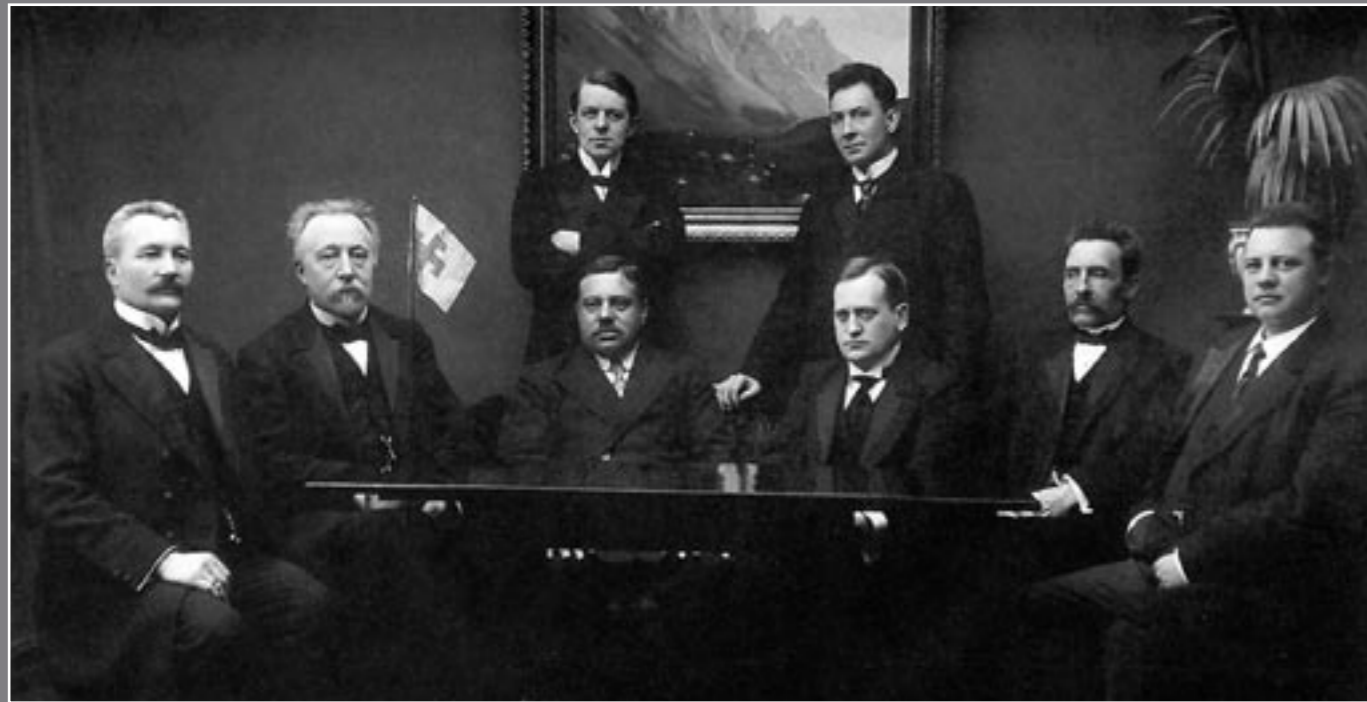


**H  
F** EIMSKIPAFÉLAG ÍSLANDS

ANNUAL REPORT  
2006



# A Short Pictorial History of Hf. Eimskipafélag Íslands



1914

Founded in 1914, as a part of Iceland's struggle for independence, Hf. Eimskipafélag Íslands was the first Icelandic shipping company. The original founders numbered over 14,000, which was more than 15% of Iceland's population at the time.



1914

Share certificates in Hf. Eimskipafélag Íslands were drawn by Stefán Eiríksson. Sveinn Björnsson, first Chairman of the company and later the first President of Iceland, owned the certificate pictured here.



1915

Hf. Eimskipafélag Íslands started scheduled sailings in 1915, and the steamer Gullfoss made its first stop in Reykjavík on 16 April. A large crowd gathered at Steinbryggjan port to welcome the vessel. Eimskip has from the outset been Iceland's largest transportation company.



1917

Lagarfoss made its first call into Reykjavík on 19 May. Since its establishment, Hf. Eimskipafélag Íslands has maintained a policy of naming its ships after waterfalls. Gullfoss was the first in 1915, and the latest was Storfoss in 2006.



1950

A new passenger vessel was taken into operation, the second with the name Gullfoss. Passengers enjoyed sunbathing on the liner's 1st Class upper deck. The ship could accommodate 210 passengers: 104 in 1st Class, 52 in 2nd Class and 44 in 3rd Class.



1956

Hf. Eimskipafélag Íslands opens one of two large warehouses in the operational area between Sigtún and Borgartún in Reykjavík.



1957

In the early 1940s, Hf. Eimskipafélag Íslands opened a travel agency in London in partnership with an Icelandic airline and an Icelandic travel agent. The office moved to Piccadilly in 1957.



1968

Faxaskáli, Austurhöfnin in Reykjavík was Iceland's largest warehouse. It opened for operation in December.



1973

The passenger vessel Gullfoss was sold overseas, but a year later seven new freighters came into service for Hf. Eimskipafélag Íslands. This expansion of the cargo fleet was the largest ever for an Icelandic shipping company.



1989

The dock at Sundahöfn was extended by 175 m to accommodate Brúarfoss and Laxfoss. Sundahöfn is the sixth largest Nordic port, with an annual container throughput of 160,000 TEUs



1972

Construction of Hf. Eimskipafélag Íslands' new operations area began at Sundahöfn, Reykjavík. The company's headquarters and port are based there today.



1986

Hf. Eimskipafélag Íslands invested in a large number of containers, including 650 reefer containers. One of the company's current aims is to become a key global player in temperature controlled cargo shipments.



2002

In 2002, work began on Eimskip's new warehouse. Vöruhótelíð opened in March 2003. The Vöruhótelíð revolutionised warehousing, logistics and distribution services in Iceland.





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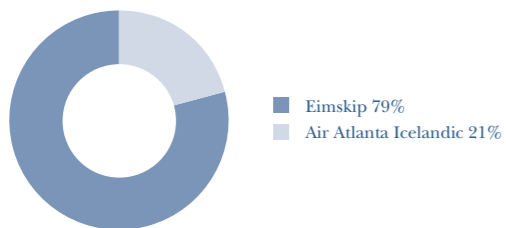
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## Key Figures

Ratios	2006	10m 2005	2004	2003
Equity ratio .....	37,0%	29,9%	12,1%	19,5%
Current ratio .....	1,39	0,71	0,65	0,71
Return on equity .....	14,2%	13,7%	44,4%	-49,3%
Working capital provided by operating activities .....	20.303	71.535	18.852	(544)
EBIT .....	(11.734)	46.682	881	(13.031)
EBITDA .....	135.000	100.524	24.368	2.894
EBIT / revenue .....	-1,1%	3,3%	0,2%	-5,7%
EBITDA / revenue .....	6,2%	7,2%	4,9%	1,3%

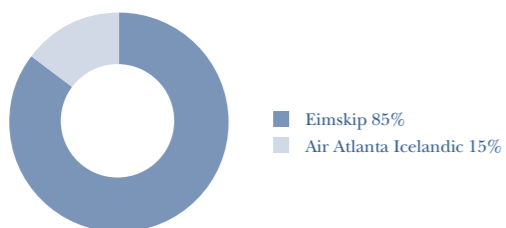
Quarterly statements	YTD	Q4	Q3	Q2	Q1
	2006	2006	2006	2006	2005/6
Operating revenue .....	1.040.036	358.022	229.692	209.112	243.210
Operating expenses .....	(1.051.770)	(372.634)	(228.666)	(217.433)	(233.037)
Operating profit (loss) .....	(11.734)	(14.612)	1.026	(8.321)	10.173
Financial income (expenses) .....	(65.050)	(2.796)	(12.330)	(46.093)	(3.831)
Profit (loss) before taxes .....	(76.784)	(17.408)	(11.304)	(54.414)	6.342
Income tax .....	8.903	1.078	1.888	8.341	(2.404)
(Loss) earnings from continuing operations .....	(67.881)	(16.330)	(9.416)	(46.073)	3.938
Effect from discontinued operations (net of income tax) .....	147.237	164.551	12.251	(15.685)	(13.880)
Profit for the period .....	79.356	148.221	2.835	(61.758)	(9.942)



TURNOVER BY DIVISION - FORECAST FOR 2007



EBITDA BY DIVISION IN 2005 - PRO FORMA



EBITDA BY DIVISION FORECAST FOR 2007



EBITDA BY DIVISION IN 2006 - PRO FORMA

## Financial Overview of 2006

:: Operating revenues of USD 1,040 million  
 :: EBITDA USD 64 million - EBIT USD -12 million  
 :: EBITDA inclusive of discontinued operations and profit from disposal of AAT USD 135 million  
 :: Pre-tax loss USD 77 million  
 :: Net income USD 79 million  
 :: Total assets USD 1,842 million  
 :: Working capital from operating activities USD 20 million  
 :: Total equity at October 31 USD 682 million - equity ratio 37%  
 :: Current ratio 1.39  
 :: Eimskip's financial statements to be published in euros as of November 1 2006



Operating revenue amounted to USD 1,040 million and increased by 80% compared to 2005. Operating expenses were USD 1,052 million and increased by 89% compared to last year.

The Group's pre-tax loss was USD 77 million for the year compared to profit of USD 8 million in 2005. Net profit for the period amounted to USD 79 million for the Group compared to USD 24 million in 2005.

Financial expenses amounted to USD 82 million thereof, approximately USD 29 million is unrealised loss from Eimskip's operation in 2006.

Eimskip's Board of Directors has decided that as of November 1 2006 Eimskip's financial statements will be published in EUR.

### Balance sheet

During the year, Hf. Eimskipafélag Íslands' balance sheet changed considerably, mostly because of significant acquisitions and disposal of assets at the end of the year.

Total assets amounted to USD 1,842 million at October 31. Equity increased from USD 461 million to USD 682 million during the year. The equity ratio was 37% at the end of the period compared to 30% at the beginning of the period. Return on equity was 14%. Earnings per share were USD 0.045 during the year. Current ratio is 1.39 but was 0.71 at year end 2005.

At year end the Group held cash available amounting to USD 228 million.

### Cash flow, main figures

The Group's working capital from operations was USD 20 million for the period. Cash flow to operating activities was USD 59 million. Capital expenditure amounted to USD 73 million compared with USD 205 million last year.

### Listing and Shareholders

Trading in shares of Hf. Eimskipafélag Íslands commenced on ICEX 20 January 2006. The listing of the company was the largest new equity listing ever on ICEX, as the company's market cap on listing was ISK 69 billion. The total number of shares in Hf. Eimskipafélag Íslands is 1,793,599,135.

Shareholders in Hf. Eimskipafélag Íslands were approximately 24,000 at October 31 2006, compared to 20 at the beginning of the year. Two shareholders owned more than 10% of total shares in the company at the end of the period. Frontline Holding S.A, which is owned by Magnus Thorsteinson, with 37.55% ownership and Fjárfestingarfélagið Grettir with 34.37% share.

### Future prospects

Hf. Eimskipafélag Íslands' budget forecasts

an improvement in the profitability in the operations of both Air Atlanta Icelandic and Eimskip in the year 2007 compared to the year 2006. Projected turnover for Eimskip in the year 2007 is USD 1,450 million and projected EBITDA is USD 145 million for the year 2007. Projected turnover for Air Atlanta Icelandic is USD 388 million and projected EBITDA is USD 25 million.

Eimskip's operations are subject to considerable seasonal fluctuation. As a rule the first quarter is generally the worst performing quarter and the fourth quarter is generally the best performing quarter.

Air Atlanta Icelandic's operations is subject to considerable seasonal fluctuation but with increased emphasis on cargo aircraft these fluctuations will decrease but third and fourth quarters are the best performing quarters.

### Results approved

The Board of Directors approved the results of the Group for the fiscal year 2006 at a Board Meeting on January 18 2007. The Annual Statements have been audited by the Group's accountants and signed without comment. The same accounting principles have been applied this year as last year.

### Announcement of financial results of 2007

The 2007 quarterly results will be published on:

Quarter	Period	Published on ICEX	Published on ICEX
1Q	1.Nov-31.Jan	week 12	19-23 March
2Q	1.Feb-30.Apr.	week 25	18-22 June
3Q	1.May-31.July	week 38	17-21 Sept
4Q	1. Aug-31.Okt	week 3 '08	14-18 Jan







## Statement from the Executive Chairman

I am pleased to report on the Group's first year as a listed company on the Main List of the Icelandic Stock Exchange (ICEX). Following the successful listing in January 2006, significant milestones have been achieved for the financial year ended 31 October 2006, including a number of important acquisitions and disposals. At the end of the financial year, the Group successfully realised its investment in XL Leisure Group and its 51% holding in Avion Aircraft Trading.

Hf. Eimskipafélag Íslands (formerly Avion Group) is an investment vehicle focussed on providing leading air, land and sea transportation services in its chosen markets, building profitable growth from established companies. At present, the Group's main investments are related to the current operations of Eimskip and Air Atlanta Icelandic.

The Group now employs approximately 9,500 people at 183 operational bases worldwide, through its two business divisions: Aviation Services (represented by Air Atlanta Icelandic) and Transportation & Logistics (represented by Eimskip). Of particular note for 2006 is Eimskip's growth, which has established a leading position in its main markets and represents approximately 80 per cent of Group sales. The recent acquisition of Canadian company, Atlas Cold Storage Income Trust, completed in November 2006, is enabling Eimskip to build further significant scale. With Eimskip's well established brand in Iceland, it is entirely appropriate to emphasise the Group's origins as well as its current business activities with the recent name change to Hf. Eimskipafélag Íslands.

### Financial Results

The Group's performance was acceptable during the Financial Year 2006 and was characterised by rapid growth by acquisition as well as the successful disposal of XL Leisure Group and partial disposal of Avion Aircraft Trading. Earnings before interest, tax, depreciation and amortisation (EBITDA) from continuing operations was USD64 million. EBITDA, inclusive of profits from the disposal of discontinued operations, was USD135 million.

Total operating revenue for the Financial Year 2006, excluding discontinued operations, was USD1.04 billion compared to USD573 million in the prior ten month period ended 31 October 2005. Profit for the Financial Year 2006 was USD79 million after realising a profit from the realisation of investments of USD 147 million.

Earnings per share were USD 0.045. No dividend is payable in respect of the Financial Year 2006 with profits for the year being reinvested for further development of the Group.



### Operational Developments

The Group's strategy is to invest in and build profitable transportation companies aiming for international leadership within the marketplace. The strategy is driven by strong organic growth and complementary acquisitions. The Group's development milestones are highlighted below:

- The acquisition in May, of a majority stake in Innovate Holdings, which specialises in storage and distribution of temperature controlled cargo. With the purchase in 2005 of a 40 per cent share in the Dutch cold storage company Daalimpex in the Netherlands followed by a majority stake in Innovate, Eimskip has become a leading European cold storage company.

- The acquisition in May of a 50% interest in Kursiu Linija, the only Lithuanian short sea container shipping line providing 'door to door' freight delivery services in the Baltic States, Poland, Russia, UK and Northern Europe. A further 20 per cent was acquired

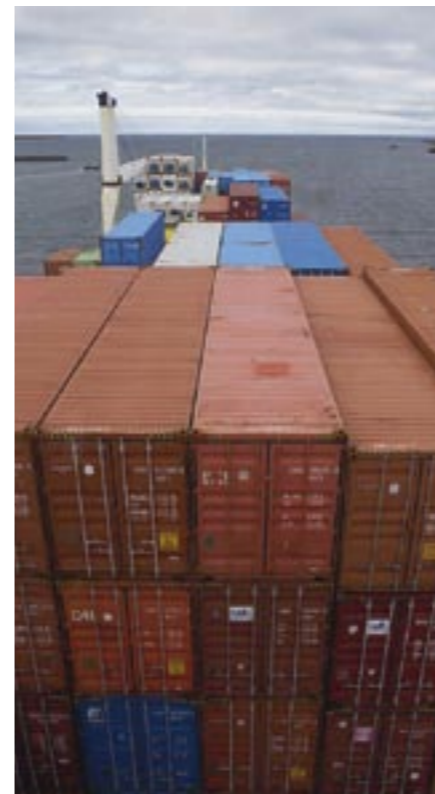
in July and additional 30% share in September.

- A takeover bid in August of all the outstanding trust units of Atlas Cold Storage Income Trust ('Atlas Cold Storage') for CND\$574 million in cash, equivalent to CND\$7 per unit. The acquisition was completed in November with an aggregate acquisition cost, including assumed debt, of CND \$630 million. The combined operations of Eimskip and Atlas Cold Storage will create a network of more than 100 temperature controlled facilities around the world. With Eimskip's integration experience, both companies are integrating wTell with a broader customer reach and greater diversification of product offering.

- The acquisition in September of 65% interest in Containerships. Together with Kursiu Linija, Containerships form one of Europe's largest door-to-door logistics service providers. Containerships Group has developed good market coverage and has a solid reputation for its knowledge and superior customer service. Containerships and Kursiu Linija have now merged under the name Containerships.

- The acquisition in October of Corby Chilled Distribution, one of the leading UK players in the temperature-controlled primary food distribution market. This acquisition has improved Eimskip's ability to be a leading logistics provider internationally, adding to its existing UK cold-storage infrastructure with a strong and comprehensive transportation network in the UK including a dock-hub network, and providing substantial capacity for growth. The good strategic fit of both companies has enabled significant operational synergies to be gained.

- The acquisition in October of Pacific Tramper Services, Inc (PTI), a leader in frozen fish reefer tramping services across remote Alaskan fisheries for over 20 years. Headquartered in Seattle, the company runs significant port logistics operations in Dutch



Harbor, Alaska, including fishing vessel services, stevedoring and cold storage. The acquisition has strengthened the Group's position in Alaska with plans to connect Alaska and Northwest USA to Eimskip's worldwide network.

Since the end of the financial year, Eimskip has announced the acquisition of an additional 60 per cent equity stake to its 40 per cent holding in the Dutch cold store company Daalimpex in the Netherlands. Daalimpex is one of the largest cold store companies in Europe and operates six cold stores in the Netherlands.

Following the European acquisitions of Innovate, Corby and Daalimpex, together with Atlas Cold Storage in Canada, Eimskip has become a leading international operator in freight forwarding, cold storage and logistics networks.

In October 2006, the Group also made two significant disposals:



- The entire issued share capital of XL Leisure Group for USD450 million. XL Leisure Group was formed from the Charter & Leisure division within the Group and consisted of Excel Airways Group in the UK, Star Airlines in France and Star Europe in Germany.

- 51 per cent holding in Avion Aircraft Trading for USD51 million. The book value of the 49 per cent retained interest is USD3 million.

The profit on disposal of both investments before tax was USD147 million realising an excellent return for shareholders.

### Appointments

Two appointments were made to the Board of Directors at a shareholders meeting in November to replace Arngrímur Johanneson and Eamonn Mullaney, who sold their share in connection with the disposal of XL Leisure Group and Avion Aircraft Trading. I am pleased that Sindri Sindrason and Thor Kristjánsson have joined the Board as their

experience will be invaluable at this stage of the Group's development.

### Institutional Offering & Listing

Trading in the Company's shares commenced on ICEX on 20 January 2006. The listing was the largest new equity listing ever on ICEX, with the offering to investors being heavily over-subscribed. As a result, the shares offered for sale was increased by USD64 million to USD160 million.

### Future prospects

Hf. Eimskipafélag Íslands is forecasting an improvement in profitability in Air Atlanta Icelandic and Eimskip. As reported in the financial results announcement on 19 January 2007, Group revenue is forecast to increase from USD1.04 billion to USD1.84 billion and earnings before interest and tax is forecast to increase to USD170 million.

Magnús Thorsteinsson  
Chairman



# Corporate Governance

Hf. Eimskipafélag Íslands in its efforts to strive for the highest standards of corporate governance has adopted the following corporate governance guidelines. When making the guidelines the Company has considered specially the corporate governance guidelines introduced by The Chamber of Commerce, the Confederation of Icelandic Employers and the Iceland Stock Exchange.

## The Board of Directors of the Company

The Annual General Meeting of the shareholders elects the members of the Board of Directors of the Company in accordance with our Articles of Association and the Company Act no. 2/1995. The Board members shall be maximum 5 and minimum 3. When a new Board is elected, it determines whether an elected Director is "independent" as that term is defined in the Guidelines. If a majority of the elected Directors are not independent, the finding will be stated in the annual report, together with an explanation.

The Board is responsible for protecting the interests of all shareholders, with due consideration for all other stakeholders, and it performs a supervisory role. The Board undertake the Company's affairs and shall see to it that the Company's organization and activities be at all times in correct and proper order. The Board, together with the Managers handles the management of the Company's business.

## The current Board of Directors consists of five people:

### Executive Chairman



**Mr. Magnus Thorsteinsson**  
Executive Chairman (aged 45). Magnus is an entrepreneur and investor with significant interests in aviation and financial services. He began his investment activities in Russia, where he was the co-founder of the Bravo brewery in St Petersburg. After nearly ten years of expansion, Bravo was sold to Heineken NV, whereby Magnus acquired 51% stake in Air Atlanta in 2002. Magnus is a current Board member of Actavis and Chairman of Eimskip.

Magnus Thorsteinsson and parties financially connected to him own 673,514,046 shares in Hf. Eimskipafélag Íslands.

### Directors



**Mr. Gunnar M Bjorg**  
Born in Iceland (aged 66). Gunnar is an investor with significant interests in aviation and the financial services. He trained as an aircraft mechanic and early on in his career, he worked for Loftleidir Icelandic Airlines and Cargolux until he started his own, successful business in the 1980s. Gunnar has been involved in aviation since 1955 and active in aircraft trading and leasing for 25 years. He is highly respected as one of the senior and most important players in the aviation world following his long and successful career in this field.

Gunnar M Bjorg and parties financially connected to him own 73,014,000 shares in Hf. Eimskipafélag Íslands.



**Mr. Eggert Magnusson**  
Icelandic national (aged 59) - Eggert has been involved in business all of his professional life having been the former owner and CEO of import and export food manufacturing companies, Frón and Esja. Eggert has been a prominent member of international football for some years and is currently serving on the Executive Committee of UEFA (European Football Association) and has been a member of various committees within both UEFA as well as FIFA (The International Federation of Football Associations) for the last 15 years. He has been the President of The Football Association of Iceland for the last 17 years. He also serves as a Board member of Straumur - Burdaras.

Eggert Magnusson and parties financially connected to him own 157,660 shares in Hf. Eimskipafélag Íslands.



**Sindri Sindrason**  
Sindri Sindrason (aged 54) was previously the Chief Executive Officer of Pharmaco (now the Actavis Group). Mr Sindrason is a private investor and has been a member of the Board since November 2006.

Sindri is also a member of the Board of Actavis Group.

Sindri Sindrason and parties financially connected to him own 11,692,549 shares in Hf. Eimskipafélag Íslands.



