ATLANTIC AIRWAYS

Annual Report

2011

www.atlantic.fo

Company Information

P/F Atlantic Airways

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Established 1987
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VAT Number 379778
Domicile municipality: Sørvágur
Website: www.atlantic.fo
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Share

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

Board of directors

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

Management

Magni Arge, CEO
Marius Davidsen, CFO

Auditor

P/F NOTA, State Authorized Public Accountants

Atlantic Airways in Brief

Our origin, mission, vision, business and strategy

Atlantic Airways was established 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 it has grown from a small company with one aircraft and limited capabilities to a company which operates several aircraft and helicopters. Atlantic Airways had 166 full-time equivalent employees, and operated 4 aircraft and 2 helicopters at the end of 2011.

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 and to remain the preferred airline carrier in the Faroe Islands.

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

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

Our corporate culture places emphasis on safety and 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 finalised 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 28 March 1988. The number of departures to Copenhagen has increased to four a day during high season, and the company offers connections both morning and evening. Since 1995 the company has created air links to the neighboring countries Iceland, Norway and UK. This continued development has increased passenger numbers at the Vágar Airport from around 90,000 to more than 200,000 a year. Additionally, the company has been at the forefront in promoting the Faroe Islands abroad as a tourism destination, as well as in developing local tourism.

Since 1995, the company has developed helicopter services in the Faroe Islands from VFR (Visual Flight Rule) operations to be able to perform demanding Search and Rescue 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 in aviation. Atlantic Airways has trained hundreds of people as engineers, pilots, stewardesses as well as other jobs within the field of aviation.

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

Table of Contents

Page

General

Company Information 2
Atlantic Airways in Brief 3
Letter from the Chairman and the CEO 5
Fourth Quarter 2011 in brief 6
The year 2011 in brief 6
Financial highlights and key ratios 7

Management's Review

Management's Review 8
Operational Review 10
Financial Review 20
Events after the End of the Financial Year 22
Outlook for 2012 23
Ownership 25
Corporate Governance 27
Risk Management 35
Knowledge and Human resources 36
Corporate social responsibility 37
Financial Calendar 2012 42

Statement and Report

Management's Statement 44
Independent Auditors' Report 45

Annual Accounts

Income Statement 46
Statement of comprehensive income 47
Balance Sheet 48
Statement of Changes in Equity 50
Cash flow Statement 51
Overview of Notes 52
Notes 53

Stock Exchange Announcements

Stock Exchange Announcements 83

Definitions

Definitions 84

Letter from the Chairman and the CEO

We are proud to present a solid financial result for 2011 – close to the best in the company's history. The progress in comparison with last year is based on higher utilisation, lower unit costs, improved revenue management and a company-wide spirit to create a more cost-efficient basis for our airline.

The company has reaped significant benefit from the turn-round initiative launched in the wake of the difficult year of 2009. But we were also able to grow our business by utilising spare capacity outside the Faroe Islands in charter and ACMI (aircraft, crew, maintenance and insurance) or "wet lease" operations.

This profitable development has been essential to secure a solid base for the new and unprecedented challenges of 2012, in particular to take delivery of a brand new Airbus A319 and successfully introduce this aircraft type into our operation.

The new aircraft provides us with new opportunities to develop our range of services and products in our various markets. For our main market – scheduled services from and to the Faroe Islands – we are able to offer lower costs and a wider range of prices, as the A319 provides us with a lower unit or seat cost. But it also gives us the opportunity to offer direct flights to new destinations, such as Barcelona, which will take off in June 2012. The new initiatives have been very well received in the market. We are also receiving considerable interest in the Airbus A319 product in the charter market.

Our challenges and opportunities relate not only to our fixed-wing operations, but also to our helicopter fleet. From the beginning of the year and for the next four years, we will provide the Faroese Government with both search-and-rescue (SAR) and domestic transport services based on our existing Bell 412 helicopters. This service is important to the Faroe Islands and also provides a platform from which to develop further job opportunities for people based in the Faroe Islands. One of the spin-off effects is the provision of offshore helicopter services, which Atlantic Airways has been involved in over the last decade. In 2012 we will provide Statoil with helicopter and fixed-wing support and we are watching with interest the expansion of oil activity in sectors close to the Faroe Islands, where we could provide efficient logistical support.

We believe that Atlantic Airways is in a good position to expand its business, but we will always focus on the lifeline service to the Faroe Islands as our primary goal. We know that the Faroe Islands need a reliable year-round service and we know that both business and leisure travellers want to choose between a range of frequencies and destinations at fair prices. But above all Faroe Islands needs a safe and dependable service with a high level of reliability. That is why we have invested in aircraft, equipment, modifications and procedures that are tailor-made to optimise the service to the Faroe Islands. The new RNP AR 0.1 navigational support system is an example of a will to take the lead in Europe to provide the very best foundation for improved access to the Faroe Islands.

Based in Faroe Islands we have invested heavily in educating and training staff since the very birth of Atlantic Airways. This has not only provided the Faroe Islands with many interesting career opportunities and a new industry, but it has also provided Atlantic Airways with a dedicated workforce who not only sell their working hours to a company but also serve the mission to make it possible for the people of the Faroe Islands to travel the world.

Bjarni A. Bjarnason	Magni Arge
Chairman of the Board	CEO

Fourth quarter of 2011 in brief

Financial highlights

- Revenue in the fourth quarter of 2011 was DKK 98.4 million compared to DKK 97.5 million in the fourth quarter of 2010
- Earnings before depreciation (EBITDA) in the fourth quarter of 2011 were DKK 12.4 million compared to DKK 18.0 million in the fourth quarter of 2010
- Net financial items were DKK -0.3 million in the fourth quarter of 2011 compared with net financial items of DKK -1.3 million in the fourth quarter of 2010
- Total depreciation and impairment in the fourth quarter of 2011 was DKK 12.0 million compared to DKK 11.5 million in the fourth quarter of 2010
- The result before tax in the fourth quarter of 2011 was DKK -0,1 million compared to DKK 4.8 million in the fourth quarter of 2010
- Net result after tax in the fourth quarter of 2011 was DKK -0.1 million compared to DKK 3.9 million in the same period the previous year

Traffic development

- The number of passengers carried on scheduled services in Q4 11 was 39,406 compared to 38,732 in Q4 10
- The load factor on scheduled services in Q4 11 was 77% compared to 74% in Q4 10
- Number of aircraft block hours were 1,774 in the Q4 11 compared to 1,736 in Q4 10
- Block hours on ACMI/charter Q4 11 were 494 compared to 447 in Q4 10
- Block hours on helicopters were 163 in Q4 11 compared to 242 in Q4 10

The year 2011 in brief

Financial highlights

- Total revenue for the year 2011 was DKK 435.6 million compared to DKK 402.7 million in 2010
- Earnings before depreciation (EBITDA) were DKK 74.4 million in 2011 compared to DKK 69.0 million in 2010. An increase of 8%
- Net financial items were DKK -4.1 million in 2011 compared with net financial items of DKK -3.9 million in 2010
- Total depreciation and impairment for 2011 was DKK 43.1 million compared to DKK 49.5 million in 2010, a decrease of 13%
- The result before tax was DKK 27.5 million compared to DKK 15.1 million in 2010, which is an improvement of DKK 12.0 million
- Net result after tax was DKK 22.5 million compared to DKK 12.3 million in 2010 which is an improvement of DKK 10.2 million
- The cash position at year-end was DKK 98.6 million compared with DKK 81.1 million the previous year
- The export value was 40% of turnover, corresponding to DKK 172 million
- As of 31 December 2011, equity was DKK 250 million, resulting in an equity ratio of 65%
- The number of full-time equivalent employees in 2011 was 166 compared to 167 in 2010

Traffic development

- The number of passengers carried on scheduled services in 2011 was 193,450 compared to 186,624 in 2010
- The load factor on scheduled services in 2011 was 78% compared to 75% in 2010
- Number of aircraft block hours in 2011 was 8,189 compared with 7,221 bock hours in 2010
- Block hours on ACMI/charter in 2011 was 2,075 compared to 1,173 in 2010
- Block hours on helicopters were 624 in 2011 compared to 923 in 2010

Financial highlights and key ratios

	2011	2010	2009	2008	2007*
INCOME STATEMENT (DKK 1,000)					
Net sales	435.523	401.790	402.137	541.548	538.797
Other income	115	880	0	5.288	0
Result before depr., amort. and impairm. (EBITDA)	74.359	69.049	43.633	86.970	65.077
Depreciations, amortisations and impairment	-43.071	-49.546	-63.001	-60.513	-45.248
Result before financial items (EBIT)	31.288	19.503	-19.368	26.457	19.829
Net financial items	-4.103	-3.933	11.745	1.437	9.186
Share of profit/loss of associates	310	-488	-441	-75	0
Result before tax (EBT)	27.495	15.082	-8.064	27.818	29.016
Tax	-4.949	-2.738	1.455	-4.971	-5.235
Profit	22.546	12.344	-6.609	22.847	23.780
BALANCE SHEET (DKK 1,000)					
Assets					
Total non-current assets	241.095	221.100	303.389	301.235	304.545
Total current assets	141.086	189.618	96.467	136.929	84.945
Total assets	382.181	410.718	399.856	438.164	389.489
Equity and liabilities					
Total equity	249.626	227.487	214.377	226.324	213.677
Total non-current liabilities	64.393	67.452	127.797	146.027	116.640
Total current liabilities	68.162	115.778	57.682	65.813	59.173
Total equity and liabilities	382.181	410.718	399.856	438.164	389.489
Cash flows (DKK 1,000)					
Net cash flow from operating activities	83.065	62.077	70.310	75.253	98.234
Net cash flow used in investing activities**	575	-31.098	-65.384	-69.192	-98.352
Net cash flow from financing activities	-66.212	-15.353	-21.768	38.334	17.416
Cash flows for the period	17.428	15.626	-16.842	44.395	17.298
***Of this purchase of property, plant and equipment*	1.051	-29.916	-61.360	-64.550	-97.012
Financial ratios					
EBITDAR (DKK 1,000)	81.709	74.679	54.805	96.813	73.131
EBITDAR margin (%)	19%	19%	14%	19%	14%
Return on investment (%)	8%	5%	-5%	6%	5%
Current ratio (%)	207%	164%	167%	208%	144%
Solvency ratio (%)	65%	55%	54%	52%	55%
Return on equity before tax (%)	12%	7%	-4%	13%	14%
Return on equity after tax (%)	9%	6%	-3%	10%	12%
Income/cost ratio (%)	1,07	1,04	0,98	1,05	1,06
Shares					
Number of shares (1,000)	1035	1035	1035	1035	1035
Earnings after tax per share (DKK)	21,78	11,93	-6,39	22,07	22,98
Dividend per share (DKK)	7	7	0	5	6
Share price end of period (DKK)	100	116	142	168	235
Share price end of period/Earnings after tax per share (P/E)	4,59	9,73	-22,24	7,61	10,23
Traffic statistics					
Capacity - scheduled flight (ASK) (1,000)	336.806	337.467	346.896	375.552	360.536
Traffic - scheduled flight (RPK) (1,000)	260.969	252.140	265.050	287.997	283.721
Load factor (%)	77%	75%	76%	77%	79%
Passengers carried on scheduled flight	193.450	186.704	196.238	214.835	212.071
Total number of passengers	260.457	219.737	316.860	593.113	359.462
Airborne hours	7.976	7.420	9.259	15.000	11.390
Other					
Number of full-time employees	166	167	205	277	192
Aircraft operated as at 31 December***	4	3	5	7	7
Helicopters operated as at 31 December***	2	3	3	3	3

**The financial highlights and key ratios for the financial year 2007 has not been adjusted to IFRS*

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

Management's Review

Atlantic Airways posted a full year net profit for 2011 of DKK 22.5 million after tax compared to DKK 12.3 million in 2010, an improvement of DKK 10.2 million or 81%. The result before tax was DKK 27.5 million compared to DKK 15.1 million in 2010, an improvement of DKK 12.4 million, or 79%. Earnings before depreciation (EBITDA) were DKK 74.4 million in 2011 compared to DKK 69.0 million in 2010, up 7%. Total revenue for the year 2011 was DKK 435.6 million compared to DKK 402.7 million in 2010, corresponding to an increase of 8%.

The result before tax in the fourth quarter of 2011 amounted to a loss of DKK 0.1 million compared to a profit of DKK 4.8 million the previous year. EBITDA fell from DKK 18.0 million to DKK 12.4 million in 2011. At DKK 98.4 million, revenue was slightly higher in the fourth quarter of 2011 than the year before. A sharp increase in fuel cost was one major factor causing the weakening result in the fourth quarter as the average fuel price for the quarter increased by 32% compared to the fourth quarter of 2010, and the relative offset from previous hedging faded out. In addition, helicopter activity and income from charter were comparatively lower as there was no offshore activity. Finally, the negative impact from adverse weather was higher than normally.

The improved result in 2011 exceeded our original expectations, cf. our original financial guidance for 2011. The main drivers were higher utilization and lower unit cost as well as higher revenue per flight. Throughout the year, we saw a continued stable development with improved utilization based mainly on improved sales of block hours in the ACMI and charter segment, but also due to higher load factors and passenger numbers on scheduled services and a stabilized helicopter segment.

In general, the fixed wing activity increased in 2011 while helicopter operations decreased compared to the year before. Productivity increased in the ACMI/charter market. However, the contribution per block hour was lower due to market conditions. For the scheduled services segment passenger numbers increased by 4% and load factors increased 3% due to more efficient scheduling. The average fuel price increased by 40% in 2011 compared to 2010, which had a significant negative impact on the result, especially in the fourth quarter of 2011. The fuel price increased quarter by quarter during 2011, and as the beneficial offset effect of the company's hedging positions decreased during the year this resulted in an increasing negative financial impact for Atlantic Airways during the quarters of 2011. The company has also spent both cash and internal resources on preparing the Emission Trading Scheme (ETS) imposed by the European Union which came into force 1 January 2012.

During 2011, considerable resources have also been spent on following up on the forthcoming delivery of the new Airbus A319 expected to take place on March 22 as well as preparing the entry into service a few days later.

Development in scheduled services has not been marked by any dramatic changes but the trend during the last few months are indicating that the decline experienced during the last years has now been broken and a small increase in passengers is showing. The growth in foreign markets seems to be slightly bigger than in traffic originating from Faroe Islands.

This correlates with the company's initiatives to improve distribution channels and market the Faroe Islands as a tourist destination, while traffic originating from the Faroes still seems to be affected by the uncertain economic environment that prevails as well as high increases in airport taxes and charges. On a year-to-date basis the growth in passenger numbers is 4%, but some of this increase is rooted in the 2010 activity decline caused by the Icelandic volcanic activity. Together with advertising agency, Umwelt, Atlantic Airways won the recognized Danish marketing award, Advertising Efficiency Award, for its "Together" campaign which displayed in the Danish market during the spring of 2011.

The growth in sale of block hours continued in the fourth quarter of 2011, with a year-to-date growth of 77% compared to 2010. ACMI and charter production now accounts for more than 25% of the total fixed-wing production compared to 16% in 2010. However, a large part of this activity is based on short-term ACMI contracts, which have a lower effect on turnover compared to scheduled services and charter, as ACMI customers cover a large share of the operating cost directly. Atlantic Airways operated four aircrafts as of the end of 2011. The fourth aircraft is currently on a 'power-by-the-hour' lease, and can be returned by Atlantic Airways at short notice. However, the aircraft is likely to remain with Atlantic Airways for most of the first quarter in 2012.

Helicopter activity was significantly lower during the third and fourth quarters of 2011 compared to the same period in 2010. The main reason for this is that the Italian oil company, ENI, drilled an off-shore well in the Faroese waters from June to November in 2010, which affected helicopter operations positively, while there has been no such activity in 2011. The helicopter operations in 2011 were based on two helicopters compared to three helicopters the year before. In January 2012, Atlantic Airways signed a new four year contract with the Faroese authorities to provide Search-and-Rescue (SAR) and domestic services. This is an important step towards building the future helicopter activity which includes an upgrade of the helicopters to improve the ability to serve SAR duties.

