



**ATLANTIC
AIRWAYS**

Annual Report 2019

www.atlantic.fo

1.1 Company Information



P/F Atlantic Airways, Faroe Islands

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Faroe Islands
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Established 1987
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Domicile municipality: Sørvágur
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Board of directors

Niels Mortensen, *Chairman*
Kaj Johannessen, *Vice Chairman*
Laila Hentze
Fróði Magnussen
Eystein í Løðu
Johan Vágadal

Management

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

Auditor

P/F Januar, *State Authorized Public Accountants*

Subsidiaries

P/F Hotel Atlantic

Associated companies

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

1.2 Atlantic Airways in Brief



Our origin and objective

Atlantic Airways was established in order to develop 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 2019, Atlantic Airways had 195 full-time equivalent employees, and operated 3 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. 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 shortly after the Faroese government finalized negotiations with the Danish government to allow a Faroese operator to provide air services in competition with Danish operators, who previously had monopoly on flights between the Faroe Islands and Denmark.

Atlantic Airways has continually developed airline travel to and from the Faroe Islands since the first operation in 1988 on 28 March. The number of departures to Copenhagen has increased to four per day, and the company offers flight connections 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 Vágur Airport from around 46,000 in 1994 to more than 338,000 in 2019. 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.

Table of Contents



1. General

1.1 Company Information.....	2
1.2 Atlantic Airways in Brief.....	3
1.3 Financial highlights and key ratios	5

2. Management's Review

2.1 Management's Review.....	6
2.2 Operational Review	8
2.3 Financial Review	12
2.4 Events after the End of the Financial Year.....	13
2.5 Outlook for 2020	14
2.6 Ownership.....	16
2.7 Corporate Governance	17
2.8 Risk Management	21
2.9 Knowledge and Human resource.....	23
2.10 Corporate social responsibility	24

3. Statement and Report

3.1 Management's Report.....	28
3.2 Independent Auditors' Report.....	30

4. Annual Accounts

4.1 Income Statement	32
4.2 Balance Sheet	33
4.3 Statement of Changes in Equity	35
4.4 Cash flow Statement	37
4.5 Overview of Notes.....	38
4.6 Notes.....	39

5. Definitions

5.1 Definitions	60
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1.3 Financial highlights and key ratio group



Income Statement (DKK 1,000)	2019	2018	2017	2016	2015
Net sales	570,692	545,896	508,181	518,413	501,540
Other income	3,625	980	6,932	5,120	3,486
Result before depr., amort. and impairm. (EBITDA)	68,211	83,526	68,998	84,222	79,399
Result before financial items (EBIT)	13,480	25,137	13,242	38,249	21,042
Result before tax (EBT)	9,479	19,758	4,074	34,137	21,516
Result after tax	7,831	16,201	3,341	27,993	17,643
Balance Sheet (DKK 1,000)					
Non-current assets	572,707	602,720	627,748	670,818	439,827
Current assets	192,775	190,482	172,247	158,033	88,291
Total assets	765,482	793,201	799,995	828,850	528,118
Equity	258,630	242,047	232,384	223,754	189,974
Provisions	45,519	41,879	39,758	37,863	30,448
Long-term debt	344,743	375,494	407,770	436,386	169,764
Current liabilities	116,590	133,781	120,083	130,847	137,932
Total equity and liabilities	765,482	793,201	799,995	828,850	528,118
Cash Flows (DKK 1,000)					
Net cash flow from operating activities	47,625	81,797	51,162	106,329	55,041
Net cash flow used in investing activities*	-22,335	-29,807	-11,206	-274,044	-199,786
Net cash flow from financing activities	-31,096	-31,096	-31,096	254,598	85,183
Cash flows for the period	-5,806	20,895	8,861	86,883	-59,561
<i>*Of this purchase of property, plant and equipment</i>	<i>-27,404</i>	<i>-30,327</i>	<i>-13,396</i>	<i>-284,648</i>	<i>-214,132</i>
Financial Ratios					
EBITDAR (DKK 1,000)	87,838	97,361	82,502	107,559	107,226
EBITDAR margin (%)	15%	18%	16%	21%	21%
Return on investment (%)	2%	3%	2%	5%	4%
Current ratio (%)	165%	142%	143%	121%	64%
Solvency ratio (%)	34%	31%	29%	27%	36%
Return on equity after tax (%)	3%	7%	1%	13%	9%
Traffic Statistics					
Number of passengers – scheduled services	338,183	307,533	280,344	282,062	267,126
Number of passengers – fixed wing	445,639	436,558	375,109	328,001	309,534
Block hours – fixed wing	7,742	7,005	6,903	7,005	6,903
Capacity – scheduled flight (ASK) (1,000)	617,223	531,897	527,684	502,670	485,281
Traffic – scheduled flight (RPK) (1,000)	436,701	393,061	356,502	355,504	338,585
Load factor – scheduled services (%)	71%	74%	68%	71%	70%
Other Statistics					
Number of full-time employees	195	184	180	173	171
Aircraft operated as at 31 December	3	3	3	3	3
Helicopters operated as at 31 December	2	2	2	2	2

2.1 Management's Review



Operations 2019

The financial year 2019 yielded a lower result for Atlantic Airways than the previous year. The full-year Group result for 2019 after tax was DKK 7.8 million in 2019 compared to DKK 16.2 million in 2018. A decrease in average ticket price, increased oil expenses, decreased charter activities, delay in delivery of the new aircraft and development of the new route had a negative effect on the annual result, while an increase of passenger number affected the result positively. The result before tax was DKK 9.5 million in 2019 compared to DKK 19.8 million in 2018. Earnings before interest, depreciation and amortization (EBITDA) were DKK 68 million in 2019 compared to DKK 84 million in 2018, a decrease of 18%. Total revenue for the year 2019 was 578.8 million in 2019, an increase of 6% than in 2018, when revenues were DKK 546.9 million.

Three brand new A320neo Aircraft on their way

In the second quarter of 2020, Atlantic Airways will increase the fleet from three to four aircraft when Atlantic Airways will welcome its new Airbus 320neo aircraft, which the airline will lease from the America airline, Air Lease. An agreement has also been made with the Airbus corporation to buy two new Airbus A320neo aircraft that will be presented to Atlantic Airways in the fourth quarter of 2023 and the first half of 2024, respectively. The new aircraft are part of the measures to prepare the airline for the future.

The Airbus A320neo aircraft, which seat 174 passengers, are the most energy efficient of their kind. Just as the current aircraft, the new aircraft will also be fitted with the state-of-the-art Airbus navigational system Airbus, RNP AR 0.1, which has improved regularity on the route to and from Vagar these last years.

Emphasising sustainability

Flights to and from the Faroe Islands are important to offer young people, industries, health care sector, individuals and families a broad selection of opportunities in the international community at the same time as making the tourism industry a profitable industry in the Faroe economy.

Atlantic Airways emphasises sustainability and focuses on conducting flights as environmentally sound as possible. The last twelve years, CO₂ emissions for each passenger on the airline's routes decreased by 34%, as a result of fleet renewal and expansion. It is expected that emission for each passenger

will decrease even more the coming years as an increasing part of production is conducted with the new Airbus A320neo aircraft, which use even less fuel and thereby lower the CO₂ emissions by at least 15% compared to the old Airbus aircraft.

Atlantic Airways has registered its fuel consumption as well as CO₂ emission caused by the airline's operations since 2010 because of environmental requirements placed by the EU. The company is encompassed by EU's CO₂-quota scheme for flights in EU and EFTA countries and in 2021, it will also be encompassed by CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation), which is an international market system for CO₂ emissions, which stipulates that the aviation industry in the next years must offset all increase in CO₂ emissions from international flights between countries that participate. The offset must be invested in approved projects that reduce CO₂ emissions worldwide. There are currently 81 ICAO member nations in the CORSIA system.

On board service has been rearranged to using only sustainable cutlery and containers that are biodegradable, and the airline also offers people the opportunity to order their food before departure, which helps limit the in-air offer. The company continues to improve sustainable solutions in all areas that can help lead to a brighter future for us all land generations to come.

Goals and objectives

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

For Atlantic Airways, safety comes first, regularity is a constant goal, the customer is at the centre of all matters, the employees are skilled and service-minded, and the results create value. The company's field of activities is scheduled flights and helicopter flights with the Faroe Islands as our cornerstone, as well as charter flights using spare capacity. In addition, the field of activities are developed from the airline's

core competences and we participate in the development of the tourism industry, cargo transportation and other forms of transportation.

Continuous developments

The airline is constantly working to make necessary improvements for the benefit of our customers and the airline in a sensible manner. We will continue these measures. Atlantic Airways is at the forefront when it comes to developing aviation to the surrounding world and Faroese tourism. This is why the airline will take up regular flights between Vagar and New York, while supply of seats on diverse flights has never been higher than it is now.

