



**ATLANTIC
AIRWAYS**

Group Consolidated Annual Report 2020

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
Eystein í Løðu
Gunn Ellefsen
Esther Dahl
Andrass Weihe

Management

Jóhanna á Bergi, CEO
Marius Davidsen, CFO

Auditor

P/F Januar, *State Authorized Public Accountants*

Subsidiary

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 the Faroese airline industry and airline services, and through this establish a competent aviation environment in the Faroe Islands.

Since the company's establishment in 1987, it has grown from a small company with one aircraft and limited capabilities to a company, which operates several aircraft and helicopters. At year-end 2020, Atlantic Airways had 146 full-time equivalent employees, and operated 4 aircraft 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.

The scheduled flights are divided into Denmark, NORTH and SUN routes, in addition to a new route to Paris and to New York in the future. All aviation is limited temporarily because of Covid-19. The number of low-price tickets has increased significantly, both on the Denmark routes and on the NORTH routes. The NORTH routes have improved connection between the Faroe Islands and the neighbouring countries of Iceland, Norway and Scotland significantly. Helicopter rescue services and scheduled services are today conducted with modern helicopters, which has increased the service level significantly for the remoter parts of the islands, health services, sailors and other travellers.

Atlantic Airways also prioritizes being 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 and 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 four per day before the Corona pandemic, both morning and evening. Since 1995, the company has stepwise established flight connections to the neighbouring countries Norway, Iceland and UK and France as well as connections to southern Europe. This continued development has increased passenger numbers at the Vágar Airport from around 46,000 in 1994 to more than 338,000 in 2019 before the corona pandemic hit in 2020. 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 Key Figures Group



Income Statement (DKK 1,000)	2020	2019	2018	2017	2016
Net sales	292,818	570,692	545,896	507,828	515,132
Other income	4,326	3,625	980	7,284	8,401
Result before depr., amort. and impairm. (EBITDA)	-65,392	68,211	83,526	68,998	84,222
Result before financial items (EBIT)	-115,268	13,480	25,137	13,242	38,249
Result before tax (EBT)	-128,175	9,479	19,758	4,074	34,137
Result after tax	-104,571	7,831	16,201	3,341	27,993
Balance Sheet (DKK 1,000)					
Non-current assets	559,254	572,227	602,720	627,748	670,818
Current assets	205,718	193,254	190,482	172,247	158,033
Total assets	764,972	765,482	793,201	799,995	828,850
Equity	245,733	258,630	242,047	232,384	223,754
Provisions	20,730	45,519	41,879	39,758	37,863
Long-term debt	367,823	344,743	375,494	407,770	436,386
Current liabilities	130,686	116,590	133,781	120,083	130,847
Total equity and liabilities	764,972	765,482	793,201	799,995	828,850
Cash Flows (DKK 1,000)					
Net cash flow from operating activities	-65,678	47,625	81,797	51,162	106,329
Net cash flow used in investing activities*	-44,459	-22,335	-29,807	-11,206	-274,044
Net cash flow from financing activities	127,000	-31,096	-31,096	-31,096	254,598
Cash flows for the period	16,862	-5,806	20,894	8,861	86,883
<i>*Of this purchase of property, plant and equipment</i>	<i>-45,418</i>	<i>-27,404</i>	<i>-30,327</i>	<i>-13,396</i>	<i>-284,648</i>
Financial Ratios					
EBITDAR (DKK 1,000)	-34,263	87,838	97,361	82,502	107,559
EBITDAR margin (%)	-12%	15%	18%	16%	21%
Return on investment (%)	-15%	2%	3%	2%	5%
Current ratio (%)	157%	166%	142%	143%	121%
Solvency ratio (%)	32%	34%	31%	29%	27%
Return on equity after tax (%)	-43%	3%	7%	1%	13%
Traffic Statistics					
Number of passengers - scheduled services	148,717	338,183	307,533	280,344	282,062
Number of passengers - fixed wing	178,846	445,639	436,558	375,109	328,001
Block hours – fixed wing	4,336	8,830	8,576	7,742	7,005
Capacity – scheduled flight (ASK) (1,000)	346,725	617,223	531,897	527,684	502,670
Traffic – scheduled flight (RPK) (1,000)	196,459	436,701	393,061	356,502	355,504
Load factor – scheduled services (%)	57%	71%	74%	68%	71%
Other Statistics					
Number of full-time employees	160	195	184	180	173
Aircraft operated as at 31 st December	4	3	3	3	3
Helicopters operated as at 31 st December	2	2	2	2	2

2.1 Management's Review



Operations 2020

Ever since spring of 2020, the Covid-19 pandemic, as well as the measures taken against the pandemic, have had a significant adverse effect on the airline's operations and liquidity. The full-year result for Atlantic Airways was a deficit of DKK 104.6 million in 2020 compared to a profit of DKK 7.8 million in 2019. The pre-tax result was a deficit of DKK 127.5 million in 2020, compared to a profit of DKK 9.6 million in 2019. Earnings before interest, depreciation and amortization (EBITDA) was a deficit of DKK 63 million compared to a profit of DKK 69 million in 2019. Total revenue for the year 2020 was 289.6 million in 2020, compared to DKK 574.3 million in 2019. A 50% decrease (285 million).

The Group result after tax was also a deficit of DKK 104.6 million in 2020, compared to a profit of DKK 7.8 million in 2019. The Group earnings before interest, depreciation and amortization (EBITDA) was a deficit of DKK 65.4 million compared to a profit of DKK 58.2 million in 2019.

Cutting expenses and increasing capital

When the corona pandemic hit the Faroe Islands and the world in the spring of 2020, the airline immediately took the necessary measures to limit the operational expenses. Almost all the employees were transferred to the ALS (The Faroese Employment Office) special covid-19 initiative, however, the airline was still forced to terminate approximately 100 employees, lowering the total number of staff from 240 to approximately 140. The board of directors also refused remuneration for a short period. The incessant impact of the covid-19 pandemic affected liquidity and the airline's equity severely. It became necessary to ask the Faroese Government, which is the sole owner, to provide further capital to the airline. At the extraordinary general meeting on 15 December in 2020, the shareholder decided to infuse a further DKK 100 million into the airline in share capital.

Fleet adjusted

From summer 2021, Atlantic Airways will have three Airbus A320 aircraft and two AW 139 helicopters in its fleet. Of the three Airbus aircraft, two of them are Airbus A320neo, which are the most energy-saving of its kind. All the aircraft are equipped with the state-of-the-art navigational system RNP AR 0.1, which has improved regularity these last years in the route to and from Vágar airport.

An agreement is made with the company Latitude HUB SA in the Canary Islands regarding a long-term lease of Atlantic Airways' final aircraft of the type Airbus A319. This is a 4-year lease.

The two new Airbus 320neo aircraft, which were scheduled to join the fleet in 2023/24 have been postponed until 2027/28, when the current Airbus 320neo are expected to be returned to the owner.

Competitiveness important

It is important for the airline to continue to ensure its competitiveness, both in and after the corona crisis, and to make the necessary adjustments. The pandemic has changed the aviation industry with several thousand aircraft that are no longer in flight, but which can be leased cheap, while many airlines have gone bankrupt only to re-establish under a different name. The tourism industry is expected to grow again, once the corona epidemic had subsided, however, a great flexibility is needed as well as improved competitiveness in order to face the competition.

Flying for the Faroes, even during covid

When Faroese society went into a lockdown in the spring of 2020, the airline tried all it could to bring Faroese people home from abroad. And while the Covid-19 pandemic raged, Atlantic Airways has been a safe and reliable air bridge to the outside world for business travellers, patients, as well as other travellers, while the aircraft have also transported the Covid-19 vaccines to the Faroese society. The airline has also been active in the struggle against the Covid-19 pandemic by developing a corona communication system to travellers and a system for paying for the corona test, in addition to continuous co-operation with the health authorities.

Emphasising sustainability

Atlantic Airways emphasises sustainability and its goal is to fly as sustainable as possible. Sustainability is on the agenda in all the airline's departments, which are working diligently and continuously along the sustainable line. In the last twelve years, the CO²-emission for each seat on the airline's route network has dropped by 47%, because of the new and improved larger and more environmentally friendly aircraft. The airline is encompassed by the EU CO²-quotas for aviation within the EU and EFTA countries and - in 2021 - will also be encompassed by CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation), which is a Global Market-Based Measure regarding carbon emission.

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, as well as other areas stemming from our core competences.

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 and Air France entered into a codeshare agreement, which means that several of Atlantic Airways' main scheduled flights also carry the KLM and Air France flight numbers, enabling travellers to travel all the way to the Faroe Islands, and it entails that the Faroe Islands make the list of all 165 KLM and Air France travel destinations around the world. Atlantic Airways intends to make more such agreements in the future.