The number of staff employed has remained at around the same level as in 2010, and the growth in productivity has thus lead to a higher utilization of resources as well as lower unit costs. Other important steps have also been taken, including optimization of service contracts, spare part inventory, the introduction of Amadeus-based check-in facilities and the selling of technical services within our field of special competencies.

The company has devoted a large part of its focus in 2011 towards the delivery of the new Airbus A319 and its expected entry into service in March 2012. Also, activities during the last quarter of 2011 included further preparation for the Airbus introduction, upgrades to helicopter services and fulfilling ACMI and charter contracts. It is a significant task for a relatively small airline like Atlantic Airways to define and take delivery of a brand new aircraft and prepare for the entry into service of a new aircraft type. Resources have been allocated fully to prepare for the new aircraft type and the delivery while the majority of the management team has been involved in both the continued business as well as preparing for the Airbus operation.

Atlantic Airways will also pursue an aggressive line to increase and attract tourism in the future, and is ready to commit to a common national strategy if the government decides to support such an initiative.

Operational Review

Traffic summary

Total fleet production (number of block hours in total) increased by 8% in 2011 compared to 2010. Aircraft and helicopters were airborne for a total of 8,813 block hours compared to 8,244 hours the previous year.

Scheduled services accounted for 69% of fleet production in 2011, ACMI/Charter operations for 24% and helicopter operations for 7%. The previous year scheduled services were 74%, ACMI/charters 14% and helicopter service accounted for 11% of fleet production.

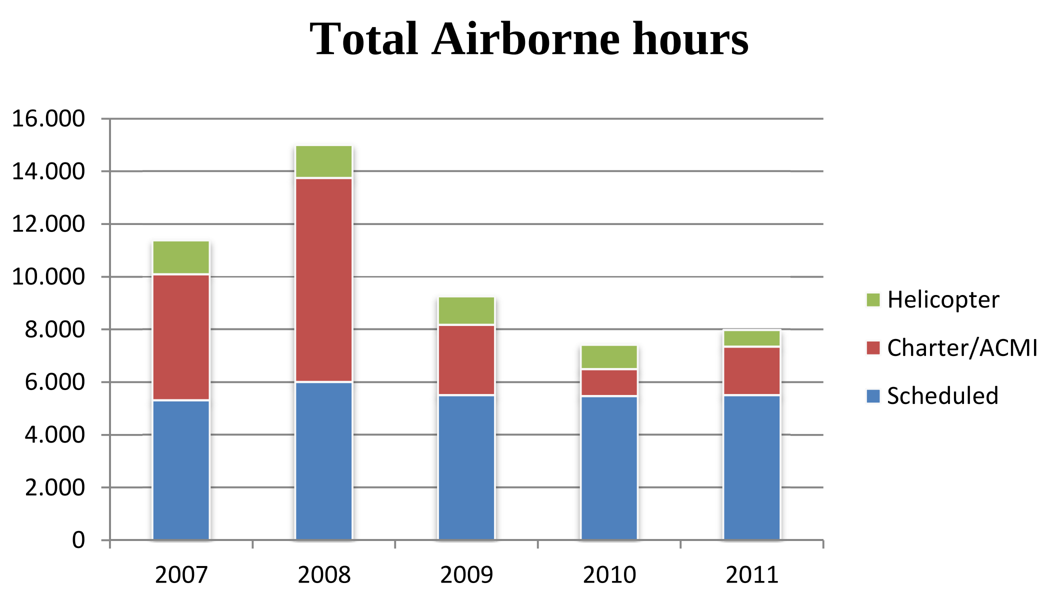
Traffic information

Passengers	Q4 2011 pass	Q4 2010 pass	Change pass	Change %	YTD 2011 pass	YTD 2010 pass	Change pass	Change %
Scheduled services	39.406	38.732	674	2%	193.450	186.624	6.826	4%
ACMI/Charter operations	15.423	9.015	6.408	71%	61.664	23.710	37.954	160%
Aircraft in total	**54.829**	**47.747**	**7.082**	**15%**	**255.114**	**210.334**	**44.780**	**21%**
Helicopter	1.114	1.994	-880	-44%	5.343	9.323	-3.980	-43%
	55.943	**49.741**	**6.202**	**12%**	**260.457**	**219.657**	**40.800**	**19%**

Block hours	hours	hours	hours	%	hours	hours	hours	%
Scheduled services	1.280	1.289	-9	-1%	6.115	6.048	67	1%
ACMI/Charter operations	494	447	47	10%	2.075	1.173	902	77%
Aircraft in total	**1.774**	**1.736**	**38**	**2%**	**8.189**	**7.221**	**968**	**13%**
Helicopter	163	242	-79	-33%	624	923	-299	-32%
	1.936	**1.978**	**-42**	**-2%**	**8.813**	**8.144**	**669**	**8%**

The fixed wing fleet was airborne for 8,189 block hours compared to 7,221 block hours in 2010. The growth in capacity comes mainly from increasing ACMI/charter activity, which increased by 77% in 2011 compared to 2010. ACMI/charter operations increased from 1,173 block hours to 2,075 hours and scheduled services increased by 1% from 6,048 to 6,115 block hours.

The helicopters were airborne for 624 hours in 2011, which is a decrease of 299 hours compared to 2010. The main reason for this is that there was no off-shore activity in 2011 in comparison to 2010 when there was exploration activity in Faroese waters from June to November 2011. In 2011, helicopter operations were based on two helicopters in comparison with three helicopters the previous year.



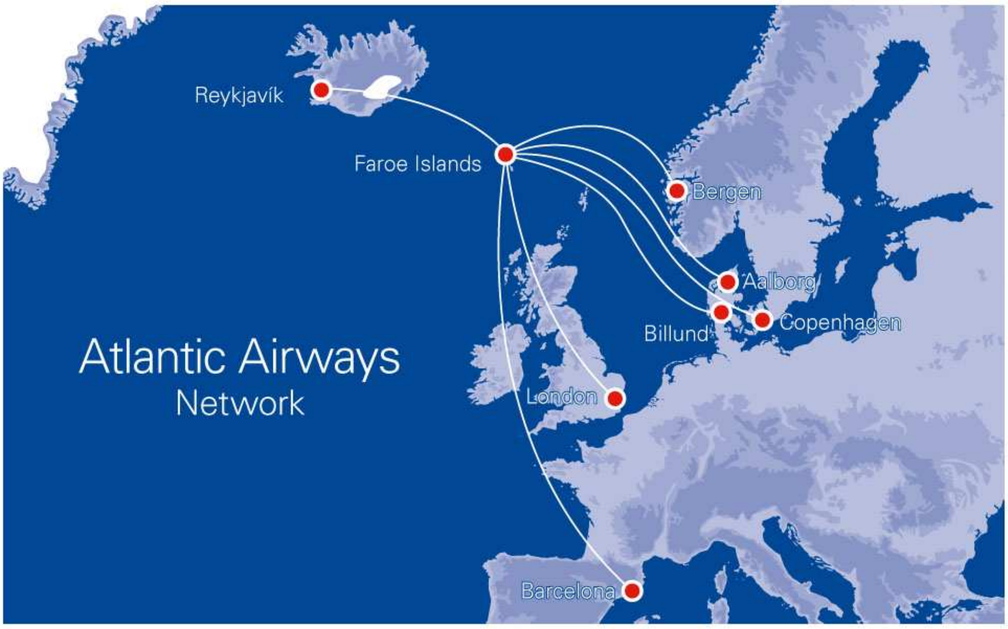
In the fourth quarter of 2011, aircraft and helicopters were airborne for 1,936 block hours compared to 1,978 block hours in the fourth quarter of 2010, corresponding to a decrease of 2%. Helicopter activity has been lower in the fourth quarter of 2011 compared to the previous year, while ACMI/Charter operations have been higher.

Total number of passengers on aircraft and helicopters were 260,000 in 2011 compared to 220,000 in 2010. The growth comes from increase in passenger numbers on ACMI/Charter flights as well as scheduled flights.

Disruptions and irregularity affected the operations to a higher degree than normally in the fourth quarter of 2011. During the three months, 30 flights where either cancelled or diverted due to weather or other limitations. It is evident that weather has impacted flight operations in the North Atlantic area during this period. It is, however, also detrimental to regularity at Vagar Airport in the Faeroe Islands that Danish authorities without any proper consultation have implemented fierce regulations on closure of Vagar airport. Technical dispatch regularity on the BAE fleet has been above fleet average.

Scheduled services

Scheduled passenger traffic, measured in revenue passenger kilometres (RPK), increased by 4% in 2011 compared with the previous year, while traffic capacity, measured in available seat kilometres (ASK), remained unchanged. The load factor increased from 75% to 78%.



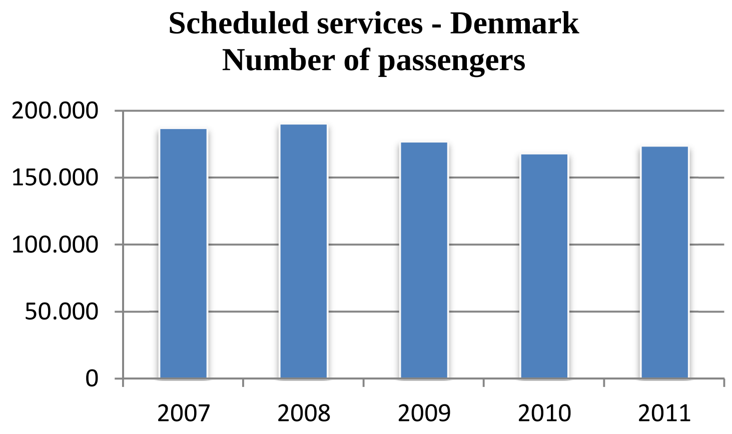
Total number of passengers carried on scheduled services in 2011 increased from 187,000 in 2010 to 193,000, or 4%. A significant part of the increase was due to the impact from the closure of European airspace by regulatory authorities in April and May 2010, hence creating a lower base of comparison.

There was a tendency towards an increase in scheduled passenger traffic to and from the Faroe Islands during the second half of 2011, and this has broken the declining trend otherwise shown in the period from November 2008. Passenger numbers fell in October 2011, but increased by 3% in November and by 8% in December compared to the same months the year before, which may indicate an improved market situation despite higher taxes, charges and fuel costs.

The seasonal fluctuation in scheduled traffic remains high. Frequencies to Danish airports vary from 18 a week during the traditionally low winter season to 40 a week during high season. Atlantic Airways normally undertakes C-checks during low season and has succeeded in offering capacity in the ACMI/charter business during the winter. Atlantic Airways dryleased an aircraft to support the operations for the summer season 2011, and has kept it on a "power-by-the-hour" agreement during the winter 2011/12. The company has not identified need for leasing in capacity during the summer season 2012 as the company's new Airbus will provide extra capacity.

Denmark

Passenger numbers on the Danish routes, which include Copenhagen, Billund and Aalborg, increased from 168,000 to 174,000, equal to 3%. Available capacity (ASK) was approximately 1% lower than the previous year, while passenger traffic (RPK) increased 3%. Thus, the load factor was increased by 3 percentage points from 76% to 79%.



Atlantic Airways launched a price winning campaign in February 2011 to increase awareness in Denmark about the Faroe Islands as a tourist destination with support from Visit Faroe Islands, the Faroe Islands tourist organization. Denmark is the most important tourism market for the Faroe Islands, but competition in this market is increasing as options for alternative destinations is continuously growing. The Faroese authorities closed down the tourist board representation in Denmark in 2010 and this increases the pressure on Atlantic Airways to keep focus and run marketing campaigns advertising the Faroe Islands as a destination.

Competition from ship operator Smyril Line on this route remains on the same level with two weekly frequencies to/from Hirtshals, Denmark. Still competition from Smyril Line is expected to be noticeable for 2012 as Smyril Line lowered their overall prices for campaign purposes in early 2012.

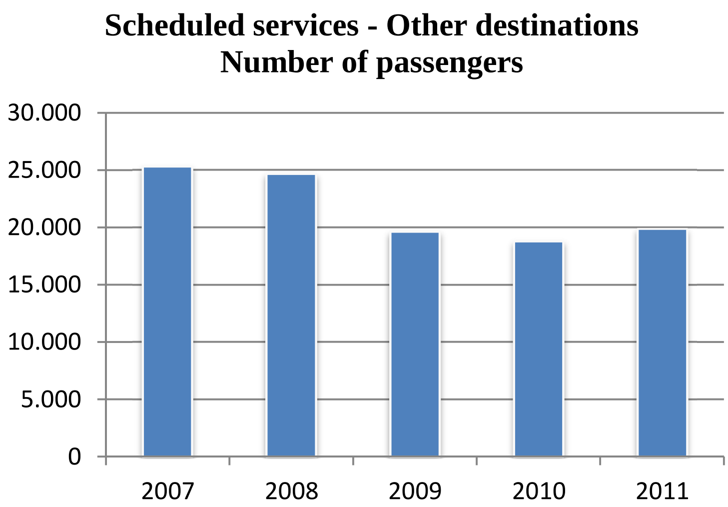
Iceland

Atlantic Airways has three scheduled flights a week during the high season (summer months) between the Faroe Islands and Reykjavik and two flights a week in the low season. The third frequency during summer was added in 2010, but did not generate a growth in traffic as hoped for.

Atlantic Airways flies to Reykjavik City Airport and provides the only connection to Iceland by jet plane landing in the city centre. It is an advantage for point-to-point traffic as customers within a few minutes from landing can participate in events in Reykjavik City. However, there is a growing potential in connecting to the growing hub in Keflavík, Iceland, where Icelandair provides a wide selection of connections to the American continent. The schedule for 2012 is organized so that passengers can transfer to/from Reykjavík to Keflavík and connect with flights to North America without staying overnight.

Seasonal routes

The services to our neighboring countries are important for Faroe Islands in order to develop business and leisure travel originating from the Faroe Islands as well as the incoming tourist segment. The neighboring countries of United Kingdom and Norway are serviced on a seasonal basis for the time being. There are also numerous charter flights between especially Norwegian airports and the Faroe Islands throughout the year, and consequently the traffic between the two countries is not fully reflected in passenger numbers on scheduled flights. Atlantic Airways has direct flights between the Faroe Islands and Norway twice a week during the summer high season. In 2011 a change was made in airport by switching from Stavanger to Bergen. The new route to Bergen was well received and we expect to further expand frequencies during 2012.



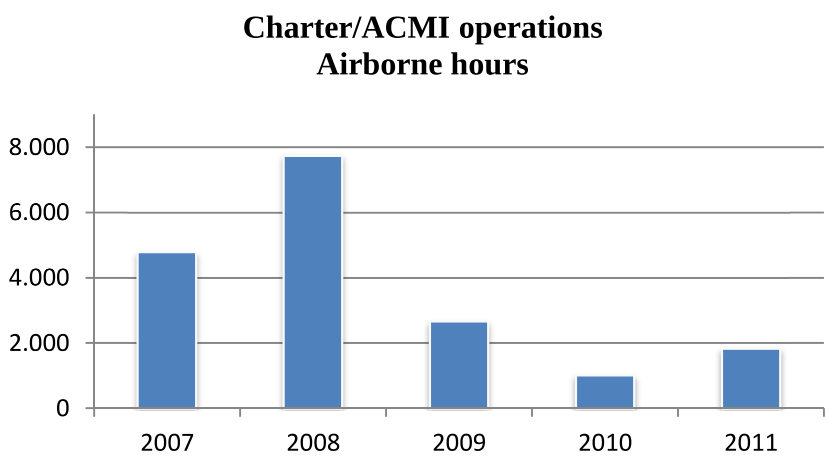
The UK market was difficult in 2011 because of the challenging economical situation in UK. However, traffic numbers on the route to London Stansted Airport remained at a stable level. In the summer of 2012, we expect to resume services between the Faroe Islands and London, which is still the only direct passenger link between the Faroe Islands and the UK. The company has direct flights between the Faroe Islands and London twice a week during the summer high season, starting in the beginning of June and ending late August, as well as flights during the Easter holiday. During the past three years the company has established a valued partnership with estimated tour operators in UK. Atlantic Airways has decided to change form Stansted Airport to London Gatwick for the summer service 2012. The cooperation with Stansted Airport has been outstanding, but we believe that Gatwick will provide our passengers better connection services.

