per cent in 2016.

2.3 **Financial Review**

Balance sheet

Assets
Total non-current assets decreased by DKK 43 million in 2017 from DKK 671 million at the start of the year to DKK 628 million at year-end 2017.

Total current assets increased by DKK 14 million in 2017 from DKK 158 million by the start of the year to DKK 172 million at year-end 2017.

Available cash and cash equivalents at year-end 2017 was DKK 139 million compared with DKK 130 million at the start of the year.

Equity
Total equity as of 31 December 2017 was DKK 232 million and an equity ratio of 29%. Compared to the start of the year, equity has increased by 2% and the equity ratio has increased two percentage points.

Liabilities
The company's total liabilities as of 31 December 2017 was DKK 568 million compared with DKK 605 million at the end of 2016. Long-term debt has decreased from DKK 436 million from the start of the year to DKK 408 million by the end of 2017.

Balance sheet
The balance sheet total as of 31 December 2017 was DKK 799 million, which is DKK 29 million lower than the previous year.

Going concern disclosure
The Board of Directors and the Executive Management have in connection with the financial reporting process assessed whether it is justified that the going concern assumption be upheld. The Board of Directors and the Executive Management have concluded that on the reporting date there are no factors that give rise to doubts as to whether the company can or will continue operations until at least the next balance sheet date. Therefore, the financial report has been prepared in the reality of continued operations.

Allocation of profit/loss
The recommendation regarding the allocation of net profit/loss is shown in the income statement.

2.4 **Events after the End of the Financial Year**

In February of 2018, Atlantic Airways and Tryggingarfelagið LÍV entered into an agreement to build a new hotel in Tórshavn. LÍV will hold 60% of the share capital and Atlantic Airways will hold 40% of the share capital. The hotel will be built with approx. 130 rooms and is expected to be ready for usage in the first half of 2020. Atlantic Airways alone will manage operations of the hotel, which will be named “Hotell Atlantic.”

In February of 2018, Atlantic Airways signed a leasing agreement with American company Air Lease for the long-term lease of a new Airbus A320neo. The aircraft will be delivered to the airline in the first quarter of 2019. The lease is for 2027.

There have been no further events from the balance sheet date until today that might affect the true and fair view of the annual report.

2.5 **Outlook for 2018**

Aviation industry

The airline market in Europe is characterized by low ticket prices, a competitive environment and high regulatory cost. According to the International Air Transport Association (IATA), the growth rate in the European airline market in terms of traffic is expected to be lower in 2018 compared with 2017. The expected growth in traffic is estimated to be 6.0% in 2018 compared with 8.0% in 2017. The expected growth in capacity is estimated to be 5.5% in 2018 compared with 6.2% in 2017. The European traffic growth in 2017 was significantly higher than expected a year ago.

The industry structure is changing with several airlines registering the staff in low tax countries, and low price airlines are reaping profits. The commercial airline industry is linked to the strength of the economy in the relevant markets.

Fuel prices increased in 2017 and are expected to increase even more in 2018.

Faroese economy

According to the Faroese Economic Council, the Faroese economy is estimated to increase 0.5% in current prices in 2018 compared with 6.2% in 2017. Faroese economic growth is not measured in fixed prices. Based on the consumer price index, the Faroese economy is currently characterized by a deflation of 1.0%. It is therefore likely that the economy is also growing in fixed prices. The confidence indicators prepared by Statistics Faroes about the future development in the Faroese economy show that household optimism in the Faroe Islands is lower than one year ago.

Sceduled

In 2018, Atlantic Airways offers its passengers flights between the Faroe Islands to 11 different destinations: Copenhagen, Billund, Aalborg, Bergen, Reykjavík, Edinburgh, Barcelona, Mallorca, Lisbon, Malta and Gran Canaria.

The airline's aircraft maintain frequent connections between the Faroe Islands and Copenhagen in addition to regular flight, summer and winter, to Billund and the NORTH routes: Reykjavík, Bergen and Edinburgh, except for a stop in flights to Scotland from January to March. The airline also offers the SUN routes with direct summer services from the Faroe Islands to Barcelona from May to October, to Mallorca from June to August, to Lisbon during July-August and to Malta as a new destination in 2018 from June through August.

Because of decreasing demand on the scheduled service to Bergen, there will be fewer departures and lower supply of seats on the Bergen route in 2018.

The airline expects an increase in total traffic in Vágar airport in 2018. However, excess capacity on the Copenhagen route is deemed to have a negative effect on the average ticket price.

Atlantic Airways is preparing for continued growth in Faroese tourism with a new energy-conserving Airbus A320neo in 2019 and a new hotel in 2020.

The airline connects the Faroe Islands to the surrounding world with regular, flexible and diverse route network and services for competitive prices.

Charter operations

Atlantic Airways' charter activities are based on using excess capacity not needed for scheduled services in order to improve profitability. In 2018, Atlantic Airways started flying for the popular Danish tour operators FolkeFerie.dk from Denmark to various destinations in the south. The contract with FolkeFerie.dk is in effect until 2023.

Moreover, in 2018, the airline will also provide services such as charter series for various tour operators in Denmark and ad hoc flights in Europe. The airline has also started working in the ACMI market with new international quality approval. The competition within charter activity is fierce

The volume of charter operations is expected to be higher in 2018 than in 2017.

Helicopter operations

Atlantic Airways connects the islands through scheduled helicopter flights to the remote islands and creates safety with helicopter Search and Rescue. As part of a ten-year contract with the Faroese Ministry of Fishery and the Ministry of Transport, Infrastructure and Labor, two new AW139 helicopters provide domestic transport to the most remote islands and helicopter Search and Rescue (SAR) coverage 24 hours a day. Production in 2018 will be approximately the same as in 2017.

Fiancial forecast for 2018

Based on this background, Atlantic Airways expects a lower full-year result after tax in 2018 on the same level as 2017. The competition on the Copenhagen route as well as other risks mentioned in the section 'Risk management' may affect the financial performance and this guidance.

2.6 **Ownership**

The remaining shares were redeemed in 2014-2015, which means that the Faroese government (The Faroese Ministry of Foreign Affairs and Trade) now is the sole owner of the company.

Share capital
Atlantic Airways' share capital remained unchanged at DKK 103,500,000. The share capital consists of one class of shares distributed over 1,035,000 shares, each with one vote per share.

Shareholders
The Faroese Ministry of Foreign Affairs and Trade owns 67% of the shares and 33% are the company's own shares.

Dividend
The board of directors propose that no dividend will be distributed to the shareholders at the Annual General Meeting in April 2018 in line with the proposal for the renationalization acts of the Faroese Parliament from February 2014. No dividend were paid out in 2017 regarding the financial year 2016.

Capital and share structure
The Board of Directors considers that the company's capital and share structures, its strategy and long-term value creation are in the best interest of the shareholder and the company.

2.7 **Corporate Governance**

In this part is the statement on corporate governance. This statement forms part of the management's review in Atlantic Airways' Annual Report for the period 1 January – 31 December 2017.

Atlantic Airways was delisted from the stock exchanges in Copenhagen and Reykjavik in 2014, which meant that the company is no longer subject to any recommendations on Corporate Governance. However, Atlantic Airways has nonetheless chosen to follow the Danish Recommendations on Corporate Governance and to comply with the recommendations where possible. A comprehensible table overview of the company's compliance with the Danish Recommendations, as well as explanations of departures, is provided on the company's website https://www.atlantic.fo/en/about-us/the-company/governance/corporate-governance/.

The Danish Recommendations on Corporate Governance were issued in May 2013 and last updated in November 2017. The amendments from November 2017 are valid from the fiscal year 2018. The recommendations in effect for the fiscal year 2017 were last updated in November 2014. The full version of the Danish Recommendations on Corporate Governance can be found on the website www.corporategovernance.dk

The following subsections address main aspects of corporate governance in Atlantic Airways.

Annual General Meeting

The Annual General Meeting represents the supreme authority in the affairs of the company, within the limits established by the Articles of Association, in the hands of the shareholders' meetings. The Annual General Meeting of Atlantic Airways shall be held before the end of April each year. Shareholders and their advisors may attend the Annual General Meeting, and the meetings are open to representatives of the press.

Board of Directors

The Board ensures a prudent organization of the company's business and manages the company's general affairs as well as ensures that the best interests of the company's shareholders are guarded. The Board seeks to promote the long-term development of the company and endeavours to keep the organization and operations consistent with the company's mission and strategy.

The Board of Directors consists of 6 members. Two of the members are elected by the employees. Election of board members among the staff is conducted in accordance with relevant legislation. The other 4 board members are elected at the Annual General Meeting.