Hilton Garden Inn Faroe Islands

In autumn of 2020, the subsidiary P/F Hotel Atlantic, opened a hotel, which features 130 rooms and five meeting and conference rooms. The hotel is part of the world-famous Hilton chain of hotels, which has some 112 million customers, and which is capable of attracting customers to the Faroe Islands from e.g. the USA and Asia, where the Hilton chain is particularly strong. P/F Hotel Atlantic leases the building from P/F Ognarfelagið matr. nr. 1332e, of which the company owns 40% together with the pension company LÍV, which owns 60%.

The hotel operations have been better than expected in the early because of the relatively good support from people living in the Faroe Islands. Both regarding stays, restaurant and meeting and conference. The Covid-19 pandemic and the limitations in travelling have meant that the number of travellers from other countries has been very limited. Because of the corona pandemic, an agreement has been made concerning exemption from payment until the end of 2021, which is intended to secure liquidity through the pandemic. This partnership with an international chain of hotels is expected to increase marketing of the Faroe Islands as a travel destination and thereby encouraging other and more groups of travellers to come and visit the Faroe Islands.

Financial Outlook 2021

The effects of the corona pandemic are expected to continue in 2021, especially in the first half. That is why the airline anticipates another deficit in 2021, however, not as much as in 2020. Faroese interest in travelling to other countries is expected to increase again when the corona pandemic has ended and interest in the Faroe Islands as a travel destination continues to be significant, and that is why a gradual increase in travellers from abroad is expected in the coming years.

2.2 Operational Review



The total number of passengers on the company's scheduled services decreased in 2020 from 338,183 in 2019 to 148,717 in 2020. The severe effect of the Covid-19 pandemic is the reason for the decrease, which is 56% compared to 2019. The fixed-wing fleet was airborne for 4,336 block hours compared to 8,830 block hours in 2019. The production decrease is 51% (-4,494 block hours).

The total fleet production was 5,060 block hours in 2020 compared to 9,736 block hours in 2019. The decrease is 48% in 2020 compared to 2019.

Scheduled services accounted for 64% of total fleet productions in 2020, ACMI/charter operations for 21% and helicopter services accounted for 14%. In 2019, scheduled services accounted for 65% of fleet production, ACMI/charter operations for 27% and helicopter services accounted for 9%.

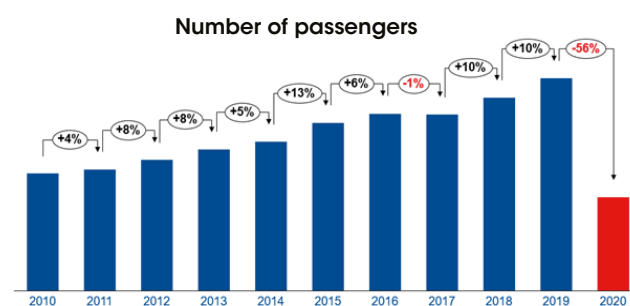
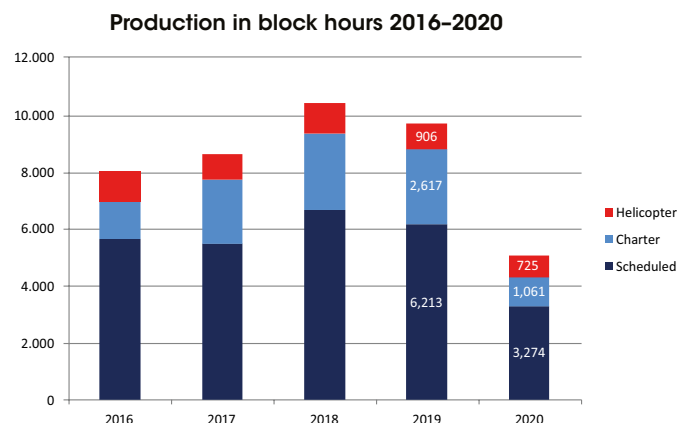
Scheduled services decreased by 47% from 8,213 block hours in 2019 to 3,274 block hours in 2020.

ACMI/charter operations decreased by 59% from 2,617 block hours in 2019 to 1,061 block hours in 2020.

Helicopter operations decreased by 20% from 906 block hours in 2019 to 725 block hours in 2020.

Scheduled services

The total number of passengers carried on scheduled services decreased by 56% in 2020 to 148,717 passengers. The decrease was 189,466 passengers, which is a result of the effects of the corona pandemic. Scheduled services nearly came to a stop in March of 2020, when the corona pandemic struck the Faroe Islands as well as the rest of the world. In June of 2020, scheduled services to Denmark slowly resumed. The number



of intended travel destinations in 2020 decreased from 12 to two, most of the year.

The seasonal fluctuations in scheduled traffic are usually high. Frequencies to Danish airports vary from 15 per week during the traditionally low-activity winter season to 35 per week during high season in the summer season. Because of the corona pandemic, the number of departures has decreased significantly temporarily.

Traffic information

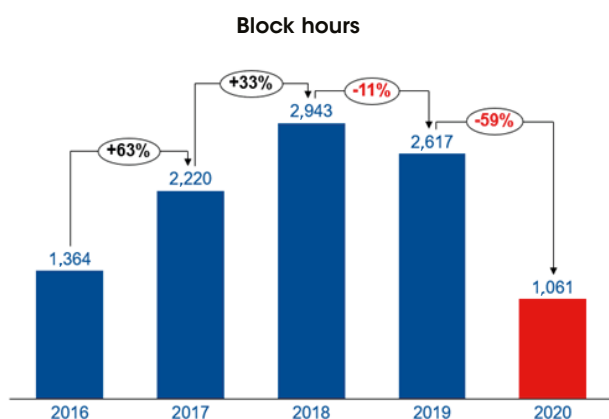
Passengers	2020	2019	Change	Change %
Scheduled services	148,717	338,183	-189,466	-56%
Helicopter services	9,975	14,541	-4,566	-31%

Block hours	2020	2019	Change	Change %
Scheduled services	3,274	6,213	-2,939	-47%
Charter operations	1,061	2,617	-1,555	-59%
Total fixed wing	4,336	8,830	-4,494	-51%
Helicopter operations	725	906	-181	-20%
Total production	5,060	9,736	-4,676	-48%

Charter operations

Charter/ACMI activity decreased from 2,617 block hours in 2019 to 1,061 block hours in 2020.

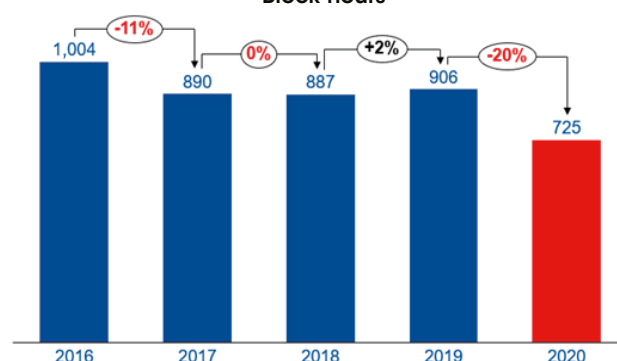
The airline leases out excess capacity not needed for scheduled services is sold to Charter/ACMI activity in order to improve profitability. In 2020, the airline provided services such as charter series for various tour operators in Denmark and ad hoc flights in Europe, in addition to some block hours ACMI flights. Almost no ACMI flights were in the second quarter of 2020, in addition to the fact that ACMI flights have been severely limited since autumn of 2020, because of the travel restrictions related to the corona pandemic.



Helicopter operations

In 2020, 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 725 block hours in 2020 compared to 906 block hours in 2019. The change is mostly due to limitations in domestic flights to remote islands in connection to the corona pandemic. 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.

Block hours



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 47 occasions in 2020 compared to 72 occasions in 2019. The airline has provided domestic helicopter services in the Faroe Islands since 1994 and SAR operations since 2001.

Other income

Together with Vágar airport, Atlantic Airways has established the company P/F Duty Free, which operates duty-free sales in the airport. Atlantic Airways also owns the subsidiary P/F Hotel Atlantic, which opened a new hotel in Tórshavn in the summer of 2020. The new hotel – called Hilton Garden Inn Faroe Islands – is operated in collaboration with the international hotel chain Hilton.

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

Four fixed-wing aircraft were in service at year-end 2020. Two Airbus A320neo, one Airbus A320 and one Airbus A319. Two of them are in the airline's ownership, while the airline leases on a long-term contract the two A320neo aircraft, which have 15% lower oil usage and CO² emissions than other Airbus aircraft of the same size. The second of the two A320neo aircraft arrived in June of 2020. The A320 seat 174 passengers and the A319 seats 144 passengers. The average age of the fixed wing fleet is approx. 4 years.

