ATLANTIC AIRWAYS

Annual Report

2012

www.atlantic.fo

Company Information

P/F Atlantic Airways

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Share

Stock Exchange:
VMF Market on NASDAQ OMX Iceland &
NASDAQ OMX Copenhagen
ISIN code FO 0000000062
Share Capital DKK 103.500.000
No. of Shares 1.035.000

Board of directors

Kaj Johannesen, Chairman
Jens Wittrup Willumsen, Deputy Chairman
Tezz Tordsdotter Ohlsson
Bjarni Askham Bjarnason
Ingi S. Joensen
Olaf S. Poulsen

Management

Magni Arge, CEO
Marius Davidsen, CFO
Joen Remmer, COO

Auditor

P/F NOTA, State Authorized Public Accountants

Atlantic Airways in Brief

Our origin, mission, vision, business and strategy

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 2012 Atlantic Airways had 172 full-time equivalent employees, and operated 4 aircraft and 2 helicopters.

Our mission is to transport people and cargo by air with the Faroe Islands as our cornerstone. Our vision is to enable the Faroese people to travel the world, providing the best possible service and to remain the preferred airline carrier in the Faroe Islands.

In line with our mission and vision statement, Atlantic Airways strives to provide the Faroe Islands with safe, commercially viable, diverse, and competitive air travel to the rest of the world. Internationally, it is our strategy to be competitive in niche markets outside the Faroe Islands, while as a company to remain flexible and responsive to changes and opportunities at all times.

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

Our corporate culture places emphasis on safety, quality, punctuality, customers, profitability and qualified employees.

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 this service.

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 during high season, and the company offers flight connections both morning and evening. Since 1995 the company has established flight connections to the neighboring countries Iceland, Norway and UK. This continued development has increased passenger numbers at the Vágar Airport from around 90,000 to more than 200,000 per year. 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.

Since 1995, the company has developed helicopter services in the Faroe Islands with Visual Flight Rule (VFR) operations to be able to perform demanding Search and Rescue (SAR) operations as well as off-shore operations.

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, stewardesses as well as other jobs within the field of aviation.

Today, Atlantic Airways is among the largest companies in the Faroe Islands. However, the Faroese home market is relatively small, and the company therefore also has a strategic interest in providing services outside the Faroe Islands based on profitability and relevance to Atlantic Airways' core competences. On this background, the company has entered the European market to widen its operations beyond the limited Faroese market. The company has performed well in open market competition and has been involved in air logistic projects in various European countries, servicing renowned companies such as Bristow Helicopters, SAS, Blue 1, Air Greenland, British Airways and Aker Stord.

In 2012 the European Regions Airline Association (ERA) has commended Atlantic Airways with the Airline of the Year 2012/2013 bronze Award. The nomination was partly thanks to the groundbreaking introduction of the RNP AR navigational aid system on the company's new Airbus A319, and partly because of the genuine regional service that the company provides to the remote Faroe Islands on an ongoing basis.

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Letter from the Chairman and the CEO

One year ago we expressed that Atlantic Airways would face new and unprecedented challenges in 2012, as the airline was set to take delivery of a brand new Airbus A319 and successfully introduce this type of aircraft to the challenging operation to and from Faroe Islands.

One year later we are now able to state that Atlantic Airways met its challenges well and has reached several milestones during the past year.

The largest challenge and uncertainty that the company faced was to launch the change of the company's operational platform from the BAE aircraft, which we have operated for almost 25 years, to the Airbus A319. This change in operational platform may seem an obvious and easy decision when operating between standard airports, but the operational environment in Faroe Islands is challenging and regarded as one of the most demanding in Europe.

However, the Airbus's entry into operational service went smoothly without any drawbacks, and the company's transition to an Airbus platform has therefore been successful – not to say very successful. In terms of operations the Airbus aircraft has met our expectations - and even exceeded them.

A major contribution to the imminent success of the new Airbus platform stems from the introduction of the navigational aid system RNP AR 0.1, which was introduced from the very beginning of the operation. The RNP procedures has improved safety margins, lowered minima and increased regularity as well as supported fuel savings by shortening aircraft sector time.

Introducing the new platform was one challenge, but taking delivery of and defining the new aircraft was another significant challenge. Nonetheless, we are very pleased with the outcome. The aircraft is probably the most powerful and best equipped Airbus A319 in the world, and our mission and experience from this first year substantiates this, as safety and regularity have been paramount parameters. The feedback from our customers reflects great appreciation of the Airbus, and the general perception is that the aircraft has elevated the company's service to a higher level.

The company's effort in regard to modernizing the regional service to the Faroe Islands and pioneering the RNP AR system in Europe has also met praise in the international aviation environment, as the airline was honored by the European Regional Airline Association with the Airline of the Year bronze award. We regard this as an achievement, which the entire Atlantic Airways staff can take pride in.

The financial result for 2012 leaves room for improvement during 2013. Part of the costs incurred during 2012 were one-off costs related directly to the Airbus A319's entry into service and will not repeat themselves – although the airline is still learning some preliminary lessons regarding optimization of the new operational set-up.

Furthermore we aim to optimize the company's operational schedule by adjusting supply and increasing sales in order to reach a higher load factor and to improve contribution-margin per flight. In addition, new summer flight routes to Barcelona has been introduced, based on the increased flight range provided by the Airbus aircraft. We will also increase capacity in regard to the Mediterranean market by introducing weekly summer flights to Italy.

We anticipate to shift more capacity on to the Airbus platform and gradually phase out Avro RJ capacity, and through this obtain higher utilization and lower unit cost.

In June we expect the next Airbus A319 to enter into service. It will be based in Denmark and service scheduled services and charter operations out of Denmark. We have signed a significant charter contract providing capacity to Atlantis Rejser both winter and summer and by this also leveling out some of the challenges to balance utilization between seasons. One Avro RJ 85 has recently been relocated to Chile in South America and we expect to transfer further Avro RJ capacity to Chile later in the year. Atlantic Airways has established an interim base in Santiago in order to provide our partner with technical and operational assistance in the initial phase of establishing new services. A transfer of surplus capacity in our low season fits well in partnership with the operation in South America as Chile has the reverse seasonality.

Although the company's focus has been on the major changes within our fixed-wing operations, the company's helicopter operation has likewise met demanding challenges throughout 2012 as well as met these with excellent results. The upgrade of our SAR service has progressed as planned and the company delivered a solid and praised off-shore service to Statoil during their drilling campaign throughout the year. In addition, the helicopter activities contributed significantly to the company's result in 2012. Based on the recent developments with the helicopter operations, it is our view that there is further potential within this operational area in the years to come.

Lastly, and especially important for our investors, the Atlantic Airways share has increased by 25% since year-end 2011, and the share price was 125 on the stock exchanges in Copenhagen and Reykjavík on 11 February 2013.

We believe that Atlantic Airways is in a good position to expand its business. Above all, Faroe Islands needs a safe and dependable airline service providing a high level of reliability.

Kaj Johannesen	Magni Arge
Chairman of the Board	CEO

Fourth quarter of 2012 in brief

Financial highlights

- Revenue in the fourth quarter of 2012 was DKK 115.8 million, compared with DKK 98.4 million in the fourth quarter of 2011
- Earnings before depreciation (EBITDA) in the fourth quarter of 2012 were DKK 14.9 million, compared with DKK 12.4 million in the fourth quarter of 2011
- Total depreciation and impairment in the fourth quarter of 2012 was DKK 15.8 million, compared with DKK 12.0 million in the fourth quarter of 2011
- Net financial items in the fourth quarter of 2012 amounted to DKK -1.9 million, compared with net financial items of DKK -0.3 million in the fourth quarter of 2011
- The result before tax in the fourth quarter of 2012 was DKK -2.7 million, compared with DKK 0.1 million in the fourth quarter of 2011
- Net result after tax in the fourth quarter of 2012 was DKK -2.2 million, compared with DKK 0.1 million in the same period the previous year

Traffic development

- The number of passengers carried on scheduled services in the fourth quarter of 2012 was 45,297, compared to 39,406 in the fourth quarter of 2011
- The load factor on scheduled services in the fourth quarter of 2012 was 73%, compared with 75% in the fourth quarter of 2011
- The total number of aircraft block hours operated was 1,451 in the fourth quarter of 2012, compared with 1,774 in the fourth quarter of 2011
- Block hours sold on ACMI/charter operations in the fourth quarter of 2012 was 344, compared with 494 in the fourth quarter of 2011
- Block hours on helicopters were 276 in the fourth quarter of 2012, compared with 163 in the fourth quarter of 2011

The year 2012 in brief

Financial highlights

- Total revenue in 2012 was DKK 501.3 million, compared with DKK 435.6 million in 2011
- Earnings before depreciation (EBITDA) were DKK 83.4 million in 2012, compared with DKK 74.4 million in 2011
- Total depreciation and impairment in 2012 was DKK 58.3 million, compared with DKK 43.1 million in 2011
- Net financial items amounted to DKK -8.0 million in 2012, compared with net financial items of DKK -4.1 million in 2011
- The result before tax was DKK 17.1 million in 2012, compared with DKK 27.5 million in 2011
- Net result after tax was DKK 14.0 million, compared with DKK 22.5 million in 2011
- The cash position at year-end was DKK 97.1 million, compared with DKK 98.6 million the previous year
- The export value was 50% of turnover, corresponding to DKK 246 million
- As of 31 December 2012, equity was DKK 243 million, resulting in an equity ratio of 49%
- The number of full-time equivalent employees in 2012 was 172 on average, compared with 166 in 2011

Traffic development

- The number of passengers carried on scheduled services in 2012 was 208,329, compared with 193,450 in 2011
- The load factor on scheduled services in 2012 was 74%, compared with 77% in 2011
- The total number of aircraft block hours operated in 2012 was 7,156, compared with 8,189 block hours in 2011
- Block hours sold on ACMI/charter operations in 2012 was 1,823, compared with 2,075 in 2011
- Block hours on helicopters were 1,162 in 2012, compared with 624 in 2011

Financial highlights and key ratios

	2012	2011	2010	2009	2008
INCOME STATEMENT (DKK 1,000)					
Net sales	501.303	435.523	401.790	402.137	541.548
Other income	0	115	880	0	5.288
Result before depr., amort. and impairm. (EBITDA)	83.345	74.359	69.049	43.633	86.970
Depreciations, amortisations and impairment	-58.200	-43.071	-49.546	-63.001	-60.513
Result before financial items (EBIT)	25.145	31.288	19.503	-19.368	26.457
Net financial items	-8.012	-4.103	-3.933	11.745	1.437
Share of profit/loss of associates	-17	310	-488	-441	-75
Result before tax (EBT)	17.116	27.495	15.082	-8.064	27.818
Tax	-3.081	-4.949	-2.738	1.455	-4.971
Profit	14.035	22.546	12.344	-6.609	22.847
BALANCE SHEET (DKK 1,000)					
Assets					
Total non-current assets	370.474	241.095	221.100	303.389	301.235
Total current assets	129.659	141.086	189.618	96.467	136.929
Total assets	500.133	382.181	410.718	399.856	438.164
Equity and liabilities					
Total equity	247.293	249.626	227.487	214.377	226.324
Total non-current liabilities	164.534	64.393	67.452	127.797	146.027
Total current liabilities	88.307	68.162	115.778	57.682	65.813
Total equity and liabilities	500.133	382.181	410.718	399.856	438.164
Cash flows (DKK 1,000)					
Net cash flow from operating activities	85.961	83.065	62.077	70.310	75.253
Net cash flow used in investing activities*	-187.596	575	-31.098	-65.384	-69.192
Net cash flow from financing activities	100.167	-66.212	-15.353	-21.768	38.334
Cash flows for the period	-1.469	17.428	15.626	-16.842	44.395
**Of this purchase of property, plant and equipment*	-183.363	3.565	-29.916	-61.360	-64.550
Financial ratios					
EBITDAR (DKK 1,000)	93.937	81.709	74.679	54.805	96.813
EBITDAR margin (%)	19%	19%	19%	14%	19%
Return on investment (%)	5%	8%	5%	-5%	6%
Current ratio (%)	147%	207%	164%	167%	208%
Solvency ratio (%)	49%	65%	55%	54%	52%
Return on equity before tax (%)	7%	12%	7%	-4%	13%
Return on equity after tax (%)	6%	10%	6%	-3%	10%
Income/cost ratio (%)	1,04	1,07	1,04	0,98	1,05
Shares					
Number of shares (1,000)	1.035	1.035	1.035	1.035	1.035
Earnings after tax per share (DKK)	13,56	21,78	11,93	-6,39	22,07
Dividend per share (DKK)	4	7	7	0	5
Share price end of period (DKK)	121	100	116	142	168
Share price end of period/Earnings after tax per share (P/E)	8,92	4,59	9,73	-22,24	7,61
Traffic statistics					
Capacity - scheduled flight (ASK) (1,000)**	359.539	324.741	337.467	346.896	375.552
Traffic - scheduled flight (RPK) (1,000)**	266.672	249.467	252.140	265.050	287.997
Load factor (%)**	74%	77%	75%	76%	77%
Passengers carried on scheduled flight	208.329	193.450	186.704	196.238	214.835
Total number of passengers	266.953	260.457	219.737	316.860	593.113
Airborne hours	7.548	7.976	7.420	9.259	15.000
Other					
Number of full-time employees	172	166	167	205	277
Aircraft operated as at 31 December**	4	4	3	5	7
Helicopters operated as at 31 December**	2	2	3	3	3

***In 2011 and 2012, the distance is calculated using the Great Circle Distance. 2008-2010, distance based on estimated flown distance*

***Fleet in service, excluding aircraft leased out*

Management's Review

Developments throughout full-year 2012 and the fourth quarter 2012

Atlantic Airways reached a full-year net profit for 2012 of DKK 14.0 million after tax, compared with DKK 22.5 million in 2011. The result before tax was DKK 17.1 million, compared with DKK 27.5 million in 2011. Earnings before depreciation (EBITDA) were DKK 83.4 million in 2012, compared with DKK 74.4 million in 2011, up 12%. Total revenue for the year 2012 was DKK 501 million, compared with DKK 436 million in 2011, corresponding to an increase of 15%.

The result after tax for the fourth quarter of 2012 amounted to a loss of DKK 2.2 million, compared with a profit of DKK 0.1 million the previous year. EBITDA increased from DKK 12.4 million in the fourth quarter of 2011 to DKK 14.9 million in the fourth quarter of 2012. Revenue increased from DKK 98.4 million in the fourth quarter of 2011 to DKK 115.8 in the fourth quarter of 2012, corresponding to an increase of 18%. The increase in revenue stems from passenger growth on scheduled traffic – as a result of the company's low fare campaigns – and activities related to oil exploration during October and November. In contrast, the company's operations were negatively impacted by an incident causing the grounding of the Airbus for three weeks during the Christmas period of December, as well as two unscheduled engine removals on the Avro RJ aircraft. The estimated negative impact on the company's result for Q4 exceeds DKK 4.0 million.

The result for 2012 lies within the lower end of the range of our original financial guidance. Turnover and EBITDA have both increased considerably, while the net result has decreased. The contribution from fixed-wing activity decreased significantly, while the helicopter operation in total generated both significant increased revenue and contribution.

There are various reasons for these developments, and in particular the company's capital costs increased by DKK 12 million as a result of the investment in and phase-in of the new Airbus. Part of the efficiency gained from the new Airbus service was offset by increased fuel prices together with a lower load factor and lower income per passenger. Furthermore, the scheduled service took two major hits in July and December: In the peak period of July, flight traffic was severely interrupted because of weather, which imposed delays for more than 2,000 passengers over a period of five days. The cost attached to accommodation, caretaking, extra flights etc. exceeded DKK 4 million. In December – prior to the Christmas peak traffic - the company experienced a three-week grounding of the Airbus because of a ground-handling incident in Copenhagen, and furthermore had two engine failures on the company's Avro RJ aircraft. The total cost attached to delays, repair, extra flights and lost revenue on especially cargo is estimated to be around DKK 4.5 million.

A considerable part of the company's charter production in 2012 transferred from ACMI-related contracts to full charter contracts and resulted in a higher turnover and a relatively lower contribution margin overall, as Atlantic Airways covers the full operational cost of charter contracts, while the lessee covers a significant part of the operational cost in ACMI contracts.

Airbus aircraft in operation

The main focus in 2012 was pointed towards the delivery of a factory new Airbus A319 specially configured for the operation to and from the Faroe Islands, and ensuring a smooth entry of the aircraft into scheduled service during 2012. Both tasks were equally important as the airline was bringing in a new aircraft to the challenging operations on the Faroes, and also needed to plan and carefully simulate how to secure a sustainable and solid new operational platform for the company.

Both targets were met with excellent results. The smooth entry into service did not cause customers any difficulties. On the contrary, the feedback regarding the new aircraft has been very positive amongst customers. The level of comfort on the new aircraft with a wider cabin, mood lighting system, ergonomic seats, drop-down screens and interior in harmonized color and design has been widely praised.

The Airbus A319 has shown to be a solid successor to the BAE Avro RJ and has met all our operational expectations. The introduction of the aircraft was well prepared and the resources spent on training crew in advance in similar conditions were justified, as these efforts helped secure a smooth entry into service as well as enabling a sensible mix of destination and aircraft experience in the cockpit from day one.

The Airbus' pioneering RNP AR 0.1 navigational aid system has improved flight operation to and from Vágar in several ways: First, it has further enhanced safety with its precision and stabilized approach. Second, it has paved the way for a lower decision height and a higher regularity. Third, approaches have improved comfort as more turbulent areas can be avoided, and fourth, the system has also saved fuel and CO2 emissions as the new approach patterns save up to 8 minutes of flying time.

The new aircraft has also opened up for new routes with a longer range, and the customers have shown appreciation for the new summer route directly to Barcelona from the Faroe Islands.

In September, Atlantic Airways received the European Regions Airline Association's Airline of the Year bronze award, which was motivated by the company's effort to pioneer the introduction of the RNP AR 0.1 system in Europe and the commitment to develop the infrastructure to and from the Faroe Islands.

Segment developments

The new Airbus is leading to changes in regard to the market for scheduled flights to and from the Faroe Islands. The Airbus has significantly decreased the operating cost per seat available, as the aircraft can carry higher loads (almost a 50% increase), has shortened flying time by approximately 10% and maintains the same level of fuel burn. The larger capacity provided by the Airbus has resulted in some reduction in frequency but also an increase of around 10% in available seats. The company decided to introduce a more liberal price concept during 2012, including a lower entry price and lower fuel surcharges along with the phase-in of the new aircraft. These initiatives are some of the main drivers behind the growth in passenger numbers by 8% or 15.000 passengers in 2012.

Despite the long range of beneficial attributes regarding the Airbus as well as its successful phase-in, there have also been noticeable costs attached to the transition from a 95-seater Avro RJ operating platform into a 144-seater Airbus, partly due to training and other implementation costs, but also due to a lower load factor for the year and lower utilization of other aircraft within the company fleet. During December the dependency on a single Airbus aircraft was made apparent when ground-handling damage grounded the aircraft for three weeks over the Christmas period. A much higher level of flexibility would be possible by operating two Airbus aircraft during busy schedules.

In 2013 we see room for optimization of the current scheduled operations and an opportunity to reap further benefits from the launched Airbus platform, as this will have full impact for the whole year on scheduled services (in contrast to 2012). The company will also incur far less one-off costs related to the Airbus, and the aim is set on achieving a higher load factor through optimization. This will be targeted by way of a more aggressive form of sales and marketing efforts as well as making adjustments in capacity. The Faroese Government has decided to increase funds for marketing tourism in the Faroe Islands and to reduce passenger tax on international travel. Atlantic Airways welcomes these initiatives and is prepared to approach its markets with new direct routes, improved distribution, marketing and sales in partnership with the Visit Faroe Islands organization as well as a wider net of representatives in Europe and beyond.

Atlantic Airways' charter segment experienced a challenging 2012. The market for ACMI was difficult throughout 2012 and decreased significantly. However, the company succeeded in obtaining contracts from tour-operators operating especially from Danish locations, as well as from a number of ad hoc charters. For certain contracts, the Avro RJ 100 was reconfigured to 112 seats. In spite of the decreased activity the turnover on the charter segment increased as a considerable part of the company's charter production in 2012 transferred from ACMI-related contracts to full charter contracts.

