ATLANTIC AIRWAYS

Annual Report 2013

Company Information

P/F Atlantic Airways, Faroe Islands

Vágar Airport
FO-380 Sørvágur
Faroe Islands
Tel + 298 34 10 00
Fax +298 34 10 01
Established 1987
Reg. no. 1223
VAT Number 379778
Domicile municipality: Sørvágur
Website: www.atlantic.fo
Email: ir@atlantic.fo

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

Niels Mortensen, Chairman
Kaj Johannessen, Vice Chairman
Tezz Tordsdotter Åkerman
Søren Jespersen
Ingi S. Joensen
Olaf S. Poulsen

Management

Jørgen Holme, CEO
Marius Davidsen, CFO
Joen Remmer, COO

Auditor

P/F Januar, 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 2013 Atlantic Airways had 181 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. The company's strategy will be reviewed in 2014.

In line with this, Atlantic Airways also prioritizes to be a valued and respected member of our local society, creating value, competences and jobs for 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 three 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 and Norway as well as high season connections to UK, Spain and Italy. This continued development has increased passenger numbers at the Vágar Airport from around 90,000 to more than 225,000 in 2013. 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 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, Atlantic Airways was awarded with the European Regions Airline Association (ERA) 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 Airbus A319 aircraft, 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

Dear Shareholder

2013 was another eventful year for Atlantic Airways.

The fleet has been renewed in 2013 with the addition of two Airbus A319, while two BAE Avro RJ aircraft have left the fleet (the remaining Avro RJ aircraft has been leased out from August 2014). The addition of the two Airbus A319 was decided in connection with the increased charter activity that the company has witnessed, and with the purpose to improve fixed-wing efficiency. The company entered into two agreements with the Danish tour operator Atlantic Rejser to provide Airbus A319 charter capacity from Denmark to holiday resorts in Egypt, which was planned to optimize our fleet utilization until 2016. However, due to the violence in Egypt and subsequent advice against travels to the Red Sea area, the charter production has been significantly lower than expected, which has negatively impacted the full-year result before tax in 2013 with DKK 4 million. Measurements are continually taken to try to counterbalance the risk associated with operating charter contracts to Egypt. Furthermore, the company has further intensified its efforts in regard to pursuing charter contracts in order to improve capacity utilization.

The impact from the reduction in the Egypt operation as well as adverse weather conditions over a period of four weeks in the summer 2013 affected earnings negatively and resulted in a lower full-year result in 2013, compared with 2012. Further, the result of 2013 was also negatively influenced by decreased helicopter activity and exit costs in connection with redelivery of an aircraft.

We are proud to note that the company again has been chosen to provide Statoil with rotor-wing and fixed-wing support in connection with oil exploration in Faroese waters and that Atlantic Airways again will lease in and operate an AW139 helicopter.

Atlantic Airways expects a clearly better full-year result after tax in 2014, compared with 2013. However, the uncertainty regarding flights to Egypt as well as adverse weather and fuel prices may have a negative impact on the result. Other risk factors mentioned in the section ‘Risk management’ may similarly affect the financial performance.

The Board of Directors decided in November 2013 to appoint a new CEO, Jørgen Holme. Mr. Holme has solid experience from the airline industry and will during a transitional period of 1-2 years lead the company, including a review of Atlantic Airways’ strategy. He follows Magni Arge, who was the CEO of Atlantic Airways for the past 18 years. The Board of Directors wants to thank Magni Arge for his enduring and faithful work in Atlantic Airways, and the achievements he has delivered in his time.

The Board of Directors has instructed the company’s management to conduct a strategy review of Atlantic Airways. The aim of this strategy review is to clarify the key strategic milestones and priorities for the coming years, including identification of key investment areas. Also, the aim is to increase the company’s competiveness to the benefits of the Faroese society and business community, including the tourism sector. The revised strategy is expected to be concluded before summer 2014.

On 10 February 2014 the Board of Directors announced its intention to offer DKK 210 per shares of a nominal value of DKK 1 each for the shares not already owned by Føroya Landsstýri or Atlantic Airways. This represents a premium of 49% compared to the closing price of Atlantic Airways’ share on the previous trading day. The intention of the offer is to enable these shareholders to exit their shareholdings in Atlantic Airways as the shares are characterised by a limited trading liquidity. We refer to the offer document for further information. The offer may eventually lead to a delisting of Atlantic Airways on both NASDAQ OMX Iceland and NASDAQ OMX Copenhagen.

In the end of February 2014 Vagar Airport chooses to form a new company together with Atlantic Airways P/F to operate the duty-free stores at Vagar Airport.

We believe that Atlantic Airways is in a strong position to continue to serve the Faroe Islands with a reliable and competitive product, and we will continue to reinforce our work in order to meet our customers’ and owners’ expectations. Lastly, we want to thank all our employees for their important contribution and efforts for the company in 2013.

Niels Mortensen	Jørgen Holme
Chairman of the Board	CEO

Fourth quarter of 2013 in brief

Financial highlights

- Revenue in the fourth quarter of 2013 was DKK 119.3 million, compared with DKK 115.8 million in the fourth quarter of 2012
- Earnings before interest, taxes, depreciation and amortization (EBITDA) in the fourth quarter of 2013 were DKK 6.4 million, compared with DKK 14.9 million in the fourth quarter of 2012
- Total depreciation and impairment in the fourth quarter of 2013 was DKK 12.2 million, compared with DKK 15.8 million in the fourth quarter of 2012
- Net financial items in the fourth quarter of 2013 amounted to DKK -2.8 million, compared with net financial items of DKK -1.9 million in the fourth quarter of 2012
- The result before tax in the fourth quarter of 2013 was DKK -8.6 million, compared with DKK -2.7 million in the fourth quarter of 2012
- Net result after tax in the fourth quarter of 2013 was DKK -7.1 million, compared with DKK -2.2 million in the same period the previous year

Traffic development

- The number of passengers carried on scheduled services in the fourth quarter of 2013 was 47,243, compared to 45,297 in the fourth quarter of 2012
- The load factor on scheduled services in the fourth quarter of 2013 was 69%, compared with 73% in the fourth quarter of 2012
- The total number of aircraft block hours operated was 1,628 in the fourth quarter of 2013, compared with 1,451 in the fourth quarter of 2012
- Block hours sold on ACMI/charter operations in the fourth quarter of 2013 was 536, compared with 344 in the fourth quarter of 2012
- Block hours on helicopters were 144 in the fourth quarter of 2013, compared with 276 in the fourth quarter of 2012

The year 2013 in brief

Financial highlights

- Total revenue in 2013 was DKK 542.2 million, compared with DKK 501.3 million in 2012
- Earnings before interest, taxes, depreciation and amortization (EBITDA) were DKK 81.5 million in 2013, compared with DKK 83.3 million in 2012
- Total depreciation and impairment in 2013 was DKK 62.6 million, compared with DKK 58.2 million in 2012
- Net financial items amounted to DKK -9.8 million in 2013, compared with net financial items of DKK -8.0 million in 2012
- The result before tax was DKK 9.0 million in 2013, compared with DKK 17.1 million in 2012
- Net result after tax was DKK 7.4 million in 2013, compared with DKK 14.0 million in 2012
- The cash position at year-end 2013 was DKK 116 million, compared with DKK 97 million the previous year
- The export value was 48% of turnover, corresponding to DKK 259 million
- As of 31 December 2013, equity was DKK 248 million, resulting in an equity ratio of 51%
- The number of full-time equivalent employees in 2013 was 181 on average, compared with 172 in 2012

Traffic development

- The number of passengers carried on scheduled services in 2013 was 225,200, compared with 208,329 in 2012
- The load factor on scheduled services in 2013 remained unchanged at 74%, compared with 2012
- The total number of aircraft block hours operated in 2013 was 7,754, compared with 7,156 block hours in 2012
- Block hours sold on ACMI/charter operations in 2013 was 2,512, compared with 1,823 in 2012
- Block hours on helicopters were 633 in 2013, compared with 1,162 in 2012

Financial highlights and key ratios

	2013	2012	2011	2010	2009
INCOME STATEMENT (DKK 1,000)					
Net sales	541.314	501.303	435.523	401.790	402.137
Other income	881	0	115	880	0
Result before depr., amort. and impairm. (EBITDA)	81.532	83.345	74.359	69.049	43.633
Depreciations, amortisations and impairment	-62.643	-58.200	-43.071	-49.546	-63.001
Result before financial items (EBIT)	18.890	25.145	31.288	19.503	-19.368
Net financial items	-9.798	-8.012	-4.103	-3.933	11.745
Share of profit/loss of associates	-109	-17	310	-488	-441
Result before tax (EBT)	8.983	17.116	27.495	15.082	-8.064
Tax	-1.617	-3.081	-4.949	-2.738	1.455
Profit	7.366	14.035	22.546	12.344	-6.609
BALANCE SHEET (DKK 1,000)					
Assets					
Total non-current assets	331.828	370.474	241.095	221.100	303.389
Total current assets	152.051	129.659	141.086	189.618	96.467
Total assets	483.878	500.133	382.181	410.718	399.856
Equity and liabilities					
Total equity	248.487	247.293	249.626	227.487	214.377
Total non-current liabilities	141.568	164.534	64.393	67.452	127.797
Total current liabilities	93.823	88.307	68.162	115.778	57.682
Total equity and liabilities	483.878	500.133	382.181	410.718	399.856
Cash flows (DKK 1,000)					
Net cash flow from operating activities	73.898	85.961	83.065	62.077	70.310
Net cash flow used in investing activities*	-24.043	-187.596	575	-31.098	-65.384
Net cash flow from financing activities	-30.978	100.167	-66.212	-15.353	-21.768
Cash flows for the period	18.876	-1.469	17.428	15.626	-16.842
**Of this purchase of property, plant and equipment*	-22.400	-183.363	3.565	-29.916	-61.360
Financial ratios					
EBITDAR (DKK 1,000)	94.354	93.937	81.709	74.679	54.805
EBITDAR margin (%)	18%	19%	19%	19%	14%
Return on investment (%)	4%	5%	8%	5%	-5%
Current ratio (%)	162%	147%	207%	164%	167%
Solvency ratio (%)	51%	49%	65%	55%	54%
Return on equity before tax (%)	4%	7%	12%	7%	-4%
Return on equity after tax (%)	3%	6%	10%	6%	-3%
Income/cost ratio (%)	1,02	1,04	1,07	1,04	0,98
Shares					
Number of shares (1,000)	1.035	1.035	1.035	1.035	1.035
Earnings after tax per share (DKK)	7,12	13,56	21,78	11,93	-6,39
Dividend per share (DKK)	0	4	7	7	0
Share price end of period (DKK)	141	121	100	116	142
Share price end of period/Earnings after tax per share (P/E)	19,81	8,92	4,59	9,73	-22,24
Traffic statistics					
Capacity - scheduled flight (ASK) (1,000)**	396.348	359.539	324.741	337.467	346.896
Traffic - scheduled flight (RPK) (1,000)**	292.070	266.672	249.467	252.140	265.050
Load factor (%)**	74%	74%	77%	75%	76%
Passengers carried on scheduled flight	225.200	208.329	193.450	186.704	196.238
Total number of passengers	299.782	266.953	260.457	219.737	316.860
Block hours	8.387	8.318	8.813	8.244	10.433
Other					
Number of full-time employees	181	172	166	167	205
Aircraft operated as at 31 December**	4	4	4	3	5
Helicopters operated as at 31 December**	2	2	2	3	3

***In 2011-2013, the distance is calculated using the Great Circle Distance. 2009-2010, distance based on estimated flown distance*

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

Management's Review

Developments throughout full-year 2013 and the fourth quarter 2013

The financial performance in 2013 amounted to a lower result compared with 2012, mainly due to extraordinarily high cancellation and diversion costs, a significantly reduction in planned operations to Egypt, decreased helicopter activity and exit costs in connection with redelivery of an aircraft. The full-year result for 2013 after tax was DKK 7.4 million, compared with DKK 14.0 million in 2012. The result before tax was DKK 9.0 million in 2013, compared with DKK 17.1 million in 2012. Earnings before depreciation (EBITDA) were DKK 81.5 million in 2013, compared with DKK 83.4 million in 2012, a decrease of 2%. Total revenue for the year 2013 was DKK 542.2 million, compared with DKK 501.3 million in 2012, equaling an increase of 8%.

The result after tax in the fourth quarter of 2013 was a loss of DKK 7.1 million, compared with a loss of DKK 2.2 million in the fourth quarter of 2012. The result before tax in the fourth quarter of 2013 was a loss of DKK 8.6 million, compared with a loss of 2.7 million in the fourth quarter of 2012. EBITDA decreased from DKK 14.9 million in the fourth quarter of 2012 to DKK 6.4 million in the fourth quarter of 2013. Total revenue in the fourth quarter increased from DKK 115.8 million to DKK 119.2 million, an increase of 3%. The main explanatory factors for the lower result in the fourth quarter of 2013 were lower contribution from ACMI/charter operations due to a reduction in planned operations to Egypt, decreased helicopter activity, higher leasing costs and one-off employee costs in connection with changes in the management group. Turnover and profit are generally low in the first and the fourth quarter of the year and highest in the third quarter due to the seasonal variation in the airline business.

In the Annual Report 2012, the company expected an increase in the full-year result for 2013, compared with 2012. The financial guidance was later lowered in connection with the half-year report and the Q1-Q3 report 2013 due to adverse weather in the Faroe Islands in July 2013 and a significant reduction in operations to Egypt caused by the disturbances and advice against all non-essential travel to the Red Sea resorts. The result was in line with the financial guidance outlined in the Q1-Q3 report 2013, in which the company expected the full-year for 2013 to be profitable, but lower than the full-year result for 2012.