In June of 2021, the A319 aircraft will leave the fleet and the number of fixed-wing aircraft will go from four to three. An agreement has been made with Lattitude HUB SA on the Canary Islands, which will lease the A319 aircraft from June 2021 for four years. This will leave all the remaining aircraft as A320 with 174 seats.

In June of 2019, Atlantic Airways signed a contract for the purchase of two new Airbus A320neo aircraft from the airbus factory. The new A320neo were scheduled to arrive in the fleet in 2023 and 2024. As a consequence of the Covid-19 pandemic, it has been agreed that the aircraft will instead arrive in the summer of 2027 and the autumn of 2028, respectively.

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 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 fleet 31 December 2020

Fleet year-end	Amount	Ownership	Production year
A320neo	2	0	2019/2020
A320	1	1	2016
A319	1	1	2012
AW139	2	2	2015/2016

At year-end 2020, the helicopter fleet consisted of two Agusta Westland AW 139 helicopters. The average age of the rotor wing fleet is approximately five year.





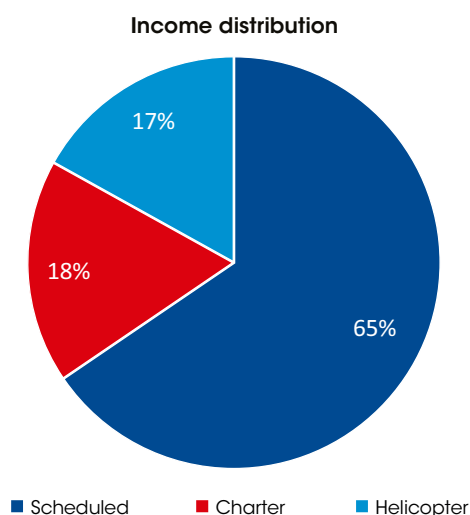
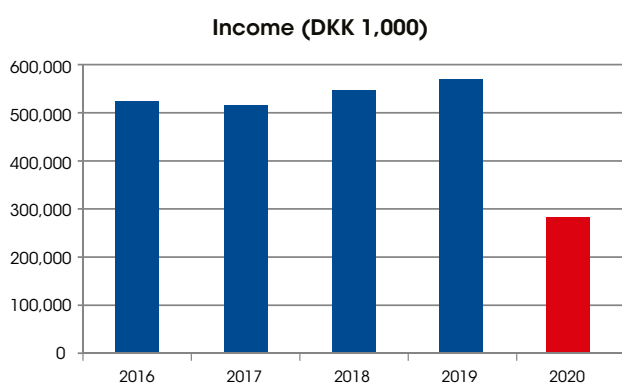
2.3 Financial Review



Financial statement, 1 January – 31 December 2020

Revenue

Atlantic Airways total revenues was DKK 289.6 million in 2020 compared to DKK 574.3 million in 2019. The decrease was DKK 284.7 million, which was caused by the severe effect of the Covid-19 pandemic as well as the measures against the pandemic.



Operating expenses

Operating expenses increased by DKK 132 million in 2020 to DKK 248 million compared to 2019. The decrease is primarily due to lower flight activities caused by the corona pandemic.

Fuel is one of the main operating expenses in aviation. In 2020, fuel costs – including CO² quota expenses – amounted to 19% of the total operating expenses, compared to 20% in 2019. The airline has a hedging policy for fuel expenses.

Employee expenses

Employee expenses amounted to DKK 104.4 million in 2020, compared to 126.1 million in 2019. The number of full-time equivalent employees was 146 in 2020 compared to 195 in 2019. The employees who were terminated are not part of the number of full-time equivalent employees.

Depreciations

Depreciation and impairment amounted to DKK 49 million in 2020 compared to DKK 55 million in 2019.

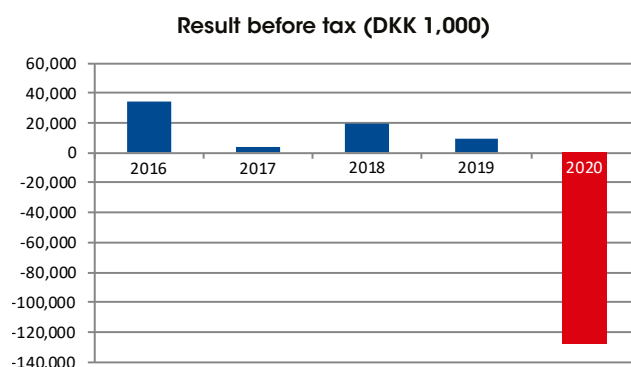
Financial items

Net financial items amounted to DKK -16 million including result from associated companies, compared to DKK -5 million in 2019.

The result before tax was a deficit of DKK 127.5 million compared to a profit of DKK 9.6 million in 2019.

The result after tax was a deficit of DKK 104.6 million compared to a profit of DKK 7.8 million in 2019.

Return on equity after tax was -43 per cent in 2020 compared to 3 per cent in 2019.



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.

Balance sheet

Assets

Total non-current assets decreased by DKK 49 million in 2020 from DKK 577 million at the start of the year to DKK 528 at year-end 2020.

Total current assets increased by DKK 17 million in 2020 from DKK 188 million by the start of the year to DKK 205 million at year-end 2020.

Available cash and cash equivalents at year-end 2019 were DKK 166 million compared to DKK 142 million at the start of the year.

Equity

Total equity as of 31 December was DKK 246 million and an equity ratio of 34%. Compared to the start of the year, equity has decreased by DKK 13 million and the equity ratio remains unchanged. As a consequence of the Covid-19 epidemic, the shareholder of the airline, the ministry of finance, decided to increase the share capital in the airline by DKK 100 million in December of 2020.

Liabilities

The company's total liabilities as of 31 December was DKK 487 million compared to DKK 507 at the end of the previous year. Long-term debt has decreased from DKK 345 million from the start of the year to DKK 341 million by the end of 2020. An agreement was reached with the airline's creditors in spring of 2020 regarding exemption from repayment in 2020.

Balance sheet

The balance sheet total as of 31 December 2020 was DKK 733 million, which is DKK 32 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.

2.5 Outlook for 2021



Aviation industry and global economy

Ever since spring of 2020, the global pandemic Covid-19 as well as the tightened travel measures, closed borders and quarantine demands have had a material effect on aviation. Never before in history, has global aviation seen such a recession as happened in 2020. According to the International Air Transport Association (IATA), global aviation dropped 66% in 2020, a total of 70% in Europe alone. It is estimated that the adverse effect will continue into the first half, and then aviation is expected to recuperate in the second half of 2021, as more and more people are vaccinated against Covid-19. However, uncertainties remain concerning new varieties of Covid-19.

In addition to the consequences of the corona pandemic, European aviation is also marked by fierce competition, low ticket prices, high regulatory costs and airlines registering the staff in low tax countries.

The commercial airline industry is linked to the strength of the economy in the countries, from which the passengers come. IMF (The International Monetary Fund) expects a 5.5% economic increase in 2021 compared to -3.5% in 2020.

Faroese economy

The global pandemic has also had its effect on the Faroese economy. The Faroese Economic Council estimates that the Faroese GDP in current prices dropped 6.9% in 2020 compared to 2019. The aviation industry has been severely affected by Covid-19 and there is great uncertainty surrounding export industries, while domestic consumption remains unchanged. The Economic Council expects growth in the Faroese economy in 2021. Unemployment is low and households are on the whole doing well.

Scheduled services

A consequence of the corona pandemic is that the number of direct flights to and from the Faroe Islands will be limited in 2021. In the start of the year, flights will only be made to Denmark and Norway. In the summer, it is the airline's intention to resume flights to Iceland, Scotland and France. Flights to Gran Canaria will resume in the winter of 2021/22.

The airline expects commercial aviation to start again properly in the summer of 2021. The Faroese people's desire for travel will start to grow again once the pandemic has ended and interest in the Faroe Islands as a travel destination continues to be big, which is why it is estimated that passenger numbers will slowly increase in the coming years. Excess capacity on the Copenhagen route is deemed to have a negative effect on the average ticket price.

The Faroese tourism industry is ready and prepared for further growth in tourism now that several more hotel rooms have been added as well as new aircraft.

Charter operations

Atlantic Airways' charter activities are based on using excess capacity not needed for scheduled services in order to improve profitability. The tight travel restrictions and quarantine requirements relating to the corona pandemic have led to a standstill in charter operations until June of this year, maybe later. This is why we expect less charter activities in 2021 compared to 2020. Excess capacity will also decrease as the fleet will go from four aircraft to three in 2021.

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 relatively new AW139 helicopters provide domestic transport to the most remote islands and helicopter Search and Rescue (SAR) coverage 24 hours a day. Production in 2020 will be higher than in 2020.