The lower activity in the charter segment as well as reduced frequencies on scheduled services resulted in a lower utilization of the remaining Avro RJ aircraft as well as higher unit costs.

Contribution from the fixed-wing segment is expected to improve in 2013 due to optimization of capacity and strategic initiatives to increase utilization as well as lower unit costs, through reducing the low utilized Avro capacity and increase higher utilized Airbus A319 capacity.

During December Atlantic Airways managed to arrange and prepare a wet-lease operation in Chile in South America. The company agreed to provide the Chilean airline carrier DAP with capacity in the form of the Avro RJ 85 from the year-end 2012. One Avro RJ 85 is currently operating on a wet-lease basis from Santiago de Chile, and will remain on this contract until DAP will take over the aircraft and operate it based on their own operating license during the spring of 2013. Atlantic Airways has previously delivered a BAE 146 aircraft on lease/purchase to DAP. The early phase-out of the Avro RJ 85 aircraft is expected to be followed by another Avro RJ 85 aircraft to be delivered to DAP in Q3 2013. Following this there will remain only one Avro RJ 100 aircraft in Atlantic Airways' fleet.

In order to substitute the Avro RJ capacity, Atlantic Airways has decided to lease a second Airbus from Air Malta and provide this lease into service in June 2013. The aircraft will be based in Denmark and serve scheduled traffic to the Faroe Islands as well as tour-operators in Denmark. A substantial part of the utilization of this additional (leased) Airbus is attached to a contract with Danish tour-operator Atlantis Rejser, which operates to destinations in the Middle East throughout the year. This lease contract matches Atlantic Airways well because of lower scheduled activity in the winter and supports the optimized utilization of both aircraft, crew and thus reduce unit costs.

A broader operational and market focus causes further complexity, but also eases the company's dependency on narrow markets and by introducing the second Airbus, the exposure of operating with only a single aircraft is reduced. The company's exposure towards fuel and currency risk in the charter segment will be mitigated by hedging positions. For further access to a wider market the company has also initiated a process towards achieving an International Air Transport Association (IATA) Operational Safety Audit (IOSA) rating.

Another focal point in 2012 was the development of the helicopter service to meet both the higher standard of service agreed upon with the Faroese Government regarding SAR and inter-island services, as well as providing Statoil with air logistics in relation to their exploration activity in Faroese waters. The feedback from customers is positive and the company can build further on the successful experience of working directly with the oil industry. The helicopter segment witnessed successful activity in 2012 and generated both significantly higher revenue as well as a significant contribution to the company's bottom line. However, costs also increased because of the mobilization of helicopter and crew to cover for the offshore operation and the growing numbers of hours produced.

The results achieved within the helicopter segment have highlighted future potential in the field of helicopter operations. The company will in due time select the required type of helicopters for future SAR and inter-island services, and will evaluate the selection in relation to an expansion in off-shore activity in the Faroese regional area as well as North Sea waters.

Operational Review
Traffic summary

The total fleet production (the number of block hours) decreased by 6% in 2012, compared with 2011. Fixed-wing and rotor-wing aircraft were airborne for a total of 8,318 block hours in 2012, compared with 8,813 block hours the previous year.

Scheduled services accounted for 64% of fleet production in 2012, ACMI/charter operations for 22% and helicopter service accounted for 14%. In 2011 scheduled services accounted for 69%, whereas ACMI/charter 24% and helicopter service accounted for 7% of fleet production.

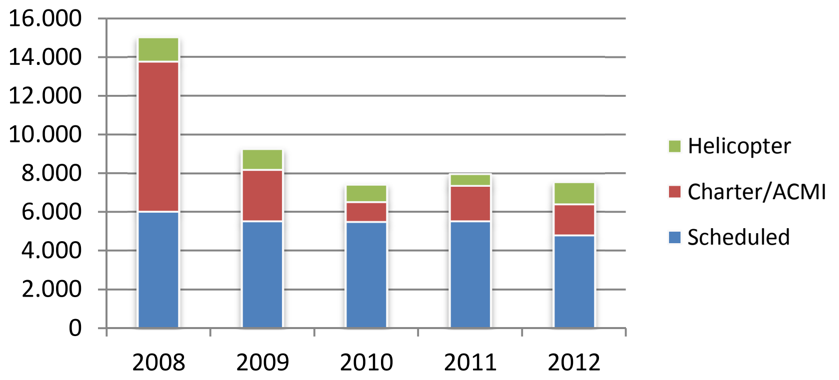
Traffic information

	Q4 2012	Q4 2011	Change	Change	2012	2011	Change	Change
Passengers	pass	pass	pass	%	pass	pass	pass	%
Scheduled services	45.297	39.406	5.891	15%	208.329	193.450	14.879	8%
Helicopter operations	2.709	1.114	1.595	143%	10.135	5.343	4.792	90%
Block hours	hours	hours	hours	%	hours	hours	hours	%
Scheduled services	1.106	1.280	-174	-14%	5.332	6.115	-782	-13%
ACMI/Charter operations	344	494	-149	-30%	1.823	2.075	-251	-12%
Aircraft in total	**1.451**	**1.774**	**-323**	**-18%**	**7.156**	**8.189**	**-1.033**	**-13%**
Helicopter operations	276	163	113	70%	1.162	624	538	86%
	1.727	**1.936**	**-210**	**-11%**	**8.318**	**8.813**	**-495**	**-6%**

The fixed-wing fleet was airborne for 7,156 block hours, compared with 8,189 block hours in 2011. The new Airbus A319 aircraft, with its increased capacity, caused an expected reduction in the number of block hours in relation to scheduled services. However, the fixed-wing segment was further negatively affected by reduced ACMI/charter activity in 2012, compared with the previous year.

The number of hours flown on scheduled services decreased by 13% to 5,332 block hours due to the adjusted seat capacity after the Airbus A319 entered the fleet in March 2012. However, during the same period the supply of passenger seats for sale of scheduled services increased by 12%, compared with the previous year.

Total Airborne hours



ACMI/charter operations decreased from 2,075 block hours in 2011 to 1,823 block hours in 2012. Demand for operations on behalf of other airlines (ACMI) has been significantly lower, compared with 2011, while demand for other charter flights has increased.

Helicopter activity was higher in 2012 than the previous year due to increased offshore charter activity in connection with oil exploration in Faroese waters in 2012. The helicopters were airborne for 1,162 hours in 2012, compared with 624 hours in 2011. In 2012 helicopter operations were based on three helicopters in comparison with two helicopters the previous year.

In the fourth quarter of 2012, aircraft and helicopters were airborne for 1,727 block hours, compared with 1,936 block hours in the fourth quarter of 2011, corresponding to a decrease of 11%. ACMI/charter operations have decreased 30%, compared with the fourth quarter of 2011 due to a significant decrease in ACMI activity. Block hours on scheduled services have decreased 14% in the fourth quarter of 2012, compared to the same period the previous year due to the impact from the fleet renewal with the larger Airbus A319 capacity on the main route. Helicopter activity was higher in the fourth quarter of 2012, compared to the fourth quarter of 2011 due to offshore oil activity in Faroese waters.

The total number of passengers on aircraft and helicopters amounted to 267,000 in 2012, compared with 260,000 in 2011. This increase stems from growth in passenger numbers on scheduled flights and helicopter flights, while passenger numbers on ACMI/charter flights were lower.

Occurrences of irregularities caused by adverse weather were in general fewer during 2012, compared to 2011, and this has been particularly evident since the entry of the Airbus A319 into service on the main schedule route between the Faroe Islands and Copenhagen, as the aircraft utilizes the advanced RNP AR navigational aid system. However, some severe irregularities did occur, and caused high costs for the company as mentioned previously in the Management review section.

Scheduled services

Scheduled passenger traffic, measured in revenue passenger kilometers (RPK), increased by 7% in 2012, compared with the previous year, while traffic capacity, measured in available seat kilometers (ASK) increased by 11%. The load factor on scheduled services, calculated based on Great Circle Distance, decreased from 77% in 2011 to 74% in 2012 due to increased seat capacity, following the phase-in of the new Airbus A319 aircraft in March 2012. In the fourth quarter of 2012 the load factor on scheduled services decreased from 75% in the same period during 2011 to 73%.

The total number of passengers carried on scheduled services in 2012 increased by 8% from 193,000 in 2011 to 208,000 in 2012, and increased likewise by 15% in the fourth quarter of 2012, compared with the fourth quarter of 2011.

The year 2012 is the second year with passenger growth on the scheduled services, since the economic recession began in late 2008 in the aftermath of the global financial crisis, and which subsequently led to a significant decrease in passenger numbers. In 2011, a significant part of the increase in passenger numbers could be attributed to the impact from the volcanic eruption in Iceland and the subsequent closure of European airspace by regulatory authorities in April and May 2010. However, in 2012 the passenger growth may be attributed to the impact on demand from lower fares, improved market conditions and expansion of the company's route network. The involvement of Faroese-based work force overseas as well as oil-related activity in the Faroe Islands during 2012 has had positive effects on both charter and regular business traffic.

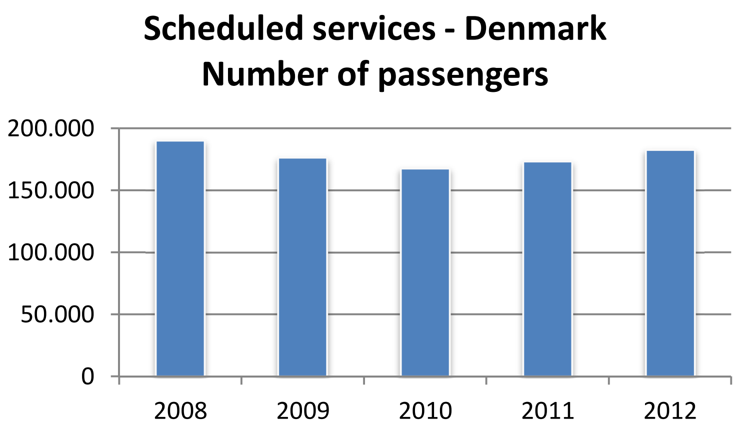
The seasonal fluctuation in scheduled traffic remains high. Frequencies to Danish airports vary from 15 per week during the traditionally low-activity winter season to 30 per week during high season in the summer. Atlantic Airways normally undertakes C-checks during the low-activity season and has succeeded in offering capacity in the ACMI/charter business during the winter.

In comparison to the summer season 2012 when the company operated one Airbus and three Avro RJ, the company's capacity will be adjusted to two Airbus aircraft and two Avro RJ for the summer season 2013.

Denmark

Passenger numbers on the Danish routes, which include routes between the Faroe Islands and Copenhagen, Billund and Aalborg respectively, increased from 174,000 in 2011 to 183,000 in 2012, equal to 5%. Available capacity (ASK) increased approximately 7% in 2012, compared with 2011, while passenger traffic (RPK) increased 4%. Thus, the load factor decreased from 78%, calculated based on Great Circle Distance, to 76% in 2012.

In March 2012 the company took delivery of the first factory new Airbus A319. This aircraft has primarily flown on the main route between the Faroe Islands and Copenhagen. When the Airbus entered into service the company's CO2 emissions and fuel cost per passenger was reduced, and Atlantic Airways therefore reduced its fuel surcharge and at the same time also introduced a more liberal price concept, with lower entry fares.



In 2012 Atlantic Airways continued to promote a prize-winning campaign to increase awareness in Denmark about the Faroe Islands as an attractive tourist destination with support from Visit Faroe Islands, the Faroe Islands' tourist organization. Denmark is the most important tourism market for the Faroe Islands, but competition in this market is increasing as options for alternative destinations are continuously growing.

Competition from ship operator, Smyril Line, on this route remains on the same level with two weekly frequencies to/from Hirtshals, Denmark. Nonetheless, the competition from Smyril Line is expected to be noticeable in 2013.

Iceland

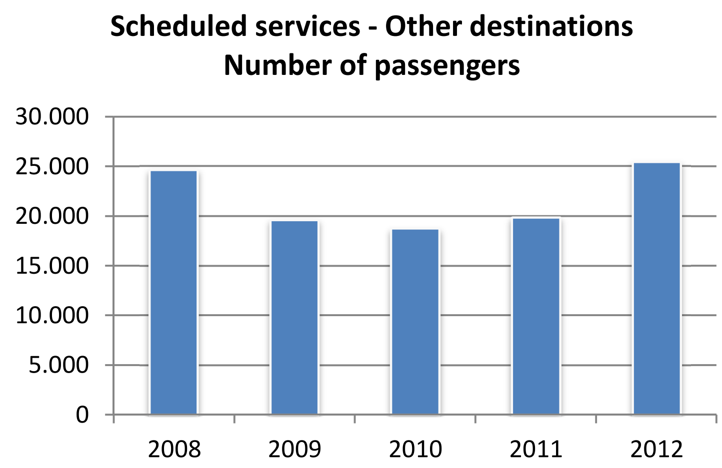
Atlantic Airways has three scheduled flights per week during the high season (summer months) between the Faroe Islands and Reykjavik, and two flights per week during the low season (winter months). Traffic to and from Iceland has remained stable and the supply of capacity will remain at the same level, however new campaigns will be launched to increase traffic both between the Faroe Islands and Iceland, as well as between Faroe Islands and North America.

Atlantic Airways flies to Reykjavik City Airport and provides the only connection to Iceland by jet plane landing in the city centre. This is an advantage for point-to-point traffic as customers within few minutes from landing can participate in events in Reykjavik City. However, there is a potential for growing connection traffic to the evolving flight hub in Keflavík, Iceland, where Icelandair provides a wide selection of connections to the American continent. The flight schedule for 2013 is organized so that passengers can transfer to/from Reykjavík to Keflavík and connect with flights to North America without having to stay overnight in Iceland.

Seasonal routes

The services to our neighboring countries are important for the Faroe Islands in order to develop business and leisure travel originating from the Faroe Islands, as well as to accommodate the incoming tourist segment. The neighboring countries of United Kingdom and Norway are serviced on a seasonal basis for the time being. To support the growing number of Faroese nationals working in Norway, there are numerous charter flights between Norwegian airports and the Faroe Islands throughout the year. Consequently the total traffic between the two countries is not fully reflected in the passenger numbers on scheduled flights. Atlantic Airways has direct flights between the Faroe Islands and Bergen in Norway twice per week during the busy summer season, and has extended this service into both the autumn period and the winter schedule as there was a larger demand during these periods relating to Statoil’s activities in the Faroe Islands. The winter operation has not yet proved to be sustainable without support from oil operators.

In 2012 Atlantic Airways also changed the seasonal route between the Faroe Islands and London, with a change from Stansted Airport to London Gatwick and additionally extended the flight season for this route. The UK market was difficult in 2012 because of the challenging economic situation in UK as well as the circumstances related to the Olympics held in London during the summer period 2012. Traffic numbers on the route increased in 2012 due to the extension of the route, however, the contribution from this route has not been sufficient in 2012. In the summer of 2013, the company will resume the services between the Faroe Islands and London, which is still the only direct passenger link between the Faroe Islands and the UK. The company has direct flights between the Faroe Islands and London twice per week during the summer high season, starting in the beginning of June and ending beginning of September, as well as flights during the Easter holiday. During the past four years the company has established a valued partnership with esteemed tour operators in the UK.



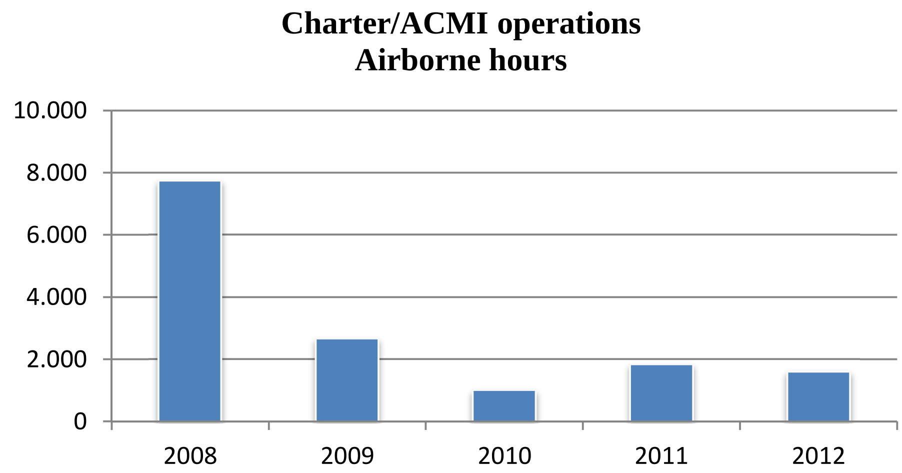
The new Airbus aircraft allows Atlantic Airways to operate with a longer range of flight, and thus also the ability to provide services to destinations, which previously could not be served directly from the Faroe Islands. A new direct, weekly summer service from the Faroe Islands to Barcelona has been established, and has been very well received. This route has created new traffic as well as replaced some traffic, which previously went via Copenhagen and London to Southern Europe. The summer service to Barcelona will be extended in the summer season 2013.

The successful introduction of direct flights to Spain has also inspired Atlantic Airways to launch a new non-stop weekly summer service to Milano in Italy in 2013.

In both these markets Atlantic Airways has appointed general sales agents, and has established partnerships with tour operators and will coordinate marketing of the Faroe Islands as a tourist destination together with Visit Faroe Islands.

Charter/ACMI operations

Charter activity (measured in block hours) decreased by 12% in 2012, compared with 2011. Block hours sold decreased from 2,075 to 1,823. The decrease mainly stems from a significantly lower demand for ACMI in 2012, compared with the previous year. Atlantic Airways has provided service in several charter segments in 2012, such as ad hoc flights in Europe for various clients, charter series for tour operators in Denmark, and air logistics support for Statoil in connection with oil exploration in Faroese waters during June-December 2012.



The ACMI/charter activity decreased by 30% in the fourth quarter of 2012, compared with the fourth quarter of 2011, from 494 to 344 block hours due to a significantly lower demand for ACMI.

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. The contribution per hour from the ACMI/charter segment has been somewhat lower in 2012, compared with 2011. The competition has been intensified as a consequence of overcapacity and cheaper operations, mainly based in Eastern Europe. The company has intensified its efforts in regard to pursuing charter contracts in order to improve capacity utilization both in the local environment, Europe and further abroad.

In December, Atlantic Airways established an operational base in Santiago, the capital of Chile, South America (see also Management review section). One Avro RJ aircraft and up to ten employees will be based in Santiago for at least three months. The aircraft and crew were ferry-flown from the Faroe Islands via North America to Chile, between Christmas and New Year, and landed in Santiago on the last hour of 2012. This was the longest journey ever operated by Atlantic Airways and the first flight, which crossed the equator. The Chilean authorities have approved Atlantic Airways' operation and also the EASA (European Aviation Safety Agency) approved line maintenance facility at the Santiago base. Chile has the reverse seasonality of Europe, so there will be opportunities to transfer surplus capacity from low-activity seasons in Europe to high-activity seasons in South America in the future.

Helicopter operations

Our helicopter activity has in 2012 been based on the two Bell 412 helicopters in ownership and a leased AW 139 helicopter. The two Bell 412 helicopters are the back bone of the company's SAR operations and domestic services provided for the Faroese government, while the AW 139 helicopter has provided offshore support for an oil-exploration consortium led by Statoil in the Faroese waters during 2012.

The company's helicopters were airborne for 1,162 block hours in 2012, compared with 624 block hours in 2011. Block hours in the fourth quarter of 2012 amounted to 276, compared with 163 in the same period in 2011. However, the income basis in this segment is not only reflected in the number of block hours flown, but also by the number of contracts, the contract length and the level of provided helicopter capacity.

In January 2012, Atlantic Airways signed a four-year contract with the Faroese Ministry of Fishery and the Ministry of Industry to provide helicopter SAR coverage 24 hours a day (24/7), as well as domestic transport to the most remote islands. The contract includes a considerable upgrade of the standard of SAR and crisis support. The SAR service was called out on 43 occasions during 2012. Rescue missions in Faroese waters were initiated on eight occasions, including the rescue of the crew on a Polish sailing vessel and a double call-out during one night to Faroese fishing vessels. The company has provided domestic helicopter services in the Faroe Islands since 1994 and SAR operations since 2001.

