



**ATLANTIC
AIRWAYS**

Annual Report 2018

www.atlanticaairways.com

1.1 Company Information



P/F Atlantic Airways, Faroe Islands

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Board of directors

Niels Mortensen, *Chairman*
Kaj Johannessen, *Vice Chairman*
Laila Hentze
Fróði Magnussen
Hanna Svabo
Jóhan Mikkelsen

Management

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

Auditor

P/F Januar
State Authorized Public Accountants

Subsidiaries

P/F Hotel Atlantic

Associated companies

P/F Duty Free
P/F Greengate
P/F Gjáargarður
P/F Ognarfelagið matr. nr. 1332e

1.2 Atlantic Airways in Brief



Our origin and objective

Atlantic Airways was established in order to develop a Faroese airline industry and aviation, and in doing so to establish a professional 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 2018, Atlantic Airways had 184 full-time equivalent employees, and operated 3 aircrafts and 2 helicopters.

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, in addition to the new destinations of Paris and the planned destination of New York. The number of low-price tickets has increased significantly, both on the Denmark route 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 Vágar Airport from around 90,000 in 1995 to more than 378,000 in 2018. 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 ratio group



Income statement (DKK 1,000)	2018	2017	2016	2015	2014
Net sales	545,896	508,181	518,413	501,540	573,736
Other income	980	6,932	5,120	3,486	0
Result before depr., amort. and impairm. (EBITDA)	83,526	68,998	84,222	79,399	78,476
Result before financial items (EBIT)	25,137	13,242	38,249	21,042	26,103
Result before tax (EBT)	19,758	4,074	34,137	21,516	20,150
Result after tax	16,201	3,341	27,993	17,643	16,523
Balance sheet (DKK 1,000)					
Non-current assets	602,745	627,748	670,818	439,827	296,035
Current assets	190,457	172,247	158,033	88,291	141,976
Total assets	793,201	799,995	828,850	528,118	438,011
Equity	242,047	232,384	223,754	189,974	183,663
Provisions	41,879	39,758	37,863	30,448	31,061
Long-term debt	375,494	407,770	436,386	169,764	96,594
Current liabilities	133,781	120,083	130,847	137,932	126,693
Total equity and liabilities	793,201	799,995	828,850	528,118	438,011
Cash flows (DKK 1,000)					
Net cash flow from operating activities	78,893	51,162	106,329	55,041	88,654
Net cash flow used in investing activities*	-38,807	-11,206	-274,044	-199,786	-14,786
Net cash flow from financing activities	-31,096	-31,096	254,598	85,183	-87,309
Cash flows for the period	8,990	8,861	86,883	-59,561	-13,441
<i>*Of this purchase of property, plant and equipment</i>	<i>-30,327</i>	<i>-13,396</i>	<i>-284,648</i>	<i>-214,132</i>	<i>-18,219</i>
Financial ratios					
EBITDAR (DKK 1,000)	97,361	82,502	107,559	107,226	108,274
EBITDAR margin (%)	18%	16%	21%	21%	19%
Return on investment (%)	3%	2%	5%	4%	6%
Current ratio (%)	142%	143%	121%	64%	112%
Solvency ratio (%)	31%	29%	27%	36%	42%
Return on equity after tax (%)	7%	1%	13%	9%	9%
Traffic statistics					
Number of passengers - scheduled services	307,533	280,344	282,062	267,126	237,028
Number of passengers - fixed wing	436,558	375,109	328,001	309,534	349,827
Block hours - fixed wing	8,576	7,742	7,005	6,903	8,406
Capacity - scheduled flight (ASK) (1,000)	531,897	527,684	502,670	485,281	430,019
Traffic - scheduled flight (RPK) (1,000)	393,061	356,502	355,504	338,585	307,112
Load factor - scheduled services (%)	74%	68%	71%	70%	71%
Other statistics					
Number of full-time employees	184	180	173	171	182
Aircraft operated as at 31 December	3	3	3	3	3
Helicopters operated as at 31 December	2	2	2	2	2

2.1 Management's Review



Operations 2018

The financial year 2018 yielded a higher result for Atlantic Airways than the previous year. The full-year result for 2018 after tax was DKK 16.2 million in 2018 compared to DKK 3.3 million in 2017. An increase in passenger numbers as well as an increase in charter activities affected the annual result positively. However, lower average ticket prices in scheduled services affected the result negatively. The result before tax was DKK 19.8 million in 2018 compared to DKK 4.1 million in 2017, an increase of DKK 15.7 million in 2018. Earnings before interest, depreciation and amortization (EBITDA) were DKK 84 million in 2018 compared to DKK 69 million the previous year, an increase of 21%. Total revenue for the year 2018 was DKK 546.9 million in 2018, an increase of 6% over 2017, when revenues were DKK 515.1 million.

Two brand new A320neo Aircraft on their way

In May/June of 2019, Atlantic Airways will welcome the first of two brand new Airbus 320neo aircraft, which the airline will lease from the American lease company, Air Lease. This aircraft will replace a leased A319 aircraft, which will be returned in July of 2019. The second aircraft will arrive in spring of 2020. The Airbus A320neo aircraft, which seat 174 passengers, have lower oil usage and lower CO2 emission than the current Airbus aircraft. Just as the current aircraft, the new aircraft will also be fitted with the state of the art Airbus navigational system Airbus, RNP AR 0.1, which has improved regularity on the route to and from Vagar. It is necessary to construct a new hanger in Vagar because of the new aircraft.

Lower CO2 Emission than 10 Years Ago

In 2018, the total CO2 emissions from Atlantic Airways' scheduled services were 40,611 tonnes, which is 4% lower than ten years ago. CO2 emissions from scheduled services in 2008 was approximately 42,300 tonnes. CO2 emissions for each passenger in the same time period has decreased by 33%. The drop in CO2 emission stems from the fleet renewal where Atlantic Airways replaced its old Avro RJ aircraft with newer Airbus aircraft, thereby reducing fuel consumption and increasing passenger capacity. Atlantic Airways has registered its fuel consumption as well as CO2 emission caused by the airline's operations since 2010 because of environmental requirements placed by the EU.

The new Airbus A320neo aircraft that Atlantic Airways will receive this year and the next use far less fuel and have lower CO2 emission, no less than 15% compared to the older aircraft.

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.

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 spare 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.

Continuous 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 2019.

In 2019, onboard catering will be reorganised presenting customers with a wider range of products to order before departure, as well as decreasing the selection in order to diminish possible waste resulting from our services. In addition, cutlery and containers relating to onboard catering will be exchanged for environmentally friendly, bio-degradable cutlery.

Atlantic Airways is at the forefront when it comes to developing aviation to the surrounding world and Faroese tourism. This is why the airline will take up regular flights between Vagar and the French capital of Paris on 1 July this year. There will be three scheduled flights a week in the time period: July–September and twice a week in the time period October–December. This new route will improve travel opportunities for the Faroese people, both regarding business travels as well as leisure travel. It will also make it easier for foreign travellers to come and visit our beautiful country. In 2019, we also plan to embark on a new direct seasonal route between Vagar and New York in autumn of 2019.

Number of seats has never been higher than it is now, and it will increase further when the airline welcomes its new Airbus A320neo aircraft into the fleet.

Codeshare co-operation

The airline is also working purposefully to strengthen co-operation with other airlines. In January of 2019, Atlantic Airways and Dutch airline KLM entered into a codeshare agreement, which means that several of Atlantic Airways' main scheduled flights also carry the KLM flight number, enabling KLM travellers to travel all the way to the Faroe Islands. The agreement is ground-breaking in a Faroese context and it entails that the Faroe Islands make the list of all 165 KLM travel destinations around the world. Atlantic Airways intends to make more such agreements in the future.