Airline industry and market conditions

The general outlook for airlines is improving according to the International Air Transport Association (IATA), yet there are underlying differences between regions and segments. IATA has estimated that passenger traffic in Europe increased by 3.9% in 2013, and passenger capacity increased by 2.5%. The growth in European economy has helped to generate growth in air travel in 2013.

According to the Faroese Economic Council, the Faroese economy has experienced an increase in GDP of around 3% in current prices in 2013. The estimated growth rate in 2014 remains at the same level. However, the government debt has increased due to deficit in the government accounts. The salmon industry and the pelagic industry have both developed positively in 2013, while the traditional fishing industry still has been facing very challenging circumstances. The Faroese business confidence indicator has developed positively in 2013 and the unemployment rate has decreased.

In 2013 the EU enforced a boycott of the Faroe Islands in regard to herring and mackerel-related products and transport. If this conflict between the EU and the Faroe Islands either exacerbates or remains unsolved, the relatively stable economic climate in the Faroe Islands is likely to meet challenges.

Adverse weather

Air traffic to and from the Faroe Islands was severely affected by adverse weather with fog and low visibility during July 2013. In this period, 120 flights were delayed for periods of more than two hours, affecting 12,000 passengers. During the period, 36 flights were cancelled and 18 flights had to be diverted to destinations in the neighboring countries. The traffic interruptions in this period affected the company's earnings negatively with DKK 8.5 million. The total cost of diversions and cancellation in 2013 amounted to DKK 14 million, compared with DKK 11 million in 2012. Without the RNP AR navigational system-equipped aircraft, Atlantic Airways would have experienced an estimated additional 20 diversions or cancellations.

Fleet renewal

In 2013 the aircraft fleet has changed from three BAE Avro RJ and one Airbus A319 at the beginning of the year, to one BAE Avro RJ and three Airbus A319 at year-end 2013. The introduction of the second and third Airbus A319 has decreased the company's operation cost per available seat, as the aircraft can carry larger loads (almost a 50% increase), has increased flight regularity, improved fuel economy and has opened up new markets for both the company's scheduled and charter services.

The Airbus A319 fleet has been modified in order to support the groundbreaking RNP AR navigational aid system. The RNP AR 0.1 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. Fourth, the system has also saved fuel and CO2 emissions, as the new approach patterns save up to 8 minutes of flying time per round trip.

Atlantic Airways is the first operator in Europe to introduce RNP AR 0.1, and has thus been a spearhead in applying new cutting-edge terminal area navigational aid technology at airfields with limited accessibility, due to terrain and adverse weather.

Segment developments

The supply of seats (ASK) on scheduled services in 2013 was 10% higher in 2013 compared with 2012, following increased Airbus A319 capacity and an extended route network. Scheduled passenger traffic, measured in revenue passenger kilometers (RPK) also increased by 10%. The passenger load factor remained unchanged at 74%. The increase in passenger numbers in scheduled services in 2013 may be attributed to, among other, improved market conditions, new routes, and the involvement of Faroese-based work overseas as well as a growth in tourist traffic.

The Airbus A319 fleet has opened up for new routes with longer ranges. A direct summer route from the Faroe Islands to Barcelona opened in 2012, and a new direct summer route from the Faroe Islands to Milano opened in 2013. The customers have shown appreciation for the new routes, which will continue in 2014.

The planned expansion in charter traffic led to an increase of 38% in the ACMI/charter activity measured in block hours. The company has signed two agreements with Atlantic Rejser to provide Airbus A319 charter capacity from Denmark to holiday resorts in Egypt. This operation began in June 2013, and it was planned to extend this operation in October 2013. However, the level of production from Atlantis Rejser's activity has been significantly lower than originally planned, due to violence in Egypt. The charter flights to Egypt were interrupted during August 2013, as the Danish Foreign Ministry on August 16 advised against all non-essential travel to the Red Sea resorts in Egypt until further notice. This advice was withdrawn on September 24, 2013, but the situation led to a significant reduction in charter production from August to December 2013, compared with planned production. The estimated negative impact from the situation in Egypt on the company's 2013 full-year result before tax amounted to DKK 4 million. Beyond this, in 2013 Atlantic Airways has provided ad hoc flights in Europe and charter series for other tour operators in Denmark, as well as provided ACMI capacity to other airlines. In the first quarter of 2013 the company had flown on an ACMI contract in Chile.

A significant proportion of charter operations during the winter were based on flights to Egypt. Measurements are continually taken to try to counterbalance the risk associated with operating to Egypt. Furthermore, the company has further intensified its efforts in regard to pursuing charter contracts, in order to improve capacity utilization throughout the year.

Contribution from the fixed-wing segment has improved in 2013 compared with 2012, due to increased activity and better fleet utilization, while the contribution from the rotor-wing segment decreased in 20013 compared with 2012, due to no off-shore activity.

The company has in 2013 provided Search and Rescue (SAR) and domestic helicopter services in the Faroe Islands. One helicopter has been modified to support a new Night Vision System, and final operational approval is expected to be obtained from EASA and Danish CAA Medio 2014. This helicopter was out of service most of 2013 due to a heavy maintenance check and the installation of the modification. Due to unforeseeable complications, the modification lasted longer than expected and had a marginal negative effect on the company's earnings.

New CEO

In November 2013 the Board of Directors decided to appoint Jørgen Holme as the company's new CEO. He followed Magni Arge, who was the CEO of Atlantic Airways for the past 18 years. The Board of directors wants to thank Magni Arge for his good and faithful work in Atlantic Airways. Jørgen Holme has been appointed for a period of one to two years with the task of leading the company, including a review of the future company strategy. Mr. Holme has experience from the airline industry from SAS, Spanair and Air Greenland, primarily in leading commercial positions. Latest he was Head of SEB Kort Bank Denmark.

Operational Review

Traffic summary

The total fleet production (the number of block hours) increased by 1% in 2013, compared with 2012. Fixed-wing and rotor-wing aircraft were airborne for a total of 8,387 block hours in 2013, compared with 8,318 block hours the previous year.

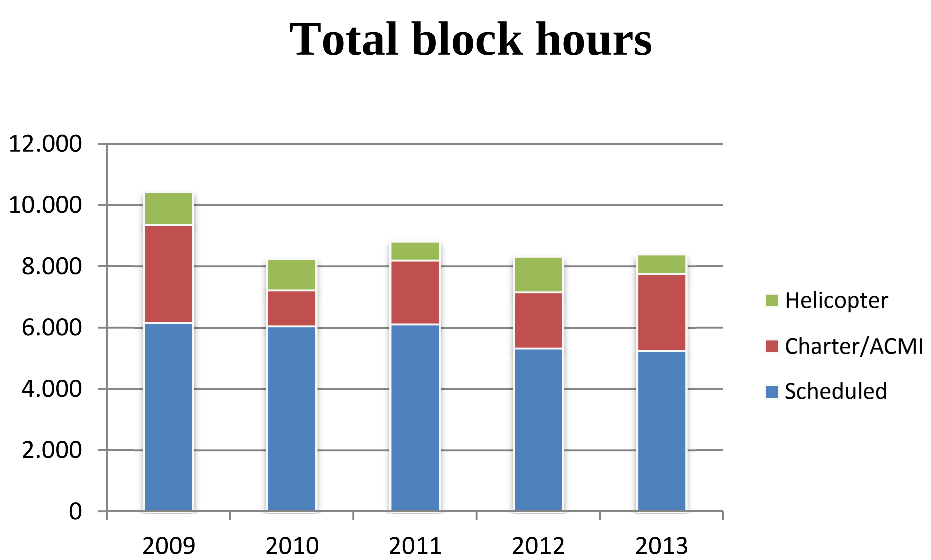
Scheduled services accounted for 62% of fleet production in 2013, ACMI/charter operations for 30% and helicopter services accounted for 8%. In 2012 scheduled services accounted for 64%, whereas ACMI/charter 22% and helicopter services accounted for 14% of fleet production.

Traffic information

	Q4 2013	Q4 2012	Change	Change	2013	2012	Change	Change
Passengers	pass	pass	pass	%	pass	pass	pass	%
Scheduled services	47.243	45.297	1.946	4%	225.200	208.329	16.871	8%
Helicopter operations	936	2.709	-1.773	-65%	5.483	10.135	-4.652	-46%
Block hours	hours	hours	hours	%	hours	hours	hours	%
Scheduled services	1.093	1.106	-14	-1%	5.242	5.332	-90	-2%
ACMI/Charter operations	536	344	191	55%	2.512	1.823	689	38%
Aircraft in total	**1.628**	**1.451**	**177**	**12%**	**7.754**	**7.156**	**599**	**8%**
Helicopter operations	144	276	-132	-48%	633	1.162	-529	-46%
	1.772	**1.727**	**45**	**3%**	**8.387**	**8.318**	**70**	**1%**

The fixed-wing fleet was airborne for 7,754 block hours, compared with 7,156 block hours in 2012. The increase in block hours derived from increased ACMI/charter activity in 2013 compared with the previous year.

The number of hours flown on scheduled services decreased by 2% in 2013 to 5,242 block hours due to the adjusted average seat capacity caused by the increased Airbus A319 fleet, with its increased seat capacity. However, in the same period the supply of available seat-kilometers on scheduled services increased by 10% compared with 2012.



ACMI/charter operations increased from 1,823 block hours in 2012 to 2,512 block hours sold in 2013. Demand for operations on behalf of other airlines (ACMI) has been low in 2013, while demand for other charter flights has increased compared with 2012.

Helicopter activity was lower in 2013 than the previous year. The helicopters were airborne for 633 hours in 2013, compared with 1,162 hours in 2012. There has been no offshore activity in 2013, which is the main explanatory factor to the decline in production. The helicopter operations were based on two helicopters in comparison with three helicopters the previous year.

In the fourth quarter of 2013, aircraft and helicopters were airborne for a combined total of 1,772 block hours, compared with 1,727 block hours in the fourth quarter of 2012, corresponding to an increase of 3%. ACMI/charter operations have increased 55% compared with the fourth quarter of 2012, due to addition of charter flights from Denmark to Egypt on behalf of the Danish tour operator Atlantis Rejser. Block hours on scheduled services have decreased 1% in the fourth quarter of 2013 compared with the same period the previous year, due to the impact from the fleet renewal with increased Airbus A319 capacity on the main routes. Helicopter activity was significantly lower in the fourth quarter of 2013 compared with the fourth quarter of 2012, due to no offshore activity in 2013.

The total number of passengers on the company’s aircraft and helicopters amounted to 300,000 in 2013, compared with 267,000 in 2012. This increase stems from growth in passenger numbers on scheduled flights as well as ACMI/charter flights, while passenger numbers on helicopter flights were lower.

Occurrences of irregularities caused by adverse weather were higher in 2013 compared with 2012. Extraordinarily severe fog in July 2013 caused unprecedented weather interruptions over a period of four weeks. During this period, 120 flights were delayed for periods of more than two hours, affecting 12,000 passengers, 36 flights were cancelled and 18 flights had to be diverted to destinations in the neighboring countries. Without the RNP AR-equipped aircraft, the company would have experienced further 20 diversions.

Scheduled services

Both scheduled passenger traffic, measured in revenue passenger kilometers (RPK), and passenger traffic capacity, measured in available seat kilometers (ASK), increased by 10% in 2013 compared with the previous year. The load factor on scheduled services remained unchanged at 74% in 2013 compared with 2012. In the fourth quarter of 2013 the load factor on scheduled services decreased to 69% in the fourth quarter of 2013 from 73% in the fourth quarter of 2012.

The total number of passengers carried on scheduled services hit a record high in 2013 with 225,000 passengers. This is an increase of 8% from 208,000 in 2012 to 225,000 in 2013, and passenger numbers increased by 4% in the fourth quarter of 2013 compared with the fourth quarter of 2012. The lower growth rate in the fourth quarter of 2013 may be partly due to no oil-related activity in the Faroe Islands in 2013.

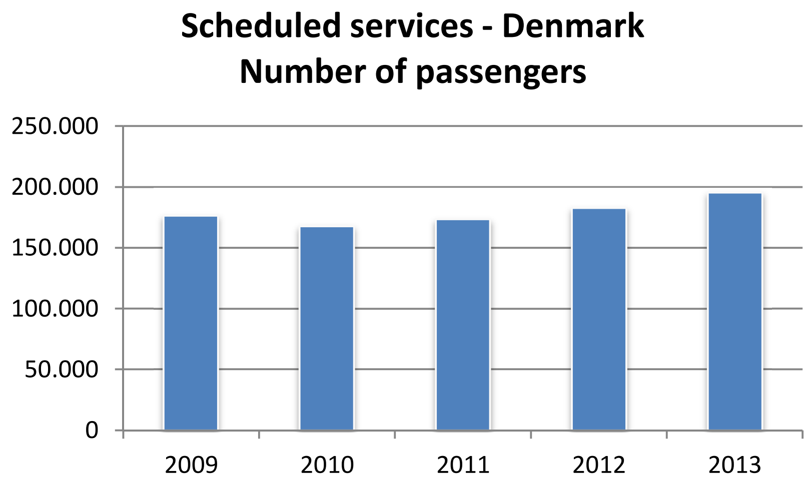
The year 2013 is the third consecutive year with passenger growth on the company's scheduled services, since the economic recession began in late 2008 in the aftermath of the global financial crisis, and which subsequently led to a significant decrease in passenger numbers. General factors contributing to the passenger growth may for instance include improved market conditions, the involvement of Faroese-based work force overseas and the expansion of the company's route network.

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 shifts surplus capacity to be utilized within the ACMI/charter business during the winter.

