

# **Hf. Eimskipafélag Íslands**

**Condensed Consolidated Interim**

**Financial Statements**

**For the period from**

**1 November 2006 to 31 January 2007**

**EUR**

Hf. Eimskipafélag Íslands  
Kornгарðar 2  
104 Reykjavík  
Iceland

Reg. no. 660288-1049

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# Endorsement by the Board of Directors and the CEO

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The Consolidated Interim Financial Statements of Hf. Eimskipafélag Íslands for the period 1 November 2006 to 31 January 2007 have been prepared in accordance with International Financial Reporting Standards (IFRSs) for Interim Financial Statements. The Financial Statements include the Consolidated Interim Financial Statements of the Parent Company and its direct subsidiaries, which numbered 13 at period-end. In addition to the subsidiaries there are 84 companies within the Group owned by subsidiaries, so that the Group contains 98 companies in all.

The Board of Directors of Hf. Eimskipafélag Íslands approved to merge Hf. Eimskipafélag Íslands and its subsidiary Eimskipafélag Íslands ehf. The subsidiary merged into the parent company effective as of 1 November 2006. As the subsidiary was wholly owned the merger has no effect on the consolidated financial statements.

The Company's functional currency for the year 2006 was US dollars. The change in functional currency from US dollars to EUR was made as of 1 November 2006 because of changes in the focus of the Company's operations and primary economic environment in which the Company operates. The comparative figures for the year 2006 have been translated to EUR.

According to the Consolidated Interim Income Statement the total operating revenue of the Group amounted to EUR 399 million during the period. Net loss for the period amounted to EUR 6 million. According to the Balance Sheet the Group assets were EUR 2.036 million. Equity at period-end amounted to EUR 539 million. Information about valuation of the Group's principal assets is shown in the Notes to the Consolidated Interim Financial Statements.

The Board of Directors of Hf. Eimskipafélag Íslands and the CEO hereby confirm the Company's Consolidated Interim Financial Statements for the period from 1 November 2006 to 31 January 2007, by means of their signatures.

Reykjavík, 20. March 2007.

Board of Directors:

Magnus Thorsteinsson

Thor Kristjansson

Sindri Sindrason

Eggert Magnusson

Gunnar M. Bjorg

CEO:

Baldur Gudnason

# Consolidated Interim Income Statement

November 1, 2006 - January 31, 2007

	Notes	2007 1.11.-31.1.	2006 1.11.-31.1.
Revenue .....	5	399.323	203.949
Cost of sales .....		( 379.814)	( 182.440)
<b>Gross profit</b> .....		19.509	21.509
Administrative expenses .....		( 8.673)	( 12.978)
<b>Operating profit</b> .....	5	10.836	8.531
Finance income .....		4.162	9.570
Finance expenses .....		( 22.555)	( 12.752)
<b>Net finance cost</b> .....		( 18.393)	( 3.182)
Share of profit (loss) of associates .....		689	( 30)
<b>(Loss) profit before income tax</b> .....		( 6.868)	5.318
Income tax expense .....		1.247	( 2.016)
<b>(Loss) profit from continuing operations</b> .....		( 5.621)	3.302
Loss from discontinued operations (net of income tax) .....		0	( 11.639)
<b>Loss for the period</b> .....		( 5.621)	( 8.337)
<b>Attributable to:</b>			
Equity holders of the parent company .....		( 8.647)	( 8.310)
Minority interest .....		3.026	( 27)
Loss for the period .....		( 5.621)	( 8.337)
<b>Earnings per share:</b>			
Basic earnings (loss) per share .....		( 0,0049)	( 0,0053)
Diluted earnings (loss) per share .....		( 0,0045)	( 0,0052)