The new Airbus aircraft allows Atlantic Airways a longer range and thus also the ability to provide services to destinations further away from Faroe Islands. The company has introduced a new summer-route between Faroe Islands and Barcelona in the summer of 2012, and this initiative has been very well received in the Faroese market. Seven Spanish agents and tour operators will actively promote trips to the Faroe Islands and combined trips to the Faroe Islands and Iceland for the summer of 2012.

Charter/ACMI operations

Charter activity (measured in block hours) increased by 77% in 2011 compared to 2010. Block hours increased from 1,173 to 2,073. The increase mainly stem from growing demand for ACMI in 2011.

Atlantic Airways has provided service in several charter segments in 2011 such as ad hoc flights in Europe for various clients, ski-charters for tour operators in Denmark, and capacity provision (ACMI) for airlines in Europe.



The charter activity increased by 10% in the fourth quarter of 2011 from 447 block hours to 494 compared to the fourth quarter of 2010. ACMI increased by 57% in the fourth quarter of 2011 compared to the fourth quarter of 2010, while other charter activity decreased in the same period.

Despite the weak demand for ACMI and a reduced fleet, the company has intensified its efforts pursuing ad hoc charters in the local environment and in Europe to improve utilization. In addition to a weak demand, the competition has been intensified as a consequence of overcapacity and cheaper operations mainly based in Eastern Europe.

Helicopter operations

The company's helicopters were airborne for 624 block hours in 2011 compared to 923 hours in 2010. Block hours in the fourth quarter of 2011 were 163 compared to 242 in the same period in 2010. However, the basis for the income in this segment is not only reflected in the number of block hours flown but also by the number of contracts, contract length and the level of provided helicopter capacity.

The helicopter activity in 2011 has been based on the two Bell 412 helicopters in ownership to provide the Faroese government with SAR coverage and domestic inter-island service on contract and various smaller charter and sling operations.

The company has maintained its capability to operate the AW 139 helicopter type and has in 2011 provided line maintenance and heavier maintenance tasks at its maintenance facility in Vágar Airport.

In January 2012, Atlantic Airways signed a four-year contract with the Faroese Ministry of Fishery and Ministry of Industry to provide helicopter Search and Rescue (SAR) coverage 24 hours a day and domestic transport to the most remote islands. The contract includes considerable upgrade to the standard of SAR and crisis support. The company has provided domestic helicopter service in the Faroe Islands since 1994 and Search and Rescue since it was initiated in 2001.

Since 2001 the company has assisted all oil companies involved in oil exploration in Faroe Islands. In January 2012, Atlantic Airways won a tender with Statoil to provide helicopter and other air logistic support in connection with oil exploration in Faroese waters in 2012. The exploration drilling is expected to start summer 2012 and is estimated to last for 4-5 months. The helicopter service will be provided by a AW 139 helicopter, which has been leased in from German operator Wiking Helikopter to fullfill this contract.

In 2012, the helicopter activity is expected to be based on two Bell 412 helicopters in ownership and one leased AW 139 in connection with the oil exploration activity in Faroese waters.

Other income areas

Ancillary revenues, revenues from duty-free as well as freight and mail transportation increased by 9% in 2011 compared to the previous year. The main driver behind this growth stems from increased duty-free sales and cargo export activity from the Faroes.

The volume of mail has increased in 2011 while volume of freight has decreased, but overall the change is not significant.

The duty-free shops at the Vágar Airport opened in January 2009. Sales are around the same level as when the duty-free sales were onboard the aircraft. Atlantic Airways and Vágar Airport have agreed to extend the cooperation for another year with adjustments taking into account the change of costs and restrictions on tax-free sales imposed by the Faroese Government. Only shortly after introduction of tax-free sales in the Faroe Islands, the Government introduced a restriction on import of tax-free tobacco from 200 to 100 cigarettes, and the wine monopoly Rúsdrekkasøla Landsins suddenly imposed special monopoly charges on tax free imports which has increased cost price considerably by 12%. This has consequently moved part of the sales from the Faroese airport to foreign airports as such extra costs have not been imposed on these airports.

To improve sales, Atlantic Airways has reintroduced a smaller selection of tax-free products onboard the aircrafts, and is discussing an improvement of the concept at arrivals in Vágar Airport. However, it is our view that the Faroese government would have significant interest in considering, and implementing, sensible, long lasting rules and regulations to tax-free sales, for the benefit of turnover and value creation for the Faroese society.

In 2012, tax-free sales will be challenging. The above-mentioned reduction of import of cigarettes from 200 to 100 is an economic challenge, and the increase of service charges from the wine monopoly has put more pressure on the turnover generated from tax-free sales in Vagar Airport. The only way to gain the lost sales is to increase prices. This is a problem, however, as lower prices is the one major selling and marketing point used by competitors in for example Copenhagen Airport. Another challenge in 2012, is the fact that the current terminal in Vagar Airport is being dismantled in order to make way for the building of a new terminal expected to be finished in late 2013. A reduction of the shopping area combined with the introduction of aircraft carrying up to 50% more arriving passengers on each load will increase waiting time and have negative impact on sales.

Airport matters

Runway Extension at Vágar

The construction project to extend the runway at Vágar Airport was completed successfully in December 2011. As a consequence, the available landing distance is now 1,799 metres compared with 1,250 meters previously. This investment also included the installation of centre lights on the runway and extended approach lighting. The longer runway will enable a wider range of aircraft types to operate into the Faroe Islands and also makes it possible to provide services to and from more distant destinations.

From an operational point of view, Atlantic Airways has gained certain benefits for its existing fleet, including increased payload at take-off, and a different climb-out path enabling a reduction in turbulence after take-off. Furthermore, the extension is a prerequisite for taking full advantage of the payload and range capability of the company's new Airbus 319 aircraft.

As a result, the improved conditions should improve access and service regularity to Faroe Islands. But it is still not certain that the expected advantages will not be diluted by new restricting measures such as imposed higher operating minima for the Airbus 319 aircraft, the introduction of rigid airport closing procedures in windy conditions, and restrictions on exploiting the full potential of RNP AR systems (see below). It is therefore of paramount importance for Atlantic Airways to continue a close dialogue with the relevant authorities on these matters, and to seek solutions that serve the community best without compromising safety.

Restrictions on traffic

In October 2011, the Danish Civil Aviation Authorities decided to impose restricting measures on traffic to and from Vágar Airport, as a response to a recommendation from the Danish Accident and Investigation Board following the fatal accident of the Danish Air Force with a Gulfstream aircraft in 1996. All operators – regardless of equipment, qualifications or experience – are now required to follow a decision on closure of the airport, which will be messaged from the Aerodrome Flight Info Service (AFIS) at Vágar Airport, based on a compiled status from a dedicated computer programme. Apparently, this step has been taken to reduce the risk of entering Vágar in turbulent conditions.

Atlantic Airways has opposed the rigid application of this system and advocates that it should be a guidance system for airlines with documented experience and procedures to mitigate for hazardous weather conditions. It is our belief that the current way of utilising the system may lead to hazardous situations for aviators with little or no experience of operations to Faroe Islands and, in the best case, lead to a poorer regularity on scheduled traffic for experienced airlines such as Atlantic Airways.

Atlantic Airways has experienced its poorest ever operational regularity during the winter of 2011/12. From October 2011 until early March 2012, 48 flights where either diverted or cancelled due to adverse weather such as very windy conditions, poor visibility or snowfall. However, there is no doubt that the new restricting measures further complicated the operation to and from the Faroe Islands and led to reduced regularity. Atlantic Airways welcomes all initiatives to further improve information on weather and turbulence surrounding Vágar Airport to support the operator's decision on the suitability of conditions but opposes the new rigid limitations on experienced operators.

Sharing the burden from adverse weather

The poorer regularity is very costly both to the Faroese society and for Atlantic Airways. The airline has to meet considerable costs for passenger care in various European countries (nearest alternates to Vágar Airport are in Iceland, Scotland and Norway). Further, the company is also burdened by high airport charges at Vágar for late or early landings and take-offs when seeking to reestablish normal traffic and minimise the impact on society as much as possible. In 2011, the cost related to adverse weather, delays, cancellations and diversions was around DKK 9 million.

We therefore urge the Government and the airport authority to find a new formula in which we can share the burden from irregularity, instead of imposing unfair financial costs on the airline when it seeks to minimise the delay caused by circumstances outside its control.

Improving regularity with Required Navigational Performance

Atlantic Airways has decided to take advantage of implementing RNP AR procedures (Required Navigation Performance with Authorisation Required) in order to enhance the approach and departure performance at Vágar Airport in adverse weather conditions, with increased safety levels. The procedures functions independently from the approach and departure navigation facilities provided by the airport. The application of such procedures requires authorisation from the Civil Aviation Authorities. The RNP AR concept has been successfully introduced at several locations around the world with challenging topography, and has helped enhance safety as well as improving regularity at the airports (see 'Fleet development' for further details). Atlantic Airways has worked closely with Airbus subsidiary Quo Vadis on this project and had a constructive cooperation with the Danish Civil Aviation Authorities.

Unfortunately, the full potential of RNP AR to improve regularity in fog conditions (especially in the summertime) has been restricted due to constraints imposed by the tower at the airport because it penetrates required protection areas.

Lowering airport charges

Atlantic Airways finds the high increase in January and November 2010 of passenger charges in both Copenhagen and the Faroe Islands to be a burden and contrary to all ambitions to increase traffic and bring lower air fares to the public.

The high increase of charges in Copenhagen has been noted by the chairman of the Danish Transport Commission, who will address this issue in the forthcoming report ”Redegørelse om dansk luftfart” on how to make Denmark more accessible. In the Faroe Islands, the cost of international travel is regularly on the agenda for political discussions, and in this context also the fact that international travel is taxed while domestic travel is heavily subsidized.

Passenger taxes and fees in the Faroe Islands are among the highest in Europe. This is not sustainable in the view of Atlantic Airways.

ICAO recommendation on transparency and meaningful consultation

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

Fleet development

At year-end 2011 the company had four fixed-wing aircraft in service. Three BAE Avro RJ aircraft are in permanent operation. Two are in ownership and one is on lease, which expires in September 2013. A fourth aircraft - a BAE 146-200 – was leased in to cover for the summer season 2011. This aircraft stayed with the airline for the winter 2011/12 on a PBH (power-by-the-hour) basis, but will be redelivered in the first quarter of 2012.

In addition, the company has leased out two BAE 146-200 aircrafts on lease/purchase contracts.

The company expects to take delivery of its first Airbus A319 in latter half of March 2012. The Airbus will primarily serve the route between the Faroe Islands and Copenhagen, but will also be available for other European destinations.

Aircraft fleet (as of December 31, 2011)

Fleet in service, excluding aircraft leased out	No.	Owned	Manufact.
BAe 146-200	**1**	**0**	**1988**
Avro RJ 100/85	**3**	**2**	**1993-1999**
Bell 412	**2**	**2**	**1993-1997**
Expected delivery			
1 A319			**March 2012**
1 AW139			**Feb' – Sep' 2012 (Short-term lease)**

The new Airbus aircraft has 144 seats available in comparison to 95 seats on the current Avro aircraft. The aircraft definition includes CFM engines with 27.000 pound trust to enhance performance and endurance in relation to the challenging operational environment in Faroe Islands.

Atlantic Airways has also invested in Performance Based Navigation (RNP-AR 0.1) to obtain enhanced safety, higher regularity, lower minima, and less fuel burn on its primary destination Vágar Airport in the Faroe Islands. The Airbus-owned company Quo Vadis has supported the RNP project, and the company aims to introduce RNP from the introduction of the aircraft. The application to authorize the use of RNP AR 0,1 is currently being evaluated by the Danish Civil Aviation Authority. Provided the outcome will be successful Atlantic Airways will be the first airline in Europe to introduce RNP-AR 0.1. Other features are Head Up Display to improve navigational performance, Florence Kit to improve operations on short runways, and specially designed access for medical transportation, as the need for such transport is common in Faroe Islands. The aircraft is also equipped with Mood Lighting System and Drop-Down Screens.

The financing of the new Airbus aircraft is partly own company finance and partly external finance. Pre-down payments have been financed from cash generated from operations during the years. Agreement for external finance amounting to DKK 120 million was secured in November 2011 from The Faroese fund, Íleggingargrunnurin, which invests in infrastructural projects in Faroe Islands only.

At year-end 2011, 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 is primarily used for passenger transport and off-shore operations, but serves also as a backup helicopter for SAR operations. As part of the new four-year contract from January 2012 with the Faroese Ministry of Fishery and Ministry of Industry both helicopters will be upgraded to a higher SAR standard.

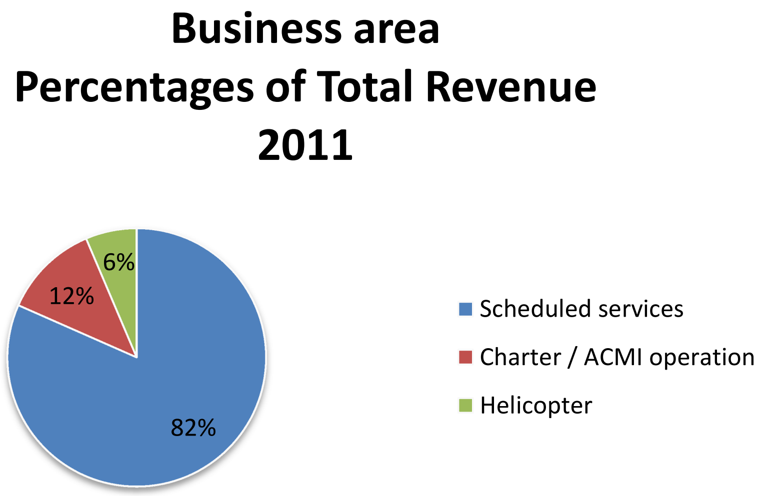
The company has signed a lease contact with Wiking Helikopters to lease in an AW 139 helicopter to support Statoil's oil exploration in Faroese waters in 2012. The helicopter was previously owned and operated by Atlantic Airways before it was sold to Wiking Helikopters.

Total book value of the current aircraft and helicopters at year-end 2011 was DKK 99 million and book value of the pre-down payment on the Airbus A319 was DKK 78 million.

Financial Review

Financial statement, 1 October – 31 December 2011

Revenue
Total revenue in the fourth quarter of 2011 was DKK 98.4 million compared to 97.5 million in the fourth quarter of 2010.



Revenue from scheduled services increased by DKK 7.4 million, in the fourth quarter of 2011 compared to the fourth quarter of 2010. The increase was caused by higher fuel surcharge and increased airport and passenger charges.

Revenue from aircraft charter operations decreased by DKK 0.6 million, in the last quarter of 2011 compared to the same period the previous year even though charter actvity has increased. The reason behind the change is a larger share of ACMI activity, compared to other charter activity in 2011. In ACMI activity the lessee has to bear a significant portion of direct costs, which usually means lower net revenue.

Revenue from helicopter operations in the fourth quarter of 2011 decreased by DKK 5.9 million, compared to the fourth quarter of 2010 due to lower rotor wing charter activity. In 2010, Atlantic Airways provided offshore support to Italian oil company ENI's operation in Faroese waters, but there was no activity in 2011.

Financial performance

EBITDA was DKK 12.4 million in the fourth quarter of 2011 compared to DKK 18.0 million in the fourth quarter of 2010, a decrease of 32%.

The result before tax in the fourth quarter of 2011 was DKK -0.1 million compared to DKK 4.8 million for the same period in 2010.

The fourth quarter result after tax was DKK -0.1 million compared to DKK 3.9 million in the fourth quarter of 2010.