**Þór Kristjánsson**  
Þór Kristjánsson (aged 42), Senior advisor to Samson Holding. A business administration graduate from University of Iceland in 1989. He has worked in various managerial positions, including financial

restructuring projects, both in Iceland and abroad from 1989 until 2001 when he joined Actavis as consultant to the Board of Directors in 2001 and later served as the company's Deputy CEO until late 2004. He serves currently as a Director of Landsbanki Íslands hf, Samson Properties ehf., Hf. Eimskipafélag Íslands, West Ham United Plc and Edda utgáfa ehf. Among previous directorships is Straumur Burdaras Investment Bank hf and Icelandic Group hf.

Þór Kristjánsson is financially related to the beneficial shareholders of Hansa ehf and Opera Fjarfestingar ehf who are large shareholders in Fjarfestingarfélagið Grettir hf. which owns 616,456,837 shares in Hf. Eimskipafélag Íslands.

Þór Kristjánsson and parties financially connected to him don't own shares in Hf. Eimskipafélag Íslands.



## Responsibilities of the Board of Directors

The Board is responsible for the business affairs of the Company in accordance with Icelandic law and the Articles of Association by performing i.e. the following tasks:

- The Board represents the company externally, for instance in courts of law and vis-a-vis government authorities
- The Board hires the CEO's of the Company and decides his/her's salaries and benefits.
- The Board monitors the work of the Management and has the power to resign Managers.
- The Board monitors the operations of the Company and shall acquire such information it deems necessary to perform its tasks.
- The Board monitors that the operational and financial plans are followed and makes decisions regarding reports on the Company's credit, major undertakings, important guarantees, finance, cash flow and special risk factors and other matters that are not a part of the day-to-day management of the Company.
- The Board determines how often the Management submits interim accounts.
- The Board is responsible for compliance with provisions of law and regulations in respect of annual accounts and book-keeping. It ensures that the necessary basis for audit exists and is responsible for the annual accounts, signed by Board members and the auditor, being completed no later than one week before the Company's Annual General Meeting of the shareholders.
- The annual accounts for each year shall include a report from the Board, containing information on important factors which do not appear in the balance sheet or profit and loss account or the notes but that are

nonetheless material in assessing the Company's financial status and performance during the financial year, The report contains the Board's proposals for the distribution of dividends if any or the adjustment to the equity position in case of loss as a result of the operation during the previous financial year. It reports the number of shareholders at the beginning and end of the financial year, including the percentage holdings of those shareholders who own at least 10% or more of the shares of the Company.

- The Board's report also discusses important events which have taken place after the end of the financial year, the Company's future prospects, and research and development work.

- The Board shall have access to all of the Company's books and documents.
- The Chairman of the Board ensures that an annual evaluation of the Board's performance and work is performed. The Chairman may engage an outside party to carry out the performance evaluation.

### Tasks of the CEO'S

The Board defines the tasks of the CEO in both of its two main business divisions; Aviation Services, and Shipping & Logistic. This should include at least the items stated below:

- The CEO shall deal with the day-to-day operation of the company, and shall in these matters follow the Board's policy and instructions.
- The CEO cannot make decisions on extraordinary or major matters without the approval of the Board of Directors, unless this it is necessary to avoid losses for the Company and a meeting of the Board of Directors cannot be called to make the decision. All

such decisions made by the CEO must be reported to the Board of Directors.

- The CEO shall ensure that the Company's accounts are kept in accord with law and customary practice, and that the Company's assets are handled in a secure manner.
- The CEO shall ensure that the Company's interests are suitably insured.
- The CEO shall submit to the auditor the information and documents which are significant to the audit, and shall provide the auditor with such information, documents, facilities and assistance as the auditor deems necessary for his/her work.
- The CEO shall sign the annual accounts, together with the Board.

## Annual general meeting of the shareholders

The Annual General Meeting of the shareholders of the Company is held once a year before end of May each year. All shareholders are invited to attend. The meeting shall be called upon in accordance with our Articles of Association.

The management structure of the Company is the Board of Directors and the CEOs.

**Remuneration of board and management**  
The remuneration of the Board of Directors is decided by the Annual General Meeting of the shareholders. The remuneration of the CEO's is decided by the Board of Directors.

## Auditing and compliance

**Audit**  
An independent auditor is appointed annually by the Annual General Meeting. Further information on Hf. Eimskipafélag Íslands' corporate governance can be found at the company's website: [www.ei.is](http://www.ei.is).



## SHAREHOLDER INFORMATION

Hf. Eimskipafélag Íslands is listed on the Icelandic Stock Exchange and has the stock symbol HFEIM. Hf. Eimskipafélag Íslands is included in the ICEX-15 index, which consists of the 15 largest and most traded companies listed on the Icelandic Stock Exchange.

### Hf. Eimskipafélag Íslands – 20 largest shareholders, 31 October 2006

Shareholder	Number of shares	Ownership
Frontline Holding S.A.	653.225.097,00	36,42
Fjárfestingarfélagið Grettir hf	596.456.837,00	33,25
Landsbanki Luxembourg S.A.	84.119.006,00	4,69
GLB Hedge	52.616.622,00	2,93
Straumur - Burðarás Fjárfesting	45.709.228,00	2,55
Hlutafélagið Eimskipafélag Ísl	39.464.312,00	2,2
Arion safnreikningur	22.392.264,00	1,25
Craqueville	22.215.572,00	1,24
Lífeyrissjóður verslunarmanna	21.480.916,00	1,2
Sameinaði lífeyrissjóðurinn	12.452.758,00	0,69
Lerkur Sp/f	11.400.000,00	0,64
Landsbanki Íslands hf, aðalstöðv	10.272.087,00	0,57
Bank of Cyprus	9.924.158,00	0,55
Fidece Trust Company Limited	9.831.927,00	0,55
LI-Hedge	8.609.693,00	0,48
MK-44 ehf	8.453.583,00	0,47
Lífeyrissjóður Austurlands	7.385.921,00	0,41
Landsbankinn eignarhaldsfél ehf	6.993.599,00	0,39
Den Danske Bank A/S	6.989.381,00	0,39
Lífeyrissjóðurinn Lífiðn	6.193.995,00	0,35
Twenty largest shareholders	1.636.186.956,00	91,22
Total Shares	1.793.599.135,00	

Hf. Eimskipafélag Íslands Investor Relations services the financial markets with reliable and correct information about Hf. Eimskipafélag Íslands activities and financial developments. Investor Relations is the main contact for shareholders, institutional investors, analysts and others interested in the company's shares.

At the end of the year, Hf. Eimskipafélag Íslands had 24,599 shareholders, but at the beginning of the period, the company only had 20 shareholders.

#### Largest Shareholders

Frontline Holding S.A., which controls a 37.55% share in Hf. Eimskipafélag Íslands, is fully owned by the company's Executive Chairman, Magnús Þorsteinsson. All of Magnús' shares in the company are in Frontline Holding S.A. On 31 October 2006 Magnus controlled 91.3% of Frontline Holding S.A. and 8.7% was controlled by Fjárfestingarfélagið Sjöfn which is owned by Baldur Guðnason, CEO of Eimskip, and Steingrímur Pétursson, a member of the Board of Eimskip. At the end of December, Magnus controlled a 100% share in Frontline Holding.

Fjárfestingarfélagið Grettir controls 34.37% share in Hf. Eimskipafélag Íslands. Fjárfestingarfélagið Grettir is owned by Sund 49,05%, Hansa ehf. 28,51% and Opera fjárfestingar ehf. 20,60%. Other shareholders, 1,84%. Sund ehf. is owned by Gunnþórunn Jónsdóttir 33%, Gabriela Kristjánsdóttir 33% and Jón Kristjánsson 33%. Hansa ehf. is owned by Björgólfur Guðmundsson. Opera fjárfestingar ehf. is owned by Björgólfur Guðmundsson 50% and Björgólfur Thor Björgólfsson 50%.

## Hf. Eimskipafélag Íslands - through the Years in Pictures









# Hf. Eimskipafélag Íslands

On 1 January 2005, Hf. Eimskipafélag Íslands (Avion Group) was formed as an investment company to invest in the transportation industry. Since the formation of the Group has seen rapid expansion through a selective policy of acquisitions as well as internal growth, Avion changed its name to Hf. Eimskipafélag Íslands in November 2006. The Group's vision has been to be a leading investment company focusing on air, land and sea transportation solutions worldwide. Since formation, the Group has been involved in an almost continuous process of acquiring businesses where management have identified opportunities to apply their own entrepreneurial ethos, using their broad and deep expertise to strip out unnecessary cost and achieve synergies with existing operations, in each case seeking to build a business which has a defendable long-term position or for which there is an identifiable future demand.



Hf. Eimskipafélag Íslands has combined its expertise in trading (businesses and assets), with strong operational skills and building on an existing platform. All of its acquisitions are linked to its existing activities in its portfolio. This has allowed the company to identify and create additional pockets of value, in contrast to a typical private equity player.

Given the refocusing of the Group, these skills and principles will be applied to the Eimskip business. The Atlas Coldstore acquisition is a clear example of the type of opportunity that management seeks. The acquisition was made for CAD 630 million. Management believes that the ownership of the operations fit well within the Eimskip business, offering scope for significant reductions in costs. Further, management had identified that the property assets were recorded well below market value. Now that the acquisition is complete, the intention is to split the property assets out of the Atlas business and finance them on a stand-alone basis with a retained 49 percent ownership in the property vehicle. It is estimated that the market value of the properties is between CAD 500 to 600 million.

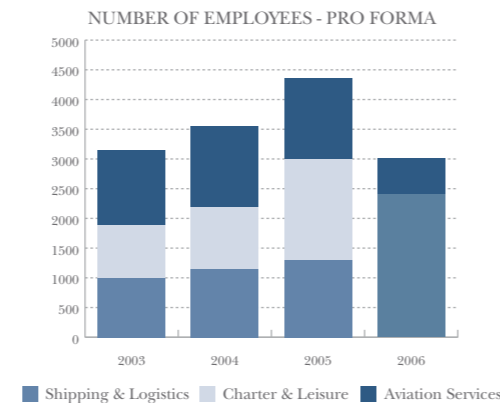
## Avion Group becomes Hf. Eimskipafélag Íslands

Hf. Eimskipafélag Íslands was founded on 1 January 2005 as Avion Group. The Company has been focused on investments in the transportation industry and was formed of three business divisions: Aviation Services, Charter & Leisure and Transportation & Logistics.

With the recent disposal of the Charter & Leisure division as well as 51% share in Avion Aircraft Trading, the new Group will comprise two divisions, Eimskip and Air Atlanta Icelandic.

Through a selective policy of acquisitions as well as internal growth, Eimskipafélagid's vision has been to be a leading investment company focusing on air, land and sea transportation solutions worldwide.

Eimskipafélagid owns a 49% share in Avion Aircraft Trading, which was established to handle the group's aircraft dealing. In the last 16 months, it has been very active, and in that time, Avion Aircraft Trading has purchased 24 Boeing and Airbus aircraft and resold some of them. Among its activity in



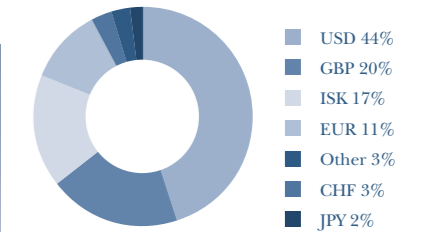
the last 16 months was the purchase of eight Boeing 777-200 cargo aircraft which will be delivered in 2009 through 2011. The book value of the 49% retained by Eimskipafélagid is USD 3 million.

After the end of the financial year, a shareholders meeting approved the proposal to change the name of Avion Group to Hf. Eimskipafélag Íslands. Two new members joined the Board of Directors; Sindri Sindrason and Thor Kristjánsson replaced Arngrímur Jóhannesson and Eamonn Mulaney.

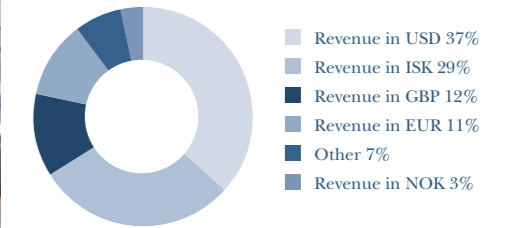
## History

Although Hf. Eimskipafélag Íslands was founded on 1 January 2005, the Group consists of various long standing and independent companies in the transportation industry, each having a different history and culture.

Hf. Eimskipafélag Íslands commenced business on 1 January 2005. At that time, Eimskipafélagid had already acquired a 100% share in Air Atlanta, 71.4% share in Excel Airways Group, all shares in Íslandsflug, all shares in Avia Technical Services and a



INTEREST BEARING DEBT BY CURRENCY



Revenue by currencies:

90.1% share in Suðurlflug. In 2005, Air Atlanta and Íslandsflug merged and the name was changed to Air Atlanta Icelandic.

Hf. Eimskipafélag Íslands acquired Eimskip in June 2005, and following that, the Company was reorganised into three divisions: Aviation Services, Charter and Leisure and Shipping and Logistics.

In January 2006, Eimskipafélagid was listed on the Icelandic Stock Exchange.

Following its listing, Hf. Eimskipafélag Íslands has continued its investment policy and acquired companies related to both the Charter and Leisure division and to the Shipping and Logistics division through Eimskip, which has also continued to grow organically.

On 30 October 2006, Hf. Eimskipafélag Íslands disposed of the Charter and Leisure division, which was represented by XL Leisure Group, to the management team of XL Leisure Group. Additionally, Hf. Eimskipafélag Íslands sold, 51% share in Hf. Eimskipafélag Íslands Aircraft Trading. Today, Hf. Eimskipafélag Íslands consists of the two subsidiaries Eimskip and Air Atlanta Icelandic.

## Eimskip

Eimskip specialises in shipping, logistics and supply chain management, with a special focus on temperature-controlled food storage. Through its subsidiaries, Eimskip currently operates between 40-50 vessels, 1,350 trucks and trailers and approximately 100 coldstores. Eimskip has an extensive office network, with a total of 157 operational bases in 21 countries and employs approximately 8,500 people.

## Air Atlanta Icelandic

Eimskipafélagid's subsidiary Air Atlanta Icelandic, which was originally established in 1986, supplies aircraft on an ACMI (aircraft, crew, maintenance and insurance) basis to more than 140 passenger and cargo airlines and tour operators worldwide. Air Atlanta Icelandic currently operates a fleet of 25 aircraft and is significantly refocusing on the wide-body freight market, for which there is significant capacity shortage over the next 5 years. The group is also engaged in the provision of maintenance and engineering services to the airline industry, via Avia Technical Services; maintenance provider in the UK and Southair, a specialist in ground handling at Keflavik airport in Iceland.

## Strategy

Hf. Eimskipafélag Íslands strategy is to invest in and build up profitable companies which complement Eimskip's operational strategy. This is driven by organic growth and complementary acquisitions in pursuit of its financial goals.

Eimskipafélagid uses its specialist skills to manage divisions via:

## Business Development

Eimskipafélagid uses its industry knowledge to seek niche opportunities to identify and acquire assets to improve future returns through:

- Acquisition characteristics
- Quality management team
- Leading position in attractive growth markets
- High barriers to entry
- Strong brands and excellent service delivery
- Proven business model that complements the value chain



NET SALES AND OTHER INCOME IN 2006 - PRO FORMA FIGURES



OPERATING EXPENSES BY DIVISION IN 2006



# Eimskip

Eimskip is an Icelandic transportation and logistics company, established in 1914. Eimskip has evolved from being the first Icelandic shipping company to becoming a leading transportation company in the North-Atlantic, offering its customers complete transport solutions, and has proven itself as a serious contender in short-sea transportation in the Baltic region and global reefer logistics.



Eimskip is a unique company operating according to three carefully defined market strategies, with no direct competition from one company in all areas.

The company has a strong market share in the North-Atlantic transportation market and aims to use that foundation to build further growth and diversification into other areas of transport services, mainly the global temperature-controlled cargo market and the short-sea market in the Baltic states and Russia.

A strong emphasis is placed on building long-term relationships with customers, and Eimskip is committed to achieving this by offering high-quality, value-added services tailored to customers requirements. The staff at Eimskip is trained and skilled in using the freighting network, IT and other resources to meet customer's cargo needs.

Eimskip specialises in shipping, logistics and supply chain management, with a special focus on temperature-controlled food storage. Through its subsidiaries, Eimskip currently operates between 40-50 vessels, 1,350 trucks and trailers and more than 100 coldstores. Eimskip has an extensive office network, with a total of 163 operational bases in 21 countries and employs approximately 8,500 people.

## Strategy

Eimskip's strategy is to run a total transport network as cost-effectively as possible. The company aims to consolidate its position as a transport market leader offering total services, to be a leading short-sea supplier in the Baltic States and Russia and to be a key international player in temperature-controlled cargo globally.

## North-Atlantic specialist

Eimskip has been operating in the North-Atlantic for over 90 years as a shipping company in the North Atlantic. It now has a network covering routes to and from Iceland to Europe and North America, specialised reefer routes in the Nordic countries and container line feeder services in Europe and the fast-growing Baltic Sea.

## Specialist supply chain logistics

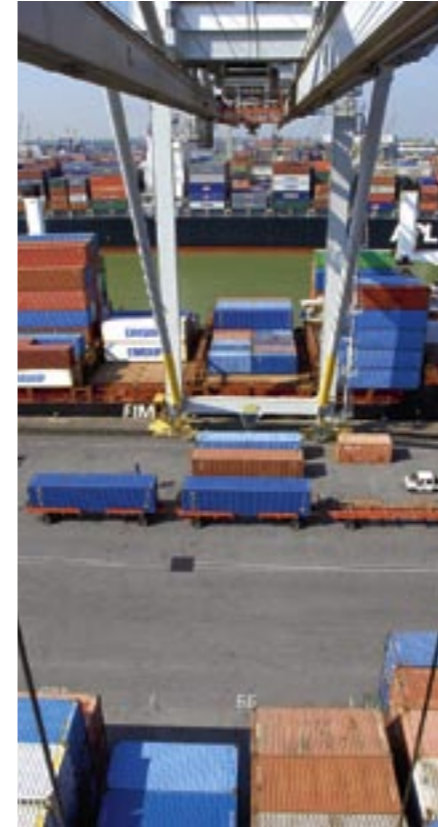
Eimskip specialises in reefer logistics and is building a network of facilities and capabilities which links into its existing shipping network. This will provide its customers with a one-stop service, for example in transportation by land, warehousing, container shipping line services and the distribution requirements at destinations. This network links Western Europe/UK with North America. It also has cold storage and logistics capabilities into China, which serves a particular niche in the processing of frozen food products, particularly fish which is re-

exported to Western Europe.

There are a number of benefits to this strategy that Eimskip believes will maximise its margins. It is geographically focused and has a strong position relative to competitors in the North Atlantic. By having activities at various stages of the supply chain, it is able to have a deeper relationship with its customers, and therefore be less exposed, for example, to the container shipping line cycle.

Eimskip's competitive strengths are also helped by it not being seen as a threat to the larger shipping companies with which it has a feeder relationship. For example, it has a good relationship with AP Møller-Maersk, the largest global container line, whose liner services Eimskip feeds at the large Northern European ports such as Rotterdam and Antwerp.

Eimskip is implementing an integrated supply chain geared towards a growing segment of the consumer market in frozen foods, pre-packaged meals, fish and fresh produce. The network is also capable of serving broader based shipper requirements in its chosen high-growth markets such as the Baltic States. It has competitors who are more fragmented in each individual component of the distribution chain, for example in moving containers by sea, or providing only land-based logistics services. It has recogn-



ised the fragmented and under-developed nature of the supply chain in certain parts of Europe and is ahead of most of its competitors in responding to this requirement.

## Competitive Position

Eimskip is well positioned to exploit the strong trade volumes in the North Atlantic. Eimskip now transports via shipping close to two and a half million tonnes worldwide, of which a majority is within Europe. Eimskip is also actively participating in the strong trade between China, the Far East and Europe through its NVOCC (Non-Vessel Operating Common Carrier) and forwarding services.

The various value-added services provided by Eimskip will help to enhance the revenue generated from its freight services.

Eimskip has between 50 - 60% market share in liner import/export to and from Iceland and the Faroe Islands. This leading position in the Faroe Islands market was achieved through acquisitions of Faroe Ship, Heri Thomsen and Farmaleidir. The exported goods are mainly frozen, salted and fresh fish along with aluminium. The imported goods are basically everything else, from cars and machinery to fruit and vegetables. The main competitors in importing and exporting to and from Iceland are Samskip and Atlantsskip.

Newfoundland, Canada, Greenland and northern Norway are also a part of the North Atlantic market. While there are many players competing for a market share and the exact market size is unidentified, it is clear that with over 90 years of experience, its strong vertical integration and vessels well suited to this market, together with the capacity to expand with its customers into other areas of transportation and logistics, Eimskip can sustain a market leading position in the North Atlantic market.

Eimskip offers in the UK a complete logistics solution over the full temperature range (ambient, confectionary, chilled and frozen) and provides additional supply chain and added value services through Innovate Group. It is notoriously difficult to acquire reliable data on pallet movements, but Innovate's management believes that the combination of the Group's significant activities within both the chilled and frozen sectors of the market result in it being the largest temperature-controlled logistics business in the UK, without having total dominance in either of the sectors.

Eimskip's major business focus is on the temperature-controlled distribution of seafood, with significant growth in this industry currently being generated by the establishment of sizeable processing facilities in China and southeast Asia. New operating

bases will shortly be established in support of this business.

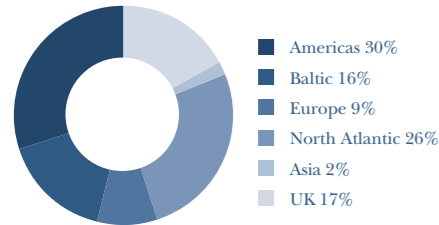
Atlas Cold Storage, Eimskip America's subsidiary, is the largest public refrigerated warehouse operator in Canada, controlling around 28% of all available public refrigerated warehouse space and the second largest in the U.S. behind Americold, with an estimated share of 9%.

## Service Network

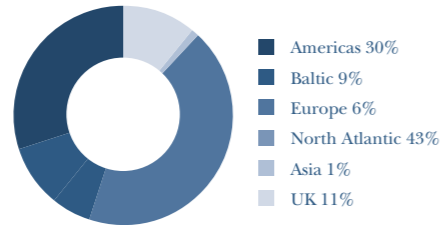
Eimskip has grown considerably to become an international transportation and logistics company, offering total transportation services in the North-Atlantic region, an extensive global reefer logistics service and a thorough door-to-door service in the Baltic states and Russia.

Eimskip offers total transportation and logistics services through its worldwide shipping network. Its total transport solutions include all cargo handling, administration and information exchange regarding its services.

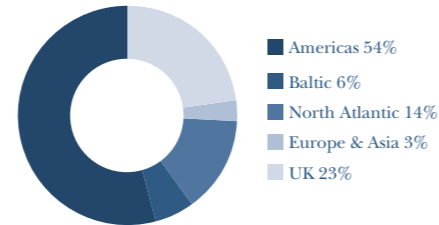
There are scheduled weekly full container load (FCL) and less-than-container load (LCL) container services on two routes between Iceland and base ports in continental Europe, UK and Scandinavia; a fortnightly container service to North America and bulk/container service every five weeks to



Revenue by segment 2007



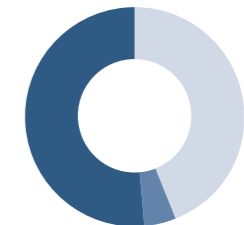
EBITDA by segment 2007



Employees by segment



Revenues by segments for 2005



Revenues by segments for 2006

■ Europe ■ America & Asia ■ Iceland

the Baltics. The European and North America services connect through a transshipment hub in Reykjavik, Iceland, and in that way, Eimskip offers Trans-Atlantic services, between Europe and North America east coast. Eimskip subsidiaries, Eimskip CTG in Norway and Faroe Ship in the Faroe Islands, offer scheduled services between various European ports, often connected to the Eimskip services.