# Consolidated Interim Balance Sheet

## as at 31 January 2007

	Notes	31.1.2007	31.10.2006	
<b>Assets:</b>				
Goodwill .....		320.869	245.009	
Other intangible assets .....		32.181	10.886	
Property, aircraft, vessels and equipment .....		964.335	354.523	
Investment in associated companies .....		31.376	18.371	
Financial assets .....		64.408	101.323	
Deferred tax assets .....		16.375	17.692	
<b>Total non-current assets</b>		<b>1.429.544</b>	<b>747.804</b>	
Inventories .....		16.754	13.650	
Trade receivables .....		195.337	232.360	
Other receivables .....		160.115	258.048	
Cash and cash equivalents .....		69.806	180.025	
Assets classified as held for sale .....		1.786	19.653	
<b>Total current assets</b>		<b>443.798</b>	<b>703.737</b>	
<b>Total assets</b>		<b>1.873.342</b>	<b>1.451.541</b>	
 <b>Equity:</b>				
Share Capital .....		20.470	20.476	
Share Premium .....		402.927	403.103	
Reserves .....	(	8.297)	(	5.285)
Retained earnings .....		85.082	95.554	
<b>Total equity attributable to equity holders of the parent</b>		<b>500.182</b>	<b>513.848</b>	
Minority interest .....		38.713	23.782	
<b>Total equity</b>		<b>538.895</b>	<b>537.630</b>	
 <b>Liabilities:</b>				
Convertible loans .....	9	65.491	0	
Interest bearing loans and borrowings .....	9	702.053	355.459	
Guarantee deposits .....		734	4.248	
Deferred income .....		28.506	40.909	
Deferred tax liabilities .....		71.330	7.699	
<b>Total non-current liabilities</b>		<b>868.114</b>	<b>408.316</b>	
Interest-bearing borrowings .....	9	182.986	286.098	
Current tax payable .....		0	127.889	
Trade and other payables .....		283.347	91.608	
<b>Total current liabilities</b>		<b>466.333</b>	<b>505.595</b>	
<b>Total liabilities</b>		<b>1.334.447</b>	<b>913.911</b>	
<b>Total equity and liabilities</b>		<b>1.873.342</b>	<b>1.451.541</b>	

## Consolidated Statement of Changes in Equity as at 31 January 2007

	Share Capital	Share premium	Trans- lation reserve	Share option reserve	Hedging reserve	Fair value reserve	Retained earnings	Total	Minority interest	Total equity
<b>Changes in Equity 2006:</b>										
Equity at 1 November 2005 .....	18.257	303.046	11.983	0	( 2.452)	( 1.212)	35.650	365.272	1.240	366.512
Profit for the year .....	0	0	0	0	0	0	( 8.310)	( 8.310)	( 27)	( 8.337)
Change in fair value of hedges net of tax .....	0	0	0	0	5.842	0	0	5.842	0	5.842
Total recognised income and expense .....	0	0	11.983	0	3.391	( 1.212)	27.339	362.804	1.213	364.018
New shares issued .....	3.433	119.785						123.218		123.218
Change in share option reserve, net of tax .....	0	0		614				614		614
Translation difference .....	( 3.661)	( 71.844)	( 54)	( 15)	63	136	( 3.355)	( 78.730)	( 638)	( 79.368)
Equity at 31 January 2006 .....	18.029	350.987	11.929	599	3.454	( 1.076)	23.985	407.907	22.896	430.803
<b>Changes in Equity 2007:</b>										
Equity at 1 November 2006 .....	20.476	403.103	( 1.836)	588	( 4.037)	0	95.554	513.848	23.782	537.630
Loss for the period .....							( 8.647)	( 8.647)	3.026	( 5.621)
Foreign currency translation .....			( 2.106)		( 1.102)		( 1.825)	( 5.033)		( 5.033)
Total recognised income and expense .....			( 3.942)	588	( 5.139)	0	85.082	500.168	26.808	526.976
Purchases of treasury shares .....	( 6)	( 176)						( 182)		( 182)
Change in share option reserve, net of tax .....				196				196		196
Recognised on acquisition of subsidiaries .....								0	11.905	11.905
Equity at 31 January 2007 .....	20.470	402.927	( 3.942)	784	( 5.139)	0	85.082	500.182	38.713	538.895