Financial forecast 2021

The airline expects the effects of the Covid-19 pandemic to continue in 2021, especially in the first half. Atlantic Airways also expects a deficit in 2021, however, not as much as in 2020. The competition on the Copenhagen route, the corona virus pandemic, as well as other risks mentioned in the section 'Risk management' may affect the financial performance and this guidance.



Photo: Nicolás Vera-Ortiz

2.6 Ownership



Share capital

The share capital in the airline has been increased by DKK 1,000,000 in December of 2020 to a total of DKK 104,500,00 at rate 10,000. The share capital increased by DKK 100 million in total after an extraordinary general meeting on 15 December in 2020. The airline shareholder decided at the general meeting to increase the airline's share capital as a consequence of the corona global pandemic. The share capital consists of one class of shares distributed over 1,045,000 shares. All shares have the same rights. There is one vote per share.

Shareholder

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 shareholder at the Annual General Meeting in April 2021 in line with the proposal for the renationalization acts of the Faroese Parliament from February 2014. No dividend was paid out in 2020 for the financial year 2019.

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 2020.

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

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 every four years 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 18 meetings in 2020.

2.7 Corporate Governance (Continued)



Board of directors

Niels Mortensen, Chairman of the Board

Born: 28 October 1966 (male)
Address: Traðavegur 12, FO-100 Tórshavn, Faroe Islands
Joined the Board: March 2013
Special skills: Commercial experience
Chief Occupation: CEO of SMS P/F and NM Holding
Experience: Danske Bank 1987 – 1992, P/F SMS 1992 –
Other board duties: P/F 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 2021
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 and P/F Havborg.
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) since 2001. Examiner in managerial economics at the Faroese Business College since 2009 – 2013.
Other board duties: P/F Enniberg, P/F Farcod, P/F Havborg, P/F SMS, P/F Miðlon, P/F Dvøljan, Norriq Holding A/S, Investeringsselskabet af 5. oktober 2012 Aps and P/F Atlantic Petroleum.
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 2021
Considered independent of the Company

Eystein í Løðu, Member of the Board

Born: 5 July 1973 (male)
Address: Smiðjuvegur 14, FO-386 Bøur
Joined the Board: April 2019
Special skills: Employee of Atlantic Airways
Chief Occupation: Safety Manager
Experience: Employee of Atlantic Airways since 1994, except 2000 – 2001.
Other board duties: None
Education: Flight mechanic and psychotherapist
Expiry of the current election period: April 2023
Considered dependent of the Company as employee representative

Gunn Ellefsen, Member of the Board

Born: 28 December 1975 (female)
Address: Skraddaragøta 24, FO-188 Hoyvík, Faroe Islands
Joined the Board: May 2020
Special skills: Legal experience.
Chief Occupation: Lawyer, Advokatfelagið við Strond 4
Experience: Lawyer since 2007
Other board duties: Chairwoman of the Faroese Handball Association.
Education: Cand. jur. Københavns Universitet 2004. Lawyer 2007.
Expiry of the current election period: April 2021
Considered independent of the Company

Esther Dahl, Member of the Board

Born: 20 September 1970 (female)
Address: Hornavegur 27, FO-450 Oyri, Faroe Islands
Joined the Board: May 2020
Special skills: Commercial experience, experience concerning the labour market
Chief Occupation: HR- & HTU-manager, KSS Klaksvíkar sleipistöð
Experience: Advisor in the Faroese Employer's Association 2005 – 2019 (particularly labour market, contract negotiations and shipping). Ad head of section, the Prime Minister's Office (foreign affairs) 2000 – 2005. Faroese ambassador to Bruxelles 1998 – 2000.
Other board duties: Council member Sunda municipality since 2020. Member of the Council on working environment (since 2006), Competition Council of the Faroes (since 2006) and chairwoman of the Governmental remuneration board (since 2020)
Education: Cand. negot
Expiry of the current election period: April 2021
Considered independent of the Company

Andrass Weihe, Member of the Board

Born: 30 March 1986 (male)
Address: Torkilsgøta 15, FO-188 Hoyvík, Faroe Islands
Joined the Board: June 2020
Special skills: Atlantic Airways employee
Chief Occupation: Freight and cargo in Atlantic Airways
Experience: Employee of Atlantic Airways since 2007
Other board duties: None
Education: Examined freight forwarder 2018
Expiry of the current election period: April 2023
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 CEO is also "Accountable Manager" for the airline and as such has the ultimate responsibility to comply with the standards and requirements set by the aviation authorities.

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: P/F Hotel Atlantic, 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, Faroe Islands

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.

Remuneration of Executive Management may be comprised of fixed pay, value-based bonus and pension. The total level for

2.7 Corporate Governance (Continued)



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. Remuneration to Executive Management is currently only comprised of fixed pay and pension, corresponding to a pre-defined part of the fixed remuneration.

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.

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

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 20% of the operating expenses 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.

CO²-emissions

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, however, the airline's flights in and between EU and EFTA countries, primarily charter flights, is encompassed by the EU ETS scheme.

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 from 8 EUR/tCO² to 32 EUR/tCO².

In addition to the EU ETS emission scheme, the aviation industry will also be encompassed by CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation), which is a Global Market-Based Measure regarding carbon emission for international aviation. The CORSIA measure is primarily based on the notion that an increase in CO² emissions from 2021 will be offset through purchase of 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). The offsetting will be based on own emissions in the base year times the percentage growth of emission from global aviation relative to the base year. After 2029, the measure will also take into account growth in emission from the individual airline itself. When global aviation will resume again, the CORSIA measure will start to have an effect on the airline's expenses.

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 2020, the airline's cost of cancellations and disruption was DKK 1.7 million due to cancellations compared to DKK 3.5 million in 2019. Additionally, the airline's operations will be affected by EU legislation concerning compensation in special cases of delay. 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 2020, the company had DKK 372 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 34 at year-end.

Liquidity risk

The company aims to maintain sufficient reserves of cash and cash equivalents in order to meet its liquidity requirements. Since spring of 2020, the global pandemic, Covid-19, has had a negative effect on the airline's liquidity, which has improved somewhat recently, after the Faroese Government in December of 2020 strengthened the share capital with DKK 100 million. The parent company's liquidity on 31 December 2020 was DKK 166 million and DKK 170 million for the Group. The company has in addition access to DKK 30 million in credit facilities. The company's credit facility was unused as of 31 December 2020. Liquidity is deemed sufficient. Cash at hand is usually affected by seasonal fluctuations.

Market competition

The airline's main revenues stem from the scheduled flights between the Faroe Islands and Copenhagen. The competition with excess capacity has affected the income and result of the airline. Negative effect of the competitive situation on the airline's profitability is expected to be visible in 2021.

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 in addition to other staff with direct responsibilities towards the aviation authorities.

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

2.10 Corporate Social Responsibility (CSR)

CSR in Atlantic Airways 2020

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 146 employees. We are linking the Faroe Islands with the world through scheduled connections to several destinations. Atlantic Airways also runs a helicopter operation providing domestic services and SAR operations in Faroese territories. Also, we play an important role in developing tourism in the Faroe Islands.

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:

- **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

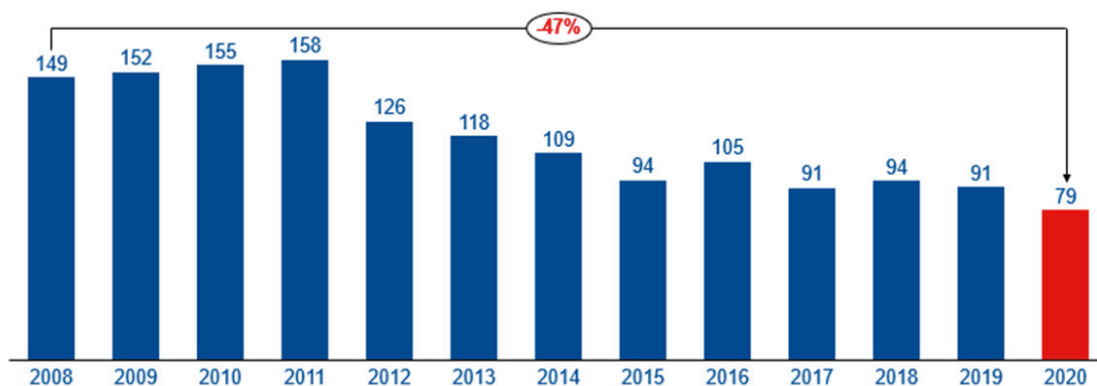
Environment

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.