All persons elected to the Board of Directors must be properly qualified, and be able to devote the time required by the duties involved. The specific requirements for the skills of board members should ideally take keen notice of the following preferred skills, competencies and characteristics: experience within the aviation industry or other related fields of transport, relevant commercial experience, personal management experience relevant to the company's scope and size, governmental relations and issues, financial management and investor relations, performance and cost management, legislative insight and/or professional experience and strategic expertise and/or change management experience. The listed skills are not only relevant skills and competencies of various members, but are also listed to ensure that the Board of Directors represents a diversity of relevant skills and knowledge.

The Chairman's role is to organize and chair the meetings, to act as a contact person to the executive management, prepare the meeting agenda and ensure timely release of meeting material to members before the meetings, ensure notice to the entire Board of meetings, ensure that the most significant issues of the company are addressed, ensure that legal requirements of the Board are met and to act as an external spokesman.

The main duty of the deputy chairman is to step in as acting Chairman of the Board, should this become necessary.

The Board of Directors appoints the CEO and other members of the Executive Management.

The Board of Directors convene when the Chairman deems it necessary or when one of the members or the CEO requests it.

The Board of Directors has held 9 meetings in 2017.

Board of Directors

Niels Mortensen, Chairman of the Board

Born: 28 October 1966 (male)
Address: Traðavegur 12, FO-100 Tórshavn, Faroe Islands
Joined the Board: March 2013
Special skills: Commercial experience
Chief Occupation: CEO of SMS P/F and NM Holding Experience: Danske Bank 1987-1992, P/F SMS 1992- Other board duties: P/F Petur Larsen og P/F Duty Free Education: Niels Brock Business School, Danske Bank Expiry of the current election period: April 2017
Considered independent of the Company.

Kaj Johannessen, Vice-chairman of the Board

Chairman of the Board 1 January – 8 March 2013 Vice-chairman 2009-2012, and from 14 May 2013 Chairman of the Nomination Committee 20133 Chairman of the Audit Committiee activities
Born: 8 November 1960 (male)
Address: Inni á Fløtum 13, FO-180 Kaldbak, Faroe Islands
Joined the Board: April 2009
Special skills: Expertise in financial and accounting matters, Governmental matters
Chief Occupation: CEO of P/F Farcod, P/F Enniberg og P/F Ametyst
Experince: CEO of P/F Enniberg since 2016. Advisor in the Ministry of Transport, Infrastructure and Labour 2015- 2016. Advisor in the Ministry of Finance 2013-2015. Advisor in the Ministry of the Interior 2008-2013. Senior Bank clerk in Føroya Banki (Bank Nordik) 2000-2008. Member of the chairmanship of the Faroese Council of Economic Advisers 2006-2009. Economist at Landsbanki Føroya 1993-2000 and Managing Director of Menningargrunnur Ídnaðarins 1990-1993. Examinator in economics at the Faroese University (Fróðskaparsetur Føroya) since 2001. Examinator in managerial economics at the Faroese Business Collage since 2009.
Other board duties: P/F Enniberg, P/F Farcod, P/F SMS, P/F Miðlon, Norriq Holding A/S and Investeringsselskabet af 5. Oktober 2012 Aps.
Education: Mr. Johannessen has a MSc in Economics and Business Administration from Copenhagen Business School 1990, specializing in Financing, International Business and Management Accounting Expiry of the current election period: April 2017.
Considered independent of the Company.

Laila Ísheim Hentze, Member of the board

Born: 5 January 1972 (female)
Address: Gróthúsvegur 10, FO-188 Hoyvík, Faroe Islands
Joined the Board: April 2014
Special skills: Commercial experience
Chief Occupation: CEO Gallup Føroyar
Experince: Televarpið, CEO 2003-2011
Other board duties: None
Education: Mrs. Hentze has a MSc in Business, Language and Culture from Copenhagen Business School Business School
Expiry of the current election period: April 2017
Considered independent of the Company.

Fróði Magnussen, Member of the Board

Born:18 July 1969 (male)
Address: Oman Viðarlund 15, FO-100 Tórshavn, Faroe Islands
Joined the Board: April 2016
Special skills: Education and experience in commercial business.
Chief Occupation: CEO Formula P/F
Experience: CEO Formula P/F since July 2009. Head of Business Development of Formula P/F, August 1996- July 2009. Project Manager, Datacentret. Aarhus School of Business, August 1993 – August 1996. Part time teacher at Føroya Handilsskúli since1997 (HD) since 1997.
Other board duties: Board member Formula 1998-2003 and again 2015-. Board member Formula Solution and chairman since foundation in 2003. Board member KT-felagið since 2010, Chairman in 2012-2014. Board member Framtak, since 2014. Board member Faroese Employer's Association since 2014. Substitute member Revenue Office Council since 2012 to 2016 when it was dismantled. Substitute member The Governmental Bank of the Faroe Islands 2016-.
Education: Cand. Merc; Aarhus Scool of Business.
Expiry of the current election period: April 2017
Considered independent of the Company.

Hanna Svabo, Member of the Board

Born: 11 April 1952 (female)
Address: Gerðisgøta 4, FO-370 Miðvágur, Faroe Islands
Joined the Board: May 2014
Special skills: Employee of Atlantic Airways
Chief Occupation: Head of Staff and industr Travel, Customer service
Experience: Employee of Atlantic Airways since 1988
Other board duties: None
Education: Office clerk, Medical secretary
Expiry of the current election period: April 2019
Considered dependent of the Company as employee representative.

Janus Rein, Member of the Board

Born: 29 May 1974 (male)
Address: Láarvegur 42, FO-100 Tórshavn, Faroe Islands
Jonied the Board: June 2014
Special skills: Employee of Atlantic Airways
Chief Occupation: Captain at Atlantic Airways
Experience: Employee of Atlantic Airways since 2005, Member of the Faroese Parliament (MP) 2011-2015
Other board duties: None
Education: In addition to beeing educated Airline Captain, Janus Rein is also educated Lawyer LL.B BA Laws from Copenhagen University, specilitation in business, tax, finance and capital matters. Besides this, Janus Rein is educated Merkonoma in finance, stock exchange analytisc, Airline Pilot Instructor and Master Mariner.
Expiry of the current election period:April 2019
Considered dependent of the Company as employee representative.

Audit Committee

The Board has not formed a separate Audit Committee. The Board of Directors decided at a board meeting in March 2010 in accordance with Article 29 of the Faroese Audit Act that the Board executes the activity of the Audit Committee. Kaj Johannesen is chairman of the audit committee.

Executive Management

The Executive Management of Atlantic Airways is made up of the Chief Executive Officer and the Chief Financial Officer, who are responsible for the daily operations of the company.

The main duty of the CEO is to oversee daily operations and through this follow the board's policy and instructions. The CEO reports directly to the Board on the performance of the company on a regular basis. He or she must also provide the Board and the company auditors with any relevant information concerning Atlantic Airways' operations, which they may request. The CEO is responsible for the company's compliance with relevant law, with regard to accounts and finances, and is responsible for safeguarding the company's assets. In addition, the CEO is the Accountable Manager for the airline and as such has the ultimate responsibility to comply with the standards and requirements set by the aviation authorities.

The company's CFO is in charge of finance, administration, HR, technical department, rotor-wing department and IT.

Jóhanna á Bergi, CEO

Born: 29 September 1970
Address: Traðagøta 18, FO-700 Klaksvík, Faroe Islands
Experince: Mrs. Á Bergi has been CEO of Atlantic Airways since September 2015. CEO of FaroeShip P/F 2006-2015, Sales and Marketing Director of JFK 1998-2006 and Sales Manager at Faroe Seafood 1994-1998.
Other board duties: Visit Faroe Islands P/F, Føroya Grunnurin and Norðoya Íløgufelag, P/F Norðoyatunnilin.
Education: Mrs. Á Bergi has a MSc in Management from Robert Gordon University 2004. Export and Marketing from the Danish School of Export and Marketing 1994

Marius Davidsen, CFO

Born: 31 July 1958
Address: Í Fornanum 3, FO-380 Sørvágur
Experience: Mr. Davidsen has been CFO of Atlantic Airways since January 2005. Mr. Davidsen has been involved with Atlantic Airways since it commenced operations in 1987/88. Financial manager since 1988 and deputy for the CEO since June 1993. Mr. Davidsen is also CEO of Duty Free P/F
Other board duties: Duty Free P/F
Education: Mr. Davidsen is educated from Business School in Tórshavn.

Authorized Signatories

The company is bound by the joint signature of a Chief Executive Officer and the Chairman of the Board, or by the joint signatures of two members of the Board of Directors.

Remuneration of Board and Management

The remuneration of the Board and Management are in accordance with the company's remuneration policy, available on the company's website. The remuneration policy was adopted by the Board of Directors and the General Meeting in April 2012.

The purpose of P/F Atlantic Airways' remuneration policy is to ensure appropriate corporate governance in the company and fulfil the long-term value creation for the company's shareholders.