Since 2001 the company has assisted all oil companies involved in oil exploration in Faroe Islands. In January 2012, Atlantic Airways won a tender with Statoil to provide helicopter and other air logistic support in connection with oil exploration in Faroese waters in 2012. The exploration drilling started in June 2012 and lasted until November 2012, when the drilling was discontinued and deferred to the summer period in 2013 or 2014. The AW 139 was redelivered to the lessor in December 2012.

Customers have expressed a high degree of satisfaction with the quality and flexibility of our helicopter operations, which have potential for further expansion. The Bell 412 helicopter will remain the platform for the SAR and domestic flights for some years still, however, the company needs to decide which type of helicopter to succeed the current operational platform.

Other income areas

Ancillary revenues, revenues from duty-free as well as freight and mail transportation increased by 1% in 2012, compared with the previous year. Duty-free income increased 9% in 2012. Cargo volume to the Faroe Islands is growing but decreasing from the Faroe Islands, and mail volumes are also on the decline. However, the total volume was at approximately the same level as the year before.

The duty-free shops at the Vágar Airport opened in January 2009. Shortly after, the Faroese government introduced a restriction on imports of tax-free tobacco from 200 to 100 cigarettes, and the wine monopoly Rúsdrekkasøla Landsins later imposed special monopoly charges on tax-free imports. This has consequently moved part of the sales from the Faroese airport to foreign airports, since such extra costs have not been imposed on these airports.

In our view, the Faroese government should consider implementing sensible, long-lasting rules and regulations on tax-free sales, for the benefit of turnover at Vágar Airport and value creation for the Faroese society.

The tax-free operation at Vágar Airport will also face challenging operational conditions during a period of construction of new airport facilities, in which some facilities will be dismantled and others changed radically. The new terminal facility is expected to be in place in 2014.

Airport matters

The extension of the runway at Vágar Airport from 1,250 meters to 1,799 meters has provided operators with the opportunity to operate a wider range of aircraft types in the Faroe Islands, and this has also enabled operators to provide services to and from more distant destinations.

The runway extension was a prerequisite for taking full advantage of the payload and range capability of the company's new Airbus A319 aircraft. The experience from operating the Airbus A319 since March has been positive, and has met our expectations. Moreover, it is the overall combination of a longer runway and the ability to exploit the full potential of the company's RNP AR navigational system, which has secured an improved access and service regularity to the Faroe Islands (see also 'Fleet development').

In September, an ILS system was introduced to runway 30 and this has marginally improved accessibility for aircraft, which are not equipped with an RNP AR navigational system.

Atlantic Airways and the Danish Civil Aviation Authorities (CAA) are in dialogue to evaluate the rigid airport closing procedures imposed for windy conditions in October 2011. Atlantic Airways advocates that the rules should instead be a guidance system for airlines with documented experience and procedures to mitigate for hazardous weather conditions. The CAA has admitted that the system has had some weaknesses and some adjustments have been made. They have also initiated a monitoring program based on pilot reports, to evaluate if other adjustments are necessary.

New terminal

Vágar Airport has initiated a project to build a new terminal at the airport. During the construction phase, which is expected to last around two years, both passengers and employees at the airport will be affected. Facilities at the old terminal are reduced (the terminal is partially taken down), the offshore terminal is removed, tax-free and cargo-handling facilities removed and replaced with less efficient facilities, and restricted access to airport areas etc.

It was Atlantic Airways' experience that operations at the runway would only be affected to a minimum during the construction phase. However, the disruption from the construction of the terminal has already affected the workflow negatively in early stages of the construction of the new terminal. The company seeks to minimize these disrupting effects through a constructive dialogue with Vágar Airport and their contractors, in order to minimize the effect on the workflow and the passengers.

Part of the company's office facilities will be removed as a result of the new construction, and Atlantic Airways expects to sign an agreement to rent office capacity at the new service facility constructed by Vágar Airport and at the same time secure access to broader capacities attached to the company's hangar facility.

Sharing the burden from adverse weather and irregularities

Since the introduction of the Airbus A319, combined with the RNP navigational procedures, the flight regularity has been improved compared to the operation relying on the previous set-up with the Avro RJ aircraft. Especially in low visibility conditions, the RNP system has reduced diversions and cancellations, and the company expects further reductions in the coming year, when operating two Airbus aircraft, both equipped with RNP systems.

Despite this improvement, adverse weather and irregularities caused high costs in 2012. Weather caused some delays during early winter and severe delays in July.

During the Christmas peak season, the whole flight schedule was operated by Avro jets, which incurred 15 additional flights, higher operational costs (fuel and maintenance) as well as extra costs for airport access (see also Management review section).

Atlantic Airways is constantly seeking to improve regularity and access to the Faroe Islands to the benefit of passengers, airlines and the Faroe Islands as a whole. However, there will always be occurrences outside our control. On such occasions the airline has to meet considerable costs for passenger care in various European countries (nearest alternates to Vágar Airport are in Iceland, Scotland and Norway) and strict rules governed by EU regarding caretaking and compensation. Further, the company is also burdened by high airport charges at Vágar Airport for late or early landings and take-offs, when seeking to reestablish normal traffic and minimize the impact on society as much as possible. In 2012, the costs related to adverse weather, delays, cancellations and diversions were around DKK 11 million compared to DKK 8.8 million in 2011.

We therefore urge the Faroese government and the airport authority to find an improved form of regulation, in which all parts may share the burden from irregularity, instead of imposing unfair financial costs on the airline, when it is merely seeking to minimize delays caused by circumstances outside its control.

Lowering travel and airport charges

In general we find that the dialogue between Atlantic Airways and Vágar Airport is constructive and has found new common ground. The company values the airport's willingness to support new initiatives, whether these may be in the form of new destinations or special campaigns.

Atlantic Airways welcomes the Faroese government's initiative to lower passenger tax on international travel by 20%. As cheaper fares are placed high on the political wish list, the abolition of travel tax is a logical step to take towards this. Atlantic Airways has suggested that the government instead of decreasing the travel tax by 20% throughout the entire year, should seek to stimulate traffic during the difficult and unsustainable winter months by cancelling the travel tax completely during the season (winter) months from November to March.

On the other hand, Atlantic Airways finds it very cumbersome that Copenhagen Airport will increase charges by 4.5% in 2013. As recently as in November 2010 Copenhagen Airport chose to impose almost doubled passenger charges to the Faroe Islands.

The high increase in charges at Copenhagen Airport was noted by the chairman of the Danish Transport Commission in the report ”Redegørelse om dansk luftfart” on how to make Denmark more accessible, but so far the only reaction is to further increase the charges.

ICAO recommendation on transparency and meaningful consultation

The International Civil Aviation Organization (ICAO) recommends that airports be required to provide clear, transparent and meaningful consultation throughout administrative processes and the EU has enforced a regulation on this matter. Atlantic Airways recommends that the Faroese government implements the relevant standards, which apply in other countries, where ICAO rules (doc 9082) are followed.

Fleet development

Four fixed-wing aircraft were in service at year-end 2012. Three BAE Avro RJ aircraft and one Airbus A319 aircraft. Two of the Avro RJ aircraft are in the company's ownership and one is on lease, which expires in September 2013. The Airbus A319 is in the company's ownership and was delivered factory new in March. The average age of the Avro RJ fleet is 17 years.

In addition, the company has leased out one BAE 146-200 aircraft on an operating lease/purchase contract.

Aircraft fleet (as of December 31, 2012)

Fleet in service, excluding aircraft leased out	No.	Owned	Manufact.
A319	1	1	2012
Avro RJ 100/85	3	2	1993-1999
Bell 412	2	2	1993-1997
Expected delivery			
1 A319			June 2013 (lease in)
2 Avro RJ 85			Phase-out RJ85 - lease out (dry-lease) one in March 2013 and one in September 2013

Atlantic Airways has relied on the BAE/Avro aircraft set-up for its challenging operations since the airline's very first flight in 1988. In March 2012, the last BAE 146-200 was returned and replaced by the new Airbus A319. The Airbus entered into operational service on 28 March 2012, and has primarily served the main route between the Faroe Islands and Copenhagen, and in addition the weekly summer route between the Faroe Islands and Barcelona, as well as a weekly charter operation between Copenhagen and Greece.

The new Airbus aircraft has 144 seats available in comparison to 95 seats on the Avro RJ aircraft. The Airbus A319 aircraft is powered by the highest thrust engines available for the type from engine manufacturer CFM, has a Florence kit (enhanced breaking efficiency) fitted and was approved to fly RNP AR 0.1 approaches and take-offs (see also Management review section). Atlantic Airways has worked closely with Airbus subsidiary, Quo Vadis, on this project and has had a constructive cooperation with the Danish Civil Aviation Authorities.

The Airbus A319 fleet will be extended in 2013, as the company has signed a letter of intent to lease-in a second Airbus A319, which is expected to enter into service in June 2013. The aircraft will be based in Denmark and cover for charter contracts, as well as provide more Airbus A319 capacity on the company's scheduled routes.

In December 2012, the company signed a contract with Chilean airline carrier DAP to provide Avro RJ capacity. One Avro RJ is wet-leased to DAP during a period of three months, which will be subsequently converted to a dry-lease. Atlantic Airways has also agreed to provide DAP with further Avro RJ capacity later in 2013, when the company expects to phase-out further Avro RJ aircraft.

At year-end 2012, the helicopter fleet consisted of two Bell 412 helicopters. One is specially equipped for SAR operations and is primarily used for this, but can also be used for passenger transport. The other Bell 412 helicopter is primarily used for passenger transport and off-shore operations, but also serves as a backup helicopter for SAR operations. As part of the new four-year contract from January 2012 with the Faroese Ministry of Fishery and Ministry of Industry, both helicopters will be upgraded to a higher SAR standard.

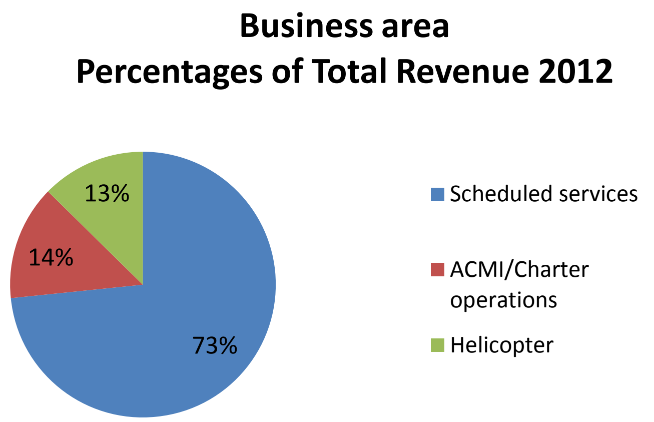
In 2012, an AW 139 helicopter was leased-in on a short-term arrangement to support Statoil's oil exploration in Faroese waters in 2012. This helicopter was redelivered in December 2012.

The total book value of the current aircraft and helicopters at year-end 2012 was DKK 303 million.

Financial Review

Financial statement, 1 October – 31 December 2012

Revenue
Total revenue in the fourth quarter of 2012 increased 18% to DKK 115.8 million, from DKK 98.4 million in the fourth quarter of 2011.



Revenue from scheduled services increased by DKK 3.3 million in the fourth quarter of 2012 compared with the fourth quarter of 2011. The increase mainly derived from an increase in the number of passengers and increased duty-free sales, while passenger yield and fuel surcharges were lower as well as income from freight and mail transportation.

Revenue from fixed-wing ACMI/charter operations increased by DKK 1.2 million in the fourth quarter of 2012, compared with the fourth quarter of 2011, due to increased ad hoc and other charter activity on behalf of tour operators, while demand for ACMI flights has been significantly lower. Within ACMI activity, the lessee has to bear a significant portion of direct costs, which usually means lower gross revenue.

Revenue from helicopter operations increased by DKK 12.9 million in the fourth quarter of 2012, compared with the fourth quarter of 2011, due to increased offshore activity and the newly formed contract to provide SAR operations and domestic transport to the most remote islands.

Flight expenses
Flight expenses increased by DKK 13.9 million in the fourth quarter of 2012, compared with the fourth quarter of 2011, mainly due to higher ad hoc and other charter activity and lower ACMI activity, as well as increased offshore helicopter activity.

Depreciation
Depreciation and impairment for the fourth quarter of 2012 was DKK 15.8 million, compared with DKK 12.0 million in the same period the previous year.

Financial items
Net financial items amounted to DKK -1.9 million in the fourth quarter of 2012, compared with DKK -0.3 million in the fourth quarter of 2011.

Financial performance
EBITDA was DKK 14.9 million in the fourth quarter of 2012, compared with DKK 12.4 million in the fourth quarter of 2011, an increase of 20%.

The result before tax in the fourth quarter of 2012 was DKK -2.7 million, compared with DKK 0.1 million in the fourth quarter of 2011.

The fourth quarter result after tax was DKK -2.2 million, compared with DKK 0.1 million in the fourth quarter of 2011.

Financial statement, 1 January – 31 December 2012

Revenue

Total revenue was DKK 501.3 million in 2012, compared with DKK 435.6 million in 2011, an increase of DKK 65.7 million or 15%.

Revenue from scheduled services increased by DKK 14.5 million in 2012, compared with the previous year, mainly due to an increase in passenger traffic and increased duty-free sales. However, income from fuel surcharges as well as freight and mail transportation decreased in the same period. Passenger yield was also lower in 2012, compared with 2011.

Revenue from fixed-wing ACMI/charter operations increased by DKK 18.0 million in 2012, compared with 2011. Demand for ACMI operations has decreased significantly, while demand for ad hoc flights and contracted flight for tour operators and group travel customers has increased. However, the total contribution from ACMI/charter operations decreased significantly in 2012, compared with 2011.

Income from helicopter operations increased by DKK 36.2 million in 2012, compared with the previous year, due to increased offshore activity, as well as higher service levels stemming from the new SAR contract. The total contribution from helicopter operations has also increased in 2012, compared with 2011.

Flight expenses

Flight expenses increased by DKK 50.3 million in 2012, compared with 2011. The increase is mainly arising from increased operational costs in the charter and helicopter segment.

The offshore helicopter activity for Statoil with an AW139 helicopter has impacted the operational cost in the helicopter segment.

The charter segment is impacted by a significant decrease in ACMI flights and an increase of other charter flights, compared with 2011. ACMI operations generate lower turnover as well as lower operating costs as the customer carries a large proportion of flight expenses, while other charter flights include all operational costs. Despite a decline in total number of hours flown in the charter segment, the change in proportion between ACMI and full charter has a significant impact on the overall operational cost in this segment.

Furthermore, higher fuel prices and the impact of the European Emission Trading Scheme have increased operational costs. In addition, higher cancellation and diversions costs, increased airport and route charges, increased handling costs, as well as increased passenger-related costs in connection with the increase in the number of scheduled passengers have impacted operational costs in regard to scheduled services.

Fuel is one of the main operating costs in aviation. In 2012, fuel costs accounted for 24% of the operational expenses, compared with 23% in 2011. The company’s fuel costs have increased by DKK 17.2 million in 2012, driven by higher fuel prices, increased ad hoc charter activity and the impact of the European Emissions Trading Scheme, in which aviation was included from January 1, 2012. Fuel expenditure has partly been offset by higher fuel surcharges, as well as fuel and currency hedging.

Employee costs

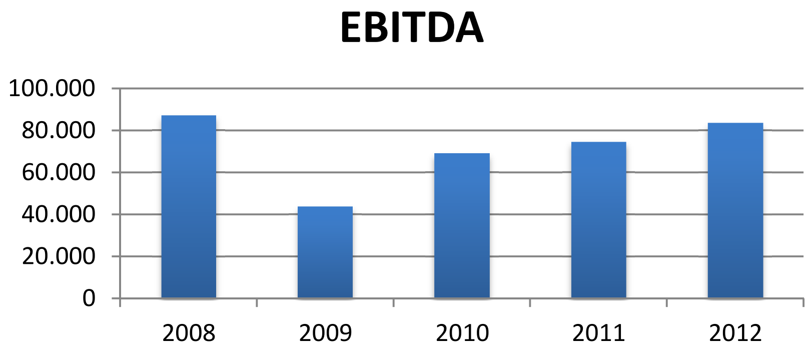
Employee costs amounted to DKK 96.9 million in 2012, compared with DKK 90.6 million the previous year. The number of full-time equivalent employees was 172 on average in 2012, compared with 166 in 2011. The increase in employee costs is partly due to temporary activity related to the phase-in of the new Airbus aircraft and the offshore helicopter operation.

Depreciations

Depreciation and impairment amounted to DKK 58.3 million in 2012, compared with DKK 43.1 million in 2011. The increase is mainly due to the fleet renewal with the new Airbus A319 aircraft and higher costs related to heavier maintenance checks and engine overhauls on the Avro RJ fleet.

Financial items

Net financial items amounted to DKK -8.0 million in 2012, compared with DKK -4.1 million the previous year.

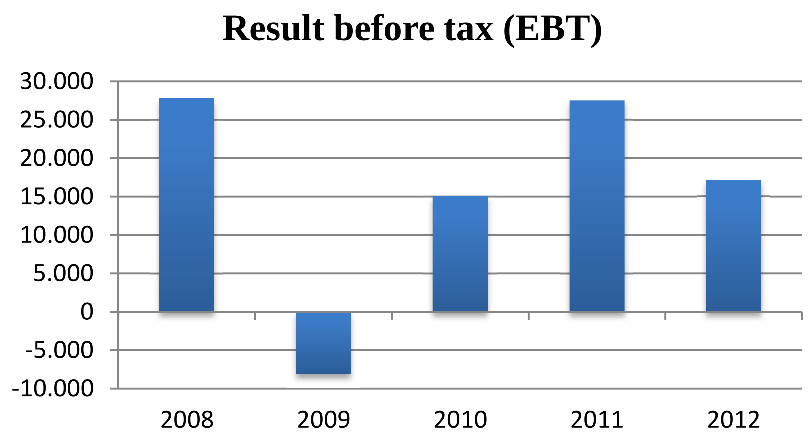


Financial performance
EBITDA was DKK 83.4 million in 2012 compared to 74.4 million in 2011, an increase of 12%.

The result before tax was a profit of DKK 17.1 million in 2012, compared with DKK 27.5 million in 2011.

The result after tax for the year was DKK 14.0 million, compared with DKK 22.5 million in 2011.

Return on equity before tax was 7%, compared with 12% in 2011.



Balance sheet

Assets
Total non-current assets increased by DKK 129 million to DKK 370 million at year-end 2012, mainly owing to the delivery of the new Airbus A319 aircraft.

At year-end 2012 total current assets decreased by DKK 11 million in 2012 to DKK 130 million, compared with DKK 141 million at year-end 2011.

Available cash and cash equivalents at year-end 2012 was DKK 97 million compared to DKK 99 million the previous year.

Equity
Total equity as of 31 December 2012 was DKK 247 million, resulting in an equity ratio of 49% compared to 65% at the year-end 2011.

Liabilities
The company's total liabilities as of 31 December 2012 were DKK 253 million, compared with 133 million at the end of 2011. At year-end 2012 total non-current liabilities were DKK 165 million, compared with DKK 64 million at year-end 2011. The increase in liabilities in 2012 mainly derives from the financing of the Airbus A319.

Balance sheet
The balance sheet total as of 31 December 2012 was DKK 500 million, which is DKK 118 million higher than at the end of 2011.

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 has concluded, that there on the reporting date are no factors that give rise to doubts, whether the company can and will continue operations until at least the next balance sheet date. The conclusion is made on the basis of knowledge of the company, the estimated outlook and the identified uncertainties and risks related thereto (mentioned in the section “Risk Management” and note 38) and, after examining budgets, including expected cash flow trends and developments in the capital base, etc., and existing credit facilities with associated contractual and expected payment periods and conditions in general. It is thus reasonable, objective and justified to use the going concern assumption in connection with the financial reporting.

Allocation of profit/loss

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

Events after the End of the Financial Year

Kaj Johannesen has been appointed as Chairman of the Board and Jens Willumsen as Deputy Chairman of the Board from 1 January, 2013 and until the General Meeting on the 8 March, 2013. Bjarni Askham Bjarnason has been appointed as the permanent secretary of the Ministry of Finance in the Faroe Islands and will resign from his position as Board member in Atlantic Airways. He remains on the board until the next General Meeting.