A few years ago, the airline updated the fleet, bringing in Airbus aircraft in place of the old Avro RJ aircraft that had higher emissions. We continued renewing the fleet in 2019 and 2020 when two new Airbus A320neo joined the fleet. The A320neo's fuel consumption and CO² emissions are at least 15% lower than the current Airbus aircraft. In 2020, the average jet fuel burn per passenger on the scheduled services was 70 kilos lower on average, compared with the average consumption per passenger on the scheduled services in 2008. In 2020, the total CO² emissions from Atlantic Airways' scheduled services was 21,223 tonnes. 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. All single-use cutlery and cups on board the aircraft have been changed into sustainable solutions. The airline continues to work on developing sustainable solutions in all areas in order to have less of an impact 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 will be evaluated and mitigating measures will be taken to avoid repetition of any such 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.

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 initia-

2.10 Corporate Social Responsibility (CSR) (Continued)



ted 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.

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.

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 2020, the airline's expenses on mandatory and additional training were DKK 3.7 million.

COMMUNITY

Developing the Faroe Islands together

As an active company in the Faroese community, Atlantic Airways exists to connect the Faroe Islands to the surrounding world and to tie the islands closer together and for safety. Atlantic Airways operates a regular, flexible and diverse route network from the Faroe Islands with competitive prices. We work closely with customers and the community to better our services and experiences. The reliable scheduled services allows our passengers young & old, strong & weak, people & cargo to travel for purposes of business & culture, fun & serious and in joy & sadness. For us, it is of the utmost importance that The Faroe Islands 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 rather than local teams, and we also want to cultivate great talents that can make a name for themselves outside of the Faroe Islands.

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, 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 group and annual report of P/F Atlantic Airways for the financial year 1 January to 31 December 2020.

The group consolidated 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 group accounts and annual accounts provide a true and fair view of the group's and company's assets and liabilities and its financial position as on 31 December 2019 and of the company's results of its activities in the financial year 1 January to 31 December 2020.

The management's report contains, in our opinion, a fair account of the circumstances described in the report.

The group consolidated annual report is recommended for approval at the general meeting.

Sørvágur, the 19th of March 2021

Executive Management:

Jóhanna á Bergi
CEO

Marius Davidsen
CFO

Board of Directors:

Niels Mortensen
Chairman

Kaj Johannessen
Vice-chairman

Eystein í Løðu

Gunn Ellefsen

Esther Dahl

Andrass Weihe

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

Chairman of the AGM:



Photo: Nicolás Vera-Ortiz

3.2 Independent Auditor's Report



TO THE SHAREHOLDERS OF P/F ATLANTIC AIRWAYS

Report on the annual accounts

We have audited the consolidated annual accounts of P/F Atlantic Airways for the financial year 1 January – 31 December 2020, which comprise accounting policies used, profit and loss account, balance sheet, statement of change in equity, cash flow statement and notes. The consolidated annual accounts are prepared in accordance with the Faroese Financial Statements Act.

In our opinion, the annual accounts give a true and fair view of the company's assets, liabilities and financial position at 31 December 2020 and of the results of the company's operations and cash flows for the financial year 1 January to 31 December 2020 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.

Tórshavn, 19th of March 2021

P/F JANUAR

State Authorized Public Accountants

Heini Thomsen

State Authorized Public Accountant

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.

4.1 Income Statement 2020



(DKK 1,000)	Note	Group		Atlantic Airways	
		2020	2019	2020	2019
Net sales		292,818	570,692	285,312	570,692
Other income		4,326	3,625	4,326	3,625
Total revenue		297,144	574,317	289,638	574,317
Operating expenses		-252,851	-379,749	-247,788	-379,303
Employee expenditures	3	-109,684	-126,356	-104,435	-126,132
Total operating expenses		-362,536	-506,106	-352,224	-505,435
Result before depreciation, amort. and impairment (EBITDA)		-65,392	68,211	-62,585	68,882
Depreciations, amort. and impairment	4, 8, 9	-49,876	-54,731	-49,262	-54,731
Result before financial items (EBIT)		-115,268	13,480	-111,848	14,151
Financial income	5	371	611	32	195
Financial expenses		-14,750	-13,516	-14,261	-13,377
Share of profit/loss of subsidiaris	11	0	0	-2,928	-323
Share of profit/loss of associates	12	1,472	8,904	1,472	8,904
Net financial items		-12,908	-4,001	-15,685	-4,601
Result before taxes (EBT)		-128,175	9,479	-127,533	9,550
Income tax	7	23,604	-1,648	22,962	-1,719
Net Profit / Loss for the year		-104,571	7,831	-104,571	7,831
Proposed distribution of the results					
Reserve for net. val. ass. to the equity method		-7,528	1,904	-10,456	1,581
Result brought forward		-97,043	5,927	-94,115	6,250
Total		-104,571	7,831	-104,571	7,831

4.2 Balance sheet 31 December 2020



Assets (DKK 1,000)	Note	Group		Atlantic Airways	
		2020	2019	2020	2019
Intangible assets	8	2,322	3,690	1,841	3,202
Aircraft and maintenance	9	445,242	483,362	445,242	483,362
Spare parts	9	1,468	1,689	1,468	1,689
Operating equipment	9	57,297	21,761	20,894	18,560
Hangar, buildings and land	9	22,507	24,468	22,507	24,468
Prepaid aircraft acquisitions	10	8,391	7,672	8,391	7,672
Total tangible assets		534,905	538,952	498,502	535,752
Investment in subsidiaries	11	0	0	21,750	24,677
Investment in associates	12	9,015	16,543	5,815	13,343
Other shares	13	213	242	213	242
Subordinated loan		12,800	12,800	0	0
Total financial assets		22,028	29,585	27,777	38,262
Total non-current assets		559,254	572,227	528,121	577,216
Inventories		131	212	131	212
Trade receivables		7,259	11,179	6,466	11,179
Receivables subsidiaries		0	0	6,500	4,734
Prepayments	14	10,288	1,608	10,288	1,608
Other receivables	15	17,762	25,817	15,611	24,971
Other shares		21	27	21	27
Deferred income tax	6	714	71	0	0
Derivatives	16	0	3,461	0	3,461
Total receivables	17	36,043	42,162	38,886	45,979
Cash and cash equivalents		169,508	150,880	166,055	142,074
Total current assets		205,682	193,254	205,071	188,266
Total assets		764,936	765,482	733,192	765,482

4.2 Balance sheet 31 December 2020 (Continued)



Equity and liabilities (DKK 1,000)	Note	Group		Atlantic Airways	
		2020	2019	2020	2019
Share capital	22	104,500	103,500	104,500	103,500
Revaluation reserve	22	1,640	1,640	1,640	1,640
Value adjustm. of cash flow hedges	22	-22,179	-13,854	-22,179	-13,854
Reserve for net. val. acc. to the equity method	22	4,020	11,549	770	11,226
Retained earnings	22	157,752	155,795	161,003	156,118
Proposed dividend	22	0	0	0	0
Total equity		245,733	258,630	245,733	258,630
Deferred income tax liabilities	7	20,730	45,519	20,730	45,519
Total provisions		20,730	45,519	20,730	45,519
Mortgage loans	19	367,823	344,743	340,823	344,743
Total long-term debt		367,823	344,743	340,823	344,743
Mortgage loans	19	31,096	31,096	31,096	31,096
Trade payables		18,677	19,649	16,370	19,649
Current income tax liabilities	7	0	0	0	0
Deferred income and accruals	18	70,098	65,679	67,662	65,679
Derivatives	16	10,778	166	10,778	166
Total short-term debt		130,650	116,590	125,906	116,590
Total liabilities		519,203	506,852	487,459	506,852
Total equity and liabilities		764,936	765,482	733,192	765,482
Mortgaging and contingent liabilities etc.	20				

4.3 Statement of Changes in Equity



(DKK 1,000)	Group						
	Share capital	Revaluation reserves	Hedging reserve	Reserve for net. val. acc. to the equity method	Retained earnings	Proposed dividend	Total
Equity at 01.01.2019	103,500	1,640	-22,605	9,645	149,868	-	242,047
Result for the period	-	-	-	-	7,831	-	7,831
Revaluation Reserves	-	-	-	-	-	-	-
Value adjustm. of cash flow hedges	-	-	8,752	-	-	-	8,752
Revaluation reserve for net. val. acc. to the equity method	-	-	-	1,904	-1,904	-	-
Purchase own shares	-	-	-	-	-	-	-
Proposed dividend	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-
Equity at 31.12.2019	103,500	1,640	-13,854	11,549	155,795	-	258,630
Equity at 01.01.2020	103,500	1,640	-13,854	11,549	155,795	-	258,630
Result for the period	-	-	-	-	-104,571	-	-104,571
Revaluation Reserves	-	-	-	-	-	-	-
Value adjustm. of cash flow hedges	-	-	-8,325	-	-	-	-8,325
Revaluation reserve for net. val. acc. to the equity method	-	-	-	-7,528	7,528	-	-
Increase of share capital	1,000	-	-	-	99,000	-	100,000
Proposed dividend	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-
Equity at 31.12.2020	104,500	1,640	-22,179	4,020	157,752	-	245,733

There are no changes in the share capital.