Bulk Transportation and Agency includes the transport of timber, grain, salt, meal and various raw materials and products for large-scale industry. They provide expert advice and sales services for customers who wish to have their goods shipped as bulk cargo, whether partly or entirely.

Eimskip offers general forwarding services in most locations. This service is outside the regular Eimskip transportation systems, using various partners and often a combination of different logistics services.

Global Reefer Logistics specialises in handling any type of temperature-controlled cargo, frozen or chilled. This service covers the whole logistics chain, including discharge of fishing vessels, transportation, warehousing and distribution, inventory control and customs formalities.

Eimskip is not only an ocean shipping company. Their total transport services include land transport, airfreight, warehousing, freight forwarding and expert advice on shipping and logistics. Land transport is usually by truck, train or river barges. Eimskip advises customers on which mode of transport is most cost effective in each case.

#### Coldstore Facilities

Eimskip offers a versatile storing service for frozen and chilled commodities through its comprehensive global coldstore network

where majority of the coldstores is located in N-America and the UK. Eimskip operates more than 100 cold stores on a global scale, with a total storage capacity of more than one million tonnes.

In the North-Atlantic region, Eimskip operates and has access to 13 coldstores in Iceland, the Faroe Islands, Norway and Murmansk, Russia.

In Europe, Eimskip operates cold stores in Spain, Germany, Belgium, the Netherlands and the UK.

The UK region, however, is comprised of Innovate's cold store network, with 29 cold stores at 17 sites and a total storage capacity of 369,000 tonnes.

Eimskip has an extensive cold store network in North America, especially through its new subsidiary Atlas Cold Storage, which operates 53 cold stores in the US and Canada. Eimskip also operates and has access to additional cold stores in US and Canada through its original office network before Atlas Cold Storage was acquired, with main cold stores located in Dutch Harbour in Alaska, Seattle, Norfolk, Boston, St. Anthony and Halifax.

Eimskip is currently expanding its cold store network in the Asia region, where Eimskip is engaged in a project where the largest cold store in China is being built in Qingdao. The cold store will have a capacity of 50,000 tonnes, with a possible expansion to up to 100,000 tonnes. This cold store is located on the Qingdao harbour terminal and is therefore the ideal coldstore option in Qingdao. The Port of Qingdao will own the coldstore and Eimskip will lease it and operate.

#### Organisational Structure

In October 2006, Eimskip introduced a new organisational structure operating on six different market areas, with a corporate office supporting all areas. These areas are: North-Atlantic, Europe, UK, Baltic/Russia, Asia and Americas.

#### North-Atlantic

The North Atlantic region is comprised of:

- Eimskip Iceland
- Eimskip-CTG
- Faroe Ship

Eimskip North-Atlantic offers total transportation services to its customers, with specialised focus in this market area. Eimskip aims to be the leader in warehousing and distribution services in Iceland.

#### Eimskip Iceland

Eimskip Iceland has three sailing lines, North America route, Northern route and Southern route, with two vessels operating within each sailing line.

The North America route vessels make bi-weekly calls on a number of ports in North America, including Boston, Richmond, Shelburne, Argentina and St. Anthony. The Southern route vessels make weekly calls at Immingham and Rotterdam. The Northern route makes weekly calls at Rotterdam, Hamburg, Gothenburg, Aarhus, Fredrikstad and Thorshavn. All routes are connected via Eimskip's terminal in Reykjavik, Iceland, which is the sixth largest port in Scandinavia.

Eimskip also operates a bulk service through its bulk vessel service. Through its subsidiaries, Eimskip operates additional service lines in Europe, the Baltics, North America and Asia.

#### Eimskip-CTG

Eimskip-CTG operates a fleet of reefer vessels and provides flexible and comprehensive service with direct port-to-port transport of full or part loads of chilled or frozen consignments.

Eimskip connects Scandinavia/Europe to the North-Atlantic, Russia, Poland and the Baltic. The company is also a part of a worldwide transportation network for chilled and frozen fish. Providing comprehensive door-to-door logistics solutions, Eimskip-CTG connects continents quickly and efficiently through contacts worldwide. The company operates between 12 to 16 vessels at a time. The company operates four service lines, calling at UK, the Netherlands, Portugal, Spain, Iceland, North America and along the Norwegian coast line.

#### Faroe Ship

Eimskip entered the Faroese domestic transport market in 2004.

- Eimskip bought Faroe Ship 2004  
Shipping established 1919
- Eimskip bought Heri Thomsen 2005  
Trucking and bulk shipping established 1950
- Eimskip bought Farmaleidin 2006  
Distribution network – first privatisation in Faroe Islands

Through these acquisitions, Eimskip took a leading position in the Faroese transport market with the import and export demand in the Faroe Islands similar to Iceland.

Fleets of Faroe Ship, Heri Thomsen and Farmaleidin play a role in Eimskip's sailing network in the North Atlantic with a total fleet of 5 vessels, 150 trucks and trailers, 1,600 m<sup>2</sup> warehouse facility incl. coldstores

#### Europe

This region comprises:

- The Netherlands
  - Eimskip Reefer Logistics
  - Daalimpex
- Germany
- Denmark
- Sweden
- Spain
- Italy

The main emphasis on the operations in Europe are agency services, coldstore projects in defined markets, short-sea network, general forwarding – worldwide and airfreight worldwide.

#### Eimskip Reefer Logistic

Eimskip Reefer Logistic BV was founded in 2004, with headquarters in the Netherlands.

The company offers freight-forwarding services for frozen and chilled seafood products worldwide, specialising in handling any type of temperature-controlled cargo, frozen or chilled. This service covers the whole logistics chain, including discharge of fishing vessels, transportation, warehousing and distribution, inventory control, customs formalities, etc. The services cover bulk shipments as well as container transport, using the Eimskip production systems or various partners around the world, or a combination of various services.

#### Daalimpex Coldstores

Eimskip acquired 40% of the share capital of Daalimpex Coldstores B.V. in January 2006 and additional 60% stake in January 2007.

Daalimpex Coldstores is one of the biggest and most efficient cold store companies in Europe, operating 6 cold stores in the

Netherlands with a total capacity of 250,000 tonnes approximately 25 times the capacity in Iceland.

#### UK

The region is comprises:

- Innovate
- Corby

#### Innovate

Innovate Holdings specialises in storage and distribution of temperature-controlled cargo and is one of the largest temperature-controlled cargo logistics businesses in the UK, with 25 cold stores at 11 locations throughout the UK, providing storage capacity of 370 thousand tonnes. Innovate has 635 trucks and temperature-controlled trailers servicing its 370-thousand-tonne capacity.

- Main products in storage and distribution
  - Of Meat, ice, chocolate, frozen food, fizzy drinks, steel
- Distribution from 11 sites across the UK
  - With 25 warehouses total
- Total pallet space: 307,500 pallets
- Fleet consists of 640 trucks and trailers
- 1,400 employees

#### Corby

Corby Chilled Distribution Limited is one of the leading players in the UK temperature-controlled primary food distribution market. Corby has a 13-year track record of growth in the temperature-controlled food distribution market from inception in 1993. Corby has long-standing relationships with many of the key UK food retailers, manufacturers and growers and is equipped to manage short order lead times whilst maintaining a superior level of service for its customers.

- Specialises in temperature-controlled food distribution



- Corby Chilled Distribution was one of the first temperature-controlled distribution operators to introduce a 40 pallet, moving floor-double-deck trailer into regular operation.
- 4 coldstores/chilled
- Fleet consists of 330 trucks and trailers
- 600 employees

#### Baltic / Russia

The region is comprised:

- Containerships

The emphasis of these operations is to maintain the position as market leaders by providing the largest short-sea carrier in the Baltic, offering door-to-door transport solutions by using combination of vessels and haulage operations.

This alliance creates the opportunity to gain an edge in the growing Baltic market.

#### Containerships

Containerships was the first company to introduce container transportation by sea. They have door-to-door movements of containerised cargoes with 11 ice-classed modern container vessels and container fleet of 12,500 TEU.

Headquartered in Helsinki, Finland with 16 offices in 13 countries.

Containerships has 40 years of experience in short-sea shipping with a comprehensive door-to-door transport of any containerised cargo in Finland, Northern- and Western Europe and the Baltic States. Containerships in-house logistic services include inland transport and positioning of containers at the requested point to meet its customers' production and planning. The company has regular sailing between several European ports with its six modern, ice-class vessels, capable of operating during severe winter conditions in the Gulf of Finland.

#### Asia

##### Eimskip Shenzhen

The main emphasis of Eimskip's operations in China is reefer freight forwarder export & import in China and cold store service in China. Eimskip transports reefer containers worldwide from its Asian locations. Recently, Eimskip entered an agreement with Qingdao Port to operate a cold store that



is currently being built. This agreement was the first step towards Eimskip's aim to develop bonded cold store service in China and South Korea. One of the main emphasis of Eimskip Asia is to establish a hub to Europe and Asia from Russia via Qingdao.

#### Americas

The region is comprised:

- Atlas Cold Storage
- Eimskip Canada
- Eimskip Liner Service
- Eimskip Logistics
- Eimskip-PTI Inc.
- Harbour Grace Cold Storage

#### Main emphasis:

– Cold storage operations

– NVOCC/VOCC/ Air and Ocean Freight Forwarding / Domestic Transport

– Dedicated Airfreight Forwarding and GSA Service

– Global Forwarding Agency Services

#### Atlas Cold Storage

In the beginning of November, Eimskip Atlas Canada, Inc., through its wholly-owned subsidiary, completed the agreed acquisition of Atlas Cold Storage Income Trust ("Atlas"), a Canadian logistics group, for a total consideration of CA\$ 630 m including the repayment of existing debt of CA\$ 87 m. This acquisition is in line with Eimskip's stated strategy of becoming a transport market leader offering a total supply chain solution throughout the North Atlantic, and complements the group's existing cold storage fa-

cilities in Iceland, Scandinavia, the Baltic, Germany, the Netherlands and the UK.

The acquisition of Atlas was funded through a CA\$ 255 m senior term loan facility provided by a syndicate of banks lead by CIBC and RBC, mezzanine facilities of CA\$ 18 m and CA\$12 m provided respectively by KingStreet Capital Partners and SITQ (a subsidiary of Caisse de depot de placement du Quebec) and junior credit facilities of CA\$ 48 m and CA\$ 23 m also provided respectively by KingStreet and SITQ. The balance of the funding was provided by Hf. Eimskipafélag Íslands.

#### Atlas is:

- Largest cold storage company in Canada and second largest in the US
- A provider of warehousing and distribution services to the refrigerated food industry with total 53 cold stores facilities in North America:
  - 18 cold stores in Canada (thereof 5 leased)
  - 35 cold stores in USA (thereof 5 leased)
- 770.000 pallet position capacity,
  - 12% is cooler space
  - 88% is freezer space
- 4,500 employees
- Head office is in Toronto in Canada

## Hf. Eimskipafélag Íslands - through the years in pictures









## Air Atlanta Icelandic

Air Atlanta Icelandic is an Icelandic airline, established in 1986 and was acquired by Hf. Eimskipafélag Íslands (former Avion Group) in 2004. Air Atlanta Icelandic has evolved to become the largest passenger and cargo ACMI service provider in the world, with 20 operational bases in every habitable continent of the world.

### Definition of ACMI

ACMI or Wet Lease involves the provision of Aircraft, Crew, Maintenance and Insurance and is mainly used by airlines that desire to outsource these facets of their business.

**Aircraft.** Air Atlanta Icelandic has obtained its fleet of aircraft either by purchase, finance lease with an option to buy or operating lease. Air Atlanta Icelandic's ability to obtain aircraft at favourable rates is a competitive advantage. For years, Air Atlanta Icelandic has obtained aircraft in the secondary market and therefore possesses a working knowledge of this market, the key players and the pricing structures.

**Crew.** It is important for ACMI operators to provide a quality, behind-the-scenes service that does not diminish the consumers' perception of the customer's brand. Air Atlanta Icelandic provides flight crews that include trained pilots and cabin personnel who usually dress in the customer's uniforms. Air Atlanta Icelandic has access to a pool of talented, experienced, non-union airline crews and pilots, many of whom have worked on a project basis for Air Atlanta Icelandic for a number of years.

**Maintenance.** Wet leasing of aircraft requires an in-depth understanding of the maintenance needs of different aircraft and their operations scheduling. Internal planning, operating know-how and experience are critical to streamlining maintenance operations. There are different levels of maintenance, and operators must decide which types of maintenance will be performed in-house and which types will be outsourced.



**Insurance.** The ability to provide insurance at attractive rates is a function of the ACMI operators' safety record. Air Atlanta Icelandic procures its insurance from Lloyds of London and is able to obtain favourable rates due to its safety record and long-term relationships with insurers. Air Atlanta Icelandic provides its customers with all elements of insurance, except the largest insurance component, passenger liability, which normally is the responsibility of the customer.

Air Atlanta Icelandic typically offers clients a bundled service at a flat rate based on block hours flown (the hours that elapse from the moment the chocks are removed from the wheels of the aircraft until they are next returned to the wheels) or on a flat monthly fee. Air Atlanta Icelandic believes its value-added is derived from its ability to deliver all elements of a contract in a reliable and cost-effective manner. Aircraft can be painted in any livery, crews can operate in any uniform and cabins can be configured to anything from full economy to completely first class.

### Fleet

Historically, Air Atlanta Icelandic has offered a wide range of aircraft capability in the narrow-body and wide-body range and in both passenger and cargo. As a result of recent strategic review, Air Atlanta Icelandic is putting increased focus on the cargo wide-body market, and at the same time simplifying its fleet. This strategic focus resulted in a significant transformation of Air Atlanta's fleet in 2006, where 20 aircraft were returned or transferred out of the fleet during 2006.

At the end of October 2006, Air Atlanta Icelandic operated a fleet of 25 aircraft, comprising 4 aircraft types vs. 10 at the beginning of the year. The fleet counted 17 cargo and 8 passenger aircraft, and 20 Boeing aircraft and 5 Airbuses. The fleet change and other initiatives will result in a simpler fleet, increased efficiency and more-focused commercial strategy going forward.

### Employees

Air Atlanta Icelandic employs a multicultural workforce of approximately 1,000 employees and contractors. Flight deck and cabin crew form the largest group of employees, with engineers and operations experts making up the majority of ground staff. Administration is kept as efficient as possible at headquarters in Iceland. Air Atlanta Icelandic has developed a core of experienced people who can act flexibly and quickly set up an operation at short notice anywhere in the world. Air Atlanta Icelandic's employees are required to work within the airline customer's working environment and national culture, adapting procedures and techniques to the customer's needs.



### Customers

Air Atlanta Icelandic has been successful in developing long-term relationships with its customers, and many have chosen to renew their contracts year after year. Major cargo customers in recent years include, among others: Malaysian Cargo, Lufthansa Cargo, Cathay Pacific, Cargolux, Etihad, Air Hong Kong, Channel Express and Air France. Major passenger customers in recent years include Iberia, Saudia Airlines, Cubana, Channel Express and Excel Airways.

### Benefits of ACMI

ACMI services continue to gain acceptance as air carriers seek to outsource a portion of their operations in order to control high cost structures, add operational flexibility and focus resources on their core competencies of sales and marketing. The total size of the ACMI market is not easily quantified, since official market data is not available. Also, there is a grey area between a pure 'dry lease' (i.e., leasing only the aircraft) and a pure 'wet lease' that can be difficult to categorise. However, certain characteristics within the ACMI market make it economically logical for scheduled and charter airlines and tour operators to use ACMI services. Some of the main drivers for increased utilisation of ACMI services are outlined below:

**Peak demand.** The scheduled airline industry is highly seasonal. As pressure for financial efficiency increases, the outsourcing of capacity in peak seasons becomes more

feasible. During peak demand, airlines and tour operators often need extra capacity for a limited time.

**Yearly assignments for a limited time.** Many customers are in need of ACMI services during specific periods every year. Accordingly, ACMI operators provide repeat service for certain customers year after year.

**Unusual circumstances.** An airline may have a few routes that do not fit well with its aircraft fleet. Instead of acquiring suitable aircraft with trained crews and full maintenance services, the airline may find it more economical to outsource the operation of these flights.

**New routes.** When experimenting with a new route, an airline may find it feasible to start by outsourcing the aircraft operations, thus allowing the airline to minimise its investment until the new route has proven profitable.

**Ad-hoc assignments.** When an airline has an aircraft out of service and does not have a replacement aircraft available, ACMI provides a flexible, short-term solution.

**Economics and flexibility.** Many major airlines have changed their priorities in response to their need for flexibility and for a clear focus on core competencies. Airlines are increasingly defining their core competencies as being sales and marketing, resulting in recourse to more outsourced

services. High fixed costs make it more difficult for airlines to react to market fluctuations. ACMI enables airlines to reduce fixed operating costs and capital expenditure and increase flexibility.

### The ACMI market

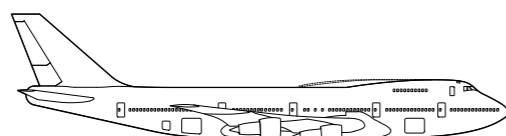
The ACMI market can be divided into four segments based on aircraft size (wide-body vs. narrow body) and aircraft load (passenger and cargo). The table below describes the characteristics and major players in each segment.

ACMI contracts for passenger flights can be separated into three key categories:

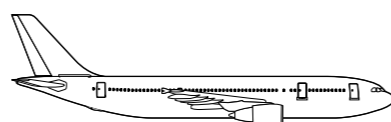
1. **Scheduled Airlines.** As defined by Air Atlanta Icelandic, a long-term assignment with a scheduled airline customer can either be a contract for continuous operation over a period longer than six months or a contract for a short-term service to be performed annually over a number of years. In general, long-term contracts are obtained as a result of one or more successful short-term contracts.

2. **Hajj.** The Hajj market is stable. The infrastructure in Saudi Arabia limits the number of pilgrims that Saudi Arabia can accept, and therefore, the Saudi government places a quota on how many pilgrims each Muslim country can send to Mecca. Currently, the demand for ACMI services to operate Hajj flights is high.

### Aircraft fleet



Boeing 747-200, -300, -400



Airbus 300-600



3. Charter. Some of the leading tour operators currently own their own airline. These captive airlines generally only serve their parent company. ACMI represents an attractive alternative to tour operators that do not possess their own capacity and cannot meet growing demand.

The cargo ACMI customer base is similar to the passenger ACMI customer base; however, the cargo ACMI market typically includes longer-term contracts relative to passenger ACMI. Cargo ACMI customers are primarily scheduled airlines. The cargo business volume peaks in opposite quarters to the passenger business volume (i.e. the second and fourth quarters for cargo, as opposed to first and third quarters for passengers).

Air Atlanta Icelandic is one of the world's largest ACMI companies, considering its number of aircraft. The size of the ACMI market is unknown, whereas many of the ACMI airlines are operating under the customer flight number and therefore not discernible. Boeing estimates the size of the ACMI market to be approximately 8% of the total cargo market.

A few players dominate the ACMI market for wide-body aircraft. Atlas Air, Corsair, Evergreen, Airstream and World Airways are Air Atlanta Icelandic's main competitors. The narrow body segment is much more competitive, with many small players competing for market share primarily on the basis of price, whereas Astraeus, Futura, LTE, Spanair and Volare are Air Atlanta's competitors.

> The complementary seasonal pattern of cargo and passenger air transportation provides a further competitive advantage to Air Atlanta Icelandic. By operating both cargo and passenger aircraft, Air Atlanta Icelandic can use their manpower more effectively through the transfer of personnel from passenger to cargo aircraft (and vice versa) during seasonal lows.

New entrants to the wide-body market are few except for scheduled airlines attempting to temporarily utilise excess capacity. Due to cost sensitivity, ACMI operators need to be cost efficient in order to succeed. Good reputation, strong brand name and suitable aircraft enable ACMI operators to sell at a higher margin that can make the difference in a cost-driven market.

Air Atlanta Icelandic has established a strong presence in its core market segment, which translates into brand recognition among its customers. Air Atlanta Icelandic has relatively easy access to quality aircraft, and has good relations with many of the leading air leasing companies. Its solid reputation for supplying quality services is built on extensive experience acquired throughout many years in the airline industry.



#### Market outlook

In recent years, passenger and cargo traffic have been showing improving trends both in volume and in profitability. The year 2004 marked a period of recovery for the industry, with a clear firming of operating lease rentals, despite the fact that fuel prices remained a significant drag on airline profits. Over the long term, the bulk of air traffic growth will be a function of economic growth.

Since 1990, traffic carried by ACMI wide-bodied carriers has grown by 18% per annum, and ACMI carriers will continue to be required to assist traditional carriers in meeting overall demand for cargo and passenger aircraft. According to forecasts by Boeing and Airbus, world passenger traffic will more than double over the next 20 years, with estimated annual passenger growth up by 4.8%.

The Boeing Company also forecasts that the global air cargo market will triple over the next two decades, based on current estimates of a 6.2% annual increase measured in freight tonnes. For the last 10 years, the increase in air cargo traffic has been 6.1% annually and currently shows significant strength through a flurry of new freighter

orders. Carriers are looking increasingly to large freighters, especially the 747 and 777 models, for efficiency and range. The share of wide-body freighters is expected to increase to 64% of the world freighter fleet, compared to 47% currently. About 60% of the freighters that will be added to the fleet will be wide-body aircraft.

#### Maintenance and Engineering Services

Avia Technical Services is a maintenance, repair and overhaul company that performs maintenance services on Air Atlanta's aircraft and third-party aircraft. ATS is composed of three strategic business units in the UK and Ireland that offer a unique blend of services. Its divisions are: component repair and overhaul, airframe maintenance and value-added services such as technical records and planning, purchasing, spares trading and warehousing and logistics. ATS has approximately 300 employees.

The airframe maintenance division of ATS is provided by Air Atlanta Aero Engineering, based at Shannon Airport, Ireland. It provides a comprehensive range of heavy maintenance to Air Atlanta Icelandic and third parties. Air Atlanta Aero Engineering is approved by the Federal Aviation Administration (FAA) and the European Aviation Safety Agency (EASA) to perform C and D checks on B737, B757, B767, and B727 aircraft.

The component repair and overhaul division of ATS is provided by Aviaservices, located at Kent International Airport in Manston. Its facility is strategically located in close proximity to the major London airports and to the cross-channel ports.

Technical and Logistics Services is a part of ATS's value-added division. It offers a range of complementary technical and logistics management services to the aviation industry, providing its customers with cost-effective and efficient solutions.