Financial statement, 1 January – 31 December 2011

Revenue
Total revenue was DKK 435.6 million in 2011 compared to DKK 402.7 million in 2010, an increase of DKK 33.0 million or 8%.

Revenue from scheduled services increased by DKK 41.0 million compared to the same period in 2010. The growth is mainly due to the following factors: Increase in number of passengers, higher fuel surcharges, increased airport and passenger charges, and increased duty-free sales. Also, revenue in 2010 was affected by the ash cloud and airspace closure.

Revenue from aircraft charter operations increased by DKK 8.7 million in 2011 compared to 2010 mainly due to increased ACMI/charter activity.

Income from helicopter operations decreased by 16.8 million in 2011, compared to the previous year due to no offshore operations.

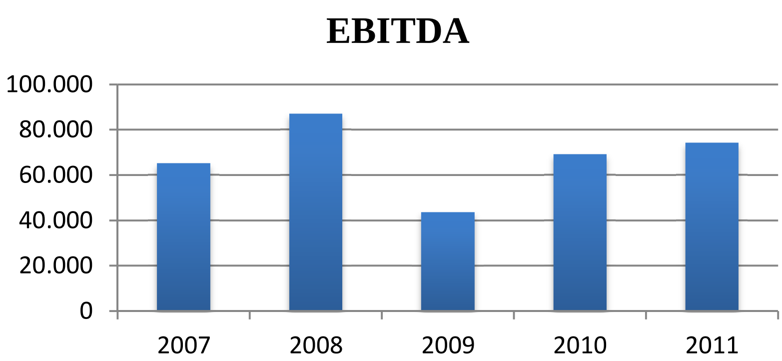
Flight expenses
Flight expenses increased by DKK 26.5 million in 2011 compared to 2010. The increase is partly rooted in higher activity – especially within the charter/ACMI segment, but also due to higher fuel cost and increased passenger and airport charges.

Fuel is one of the main operating costs in aviation. Fuel expenses increased by 25% in 2011 from DKK 66 million in 2010 to DKK 82 million due to increased jet fuel prices. The increase in fuel costs in 2011 has been offset through the company's fuel and currency hedging and regulation of fuel surcharges.

Employee costs
Employee costs amounted to DKK 90.6 million in 2011 compared to DKK 89.4 million the previous year. The number of full-time equivalent employees was 166 in 2011 compared to 167 in 2010.

Depreciations
Depreciation and impairment amounted to DKK 43.1 million in 2011 compared to DKK 49.5 million in 2010. The cost of heavier maintenance checks has been lower in 2011 and the rotor wing fleet was reduced in January 2011.

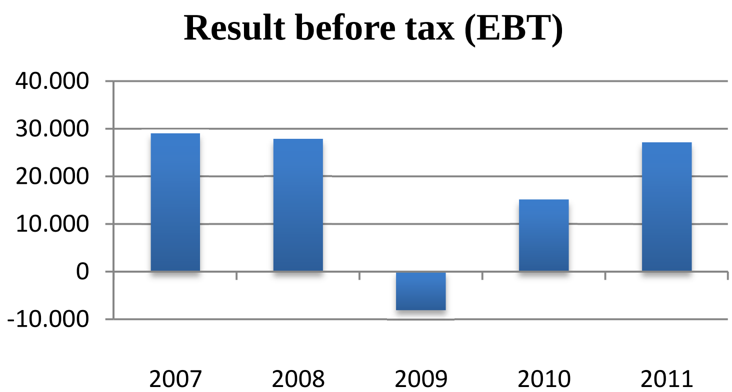
Financial items
Net financial items were DKK -4.1 million compared to DKK -3.9 million the previous year.



Financial performance
EBITDA was DKK 74.4 million in 2011 compared to 69.0 million in 2010, equal to an increase of 7%.

The result before tax was a profit of DKK 27.5 million in 2011 compared to DKK 15.1 million in 2010.

The result after tax for the year was DKK 22.5 million compared to DKK 12.3 million in 2010, and the return on equity before tax was 11% compared to 7% in 2010.



Balance sheet

Assets
Total non-current assets increased by DKK 20 million to DKK 241 million at year-end 2011. Pre-down payment on the new Airbus 319 amounted to DKK 78 million, of which 49 million were paid in 2011.

At year-end 2011 total current assets amounted to DKK 141 million compared to DKK 190 million at the beginning of the year. At the beginning of the year one AW 139 helicopter and a BAE 146 aircraft with associated maintenance were classified as assets held for sale, amounted to DKK 63 million. The AW 139 helicopter left the fleet in January 2011 and the BAE 146 aircraft was leased out in April 2011.

Available cash and cash equivalents at year-end 2011 was DKK 99 million compared to DKK 81 million the previous year.

Equity
At year-end total equity was DKK 250 million, resulting in an equity ratio of 65% compared to 55% at the end of 2010.

Liabilities
Total liabilities at year-end 2011 were DKK 133 million compared to 183 million at the end of 2010. At year-end total non-current liabilities were DKK 64 million compared to DKK 67 million at year-end the previous year.

Balance sheet
The balance sheet total as of 31 December 2011 was DKK 382 million, which is DKK 29 million lower than at the end of the previous year.

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 2012, Atlantic Airways signed a four-year contract with the Faroese Ministry of Fishery and Ministry of Industry to provide helicopter Search and Rescue (SAR) coverage 24 hours a day and domestic transport to the most remote islands. The contract includes considerable upgrade to the standard of SAR and crisis support. The company has provided domestic helicopter service in the Faroe Islands since 1994 and search and rescue since it was initiated in 2001.

Similar, in January 2012, Atlantic Airways won a tender with Statoil to provide helicopter and other air logistic support in connection with oil exploration in Faroese waters in 2012. The exploration drilling is expected to start summer 2012 and is estimated to last for 4-5 months. The helicopter service will be provided by a AW 139 helicopter, which has been leased in from German operator Wiking Helikopter to fullfill this contract.

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 2012

Aviation industry

Air traffic in Europe was in general growing throughout 2011. However, behind the increase during 2011 was a shift from optimism in the first half of 2011 towards certain pessimism, and even possible recession scenarios, in the latter half of the year. The economic climate in Europe will undoubtedly also effect the future development in air traffic to and from the Faroe Islands during 2012. Partly because the general Faroese economy is affected negatively, but also due to the potential lower level of tourism and demand in the charter/ACMI segment. According to IATA (International Air Transport Association), European airlines will have challenging times if the economic downturn further escalates.The fuel price has increased to such high levels only previously experienced during a short period of time in 2008, and there are no signs of an ease in the fuel price during 2012. On top of this, the EU has contributed with further uncertainty by implementing an Emission Trading Scheme (ETS) programme that will impose an extra cost on all airlines flying in and out of Europe. For Atlantic Airways, the cost incurred is estimated to be in the range of DKK 1.5 to 3 million.

The combination of the above-mentioned parameters has led to the demise of several European carriers recently and illustrates clearly the uncertainties in the industry.

Market conditions

On our home turf, the Faroe Islands, the new extended runway has changed the frame for running aviation services.

The new extended runway will benefit Atlantic Airways due to its investment in a new and modern A319 Airbus aircraft which is expected to enter into service at the end of March 2012. The new aircraft is more efficient and offers lower cost per seat kilometer. This has already led to lower entry prices in the market and is expected to stimulate traffic. The aircraft also offer longer range and has led to new products such as direct flights to Southern Europe which have proven popular already. The aircraft is also specified and equipped with new technology that will optimize its capability to maintain and hopefully increase regularity on operations to Faroe Islands and thus both reduce cost and increase confidence in the destination amongst travelers.

According to Vagar Airport there is some interest amongst foreign airlines to look at opportunities in The Faroe Islands.

During 2012, the new A 319 Airbus aircraft will mainly service the route between the Faroe Islands and Copenhagen twice a day. This will lead to an increase of available seats by approximately 10% during 2012. Furthermore, the Airbus will cover direct routes to destinations that require longer range. An example is the new summer service to Barcelona every Sunday during high summer which already has exceeded our expectations with regard to prebookings. Hence, further initiatives are likely to continue during both the next winter season and the summer season of 2013.

Demand for charter and ACMI (Aircraft Crew Maintenance Insurance) activity has declined during Q 4, but a considerable activity has been contracted with Denmark as a base during high season. During high season, Atlantic Airways will utilise all aircrafts in the fleet for scheduled services, corporate charter to/from Faroe Islands, tour operation out of Denmark and ad hoc charters. It is too early to decide on the need for adjusting capacity during winter season 2012/13.

Helicopter operations are going well and on top of the government contract on SAR and domestic flights Atlantic also won the contract to provide Statoil with offshore services in 2012 based on a third hired helicopter.

A significant uncertainty during 2012 is the on-going construction work at Vágar Airport. A lack of or delay in providing ample ground facilities may force the company to revise the schedule for flights. This may also include the planned demise of existing support facilities such as part of the terminal, cargo and tax-free stores, which may cause disruption to existing flow of operations until a new terminal with adjacent facilities is in service sometime around 2014.

Financial forecast

The predicted economic growth in Faroe Islands in 2012 is moderate. The financial sector has stabilized and salmon farming and pelagic fisheries have performed well. But there is still a considerable deficit on the state budget and a relatively high unemployment rate. However, the new Faeroes tax structure implemented in 2012 may stimulate air traffic positively. Together with the company's initiatives in the form of an increased supply, a more aggressive price structure, new products and campaigns in foreign markets, we believe that Atlantic Airways is in a good position to capitalise from its investments in its new Airbus aircraft and the new aviation infrastructure on the ground. The new infrastructure however also opens up for a possible competition in the future.

There exist considerable external uncertainties such as fuel price and a possible competition alongside with the number of new company-related factors to gain experience from in respect to the entry into service of the new aircraft in the end of Q1/beginning of Q2 2012. On this background, we abstain at this point in time from giving a more precise guidance at to the expected financial performance of Atlantic Airways in 2012 but expect to reach a result somewhere between 2010 and 2011 level.

Ownership

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.

At year-end 2011 the share price was DKK 100 and the total market value of the company amounted to DKK 104 million. At the beginning of 2011, the share price was DKK 116 and the market value DKK 120 million. Hence, market value decreased by DKK 16 million, or 16%, during 2011. On 1 March 2012 the share price was DKK 98.5 and the market value DKK 102 million, which is 59% 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	262.950	25,4	25,7
Non-registered shareholders	9.220	0,9	0,9
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**

The turnover of shares in the company was relatively low in 2011. Atlantic Airways has only one class of shares, each with one vote per share.

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 1 March 2012. The total number of registered shareholders as at 1 March 2012 was 1,103.

The company has not adopted a formal dividend policy. In 2011, a dividend of DKK 7.5 million was distributed to Atlantic Airways' shareholders. The board of directors proposes for approval at the Annual General Meeting in April 2012 that a dividend of DKK 7 million will be distributed to the shareholders, corresponding to DKK 6.763 per share.

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.

Corporate Governance

This section represents Atlantic Airways' statement on corporate governance, and the company follows the Icelandic Guidelines on Corporate Governance issued in June 2009 in accordance with the Rules for issuers of financial instruments issued by NASDAQ OMX Iceland in December 2009.

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

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

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

The full version of the Danish Recommendations on Corporate Governance can be found on the website www.corporategovernance.dk

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

Annual General Meeting

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

Board of Directors

The Board ensures a prudent organization of the company's business, manages the company's general affairs as well as ensures that the best interests of the company's shareholders are guarded. Through assisting in goal and policy setting, assessing risks pertinent to the company as well as ensure legal compliance with company and stock exchange regulations, the Board seeks to ensure proper conduct in all aspects of the company's management. The Board seeks to promote the long term development of the company and endeavours to keep the organization and operations consistent with the company's mission and strategy.

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

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

The Chairman of the Board of Directors is not legally required to perform other duties than the other members of the Board, apart from ensuring that Board meeting are held when necessary and that all members are summoned. The Chairman's role is to organize and chair the meetings, to act as a contact person to the executive management, prepare the meeting agenda and ensure timely release of meeting material to members before the meetings, ensure notice to the entire Board of meetings, ensure that the most significant issues of the company are addressed, ensure that legal requirements of the Board are met and acting as external spokes person.

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

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 10 meetings during 2011. Attendance by each individual board member is illustrated in the table on page 27.

Attendance in board meetings 2011	No. of meetings	Attendance
Bjarni A. Bjarnason, chairman	10	10
Kaj Johannesen, deputy chairman	10	10
Jens Wittrup Willumsen	10	10
Tezz Tordsdotter Ohlsson	10	10
Ingi S. Joensen	10	10
Olaf S. Poulsen	10	10

Board of Directors

Bjarni A. Bjarnason, Chairman of the Board

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

Kaj Johannesen, Deputy Chairman of the Board

Born: 8 November 1960
Address: Inni á Fløtum 13, FO-180 Kaldbak, Faroe Islands
Joined the Board: April 2009
Special skills: Expertise in financial and accounting matters
Chief Occupation: Principal in the Ministry of the Interior
Experience: Mr. Johannesen has been principal in the Ministry of the Interior since 2008. Senior Bank clerk in Føroya Banki (Bank Nordik) 2000-2008. Member of the chairmanship of the Faroese Council of Economic Advisers 2006-2009. Economist at Landsbanki Føroya 1993-2000 and Managing Director of Menningargrunnur Ídnaðarins 1990-1993. Examinator in economics at the Faroese University (Fróðskaparsetur Føroya) since 2001
Other board duties: Currently a board member of the Faroese Tax Tribunal
Education: Mr. Johannesen has a MSc in Economics and Business Administration from Copenhagen Business School 1990, specialising in Financing, International Business and Management Accounting
Shares: Mr. Johannesen neither has shares nor shares options in the Company. Unchanged in 2011
Interest links: Mr. Johannesen has no interest links with the Company's main shareholders, customers or competitors

Board of Directors

Jens Wittrup Willumsen, Member of the Board

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

Tezz Tordsdotter Ohlsson, Member of the Board

Born: 13 October 1967
Address: Fågelvägen 9, 755 91 Uppsala, Sweden
Joined the Board: March 2010
Special skills: Experience within the aviation industry
Chief Occupation: CEO of Svenska Direktflyg AB, Direktflyg NUF og Direktflyg AS
Experience: Miss Ohlsson has been CEO of Svenska Direktflyg AB since 2006. Business Developer at Largus Holding AB 2006. V.P. Marketing & sales of Svenska Direktflyg AB 2002-2006, V.P Yield Management Revenue & Space Control of Skyways Express AB 1999-2002 and Station Manager ARN of Skyways Express AB 1995-1998
*Other board duties:*None
Shares: Miss Ohlsson neither has shares nor shares options in the Company. Unchanged in 2011
Interest links: Miss Ohlsson has no interest links with the Company's main shareholder, customers or competitors

Ingi S. Joensen, Member of the Board

Born: 29 December 1980
Address: Fjósagøta 16A, FO-100 Tórshavn, Faroe Islands
Joined the Board: September 2006 (Elected by the Employees)
Special skills: Employee of Atlantic Airways
Chief Occupation: Head of Tax-free department of Atlantic Airways
Experience: Employee of Atlantic Airways since 2004
Other board duties: Currently CEO of Sp/f Sam and board member of Sp/f Plys
Education: Bank training
Shares: Mr. Joensen and his related parties hold 197 shares (Nominal value DKK 19.700) in the Company, but he holds no share options. Unchanged in 2011
Interest links: Mr. Joensen has no interest links with the Company's main shareholders, customers or competitors

Olaf S. Poulsen, Member of the Board

Born: 28 August 1967
Address: Viðargøta 36, FO-160 Argir, Faroe Islands
Joined the Board: October 2010 (Elected by the Employees)
Special skills: Employee of Atlantic Airways
Chief Occupation: Captain at Atlantic Airways
Experience: Employee of Atlantic Airways since 19 April 1997
Other board duties: None
Education: Air Line Transport Pilot, Type Rated Instructor and Type Rated Examiner
Shares: Mr. Poulsen and his related parties hold 383 shares (Nominal value DKK 38.300) in the Company, but he holds no share options. Unchanged in 2011
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 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.