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 the summer of 2020, the airline will open a new international hotel in Tórshavn. The new Hilton Garden Inn hotel will feature 130 rooms and five meeting and conference rooms and it will be part of the world-famous Hilton chain of hotels, which has some 85 million customers, and which is capable of attracting customers to the Faroe Islands from e.g. the USA and Asia, where the Hilton chain is particularly strong. The hotel will be operated by the subsidiary P/F Hotel Atlantic, which together with the life insurance company LÍV owns Ognarfelagið matr. nr. 1332e, which is building the hotel.

Competition

10% more passengers travelled on the airline's scheduled services in 2019 compared to 2018, while the number of passengers through Vagar airport increased by 12%. The competition on the route to Copenhagen with significant supply of seats compared to demand entailed lower average ticket price income in 2019. Atlantic Airways would like to thank the people

of the Faroe Islands and foreign travellers for welcoming the company and our destinations.

On-time performance

In 2019, departure punctuality, measured as scheduled departures within 15 minutes of scheduled departure time, was 85%. These last five years, on-time performance has improved by 10 percentage points. The airline's investment in the navigational system RNP AR 0.1 has been a main cause of the improvement in departure punctuality these last four years. Using the most advanced airspace technology in Europe, all of Atlantic Airways' aircraft are capable of landing safely in significantly lower visibility than a few years ago.

Financial Outlook 2020

Interest in the Faroe Islands as a travel destination is growing, however, it is likely that the corona virus pandemic will have a negative impact on passenger numbers in 2020. The airline expects the result for 2020 to be lower than in 2019. Revenue for each passenger is marked by the competitive market with a great supply of seats compared to passenger numbers.

2.2 Operational Review



The total number of passengers on the company's scheduled services increased in 2019 from 307,533 in 2018 to 338,183 in 2019. The increase is 10%. The fixed-wing fleet was airborne for 8,830 block hours in 2019 compared to 8,576 block hours in 2018. A production increase of 3%.

The total fleet production (the number of block hours) increased by 3% in 2019 compared to 2018. Fixed-wing and rotor-wing aircraft were airborne for a total of 9,736 block hours in 2019 compared to 9,463 block hours in 2018.

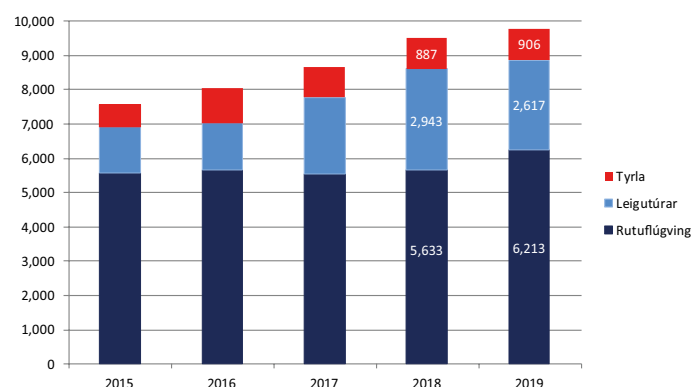
Scheduled services accounted for 64% of fleet production in 2019, ACMI/charter operations for 27% and helicopter services accounted for 9%. In 2019, scheduled services accounted for 60% of fleet production, ACMI/charter operations for 31% and helicopter services accounted for 9%.

Scheduled services increased by 10% from 5,633 block hours in 2018 to 6,213 block hours in 2019.

ACMI/charter operations decreased by 11% from 2,943 block hours in 2018 to 2,617 block hours in 2019.

Helicopter activity remained relatively unchanged in 2019. In 2019, block hours were 906 compared to 887 hours in 2018.

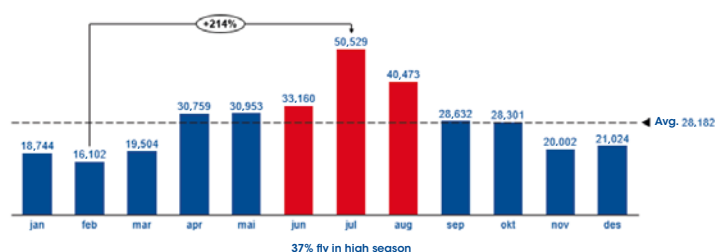
Production in block hours 2015–2019



Scheduled services



Numbers of passengers



Traffic information

	2019 Pass.	2018 Pass.	Change Pass.	Change %
Passengers				
Scheduled services	338,183	307,533	30,650	10%
Helicopter services	14,541	12,939	1,602	12%
Block hours				
Scheduled services	6,213	5,633	580	10%
Charter operations	2,617	2,943	-326	-11%
Total fixed wing	8,830	8,576	254	3%
Helicopter operations	906	887	19	2%
Total production	9,736	9,463	273	3%

Scheduled services

The total number of passengers carried on scheduled services increased by 10% in 2019 to 338,183 passengers. The increase was 30,650 passengers, which come from most of the airline's routes. Excess capacity on the Copenhagen route continues to negatively affect average ticket price and load factor. The increase at Vágar airport in 2019 was 46,468 passengers, or 12%.

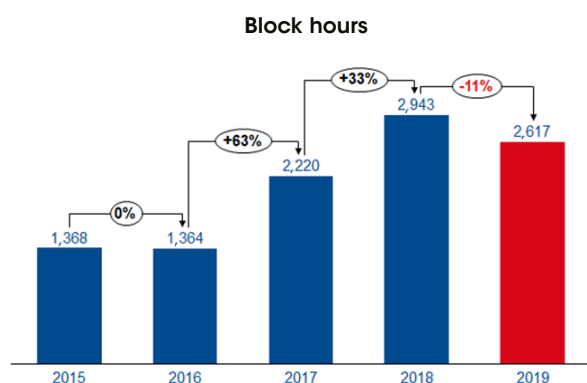
The seasonal fluctuations in scheduled traffic remains high. Frequencies to Danish airports vary from 16 per week during the traditionally low-activity winter season to 35 per week during high season in the summer season.

Charter operations

Charter/ACMI activity increased from 2,943 block hours in 2018 to 2,617 block hours in 2019.

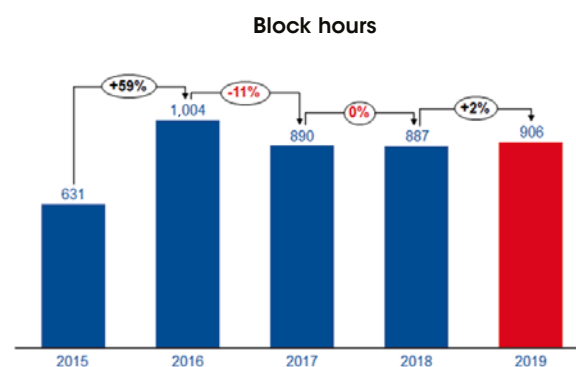
The airline leases out excess capacity not needed for scheduled services is sold to Charter/ACMI activity in order to improve profitability. In 2019, the airline provided services such as charter series for various tour operators in Denmark and ad hoc flights in Europe, in addition to some block hours ACMI flights. The majority of the Charter/ACMI activity has been for the popular Danish tour operators FolkeFerie.dk. Atlantic Airways has a long-term agreement concerning charter activities to various travel destinations in southern Europe.

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



Helicopter operations

In 2019, 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 906 block hours in 2019 compared to 887 block hours in 2018. The contribution in this segment is primarily reflected in the level of provided helicopter capacity agreements in terms of search and rescue and domestic flights.



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

The SAR service was called out on 72 occasions in 2019 compared to 74 occasions in 2018. The airline has provided domestic helicopter services in the Faroe Islands since 1994 and SAR operations since 2001.

2.2 Operational Review (Continued)



Other income areas

Together with Vágur airport, Atlantic Airways has established the company P/F Duty Free, which operates duty-free sales in the airport. Atlantic Airways also owns the subsidiary P/F Hotel Atlantic, which will open 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.

The Fleet

Three fixed-wing aircraft were in service at year-end 2019: One 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 new A320neo aircraft, which was delivered to the airline in June of 2019. An A319 aircraft, which the airline has had on a long-term lease contract will be returned in the summer of 2019. The A320 aircraft carry 174 passengers and the A319 carries 144 passengers. The average age of the fixed wing fleet is approx. 4 years.

In the second quarter of 2020, the fleet will see an addition of a second Airbus A320neo aircraft, which will increase the number of aircraft from three to four. The aircraft is leased on a long-term contract.

The A320neo aircraft will have a 15% lower fuel consumption and lower CO2 emissions than the current Airbus aircraft.