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

Outlook for 2013

Aviation industry

The European aviation environment is likely to remain very competitive and challenging in 2013. According to the International Air Transport Association (IATA), the growth rate in the European aviation travel market is expected to be slightly lower in 2013, compared with 2012, both in terms of traffic and capacity. The expected growth in traffic is estimated to amount to 2.2% in 2013, compared with 2.8% in 2012 and 6.7% in 2011. Similarly, the expected growth in capacity is estimated to amount to 2.1% in 2013, compared with 2.6% in 2012 and 8.5% in 2011.

A certain amount of optimism is expressed within the aviation environment in Europe as several airline carriers have not been able to remain in operation, and the number of start-up airlines is moderate. The focus on the financial crisis in Europe has also slightly eased up, especially in the Northern European region. However, IATA estimates the EBIT margin for the group of European commercial airlines to reach 0.6% in 2013, which is unchanged compared with 2012. There has been a tendency towards increased demand for travel services, however, the fuel price has increased during 2012 and even more in the first month of 2013, which will undoubtedly continue to put pressure on the economic climate in general, and very much so on airline operations. The Emission Trading Scheme (ETS) and EU passenger right article contributes further to the challenges that the aviation industry has to meet.

Market conditions

Atlantic Airways expects to reap more benefits from its Airbus operations in 2013, as the aircraft will operate throughout the entire year in comparison to only the last nine months of 2012. In addition, the company expects to obtain operational gains stemming from optimization of supply and sales in order to support a higher load factor and level of income as well as avoid significant one-off costs in comparison to 2012.

The unit cost is expected to be further reduced, when the second Airbus will enter into service in June 2013, servicing both the scheduled network and charter flights out of Denmark. However, the full impact of introducing the second Airbus will be more significant in 2014, when both Airbus aircraft will be in service for the full year.

In parallel with introducing more Airbus capacity, the Avro RJ capacity is likely to be reduced with two units. One of these aircraft has already been relocated to Chilean airline carrier DAP, and will not return to operations in Europe. The second aircraft is scheduled to be phased out in the autumn of 2013. The new mix of capacity reduces the financial impact of low-utilized Avro RJ capacity, and supports lower unit costs through a significantly higher utilization of Airbus capacity. The second Airbus aircraft is expected to increase capital costs, although a certain amount of this will be offset by reduced capital costs tied to the phased-out Avro RJ aircraft.

Scheduled services

Supply of seats on the scheduled flights to and from the Faroe Islands is expected to increase by approximately 5%, and expected growth in passenger numbers by 4%, resulting in a marginally lower load factor. A new summer service route to Milano in Italy will be introduced, and the summer service to Barcelona will be extended – both initiatives have already been well received. In addition, there will be some adjustment in capacity to other routes corresponding to market demand.

A revised and more liberal price concept introduced in 2012 has supported demand for the company’s flights, and together with a more aggressive marketing campaign targeting mainly the leisure segment as well as visiting-friends-and-relatives segments, these efforts are likely to have a further impact in 2013, as the airline will launch further initiatives to offer competitive travel opportunities.

In spite of a tendency towards decreasing population numbers in Faroe Islands and consolidation of main industrial entities within the fishing industry, the business segment is likely to remain stable in terms of travel volumes, as a growing number of the Faroese work force is employed outside the Faroe Islands.

Tourism has increased slowly in the past, but the company expects a positive level of momentum for increased growth in the near future. Our expectations are not only founded upon the growing awareness of the Faroe Islands as a destination along with its unspoiled environment and nature, but are also based on the consensus within the political environment to invest in the future development of tourism. The Visit Faroe Islands organization has been reconstructed and has been allocated with a budget increase of DKK 8 million, and is expected to be in a largely improved position to support the development of tourism in the coming years. Atlantic Airways will participate actively in these efforts with new routes, improved distribution and more aggressive sales and marketing efforts.

A significant uncertainty during 2013 and 2014 is the on-going construction work at Vágar Airport. The demise of existing support facilities including vital parts of the terminal, cargo and tax-free stores causes disruptions to the normal flow of operations. This unfortunately limits the room for further operations in the peak season until a new terminal with adjacent facilities will be in service around 2014.

Smyril Line still remains the major competition in regard to travels to the Faroe Islands until a new initiative is launched.

Charter operations

From the beginning of 2013 one Avro RJ aircraft has been placed on a wet-lease with airline carrier, DAP, in Chile. Other surplus capacity has been allocated to ski-charters out of Denmark and ad hoc charter operations.

The volume of charter flights is expected to increase significantly, when the second Airbus will be introduced by the end of June, as this Airbus aircraft will serve tour operations in Denmark as well as scheduled services to the Faroe Islands. The Airbus aircraft is contracted to serve tour operations throughout the year, but is less utilized during the winter season, as there is less demand for scheduled and charter operations during the low season. The aircraft will be based in Denmark where the company already has operational and commercial facilities.

The 112-seater Avro RJ 100 will also replicate a substantial part of the tour operations out of Denmark during the summer 2013, as was the case in 2012. However, the company aims to reduce its Avro RJ 85 capacity by one unit.

In order to further widen the scope for diversified contract work, the company has initiated a process to gain an IOSA rating and the expected inclusion in the European Common Aviation Area (ECAA) will support this strategy – however, this decision is still pending**.**

Helicopter operations

The helicopter operations have been very successful in 2012, and the company sees potential for future development in this segment. For the time being, the operations will be based on existing longer-term contracts with the government relating to SAR and domestic services, as well as shorter-term and ad hoc flights. The company maintains its capability to operate the AW 139 helicopter and will assess the need for future fleet development in 2013, in relation to activity perceived in the field of SAR operations, domestic services and offshore services.

Financial forecast

Traffic from Europe is expected to grow in moderate numbers, around 2%. The estimated economic growth in the Faroe Islands in 2013 is likewise moderate. The Faroese financial sector has stabilized, salmon farming and pelagic fisheries have performed well, yet other sectors within the fishing industry are struggling. The new, lowered Faroese tax structure implemented in 2012 may stimulate air traffic positively, as well as the fact that a growing number of Faroese people are employed overseas. Together with the company’s initiatives in the form of an increased supply, a more aggressive price structure, new products and marketing campaigns in foreign markets, we are confident that traffic on scheduled networks will increase.

The activity in the charter segment is expected to change as the second Airbus, to a large degree, will operate within the charter segment with a higher utilization than previously seen for the Avro RJ. This development in utilization is also expected to support a more efficient service to the Faroe Islands during the peak season as well as lower unit costs. Furthermore, the helicopter segment is not likely to contribute in as large an extent as in 2012, as the company currently only expects to operate two helicopters in the Faroe Islands. Atlantic Airways is in a good position to capitalize from its investments in its new Airbus aircraft as well as from the new airport infrastructure, although this improved infrastructure also opens up for possible competition in the future.

On this background, we expect an increase in the full-year result in 2013, compared with 2012, yet fuel prices, adverse weather and possible competition may have a negative impact on the result. Other risk factors mentioned in the section ‘Risk management’ may similarly affect the financial performance.

Ownership

Stock exchange
Atlantic Airways maintains a dual listing on the NASDAQ OMX stock exchanges in Iceland and Copenhagen. A market-making agreement for both stock exchanges is in place.

Share capital
Atlantic Airways' share capital remained unchanged at DKK 103,500,000. The share capital consists of one class of shares distributed over 1,035,000 shares, each with one vote per share. At year-end 2012 the share price was DKK 121 and the total market value of the company amounted to DKK 125 million. At the beginning of 2012, the share price was DKK 100 and the market value DKK 104 million. Hence, market value increased by DKK 22 million, or 21%, during 2012. The turnover of shares in the company is relatively low, but has increased in 2012, compared with 2011. On 11 February 2013 the share price was DKK 125 and the market value DKK 129 million, which is 48% less than the equity value of the company.

Ownership

Shareholders	Number of shares	Share capital %	Votes %
Vinnumálaráðið (Føroya Landsstýri)	693.450	67,0	67,7
Sp/f 07.12.2007	58.269	5,6	5,7
Other registered shareholders	264.133	25,5	25,8
Non-registered shareholders	8.037	0,8	0,8
Total (Excluding own shares)	**1.023.889**	**98,9**	**100,0**
Own shares	11.111	1,1	0,0
Total	**1.035.000**	**100,0**	**100,0**

Shareholders
Atlantic Airways' large shareholders, cf. the Companies Act, are: The Ministry for Industry of the Faroe Islands, and Sp/f 07.12.2007. These shareholders each own more than 5% of the company's shares. The holding of the Ministry for Industry of the Faroe Islands amounted to 67% on 11 February 2013. The total number of registred shareholders as at 7 February 2013 was 1,084.

Shareholder policy
Atlantic Airways's main objective is to look after the long-term interest of our owners – the shareholders. We aim to run a sustainable business and deliver a fair return on investment to our shareholders.

We seek to achieve an ongoing, accessible and cooperative dialogue with our shareholders, and engage with our major shareholders in person at least once a year in order to obtain their views and opinions on the company. It is vital for Atlantic Airways to continously focus our business in line with the best interests of our shareholders and ensure adequate transparency in our operations.

Return on investment and dividend policy
It is the policy of Atlantic Airways that the shareholders should receive a return on investment through share price increase and dividends, that exceed a risk-free investment in bonds.

It is the dividend policy of Atlantic Airways to aim for an annual dividend corresponding to approximately 20-35% of annual net profit – with due consideration to necessary consolidation of equity, investment requirements, sufficient financial and liquidity position, and return on equity requirements. The company aims to achieve a return on equity after tax of at least 7%.

The Board of Directors regularly assessess the company's capital and share structures and, as a consequence of the company's investment requirements, aims for a solvency ratio of 35-55%.

The Board of Directors considers that the company's capital and share structures is and continue to be in the interest of the shareholders and the company. The share price increased 21% in 2012 and the shareholders received a dividend of DKK 6.76 per share in 2012, corresponding to 7% of the share capital.

Dividend

In 2012, a dividend of DKK 7.0 million was distributed to Atlantic Airways' shareholders. The board of directors proposes for approval at the Annual General Meeting in March 2013 in line with the dividend policy that a dividend of DKK 4 million will be distributed to the shareholders, corresponding to DKK 3.86473 per share

Corporate Governance

This section represents Atlantic Airways' 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 2012. The section in this report on corporate governance is not comprised by the auditor's statement on the management's review in Atlantic Airways' Annual Report 2012. The section on the Internal Control and Risk Management relating to financial reporting and the Board of Directors are comprised by the auditors statement on the management's review included in the annual report.

The company follows the Icelandic Guidelines on Corporate Governance issued in December 2012 in accordance with the Rules for issuers of financial instruments issued by NASDAQ OMX Iceland in December 2009.

In areas where Atlantic Airways may departure from the Icelandic Guidelines, these areas and subsequent explanations are stated under the heading 'Departures from the Icelandic Guidelines on Corporate Governance' below.

The Icelandic Guidelines can be found on the website www.nasdaqomx.com under the 'Listing' menu.

According to the Rules for issuers of shares on NASDAQ OMX Copenhagen, issued in October 2011, the company is not subject to the corresponding Danish Recommendations on Corporate Governance, issued in August 2011. However, Atlantic Airways has nonetheless also chosen to follow the Danish Recommendations on Corporate Governance and comply with the recommendations where possible. A comprehensible table overview of the company's compliance with the Danish Recommendations, as well as explanations of departures, is provided on the company's website www.atlantic.fo under Investor Relations.

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 and statutory provisions, 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 and the public.

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. Through assisting in goal and policy setting, assessing risks pertinent to the company as well as ensure legal compliance with company and stock exchange regulations, the Board seeks to ensure proper conduct in all aspects of the company's management. The Board seeks to promote the long term development of the company and endeavors to keep the organization and operations consistent with the company's mission and strategy.

The Board of Directors consists of 6 members, of which the 2 represent, and are elected by, employees. Election of board members among the staff is conducted in accordance to relevant legislation. The 4 board members, who are independent of the company and large shareholders, are elected at the Annual General Meeting. At least 2 board members must be independent of major shareholders representing more than 10% of the total share capital.

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 is not only the relevant skills and competencies of various members, but also that the Board of Directors represents a diversity of relevant skills and knowledge.

The Chairman of the Board of Directors is not legally required to perform other duties than the other members of the Board, apart from ensuring that Board meeting are held when necessary and that all members are summoned. 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 acting as external spokesperson.

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

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

Further information can be found in the Board of Director's written rules of procedure, which can be found on the company's website, under the 'Investor relations' menu.

The Board of Directors has held 9 meetings during 2012. Attendance by each individual board member is illustrated in the table on page 32.

Attendance in board meetings 2012	No. of meetings	Attendance
Bjarni A. Bjarnason, Chairman (Chairman until 31 December 2012)	9	9
Kaj Johannesen, Deputy chairman (Chairman from 1 January 2013)	9	9
Jens Wittrup Willumsen (Deputy chairman from 1 January 2013)	9	9
Tezz Tordsdotter Ohlsson	9	9
Ingi S. Joensen	9	9
Olaf S. Poulsen	9	9

Board of Directors

Bjarni A. Bjarnason, Chairman of the Board (Until 31 December 2012)

Member of the Control Committee 2009-2011
Born: 30 November 1966
Address: Marknalíð 19, FO-100 Tórshavn, Faroe Islands
Joined the Board: April 2009
Special skills: Business Development, Governmental matters
Chief Occupation: Permanent Secretary for Ministry of Finance
Experience: Independent advisor 2012. CEO of Vodafone FO (Kall pf.) 2000-2011. From 1998-2000 Head of Office in Ministry of Trade, advisor in Ministry of Trade 1997-1998 and advisor in Ministry of Finance 1995-1997. He was board member of P/F. Vágatunnilin 2003-2005 and P/F. Norðoyatunnilin 2003-2009 and Chairman of the Board of P/F. Vágatunnilin 2005-2009
Other board duties: Board member of GreeSteam Sp/f
Education: Mr. Bjarnason has a MSc in Economics and Business Administration from Aarhus School of Business, Aarhus University, specializing in Public Adminstration
Shares: Mr. Bjarnason neither has shares nor shares options in the Company. Unchanged in 2012
Interest links: Mr. Bjarnason has no interest links with the Company's main shareholders, customers or competitors

Board of Directors

Kaj Johannesen, Deputy Chairman of the Board (Chairman from 1 January 2013)

Chairman of the Nomination Committee as of 1 January 2013
Currently in charge of the activities required on an Audit Committee
Born: 8 November 1960
Address: Inni á Fløtum 13, FO-180 Kaldbak, Faroe Islands
Joined the Board: April 2009
Special skills: Expertise in financial and accounting matters
Chief Occupation: Advisor in the Ministry of the Interior
Experience: Mr. Johannesen has been Advisor in the Ministry of the Interior since 2008. Senior Bank clerk in Føroya Banki (Bank Nordik) 2000-2008. Member of the chairmanship of the Faroese Council of Economic Advisers 2006-2009. Economist at Landsbanki Føroya 1993-2000 and Managing Director of Menningargrunnur Ídnaðarins 1990-1993. Examinator in economics at the Faroese University (Fróðskaparsetur Føroya) since 2001. Examinator in management accounting at the Faroese Business Collage since 2009.
Other board duties: Currently a board member of the Faroese Tax Tribunal
Education: Mr. Johannesen has a MSc in Economics and Business Administration from Copenhagen Business School 1990, specializing in Financing, International Business and Management Accounting
Shares: Mr. Johannesen neither has shares nor shares options in the Company. Unchanged in 2012
Interest links: Mr. Johannesen has no interest links with the Company's main shareholders, customers or competitors

Jens Wittrup Willumsen, Member of the Board (Deputy Chairman from 1 January 2013)

Member of the Control Committee 2009-2011
Born: 6 December 1960
Address: Østerskov krat 3, Dk-2950 Vedbæk, Denmark
Joined the Board: April 2009
Special skills: Extensive experience in the Airline, Tourism and media industries. Expertise in Marketing and sales, Branding, Change Management, market research and international business
Chief Occupation: Independent Venture Investor & Professional non-executive board member in several companies and organizations
Experience: Mr. Willumsen was Deputy CEO and Senior Vice President Commercial of Scandinavian Airlines Denmark A/S 2004-2006 and Senior Vice President Marketing, Product Management and Distribution at SAS 2001-2004. Managing director of Mediacom 1996-2000. Managing director of AC Nielsen AIM 2000-2001. Mr. Willumsen held several positions within SAS 1986-1996
Other board duties: Chairman of Air Greenland A/S, Mediehuset Ingeniøren A/S, Index: Design to improve life, Visit Denmark and Aqualife A/S (NASDAQ OMX). Board member of SKAKO A/S (NASDAX OMX), Charlotte Sparre A/S, Dansk Danse Teater and Copenhagen Wine A/S
Education: Mr. Willumsen has a MSc in Economics and Business Administration from Copenhagen Business School 1986, specializing in Marketing, Strategic planning and International Business
Shares: Mr. Willumsen neither has shares nor shares options in the Company. Unchanged in 2012
Interest links: Mr. Willumsen has no interest links with the Company's main shareholders, customers or competitors

Tezz Tordsdotter Ohlsson, Member of the Board

Member of the Nomination Committee
Born: 13 October 1967
Address: Fågelvägen 9, 755 91 Uppsala, Sweden
Joined the Board: March 2010
Special skills: Specialist Yield Management, Revenue Analysis, Marketing Strategy, New Business Development, Experience within Airline
Chief Occupation: CEO of Svenska Direktflyg AB, Direktflyg NUF og Direktflyg AS
Experience: Miss Ohlsson has been CEO of Svenska Direktflyg AB since 2006. Business Developer at Largus Holding AB 2006. V.P. Marketing & sales of Svenska Direktflyg AB 2002-2006, V.P Yield Management Revenue & Space Control of Skyways Express AB 1999-2002 and Station Manager ARN of Skyways Express AB 1995-1998
*Other board duties:*Board member of Flygtorget AB 2012
*Education:*Professional Board Work at Michaël Berglund Board Value 2012
Shares: Miss Ohlsson neither has shares nor shares options in the Company. Unchanged in 2012
Interest links: Miss Ohlsson has no interest links with the Company's main shareholder, customers or competitors

Board of Directors

Ingi S. Joensen, Member of the Board

Member of the Nomination Committee
Born: 29 December 1980
Address: Fjósagøta 16A, FO-100 Tórshavn, Faroe Islands
Joined the Board: September 2006 (Elected by the Employees)
Special skills: Employee of Atlantic Airways
Chief Occupation: Head of Tax-free department of Atlantic Airways
Experience: Employee of Atlantic Airways since 2004
Other board duties: Currently CEO of Sp/f Sam and board member of Sp/f Plys
Education: Bank training
Shares: Mr. Joensen and his related parties hold 197 shares (Nominal value DKK 19,700) in the Company, but he holds no share options. Unchanged in 2012
Interest links: Mr. Joensen has no interest links with the Company's main shareholders, customers or competitors

Olaf S. Poulsen, Member of the Board

Born: 28 August 1967
Address: Viðargøta 36, FO-160 Argir, Faroe Islands
Joined the Board: October 2010 (Elected by the Employees)
Special skills: Employee of Atlantic Airways
Chief Occupation: Captain at Atlantic Airways
Experience: Employee of Atlantic Airways since 19 April 1997
Other board duties: None
Education: Air Line Transport Pilot, Type Rated Instructor and Type Rated Examiner
Shares: Mr. Poulsen and his related parties hold 383 shares (Nominal value DKK 38,300) in the Company, but he holds no share options. Unchanged in 2012
Interest links: Mr. Poulsen has no interest links with the Company's main shareholders, customers or competitors

Audit Committee

The Board has not formed a separate Audit Committee. The Boards does not find it necessary to establish an actual Audit Committee, considering the company's size and organizational structure. The Board of Directors decided at a board meeting in March 2010, that the Board in accordance with § 29 in The Faroese auditing law executes the activity of the Audit Committee.

Nomination Committee

At the 2012 Annual General Meeting a formation of a Nomination Committee were approved. The committee was given the task of preparing proposals for board members, chairman and remuneration for these for the next Annual General Meeting. Atlantic Airways has on the 14th of December 2012 established a Nomination Committee comprised of the Chairman of the Board and two board members. The committee has a mandate to propose candidates to the Board of Directors, who then will decide on the final nomination, proposed by the Board of Directors for election at the General Meeting. The Nomination Committee considers once a year the skills it must have to best perform its tasks and takes this into consideration when preparing proposals for new candidates to the Board of Directors. Furthermore, the Nomination Committee evaluates the remuneration policy and the remuneration of the Board and Management. The Committee's written rules of procedures can be found on the company's website, under the 'governance' menu.