Control Committee

The Board decided at a board meeting in January 2011 to close down the Control Committee with immediate effect and to repeal the rules of procedure. The Control Committee was originally established by the Board in 2009.

Executive Management

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

Magni Arge has been the CEO of Atlantic Airways since 1995 (see further details in box below). The main duty of the CEO is to oversee daily operations and through this follow the board's policy and instructions. The CEO reports directly to the Board on the performance of the company on a regular basis. He must also provide the Board and the company auditors with any relevant information concerning Atlantic Airways' operations, which they may request. The CEO is responsible for the company's compliance with relevant law, with regard to accounts and finances, and is responsible for safeguarding the company's assets. Furthermore Magni Arge is the Accountable Manager for the airline since 1995 and has as such the ultimate responsibility to maintain and fund the operation-wide quality system which ensures all operational and technical activities comply with the standards and requirements set by the aviation authorities and the company itself.

Magni Arge, CEO

Member of the Control Committee 2009-2011
Born: 15 December 1959
Address: Borgartún 2, FO-160 Argir, Faroe Islands
Experience: Mr. Arge has been CEO of Atlantic Airways since June 1995
Other board duties: Currently a board member of Føroya Arbeiðsgevarafelag, Faroe Island Tourist Board, Green Gate Incoming P/F, Útferðir P/F and Chairman of the board of Eurest Føroyar P/F
Education: Mr. Arge is educated in Political Science, Faroese/Nordic Langauge and litterature, and Journalism
Shares: Mr. Arge and his related parties hold 5.747 shares (Nominal value DKK 574.700) in the Company, but he holds no share options. Unchanged in 2010
Interest links: Mr. Arge has no interest links with the Company's main shareholders, customers or competitors

Marius Davidsen, CFO

Born: 31 July 1958
Address: Í Fornanum 3, FO-380 Sørvágur, Faroe Islands
Experience: Mr. Davidsen has been CFO of Atlantic Airways since January 2005. Mr. Davidsen has been involved with Atlantic Airways since it commenced operations in 1987/88. Financial manager since 1988 and deputy for the CEO since June 1993
Other board duties: None
Education: Mr. Davidsen is educated from Business School in Tórshavn
Shares: Mr. Davidsen and his related parties hold 1.450 shares (Nominal value DKK 145.000) in the Company, but he holds no share options. Unchanged in 2011
Interest links: Mr. Davidsen has no interest links with the Company's main shareholders, customers or competitors

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

Authorised 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 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 are remunerated with a fixed fee. The remuneration is not included in any sort of incentive or performance-related pay. The remuneration is fixed at a certain level, which 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. 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.

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.

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.

Presentation of accounts

The Board and Executive Management have the overall responsibility for the company's control and risk management related to the presentation of the company's accounts, including the adherence to legal and other requirements for presentation. The company's control and risk management systems provide 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.

External Auditing

To protect the interests of shareholders and the general public, an authorised 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 announcement.

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 is 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.

The full details of the company's rules on inside information may be accessed on the company website.

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

The company's social responsibility policy is summarized in this section as our role as a corporate citizen, which is reflected in our aim to run a responsible, sustainable and profitable business in all aspects of our operations. In line with this aspiration, we have developed a company CSR policy, encompassing the following central areas:

- Cooperation and partnerships
- The Faroese local community
- Atlantic Airways as a workplace
- Our health, safety and environmental policy
- Safety and quality management
- Flight safety
- MEMS (Maintenance error management system)
- Environmental impact

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, page 11, 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.
- Regarding internal controls. Atlantic Airways is currently evaluating the internal controls and risk management system and is preparing a formalised system, which it aims to have adopted by the Board in 2012.
- 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 Boards performance has been done in 2011 and the outcome has been discussed in a Board meeting. The detail of the procedure of the self-evaluation and the outcome has not been disclosed.
- Regarding the Audit Committee, the Board of Directors decided at a board meeting in March 2010, that the Board in accordance with §29 in the Faroese auditing law executes the activity of the Audit Committee and the Board has therefore not formed a separate Audit Committee.

- Regarding other sub-committees, the Board of Directors does not find it necessary to operate neither a Remuneration Committee nor a Nomination Committee, considering the company's size and organisational structure. The Board of Directors is responsible for the tasks of such committees 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 programmes.
- 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 company's main operational risks are illustrated in the following sections.

General and specific risks

The profit and loss account can be affected by the economic conditions in the Faroese and international markets. In addition, the profit and loss account and the balance sheet can be affected by increased competition, changes in oil prices, demand for airline travel, the general level of cost, the weather, volcanic ash, operations and accidents, regulation, technology, financial risk, credit risk, and currency risk.

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

In order to counteract the volatile Faroese economy the company continues to work towards diversifying its economic base. In 2011, 40% of the company's revenues were from abroad, and 60% domestic. Furthermore, revenues are also divided among the main business areas: scheduled flights, charter flights, and helicopter flights.

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 20% of the operating expenses in 2011, and fuel is settled in USD. Historically, there have been significant changes in fuel prices, and a part of the fuel price increases are being recouped by levying surcharges on passengers.

To minimize the risk of fuel price volatility, and subsequent impacts on the company's expenses, the management is permitted to hedge up to 60% of estimated fuel consumption. Use of hedging means that the fuel cost per period is not as low as the spot-based price when prices fall, but when spot prices rise, the fuel cost rises more slowly. The company has hedged approximately 26% of estimated fuel consumption in 2012 against price changes. At the end of 2011, approximately 39% of the year's total fuel consumption was hedged.

From 2012 aircraft operators who fly to and from EU countries, Norway and Iceland will be included in the European Emission Trading Scheme ETS. In this connection it will be necessary for the company to purchase carbon emission permits to cover its shortfall. A quota of free CO2 emission allowances has been allocated to the company, which is expected to cover approximately 50% of estimated needs of emissions in 2012. The CO2 market has historically been volatile.

Weather and traffic disruption

The company is exposed to various disruptive factors such as adverse weather conditions (crosswind, turbulence, fog, frost and snow), volcanic ash and congested airports. Especially weather conditions across the Faroe Islands hamper flight operations and increase costs. In 2011, the company's cost of cancellations was around DKK 8 million. In the past five years, the annual cost due to cancellations and delays ranged from DKK 8 to DKK 15 million.

Additionally, the Vágar Airport Authority has in 2010 introduced much higher opening fees, which increase the cost of delays due to adverse weather.

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.

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

Interest rate risk

The company is exposed to interest rate risks through investments and financing. As of 31 December 2011, the company had DKK 47 million in interest bearing liabilities, of which 27% 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 65% at year-end 2011.

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 2011 was DKK 99 million and deemed to be sufficient. The liquidity is affected by seasonality.

Knowledge and Human resources

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

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

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

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

Corporate Social Responsibility

Introduction

Atlantic Airways plays a vital role in the Faroese society in multiple contexts and the company has therefore always balanced its profitable business up against long-term values to the society we serve.

The geographical isolation of the Faroe Islands in the North Atlantic and its relatively small population of 50,000 people is almost self-explanatory. The society is dependent upon a modern connection by air to the outside world. The smaller of the Faroe Islands are also dependent upon domestic helicopter service, and SAR service by helicopter is vital to a society more or less dependent upon harvesting from the sea. Atlantic Airways was established in 1988, to secure Faroe Islands influence on development of air links to the outside world and as part of this it was necessary not only to form a Faroese airline but also to develop a wide range of competencies within the field of aviation.

We aim to serve Faroe Islands with a decent and stable service and offer this at the best possible prices considering the cost attached to provide such service. We are eager to understand our customers' needs and adjust in relation to these, but must also accept that our limits lie within a sustainable business model.

The airline industry relies heavily on the use of oil and the subsequent CO2 emissions, which is also the case for the Faroe Islands as a society. Atlantic Airways is aware of this and accepts its responsibility and continuously work with initiatives to decrease CO2 emissions and support initiatives to lessen the Faroese society's dependency on imported hydrocarbons.

Atlantic Airways' future is highly correlated with the future development of the Faroese society. The most important societal value is to make future generations thrive in the Faroe Islands and secure a sustainable growth in population numbers. To support a thriving society we focus on:

- Securing adequate access by air to the outside world taking into consideration different segments, seasonality, frequencies, destinations, capacity and prices
- Developing and sustaining a modern and competitive airline company, which offers career opportunities and challenging jobs to people rooted in the local society
- Actively participating in facilitating new business development such as tourism and services to an emerging off-shore industry
- Supporting cultural and sporting activities in the Faroe Islands

CSR policy

Following our focus and central corporate role in the Faroese society, the company's corporate social responsibility (CSR) is an important focus area for Atlantic Airways, and has been throughout the company's history, even before the CSR phenomenon was applied in modern terms.

Atlantic Airways thus seeks to constantly conduct our business with our role as a corporate citizen in mind, and we aim to run a responsible, sustainable and profitable business in all aspects of our operations.

Our CSR focus is subsequently spread among the following central areas:

- Cooperation and partnerships
- The Faroese local community
- Atlantic Airways as a workplace
- Our health, safety and environmental policy
- Our safety and compliance management
- The environmental impact

These main areas of the company's CSR policy are discussed in the following sections.
Havi samam problem her sum áður ivð sundurliðingini í ymisk felt viðvíkjandi safety og quality.

Cooperation and partnerships

Atlantic Airways takes part in a multitude of partnerships and cooperations on various levels. It is a precondition for our business that we maintain a solid trust between ourselves, authorities and our customers. As we operate in a complex aviation industry with strong demands regarding quality of operations, we are expected to deliver high quality and we ask for the same from our partners in order to maintain our own goals on standard. We assure our standards of quality via our quality assurance system and work openly with our third party suppliers to obtain the standards set by Atlantic Airways.

The Faroese local community

Atlantic Airways aims to be a valued and respected member of the Faroese community creating value, competence and providing jobs to the Faroese people. We actively engage with the Faroese community and cultural life, and wish to be perceived as an active and responsible corporate citizen involved in the Faroese society.

Atlantic Airways has from day one actively pursued education of work force rooted in the local society. Already after a few years, most key positions in the company were manned with local people. However, the company has in an ongoing stream educated engineers, pilots, cabin attendants and traffic workers in a broader sense. All of them are not secured a long-term job, but have pursued career opportunities elsewhere. As a result, the basic aviation environment is much more developed today than it was before Atlantic Airways was established. In 2007, Atlantic Airways' maintenance department was chosen as "Best Apprenticeship of the Year" in The Kingdom of Denmark.

Through its membership of The Faroese Employers Association, Atlantic Airways participates in organising the Faroese labour market, participates in discussions about industrial issues and supports initiatives to highlight central social challenges for the Faroese society.

The company actively participates in branch organisations for Faroese Tourism and Faroe oil Industry Association. Both tourism and oil-related activity are important to the company and have considerable potential to develop the Faroese economy. Atlantic Airways holds minority stakes in a few companies related to tourism.

In partnership with Visit Faroe Islands we lead the effort to market and brand Faroe Islands as a tourist destination through a broad array of activities.

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

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

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

Atlantic Airways as a workplace

The human resources are vital for the competitiveness of the company. The company considers relevant knowledge and work experience of great importance in all areas of activity.

Atlantic Airways is the only airline in the Faroe Islands, and therefore places great emphasis on delivering solid basic education as well as adequate recurrent training of our employees.

Our main objective is to develop and retain our qualified personnel and to be the company of first choice among the best people on the job market.

Atlantic Airways strives to create a challenging, stimulating and pleasant working environment and to have a structured and goal-oriented staff development programme, both professional and personal, which will ensure that we always have the right staff for the right jobs.

Our guiding principle is to listen to staff opinions when decisions are made that have an influence on their jobs and work activities.

The company aims to create a communication and information channel, which provides all personnel with an overall picture of the company, so that everyone has the same understanding of what creates value for the company.

Health, safety and environmental policy

Atlantic Airways seeks to systematically and continually improve health, safety, and environmental issues. It is the company's policy that all activities shall be carried out in such a manner as to ensure the health and safety of employees, passengers and others in connection with flights and operations in general. Therefore we follow certain guiding principles in our operations, and have implemented specific operating procedures or management systems in certain areas.

The company's specific initiatives for the various operational areas are outlined in greater detail in the following sections.

In order to avoid unnecessary impact on the environment, the company is in every aspect considerate of the environment, and we strive to minimize pollution impacts through increasing efficiency of our fleet and reducing fuel consumption.

Safety management

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

Part of the system is a Just Safety Culture where each employee is encouraged to provide safety related information in a non-punitive environment; but where there is also a clear line between acceptable and unacceptable behaviour.

In addition to the operational reporting system, Flight Data Monitoring (FDM) is essential for the fixed wing fleet. From FDM data we are able to identify possible hazards outside operating procedures. From statistic and trends from this data we are able to see and predict where to increase focus.

In the technical environment there is a strong focus to learn from mistakes made and reduce human error events, which compromise the safety of the operating environment. This is systemized through the Maintenance Error Management System (MEMS), which encourages and facilitates incident reporting and investigation, utilizing human error events as learning tools. Based on several years of reporting and investigation, the company has identified five “Key Behaviours” for Line and Base maintenance work, which is being fostered within the maintenance and inspection work processes to reduce mishaps and maintain safety.
These Key Behaviours are:

- Review maintenance instructions (before starting the work)
- Document job status (to ensure the next shift knows exactly what has been done)
- Separate inspection (after critical tasks have been performed)
- A last set of eyes (after the job is done, just to make completely sure that the aircraft is left airworthy)
- Take a moment to focus (before undertaking a critical or demanding task)
  The company also launched a new Ground Operation Error Management System (GEMS) based on the same principles and experience from the MEMS programme.

Compliance management

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

The performance of the compliance management system is evaluated 10 times per year by senior management. The evaluation is based on Key Performance Indicators from all departments, as well as the independent quality assurance reports from both internal and external (e.g. the aviation authorities) audits.
In 2011, the technical side of the safety management system, as well as the structure and implementation of the compliance management system and the independant quality assurance process, was exhibited and promoted by the danish aviation authorities to the danish aviation environment as top-of-the-class.

Environmental impact

As a natural consequence of our industry, we are continuously aware of the main environmental loads that aviation induces on the natural environment, and consequently seek to attain efficient use of our fleet and minimize the impact on our surroundings. The main aspects of the company’s environmental focus are outlined in the following sections in line with our fuel consumption and CO2 emissions.

Fuel consumption

Atlantic Airways’ industry relies on the use of oil, and the subsequent CO2 emissions.

In early 2008, Atlantic Airways decided to reduce the fuel use per hour through optimized operational procedures. In 2011 the operation as a whole saved on average 92kg (i.e. 115 ltrs) per flight hour, compared to the average consumption in the years preceding 2008. Converted to CO2 emission figures, this means that Atlantic Airways has reduced its emission by 289 kg/flight hour. For 2011, this means a reduction of 2,126,316 kg in CO2 emission compared to the years preceding 2008, or 4%

The average jet fuel consumption of the fixed wing fleet in 2011 was 2,159 kg/flight hour compared to 2,151 kg/flight hour in 2010, an increase of 0.4%. Despite the growth in fuel per flight hour, consumption is significantly lower compared to three years ago.

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

The company’s tax free sales were transferred from the aircraft to shops in the terminal in 2009. This freed up some payload on the aircraft making it possible to transport more passengers and cargo on each plane. Consequently this led to reduced fuel consumption and CO2 emissions per passenger and per kilo of freight.

In the longer term the renewal of our fleet with more efficient airplanes and helicopters, with less fuel burn, ultimately brings down CO2 emissions. In 2012 a new Airbus 319 aircraft will significantly reduce fuel consumption and CO2 emission per passenger.

Tradable CO2 quota system from 2012

Air traffic has been included in the European Emissions Trading Scheme as of 1 January 2012. The trading scheme affects all air travel to and from the EU, Norway and Iceland with some exceptions. The quota system will therefore include most of the company’s operations. ACMI flights, where the company is operating with the callsign of another airlines, is part of the other airlines CO2 accounts.