In June of 2019, Atlantic Airways signed a contract for the purchase of two new Airbus A320neo aircraft from the airbus factory. The first aircraft will be completed in late 2023 and the second aircraft in the first half of 2024.

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 Vágur Airport with all the aircraft and as a result Atlantic Airways can land safely in Vágur 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. desember 2019

Fleet year-end	No.	Owned	Production year
A320neo	1	0	2019
A320	1	1	2016
A319	1	1	2012
AW139	2	2	2015/2016

At year-end 2019, the helicopter fleet consisted of two Agusta Westland AW 139 helicopters. The average age of the rotor wing fleet is approximately four year.





Photo: Nicolás Verc-Oritz

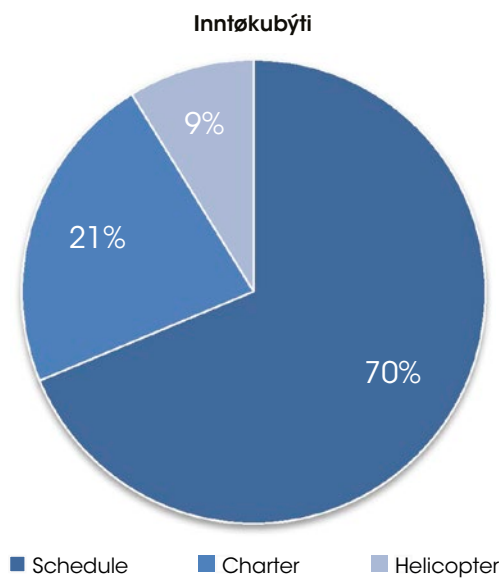
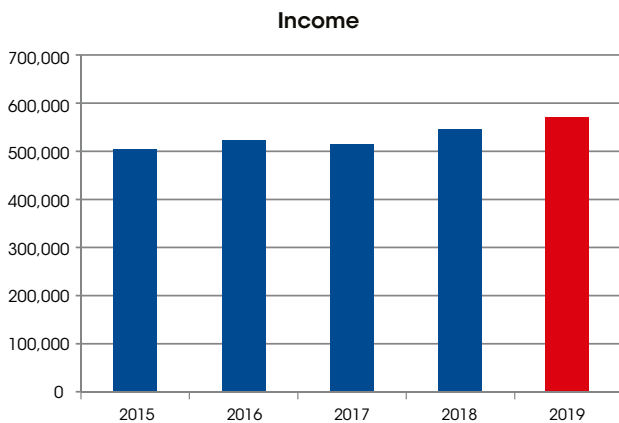
2.3 Financial Review



Financial statement, 1 January – 31 December 2019

Revenue

Atlantic Airways total revenues was DKK 574.3 million in 2019 compared to DKK 546.9 million in 2018. The increase was DKK 27.4 million, which predominantly stem from an increase in passenger numbers.



Operating expenses

Operating expenses increased by DKK 34 million in 2019 to DKK 380 million compared to 2018. The increase is primarily due to higher flight activities, higher fuel prices and off-set, more passengers and increased expenses to lease aircraft.

Fuel is one of the main operating expenses in aviation. In 2019, fuel costs accounted for 20% of the total operating expenses, compared to 19% in 2018. Changes in jet fuel price have a delayed effect on costs due to the airline's hedging policy. This means that international changes in fuel price have a delayed effect on the airlines fuel expenses.

Employee costs

Employee expenses amounted to DKK 126.4 million in 2019 compared to DKK 114 million in 2018. The number of full-time equivalent employees was 195 in 2019 compared to 184 in 2018.

Depreciations

Depreciation and impairment amounted to DKK 55 million in 2019 compared to 58 million in 2018.

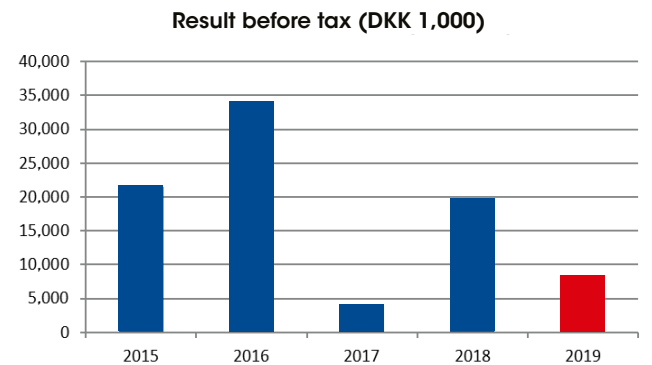
Financial items

Net financial items amounted to DKK 9.5 million in 2019 compared to DKK 19.8 million in 2018.

The result before tax was a profit of DKK 9.5 million in 2019 compared to DKK 19.8 million in 2018.

The result after tax was a profit of DKK 7.8 million in 2019 compared to DKK 16.2 million in 2018.

Return on equity after tax was 3 per cent in 2019 compared to 7 per cent in 2018.



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 30 million from DKK 603 million at the start of the year to DKK 573 million at year-end 2019.

Total current assets increased by DKK 3 million in 2019 from 190 million by the start of the year to DKK 193 million at year-end 2019.

Available cash and cash equivalents at year-end 2019 were DKK 151 million compared to 139 million at the start of the year.

Equity

Total equity as of 31 December was DKK 259 million and an equity ratio of 34%. Compared to the start of the year, equity has increased by 17 million and the equity ratio has increased three percentage points.

Liabilities

The company's total liabilities as of 31 December was DKK 507 million compared to DKK 551 million at the end of the previous year. Long-term debt has decreased from DKK 375 million from the start of the year to DKK 345 million by the end of 2019.

Balance sheet

The balance sheet total as of 31 December 2019 was DKK 765 million, which is DKK 28 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 2019



Aviation industry and global economy

According to the International Air Transport Association (IATA), a drop in European air travel is expected in 2020 compared to 2019 as a result of the corona virus. The increase in 2019 was 4.3%. The European aviation industry is characterised by fierce competition, low ticket prices, high regulatory costs, in addition to the effects of the corona virus as well as measures that are being implemented in order to contain the spread of the virus.

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

International fuel prices decreased slightly in 2019 and the IATA expects it to decrease in 2020.

Faroese economy

According to the most recent report from the Faroese Economic Council, the growth in Faroese GDP is expected to be 7.0% in current prices compared to 9.0% in 2019. The increase is in domestic demand especially in private consumption while export has increased. The Economic Council recommends a larger profit in the treasury in order to avoid having to pull the breaks when a recession reappears in the economy. Current unemployment is 0.9% and the population reached 52,000 in 2019.

Scheduled services

In 2020, Atlantic Airways offers its passengers direct flights from the Faroe Islands to 11 different destinations: Copenhagen, Billund, Aalborg, Bergen, Reykjavík, Edinburgh, Barcelona, Mallorca, Gran Canaria, Paris and London. Moreover, the airline expects to take up a number of direct flights from Vagar to New York in late 2020.

The airline's aircraft maintain frequent connections between the Faroe Islands and Copenhagen in addition to regular flights to Billund, Reykjavík, Bergen, Edinburgh and Paris.

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

Interest in the Faroe Islands as a travel destination is growing, at the same time as low ticket prices and a growth in the economy in the Faroe Islands have a positive effect on the airline industry. However, the corona virus pandemic may have a negative effect on passenger numbers in 2020. Excess capacity on the Copenhagen route is deemed to have a negative effect on the average ticket price.

Atlantic Airways is preparing for continued growth in Faroese tourism with a new Hilton Garden Inn hotel in Tórshavn, which opens in the summer of 2020 a new energy-conserving Airbus A320neo, which the airline will welcome in the spring of 2020.

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

Charter operations

Atlantic Airways' charter activities are based on using excess capacity not needed for scheduled services in order to improve profitability. Charter activities in 2020 is expected to be higher than in 2019, because the fleet is being increased from three to four aircraft. More than half of charter activities is conducted on behalf of the Danish travel agencies Folkeferie.dk and Primo Tours. Flights are arranged from Denmark to various destinations in the south

Moreover, in 2020, the airline will also provide services such as charter series for various tour operators in Denmark and ad hoc flights in Europe. With new international quality approval, the airline continues to offer its charter services. There competition within charter activity is fierce.

Helicopter operations

Atlantic Airways connects the islands through scheduled helicopter flights to the remote islands and creates safety with helicopter Search and Rescue. As part of a ten-year contract with the Faroese Ministry of Fishery and the Ministry of Foreign Affairs and Trade, two new AW139 helicopters provide domestic transport to the most remote islands and helicopter Search and Rescue (SAR) coverage 24 hours a day. Production in 2020 will be approximately the same as in 2019.

Financial outlook for 2020

Based on this background, Atlantic Airways expects a lower full-year result after tax in 2020 than in 2019. 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

Atlantic Airways' share capital remained unchanged at DKK 103,500,000. The share capital consists of one class of shares distributed over 1,035,000 shares. All shares have the same rights. There is one vote per share.