Denmark

Passenger numbers on the Danish routes, which include routes between the Faroe Islands and Copenhagen, Billund and Aalborg respectively, increased from 183,000 in 2012 to 195,000 in 2013, equal to a 7% increase. Available capacity (ASK) increased approximately 9% in 2013, compared with 2012, while passenger traffic (RPK) increased 7%. Thus, the load factor decreased from 76% to 75% in 2013.

The main part of the flights between Faroe Islands and Denmark are now flown with Airbus A319 aircraft. The introduction of the A319 has resulted in lower CO_2 emissions and fuel cost per passenger.



In 2013 Atlantic Airways continued to promote and 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.

Competition from the ship operator, Smyril Line, on this route remains at the same level with two weekly frequencies to/from Hirtshals, Denmark.

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 increased by 8% in 2013. Supply of capacity is expected to remain at the same level in 2014.

The company still considers Island an important market for outbound as well as inbound traffic for Atlantic Airways. There is potential for increased connection traffic to North America via Keflavík Airport, Iceland, where Icelandair currently provides a wide selection of connections to the American continent. The flight schedule for 2014 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.

It may become necessary to change from Reykjavik City Airport to Keflavik Airport, when the last BAE Avro RJ leaves the company's fleet.

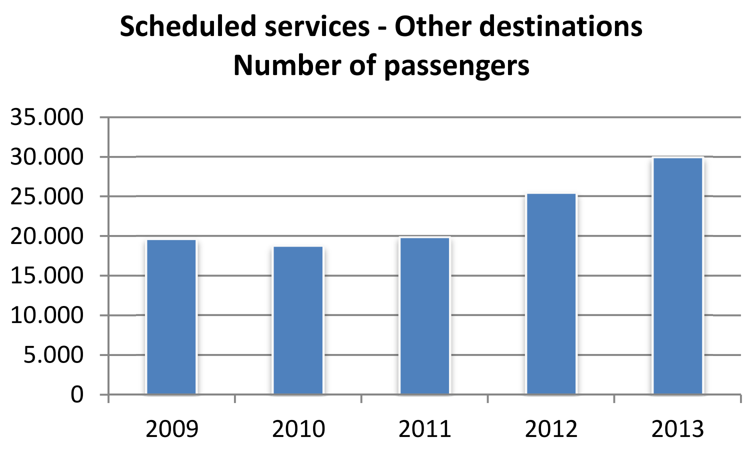
Seasonal routes

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. However, the company has flown to Norway during the autumn and winter period 2013/14 to support the growing number of Faroese nationals working in Norway.

Atlantic Airways has direct flights between the Faroe Islands and Bergen in Norway twice per week during the busy summer season, and has in addition flown to Bergen and Stord during the autumn and winter period. Furthermore, the company will in 2014 establish scheduled services between Faroe Islands and Norway during the period of exploration drilling in Faroese waters, which is expected to start in April 2014 and is estimated to last for 5-8 months.

Throughout 2013 the company had direct flights between the Faroe Islands and London twice per week during the summer high season, starting in the beginning of June and ending in the beginning of September, as well as flights during the Easter holiday. The passenger numbers were unchanged in 2013 compared to 2012, but the contribution from this route has not been satisfactory.

In 2014, Atlantic Airways will change the seasonal route between the Faroe Islands and London, from London Gatwick to London Stansted Airport due to shorter distance. The flights will start in early June and end in late August. This route will still be the only direct passenger link between the Faroe Islands and the UK.

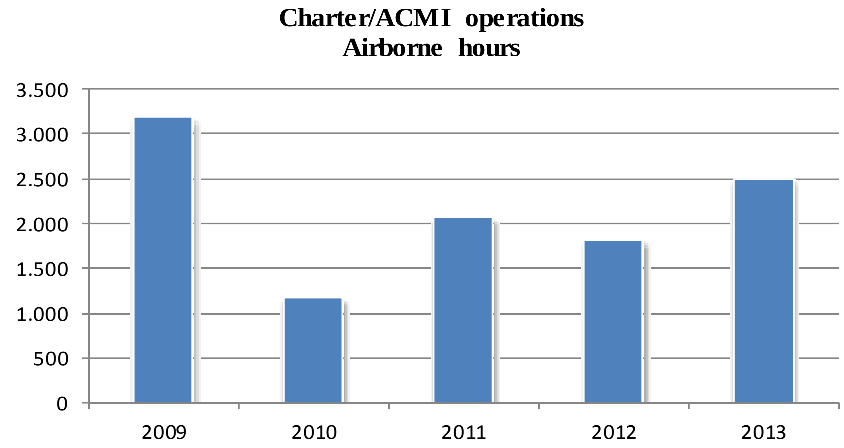


The new Airbus aircraft allow Atlantic Airways to operate with a longer range of flight, and thus also the ability to provide services to destinations, which previously could not be served directly from the Faroe Islands. A direct, weekly summer service from the Faroe Islands to Barcelona in Spain has been established and a new direct summer route from the Faroe Islands to Milan in Italy started in 2013. Both routes have been well received and 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 to 5 months from May to October in 2014. The route to Milan is like in 2013 operated between June and August.

Charter/ACMI operations

Charter activity (measured in block hours) increased by 38% in 2013, compared with 2012. Block hours sold increased from 1,823 to 2,512 due to expansion in charter series including flights from Denmark to Egypt.

Atlantic Airways has provided services in several charter segments, such as ad hoc flights in Europe for various clients as well as charter series for tour operators in Denmark. In June 2013 the company started providing Airbus A319 charter capacity on behalf of the Danish tour operator Atlantis Rejser between Denmark and Egypt. This operation was interrupted during August 2013 as the Danish Foreign Ministry on August 16 advised against all non-essential travel to the Red Sea resorts in Egypt until further notice. This advice was withdrawn on September 24, 2013. The situation in Egypt led to significant reduction in charter production from August to December, compared with planned production. Consumer confidence takes time to recover. Measurements are continually taken to try to counterbalance the risk associated with operating capacity to Egypt.



The ACMI/charter activity increased by 55% in the fourth quarter of 2013, compared with the fourth quarter of 2012, from 344 to 536 block hours due to addition of charter flight from Denmark to Egypt on behalf of the Danish tour operator Atlantis Rejser.

The contribution from ACMI/charter to the company's overall result is in general related to the number of hours sold and the average yield per hour, while turnover is significantly influenced by the type of charter operations. ACMI operations generate lower turnover as the customer carries a large proportion of flight expenses, while ad hoc, corporate charters and charter operations on behalf of tour operators include all operational costs. The contribution per hour from the charter/ACMI segment has improved in 2013 compared with 2012.

The competition has been intensified as a consequence of overcapacity in the ACMI/Charter market. The company has intensified its efforts in regard to pursuing charter contracts in order to improve capacity utilization.

Helicopter operations

The airlines helicopter activity has in 2013 been based on the two Bell 412 helicopters in ownership. These two Bell 412 helicopters provide the Faroese government with Search-and-Rescue (SAR) coverage 24 hours a day, as well as domestic services provided for the Faroese government. The company's helicopters were airborne for 633 block hours in 2013, compared with 1,162 block hours in 2012 due to no off-shore activity in 2013. Block hours in the fourth quarter of 2013 amounted to 144, compared with 276 in the same period in 2012. However, the contribution 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.

Atlantic Airways has a four-year contract with the Faroese Ministry of Fishery and the Ministry of Industry to provide helicopter SAR coverage 24 hours a day, as well as domestic transport to the most remote islands. This contract expires at the end of 2015. The SAR service was called out on 44 occasions during 2013. The company has provided domestic helicopter services in the Faroe Islands since 1994 and SAR operations since 2001.

Since 2001 the company has assisted all oil companies involved in oil exploration in the Faroe Islands. In January 2014 Atlantic Airways won a tender with Statoil to provide helicopter services in connection with oil exploration in Faroese waters in 2014. The company will also provide fixed-wing transport during the period of exploration drilling, which is expected to start in April and estimated to last for 5-8 months. The helicopter service will be provided with an AW139 helicopter, which will be leased in to fulfill this contract.

Other income areas

Ancillary revenues and revenues from duty-free sales, as well as cargo and mail transportation, increased by 11% in 2013 compared with the previous year. Duty-free income increased 13% in 2013, and income from cargo and mail increased 3%.

Atlantic Airways has operated the duty-free stores at the Vágar Airport since its opening in January 2009. In December 2013, Vágar Airport decided to operate the duty-free stores on their own effect from May 2014. However, In February, the airport chooses to cooperate with Atlantic Airways P/F to form a new company to operate the duty-free stores at Vágar Airport.

Fleet development

Four fixed-wing aircraft were in service at year-end 2013: three Airbus A319 and one BAE Avro RJ100 aircraft. The BAE Avro RJ100 and one Airbus A319 aircraft are in the company's ownership, while two Airbus A319 are on lease contracts, which expire in 2016. The average age of the fleet is 8 years.

Aircraft fleet (as of December 31, 2013)

Fleet in service, excluding aircraft leased out	No.	Owned	Manufact.
A319	**3**	**1**	**2004-2012**
Avro RJ100	**1**	**1**	**1999**
Bell 412	**2**	**2**	**1993-1997**
Expected fleet changes			
1 AW139 (lease in)			**March-October 2014 (Short-term lease)**
1 Avro RJ 100 (Phase-out)			**2014**

The BAE Avro fleet was reduced from three to one in 2013. Atlantic Airways has since the very first flight in 1988 relied on the BAE/Avro aircraft set-up for its challenging operations. One BAE Avro RJ-85 left the fleet in April 2013 on a sublease to the Chilean carrier DAP and the last BAE Avro RJ-85 was sold to North Cariboo in Canada in December 2013. In February 2014 the company leased out the remaining Avro RJ-100 aircraft for a period of 17-30 months to Malmø Aviation in Sweden with effect from August 2014.

The Airbus A319 fleet was extended from one to three aircraft in 2013. The second Airbus A319 entered the fleet in June 2013 and the third in October 2013. The increased Airbus A319 capacity has to an extent been employed on the route network during high season, and made it possible to open a new weekly summer route between Faroe Islands and Milano, but has also been the backbone in the increased charter activity out of Denmark.

The Airbus A319 aircraft are approved to fly RNP AR 0.1 approaches and take-offs, which has increased the safety margin, enabled a significantly higher flight regularity and reduced fuel burn. 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 seat capacity has also been increased with the Airbus aircraft, which has 144 seats available in comparison to 95 seats on the Avro RJ aircraft.

At year-end 2013, 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 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.

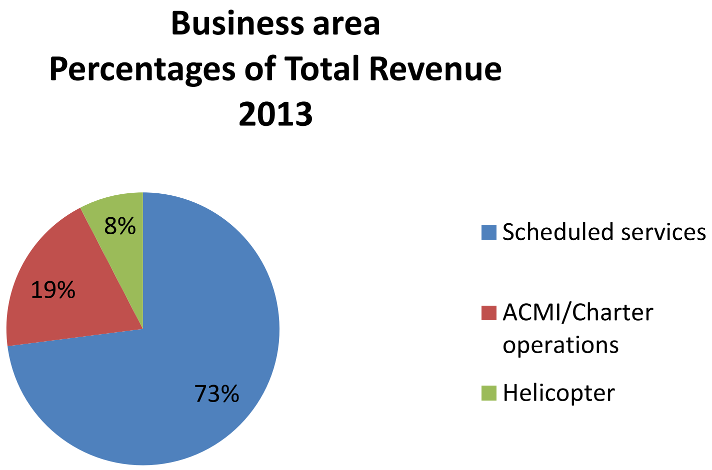
The company has signed a lease contract with the purpose of leasing-in an AW 139 helicopter on a short-term lease, in order to support Statoil's oil exploration in Faroese waters in 2014.

The total book value of the current aircraft and helicopters at year-end 2013 was DKK 274 million.

Financial Review

Financial statement, 1 October – 31 December 2013

Revenue
Total revenue in the fourth quarter of 2013 increased 3% to DKK 119.2 million, from DKK 115.8 million in the fourth quarter of 2012.



Revenue from scheduled services increased by DKK 6.4 million to DKK 88.8 million in the fourth quarter of 2013 compared with the fourth quarter of 2012. The increase mainly derived from an increase in the number of passengers and increased ancillary revenues.

Revenue from fixed-wing ACMI/charter operations increased by DKK 7.1 million to DKK 20.8 million in the fourth quarter of 2013 compared with the fourth quarter of 2012, due to addition of charter flight from Denmark to Egypt on behalf of the Danish tour operator Atlantis Rejser. The contribution from ACMI/charter operations has been significantly lower than expected due to reduction in operations to Egypt.

Revenue from helicopter operations decreased by DKK 10.0 million to DKK 9.7 million in the fourth quarter of 2013, compared with the fourth quarter of 2012, as there was no offshore activity in 2013.

Flight expenses
Flight expenses increased by DKK 8.2 million in the fourth quarter of 2013, compared with the fourth quarter of 2012. The increase is mainly attributed to increased ACMI/charter activity, passenger-related costs due to increased passenger numbers as well as higher leasing costs in connection with the fleet renewal.

Employee costs
Employee costs were DKK 27.8 million in the fourth quarter of 2013, compared with DKK 24.9 million in the fourth quarter of 2012.

Depreciation
Depreciation and impairment for the fourth quarter of 2013 was DKK 12.2 million, compared with DKK 15.8 million in the same period the previous year.

Financial items
Net financial items amounted to DKK -2.8 million in the fourth quarter of 2013, compared with DKK -1.9 million in the fourth quarter of 2012.

Financial performance
EBITDA was DKK 6.4 million in the fourth quarter of 2013, compared with DKK 14.9 million in the fourth quarter of 2012, a decrease of 57%.

