HF. EIMSKIPAFÉLAG ÍSLANDS

Consolidated Financial Statements
Year ended 31 October 2006

Contents

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. Eimskipafelag Islands and its subsidiaries (the "Group").

Hf. Eimskipafelag Islands 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 Eimskipafelag Islands ehf.

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

Hf. Eimskipafélag Islands 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 it’s 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 supplier 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.

Endorsement by the Board of Directors

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 Neatherlands 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 and the CEOs 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 Kristjansson

Independent Auditor´s Report

Board of directors and shareholders of Hf. Eimskipafelag Islands

Report on the Financial Statements

We have audited the accompanying financial statements of Hf. Eimskipafelag Islands, 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. Eimskipafelag Islands 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	21.926	21.954
Total operating revenue		1.040.036	573.127
Operating expenses			
Aviation services		(456.282)	(367.017)
Shipping and logistics		(595.488)	(189.793)
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	(81.866)	(24.225)
Net finance costs		(65.872)	(8.599)
Share of profits (loss) in associated companies	20	822	(203)
(Loss) earnings before income tax		(76.784)	7.515
Income tax	16	8.903	(1.191)
(Loss) earnings from continuing operations		(67.881)	6.324
Profit from discontinued operations (net of income tax)	6	147.237	17.422
Profit for the period		79.356	23.746
Attributable to:			
Equity holders of the parent		78.293	24.948
Minority interest		1.063	(1.202)
Profit for the period		79.356	23.746
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

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Statement of recognised income and expense
For the year ended 31 October 2006

	2005/6	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	51.410	31.122
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	51.410	31.122

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31 October 2006

Equity and liabilities

	Notes	31.10.2006	31.10.2005
Equity			
Issued capital		26.493	22.013
Share premium		521.559	365.393
Reserves		(17.155)	10.031
Retained earnings		121.277	42.984
Stockholders' equity		652.174	440.421
Minority interest		30.184	1.495
Total equity	30	682.358	441.916
Liabilities			
Non-current liabilities			
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
Total non-current liabilities		518.233	420.836
Current liabilities			
Interest bearing loans and borrowings	33	363.115	222.177
Trade payables		162.316	152.476
Other payables	35	116.269	255.247
Total current liabilities		641.700	629.900
Total liabilities		1.159.933	1.050.736
Total equity and liabilities		1.842.291	1.492.652

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Consolidated Balance Sheet
For the year ended October 31, 2006

	Notes	31.10.2006	31.10.2005
Assets			
Non-current assets			
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
Total non-current assets		949.110	1.053.344
Current assets			
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
Total current assets		893.181	439.308
Total assets		1.842.291	1.492.652

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Consolidated Statement of Cash Flows
For the year ended 31 October 2006

	Notes	2005/6 1.11-31.10	2005 1.1-31.10
Cash flows (to) / from operating activities			
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		20.303	31.272
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		(78.895)	10.080
Net cash (used in) / to operating activities		(58.593)	41.352
Cash flows to investing activities			
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		(189.125)	(259.110)
Cash flows from financing activities			
Proceeds from new share capital issued		156.799	146.263
Changes in treasury shares		26.457	0
Procceds 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		328.098	307.745
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		228.487	150.346
Notes: Statement of cash flows	38		

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Notes to the Consolidated Financial Statements

1. General Information

Hf. Eimskipafelag Islands (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. Eimskipafelag Islands 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 it´s charter and leisure segment. The shipping and logistics industry is represented by Eimskipafelag Islands ehf. with 40-50 ships in operation.

Hf. Eimskipafelag Islands vision is to be a leading investment company in the field of global land and sea transportation solutions. The mission of Hf. Eimskipafelag Islands is to maximize total shareholders' returns through financial strength and management skills. Hf. Eimskipafelag Islands 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 International 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 - aquisitions 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 asseets

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, maintainance 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 advance 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 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

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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 a 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 carrying 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 is 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 B546division was charter services and as a tour operator. The Charter and Leisure divsion 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
Eimskipafelag Islands 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 geophraphical location of customers. Segment assets are based on the geophraphical location of the assets.

Notes to the Financial Statements

4. Business segments

	Aviation Services		Shipping and logistics		Charter & Leisure (Discontinued)		Eliminations		Consolidated		Less Charter & leisure (Discontinued)		Continuing Operations	
	1.11.2005-31.10.2006	1.1.2005-31.10.2005	1.11.2005-31.10.2006	1.1.2005-31.10.2005	1.11.2005-31.10.2006	1.1.2005-31.10.2005	1.11.2005-31.10.2006	1.1.2005-31.10.2005	1.11.2005-31.10.2006	1.1.2005-31.10.2005	1.11.2005-31.10.2006	1.1.2005-31.10.2005	1.11.2005-31.10.2006	1.1.2005-31.10.2005
Income statement														
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

	31.10.2006	31.10.2005	31.10.2006	31.10.2005	31.10.2006	31.10.2005	31.10.2006	31.10.2005	31.10.2006	31.10.2005
Balance sheet										
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
Cash flows										
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

Geographical segments	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

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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
Assets			
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
Equity and Liabilities			
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 **Unaudited**	2005
Results of discontinued operation		
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

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Cash flows from discontinued operations		
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)

Effect of the disposal on the financial position of the Group

	2006
	Unaudited
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.

On 1 August 2006 the Group acquired 100% of the shares in UAB Kursiu Linija for USD 0,5 million. The company operations are logistics solutions and strategic distribution centres.