Shareholders

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

Dividend

The board of directors propose that no dividend will be distributed to the shareholders at the Annual General Meeting in April 2020 in line with the proposal for the renationalization acts of the Faroese Parliament from February 2014. No dividend was paid out in 2019 for the financial year 2018.

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 2019.

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

The Danish Recommendations on Corporate Governance were last updated in November 2017 and are valid from the fiscal year 2018. The full version of the Danish Recommendations on Corporate Governance can be found on the website www.corporategovernance.dk

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

Annual General Meeting

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

Board of Directors

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

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

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

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

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

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

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

The Board of Directors has held 8 meetings in 2019.

2.7 Corporate Governance (Continued)



The Board

Niels Mortensen, Chairman of the Board

Born: 28. October 1966 (male).
Address: Traðavegur 12, FO-100 Tórshavn, Faroe Islands.
Joined the Board: March 2013.
Special skills: Commercial experience.
Chief Occupation: CEO of SMS P/F and NM Holding.
Experience: Danske Bank 1987–1992, P/F SMS 1992.
Other board duties: P/F Hotel Atlantic (Chairman), P/F Ognarfelagið matr. nr. 1332e (CEO and board member), P/F Petur Larsen og P/F Duty Free.
Education: Niels Brock Business School, Danske Bank.
Expiry of the current election period: April 2020.
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, 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) 2001–2014. Examiner in managerial economics at the Faroese Business Collage 2009–2013.
Other board duties: P/F Enniberg, P/F Farcod, P/F Havborg, P/F SMS, P/F Miðlon, P/F Dvølján, 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 2020.
Considered independent of the Company.

Laila Ísheim Hentze, Member of the board

Born: 5. January 1972 (female).
Address: Gróthúsvegur 10, FO-188 Hoyvík, Faroe Islands.
Joined the Board: April 2014.
Special skills: Commercial experience.
Chief Occupation: CEO Gallup Føroyar.
Experience: Televarpið, CEO 2003–2011.
Other board duties: P/F Hotel Atlantic.
Education: Mrs. Hentze has a MSc in Business, Language and Culture from Copenhagen Business School Business School.
Expiry of the current election period: April 2020.
Considered independent of the Company.

Fróði Magnussen, Member of the Board

Born: 18. July 1969 (male).
Address: Oman Viðarlund 15, FO-100 Tórshavn, Faroe Islands.
Joined the Board: April 2016.
Special skills: Education and experience in commercial business.
Chief Occupation: CEO Formula P/F.
Experience: CEO Formula P/F since July 2009. Head of Business Development of Formula P/F, August 1996 – July 2009. Project Manager, Datacentret. Aarhus School of Business, August 1993 – August 1996. Part time teacher at Føroya Handilsskúli since 1997 (HD) since 1997.
Other board duties: P/F Ognarfelagið matr. Nr. 1332e. Board member Formula 1998–2003 and again 2015-. Board member Formula Solution and chairman since foundation in 2003. Board member KT-felagið since 2010, Chairman in 2012–2014. Board member Framtak, since 2014. Board member Faroese Employer's Association since 2014. Substitute member Revenue Office Council since 2012 to 2016 when it was dismantled. Substitute member The Governmental Bank of the Faroe Islands 2016 –.
Education: Cand. Merc; Aarhus School of Business.
Expiry of the current election period: April 2020.
Considered independent of the Company.

Eystein í Løðu, Member of the Board

Born: 5. July 1973 (male).
Address: Smiðjuvegur 14, FO-386 Bøur, Faroe Islands.
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 psychotherapeut.
Expiry of the current election period: April 2023.
Considered dependent of the Company as employee representative.

Johan Vágadal, Member of the Board

Born: 28. March 1978 (male).
Address: Suðuroyvegur 17, FO-100 Tórshavn, Faroe Islands.
Joined the Board: April 2019.
Special skills: Employee of Atlantic Airways.
Chief Occupation: Captain at Atlantic Airways.
Experience: Employee of Atlantic Airways since 2005.
Other board duties: None.
Education: Airline Pilot.
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 main duty of the CEO is to oversee daily operations and through this follow the board's policy and instructions. The CEO reports directly to the Board on the performance of the company on a regular basis. He or she must also provide the Board and the company auditors with any relevant information concerning Atlantic Airways' operations, which they may request. The CEO is responsible for the company's compliance with relevant law, with regard to accounts and finances, and is responsible for safeguarding the company's assets. In addition, the CEO is the Accountable Manager for the airline and as such has the ultimate responsibility to comply with the standards and requirements set by the aviation authorities.

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

Jóhanna á Bergi, CEO

Born: 29. September 1970.

Address: Traðagøta 18, FO-700 Klaksvík, Faroe Islands.

Experience: Mrs. Á Bergi has been CEO of Atlantic Airways since September 2015. CEO of FaroeShip P/F 2006-2015, Sales and Marketing Director of JFK 1998-2006 and Sales Manager at Faroe Seafood 1994-1998.

Other board duties: Hotel Atlantic (CEO and board member), Visit Faroe Islands P/F, Føroya Grunnurin and Norðoya Íløgufelag, P/F Norðoyatunnilin.

Education: Mrs. Á Bergi has a MSc in Management from Robert Gordon University 2004. Export and Marketing from the Danish School of Export and Marketing 1994.

Marius Davidsen, CFO

Born: 31. July 1958.

Address: Í Fornanum 3, FO-380 Sørvágur, 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. Marius Davidsen was also the CEO of Duty Free P/F from 2014 until 2018.

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

2.7 Corporate Governance (Continued)



for the non-variable elements in the remuneration is established in consideration of market level, as e.g. the company's size and course of development are taken under consideration. 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 in 2019 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 EYÚ 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 25 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. The CORSIA measure will increase the airline's expenses in the future.

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 2019, the airline's cost of cancellations and disruption was DKK 3.5 million due to cancellations compared to DKK 1.9 million in 2018. 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 2019, the company had DKK 376 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. The company's liquidity as at 31 December 2019 was DKK 147 million and is deemed to be sufficient. The liquidity is affected by seasonality. The company has in addition access to DKK 30 million in credit facilities. The company's credit facility was unused as of 31 December 2019.

Market competition

The airline's main revenues stem from the scheduled flights between the Faroe Islands and the surrounding world. From 2006 to 2017, the airline was the sole operator on the Faroese route. Ever since March of 2017, the Scandinavian airline SAS has operated regular scheduled flights between Copenhagen and Vágar. The competitive situation entailing great excess capacity has had a negative effect on revenues and the company's result. The negative effect is also expected in 2020.

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.