## Hf. Eimskipafélag Íslands - through the years in pictures









# Financial Statements

November 1 2005 to October 31 2006

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## Endorsement by the Board of Directors

The consolidated interim financial statements are prepared and presented in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The financial statements are stated in thousands of US Dollars and include the consolidated interim financial statements of Hf. Eimskipafélag Íslands and its subsidiaries (the "Group").

Hf. Eimskipafélag Íslands is an international transportation solutions Group. The Group provides services in most transportation solutions. The Group consists of two main business divisions which are represented by the subsidiaries, Air Atlanta Icelandic and Eimskipafélag Íslands ehf.

On a shareholders meeting, that was held on the 21 November 2006, the name of Company was changed from Avion Group hf. to Hf. Eimskipafélag Íslands. The name change was effective as of 22 November 2006. At the shareholders meeting two new members joined the Board of Directors, Sindri Sindrason and Thor Kristjánsson replaced Arngrímur Johannesson and Eamonn Mullaney.

Hf. Eimskipafélag Íslands was listed on the Iceland Stock Exchange (ICEX) main list on 20 January 2006. New shares were sold in the listing for \$160 million and shortly afterwards further \$160 million was raised from a bond issue. The capital raisings increased the company's capability to make further acquisitions to support its investment strategy.

At the beginning of August Hf. Eimskipafélag Íslands announced its intention to make a takeover bid to acquire all of the outstanding trust units of Atlas Cold Storage Income Trust at a price of CDN\$7.00 cash per Unit. The aggregate acquisition cost, including assumed debt of the Trust, will be CDN \$630 million. The offer was made through Eimskip Atlas Canada, Inc. a wholly-owned subsidiary of Eimskip. After the offer was extended three times Eimskip reached an agreement with Atlas Cold Storage to acquire all units of the company at the price of CDN \$7.50 cash per Unit. The acquisition was completed 2 November 2006.

At the end of September Innovate Holding Limited, Eimskip's subsidiary, acquired the entire share capital of Corby Chilled Distribution Limited, one of the leading players in the UK temperature-controlled primary food distribution market. This acquisition furthers Eimskip's strategy to be a leading

logistics provider globally, adding to its existing UK coldstore infrastructure a strong road transportation and cross dock hub network with comprehensive coverage of the UK and substantial capacity for growth. The businesses of Innovate and Corby are highly complementary and together will be able to offer our customers an enhanced range of services in temperature-controlled logistics in the UK.



Eimskip also finalised the acquisition of 65% share in Containerships in September. Containerships and Kursia Linija are now being merged under the name of Containerships and together these companies are one of the biggest short sea suppliers in Europe. Eimskip aims to be the leading short sea supplier in the Baltic states and Russia which is a rapid growth area.

At the end of the financial year 2006 Hf. Eimskipafélag Íslands announced that it had reached agreement for the disposal of the entire issued share capital of XL Leisure Group for USD 450 million. XL Leisure Group was recently formed from the Charter & Leisure division within the Group and consisted of Excel Airways Group in the UK, Star Airlines in France and Star Europe in Germany. The profit arising on disposal amounted to USD 98 million.

The Board of Hf. Eimskipafélag Íslands also announced that it has reached agreement for the disposal of its 51% holding in Avion Aircraft Trading for USD 51 million. The profit arising on disposal amounted to USD 44 million. The book value of the 49% retained by Hf. Eimskipafélag Íslands is USD 3 million. Part of the loan finance being provided to the buy-out team of XL Leisure Group amounting to USD 280 million is being secured by Hf. Eimskipafélag Íslands until 1 March 2008. A part of the purchase price of both XL Leisure Group and Avion Aircraft Trading is being paid by the buy-out team from a realisation of their shares in Hf. Eimskipafélag Íslands, amounting to 22% of the Company. As a result Fjárfestingarfélagið Grettir acquired the shares which the company received as a payment for the assets sold.

In January Eimskip announced the acquisition of the remaining 60% equity stake in the Dutch cold store company Daalimpex beheer B.V. in the Netherlands. Eimskip previously held 40% of Daalimpex's equity interest. Daalimpex is one of the largest cold store companies in Europe and operates six cold stores in the Netherlands. This acquisition significantly strengthens Eimskip's reefer logistics in Europe and is a good platform for further development of reefer service in Europe. This acquisition is part of Eimskip's strategy to be a key international player in temperature-controlled cargo globally. Daalimpex is the biggest cold store company in the Netherlands and one of the biggest in Europe. With the acquisition of a majority stake in Innovate and Corby and now the acquisition of 100% share in Daalimpex, Eimskip has become a leading European cold store company and a leading cold store company globally with the acquisition of Atlas Cold Storage in Canada.

The Board of Directors does not propose a payment of dividend to shareholders in 2007. As regards to changes in net equity the Board refers to the Notes attached in the financial statements.

Net profit amounted to USD 79,4 million for the Group, according to the income statement. Total equity amounted to USD 682.4 million at the end of the period according to the balance sheet. At period-end, shareholders in Avion Group hf. numbered 23,559, compared to 20 at the beginning of the period. Two stockholders owned more than 10% share in the Company at the end of the year, Frontline Holding S.A. with 37.55% ownership and Fjárfestingarfélagið Grettir with 34.37% share.

The board of directors of Hf. Eimskipafélag Íslands hereby confirm the Group's consolidated financial statements for the year ended 31 October 2006 with their signatures.

Reykjavik, 18 January 2007

### Board of Directors

Magnus Thorsteinsson  
Executive Chairman

Sindri Sindrason

Gunnar M. Bjorg

Eggert Magnusson

Thor Kristjánsson



# Independent Auditor's Report

Board of Directors and shareholders of Hf. Eimskipafélag Íslands

## Report on the Financial Statements

We have audited the accompanying financial statements of Hf. Eimskipafélag Íslands, which comprise the balance sheet as at October 31, 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 management, as well as evaluating the overall presentation of the financial statements.

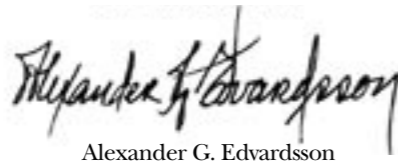
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Hf. Eimskipafélag Íslands as of October 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards

Reykjavik, 18. January 2007.

KPMG hf.



Alexander G. Edvardsson

# Consolidated Income Statement

For the year ended October 31, 2006

	Notes	2005/6 1.11-31.10	2005 1.1-31.10
Operating revenue			
Net sales	8	1.018.110	551.173
Other income	9	<u>21.926</u>	<u>21.954</u>
Total operating revenue		1.040.036	573.127
Operating expenses			
Aviation services		(456.282)	(367.017)
Shipping and logistics		<u>(595.488)</u>	<u>(189.793)</u>
Total operating expenses	10	(1.051.770)	(556.810)
Operating result	11	(11.734)	16.317
Financial income	14	15.994	15.626
Financial expenses	15	<u>(81.866)</u>	<u>(24.225)</u>
Net finance costs		(65.872)	(8.599)
Share of profits (loss) in associated companies	20	<u>822</u>	<u>(203)</u>
(Loss) earnings before income tax		(76.784)	7.515
Income tax	16	<u>8.903</u>	<u>(1.191)</u>
(Loss) earnings from continuing operations		(67.881)	6.324
Profit from discontinued operations (net of income tax)	6	<u>147.237</u>	<u>17.422</u>
Profit for the period		<u>79.356</u>	<u>23.746</u>
Attributable to:			
Equity holders of the parent		78.293	24.948
Minority interest		<u>1.063.3</u>	<u>(1.202)</u>
Profit for the period		<u>79.356</u>	<u>23.746</u>
Earnings per share	31		
Basic earnings per share (USD)		0,0454	0,0235
Diluted earnings per share (USD)		0,0441	0,0235
Continuing operations	31		
Basic (loss) earnings per share (USD)		(0,0399)	0,0063
Diluted (loss) earnings per share (USD)		(0,0388)	0,0063

All amounts in thousands of USD.



## Statement of recognised income and expense

For the year ended 31 October 2006

	2005/6 1.11 - 31.10	2005
Currency translation difference for foreign operations .....	(27.140)	11.793
Effective portion changes in fair value of cash flow hedges .....	-	(2.956)
Change in cash flow hedges relating to sale of subsidiaries .....	2.956	-
Net change in the fair value of available-for-sale financial assets .....	(3.762)	(1.461)
Income and expense recognised directly in equity .....	(27.946)	7.376
Profit for the period .....	79.356	23.746
Total recognised income and expense for the period .....	<u>51.410</u>	<u>31.122</u>
Attributable to:		
Equity holders of the parent .....	50.347	32.324
Minority interest .....	1.063	(1.202)
Net recognised income and expense for the period .....	<u>51.410</u>	<u>31.122</u>

All amounts in thousands of USD.

Hf. Eimskipafélag Íslands  
- through the years in pictures





## Consolidated Balance Sheet

For the year ended 31 October 2006

	Notes	31.10.2006	31.10.2005
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill .....	17	310,965	501,226
Other intangible assets .....	18	13,816	30,566
Property, aircraft, vessels and equipment .....	19	449,959	449,490
Investment in associated companies .....	20	23,316	839
Financial assets .....	21	128,599	58,359
Deferred tax assets .....	22	22,455	12,864
<b>Total non-current assets</b>		<b>949,110</b>	<b>1,053,344</b>
<b>Current assets</b>			
Inventories .....	23	17,325	16,105
Trade receivables .....	24	294,911	209,274
Charter & Leisure purchaser .....	25	286,748	0
Prepaid expense .....	26	40,766	53,808
Cash and cash equivalents .....	28	228,487	150,346
Assets classified as held for sale .....	29	24,944	9,775
<b>Total current assets</b>		<b>893,181</b>	<b>439,308</b>
<b>Total assets</b>		<b>1,842,291</b>	<b>1,492,652</b>

## Consolidated Balance Sheet

For the year ended October 31, 2006

	Notes	31.10.2006	31.10.2005
<b>Equity and liabilities</b>			
<b>Equity</b>			
Issued capital		26,493	22,013
Share premium .....		521,559	365,393
Reserves .....		(17,155)	10,031
Retained earnings .....		121,277	42,984
<b>Stockholders' equity</b>		<b>652,174</b>	<b>440,421</b>
Minority interest .....		30,184	1,495
<b>Total equity</b>	30	<b>682,358</b>	<b>441,916</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings .....	33	451,147	411,205
Guarantee deposits .....		5,392	1,697
Deferred income .....	34	51,922	0
Deferred tax liabilities .....	22	9,772	7,934
<b>Total non-current liabilities</b>		<b>518,233</b>	<b>420,836</b>
<b>Current liabilities</b>			
Interest bearing loans and borrowings .....	33	363,115	222,177
Trade payables .....		162,316	152,476
Other payables .....	35	116,269	255,247
<b>Total current liabilities</b>		<b>641,700</b>	<b>629,900</b>
<b>Total liabilities</b>		<b>1,159,933</b>	<b>1,050,736</b>
<b>Total equity and liabilities</b>		<b>1,842,291</b>	<b>1,492,652</b>

## Consolidated Statement of Cash Flows

### For the year ended 31 October 2006

	2005/6 1.11-31.10	2005 1.1-31.10
<b>Cash flows (to) / from operating activities</b>		
Net profit .....	79.356	23.746
Adjustments to reconcile net profit to net cash provided by (used in) operating activities: .....		
Depreciation / impairment of fixed assets .....	72.321	48.926
Amortization / impairment of intangible assets .....	3.642	1.714
Currency fluctuation and indexation .....	37.730	(3.052)
Profit from discontinued operation .....	(4.319)	(17.422)
Gain on sale of subsidiaries .....	(142.918)	0
Changes in deferred taxes .....	(14.057)	(520)
Gain on sale of fixed assets .....	(19.328)	(21.140)
Other changes .....	7.876	(980)
Working capital from operating activities .....	<u>20.303</u>	<u>31.272</u>
Inventories, increase .....	(2.709)	(61)
Receivables (increase), decrease .....	(11.840)	10.175
Short-term liabilities (decrease) .....	(64.347)	(34)
Changes in operating assets and liabilities .....	<u>(78.895)</u>	<u>10.080</u>
Net cash (used in) / to operating activities	<u>(58.593)</u>	<u>41.352</u>
<b>Cash flows to investing activities</b>		
Investment in fixed and intangible assets .....	(235.260)	(180.825)
Proceeds from sale of fixed and intangible assets .....	106.179	60.041
Investments in subsidiaries net of cash acquired .....	(17.203)	(39.110)
Proceeds from sale of subsidiaries .....	193.791	0
Investments in financial assets .....	(91.902)	(39.222)
Payments of other loans .....	(49.027)	0
Proceeds from financial assets .....	14.964	772
Change in guarantee deposits .....	5.950	(6.158)
Effects of discontinued operation .....	(116.617)	(54.608)
Net cash used in investing activities	<u>(189.125)</u>	<u>(259.110)</u>
<b>Cash flows from financing activities</b>		
Proceeds from new share capital issued .....	156.799	146.263
Changes in treasury shares .....	26.457	0
Proceeds from long-term borrowings .....	594.121	270.372
Payments of interest bearing loans and borrowings .....	(448.393)	(108.732)
Change in guarantee deposits .....	(885)	(158)
Net cash provided by financing activities	<u>328.098</u>	<u>307.745</u>
Net change in cash and cash equivalents .....	80.380	89.987
Effects of foreign exchange adjustments .....	(2.240)	1.498
Cash and cash equivalents at beginning of period .....	150.346	58.861
Cash and cash equivalents at end of period .....	<u>228.487</u>	<u>150.346</u>

Notes: Statement of cash flow 38.

All amounts in thousands of USD.









# Notes to the Consolidated Financial Statements

## 1. General Information

Hf. Eimskipafélag Íslands (formerly known as Avion Group hf.) the “Company” is a limited liability company domiciled in Iceland. The consolidated financial statements of the Group for the year ended 31 October 2006 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Company’s interest in the performance of associated companies.

The Group’s accounting year is from 1 November to 31 October. These are the first financial statements which the Group reports according to its new fiscal year. The comparison figures include ten month figures for the year 2005, from 1 January to 31 October 2005 and are therefore not entirely comparable.

Hf. Eimskipafélag Íslands is an investment company focused on investments in shipping and logistics. The Company has invested in wide range of transportation industries but during the year sharpened its focus on shipping and logistics by the sale of its charter and leisure segment. The shipping and logistics industry is represented by Eimskipafélag Íslands ehf. with 40-50 ships in operation.

Hf. Eimskipafélag Íslands vision is to be a leading investment company in the field of global land and sea transportation solutions. The mission of Hf. Eimskipafélag Íslands is to maximize total shareholders’ returns through financial strength and management skills. Hf. Eimskipafélag Íslands management seeks to improve its businesses through organic growth as well as complementary acquisitions. Core to this strategy is the development of profitable Shipping & Logistics activities by identifying acquisitions that are complementary to the value chain. As acquisitions in all become integrated and supported within the Group, synergies are realised in areas such as joint purchasing, fuel and insurance as well as in functions such as marketing, IT and finance. As each successful acquisition develops within its Group, further opportunities are identified to complement, extend and enhance the value chain.

## 2. Significant accounting policies

### a. Statement of compliance

The consolidated financial statements have been prepared in accordance with Interna-

tional Financial Reporting Standards (IFRSs) as adopted by the EU.

The financial statements were approved by the Board of directors on 18 January 2007.

### b. Basis of preparation

The financial statements are prepared on the historical cost basis except for the following assets and liabilities which are stated at their fair values:

- financial instruments classified as available-for-sale

- non-current assets held for sale

The method used to measure fair values are discussed further in note 2(y).

### c. Functional and presentation currency

These consolidated financial statements are presented in USD, which is the Company’s functional currency. All financial information presented in USD have been rounded to the nearest thousand.

### d. Use of estimates and judgements

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

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

In particular, information about 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 described in the following notes:

Note 8 - acquisitions of subsidiaries

Note 18 - goodwill

Note 17 - Income tax expense

Notes 39 and 40 - capital commitments and contingencies

Note 19 - property, plant and equipment

Note 36 - share-based payments

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Certain comparative information have been restated as explained in note 5. In addition, the comparative income statement and cash flow statement have been re-presented as if an operation during the current period had been discontinued from 31 October 2005 and the operation sold.

### e. Basis of consolidation

#### Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial information of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Group’s share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group’s share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

#### Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted

investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### f. Foreign currency

#### Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to USD at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale assets.

#### Translation of foreign subsidiaries in the consolidated financial statements

The assets and liabilities of foreign subsidiaries are translated to the presentation currency at the year-end exchange rate. The revenue and expenses of foreign subsidiaries are translated at an average exchange rate for the period. Foreign exchange differences arising on retranslation are recognised directly in a separate component of equity.

### g. Financial instruments

#### Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, 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, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group’s contractual rights to the cash flows from the financial

assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group’s obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits.

Accounting for finance income and expense is discussed in note 2(j).

#### Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

#### Available for sale financial assets

The Group’s investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

#### Share capital

Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction in equity.

#### Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including 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.

### h. Revenue recognition

#### Services

Revenue from services rendered is recognised in the income statement in proportion to services completed. Service revenue recognition is as follows for the business segments:

“Revenue from ACMI (Aircraft, crew, maintenance and insurance) sales is recognised on block hours flown for customers. Revenue from flight and shipping operations is recognised when transportation service is provided.

Payments received from customers in ad-

vance of performance of the Group’s obligations are included as deferred revenue and not recognised until the Group has fulfilled its obligations.”

### i. Expenses

Expenses are recognised in respect of goods and services provided in accordance with contractual terms. Provision is made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated.

#### Aircraft and vessel maintenance expenditure

Routine maintenance cost is expensed as incurred. Major maintenance and overhaul costs are capitalised as a separate component of aircraft and vessels and depreciated on a systematic basis.

#### Borrowing cost

The Group capitalises borrowing cost that is directly attributable to the acquisition, construction or production of a qualifying asset. The capitalisation of borrowing cost commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress and cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

#### Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

#### Finance lease payments

Lease payments are apportioned between interest expenses and a reduction of the outstanding interest-bearing borrowings. Interest expenses are allocated to each period during the lease term based of effective interest rates. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

### j. Finance income and expenses

Finance income comprises interest income, dividend income, gain on disposal of available-for-sale financial assets and foreign currency exchange gain. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group’s right to receive payment is established. Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses and



impairment losses recognised on financial assets. All borrowing costs are recognised in the income statement using the effective interest method.

#### k. Taxation

##### Taxation, general

Income tax expense comprises current and 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.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. 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. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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.

#### l. Property, aircraft, vessels and equipment Owned assets

Items of property, aircraft, vessels and equipment are stated at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are 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 asset 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. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where parts of an item of property, aircraft, vessels and equipment have different useful lives, they are accounted for as separate items of property and equipment.

#### Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease are stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

#### Subsequent costs

The Company recognises in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred 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. All other costs are recognised in the income statement as an expense as incurred.

#### Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

Buildings .....	15 - 50 years
Vessels .....	5 - 14 years
Equipment .....	3 - 10 years
Aircraft fleet .....	4 - 13 years

Capitalised engines are charged to expenses according to actual hours flown.

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

#### m. Intangible assets

##### Goodwill

Goodwill arises on the acquisition of subsidiaries and associates.

#### Acquisitions prior to 1 January 2004

The classification and accounting treatment of business combinations that occurred prior to 1 January 2004 has not been reconsidered in preparing the Group's opening IFRS balance sheet at 1 January 2004. In respect of acquisitions prior to this date, goodwill is included on the basis of its deemed cost, which represents the amount recorded under IS-GAAP.

#### Acquisitions on or after 1 January 2004

Acquisition of subsidiaries are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries and associates. In respect of business acquisitions that have occurred

since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

#### Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

#### Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

#### Other intangible assets

Other intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

#### 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, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

#### Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite.

The estimated useful lives for the current and comparative periods are as follows:

Computer software and other intangible assets .....	3-5 years
-----------------------------------------------------	-----------

#### n. Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The vessels acquired by way of finance lease are stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Lease payments are accounted for as described in accounting policy l. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised in the Group's balance sheet.

The Group adopted IFRIC 4 Determining whether an Arrangement Contains a Lease,

which is mandatory for annual periods beginning on or after 1 January 2006, in its 2005 consolidated financial statements.

#### o. Inventories

Inventories consist mainly of spare parts and supplies for own use and are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated selling expenses.

#### p. Impairment

##### Financial assets

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. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

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.

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.

#### Non-financial assets

The carrying amounts of the Group'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 goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. 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 carry-

ing amount of the other assets in the unit (group of units) on a pro rata basis.

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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

"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."

#### q. Non-current assets held for sale and discontinued operations

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less cost to sell. Any impairment loss on a disposal group first is allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets and deferred tax assets, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

#### r. Employee benefits

##### Defined benefit plan

The group is obligated to pay to a defined pension fund for each of its employees. Those expenses are recognised as profit and loss when they are incurred.

#### Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to

terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

#### Share-based payments

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

#### s. Provisions

A provision is recognised in the balance sheet when the Group 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. If the effect is material, 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, when appropriate, the risks specific to the liability.

#### t. Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement and cash flow statement are restated as if the operation had been discontinued from the start of the comparative period.

#### u. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. 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, share options granted to employees.

#### v. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business

segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

#### w. Subsequent events

If an event that occurs after the balance sheet date has provided evidence of adjustment that existed on the balance sheet date those adjustments are entered into the financial statements.

#### x. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 October 2006, and have not been applied in preparing these consolidated financial statements. The standards and interpretation not yet applied are as follows:

**IFRS 7** Financial instruments: Disclosures and the Amendment to IAS 1 Presentation of Financial Statements: Capital disclosures

**IFRS 8** Operating segments

**IFRIC 7** Applying the Restatement Approach under IAS 29 Financial Reporting Hyperinflationary Economics

**IFRIC 8** Scope of IFRS 2 Share-based payments

**IFRIC 9** Reassessment of Embedded Derivatives

**IFRIC 10** Interim Financial Reporting and Impairment

**IFRIC 11** Group and Treasury shares transactions

These new standards and interpretations are not expected to have any impact on the consolidated financial statements.

#### y. Determination of fair value

A number of the Group'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. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

#### Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

#### Share-based payments

The fair value of employee stock options is measured using a binomial lattice model. The fair value of share appreciation rights is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

### 3. Segments

Segment information is presented in respect of the Group's business and geographical segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

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.

Segment capital expenditure is the total cost incurred during the period to acquire property, and equipment, and intangible

assets other than goodwill.

#### Business segments

##### 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 main operation of the B546 division was charter services and as a tour operator. The Charter and Leisure division was sold at the end of the fiscal year but is included in the consolidated financial statements until the 31 October 2006. This division was provided by XL Leisure Group and is categorized as discontinued operations.

##### Shipping and logistics

Eimskipafélag Íslands ehf. 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.