The Nomination Committee did not have any activity in 2012.

Executive Management

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

Magni Arge has been the CEO of Atlantic Airways since 1995 (see further details in box below). 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 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. Furthermore, Magni Arge has been the Accountable Manager for the airline since 1995 and as such has the ultimate responsibility to maintain and fund the operation-wide quality system, which ensures all operational and technical activities comply with the standards and requirements set by the aviation authorities and the company itself.

Magni Arge, CEO

Member of the Control Committee 2009-2011
Born: 15 December 1959
Address: Borgartún 2, FO-160 Argir, Faroe Islands
Experience: Mr. Arge has been CEO of Atlantic Airways since June 1995. He has previously worked in both media and business sector in Faroe Islands.
Other board duties: Currently a board member of Føroya Arbeiðsgevarafelag, Faroe Island Tourist Board, Danish Airlines Association, Green Gate Incoming P/F, Útferðir P/F and Chairman of the board of Eurest Føroyar P/F and Faroe Oil Industry Association.
Education: Mr. Arge is educated in Political Science, Faroese/Nordic Language and literature, and Journalism
Shares: Mr. Arge and his related parties hold 5,747 shares (Nominal value DKK 574,700) in the Company, but he holds no share options. Unchanged in 2012
Interest links: Mr. Arge has no interest links with the Company's main shareholders, customers or competitors

Marius Davidsen, CFO

Born: 31 July 1958
Address: Í Fornanum 3, FO-380 Sørvágur, Faroe Islands
Experience: Mr. Davidsen has been CFO of Atlantic Airways since January 2005. Mr. Davidsen has been involved with Atlantic Airways since it commenced operations in 1987/88. Financial manager since 1988 and deputy for the CEO since June 1993
Other board duties: None
Education: Mr. Davidsen is educated from Business School in Tórshavn
Shares: Mr. Davidsen and his related parties hold 1,450 shares (Nominal value DKK 145,000) in the Company, but he holds no share options. Unchanged in 2012
Interest links: Mr. Davidsen has no interest links with the Company's main shareholders, customers or competitors

Joen Remmer, COO

Born: 24 February 1973
Address: Ovarivegur 29, FO-335Leynar, Faroe Islands
Experience: Mr. Remmer has been COO of Atlantic Airways since November 2012. Furthermore, Mr. Remmer has a position as Quality Manager and Captain at Atlantic Airways. Mr. Remmer has previously worked with management consulting (Ernst & Young and Capgemeni) and quality management in an MRO (ST Aerospace)
Other board duties: None
Education: Mr. Remmer has a B.Sc. in export engineering and holds an ATPL certificate and is educated as airline captain
Shares: Mr. Remmer and his related parties neither have shares nor share options in the Company. Unchanged in 2012
Interest links: Mr. Remmer has no interest links with the Company's main shareholders, customers or competitors

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Marius Davidsen has acted as the company's CFO since 2005, and is in charge of finance, administration, IT, HR in co-operation with the CEO.

Joen Remmer has acted as the company's COO since November 2012, and is in charge of the operations in co-operation with the CEO.

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 fulfill 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. Nomination Committee holds no 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 and efforts of the board members, the activity of the company, the scope of the work load and the number of board meetings.

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

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

Remuneration of Executive Management may be comprised of fixed pay, value-based bonus and pension. The total level for the non-variable elements in the remuneration is established in consideration of market level, as e.g. the company's size and course of development are taken under consideration.

Members of Executive Management receive defined contribution plans. Variable remuneration to members of Executive Management is fixed specifically in consideration of their goal achievement herein.

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 regards the presentation of accounts, and regularly informs the Board on this matter.

The Board of Directors annually, and when it deems 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.

External Auditing

To protect the interests of shareholders and the general public, an authorized accountant is appointed at each Annual General Meeting. The auditor examines the company's annual accounts, in accordance with generally accepted accounting standards, and has access to all the books and documents needed for this work. The auditor presents the Board with an audit report twice a year, as well as immediately after such events having taken place that the Board should be aware of. The auditor participates in the board meeting in connection with the delivery of audit reports. Before a recommendation on election of an auditor is made, the Board along with the Executive Management assesses the auditor's independence and capabilities etc.

Insider information and investor relations

A Compliance Officer and a deputy are appointed to monitor adherence to the company's internal rules, and the obligation to make relevant information public to the stock exchange. The officer also sees to that the handling of inside information and securities trading by insiders are in accordance with regulations.

Notifications to the stock exchange are in English, which is the main language of the airline industry.

Communications between shareholders and the Board of Directors

As a listed company Atlantic Airways is obliged to ensure that everybody gains equal access to important information about the company that may impact significantly on the price of the Atlantic Airways share. Such information is disclosed through NASDAQ OMX Iceland and NASDAQ OMX Copenhagen as company announcements. The company issues all stock exchange announcements in English only, which is considered a language that reaches and addresses the vast majority of the company's stakeholders. This is to a large extent done for practical and cost reasons.

The Board strives to maintain an open, current and receptive communication with shareholders in order to ensure that the best interests of the shareholders are guarded and reflected in the company's considerations and operations.

The most direct channel for shareholder communication occurs at the Annual General Meeting, in which shareholders have the opportunity to raise questions, proposals or critique towards the Board and the company.

Additionally, it is the company's aim to have at least one meeting each year with shareholders and possible future shareholders.

Further information about the Corporate Governance rules of Atlantic Airways is available on the company's website, www.atlantic.fo.

Core Values

Atlantic Airways conducts its operations with an ongoing focus on five vital elements that constitute the core of our values and focus. This encompasses focus on:

- **Safety & Quality** - is fundamental to aviation culture and business
- **Punctuality –** we deliver on time and minimize effects of external interruptions
- **Customer –** we provide our customers with reliable, respectful and caring services and fair prices
- **Profitability –** we run a sustainable business and deliver a fair return on investment to our shareholders
- **Staff –** our employees are well trained, professional and provide customer care with pride and confidence

The five elements act as points of orientation for the company, and we strive to ensure that these elements are reflected in our daily operations and ongoing direction.

Code of Ethics

Atlantic Airways places a top priority on conducting all of our operations in line with ethical and human responsibility. This includes high ethical standards in our daily activities, financial operations and safety profile in all aspects of our flight operations.

As reflected in our core values it is fundamental to us as an airline to place utmost focus on safety, quality and responsibility in all our activities.

The company's ethical and social responsibility is furthermore enacted through our conscious role as an active and responsible corporate citizen in the Faroese community. We further elaborate on this role in the section 'Corporate Social Responsibility'.

Atlantic Airways' employees operate with both formal rules, concerning inside information, and informal guidelines, concerning our core culture, to ensure that our company is always led with proper and responsible conduct, paying due attention to both legal requirements and ethical standards set by the company. The company's insider rules are set out below, while our core culture is outlined above.

Our focus on ethical responsibility and our values are also reflected in the company's stakeholder policy and communication policy, which are published on the company website www.atlantic.fo. Atlantic Airways' communication with stakeholders seeks to address the interests and information needs of relevant stakeholders, published in accordance with applicable rules and regulations, and ensure alignment of the company's strategic focus with the best interests of our shareholders.

These elements comprise Atlantic Airways' approach to conduct our business in an ethically responsible manner, which places human responsibility and precaution at the forefront. We believe such an approach enables the company in the long term to run a more sustainable, trustworthy and responsible business, preferably translating into higher value for all our stakeholders, and increased transparency for our shareholders.

Insider rules

In order to prevent any misuse of insider information and to track all affiliated parties according to their insider connection, the company has developed its own set of "Rules on the handling of inside information and insider trading". This set of rules is set out to ensure proper legal and ethical conduct with inside information by all affiliated parties, and prevent any misuse, which may not be in the company or shareholders' interests.

Furthermore, the company follows specific rules of procedure for its Board of Directors and incorporates relevant policies for the Board and management regarding e.g. procedures for remuneration. Continuous dialogue with and reporting to the Board by executive management additionally ensures a thorough monitoring and alignment of company interests and control. Further details on the company's corporate governance are elaborated throughout this corporate governance statement.

A systematic and careful internal outline of procedure is likewise in place for company information that is to be communicated to third parties as well as for handling confidential information. All material and/or confidential matters adhere to strict company conduct as well as relevant NASDAQ OMX Iceland and Copenhagen stock exchange rules for issuers.

Corporate Social Responsibility policy

Atlantic Airways views it important that the company's CSR approach and activities make sense for both our business and for society. The company's approach to corporate social responsibility (CSR) and related activities may be defined in terms of three key areas, with a number of issues related to each key area:

- **Business operations** including health & safety, environment and safety / compliance management
- **Workplace** including employee satisfaction and well-being, education and competence development
- **Community** including stakeholder engagement, sponsorships and donations

The company plans to further structure and develop our work within CSR over the next year.

Further elaboration of Atlantic Airways' focus on corporate social responsibility can be found in the section 'Corporate Social Responsibility' of the annual report.

Deviations from the Icelandic Guidelines on Corporate Governance

Atlantic Airways is in compliance with the Icelandic Guidelines on Corporate Governance with the following exceptions:

- Regarding the annual general meeting, the company does not currently provide an Icelandic summary of the main points of the agenda, but expects that a summary in Faroese will fulfill the obligation.
- Regarding information on candidates for the Board of Directors, the suggested information in the Guidelines, is not posted on the company website two days before the Annual General Meeting. Currently there is a difference between the Articles of Association of the company and this recommendation. According to the Articles of Association, there is no time limit before the general meeting to nominate candidates to the Board of Directors. The Nomination Committee has a mandate to propose candidates to the Board of Directors, who will then decide on the final nomination proposed by the Board of Directors to the General Meeting of candidates for the Board.
- The notice of the Annual General Meeting does not contain the suggested information about candidates proposed by the Board of Directors due to the fact that the Nomination Committee started its activity in 2013. The notice of the Annual General Meeting in 2014 will contain the suggested information about candidates, proposed by the Board of Directors.
- Regarding the Board’s rules of working procedures, the current version does not include details on procedures for annual performance assessments.
- Regarding annual performance assessment of the Board itself, its activities and practices, and of the CEO. A formal evaluation of the Board’s performance has been made in 2012 and the outcome has been discussed in a Board meeting. The detail of the procedure of the self-evaluation and the outcome has not been disclosed.
- Regarding the Audit Committee, the Board of Directors decided at a board meeting in March 2010, that the Board in accordance with §29 in the Faroese auditing law executes the activity of the Audit Committee and the Board has therefore not formed a separate Audit Committee.
- Regarding internal audit, the Board of Directors has decided not to establish an internal audit due to the company’s size and organizational structure. This issue will be evaluated once every year.
- Regarding other sub-committees, the Board of Directors has not found it necessary to establish a Remuneration Committee, as these activities and tasks are undertaken by the Nomination Committee, which was established for the first time on the 14th of December 2012. The Board of Directors is responsible for the tasks of such a committee through its ongoing activities and duties, but the Board will continuously assess the need for a separate sub-committee.
- Regarding the remuneration policy, pension and retirement agreements are not deemed vital to disclose at the current time, and these agreements are furthermore not considered to differ significantly from other similar programs.
- Regarding possible repayment of performance-linked payments, currently no such right for reclaiming remuneration has been developed or included in the company’s remuneration policy. However, the company expects to incorporate such a right in the remuneration policy.

Risk management

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

General and specific risks

The profit and loss account can be affected by the economic conditions in the Faroese and international markets. In addition, the profit and loss account and the balance sheet can be affected by increased competition, changes in oil prices, demand for airline travel, the general level of cost, the weather, 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.

In order to counteract the volatile Faroese economy the company continues to work towards diversifying its economic base. In 2012, 50% of the company's revenues were from abroad and 50% domestic. Furthermore, revenues are also divided among the main business areas: scheduled services, charter operations, and helicopter operations.

In the longer term the company aims to diversify its portfolio of charter and ACMI outside Faroe Islands to diminish risk with dominant costumer, segment or geographical markets.

Fuel price and the European Emissions Trading Scheme

As an essential and highly consumable resource in our operations, fuel is a material cost to the company. The volatility in the jet fuel price can significantly impact fuel costs and the operating results. Jet fuel costs represented around 23% of the operating expenses in 2012, and fuel is settled in USD. Historically, there have been significant changes in fuel prices, and part of the fuel price increases are being recouped by levying surcharges on passengers.

To minimize the risk of fuel price volatility, and subsequent impacts on the company's expenses, the management is permitted to hedge up to 60% of the yearly estimated fuel consumption on scheduled services and up to 100% of fuel consumption on contracted charter flights. 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. The company has hedged approximately 42% of estimated fuel consumption in 2013 against price changes. At the end of 2012, approximately 41% of the year's total fuel consumption was hedged.

From 2012 aircraft operators who fly to and from, and within EU countries, Norway and Iceland were included in the European Emission Trading Scheme ETS. In November 2012, the European Commission proposed a temporary derogation from the CO2 directive, whereby flights to and from Europe and EFTA states can be excluded in the ETS. Flights between EU/EFTA and Faroe Islands will be considered intra-European flights in this respect. In connection with the European Emission Trading Scheme ETS, it is necessary for the company to purchase carbon emission permits to cover its shortfall. A quota of free CO2 emission allowances has been allocated to the company, which is expected to cover approximately 45% of estimated needs of emissions in 2013. The CO2 market has historically been volatile.

Weather and traffic disruption

The company is exposed to various disruptive factors such as adverse weather conditions (crosswind, turbulence, fog, frost and snow), volcanic ash and congested airports. Especially weather conditions across the Faroe Islands hamper flight operations and increase costs. In 2012, the company's cost of cancellations and disruption was around DKK 11 million. In the past five years, the annual cost due to cancellations and delays ranged from DKK 8 to DKK 15 million.

Additionally, the cost of delays due to adverse weather conditions has increased after the Vágar Airport Authority back in 2010 introduced much higher opening fees.

Expenses incurred from disruptions are expected to fall in 2013 as the benefits from the new procedures RNP AR 0.1 and the new Airbus aircraft will increase the regularity.

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, fuel, 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.

To minimize the risk of changes in foreign exchange rates, and subsequent impacts on the company's expenses, the management is permitted to hedge up to 65% of the yearly USD deficit on scheduled services and up to 100% of USD deficit on contracted charter flights. The company has hedged approximately 64% of its estimated USD deficit in 2013.

Interest rate risk

The company is exposed to interest rate risks through investments and financing. As of 31 December 2012, the company had DKK 154 million in interest-bearing liabilities, of which 17% are at variable interest rates. Changes in the level of interest rates could therefore have an impact on the financial performance of the company. However, the company's total equity is still high in proportion to total assets. The equity ratio was 49% at year-end 2012.

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 2012 was DKK 97 million and deemed to be sufficient. The liquidity is affected by seasonality.

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 job market.

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

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

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

Corporate Social Responsibility (CSR)

CSR in Atlantic Airways 2012

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 manage our social and environmental footprints. At Atlantic Airways, we have worked with CSR for many years. We are currently in the process of developing a more systematic and strategic approach, including targets for our work.

Atlantic Airways is one of the largest enterprises in the Faroe Islands with 172 employees and a permanent satellite base in Copenhagen as well as temporary bases in various locations outside Faroe Islands. We are linking the Faroe Islands with the world through scheduled connections to Denmark, neighboring countries Iceland, Norway, the UK and recently also Spain, enabling our small population of 50,000 to be connected internationally. Also, we play a crucial role in developing tourism and in facilitating business in the Faroe Islands. Atlantic Airways also runs a helicopter operation providing domestic services and SAR operations in Faroese territories. Through charter arrangements we are also operating in various foreign countries.

It is important to us that our approach and activities make sense for both our business and for society. Thus, we have defined three key areas and a number of issues related to each key areas:

- **Business operations** including health & safety, environment and safety / compliance management
- **Workplace** including employee satisfaction and well-being, education and competence development
- **Community** including stakeholder engagement, sponsorships and donations

This report outlines our approach and some of our activities. A structural approach to present our activity with measurable data is under preparation.

In Atlantic Airways, CSR-related issues are discussed and decided at top-management level, with the central responsibility being placed with the CEO.

BUSINESS OPERATIONS

Environment

As an airline, our main environmental footprint is from the fuel we use for our aircrafts. With increasing regulation and high fuel prices it makes business sense to do everything we can to reduce our fuel consumption. With CO2 emissions creating climate change, we also recognize it as our responsibility to constantly seek ways of lowering the fuel consumption.

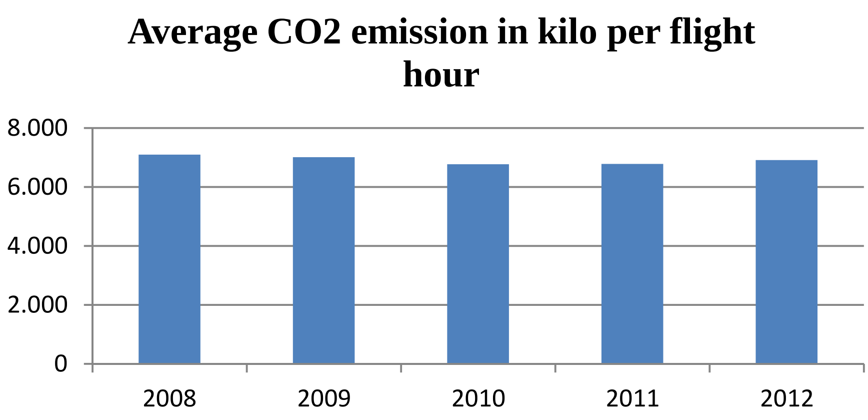
With support from aircraft manufacturers, we have since 2008 planned flight profiles and implemented methods for take-off and landing that reduce our use of fuel. In addition, we are currently in the process of updating our fleet of aircrafts to newer aircrafts using less fuel.

In early 2008, Atlantic Airways decided to reduce the fuel use per hour through optimized operational procedures. In 2012 the operation as a whole saved 55kg (i.e. 69 liters) per flight hour on average, compared to the average consumption in the years preceding 2008. Converted to CO2 emission figures, this means that Atlantic Airways has reduced its emission by 217 kg/flight hour. For 2012, this corresponds to a reduction of 1,383,050 kg in CO2 emission, or 2.4%, compared to the years preceding 2008.

The average jet fuel consumption of the fixed-wing fleet in 2012 was 2,196 kg/flight hour compared to 2,153 kg/flight hour in 2011, an increase of 2.0%. The increase is caused by the fleet changes made in 2012. Although the new Airbus A319 has a higher total fuel usage per flight hour compared to the Avro RJ, the fuel usage per seat and seat kilometer is significantly lowered by 39%.

In line with the company’s fuel-saving efforts, an intensified aircraft washing program has been established by Atlantic Airways, because a clean aircraft burns less fuel. However, the majority of the fuel-saving measures are related to the operation of the aircraft. The wind conditions during climb are evaluated to select optimum climb speed. The cruise, where the majority of the flight time is spent, is adjusted to a speed, which depending on the actual weight of the aircraft, gives the most effective fuel burn. And last but not least, the company has adopted an increased usage of the principles of 'green approaches', which have been widely applied in the aviation industry in the last decade. A 'green approach' means a total evaluation of actual weather conditions, traffic conditions, airport facilities and available approach procedures, to select the optimum time to initiate the descend from cruise, and configure the aircraft for final approach and landing. Atlantic Airways' implementation of 'The Fuel Saving Program' has been a tangible effort in which operational personnel have seen their opportunity to actively participate in improving the environmental footprint of Atlantic Airways' operations.

We aim to also analyze the potential for reducing energy consumption relating to our facilities and ground-handling vehicles. These initiatives will lead to a positive impact on the company's environmental impact as well as on our costs.



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 & Safety

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

Each work-related accident or incident registered in 2012 has been evaluated, and mitigating measures have been taken to avoid repetition of the occurrences. Also, we regularly evaluate the physical well-being of our employees, and work from a systematic action plan to improve the identified findings. In 2012 we will produce a report with goals and measures based on wider evaluations amongst our staff.

Safety management

Safety management is a structured approach to manage identified hazards, and eliminate/mitigate associated risks in both the operational 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 un-compliances are identified and control measures put in place to eliminate the risk of their re-occurrence. The goal is to identify all hazards, report all occurrences, assess associated risks and mitigate to a level as low as reasonably practicable (ALARP).