The Board of Directors is remunerated with a fixed fee. The remuneration is not included in any sort of incentive or performance-related pay. The remuneration is set at DKK 120,000 a year. The chairman of the Board of Directors receives double the basic remuneration and the deputy chairman receives one and a half of the basic remuneration. Remuneration for the Auditing Committee is set at DKK 20,000 a year. The chairman of the auditing committee receives triple remuneration. If a board member assumes certain ad hoc tasks beyond the duty as board member, then the board sets a fixed remuneration for such tasks.
The remuneration reflects the competences, responsibility and efforts of the board members, the activity of the company, the scope of the workload and the number of board meetings.

Executive Management is contractually employed. The remuneration is reviewed and evaluated regularly. All adjustments to existing management contracts are made in writing and adopted by the Board of Directors.

Decisive to the remuneration to Executive Management is the objective to ensure the company's continued possibilities to attract and maintain the best qualified members of Executive Management. The details in the total remuneration to the Executive Management are comprised in consideration of market practice and the company's specific needs.

Remuneration of Executive Management may be comprised of fixed pay, value-based bonus and pension. The total level for the non-variable elements in the remuneration is established in consideration of market level, as e.g. the company's size and course of development are taken under consideration. Members of Executive Management receive defined contribution plans. There is currently no variable remuneration to members of the Executive Management.

Internal Control and Risk Management system relating to financial reporting

The Board and Executive Management have the overall responsibility for the company's risk management and internal control procedures in connection with the financial reporting process, including the adherence to legal and other requirements for presentation. The company's control and risk management systems are intended to effectively identify, manage and minimize the risk of error in the financial reporting process, and provides an adequate degree of certainty; though not complete certainty, that erroneous use of assets, losses and/or material errors and omissions in connection with the presentation of the accounts are avoided.

The Board and the Executive Management set out and approve overall policy, procedures, and control on important areas in connection with the presentation of accounts.

The Executive Management has the daily responsibility for legal and other requirements being adhered to as regarding the presentation of accounts, and regularly informs the Board on this matter.

The Board of Directors annually, and when it is deemed needed, reviews and discusses the applied accounting policies and changes in these, as well as significant estimates relating to the financial reporting.

The Board of Directors performs an annual assessment of the company's risk management and internal control procedures, including an overall assessment of risk in connection with presentation of accounts. Part of this assessment is to determine the risk of fraud, and possible changes required to reduce and/or eliminate such risk.

A reporting process has been established under which monthly reports are made to the Board of Directors, explaining deviations from the expected results and key figures for the business segments.

2.8 **Risk management**

Atlantic Airways is exposed to a number of significant risks, which may affect the business, financial results and long-term objectives. Both the Board of Directors and Executive Management incorporate the identification and management of risks as an integral part of their activities. By identifying substantial areas of risk, as well as areas of opportunity, at an early point, Atlantic Airways is able to act accordingly and take due measures in its operations. The Executive Management currently reports to the Board of Directors on the development within the most important areas of risk and compliance with adopted policies. The company's main operational risks are illustrated in the following sections.

General and specific risk

The profit and loss account can be affected by the economic conditions in the Faroese and international markets. In addition, the profit and loss account and the balance sheet can be affected by increased competition, changes in oil prices, changes in the price of carbon emission permits, changes in the European Emissions Trading Scheme, demand for airline travel, demand for fixed-wing and rotor-wing charter operations, the general level of cost, the weather and traffic disruption, volcanic ash, operations and accidents, regulation, technology, financial risk, credit risk, and currency risk.

The airline industry has relatively high fixed costs in connection with each flight. These expenses are not directly influenced by the number of passengers carried on each flight, and thus changes in load factor influence the profitability of the company. Atlantic Airways monitors the load factor closely to ensure prudent operation of flights.

Fuel price and the European Emissions Trading Scheme

As an essential and highly consumable resource in our operations, fuel is a material cost to the company. The volatility in the jet fuel price can significantly impact fuel costs and the operating results. Jet fuel costs represented 18% of the operating expenses in 2017 and fuel is settled in USD. Historically, there have been significant changes in fuel prices and operations are affected differently from year to year.

In order to manage the risk exposure of fuel price volatility, and subsequent impacts on the company's expenses, the Board has approved a policy to hedge fuel in DKK. Use of hedging means that the fuel cost per period is not as low as the spot-based price when prices decrease, however when spot prices increase the fuel cost also rises more slowly.
In 2012 aircraft operators became part of the European Emission Trading Scheme or EU ETS in short. Initially, the scheme encompassed all aviation in the EU and EFTA countries and to and from these countries. Later the EU restricted the scheme to only encompass aviation in the EU and EFTA countries in the years 2013 to 2023. Flights to and from the Faroe Islands are therefore not be covered at the moment.

The International Civil Aviation Organization, ICAO, has decided to establish a Global Market-Based Measure regarding carbon emission for international aviation. The measure is titled CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation). The measure is still to be finalised. Because of this, it is too early to say for certain what financial effect the CORSIA measure will have on the airline's operations. The airline continues to monitor the situation.

It is necessary for the company to purchase carbon emission permits for its flights in EU and EFTA countries. A minor quota of free CO2 emission allowances has been allocated to the company because of historical rights. The CO2 market has historically been volatile.

Weather and traffic disruption

The company is exposed to various disruptive factors such as adverse weather conditions (crosswind, turbulence, fog, frost and snow), volcanic ash and congested airports. Especially weather conditions across the Faroe Islands hamper flight operations and increase costs. In 2017, the company's cost of cancellations and disruption was DKK 4.9 million due to cancellations compared with 5.0 million in 2016. The new RNP AR 0.1 navigational system has improved regularity and expenses related to delays and cancellations.

Currency risk

The financial performance of the company can be significantly affected by changes in foreign exchange rates, especially between DKK and USD. Aircraft purchases, aircraft leasing payments, aircraft insurance and maintenance expenditure are mainly in USD. Part of revenues and cost are in GBP. The company continually evaluates the exposure to exchange rate fluctuations, particularly between the DKK and the USD.

The Board has approved a policy to hedge USD currency exposure from aircraft leasing.

Interest rate risk

The company is exposed to interest rate risks through investments and financing. As of 31 December 2017, the company had DKK 439 million. The company's total equity is still high in proportion to total assets. The equity ratio was 29% at year-end.

Liquidity risk

The company aims to maintain sufficient reserves of cash and cash equivalents in order to meet its liquidity requirements. The company's liquidity as at 31 December 2017 was DKK 139 million and deemed to be sufficient. The liquidity is affected by seasonality. The company has in addition access to DKK 30 million in credit facilities. The company's credit facility was unused as of 31 December 2017.

Market competition

The airline's main revenues stem from the scheduled flights between the Faroe Islands and the surrounding world. From 2006 to 2017, the airline was the sole operator on the Faroese route. Ever since March of 2017, the Scandinavian airline SAS has operated regular scheduled flights between Copenhagen and Vágar once a day. However, the competitor does not conduct flights on Tuesdays and Wednesdays during winter of 2017/18. The competitive situation entailing great excess capacity has had a negative effect on revenues and the company's result. The negative effect is also expected in 2018.

2.9 **Knowledge and Human resources**

Atlantic Airways' knowledge resources, here in particular human resources, are vital for the competitiveness of the company. The company considers relevant knowledge and work experience of great importance in all core areas of airline activity. Our objective is to develop and retain our qualified personnel and to be the company of first choice among the best people on the Faroese job market.

The company is the only one of its kind in the Faroe Islands, and therefore places great emphasis on educating and training local workforce, as well as keeping its employees up to date and providing those opportunities for further career development.

Beyond the company's own internal regulations and requirements on employees' abilities and qualifications, the company also has to comply with strict demands from the authorities to train and maintain the skills of its personnel, such as those performing flight operations, maintenance and ground-handling.

Safety management, quality assurance, sales, service and planning are other core functions in the airline needed to be taken care of at a professional level. Atlantic Airways therefore places great emphasis on improving qualifications in all areas of its business.