# Consolidated Interim Statement of Cash Flows

## For the period ended 31 January 2007

	Notes	2007 1.11-31.1.	2006 1.11-31.1.
<b>Cash flows from operating activities:</b>			
Loss for the period .....	(	5.621)	( 8.337)
Difference between (loss) profit and cash from operations:			
Depreciation and impairment of fixed assets .....		21.453	14.021
Amortization and impairment of intangible assets .....		0	603
Currency fluctuation and indexation .....	(	294)	( 18)
Capital gains on the sale of assets and other changes .....	(	9.359)	( 12.721)
Income tax .....	(	3.173)	400
Working capital provided by (used in) operating activities		3.006	( 6.053)
Changes in current assets .....	(	16.420)	( 34.150)
Changes in current liabilities .....	(	18.637)	( 9.408)
Net cash used in operating activities	(	32.051)	( 49.611)
<b>Cash flows from investing activities:</b>			
Investment in fixed assets .....	8 (	96.654)	( 63.074)
Proceeds from sale of fixed and intangible assets .....		208.272	16.569
Investment in financial assets .....	(	13.516)	( 15.919)
Investment in companies .....	(	415.952)	0
Proceeds from financial assets .....		239	0
Change in guarantee deposits .....		32	526
Net cash used in investing activities	(	317.579)	( 61.897)
<b>Cash flows from financing activities:</b>			
Increase in share capital .....		0	128.487
Purchase of treasury shares .....	(	182)	0
Capital contribution from minority shareholders .....		3.500	0
Long-term debt proceeds .....		424.492	103.779
Long-term debt repaid .....	9 (	146.343)	( 149.601)
Short-term borrowing, change .....	(	42.715)	5.887
Change in guarantee deposits .....		0	( 742)
Net cash provided by financing activities		238.752	87.809
<b>Discontinued operation</b>			
Net cash from operating activities .....		0	( 14.611)
Net cash from investing activities .....		0	( 4.215)
Net cash from financing activities .....		0	( 592)
		0	( 19.418)
<b>Decrease in cash and cash equivalents .....</b>	(	110.878)	( 43.117)
<b>Cash and cash equivalents at the beginning of the year .....</b>		181.069	124.628
<b>Effects of exchange rate fluctuations on cash and held .....</b>	(	385)	36.265
<b>Cash and cash equivalents at the end of the period .....</b>		69.806	117.776

# Notes to the Consolidated Interim Financial Statements

## 1. Reporting entity

Hf. Eimskipafélag Íslands (the “Company”) is a company domiciled in Iceland. The Consolidated Interim Financial Statements of the Company as for the 3 months ended 31 January 2007 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group's interest in associated companies.

The Consolidated Financial Statements of the Group for the year ended 31 October 2006 are available at [www.ei.is](http://www.ei.is).

## 2. Statement of compliance

The consolidated interim Financial Statements have been prepared in accordance with International Financial Reporting Standards, IAS 34 Interim Financial Reporting as adopted by EU.

The Financial Statements were approved and authorised for issue by the Company's Board of Directors on 20 of March 2007.

## 3. Significant accounting policies

The accounting policies applied by the Group in these condensed consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 October 2006.

### *Change in functional currency*

The consolidated interim financial statements are prepared in euros (EUR), which is the Company's functional currency for the year 2007. All financial information presented in EUR has been rounded to the nearest thousand.

The Company's functional currency for the year 2006 was US dollars. The change in functional currency from US dollars to EUR was made as of 1 November 2006 because of changes in the focus of the Company's operations and primary economic environment in which the Company operates. The comparative figures for the year 2006 have been translated to EUR. See further information below for comparative Balance Sheet figures in US dollars and EUR as at 31 October 2006.

The changes are as follows:

Consolidated Balance Sheet For the year ended 31 October 2006	USD	EUR
	31.10.2006	31.10.2006
Total non-current assets .....	949.110	747.804
Total current assets .....	893.181	703.737
<b>Total assets</b>	<b>1.842.291</b>	<b>1.451.541</b>
Total equity .....	682.358	537.630
Total non-current liabilities .....	518.233	408.316
Total current liabilities .....	641.700	505.595
<b>Total equity and liabilities</b>	<b>1.842.291</b>	<b>1.451.541</b>

## 4. Estimates

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



## Notes, contd.:

### 5. Segment reporting

#### *For the three months ended 31 January*

The Group comprises the following main business segments:

#### *Shipping and logistics*

Hf. Eimskipafélag Íslands forms the Groups activities that are focused on shipping, logistic and supply chain management. Eimskip has developed from a shipping line into a comprehensive transportation and logistics solutions provider with a specialisation in temperature-controlled food storage. The services provided include the management and implementation of all transportation logistics and door-to-door services. Eimskip's main transportation services include ocean transport, transportation on land and freight forwarding between foreign destinations. The services offered extend to inventory and distribution services, delivery, air freight, customs documentation, agency services, customs warehousing, loading and landing of fishing vessels and passenger transport.