Hilton Garden Inn Faroe Islands

In autumn of 2018, Atlantic Airways established the subsidiary P/F Hotel Atlantic in collaboration with Tryggingarfelagið LÍV, which will construct a new Hotel in Tórshavn. The new hotel, which will be run by Atlantic Airways, will be a Hilton Garden Inn hotel and consequently be part of the world-famous Hilton chain of hotels, which has some 85 million customers, and which is capable of attracting customers to the Faroe Islands from e.g. Asia and the USA, where the Hilton chain is particularly strong. Martin Restorff, who has many years of experience in the hotel business, has been appointed manager of the hotel. The new hotel with 130 rooms and several conference rooms is expected to open in the summer of 2020.

Competition

10% more passengers travelled on the airline's scheduled services in 2018 compared to 2017, while the number of passengers through Vagar airport increased by 11%. The competition on the route to Copenhagen with significant supply of seats compared to demand entailed lower average ticket price in 2018. Atlantic Airways would like to thank the people of the Faroe Islands and foreign travellers for welcoming the company and our destinations.

On-time performance

In 2018, departure punctuality, measured as scheduled departures within 15 minutes of scheduled departure time, was 83%. These last four years, on-time performance has improved by 8 percentage points. The airline's investment in the navigational system RNP AR 0.1 has been a main cause of the improvement in departure punctuality these last four years. Using the

most advanced airspace technology in Europe, all of Atlantic Airways' aircraft are capable of landing safely in significantly lower visibility than a few years ago.

Financial Outlook 2019

The airline expects the result for 2019 to be in the same range as 2018. The airline expects more passengers, but lower revenues for each passenger, due to the market competition with great supply of seats compared to passenger numbers.

2.2 Operational Review



The total number of passengers on the company's scheduled services increased in 2018 from 280,344 passengers in 2017 to 307,533 passengers in 2018. The increase is 10%. The fixed-wing fleet was airborne for 8,576 block hours compared to 7,742 block hours in 2017. A production increase of 11%.

The total fleet production (the number of block hours) increased by 10% in 2018 compared to 2017, especially due to an increase in charter activity. Fixed-wing and rotor-wing aircraft were airborne for a total of 9,477 block hours in 2018 compared to 8,632 block hours in 2017.

Scheduled services accounted for 60% of fleet production in 2018, ACMI/charter operations for 31% and helicopter services accounted for 9%. In 2017, scheduled services accounted for 64% of fleet production, ACMI/charter operations for 26% and helicopter services accounted for 10%.

Scheduled services increased by 2% from 5,522 block hours in 2017 to 5,633 block hours in 2018.

ACMI/charter operations increased by 33% from 2,220 block hours in 2017 to 2,943 block hours in 2018.

Helicopter activity remained relatively unchanged in 2018. In 2018, block hours were 901 compared to 890 hours in 2017.

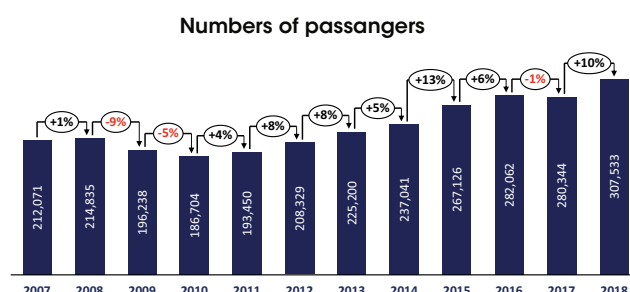
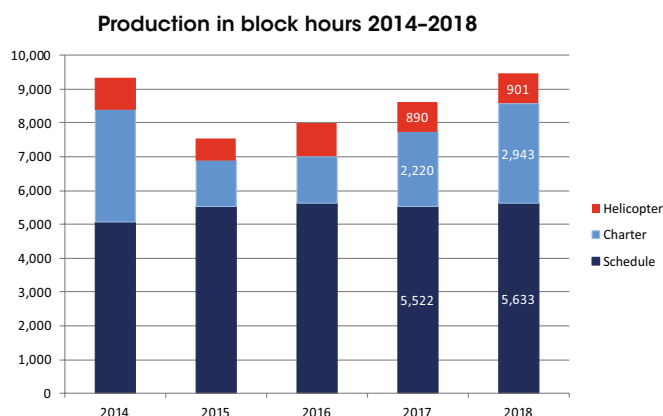
Scheduled services

The total number of passengers carried on scheduled services increased by 10% in 2018 to 307,533 passengers. The increase was 27,189 passengers, which come from most of the airline's routes. Excess capacity on the Copenhagen route continues to negatively affect average ticket price and load

Traffic information

Passengers	2018	2017	Change pass	Change %
Scheduled services	307,533	280,344	27,189	10%
Helicopter services	12,939	13,089	-150	-1%

Block hours	2018	2017	Hours	%
Scheduled services	5,633	5,522	111	2%
Charter operations	2,943	2,220	723	33%
Total fixed wing	8,576	7,742	834	11%
Helicopter operations	901	890	11	1%
Total production	9,477	8,632	845	10%



factor. The increase at Vágar airport in 2018 was 36,425 passengers, or 11%.

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.

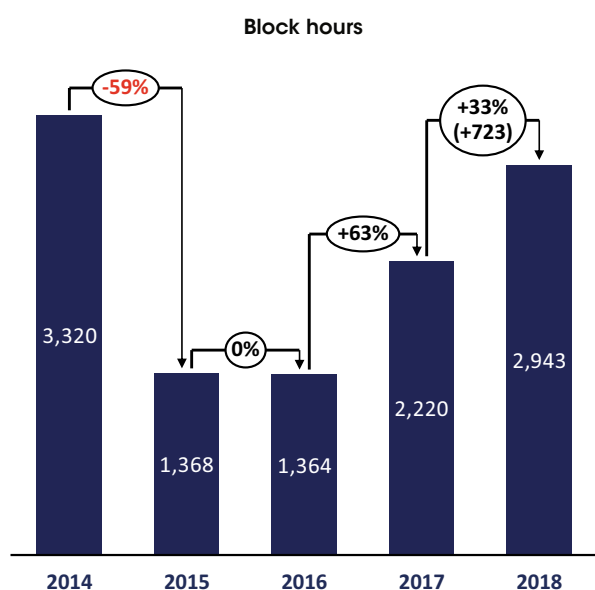
Charter operations

Charter/ACMI activity increased from 2,220 block hours in 2017 to 2,943 block hours in 2018.

2.2 Operational Review (Continued)



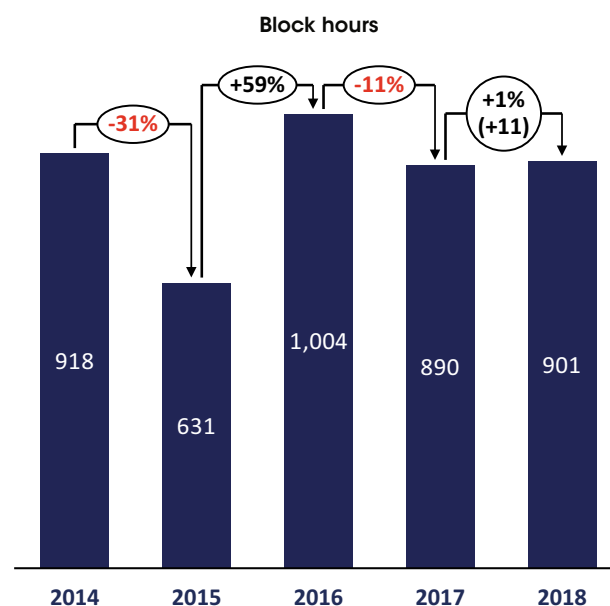
In accordance with the airline's new objectives, only excess capacity not needed for scheduled services is sold to Charter/ACMI activity in order to improve profitability. In 2018, the airline provided services such as charter series for various tour operators in Denmark and ad hoc flights in Europe, in addition to some block hours ACMI flights. The majority of the Charter/ACMI 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.



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 2018, 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 901 block hours in 2018 compared to 890 block hours in 2017. 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.