Quotas are tradable, allowing the purchase and sale of CO2 quotas. Approved companies will be allocated free CO2 quotas, and such companies must every year starting from 2010 submit audited CO2 statements to EU authorities.

Atlantic Airways’ CO2 emissions control system was approved by the Danish Energy Agency in the fall of 2009. The EU authorities have allocated a free quota of emission allowances to Atlantic Airways for the period 2012-2020, which in 2012 is expected to cover approximately 60% of estimated consumption of CO2. The company needs to purchase carbon emissions permits to cover the shortfall. It is expected that the Emission Trading Scheme will lead to an increased cost of production and increased ticket fares.

Requirements and recommendations

Atlantic Airways strives to live up to all legal obligations and rules in the countries and local communities in which we operate.

The company's Board and Management are of the opinion that the company is in compliance with all requirements and recommendations regarding the impact on the external environment.

Focus areas

Atlantic Airways considers CSR a core element in our business, and we are continuously conscious of our role as a corporate citizen of the Faroese society in conjunction with the development and growth of our company. We will therefore continually implement a great degree of focus on CSR in the different areas of our operations, where applicable and relevant.

We do not currently operate with specific Key Performance Indicators (KPI) in measuring our overall approach on corporate social responsibility. However, we intend to do so in the future with regard to measuring tangible progress and attainment of quantitative targets among our operations. We will review and incorporate such specific quantitative measures and report on progress, when final indicators and targets are decided on.

Financial calendar 2012

8 March 2012	**Annual Report 2011**
17 April 2012	**Annual General Meeting**
16 May 2012	**Interim Report Q1 2012**
3 August 2012	**Interim Report Q2 2012**
1 November 2012	**Interim Report Q3 2012**

Management's Statement

The Board of Directors and the Management have today discussed and approved the annual report of Atlantic Airways P/F for the financial year 1 January – 31 December 2011.

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, 2011, and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2011.

Furthermore, in our opionen 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 have in connection with the accounting assessed whether it is justified that the going concern assumption be upheld. The Board of Directors and the Mangement have today concluded that the Company still is a going concern and that there on the reporting date are no factors that give rise to doubts, whether the company can and will continue operations until at least next balance sheet.

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

Sørvágur the 8th of March 2012

Management:

Magni Arge CEO	Marius Davidsen CFO

Board af directors

Bjarni Askham Bjarnason Chairman	Kaj Johannesen Vice-chairman	Jens Wittrup Willumsen
Tezz Tordsdotter Ohlsson	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 the Financial Statement

We have audited the financial statement of P/F Atlantic Airways for the financial year 1 January to 31 December 2011, which comprises 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 statement is prepared in accordance with International Financial Reporting Standards as adopted by the EU and Faroese disclosure requirements for listed companies.

Management's responsibility

The Management is responsible for the preparation of financial statement that gives 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 statement 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 statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statement 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 statement.

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 statement gives a true and fair view of the P/F Atlantic Airway's financial position at 31 December 2011 and of the results of P/F Atlantic Airway's operations and cash flows for the financial year 1 January to 31 December 2011 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 statement.

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

Tórshavn 8th of March 2012

NOTA
Løggilt grannskoðanarvirki P/F

Jørmann Petersen	Jóanes Olsen
State Authorized Public Accountant	Registered Public Accountant

Income Statement for the year 2011

	Note	2011	*2010*
Net sales	3	435.522.645	*401.790.482*
Other income		114.881	*880.222*
Total revenue	2,3,5	**435.637.526**	***402.670.704***
Flight expenses	4	-270.660.327	*-244.177.058*
Employee expenditures	6	-90.617.909	*-89.444.687*
Total operating expenses		-361.278.235	*-333.621.745*
Result before depreciation, amort. and impairment (EBITDA)		**74.359.291**	***69.048.959***
Depreciations, amort. and impairment	7,12,13	-43.071.002	*-49.546.447*
Result before financial items (EBIT)		**31.288.289**	***19.502.512***
Financial income	8	5.598.986	*7.481.341*
Financial expenses	9	-9.701.893	*-11.413.942*
Net financial items		-4.102.907	*-3.932.602*
Share of profit/loss of associates	16	309.832	*-488.214*
Result before taxes (EBT)		**27.495.214**	***15.081.697***
Income tax	11	-4.949.138	*-2.737.761*
Net Profit / Loss for the year		**22.546.076**	***12.343.936***
Attributable to:			
Shareholders of Atlantic Airways P/F		22.546.076	*12.343.936*
Earnings per share	42		
Earnings per share (DKK) (EPS)		22,02	*12,06*
Diluted earnings per share (DKK) (EPS-D)		22,02	*12,06*
Proposed allocation of profit/loss			
Proposed dividend to shareholders	43	7.000.000	*7.500.000*
To carry forward to next period		15.546.076	*4.843.936*
Total		**22.546.076**	***12.343.936***

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

Statement of comprehensive income for the year 2011

	2011	***2010***
Net Profit / Loss for the year	**22.546.076**	***12.343.936***
Other comprehensive income		
Value adjustm. of cash flow hedges	8.880.389	*965.196*
Tax of value adjustm. of cash flow hedges	-1.598.470	*-173.735*
Available-for-sale financial assets	-270.000	*247.500*
Tax of available-for-sale financial assets	0	*0*
Dividend own shares	0	*0*
Other comprehensive income after tax	**7.011.919**	***1.038.961***
Total comprehensive income	**29.557.995**	***13.382.897***
Attributable to:		
Shareholders of Atlantic Airways P/F	29.557.995	*13.382.897*

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

Balance Sheet as at 31 December 2011

ASSETS	Note	31.12.2011	*31.12.2010*
Intangible assets	12	**6.176.895**	***5.469.217***
Aircraft and maintenance	13	99.335.662	*122.407.670*
Spare parts	13	11.444.632	*16.807.811*
Operating equipment	13	7.290.055	*7.361.760*
Hangar, buildings and land	13	36.809.111	*38.492.559*
Prepaid aircraft acquisitions	15	78.404.640	*29.214.950*
Total tangible assets		**233.284.101**	***214.284.750***
Investment in associates	16	495.885	*186.053*
Other shares	17	1.137.791	*1.159.791*
Other non-current assets		**1.633.676**	***1.345.844***
Total non-current assets		**241.094.672**	***221.099.810***
Inventories	18	**3.200.645**	***2.666.257***
Trade receivables	19	22.248.384	*36.454.294*
Prepayments	20	2.759.697	*1.746.497*
Other receivables	21	1.947.614	*797.649*
Other shares "available-for-sale"	22	706.500	*976.500*
Derivatives	23	11.651.090	*2.479.474*
Total receivables		**39.313.285**	***42.454.414***
Cash and cash equivalents	38	**98.572.270**	***81.144.716***
		141.086.199	***126.265.388***
Assets held for sale	24	0	*63.352.769*
Total current assets		**141.086.199**	***189.618.157***
TOTAL ASSETS		**382.180.871**	***410.717.967***

Balance Sheet as at 31 December 2011

EQUITY AND LIABILITIES	Note	31.12.2011	31.12.2010
Share capital	25	103.500.000	*103.500.000*
Share premium reserve	25	23.500.000	*23.500.000*
Value adjustm. of cash flow hedges	25	9.315.088	*2.033.169*
Revaluation reserve shares	27	234.000	*504.000*
Retained earnings	28	106.076.839	*90.450.248*
Proposed dividend	43	7.000.000	*7.500.000*
Total equity		**249.625.927**	***227.487.417***
Mortgage loans	31	36.501.916	*46.213.862*
Provisions for deferred taxes	11	27.891.438	*21.238.528*
Total non-current liabilities		**64.393.354**	***67.452.390***
Mortgage loans	31	10.382.500	*10.382.500*
Trade payables	31	23.485.380	*20.236.366*
Current income tax liabilities	11	6.970.291	*0*
Deferred income and accruals	29	27.032.192	*29.083.700*
Derivatives	23	291.227	*0*
		68.161.590	***59.702.566***
Liabilities ass. with assets held for sale	24	0	*56.075.593*
Total current liabilities	30	**68.161.590**	***115.778.159***
Total liabilities	30	**132.554.944**	***183.230.550***
TOTAL EQUITY AND LIABILITIES		**382.180.871**	***410.717.967***

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 01.01.2010	**103.500**	**23.500**	**1.242**	**257**	**85.606**	**-**	**214.105**
Result for the period	-	-	-	-	12.344	-	12.344
Value adjustm. of cash flow hedges	-	-	-2.155	-	-	-	-2.155
Tax of value adjustm. of cash flow hedges	-	-	-174	-	-	-	-174
Transfers to flight expences	-	-	3.806	-	-	-	3.806
Tax of transfer to flight expences	-	-	-685	-	-	-	-685
Revaluation reserve shares	-	-	-	248	-	-	248
Tax of revaluation reserve shares	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	-	**13.383**
Proposed dividend	-	-	-	-	-7.500	7.500	0
Dividends paid	-	-	-	-	-	-	-
Equity at 31.12.2010	**103.500**	**23.500**	**2.033**	**504**	**90.450**	**7.500**	**227.488**
Equity at 01.01.2011	103.500	23.500	2.033	504	90.450	7.500	227.487
Result for the year	-	-	-	-	22.546	-	22.546
Value adjustm. of cash flow hedges	-	-	6.434	-	-	-	6.434
Tax of value adjustm. of cash flow hedges	-	-	-1.598	-	-	-	-1.598
Transfers to flight expences	-	-	2.983	-	-	-	2.983
Tax of transfer to flight expences	-	-	-537	-	-	-	-537
Revaluation reserve shares	-	-	-	-270	-	-	-270
Tax of revaluation reserve shares	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	-	**29.558**
Proposed dividend	-	-	-	-	-7.000	7.000	0
Dividends paid	-	-	-	-	-	-7.500	-7.500
Dividends Own shares	-	-	-	-	81	-	81
Equity at 31.12.2011	**103.500**	**23.500**	**9.315**	**234**	**106.077**	**7.000**	**249.626**

Breakdown of changes in share capital

(DKK 1,000)	2011	2010	2009	2008	2007
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 25-28 and 43 are an integral part of the Statement of Changes in Equity

Cash Flow Statement

(DKK 1,000)	Note	2011	*2010*
Net profit/loss for the year		**22.546**	***12.344***
Depreciations		43.071	*49.546*
Taxes		4.949	*2.738*
Adjustments		**48.020**	***52.284***
+/- trade receivables		14.206	*-14.684*
+/- prepayments		-1.013	*-1.247*
+/- other receivables		-1.128	*1.876*
+/- Inventories		-534	*1.095*
+/- investment in assosiates and other shares		-310	*488*
+/- trade payables		3.249	*551*
+/- deferred income and accruals		-1.971	*9.370*
Changes in operating assets and liabilities		**12.499**	***-2.551***
Cash flow from operating activities		**83.065**	***62.077***
Purchase of intangible, tangible assets and prepaid aircraft	12,13,15	-67.717	*-31.866*
Sale of intangible and tangible assets	12,13,15	68.291	*768*
Cash flows from investing activities		**575**	***-31.098***
Repayment of long-term loans	29	-58.712	*-15.353*
Foreign exchange effect on cash		0	*0*
Paid dividends		-7.500	*0*
Cash flows from financing activities		**-66.212**	***-15.353***
Total cash flows for the year		**17.428**	***15.626***
Cash and cash equivalents at the beginning of the year		**81.145**	***65.519***
Cash and cash equivalents at the end of the year		**98.572**	***81.145***

The notes 7-43 are an integral part of the Cash Flow Statement

Overview of Notes

1. Accounting Principles
2. Segment information
3. Total revenue
4. Flight expenses
5. Specification of numbers of passengers
6. Employee expenditures
7. Depreciation, amort. and impairments
8. Financial income
9. Financial expenses
10. Auditors remuneration
11. Income tax
12. Intangible assets
13. Tangible assets
14. Insurance value
15. Prepaid aircraft acqusitions
16. Financial assets
17. Other shares
18. Inventories
19. Trade receivables
20. Prepayments
21. Other receivables
22. Other shares “available-for-sale”
23. Derivative financial instruments
24. Assets held for sale
25. Equity
26. Own shares
27. Revaluation reserve shares
28. Retained earnings
29. Deferred income and accruals
30. Non-current and current liabilities
31. Mortgaging and contingent liabilities etc.
32. Off-balance sheet items
33 Lessor as lessor
34. Directors and Management and their holdings of shares
35. Remuneration of Board of Directors and Management
36. Management or board duties in other companies
37. Related parties
38. Cash and cash equivalents
39. Additional cash flow information
40. Financial risks and financial intruments
41. Financial intruments and fair values
42. Earnings per share
43. Dividend
44. Seasonality
45. Events after the End of the Financial Year

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, 2011 and for the period January 1, to December 31, 2011 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 2011, excluding aircraft leased out, supported by 156 employees with the operational base at Vágar. In the Helicopter Services there were 2 helicopters in service as at 31 December 2011 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 2011 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 8, 2012.

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 59.

c. Functional and presentation currency

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

d. Use of estimates and judgements

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

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

Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are: measurement of the recoverable amounts of cash-generating units, utilisation of tax losses, accounting for an arrangement containing a lease, provisions and valuation of financial instruments.

Changes in accounting principles

The financial statement is presented in accordance with the new and revised standards (IFRS/IAS) and new interpretations (IFRIC), which entered into force with effect from the financial year 2011. The standards and interpretations relevant to the Company are: IAS 24 (revised) Related Party Disclosures, Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues, IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments and Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement.

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 2011, 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 59.

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

(ii) Derivative financial instruments

The Company holds derivative financial instruments to hedge its foreign currency, fuel price and interest rate risk 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 57.

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

Changes in the fair of securities classified as available for sale are recognised in other comprehensive income.

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

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

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

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

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

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

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

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

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

(iii) Subsequent costs

The cost of replacing part of an item of operating assets is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied with the item will flow to the Company and the cost of the item

can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs are recognised in the income statement as an expense as incurred.

(iv) Depreciation

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

	Useful life	Residual Value
Aircrafts	5-10 years	0-5 million DKK
Helicopters	11-16 years	0
Spare parts	17 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

(ii) Subsequent expenditure

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

f. Prepaid aircraft acquisitions

Prepaid aircraft acquisitions consist of pre-payments on Airbus aircraft that are still to be delivered.

g. Leased assets

Atlantic Airways has entered into finance and operating leasing contracts. Leasing contracts where the terms of the lease transfer substantially all the risks and benefits of the asset to Atlantic Airways are reported as finance leases.

All other lease contracts are classified as operating leases. All operating leases are not recognised on the Company's balance sheet.

h. Inventories

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

i. Trade receivables

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

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

j. Cash and cash equivalent

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

k. Assets held for sale

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

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

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

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

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

l. Impairment

(i) Financial assets

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

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

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

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

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

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

m. Provisions

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

(i) Overhaul commitments relating to aircrafts under operating lease

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

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

n. Deferred income

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

o. 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.

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 2011 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 2011, supported by 156 employees with the operational base at Vágar.