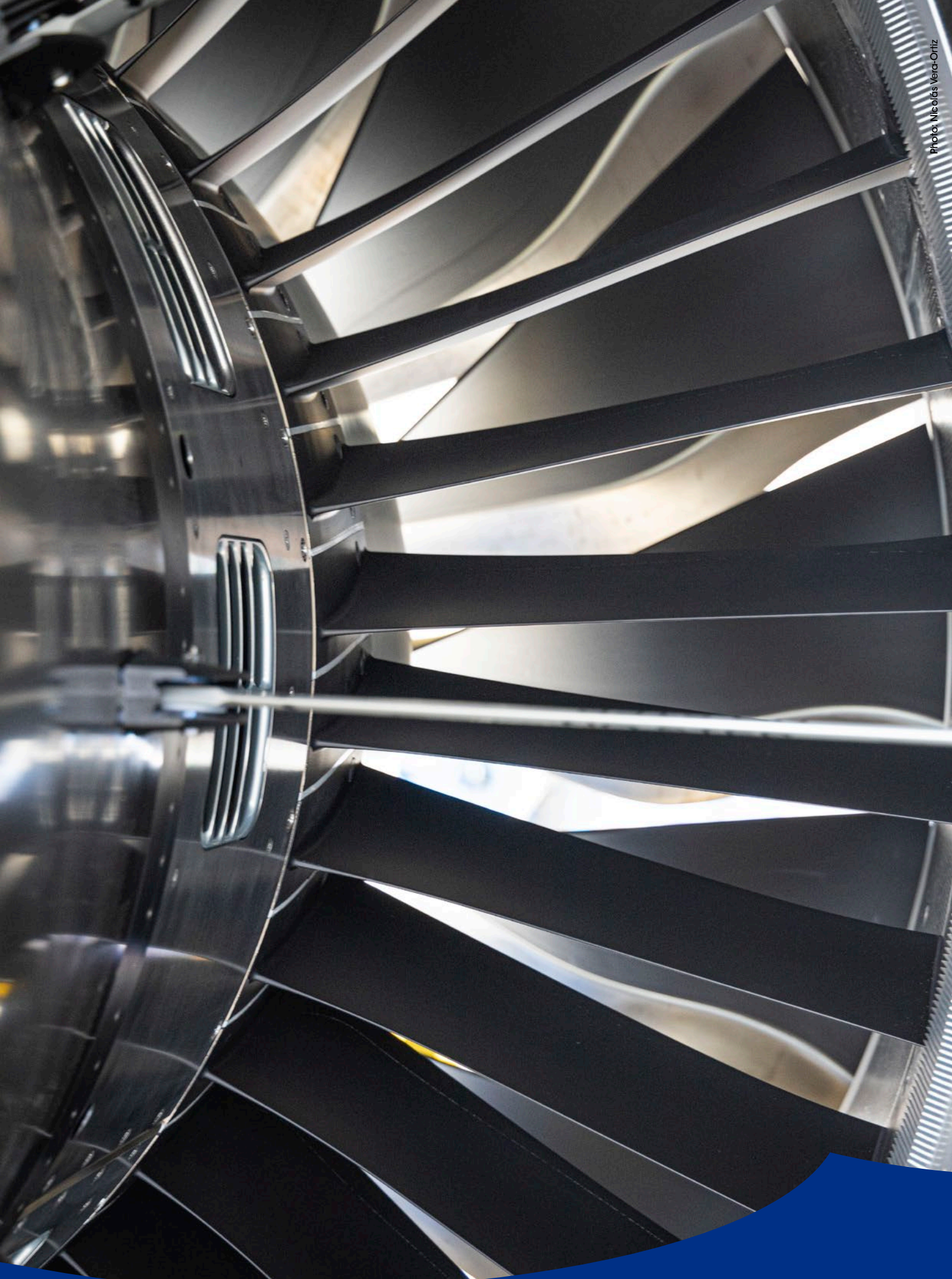


Photo: Nicolás Vera-Ortiz

2.10 Corporate Social Responsibility (CSR)



CSR in Atlantic Airways 2019

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 194 employees. We are linking the Faroe Islands with the world through scheduled connections to Denmark, Iceland, Norway, Britain, France, Spain and the Canary Islands, in addition to a new intended destination to the USA. Also, we play an important role in developing tourism in the Faroe Islands. Atlantic Airways also runs a helicopter operation providing domestic services and SAR operations in Faroese territories.

It is the airline's policy that all activities be conducted in such a manner that commercial, societal and environmental considerations are taken. Thus, we have defined three key areas:

- **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

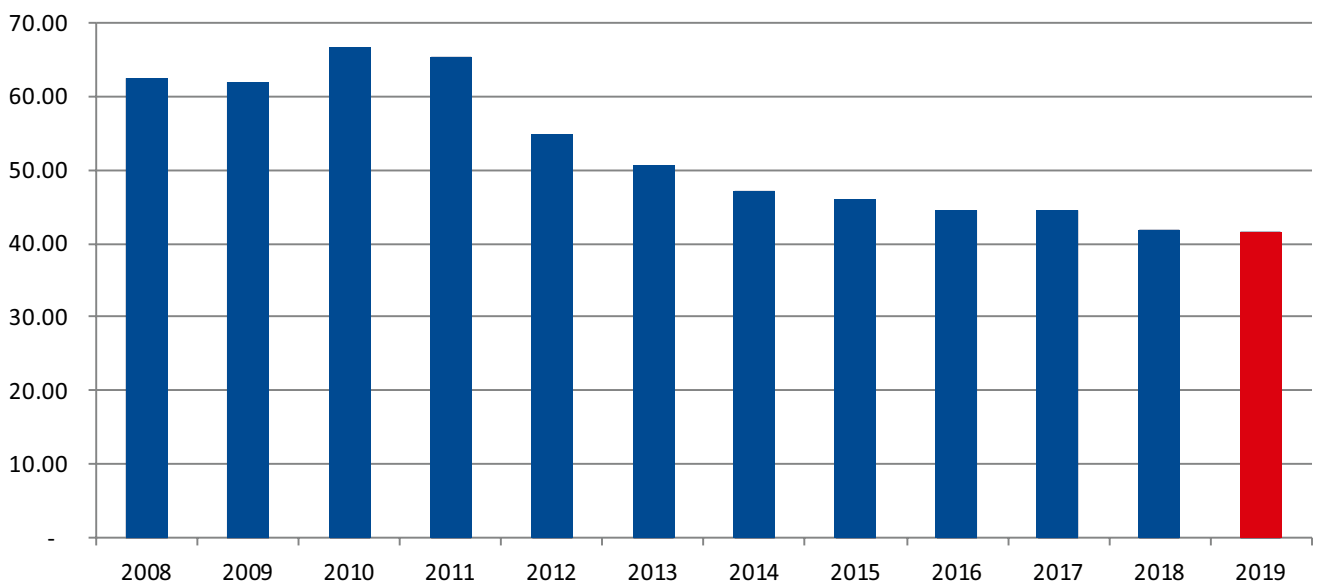
BUSINESS OPERATIONS

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 when the first Airbus A320neo joined the fleet. In the period 2020-2024, three Airbus A320neo aircraft will join the airline's fleet. The A320neo's fuel consumption and CO2 emissions are at least 15% lower than the current Airbus aircraft. In 2019, the average jet fuel burn per passenger on the scheduled services was 21 kilos lower on average, compared with the average consumption per passenger on the scheduled services in 2008. Converted to CO2 emission figures, this means that Atlantic Airways has reduced its emission by 66 kilos of CO2, or 34%. In 2019, the total CO2 emissions from Atlantic Airways' scheduled services was 44,273 tonnes. Atlantic Airways has registered all its fuel consumption and CO2 emission from aircraft since 2010 because of environmental demands from EU authorities.

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



2.10 Corporate Social Responsibility (CSR) (Continued)



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.

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.

2.10 Corporate Social Responsibility (CSR) (Continued)



WORKPLACE

Employee satisfaction and well-being

Atlantic Airways is a major employer in the Faroe Islands, offering our employees highly skilled and international careers in an interesting industry.

At Atlantic Airways, we focus on our employees' satisfaction and well-being. Knowing that satisfied and motivated employees are more productive and efficient, we have initiated surveys among staff groups to measure job satisfaction and well-being. In 2018, a survey was conducted among all staff groups focusing on mental work environment and workplace environment. The survey showed that employee satisfaction is high. Based on the survey, we have developed action plans focusing on improvements of key areas.

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

Education

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

In 2019, we:

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

Competence development

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

Our competence development activities can be divided into mandatory training and additional training. In 2019, the airline's expenses on mandatory and additional training were DKK 5.2 million.

2.10 Corporate Social Responsibility (CSR) (Continued)



COMMUNITY

Developing the Faroe Islands together

As an active company in the Faroese community, Atlantic Airways exists to connect the Faroe Islands to the surrounding world and to tie the islands closer together and for safety. Atlantic Airways operates a regular, flexible and diverse route network from the Faroe Islands with competitive prices. We work closely with customers and the community to better our services and experiences. The reliable scheduled services allows our passengers young & old, strong & weak, people & cargo to travel for purposes of business & culture, fun & serious and in joy & sadness. For us, it is of the utmost importance 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 annual report of P/F Atlantic Airways for the financial year 1 January to 31 December 2019.

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

We consider the accounting policies used appropriate, and in our opinion, the consolidated annual accounts and the annual accounts provide a true and fair view of the assets, the liabilities and the financial position, consolidated and for the company respectively as on 31 December 2019, and of the results of the activities, consolidated and of the

company respectively and of consolidated cash flows in the financial year 1 January to 31 December 2019.

We are of the opinion that the management's review includes a fair description of the issues dealt with.

The annual report is recommended for approval by the general meeting.

Sørvágur the 12th of March 2020

Executive Management:

Jóhanna á Bergi
CEO

Marius Davidsen
CFO

Board of directors:

Niels Mortensen
Chairman

Kaj Johannessen
Vice-chairman

Laila Hentze

Fróði Magnussen

Eystein í Løðu

Johan Vágadal

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

Chairman:



Photo: Nicolás Vera-Ortiz

3.2 Independent Auditor's Report



TO THE SHAREHOLDERS OF P/F ATLANTIC AIRWAYS

Opinion

We have audited the consolidated annual accounts and the annual accounts of P/F Atlantic Airways for the financial year 1 January to 31 December 2019, which comprise accounting policies used, profit and loss account, balance sheet, statement of changes in equity and notes, consolidated and for the company respectively and consolidated cash flow statement. The consolidated annual accounts and the annual accounts are prepared in accordance with the Faroese Financial Statements Act.