##### Geographical segments

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

## 4. Business segments Business segments

	Aviation Services		Shipping and logistics		Charter & Leisure (Discontinued)		Eliminations		Consolidated		Less Charter & leisure (Discontinued)		Continuing Operations	
	1.11.2005-10/31/06	1.1.2005-10/31/05	1.1.2005-10/31/06	1.11.2005-10/31/05	1.1.2005-10/31/06	1.11.2005-10/31/05	1.1.2005-10/31/06	1.11.2005-10/31/05	1.11.2005-10/31/06	1.1.2005-10/31/05	1.11.2005-10/31/06	1.1.2005-10/31/05	1.11.2005-10/31/06	1.1.2005-10/31/05
<b>Income statement</b>														
Net sales	399,877	350,137	618,233	201,036	1,214,986	828,364	-	-	2,233,096	1,379,537	(1,214,986)	(828,364)	1,018,110	551,173
Other income	15,151	21,187	6,775	767	-	-	-	-	21,926	21,954	-	-	21,926	21,954
Total revenue from external customers	415,028	371,324	625,008	201,803	1,214,986	828,364	-	0	2,255,022	1,401,491	(1,214,986)	(828,364)	1,040,036	573,127
Inter-segment revenue	48,319	144,227	-	-	-	264,683	(48,319)	(144,227)	-	264,683	(264,683)	-	-	-
Total revenue	463,347	515,551	625,008	201,803	1,214,986	1,093,047	(48,319)	(144,227)	2,255,022	1,666,174	(1,214,986)	(1,093,047)	1,040,036	573,127
Operating expenses	(504,601)	(511,244)	(595,488)	(189,793)	(1,202,351)	(1,062,682)	48,319	144,227	(2,254,121)	(1,619,492)	1,202,351	1,062,682	(1,051,770)	(556,810)
Operating result	(41,254)	4,307	29,520	12,010	12,635	30,365	-	0	901	46,682	(12,635)	(30,365)	(11,734)	16,317
Effects of associated companies									822	(203)	-	-	822	(203)
Net financing costs									(69,223)	(1,965)	3,351	(6,634)	(65,872)	(8,599)
Loss before tax									(67,500)	44,514	(9,284)	(36,999)	(76,784)	7,515
Income tax									3,938	(12,116)	4,965	10,925	8,903	(1,191)
Gain on sale of subsidiaries									142,918	26,074	-	-	142,918	26,074
Net earnings for the period									79,356	58,472	(4,319)	(26,074)	75,037	32,398
	10/31/06	31.10.2005	10/31/06	31.10.2005	10/31/06	31.10.2005	10/31/06	31.10.2005	10/31/06	31.10.2005	10/31/06	31.10.2005	10/31/06	31.10.2005
<b>Balance sheet</b>														
Segment assets	756,592	396,602	1,180,258	696,206	-	529,768	(94,559)	(129,924)	1,842,291	1,492,652				
Segment liabilities	434,535	370,432	819,957	368,193	-	442,035	(94,559)	(129,924)	1,159,933	1,050,736				
<b>Cash flows</b>														
Cash flows to/from operating activities	(90,762)	23,094	32,169	18,259	-	(40,259)	-	-	(58,593)	1,093				
Cash flows to/from investing activities	(9,007)	(144,133)	(63,501)	(60,368)	-	(5,113)	-	-	(72,508)	(209,614)				
Cash flows to/from financing activities	88,957	265,213	239,142	42,532	-	(2,182)	-	-	328,099	305,563				
Other														
Capital additions	181,243	149,596	54,017	26,116	-	5,113	-	-	235,260	180,825				
Depreciation and amortisation	45,809	37,609	30,154	12,147	-	4,086	-	-	75,963	53,841				
<b>Geographical segments</b>														
	Iceland		America & Asia		Europe		Unallocated		Consolidated					
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005				
Revenue from external customers	59,917	444,819	262,569	18,245	691,306	110,063	26,245	-	1,040,036	573,127				
Segment assets	1,239,024	843,689	75,653	9,580	527,614	631,660	-	7,723	1,842,291	1,492,652				
Capital additions	143,750	148,623	150	127	31,095	32,075	-	-	174,995	180,825				

All amounts in thousands of USD.

All amounts in thousands of USD.



**5. Prior period adjustment**

Following an investigation instigated by the Company's board of directors into the commercial arrangements for catering services between Excel Airways Group and Alpha Airports Group a full provision amounting to USD 10 million (net of taxes) was made to the financial statements of Hf. Eimskipafelags subsidiary Excel Airways for the previous financial year ended 31 October 2005. In addition an adjustment of \$7.5 million in the valuation of goodwill relating to one of the subsidiaries acquired in 2005 and sold 2006 was performed. An error relating to 2005 in another subsidiary, that was also sold, of \$ 1.2 million discovered in 2006 was adjusted. The effect on the Group's financial statements ended 31 October 2005 are as follows:

	Balance sheet 31 October 2005		
	Unadjusted	Adjustments	Adjusted
<b>Assets</b>			
Total non-current assets .....	1.053.344	(10.671)	1.042.673
Total current assets .....	465.896	(15.917)	449.979
Total assets .....	1.519.240	(26.588)	1.492.652
<b>Equity and Liabilities</b>			
Total equity .....	460.527	(18.611)	441.916
Total non-current liabilities .....	420.836	-	420.836
Total current liabilities .....	637.877	(7.977)	629.899
Total liabilities .....	1.058.713	(7.977)	1.050.735
Total equity and liabilities .....	1.519.240	(26.588)	1.492.652

As the adjustments referred to above affected the operation that was sold in October 2006 the net effect on the income statement in the amount of USD 18.6 million is included in discontinued operation.

**6. Discontinued operation**

At 31 October 2006 the Group sold its entire Charter and Leisure division. The division was not classified as held for sale at 31 October 2005 and therefore the comparative income statement figures and statement of cash flow have been re-stated to show the discontinued operation separately from continuing operations.

Profit attributable to the discontinued operation is specified as follows:

	2005/6	2005
<b>Results of discontinued operation</b>		
Revenue .....	1.214.986	828.364
Expenses .....	(1.205.701)	(800.017)
Results from operating activities .....	9.284	28.347
Income tax expense .....	(4.965)	(10.925)
Results from operating activities, net of income tax .....	4.319	17.422
Gain on the sale of discontinued operations .....	142.918	0
Profit for the period .....	147.237	17.422
Basic earnings per share .....	0,0853	0,0173
Diluted earnings per share .....	0,0829	0,0173
<b>Cash flows from discontinued operations</b>		
Net cash from (to) operation activities .....	48.976	(40.259)
Net cash to investing activities .....	(74.028)	(5.112)
Net cash from (to) financing activities .....	59.452	(2.182)
Net cash from (used) in discontinued operation .....	34.400	(47.553)

	31.10 2006
<b>Effect of the disposal on the financial position of the Group</b>	
Property, plant and equipment .....	106.003
Goodwill .....	224.428
Inventories .....	5.952
Trade and other receivables .....	387.921
Cash and cash equivalents .....	190.760
Trade and other payables .....	(769.726)
Net identifiable assets and liabilities .....	145.338
Consideration received, satisfied in cash .....	193.791
Cash disposed of .....	(190.760)
Net cash inflow .....	3.030
Cash paid in 2007 .....	286.748
Net cash inflow .....	289.778

The financial information for the operating activities for the year 2006 is unaudited and based on management reports. Any possible difference between actual operating result and the management reports would have the reverse effect on gain on sale of discontinued operation.

## 7. Acquisitions of subsidiaries

### Business combination

On 1 April 2006 the Group acquired all of the shares in P/F Heri Thomsen for USD 0,9 million. The company's main lane of business is transportation.

On 1 May 2006 the Group acquired 55% of the shares in Innovate HQ Limited for USD 32,8 million. The company operations are logistics solutions and strategic distribution centres.

In August 2006 the Group acquired 100% of the shares in UAB Kursiu Linija for USD 0,5million. The company provides door to door transport services on the Eastern shore of the Baltic Sea.

On 29 September 2006 the Group acquired 100% of the shares in Corby Chilled Distribution Ltd. for USD 54,3 million. The company is a leading provider of temperature controlled perishable consolidation services to the fresh food industry.

The purchase price allocation has not been finalised for the companies P/F Heri Thomsen, UAB Kursia Linija and Corby Chilled Distribution Ltd. According to IFRS 3 the Group has one year from the acquisition date to finish the purchase price allocation.

The goodwill recognised on the acquisition of Innovate HQ ltd. is attributable mainly to the skills and technical talent of the acquired business's work force, customers lists and the synergies expected to be achieved from integrating the company into the Group's existing business.

During the year the Group acquired the companies P/F Heri Thomsen, Innovate HQ Ltd., UAB Kursiu Linija and Corby Chilled Distribution Ltd. The acquisition of those companies had the following affect on the Group's assets and liabilities on acquisition date:

	P/F Heri Thomsen	Innovate HQ Ltd.	UAB Kursiu Linija	Corby Chilled distribu- tion Ltd.	Preac- quisition carrying amounts	Fair value adjust- ments	Recogn- ised values on adjust- ments
Property and equipment .....	7.634	45.189	6.469	14.312	73.604	5.667	79.271
Intangible assets .....	25	7.387	1.890	-	9.302	-	9.302
Deferred tax assets .....	342	-	-	-	342	-	342
Prepayments .....	-	54.771	-	-	54.771	-	54.771
Investment properties .....	-	2.835	-	-	2.835	-	2.835
Inventories .....	136	1.270	389	-	1.795	-	1.795
Trade and other receivables .....	1.714	78.591	6.025	21.932	108.262	-	108.262
Assets held for sale .....	-	15.797	-	-	15.797	-	15.797
Cash and cash equivalents .....	84	33.946	268	-	34.298	-	34.298
Accruals .....	-	(65.617)	-	-	(65.617)	-	(65.617)
Loans and borrowings .....	(6.650)	(28.329)	(8.545)	(1.399)	(44.923)	-	(44.923)
Deferred tax liabilities .....	(85)	(2.151)	-	(582)	(2.818)	-	(2.818)
Trade and other payables .....	(4.195)	(85.003)	(17.055)	(16.627)	(122.880)	-	(122.880)
Net identifiable assets and liabilities .....	(995)	58.686	(10.559)	17.636	64.768	5.667	70.435
Eimskip acquired .....	(995)	32.277	(10.559)	17.636	38.359	5.667	44.026
Goodwill on acquisition .....	1.959	545	10.792	31.039	44.335		44.335
							<u>88.361</u>
Consideration paid, satisfied by cash .....	964	-	214	51.776			52.954
Consideration paid, satisfied by loan note .....	-	31.946	-	-			31.946
Consideration paid, directly attributable costs .....	-	876	19	2.566			<u>3.461</u>
Total consideration paid .....	964	32.822	233	54.342			88.361
Cash acquired .....	(84)	(33.946)	(268)	-			<u>(34.298)</u>
Net cash inflow .....	880	(1.124)	(35)	54.342			<u>54.063</u>



## 8. Revenue by currencies

	2005/6	2005
	1.11-31.10	1.1-31.10
Revenue in GBP .....	126.058	68.244
Revenue in USD .....	375.667	203.374
Revenue in EUR .....	113.686	61.546
Revenue in NOK .....	33.449	18.108
Revenue in ISK .....	298.505	161.601
Other .....	70.745	38.299
	<u>1.018.110</u>	<u>551.173</u>

## 9. Other income

Gain on sale of fixed assets .....	16.819	21.139
Gain on sale of assets classified as held for sale .....	5.107	-
Other revenue .....	-	815
	<u>21.926</u>	<u>21.954</u>

## 10. Expenses by currencies:

Revenue in GBP .....	142.493	75.436
Expense in USD .....	324.387	171.732
Expense in EUR .....	132.711	0.258
Expense in NOK .....	33.117	17.532
Expense in ISK .....	326.923	173.074
Other .....	92.138	48.778
	<u>1.051.770</u>	<u>556.810</u>

## 11. Operating result

Net sales .....	1.018.110	551.173
Cost of sale .....	(1.015.243)	(530.948)
Gross profit .....	2.867	20.225
Other costs .....	(36.527)	(25.862)
Other income .....	21.926	21.954
Operating result .....	<u>(11.734)</u>	<u>16.317</u>

## 12. Salaries and related expense

Salaries are specified as follows:

	2005/6	2005
	1.11-31.10	1.1-31.10
Salaries .....	154.588	80.083
Pension funds .....	11.223	12.877
Salaries - related expenses .....	82.211	69.583
Salaries and salaries - related expense total .....	<u>249.022</u>	<u>162.543</u>

Average number of positions .....	2.996	2.031
Number of employees in end of year .....	3.052	1.318

Wages and salaries to CEO and the Board of Directors were USD 0,8 million during the year.

Payment of salaries to the key executives for work performed for the companies within the Group, stock options and ownership in the Company are specified as follows:

	Salaries	Stock options (number of shares '000)	Number of shares owned ('000)
<b>Board of Directors during the year:</b>			
Magnus Thorsteinsson, Executive Chairman .....	115	-	614.918
Arngrimur Johannsson .....	20	-	-
Gunnar M. Bjorg .....	20	-	73.014
Eggert Magnusson .....	20	-	-
Eamon Mullaney .....	20	-	-
<b>CEOs at year-end:</b>			
Hannes Hilmarsson, Air Atlanta Icelandic .....	221	4.500	-
Baldur Gudnason, Eimskipafélag Íslands .....	350	5.100	38.087

The shares owned by board members are either owned by them personally or through holding companies.

A formal stock options plan was issued 19 January 2006 for the aforementioned stock options.

At a shareholders meeting held 21 November 2006 Arngrimur Johannsson and Eamon Mullaney resigned as members of the board and Sindri Sindrason and Thor Kristjansson were elected instead.

## 13. Fees to Auditors

	2005/6 1.11-31.10	2005 1.1-31.10
Audit of financial statements .....	1.400	540
Review of financial statements .....	330	309
Other services .....	576	1.141
	<u>2.306</u>	<u>1.990</u>

The amount includes payments to elected auditors of all companies within the Group.

## 14. Financial income

Interest income on bank deposits .....	2.927	65
Dividend from investment .....	1.020	21
Profit from loans and receivables .....	2.785	(137)
Penalty interests .....	1.191	-
Foreign exchange gain .....	1.938	12.751
Other interest income .....	6.133	2.926
	<u>15.994</u>	<u>15.626</u>

## 15. Financial expenses

Interest on long term loans .....	(47.427)	(22.669)
Penalty interests .....	(1.503)	-
Foreign exchange loss .....	(23.702)	-
Other interest expenses .....	(9.234)	(1.556)
	<u>(81.866)</u>	<u>(24.225)</u>

## 16. Income tax expense

**Current tax expense**

Current year .....	3.914	1.598
Under provided in prior years .....	-	534
	<u>3.914</u>	<u>2.132</u>

**Deferred tax expense**

Origination and reversal of temporary differences .....	246	593
Benefit of tax losses recognised .....	(13.063)	(1.534)
	<u>(12.817)</u>	<u>(941)</u>

Income tax expense excluding tax on the sale of discontinued operations and share of income tax in associates .....	<u>(8.903)</u>	<u>1.191</u>
---------------------------------------------------------------------------------------------------------------------	----------------	--------------

All amounts in thousands of USD.

No income tax is calculated on the gain on sale of discontinued operations as the company will offset the gain on the sale against increased investment in subsidiaries and therefore it is treated as a permanent difference.

**Reconciliation of effective tax rate**

	2005/6 1.11.-31.10		2005 1.1.-31.10	
Earnings before tax .....		<u>(76.784)</u>		<u>7.515</u>
Income tax using parent corporation tax rate .....	17,1%	(13.163)	18,0%	1.353
Effect of tax rates in foreign jurisdictions .....	(2,8%)	2.145	(3,1%)	(230)
Non-deductible expenses .....	6,9%	(5.311)	(1,6%)	(117)
Tax exempt revenue .....	(6,0%)	4.625	(1,3%)	(97)
Effect of tax losses not utilised .....	(1,5%)	1.187	0,0%	0
Under / over provided in prior years .....	(1,8%)	1.367	0,2%	17
Other differences .....	(0,3%)	247	3,5%	265
Effective tax .....	11,6%	<u>(8.903)</u>	15,8%	<u>1.191</u>

**Deferred tax recognised directly in equity**

Relating to equity securities available-for-sale .....		1.111		307
Relating to capital increase		1.910		169
		<u>3.021</u>		<u>476</u>

All amounts in thousands of USD.



## 17. Goodwill

## Changes during the period:

	2006	2005
<b>Cost</b>		
Balance at 1 November / at 1 January .....	501.226	145.445
Currency adjustment during the year .....	(28.088)	1.770
Recognised on acquisition of subsidiaries .....	60.313	354.119
Sales of subsidiaries .....	(221.120)	-
Impairment loss during period .....	(1.366)	(108)
Balance at 31 October .....	<u>310.965</u>	<u>501.226</u>

## The impairment of goodwill classified by operational categories, is specified as follows:

	2005/6	2005
	1.11-31.10	1.1-31.10
Aviation services .....	1.233	-
Shipping and logistics .....	133	37
Discontinued operation .....	-	71
	<u>1.366</u>	<u>108</u>

## Impairment testing for cash-generating units

For the purpose of impairment testing, goodwill is allocated to the Group's operating entity's which represent the lowest level within the Group, at which the goodwill is monitored for internal management purposes.

## The aggregate carrying amounts of goodwill allocated to each unit are as follows:

	2006	2005
Air Atlanta Icelandic .....	13.095	13.095
Eimskipafélag Íslands ehf. ....	217.741	265.807
Excel Airways Group .....	-	168.165
Travel City Group .....	-	52.955
Subsidiaries of Eimskipafélag Íslands ehf. ....	80.129	1.204
	<u>310.965</u>	<u>501.226</u>

Value in use was determined by discounting the future cash flow generated from the continuing use of the unit and was based on the following key assumptions:

Cash flows were projected based on next years business plan and expected grows in the next 4 years. Cash flows for the further 20 years were extrapolated using a constant growth rate. Management believes that a constant growth rate of 2 to 5 percent per year is close to the expected inflation for the period (2005: one to three percent).

The anticipated annual revenue growth rate in the cash flow projection was 5 to 19 percent for the years 2007-2011 (2005: two to ten percent).

The discount rate of seven to nine percent was applied in determining the recoverable amount of the unit (2005: 10 to 11 percent). The discount rate was estimated based on the companies average weighted average cost of capital.

Impairment losses were recognised on subsidiaries of Avia Technical Services and subsidiaries of Eimskipafélag Íslands. No impairment loss was recognised on Air Atlanta Icelandic hf. and Eimskipafélag Íslands ehf.

All amounts in thousands of USD.

## 18. Other intangible assets

2005	Domain name	Computer software	Airport Slots	Other	Total
<b>Cost</b>					
At 1 January .....	1.960	-	-	-	1.960
Currency adjustments during the period .....	(155)	434	(976)	(168)	(865)
Recognised on acquisition of subsidiaries .....	-	9.585	17.136	3.849	30.570
Additions during period .....	-	1.470	-	-	1.470
At 31 October .....	<u>1.805</u>	<u>11.489</u>	<u>16.160</u>	<u>3.681</u>	<u>33.135</u>

## Amortisation

At 1 January .....	33	-	-	-	33
Currency adjustments during the period .....	(7)	146	-	(26)	113
Amortised during period .....	132	1.407	-	884	2.423
At 31 October .....	<u>158</u>	<u>1.553</u>	<u>-</u>	<u>858</u>	<u>2.569</u>

2006	Domain name	Computer software	Airport Slots	Other	Total
<b>Cost</b>					
Balance at 1 November 2005 .....	1.805	11.489	16.160	3.681	33.135
Currency adjustments during the period .....	-	(1.501)	-	-	(1.501)
Recognised on acquisition of subsidiaries .....	-	199	-	-	199
Additions during period .....	-	7.342	-	-	7.342
Sales during period .....	-	(20)	-	-	(20)
Disposals during period .....	(1.805)	(931)	(16.160)	(3.681)	(22.577)
Balance at 31 October 2006 .....	<u>-</u>	<u>16.578</u>	<u>-</u>	<u>-</u>	<u>16.578</u>

## Amortization

Balance at 1 November 2005 .....	158	1.553	-	858	2.569
Currency adjustments during the period .....	-	(470)	-	-(470)	
Amortised during period .....	-	2.276	-	-	2.276
Disposals during period .....	(158)	(597)	-	(858)	(1.613)
Balance at 31 October 2006 .....	<u>-</u>	<u>2.762</u>	<u>-</u>	<u>-</u>	<u>2.762</u>

## Carrying Amount

At 1 January 2005 .....	1.927	-	-	-	1.927
At 31 October 2005 .....	1.647	9.936	16.160	2.823	30.566
At 31 October 2006 .....	<u>-</u>	<u>13.816</u>	<u>-</u>	<u>-</u>	<u>13.816</u>

All amounts in thousands of USD.

The amortization of other intangible assets, classified by operational category, is specified as follows:

	2005/6	2005
	1.11-31.10	1.1-31.10
Shipping and logistics .....	2.276	792
Discontinued operation .....	-	1.631
	<u>2.276</u>	<u>2.423</u>

## 19. Property, aircraft, vessels and equipment

2005	Property	Machinery and equipment	Vessels and other transp. equipment	Aircraft	Total
<b>Cost</b>					
Balance at 1 January .....	33.878	13.931	0	151.606	199.415
Currency adjustments during the period .....	(1.167)	(857)	6.976	(793)	4.159
Additions during the year .....	121.800	4.261	156.835	122.695	405.591
Transfer to available for sale .....	(12.251)	-	-	-	(12.251)
Sales during period .....	(4.049)	(27)	(3.776)	(75.321)	(83.173)
Balance at 31 October .....	<u>138.211</u>	<u>17.308</u>	<u>160.035</u>	<u>198.187</u>	<u>513.741</u>
<b>Accumulated depreciation</b>					
Balance at 1 January .....	2.935	5.267	0	41.407	49.609
Currency adjustments during the period .....	(192)	(285)	2.803	(88)	2.238
Transfer to available for sale .....	(2.892)	-	-	-	(2.892)
Sales during period .....	(2.347)	(2)	(3.160)	(30.505)	(36.014)
Depreciation during period .....	3.221	2.712	9.682	35.695	51.310
Balance at 31 October .....	<u>725</u>	<u>7.692</u>	<u>9.325</u>	<u>46.509</u>	<u>64.251</u>

All amounts in thousands of USD.

## 2006

### Cost

Balance at 1 November .....	138.211	17.308	160.035	198.187	513.741
Currency adjustments during the period .....	(7.207)	445	(20.380)	-	(27.142)
Acquisitions through business combinations .....	20.978	-	44.612	-	65.590
Other additions .....	10.501	1.506	39.488	174.450	225.945
Transfer to available for sale .....	(1.252)	-	-	(6.795)	(8.047)
Sales during period .....	(2.680)	(185)	(4.063)	(161.026)	(167.954)
Disposals during period .....	(26.813)	(5.335)	-	(9.660)	(41.808)
Balance at 31 October .....	<u>131.738</u>	<u>13.739</u>	<u>219.692</u>	<u>195.156</u>	<u>560.325</u>

### Accumulated depreciation

Balance at 1 November .....	725	7.692	9.325	46.509	64.251
Currency adjustments during the period .....	(499)	101	(6.020)	15	(6.403)
Sales during period .....	(747)	(15)	(2.959)	(9.180)	(12.901)
Depreciation during period .....	4.994	1.990	23.321	42.016	72.321
Disposals during period .....	(2.235)	(3.326)	-	(1.341)	(6.902)
Balance at 31 October .....	<u>2.238</u>	<u>6.442</u>	<u>23.667</u>	<u>78.019</u>	<u>110.366</u>

### Carrying Amount

At 1 January 2005 .....	30.943	8.664	-	110.199	149.806
At 31 October 2005 .....	137.486	9.616	150.710	151.678	449.490
At 31 October 2006 .....	129.500	7.297	196.025	117.137	449.959

Aircraft is further divided into aircraft, capitalised engines and rotatable spare parts. Aircraft is amortised over expected lifetime on a straight line basis, engines are charged in accordance with hours flown and rotatable spare parts are amortised over their expected useful lives.