There is a ten-year contract with the Faroese Ministry of Fishery and the Ministry of Foreign Affairs and Trade 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 74 occasions in 2018 compared to 62 occasions in 2017. The airline has provided domestic helicopter services in the Faroe Islands since 1994 and SAR operations since 2001.

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

Other income areas

Together with Vágur 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.

2.2 Operational Review (Continued)



The Fleet

Three fixed-wing aircraft were in service at year-end 2018. One Airbus A320 and two Airbus A319. Two of them are in the airline's ownership and one of the Airbus A319 is on lease contract and will be returned in July of 2019. The A320 carries 168 passengers and the two A319 each carry 144 passengers. The average age of the fixed wing fleet is approx. 6 years.

In 2018, Atlantic Airways signed two leasing contracts with the American company Air Lease, concerning two brand new Airbus A320neo aircraft. The aircraft are being built in the Airbus factory. The first aircraft will be delivered in May/June of 2019, while the second aircraft will arrive in the second quarter of 2020.

The two A320neo will have 174 seats, lower fuel consumption and lower CO2 emissions than the current Airbus aircraft.

In spring of 2019, the number of seats onboard the current Airbus A320 aircraft will also be increased from 168 to 174 seats.

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 before. 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.

The new aircraft will also be fitted with the advanced Airbus navigation technology, RNP AR 0.1. When the new aircraft join the fleet, the average age of the fixed wing fleet will be only three years.

The fleet 31 December 2018

Fleet year-end	No.	Owned	Production year
A320	1	1	2016
A319	2	1	2009-2012
AW139	2	2	2015-2016

At year-end 2018, the helicopter fleet consisted of two Agusta Westland AW 139 helicopters. The average age of the rotor wing fleet is approximately 3 year.





Photo: Hogni Heinesen

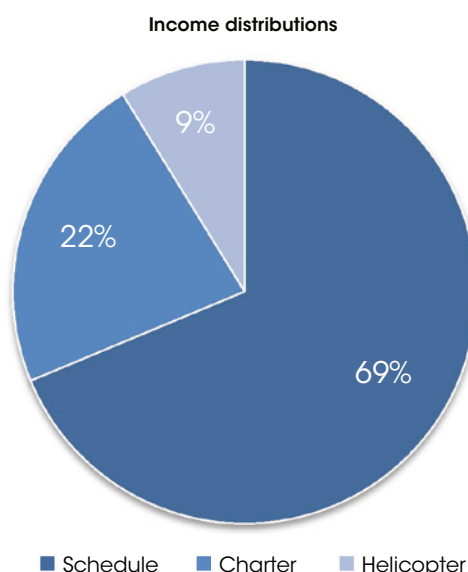
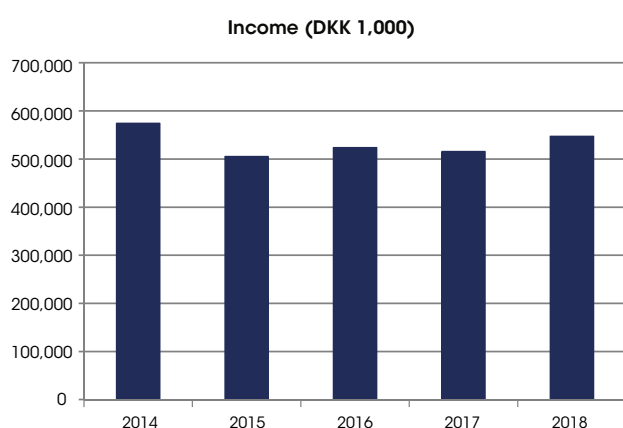
2.3 Financial Review



Financial statement, 1 January – 31 December 2018

Revenue

Atlantic Airways total revenues was DKK 546.9 million in 2018 compared to DKK 515.1 million in 2017. The increase was DKK 31.8 million, which predominantly is from an increase in passenger numbers and increased activities in ACMI/charter.



Operating expenses

Operating expenses increased by DKK 12 million in 2018 to DKK 349 million compared to 2017. The increase is primarily due to higher charter activities, increased number of passen-

gers, higher fuel prices and increased expenses for authorisations.

Fuel is one of the main operating expenses in aviation. In 2018, fuel costs accounted for 18% of the total operating expenses, which is unchanged from 2017. 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 114.0 million in 2018 compared to DKK 109.3 million in 2017. The number of full-time equivalent employees was 184 in 2018 compared to 180 in 2017. The increase is primarily due to increased staff for charter activities.

Depreciations

Depreciation and impairment amounted to DKK 59 million in 2018 compared to DKK 56 million in 2017.

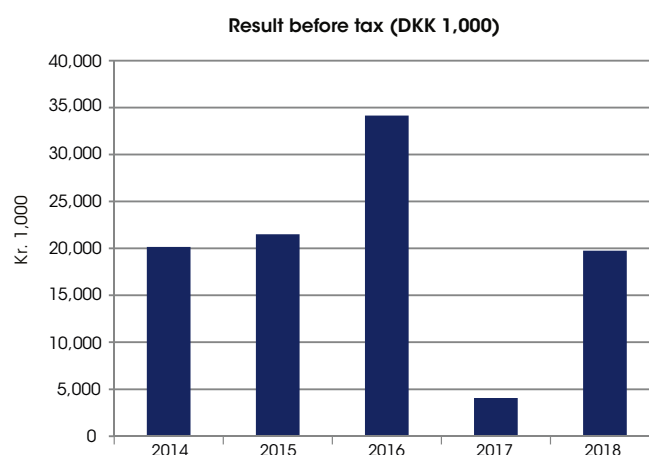
Financial items

Net financial items amounted to DKK 5.4 million in 2018 compared to DKK 9.2 million in 2017.

The result before tax was a profit of DKK 19.8 million in 2018 compared to DKK 4.1 million in 2017.

The result after tax for the year was a profit of DKK 16.2 million in 2018 compared DKK 3.3 million in 2017.

Return on equity after after tax was 7 per cent in 2018 compared to 1 per cent in 2017.



2.3 Financial Review

Assets

Total non-current assets decreased by DKK 25 million in 2018 from DKK 628 million at the start of the year to DKK 603 million at year-end 2018.

Total current assets increased by DKK 18 million in 2018 from DKK 172 million by the start of the year to DKK 190 million at year-end 2018.

Available cash and cash equivalents at year-end 2018 was DKK 157 million compared to DKK 139 million at the start of the year.

Equity

Total equity as of 31 December was DKK 242 million and an equity ratio of 31%. Compared to the start of the year, equity has increased by 12 million and the equity ratio has increased two percentage points.

Liabilities

The company's total liabilities as of 31 December was DKK 548 million compared DKK 568 million at the end of the previous year. Long-term debt has decreased from DKK 408 million from the start of the year to DKK 375 million by the end of 2018.

Balance sheet

The balance sheet total as of 31 December 2018 was DKK 793 million, which is DKK 7 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

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

2.5 Outlook for 2019



Aviation industry

Fierce competition, low ticket prices, high regulatory costs and low revenues is what characterize the European airline market. However, there has been some progress lately due to the economic growth in Europe. 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 2019 compared to 2018. The expected growth in traffic is estimated to be 5.5% in 2019 compared to 6.4% in 2018.

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 countries, from which the passengers come.

According to the most recent report from the international monetary fund, IMF, the outlook for the world economy has worsened somewhat these last months, despite the fact that the IMF still expects economic growth in 2019.

Fuel prices increased in 2018 and the IATA expects it to decrease somewhat in 2019.

Faroese economy

According to the most recent report from the Faroese Economic Council, there is the prospect of a decrease in exports, while the domestic demand will increase. Unemployment is 1.5% at the moment and the population reached 51,000 at the beginning of the year. The confidence indicators prepared by Statistics Faroes about the future development in the Faroese economy show that the indicators are still above average, however a little lower than in June 2018. The confidence indicators for the resource industries, construction industry and trade are lower, while the confidence indicators for households and service industry are unchanged.