#### *Aviation services*

The main operation of Aviation Services is provided by the Aircraft, Crew, Maintenance, Insurance (ACMI) or wet leasing operator Air Atlanta Icelandic and maintenance and engineering operator Avia Technical Services (ATS).

#### *Charter and leisure*

The charter and leisure division comprised the XL Leisure Group. The Charter and Leisure division was sold at the end of the fiscal year 2006 but is included in the consolidated financial statements until 31 October 2006.

	Shipping and logistics	Aviation services	Charter and leisure (Dis- continued)	Elimina- tions	Con- solidated
<b><i>For the year 2007</i></b>					
Segment revenue .....	315.189	89.886	0	( 5.752)	399.323
Segment result .....	13.900	(3.064)	0	0	10.836
Unallocated expenses .....					( 16)
Result from operating activities .....					<u>( 5.621)</u>
<b><i>For the year 2006</i></b>					
Segment revenue .....	94.592	125.596	90.604	( 41.202)	269.591
Segment result .....	4.242	4.288	( 17.213)	0	( 8.683)
Unallocated expenses .....					( 5.228)
Result from operating activities .....					<u>( 13.911)</u>
Less result from operating activities (discontinued operations) .....					<u>17.213</u>
Result from operating activities (continuing operations) .....					<u><u>3.302</u></u>

## Notes, contd.:

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### 6. Discontinued operation

At 31 October 2006 the Group sold its entire Charter and Leisure division.

The figures are stated in the comparative income statement and statement of cash flow as discontinued operations and are separated from the continuing operations.

See further information in note 6 in the Annual report of the Group for the year 2006.

### 7. Acquisition of subsidiaries

#### Business combination

In November 2006 the Group acquired 65% of the shares in Containerships Ltd. Oy, in Finland for EUR 30 million.

In January 2006 the Group acquired 40% of shares in Daalimpex BV, in Nederland and in January 2007 60% of the shares. Daalimpex BV is a part of the Group from January 1, 2007.

On November 2, 2006 the Group acquired 26% of the shares in Harbour Grace CS Inc, in Canada for EUR 1 million.

On November 2, 2006 the Group acquired all of the shares in Atlas Cold Storage in Canada for EUR 288 million. The company's main line of business is transportation.

## Notes, contd.:

### 7. contd.:

During the year the Group acquired the companies Atlas Cold Storage, Containerships Ltd. Oy, Daalimpex Beeher BV and Harbour Grace Inc. The acquisition of those companies had the following affect on the Group's assets and liabilities on acquisition date:

	Atlas Cold Storage	Container- ships Ltd Oy	Daalimpex Beeher BV	Harbour Grace CS Inc.	Pre- acquisition carrying amounts	Fair value adjustments	Recognised values on adjustments
Property and equipment .....	295.535	41.006	79.469	2.287	418.297	130.772	549.069
Intangible assets .....	5.548	2.671	0	0	8.219	17.532	25.752
Deferred tax assets .....	0	0	0	5	5	0	5
Non current assets .....	2.982	0	0	0	2.982	( 2.982)	0
Investments .....	0	394	0	0	394	0	394
Long-term notes .....	0	38	0	0	38	0	38
Inventories .....	1.358	89	409	16	1.872	0	1.872
Trade and other receivables .....	36.025	20.000	6.839	809	63.673	0	63.673
Cash and cash equivalents .....	3.325	1.440	0	167	4.932	34	4.966
Loans and borrowings .....	0	( 27.069)	( 42.757)	( 2.224)	( 72.050)	0	( 72.050)
Deferred tax liabilities .....	( 10.219)	( 4.327)	( 8.049)	0	( 22.595)	( 47.977)	( 70.573)
Trade and other payables .....	( 46.782)	( 18.209)	( 14.509)	( 159)	( 79.659)	143	( 79.516)
Net identifiable assets and liabilities .....	<u>287.773</u>	<u>16.033</u>	<u>21.402</u>	<u>901</u>	<u>326.109</u>	<u>97.522</u>	<u>423.631</u>
Eimskip acquired .....	287.773	10.421	21.402	235	319.831		319.831
Goodwill on acquisition .....	47.381	20.319	16.048	270	84.018		84.018
							<u>403.849</u>
Consideration paid, satisfied by cash .....	420.923	30.000	37.450	496			488.869
Consideration paid, directly attributable costs .....	11.752	740	0	9			12.501
Total consideration paid .....	<u>432.675</u>	<u>30.740</u>	<u>37.450</u>	<u>505</u>			<u>501.370</u>
Cash acquired .....	( 3.325)	( 1.440)	0	( 167)			( 4.932)
Net cash outflow .....	<u>429.350</u>	<u>29.300</u>	<u>37.450</u>	<u>338</u>			<u>496.438</u>