2.10 **Corporate Social Responsibility (CSR)**

CSR in Atlantic Airways 2017

At Atlantic Airways, we are committed to conducting our business in a responsible and transparent manner, striving to serve the Faroese society and community as well as to provide competitive services to our passengers, and to manage our social and environmental footprints.
Atlantic Airways is one of the largest enterprises in the Faroe Islands with 180 employees. We are linking the Faroe Islands with the world through scheduled connections to Denmark, Iceland, Norway, Britain and Spain, in addition to other SUN-destination. Also, we play an important role in developing tourism and in facilitating business in the Faroe Islands. Atlantic Airways also runs a helicopter operation providing domestic services and SAR operations in Faroese territories.
It is the airline's policy that all activities be conducted in such a manner that commercial, societal and environmental considerations are taken. Thus, we have defined three key areas steering our CSR focus, including a number of issues related to each key area:

• **Business operations:** Health & safety, environment, safety / compliance management

• **Workplace:** Employee satisfaction, well-being, education and competence development

• **Community:** Together we develop the Faroe Islands, sponsorships and donations

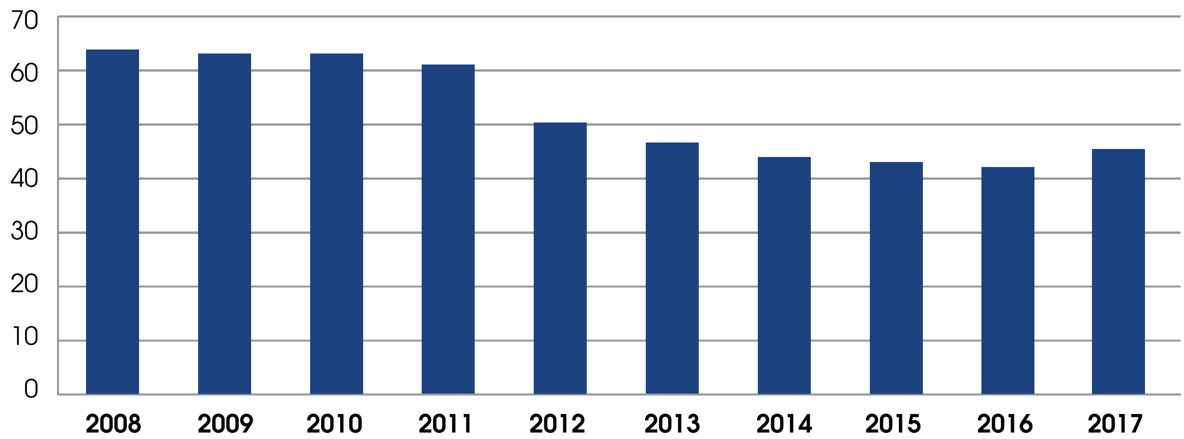
BUSINESS OPERATIONS

Environment
As an airline, our main environmental footprint stems from the fuel we use for our aircraft. Aviation is tied to oil consumption and also CO2 emissions, which are considered a cause of climate change. With increasing fuel costs, it makes sense business-wise and for the environment to do what we can to reduce our fuel consumption and CO2 emissions.

In 2008, procedures were changed in order to save fuel consumption. Furthermore, our fixed-wing fleet has also been changed from Avro RJ to Airbus A319. We will continue to renew the fleet in 2019 when a new Airbus A320neo will join the fleet. The Airbus A320neo has lower fuel consumption and lower CO2 emission than the current Airbus aircraft. In 2017, the average jet fuel burn per passenger on the scheduled services was 19 kilo lower on average, compared with the average consumption per passenger on the scheduled services in 2008. Converted to CO2 emission figures, this means that Atlantic Airways has reduced its emission by 60 kg/passenger on the scheduled services, or 30%.

In line with the company's fuel-saving efforts, an intensified aircraft-washing program has been established by Atlantic Airways, as using clean aircrafts equals less fuel burn. However, the majority of the fuel-saving measures are related to the operation of the aircraft.

Fuel burn per passengers, scheduled service (Kilo/passengers)



Finally, we are aware of our environmental impact in regard to the use of chemicals and toxic substances. These are required by aircraft manufacturers for maintenance, but we are very conscious of limiting our use to as little as possible. Also, we have procedures in place for the disposal of toxic materials. Waste is sorted between burning materials, non-burning materials, paper, fuel, lubricants and organic waste, and these are recycled or disposed in a controlled manner in order to minimize harm to the environment.

Health and Safety

It is central for our license to operate that we are in compliance with relevant legal and industry requirements in regard to health and safety issues. In addition, we are concerned about our employees, and do our outmost to ensure that they have a safe work environment. We are regularly conducting training in health & safety for our employees.

Each work-related accident or incident registered in 2016 has been evaluated, and mitigating measures have been taken to avoid repetition of these occurrences.

Safety management

Safety management is a structured approach to manage identified hazards, and eliminate/mitigate associated risks in both the operational, ground and technical environment. This proactive approach to safety is implemented in the company in addition to the system reactive approach, where reported events are investigated to a level, where possible non-compliances are identified and control measures put in place to eliminate the risk of their reoccurrence. The goal is to identify all hazards, report all occurrences, assess associated risks and mitigate to a level as low as reasonably practicable (ALARP).

'Just Safety Culture' is part of the system, in which each employee is encouraged to provide safety-related information in a non-punitive environment, but where there is also a clear line between acceptable and unacceptable behaviour.

In addition to the operational reporting system, Flight Data Monitoring (FDM) is essential for the fixed-wing fleet. From FDM data, we are able to identify possible hazards, which are not within operating procedures. From statistical and trend data, we are able to identify and predict where to increase our focus.

Within the technical environment, there is a strong focus to learn from mistakes and reduce human error events, which compromise the safety of the operating environment. This is systemized through the Maintenance Error Management System (MEMS), which encourages and facilitates incident reporting and investigation, utilizing human error events as learning tools.

Based on several years of reporting and investigation, the company has identified five 'Key Behaviours for Line and Base maintenance work, which is being fostered within the maintenance and inspection work processes to reduce mishaps and maintain safety.

These Key Behaviors are:

- Review maintenance instructions
  (before starting the work)
- Document job status
  (to ensure the next shift knows exactly, what has been done)
- Separate inspection (after critical tasks have been performed)
- A last set of eyes (after the job is done, just to make completely sure that the aircraft is left airworthy)
- Take a moment to focus (before undertaking a critical or demanding task)

Compliance management

Compliance management is the company's exercise to ensure that the outcome of the activities in operations and maintenance meets the regulatory, customer and company requirements. The quality policy is the foundation under the compliance management.

The performance of the compliance management system is evaluated 4 times per year by senior management. The evaluation is based on Key Performance Indicators from all departments, as well as the independent compliance monitoring reports from both internal and external (e.g. the aviation authorities) audits.

WORKPLACE

Employee satisfaction and well-being

Atlantic Airways is a major employer in the Faroe Islands, offering our employees highly skilled and international careers in an interesting industry. We aim to recruit, train and develop local talent in the Faroe Islands to ensure good jobs and at the same time ensure the long-term sustainability of our workforce.

At Atlantic Airways, we focus on our employees' satisfaction and well-being. Knowing that satisfied and motivated employees are more productive and efficient, we have initiated surveys among staff groups to measure job satisfaction and well-being. In 2016, a survey was conducted among all staff groups focusing on physical condition, communication and social environment. The survey showed that employee satisfaction is high.

Based on the survey, we have developed action plans focusing on improvements of key areas.

We strive to be an inclusive workplace, and in addition to normal hiring procedures, we also work with the local job centre with an aim to offer unemployed people job opportunities and training where appropriate. In addition, we continuously employ people on special conditions to allow them to have a job despite shortcomings to fulfil a normal job – either temporarily or permanently. In the unfortunate event that we have to lay off an employee, we do our outmost to help the person in his or her future career.

Education

The airline is the only one of its kind in the Faroe Islands and we and see this as a core responsibility to develop local talent in the Faroese work market. In a small society as the Faroese, it is central to be able to make it attractive for young people to either stay in the Faroe Islands or to return after their education abroad. Thus, we offer several education opportunities and also reach out to Faroese students abroad to promote the idea of a career with us.

In 2017 we:

- Opened our doors to more than 20 students in elementary school for their practicum
- Offered Faroese students at home and abroad training and seasonal positions during high-activity seasons as cabin attendants and in other service functions
- provided Airbus type-rating to 5 young Faroese airline pilots

Competence development

We have a significant focus on competence development of our employees. Our goal is to train and keep our competent employees on the Faroese work market. In addition, we are aware that this is a central parameter for employee satisfaction, ensuring the continuous development of each individual employee.

Our competence development activities can be divided into mandatory training (to maintain certificates, safety procedures etc.) and additional training (i.e. IT, management skills, communications etc.). In 2017, we spent around DKK 5.1 million on mandatory and additional training.

COMMUNITY

Developing the Faroe Islands together

As an active company in the Faroese community, Atlantic Airways exists to connect the Faroe Islands to the surrounding world and to tie the islands closer together and for safety. Atlantic Airways operates a regular, flexible and diverse route network from the Faroe Islands with competitive prices. We work closely with customers and the community to better our services and experiences. The reliable scheduled services allows our passengers young & old, strong & weak, people & cargo to travel for purposes of business & culture, fun & serious and in joy & sadness. For us, it is of the utmost importance that The Faroe Islands is a good place to live and work. This is why we stay in regular contact with local interest groups to find solutions and ideas as to how we may improve our services and products.

In addition, we are engaged with the broader development of business and the business community through the Faroese Employers' Association. A strong Faroese working market provides economic activity and jobs for people on the islands - and eventually business for us.

Finally, we are naturally engaged with tourism development and the international branding of the Faroe Islands abroad, as tourism is another potential growth opportunity for our business at the same time as it provides economic opportunity for the community.