4.3 Statement of Changes in Equity



(DKK 1,000)	Atlantic Airways						
	Share capital	Revaluation reserves	Hedging reserve	Reserve for net. val. acc. to the equity method	Retained earnings	Proposed dividend	Total
Equity at 01.01.2019	103,500	-	-22,605	9,645	149,868	-	240,407
Result for the period	-	-	-	-	7,831	-	7,831
Revaluation Reserves	-	1,640	-	-	-	-	1,640
Value adjustm. of cash flow hedges	-	-	8,752	-	-	-	8,752
Revaluation reserve for net. val. acc. to the equity method	-	-	-	1,581	-1,581	-	-
Proposed dividend	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-
Equity at 31.12.2019	103,500	1,640	-13,854	11,226	156,118	-	258,630
Equity at 01.01.2020	103,500	1,640	-13,854	11,226	156,118	-	258,630
Result for the period	-	-	-	-	-104,571	-	-104,571
Revaluation Reserves	-	-	-	-	-	-	-
Value adjustm. of cash flow hedges	-	-	-8,325	-	-	-	-8,325
Revaluation reserve for net. val. acc. to the equity method	-	-	-	-10,456	10,456	-	-
Increase of share capital	1,000	-	-	-	99,000	-	100,000
Proposed dividend	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-
Equity at 31.12.2020	104,500	1,640	-22,179	770	161,003	-	245,733

There are no changes in the share capital.

4.4 Cash flow statement



(DKK 1,000)	Note	Group	
		2020	2019
Net profit/loss for the period		-104,571	7,831
Depreciations		49,876	54,731
Taxes		-23,604	1,648
Adjustments		26,271	56,379
+/- trade receivables		5,361	1,294
+/- prepayments		-7,113	248
+/- other receivables		7,317	-7,505
+/- Inventories		82	82
+/- investment in associates and other shares		7,563	-1,904
+/- trade payables		-3,244	-6,683
+/- deferred income and accruals		4,421	-2,117
Changes in operating assets and liabilities		14,387	-16,585
Cash flow from operating activities		-63,912	47,625
Purchase of intangible, tangible assets and prepaid aircraft	8, 9	-45,418	-27,404
Investment in financial assets	11	0	
Sale of intangible and tangible assets	8, 9	959	5,068
Cash flows from investing activities		-44,459	-22,335
Proceeds from new loans		27,000	0
Changes of long-term loans		0	-31,096
Credit lines		0	0
Paid in sharecapital		100,000	0
Paid dividends		0	0
Purchase own shares		0	0
Cash flows from financing activities		127,000	-31,096
Total cash flows for the period		18,628	-5,806
Cash and cash equivalents at the beginning of the period		150,880	156,686
Cash and cash equivalents at the end of the period		169,508	150,880

Felagið hefur afturat tóka peninginum tilsið um kassakreditt uppá DKK 30 mill.

4.5 Overview of Notes



1. Segment information
2. Specification of numbers of passengers
3. Employee expenses
4. Depreciation, amortisation impairments
5. Revenues
6. Auditor's remuneration
7. Income tax
8. Intangible assets
9. Tangible assets
10. Pre-paid aircraft
11. Investment in subsidiaries
12. Investment in associates
13. Investment in other shares
14. Prepayments
15. Other receivables
16. Derivatives
17. Receivables
18. Deferred income and accruals
19. Long-term debt
20. Mortgaging and contingent liabilities etc.
21. Related parties
22. Equity
23. Events after the end of the financial year
24. Accounting principles

4.6 Notes



1. Segment information (DKK 1,000)	Aircraft Services		Helicopter Services		Total	
	2020	2019	2020	2019	2020	2019
Income statement						
Net sales	236,280	520,949	49,032	49,743	285,312	570,692
Other income	4,326	3,625	0	0	4,326	3,625
Total revenue from external customers	240,606	524,574	49,032	49,743	289,638	574,317
Operating expenses	358,772	513,664	42,714	46,502	401,486	560,166
Operating result	-118,166	10,910	6,318	3,240	-111,848	14,151
Effects of subsidiaries	-	-	-	-	-2,928	-323
Effects of associated companies	-	-	-	-	1,472	8,904
Financial income	32	195	0	0	32	195
Financial expenses	-9,990	-8,760	-4,271	-4,617	-14,261	-13,377
Result before tax	-128,124	2,346	2,047	-1,377	-127,533	9,550
Income tax expense	-	-	-	-	22,962	-1,719
Profit					-104,571	7,831

Geographical segments	Faroe Islands		Europe		Total	
	2020	2019	2020	2019	2020	2019
Revenue comprises the following markets:						
Total revenue from external customers	167,943	290,218	121,696	284,098	289,638	574,317

2. Specification of numbers of passengers:

	Atlantic Airways	
	2020	2019
Passengers scheduled services	148,717	338,183
Passengers ACMI/charter operations	30,129	107,456
Passengers fixed wing	178,846	445,639
Passengers helicopter	9,975	14,541
Total passengers	188,821	460,180

Block hours

Block hours scheduled services	3,274	6,213
Block hours ACMI/charter operations	1,061	2,617
Block hours fixed wing	4,336	8,830
Block hours helicopter	725	906
Total block hours	5,060	9,736

Income overseas:

Export value in DKK (1,000)	121,696	284,098
Export value in %	43%	50%

	Group		Atlantic Airways	
	2020	2019	2020	2019
3. Employee expenditures (DKK 1,000)				
Wages	-95,372	-110,785	-91,046	-110,730
Pensions	-9,957	-10,096	-9,350	-9,970
Expenses for social security	-4,355	-5,475	-4,039	-5,432
Other employee expenditures				
Bonus	0	0	0	0
Total	-109,685	-126,356	-104,435	-126,132
Remuneration Management and Board:				
Management:				
Jóhanna Á Bergi, CEO, Wages	-1,174	-1,218	-1,174	-1,218
Jóhanna Á Bergi, CEO, Pensions	-174	-180	-174	-180
Jóhanna Á Bergi, CEO, Bonus	0	0	0	0
Marius Davidsen, CEO, Wages	-998	-1,035	-998	-1,035
Marius Davidsen, CEO, Pensions	-148	-153	-148	-153
Marius Davidsen, CEO, Bonus	0	0	0	0
Board:				
Niels Mortensen, Chariman, Wages	-217	-260	-217	-260
Kaj Johannesen, Vice-chairman, Wages	-200	-240	-200	-240
Laila Hentze, Wages	-35	-140	-35	-140
Fróði Magnussen, Wages	-35	-140	-35	-140
Esther Dahl, Wages	-82	0	-82	0
Gunn Ellefsen, Wages	-82	0	-82	0
Hanna Svabo, Wages	0	-35	0	-35
Jóhan Mikkelsen, Wages	0	-35	0	-35
Jóhan Vágadal, Wages	-35	-105	-35	-105
Eystein í Løðu, Wages	-117	-105	-117	-105
Andrass Weihe, Wages	-82	0	-82	0
Total	-3,379	-3,646	-3,379	-3,646
<i>Number of employees</i>	<i>160</i>	<i>194</i>	<i>146</i>	<i>194</i>
4. Depreciation, amort. and impairments (DKK 1,000)				
Amortisation of intangible assets	-2,060	-2,140	-2,052	-2,140
Depreciation of tangible assets	-47,815	-52,591	-47,210	-52,591
Impairments of tangible assets	0	0	0	0
Total depreciation, amortisation and impairments	-49,876	-54,731	-49,262	-54,731
5. Financial income (DKK 1,000)				
Financial income, subsidiaries	0	0	124	64
Other financial income	434	611	32	132
Total financial income	434	611	157	195
6. Auditors remuneration (DKK 1,000)				
Audit	-157	-125	-125	-125
Other services	-102	-62	-102	-62
Total	-259	-187	-227	-187

	Group		Atlantic Airways	
	2020	2019	2020	2019
7. Income tax (DKK 1,000)				
Taxes	0	0	0	0
Changes in deferred taxes during the period	23,604	-1,648	22,962	-1,719
Total taxes	23,604	-1,648	22,962	-1,719
Deferred income tax liabilities as of Jan 1st	45,519	41,879	45,519	41,879
Changes in deferred income taxes during the period	-22,319	1,790	-22,962	1,719
Taxes recognised in equity	-1,828	1,921	-1,828	1,921
Deferred income tax liabilities at the end of the period	21,372	45,590	20,730	45,519

8. Intangible assets (DKK 1,000)

Acquisition value as of Jan 1st	0
Additions during the period	0
Disposal during the period	0
Acquisition value as of December 31st	0