Scheduled services

In 2019, Atlantic Airways offers its passengers direct flights from the Faroe Islands to 10 different destinations: Copenhagen, Billund, Aalborg, Bergen, Reykjavik, Edinburgh, Barcelona, Mallorca, Gran Canaria and Paris. Moreover, the airline expects to take up direct flights from Vagar to New York in autumn of 2019.

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: Reykjavik, Bergen and Edinburgh, except for a stop in flights to Scotland from January to March. In the future, the flights to Iceland will be to the international airport in Keflavik, which opens new and exciting opportunities with its excellent connections to North America and the European mainland.

The airline also offers the SUN routes with direct summer services from the Faroe Islands to Barcelona from April to October, to Mallorca from June to August, and to Gran Canaria from December to March.

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 2019.

Direct flights from Vagar to the new destination Paris will commence in July in 2019. There will be three flights a week from July to September, while there will be two flights a week from October to mid-December.

Interest in the Faroe Islands as a travel destination is growing, at the same time as low ticket prices and a growth in the economy in the Faroe Islands have a positive effect on the airline industry. Therefore Atlantic Airways expects growth in the airline's scheduled flights in 2019. 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 May/June of 2019, and another in spring of 2020, in addition to a new Hilton Garden Inn hotel in Tórshavn, which the airline is building together with LÍV. Hilton Garden Inn Faroe Islands will be open for business in the summer of 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. Two years ago, 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 2019, 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 lower in 2019 than in 2018.

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 Foreign Affairs and Trade, 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 2019 will be approximately the same as in 2018.

Financial outlook for 2019

Based on this background, Atlantic Airways expects a full-year result after tax in 2019 on the same level as 2018. 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 minority 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 airline.

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. All shares have the same rights. There is 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 2019 in line with the proposal for the renationalization acts of the Faroese Parliament from February 2014. No dividend was paid out in 2018 for the financial year 2017.

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 2018.

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 www.atlantic.fo/en/about-us/the-company/governance/corporate-governance

The Danish Recommendations on Corporate Governance were last updated in November 2017 and are valid from the fiscal year 2018. 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, in addition to being an active partner to the chairman.

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 8 meetings in 2018.

The Board

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 Hotel Atlantic (Chairman),
P/F Ognarfelagið matr. nr. 1332e (CEO and board member),
P/F Petur Larsen and P/F Duty Free
Education: Niels Brock Business School, Danske Bank
Expiry of the current election period: April 2019
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 2013
Chairman of the Audit Committee
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
Experience: 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. Examiner in economics at the Faroese
University (Fróðskaparsetur Føroya) 2001–2014. Examiner in mana-
gerial economics at the Faroese Business Collage 2009–2013.
Other board duties: P/F Enniberg, P/F Farcod, P/F SMS, P/F Miðlon,
Norriq Holding A/S and Investeringselskabet 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 2019
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
Experience: Televarpið, CEO 2003–2011
Other board duties: P/F Hotel Atlantic
Education: Mrs. Hentze has a MSc in Business, Language and Culture
from Copenhagen Business School Business School
Expiry of the current election period: April 2019
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 De-
velopment of Formula P/F, August 1996– July 2009. Project Manager,
Datacenter. Aarhus School of Business, August 1993 – August 1996.
Part time teacher at Føroya Handilsskúli since 1997 (HD) since 1997.
Other board duties: P/F Ognarfelagið matr. Nr. 1332e. 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. Sub-
stitute 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 School of Business.
Expiry of the current election period: April 2019
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

Jóhan Mikkelsen, Member of the Board

Born: 11 February 1981 (male)
Address: Í Gerðinum 7, FO-380 Sørvágur
Joined the Board: August 2018
Special skills: Employee of Atlantic Airways
Chief Occupation: Captain at Atlantic Airways
Experience: Employee of Atlantic Airways since 2005
Other board duties: None
Education: Airline Pilot, Office clerk
Expiry of the current election period: April 2019
Considered dependent of the Company as employee representative

2.7 Corporate Governance (Continued)



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

Experience: 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: Hotel Atlantic (CEO and board member), 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.

Other board duties: P/F Hotel Atlantic

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.

2.7 Corporate Governance (Continued)



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 risks

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 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 2018 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 covered at the moment.

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. In 2018, the price of CO₂-quotas increased by some 200% from 8 EUR/tCO₂ to 24 EUR/tCO₂.

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 CORSIA measure is primarily based on the notion that the average CO₂ emissions of 2019 and 2020 should form the base for how airlines offset their growth in CO₂ emission stemming from international flights by buying so-called offsetting permissions "Carbon Offsetting." According to this new measure, Atlantic Airways must – from 2021 to 2029 – buy offsetting permissions in relation to how much the international flights exceed the emissions in the base years (2019/2020 average). After 2029, the measure will also take into account growth in emission from the individual airline itself. The CORSIA measure will have a negative effect on the airline's operations in the future, however, it is too early to assess to what extent the operations will be affected. The airline continues to monitor the situation.

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 2018, the company's cost of cancellations and disruption was DKK 1.9 million due to cancellations compared to DKK 4.9 million in 2017. The new RNP AR 0.1 navigational system has improved regularity significantly and expenses related to delays and cancellations.

2.8 Risk management (Continued)



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 Danish krone and the US dollar.

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 2018, the company had DKK 407 million in interest-bearing liabilities. The majority of the interest-bearing liabilities is in fixed interest. The company's total equity is still high in proportion to total assets. The equity ratio was 31 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 2018 was DKK 148 million and is 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 2018.

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 2019.

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.

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.



Photo: Ólavur Frederiksen

CSR in Atlantic Airways 2018

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 184 employees. We are linking the Faroe Islands with the world through scheduled connections to Denmark, Iceland, Norway, Britain, Spain and the Canary Islands, in addition to a new destination to France and also later to the USA. Also, we play an important role in developing tourism 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

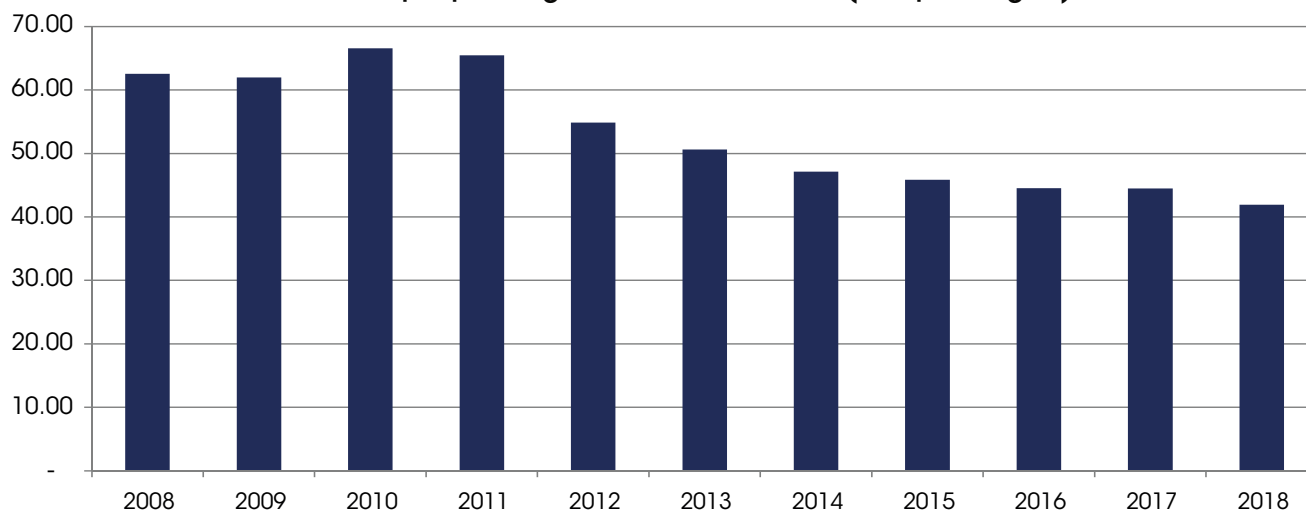
Environment

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 2019–2020, when two new Airbus A320neo aircraft join the fleet. The A320neo's fuel consumption and CO2 emissions are at least 15% lower than the current Airbus aircraft. In 2018, the average jet fuel burn per passenger on the scheduled services was 21 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 65 kilos of CO2, or 30%. In 2018, the total CO2 emissions from Atlantic Airways' scheduled services was 40,611 tonnes, which is 4% lower than ten years ago. Atlantic Airways has registered all its fuel consumption and CO2 emission from aircraft since 2010 because of environmental demands from EU authorities.