In our opinion, the consolidated annual accounts and the annual accounts give a true and fair view of the assets, liabilities and financial position, consolidated and for the company respectively at 31 December 2019 and of the results of the company's operations, consolidated and for the company respectively and of consolidated cash flows for the financial year 1 January to 31 December 2019 in accordance with the Faroese Financial Statements Act.

Basis for opinion

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

The management's responsibilities for the consolidated annual accounts and the annual accounts

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

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

Auditor's responsibilities for the audit of the consolidated annual accounts and the annual accounts

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

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

- Identify and assess the risks of material misstatement in the consolidated annual accounts and the annual accounts, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the company's internal control.

- Evaluate the appropriateness of accounting policies used by the management and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's preparation of the consolidated annual accounts and the annual accounts being based on the going concern principle and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may raise significant doubt about the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated annual accounts and the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the consolidated annual accounts and the annual accounts, including the disclosures in the notes, and whether the consolidated annual accounts and the annual accounts reflect the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Statement on the management's review

The management is responsible for the management's review.

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

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

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

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

Tórshavn, 12th of March 2020

P/F JANUAR

State Authorized Public Accountants

Heini Thomsen

State Authorized Public Accountant

4.1 Income Statement for the year 2019



(Kr. 1,000)	Note	Group		Atlantic Airways	
		2019	2018	2019	2018
Net sales		570,692	545,896	570,692	545,896
Other income		3,625	980	3,625	980
Total revenue		574,317	546,876	574,317	546,876
Operating expenses		-379,749	-349,304	-379,303	-349,304
Employee expenditures	3	-126,356	-114,046	-126,132	-114,046
Total operating expenses		-506,106	-463,350	-505,435	-463,350
Result before depreciation, amort. and impairment (EBITDA)		68,211	83,526	68,882	83,526
Depreciations, amort. and impairment	4, 8, 9	-54,731	-58,388	-54,731	-58,388
Result before financial items (EBIT)		13,480	25,137	14,151	25,137
Financial income	5	611	45	195	45
Financial expenses		-13,516	-13,007	-13,377	-13,007
Share of profit/loss of subsidaris	11	0	0	-323	0
Share of profit/loss of associates	12	8,904	7,583	8,904	7,583
Net financial items		-4,001	-5,380	-4,601	-5,380
Result before taxes (EBT)		9,479	19,758	9,550	19,758
Income tax	7	-1,648	-3,556	-1,719	-3,556
Net Profit / Loss for the year		7,831	16,201	7,831	16,201
Distribution of profit at year-end					
Carried forward from previous year		149,868	135,250	149,868	135,250
Profit year-end		7,831	16,201	7,831	16,201
Total		157,699	151,451	157,699	151,451
Proposed distribution					
Moved to Reserve for net. val. acc. to the equity method eftir innara virðishátti		1,904	1,583	1,904	1,583
Carried forward to next year		155,795	149,868	155,795	149,868
Total		157,699	151,451	157,699	151,451

4.2 Balance Sheet as at 31. desember 2019



Assets (Kr. 1,000)	Note	Group		Atlantic Airways	
		2019	2018	2019	2018
Intangible assets	8	3,690	4,952	3,202	4,952
Aircraft and maintenance	9	483,362	523,421	483,362	523,421
Spare parts	9	1,689	1,929	1,689	1,929
Operating equipment	9	21,761	18,308	18,560	18,308
Hangar, buildings and land	9	24,468	26,429	24,468	26,429
Prepaid aircraft acquisitions	10	7,672	0	7,672	0
Total tangible assets		538,952	570,087	535,752	570,087
Investment in subsidiaries	11	0	0	24,677	25,000
Investment in associates	12	16,543	14,640	13,343	11,440
Other shares	13	242	242	242	242
Subordinated loan		12,800	12,800	0	0
Total financial assets		29,585	27,681	38,262	36,681
Total non-current assets		572,227	602,720	577,216	611,720
Inventories		212	294	212	294
Trade receivables		15,424	16,717	15,424	16,717
Receivables subsidiaries		0	0	4,734	961
Prepayments	14	1,608	1,881	1,608	895
Other receivables	15	21,572	14,067	20,726	14,067
Other shares		27	27	27	27
Deferred income tax	6	71	0	0	0
Derivatives	16	3,461	809	3,461	809
Total receivables	17	42,162	33,502	45,979	33,477
Cash and cash equivalents		150,880	156,686	142,074	147,711
Total current assets		193,254	190,482	188,266	181,482
Total Assets		765,482	793,201	765,482	793,201

4.2 Balance Sheet as at 31 December 2019 (Continued)



Equity And Liabilities (Kr. 1,000)	Note	Group		Atlantic Airways	
		2019	2018	2019	2018
Share capital	22	103,500	103,500	103,500	103,500
Revaluation reserve	22	1,640	1,640	1,640	1,640
Value adjustm. of cash flow hedges	22	-13,854	-22,605	-13,854	-22,605
Reserve for net. val. acc. to the equity method	22	11,549	9,645	11,549	9,645
Retained earnings	22	155,795	149,868	155,795	149,868
Proposed dividend	22	0	0	0	0
Total equity		258,630	242,047	258,630	242,047
Deferred income tax liabilities	7	45,519	41,879	45,519	41,879
Total provisions		45,519	41,879	45,519	41,879
Mortgage loans	19	344,743	375,494	344,743	375,494
Total long-term debt		344,743	375,494	344,743	375,494
Mortgage loans	19	31,096	31,096	31,096	31,096
Trade payables		19,649	26,332	19,649	26,332
Current income tax liabilities	7	0	0	0	0
Deferred income and accruals	18	65,679	67,821	65,679	67,821
Derivatives	16	166	8,532	166	8,532
Total short-term debt		116,590	133,781	116,590	133,781
Total liabilities		506,852	551,154	506,852	551,154
Total Equity And Liabilities		765,482	793,201	765,482	793,201
Mortgaging and contingent liabilities etc.	20				

4.3 Statement of Changes in Equity



	Group						
	Share capital	Revaluation reserves	Hedging reserve	Reserve for net. val. acc. to the equity method	Retained earnings	Proposed dividend	Total
(Kr. 1,000)							
Equity at 01.01.2018	103,500	-	-14,427	8,062	135,250	-	232,384
Result for the period	-	-	-	-	16,201	-	16,201
Revaluation Reserves	-	1,640	-	-	-	-	1,640
Value adjustm. of cash flow hedges	-	-	-8,178	-	-	-	-8,178
Revaluation reserve for net. val. acc. to the equity method	-	-	-	1,583	-1,583	-	-
Proposed dividend	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-
Equity at 31.12.2018	103,500	1,640	-22,605	9,645	149,868	-	242,047
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	-	-
Proposed dividend	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-
Equity at 31.12.2019	103,500	1,640	-13,854	11,549	155,795	-	258,630

There are no changes in the share capital.

4.3 Statement of Changes in Equity (Continued)



	Atlantic Airways						
(Kr. 1,000)	Share capital	Revaluation reserves	Hedging reserve	Reserve for net. val. acc. to the equity method	Retained earnings	Proposed dividend	Total
Equity at 01.01.2018	103,500	-	-14,427	8,062	135,250	-	232,384
Result for the period	-	-	-	-	16,201	-	16,201
Revaluation Reserves	-	1,640	-	-	-	-	1,640
Value adjustm. of cash flow hedges	-	-	-8,178	-	-	-	-8,178
Revaluation reserve for net. val. acc. to the equity method	-	-	-	1,583	-1,583	-	-
Proposed dividend	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-
Equity at 31.12.2018	103,500	1,640	-22,605	9,645	149,868	-	242,047
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	-	-
Proposed dividend	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-	-
Equity at 31.12.2019	103,500	1,640	-13,854	11,549	155,795	-	258,630

There are no changes in the share capital.