Part of the system is a 'Just Safety Culture' where 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 behavior.

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 outside operating procedures. From statistics and trends based on this data, we are able to see and predict where to increase focus.

In the technical environment there is a strong focus to learn from mistakes made 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 Behaviors' for Line and Base maintenance work, which is being fostered within the maintenance and inspection work processes to reduce mishaps and maintain safety.
These Key Behaviors are:

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

The company also launched a new Ground Operation Error Management System (GEMS) based on the same principles and experience from the MEMS program.

Compliance management

Compliance management is the company's exercise to ensure that the outcome of the activities in operations and maintenance meet the regulatory, customer and company requirements. The quality policy is the foundation under the compliance management, and it is substantiated by the compliance management organization, the documented operational and technical procedures, the training arrangements for all personnel and the independent quality assurance process.

The performance of the compliance management system is evaluated 10 times per year by senior management. The evaluation is based on Key Performance Indicators from all departments, as well as the independent quality assurance reports from both internal and external (e.g. the aviation authorities) audits.

WORKPLACE

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

At Atlantic Airways, we focus on our employees' satisfaction and well-being. Knowing that satisfied and motivated employees are more productive and efficient, we have initiated surveys amongst staff groups to measure job satisfaction and well-being. As many as 95% of air crew participated and answered a survey conducted in autumn 2012. Based on the survey, we have developed action plans for 2013 focusing on improvements of key areas.
In 2013 further surveys will be conducted among other staff groups focusing on physical conditions, communication and social environment.

In 2012, our average rate of absence due to illness was low. However, we are keen to further reduce the rate as it benefits both our employees and our business results.

We strive to be an inclusive workplace, and in addition to normal hiring procedures we also work with the local job center with an aim to offer unemployed people job opportunities and training where appropriate. In addition, we continuously have people employed on special conditions to allow them to have a job despite shortcomings to fulfill a normal job – may it be temporarily or permanently. In the unfortunate event that we have to lay off an employee, we do our outmost to help the person in his or her future career. Thus, we offer outplacement support through a consultant, helping the person to find new opportunities.

Education
Besides being a major employer, we also play a role in the educational system, and see this as a core responsibility to develop local talent. 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 2012 we:
- Had 2 apprentices in our offices
- Had 2 apprentices (mechanics, etc)
- Had 2 students writing their thesis or assignments
- Worked closely with the technical colleges in the Faroe Islands and offered assignments for the students who in return received support for a study tour abroad

- Recurrently provided apprentices from the Swedish Aeronautical Institute in Skåne on job training at our maintenance facility
- Opened our doors to more than 25 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
- Attended job-match fairs to position ourselves as an attractive employer for Faroese students and other job-seeking natives.

Competence development

Based on our interest in hiring, training and developing local talent, we have a significant focus on competence development of our employees. Also, we are aware that this is a central parameter for employee satisfaction, ensuring the continuous development of each individual employee. We are aiming to develop our activities within education even more over the coming years, and will engage with local and international stakeholders to develop sufficient programs to increase competence and qualifications of employees.

Our competence development activities can be divided into mandatory training (to maintain certificates, safety procedures etc.) and additional training (i.e. IT, management skills, communications etc.). In 2012 we spent around DKK 6.5 million on mandatory and additional training.

COMMUNITY

Stakeholder engagement

Being a large company in a small community brings responsibility and a need to constantly engage with stakeholders, also beyond what is common in larger communities. We are aware of the key role that we play in society and do our outmost to engage with the local community. For our business, it is key to make it attractive to live and work on the islands as this secures our client base. Thus, we are continuously in dialogue with local stakeholders to find solutions and ideas on how to further improve our services and offerings.

Also, we are deeply engaged with the broader development of business and the business community through the Faroese Employers' Association, as this provides economic activity and thus 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.

In other words, we are deeply engaged in our local community as we are simply dependent on each other.

Sponsorships and donations

Atlantic Airways has a long history of involvement in Faroese sport and culture through sponsorships and other supportive actions.

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

Additionally, focus has been on supporting Faroese cultural life for many years as well. Atlantic Airways has sponsored the internationally high-profiled "G" festival for many years, the more local-oriented folk festival "Summarfestivalur", local music festivals in Tórshavn and Sørvágur as well as the Faroese Symphony Orchestra. Other events have also received grants and sponsorship, and the company has been helpful towards individuals, who have later established themselves on the international music scene. The list of activities and events that Atlantic Airways has supported is significant and we are pleased to contribute to cultural activity in Faroe Islands.

Our work, looking forward – 2013

Atlantic Airways would like to structure and develop our work within CSR over the next year and develop relevant Key Performance Indicators (KPIs) helping us to follow up on our work on an ongoing basis.

Financial calendar 2013

12 February 2013	**Annual Report 2012**
8 March 2013	**Annual General Meeting**
14 May 2013	**Interim Report Q1 2013**
21 August 2013	**Interim Report Q2 2013**
31 October 2013	**Interim Report Q3 2013**

Management's Statement

The Board of Directors and the Executive Management have today discussed and approved the annual report of Atlantic Airways P/F for the financial year 1 January – 31 December 2012.

The annual report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and Icelandic and Danish disclosure requirements for annual reports of companies listed on the NASDAQ OMX Iceland and NASDAQ OMX Copenhagen.

We consider the accounting policies appropriate. In our opinion, the annual financial statement gives a true and fair view of the Company's assets, liabilities and financial position as at December 31, 2012, and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2012.

Furthermore, in our opinion the Management's review includes a true and fair review of the development in the Company's operations and financial matters, of the result for the year and the Company's cash flows and financial position as a whole, as well as a description of the significant risks and uncertainties affecting the Company.

The Board of Directors and the Management recommend that the annual general meeting approve the annual report.

Sørvágur the 12th of February 2013

Executive Management:

Magni Arge CEO	Marius Davidsen CFO	Joen Remmer COO

Board af directors

Kaj Johannesen Chairman	Jens Wittrup Willumsen Vice-chairman	Tezz Tordsdotter Ohlsson
Bjarni Askham Bjarnason	Ingi S. Joensen *	Olaf S. Poulsen*

*employee representatives

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

Chairman:

Independent Auditor's Report

To the shareholders of P/F Atlantic Airways

Report on Financial Statements
We have audited the financial statements of P/F Atlantic Airways for the financial year 1 January to 31 December 2012, which comprise income statement, comprehensive income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including summary of significant accounting policies. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and Faroese disclosure requirements for listed companies.

Management's Responsibility for the Financial Statements
The Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and Faroese disclosure requirements for listed companies and for such internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Faroese Audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The audit has not resulted in any qualification.

Opinion
In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2012 and of the results of the Company's operations and cash flows for the financial year 1 January to 31 December 2012 in accordance with International Financial Reporting Standards as adopted by the EU and Faroese disclosure requirements for listed companies.

Statement on the Management's review
Pursuant to the Faroese Financial Statements Act, we have read the Management's review. We have not performed any further procedures in addition to the audit of the financial statements.

On this basis, it is our opinion that the information provided in the Management's review is consistent with the financial statements.

Tórshavn 12 February 2013

NOTA P/F
Løggilt grannskoðanarvirki

Jørmann Petersen
State Authorized Public Accountant

Jóanes Olsen
Registered Public Accountant

Income Statement for the year 2012

(DKK)	Note	2012	*2011*
Net revenue	3	501.303.447	*435.522.645*
Other income		0	*114.881*
Total revenue	2,3,5	**501.303.447**	***435.637.526***
Flight expenses	4	-321.043.201	*-270.660.327*
Employee expenditures	6	-96.915.457	*-90.617.909*
Total operating expenses		-417.958.658	*-361.278.235*
Result before depreciation, amort. and impairment (EBITDA)		**83.344.789**	***74.359.291***
Depreciations, amort. and impairment	7,12,13	-58.200.023	*-43.071.002*
Result before financial items (EBIT)		**25.144.767**	***31.288.289***
Financial income	8	3.545.074	*5.598.986*
Financial expenses	9	-11.557.487	*-9.701.893*
Net financial items		-8.012.414	*-4.102.907*
Share of profit/loss of associates	16	-16.824	*309.832*
Result before taxes (EBT)		**17.115.529**	***27.495.214***
Income tax	11	-3.080.795	*-4.949.138*
Net Profit / Loss for the year		**14.034.734**	***22.546.076***
Attributable to:			
Shareholders of Atlantic Airways P/F		14.034.734	*22.546.076*
Earnings per share	40		
Earnings per share (DKK) (EPS)		13,71	*22,02*
Diluted earnings per share (DKK) (EPS-D)		13,71	*22,02*
Proposed allocation of profit/loss			
Proposed dividend to shareholders	41	4.000.000	*7.000.000*
To carry forward to next period		10.034.734	*15.546.076*
Total		**14.034.734**	***22.546.076***

Atlantic Airways P/F has not had any discontinuing operations during these periods.

Statement of comprehensive income for the year 2012

(DKK)	2012	*2011*
Net Profit / Loss for the year	**14.034.734**	***22.546.076***
Other comprehensive income		
Value adjustm. of cash flow hedges	-11.705.241	*8.880.389*
Tax of value adjustm. of cash flow hedges	2.106.943	*-1.598.470*
Available-for-sale financial assets	155.250	*-270.000*
Tax of available-for-sale financial assets	0	*0*
Dividend own shares	75.147	*80.514*
Other comprehensive income after tax	**-9.367.901**	***7.092.433***
Total comprehensive income	**4.666.833**	***29.638.509***
Attributable to:		
Shareholders of Atlantic Airways P/F	4.666.833	*29.638.509*

Atlantic Airways P/F has not had any discontinuing operations during these periods.

Balance Sheet as at 31 December 2012

ASSETS (DKK)	Note	31.12.2012	*31.12.2011*
Intangible assets	12	**6.378.848**	***6.176.895***
Aircraft and maintenance	13	303.418.719	*99.335.662*
Spare parts	13	13.929.248	*11.444.632*
Operating equipment	13	9.972.056	*7.290.055*
Hangar, buildings and land	13	35.158.372	*36.809.111*
Prepaid aircraft acquisitions	15	0	*78.404.640*
Total tangible assets		**362.478.396**	***233.284.101***
Investment in associates	16	479.061	*495.885*
Other shares	17	1.137.791	*1.137.791*
Other non-current assets		**1.616.852**	***1.633.676***
Total non-current assets		**370.474.095**	***241.094.672***
Inventories	18	**2.396.699**	***3.200.645***
Trade receivables	19	24.712.528	*22.248.384*
Prepayments	20	2.312.506	*2.759.697*
Other receivables	21	1.890.522	*1.947.614*
Other shares "available-for-sale"	22	861.750	*706.500*
Derivatives	23	381.503	*11.651.090*
Total receivables		**30.158.809**	***39.313.285***
Cash and cash equivalents	36	**97.103.709**	***98.572.270***
Total current assets		**129.659.217**	***141.086.199***
TOTAL ASSETS		**500.133.312**	***382.180.871***

Balance Sheet as at 31 December 2012

EQUITY AND LIABILITIES (DKK)	Note	31.12.2012	*31.12.2011*
Share capital	24	103.500.000	*103.500.000*
Share premium reserve	24	23.500.000	*23.500.000*
Value adjustm. of cash flow hedges	24	-283.210	*9.315.088*
Revaluation reserve shares	26	389.250	*234.000*
Retained earnings	27	116.186.720	*106.076.839*
Proposed dividend	41	4.000.000	*7.000.000*
Total equity		**247.292.760**	***249.625.927***
Mortgage loans	29	135.668.751	*36.501.916*
Provisions for deferred taxes	11	28.865.290	*27.891.438*
Total non-current liabilities		**164.534.041**	***64.393.354***
Mortgage loans	29	18.382.500	*10.382.500*
Trade payables	29	30.270.915	*23.485.380*
Current income tax liabilities	11	0	*6.970.291*
Deferred income and accruals	28	38.926.216	*27.032.192*
Derivatives	23	726.881	*291.227*
Total current liabilities	29	**88.306.512**	***68.161.590***
Total liabilities	29	**252.840.553**	***132.554.944***
TOTAL EQUITY AND LIABILITIES		**500.133.312**	***382.180.871***

Statement of Changes in Equity

(DKK 1,000)	Share capital	Share premium reserve	Hedging reserve	Revaluation reserve shares	Retained earnings	Proposed dividend	Total
Equity at 01.01.2011	**103.500**	**23.500**	**2.033**	**504**	**90.450**	**7.500**	**227.487**
Result for the period	-	-	-	-	22.546	-	22.546
Value adjustm. of cash flow hedges	-	-	5.897	-	-	-	5.897
Tax of value adjustm. of cash flow hedges	-	-	-1.062	-	-	-	-1.062
Transfers to flight expences	-	-	2.983	-	-	-	2.983
Tax of transfer to flight expences	-	-	-537	-	-	-	-537
Revaluation reserve shares	-	-	-	-270	-	-	-270
Tax of revaluation reserve shares	-	-	-	-	-	-	-
Total comprehensive income	-	-	**7.282**	**-270**	**22.546**	-	**29.558**
Proposed dividend	-	-	-	-	-7.000	7.000	0
Dividends paid	-	-	-	-	-	-7.500	-7.500
Dividends Own shares	-	-	-	-	81	-	81
Equity at 31.12.2011	**103.500**	**23.500**	**9.315**	**234**	**106.077**	**7.000**	**249.626**
Equity at 01.01.2012	**103.500**	**23.500**	**9.315**	**234**	**106.077**	**7.000**	**249.626**
Result for the period	-	-	-	-	14.035	-	14.035
Value adjustm. of cash flow hedges	-	-	-11.963	-	-	-	-11.963
Tax of value adjustm. of cash flow hedges	-	-	2.153	-	-	-	2.153
Transfers to flight expences	-	-	258	-	-	-	258
Tax of transfer to flight expences	-	-	-46	-	-	-	-46
Revaluation reserve shares	-	-	-	155	-	-	155
Tax of revaluation reserve shares	-	-	-	-	-	-	-
Total comprehensive income	-	-	**-9.598**	**155**	**14.035**	-	**4.592**
Proposed dividend	-	-	-	-	-4.000	4.000	0
Dividends paid	-	-	-	-	-	-7.000	-7.000
Dividends Own shares	-	-	-	-	75	-	75
Equity at 31.12.2012	**103.500**	**23.500**	**-283**	**389**	**116.187**	**4.000**	**247.293**

Breakdown of changes in share capital

(DKK 1,000)	2012	2011	2010	2009	2008
Share capital at the beginning of the year	103.500	103.500	103.500	103.500	103.500
Increase of share capital	-	-	-	-	-
Total	**103.500**	**103.500**	**103.500**	**103.500**	**103.500**

The notes 24-27 and 41 are an integral part of the Statement of Changes in Equity

Cash Flow Statement

(DKK 1,000)	Note	2012	2011
Net profit/loss for the period		**14.035**	***22.546***
Depreciations		58.200	*43.071*
Taxes		3.081	*4.949*
Adjustments		**61.281**	***48.020***
+/- trade receivables		-2.464	*14.206*
+/- prepayments		447	*-1.013*
+/- other receivables		57	*-1.128*
+/- Inventories		804	*-534*
+/- investment in assosiates and other shares		17	*-310*
+/- trade payables		6.786	*3.249*
+/- current income tax liabilities		-6.970	*0*
+/- deferred income and accruals		11.969	*-1.971*
Changes in operating assets and liabilities		**10.645**	***12.499***
Cash flow from operating activities		**85.961**	***83.065***
Purchase of intangible, tangible assets and prepaid aircraft	12,13,15	-187.896	*-67.717*
Sale of intangible and tangible assets	12,13,15	299	*68.291*
Cash flows from investing activities		**-187.596**	***575***
Proceeds from new loans	29	118.800	*0*
Changes of long-term loans	29	-11.633	*-58.712*
Paid dividends		-7.000	*-7.500*
Cash flows from financing activities		**100.167**	***-66.212***
Total cash flows for the period		**-1.469**	***17.428***
Cash and cash equivalents at the beginning of the period		**98.572**	***81.145***
Cash and cash equivalents at the end of the period		**97.104**	***98.572***

The notes 7-41 are an integral part of the Cash Flow Statement

The company has in addition to the cash equivalents access to DKK 46 million in credit facilities

Overview of Notes

Notes

1. Accounting Principles

Atlantic Airways P/F (the "Company") is a limited liability company incorporated and domiciled in Faroe Islands. The address of the Company's registered office is at Vágar Airport in Sørvágur, Faroe Islands. The financial statements of the Company as at December 31, 2012 and for the period January 1, to December 31, 2012 comprise the Company and the Company's interests in associates. Atlantic Airways is an airline company focused on passenger and cargo transportation and is formed of three business divisions: Schedule Services, Charter Services, and Helicopter Services. The Schedule Services and Charter Services had 4 aircraft in service as at 31 December 2012, excluding aircraft leased out, supported by 161 employees with the operational base at Vágar. In the Helicopter Services there were 2 helicopters in service as at 31 December 2012 supported by 11 people with the operational base at Vágar. The Company is listed on the NASDAQ OMX Iceland and NASDAQ OMX Copenhagen stock exchanges. Vinnumálaráðið (Ministry of Industry) is the owner of 67% of the shares.

Basis of preparation

a. Statement of compliance

The annual report of Atlantic Airways P/F for the period 1 January – 31 December 2012 has been prepared in accordance with International Financial Reporting Standards "IFRS", as adopted by the EU, and in accordance with the guidelines for companies listed on the NASDAQ OMX Iceland and NASDAQ OMX Copenhagen. In addition, the annual report have been prepared in compliance with IFRS notice issued pursuant to the Financial Statement Act.

The annual report were approved by the board of directors on February 12, 2013. The board of directors can amend the annual report after issue up until the Annual General Meeting on March 8, 2013.

b. Basis of measurement

The financial statements are prepared on the historical cost basis except that derivative financial instruments are stated at their fair value. The methods used to measure fair values are discussed further in note 1 on page 64.

c. Functional and presentation currency

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

d. Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs 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.

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are: utilisation of tax losses, provisions and valuation of financial instruments.

Changes in accounting principles

The financial statement is presented in accordance with the new and revised standards (IFRS/IAS) and new interpretations (IFRIC), which entered into force with effect from the financial year 2012. The standards and interpretations are: Amendment to IFRS 7 Disclosures – Transfers of Financial Assets, Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters and Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets.

The adoption of the new and revised standards and interpretations in the annual report has not led to changes in the accounting policies and do not have an affect on the financial statement of the company.

The company has not adopted new standards, changes in standards or interpretations that are effective after year-end 2012, but can be early adopted. The impact of this on the financial statement has not been evaluated.

Significant accounting principles

a. Investment in associates

(i) Associates

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

b. Foreign currency

(i) Foreign currency transactions

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

c. Financial instruments

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

(i) Non-derivative financial instruments

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

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

Cash and cash equivalents comprise cash balances and call deposits.

Accounting for finance income and expenses is discussed later in note 1 on page 63.

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

(ii) Derivative financial instruments

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

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

Cash flow hedges

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

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

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

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

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

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

Other shares comprises shares, where the company holds less than 20% of the the voting power of another entity.

Changes in fair value are recognised directly in equity, when the shares are designated as"availabe for sale" except for impairment losses, which are recognised in the income statement under financial items. Impairment of financial assets are discussed further in note 1 on page 61.

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 other comprehensive income.

When shares are realised, the accumulated value adjustement recognised directly in the equity will be transferred to the financial items in the profit and loss account, except.

(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.

Repurchase of share capital
When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity.

d. Operating assets
(i) Recognition and measurement
Items of operating assets are measured at cost less accumulated depreciation and accumulated impairment losses.

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

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

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

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

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

(iii) Subsequent costs

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

(iv) Depreciation

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

	Useful life	Residual Value
Aircrafts	5-15 years	0-5 million DKK
Helicopters	11-16 years	0
Spare parts	3-15 years	0
Operating equipment	3-10 years	0
Primary maintenance exp.	5-12 years	0
Hangar, buildings and land	5-30 years	0

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

Land is not depreciated.

New acquisitions with a cost not exceeding DKK 20.000 each are recognised in the income statement in the year of acquisition.

e. Intangible assets

(i) Intangible assets

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

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

Development expenditures comprise pilot type rating costs.