In line with the company's fuel-saving efforts, aircraft are washed more often than before, because using clean aircraft equals less fuel burn. However, the majority of the fuel-saving measures are related to the operation of the aircraft in order to lower the effects on the environment.

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



2.10 Corporate Social Responsibility (CSR) (Continued)



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 utmost 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 2018 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 Behaviours 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.

2.10 Corporate Social Responsibility (CSR) (Continued)



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.

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 2018, a survey was conducted among all staff groups focusing on mental work environment and workplace 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 utmost 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 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 2018, 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 several 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 and additional training. In 2018, the airline's expenses on mandatory and additional training were DKK 4.6 million.

2.10 Corporate Social Responsibility (CSR) (Continued)



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 at the Faroe Islands are 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 2018.

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 consolidated annual accounts and the annual accounts provide a true and fair view of the assets, the liabilities and the financial position, consolidated and for the company respectively as on 31 December 2018,

and of the results of the activities, consolidated and of the company respectively and of consolidated cash flows in the financial year 1 January to 31 December 2018.

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 by the general meeting.

Sørvágur the 14th of March 2019

Executive Management:

Jóhanna á Bergi
CEO

Marius Davidsen
CFO

Board of directors:

Niels Mortensen
Chairman

Kaj Johannessen
Vice-chairman

Laila Hentze

Fróði Magnussen

Hanna Svabo

Jóhan Mikkelsen

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 2018, 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 2018 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 2018 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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, 14th of March 2019

P/F JANUAR

State Authorized Public Accountants

Heini Thomsen

State Authorized Public Accountant

4.1 Income Statement for the year 2018



(DKK 1,000)	Note	Group		Atlantic Airways	
		2018	2017	2018	2017
Net sales		545,896	508,181	545,896	508,181
Other income		980	6,932	980	6,932
Total revenue		546,876	515,113	546,876	515,113
Operating expenses		-349,304	-336,803	-349,304	-336,803
Employee expenditures	3	-114,046	-109,312	-114,046	-109,312
Total operating expenses		-463,350	-446,114	-463,350	-446,114
Result before depreciation, amort. and impairment (EBITDA)		83,526	68,998	83,526	68,998
Depreciations, amort. and impairment	4, 7, 8	-58,388	-55,757	-58,388	-55,757
Result before financial items (EBIT)		25,137	13,242	25,137	13,242
Financial income		45	86	45	86
Financial expenses		-13,007	-15,735	-13,007	-15,735
Share of profit/loss of associates		7,583	6,481	7,583	6,481
Net financial items		-5,380	-9,167	-5,380	-9,167
Result before taxes (EBT)		19,758	4,074	19,758	4,074
Income tax	6	-3,556	-733	-3,556	-733
Net Profit / Loss for the year		16,201	3,341	16,201	3,341
Distribution of profit at year-end					
Carried forward from previous year		135,250	133,373	135,250	133,373
Profit year-end		16,201	3,341	16,201	3,341
Total		151,451	136,714	151,451	136,714
Proposed distribution					
Moved to Reserve for net. val. acc. to the equity method		1,583	1,465	1,583	1,465
Carried forward to next year		149,868	135,250	149,868	135,250
Total		151,451	136,714	151,451	136,714

4.2 Balance Sheet as at 31 December 2018



Assets (DKK 1,000)	Note	Group		Atlantic Airways	
		2018	2017	2018	2017
Intangible assets	7	4,952	3,912	4,952	3,912
Aircraft and maintenance	8	523,421	568,491	523,421	568,491
Spare parts	8	1,929	2,179	1,929	2,179
Operating equipment	8	18,308	16,706	18,308	16,706
Hangar, buildings and land	8	26,429	26,332	26,429	26,332
Total tangible assets		570,087	613,709	570,087	613,709
Investment in subsidiaries	9	0	0	25,000	0
Investment in associates	10	14,640	9,857	11,440	9,857
Other shares	11	242	271	242	271
Subordinated loan		12,800	0	0	0
Total financial assets		27,681	10,127	36,681	10,127
Total non-current assets		602,720	627,748	611,720	627,748
Inventories		294	211	294	211
Trade receivables		15,756	16,049	15,756	16,049
Receivables subsidiaries		0	0	961	0
Prepayments	12	2,842	2,022	1,856	2,022
Other receivables	13	14,067	10,859	14,067	10,859
Other shares		27	36	27	36
Derivatives	14	809	4,350	809	4,350
Total receivables	15	33,502	33,316	33,477	33,316
Cash and cash equivalents		156,686	138,721	147,711	138,721
Total current assets		190,482	172,247	181,482	172,247
Total assets		793,201	799,995	793,201	799,995

4.2 Balance Sheet as at 31 December 2018 (Continued)



Equity and liabilities (DKK 1,000)	Note	Group		Atlantic Airways	
		2018	2017	2018	2017
Share capital	20	103,500	103,500	103,500	103,500
Revaluation reserve	20	1,640	0	1,640	0
Value adjustm. of cash flow hedges	20	-22,605	-14,427	-22,605	-14,427
Reserve for net. val. acc. to the equity method	20	9,645	8,062	9,645	8,062
Retained earnings	20	149,868	135,250	149,868	135,250
Proposed dividend	20	0	0	0	0
Total equity		242,047	232,384	242,047	232,384
Deferred income tax liabilities	6	41,879	39,758	41,879	39,758
Total provisions		41,879	39,758	41,879	39,758
Mortgage loans	17	375,494	407,770	375,494	407,770
Total long-term debt		375,494	407,770	375,494	407,770
Mortgage loans	17	31,096	31,096	31,096	31,096
Trade payables		26,332	23,379	26,332	23,379
Current income tax liabilities	6	0	0	0	0
Deferred income and accruals	16	67,821	64,689	67,821	64,689
Derivatives	14	8,532	919	8,532	919
Total short-term debt		133,781	120,083	133,781	120,083
Total liabilities		551,154	567,611	551,154	567,611
Total equity and liabilities		793,201	799,995	793,201	799,995
Mortgaging and contingent liabilities etc.	18				

4.3 Statement of Changes in Equity Group



(DKK 1,000)	Group						
	Share capital	Revaluation Reserves	Hedging Reserves	Reserve for net. val. acc. to the equity method	Retained earnings	Proposed dividend	Total
Equity at 01.01.2017	103,500	-	-19,717	6,597	133,373	-	223,754
Result for the period	-	-	-	-	3,341	-	3,341
Revaluation Reserves	-	-	-	-	-	-	-
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
Equity at 01.01.2018	103,500	-	-14,427	8,062	135,250	-	232,384
Result for the period	-	-	-	-	16,201	-	16,201
Revaluation Reserves	-	1,640	-	-	-	-	1,640
Value adjustm. of cash flow hedges	-	-	-8,178	-	-	-	-8,178
Revaluation reserve for net. val. acc. to the equity method	-	-	-	1,583	-1,583	-	-
Proposed dividend	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-
Equity at 31.12.2018	103,500	1,640	-22,605	9,645	149,868	-	242,047

There are no changes in the share capital.