Sponsorships and donations

Atlantic Airways is an active participant in Faroese society and we support Faroese sport and culture through sponsorships and other supportive actions, because we believe in a healthy sports and cultural community.

In sports, most sponsorships are centred on national teams and national unions. The company has been the main sponsor of the Faroese National Football Team since 1995. Atlantic Airways also supports the national teams in handball, volleyball, swimming, and chess. There is a general agreement in place with the ÍSF (National Sport Union) to support the smaller unions' international activities.

Atlantic Airways has among other things sponsored various music festivals. The latest initiative has been the foundation "Loftbrúgv," which has been established together with the Nordic House, Tórshavn Municipality and The Ministry of Culture. This foundation will support cultural activities abroad with regard to air travel.

In late 2016, Atlantic Airways established the art subsidy scheme Listaflog, whose purpose is to support Faroese art financially and through flight tickets on the scheduled services in connection with work with art or specific art projects. The annual total subsidy amount is DKK 100,000, which is distributed once every year on 28 March, which is the anniversary of Atlantic Airways' first flight.

3.1 **Management's Report**

The board of directors and the executive management have today presented the annual report of P/F Atlantic Airways for the financial year 1 January to 31 December 2017.

The annual report has been presented in accordance with the Faroese Financial Statements Act.

We consider the accounting policies used appropriate, and in our opinion the annual accounts provide a true and fair view of the company's assets and liabilities and its financial position as on 31 December 2017 and of the company's results of its activities in the financial year 1 January to 31 December 2017.

We are of the opinion that the management's review includes a fair description of the issues dealt with. The annual report is recommended for approval at the general meeting.

Sørvágur the 15th of March 2018

Executive Management:

Jóhanna á Bergi
CEO

Marius Davidsen
CFO

Board af directors:

Niels Mortensen
Chairman

Kaj Johannessen Næstformaður
Vice-chairman

Laila Hentze

Fróði Magnussen

Hanna Svabo

Janus Rein

This annual report was adopted at the Annual General Meeting on:

Chairman:

3.2 **Independent Auditor's Report**

To the shareholders of P/F Atlantic Airways

Opinion
We have audited the consolidated annual accounts and the annual accounts of P/F Atlantic Airways for the financial year 1 January to 31 December 2017, which comprise accounting policies used, profit and loss account, balance sheet, statement of changes in equity and notes, consolidated and for the company respectively and consolidated cash flow statement. The consolidated annual accounts and the annual accounts are prepared in accordance with the Faroese Financial Statements Act.

In our opinion, the consolidated annual accounts and the annual accounts give a true and fair view of the assets, liabilities and financial position, consolidated and for the company respectively at 31 December 2017 and of the results of the company's operations, consolidated and for the company respectively and of consolidated cash flows for the financial year 1 January to 31 December 2017 in accordance with the Faroese Financial Statements Act.

Basis for opinion
We conducted our audit in accordance with international standards on auditing and the additional requirements applicable in the Faroe Islands. Our responsibilities under those standards and requirements are further described in the below section "Auditor's responsibilities for the audit of the consolidated annual accounts and the annual accounts". We are independent of the company in accordance with international ethics standards for accountants (IESBA's Code of Ethics) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these standards and requirements. We believe that the audit evidence obtained is sufficient and appropriate to provide a basis for our opinion.

The management's responsibilities for the consolidated annual accounts and the annual accounts
The management is responsible for the preparation of consolidated annual accounts and annual accounts that give a true and fair view in accordance with the Faroese Financial Statements Act. The management is also responsible for such internal control as the management determines is necessary to enable the preparation of consolidated annual accounts and annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts and the annual accounts, the management is responsible for evaluating the group's and the company's ability to continue as a going concern, and, when relevant, disclosing matters related to going concern and using the going concern basis of accounting when preparing the consolidated annual accounts and the annual accounts, unless the management either intends to liquidate the group or the company or to cease operations, or if it has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated annual accounts and the annual accounts
Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts and the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report including an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with international standards on auditing and the additional requirements applicable in the Faroe Islands will always detect a material misstatement when it exists. Misstatements may arise due to fraud or error and may be considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions made by users on the basis of the consolidated annual accounts and the annual accounts.

As part of an audit conducted in accordance with international standards on auditing and the additional requirements applicable in the Faroe Islands, we exercise professional evaluations and maintain professional scepticism throughout the audit. We also:

• Identify and assess the risks of material misstatement in the consolidated annual accounts and the annual accounts, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

• Obtain an understanding of the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the company's internal control.

• Evaluate the appropriateness of accounting policies used by the management and the reasonableness of accounting estimates and related disclosures made by the management.

• Conclude on the appropriateness of the management's preparation of the consolidated annual accounts and the annual accounts being based on the going concern principle and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may raise significant doubt about the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts and the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and the company to cease to continue as a going concern.

• Evaluate the overall presentation, structure and contents of the consolidated annual accounts and the annual accounts, including the disclosures in the notes, and whether the consolidated annual accounts and the annual accounts reflect the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in the internal control that we identify during our audit.

Statement on the management's review
The management is responsible for the management's review.

Our opinion on the consolidated annual accounts and the annual accounts does not cover the management's review, and we do not express any kind of assurance opinion on the management's review.

In connection with our audit of the consolidated annual accounts and the annual accounts, our responsibility is to read the management's review and in that connection consider whether the management's review is materially inconsistent with the consolidated annual accounts and the annual accounts or our knowledge obtained during the audit, or whether it otherwise appears to contain material misstatement.

Furthermore, it is our responsibility to consider whether the management's review provides the information required under the Faroese Financial Statements Act.

Based on the work we have performed, we believe that the management's review is in accordance with the consolidated annual accounts or the annual accounts and that it has been prepared in accordance with the requirements of the Faroese Financial Statement Acts. We did not find any material misstatement in the management's review.

Tórshavn, 15th of March 2018

P/F JANUAR
State Authorized Public Accountants

Heini Thomsen
State Authorized Public Accountant

4.1 Income Statement for the year 2017

ATLANTIC AIRWAYS

(DKK 1,000)	Note	2017	2016
Net sales		508.181	518.413
Other income		6.932	5.120
Total revenue		**515.113**	**523.533**
Operating expenses		-336.803	-332.607
Employee expenditures	3	-109.312	-106.704
Total operating expenses		**-446.114**	**-439.311**
Result before depreciation, amort. and impairment (EBITDA)		**68.998**	**84.222**
Depreciations, amort. and impairment	4, 7, 8	-55.757	-45.973
Result before financial items (EBIT)		**13.242**	**38.249**
Financial income		86	88
Financial expenses		-15.735	-9.618
Net financial items		**-15.648**	**-9.531**
Share of profit/loss of associates	9	6.481	5.419
Result before taxes (EBT)		**4.074**	**34.137**
Income tax	6	-733	-6.145
Net Profit / Loss for the year		**3.341**	**27.993**

Distribution of profit at year-end		
Carried forward from previous year	133.373	108.293
Profit year-end	3.341	27.993
Total	**136.714**	**136.286**

Proposed distribution		
Moved to Reserve for net. val. acc. to the equity method	1.465	2.913
Carried forward to next year	135.250	133.373
Total	**136.714**	**136.286**

4.2 **Balance Sheet as at 31 December 2017**

ASSETS (DKK 1,000)	Note	31-12-2017	31-12-2016
Intangible assets	**7**	**3.912**	**3.213**
Aircraft and maintenance	8	568.491	611.133
Spare parts	8	2.179	2.188
Operating equipment	8	16.706	17.401
Hangar, buildings and land	8	26.332	28.236
Total tangible assets		**613.709**	**658.958**
Investment in associates	9	9.857	8.376
Other shares	9	271	271
Total financial assets		**10.127**	**8.646**
Total non-current assets		**627.748**	**670.818**
Inventories		**211**	**621**
Trade receivables		16.049	14.116
Prepayments	10	2.022	1.246
Other receivables	11	10.859	10.474
Other shares		36	53
Derivatives	12	4.350	1.661
Total receivables	**13**	**33.316**	**27.552**
Cash and cash equivalents		**138.721**	**129.860**
Total current assets		**172.247**	**158.033**
TOTAL ASSETS		**799.995**	**828.850**

4.2 **Balance Sheet as at 31 Desember 2017**

EQUITY AND LIABILITIES (DKK 1,000)	Nota	31-12-2017	31-12-2016
Share capital	19	103.500	103.500
Value adjustm. of cash flow hedges	19	-14.427	-19.717
Reserve for net. val. acc. to the equity method	19	8.062	6.597
Retained earnings	19	135.250	133.373
Proposed dividend	19	0	0
Total equity		**232.384**	**223.754**
Deferred income tax liabilities	6	39.758	37.863
Total provisions		**39.758**	**37.863**
Mortgage loans	16	407.770	436.386
Total long-term debt		**407.770**	**436.386**
Mortgage loans	16	31.096	31.096
Trade payables		23.379	25.398
Current income tax liabilities	6	0	0
Deferred income and accruals	15	64.689	67.192
Derivatives	12	919	7.161
Total short-term debt		**120.083**	**130.847**
Total liabilities		**567.611**	**605.096**
TOTAL EQUITY AND LIABILITIES		**799.995**	**828.850**
Mortgaging and contigent liabilities etc.	17		