Helicopter Services

In the Helicopter Services there were 2 helicopters in service as at 31 December 2011 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 2011	Aircraft Services 2010	Helicopter Services 2011	Helicopter Services 2010	Total 2011	Total 2010
Income statement						
Net sales	407.654	358.342	27.868	43.448	435.523	401.790
Other income	115	555	0	325	115	880
Total revenue from external customers	**407.769**	**358.897**	**27.868**	**43.773**	**435.638**	**402.671**
Operating expenses	374.764	340.915	29.585	42.253	404.349	383.168
Operating result	**33.005**	**17.982**	**-1.716**	**1.520**	**31.288**	**19.503**
Effects of associated companies	-	-	-	-	310	-488
Financial income	5.589	7.422	10	60	5.599	7.481
Financial expenses	-8.336	-7.486	-1.366	-3.928	-9.702	-11.414
Result before tax	**30.259**	**17.918**	**-3.073**	**-2.348**	**27.495**	**15.082**
Income tax expense					-4.949	-2.738
Profit					**22.546**	**12.344**
Balance sheet						
Segment assets	329.480	269.584	52.205	140.947	381.685	410.532
Investment in associates	-	-	-	-	496	186
Segment liabilities and equity	358.837	334.312	23.344	76.406	382.181	410.718
Cash flows						
Cash flows from operating activities	62.193	70.854	20.871	-8.777	83.065	62.077
Cash flows from investing activities	-57.903	-27.625	58.478	-3.473	575	-31.098
Cash flows from financing activities	-12.649	-6.790	-53.563	-8.563	-66.212	-15.353
Other						
Depreciations and amortisation	34.008	36.541	9.063	13.005	43.071	49.546

Geographical segments

Revenue comprises the following markets:

	Faroe Islands 2011	Faroe Islands 2010	Europe 2011	Europe 2010	Total 2011	Total 2010
Total revenue from external customers	263.219	224.500	172.418	178.171	435.638	402.671

Notes

3. Total revenue (DKK 1,000)

	2011	*2010*
Passenger transport	301.238	*268.353*
Charter activity (fixed wing and rotor wing)	54.081	*65.302*
Cargo and mail	12.693	*12.257*
Other	41.314	*32.316*
SAR and Inter-Island services	26.195	*23.561*
Other income	115	*880*
Total	**435.638**	***402.671***

4. Flight expenses (DKK 1,000)

	2011	*2010*
Aircraft fuel	-81.831	*-65.615*
Aircraft maintenance	-22.966	*-23.795*
Passenger/aircraft charges	-53.278	*-46.481*
Handling and catering costs	-22.182	*-23.819*
Cancellations and diversions	-8.809	*-9.167*
Other costs	-81.595	*-75.300*
Total	**-270.660**	***-244.177***

5. Specification of numbers of passengers:

	2011	*2010*
Passengers fixed wing, scheduled services	193.450	*186.624*
Passengers fixed wing, charter	61.664	*23.710*
Passangers fixed wing	**255.114**	***210.334***
Passengers by Helicopters	5.343	*9.323*
Total passengers	**260.457**	***219.657***
Block hours:		
Aircraft, block hours, scheduled services	6.115	*6.048*
Aircraft, block hours, charter	2.075	*1.173*
Total aircraft block hours	**8.189**	***7.221***
Helicopters	624	*923*
Total airborne hours	**8.813**	***8.144***
Income overseas:		
Export value in DKK	172.418.101	*178.171.047*
Export value in %	40%	*44%*

Notes

6. Employee expenditures (DKK)	2011	*2010*
Wages and salaries	-77.545.180	*-77.684.627*
Pensions	-6.653.360	*-6.314.496*
Expenses for social security	-2.835.491	*-2.305.798*
Other employee expenditures	-3.583.878	*-3.139.767*
Bonus	0	*0*
Share-based payments	0	*0*
Total	**-90.617.909**	***-89.444.687***
Salaries and compensations paid to Management and Board:		
Management, Wages and salaries	2.082.780	*2.082.780*
Management, Pensions	280.440	*280.440*
Management, Bonus	655.430	*122.628*
Management, Share-based payments	-	-
Board, Wages and salaries	920.000	*965.000*
Board, Bonus	-	-
Board, Share-based payments	-	-
Total	**3.938.650**	***3.450.848***
Number of employees	166	*167*

7. Depreciation, amort. and impairments (DKK)	2011	*2010*
Amortisation of intangible assets	-2.705.350	*-2.521.483*
Impairments of intangible assets	0	*0*
Depreciation of tangible assets	-40.365.652	*-39.050.245*
Impairments of tangible assets	0	*0*
Depreciation of assets held for sale	0	*-6.896.333*
Impairments of assets held for sale	0	*-1.078.386*
Total depreciation, amortisation and impairments	**-43.071.002**	***-49.546.447***

8. Financial income (DKK)	2011	*2010*
Interest, cash, etc.	1.378.934	*1.148.757*
Dividends	0	*0*
Profit from options	0	*2.404.159*
Other interest income	178.419	*32.168*
Currency adjustments	4.041.633	*3.896.256*
Total	**5.598.986**	***7.481.341***

Notes

9. Financial expenses (DKK)

	2011	*2010*
Interest on long term loans	-2.527.117	*-5.172.668*
Other interest expenses	-1.627.444	*-1.326.017*
Currency adjustments	-5.547.332	*-4.915.257*
Total	**-9.701.893**	***-11.413.942***

10. Auditors remuneration (DKK)

	2011	*2010*
Audit	240.000	*245.000*
Other services	336.390	*134.235*
Total	**576.390**	***379.235***

11. Income tax (DKK)

	2011	*2010*
Taxes	-6.970.291	*0*
Changes in deferred taxes during the year	2.021.153	*-2.737.761*
Total taxes	**-4.949.138**	***-2.737.761***
Deferred taxes as of Jan 1st	28.314.121	*25.402.625*
Changes in deferred taxes during the year	-2.021.153	*2.737.761*
Taxes recognised in equity	1.598.470	*173.735*
Transferred to assets held for sale	0	*-7.075.593*
Deferred tax at the end of the year	**27.891.438**	***21.238.528***
Taxes from net profit/loss for the year:		
Calculated 18% tax of result before taxes	4.949.139	*2.714.705*
Adjustments from previous years	0	*23.056*
Dividend from other shares	0	*0*
Total	**4.949.139**	***2.737.761***
Effective tax percent	**18%**	***18%***
Provisions for deferred tax comprises:		
Property, plant and equipment	25.884.843	*30.521.618*
Financial assets	24.819	*21.609*
Receivables	-63.000	*-54.000*
Derrivatives	2.044.775	*446.305*
Tax loss carried forward	0	*-2.621.411*
Transferred to assets held for sale	0	*-7.075.593*
Total	**27.891.438**	***21.238.528***

Notes

12. Intangible assets (DKK)

2011	Development expenditures	Software	Total
Acquisition value as of Jan 1st	0	14.557.412	14.557.412
Additions during the year	2.107.885	1.305.143	3.413.028
Disposal during the year	0	-422.476	-422.476
Acquisition value as of December 31st	**2.107.885**	**15.440.078**	**17.547.964**
Amortisations as of Jan 1st	0	-9.088.195	-9.088.195
Amortisations during the year	0	-2.705.350	-2.705.350
Amortisations of disposal	0	422.476	422.476
Amortisations as of December 31st	**0**	**-11.371.069**	**-11.371.069**
Book value as at December 31st 2011	**2.107.885**	**4.069.010**	**6.176.895**

2010	Development expenditures	Software	Total
Acquisition value as of Jan 1st	-	14.500.740	14.500.740
Additions during the year	-	1.181.370	1.181.370
Disposal during the year	-	-1.124.698	-1.124.698
Acquisition value as of December 31st	**-**	**14.557.412**	**14.557.412**
Amortisations as of Jan 1st	-	-7.691.410	-7.691.410
Amortisations during the year	-	-2.521.483	-2.521.483
Amortisations of disposal	-	1.124.698	1.124.698
Amortisations as of December 31st	**-**	**-9.088.195**	**-9.088.195**
Book value as at December 31st 2010	**-**	**5.469.217**	**5.469.217**

Notes

13. Tangible assets (DKK)

2011	Aircraft and maintenance	Spare parts	Operating Equipment	Hangar, buildings and land	Total
Acquisition value as of Jan 1st	233.932.901	39.396.732	19.844.781	47.214.671	340.389.085
Additions during the period	12.247.589	251.558	2.444.374	196.715	15.140.236
Disposal during the period	-145.919.205	-5.808.807	-2.497.940	0	-154.225.952
Transfer to/from assets held for sale	138.202.540	0	0	0	138.202.540
Acquisition value as of Dec. 31st	**238.463.825**	**33.839.483**	**19.791.215**	**47.411.386**	**339.505.909**
Depreciations and write-downs as of Jan 1st	-111.525.232	-22.588.920	-12.483.019	-8.722.112	-155.319.285
Depreciations and write-downs during the period	-35.319.597	-1.114.457	-2.051.435	-1.880.163	-40.365.652
Depreciations and write-downs of disposal	82.566.436	1.308.528	2.033.296	0	85.908.260
Transfer to/from assets held for sale	-74.849.771	0	0	0	-74.849.771
Depreciations and write-down as of December 31st	**-139.128.165**	**-22.394.850**	**-12.501.158**	**-10.602.275**	**-184.626.448**
Book value as at Dec. 31st 2011	**99.335.661**	**11.444.633**	**7.290.057**	**36.809.111**	**154.879.461**

2010	Aircraft and maintenance	Spare parts	Operating Equipment	Hangar, buildings and land	Total
Acquisition value as of Jan 1st	384.907.503	41.258.941	21.011.262	47.214.671	494.392.377
Additions during the period	19.042.972	624.446	475.596	0	20.143.015
Disposal during the period	-31.815.034	-2.486.655	-1.642.077	0	-35.943.766
Transfer to/from assets held for sale	-138.202.540	0	0	0	-138.202.540
Acquisition value as of Dec. 31st	**233.932.901**	**39.396.732**	**19.844.781**	**47.214.671**	**340.389.085**
Depreciations and write-downs as of Jan 1st	-176.749.953	-23.322.506	-11.920.265	-6.760.010	-218.752.734
Depreciations and write-downs during the period	-41.440.084	-1.417.946	-2.204.831	-1.962.102	-47.024.964
Depreciations and write-downs of disposal	31.815.034	2.151.532	1.642.077	0	35.608.643
Transfer to/from assets held for sale	74.849.771	0	0	0	74.849.771
Depreciations and write-down as of December 31st	**-111.525.232**	**-22.588.920**	**-12.483.019**	**-8.722.112**	**-155.319.283**
Book value as at Dec. 31st 2010	**122.407.669**	**16.807.812**	**7.361.762**	**38.492.559**	**185.069.802**

Notes

14. Insurance value (DKK)

	Insurance value	Carrying amount
Aircraft and helicopters	273.000.000	*110.780.294*
Other equipment	*	*44.099.167*
Total		***154.879.461***

*Replacement value

15. Prepaid aircraft acquistions

Prepaid aircraft acqusitions in the balance sheet is for the purchase of one Airbus A319 aircraft to be delivered in March 2012.

Notes

16. Investment in associates (DKK)

2011	Investment in associates*
Acquisition value as of Jan 1st	570.000
Additions during the period	0
Disposal during the period	0
Acquisition value as of December 31st	**570.000**
Revaluations and share of result as of Jan 1st	-383.947
Revaluations during the period	130.006
Share of result in last year	179.827
Additions during the period	0
Disposal during the period	0
Revaluations as of December 31st	**-74.114**
Book value as at December 31st 2011	**495.886**

2010	Investment in associates*
Acquisition value as of Jan 1st	570.000
Additions during the period	0
Disposal during the period	0
Acquisition value as of December 31st	**570.000**
Revaluations and share of result as of Jan 1st	104.267
Revaluations during the period	
Share of result in last year	-488.214
Additions during the period	0
Disposal during the period	0
Revaluations as of December 31st	**-383.947**
Book value as at December 31st 2010	**186.053**

Summary of aggregate financial information for investments in associates

P/F Green Gate Incoming		**P/F Gjáargarður**		**Total**
Domicile: Tórshavn		*Domicile:* Gjógv		
Share capital: 500.000 DKK		*Share capital:* 1.200.000 DKK		
Company's portion: 49%		*Company's portion:* 27%		
Assets	2.193.701	Assets	9.989.987	12.183.688
Equity	902.423	Equity	198.883	1.101.306
Liablities	1.291.278	Liablities	9.791.104	11.082.382
Net profit	296.753	Net profit	127.476	424.229
Company's portion		*Company's portion*		
Equity	442.187	Equity	53.698	495.886
Net profit	145.409	Net profit	34.419	179.827

*According to the latest financial statements.

Notes

17. Other shares (DKK)

2011	Other shares
Acquisition value as of Jan 1st	1.159.791
Additions during the period	0
Disposal during the period	-22.000
Acquisition value as of December 31st	**1.137.791**
Revaluations and share of result as of Jan 1st	0
Revaluations during the period	0
Share of result in last year	0
Additions during the period	0
Disposal during the period	0
Revaluations as of December 31st	**0**
Book value as at December 31st 2011	**1.137.791**

2010	Other shares
Acquisition value as of Jan 1st	1.159.791
Additions during the period	0
Disposal during the period	0
Acquisition value as of December 31st	**1.159.791**
Revaluations and share of result as of Jan 1st	0
Revaluations during the period	0
Share of result in last year	0
Additions during the period	0
Disposal during the period	0
Revaluations as of December 31st	**0**
Book value as at December 31st 2010	**1.159.791**

18. Inventories (DKK)

	2011	*2010*
Inventories	3.200.645	*2.666.257*
Write-downs of inventories	0	*0*
Inventories total	**3.200.645**	***2.666.257***

19. Trade receivables (DKK)

	2011	*2010*
Trade receivables	22.598.384	*36.754.294*
Write-downs of trade receivables	-350.000	*-300.000*
Trade receivables total	**22.248.384**	***36.454.294***

Notes

20. Prepayments (DKK)

	2011	*2010*
Prepaid rental expences	90.449	*142.208*
Other prepayments	2.669.248	*1.604.289*
Prepaymens total	**2.759.697**	***1.746.497***

21. Other receivables (DKK)

	2011	*2010*
Deposit	818.558	*618.369*
Other receivables	1.129.056	*179.280*
Other receivables total	**1.947.614**	***797.649***

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

	2011	*2010*
Value as of Jan 1st	976.500	*729.000*
Additions during the period	0	0
Disposal during the period	0	0
Net gains/losses transfer to equity	-270.000	*247.500*
Value as of December 31st	**706.500**	***976.500***

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

23. Derivative financial instruments (DKK)

	2011	2011	*2010*	*2010*
	Assets	**Liabilities**	***Assets***	***Liabilities***
Forward foreign exchange contracts	11.651.090	-	*2.245.364*	-
Fuel oil swap tranactions		291.227	*234.110*	-
Derivatives total	**11.651.090**	**291.227**	***2.479.474***	-

Notes

24. Assets held for sale

At 31st December 2011 no assets were classified as held for sale.

At 31th December 2010, assets held for sale comprises an aircraft, a helicopter and maintenance.

The company decided in 2010 to sell one BAE 146 aircraft. Delivery was in April 2011. As at 31 December 2010 this aircraft was in the Aircraft Service segment. The selling price was expected to be lower that the carrying amount of the assets held for sale. Accordingly impairment losses of DKK 1.1 million was recognised in the income statement of 2010 when the asset was classified as held for sale. As at 1 April 2011 the sale was changed to a financial lease agreement.

The company decided in 2010 to sell one AW 139 helicopter. This was to reduce the expose in the Helicopter segment. The helicopter was delivered in January 2011. The selling price was expected to be lower that the carrying amount of the asset held for sale. Accordingly impairment losses of DKK 1.1 million was recognised in the income statement of 2010.

Mortgage loan amounted to DKK 49 million in 2010 was related to the financing of the helicopter. The provision for deferred taxes related to the disposion of the assets held for sale amounted to DKK 7.1 million.

	2011	*2010*
Aircraft and maintenance	0	*63.352.769*
Assets held for sale total	**0**	***63.352.769***
Mortagage loans	0	*49.000.000*
Provision for deferred taxes	0	*7.075.593*
Total liabilities ass. with assets held for sale	**0**	***56.075.593***

25. 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.