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 aquisition 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.

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Notes to the Consolidated Financial Statements

8. Revenue by currencies:

	2005/6 1.11-31.10	2005 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
	1.018.110	551.173

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
	21.926	21.954

10. Expenses by currencies:

Revenue in GBP	142.493	75.436
Expense in USD	324.387	171.732
Expense in EUR	132.711	70.258
Expense in NOK	33.117	17.532
Expense in ISK	326.923	173.074
Other	92.138	48.778
	1.051.770	556.810

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	(11.734)	16.317

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Notes to the Consolidated Financial Statements

12. Salaries and related expense

Salaries are specified as follows:	2005/6 1.11-31.10	2005 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	249.022	162.543
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)
Board of Directors during the year:			
Magnus Thorsteinsson, Executive Chairman	115	-	614.918
Arngrimur Johannson	20	-	-
Gunnar M. Bjorg	20	-	73.014
Eggert Magnusson	20	-	-
Eamon Mullaney	20	-	-
CEOs at year-end:			
Hannes Hilmarsson, Air Atlanta Icelandic	221	4.500	-
Baldur Gudnason, Eimskipafelag Islands	350	5.100	38.087

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

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.

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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
	2.306	1.990

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
	15.994	15.626

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)
	(81.866)	(24.225)

16. Income tax expense

Current tax expense		
Current year	3.914	1.598
Under provided in prior years	-	534
	3.914	2.132
Deferred tax expense		
Origination and reversal of temporary differences	246	593
Benefit of tax losses recognised	(13.063)	(1.534)
	(12.817)	(941)
Income tax expense excluding tax on the sale of discontinued operations and share of income tax in associates	(8.903)	1.191

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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		(76.784)		7.515
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%	(8.903)	15,8%	1.191

Deferred tax recognised directly in equity		
Relating to equity securities available-for-sale	1.111	307
Relating to capital increase	1.910	169
	3.021	476

17. Goodwill

Changes during the period:

	2006	2005
Cost		
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	310.965	501.226

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

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

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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
Eimskipafelag Islands ehf.	217.741	265.807
Excel Airways Group	-	168.165
Travel City Group	-	52.955
Subsidiaries of Eimskipafelag Islands ehf.	80.129	1.204
	310.965	501.226

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 Eimskipafelag Islands. No impairment loss was recognised on Air Atlanta Icelandic hf. and Eimskipafelag Islands ehf.

18. Other intangible assets

2005

	Domain name	Computer software	Airport Slots	Other	Total
Cost					
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	1.805	11.489	16.160	3.681	33.135
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	158	1.553	-	858	2.569

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2006

	Domain name	Computer software	Airport Slots	Other	Total
Cost					
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	-	16.578	-	-	16.578
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	-	2.762	-	-	2.762
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......................	-	13.816	-	-	13.816

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

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

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19. Property, aircraft, vessels and equipment

2005

	Property	Machinery and equipment	Vessels and other transp. equipment	Aircraft	Total
Cost					
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	138.211	17.308	160.035	198.187	513.741
Accumulated depreciation					
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	725	7.692	9.325	46.509	64.251

2006

	Property	Machinery and equipment	Vessels and other transp. equipment	Aircraft	Total
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	131.738	13.739	219.692	195.156	560.325
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	2.238	6.442	23.667	78.019	110.366

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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 dividend into aircraft, capatialised engines and rotable spare parts. Aircraft is amortisised over expected lifetime on a straight line basis, engines are charged in accordance with hours flown and rotable spare parts are amortisised over their expected useful lives.

Vessels owned by Eimskipafelag Islands ehf. were revalued as a part of purchase price allocation in accordance with IFRS 3 when the company was aquired.

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 1.11-31.10	2005 1.1-31.10
Aviation Services	45.114	37.692
Shipping and Logistics	27.207	11.319
Discontinued operations	-	2.299
	72.321	51.310

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).

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 equipment	165.053	150.710	150.710
Aircraft	191.000	186.452	151.678
	563.093	506.129	449.490

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2006

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
	562.539	469.452	449.959

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
		921	0	(203)	121	839

2006

	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
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
		839	19.016	822	2.640	23.316

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Avion Aircraft Trading hf. was a wholly owned subsidiary of Hf. Eimskipafelag Islands 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.