The result before tax in the fourth quarter of 2013 was DKK -8.6 million, compared with DKK -2.7 million in the fourth quarter of 2012.

The fourth quarter result after tax in the fourth quarter of 2013 was DKK -7.1 million, compared with DKK -2.2 million in the fourth quarter of 2012.

Financial statement, 1 January – 31 December 2013

Revenue
Total revenue was DKK 542.2 million in 2013, compared with DKK 501.3 million in 2012, an increase of DKK 40.9 million or 8%.

Revenue from scheduled services increased by DKK 29.2 million in 2013 to DKK 396.2 million compared with the previous year, mainly due to an increase in passenger traffic and increased ancillary revenues. However, passenger yield was slightly lower in 2013, compared with 2012.

Revenue from fixed-wing ACMI/charter operations increased by DKK 35.2 million in 2013 to DKK 105.2 million compared with 2012, due to planned expansion in charter series including flights from Denmark to Egypt. The contribution from ACMI/charter operations has improved in 2013 compared with 2012.

Income from helicopter operations decreased by DKK 23.5 million in 2013 to DKK 40.8 million compared with the previous year, as there was no offshore activity in 2013. The total contribution from helicopter operations has decreased in 2013, compared with 2012.

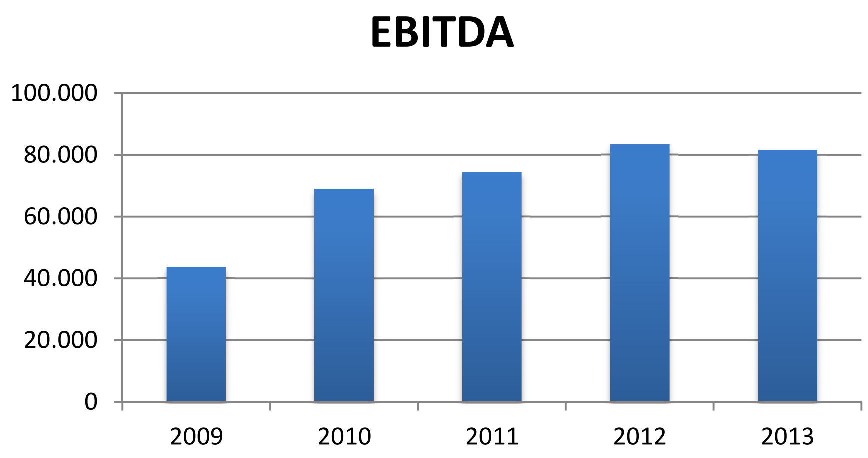
Flight expenses
Flight expenses increased by DKK 32.3 million in 2013, compared with 2012. The increase is mainly arising from increased activity in the fixed-wing ACMI/charter segment, higher passenger-related costs due to increased passenger numbers, higher costs related to traffic interruption as well as cost related to redelivery of aircraft.

Fuel is one of the main operating costs in aviation. In 2013, fuel costs accounted for 23% of the operational expenses, compared with 24% in 2012. The company's fuel costs have increased by DKK 5.8 million in 2013, compared with 2012 due to increased fixed-wing activity. The jet fuel price in DKK during 2013 has been slightly lower, compared with the previous year. The impact of the European Emission Trading Scheme EU ETS is included in fuel costs. Fuel expenditure is partly been offset by fuel surcharges.

Employee costs
Employee costs amounted to DKK 107.4 million in 2013, compared with DKK 96.9 million the previous year. The number of full-time equivalent employees was 181 on average in 2013, compared with 172 in 2012. The increase in employee costs is partly due to increased fixed-wing activity and temporary activity related to the phase-in of Airbus aircraft.

Depreciations
Depreciation and impairment amounted to DKK 62.6 million in 2013, compared with DKK 58.2 million in 2012. The increase is mainly due to the fleet renewal with the new Airbus A319 aircraft.

Financial items
Net financial items amounted to DKK -9.8 million in 2013, compared with DKK -8.0 million the previous year.

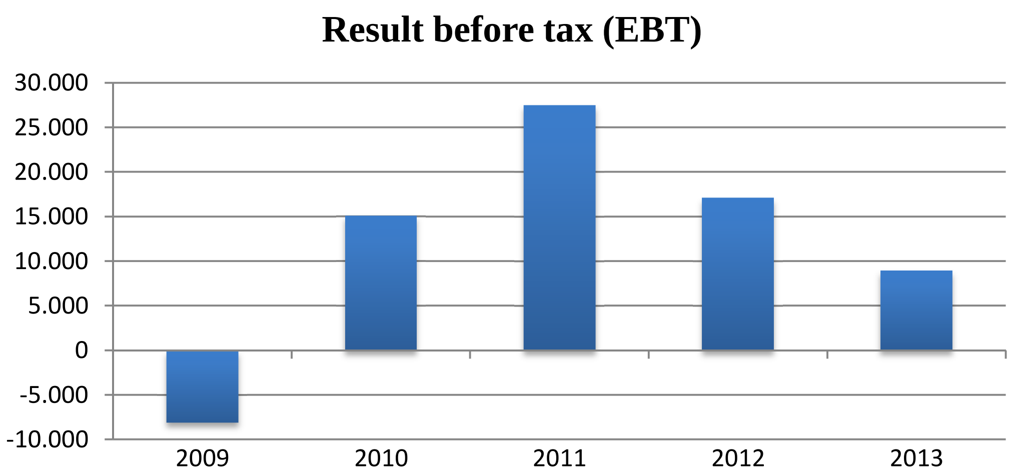


Financial performance
EBITDA was DKK 81.5 million in 2013 compared to 83.3 million in 2012, a decrease of 2%.

The result before tax was a profit of DKK 9.0 million in 2013, compared with DKK 17.1 million in 2012.

The result after tax for the year was DKK 7.4 million, compared with DKK 14.0 million in 2012.

Return on equity before tax in 2013 was 4%, compared with 7% in 2012.



Balance sheet

Assets
Total non-current assets decreased by DKK 38 million from DKK 370 million at year-end 2012 to DKK 332 million at year-end 2013.

Total current assets increased by DKK 22 million in 2013 to DKK 152 million at year-end 2013, compared with DKK 130 million at year-end 2012.

Available cash and cash equivalents at year-end 2013 was DKK 116 million, compared with DKK 97 million at year-end 2012.

Equity
Total equity as of 31 December 2013 was DKK 248 million, resulting in an equity ratio of 51%, compared with 49% at the year-end 2012.

Liabilities
The company's total liabilities as of 31 December 2013 were DKK 235 million, compared with 253 million at the end of 2012. At year-end 2013 total non-current liabilities were DKK 142 million, compared with DKK 165 million at year-end 2012.

Balance sheet
The balance sheet total as of 31 December 2013 was DKK 484 million, which is DKK 16 million lower than at the end of 2012.

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 on the reporting date there are no factors that give rise to doubts, as to whether the company can or will continue operations until at least the next balance sheet date. 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 37) 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

In January 2014, Atlantic Airways won a tender with Statoil to provide helicopter service in connection with oil exploration in Faroese waters in 2014. The company will also provide fixed wing transport during the period of exploration drilling, which is expected to start in April 2014 and estimated to last 5-8 months. The helicopter service will be provided with an AW139 helicopter, which will be leased in to fulfill the contract.

On 10 February 2014 the Board of Directors announced its intention to offer DKK 210 per shares of a nominal value of DKK 100 each for the shares not already owned by Føroya Landsstýri or Atlantic Airways. This represents a premium of 49% compared to the closing price of Atlantic Airways' share on the previous trading day. The intention of the offer is to enable these shareholders to exit their shareholdings in Atlantic Airways as the shares are characterised by a limited trading liquidity. We refer to the offer document for further information. The offer may eventually lead to a delisting of Atlantic Airways on both NASDAQ OMX Iceland and NASDAQ OMX Copenhagen.

The company signed an agreement in February 2014 to lease out one RJ-100 aircraft to Malmø Aviation on a dry lease for a period of 17-30 months with effect by end of August 2014. The lease is in line with the original plan to phase out the BAE RJ fleet. The lease will not have an impact on expectations for the full-year result in 2014, and is expected to generate a positive cash-flow.

In the end of February 2014 Vagar Airport chooses to form a new company together with Atlantic Airways P/F to operate the duty-free stores at Vagar Airport.

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 2014

Aviation industry

The European aviation environment is expected to remain very competitive in 2014. According to the IATA, European airlines will still be hampered by weak home markets in parts of the Eurozone. The growth rate in the European airline market is expected to be higher in 2014 compared with 2013, both in terms of traffic and capacity. The expected growth in traffic is estimated to be 4.7% in 2014, compared with 3.9% in 2011. Similarly, the expected growth in capacity is estimated to be 4.5% in 2014, compared with 2.5% in 2012.

IATA estimates the EBIT margin for the group of European commercial airlines to reach 2.0% in 2014, compared with 1.3% in 2013. The industry structure is changing with a focus on improving efficiency and the utilization of aircraft. The commercial airline industry is linked to the strength of the economy in the relevant markets.

The Emission Trading Scheme (ETS) and more demanding EU passenger right article contributes further to the challenges that the aviation industry has to meet.

Market conditions

According to the Faroese Economic Council, the Faroese economy has experienced an increase in GDP of around 3% in current prices in 2013 and is expected to reach the same increase in 2014. However, the government debt is increasing due to a deficit in the government accounts. The salmon industry and the pelagic industry have developed positively in 2013, while the traditional fishing industry is still facing very challenging circumstances. The Faroese business confidence indicator has developed positively in 2013 and the unemployment rate has decreased. The tendency towards decreasing population numbers in the Faroe Islands appears to have been stopped so far.

In 2013 the EU enforced a boycott of the Faroe Islands in regard to herring and mackerel-related products and transport. If this conflict between the EU and the Faroe Islands either exacerbates or remains unsolved, the relatively stable economic climate in the Faroe Islands is likely to meet challenges.

Scheduled services

Supply of seats on the main routes from the Faroe Islands to Copenhagen is expected to increase by approximately 4% in 2014, and the passenger numbers on the routes from Faroe Islands to Copenhagen is expected to increase 2%, resulting in a marginally lower load factor. The company will in Q1 2014 fly from the Faroe Islands to Norway to support the growing number of Faroese nationals working in Norway. In 2014 the company will establish services between the Faroe Islands and Norway during the period of exploration drilling in Faroese waters, which is expected to start during April 2014 and estimated to last for 5-8 months. The summer service to Barcelona will be extended in 2014. In addition, there will be some adjustment in capacity to other routes corresponding to market demand.

Recent government initiatives to support development and branding of tourism in Faroe Islands as well as the reduced international traveler tax in the Faroe Islands are both likely to induce growth in tourism levels in 2014. 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.

Transportation by sea via the ferry operator, Smyril Line, on the routes between the Faroe Islands and Denmark will remain at the same level in 2014 with two weekly frequencies to/from Hirtshals, Denmark. Smyril Line still remains the largest competitor in regard to travelling to and from the Faroe Islands.

Charter operations

The volume of charter operations is expected to increase moderately in 2014. The company expects a lower charter production on behalf of Atlantis Rejser than originally planned. However, the uncertain situation in Egypt may have a further negative impact on charter operations. Measurements are continually taken to try to counterbalance the risk associated with operating to Egypt. The company has intensified its efforts in regard to pursuing charter contracts in order to improve capacity.

Atlantic Airways will in addition to the charter production for Atlantis Rejser, also provide charter series for tour operator in Denmark as well as ad hoc flights in Europe.

Helicopter operations

The helicopter operations in 2014 will be based on the two Bell 412 helicopters in ownership and on a AW 139 helicopter, which will be leased in on a short-term lease in 2014. The two Bell 412 helicopters will the Faroese government with SAR coverage 24 hours a day as well as domestic services, and the AW 139 will provide Statoil with helicopter service in connection with oil exploration in Faroese waters. The exploration period is expected to start in April 2014 and is estimated to last for 5-8 months.

Duty-free

In the end of February 2014 Vagar Airport chooses to form a new company together with Atlantic Airways P/F to operate the duty-free stores at Vagar Airport.

Financial forecast for 2014

Based on this background, Atlantic Airways expects a clearly better full-year result after tax in 2014 compared with 2013, yet uncertainty regarding flights to Egypt, adverse weather and fuel prices 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 the beginning of 2013, the share price was DKK 121 and the market value DKK 125 million. In the year 2013 the share price increased until July 2013, when it reached 170 and subsequently decreased during Q3 and Q4. At year-end 2013 the share price was DKK 141 and the total market value of the company amounted to DKK 146 million. Hence, market value increased by DKK 21 million, or 17%, during 2013. The turnover of shares in the company is relatively low. On 24 January 2014 the share price was DKK 147 and the market value DKK 152 million, which is 39% 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	264.639	25,6	25,8
Non-registered shareholders	7.531	0,7	0,7
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 24 January 2014. The total number of registred shareholders as at 24 January 2014 amounted to 1,069.

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 are and continue to be in the interest of the shareholders and the company. The share price increased 17% in 2013 and the shareholders received a dividend of DKK 3.86 per share in 2013, corresponding to 4% of the share capital.

Dividend

In 2013, a dividend of DKK 4.0 million was distributed to Atlantic Airways' shareholders. The board of directors propose that no dividend will be distributed to the shareholders at the Annual General Meeting in April 2014 in connection with the fact that the Board of directors wants to buy the remaining third of the shares, which is privately held, back from the shareholders.

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 2013. 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 2013. 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 2013.