## Notes, contd.:

### 8. Property, aircrafts, vessels and equipment

During the three months ended 31 January 2007 the Group acquired assets with a cost of EUR 96.654 thousand, including assets acquired through business combinations (see note 7) of EUR 549 thousand.

In November 2006 one vessel was delivered out of five vessels that the Group has in building.

### 9. Interest-bearing borrowings

The following loans and borrowings (non-current and current) were issued and repaid during the three months ended 31 January 2007:

	Currency	Interest rate nominal	Face value	Carrying amount	Year of Maturity
Balance at 1 November 2006 .....				641.557	
<b>New issues</b>					
Convertible notes .....	CAD	15%	67.582	65.492	2010
Bank loan .....	CAD	Libor +1,75%	262.512	257.220	2009
Bank loan .....	USD	7%	49.932	51.213	2022
Other non-current bank loans .....			9.276	9.341	
Loan acquired (see note 7) .....	EUR		72.050	72.050	
<b>Repayments</b>					
Bank loans .....				( 146.343)	
Balance at 31 January 2007 .....				<u>950.530</u>	

The Holder of the convertible loan has the unilateral right to demand that debt according to the loan can be converted to common shares of the Company at the price ISK 40 per share.

### 10. Share-based payments

On March 6, 2007 the Group established a share option programme that entitles key management personnel to purchase shares in the Company. In accordance with this programme options are exercisable at the market price of the shares at the date of the grant.

The grantees can only exercise their rights at the vesting dates which are January 15, 2008, January 15, 2009 and January 15, 2010.

### 11. Quarterly Statements

The Company's operations are specified as follows according to quarters:

	Q 1 2006	Q 2 2006	Q 3 2006	Q 4 2006	Q 1 2007
Operating revenue .....	203.949	172.950	180.829	282.603	399.323
Operating expense .....	( 195.418)	( 179.832)	( 180.021)	( 294.540)	( 388.487)
<b>Operating profit (loss) .....</b>	<b>8.531</b>	<b>( 6.882)</b>	<b>808</b>	<b>( 11.937)</b>	<b>10.836</b>
Financial income and expenses .....	( 3.213)	( 38.122)	( 9.707)	( 1.518)	( 17.704)
<b>Pre-tax profit (loss) .....</b>	<b>5.318</b>	<b>( 45.004)</b>	<b>( 8.899)</b>	<b>( 13.455)</b>	<b>( 6.868)</b>
Income tax .....	( 2.016)	6.899	1.486	824	1.247
<b>Result from continuing operations .....</b>	<b>3.302</b>	<b>( 38.106)</b>	<b>( 7.413)</b>	<b>( 12.631)</b>	<b>( 5.621)</b>
Discontinued operations .....	( 11.639)	( 12.973)	9.645	133.932	0
<b>Net (loss) profit for the period .....</b>	<b>( 8.337)</b>	<b>( 51.078)</b>	<b>2.232</b>	<b>121.301</b>	<b>( 5.621)</b>
<b>EBITDA .....</b>	<b>23.155</b>	<b>8.614</b>	<b>14.566</b>	<b>5.561</b>	<b>32.289</b>