4.3 **Statement of Changes in Equity**

(DKK1,000)	Share-capital	Hedging reserve.	Reserve for net. val. acc. to the equity method	Retained earnings	Proposed dividend	Total
Equity at 01.01.2016	**103.500**	**-25.504**	**3.684**	**108.293**	**-**	**189.974**
Result for the period	-	-	-	27.993	-	27.993
Value adjustm. of cash flow hedges	-	5.787	-	-	-	5.787
Revaluation reserve for net. val. acc. to the equity method	-	-	2.913	-2.913	-	-
Proposed dividend	-	-	-	-	-	
Dividends paid	-	-	-	-	-	-
Equity at 31.12.2016	**103.500**	**-19.717**	**6.597**	**133.373**	**-**	**223.754**
Equity at 01.01.2017	**103.500**	**-19.717**	**6.597**	**133.373**	**-**	**223.754**
Result for the period	-	-	-	3.341	-	3.341
Value adjustm. of cash flow hedges	-	5.289	-	-	-	5.289
Revaluation reserve for net. val. acc. to the equity method	-	-	1.465	-1.465	-	-
Proposed dividend	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-
Equity at 31.12.2017	**103.500**	**-14.427**	**8.062**	**135.250**	**-**	**232.384**

There are no changes in the share capital.

4.4 **Cash Flow Statement**

(DKK 1,000)	Note	2017	2016
Net profit/loss for the period		**3.341**	**27.993**
Depreciations		55.757	45.973
Taxes		733	6.145
Adjustments		**56.490**	**52.118**
+/- trade receivables		-1.933	2.263
+/- prepayments		-775	17.191
+/- other receivables		-385	-360
+/- inventories		410	-268
+/- investment in assosiates and other shares		-1.464	-2.944
+/- trade payables		-2.019	6.701
+/- deferred income and accruals		-2.503	3.634
Changes in operating assets andliabilities		**-8.669**	26.218
Cashflow from operating activities		**51.162**	**106.329**
Purchase of intangible, tangible assets and prepaid aircraft	7, 8	-13.396	-284.648
Sale of intangible and tangible assets	7, 8	2.191	10.604
Cash flows from investing activities		**-11.206**	**-274.044**
Proceeds from new loans		0	290.000
Changes of long-term loans		-31.096	-15.313
Credit lines		0	-20.089
Cash flows from financing activities		**-31.096**	**254.598**
Total cash flows for the period		8.861	86.883
Cash and cash equivalents at the beginning of the period		129.860	42.977
Cash andcash equivalents at the endof the period		**138.721**	**129.860**

The company has in addition to the cash equivalents access to DKK 30 million in credit facilities.

4.5 Overview of Notes

1. Segment information
2. Specification of numbers of passengers
3. Employee expenditures
4. Depreciation, amortisation impairments
5. Auditors remuneration
6. Income tax
7. Intangible assets
8. Tangible assets
9. Non-current assets
10. Prepayments
11. Other receivables
12. Derivatives
13. Receivables
14. Own shares
15. Deferred income and accruals
16. Long-term debt
17. Mortgaging and contingent liabilities etc.
18. Related parties
19. Equity
20. Events after the end of the financial year
21. Accounting principles

1. Segment information	Aircraft Services		Helicopter Services		Total	
(DKK 1.000)	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Income statement						
Net sales	459.491	470.804	48.690	47.609	508.181	518.413
Other income	6.932	5.120	0	0	6.932	5.120
Total revenue from external customers	**466.423**	**475.924**	**48.690**	**47.609**	**515.113**	**523.533**
Operating expenses	457.423	441.295	44.449	43.989	501.871	485.284
Operating result	**9.000**	**34.629**	**4.241**	**3.620**	**13.242**	**38.249**
Effects of associated companies	-	-	-	-	6.481	5.419
Financial income	86	88	0	0	86	88
Financial expenses	-11.033	-5.268	-4.702	-4.350	-15.735	-9.618
Result before tax	**-1.946**	**29.449**	**-461**	**-730**	**4.074**	**34.137**
Income tax expense	-	-	-	-	-733	-6.145
Profit					**3.341**	**27.993**

Geographical segments	Faroe Islands		Europe		Total	
Revenue comprises the following markets:	2017	2016	2017	2016	2017	2016
Total revenue from external customers	**267.547**	**283.293**	**247.566**	**240.240**	**515.113**	**523.533**

2. Specification of numbers of passengers	**2017**	**2016**
Passengers scheduled services	280.344	282.062
Passengers ACMI/charter operations	94.765	45.939
Passengers fixedwing	**375.109**	**328.001**
Passengers helicopter	13.089	11.804
Total passengers	**388.198**	**339.805**
Block hours		
Block hours scheduled services	5.522	5.641
Block hours ACMI/charter operations	2.220	1.364
Block hours fixed wing	**7.742**	**7.005**
Block hours helicopter	890	1.004
Total block hours	**8.632**	**8.009**
Income overseas:		
Export value in DKK (1,000)	247.566	240.240
Export value in %	49%	46%

3. Employee expenditures (DKK 1,000)	2017	2016
Wages	-92.986	-92.101
Pensions	-7.617	-6.945
Expenses for social security	-4.337	-3.726
Other employee expenditures	-4.372	-3.933
Bonus	0	0
Total	**-109.312**	**-106.704**
Remuneration Management and Board:		
Stjórn:		
Jóhanna Á Bergi, CEO, Wages	-1.218	-1.218
Jóhanna Á Bergi, CEO, Pensions	-180	-180
Jóhanna Á Bergi, CEO, Bonus	0	0
Marius Davidsen, CEO, Wages	-1.035	-1.035
Marius Davidsen, CEO, Pensions	-153	-153
Marius Davidsen, CEO, Bonus	0	0
Board:		
Niels Mortensen, Chariman, Wages	-260	-260
Kaj Johannesen, Vice-chairman, Wages	-240	-240
Søren Jespersen, Wages	0	-47
Laila Hentze, Wages	-140	-140
Fróði Magnussen, Wages	-140	-93
Hanna Svabo, Wages	-140	-140
Janus Rein, Wages	-140	-140
Total	**-3.646**	**-3.646**
Number of employees	180	173

4. Depreciation, amort. and impairments (DKK 1,000)	2017	2016
Amortisation of intangible assets	-1.953	-1.804
Depreciation of tangible assets	-53.804	-44.169
Impairments of tangible assets	0	0
Total depreciation, amortisation and impairments	**-55.757**	**-45.973**

5. Auditors remuneration (DKK 1,000)	2017	2016
Audit	-250	-250
Other services	-33	-115
Total	**-283**	**-365**

6. Income tax (DKK 1,000)	2017	2016
Taxes	0	0
Changes in deferred taxes during the period	-733	-6.145
Total taxes	**-733**	**-6.145**
Deferred income taxliabilities as of Jan 1st	37.863	30.448
Changes in deferred income taxes during the period	733	6.145
Taxes recognised in equity	1.161	1.270
Deferred income tax liabilities at the end of the period	**39.758**	**37.863**

7. Intangible assets (DKK 1,000)	Development expenditures	Software	Total
Acquisition value as of Jan 1st	1.783	19.523	21.305
Additions during the period	0	2.651	2.651
Disposal during the period	0	-2.931	-2.931
Acquisition value as of December 31st	**1.783**	**19.523**	**21.025**
Amortisations as of Jan 1st	-645	-17.447	-18.092
Amortisations during the period	-621	-1.332	-1.953
Amortisations of disposal	0	2.931	2.931
Amortisations as of December 31st	**-1.266**	**-15.848**	**-17.113**
Book value as at December 31st 2017	**517**	**3.394**	**3.912**
Book value as at December 31st 2016	***1.138***	***2.075***	***3.213***

8. Tangible assets (DKK 1,000)

2017	Aircraft and maintenance	Spare-parts	Operating Equipment	Hangar buildings and land	Total
Acquisition value as of Jan 1st	781.303	3.100	32.963	45.577	862.944
Additions during the period	6.774	253	3.718	0	10.745
Disposal during the period	-77.430	0	-2.879	0	-80.309
Acquisition value as of December 31st	**710.647**	**3.354**	**33.802**	**45.577**	**793.380**
Depreciations and impairments as of Jan 1st	-170.170	-912	-15.562	-17.341	-203.986
Depreciations during the period	-47.403	-263	-4.235	-1.904	-53.804
Depreciations and impairments of disposal	75.418	0	2.700	0	78.118
Depreciations and impairments as of December 31st	**-142.155**	**-1.175**	**-17.096**	**-19.245**	**-179.671**
Book value as at December 31st 2017	**568.491**	**2.179**	**16.706**	**26.332**	**613.709**
Book value as at December 31st 2016	*611.133*	*2.188*	*17.401*	*28.236*	*658.958*