Amortisations as of Jan 1st	0
Amortisations during the period	0
Amortisations of disposal	0
Amortisations as of December 31st	0

Book value as at December 31st 2020

Book value as at December 31st 2019

(DKK 1,000)

Acquisition value as of Jan 1st	0
Additions during the period	0
Disposal during the period	0
Acquisition value as of December 31st	0

Amortisations as of Jan 1st	0
Amortisations during the period	0
Amortisations of disposal	0
Amortisations as of December 31st	0

Book value as at December 31st 2020

Book value as at December 31st 2019

Group		
Development expenditures	Software	Total
0	20,194	20,194
0	692	692
0	0	0
0	20,885	20,886
0	-16,504	-16,504
0	-2,060	-2,060
0	0	0
0	-18,564	-18,564
0	2,322	2,322
0	3,690	3,690

Atlantic Airways		
Development expenditures	Software	Total
0	19,706	19,706
0	692	692
0	0	0
0	20,397	20,397
0	-16,504	-16,504
0	-2,052	-2,052
0	0	0
0	-18,556	-18,556
0	1,841	1,841
0	3,202	3,202

9. Tangible assets (DKK 1,000)

	Group				
	Aircraft and maintenance	Spare parts	Operating equipment	Hangar, buildings and land	Total
2020					
Acquisition value as of Jan 1st	712,435	3,354	45,192	45,577	806,557
Additions during the period	3,248	0	40,760	0	44,008
Disposal during the period	-8,123	0	-1,346	0	-9,469
Acquisition value as of December 31st	707,559	3,354	84,606	45,577	841,096
Uppskrivningar primo	0	0	0	2,000	2,000
Uppskrivningar í árinum	0	0	0	0	0
Uppskrivningar 31. desember	0	0	0	2,000	2,000
Av- og niðurskrivingar primo	-229,073	-1,664	-23,431	-23,109	-277,277
Avskrivningar í árinum	-40,506	-221	-5,127	-1,961	-47,815
Av- og niðurskrivingar viðv. frágongd í árinum	7,262	0	1,249	0	8,511
Av- og niðurskrivingar 31. desember	-262,318	-1,886	-27,309	-25,070	-316,582
Bókað virði 31. desember 2020	445,242	1,468	57,297	22,507	526,514
<i>Bókað virði 31. desember 2019</i>	<i>483,362</i>	<i>1,689</i>	<i>21,761</i>	<i>24,468</i>	<i>531,280</i>

(DKK 1,000)	Atlantic Airways				
	Aircraft and maintenance	Spare parts	Operating equipment	Hangar, buildings and land	Total
2020					
Acquisition value as of Jan 1st	712,435	3,354	41,991	45,577	803,357
Additions during the period	3,248	0	6,952	0	10,200
Disposal during the period	-8,123	0	-1,346	0	-9,469
Acquisition value as of December 31st	707,559	3,354	47,598	45,577	804,088
Revaluation as of Jan 1st	0	0	0	2,000	2,000
Revaluation during the period	0	0	0	0	0
Revaluation as of December 31st	0	0	0	2,000	2,000
Depreciations and impairments as of Jan 1st	-229,073	-1,664	-23,431	-23,109	-277,277
Depreciations during the period	-40,506	-221	-4,522	-1,961	-47,210
Depreciations and impairments of disposal	7,262	0	1,249	0	8,511
Depreciations and impairments as of December 31st	-262,318	-1,886	-26,704	-25,070	-315,977
Book value as at December 31st 2020	445,242	1,468	20,894	22,507	490,111
<i>Book value as at December 31st 2019</i>	<i>483,362</i>	<i>1,689</i>	<i>18,560</i>	<i>24,468</i>	<i>528,079</i>

10. Prepaid aircraft acquisitions

Prepaid aircraft acquisitions in the balance sheet for 2020, are for the purchase of two Airbus A320 neo aircrafts delivered in 2027 and 2028.

	Atlantic Airways
11. Investments in subsidiaries (DKK 1,000)	2020
Acquisition value as of Jan 1 st	25,000
Additions during the period	0
Disposal during the period	0
Acquisition value as of December 31st	25,000
Revaluations as of Jan 1 st	-323
Share of result acc. to the financial statement	-2,928
Dividens paid durind the period	0
Revaluations as of December 31st	-3,250
Book value as at December 31st 2020	21,750
<i>Book value as at December 31st 2019</i>	24,677

The equity proportion in subsidiaries is divided as follows:

Name	Domicile	Equity portion	Equity	Net profit
Hotel Atlantic P/F	Sørvágur	100%	21,750	-2,928

	Group	Atlantic Airways
12. Investment in associates (DKK 1,000)	2020	2020
Acquisition value as of Jan 1 st	4,995	1,795
Additions during the period	0	0
Disposal during the period	0	0
Acquisition value as of December 31st	4,995	1,795
Revaluations as of Jan 1 st	11,548	11,548
Share of result acc. to the latest financial statement	1,472	1,472
Dividens paid durind the period	-9,000	-9,000
Revaluations as of December 31st	4,020	4,020
Book value as at December 31st 2020	9,015	5,815
<i>Book value as at December 31st 2019</i>	<i>16,543</i>	<i>13,343</i>

The equity proportion in associated companies is divided as follows:

Group				
Name	Domicile	Equity portion*	Equity*	Net profit*
Duty Free P/F	Sørvágur	50%	22,468	16,925
Green Gate Incoming P/F	Tórshavn	49%	2,388	847
Ognarfelagið matr.nr. 1332e P/F	Tórshavn	40%	8,000	0
Gjáargarður P/F	Gjógv	31%	3,078	85

* According to the latest financial statements

Atlantic Airways				
Name	Domicile	Equity portion*	Equity*	Net profit*
Duty Free P/F	Sørvágur	50%	22,468	16,925
Green Gate Incoming P/F	Tórshavn	49%	2,388	847
Gjáargarður P/F	Gjógv	31%	3,078	85

* According to the latest financial statements

	Group		Atlantic Airways	
	2020	2019	2020	2019
13. Investment in other shares (DKK 1,000)				
Acquisition value as of Jan 1 st	1,242		1,242	
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 1 st	-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 2020	242		242	
<i>Book value as at December 31st 2019</i>	242		242	

	Group		Atlantic Airways	
	2020	2019	2020	2019
14. Prepayments (DKK 1,000)				
Prepaid rental expenses	119	106	119	106
Other prepayments	10,169	1,503	10,169	1,503
Prepayments total	10,288	1,608	10,288	1,608
15. Other receivables (DKK 1,000)	2020	2019	2020	2019
Deposit	12,102	13,133	12,102	13,133
Other receivables	5,660	12,684	3,509	11,838
Other receivables total	17,762	25,817	15,611	24,971

	Group			
	2020	2020	2019	2019
	Assets	Lia- bilities	Assets	Lia- bilities
16. Derivative financial instruments (DKK 1,000)				
Forward exchange contracts	0	680	0	166
Fuel oil swap transactions	0	10,098	3,461	0
Derivatives total	0	10,778	3,461	166

	Atlantic Airways			
	2020	2020	2019	2019
	Assets	Lia- bilities	Assets	Lia- bilities
Forward exchange contracts	0	680	0	166
Fuel oil swap transactions	0	10,098	3,461	0
Derivatives total	0	10,778	3,461	166

17. Receivables

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

	Group		Atlantic Airways	
	2020	2019	2020	2019
18. Deferred income, accruals and other debt (DKK 1,000)				
Defered income, tickets	42,222	42,231	42,222	42,231
Holiday allowances	4,769	6,235	4,769	6,235
Accruals	23,107	17,213	20,671	17,213
Total	70,098	65,679	67,662	65,679

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

	Group			
	Liab. Dec. 31 st 2020	Short- term debt.	Due for payment after 5 year	Liab. Dec. 31 st 2019
Mortgage loans	398,919	31,096	215,598	375,839
Total long-term debt	398,919	31,096	215,598	375,839

	Atlantic Airways			
	Liab. Dec. 31 st 2020	Short- term debt.	Due for payment after 5 year	Liab. Dec. 31 st 2019
Mortgage loans	371,919	31,096	200,169	375,839
Total long-term debt.	371,919	31,096	200,169	375,839

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.

20. Mortgaging and contingent liabilities etc.

Parent company:

Fixed-wing aircraft and helicopters with a book value, as at 31 of December 2020, of DKK 483 million, are mortgaged for DKK 711 million.

The company has in place two operating leases. Those are for 2 A320 NEO aircraft.

The leasing obligations are:

In 2021: DKK 41.8 million.

After 5 years: DKK 80.3 million.

The company has guaranteed creditors of the associated company, that the operation and cash flow are acceptable for continuing operations in the subsidiary for six years starting on 1 December 2021.

The company has provided guarantees for DKK 2.4 million.