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 June 2013, the company is not subject to the corresponding Danish Recommendations on Corporate Governance, issued in May 2013. However, Atlantic Airways has nonetheless also chosen to follow the Danish Recommendations on Corporate Governance and to comply with the recommendations where possible. A comprehensible table overview of the company's compliance with the Danish Recommendations, as well as explanations of departures, is provided on the company's website http://www.atlantic.fo/en/about-us/investor-relations/governance/corporate-governance.aspx 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 ensuring 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 with 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 are not only relevant skills and competencies of various members, but are also listed to ensure that the Board of Directors represents a diversity of relevant skills and knowledge.

The Chairman 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 meetings 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 to act as an 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 in 2013. Attendance by each individual board member is illustrated in the table on page 28.

Attendance in board meetings 2013	**No. of meetings**	**Attendance**
Niels Mortensen, Chairman (as of March 8, 2013)	8	8
Kaj Johannessen, Vice-chairman (Vice-chairman from 14 May 2013)	9	9
Tezz Tordsdotter Åkerman	9	9
Ingi S. Joensen	9	9
Olaf S. Poulsen	9	8
Søren Jespersen (as of June 20, 2013)	6	6
Bjarni A. Bjarnason (until March 8, 2013)	1	1
Jens Wittrup Willumsen (until May 14, 2013) (Vice-chairman 1 January – 14 May 2013)	3	3

Board of Directors

Niels Mortensen, Chairman of the Board

Born: 28 October 1966 (male)
Address: Traðavegur 12, FO-100 Tórshavn, Faroe Islands
Joined the Board: March 2013
Special skills: Commercial experience
Chief Occupation: CEO of SMS P/F and NM Holding
Experience: Danske Bank 1987-1992, P/F SMS 1992-
Other board duties: P/F Petur Larsen, Føroya Handilsskúli
Education: Niels Brock Business School, Danske Bank
Shares: Mr. Mortensen neither has shares nor shares options in the Company. Unchanged in 2013
Interest links: Mr. Mortensen has no interest links with the Company's main shareholders, customers or competitors

Board of Directors

Kaj Johannessen, Vice-chairman of the Board

Chairman of the Board 1 January – 8 March 2013
Vice-chairman 2009-2012, and from 14 May 2013
Chairman of the Nomination Committee 2013
Currently in charge of the Audit Committee activities
Born: 8 November 1960 (male)
Address: Inni á Fløtum 13, FO-180 Kaldbak, Faroe Islands
Joined the Board: April 2009
Special skills: Expertise in financial and accounting matters, Governmental matters
Chief Occupation: Advisor in the Ministry of the Finance
Experience: Mr. Johannessen has been Advisor in the Ministry of Finance since 2013. Advisor in the Ministry of the Interior 2008-2013. Senior Bank clerk in Føroya Banki (Bank Nordik) 2000-2008. Member of the chairmanship of the Faroese Council of Economic Advisers 2006-2009. Economist at Landsbanki Føroya 1993-2000 and Managing Director of Menningargrunnur Ídnaðarins 1990-1993. Examinator in economics at the Faroese University (Fróðskaparsetur Føroya) since 2001. Examinator in management accounting at the Faroese Business Collage since 2009.
Other board duties: Currently a board member of P/F Enniberg and P/F Farcod
Education: Mr. Johannessen has a MSc in Economics and Business Administration from Copenhagen Business School 1990, specializing in Financing, International Business and Management Accounting
Shares: Mr. Johannessen neither has shares nor shares options in the Company. Unchanged in 2013
Interest links: Mr. Johannessen has no interest links with the Company’s main shareholders, customers or competitors

Tezz Tordsdotter Åkerman, Member of the Board

Member of the Nomination Committee 2012-2013
Born: 13 October 1967 (female)
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 Åkerman 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 Åkerman neither has shares nor shares options in the Company. Unchanged in 2013
Interest links: Miss Åkerman has no interest links with the Company’s main shareholder, customers or competitors

Søren Jespersen, Member of the Board

Born: 28 September 1957 (male)
Address: Valbirkvej 1, DK-2900 Hellerup, Denmark
*Joined the Board:*June 2013
Special skills: Business Strategy, Revenue Management, Sales and sales force management, Airline operations, Airport and Cargo handling, Shipping operation and strategy, Turn around management.
Chief Occupation: CEO Mols-Linien A/S 2011-
Experience: Mr. Jespersen have had several high level positions within the aviation industry, General Manager SAS Hong Kong, Vice President SAS Revenue Management, Senior Vice President SAS Commercial just to mention a few. Mr. Jespersen was COO and Executive Board Member of the shipping company DFDS, Executive Vice President of DFDS Seaways and now CEO of the shipping company Mols Linien A/S, both listed on the Copenhagen stock exchange. In addition experience from some 30 board positions within different industries.
Other board duties: Pro Design International, Chairman, Cruise Copenhagen Network, Chairman
Education: Mr. Jespersen hold a MBA from IMD in Switzerland.
Shares: Mr. Jespersen neither has shares nor shares options in the Company. Unchanged in 2013
Interest links: Mr. Jespersen has no interest links with the Company’s main shareholder, customers or competitors

Ingi S. Joensen, Member of the Board

Member of the Nomination Committee 2012-2013
Born: 29 December 1980 (male)
Address: Á Mýratrøðni 17, FO-380 Sørvágur, 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, Sp/f Plys and Sp/f 20.07.89
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 2013
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 (male)
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 2013
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 was approved. The committee was given the task of preparing proposals for board members, chairman and remuneration for these for the next Annual General Meeting, which were held in March 2013. In 2013 the Nomination Committee prepared proposals for board members up to the Annual General Meeting in March 2013.

The Board decided at a board meeting in September 2013 to close down the Nomination Committee due to the fact, that the Committee only had the task of preparing proposals for the Annual General Meeting in 2013, and that the Committee is not part of the company's Articles of Association.

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.

Jørgen Holme has been the CEO of Atlantic Airways since November 2013 (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, Jørgen Holme is the Accountable Manager for the airline 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.

Marius Davidsen has been the company's CFO since 2005, and is in charge of finance, administration and IT.

Joen Remmer has been the company's COO since November 2012, and is in charge of the operations.

Jørgen Holme, CEO

Born: 9 April 1961
Address: Garðsvegur 22, FO-380 Sørvágur, Faroe Islands
Experience: Mr. Holme has been CEO of Atlantic Airways since November 2013. He has years of experience from the airline industry at SAS, Spanair and Air Greenland primarily in leading commercial positions. Latest he was Head of SEB Kort Bank Denmark.
Other board duties: None
Education: Mr. Holme has a master degree in economics and management
Shares: Mr. Holme and his related parties neither have shares nor share options in the Company. Unchanged in 2013
Interest links: Mr. Holme 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 2013
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: Ovari vegur 29, FO-335 Leynar, Faroe Islands
Experience: Mr. Remmer has been COO of Atlantic Airways since November 2012. Mr. Remmer has previously held the positions as Deputy Director Flight Ops and Quality Manager for Operations and Maintenance. Mr. Remmer is also 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 2013
Interest links: Mr. Remmer has no interest links with the Company's main shareholders, customers or competitors

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

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

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

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

External Auditing

To protect the interests of shareholders and the general public, an state 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 corporate social responsibility (CSR) approach and activities make sense for both our business and for society. The company's approach to 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

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 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 according to the Articles of Association, there is no time limit before the general meeting to nominate candidates to 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 2013. 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 nor a Nomination Committee, considering the company's size and organizational structure. 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 separate sub-committees.
- 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, changes in the price of carbon emission permits, changes in the European Emissions Trading Scheme, demand for airline travel, demand for fixed-wing and rotor-wing charter operations, the general level of cost, the weather and traffic disruption, volcanic ash, operations and accidents, regulation, technology, financial risk, credit risk, and currency risk.

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

In order to counteract the volatile Faroese economy the company has been working towards diversifying its economic base. In 2013, 48% of the company's revenues were from abroad and 52% domestic. Also, revenues are divided among the main business areas: scheduled services, ACMI/charter operations, and helicopter operations.

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 2013, 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.

In order to manage the risk exposure of fuel price volatility, and subsequent impacts on the company's expenses, the Board has approved a policy to hedge. The company has permission to hedge up to 100% of the yearly estimated fuel consumption up to 24 months forward. Minimum 40% of the estimated fuel consumption on scheduled services for the next three months must be hedged, and minimum 30% of the next three to six months estimated fuel consumption on scheduled services. The company must hedge minimum 65% of estimated yearly fuel consumption on contracted charter flights. The objective of the risk management policy is to transfer the risk exposure to the customer in connection with major charter contracts. 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 65% of estimated fuel consumption in 2014 against price changes. At the end of 2013, approximately 62% 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. Following the outcome of the International Civil Aviation Organization (ICAO) Assembly, the European Commission proposed in October 2013 to amend the EU ETS so that aviation emissions would be covered for the part of flights that takes place in European regional airspace, until a global market-based mechanism (MBM) becomes applicable to international aviation emission by 2020, as planned by ICAO. According to the proposal, flights between EU/EFTA and the Faroe Islands will not be covered. Since there is disagreement between various Committees of the European Parliament and the European Council about certain features of the proposal, the outcome remains uncertain.

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 CO_2 emission allowances has been allocated to the company, but these will be re-calculated after an agreement on the new proposal from the European Commission has been reached. The CO_2 market has historically been volatile. CO_2 emission costs amounting to DKK 1.1 million have been recognized in the income statement 2013 according to the current legislation.

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 2013, the company's cost of cancellations and disruption was around DKK 14 million, most of which derived from severe fog over a period of four weeks in July 2013. In the past five years, the annual cost due to cancellations and delays ranged from DKK 8 to DKK 15 million.

Expenses incurred from disruptions are expected to fall in 2014 as the benefits from the new procedures of RNP AR 0.1 is expected to 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.

In order to manage the risk exposure of changes in foreign exchange rates, and subsequent impacts on the company's expenses, the Board has approved a policy to hedge USD deficit. The company has permission to hedge up to 100% of the estimated yearly USD deficit on fuel and leasing. Minimum 40% of the estimated USD deficit from fuel consumption on scheduled services for the next three months must be hedged and minimum 30% of the next three to six months estimated USD deficit from fuel consumption on scheduled services. The company must hedge minimum 65% of estimated yearly USD deficit from fuel consumption on contracted charter flights and minimum 50% of estimated yearly USD deficit from aircraft leasing. The company has hedged approximately 65% of its estimated USD deficit on fuel and leasing in 2013.

Interest rate risk

The company is exposed to interest rate risks through investments and financing. As of 31 December 2013, the company had DKK 127 million in interest-bearing liabilities, of which 15% 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 52% at year-end 2013.

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 2013 was DKK 116 million and deemed to be sufficient. The liquidity is affected by seasonality.

The situation in Egypt

A not insignificant proportion of planned charter operations in 2014-2016 are based on flights between Denmark and Egypt on behalf of the Danish tour operation Atlantis Rejser, which may be further affected by the political situation in Egypt. The uncertain situation in Egypt in 2013, with a period of warning against all non-essential travel to the Red Sea resorts in Egypt, led to a significantly reduction in planned charter production.

Measurements are continually taken to try to counterbalance the risk associated with operating in Egypt.

Knowledge and Human resources

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

The company is the only 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 providing them opportunities for further career development.

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

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

Corporate Social Responsibility (CSR)

CSR in Atlantic Airways 2013

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.

Atlantic Airways is one of the largest enterprises in the Faroe Islands with 181 employees and with a permanent satellite base in Copenhagen as well as a temporary base in Billund. We are linking the Faroe Islands with the world through scheduled connections to Denmark, neighboring countries Iceland, Norway, the UK as well as Spain and Italy, 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.

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 steering our CSR focus, including a number of issues related to each key area:

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

This report outlines our approach and some of our activities in regard to CSR.

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

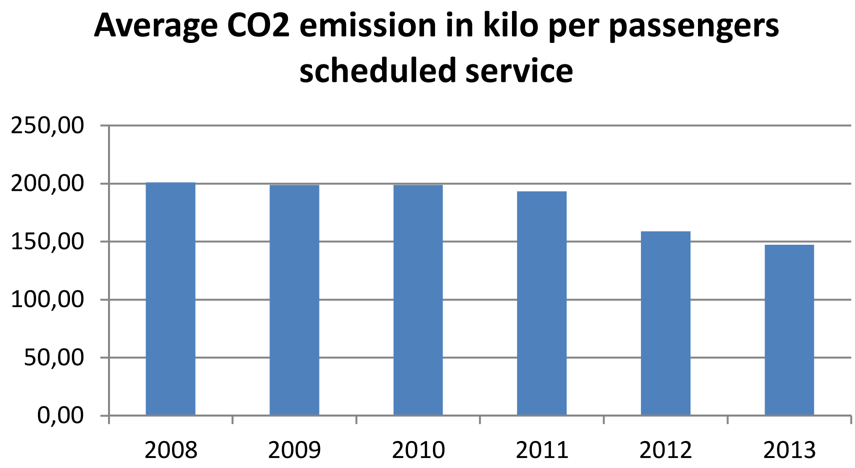
Environment
As an airline, our main environmental footprint stems from the fuel we use for our aircrafts. With increasing regulation and high fuel prices it makes sense business wise, to do everything we can to reduce our fuel consumption. With CO2 emissions creating climate change, we also recognize our responsibility to constantly seek ways of lowering 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 have lately been updating our fleet of aircrafts to newer aircrafts, which less fuel.