Notes

26. Own shares

	Number		Nominal value		% of Share capital	
	31.12.2011	*31.12.2010*	31.12.2011	*31.12.2010*	31.12.2011	*31.12.2010*
1. Jan 11	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-11	**11.111**	***11.111***	**1.111.100**	***1.111.100***	**1%**	***1%***

27. Revaluation reserve shares (DKK)

	2011	2010
Reserve as of Jan 1st	504.000	*256.500*
Adjustment for the period	-270.000	*247.500*
Revaluations	0	*0*
Reserve at the end of the year	**234.000**	***504.000***

28. Retained earnings (DKK)

	2011	*2010*
Retained earnings opening	90.450.248	*85.606.313*
+ Dividend own shares	80.514	*0*
+ Net profit	22.546.076	*12.343.936*
- proposed dividend	-7.000.000	*-7.500.000*
Total	**106.076.838**	***90.450.249***

29. Deferred income and accruals (DKK)

	2011	*2010*
Deferred income, tickets	18.517.876	*17.217.381*
Holiday allowances	4.762.580	*4.484.193*
Accruals	3.751.736	*7.382.126*
Total	**27.032.192**	***29.083.700***

30. Non-current and current liabilities (DKK)

	Liab. Dec. 31st 2011	Short term liab. 0-1 year	Due for payment after 5 years	Liab. Dec. 31st 2010
Mortgage loans	46.884.416	10.382.500	781.250	*56.596.362*
Provision for deferred taxes	27.891.438	0	0	*21.238.528*
Trade payables	23.485.380	23.485.380	0	*20.236.366*
Deferred income and accruals	27.032.192	27.032.192	0	*29.083.700*
Derivatives	291.227	291.227	0	*0*
Liabilities ass. with assets held for sale	0	0	0	*56.075.593*
Total non-current and current liab.	**125.584.653**	**61.191.299**	**781.250**	***183.230.550***
Specified as follows:				
Current liabilities	**68.161.590**			***115.778.159***
Non-current liabilities	**64.393.354**			***67.452.390***

The company has not had any defaults of principal, interest or other breaches with respect to their liabilities during the period (2010: the same).

Notes

31. Mortgaging and contingent liabilities etc.

Aircraft with a book value as at 31 December 2011 of DKK 99 million are mortgaged.

The company has entered into a contract with Airbus, about purchasing an aircraft for US$ 43 million. The company has so far paid up front US$ 14.6 million. The delivery of the first aircraft is expected to be in March 2012. A cancellation of the contract with Airbus is possible, but in that case the prepayment will be lost.

The company is obligated to pay a sum of DKK 5.4 million a year until 30 September 2013 for the lease of one aircraft. The leasing rate in 2013 is amounting to DKK 3.6 million.

32. Off-balance sheet items

Leases as lessee

As a lessee the company has in place an operating lease on one aircraft at the end of December 2011. Lease payment for the financial year 2011 amounted to5.368.704 DKK. The lease payments is included in the flights expenses in the income statement. At the end of December 2011 the leases are payable as follows:

Total aircraft (DKK)	**2011**	***2010***
No later than 1 year	5.368.704	*5.368.704*
1-5 years	4.026.528	*9.395.232*
Later than 5 years	0	*0*
Total	**9.395.232**	***14.763.936***

Leases as lessor

As a lessor the company has leased out an aircraft on a lease (operating lease) purchase agreement at the end of December 2011. Lessee income for the financial year 2011 amounted to 2.710.819 DKK. The lease payments is included in revenue in the income statement. Contracted lease at year end were as follows:

Total aircraft (DKK)	**2011**	***2010***
No later than 1 year	2.929.153	2.861.705
1-5 years	1.464.576	4.292.558
Later than 5 years	0	0
Total	**4.393.729**	**7.154.263**

33. Leases as lessor

As a lessor the company has lease out an aircraft on a lease (finance lease) purchase agreement at the end of December 2011. Lessee income for the financial year 2011 amounted to 1.594.137 DKK Contracted lease at year end were as follows:

Total aircraft (DKK)	**2011**	***2010***
No later than 1 year	1.896.048	1.515.591
1-5 years	0	1.852.389
Later than 5 years	0	0
Total	**1.896.048**	**3.367.980**

Notes

34. Directors and Management at year-end 2011 and their related parties holdings of shares in P/F Atlantic Airways

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

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

Board of Directors		2011	*2010*
Bjarni A. Bjarnason (Joined the Board 23 April 2009)	Fixed salary	240.000	*240.000*
Kaj Johannesen (Joined the Board 23 April 2009)	Fixed salary	195.000	*180.000*
Jens Wittrup Willumsen (Joined the Board 23 April 2009)	Fixed salary	125.000	*185.000*
Tezz Tordsdotter Ohlsson (Joined the Board 25 March 2010)	Fixed salary	120.000	*90.000*
Ingi S. Joensen	Fixed salary	120.000	*120.000*
Olaf S. Poulsen (Joined the Board 29 October 2010)	Fixed salary	120.000	*20.000*
Verna Rasmussen (Resigned the Board 29 October 2010)	Fixed salary	-	*100.000*
Petur J. Eiriksson (Resigned the Board 25 April 2010)	Fixed salary	-	*30.000*
Total		**920.000**	***965.000***
Management			
Magni Arge	Fixed salary	1.157.100	*1.157.100*
	Pensions	171.000	*171.000*
	Bonus	393.258	*73.577*
Marius Davidsen	Fixed salary	925.680	*925.680*
	Pensions	109.440	*109.440*
	Bonus	262.172	*49.051*
Total		**3.018.650**	***2.485.848***

Notes

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

Board of Directors	Position	Management or board duties
Bjarni A. Bjarnason	Chairman	
	KT-felagið	Chairman of the board
	BAB Sp/f	CEO
	Birting	Member of the board
Kaj Johannesen	Deputy Chairman	
	The Faroese Tax Tribunal	Member of the board
Jens Wittrup Willumsen	Boardmember	
	Air Greenland A/S	Chairman of the board
	Mediehuset Ingeniøren A/S	Chairman of the board
	Index	Chairman of the board
	Visit Denmark	Deputy Chairman of the board
	Charlotte Sparre A/S	Member of the board
	Aqualift A/S	Member of the board
	SKAKO A/S	Member of the board
	Sumisura A/S	Member of the board
	Dansk Danse Teater	Member of the board
Tezz Tordsdotter Ohlsson	Boardmember	
	Svenska Direktflyg AB	CEO
	Direktflyg NUF	CEO
	Direktflyg AS	CEO
Ingi S. Joensen	Boardmember	
	Spf. Sam	CEO
	Spf. Plys	Member of the board
Olaf S. Poulsen	Boardmember	None
Management		
Magni Arge	CEO	
	Eurest Føroyar P/F	Chairman of the board
	Faroese Employers' Association	Member of the board
	Green Gate Incoming P/F	Member of the board
	Faroe Island Tourist Board	Member of the board
	Útferðir P/F	Member of the board
Marius Davidsen	CFO	None

Notes

37. Related parties

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

Significant influence:

The Company has in 2011 provided helicopter services to the Faroese Ministry of Industry amounted to DKK 8.2 million (2010: DKK 6.6 million) and to the Faroese Ministry of Fisheries amounted to DKK 17.4 million (2010: DKK 14 million). The Company has not granted loans, provided security, recourse guarantee or guarantee obligations to the principal shareholder.

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

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

Associated company's

P/F Green Gate Incoming	(Note 16)
P/F Gjáargarður	(Note 16)

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

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

38. Cash and cash equivalents (DKK)

	2011	***2010***
Cash and cash equivalents	98.572.270	*81.144.716*
Total	**98.572.270**	***81.144.716***

39. Additional cash flow information (DKK)

	2011	***2010***
Interest paid	-4.154.560	*-6.498.685*
Tax paid	0	*0*
Interests received	1.557.353	*1.180.926*
Total	**-2.597.208**	***-5.317.760***

Notes

40. 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 9% of the estimated payments in USD in 2012 have been hegded, mainly to a fixed exchange rate. In 2011 were 38% of the payments in USD hedged using fixed rates.

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

	Nominal position				Exposure		
	Cash and cash equivalents and receivables	Financial liabilities (excl. derivative financial	Derivative financial instruments	Total	Probable change in exchange rate	Effect on profit/loss after tax for the year	Effect on equity
2011							
USD/DKK	874.195	8.025.662	10.991.804	-18.143.271	10%	-1.487.748	-1.487.748
EUR/DKK	6.891.174	3.391.106	0	3.500.068	10%	287.006	287.006
GBP/DKK	4.242.075	621.095	0	3.620.980	10%	296.920	296.920
NOK/DKK	2.984.292	582.134	0	2.402.158	10%	196.977	196.977
SEK/DKK	0	38.287	0	-38.287	10%	-3.140	-3.140
ISK/DKK	0	158.780	0	-158.780	10%	-13.020	-13.020
CHF/DKK	0	60.423	0	-60.423	10%	-4.955	-4.955
	14.991.737	**12.877.487**	**10.991.804**	**-8.877.554**			
2010							
USD/DKK	15.219.815	6.438.437	2.033.169	6.748.209	10%	553.353	553.353
EUR/DKK	4.001.688	4.520.425	0	-518.737	10%	-42.536	-42.536
GBP/DKK	26.854.097	744.881	0	26.109.216	10%	2.140.956	2.140.956
NOK/DKK	3.785.066	490.872	0	3.294.195	10%	270.124	270.124
SEK/DKK	0	0	0	0	10%	0	0
ISK/DKK	0	72.222	0	-72.222	10%	-5.922	-5.922
CHF/DKK	0	299	0	-299	10%	-24	-24
	49.860.666	**12.267.136**	**2.033.169**	**35.560.361**			

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

Notes

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

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

A part of the fuel price increases are being recouped by levying surcharges on passengers. The company maintains a policy of hedging up to 50% of estimated fuel expenses. The company has hedged approximately 26 % of estimated fuel costs for 2012 against price changes. At the end of 2011, approximately 39 % 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 2011	Effect on profit before tax 2010
Fuel prices	10%	-8,2	-6,6

Interest rate risk
The company is exposed to interst 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.

	2011			***2010***		
(DKK 1.000)	Floating interest rate	Fixed interest rate	Total	Floating interest rate	Fixed interest rate	Total
Cash and cash equivalents	98.572		98.572	*81.145*		*81.145*
Loans	34.094	12.791	46.884	*80.500*	*25.096*	*105.596*

An increase in interest rate levels of 1% per annum compared with the actual interest rates of the year would other things being equal have had a hypothetical negative effect on the profit/loss for the year after tax and equity at year-end of DKK 0.3 million compared to DKK 0.8 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 2011 was DKK 95 million compared to DKK 81 million as of 31th December 2010.

Notes

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

The company's equity is high in proportion to total assets. The equity ratio was 65% at year-end compared to 55% the previous year.

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

2011						
(DKK 1.000)	*Carrying amount*	*Contractual cash flows*	0-1 years	1-3 years	3-5 years	> 5 years
Trade payables	23.485	23.485	23.485			
Loans	46.884	52.658	12.528	23.628	15.720	781
Off balance sheet liabilities						
Operating lease payments	0	9.395	5.369	4.027	0	0
Pre-delivery payments	0	147.575	147.575	0	0	0
Total	**70.370**	**233.113**	**188.957**	**27.655**	**15.720**	**781**

2010						
(DKK 1.000)	*Carrying amount*	*Contractual cash flows*	0-1 years	1-3 years	3-5 years	> 5 years
Trade payables	20.236	20.236	20.236			
Loans	105.596	112.409	62.377	23.994	21.073	4.965
Off balance sheet liabilities						
Operating lease payments	0	14.764	5.369	9.395	0	0
Pre-delivery payments	0	196.684	49.110	147.575	0	0
Total	**125.832**	**344.093**	**137.092**	**180.964**	**21.073**	**4.965**

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

Pre-delivery payments in 2012 in connection with purchase of A319 is amounting to USD 28.4 million.

Notes

Credit risks

The company is exposed to credit risks through its operations, primarily attributable to trade receivables. The company monitors on an ongoing 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 shee, see below:

	2011	*2010*
Trade receivables	22.248.384	*36.454.294*
Other shares "available-for-sale"	706.500	*976.500*
Cash and cash equivalents	98.572.270	*81.144.716*
Total	**121.527.153**	***118.575.510***

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

Impairment losses	**Gross 2011**	**Impairment 2011**	***Gross 2010***	***Impairment 2010***
Not past due	11.957.166	0	*9.579.517*	*0*
Past due 0-30 days	3.438.545	1.092	*4.107.066*	*0*
Past due 31-120 days	2.290.042	11.086	*20.592.108*	*0*
Past due 121-365 days	4.091.399	109.387	*760.137*	*42.408*
More than one year	1.116.574	228.434	*1.415.465*	*257.592*
Imperial losses total	**22.893.727**	**350.000**	***36.454.293***	***300.000***

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

	2011	*2010*
Impairment 1 January	300.000	*2.700.000*
Impairment loss recognised in the period	50.000	*-2.400.000*
Impairment 31th December	**350.000**	***300.000***

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

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

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

Hegde 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 2011 and 2010 were as follows:

(DKK)	2011	*2010*
Mortgage loans	46.884.416	*56.596.362*
- Cash and cash equivalents	-98.572.270	*-81.144.716*
Net debt	-51.687.854	-24.548.354
Total equity	249.625.927	249.625.927
Total capital	**197.938.073**	**225.077.573**
Gearing ratio	**-26%**	**-11%**

41. 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:

	2011	2011	*2010*	*2010*
(DKK. 1000)	**Carrying amount**	**Fair value**	***Carrying amount***	***Fair value***
Trade receivables	22.248	22.248	*36.454*	*36.454*
Other shares "available-for-sale"	707	707	*977*	*977*
Derivatives	11.651	11.651	*2.479*	*2.479*
Cash and cash equivalents	98.572	98.572	*81.145*	*81.145*
Total Assets	**133.178**	**133.178**	***121.055***	***121.055***
Mortgage loans	46.884	46.884	*105.596*	*105.596*
Trade payables	23.485	23.485	*20.236*	*20.236*
Derivatives	291	291	*0*	*0*
Total Liabilities	**70.661**	**70.661**	***125.833***	***125.833***

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

42. Earnings per share (DKK)	**2011**	***2010***
Net Profit/Loss for the year	**22.546.076**	***12.343.936***
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)	22,02	*12,06*
Diluted earnings per share (DKK) (EPS-D)	22,02	*12,06*

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

43. Dividend

The board proposes for approval at the Annual General Meeting that a dividend of DKK 7 million is paid to shareholders (6,763 DKK per share). The Annual General Meeting on 31 March 2011 agreed on the proposal of the Board of Directors to pay the company's shareholders a dividend of DKK 7.5 million (7.25 DKK per share). The dividend was paid on 12 April 2011.

The company has not received divident from associated companies and other shares in 2011 (2010: the same).

44. 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.

INCOME STATEMENT (DKK 1,000)	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010
Total Revenue	98.443	133.910	118.833	84.451	97.468
Flight expenses	-62.761	-80.296	-73.415	-54.188	-56.924
Employee expenditures	-23.258	-23.901	-22.516	-20.944	-22.540
Result before depr., amort. and impairm. (EBITDA)	**12.425**	**29.713**	**22.902**	**9.320**	**18.004**
Depreciations, amortisations and impairment	-12.013	-10.858	-10.567	-9.634	-11.455
Result before financial items (EBIT)	**412**	**18.855**	**12.335**	**-314**	**6.549**
Net financial items	-305	-984	-527	-2.287	-1.288
Share of p/l of ass. companies	0	0	310	0	-488
Result before tax (EBT)	**107**	**17.872**	**12.118**	**-2.602**	**4.773**
Tax	-19	-3.217	-2.181	468	-859
Profit	**88**	**14.655**	**9.937**	**-2.133**	**3.914**

45. 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 2011 up to 7 March 2012. Please refer to www.atlantic.fo on where the announcements can be read in full.

2011

Date	Headline
03-03-2011	Annual Report 2010
14-03-2011	Annual General Meeting
31-03-2011	Result of Annual General meeting
31-03-2011	Constitution of the Board of Directors
12-05-2011	1 Quarter Report 2011
25-08-2011	Half-Year Report 2011
18-10-2011	Statement regarding the privatisation of Atlantic Airways
10-11-2011	Financial Calendar 2012
10-11-2011	1-3 Quarter Report 2011
22-12-2011	Revised Financial Calendar 2012

2012

Date	Headline
23-01-2011	Atlantic Airways wins contract to provide Statoil air logistics service
23-01-2011	Atlantic Airways and Faroese government sign a new four year contract on SAR and domestic helicopter service

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

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

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).