Eimskipafelag Island ehf. acquired 60% remaining share capital in Daalimpex in January 2007.

Eimskipafelag Island ehf. increased it 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 differend accounting periods from the Group therefore information on total assets and liabilitie are not available and the share in net operating result are for same reason adjusted. The carrying amounts of these assosiates 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	74.945	35.740

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	64.214	7.125

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
	64.214	7.125

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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)	12.864	(7.934)	4.930

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)	22.455	(9.772)	12.683

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Movement in temporary differences during the period

2005

	Total value 1 October	Additiona 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

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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:

Trade receivables	20.788	18.599
Other receivables	-	-
	20.788	18.599

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 where paid in January 2007.

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26. Prepaid expenses

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

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

Movements in guarantee deposits during the period:

	2006	2005
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 aquisition af Atlas Cold Storage Income Trust ltd. and that portion of cash is classified as restricted.

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Notes to the Financial Statements

Consolidated statement of Changes in equity

	Issued capital	Share premium	Trans-lation 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)	-	(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

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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 managements 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

Reconciliation of movement in Equity

Insert statement of equity from another worksheet

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. Eimskipafelag Islands 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 hegde 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 it´s employees regarding share-based agreements.

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
Net result:		
Continued operations	(68.944)	6.324
Discontinued operations	147.237	17.422
Total	78.293	23.746
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
Diluted weighted average of shares at 31 October	1.748.200	1.008.637

32. Risk management

a. ***Interest rate risk***

The Group has it's 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
	814.262	633.382

	Nominal interest rate	Year of maturity	Nominal value	2006 Carrying amount	2005 Carrying 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
			1.014.820	814.262	633.382
Current maturities				(363.115)	(222.177)
Non current interest bearing loans and borrowings				451.147	411.205

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
	814.262	633.382

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	-	-	-
	6.626	335	6.291	1.675	82	1.596

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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	814.262	633.382

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	111.305	185.617
Unearned transportation revenue	646	54.193
Current maturities of guarantee deposits	500	5.080
Derivative liabilities	-	10.357
	116.269	255.247

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

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The number and weighted exercise prise 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

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
	3.680

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
	1.198.332	442.068

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.

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38. Statement of cash flow, additional information

	2005/6 1.11-31.10	2005 1.1-31.10
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	(58.593)	41.352

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.

39. Capital commitments

In the year 2005 Avion Aircraft Trading hf., then a wholly owned subsidiary of Hf. Eimskipafelag Islands, 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. Eimskipafelag Islands sold 51% of it's shareholding in the Company. Despite the sale Hf. Eimskipafelag Islands 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. Eimskipafelag Islands 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. Eimskipafelag Islands 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. Eimskipafelag Islands has guaranteed the repayment of a loan to Landsbanki Islands hf due to the sale of twe 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.

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Hf. Eimskipafelag Islands has guaranteed the repayment of a loan takem 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. Eimskipafelag Islands has guaranteed payments. The amount guaranteed by the Company is USD 243 million according to the sales agreements.

In November 2005 Eimskipafelag Islands 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 it's Charter and Leisure division to a group of investors lead by it's 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 it's management. As part of the sales process there are guarantees and contingencies accepted by Hf. Eimskipafelag Islands that have not been released. The contingencies are as follows:

Avion Aircraft Trading hf.

Hf. Eimskipafelag Islands has agreed to guarentee 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. Eimskipafelag Islands 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. Eimskipafelag Islands 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. Eimskipafelag Islands 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 concequence 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.

Notes to the Financial Statements

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 distri-bution ltd.	Pre-acquisition carrying amounts	Fair value adjustments	Recognised values on adjustments
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
							88.361
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			3.461
Total consideration paid	964	32.822	233	54.342			88.361
Cash acquired	(84)	(33.946)	(268)	-			(34.298)
Net cash inflow	880	(1.124)	(35)	54.342			54.063

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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 og 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 managment 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.

Eimskipafelag Islands 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 abouse 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 hat 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 2006	Payable to related parties 2005
Loans to associates		
Avion Aircraft Trading hf.	47.447	-
Freshport	332	-
Harbour Grace	268	-
	48.047	-
Other loans		
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
Eimskipafelag Islands ehf	Iceland	100%	Shipping and Logistic

At the end of the financial year 2006 Hf. Eimskipafelag Islands 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. Eimskipafelag Islands also announced the sale of its 51% holding in Avion Aircraft Trading hf. for USD 51 million at 31 October 2006.

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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 2005	**Q4 2006**	**Q3 2006**	**Q2 2006**	**Q1 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)

The financial statements of Hf. Eimskipafelag Islands are for the ten months period 1 January - 31 October 2006.

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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
Income statement:				
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
Balance sheet:				
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