9. Non-current assets (DKK 1,000)	Investment in associates	Investment in other shares
Acquisition value as of Jan 1st	1.795	1.271
Additions during the period	0	0
Disposal during the period	0	0
Acquisition value as of December 31st	**1.795**	**1.271**
Revaluations as of Jan 1st	6.581	-1.000
Share of result acc. to the latest financial statement	6.481	0
Dividens paid durind the period	-5.000	0
Revaluations as of December 31st	**8.062**	**-1.000**
Book value as at December 31st 2017	**9.857**	**271**
Book value as at December 31st 2016	***8.376***	***271***

The equity proportion in associatedcompanies is dividedas follows:

Name	Domicile	Equity -portion*	Equity*	Net profit*
Duty Free P/F	Sørvágur	50%	16.900	12.573
Green Gate Incomming	Tórshavn	49%	1.480	95
P/F Gjáargarður P/F	Gjógv	31%	2.235	486

** According to the latest financial statements*

10. Prepayments (DKK 1,000)	2017	2016
Prepaid rental expences	87	79
Other prepayments	1.935	1.167
Prepayments total	**2.022**	**1.246**

11. Other receivables (DKK 1,000)	2017	2016
Deposit	6.828	4.309
Other receivables	4.031	6.165
Other receivables total	**10.859**	**10.474**

12. Derivative financial instrumetns (DKK 1,000)	2017	2017	2016	2016
	Assets	Liabilities	Assets	Liabilities
Forward exchange contracts	0	919	1.661	0
Fuel oil swap transactions	4.350	0	0	7.161
Derivatives total	**4.350**	**919**	**1.661**	**7.161**

13. Receivables

All receivables are due and payable within one year.

14. Own shares	Number		Nominal value (1,000 DKK		% of Share capital	
	2017	2016	2017	2016	2017	2016
Jan 1st	341.550	341.550	34.155	34.155	33%	33%
Addition	0	0	0	0	0%	0%
Disposal	0	0	0	0	0%	0%
December 31st	**341.550**	**341.550**	**34.155**	**34.155**	**33%**	**33%**

15. Deferred income and accruals (DKK 1,000)	2017	2016
Defeered income, tickets	32.156	34.303
Holiday allowances	5.283	5.054
Accruals	27.249	27.834
Total	**64.689**	**67.192**

16. Long-term debt (DKK 1,000)

	Liab. Dec. 31st 2017	Short-term debt 0-1 year	Due for payment after 5 years	Liab. Dec. 31st 2016
Mortgage loans	438.866	31.096	262.361	467.482
Total long-term debt	**438.866**	**31.096**	**262.361**	**467.482**

Total long-term debt includes interest swap liabilities.
The company has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period (2016: the same).

17. Mortgaging and contingent liabilities etc.
Aircraft with a book value as at 31. December 2017 of DKK 569 million are mortgaged for DKK 711 million. As a lessee the Company has in place operating leases for 1 A319 aircraft and 1 A320 NEO aircraft.

The leasing obligations are:
In the year 2018: DKK 12,7 million
After 5 years: DKK 80,7 million

The company has rented administration facilities from Vagar Airport in the new Terminal building.
The agreement may not be terminated until 2022. The yearly payment is DKK 0.8 million.

18. Related parties

Control:	**Basis of influence**
Uttanríkis- og Vinnumálaráðið (Faroese Ministry of Forreign Affairs and Trade), Gongin 7, 100 Tórshavn	Majority shareholde

Significant influence:

The Company has in 2017 provided helicopter services to the Ministry of Transport, Infrastucture and Labour amounted to DKK 14.3 million (2016: DKK 14.3 million) and to the Faroese Ministry of Fisheries amounted to DKK 30.1 million (2016: DKK 30.1 million). The Company has not granted loans, provided security, recourse guarantee or guarantee obligations to the principal shareholder.

All transactions are priced on an arm's length basis.

The Company has not traded with, granted loans, provided security, recourse guarantee or guarantee obligations to the Board of Directors, the Board of Executives or to non-group enterprises in which the parties concerned are interested.

Associated company's	
P/F Green Gate Incoming	(Note 9)
P/F Gjáargarður	(Note 9)
P/F Duty Free	(Note 9)

The Company has not been involved in trade of particular importance with associated companies.
The Company has not granted loans, recourse guarantee or guarantee obligations to the associated companies.

Transactions with associates are priced on an arm's length basis.

19. Equity

Share capital
The share capital amounting to DKK 103.500.000 is divided in 1.035.000 shares of DKK 100. The shares are not divided in different categories.

Value adjustm. of cash flow hedges reserve
The value adjustm. of cash flow hedges reserve comprises the cumulative net change in the fair value of hedging transactions that qualify for recognition as a cash flow hedge and where the hedged transaction has not been realised.

Reserve for net value according to the equity method
Unrealised gains and losses arising from changes in the fair value of financial assets classified as associated companies are recognised in equity as reserve for net value according to the equity method.

Retained earnings
Retained earnings from the year and previous years. Retained earnings include purchase of own shares for the total of DKK 69.4 million.

Proposed dividend
Proposed dividends for the year is disclosed as a separate item under equity named: Proposed dividend. Proposed dividends are recognised as a liability when the proposed dividends are adopted at the annual general meeting.

20. Events after the End of the Financial Year

In February of 2018, Atlantic Airways and Tryggingarfelagið LÍV entered into an agreement to build a new hotel in Tórshavn. LÍV will hold 60% of the share capital and Atlantic Airways will hold 40% of the share capital. The hotel will be built with approx. 130 rooms and is expected to be ready for usage in the first half of 2020. Atlantic Airways alone will manage operations of the hotel, which will be named “Hotell Atlantic.”

In February of 2018, Atlantic Airways signed a leasing agreement with American company Air Lease for the long-term lease of a new Airbus A320neo. The aircraft will be delivered to the airline in the first quarter of 2019. The lease is for 2027.

There have been no further events from the balance sheet date until today that might affect the true and fair view of the annual report.

21. Accounting Principles

P/F Atlantic Airways (the "Company") is a limited liability company incorporated and domiciled in Faroe Islands. The address of the Company's registered office is at Vágar Airport in Sørvágur, Faroe Islands. The financial statements of the Company for the period January 1, to December 31, 2017 comprise the Company and the Company's interests in associates. Atlantic Airways is an airline company focused on passenger and cargo transportation and is formed of three business divisions: Schedule Services, Charter Services, and Helicopter Services. The Schedule Services and Charter Services had 3 aircraft in service as at 31 December 2017, supported by 169 employees with the operational base at Vágar. In the Helicopter Services there were 2 helicopters in service as at 31 December 2017 supported by 11 people with the operational base at Vágar. Faroese Ministry of Foreign Affairs and Trade owns 67% of the total share capital of Atlantic Airways P/F and 33% are the company's own shares.

Basis of preparation

a. Statement of compliance
The annual report of Atlantic Airways P/F for the period 1 January – 31 December 2017 has been prepared in accordance with the Faroese Financial Statements Act, Class C large.

The annual report were approved by the board of directors on March 15, 2017. The board of directors can amend the annual report after issue up until the Annual General Meeting on April 12, 2017.

b. Basis of measurement
The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value. The methods used to measure fair values are discussed further in note on page 48.

c. Functional and presentation currency
The financial statements have been prepared in Danish krona (DKK), which is the Company's functional currency.

d. Use of estimates and judgements
The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The company does not think there is a significant risk that the estimates and assumpions used in preparing this financial statement will cause a materiel adjustments to the carrying amount of asset and liabilities within the next financial year.

Changes in accounting principles
There have been no changes in accounting principles. The financial statement for the period 1 January to 31 December 2017 is presented in accordance with Faroese Financial Statements Act, Class C large.

a. Investment in associates

(i) Associates

Associates are those entities in which the Company has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are initially recognised at cost. The Company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The financial statements include the Company's share of the total recognised gains and losses and equity movements of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Company's share of losses exceeds its interest in an associate, the Company's carrying amount including any long-term investments is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has an obligations or made payments on behalf of the investee.

b. Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on retranslation are recognised in the income statement.

c. Financial instruments

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the assets.

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise long-term receivables and deposits, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.
Cash and cash equivalents comprise cash balances and call deposits.

Accounting for finance income and expenses is discussed later in note on page 48.

All other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency, fuel price exposures, and interest rate risk. Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below. The Company holds no trading derivatives.