In early 2008, Atlantic Airways decided to reduce the fuel use per hour through optimized operational procedures. In 2013, the average jet fuel burn per passenger on the scheduled services was 17 kg lower on average, compared with the average consumption per passenger on the scheduled services in 2008. Converted to CO2 emission figures, this means that Atlantic Airways has reduced its emission by 53 kg/passenger on the scheduled services, equal to a decrease of 27% per passenger

In line with the company’s fuel-saving efforts, an intensified aircraft-washing program has been established by Atlantic Airways, as using clean aircrafts equals less fuel burn . However, the majority of the fuel-saving measures are related to the operation of the aircraft. The wind conditions during flight 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 throughout the past 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 and Safety
It is central for our license to operate that we are in compliance with relevant legal and industry requirements in regard to health and safety issues. In addition, we are concerned about our employees, and do our outmost to ensure that they have a safe work environment. We are regularly conducting training in health & safety for our employees and have a health and safety organization in place as required by Faroese Law and Danish law related to aviation.

Each work-related accident or incident registered in 2013 has been evaluated, and mitigating measures have been taken to avoid repetition of these occurrences. Also, we regularly evaluate the physical well-being of our employees, and work from a systematic action plan to improve the identified findings.

Safety management

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

'Just Safety Culture' is part of the system, in which each employee is encouraged to provide safety-related information in a non-punitive environment, but where there is also a clear line between acceptable and unacceptable 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, which are not within operating procedures. From statistical and trend data, we are able to identify and predict where to increase our focus.

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

Compliance management

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

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

WORKPLACE

Employee satisfaction and well-being

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

At Atlantic Airways, we focus on our employees' satisfaction and well-being. Knowing that satisfied and motivated employees are more productive and efficient, we have initiated surveys among staff groups to measure job satisfaction and well-being. In 2012, a survey was conducted among the air crews, and in 2013 the survey was conducted among other staff groups focusing on physical condition, communication and social environment. Based on the survey, we have developed action plans focusing on improvements of key areas.

In 2013, 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 employ people on special conditions to allow them to have a job despite shortcomings to fulfill a normal job – either temporarily or permanently. In the unfortunate event that we have to lay off an employee, we do our outmost to help the person in his or her future career. 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 Faroese 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 2013 we:

- Opened our doors to more than 20 students in elementary school for their practicum
- Offered Faroese students at home and abroad training and seasonal positions during high-activity seasons as cabin attendants and in other service functions
- Attended 'jobmatch.fo' in order 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 2013 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 engaged with the broader development of business and the business community through the Faroese Employers' Association, as this provides economic activity and, ultimately, jobs for people on the islands - and eventually business for us.

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

Sponsorships and donations
Atlantic Airways 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. Additionally, focus has been on supporting Faroese cultural life for many years. Atlantic Airways has among other things sponsored various music festivals and artists.

Financial calendar 2014

4 March 2014	**Annual Report 2013**
30 April 2014	**Annual General Meeting**
15 May 2014	**Interim Report Q1 2014**
28 August 2014	**Interim Report Q1-Q2 2014**
6 November 2014	**Interim Report Q1-Q3 2014**

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 2013.

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, 2013, and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2013.

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 4th of March 2014

Executive Management:

Jørgen Holme CEO	Marius Davidsen CFO	Joen Remmer COO

Board af directors

Niels Mortensen Chairman	Kaj Johannessen Vice-chairman	Tezz Tordsdotter Åkerman
Søren Jespersen	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 2013, 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 2013 and of the results of the Company's operations and cash flows for the financial year 1 January to 31 December 2013 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 4th of March 2014

Januar P/F
Løggilt grannskoðanarvirki

Jørmann Petersen	Jóanes Olsen
State Authorized Public Accountant	Registered Public Accountant

Income Statement for the year 2013

(DKK 1,000)	Note	2013	2012
Net revenue	3	541.314	*501.303*
Other income		881	*0*
Total revenue	2,3,5	**542.195**	***501.303***
Flight expenses	4	-353.299	*-321.043*
Employee expenditures	6	-107.364	*-96.915*
Total operating expenses		-460.663	*-417.959*
Result before depreciation, amort. and impairment (EBITDA)		**81.532**	***83.345***
Depreciations, amort. and impairment	7,12,13	-62.643	*-58.200*
Result before financial items (EBIT)		**18.890**	***25.145***
Financial income	8	2.422	*3.545*
Financial expenses	9	-12.220	*-11.557*
Net financial items		-9.798	*-8.012*
Share of profit/loss of associates	15	-109	*-17*
Result before taxes (EBT)		**8.983**	***17.116***
Income tax	11	-1.617	*-3.081*
Net Profit / Loss for the year		**7.366**	***14.035***
Attributable to:			
Shareholders of Atlantic Airways P/F		7.366	*14.035*
Earnings per share	39		
Earnings per share (DKK) (EPS)		7,19	*13,71*
Diluted earnings per share (DKK) (EPS-D)		7,19	*13,71*
Proposed allocation of profit/loss			
Proposed dividend to shareholders	40	0	*4.000*
To carry forward to next period		7.366	*10.035*
Total		**7.366**	***14.035***

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

Statement of comprehensive income for the year 2013

(DKK 1,000)	2013	*2012*
Net Profit / Loss for the year	**7.366**	***14.035***
Other comprehensive income		
Value adjustment of cash flow hedges	-2.358	*-11.705*
Tax of value adjustment of cash flow hedges	424	*2.107*
Revaluation reserve shares	-281	*155*
Tax of available-for-sale financial assets	0	*0*
Dividend own shares	43	*75*
Other comprehensive income after tax	**-2.172**	***-9.368***
Total comprehensive income	**5.194**	***4.667***
Attributable to:		
Shareholders of Atlantic Airways P/F	5.194	*4.667*

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

Balance Sheet as at 31 December 2013

ASSETS (DKK 1,000)	Note	31.12.2013	31.12.2012
Intangible assets	12	**2.965**	***6.379***
Aircraft and maintenance	13	274.259	*303.419*
Spare parts	13	10.201	*13.929*
Operating equipment	13	9.323	*9.972*
Hangar, buildings and land	13	33.510	*35.158*
Total tangible assets		**327.293**	***362.478***
Investment in associates	15	595	*479*
Other shares	16	975	*1.138*
Other non-current assets		**1.570**	***1.617***
Total non-current assets		**331.828**	***370.474***
Inventories	17	**2.989**	***2.397***
Trade receivables	18	17.872	*24.713*
Prepayments	19	4.833	*2.313*
Other receivables	20	9.797	*1.891*
Other shares "available-for-sale"	21	581	*862*
Derivatives	22	0	*382*
Total receivables		**33.082**	***30.159***
Cash and cash equivalents	35	**115.980**	*97.104*
Total current assets		**152.051**	***129.659***
TOTAL ASSETS		**483.878**	***500.133***

Balance Sheet as at 31 December 2013

EQUITY AND LIABILITIES (DKK 1,000)	Note	31.12.2013	*31.12.2012*
Share capital	23	103.500	*103.500*
Share premium reserve	23	23.500	*23.500*
Value adjustm. of cash flow hedges	23	-2.217	*-283*
Revaluation reserve shares	23,25	108	*389*
Retained earnings	23,26	123.596	*116.187*
Proposed dividend	23,40	0	*4.000*
Total equity		**248.487**	***247.293***
Mortgage loans	28	111.510	*135.669*
Deferred income tax liabilities	11	30.058	*28.865*
Total non-current liabilities		**141.568**	***164.534***
Mortgage loans	28	15.563	*18.383*
Trade payables	28	35.365	*30.271*
Current income tax liabilities	11	0	*0*
Deferred income and accruals	28	40.193	*38.926*
Derivatives	28	2.703	*727*
Total current liabilities	28	**93.823**	***88.307***
Total liabilities	28	**235.391**	***252.841***
TOTAL EQUITY AND LIABILITIES		**483.878**	***500.133***

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 01.01.2012	**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	-	-	-	-	-	-	-
Dividends Own shares	-	-	-	-	75	-	75
Total comprehensive income	-	-	**-9.598**	**155**	**14.110**	-	**4.666**
Proposed dividend	-	-	-	-	-4.000	4.000	-
Dividends paid	-	-	-	-	-	-7.000	**-7.000**
Equity at 31.12.2012	**103.500**	**23.500**	**-283**	**389**	**116.187**	**4.000**	**247.293**
Equity at 01.01.2013	**103.500**	**23.500**	**-283**	**389**	**116.187**	**4.000**	**247.293**
Result for the period	-	-	-	-	7.366	-	7.366
Value adjustm. of cash flow hedges	-	-	-342	-	-	-	-342
Tax of value adjustm. of cash flow hedges	-	-	62	-	-	-	62
Transfers to flight expences	-	-	-2.015	-	-	-	-2.015
Tax of transfer to flight expences	-	-	363	-	-	-	363
Revaluation reserve shares	-	-	-	-281	-	-	-281
Tax of revaluation reserve shares	-	-	-	-	-	-	-
Dividends Own shares	-	-	-	-	43	-	43
Total comprehensive income	-	-	**-1.933**	**-281**	**7.409**	-	**5.194**
Proposed dividend	-	-	-	-	-	-	0
Dividends paid	-	-	-	-	-	-4.000	-4.000
Equity at 31.12.2013	**103.500**	**23.500**	**-2.217**	**108**	**123.596**	-	**248.487**

Breakdown of changes in share capital

(DKK 1,000)	2013	2012	2011	2010	2009
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 23-26 and 40 are an integral part of the Statement of Changes in Equity

Cash Flow Statement

(DKK 1,000)	Note	2013	2012
Net profit/loss for the period		**7.366**	***14.035***
Depreciations		62.643	*58.200*
Taxes		1.617	*3.081*
Adjustments		**64.259**	***61.281***
+/- trade receivables		6.841	*-2.464*
+/- prepayments		-2.520	*447*
+/- other receivables		-7.906	*57*
+/- Inventories		-593	*804*
+/- investment in assosiates and other shares		47	*17*
+/- trade payables		5.094	*6.786*
+/- current income tax liabilities		0	*-6.970*
+/- deferred income and accruals		1.309	*11.969*
Changes in operating assets and liabilities		**2.272**	***10.645***
Cash flow from operating activities		**73.898**	***85.961***
Purchase of intangible, tangible assets and prepaid aircraft	12,13	-33.527	*-187.896*
Sale of intangible and tangible assets	12,13	9.484	*299*
Cash flows from investing activities		**-24.043**	***-187.596***
Proceeds from new loans	28	0	*118.800*
Changes of long-term loans	28	-26.978	*-11.633*
Paid dividends		-4.000	*-7.000*
Cash flows from financing activities		**-30.978**	***100.167***
Total cash flows for the period		**18.876**	***-1.469***
Cash and cash equivalents at the beginning of the period		**97.104**	***98.572***
Cash and cash equivalents at the end of the period	35	**115.980**	***97.104***
Additional cash flow information	36		

The notes 7-40 are an integral part of the Cash Flow Statement

The company has in addition to the cash equivalents access to DKK 42 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, 2013 and for the period January 1, to December 31, 2013 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 2013, excluding aircraft leased out, supported by 171 employees with the operational base at Vágar. In the Helicopter Services there were 2 helicopters in service as at 31 December 2013 supported by 10 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 2013 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 March 4, 2014. The board of directors can amend the annual report after issue up until the Annual General Meeting on April 30, 2014.

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 61.

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.

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

Changes in accounting principles

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 2013. The standards and interpretations are: Amendment to IAS 1 Presentation of items of other comprehensive income, IFRS 13 Fair vale measurement, IAS 19 Employee benefits (amended 2011), Annual improvements to 2009-2011 cycle, Amendments to IFRS 1 Governments loans and Amendsments to IFRS 7 Offsetting financial assets and financial liabilities.

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 2013, 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 60.

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 58.

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	11-15 years	0
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. 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.

g. Inventories

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

h. Trade receivables

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

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

i. Cash and cash equivalent

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

j. 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.

k. 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.

l. 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.

m. Deferred income

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

n. 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.

o. 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.

p. Lease payments

(i) Operating lease payments

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

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

q. 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.

r. 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.

s. 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.

t. 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.

u. 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 2013 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 2013, supported by 171 employees with the operational base at Vágar.

Helicopter Services

In the Helicopter Services there were 2 helicopters in service as at 31 December 2013 supported by 10 people with the operational base at Vágar.

Ratios

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

Cash Flow Statement

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

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

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

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

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

Notes

2. Segment information

(DKK 1,000)	Aircraft Services 2013	Aircraft Services 2012	Helicopter Services 2013	Helicopter Services 2012	Total 2013	Total 2012
Income statement						
Net sales	500.534	437.835	40.780	63.468	541.314	501.303
Other income	881	0	0	0	881	0
Total revenue from external customers	**501.415**	**437.835**	**40.780**	**63.468**	**542.195**	**501.303**
Operating expenses	483.529	424.063	39.776	52.096	523.305	476.159
Operating result	**17.886**	**13.773**	**1.004**	**11.372**	**18.890**	**25.145**
Effects of associated companies	-	-	-	-	-109	-17
Financial income	2.419	3.542	4	3	2.422	3.545
Financial expenses	-11.636	-10.649	-584	-909	-12.220	-11.557
Result before tax	**8.669**	**6.666**	**423**	**10.467**	**8.983**	**17.116**
Income tax expense					-1.617	-3.081
Profit					**7.366**	**14.035**
Balance sheet						
Segment assets	441.298	448.077	41.986	51.577	483.283	499.654
Investment in associates	-	-	-	-	595	479
Segment liabilities and equity	470.160	481.852	13.719	18.281	483.878	500.133
Cash flows						
Cash flows from operating activities	54.784	69.359	19.113	16.602	73.898	85.961
Cash flows from investing activities	-14.455	-182.089	-9.588	-5.507	-24.043	-187.596
Cash flows from financing activities	-26.416	104.730	-4.563	-4.563	-30.978	100.167
Other						
Depreciations and amortisation	-74.124	48.580	11.481	9.620	-62.643	58.200

Geographical segments

Revenue comprises the following markets:

	Faroe Islands 2013	Faroe Islands 2012	Europe 2013	Europe 2012	Total 2013	Total 2012
Total revenue from external customers	283.274	252.756	258.921	248.547	542.195	501.303

Notes

3. Total revenue (DKK 1,000)

	2013	*2012*
Passenger transport	340.928	*313.426*
Charter activity (fixed wing and rotor wing)	103.592	*97.078*
Cargo and mail	11.071	*10.778*
Other	49.280	*43.273*
SAR and Inter-Island services	36.442	*36.749*
Other income	881	*0*
Total	**542.195**	***501.303***

Major customer
There were non major customers in 2013 or 2012, which represents more than 10% of the total revenue.