(ii) Subsequent expenditure

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

f. Prepaid aircraft acquisitions

Prepaid aircraft acquisitions consist of pre-payments on the Airbus aircraft, which entered the fleet in March 2012.

g. Leased assets
Atlantic Airways has entered into finance and operating leasing contracts. 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.

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

i. 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.

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

k. Assets held for sale
Assets held for sale comprise non-current assets and disposal groups held for sale. Disposal groups are defined as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction and those liabilities directly associated with the assets that will be transferred in the transaction.

Assets are classified as held for sale if management has decided to sell the asset or disposal group and taken the necessary steps to carry out the sale, such that the carrying amount will be recovered principally through a sale within 12 months in accordance with a formal plan rather than through continuing use.

Assets or disposal groups held for sale are measured at the lower of carrying amount or fair value less costs to sell. Assets are not depreciated or amortised from the date when they are reclassified as held for sale. Impairment losses on initial recognition as held for sale and gains and losses on subsequent remeasurement at the lower of carrying amount and fair value less costs to sell are recognised in the income statement in the items to which they relate.

Assets and liabilities are recognised separately in the statement of financial position.

If a sale is not completed as expected, the asset or disposal group is reclassified to the items in the statement of financial position from which the asset or disposal group was originally separated. This reclassification is made at the carrying amount less any depreciation charges that would have been recognised if the asset had not been classified as held for sale.

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

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

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

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

The Company assessess at the end of each reporting whether there is objective evidence that other assets “available-for-sale” is impaired. Other assets “available-for-sale” is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of other assets “available-for-sale that can be reliably estimated.

(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.

An impairment loss in respect of goodwill is not reversed. 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.

m. Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Overhaul commitments relating to aircrafts under operating lease

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

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

n. Deferred income

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

o. 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.

p. 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.

q. 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.

r. Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, foreign currency gains, 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.

s. Income tax

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

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

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

t. Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

u. 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.

v. New standards and interpretations
All new standards, amendments to standards and interpretations as adopted by the EU Commission that are known to be effective for the year ended 31 December 2012 have been applied in preparing these annual report.

Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

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

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

Segment reporting

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

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

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

Aircraft Services
This segment, which consists of the Schedule Services and Charter Services, had 4 aircraft in service as at 31 December 2012, supported by 161 employees with the operational base at Vágar.

Helicopter Services
In the Helicopter Services there were 2 helicopters in service as at 31 December 2012 supported by 11 people with the operational base at Vágar.

Notes

Ratios

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

Cash Flow Statement

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

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

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

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

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

Notes

2. Segment information

(DKK 1,000)	Aircraft Services 2012	Aircraft Services 2011	Helicopter Services 2012	Helicopter Services 2011	Total 2012	Total 2011
Income statement						
Net sales	437.835	407.460	63.468	28.062	501.303	435.523
Other income	0	115	0	0	0	115
Total revenue from external customers	**437.835**	**407.575**	**63.468**	**28.062**	**501.303**	**435.638**
Operating expenses	424.063	375.350	52.096	29.000	476.159	404.349
Operating result	**13.772**	**32.226**	**11.372**	**-937**	**25.145**	**31.288**
Effects of associated companies	-	-	-	-	-17	310
Financial income	3.542	5.589	3	10	3.545	5.599
Financial expenses	-10.649	-8.336	-909	-1.366	-11.557	-9.702
Result before tax	**6.666**	**29.479**	**10.467**	**-2.294**	**17.116**	**27.495**
Income tax expense					-3.081	-4.949
Profit					**14.035**	**22.546**
Balance sheet						
Segment assets	448.077	329.480	51.577	52.205	499.654	381.685
Investment in associates	-	-	-	-	479	496
Segment liabilities and equity	481.852	358.837	18.281	23.344	500.133	382.181
Cash flows						
Cash flows from operating activities	-47.042	62.284	16.602	20.781	-30.439	83.065
Cash flows from investing activities	-65.689	-57.903	-5.507	58.478	-71.196	575
Cash flows from financing activities	104.729	-12.649	-4.563	-53.563	100.167	-66.212
Other						
Depreciations and amortisation	48.580	34.008	9.620	9.063	58.200	43.071

Geographical segments

Revenue comprises the following markets:

	Faroe Islands 2012	Faroe Islands 2011	Europe 2012	Europe 2011	Total 2012	Total 2011
Total revenue from external customers	254.969	263.219	246.334	172.418	501.303	435.638

Notes

3. Total revenue (DKK 1,000)

	2012	*2011*
Passenger transport	313.426	*301.238*
Charter activity (fixed wing and rotor wing)	93.997	*54.081*
Cargo and mail	10.778	*12.693*
Other	43.303	*41.314*
SAR and Inter-Island services	39.800	*26.195*
Other income	0	*115*
Total	**501.303**	***435.638***

Major customer
There were non major customers in 2012 or 2011, which represents more than 10% of the total revenue.

4. Flight expenses (DKK 1,000)

	2012	*2011*
Aircraft fuel	-99.055	*-81.831*
Aircraft maintenance	-24.550	*-22.966*
Passenger/aircraft charges	-65.432	*-53.278*
Handling and catering costs	-30.699	*-22.182*
Cancellations and diversions	-10.879	*-8.809*
Other costs	-90.428	*-81.595*
Total	**-321.043**	***-270.660***

5. Specification of numbers of passengers:

	2012	*2011*
Passengers fixed wing, scheduled services	208.329	*193.450*
Passengers fixed wing, ACMI/charter	48.489	*61.664*
Passangers fixed wing	**256.818**	***255.114***
Passengers by Helicopters	10.135	*5.343*
Total passengers	**266.953**	***260.457***
Block hours:		
Aircraft, block hours, scheduled services	5.332	*6.114*
Aircraft, block hours, charter	1.823	*2.075*
Total aircraft block hours	**7.156**	***8.189***
Helicopters	1.162	*624*
Total airborne hours	**8.318**	***8.813***
Income overseas:		
Export value in DKK	246.334.024	*172.418.101*
Export value in %	50%	*40%*

Notes

6. Employee expenditures (DKK)	2012	2011
Wages and salaries	-83.779.101	*-76.889.750*
Pensions	-6.360.393	*-6.653.360*
Expenses for social security	-2.792.566	*-2.835.491*
Other employee expenditures	-3.585.341	*-3.583.878*
Bonus	-398.057	*-655.430*
Share-based payments	0	*0*
Total	**-96.915.457**	***-90.617.909***

Salaries and compensations paid to Management and Board:

Management, Wages and salaries	-2.220.836	*-2.082.780*
Management, Pensions	-300.842	*-280.440*
Management, Bonus	-398.057	*-655.430*
Management, Share-based payments	-	-
Board, Wages and salaries	-1.060.000	*-920.000*
Board, Bonus	-	-
Board, Share-based payments	-	-
Total	**-3.979.736**	***-3.938.650***

Number of employees	172	*166*

7. Depreciation, amort. and impairments (DKK)	2012	2011
Amortisation of intangible assets	-4.031.091	*-2.705.350*
Impairments of intangible assets	0	*0*
Depreciation of tangible assets	-54.168.932	*-40.365.652*
Impairments of tangible assets	0	*0*
Depreciation of assets held for sale	0	*0*
Impairments of assets held for sale	0	*0*
Total depreciation, amortisation and impairments	**-58.200.023**	***-43.071.002***

8. Financial income (DKK)	2012	2011
Interest, cash, etc.	752.896	*1.378.934*
Dividends	0	*0*
Other interest income	141.618	*178.419*
Currency adjustments	2.650.560	*4.041.633*
Total	**3.545.074**	***5.598.986***

Notes

9. Financial expenses (DKK)	2012	2011
Interest on long term loans	-7.133.158	*-2.527.117*
Other interest expenses	-1.485.946	*-1.627.444*
Currency adjustments	-2.938.383	*-5.547.332*
Total	**-11.557.487**	***-9.701.893***

10. Auditors remuneration (DKK)	2012	2011
Audit	-240.000	*-240.000*
Other services	-207.700	*-336.390*
Total	**-447.700**	***-576.390***

11. Income tax (DKK)	2012	2011
Taxes	0	*-6.970.291*
Changes in deferred taxes during the period	-3.080.795	*2.021.153*
Total taxes	**-3.080.795**	***-4.949.138***
Deferred taxes as of Jan 1st	27.891.438	*28.314.121*
Changes in deferred taxes during the period	3.080.795	*-2.021.153*
Taxes recognised in equity	-2.106.943	*1.598.470*
Transferred to assets held for sale	0	*0*
Deferred tax at the end of the period	**28.865.290**	***27.891.438***
Taxes from net profit/loss for the period:		
Calculated 18% tax of result before taxes	3.080.795	*4.949.139*
Dividend from other shares	0	*0*
Total	**3.080.795**	***4.949.139***
Effective tax percent	**18%**	***18%***
Provisions for deferred tax comprises:		
Intangible assets	1.148.193	*732.422*
Tangible assets	38.634.259	*25.152.422*
Other non-current assets	49.736	*24.819*
Receivables	-63.000	*-63.000*
Derrivatives	-62.168	*2.044.775*
Tax loss carried forward	-10.841.730	*0*
Total	**28.865.290**	***27.891.438***

There is no expiry date of tax loss carried forward.

Notes

12. Intangible assets (DKK)

2012	**Development expenditures**	**Software**	**Total**
Acquisition value as of Jan 1st	2.107.885	15.440.079	17.547.964
Additions during the year	2.476.645	1.756.399	4.233.044
Disposal during the period	0	0	0
Acquisition value as of December 31st	**4.584.530**	**17.196.477**	**21.781.007**
Amortisations as of Jan 1st	0	-11.371.069	-11.371.069
Amortisations during the year	-1.420.533	-2.610.558	-4.031.091
Amortisations of disposal	0	0	0
Amortisations as of December 31st	**-1.420.533**	**-13.981.626**	**-15.402.159**
Book value as at December 31st 2012	**3.163.997**	**3.214.851**	**6.378.848**

2011	**Development expenditures**	**Software**	**Total**
Acquisition value as of Jan 1st	-	14.557.412	14.557.412
Additions during the year	2.107.885	1.305.143	3.413.028
Disposal during the year	-	-422.476	-422.476
Acquisition value as of December 31st	**2.107.885**	**15.440.079**	**17.547.964**
Amortisations as of Jan 1st	-	-9.088.195	-9.088.195
Amortisations during the year	-	-2.705.350	-2.705.350
Amortisations of disposal	-	422.476	422.476
Amortisations as of December 31st	**-**	**-11.371.069**	**-11.371.069**
Book value as at December 31st 2011	**2.107.885**	**4.069.010**	**6.176.895**

Notes

13. Tangible assets (DKK)

2012	Aircraft and maintenance	Spare parts	Operating Equipment	Hangar, buildings and land	Total
Acquisition value as of Jan 1st	238.463.825	33.839.483	19.791.215	47.411.386	339.505.909
Additions during the year	252.954.342	3.988.713	5.124.217	0	262.067.272
Disposal during the year	-7.919.440	-116.775	-1.422.087	0	-9.458.302
Transfer to/from assets held for sale	0	0	0	0	0
Acquisition value as of December 31st	**483.498.728**	**37.711.420**	**23.493.344**	**47.411.386**	**592.114.878**
Depreciations and write-downs as of Jan 1st	-139.128.165	-22.394.850	-12.501.159	-10.602.275	-184.626.449
Depreciations and write-downs during the year	-48.871.268	-1.425.457	-2.221.468	-1.650.739	-54.168.932
Depreciations and write-downs of disposal	7.919.424	38.135	1.201.340	0	9.158.898
Transfer to/from assets held for sale	0	0	0	0	0
Depreciations and write-down as of December 31st	**-180.080.009**	**-23.782.172**	**-13.521.287**	**-12.253.014**	**-229.636.483**
Book value as at December 31st 2012	**303.418.719**	**13.929.248**	**9.972.056**	**35.158.372**	**362.478.396**

2011	Aircraft and maintenance	Spare parts	Operating Equipment	Hangar, buildings and land	Total
Acquisition value as of Jan 1st	233.932.901	39.396.732	19.844.781	47.214.671	340.389.085
Additions during the year	12.247.589	251.558	2.444.374	196.715	15.140.236
Disposal during the year	-145.919.205	-5.808.807	-2.497.940	0	-154.225.952
Transfer to/from assets held for sale	138.202.540	0	0	0	138.202.540
Acquisition value as of December 31st	**238.463.825**	**33.839.483**	**19.791.215**	**47.411.386**	**339.505.909**
Depreciations and write-downs as of Jan 1st	-111.525.232	-22.588.920	-12.483.019	-8.722.112	-155.319.285
Depreciations and write-downs during the year	-35.319.597	-1.114.457	-2.051.435	-1.880.163	-40.365.652
Depreciations and write-downs of disposal	82.566.436	1.308.528	2.033.296	0	85.908.260
Transfer to/from assets held for sale	-74.849.771	0	0	0	-74.849.771
Depreciations and write-down as of December 31st	**-139.128.165**	**-22.394.850**	**-12.501.158**	**-10.602.275**	**-184.626.448**
Book value as at December 31st 2011	**99.335.661**	**11.444.632**	**7.290.057**	**36.809.111**	**154.879.461**

Notes

14. Insurance value (DKK)

	Insurance value	Carrying amount
Aircraft and helicopters	561.000.000	*317.347.967*
Other equipment	*	*45.130.428*
Total		***362.478.396***

*Replacement value

15. Prepaid aircraft acquistions

Prepaid aircraft acqusitions in the balance sheet as at December 31, 2011 is for the purchase of one Airbus A319 aircraft, which was delivered in March 2012.

16. Investment in associates (DKK)

2012	**Investment in associates***
Acquisition value as of Jan 1st	570.000
Additions during the year	0
Disposal during the year	0
Acquisition value as of December 31st	**570.000**
Revaluations and share of result as of Jan 1st	-74.114
Revaluations during the year	0
Share of result acc. to the latest financial statement	-16.824
Additions during the year	0
Disposal during the year	0
Revaluations as of December 31st	**-90.938**
Book value as at December 31st 2012	**479.061**

2011	**Investment in associates***
Acquisition value as of Jan 1st	570.000
Additions during the year	0
Disposal during the year	0
Acquisition value as of December 31st	**570.000**
Revaluations and share of result as of Jan 1st	-253.941
Revaluations during the year	0
Share of result acc. to the latest financial statement	179.827
Additions during the year	0
Disposal during the year	0
Revaluations as of December 31st	**-74.114**
Book value as at December 31st 2011	**495.886**

Notes

Summary of aggregate financial information for investments in associates

P/F Green Gate Incoming		P/F Gjáargarður		Total
Domicile: Tórshavn		*Domicile:* Gjógv		
Share capital: 500.000 DKK		*Share capital:* 1.200.000 DKK		
Company's portion: 49%		*Company's portion:* 27%		
Assets	1.319.861	Assets	10.178.871	11.498.732
Equity	640.353	Equity	612.179	1.252.532
Liablities	679.508	Liablities	9.566.692	10.246.200
Net profit	-262.069	Net profit	413.297	151.228
Company's portion		*Company's portion*		
Equity	313.773	Equity	165.288	479.061
Net profit	-128.414	Net profit	111.590	-16.824

*According to the latest financial statements.

17. Other shares (DKK)

2012	Other shares
Acquisition value as of Jan 1st	1.137.791
Additions during the year	0
Disposal during the year	0
Acquisition value as of December 31st	**1.137.791**
Revaluations and share of result as of Jan 1st	0
Revaluations during the year	0
Share of result acc. to the latest financial statement	0
Additions during the year	0
Disposal during the year	0
Revaluations as of December 31st	**0**
Book value as at December 31st 2012	**1.137.791**

2011	Other shares
Acquisition value as of Jan 1st	1.159.791
Additions during the year	0
Disposal during the year	-22.000
Acquisition value as of December 31st	**1.137.791**
Revaluations and share of result as of Jan 1st	0
Revaluations during the year	0
Share of result acc. to the latest financial statement	0
Additions during the year	0
Disposal during the year	0
Revaluations as of December 31st	**0**
Book value as at December 31st 2011	**1.137.791**

Notes

18. Inventories (DKK)

	2012	*2011*
Inventories	2.396.699	*3.200.645*
Inventories total	**2.396.699**	***3.200.645***

There was no reason for a write down of inventories. (2011: the same)

19. Trade receivables (DKK)

	2012	*2011*
Trade receivables	25.062.528	*22.598.384*
Write-downs of trade receivables	-350.000	*-350.000*
Trade receivables total	**24.712.528**	***22.248.384***

20. Prepayments (DKK)

	2012	*2011*
Prepaid rental expences	85.875	*90.449*
Other prepayments	2.226.631	*2.669.248*
Prepaymens total	**2.312.506**	***2.759.697***

21. Other receivables (DKK)

	2012	*2011*
Deposit	1.620.205	*818.558*
Other receivables	270.317	*1.129.056*
Other receivables total	**1.890.522**	***1.947.614***

22. Other shares "available-for-sale (DKK)

	2012	*2011*
Value as of Jan 1st	706.500	*976.500*
Additions during the year	0	0
Disposal during the year	0	0
Net gains/losses transfer to year	155.250	*-270.000*
Value as of December 31st	**861.750**	***706.500***

The category other shares "available-for-sale" comprises of listed shares in Atlantic Petroleum. The share are denominated in DKK.

23. Derivative financial instruments (DKK)

	2012	2012	*2011*	*2011*
	Assets	**Liabilities**	***Assets***	***Liabilities***
Forward foreign exchange contracts	-	726.881	*11.651.090*	-
Fuel oil swap tranactions	381.503	-	-	291.227
Derivatives total	**381.503**	**726.881**	***11.651.090***	***291.227***

Notes

24. 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.

Share premium reserve
Share premium comprises premium on issue of shares.

Hedging reserve
The hedging 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.

Revaluation reserve shares
Unrealised gains and losses arising from changes in the fair value of financial assets classified as available-for-sale are recognised in equity as revaluation reserve shares.

Retained earnings
Retained earnings from the year and previous years.

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.

25. Own shares

	Number		Nominal value		% of Share capital	
	31.12.2012	*31.12.2011*	31.12.2012	*31.12.2011*	31.12.2012	*31.12.2011*
1. Jan 12	11.111	*11.111*	1.111.100	*1.111.100*	1%	*1%*
Addition	0	*0*	0	*0*	0%	*0%*
Disposal	0	*0*	0	*0*	0%	*0%*
31-des-12	**11.111**	***11.111***	**1.111.100**	***1.111.100***	**1%**	***1%***

26. Revaluation reserve shares (DKK)

	2012	*2011*
Reserve as of Jan 1st	234.000	*504.000*
Adjustment for the year	155.250	*-270.000*
Revaluations	0	*0*
Reserve at the end of the year	**389.250**	***234.000***

27. Retained earnings (DKK)

	2012	*2011*
Retained earnings opening	106.076.839	*90.450.248*
+ Dividend own shares	75.147	*80.514*
+ Net profit	14.034.734	*22.546.076*
- proposed dividend	-4.000.000	*-7.000.000*
Total	**116.186.720**	***106.076.838***

Notes

28. Deferred income and accruals (DKK)

28. Deferred income and accruals (DKK)	2012	*2011*
Deferred income, tickets	24.513.568	*18.517.876*
Holiday allowances	4.803.272	*4.762.580*
Deposit	3.112.505	*2.585.520*
Accruals	6.496.871	*1.166.216*
Total	**38.926.216**	***27.032.192***

29. Non-current and current liabilities (DKK)

	Liab. Dec. 31st 2012	Short term liab. 0-1 year	Due for payment after 5 years	*Liab. Dec. 31st 2011*
Mortgage loans	154.051.251	18.382.500	76.000.000	*46.884.416*
Provision for deferred taxes	28.865.290	0	0	*27.891.438*
Trade payables	30.270.915	30.270.915	0	*23.485.380*
Current income tax liabilities	0	0	0	*6.970.291*
Deferred income and accruals	38.926.216	38.926.216	0	*27.032.192*
Derivatives	726.881	726.881	0	*291.227*
Total non-current and current liab.	**252.840.553**	**88.306.512**	**76.000.000**	***132.554.944***
Specified as follows:				
Current liabilities	**88.306.512**			***68.161.590***
Non-current liabilities	**164.534.041**			***64.393.354***

The company has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period (2011: the same).