4.4 Cash Flow Statement



(Kkr 1,000)	Note	Group	
		2019	2018
Net profit/loss for the period		7,831	16,201
Depreciations		54,731	58,388
Taxes		1,648	3,556
Adjustments		56,379	61,945
+/- trade receivables		1,294	-668
+/- prepayments		248	141
+/- other receivables		-7,505	-3,207
+/- Inventories		82	-83
+/- investment in associates and other shares		-1,904	-1,545
+/- trade payables		-6,683	2,953
+/- deferred income and accruals		-2,117	3,133
Changes in operating assets and liabilities		-16,585	722
Cash flow from operating activities		47,625	78,868
Purchase of intangible, tangible assets and prepaid aircraft	8, 9	-27,404	-14,327
Investment in financial assets	11	0	-16,000
Sale of intangible and tangible assets	8, 9	5,068	521
Cash flows from investing activities		-22,335	-29,807
Changes of long-term loans		-31,096	-31,096
Cash flows from financing activities		-31,096	-31,096
Total cash flows for the period		-5,806	17,965
Cash and cash equivalents at the beginning of the period		156,686	138,721
Cash and cash equivalents at the end of the period		150,880	156,686

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

4.5 Overview of Notes



1. Segment information
2. Specification of numbers of passengers
3. Employee expenditures
4. Depreciation, amortisation impairments
5. Financial income
6. Auditors remuneration
7. Income tax
8. Intangible assets
9. Tangible assets
10. Prepayment aircraft acquisitions
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 (Kkr. 1,000)	Aircraft Services		Helicopter Services		Total	
	2019	2018	2019	2018	2019	2018
Income statement						
Net sales	520,949	497,679	49,743	48,217	570,692	545,896
Other income	3,625	980	0	0	3,625	980
Total revenue from external customers	524,574	498,659	49,743	48,217	574,317	546,876
Operating expenses	513,664	475,996	46,502	45,742	560,166	521,738
Operating result	10,910	22,663	3,240	2,475	14,151	25,137
Effects of subsidiaries	-	-	-	-	-323	0
Effects of associated companies	-	-	-	-	8,904	7,583
Financial income	195	45	0	0	195	45
Financial expenses	-8,760	-8,091	-4,617	-4,916	-13,377	-13,007
Result before tax	2,346	14,616	-1,377	-2,441	9,550	19,758
Income tax expense	-	-	-	-	-1,719	-3,556
Profit					7,831	16,201

Geographical segments	Faroe Islands		Europe		Total	
	2019	2018	2019	2018	2019	2018
Revenue comprises the following markets:						
Total revenue from external customers	290,218	271,911	284,098	274,965	574,317	546,876

2. Specification of numbers of passengers

	Atlantic Airways	
	2019	2018
Passengers scheduled services	338,183	307,533
Passengers ACMI/charter operations	107,456	129,025
Passengers fixed wing	445,639	436,558
Passengers helicopter	14,541	12,939
Total passengers	460,180	449,497

Block hours

Block hours scheduled services	6,213	5,633
Block hours ACMI/charter operations	2,617	2,943
Block hours fixed wing	8,830	8,576
Block hours helicopter	906	887
Total block hours	9,736	9,463

Income overseas

Export value in DKK (1,000)	284,098	274,965
Export value in %	50%	50%

	Group		Atlantic Airways	
	2019	2018	2019	2018
3. Employee expenditures (DKK 1,000)				
Wages	-110,785	-101,474	-110,730	-101,474
Pensions	-10,096	-8,376	-9,970	-8,376
Expenses for social security	-5,475	-4,197	-5,432	-4,197
Bonus	0	0	0	0
Total	-126,356	-114,046	-126,132	-114,046
Remuneration Management and Board Management				
Jóhanna Á Bergi, CEO, Wages	-1,218	-1,218	-1,218	-1,218
Jóhanna Á Bergi, CEO, Pensions	-180	-180	-180	-180
Jóhanna Á Bergi, CEO, Bonus	0	0	0	0
Marius Davidsen, CEO, Wages	-1,035	-1,035	-1,035	-1,035
Marius Davidsen, CEO, Pensions	-153	-153	-153	-153
Marius Davidsen, CEO, Bonus	0	0	0	0
Board				
Niels Mortensen, Chariman, Wages	-260	-260	-260	-260
Kaj Johannesen, Vice-chairman, Wages	-240	-240	-240	-240
Laila Hentze, Wages	-140	-140	-140	-140
Fróði Magnussen, Wages	-140	-140	-140	-140
Hanna Svabo, Wages	-35	-140	-35	-140
Janus Rein, Wages	0	-93	0	-93
Jóhan Mikkelsen, Wages	-35	-47	-35	-47
Jóhan Vágadal, Wages	-105	0	-105	0
Eystein í Løðu, Wages	-105	0	-105	0
Total	-3,646	-3,646	-3,646	-3,646
<i>Number of employees</i>	<i>195</i>	<i>184</i>	<i>194</i>	<i>184</i>
4. Depreciation, amort. and impairments (DKK 1,000)				
Amortisation of intangible assets	-2,140	-1,933	-2,140	-1,933
Depreciation of tangible assets	-52,591	-56,455	-52,591	-56,455
Impairments of tangible assets	0	0	0	0
Total depreciation, amortisation and impairments	-54,731	-58,388	-54,731	-58,388
5. Financial income (DKK 1,000)				
Financial income, subsidiaries	0	0	64	0
Other financial income	611	45	132	45
Total financial income	611	45	195	45
6. Auditors remuneration (DKK 1,000)				
Audit	-125	-125	-125	-125
Other services	-62	-110	-62	-110
Total	-187	-235	-187	-235

	Group		Atlantic Airways	
	2019	2018	2019	2018
7. Income tax (DKK 1,000)				
Taxes	0	0	0	0
Changes in deferred taxes during the period	-1,648	-3,556	-1,719	-3,556
Total taxes	-1,648	-3,556	-1,719	-3,556
Deferred income tax liabilities as of Jan 1st	41,879	39,758	41,879	39,758
Changes in deferred income taxes during the period	1,790	3,556	1,719	3,556
Taxes recognised in equity	1,921	-1,435	1,921	-1,435
Deferred income tax liabilities at the end of the period	45,590	41,879	45,519	41,879

8. Intangible assets (DKK 1,000)

	Group	
	Software	Total
Acquisition value as of Jan 1st	19,316	19,316
Additions during the period	878	878
Disposal during the period	0	0
Acquisition value as of December 31st	20,194	20,194
Amortisations as of Jan 1st	-14,364	-14,364
Amortisations during the period	-2,140	-2,140
Amortisations of disposal	0	0
Amortisations as of December 31st	-16,504	-16,504
Book value as at December 31st 2019	3,690	3,690
<i>Book value as at December 31st 2018</i>	4,952	4,952

(Kr. 1,000)

	Atlantic Airways	
	Software	Total
Acquisition value as of Jan 1st	19,316	19,316
Additions during the period	390	390
Disposal during the period	0	0
Acquisition value as of December 31st	19,706	19,706
Amortisations as of Jan 1st	-14,364	-14,364
Amortisations during the period	-2,140	-2,140
Amortisations of disposal	0	0
Amortisations as of December 31st	-16,504	-16,504
Book value as at December 31st 2019	3,202	3,202
<i>Book value as at December 31st 2018</i>	4,952	4,952

9. Tangible assets (DKK 1,000)

	Group				
	Aircraft and maintenance	Spare parts	Operating equipment	Hangar, buildings and land	Total
2019					
Acquisition value as of Jan 1st	708,309	3,354	38,894	45,577	796,134
Additions during the period	10,804	0	8,049	0	18,853
Disposal during the period	-6,678	0	-1,751	0	-8,429
Acquisition value as of December 31st	712,435	3,354	45,192	45,577	806,557
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	-184,888	-1,425	-20,586	-21,148	-228,047
Depreciations during the period	-46,411	-239	-3,980	-1,961	-52,591
Depreciations and impairments of disposal	2,226	0	1,135	0	3,361
Depreciations and impairments as of December 31st	-229,073	-1,664	-23,431	-23,109	-277,277
Book value as at December 31st 2019	483,362	1,689	21,761	24,468	531,280
<i>Book value as at December 31st 2018</i>	<i>523,421</i>	<i>1,929</i>	<i>18,308</i>	<i>26,429</i>	<i>570,087</i>

(Kr 1,000)	Atlantic Airways				
	Aircraft and maintenance	Spare parts	Operating equipment	Hangar, buildings and land	Total
2019					
Acquisition value as of Jan 1st	708,309	3,354	38,894	45,577	796,134
Additions during the period	10,804	0	4,849	0	15,652
Disposal during the period	-6,678	0	-1,751	0	-8,429
Acquisition value as of December 31st	712,435	3,354	41,991	45,577	803,357
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	-184,888	-1,425	-20,586	-21,148	-228,047
Depreciations during the period	-46,411	-239	-3,980	-1,961	-52,591
Depreciations and impairments of disposal	2,226	0	1,135	0	3,361
Depreciations and impairments as of December 31st	-229,073	-1,664	-23,431	-23,109	-277,277
Book value as at December 31st 2019	483,362	1,689	18,560	24,468	528,079
<i>Book value as at December 31st 2018</i>	<i>523,421</i>	<i>1,929</i>	<i>18,308</i>	<i>26,429</i>	<i>570,087</i>

10. Prepaid aircraft acquisitions

Prepaid aircraft acquisitions in the balance sheet for 2019, are for the purchase of two Airbus A320 neo aircrafts delivered in 2023 and 2024.