4.3 Statement of Changes in Equity Atlantic Airways



(DKK 1,000)	Atlantic Airways						
	Share capital	Revaluation Reserves	Hedging Reserves	Reserve for net. val. acc. to the equity method	Retained earnings	Proposed dividend	Total
Equity at 01.01.2017	103,500	-	-19,717	6,597	133,373	-	223,754
Result for the period	-	-	-	-	3,341	-	3,341
Revaluation Reserves	-	-	-	-	-	-	-
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
Equity at 01.01.2018	103,500	-	-14,427	8,062	135,250	-	232,384
Result for the period	-	-	-	-	16,201	-	16,201
Revaluation Reserves	-	1,640	-	-	-	-	1,640
Value adjustm. of cash flow hedges	-	-	-8,178	-	-	-	-8,178
Revaluation reserve for net. val. acc. to the equity method	-	-	-	1,583	-1,583	-	-
Proposed dividend	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-
Equity at 31.12.2018	103,500	1,640	-22,605	9,645	149,868	-	242,047

There are no changes in the share capital.

4.4 Cash Flow Statement Group



(DKK 1,000)	Note	Group	
		2018	2017
Net profit/loss for the period		16,201	3,341
Depreciations		58,388	55,757
Taxes		3,556	733
Adjustments		61,945	56,490
+/- trade receivables		-668	-1,933
+/- prepayments		141	-775
+/- other receivables		-3,207	-385
+/- Inventories		-83	410
+/- investment in associates and other shares		-1,545	-1,464
+/- trade payables		2,953	-2,019
+/- deferred income and accruals		3,133	-2,503
Changes in operating assets and liabilities		722	-8,669
Cash flow from operating activities		78,868	51,162
Purchase of intangible, tangible assets and prepaid aircraft	7, 8	-14,327	-13,396
Investment in financial assets		-16,000	0
Sale of intangible and tangible assets	7, 8	521	2,191
Cash flows from investing activities		-29,807	-11,206
Changes of long-term loans		-31,096	-31,096
Cash flows from financing activities		-31,096	-31,096
Total cash flows for the period		17,965	8,861
Cash and cash equivalents at the beginning of the period		138,721	129,860
Cash and cash equivalents at the end of the period		156,686	138,721

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. Investment in subsidiaries
10. Investment in associates
11. Investment in other shares
12. Prepayments
13. Other receivables
14. Derivatives
15. Receivables
16. Deferred income and accruals
17. Long-term debt
18. Mortgaging and contingent liabilities etc.
19. Related parties
20. Equity
21. Events after the end of the financial year
22. Accounting principles

4.6 Notes



1. Segment information (DKK 1,000)	Aircraft Services		Helicopter Services		Total	
	2018	2017	2018	2017	2018	2017
Income statement						
Net sales	497,679	459,491	48,217	48,690	545,896	508,181
Other income	980	6,932	0	0	980	6,932
Total revenue from external customers	498,659	466,423	48,217	48,690	546,876	515,113
Operating expenses	475,996	457,423	45,742	44,449	521,738	501,871
Operating result	22,663	9,000	2,475	4,241	25,137	13,242
Effects of associated companies	-	-	-	-	7,583	6,481
Financial income	45	86	0	0	45	86
Financial expenses	-8,091	-11,032	-4,916	-4,702	-13,007	-15,735
Result before tax	14,616	-1,946	-2,441	-461	19,758	4,074
Income tax expense	-	-	-	-	-3,556	-733
Profit					16,201	3,341
Geographical segments						
Revenue comprises the following markets:						
	2018	2017	2018	2017	2018	2017
Total revenue from external customers	271,911	267,547	274,965	247,566	546,876	515,113

2. Specification of numbers of passengers:

	Atlantic Airways	
	2018	2017
Passengers scheduled services	307,533	280,344
Passengers ACMI/charter operations	129,025	94,765
Passengers fixed wing	436,558	375,109
Passengers helicopter	13,135	13,089
Total passengers	449,693	388,198
Block hours		
Block hours scheduled services	5,633	5,522
Block hours ACMI/charter operations	2,943	2,220
Block hours fixed wing	8,576	7,742
Block hours helicopter	901	890
Total block hours	9,477	8,632
Income overseas:		
Export value in DKK (1,000)	274,965	247,566
Export value in %	50%	49%

	Group		Atlantic Airways	
	2018	2017	2018	2017
3. Employee expenditures (DKK 1,000)				
Wages	-96,434	-92,986	-96,434	-92,986
Pensions	-8,376	-7,617	-8,376	-7,617
Expenses for social security	-4,375	-4,337	-4,375	-4,337
Other employee expenditures	-4,862	-4,372	-4,862	-4,372
Bonus	0	0	0	0
Total	-114,046	-109,312	-114,046	-109,312
Remuneration Management and Board:				
Management:				
Jóhanna Á Bergi, CEO, Wages	-1,218	-1,218	-1,218	-1,218
Jóhanna Á Bergi, CEO, Pensions	-180	-180	-180	-180
Jóhanna Á Bergi, CEO, Bonus	0	0	0	0
Marius Davidsen, CEO, Wages	-1,035	-1,035	-1,035	-1,035
Marius Davidsen, CEO, Pensions	-153	-153	-153	-153
Marius Davidsen, CEO, Bonus	0	0	0	0
Board:				
Niels Mortensen, Chairman, Wages	-260	-260	-260	-260
Kaj Johannesen, Vice-chairman, Wages	-240	-240	-240	-240
Laila Hentze, Wages	-140	-140	-140	-140
Fróði Magnussen, Wages	-140	-140	-140	-140
Hanna Svabo, Wages	-140	-140	-140	-140
Janus Rein, Wages	-93	-140	-93	-140
Jóhan Mikkelsen, Wages	-47	0	-47	0
Total	-3,646	-3,646	-3,646	-3,646
Number of employees	184	180	184	180
4. Depreciation, amort. and impairments (DKK 1,000)	2018	2017	2018	2017
Amortisation of intangible assets	-1,933	-1,953	-1,933	-1,953
Depreciation of tangible assets	-56,455	-53,804	-56,455	-53,804
Impairments of tangible assets	0	0	0	0
Total depreciation, amortisation and impairments	-58,388	-55,757	-58,388	-55,757
5. Auditors remuneration (DKK 1,000)	2018	2017	2018	2017
Audit	-125	-250	-125	-250
Other services	-110	-33	-110	-33
Total	-235	-283	-235	-283

	Group		Atlantic Airways	
	2018	2017	2018	2017
6. Income tax (DKK 1,000)				
Taxes	0	0	0	0
Changes in deferred taxes during the period	-3,556	-733	-3,556	-733
Total taxes	-3,556	-733	-3,556	-733
Deferred income tax liabilities as of Jan 1st	39,758	37,863	39,758	37,863
Changes in deferred income taxes during the period	3,556	733	3,556	733
Taxes recognised in equity	-1,435	1,161	-1,435	1,161
Deferred income tax liabilities at the end of the period	41,879	39,758	41,879	39,758

	Group		
	Development expenditures	Software	Total
7. Intangible assets (DKK 1,000)			
Acquisition value as of Jan 1st	1,783	19,242	21,025
Additions during the period	0	3,082	3,082
Disposal during the period	-1,783	-3,009	-4,792
Acquisition value as of December 31st	0	19,315	19,316
Amortisations as of Jan 1st	-1,266	-15,848	-17,113
Amortisations during the period	-517	-1,416	-1,933
Amortisations of disposal	1,783	2,900	4,683
Amortisations as of December 31st	0	-14,364	-14,364
Book value as at December 31st 2018	0	4,952	4,952
<i>Book value as at December 31st 2017</i>	517	3,394	3,912

	Atlantic Airways		
	Development expenditures	Software	Total
(DKK 1,000)			
Acquisition value as of Jan 1st	1,783	19,242	21,025
Additions during the period	0	3,082	3,082
Disposal during the period	-1,783	-3,009	-4,792
Acquisition value as of December 31st	0	19,315	19,316
Amortisations as of Jan 1st	-1,266	-15,848	-17,113
Amortisations during the period	-517	-1,416	-1,933
Amortisations of disposal	1,783	2,900	4,683
Amortisations as of December 31st	0	-14,364	-14,364
Book value as at December 31st 2018	0	4,952	4,952
<i>Book value as at December 31st 2017</i>	517	3,394	3,912