4. Flight expenses (DKK 1,000)

	2013	*2012*
Aircraft fuel	-104.865	*-99.055*
Aircraft maintenance	-24.252	*-24.550*
Passenger/aircraft charges	-57.261	*-48.460*
Handling and catering costs	-43.524	*-30.699*
Airway charge	-20.072	*-16.972*
Cancellations and diversions	-14.372	*-10.879*
Other costs	-88.952	*-90.428*
Total	**-353.299**	***-321.043***

5. Specification of numbers of passengers:

	2013	*2012*
Passengers fixed wing, scheduled services	225.200	*208.329*
Passengers fixed wing, ACMI/charter	69.099	*48.489*
Passangers fixed wing	**294.299**	***256.818***
Passengers by Helicopters	5.483	*10.135*
Total passengers	**299.782**	***266.953***
Block hours:		
Aircraft, block hours, scheduled services	5.242	*5.332*
Aircraft, block hours, charter	2.512	*1.823*
Total aircraft block hours	**7.754**	***7.156***
Helicopters	633	*1.162*
Total airborne hours	**8.387**	***8.318***
Income overseas:		
Export value in DKK (1,000)	258.921	*248.547*
Export value in %	48%	*50%*

Notes

6. Employee expenditures (DKK 1,000)	**2013**	***2012***
Wages and salaries	-92.850	*-83.779*
Pensions	-6.775	*-6.360*
Expenses for social security	-3.295	*-2.793*
Other employee expenditures	-4.384	*-3.585*
Bonus	-59	*-398*
Share-based payments	0	*0*
Total	**-107.364**	***-96.915***
Salaries and compensations paid to Management and Board:		
Management, Wages and salaries	-5.443	*-2.221*
Management, Pensions	-766	*-301*
Management, Bonus	-59	*-398*
Management, Share-based payments	-	-
Board, Wages and salaries	-1.063	*-1.060*
Board, Bonus	-	-
Board, Share-based payments	-	-
Total	**-7.331**	***-3.980***
Number of employees	181	*172*

7. Depreciation, amort. and impairments (DKK 1,000)	**2013**	***2012***
Amortisation of intangible assets	-4.426	*-4.031*
Impairments of intangible assets	0	*0*
Depreciation of tangible assets	-53.432	-54.169
Impairments of tangible assets	-4.784	*0*
Total depreciation, amortisation and impairments	**-62.643**	***-58.200***

8. Financial income (DKK 1,000)	**2013**	***2012***
Interest, cash, etc.	953	*753*
Other interest income	52	*142*
Currency adjustments	1.418	*2.651*
Total	**2.422**	***3.545***

9. Financial expenses (DKK 1,000)	**2013**	***2012***
Interest on long term loans	-7.551	*-7.133*
Other interest expenses	-1.315	*-1.486*
Currency adjustments	-3.354	*-2.938*
Total	**-12.220**	***-11.557***

Notes

10. Auditors remuneration (DKK 1,000)

	2013	2012
Audit	-240	*-240*
Other services	-204	*-208*
Total	**-444**	***-448***

11. Income tax (DKK 1,000)

	2013	2012
Taxes	0	*0*
Changes in deferred taxes during the period	-1.617	*-3.081*
Total taxes	**-1.617**	***-3.081***
Deferred income tax liabilities as of Jan 1st	28.865	*27.891*
Changes in deferred income taxes during the period	1.617	*3.081*
Taxes recognised in equity	-424	*-2.107*
Deferred income tax liabilities at the end of the period	**30.058**	***28.865***
Taxes from net profit/loss for the period:		
Calculated 18% tax of result before taxes	-1.617	*-3.081*
Adjustments from previous years	0	*0*
Total	**-1.617**	***-3.081***
Effective tax percent	**18%**	***18%***
Deferred income tax liabilities comprises:		
Intangible assets	534	*1.148*
Tangible assets	38.890	*38.634*
Other non-current assets	-220	*50*
Receivables	-45	*-63*
Derrivatives	-487	*-62*
Tax loss carried forward	-8.614	*-10.842*
Total	**30.058**	***28.865***

There is no expiry date of tax loss carried forward.

Notes

12. Intangible assets (DKK 1,000)

2013	Development expenditures	Software	Total
Acquisition value as of Jan 1st	4.585	17.196	21.781
Additions during the period	0	1.012	1.012
Disposal during the period	0	-80	-80
Acquisition value as of December 31st	**4.585**	**18.128**	**22.713**
Amortisations as of Jan 1st	-1.421	-13.982	-15.402
Amortisations during the period	-2.531	-1.895	-4.426
Amortisations of disposal	0	80	80
Amortisations as of December 31st	**-3.952**	**-15.797**	**-19.748**
Book value as at December 31st 2013	**633**	**2.332**	**2.965**

2012	Development expenditures	Software	Total
Acquisition value as of Jan 1st	2.108	15.440	17.548
Additions during the period	2.477	1.756	4.233
Disposal during the period	-	0	0
Acquisition value as of December 31st	**4.585**	**17.196**	**21.781**
Amortisations as of Jan 1st	0	-11.371	-11.371
Amortisations during the period	-1.421	-2.611	-4.031
Amortisations of disposal	0	0	0
Amortisations as of December 31st	**-1.421**	**-13.982**	**-15.402**
Book value as at December 31st 2012	**3.164**	**3.215**	**6.379**

Notes

13. Tangible assets (DKK 1,000)

2013	Aircraft and maintenance	Spare parts	Operating Equipment	Hangar, buildings and land	Total
Acquisition value as of Jan 1st	483.499	37.711	23.493	47.411	592.115
Additions during the period	30.245	0	2.271	0	32.515
Disposal during the period	-79.904	-11.556	-1.618	0	-93.078
Acquisition value as of December 31st	**433.839**	**26.156**	**24.146**	**47.411**	**531.553**
Depreciations and impairments as of Jan 1st	-180.080	-23.782	-13.521	-12.253	-229.636
Depreciations during the period	-46.712	-2.431	-2.641	-1.648	-53.432
Impariments during the period	-4.784	0	0	0	-4.784
Depreciations and impairments of disposal	71.996	10.259	1.339	0	83.594
Depreciations and impairments as of December 31st	**-159.581**	**-15.954**	**-14.823**	**-13.901**	**-204.259**
Book value as at December 31st 2013	**274.259**	**10.201**	**9.322**	**33.510**	**327.294**

2012	Aircraft and maintenance	Spare parts	Operating Equipment	Hangar, buildings and land	Total
Acquisition value as of Jan 1st	238.464	33.840	19.791	47.411	339.506
Additions during the period	252.954	3.989	5.124	0	262.067
Disposal during the period	-7.919	-117	-1.422	0	-9.458
Acquisition value as of December 31st	**483.499**	**37.712**	**23.493**	**47.411**	**592.115**
Depreciations and impairments as of Jan 1st	-139.128	-22.395	-12.501	-10.602	-184.626
Depreciations and impairments during the period	-48.871	-1.425	-2.221	-1.651	-54.169
Depreciations and impairments of disposal	7.919	38	1.201	0	9.159
Depreciations and impairments as of December 31st	**-180.080**	**-23.782**	**-13.521**	**-12.253**	**-229.637**
Book value as at December 31st 2012	**303.419**	**13.929**	**9.972**	**35.158**	**362.478**

Notes

14. Insurance value (DKK 1,000)

	Insurance value	Carrying amount
Aircraft and helicopters	950.578	*284.460*
Other equipment	*	*42.832*
Total		***327.293***

*Replacement value

15. Investment in associates (DKK 1,000)

2013	**Investment in associates***
Acquisition value as of Jan 1st	570
Additions during the year	225
Disposal during the year	0
Acquisition value as of December 31st	**795**
Revaluations and share of result as of Jan 1st	-91
Revaluations during the year	0
Share of result acc. to the latest financial statement	-109
Additions during the year	0
Disposal during the year	0
Revaluations as of December 31st	**-200**
Book value as at December 31st 2013	**595**

2012	**Investment in associates***
Acquisition value as of Jan 1st	570
Additions during the year	0
Disposal during the year	0
Acquisition value as of December 31st	**570**
Revaluations and share of result as of Jan 1st	-74
Revaluations during the year	0
Share of result acc. to the latest financial statement	-17
Additions during the year	0
Disposal during the year	0
Revaluations as of December 31st	**-91**
Book value as at December 31st 2012	**479**

Notes

Summary of aggregate financial information for investments in associates (DKK 1,000)

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:* 31%		
Assets	1.558	Assets	10.080	11.638
Equity	217	Equity	976	1.193
Liablities	1.341	Liablities	9.104	10.445
Net profit	-423	Net profit	364	-59
Company's portion		*Company's portion*		
Equity	106	Equity	264	370
Net profit	-207	Net profit	98	-109

*According to the latest financial statements.

16. Other shares (DKK 1,000)

2013	Other shares
Acquisition value as of Jan 1st	1.138
Additions during the year	1.058
Disposal during the year	-221
Acquisition value as of December 31st	**1.975**
Revaluations and share of result as of Jan 1st	0
Revaluations during the year	0
Impairment during the year	-1.000
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	**-1.000**
Book value as at December 31st 2013	**975**

2012	Other shares
Acquisition value as of Jan 1st	1.138
Additions during the year	0
Disposal during the year	0
Acquisition value as of December 31st	**1.138**
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 2013	**1.138**

Notes

17. Inventories (DKK 1,000)

	2013	*2012*
Inventories	2.989	*2.397*
Inventories total	**2.989**	***2.397***

There was no reason for a write down of inventories. (2012: the same)

18. Trade receivables (DKK 1,000)

	2013	*2012*
Trade receivables	18.122	*25.063*
Write-downs of trade receivables	-250	*-350*
Trade receivables total	**17.872**	***24.713***

19. Prepayments (DKK 1,000)

	2013	*2012*
Prepaid rental expences	89	*86*
Other prepayments	4.744	*2.227*
Prepaymens total	**4.833**	***2.313***

20. Other receivables (DKK 1,000)

	2013	*2012*
Deposit	8.642	*1.620*
Other receivables	1.155	*270*
Other receivables total	**9.797**	***1.891***

21. Other shares "available-for-sale (DKK 1,000)

	2013	*2012*
Value as of Jan 1st	862	*707*
Additions during the year	0	0
Disposal during the year	0	0
Net gains/losses transfer to year	-281	*155*
Value as of December 31st	**581**	***862***

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

22. Derivative financial instruments (DKK)

	2013	2013	*2012*	2.012
	Assets	Liabilities	*Assets*	*Liabilities*
Forward foreign exchange contracts	-	2.597	-	727
Fuel oil swap tranactions	-	107	382	-
Derivatives total	-	**2.703**	***382***	***727***

Notes

23. 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.

24. Own shares

	Number		Nominal value		% of Share capital	
	31.12.2013	*31.12.2012*	31.12.2013	*31.12.2012*	31.12.2013	*31.12.2012*
1. Jan 13	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-13	**11.111**	***11.111***	**1.111.100**	***1.111.100***	**1%**	***1%***

25. Revaluation reserve shares (DKK 1,000)

	2013	*2012*
Reserve as of Jan 1st	389	*234*
Adjustment for the period	-281	*155*
Revaluations	0	*0*
Reserve at the end of the period	**108**	***389***

26. Retained earnings (DKK 1,000)

	2013	*2012*
Retained earnings opening	116.187	*106.077*
+ Dividend own shares	43	*75*
+ Net profit	7.366	*14.035*
- proposed dividend	0	*-4.000*
Total	**123.596**	***116.187***

Notes

27. Deferred income and accruals (DKK 1,000)

	2013	*2012*
Deferred income, tickets	28.275	*24.514*
Holiday allowances	4.836	*4.803*
Deposit	0	*3.113*
Accruals	7.081	*6.497*
Total	**40.193**	***38.926***

28. Non-current and current liabilities (DKK 1,000)

	Liab. Dec. 31st 2013	Short term liab. 0-1 year	Due for payment after 5 years	Liab. Dec. 31st 2012
Mortgage loans	127.073	15.563	68.000	*154.051*
Deffered income tax liabilities	30.058	0	0	*28.865*
Trade payables	35.365	35.365	0	*30.271*
Current income tax liabilities	0	0	0	*0*
Deferred income and accruals	40.193	40.193	0	*38.926*
Derivatives	2.703	2.703	0	*727*
Liabilities ass. with assets held for sale	0	0	0	*0*
Total non-current and current liab.	**235.391**	**93.823**	**68.000**	***252.841***
Specified as follows:				
Current liabilities	**93.823**			***88.307***
Non-current liabilities	**141.568**			***164.534***

The company has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period (2012: the same).

29. Mortgaging and contingent liabilities etc.

Aircraft with a book value as at 30 December 2013 of DKK 274 million are mortgaged.