Vessels owned by Eimskipafélag Íslands ehf. were revalued as a part of purchase price allocation in accordance with IFRS 3 when the company was acquired.

Prepayments amounting to USD 20 million for new reefer vessels being built are included in vessels and other transportation equipment. Depreciation, classified by operational category, is shown in the following schedule:

	2005/6	2005
	1.11-31.10	1.1-31.10
Aviation Services .....	45.114	37.692
Shipping and Logistics .....	27.207	11.319
Discontinued operations .....	-	2.299
	<u>72.321</u>	<u>51.310</u>

### Leased vessels, warehouses and machinery

The Group leases production equipment under a number of finance lease agreements. Some leases provide the Group with the option to purchase the equipment at a beneficial price. The leased equipment secures lease obligations. At 31 October 2006 the net carrying amount of leased machinery was USD 8,6 million (2005:USD 2,5 million).

All amounts in thousands of USD.



## Insurance and market value of assets

2005	Insurance value	Market value	Book value
Property and plants .....	182.726	159.351	137.486
Machinery and equipment .....	24.314	9.616	9.616
Vessels and other transportation equipmen .....	165.053	150.710	150.710
Aircraft .....	191.000	186.452	151.678
	<u>563.093</u>	<u>506.129</u>	<u>449.490</u>
<b>2006</b>			
Property and plants .....	177.725	132.382	129.500
Machinery and equipment .....	10.575	7.999	7.297
Vessels and other transportation equipment .....	238.239	198.570	196.025
Aircraft .....	136.000	130.500	117.137
	<u>562.539</u>	<u>469.452</u>	<u>449.959</u>

The market value of property and equipments is estimated by the management, supported with issued information from unrelated party.

## 20. Investment in associates

The Group's share of profit in its equity accounted investees for the year was USD 0.8 million (2005: USD -0.2 million).

## Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Group:

2005	Ownership	Balance at 1 January 2005	Acquisitions/ sold during the year	Share in net profit/ (loss) of associate	Other adjustments	Balance at 31 October 2005
Harbore Grace, Inc., Canada .....	25%	426	-	45	231	702
Halship Inc., Can .....	49%	-	-	(341)	341	0
Freshport, Holla .....	25%	-	-	89	(89)	0
Traxx Intercontinental, Holland .....	20%	66	-	31	(13)	84
Euro Container Line AS, Norway .....	50%	363	-	(27)	(336)	0
Shares in 4 other associates .....		66	-	0	(13)	53
		<u>921</u>	<u>0</u>	<u>(203)</u>	<u>121</u>	<u>839</u>
<b>2006</b>						
Daalimpex BV, Holl .....	40%	-	16.142	521	2.902	19.565
Harbore Grace, Inc., Canada .....	25%	702	-	33	(24)	710
Freshport, Holl .....	25%	-	-	164	(164)	0
Traxx Intercontinental, Holland .....	20%	84	-	25	5	114
Euro Container Line AS, Norway .....	50%	-	-	79	(79)	0
Avion Aircraft Trading hf. Iceland .....	49%	-	2.903	-	-	2.903
Shares in 2 other associates .....		53	(30)	-	-	23
		<u>839</u>	<u>19.016</u>	<u>822</u>	<u>2.640</u>	<u>23.316</u>

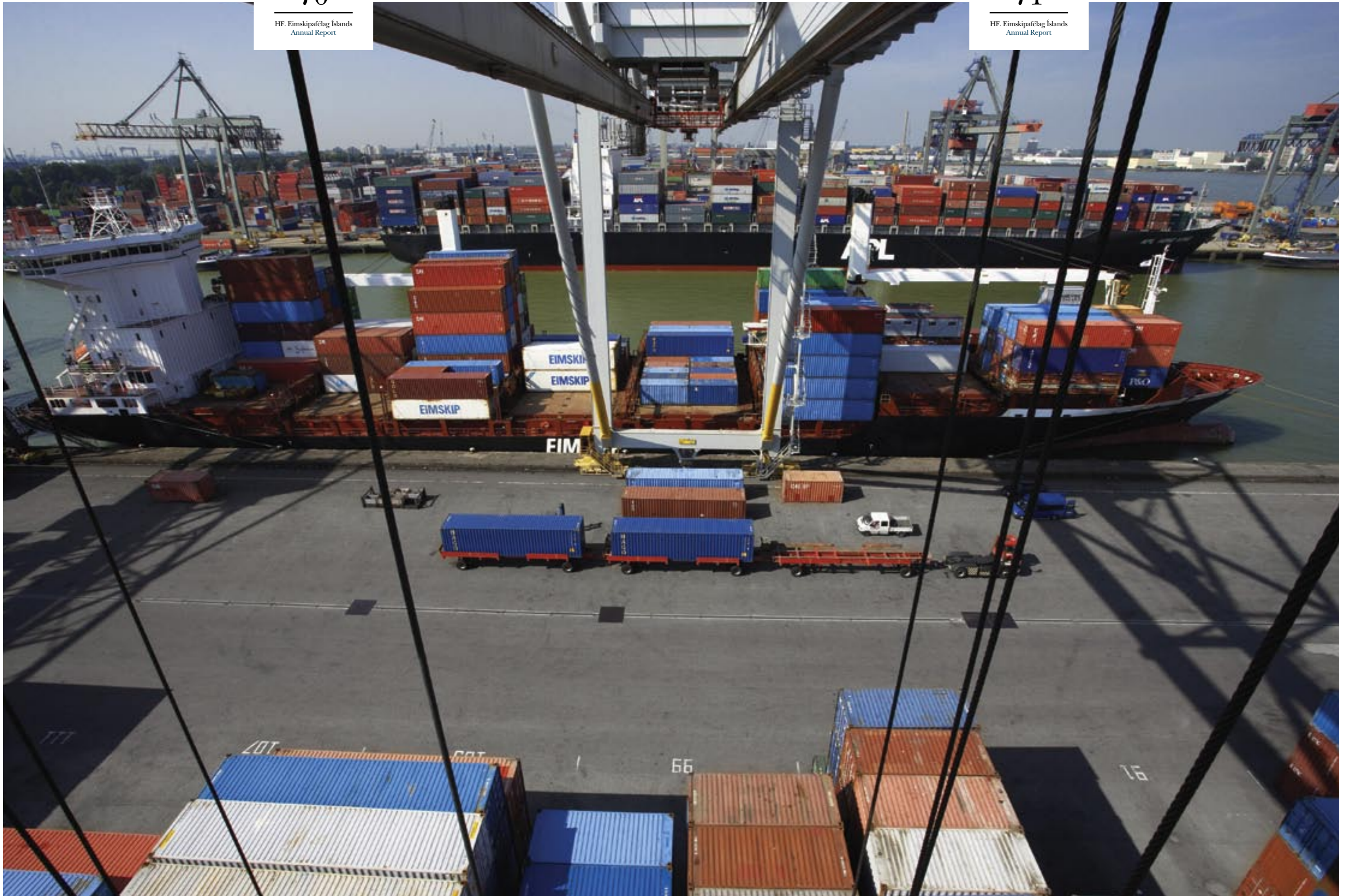
Avion Aircraft Trading hf. was a wholly owned subsidiary of Hf. Eimskipafélag Íslands until October 31, 2006, when 51% ownership was sold. The income statement of Avion Aircraft Trading is included in the consolidation income statement. Net income for the year was USD 5.5 million. Total assets amounted to USD 87.2 million and total liabilities were USD 81.3 million at 31 October 2006.

Eimskipafélag Ísland ehf. acquired 60% remaining share capital in Daalimpex in January 2007.

Eimskipafélag Ísland ehf. increased its shareholding in Harbour Grace from 25% to 51% direct and indirect in acquisition in November 2006.

All the associated companies except Avion Aircraft Trading hf. have different accounting periods from the Group therefore information on total assets and liabilities are not available and the share in net operating result are for same reason adjusted. The carrying amounts of these associates are immaterial.







## 21. Financial Assets

## Available for sale investments

	2006	2005
Balance at 1 January/ 1 November .....	35.740	251
Recognised on acquisition of subsidiaries .....	-	920
Additions during period .....	49.001	34.965
Currency adjustments during period .....	(3.387)	1.389
Fair value changes .....	(6.280)	(1.705)
Sold during period .....	(129)	(80)
Balance at 31 October .....	<u>74.945</u>	<u>35.740</u>

The main portion of the available for sale investment is 10% share in Atlas Cold Storage and Containership which both became subsidiaries in beginning of 2007.

The investment included above represents investment in equity securities which present the Group with opportunity for return through dividend income and trading gains.

## Loans and receivables

	2006	2005
Balance at 1 November / at 1 January .....	7.125	406
Recognised on acquisition of subsidiaries .....	59.389	4.372
New loans during the period .....	24.676	3.312
Payments during the period .....	(19.710)	(692)
Currency fluctuation and indexation .....	(3.446)	(1)
Other .....	(3.855)	(272)
Balance at 31 October .....	<u>64.214</u>	<u>7.125</u>

Aggregated annual maturities are as follows:

	2006	2005
Less than one year .....	10.560	2.815
Between two and five years .....	46.818	3.427
More than five years .....	6.836	883
	<u>64.214</u>	<u>7.125</u>

The investment included above represent investment in bonds, loans to associated companies and other long-term receivables which present the Group with opportunity for return through interest income and trading gains. The investment is valued at cost, less an allowance based on impairment by the management.

## 22. Deferred tax

## Recognised deferred tax assets and (liabilities)

2005	Assets	Liabilities	Net
Intangible assets .....	84	-	84
Operating fixed assets .....	256	(8.489)	8.745
Long-term investments .....	626	(278)	904
Inventories .....	-	(133)	133
Receivables .....	763	-	763
Derivative assets .....	-	133	(133)
Long-term liabilities .....	-	(98)	98
Employee benefits .....	55	-	55
Derivative liabilities .....	4	-	4
Carry forward income tax losses .....	12.007	-	12.007
Total tax assets (liabilities) .....	13.795	(8.865)	4.930
Set off tax .....	(931)	931	0
Net tax assets (liabilities) .....	<u>12.864</u>	<u>(7.934)</u>	<u>4.930</u>

2006	Assets	Liabilities	Net
Intangible assets .....	27	(58)	85
Operating fixed assets .....	-	(13.914)	13.914
Long-term investments .....	1.112	-	1.112
Loans and Guarantee deposits (asset) .....	-	66	(66)
Inventories .....	-	(40)	40
Receivables .....	1.555	(96)	1.651
Long-term liabilities .....	-	(205)	205
Employee benefits .....	167	-	167
Current liabilities .....	-	48	(48)
Carry forward income tax losses .....	19.637	3.137	16.500
Other .....	1.247	-	1.247
Total tax assets (liabilities) .....	23.745	(11.062)	12.683
Set off tax .....	(1.290)	1.290	-
Net tax assets (liabilities) .....	<u>22.455</u>	<u>(9.772)</u>	<u>12.683</u>

## Movement in temporary differences during the period

2005	Total value 1 October	Additional due to merger	Entry to income	Entry to equity	Total value 31 October
Intangible assets .....	50	46	(13)	-	83
Operating fixed assets .....	(2.301)	(7.220)	1.059	-	(8.462)
Long-term investments .....	-	309	(278)	307	338
Inventories .....	(62)	(46)	(23)	-	(131)
Receivables .....	858	111	(218)	-	751
Derivative assets .....	-	-	-	169	169
Long-term liabilities .....	304	-	(403)	-	(99)
Employee benefits .....	-	-	53	-	53
Current liabilities .....	72	4	(76)	-	-
Derivative liabilities .....	-	-	4	-	4
Carry forward income tax losses .....	9.138	1.567	2.532	-	13.237
Other .....	(39)	-	39	-	-
Total .....	8.020	(5.229)	2.676	476	5.943
Currency difference .....	(408)	(576)	(43)	14	(1.013)
Total value 31 October 2005 .....	7.612	(5.805)	2.633	490	4.930

2006	Total value 1 October	Entry to income	Entry to equity	Total value 31 October
Share capital .....	-	(2.077)	2.077	0
Intangible assets .....	(8.049)	(110)	-	(8.159)
Operating fixed assets .....	188	(6.514)	-	(6.326)
Long-term investments .....	177	224	1.111	1.512
Inventories .....	763	87	-	850
Receivables .....	266	730	-	996
Derivative liabilities .....	7.182	(4)	-	7.178
Carry forward income tax losses .....	36	15.796	-	15.832
Other .....	(172)	1.139	(167)	800
Total .....	391	9.271	3.021	12.683
Currency difference .....	3.546	-	3.546	-
Total value 31 October 2006 .....	391	12.817	3.021	16.229

At balance sheet date the Group has unused tax losses available against future profits as follows:

	2006		2005	
	Tax loss	Deferred tax	Tax loss	Deferred tax
Expires in eight to ten years .....	87,956	15,832	53,718	12,007

All amounts in thousands of USD.

## 23. Inventories

	2006	2005
Consumable spare parts .....	11.864	11.781
Fuel in vessels .....	2.670	1.923
Other .....	2.791	2.401
	17.325	16.105

The Group recognises obsolete and defective inventory in the income statement. An allowance is deducted from inventories in the balance sheet and does not represent a final write-off. The allowance is based on management's best estimate and past experience.

## 24. Trade and Other receivables

	2006	2005
Trade receivables .....	216.097	190.661
Derivative assets .....	-	9.795
Other receivables .....	39.423	23.337
Current maturities of guarantee deposits .....	12.132	4.080
Loans to associated companies .....	48.047	-
Impairment losses .....	(20.788)	(18.599)
	294.911	209.274

Impairment losses have been recognised for doubtful accounts. Impairment losses are determined by management with reference to past default experience. The impairment losses do not represent a final write-off.

The directors believe that the carrying amounts of trade receivables approximates their fair value.

Impairment losses on trade and other receivables is specified as follows:

	2006	2005
At 1 November / 1 January .....	18.599	8.907
Addition due to acquisition of subsidiaries .....	417	10.468
Final write-off .....	(2.061)	(2.235)
Impairment during period .....	4.869	1.630
Currency adjustment during period .....	(1.037)	(171)
At 31 October .....	20.788	18.599

Bad debt provision is divided between trade and other receivables as follows:

	2006	2005
Trade receivables .....	20.788	18.599
Other receivables .....	-	-
	20.788	18.599

All amounts in thousands of USD.



**25. Charter & Leisure purchaser**

At 31 October 2006 the Group sold its entire Charter and Leisure division for USD 450 million. At 31 October USD 287 million were unpaid of which USD 259 million were paid in January 2007.

**26. Prepaid expenses**

Prepayments principally represent prepaid insurance and operating lease rentals charged in advance by certain landlords of leased properties.

**27. Guarantee deposits (assets)**

	2006	2005
Guarantee deposits in USD .....	15.910	21.889
Guarantee deposits in EUR .....	181	-
Guarantee deposits in GBP .....	316	500
	16.407	22.389
Current maturities .....	(12.132)	(4.080)
Long term guarantee deposits .....	4.275	18.309
<b>Movements in guarantee deposits during the period:</b>		
At 1 November/ 1 January .....	22.342	16.262
Additions during period .....	3.580	8.509
Currency adjustments during period .....	15	(31)
Repayments .....	(9.530)	(2.351)
At 31 October .....	16.407	22.389

**28. Cash and cash equivalents**

Cash and cash equivalents are attributable to the following:

	2006	2005
Bank balances .....	228.388	71.623
Marketable securities .....	99	78.723
Cash and cash equivalents .....	228.487	150.346
Cash restricted to use by the Group .....	(111.184)	0
Cash available for use by the Group .....	117.303	150.346

At the end of October the Company committed to a payment due to the acquisition of Atlas Cold Storage Income Trust Ltd. and that portion of cash is classified as restricted.

**29. Assets classified as held for sale**

Part of the Group's warehouses in England and office buildings in Iceland are presented as assets held for sale following the commitment to sell these assets by the Group's management. The assets have been put up for sale with estate agents and sales are expected next year.

One airplane with engines is presented as available for sale as a result of management's decision to have fewer types of airplanes in service within the Group.

Assets classified as held for sale

	2006	2005
Property .....	18.149	9.775
Airplane and engines .....	6.795	0
	24.944	9.775

**30. Equity****Issued capital**

The Company's capital stock is nominated in Icelandic kronur. The nominal value of each share is one ISK and one vote is attached to each share. The shareholders are entitled to receive dividends as declared from time to time. The USD amount of capital stock was 22.0 million at 1 November 2006 (2005; 8.6 million USD). During the period the capital stock was increased by USD 4.5 million of nominal value and sold for USD 159.0 million. Issued capital is converted to USD using the exchange rate at subscription date. The total number of shares at period-end was 1.8 million. The articles of association of HF. Eimskipafélag Íslands authorizes the board of directors to issue up to 267 million (2005; 528 million) new shares to meet future obligations.

	Number of shares in thousands	USD
Outstanding capital stock at 1 January 2005 .....	607.986	8.628
Proceeds from sale of new shares .....	373.640	5.813
New shares issued due to acquisitions of subsidiaries .....	477.910	7.377
Allocation of treasury stock due to acquisitions of subsidiaries .....	12.541	195
Outstanding capital stock at 1 November 2005 .....	1.472.077	22.013
Proceeds from sale of new shares .....	285.094	4.450
Trading with own shares .....	(3.022)	(32)
Allocation of treasury stock due to acquisitions of subsidiaries .....	4.271	62
Outstanding capital stock at 31 October 2006 .....	1.758.420	26.493

Capital stock is as follows in thousands of shares and USD thousands:

	Shares	Ratio	USD
Total capital stock issued .....	1.793.603	100,0%	27.036
Treasury shares at 31 October 2006 .....	(35.183)	(2,00%)	(543)
Outstanding capital stock at 31 October 2006 .....	1.758.420	98,0%	26.493

#### Share premium

Share premium represents excess of payment above nominal value that shareholders have paid for shares sold by the Company.

#### Translation reserve

Translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

#### Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred. Due to the sale of the charter and leisure division the Group had no hedge accounting in force at 31 October 2006.

#### Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investment is impaired.

#### Dividend

The Company has neither paid dividend or declared a payments of dividend.

#### Share-based payments

The share-based payments reserve represents the liability the Company has towards its employees regarding share-based agreements.

#### Consolidated statement of Changes in equity

	Issued capital	Share premium	Translation reserve	Share option reserve	Hedging reserve	Fair value reserve	Retained earnings	Total	Minority Interest	Total equity
Balance at 1 January 2005.....	8,628	28,276	2,655	0	0	0	18,037	57,596	9,459	67,055
Profit for the period .....	-	-	-	-	-	-	24,947	24,947	(1,202)	23,745
Foreign currency translation .....	-	-	11,793	-	-	-	-	11,793	-	11,793
Change in fair value of hedges net of tax .....	-	-	-	-	(2,956)	-	-	(2,956)	-	(2,956)
Change in fair value of available-for-sale asset, net of tax .....	-	-	-	-	-	(1,461)	(1,461)	-	(1,461)	-
Total recognised income and expense .....	-	-	11,793	-	(2,956)	(1,461)	24,947	32,323	(1,202)	31,121
New shares issued .....	5,813	140,450	-	-	-	-	-	146,263	(6,762)	139,501
Shares issued due to acquisitions of subsidiaries .....	7,572	196,667	-	-	-	-	-	204,239	-204,239	-
Adjusted balance at 1 November 2005 .....	22,013	365,393	14,448	0	(2,956)	(1,461)	42,984	440,421	1,495	441,916
Profit for the period .....	-	-	-	-	-	-	78,293	78,293	1,063	79,356
Foreign currency translation .....	-	-	(27,140)	-	-	-	-	(27,140)	-	(27,140)
Change in fair value of hedges net of tax .....	-	-	-	-	2,956	-	-	2,956	-	2,956
Change in fair value of available-for-sale asset, net of tax .....	-	-	-	-	-	(3,762)	-	(3,762)	-	-
Total recognised income and expense .....	-	-	(27,140)	-	2,956	(3,762)	78,293	50,347	1,063	51,410
New shares issued .....	4,450	154,568	-	-	-	-	-	159,018	-	159,018
Purchases of treasury shares .....	(820)	(28,141)	-	-	-	-	-	(28,961)	-	(28,961)
Sale of treasury shares .....	850	29,739	-	-	-	-	-	30,589	-	30,589
Change in share option reserve, net of tax .....	-	-	-	760	-	-	-	760	-	760
Recognised on acquisition of subsidiaries .....	-	-	-	-	-	-	-	-	27,626	27,626
Balance at 31 October 2006 .....	26,493	521,559	(12,692)	760	0	(5,223)	121,277	652,174	30,184	682,358



**31. Earnings per share**

The calculation of basic earnings per share at 31 October 2006 is based on the profit attributable to ordinary shareholders of parent company of USD 78.3 million (2005: USD 24.9 million) and a weighted average number of ordinary shares outstanding of 1,726 million (2005: 1,009 million), calculated as follows:

The calculation of diluted earnings per share at 31 October 2006 is based on profit attributable to ordinary shareholders of USD 78.3 million (2005: USD 24.9 million) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 1,776 million (2005: 1,008 million), calculated as follows:

**Profit attributable to shareholders:**

	2005/6	2005
<b>Net result:</b>		
Continued operations .....	(68.944)	6.324
Discontinued operations .....	147.237	17.422
<b>Total .....</b>	<b>78.293</b>	<b>23.746</b>

Total average number of shares outstanding during the period (in thousands)	1.726.300	1.008.637
Total average number of shares including potential shares (in thousands)	1.775.800	1.008.637

**Continued operations**

Basic (loss) earnings per share (USD) .....	(0,0399)	0,0063
Diluted (loss) earnings per share (USD) .....	(0,0388)	0,0063

**Discontinued operations**

Basic/diluted earnings per share (USD) .....	0,0853	0,0173
Diluted earnings per share (USD) .....	0,0829	0,0173

**Total**

Basic earnings per share (USD) .....	0,0454	0,0235
Diluted earnings per share (USD) .....	0,0441	0,0235

**Weighted average number of shares (in thousands)**

Issued shares at 1 November / 1 January .....	1.472.075	607.986
Effect of shares issue .....	251.266	400.651
Effect of trading with own shares .....	2.959	-
Weighted average of shares at 31 October .....	1.726.300	1.008.637
Effect of share options in issue .....	21.900	0
<b>Diluted weighted average of shares at 31 October .....</b>	<b>1.748.200</b>	<b>1.008.637</b>

**32. Risk management****a. Interest rate risk**

The Group has its interest rate risk exposure from its debt, and lease liabilities. The Group aims to limit the interest rate risk and to achieve optimal ratios regarding fixed to float interest rate exposure and the duration of interest-bearing liabilities. The debt and leasing contracts are mainly denominated in USD.