30. Mortgaging and contingent liabilities etc.

Aircraft with a book value as at 31 December 2012 of DKK 304 million are mortgaged.

The company is obligated to pay a sum of DKK 5.4 million a year until 30 September 2013 for the lease of one Avro RJ-85 aircraft. The leasing rate in 2013 is amounting to DKK 4.0 million.

The company is obligated to pay a sum of 165,000 USD per month from May 2013 until 31 August 2016 for the lease of one A319 aircraft.

Notes

31. Off-balance sheet items

Leases as lessee

As a lessee the company has in place two operating lease agreements on two aircraft at the end of December 2012. Lease payment for the financial year 2012 amounted to5.368.704 DKK. The lease payment is included in the flights expenses in the income statement. At the end of December 2012 the leases are payable as follows:

Total aircraft (DKK)	2012	*2011*
No later than 1 year	11.539.028	*5.368.704*
1-5 years	30.050.001	*4.026.528*
Later than 5 years	0	*0*
Total	**41.589.029**	***9.395.232***

Leases as lessor

At year-end 2012 the company has as a lessor leased out an aircraft on a lease (operating lease) purchase agreement. Lessee income for the financial year 2012 amounted to 2.937.633 DKK. The lease payment is included in revenue in the income statement. Contracted lease at year end were as follows:

Total aircraft (DKK)	2012	*2011*
No later than 1 year	1.450.732	2.929.153
1-5 years	0	1.464.576
Later than 5 years	0	0
Total	**1.450.732**	**4.393.729**

32. Directors and Management at year-end 2012 and their related parties holdings of shares in P/F Atlantic Airways

Board of Directors	Position	Number of shares	Related parties	nominal value
Bjarni A. Bjarnason*	Chairman	0	0	0
Kaj Johannesen*	Deputy Chairman	0	0	0
Jens W. Willumsen*	Boardmember	0	0	0
Tezz Tordsdotter Ohlsson	Boardmember	0	0	0
Ingi S. Joensen	Boardmember	197	0	19.700
Olaf S. Poulsen	Boardmember	383	0	38.300
Total		**580**	**0**	**58.000**
Management				
Magni Arge	CEO	0	5.747	574.700
Marius Davidsen	CFO	1.450	0	145.000
Joen Remmer	COO	0	0	0
Total		**1.450**	**5.747**	**719.700**

*Kaj Johannesen has been appointed as Chairman as of 1 January 2013 and Jens W. Willumsen as Deputy Chairman. Bjarni A. Bjarnason has been appointed as the permanent secretary of Ministry of Finance in Faroe Islands and will resign from his position as Board member in Atlantic Airways. He remains on the board until the next Annual General Meeting.

Notes

33. Remuneration of Board of Directors and Management (DKK)

Board of Directors		**2012**	***2011***
Bjarni A. Bjarnason (Joined the Board 23 April 2009)	Fixed salary	260.000	*240.000*
Kaj Johannesen (Joined the Board 23 April 2009)	Fixed salary	240.000	*195.000*
Jens Wittrup Willumsen (Joined the Board 23 April 2009)	Fixed salary	140.000	*125.000*
Tezz Tordsdotter Ohlsson (Joined the Board 25 March 2010)	Fixed salary	140.000	*120.000*
Ingi S. Joensen (Joined the Board in 2006)	Fixed salary	140.000	*120.000*
Olaf S. Poulsen (Joined the Board 29 October 2010)	Fixed salary	140.000	*120.000*
Total		**1.060.000**	***920.000***
Management			
Magni Arge	Fixed salary	1.157.100	*1.157.100*
	Pensions	171.000	*171.000*
	Bonus	230.834	*393.258*
Marius Davidsen	Fixed salary	925.680	*925.680*
	Pensions	109.440	*109.440*
	Bonus	167.223	*262.172*
Joen Remmer (From November 2012)	Fixed salary	138.056	-
	Pensions	20.402	-
	Bonus	-	-
Total		**2.919.736**	***3.018.650***

Notes

34. Management or board duties in other companies by Board of Directors and Management

Board of Directors	Position	Management or board duties
Bjarni A. Bjarnason	Chairman (Until 31 December 2012)	
	GreenSteam Sp/f	Member of the board
Kaj Johannesen	Deputy Chairman (Chairman from 1 January 2013)	
	The Faroese Tax Tribunal	Member of the board
Jens Wittrup Willumsen	Boardmember (Deputy Chairman from 1 January 2013)	
	Air Greenland A/S	Chairman of the board
	Mediehuset Ingeniøren A/S	Chairman of the board
	Index: Design to improve life	Chairman of the board
	Visit Denmark	Chairman of the board
	Aqualife A/S (NASDAQ OMX)	Chairman of the board
	SKAKO A/S (NASDAQ OMX)	Member of the board
	Charlotte Sparre A/S	Member of the board
	Dansk Danse Teater	Member of the board
	Copenhagen Wine A/S	Member of the board
Tezz Tordsdotter Ohlsson	Boardmember	
	Svenska Direktflyg AB	CEO
	Direktflyg NUF	CEO
	Direktflyg AS	CEO
	Flygtorget AB 2012	Member of the board
Ingi S. Joensen	Boardmember	
	Spf. Sam	CEO
	Spf. Plys	Member of the board
Olaf S. Poulsen	Boardmember	None
Executive Management		
Magni Arge	CEO	
	Eurest Føroyar P/F	Chairman of the board
	Faroese Employers' Association	Member of the board
	Danish Airlines Association	Member of the board
	Green Gate Incoming P/F	Member of the board
	Faroe Island Tourist Board	Member of the board
	Útferðir P/F	Member of the board
Marius Davidsen	CFO	None
Joen Remmer	COO	None

Notes

35. Related parties

Control:	Basis of influence
Vinnumálaráðið (Ministry of Industry), Tinganes, 100 Tórshavn	Majority shareholder

Significant influence:

The Company has in 2012 provided helicopter services to the Faroese Ministry of Industry amounted to DKK 10.1 million (2011: DKK 8.2 million) and to the Faroese Ministry of Fisheries amounted to DKK 26.0 million (2011: DKK 17.4 million). The Company has not granted loans, provided security, recourse guarantee or guarantee obligations to the principal shareholder.

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

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

Associated company's	
P/F Green Gate Incoming	(Note 16)
P/F Gjáargarður	(Note 16)

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

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

36. Cash and cash equivalents (DKK)

	2012	*2011*
Cash and cash equivalents	97.103.709	*98.572.270*
Total	**97.103.709**	***98.572.270***

37. Additional cash flow information (DKK)

	2012	*2011*
Interest paid	-8.619.104	*-4.154.561*
Tax paid	0	*0*
Interests received	894.514	*1.557.353*
Total	**-7.724.590**	***-2.597.208***

Notes

38. Financial risks and financial instruments

Due to its operation, investments and financing, the company is exposed to a number of financial risks, including market risks (currency, interest rate and price risks), credit risks and liquidity risks.

It is company policy not to speculate actively in financial risks. The financial management of the company is thus solely aimed at managing and reducing the financial risks that are a direct result of the company's operations, investments and financing. The board of directors and management continually monitors the financial risks and risk management.

Foreign exchange risks
The company is exposed to foreign exchange rates fluctuations, especially changes between DKK and USD. Capital expenditure on aircraft, fuel, aircraft and helicopter insurance, and maintenance expenditure are mainly in USD. Operating revenue is mainly in DKK.

The company continually evaluates the exposure to exchange rate fluctuations.

The company has at present several currency hedges. The company continually monitors these hedges and optimises them relative to economic conditions.

Approximately 64% of the estimated payments in USD in 2013 have been hedged, mainly to a fixed exchange rate. In 2012 were 23% of the payments in USD hedged using fixed rates.

A hypothetical effect on profit/loss for the year and equity due to fairly probable exposure to exchange rates is illustrated below.

	Nominal position				Exposure		
	Cash and cash equivalents and receivables	Financial liabilities (excl. derivative financial	Derivative financial instruments	Total	Probable change in exchange rate	Effect on profit/loss after tax for the year	Effect on equity
2012							
USD/DKK	9.751.135	5.139.788	-334.188	4.945.534	10%	405.534	405.534
EUR/DKK	528.241	8.647.836	0	-8.119.595	10%	-665.807	-665.807
GBP/DKK	1.014.393	2.637.394	0	-1.623.001	10%	-133.086	-133.086
NOK/DKK	1.288.177	994.283	0	293.894	10%	24.099	24.099
SEK/DKK	150.145	2.158	0	147.987	10%	12.135	12.135
ISK/DKK	0	62.795	0	-62.795	10%	-5.149	-5.149
CHF/DKK	0	56.020	0	-56.020	10%	-4.594	-4.594
	12.732.091	**17.540.275**	**-334.188**	**-4.473.996**			
2011							
USD/DKK	874.195	8.025.662	10.991.804	-18.143.271	10%	-1.487.748	-1.487.748
EUR/DKK	6.891.174	3.391.106	0	3.500.068	10%	287.006	287.006
GBP/DKK	4.242.075	621.095	0	3.620.980	10%	296.920	296.920
NOK/DKK	2.984.292	582.134	0	2.402.158	10%	196.977	196.977
SEK/DKK	0	38.287	0	-38.287	10%	-3.140	-3.140
ISK/DKK	0	158.780	0	-158.780	10%	-13.020	-13.020
CHF/DKK	0	60.423	0	-60.423	10%	-4.955	-4.955
	14.991.737	**12.877.487**	**10.991.804**	**-8.877.554**			

The figures only indicate the currency exposure at the balance sheet date which is not considered representative for the entire exposure due to seasonality.

Notes

A negative change in exchange rates will have a corresponding positive effect on profit/loss and equity for the year. A significant assumption for the sensitivity analysis is that the indicated sensitivities are based on unchanged sales levels, cost structure, price levels and interest rate levels.

Fuel price risk
One of the company's most significant operating costs is jet fuel. Historically, there have been significant changes in fuel prices. Therefore, the company has a significant exposure to fluctuations in the price of fuel.

A part of the fuel price increases are being recouped by levying surcharges on passengers. The company maintains a policy of hedging up to 60% of estimated fuel consumption in USD on scheduled services and up to 100% of fuel consumption on contracted charter flights. The company has hedged approximately 42 % of estimated fuel costs in USD for 2012 against price changes. At the end of 2012, approximately 41% of the year's total fuel consumption was hedged.

Below, a hypothetical effect on profit/loss for the year due to fairly probable changes in fuel prices is illustrated. Equity is affected to the same extent as the effect on profit/loss for the year after tax. A negative change in fuel prices will have a corresponding positive effect on profit/loss and equity for the year. A significant assumption for the sensitivity analysis is that the indicated sensitivities are based on unchanged sales levels, cost structure and interest rate levels.

Million DKK	Increase in fuel prices	Effect on profit before tax 2012	Effect on profit before tax 2011
Fuel prices	10%	-8,2	-6,6

Interest rate risk
The company is exposed to interest rate risks through investments and financing. The intension of the interest rate risk management is to limit the negative effects of interest rate fluctuation on the earnings and optimise the ratios between fixed and floating interest rate and the duration of interest-bearing liabilities.

The breakdown of the company's cash and equivalents and interest-bearing debt by floating interest rate and fixed interest rate, respectively, is specified as follows.

	2012			***2011***		
(DKK 1.000)	Floating interest rate	Fixed interest rate	Total	Floating interest rate	Fixed interest rate	Total
Cash and cash equivalents	97.104		97.104	*98.572*		*98.572*
Loans	26.646	127.405	154.051	*34.094*	*12.791*	*46.884*

An increase in interest rate levels of 1% per annum compared with the actual interest rates of the year would other things being equal have had a hypothetical negative effect on the profit/loss for the year after tax and equity at year-end of DKK 0.3 million compared to DKK 0.3 million the previous year.

A significant assumption for the above sensitivity analysis is that the indicated sensitivities are based on unchanged sales and cost structure, price levels and exchange rate levels.

Liquidity risks
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 31th December 2012 was DKK 97 million compared to DKK 99 million as of 31th December 2011.

Notes

Cash and cash equivalents primarily comprise short-term bank deposits. Bank deposits carry interest at 0.1%-1.5% per annum. The liquidity is affected be seasonal fluctuations.

The company's equity is high in proportion to total assets. The equity ratio was 49% at year-end compared to 65% the previous year.

The contractual maturities of financial liabilities, including estimated interest payments and payments of off-balance sheet items are illustrated below.

2012						
(DKK 1.000)	*Carrying amount*	*Contractual cash flows*	0-1 years	1-3 years	3-5 years	> 5 years
Trade payables	30.271	30.271	30.271			
Loans	154.051	196.773	26.329	47.145	31.423	91.876
Derivatives	727	727	727			
Off balance sheet liabilities						
Operating lease payments	0	41.589	11.539	22.538	7.513	0
Total	**185.049**	**269.360**	**68.866**	**69.683**	**38.935**	**91.876**

2011						
(DKK 1.000)	*Carrying amount*	*Contractual cash flows*	0-1 years	1-3 years	3-5 years	> 5 years
Trade payables	23.485	23.485	23.485			
Loans	46.884	52.658	12.528	23.628	15.720	781
Derivatives	291	291	291			
Off balance sheet liabilities						
Operating lease payments	0	9.395	5.369	4.027	0	0
Pre-delivery payments	0	147.575	147.575	0	0	0
Total	**70.661**	**233.404**	**189.248**	**27.655**	**15.720**	**781**

The analysis is based on all undiscounted cash flows, including estimated interest payments. Interest payments are estimated based on current market conditions.

Notes

Credit risks
The company is exposed to credit risks through its operations, primarily attributable to trade receivables. The company monitors on an on-going basis the credit risks exposure from all large customers. Credit risks management is based on internal credit limits. A considerable part of the company's current receivables are distributed on many small customers. Historically the company has had relatively small losses due to customers' non-payment. The company's maximum credit risks are reflected in the carrying amounts of the individual assets included in the balance sheet, see below:

	2012	*2011*
Trade receivables	24.712.528	*22.248.384*
Other shares "available-for-sale"	861.750	*706.500*
Cash and cash equivalents	97.103.709	*98.572.270*
Total	**122.677.987**	***121.527.153***

The aging of trade receivables at 31th December was as follows:

Impairment losses	Gross 2012	Impairment 2012	*Gross 2011*	*Impairment 2011*
Not past due	15.428.510	0	*11.957.166*	*0*
Past due 0-30 days	6.109.077	0	*3.439.638*	*1.092*
Past due 31-120 days	1.240.257	0	*2.301.128*	*11.086*
Past due 121-365 days	1.438.338	0	*4.200.786*	*109.387*
More than one year	846.346	350.000	*1.345.009*	*228.434*
Imperial losses total	**25.062.528**	**350.000**	***23.243.727***	***350.000***

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2012	*2011*
Impairment 1 January	350.000	*300.000*
Impairment loss recognised in the period	0	*50.000*
Impairment 31th December	**350.000**	***350.000***

Based on historical default rates, the Company believes that no impairment allowance is necessary in respect of trade receivables not past due or past due by 30 days.

The allowance account in respect of trade receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amount is considered irrecoverable and is written off against the financial asset directly.

The impairment loss of receivable is included in flight expenses in the income statement.

Hedge accounting
The company applies a number of derivative financial instruments for hedging of financial risks. The company applies financial instruments for hedging of future cash flows in connection with purchases in foreign currencies and jet fuel.

Capital management
The Board's policy is to maintain a strong capital base so as to sustain future development of the business.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The company monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total mortgage loans as shown in the balance sheet less cash and cash equivalents. Total capital is calculated as "equity" as shown in the balance sheet plus net debt.

Notes

The gearing ratios at 31 December 2012 and 2011 were as follows:

(DKK)	2012	*2011*
Mortgage loans	154.051.251	*46.884.416*
- Cash and cash equivalents	-97.103.709	*-98.572.270*
Net debt	56.947.541	-51.687.854
Total equity	247.292.760	249.625.927
Total capital	**304.240.301**	**197.938.073**
Gearing ratio	**19%**	**-26%**

39. Financial instruments and fair values

The fair values of financial assets and liabilities, together with carrying amounts shown in the balance sheet, are as follows:

	2012	2012	*2011*	*2011*
(DKK. 1000)	**Carrying amount**	**Fair value**	***Carrying amount***	***Fair value***
Trade receivables	24.713	24.713	*22.248*	*22.248*
Other shares "available-for-sale"	862	862	*707*	*707*
Derivatives	382	382	*11.651*	*11.651*
Cash and cash equivalents	97.104	97.104	*98.572*	*98.572*
Total Assets	**123.059**	**123.059**	***133.178***	***133.178***
Mortgage loans	154.051	154.051	*46.884*	*46.884*
Trade payables	30.271	30.271	*23.485*	*23.485*
Derivatives	727	727	*291*	*291*
Total Liabilities	**185.049**	**185.049**	***70.661***	***70.661***

All fair value of financial assets and liabilities are measures at level 1.

40. Earnings per share (DKK)	**2012**	***2011***
Net Profit/Loss for the year	**14.034.734**	***22.546.076***
Number of shares	1.035.000	*1.035.000*
Number of own shares	11.111	*11.111*
Total (Excluding own shares)	**1.023.889**	***1.023.889***
Earnings per share (DKK) (EPS)	13,71	*22,02*
Diluted earnings per share (DKK) (EPS-D)	13,71	*22,02*

The calculation of earnings per share is based on the profit after tax and on the weighted average number of shares in issue during the period.

Notes

41. Dividend

The board proposes for approval at the Annual General Meeting that a dividend of DKK 4 million is paid to shareholders (3,86473 DKK per share). The Annual General Meeting on 17 April 2012 agreed on the proposal of the Board of Directors to pay the company's shareholders a dividend of DKK 7.0 million (6.763285 DKK per share). The dividend was paid on 27 April 2012.

The company has not received divident from associated companies and other shares in 2012 (2011: the same).

42. Seasonality

The airline industry is highly seasonal. Revenue from scheduled services are normally higher in the third quarter and lower in first and fourth quarter due to significantly higher demand during the summer. A breakdown of the company's income statement during five quarters is specified below.

	Q4 2012	Q3 2012	Q2 2012	Q1 2012	Q4 2011
INCOME STATEMENT (DKK 1,000)					
Total Revenue	115.825	170.764	122.804	91.910	98.443
Flight expenses	-75.932	-107.181	-73.763	-62.712	-62.761
Employee expenditures	-24.944	-26.816	-24.368	-22.161	-23.258
Result before depr., amort. and impairm. (EBITDA)	**14.949**	**36.767**	**24.673**	**7.037**	**12.425**
Depreciations, amortisations and impairment	-15.766	-16.365	-15.398	-10.752	-12.013
Result before financial items (EBIT)	**-817**	**20.402**	**9.275**	**-3.715**	**412**
Net financial items	-1.851	-2.269	-2.357	-1.535	-305
Share of p/l of ass. companies	0	0	-17	0	0
Result before tax (EBT)	**-2.668**	**18.133**	**6.901**	**-5.250**	**107**
Tax	480	-3.264	-1.242	945	-19
Profit	**-2.188**	**14.869**	**5.659**	**-4.305**	**88**

43. 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.

Stock Exchange Announcement

The company has sent the following announcements to the Stock Exchange in the financial year 2012 up to 12 February 2013. Please refer to www.atlantic.fo on where the announcements can be read in full.

2012

Date	Headline
08-03-2012	Annual Report 2011
26-03-2012	Annual General Meeting
17-04-2012	Result of Annual General meeting
17-04-2012	Constitution of the Board of Directors
16-05-2012	1 Quarter Report 2012
03-08-2012	Half-Year Report 2012
25-10-2012	Chairman of the Board will resign from his position as Board member
01-11-2012	1-3 Quarter Report 2012
02-11-2012	Atlantic Airways appoints Chief Operating Officer (COO)
20-11-2012	Atlantic Airways signs contract with Atlantis Rejser
14-12-2012	Financial Calendar 2013
14-12-2012	Atlantic Airways appoints new Chairman of the Board
14-12-2012	Members of Nomination Committee of Atlantic Airways P/F appointed
28-12-2012	Atlantic Airways to provide wet lease service in Chile

2013

Date	Headline
	none

Definitions

ACMI
Leasing of **A**ircraft, **C**rew, **M**aintenance and **I**nsurance. 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)

Solvency 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).