8. Tangible assets (DKK 1,000)

	Group				
	Aircraft and maintenance	Spare parts	Operating Equipment	Hangar, buildings and land	Total
2018					
Acquisition value as of Jan 1st	710,647	3,354	33,802	45,577	793,380
Additions during the period	5,139	0	6,106	0	11,245
Disposal during the period	-7,477	0	-1,014	0	-8,491
Acquisition value as of December 31st	708,309	3,354	38,894	45,577	796,134
Revaluation as of Jan 1st	0	0	0	0	0
Revaluation during the period	0	0	0	2,000	2,000
Revaluation as of December 31st	0	0	0	2,000	2,000
Depreciations and impairments as of Jan 1st	-142,155	-1,175	-17,096	-19,245	-179,671
Depreciations during the period	-50,210	-250	-4,092	-1,904	-56,455
Depreciations and impairments of disposal	7,477	0	603	0	8,080
Depreciations and impairments as of December 31st	-184,888	-1,425	-20,586	-21,148	-228,047
Book value as at December 31st 2018	523,421	1,929	18,308	26,429	570,087
<i>Book value as at December 31st 2017</i>	568,491	2,179	16,706	26,332	613,709

(DKK 1,000)	Atlantic Airways				
	Aircraft and maintenance	Spare parts	Operating Equipment	Hangar, buildings and land	Total
2018					
Acquisition value as of Jan 1st	710,647	3,354	33,802	45,577	793,380
Additions during the period	5,139	0	6,106	0	11,245
Disposal during the period	-7,477	0	-1,014	0	-8,491
Acquisition value as of December 31st	708,309	3,354	38,894	45,577	796,134
Revaluation as of Jan 1st	0	0	0	0	0
Revaluation during the period	0	0	0	2,000	2,000
Revaluation as of December 31st	0	0	0	2,000	2,000
Depreciations and impairments as of Jan 1st	-142,155	-1,175	-17,096	-19,245	-179,671
Depreciations during the period	-50,210	-250	-4,092	-1,904	-56,455
Depreciations and impairments of disposal	7,477	0	603	0	8,080
Depreciations and impairments as of December 31st	-184,888	-1,425	-20,586	-21,148	-228,047
Book value as at December 31st 2018	523,421	1,929	18,308	26,429	570,087
<i>Book value as at December 31st 2017</i>	568,491	2,179	16,706	26,332	613,709

	Atlantic Airways
9. Investments in subsidiaries (DKK 1,000)	2018
Acquisition value as of Jan 1st	0
Additions during the period	25,000
Disposal during the period	0
Acquisition value as of December 31st	25,000
Revaluations as of Jan 1st	0
Share of result acc. to the financial statement	0
Dividens paid durind the period	0
Revaluations as of December 31st	0
Book value as at December 31st 2018	25,000
<i>Book value as at December 31st 2017</i>	0

The equity proportion in subsidiaries is divided as follows:

Name	Domicile	Equity portion*	Equity*	Net profit*
Hotel Atlantic P/F	Sørvágur	100%	25.000	-

* The first financial year for the company 31. desember 2019

	Group	Atlantic Airways
10. Investment in associates (DKK 1,000)	2018	2018
Acquisition value as of Jan 1st	1,795	1,795
Additions during the period	3,200	0
Disposal during the period	0	0
Acquisition value as of December 31st	4,995	1,795
Revaluations as of Jan 1st	8,062	8,062
Share of result acc. to the latest financial statement	7,583	7,583
Dividens paid durind the period	-6,000	-6,000
Revaluations as of December 31st	9,645	9,645
Book value as at December 31st 2018	14,640	11,440
<i>Book value as at December 31st 2018</i>	9,857	9,857

The equity proportion in associated companies is divided as follows:

Group				
Name	Domicile	Equity portion*	Equity*	Net profit*
Ognarfelagið matr.nr. 1332e P/F	Tórshavn	40%	8,000	-
Duty Free P/F	Sørvágur	50%	19,604	14,643
Green Gate Incoming P/F	Tórshavn	49%	1,541	61
Gjáargarður P/F	Gjógv	31%	2,994	759

* According to the latest financial statements

Atlantic Airways				
Name	Domicile	Equity portion*	Equity portion*	Net profit*
Duty Free P/F	Sørvágur	50%	50%	14,643
Green Gate Incoming P/F	Tórshavn	49%	49%	61
Gjáargarður P/F	Gjógv	31%	31%	759

* According to the latest financial statements

	Group		Atlantic Airways	
	2018		2018	
11. Investment in other shares (DKK 1,000)				
Acquisition value as of Jan 1st	1,271		1,271	
Additions during the period	0		0	
Disposal during the period	-29		-29	
Acquisition value as of December 31st	1,242		1,242	
Revaluations as of Jan 1st	-1,000		-1,000	
Share of result acc. to the latest financial statement	0		0	
Dividends paid during the period	0		0	
Revaluations as of December 31st	-1,000		-1,000	
Book value as at December 31st 2018	242		242	
<i>Book value as at December 31st 2017</i>	271		271	

	Group		Atlantic Airways	
	2018	2017	2018	2017
12. Prepayments (DKK 1,000)				
Prepaid rental expenses	84	87	84	87
Other prepayments	2,758	1,935	1,772	1,935
Prepayments total	2,842	2,022	1,856	2,022
13. Other receivables (DKK 1,000)	2018	2017	2018	2017
Deposit	12,609	6,828	12,609	6,828
Other receivables	1,458	4,031	1,458	4,031
Other receivables total	14,067	10,859	14,067	10,859

	Group			
	2018	2018	2017	2017
	Assets	Lia- bilities	Assets	Lia- bilities
14. Derivative financial instruments (DKK 1,000)				
Forward exchange contracts	809	0	0	919
Fuel oil swap transactions	0	8,532	4,350	0
Derivatives total	809	8,532	4,350	919

	Atlantic Airways			
	2018	2018	2017	2017
	Assets	Lia- bilities	Assets	Lia- bilities
Forward exchange contracts	809	0	0	919
Fuel oil swap transactions	0	8,532	4,350	0
Derivatives total	809	8,532	4,350	919

15. Receivables

All receivables, in the group and mother company, are due and payable within one year

	Group		Atlantic Airways	
	2018	2017	2018	2017
16. Deferred income and accruals (DKK 1,000)				
Defered income, tickets	40,538	32,156	40,538	32,156
Holiday allowances	5,527	5,283	5,527	5,283
Accruals	21,756	27,249	21,756	27,249
Total	67,821	64,689	67,821	64,689

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

	Group			
	Liab. Dec. 31st 2018	Short- term dept	Due for payment after	Liab. Dec. 31st 2017
Mortgage loans	406,590	31,096	231,265	438,866
Total long-term debt	406,590	31,096	231,265	438,866

	Atlantic Airways			
	Liab. Dec. 31st 2018	Short- term dept	Due for payment after	Liab. Dec. 31st 2017
Mortgage loans	406,590	31,096	231,265	438,866
Total long-term debt	406,590	31,096	231,265	438,866

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 (2017: the same).

18. Mortgaging and contingent liabilities etc.

Atlantic Airways:

Aircraft with a book value as at 31 of December 2018 of DKK 523 million are mortgaged for 711 million.

As a lessee the Company has in place three operating leases. Those are for 1 A319 aircraft and 2 A320 NEO aircrafts.

The leasing obligations are:

In the year 2019: DKK 12.7 million.

After 5 years: DKK 176.4 million.

The company guarantees for mortgages for associated company for 12 million, until 2021.

The company has guaranteed lender of the associated company, that the operation and cash flow are acceptable for the subsidiary for five years, after the subsidiary's rental agreement with associated company take effect.

Of the cash equivalent, 2.5 million are mortgaged.

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 0.8 million

Group:

P/F Hotel Atlantic has a rental agreement with Ognarfelagið matr. nr. 1332e, regarding a building in Torshavn. The rental agreement can be terminated by written notice with a time limit for 24 months, but not before 20 years after, the rental agreement takes place, expected in 2020.