**b. Foreign currency risk**

Exposure to foreign exchange rates arises from transactions in currencies other than the Group's base currency, which is the USD. The Group differentiates between risk from operations and risk from investments. The currencies giving rise to this risk are primarily the GBP, ISK and the EUR, though transactions also occur in a number of other currencies. Whenever possible, internal hedging principles (matching of foreign currency in- and outflows) are applied. The Group then hedges its net transaction exposure externally in the foreign exchange markets. The Group uses forward exchange contracts and currency options to hedge its foreign currency risk.

**c. Liquidity risk**

Corporate treasury is responsible for the Group's liquidity management and funding. The Group aims to maintain sufficient reserves of cash and cash equivalents in order to meet its liquidity requirements.

**33. Interest-bearing borrowings**

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to foreign currency risk, see note 32:

Long-term debt at the end of the year consists of the following:

				2006	2005
Loans with collateral in fixed assets .....				275.725	316.224
Loans with collateral in accounts receivable and stocks .....				288.248	240.116
Without collateral .....				250.289	77.042
				<u>814.262</u>	<u>633.382</u>
				2006	2005
	Nominal	Year of matu-	Nominal	Carrying	Carrying
	interest rate	ri-ty	value	amount	amount
Loans in USD .....	5,8-7,7%	2007-2025	496.005	366.756	194.244
Loans in GBP .....	6,2-7,5%	2007-2025	172.330	159.644	197.762
Loans in ISK .....	5,3-7,0%	2007-2025	159.434	135.811	36.048
Loans in EUR .....	3,7-5,0%	2007-2025	105.386	89.452	92.105
Loans in CHF .....	2,4-3,0%	2007-2025	35.501	26.282	50.941
Loans in JPY .....	1,6-2,9%	2007-2025	19.078	13.978	31.757
Loans in other currencies .....	4,1-5,0%	2007-2025	27.085	22.339	30.525
			<u>1.014.820</u>	<u>814.262</u>	<u>633.382</u>
Current maturities .....				(363.115)	(222.177)
Non current interest bearing loans and borrowings .....				<u>451.147</u>	<u>411.205</u>

Aggregated annual maturities are as follows:

	2006	2005
On demand or within one year .....	363.115	222.177
Between one and five years .....	247.255	288.421
After more than five years .....	203.892	122.784
	<u>814.262</u>	<u>633.382</u>

All amounts in thousands of USD.

Finance lease liabilities

Finance lease liabilities are payable as follows:

	2006			2005		
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
Less than one year .....	2.179	128	2.051	845	40	808
Between 1 and 5 years .....	4.442	207	4.235	830	42	788
More than 5 years .....	5	-	5	-	-	-
	<u>6.626</u>	<u>335</u>	<u>6.291</u>	<u>1.675</u>	<u>82</u>	<u>1.596</u>

Movements in long term loans:

	2006	2005
Balance at 1 November/ 1 January .....	633.382	242.384
Addition due to acquisition of subsidiaries .....	23.569	180.936
New loans during the period .....	594.183	336.408
Payments during the period .....	(448.393)	(110.913)
Currency fluctuation and indexation .....	11.521	(15.432)
Balance at 31 October .....	<u>814.262</u>	<u>633.382</u>

**34. Deferred income**

Deferred income principally represent operating lease rentals charged in advance by certain landlords of leased properties. Provisions are made for onerous leases where completed properties leased by the group are either vacant or where the operating lease rentals paid exceed the rental income received under non-cancellable contracts.

**35. Other payables**

	2006	2005
Other liabilities .....	115.123	185.617
Unearned transportation revenue .....	646	54.193
Current maturities of guarantee deposits .....	500	5.080
Derivative liabilities .....	-	10.357
	<u>116.269</u>	<u>255.247</u>

All amounts in thousands of USD.



## 36. Share based payments

On 19 January 2005 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 10 January 2007, 10 January 2008 and 10 January 2009.

The terms and condition of the grants are as follows; all options are to be settled by delivery of shares:

Grant date/employee entitled	Number of shares '000	Vesting condition	Contractual life of option
Option granted to key management on 19 January 2006	16.500	Employee must be working for the Group on 10 January 2007	1 day
Option granted to key management on 19 January 2006	16.500	Employee must be working for the Group on 10 January 2008	1 day
Option granted to key management on 19 January 2006	16.500	Employee must be working for the Group on 10 January 2009	1 day

The number and weighted exercise price of share options as follows:

2006	Weighted average exercise price	Number of options '000
Outstanding at 1 November	-	-
Granted during period	38,3	49.500
Forfeited during period	38,3	(27.600)
Outstanding at 31 October	38,3	21.900
Exercisable at 31 October	0	0

The options outstanding at 31 October 2006 have an exercise price of 38,3 per share and a contractual life of one day.

The fair value services received in return for share options granted is based on the fair value of share options granted, measured a binomial lattice model, with the following inputs:

	Key management Personnel
Fair value at grant date	3.680
Share price	38,3
Exercisable price	38,3
Expected volatility	28,8%
Option life	2
Expected dividend	10%
Risk-free interest rate (based on Icelandic government bonds)	9,4%

No share-based programme existed on 1 November 2005.

Fair value at grant date	38,3
--------------------------	------

All amounts in thousands of USD.

Expensed in income statement is as follows:

In financial statement 2006	927
Less than one year	1.237
Between two and three years	1.516
	<u>3.680</u>

## 37. Operating lease arrangements

The Group as lessee

Non-cancellable operating lease rentals are payable as follows:

	2006	2005
Less than one year	123.262	153.305
Between two and five years	237.405	247.043
More than five years	837.665	41.720
	<u>1.198.332</u>	<u>442.068</u>

The Group has subleased aircraft for approximately USD 171 million, of that amount USD 68 million is due within twelve months. The lease period varies from few months up to twelve years. The aircraft is returned after lease agreements expire.

## 38. Statement of cash flow, additional information

	2005/6	2005
	<u>1.11-31.10</u>	<u>1.1-31.10</u>
Operating results	(11.734)	16.317
Depreciation and impairment of fixed assets	72.321	48.926
Amortization and impairment of intangible assets and goodwill	3.642	1.714
Currency fluctuation and indexation	5	(3.052)
Gain on sale of fixed assets	(19.328)	(21.139)
Other changes	8.886	(1.381)
Operating profit before changes in working capital	53.792	41.385
Changes in operating assets and liabilities	(106.020)	17.138
Cash to operations	(52.228)	58.523
Interest paid	(1.258)	(16.659)
Interest received	(3.589)	260
Income tax paid	(1.518)	(772)
Net cash (to) from operating activities	<u>(58.593)</u>	<u>41.352</u>

At the end of the financial year 2006 Hf. Eimskipafélag Íslands sold its XL Leisure Group for USD 450 million. XL Leisure Group was recently formed from the Charter & Leisure division within the Group and consisted of Excel Airways Group in the UK, Star Airlines in France and Star Europe in Germany. The purchase price is paid as follows: With cash amounting to USD 136,6 in 2006, cash paid in 2007 USD 280 million, with convertible loan note amounting to USD 25,4 million and assignment of loans amountin to USD 8 million. Only the direct payments of cash relating to these transactions are shown in the statement of cash flow.

All amounts in thousands of USD.

### 39. Capital commitments

In the year 2005 Avion Aircraft Trading hf., then a wholly owned subsidiary of Hf. Eimskipafélag Íslands, became the second lunch customer with Boeing of the B777 freighter program by signing and confirming orders for the purchase of eight B777-200 long range freighters. The new aircraft are to be delivered in the years 2009 to 2011. The total amount of the commitment according to the sales agreements amounts to USD 1.260 million. In October 2006 Hf. Eimskipafélag Íslands sold 51% of its shareholding in the Company. Despite the sale Hf. Eimskipafélag Íslands guarantees full payment to Boeing for the B777 freighter planes.

Avion Aircraft Trading hf has entered into agreements for the purchase of a total of seven Boeing 747-400 aircraft where Hf. Eimskipafélag Íslands has guaranteed payments. The amount guaranteed by the Company is USD 243 million according to the sales agreements.

A loan in the amount of USD 280 million which is a partial payment to Hf. Eimskipafélag Íslands for the sale of the XL Leisure Group is guaranteed by the Company. The loan is to be repaid in full on 5 March 2008. The Company has also guaranteed the repayment of a "Committed Revolving Credit Facility" granted to Excel Airways Group PLC in December 2006 in the amount of GBP 20 million for a period of six months.

Hf. Eimskipafélag Íslands has guaranteed the repayment of a loan to Landsbanki Íslands hf due to the sale of two Boeing 737 aircraft in the year 2005 to TEM Enterprises Ltd. The original amount of the loan was USD 15.5 million. The Company has further guaranteed other commitments of TEM Enterprises in the amount of USD 1,8 m.

Hf. Eimskipafélag Íslands has guaranteed the repayment of a loan taken by Star XL Germany in the amount of EUR 7 m. The guarantee will remain unchanged to 30 September 2008 despite the sale of the company.

Avion Aircraft Trading hf has entered into agreements for the purchase of seven Boeing 747-400 aircraft where Hf. Eimskipafélag Íslands has guaranteed payments. The amount guaranteed by the Company is USD 243 million according to the sales agreements.

In November 2005 Eimskipafélag Íslands ehf. received a new reefer vessel, Svartfoss. The second vessel, Storfoss, was delivered in November 2006 and the remaining four vessels are to be delivered in 2007 and 2008. Total commitment due to these purchases amounts to USD 93 million.

### 40. Contingencies

On 31 October the Company sold its Charter and Leisure division to a group of investors led by its management. At the same time the Company also sold 51% shareholding in the previously wholly owned subsidiary Avion Aircraft Trading ehf. to investors led by its management. As part of the sales process there are guarantees and contingencies accepted by Hf. Eimskipafélag Íslands that have not been released. The contingencies are as follows:

#### Avion Aircraft Trading hf.

Hf. Eimskipafélag Íslands has agreed to guarantee a loan to be taken by Avion Aircraft Trading hf up to USD 50 million if the company requests so in writing.

According to a shareholders' agreement the new owners of 51% share of Avion Aircraft Trading hf have the right at any time to purchase the remaining 49% shareholding in the Company for USD 32 million.

The Company has agreed to guarantee the lease payments from Air Atlanta Icelandic hf to Avion Aircraft Trading hf for the lease of four Boeing 747-400 aircraft. The first aircraft will be delivered to Air Atlanta Icelandic in August 2007. The other three aircraft are scheduled to be delivered in 2008, 2009 and 2010. The lease period for each aircraft is 120 months from delivery. The monthly lease payments are USD 830.000 for each aircraft.

Hf. Eimskipafélag Íslands has guaranteed a loan taken in November 2006 by Avion Aircraft Trading hf in the amount of USD 21 million for the purchase of one Airbus 300.

Hf. Eimskipafélag Íslands has further agreed to guarantee a loan taken in December 2006 to finance the purchase of one Boeing 747-400F in the amount of USD 65 million. This aircraft was purchased by a newly founded company Mezza International Holdings Inc which is owned by Avion Aircraft Trading hf. The Company is scheduled to be sold to Air Atlanta Icelandic hf. The aircraft has been leased to Air Atlanta Icelandic hf. and Hf. Eimskipafélag Íslands has guaranteed the lease payments until the company is sold to Air Atlanta Icelandic hf.

### XL Leisure Group

The Company has guaranteed to reimburse the purchaser for all tax payments that might occur during a period of seven years from the date of the sale but affect periods prior to the sale and were not accrued for at the date of the sale. The Company has also undertaken to keep the purchasers indemnified and hold harmless for a period of two years from and against all and any losses, liabilities, damages, claims, costs which may be suffered or incurred by any member of the Group in connection with or as a consequence of the transfer agreements and all actions carried out pursuant to the terms of those agreements. The maximum aggregate liability of the Company in respect of all tax claims and warranty claims shall in no circumstances exceed GBP 10 million.

All guarantees by the Company due to lease agreements on aircraft operated by XL Leisure Group will remain unchanged to 1 March 2007 despite the sale.

The Company has agreed that if the persons who exchanged their shares in the Company for shares in XL Leisure Group become liable to make any payment of tax to any tax authority in respect of the exchange of shares the Company will loan to the persons an amount equal to the relevant tax liability. The maximum tax that could become payable is estimated to be GBP 7 million. If such a loan is granted it will bear interest that is LIBOR plus 2%. The loan is to be repaid when the persons dispose of the whole or substantially the whole of their holding of shares for a cash consideration which equals or exceeds the purchase value.

### Star Airlines

Star Airlines was acquired in January 2006. A part of the purchase price (4,6 million Euros) was to be paid only if certain conditions concerning financial position and operational performance were met. The Company's management believes that the performance of Star Airlines did not meet these conditions and the Company is therefore not obliged to make the payment. The seller, which is now in receivership, has stated that he disagrees with this view but no further action has been taken. According to information received from the Company's lawyer the outcome of a possible dispute on this matter will not be material.

### Eimskipafélag Íslands ehf.

In August 2002 Eimskip's biggest competitor, Samskip hf., lodged a complaint that Eimskip had violated Article 11 of the Icelandic Competition Act on prohibition on abuse of a dominant position. The Competition Authority carried out an inspection at Eimskip's headquarters in September 2002 and obtained documents and electronic data as part of a probe into the allegations.

In May 2006 the Competition Authority invited Eimskip to submit its comments on the Authority's initial view of the case where the Authority stated that Eimskip had abused dominant position. Comments were submitted in August. One of the issues addressed in Eimskip's comments was the question of who should be liable for paying potential fines if fines were to be paid at all. Due to restructuring/demerger of Burðarás, Eimskip's former parent company, the company is of the opinion that it could not be held liable for fines. The case is still pending but a decision of the Competition Authority is expected in early 2007. It is to be expected that the Authority will impose sanctions but the amount of possible fines is uncertain and also at whom the decision will be addressed.



**41. Related party transactions****Identity of related parties:**

The Group has a related party relationship with its subsidiaries (see note 42), associates (see note 21) and with management.

**Loans to and from related parties were as follows:**

	Payable from related parties	Payable to related parties
	2006	2005
<b>Loans to associates</b>		
Avion Aircraft Trading hf. ....	47.447	-
Freshport Freshport .....	332	-
Harbour Grace Harbour Grace .....	268	-
	48.047	-
<b>Other loans</b>		
Magnus Thorsteinsson .....	-	11.382.016
Total loans to and from related parties .....	2.782.991	11.382.016

No relevant transactions were between associates and the Group during the period. All agreements are priced at an arms length basis. The loan from Magnus Thorsteinsson was repaid in November.

**42. Group entities****Significant subsidiaries**

At period-end the Company owned 3 subsidiaries that are all included in the consolidation. The subsidiaries further owned 74 active subsidiaries at year-end. The subsidiaries that are included in the Group are as follows:

Name of subsidiary	Place of registration	Owner ship %	Principal activity
Air Atlanta Icelandic hf	Iceland	100%	Aircraft, crew, maintainance and insurance
Avia Technical Services Ltd	England	100%	Maintenance provider
Eimskipafélag Íslands ehf	Iceland	100%	Shipping and Logistic

At the end of the financial year 2006 Hf. Eimskipafélag Íslands announced that it had reached agreement for the disposal of the entire issued share capital of XL Leisure Group for USD 450 million. XL Leisure Group was recently formed from the Charter & Leisure division within the Group and consisted of Excel Airways Group in the UK, Star Airlines in France and Star Europe in Germany.

The Board of Hf. Eimskipafélag Íslands also announced the sale of its 51% holding in Avion Aircraft Trading hf. for USD 51 million at 31 October 2006.

**43. Subsequent events**

In the beginning of August the Company announced its intention to acquire all of the outstanding trust units of Atlas Cold Storage Income Trust. The acquisition was completed on 2 November when 86% share was acquired. The total cash consideration paid for the Trust amounted to CDN\$ 634 million. The acquisition was made through Eimskip Atlas Canada, Inc. a wholly-owned subsidiary of Eimskip. Atlas Cold Storage will be included in the consolidation as of 2 November 2006.

In November 2006 the Company increased its shareholding in the Finnish shipping company Containerships to 65%. The Company has an option to acquire the remaining 35% shareholding.

In January 2007 the Company acquired the remaining 60% share in the Dutch cold store company Daalimpex beheer B.V.

In November 2006 the Company increased its shareholding in Harbor Grace Coldstore in Newfoundland from 25% to 51%.

**44. Quarterly statements (Unaudited)**

	YTD	Q4	Q3	Q2	Q1
	2005	2006	2006	2006	2005/6
Operating revenue .....	1.040.036	358.022	229.692	209.112	243.210
Operating expenses .....	(1.051.770)	(372.634)	(228.666)	(217.433)	(233.037)
Total operating revenue .....	(11.734)	(14.612)	1.026	(8.321)	10.173
Financial expenses .....	(65.050)	(2.796)	(12.330)	(46.093)	(3.831)
Result before income tax .....	(76.784)	(17.408)	(11.304)	(54.414)	6.342
Income tax .....	8.903	1.078	1.888	8.341	(2.404)
Result from continuing op. ....	(67.881)	(16.330)	(9.416)	(46.073)	3.938
Discontinued operations .....	147.237	164.551	12.251	(15.685)	(13.880)
Profit for the period .....	79.356	148.221	2.835	(61.758)	(9.942)

## 45. Financial ratios

An overview of the operations of the Group for the last four years in thousands of USD:

	2006	10m 2005	2004	2003
<b>Income statement:</b>				
Operating revenue .....	1.040.036	1.401.491	496.774	228.268
Operating expenses .....	(1.051.770)	(1.354.809)	(495.893)	(241.299)
EBIT .....	(11.734)	46.682	881	(13.031)
Depreciation and amortization .....	75.963	53.842	23.487	15.925
EBITDA .....	64.229	100.524	24.368	2.894
<b>Balance sheet:</b>				
Fixed assets .....	949.110	1.053.344	319.597	68.142
Current assets .....	893.181	439.307	157.068	52.720
	1.842.291	1.492.651	476.665	120.862
Total equity .....	682.358	441.916	67.055	23.573
Long-term liabilities .....	518.233	420.836	169.560	23.260
Current liabilities .....	641.700	629.899	240.050	74.029
	1.842.291	1.492.651	476.665	120.862

The main financial ratios and key figures for the Group are as follows:

	2006	10m 2005	2004	2003
Equity ratio .....	37,0%	29,6%	12,1%	19,5%
Current ratio .....	1,39	0,71	0,65	0,71
Return on equity .....	14,3%	13,9%	44,4%	-49,3%
Working capital provided by operating activity. ....	20.303	71.535	18.852	(544)
EBIT .....	(11.734)	46.682	881	(13.031)
EBITDA .....	64.229	100.524	24.368	2.894
EBIT / revenue .....	-1,1%	3,3%	0,2%	-5,7%
EBITDA / revenue .....	6,2%	7,2%	4,9%	1,3%
Total block hours flown .....	71.236	133.053	120.987	67.011

All amounts in thousands of USD.

Hf. Eimskipafélag Íslands  
- through the years in pictures







# Hf. Eimskipafélag Íslands

Þann 1. janúar 2005 var Hf. Eimskipafélag Íslands (Avion Group) stofnað sem fjárfestingafélag á sviði flutninga. Avion Group breytti nafni sínu í Hf. Eimskipafélag Íslands í nóvember 2006. Markmið félagsins er að verða leiðandi fjárfestingafélag á sviði flutninga í lofti, á láði og í legi. Frá upphafi hefur félagið vaxið mikið með ytri og innri vexti þar sem stjórnendur félagsins hafa komið auga á tækifæri til vaxtar, byggð á eigin þekkingu og reynslu á sínu sviði.



## Avion Group verður Hf. Eimskipafélag Íslands

Hf. Eimskipafélag Íslands var stofnað þann 1. janúar 2005 sem Avion Group og er megináhersla félagsins að fjárfesta á sviði flutninga. Í dag fer starfsemi félagsins fram í tveimur dótturfélögum þess; Air Atlanta Icelandic og Eimskip. Áður skiptist félagið í þrjú afkomusvið: Aviation Services, Charter & Leisure and Transportation & Logistics.

Með nýlegri sölu á XL Leisure Group, sem var leiguflygs- og ferðapjónustuhluti félagsins (Charter & Leisure), og sölu á 51% hlut í Avion Aircraft Trading leggur félagið áherslu á áframhaldandi uppbyggingu á flutningastarfsemi Eimskip, Air Atlanta Icelandic og tengdra félaga.

Hf. Eimskipafélag Íslands á 49% hlut í Avion Aircraft Trading, sem var stofnað til að kaupa og selja flugvélar og sjá um fjárfestingar í flugvélum fyrir samstæðuna. Á síðustu 18 mánuðum hefur félagið verið mjög virkt og fjárfest í 24 Boeing og Airbus flugvélum og selt hluta þeirra aftur. Meðal annars hefur félagið keypt átta Boeing 777-200 fraktvélar sem verða afhentar á árunum 2009 til 2011. Bókfært verðmæti 49% hlutar, sem enn er

í eigu Hf. Eimskipafélags Íslands, er þjár milljónir Bandaríkjadala.

Eftir lok fjárhagsársins 2006 samþykkti hluthafafundur að breyta nafni félagsins úr Avion Group í Hf. Eimskipafélag Íslands. Sindri Sindrason og Þór Kristjánsson voru kjörnir í stjórn félagsins af hluthafafundi í stað þeirra Arngríms Jóhannssonar og Eamonn Mullaney.

## Sagan

Þrátt fyrir að Hf. Eimskipafélag Íslands væri stofnað þann 1. janúar 2005 samanstendur félagið af mismunandi félögum sem eiga langa og góða sögu að baki.

Þegar Avion Group hóf starfsemi samanstóð félagið af 100% hlut í Air Atlanta, 71,4% hlut í Excel Airways Group, 100% hlut í Íslandsflug, 100% hlut í Avia Technical Services and 90,1% hlut í Suðurflug. Í upphafi árs 2005, sameinuðust flugfélögin Air Atlanta og Íslandsflug og nafn sameinaðs félags var Air Atlanta Icelandic.

Hf. Eimskipafélag Íslands keypti Eimskip í júní 2005 og í framhaldi af þeim kaupum urðu afkomusvið félagsins þrjú: Aviation

Services, Charter and Leisure and Shipping and Logistics.

Í janúar 2006 var Hf. Eimskipafélag Íslands skráð í Kauphöll Íslands.

Frá skráningu hefur félagið haldið áfram að fjárfesta í félögum sem samræmast rekstri félagsins og á árinu 2006 var fjárfest bæði í félögum sem tengdust rekstri leiguflygs og flugþjónustuhluta félagsins sem og Shipping og Logistics í gegnum Eimskip sem einnig hefur vaxið með innri vexti.

Þann 30. október 2006 seldi Hf. Eimskipafélag Íslands flugþjónustu og leiguflygshluta félagsins sem bar nafnið XL Leisure Group. Kaupendurnir voru stjórnendur XL Leisure Group. Að auki seldi Hf. Eimskipafélagið 51% hlut í Avion Aircraft Trading með góðum söluhagnaði. Í dag samanstendur félagið því af tveimur dótturfélögum, Eimskip og Air Atlanta Icelandic.