As a lessee the Company has in place operating leases for 2 aircraft at the end of December 2013. The leases are for two A319. At the end of December 2013 the leases are payable as follows for each year:

In the year 2014: DKK 22.4 million

In the year 2015: DKK 22.4 million

In the year 2016: DKK 15.5 million

Notes

30. 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 2013. Lease payment for the financial year 2013 amounted to DKK 12.8 million. The lease payment is included in the flights expenses in the income statement. At the end of December 2013 the leases are payable as follows:

Total aircraft (DKK 1,000)	**2013**	***2012***
No later than 1 year	22.409	*11.539*
1-5 years	39.215	*30.050*
Later than 5 years	0	*0*
Total	**61.624**	***41.589***

Leases as lessor

At year-end 2013 the company has as a lessor not leased out any aircraft. Lessee income for the financial year 2013 amounted to DKK 4.1 million. The lease payment is included in revenue in the income statement. Contracted lease at year end were as follows:

Total aircraft (DKK)	**2013**	***2012***
No later than 1 year	0	1.451
1-5 years	0	0
Later than 5 years	0	0
Total	**0**	**1.451**

31. Directors and Management at year-end 2013 and their related parties holdings of shares in P/F Atlantic Airways

Board of Directors	**Position**	**Number of shares**	**Related parties**	**nominal value**
Niels Mortensen	Chairman	0	0	0
Kaj Johannesen	Vice Chairman	0	0	0
Tezz Tordsdotter Åkerman	Board member	0	0	0
Søren Jespersen	Board member	0	0	0
Ingi S. Joensen	Board member	197	0	19.700
Olaf S. Poulsen	Board member	383	0	38.300
Total		**580**	**0**	**58.000**
Management				
Jørgen Holme	CEO	0	0	0
Marius Davidsen	CFO	1.450	0	145.000
Joen Remmer	COO	0	0	0
Total		**1.450**	**0**	**145.000**

Notes

32. Remuneration of Board of Directors and Management (DKK 1,000)

Board of Directors		**2013**	***2012***
Niels Mortensen (Joined the Board 8 march 2013)	Fixed salary	211	-
Kaj Johannesen (Joined the Board 23 April 2009)	Fixed salary	240	*240*
Tezz Tordsdotter Åkerman (Joined the Board 25 March 2010)	Fixed salary	140	*140*
Søren Jespersen (Joined the Board 19 June 2013)	Fixed salary	82	-
Ingi S. Joensen (Joined the Board in 2006)	Fixed salary	140	*140*
Olaf S. Poulsen (Joined the Board 29 October 2010)	Fixed salary	140	*140*
Bjarni A. Bjarnason (Left the Board 8 March 2013)	Fixed salary	26	*260*
Jens Wittrup Willumsen (Left the Board 14 May 2013)	Fixed salary	83	*140*
Total		**1.063**	***1.060***
Management			
Jørgen Holme (From 16 November 2013)	Fixed salary	262	-
	Pensions	35	-
	Bonus	-	-
Marius Davidsen	Fixed salary	926	*926*
	Pensions	109	*109*
	Bonus	59	*167*
Joen Remmer	Fixed salary	828	*138*
	Pensions	122	*20*
	Bonus	-	-
Magni Arge (Left the company 16 November 2013)	Fixed salary	1.061	*1.157*
	Termination benefits	2.709	*0*
	Pensions	157	*171*
	Bonus	-	*231*
Total		**6.269**	***2.920***

Notes

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

Board of Directors	Position	Management or board duties
Niels Mortensen	Chairman	
	P/F Petur Larsen	Member of the board
Kaj Johannesen	Deputy Chairman	
	P/F Enniberg	Member of the board
	P/F Farcod	Member of the board
	The Faroese Tax Tribunal	Member of the board until Februay 2014
Tezz Tordsdotter Ohlsson	Boardmember	
	Svenska Direktflyg AB	CEO
	Direktflyg NUF	CEO
	Direktflyg AS	CEO
	Flygtorget AB 2012	Member of the board
Søren Jespersen	Boardmember	
	Mols-linien	CEO
	Pro Design International	Chairman
	Cruise Copenhagen Network	Chairman
Ingi S. Joensen	Boardmember	
	Spf. Sam	CEO
	Spf. Plys	CEO
	Spf. 20.07.89	CEO
Olaf S. Poulsen	Boardmember	None
Executive Management		
Jørgen Holme	CEO	None
Marius Davidsen	CFO	None
Joen Remmer	COO	None

Notes

34. Related parties

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

Significant influence:

The Company has in 2013 provided helicopter services to the Faroese Ministry of Industry amounted to DKK 10.1 million (2012: DKK 10.1 million) and to the Faroese Ministry of Fisheries amounted to DKK 26.8 million (2012: DKK 26.0 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 15)
P/F Gjáargarður	(Note 15)

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.

35. Cash and cash equivalents (DKK 1,000)

	2013	*2012*
Cash and cash equivalents	115.980	*97.104*
Total	**115.980**	***97.104***

36. Additional cash flow information (DKK 1,000)

	2013	*2012*
Interest paid	-8.866	*-8.619*
Tax paid	0	*0*
Interests received	1.004	*895*
Total	**-7.862**	***-7.725***

Notes

37. 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 65% of the estimated payments in USD in 2013 have been hedged, mainly to a fixed exchange rate. In 2012 were 64% 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.

(DKK 1,000)	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
2013							
USD/DKK	35.050	6.713	-2.616	25.721	10%	2.109	2.109
EUR/DKK	3.097	4.887	0	-1.789	10%	-147	-147
GBP/DKK	2.424	505	0	1.920	10%	157	157
NOK/DKK	2.940	1.311	0	1.629	10%	134	134
SEK/DKK	126	5	0	121	10%	10	10
ISK/DKK	0	181	0	-181	10%	-15	-15
CHF/DKK	0	523	0	-523	10%	-43	-43
	43.637	**14.125**	**-2.616**	**26.897**			
2012							
USD/DKK	*9.751*	*5.140*	*-334*	*4.277*	*10%*	*351*	*351*
EUR/DKK	*528*	*8.648*	*0*	*-8.120*	*10%*	*-666*	*-666*
GBP/DKK	*1.014*	*2.637*	*0*	*-1.623*	*10%*	*-133*	*-133*
NOK/DKK	*1.288*	*994*	*0*	*294*	*10%*	*24*	*24*
SEK/DKK	*150*	*2*	*0*	*148*	*10%*	*12*	*12*
ISK/DKK	*0*	*63*	*0*	*-63*	*10%*	*-5*	*-5*
CHF/DKK	*0*	*56*	*0*	*-56*	*10%*	*-5*	*-5*
	12.732	***17.540***	***-334***	***-5.142***			

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 has permission to hedge up to 100% of the yearly estimated fuel consumption up to 24 months forward. Minimum 40% of the estimated fuel consumption on scheduled services for the next three months must be hedged, and minimum 30% of the next three to six months estimated fuel consumption on scheduled services. The company must hedge minimum 65% of estimated yearly fuel consumption on contracted charter flights. The objective of the risk management policy is to transfer the risk exposure to the customer in connection with major charter contracts. 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 65% of estimated fuel consumption in 2014 against price changes. At the end of 2013, approximately 62% 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 2013	Effect on profit before tax 2012
Fuel prices	10%	-10,4	-9,9

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.

	2013			***2012***		
(DKK 1.000)	Floating interest rate	Fixed interest rate	Total	Floating interest rate	Fixed interest rate	Total
Cash and cash equivalents	115.980		115.980	*97.104*		*97.104*
Loans	19.073	108.000	127.073	*26.646*	*127.405*	*154.051*

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 0.2 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 2013 was DKK 116 million compared to DKK 97 million as of 31th December 2012.

Notes

Cash and cash equivalents primarily comprise short-term bank deposits. Bank deposits carry interest at 0.1%-1.15% per annum. The liquidity is affected be seasonal fluctuations.

The company's equity is high in proportion to total assets. The equity ratio was 52% at year-end compared to 49% the previous year.

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

2013						
(DKK 1.000)	*Carrying amount*	*Contractual cash flows*	0-1 years	1-3 years	3-5 years	> 5 years
Trade payables	35.365	35.365	35.365			
Loans	127.073	168.235	21.769	36.980	24.961	84.524
Derivatives	2.703	2.703	2.703			
Off balance sheet liabilities						
Operating lease payments	0	37.596	13.671	23.925	0	0
Total	**165.141**	**243.899**	**73.509**	**60.905**	**24.961**	**84.524**

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**

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:

	2013	***2012***
Trade receivables	17.872	*24.713*
Other shares "available-for-sale"	581	*862*
Cash and cash equivalents	115.980	*97.104*
Total	**134.432**	***122.678***

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

Impairment losses (DKK 1,000)	**Gross 2013**	**Impairment 2013**	***Gross 2012***	***Impairment 2012***
Not past due	13.926	0	*15.429*	
Past due 0-30 days	3.082	0	*6.109*	
Past due 31-120 days	502	0	*1.240*	
Past due 121-365 days	340	0	*1.438*	
More than one year	689	250	*846*	*350*
Imperial losses total	**18.540**	**250**	***25.063***	***350***

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

	2013	***2012***
Impairment 1 January	350	*350*
Impairment loss recognised in the period	-100	*0*
Impairment 31th December	**250**	***350***

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 2013 and 2012 were as follows:

(DKK 1,000)	2013	*2012*
Mortgage loans	127.073	*154.051*
- Cash and cash equivalents	-115.980	*-97.104*
Net debt	11.093	56.948
Total equity	248.487	247.293
Total capital	**259.580**	**304.240**
Gearing ratio	**4%**	**19%**

38. 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:

(DKK 1,000)	2013 Carrying amount	2013 Fair value	*2012* *Carrying amount*	*2012* *Fair value*
Trade receivables	17.872	17.872	*24.713*	*24.713*
Other shares "available-for-sale"	581	581	*862*	*862*
Derivatives	0	0	*382*	*382*
Cash and cash equivalents	115.980	115.980	*97.104*	*97.104*
Total Assets	**134.432**	**134.432**	***123.059***	***123.059***
Mortgage loans	127.073	127.073	*154.051*	*154.051*
Trade payables	35.365	35.365	*30.271*	*30.271*
Derivatives	2.703	2.703	*727*	*727*
Total Liabilities	**165.141**	**165.141**	***185.049***	***185.049***

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

39. Earnings per share (DKK 1,000)

	2013	*2012*
Net Profit/Loss for the year	**7.366**	***14.035***
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)	7,19	*13,71*
Diluted earnings per share (DKK) (EPS-D)	7,19	*13,71*

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

40. Dividend

The board of directors propose that no dividend will be distributed to the shareholders at the Annual General Meeting in April 2014 in connection with the fact that the Board of directors wants to buy the remaining third of the shares, which is privately held, back from the shareholders. The Annual General Meeting on 8 March 2013 agreed on the proposal of the Board of Directors to pay the company's shareholders a dividend of DKK 4.0 million (3,86473 DKK per share). The dividend was paid on 20 March 2013.

The company has not received divident from associated companies and other shares in 2013 (2012: the same).

41. 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 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
INCOME STATEMENT (DKK 1,000)					
Total Revenue	119.281	189.241	129.549	104.124	115.825
Flight expenses	-85.144	-122.625	-79.289	-66.241	-75.932
Employee expenditures	-27.750	-29.206	-25.950	-24.458	-24.944
Result before depr., amort. and impairm. (EBITDA)	**6.388**	**37.410**	**24.310**	**13.424**	**14.949**
Depreciations, amortisations and impairment	-12.179	-21.837	-14.360	-14.267	-15.766
Result before financial items (EBIT)	**-5.791**	**15.573**	**9.950**	**-842**	**-817**
Net financial items	-2.818	-2.281	-2.272	-2.427	-1.851
Share of p/l of ass. companies	0	0	-109	0	0
Result before tax (EBT)	**-8.609**	**13.292**	**7.569**	**-3.269**	**-2.668**
Tax	1.550	-2.392	-1.362	588	480
Profit	**-7.059**	**10.899**	**6.207**	**-2.681**	**-2.188**

42. 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 2013 up to 4 March 2014. The announcements can be read in full on the website www.atlantic.fo under Investor Relations.

2013

Date	Headline
12-02-2013	Annual Report 2012
13-02-2013	Annual General Meeting
14-02-2013	Correction: Annual Report 2012
27-02-2013	Correction: Annual General Meeting
03-03-2013	Atlantic Airways signs second contract with Atlantis Rejser
08-03-2013	Result of Annual General Meeting on 8 March 2013
08-03-2013	Constitution of the Board of Directors
14-05-2013	Q1 Report 2013
14-05-2013	Jens Wittrup Willumsen resigns from his position as Board member
22-05-2013	Extraordinary General Meeting
19-06-2013	Result of Extraordinary General Meeting on 19 June 2013
09-08-2013	Adverse weather caused delays and extra costs
21-08-2013	Half-Year Report 2013
31-10-2013	Q1-Q3 Report 2013
16-11-2013	Atlantic Airways appoints new CEO
10-12-2013	Atlantic Airways sells one RJ-85 aircraft
18-12-2013	Financial Calendar 2014
20-12-2013	Atlantic Airways have to stop operating duty-free sales at Vagar Airport from May 2014

2014

Date	Headline
09-01-2014	Atlantic Airways wins tender to provide Statoil helicopter service
10-02-2014	Atlantic Airways wants to buy the privately owned shares in the company
11-02-2014	Atlantic Airways leases out one RJ-100 aircraft to Malmø Aviation
13-02-2014	The Faroese Parliament has deleted the statutory provision that Atlantic Airways shall be listed
20-02-2014	Vagar Airport chooses to form a new company together with Atlantic Airways P/F to operate the duty-free store at Vagar Airport

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).