	Atlantic Airways
11. Investments in subsidiaries (DKK 1,000)	2019
Acquisition value as of Jan 1st	25,000
Additions during the period	0
Disposal during the period	0
Acquisition value as of December 31st	25,000
Revaluations as of Jan 1st	0
Share of result acc. to the financial statement	-323
Dividens paid durind the period	0
Revaluations as of December 31st	-323
Book value as at December 31st 2019	24,677
<i>Book value as at December 31st 2018</i>	<i>25,000</i>

The equity proportion in subsidiaries is divided as follows:

Name	Domicile	Equity portion	Equity	Net profit
Hotel Atlantic P/F	Sørvágur	100%	24.677	-323

	Group	Atlantic Airways
12. Investment in associates (DKK 1,000)	2019	2019
Acquisition value as of Jan 1st	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 1st	9,645	9,645
Share of result acc. to the latest financial statement	8,904	8,904
Dividens paid durind the period	-7,000	-7,000
Revaluations as of December 31st	11,548	11,548
Book value as at December 31st 2019	16,543	13,343
<i>Book value as at December 31st 2018</i>	<i>14,640</i>	<i>11,440</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 Incomming 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 Incomming P/F	Tórshavn	49%	2,388	847
Gjáargarður P/F	Gjógv	31%	3,078	85

* According to the latest financial statements

	Group		Atlantic Airways	
	2019		2019	
13. Investment in other shares (DKK 1,000)				
Acquisition value as of Jan 1st	1,242		1,242	
Additions during the period	0		0	
Disposal during the period	0		-29	
Acquisition value as of December 31st	1,242		1,242	
Revaluations as of Jan 1st	-1,000		-1,000	
Share of result acc. to the latest financial statement	0		0	
Dividends paid during the period	0		0	
Revaluations as of December 31st	-1,000		-1,000	
Book value as at December 31st 2019	242		242	
<i>Book value as at December 31st 2018</i>	242		242	

	Group		Atlantic Airways	
	2019	2018	2019	2018
14. Prepayments (DKK 1,000)				
Prepaid rental expenses	106	84	106	84
Other prepayments	1,503	1,797	1,503	810
Prepayments total	1,608	1,881	1,608	895
15. Other receivables (DKK 1,000)	2019	2018	2019	2018
Deposit	13,133	12,609	13,133	12,609
Other receivables	8,439	1,458	7,593	1,458
Other receivables total	21,572	14,067	20,726	14,067

	Group			
	2019	2019	2018	2018
	Assets	Liabilities	Assets	Liabilities
16. Derivative financial instruments (DKK 1,000)				
Forward exchange contracts	0	166	809	0
Fuel oil swap transactions	3,461	0	0	8,532
Derivatives total	3,461	166	809	5,532

	Atlantic Airways			
	2019	2019	2018	2018
	Assets	Liabilities	Assets	Liabilities
Forward exchange contracts	0	166	809	0
Fuel oil swap transactions	3,461	0	0	8,532
Derivatives total	3,461	166	809	8,532

17. Receivables

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

	Group		Atlantic Airways	
	2019	2018	2019	2018
18. Deferred income and accruals (DKK 1,000)				
Defered income, tickets	42,231	40,538	42,231	40,538
Holiday allowances	6,235	5,527	6,235	5,527
Accruals	17,213	21,756	17,213	21,756
Total	65,679	67,821	65,679	67,821

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

	Group			
	Liab. Dec. 31st 2019	Short- term debt.	Due for payment after 5 years	Liab. Dec. 31st 2018
Mortgage loans	375,839	31,096	200,169	406,590
Total long-term debt.	375,839	31,096	200,169	406,590

	Atlantic Airways			
	Liab. Dec. 31st 2019	Short- term debt.	Due for payment after 5 years	Liab. Dec. 31st 2018
Mortgage loans	375,839	31,096	200,169	406,590
Total long-term debt.	375,839	31,096	200,169	406,590

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 (2018: the same).

20. Mortgaging and contingent liabilities etc.

Atlantic Airways

Aircraft with a book value as at 31 of December 2019 of DKK 483 million are mortgaged for 711 million.

As a lessee the Company has in place two operating leases. Those are for 2 A320 NEO aircrafts.

The leasing obligations are:

In the year 2020: DKK 38.3 million.

After 5 years: DKK 134.5 million.

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

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

Of the cash equivalent, 2.5 million are mortgaged.

The company has rented administration facilities from Vagar Airport in the new Terminal building.

The agreement may not be terminated until 2022. The yearly payment is 0.8 million.

The company has entered into a contract with Airbus regarding purchase of two A320neo aircrafts.

The first will be delivered in 2023 and the second in 2024.

Group

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

21. Related parties

Control:

Faroese Ministry of Finance, Tinganes, 100 Tórshavn

Basis of influence

Majority shareholder

Significant influence:

The Company has in 2019 provided helicopter services to the Ministry of Finance amounted to DKK 14.3 million (2018: DKK 14.3 million) and to the Faroese Ministry of Fisheries amounted to DKK 30.1 million (2018: 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 103.500.000 is divided in 1.035.000 shares of DKK 100. The shares are not divided in different categories.

Value adjustm. of cash flow hedges reserve

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

Reserve for net value according to the equity method

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

Retained earnings

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

Proposed dividend

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

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

P/F Atlantic Airways (the “Company”) is a limited liability company incorporated and domiciled in the Faroe Islands. The address of the Company’s registered office is at Vágur Airport in Sørvágur, Faroe Islands. The consolidated financial statements of the Company for the period 1 of January to 31 of December 2019 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 3 aircraft in service as at 31 of December 2019, supported by 184 employees with the operational base at Vágur. In the Helicopter Services there were 2 helicopters in service as at 31 December 2019 supported by 10 people with the operational base at Vágur. Faroese Ministry of Foreign Affairs and Trade owns 67% of the total share capital of Atlantic Airways P/F and 33% are the company’s own shares.

a. Statement of compliance

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

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

b. Basis of measurement

Konsern og ársfrásøgnin er grundað á søguligan kostnað, undantikið avleidd fíggarlig amboð, sum verða víst til dagsvirði. Seinni í hesi notu verður greitt frá amboðunum at máta dagsvirðið.

c. Functional and presentation currency

The consolidated financial statements have been prepared in Danish krona (DKK), which is the Company’s functional currency.

d. Use of estimates and judgements

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

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

The company does not think there is a significant risk that the estimates and assumptions used in preparing this financial statement will cause a materiel 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.

Basis of preparation (Continued)



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 owns 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 income 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 associates

(i) Associates

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

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 the voting power of another entity.

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

Changes in the fair of securities classified as available for sale are recognised in financial items.

(iiii) Share capital

Ordinary shares

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

d. Operating assets

(i) Recognition and measurement

Items of operating assets are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the

Significant accounting principles (Continued)



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

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

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

(ii) Aircrafts, helicopters, flight equipment, hangar, offices and house

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

(iii) Subsequent costs

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

(iv) Depreciation

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

	Useful life	Residual value
Aircrafts	15–17 yrs.	0
Helicopters	17 yrs.	0
Spare parts	10–15 yrs.	0
Operating equipment	3–10 yrs.	0
Primary maintenance exp.	5–12 yrs.	0
Hangar, buildings and land	5–25 yrs.	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 ár	0
Development expenditures	3 ár	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)



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

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

r. Segment reporting

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

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

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

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

Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further informa-

tion about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Derivatives

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

(ii) Non-derivative financial liabilities

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

Segment reporting

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

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

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

Aircraft Services

This segment, which consists of the Schedule Services and Charter Services, had 3 aircraft in service as at 31 December 2019, supported by 184 employees with the operational base at Vágur.

Helicopter Services

In the Helicopter Services there were 2 helicopters in service as at 31 December 2019 supported by 10 people with the operational base at Vágur.

Ratios

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

Significant accounting principles (Continued)



Cash Flow Statement

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

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

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

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

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

5.1 Definitions



ACMI

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

Airborne hours

Number of flown hours.

ASK: Available seat kilometres

The total number of seats available for passengers multiplied by the number of kilometers which they are flown.

Block hours

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

C-checks

Heavier maintenance checks.

Current ratio (%)

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

EBT

Earnings before tax.

EBIT

Earnings before interest and tax.

EBITDAR

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

EBITDAR margin

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

EBITDA

Operating income before interest, tax, depreciations and amortizations.

ETS

EU Emissions Trading Scheme

Great Circle Distance

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

Load factor

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

Minima

Aerodrome operating minima

Return on equity (%)

Profit/loss after tax, end of period divided by average equity.

Return on investment (%)

Profit/loss before financial items divided by total assets.

RPK: Revenue Passenger Kilometres

Number of paying passengers multiplied by the distance they are flown in kilometers.

Sale of Block hours

ACMI/Charter hours (non-scheduled flights)

Equity ratio (%)

Equity, end of period divided by total assets.

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



Photo: Nicolás Vera-Ortiz