## Air Atlanta Icelandic

Air Atlanta Icelandic var stofnað 1986 og er leiðandi á sviði þjónustuleigu flugvéla í heiminum. Air Atlanta Icelandic er ACMI-flugfélag (Aircraft, Crew, Maintenance,



Insurance) og leigir bæði frakt- og farþegaflugvélar með allri áhöfn til annarra flugfélaga.

Stór markaðshlutdeild, jákvætt umtal, öflugur hópur viðskiptavina og yfirburðapekking á markaði er grunnurinn að sterkri stöðu Air Atlanta Icelandic í dag. Endurnýjun flugflota Air Atlanta Icelandic er hafin og hyggst félagið auka mikilvægi fraktflutninga innan félagsins. Air Atlanta Icelandic er dótturfélag Hf. Eimskipafélags Íslands.

## Eimskip

Eimskip býður viðskiptavinum heildarlaunir í flutningum, þ.m.t. skipaflutninga, flugflutninga og landflutninga, með sérstakri áherslu á hitastýrða flutninga og geymslu. Eimskip rekur 163 starfsstöðvar í Evrópu, N-Ameríku, S-Ameríku og Asíu. Fyrirtækið er með 40-50 skip í rekstri, 1.350 flutningabíla og yfir 100 frystigeymslur. Hjá Eimskip starfa um 8.500 manns, þar af um 7.500 erlendis en starfsfólkið býr yfir mikilli þekkingu og reynslu á sviði flutninga.

Eimskip var fyrsta íslenska skipafélagið en fyrirtækið hefur þróast mikið síðan frá stofnun þess árið 1914. Í upphafi sá fyrirtækið

einungis um sjóflutninga en í dag býður Eimskip alhliða flutningsþjónustu.

Eimskip leggur áherslu á langtíma samband við viðskiptavina og því er viðskiptavinum boðin hágæða, virðisaukandi þjónusta sem sniðin er að þörfum hvers og eins.

## Sex markaðir

Eimskip starfar á sex mörkuðum um allan heim, í Norður-Atlantshafi, Evrópu, Bretlandi, Eystrasaltssvæðinu og Rússlandi, Ameríku og Asíu. Eimskip hefur náð að skapa sér sterka ímynd sem markaðsdrifið fyrirtæki á þessum mörkuðum, sérstaklega á Norður-Atlantshafssvæðinu sem áður var skilgreint sem heimamarkaður félagsins. Umfang starfsemi Eimskips á þessum sex mörkuðum hefur farið ört vaxandi á undanföllum tveimur árum. Sem dæmi þá var þriðja skrifstofa Eimskips í Kína nýlega opnuð og félagið gerði á dögnum samning um rekstur á stærstu kæligeyslu Asíu. Félagið fjárfesti í kanadíska kæligeyslufyrirtækinu Atlas Cold Storage, sem rekur 53 frysti- og kæligeyslur víðsvegar um Norður-Ameríku, en fyrirtækið hefur geymslugetu upp á 770.000 vörubretti og hýsir 4.500 starfsmenn. Á síðasta ári jókst umfang starf-

semi félagsins á Eystrasaltssvæðinu í kjölfar kaupa á meirihluta í félögum Containerships og Kursiu Linja en frá og með 1. febrúar síðastliðnum var rekstur félaganna samræmdur undir nafni Containerships. Einnig hefur orðið mikil aukning á flutningastarfssemi utan hefðbundinna áætlunarsiglinga.

## Horft til framtíðar

Stefnan er skýr, Eimskip býður viðskiptavinum heildarlaunir í flutningum, þ.m.t. skipaflutninga, flugflutninga og landflutninga, með sérstakri áherslu á hitastýrða flutninga og geymslu ásamt dreifingu. Mikil áhersla er lögð á að bjóða upp á heildarlaunir.

Framtíðarsýnin er í raun í þrjúþætt. Fyrst hefur verið lögð áhersla á að Eimskip viðhaldi markaðsleiðandi stöðu sinni sem alhliða flutningafélag í Norður-Atlantshafinu og í öðru lagi hefur verið lögð áhersla á að Eimskip verði leiðandi aðili í stuttum siglingum í Evrópu, með megináherslu á Rússland og Eystrasaltssvæðið.



# Hf. Eimskipafélag Íslands

## Yfirlit 2006

- || Heildartekjur á árinu 2006 \$1.040
- || EBITDA \$64 milljónir - EBIT \$-12 milljón
- || EBITDA með aflagðri starfsemi og söluhagnaði af AAT \$135 milljónir
- || Tap fyrir skatta \$77 milljónir
- || Hagnaður eftir skatta \$79 milljónir
- || Heildareignir í árslok \$1.842 milljónir
- || Veltufé frá rekstri \$20 milljónir
- || Eigð fé 31. október \$682 milljónir - eiginfjárlutfall 37%
- || Veltufjárlutfall 1,39
- || Uppgjörsmýnt Eimskips ehf. verður evra frá og með 1. nóvember 2006

Á árinu 2006 var heildarafkoma Hf. Eimskipafélags Íslands ásettanleg. Árið ein kenndist af miklum ytri vexti en í lok árs var eitt af þremur afkomusviðum selt. EBITDA félagsins af núverandi starfsemi nam \$64 milljónum árið 2006. EBITDA afkomusviðanna þriggja sem mynduðu samstæðuna árið 2006 að viðbættum söluhagnaði af Avion Aircraft Trading nemur \$135 milljónum. Félagið leggur áherslu á áframhaldandi uppbyggingu á flutningastarfsemi Eimskips, Air Atlanta Icelandic og tengdra félaga.

Í byrjun ágúst tilkynnti Hf. Eimskipafélag Íslands áætlanir félagsins um yfirtökutilboð í alla hluti Atlas Cold Storage Income Trust á genginu 7 CAD á hlut. Heildarkostnaður yfirtökunnar, að viðbættum áætluðum skuldum félagsins var að andvirði 630 milljóna Kanadadollara. Tilboðið var gert í gegnum Eimskip Atlas Canada, Inc., sem er dótturfélag Eimskips. Eftir að tilboðið hafði verið framlengt þrisvar náði Eimskips Atlas Canada, Inc. samkomulagi við Atlas Cold Storage um yfirtökutilboð í allt hlutafé félagsins. Samkomulagið fól í sér að Eimskip hækkaði tilboð sitt úr 7 CAD á hlut í 7,50 CAD á hlut. Eftir ítarlega skoðun á valmöguleikum varðandi framtíðarstefnu félagsins ákvað stjórn Atlas Cold Storage að tilboð Eimskip væri hagstætt fyrir hluthafa Atlas og mælti stjórnin einróma með því að hluthafar tækju nýja tilboðinu. Í kjölfarið eignaðist Eimskip alla hluti í Atlas Cold Storage.

Í lok september keypti Innovate Holdings Limited, dótturfélag Eimskips, allt hlutafé í Corby Chilled Distribution Limited sem er leiðandi í hitastýrðum flutningum á matvælum í Bretlandi. Kaupin styrkja stefnu Eimskips um að verða leiðandi aðili í hitastýrðum flutningum á alþjóðavísu og bæta

við öflugt þjónustunet sem samanstendur af kæligeymslum, öflugum dreifileiðum og flutningakerfum í Bretlandi. Mikil samlegðaráhrif eru milli fyrirtækjanna og getum við nú boðið viðskiptavinum okkar í Bretlandi upp á enn betri og umfangsmeiri þjónustu í hitastýrðum flutningum.

Eimskip gekk einnig frá kaupum á 65% hlut í finnska skipafélaginu Containerships í september. Nú er unnið að sameiningu Containerships og Kursiu Linija sem Eimskip eignaðist fyrr á árinu og mynda félögin eitt stærsta flutningabandalag Evrópu í styttri siglingum (short sea). Stefna Eimskips er að verða leiðandi aðili í styttri siglingum á markaðssvæðinu sem vaxa gífurlega hratt.

Í október festi Eimskip kaup á 100% hlut í bandaríska flutningsmiðlunarfyrirtækinu Pacific Tramper Services en félagið hefur verið leiðandi í flutningum á frosnum fiski frá Alaska í yfir 20 ár. Fyrirtækið er með aðalskrifstofu í Seattle á vesturströnd Bandaríkjanna og umfangsmikla starfsemi í Dutch Harbor í Alaska, tengda rekstri á frystigeymslu og hafnaraðstöðu. Kaup Eimskips á PTI mun styrkja stöðu Eimskips í Alaska verulega, m.a. með möguleikum á frekari þróun á frystigeymsluþjónustu í Dutch



Harbor og þróun á frystiskipaþjónustu til Evrópu og Asíu. Þá opnast möguleikinn á því að tengja Alaska og norðvesturhluta Bandaríkjanna við alþjóðlegt flutnings- og frystigeymslunet Eimskips.

Í lok árs samþykkti stjórn Hf. Eimskipafélags Íslands tilboð frá hópi fjárfesta upp á \$450 milljónir (30,6 milljarða króna) í XL Leisure Group sem var eitt þriggja afkomusviða félagsins. XL Leisure Group annaðist leiguflugs- og ferðaþjónustuhluta félagsins.

Stjórn Hf. Eimskipafélags Íslands samþykkti einnig tilboð frá hópi fjárfesta í 51% hlut í Avion Aircraft Trading upp á \$51 milljón (3,5 milljarða króna). 49% verða áfram í eigu félagsins og er eignarhluturinn bókferður á um \$3 milljónir (200 milljónir króna).

Innan XL Leisure Group er Excel Airways Group í Bretlandi, Star Airlines í Frakklandi og nýstofnað félag í Þýskalandi ásamt fjölda dótturfélaga í sömu löndum. Afkomueiningin var seld í heild sinni. Hf. Eimskipafélag Íslands veitti bakábyrgð vegna hluta fjármögnunar á kaupunum að fjárhæð \$280 milljónir. Ábyrgðin gildir til 1. mars 2008. Hluti kaupverðsins var greiddur með hlutabréfum í Hf. Eimskipafélagi Íslands sem

### Fjárhagsdagatal 2007

Arsfjórðungsuppgjör verða birt:

Ársfjórðungur	Tímabil		Birt í Kauphöll
Fyrsti	1. nóv. - 31. jan.	vika 12	19. - 23. mars
Annar	1. feb. - 30. apr.	vika 25	18. - 22. júní
Þriðji	1. maí - 31. júl.	vika 38	17. - 21. sept.
Fjórði	1. ágú. - 31. okt.	vika 3 '08	14. - 18. jan.



jafngilti um 22% hlut í félaginu. Í kjölfarið eignaðist Fjárfestingarfélagið Grettir aukinn hlut í félaginu.

Eftir lok fjárhagsársins var boðað til hluthafafundar þar sem félagið tók upp nafnið Hf. Eimskipafélag Íslands í stað Avion Group. Einnig voru tveir nýir stjórnarmenn kjörnir, Sindri Sindrason og Þór Kristjánsson sem tóku sæti Argríms Jóhannssonar og Eamonn Mullaney.

Eimskip boðaði einnig aukna sókn í Kína bæði með viljayfirlýsingu um rekstur kæligeymslu svo og með opnun skrifstofu í Shenzhen sem er þriðja skrifstofa félagsins í Kína. Shenzhen er næst stærsta gámahöfnin í Kína og mun starfsemin þar að mestu snúast um vörustýringu sjávarafurða ásamt því að auka og þróa viðskiptamöguleika með ávexti og grænmeti.

Þá undirritaði Eimskip viljayfirlýsingu um rekstur stærstu frystigeymslu í Qingdao-höfn sem er mjög spennandi verkefni og stöður vel við núverandi starfsemi Eimskips í Kína. Bygging kæligeymslunnar er komin vel á veg en stefnt er að því að hún verði tekin í notkun á fyrri hluta þessa árs. Þetta er mikilvægur liður í þeirri sýn félagsins að verða leiðandi aðili í hitastýrðum flutningum á heimsvísu en við höfum háleit

markmið um nýtingu geymslunnar hvað varðar flutninga milli N-Ameríku og Asíu.

Loks gekk Eimskip nýverið frá kaupum á öllu hlutafé í Daalimpex beheer B.V. í Hollandi en fyrir átti Eimskip 40% hlut í félaginu. Daalimpex er eitt stærsta frystigeymslufyrirtæki í Evrópu og rekur sex frystigeymslur í Hollandi. Kaupin á Daalimpex styrkja verulega stöðu Eimskips í frystiflutningum í Evrópu og renna stöðum undir frekari uppbyggingu á frystiþjónustu á meginlandi Evrópu. Á síðastu mánuðum hefur Eimskip orðið leiðandi aðili í frystigeymslum á alþjóðavísu með kaupum á Innovate og Corby í Bretlandi, Atlas Cold Store í Kanada og nú Daalimpex í Hollandi.”

### Rekstrarreikningur 1. nóvember 2005 til 31. október 2006

Rekstrartekjur félagsins á árinu námu \$1.040 milljón og jukust um 80% samanborið við 2005. Rekstrargjöld námu \$1.052 milljónum og jukust um 89% milli ára.

Tap félagsins fyrir skatta á fjárhagsárinu 2006 nam \$77 milljónum samanborið við \$8 milljóna króna hagnað árið 2005. Hagnaður eftir skatta nam \$79 milljónum fyrir samstæðuna samanborið við \$24 milljónir árið 2005.

Fjármagnsliðir voru neikvæðir um \$82 milljónir, þar af voru um \$29 milljónir óinnleyst gengistap árið 2006. Uppgjörsmýnt Eimskips ehf. verður evra frá og með 1. nóvember 2006

### Efnahagsreikningur

Á árinu breyttist efnahagsreikningur fyrirtækisins mikið. Aðalástæða þess eru yfirtökur á öðrum félögum og sala eigna í lok árs.

Heildareignir voru \$1.842 milljónir í lok árs. Eigð fé jókst frá \$461 milljón í \$682 milljónir á árinu. Eiginfjárlutfall var 37% í lok tímabilsins samanborið við 30% í upphafi tímabilsins. Arðsemi eigin fjár var 14%. Hagnaður á hlut var \$0,045 á árinu. Veltufjárlutfall er 1,39 en var 0,71 í lok árs 2005.

Í lok árs var handbært fé félagsins \$228 milljónir samanborið við \$150 milljónir í upphafi árs.

### Sjóðsstreymi

Veltufé frá rekstri var \$20 milljónir fyrir tímabilið. Handbært fé til rekstrar var \$59 milljónir. Fjárfestingarhreyfingar námu \$73

milljónum samanborið við \$205 milljónir á fyrra ári.

### Skráning og hluthafar

Hf. Eimskipafélags Íslands var skráð í Kauphöllina þann 20. janúar 2006 og var skráning félagsins stærsta nýskráning í Kauphöllina en markaðsvirði félagsins var tæpir 69 milljarðar króna við skráningu. Heildarfjöldi hluta í Hf. Eimskipafélagi Íslands eru alls 1.793.599.135 að nafnverði. Hluthafar í Hf. Eimskipafélagi Íslands voru um 24 þúsund í lok október samanborið við 20 í upphafi árs. Tveir hluthafar áttu meira en 10% hlut í félaginu í lok árs, Frontline Holding S.A., sem er í eigu Magnúsar Þorsteinssonar, með 37,55% eignarhlut og Fjárfestingarfélagið Grettir með 34,37%.

### Framtíðarhorfur

Áætlanir Hf. Eimskipafélags Íslands gera ráð fyrir betri afkomu á báðum tekjusviðum félagsins árið 2007 en árið 2006. Velta Eimskips árið 2007 en áætluð \$1.450 milljónir og EBITDA \$145 milljónir. Velta Air Atlanta Icelandic er áætluð \$388 milljónir árið 2007 og EBITDA \$ 25milljónir.

Árstíðasveifla er nokkur í rekstri Eimskips. Fyrsti ársfjórðungur fjárhagsársins (nóvjan) er jafnan lakastur í rekstri félagsins og sá fjórði bestur.

Árstíðasveifla er nokkur í rekstri Air Atlanta Icelandic, en með aukinni áherslu á fraktflug dregur úr þeirri sveiflu en fyrsti og fjórði ársfjórðungur eru jafnan þeir bestu í rekstri félagsins.

### Samþykkt reikninga

Stjórn Hf. Eimskipafélags Íslands samþykkti ársreikning félagsins fyrir fjárhagsárið 2006 á stjórnarfundum þann 18. janúar 2007. Uppgjörð hefur verið endurskoðað af endurskoðendum félagsins og áritað án athugasemda. Sömu reikningskilaaðferðum er beitt nú og á síðasta ári.



## Ársreikningur

1. nóvember 2005 til 31. október 2006

Rekstrarreikningur ársins 2006	2005/06 1.11-31.10	2006 1.1-31.10
Rekstrartekjur		
Sala .....	1.018.110	551.173
Aðrar tekjur .....	21.926	21.954
	<u>1.040.036</u>	<u>573.127</u>
Rekstrargjöld .....	(1.051.770)	(556.810)
Rekstrartap .....	(11.734)	16.317
Fjármagnsliðir .....	(65.050)	(8.802)
Tap fyrir tekjuskatt .....	(76.784)	7.515
Tekjuskattur .....	8.903	(1.191)
Hagnaður (tap) af áframhaldandi starfsemi .....	(67.881)	6.324
Áhrif aflagðrar starfsemi .....	147.237	17.422
Hagnaður tímabilsins .....	<u>79.356</u>	<u>23.746</u>
<b>Tap skiptist á:</b>		
Hluthafa í móðurfélaginu .....	78.293	24.948
Minnihluta í dótturfélögum .....	1.063	(1.202)
Hagnaður tímabilsins .....	<u>79.356</u>	<u>23.746</u>



## Efnahagsreikningur 31. október 2006

<b>Eignir</b>	<b>31.10</b>	<b>31.10/05</b>
<b>Fastafjármunir</b>		
Viðskiptavild .....	310.965	501.226
Aðrar óefnislegar eignir .....	13.816	30.566
Fasteignir, flugvélar, skip og tæki .....	449.959	449.490
Eignarhlutir í hlutdeildarfélögum .....	23.316	839
Fjáreignir .....	128.599	58.359
Skattinneign .....	22.455	12.864
	<b>Fastafjármunir</b>	<b>1.053.344</b>
<b>Veltufjármunir</b>		
Birgðir .....	17.325	16.105
Viðskiptakröfur .....	294.911	209.273
Krafa á kaupendur dótturfélaga .....	286.748	0
Fyrirframgreiddur kostnaður .....	40.766	53.808
Handbært fé .....	228.487	150.346
Eignir til sölu .....	24.944	9.775
	<b>Veltufjármunir</b>	<b>439.307</b>
	<b>Eignir samtals</b>	<b>1.492.651</b>

## Eigið fé og skuldir

<b>Eigið fé</b>		
Hlutfé .....	26.493	22.013
Yfirverðsreikningur .....	521.559	365.393
Varasjóður .....	(17.155)	10.030
Óráðstafað eigið fé .....	121.277	42.984
	<b>Eigið fé hluthafa móðurfélags</b>	<b>440.420</b>
Hlutdeild minnihluta .....	30.184	1.495
	<b>Eigið fé</b>	<b>441.915</b>

## Skuldir

<b>Langtímaskuldir</b>		
Vaxtaberandi skuldir .....	451.147	411.205
Vörslufé .....	5.392	1.697
Fyrirframinnheimtar tekjur .....	51.922	0
Tekjuskattskuldbinding .....	9.772	7.934
	<b>518.233</b>	<b>420.836</b>
<b>Skammtímaskuldir</b>		
Skuldir við lánastofnanir .....	363.115	222.177
Viðskiptaskuldir .....	162.316	152.476
Aðrar skammtímaskuldir .....	116.269	255.247
	<b>641.700</b>	<b>629.900</b>
<b>Skuldir samtals</b>	<b>1.159.933</b>	<b>1.050.736</b>
<b>Eigið fé og skuldir samtals</b>	<b>1.842.291</b>	<b>1.492.651</b>

Allar upphæðir eru í þúsundum USD.

## Sjóðstreymi ársins 2006

<b>Rekstrarhreyfingar</b>		
Tap tímabilsins .....	79.357	23.746
<b>Rekstrarliðir sem hafa ekki áhrif á fjárstreymi:</b>		
Afskriftir fastafjármuna .....	72.321	48.926
Virðisýrnum óefnislegra eigna .....	3.642	1.714
Verðbætur og gengismunur .....	37.730	(3.052)
Hagnaður aflagðrar starfsemi .....	(4.319)	(17.422)
Söluhagnaður aflagðrar starfsemi .....	(142.918)	0
Tekjuskattskuldbinding, (lækkun) .....	(14.057)	(520)
Söluhagnaður fastafjármuna .....	(19.328)	(21.140)
Aðrir liðir .....	7.875	(980)
	<b>20.303</b>	<b>31.272</b>
Breytingar á rekstrartengdum eignum og skuldum .....	(79.895)	10.080
	<b>Handbært fé til (frá) rekstri</b>	<b>41.352</b>

## Fjárfestingarhreyfingar

Fjárfestingar í fastafjármunum og óefnislegum eignum .....	(235.260)	(180.825)
Hagnaður af sölu fastafjármuna og óefnislegra eigna .....	106.179	60.041
Fjárfestingar í dótturfélögum m.t.t. yfirtekens handb.fjár .....	(17.203)	(39.110)
Greitt vegna sölu dótturfélaga .....	193.791	0
Fjárfestingar í hlutabréfum .....	(91.902)	(39.222)
Greiðsla annarra lána .....	(49.027)	0
Arður af fjárfestingum .....	14.964	772
Breyting á vörslufé .....	5.950	(6.158)
Áhrif aflagðrar starfsemi .....	(116.617)	(54.608)
	<b>Fjárfestingarhreyfingar</b>	<b>(259.110)</b>

## Fjármögnunarhreyfingar

Hlutfé .....	156.799	146.263
Breyting á eigin bréfum .....	26.457	0
Nýjar langtímaskuldir .....	594.121	270.372
Afborganir langtímalána .....	(448.393)	(108.732)
Breytingar á vörslufjárskuld .....	(885)	(158)
	<b>Fjármögnunarhreyfingar</b>	<b>307.745</b>
<b>Hækkun á handbæru fé</b> .....	<b>80.380</b>	<b>89.987</b>
<b>Þýðingarmunur</b> .....	<b>(2.239)</b>	<b>1.498</b>
<b>Handbært fé í upphafi árs</b> .....	<b>150.346</b>	<b>58.861</b>
<b>Handbært fé í lok tímabils</b> .....	<b>228.487</b>	<b>150.346</b>

Allar upphæðir eru í þúsundum USD.









# Íslensk sókn um allan heim

Starfsstöðvar Hf. Eimskipafélags Íslands

Starfsstöðvar Hf. Eimskipafélags Íslands eru 163 í öllum byggðum heimsálfum.

Við erum sífellt á ferðinni hvort sem er í lofti, á láði eða legi.

Starfsstöðvar Hf. Eimskipafélagsins samanstanda ýmist af höfnum, flugvöllum, frystigeymslum, vöruhúsum eða skrifstofum. Að auki búum við yfir öflugum flota flugvéla, skipa og flutningabíla.

Hjá okkur starfa hátt í 10 þúsund manns sem búa yfir afar verðmætri sérþekkingu og reynslu á sínu sviði.

Við erum stolt af íslenskrí sókn um allan heim

Við erum Hf. Eimskipafélag Íslands