Trading derivatives are classified as a current asset or liability. The full fair value of a hegding derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and, as a current asset or liability, if the maturity of the hegded item is less than 12 months.

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in profit or loss as foreign currency gains and losses.

Other non-trading derivatives
When a derivative financial instrument is not held for trading, and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss.

(iii) Securities
Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the assets.

Securities are measured at fair value, which for listed securities is the market price, and estimated fair value for non-listed securities are calculated using generally recognised valuation methods.

Other shares comprises shares, where the company holds less than 20% of the the voting power of another entity.
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories.They are included in non-current assets unless the investment matures or management intends to dispose of in within 12 months of the end of the reporting period.
Changes in the fair of securities classified as available for sale are recognised in financial items.

(iiii) Share capital
Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

d. Operating assets
(i) Recognition and measurement
Støðisogn verður innroknað til útveganarvirði frádrigið Items of operating assets are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of operating assets. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of operating assets have different useful lives, they are accounted for as separate items (major components) of operating assets.

Gains and losses on disposal of an item of operating assets are determined by comparing the proceeds from disposal with the carrying amount of operating assets and are recognised net within "other operating revenue" in the income statement.

(ii) Aircrafts, helicopters, flight equipment, hangar, offices and house
Aircrafts, helicopters and flight equipment, e.g. aircraft engines and aircraft spare parts, are measured at cost less accumulated depreciation and accumulated impairment losses. When aircrafts are acquired the purchase price is divided between the aircraft itself and engines. Aircrafts are depreciated over the estimated useful life of the relevant aircraft until a residual value is met. Engines are depreciated according to flown cycles. When an engine is overhauled the cost of the overhaul is capitalised and the remainder of the cost of the previous overhaul that has not already been depreciated, if there is any, is expensed in full.

(iii) Subsequent costs
The cost of replacing part of an item of operating assets is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in the income statement as an expense as incurred.

(iv) Depreciation
Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each item of operating assets. The estimated useful lives for the current and comparative periods are as follows:

	Useful life	Residual Value
Aircrafts	15-17 years	0
Helicopters	17 years	0
Spare parts	10-15 years	0
Operating equipment	3-10 years	0
Primary maintenance exp.	5-12 years	0
Hangar, buildings and land	5-25 years	0

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Land is not depreciated.

Minor assets with an expected useful life of less than loss account in the year are recognized as costs in the profit and of acquisition.

e. Intangible assets
(i) Intangible assets
Intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised in the income statement on a straight-line basis over the estimated useful lives as follows:

	Useful life	Residual Value
Software	3-5 years	0
Development expenditures	3 years	0

Development expenditures comprise pilot type rating costs.

(ii) Subsequent expenditure
Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

f. Leased assets
Leasing contracts where the terms of the lease transfer substantially all the risks and benefits of the asset to Atlantic Airways are reported as finance leases. All other lease contracts are classified as operating leases.

All operating leases are not recognised on the Company's balance sheet.

g. Inventories
Goods for resale and supplies are measured at the lower of cost and net realisable value. The cost of inventories is based on first-in first-out principle and includes expenditure incurred in acquiring the inventories in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Aircraft equipment is capitalised at the foreign exchange rate ruling at the date of acquisition.

h. Trade receivables
Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

i. Cash and cash equivalent
Cash and cash equivalent includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with orginal maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

j. Impairment
(i) Financial assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics. All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

The Company assessess at the end of each reporting whether there is objective evidence that other assets "available-for-sale" is impaired.

(ii) Non-financial assets
The carrying amounts of the Company's non-financial assets other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash- generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

k. Provisions
A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Overhaul commitments relating to aircrafts under operating lease
With respect to the Company's operating lease agreements, where the Company has a commitment to maintain the aircraft, provision is made during the lease term for the obligation based on estimated future cost of major airframe and certain engine maintenance checks by making appropriate charges to the income statement calculated by reference to the number of hours or cycles operated during the year.

Provisions are entered into the Balance Sheet among trade and other payables.

l. Deferred income
Sold unused tickets and other prepayments are presented as deferred income in the balance sheet.

m. Borrowing costs
General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

n. Operating income
(i) Transport revenue
Passenger ticket sales are not recognised as revenue until transportation has been provided. Sold refundable documents not used within twelve months from the month of sale are recognised as revenue. Sold not used, non-refundable documents are recognised as revenue two months after expected transport. Revenue from mail and cargo transportation is recognised in the income statement after transportation has been provided. Revenue is measured exclusive of VAT and discounts.

(ii) Aircraft and aircrew lease
Revenue from aircraft and aircrew lease is recognised in the income statement when the service has been provided at the end of each charter flight.

(iii) Other operating revenue
Revenue from other services rendered is recognised in the income statement when the service has been provided.

Gain on sale of operating assets is recognised in the income statement after the risks and rewards of ownership have been transferred to the buyer.

o. Lease payments
(i) Operating lease payments
Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

The lease contracts require the aircraft to be returned at the end the lease in accordance with the specific redelivery conditions stated in the lease contracts. To meet this requirement, the company 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.

p. Finance income and expenses
Finance income comprises interest income on funds invested, dividend income, foreign currency gains, exchange fluctuation and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Company's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss.

Foreign currency gains and losses are reported on a net basis.

q. Income tax
Income tax on the profit or loss for the year comprises only deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

r. Segment reporting
A segment is a distinguishable component of the Company that is engaged in providing products or services (business segments) and which is subject to risks and rewards that are different from those of other segments. The Company's primary format for segment reporting is based on business segments. The business segments are determined based on the Company's management and internal reporting structure. The major revenue-earning assets of the Company are the aircraft and helicopter fleet, the majority of which are registered in Faroe Islands. Since the Company's aircraft fleet is employed flexibly across its route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly investments and related revenue, loans and borrowings and related expenses, corporate assets and head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

Determination of fair values
A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair

values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Derivatives
The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate based on government bonds.

(ii) Non-derivative financial liabilities
Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

Segment reporting
The segment information is presented in respect of the Company's business segments, which are the primary basis of segment reporting. The business segment reporting format reflects the Company's management and internal reporting structure and is divided into two segments, Aircraft Services and Helicopter Services.

Inter-segment pricing is determined on an arm's length basis.

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Aircraft Services
This segment, which consists of the Schedule Services and Charter Services, had 3 aircraft in service as at 31 December 2017, supported by 169 employees with the operational base at Vágar.

Helicopter Services
In the Helicopter Services there were 2 helicopters in service as at 31 December 2017 supported by 11 people with the operational base at Vágar.

Ratios
The ratios have been computed in accordance with recommendations from the Danish Society of Investment Professionals (Den Danske Finansanalytikerforening).

Cash Flow Statement
The cash flow statement is prepared using the indirect method, showing cash flows from operating, investing and financing activities for the year as well as the year's changes in cash flows and cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities comprise profit/loss for the period, adjusted for non-cash operating items, income tax paid and changes in working capital.

Cash flows from investing activities comprise purchase and sale of intangible assets, the addition and disposal of property, plant and equipment and other non-current assets.

Cash flows from financing activities comprise financing from and dividend paid to shareholders as well as the arrangement and repayment of long-term liabilities other than provisions.

Cash at the beginning and end of the period comprise cash and short-term investments with no significant price risk which easily can be exchanged into cash.

5.1 Definitions

ACMI
Leasing of Aircraft, Crew, Maintenance and Insurance. The lessee has to bear a significant portion of direct costs related to the charter – hereunder fuel cost and airport fees.

Airborne hours
Number of flown hours.

ASK: Available seat kilometres
The total number of seats available for passengers multiplied by the number of kilometers which they are flown.

Block hours
Refers to the time the aircraft leaves the departure gate until it arrives at the destination gate.

C-checks
Heavier maintenance checks.

Current ratio (%)
Total current assets, end of period divided by total current liabilities.

EBT
Earnings before tax.

EBIT
Earnings before interest and tax.

EBITDAR
Operating income before interest, tax, depreciations, amortizations and leasing cost.

EBITDAR margin
Earnings before interest, tax, depreciations, amortizations and leasing cost as a percentage of revenue.

EBITDA
Operating income before interest, tax, depreciations and amortizations.

ETS
EU Emissions Trading Scheme

Great Circle Distance
The shortest distance between any two points on the surface of the Earth in kilometer

Load factor
RPK divided by ASK. Describes the utilisation of the available seats.

Minima
Aerodrome operating minima

Return on equity (%)
Profit/loss after tax, end of period divided by average equity.

Return on investment (%)
Profit/loss before financial items divided by total assets.

RPK: Revenue Passenger Kilometres
Number of paying passengers multiplied by the distance they are flown in kilometers.

Sale of Block hours
ACMI/Charter hours (non-scheduled flights)

Equity ratio (%)
Equity, end of period divided by total assets.

The ratios have been computed in accordance with recommendations from the Danish Society of Investment Professionals (Den Danske Finansanalytikerforening).
ACMI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