19. Related parties

Control:

Faroese Ministry of Foreign Affairs and Trade (Faroese Ministry of Foreign Affairs and Trade), Tinganes, 100 Tórshavn

Basis of influence

Majority shareholder

Significant influence:

The Company has in 2018 provided helicopter services to the Ministry of Transport, Infrastructure and Labor amounted to DKK 14.3 million (2017: DKK 14.3 million) and to the Faroese Ministry of Fisheries amounted to DKK 30.1 million (2017: 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 Atlantic Hotell	(Note 9)
P/F Duty Free	(Note 10)
P/F Green Gate Incoming	(Note 10)
P/F Gjáargarður	(Note 10)
P/F Ognarfelagið matr. nr. 1322e	(Note 10)

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.

20. 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.

21. Events after the End of the Financial Year

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.

22. Accounting Principles

P/F Atlantic Airways (the “Company”) is a limited liability company incorporated and domiciled in the Faroe Islands. The address of the Company’s registered office is at Vágur Airport in Sørvágur, Faroe Islands. The consolidated financial statements of the Company for the period 1 of January to 31 of December 2018 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 of December 2018, supported by 174 employees with the operational base at Vágur. In the Helicopter Services there were 2 helicopters in service as at 31 December 2018 supported by 10 people with the operational base at Vágur. 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.

a. Statement of compliance

The consolidated annual report of Atlantic Airways P/F for the period 1 of January to 31 of December 2018 has been prepared in accordance with the Faroese Financial Statements Act, Class C large.

The consolidated annual report were approved by the board of directors on March 14, 2018. The board of directors can amend the annual report after issue up until the Annual General Meeting on April 11, 2019.

b. Basis of measurement

The consolidated 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 56.

c. Functional and presentation currency

The consolidated 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 the consolidated 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 assumptions used in preparing this financial statement will cause a material adjustments to the carrying amount of asset and liabilities within the next financial year.

Consolidation

The consolidated financial statements comprise the parent company, Atlantic Airways and its subsidiaries, where Atlantic Airways directly or indirectly holds more than half of the voting rights in an undertaking or otherwise has power to control management and operating policy decisions. Companies, where the Group own between 20% and 50% of the voting rights, and has significant influence, but not controlling power, are associated company

The consolidated financial statements combine the financial statements of the parent and the individual subsidiaries in accordance with the Group's accounting policies, in which invoice and costs, shareholdings, balances and dividends as well as realised and unrealised gains and losses on intragroup transactions have been eliminated.

The assets of acquired subsidiaries, including identifiable intangible assets, as well as liabilities and contingent liabilities, are recognised at the date of the acquisition at fair value in accordance with the acquisition method.

Changes in accounting principles

This is the first year that the company presents consolidated accounts. Besides this, there have been no changes in accounting principles. The consolidated financial statement for the period 1 of January to 31 of December 2018 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. Investments in associates

(i) Associated companies

Associated undertakings are businesses, other than group undertakings, in which the Group has holdings and significant influences but not control. The Group generally classifies undertakings as associated undertakings if Atlantic Airways directly holds 20% – 50% of the voting rights.

Holding in associated undertakings are recognised at cost at the date of acquisition and are subsequently measured according to the equity method. The proportionate share of the net profit or loss of the individual associate undertaking is included under "Income from associated undertakings" and based on data from latest financial statements with balance sheet.

The proportionate share of the profit and loss on transactions between associated and group undertakings is eliminated.

Associates with negative net asset value are measured at DKK 0. Any legal or actual obligation to cover the negative balance of the undertakings is recognised in provisions. Any receivables from these undertakings are written-down according to the impairment loss risks.

c. 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 61.

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 hedging 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 hedged 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.

(iii) 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

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 1 year are recognized as costs in the profit and loss account in the year 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 original 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 assesses 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 fluctua-

tion 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 2018, supported by 174 employees with the operational base at Vágar.

Helicopter Services

In the Helicopter Services there were 2 helicopters in service as at 31 December 2018 supported by 10 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).

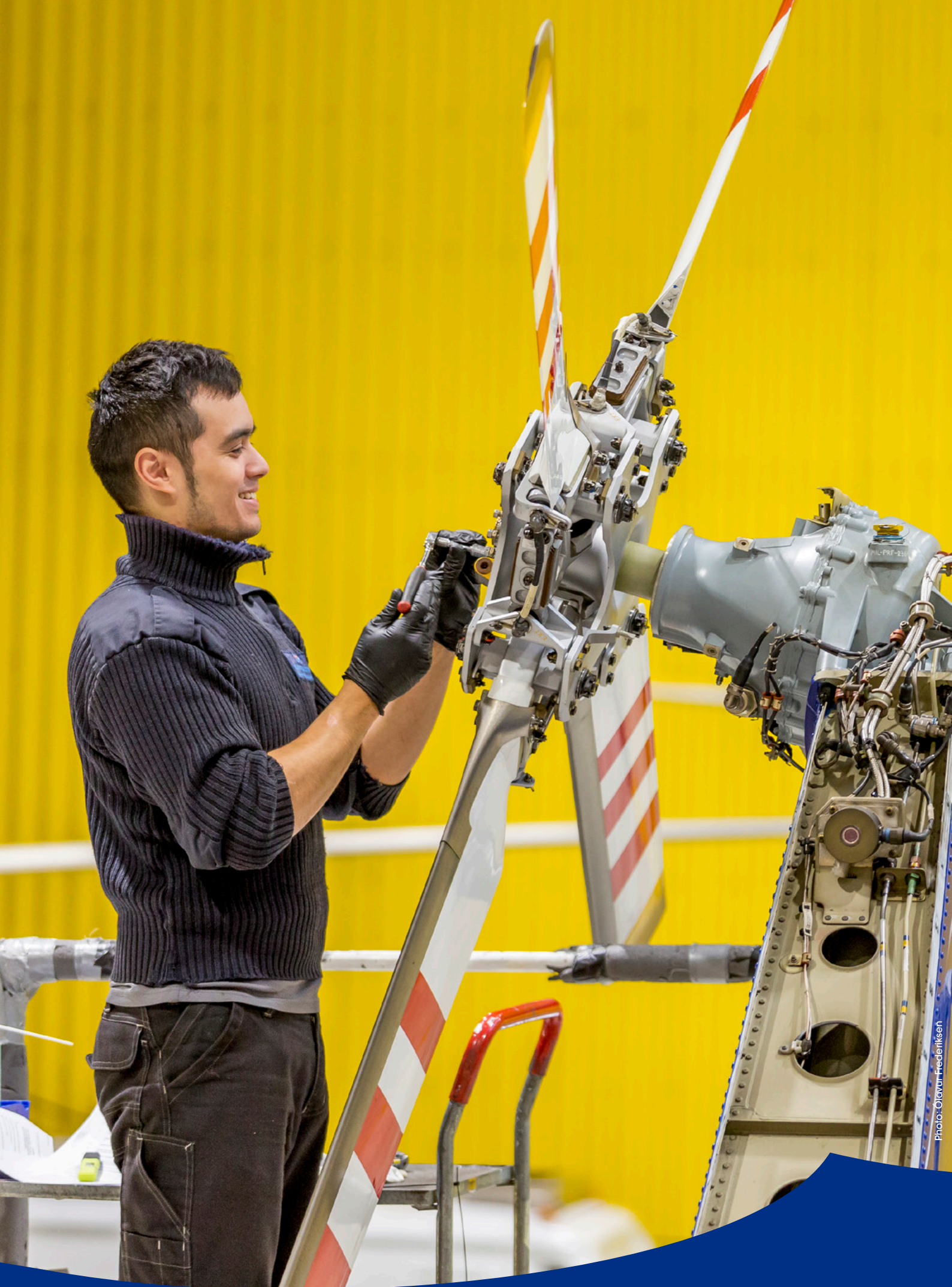


Photo: Olavur Frederiksen



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