Of the cash equivalent, DKK 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 DKK 0.8 million

The company has entered into a contract with Airbus regarding purchase of two A320neo aircrafts. The first will be delivered in 2027 and the second in 2028.

The company is the parent company in terms of joint-taxation and is responsible for all tax claims and interest in the jointly-taxed companies.

Group:

P/F Hotel Atlantic has entered into an agreement concerning the lease of a building in Tórshavn from P/F Ognarfelagið matr. nr. 1332e. The lease can be terminated with a written notice of 24 months, however no sooner than 20 years after the agreement came into effect, which was in 2020.

As collateral for the debt to the credit institution, P/F Hotel Atlantic has put forward a business mortgage of DKK 30 million. The business mortgage encompasses goods and service receivables, depositories, operating inventory and operating equipment as well as permits for an accounting value of DKK 37,676 thousand on 31 December 2020

21. Related parties

Control:

Faroese Ministry of Finance, Tinganes, 100 Tórshavn

Basis of influence

Majority shareholder

Significant influence:

The Company has in 2020 provided helicopter services to the Ministry of Finance amounted to DKK 14.3 million (2019: DKK 14.3 million) and to the Faroese Ministry of Fisheries amounted to DKK 30.1 million (2019: 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 Hotel Atlantic	(Note 10)
P/F Duty Free	(Note 11)
P/F Green Gate Incoming	(Note 11)
P/F Gjáargarður	(Note 11)
P/F Ognarfelagið matr. nr. 1322e	(Note 11)

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.

22. Equity

Share capital

The share capital amounting to DKK 104.500.000 is divided in 1.045.000 shares of DKK 100 kr. 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.

23. 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.

24. Accounting Principles

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 2020 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: Scheduled Services, Charter Services, and Helicopter Services. The Scheduled Services and Charter Services had 4 aircraft in service as at 31 of December 2020, supported by 136 employees with the operational base at Vágur. In the Helicopter Services there were 2 helicopters in service as at 31 December 2020 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.

Basis of preparation

a. Statement of compliance

The consolidated annual report of Atlantic Airways P/F for the period 1 of January to 31 of December 2020 has been prepared in accordance with the Faroese Financial Statements Act, Class C large.

The consolidated annual report is prepared according to the same accounting principles as the previous year.

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 later in this note.

c. 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.

Figures in the income statement, balance sheet and notes etc. are rounded off to whole figures and comparative figures from the previous year are rounded off to whole thousands. Because the figures are rounded separately, there may be differences between the additions and the sum of the underlying figures.

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 companies.

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.

Recognition and measurement in general

Income is recognized in the profit and loss account on currently with its realization, including the recognition of value adjustments of financial assets and liabilities. Similarly, all costs, these including depreciation, amortisation, write-downs, provisions, and reversals which are due to changes in estimated amounts previously recognized in the profit and loss account are recognized in the profit and loss account.

Assets are recognised in the balance sheet when the group is liable to achieve future, financial benefits and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the group is liable to lose future, financial benefits and the value of the liability can be measured reliably.

At initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described below for each individual accounting item.

At recognition and valuation, considerations are made for expected losses and risk that may appear before the annual report is completed and which concern circumstances that were present at the end of the accounting year.

a. Tangible fixed assets

Capital shares in subsidiaries and associated companies are recognised in the balance sheet with the relative part of the accounting inner value of the company. The inner value is recognised using the mother company's accounting method, after taking into account unrealised internal consolidated profit and loss, in addition to deduction or addition of positive or negative goodwill recognised using the acquisition method.

Subsidiaries and associated companies with a negative internal value, are recognised without value. Possible receivables in these companies are written-down with the relative part of the parent company of the inner value, in so far as the receivable is deemed lost. Should the accounting negative inner value be higher than the receivable, the interest amount will be recognised under deferred liabilities to the extent that the parent company has legal or specific duty to take on these companies' negative equity.

Acquired or newly established companies are recognised from the day of procurement. Sold or divested companies are recognised up until the divestment date.

b. Investment in associated companies

(i) Capital shares in associated companies

Capital shares in associated undertakings are recognised in the balance sheet with the relative part of the accounting inner value of the company. The inner value is recognised using the mother company's accounting method, after taking into account unrealised internal consolidated profit and loss, in addition to deduction or addition of positive or negative goodwill recognised using the acquisition method.

Associated companies with a negative internal value, are recognised without value. Possible receivables in these companies are written-down with the relative part of the parent company of the inner value, in so far as the receivable is deemed lost. Should the accounting negative inner value be higher than the receivable, the interest amount will be recognised under deferred liabilities to the extent that the parent company has legal or specific duty to take on these companies' negative equity.

Net depreciation of capital share in associated company is recognised under the equity as cash on hand according to the internal value method, to the extent that the accounting value is higher than the procurement value. The reserve fund is balanced by other transactions in the equity of the associated companies.

Acquired or newly established companies are recognised from the day of procurement. Sold or divested companies are recognised up until the divestment date.

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. Foreign currency differences arising on retranslation are recognised in the income statement.

Receivables, liabilities and other financial items in foreign currency that have not been settled at the end of the accounting period are recognised at currency rate at the end of the accounting period. The difference between the currency rate at the end of the accounting period and the rate, which was current at the acquisition date is recognised in the income statement under financial items.

d. 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 this note.

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

(ii) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value; attributable transaction costs are recognised in profit

Significant accounting principles (Continued)



or loss when incurred. Positive and negative current value is recognised in assets and liabilities, respectively.

Changes in current value of the derivative financial instruments that are intended for at fulfil the requirements of hedging the current value of a recognised asset or liability are recognised in the income statement together with any changes in current value of the hedged asset or liability.

Changes in fair value of the derivative financial instruments that are intended for at fulfil the requirements of hedging future assets and liabilities are recognised in the receivables or liabilities and the equity.

Should future transactions end in recognition of either asset or liability, figures that are recognised in the equity, will be transferred from the equity and will be recognised at fair value for either the asset or liability. If future transactions end in income or expenses, the figures that are recognised in the equity, will be transferred to the income statement for the period when the hedging affects the income statement.

For any derivative financial instruments that do not meet the requirements to be treated as hedged instruments, changes in current value will be recognised are the incur in the income statement.

Changes in current value of derivative financial instruments that are used to hedge net investment in independent foreign subsidiaries or associated companies, are recognised directly in the equity.

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 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.

Significant accounting principles (Continued)



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) Aircraft, helicopters, flight equipment, hangar, offices, and houses

Aircraft, 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 de-recognised. 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
Aircrafts	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

Significant accounting principles (Continued)



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.

Significant accounting principles (Continued)



(i) Overhaul commitments relating to aircrafts under operating lease

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

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

l. Deferred income

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

m. Borrowing costs

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

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

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

n. Operating income

(i) Transport revenue

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

(ii) Aircraft and aircrew lease

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

(iii) Other operating revenue

Revenue from other services rendered is recognised in the income statement when the service has been provided.

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

o. Lease payments

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

The lease contracts require the aircraft to be returned at the end the lease in accordance with the specific redelivery conditions stated in the lease contracts. To meet this requirement, the company must conduct maintenance on these aircraft, both regularly and at the expiration of the leasing period. Provisions are made based on the estimated costs of overhauls and maintenances.

p. Finance income and expenses

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

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

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

The relative part of the result after tax is recognised in the income statement after elimination of internal profit or loss, in addition to deduction of write-offs of consolidated goodwill.

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.

Significant accounting principles (Continued)



The airline has chosen to be joint-taxed with its associated companies. The airline fulfils the conditions in Faroese taxation laws concerning joint-taxation of parent companies with their Faroese subsidiaries.

The total amount of tax to the Faroese authorities of the taxable incomes from the parent company and the subsidiaries is settled by the parent company. The taxable value of joint-taxation is distributed to the companies in the Group in relation to their taxable income or deficit.

Taxable income is calculated into the balance sheet with the amount that can be calculated from the taxable income of the year, adjusted for tax from previous years.

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.

Deferred tax asset – including taxable value of forwarding authorised taxable deficits – is calculated with the value that the assets is expected to be realised for, either by adjusting the tax of future income or by countering deferred taxable within the same legal entity.

Possible deferred net tax asset is entered at the net realisation value.

Deferred tax is valued based on the taxation ruled and tax amounts that apply at the end of the accounting period.

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.

Significant accounting principles (Continued)



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 4 aircraft in service as at 31 December 2020, supported by 136 employees with the operational base at Vágar

Helicopter Services

In the Helicopter Services there were 2 helicopters in service as at 31 December 2020 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 kilometres 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

Total current assets, end of period divided by total current liabilities.

EBIT

Earnings before interest and tax.

EBITDAR

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

EBITDAR prosent

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 kilometre

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 kilometres.

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)



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